# Trends in Compensation:
# Review of 2017 – Projections for 2018

Sponsored by BOSE Corporation and the Wilson Group

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BOSE®

Wilson Group™
Concord, MA

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## PART I

# Executive Summary

# I. Executive Summary

## Highlights of Survey Findings

1. Most companies view 2018 as a time for growth and hiring new staff. The 2017 growth rates for the companies that participated in our survey was 5.8%; for 2018 they are projecting 6.1%. These growth prospects are also shown in that 58% are planning to increase staff while 33% are projecting no change. A few are decreasing staff for 2018. Overall next year be a strong year.

2. Merit increases again are forecasted to be 3.0%. This is the same as in 2017. Those not receiving pay increases will be about the same as last year; firms indicated that about 5% of their workforce did not receive pay increases in 2017 and will not in 2018.

3. Salary ranges are projected to move about 2.0%, which is the same as increases in 2017.

4. More companies are budgeting for promotions and special market adjustments than in the 2016 survey. Last year approximately one-quarter did this; in 2017 and 2018 the number is over 40%. The average budget for these actions is about 1.0% of payroll.

5. Most employees received bonuses in 2017 (84%). The payout was 100% of their target payout. The range of payouts was 78% (at the $10^{th}$ percentile) to 125% (at the $90^{th}$ percentile). Clearly 2016 was a good year, as reflected in these bonuses, and it appears from this survey that 2017 will be a repeat.

6. Most employers (51%) include all employees in their bonus plans. As you move up the organization, the percent of companies including senior level individual contributors (78%) and directors/managers (89%) increases. Over 95% of executives participate.

7. Core recognition programs continue to be popular. These include spot awards (66%), new hire bonuses (63%), and gift card/movie passes (59%).

8. When we examined the data by industry, we found few differences that reflect a unique business model. Most of these programs apply across organizations, and how they interpret them, in our experience, is more reflective of the leadership philosophy and business requirements. The details of performance measures and vehicles used are the primary differences across industries.

9. When we examined the data by size of company we found some interesting differences. Large companies (over $1B in revenues) were not planning on increasing their staff like smaller companies. In the smaller companies, approximately 80% are planning to increase staff, but in these large companies, only 28% were planning to do so. And, while fewer large companies made bonus payouts in 2017, the payouts themselves were higher than the general norm (at 110% of the target payout).

## Key Areas for Change and Improvement

In addition to practices and plans for 2018, we asked about what changes companies were making or considering to their total compensation programs. The most significant areas for change are as follows:

1. Companies are seeking to increase the connection between their **base pay systems** (37%) and merit increase programs with career and talent management initiatives. Since talent management is clearly becoming one of the most critical issues facing companies in this market, it makes sense to reinforce these efforts with a direct connection to how people are paid. As part of this effort, companies are investing more in training managers and employees on how the compensation programs work and should be managed (53%).

2. **Variable pay programs** are also undergoing serious review by many firms. The focus is on adjusting the performance measures (53%) and the weighting of the measures used (47%). In addition, companies are changing their target payouts (47%) to perhaps increase the pay opportunity without increasing the fixed costs of salary adjustments.

3. **Sales compensation** programs are being reviewed as well. Companies are looking at changing their commission rates (38%) and increasing the control of these programs (31%). Perhaps there is a sense by many firms that they are paying too much for the results they are getting from the sales organization. In an increasingly competitive market and with strong growth objectives, this is a strategic initiative that is worth careful consideration.

4. Very little appears to be changing in the basic structure or vehicles used for **equity programs**. However, many firms (86% of those with these programs) are reviewing the award guidelines (the number and/or value of the awards) in relation to what is needed to attract/retain talent and drive the desired long-term value of the company.

5. Little changes appear to be happening with **employee recognition programs**, except that those who make limited use of them are considering expanding and strengthening the tools provided to managers.

## PART II

# Overview of the Survey and Participants' Profile

# II. Overview of the Survey Participants’ Profile

## *Overview of Compensation Planning for 2017 - 2018 – A Survey Report:*

This survey was created to fill an important gap in information about compensation plans. As companies consider changes in their business strategies and develop their plans for 2018, it is very important to examine the projections and trends regarding compensation plans. With the uncertainty of a growing and complex competitive marketplace, it is important to examine what firms are considering regarding their talent and total compensation practices. This report provides information and insights on overall compensation plans – base salaries, variable pay, sales compensation plans, equity based compensation and other forms of total rewards. We will look at current practices and the projections and plans for improvements for 2018.

This survey was conducted in collaboration with Vickie Cudmore, Director of Compensation and Trupti Khanderia, Compensation Analyst of **BOSE Corporation**. Our joint sponsorship of this survey is intended to bring important information to the market. We know that information is essential to effective decision making. Further, Wilson Group worked with BOSE to design the survey questions, and we administered the survey so that individual company responses can be kept highly confidential. We appreciate the contribution and collaboration with members of BOSE Corporation. We hope you find this report of value to your planning and setting 2018 priorities.

If you would like to discuss the data in this report, the implications on your organization, or plans for change and improvements, please contact us. We look forward to being of service to you, your executives and your company.

All the best,

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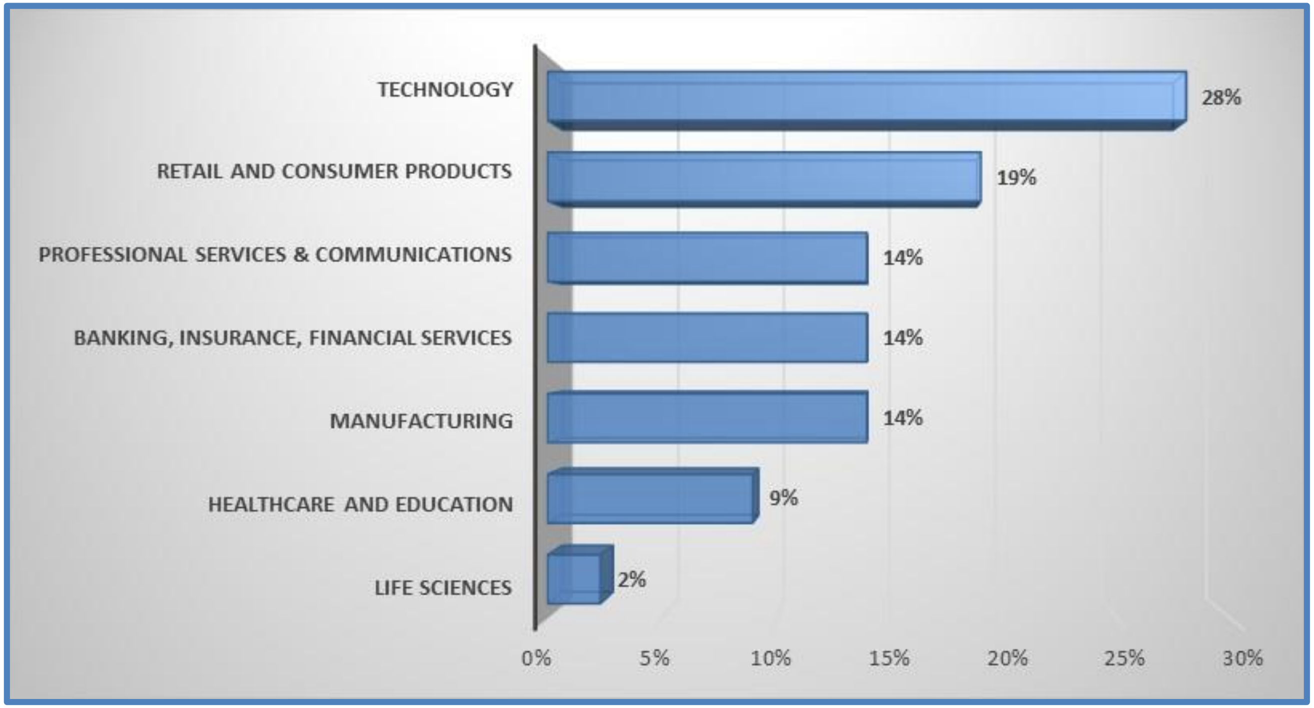
# II. Overview of the Survey Participants' Profile

## *Demographics: Industry Composition of the Survey*

The survey includes information from 44 companies. The companies represent a broad range of industries. Approximately 28% of the respondents come from Technology firms, 19% came from Retail and Consumer Products industries. Professional services, financial services and manufacturing represent about 14% each. In total, these industry breakdowns are very reflective of the New England market for companies.



# II. Overview of the Survey Participants' Profile

## *Demographics: Profile of the Participating Companies*

The survey reflects responses from a broad range of companies in terms of their revenue size and employee population. The median revenue of the participating companies is $474M and they have approximately 1,100 employees. There are eight (8) companies with revenues over $2 Billion which created an average that was higher than the 75th percentile. This means that the survey provides important information from a large breadth of companies. As you will see in the report, despite this wide range of companies, the actual variation in the responses is not different across company size. There appears to be very similar pay practices for 2017 and 2018. The differences are usually in specific areas for a company facing a unique market or cultural situation.

The demographics and other size indicators of this group are the following:

| | 2017 Revenues | Total Number of US Employees | Total Payroll (US) | Revenues per Employee | Payroll as a Percent of Revenues |
|---|---|---|---|---|---|
| 25th Percentile | $59,750,000 | 220 | $6,000,000 | $219,741 | 8% |
| **50th Percentile** | **$473,970,000** | **1,100** | **$45,000,000** | **$434,911** | **19%** |
| 75th Percentile | $1,625,000,000 | 3,146 | $215,875,835 | $893,713 | 28% |
| | | | | | |
| *Average* | *$2,722,861,727* | *2,386* | *$185,469,740* | *$727,720* | *20%* |

# II. Overview of the Survey Participants' Profile

## *List of Survey Participants*

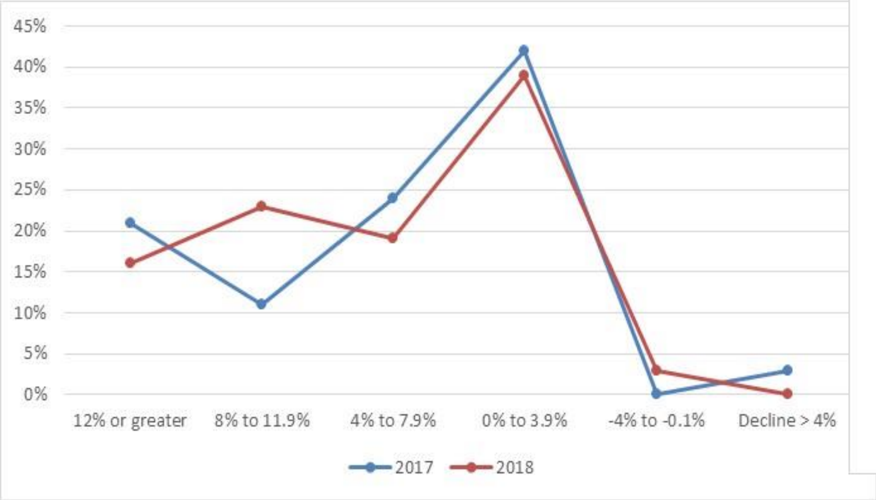
AAA Northeast
Acacia Communications
Agero Inc
AIPSO
American Tower Corp
Analog Devices
Artisan Industries
Aspen Technology
Atrius Health
AW Chesterton
Beacon Mutual Insurance
Blue Cross & Blue Shield of Rhode Island
Bose Corporation
Cengage
Cimpress/Vistaprint
Clean Harbors
ClickSoftware
CommunicateHealth, Inc.
Dartmouth Hitchcock
Davico, Inc
Eastern Bank
GCP Applied Technologies
GMRI
Hamilton Thorne
Harvard University
HubSpot
IMTRA Corporation
Keystone Partners
Kimberly Clark
LogMeIn
Mancini Group
Newport Harbor Corporation
nora systems
Ocean State Job Lot
ParsonsKellogg
Pegasystems
Roche Bros. Supermarkets
Schleuniger, Inc.
Southern Research
The MathWorks
Tufts Health Plan
Tufts University
Vermont Mutual Insurance Group

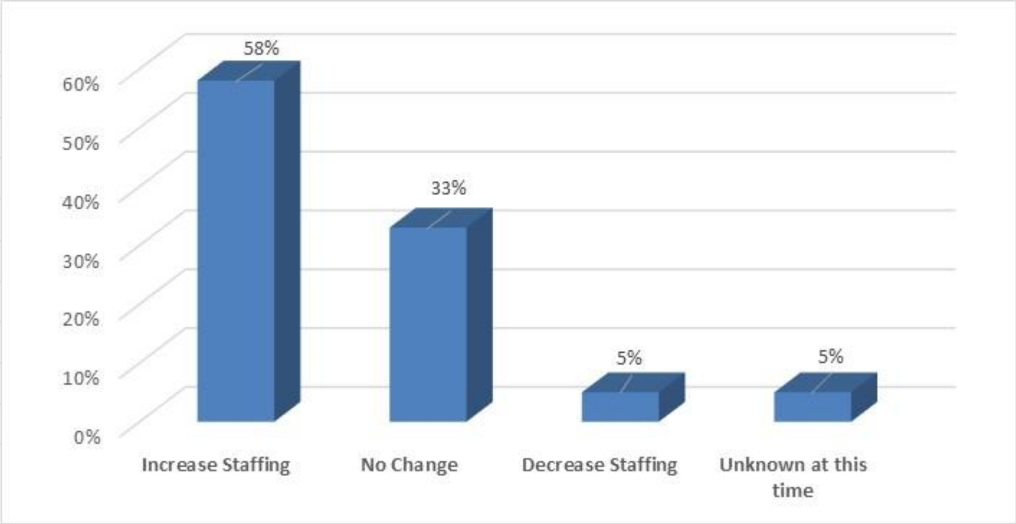
# II. Overview of the Survey Participants' Profile

## *Demographics: Revenue Growth Projections and Hiring Plans*

The line graph below (left) shows the revenue growth in 2017 (blue line) and the initial projections for 2018 (red line). This data shows many more companies planning on growth between 8% - 11.9% for 2018 than actually realized in 2017. Also, there are fewer companies expecting low or no growth for 2018. This is consistent with the other staffing plans and projections for pay.

The bar graph (right) shows the expectations for hiring. There are significantly more companies projecting a need to increase staffing than those who see no change in their staffing levels for 2017. Very few companies see a decrease in staffing. This means that the marketplace for talent is likely to intensify for both retention and acquisitions of new talent.



# II. Overview of the Survey Participants' Profile

## *Demographics: Turnover Rates*

The table below shows the turnover rates for companies participating in this survey. Overall, the Voluntary rates (turnover that is initiated by the employee) are higher than the Involuntary (initiated by the employer). This data is consistent with other staffing surveys, and does show that companies are facing greater need to manage their retention. Where the unemployment rate is low, companies are facing significant challenges to retain talent. Exactly where this is most acute is shown on the next page.

| Turnover Rates | Voluntary | Involuntary |
|---|---|---|
| 25th Percentile | 2.0% | 1.0% |
| 50th Percentile | 6.0% | 2.2% |
| 75th Percentile | 12% | 6.9% |
| | | |
| Overall Average | 8.1% | 6.3% |

## *Demographics: Hiring Challenges*

The companies in this survey are facing hiring challenges with the professional workforce. Attracting and retaining professional level talent appears most challenging in three key functional areas: Information Technology, Engineering and Sales. Management in the Finance function, Service, and Operational employees are all facing tough competition for talent. Those organizations that provided comments indicated that their biggest challenges are “niche” type positions with critical specialties unique to their industry. This is a common and consistent reference when firms are addressing attracting (or retaining) talent. The following table reflects the challenge to attract and retain talent is focused on professional and service employees within the organization. While each organization faces its own pressures, this data demonstrates the importance placed on those who provide direct services to the customer and to the overall organization.

| | Employee Group | | | | |
|---|---|---|---|---|---|
| **Function** | ***Executive*** | ***Management*** | ***Professional*** | ***Service*** | ***Operational*** |
| ***Information Technology*** | 6% | 14% | 36% | 28% | 0% |
| ***Engineering*** | 3% | 11% | 36% | 19% | 3% |
| ***Sales & Marketing*** | 8% | 8% | 25% | 8% | 3% |
| ***Customer Service*** | 3% | 0% | 0% | 6% | 19% |
| ***Operations & Manufacturing*** | 3% | 8% | 3% | 0% | 19% |
| ***Finance*** | 3% | 17% | 6% | 3% | 3% |
| ***Human Resources*** | 6% | 6% | 6% | 0% | 0% |
| ***Other*** | 3% | 3% | 14% | 3% | 0% |

## PART III

# Total Cash Compensation Practices and Projections

## *Merit increase projections*

The merit pay increase projections for 2017 and 2018 show a very tight cluster around 3.0%. There is also little change planned for 2018 from increases made in 2014, and given this is the 5th year of this survey, the pattern has not changed from year to year. It will be another 3% salary increase year for merit pay. Of the forty companies who responded to this question, 5 did or are planning increases that exceeded 3.5%, and 4 companies did or are planning increases that were less than 2.5%. Only one company indicated that were not providing raises in 2018.

The only note of significance is the <u>average</u> number of people who will NOT be receiving pay increases is projected to increase from 7.2% in 2017 to 10.7% in 2018. The difference between the Median and the Average indicate there are several companies being significantly more disciplined about pay increases in 2018. Again, this is a similar pattern that we have seen in previous years, but this increase in the percent of companies not giving salary increases to everyone does not reflect an expected response given the increasing challenges to retain talent.

| | 2017 Merit Pay Increases | % NOT Receiving Pay Increase | | 2018 Planned Merit Pay Increases | % NOT Receiving Pay Increase |
|---|---|---|---|---|---|
| 25th Percentile | **3.0%** | 1.0% | | **3.0%** | 3.0% |
| 50th Percentile | **3.0%** | 5.0% | | **3.0%** | 5.0% |
| 75th Percentile | **3.4%** | 7.5% | | **3.2%** | 10.0% |
| | | | | | |
| Average | **3.5%** | 7.2% | | **3.1%** | 10.7% |

# III. Total Cash Compensation Practices and Projections

## *Salary Ranges, Promotional and Special Market Adjustment Budgets*

Increases in the salary ranges are going to be less than merit pay by about 1%. Again, this is a standard practice we see in the market, and provides employees an opportunity to increase their position in the salary range to better reflect their increase in performance or competencies. There appears to be little difference between 2017 and 2018 (nor in 2014, 2015 and 2016).

Most companies do not have a separate budget for promotions or special market adjustments, although this increased from last year's survey where 29% of companies did. Approximately 40% of the respondents now use this practice and they tend to be the larger companies. The amount allocated for this purpose in 2018 appears to be declining slightly. This may reflect that the emphasis on pay increases will come from the current salary management process instead of a special fund for addressing pay competitiveness or inequities.

| Salary Range Increases | 2017 | Planned 2018 |
|---|---|---|
| 25th Percentile | 0.0% | 1.5% |
| 50th Percentile | 2.0% | 2.0% |
| 75th Percentile | 2.7% | 2.5% |
| | | |
| Overall Average | 1.6% | 1.9% |

**Budget for Promotions and Special Market Adjustments**

| | 2017 | | Planned for 2018 | |
|---|---|---|---|---|
| | **Yes** | **No** | **Yes** | **No** |
| | 41% | 59% | 41% | 59% |
| | | **Amount** | **Amount** | |
| **25th P** | | 0.5% | 0.5% | |
| **50th P** | | 0.8% | 0.5% | |
| **75th P** | | 1.0% | 1.0% | |
| **Average** | | **1.0%** | **0.9%** | |

## *Performance based merit pay increase guidelines*

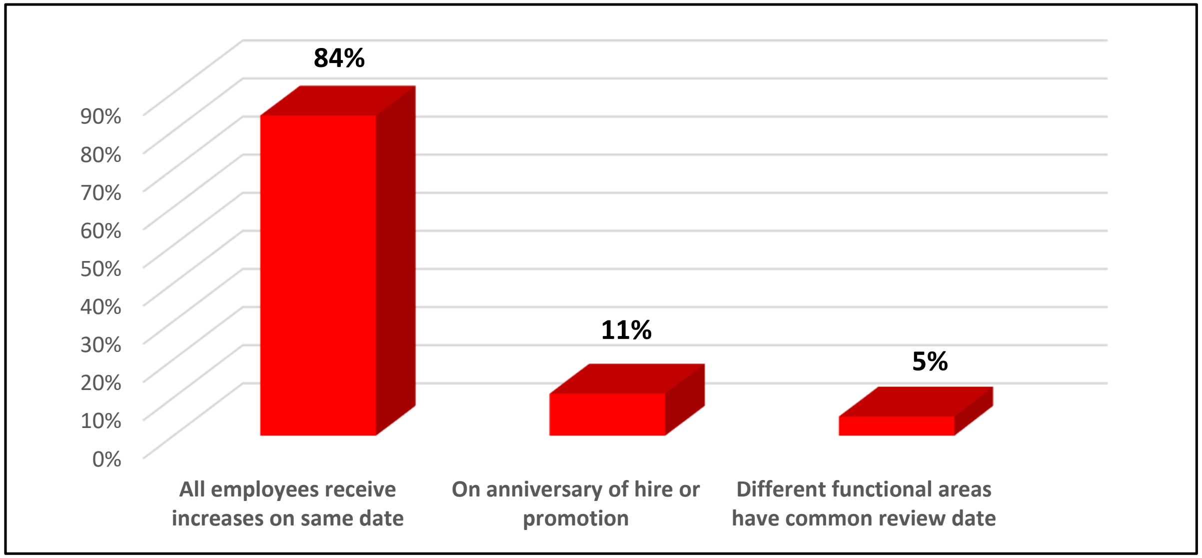
The table below shows the average merit increases made to individuals with different levels of performance. The salary range position was not included in these projections. The salary increases range from 1.0% to 7.8% (at the 75th percentile). The important point of this table is that those who are Exceptional or Outstanding performers receive a merit increase that is slightly higher than the "Meets most objectives" (5% versus 3%). The challenge that every company faces is how to enable those who are strong and very strong performers feel appreciated by a merit pay increase that is close to the standard of the company. This places increased pressure on other forms of rewards and recognition. There appears to be some recognition that salary increases are provided to all performers as long as their performance meets a minimum or acceptable standard. The "Highest" and "Lowest" pay increases from the participating companies are also shown to give you a sense of what firms are doing at the extremes.

| | Unsatisfactory | Falls short on most objectives | Meets most objectives | Exceeds most objectives | Exceptional or Outstanding |
|---|---|---|---|---|---|
| **25th Percentile** | **0.0%** | **0.0%** | **2.5%** | **3.4%** | **4.2%** |
| **MEDIAN** | **0.0%** | **1.0%** | **3.0%** | **4.0%** | **5.0%** |
| **75th Percentile** | **0.0%** | **1.2%** | **3.0%** | **5.0%** | **7.8%** |
| | | | | | |
| **AVERAGE** | **0.0%** | **0.8%** | **3.0%** | **4.2%** | **6.4%** |

| | | | | | |
|---|---|---|---|---|---|
| **LOW** | **0.0%** | **0.0%** | **1.8%** | **2.0%** | **2.0%** |
| | | | | | |
| **HIGH** | **0.0%** | **2.5%** | **5.0%** | **10.0%** | **20.0%** |

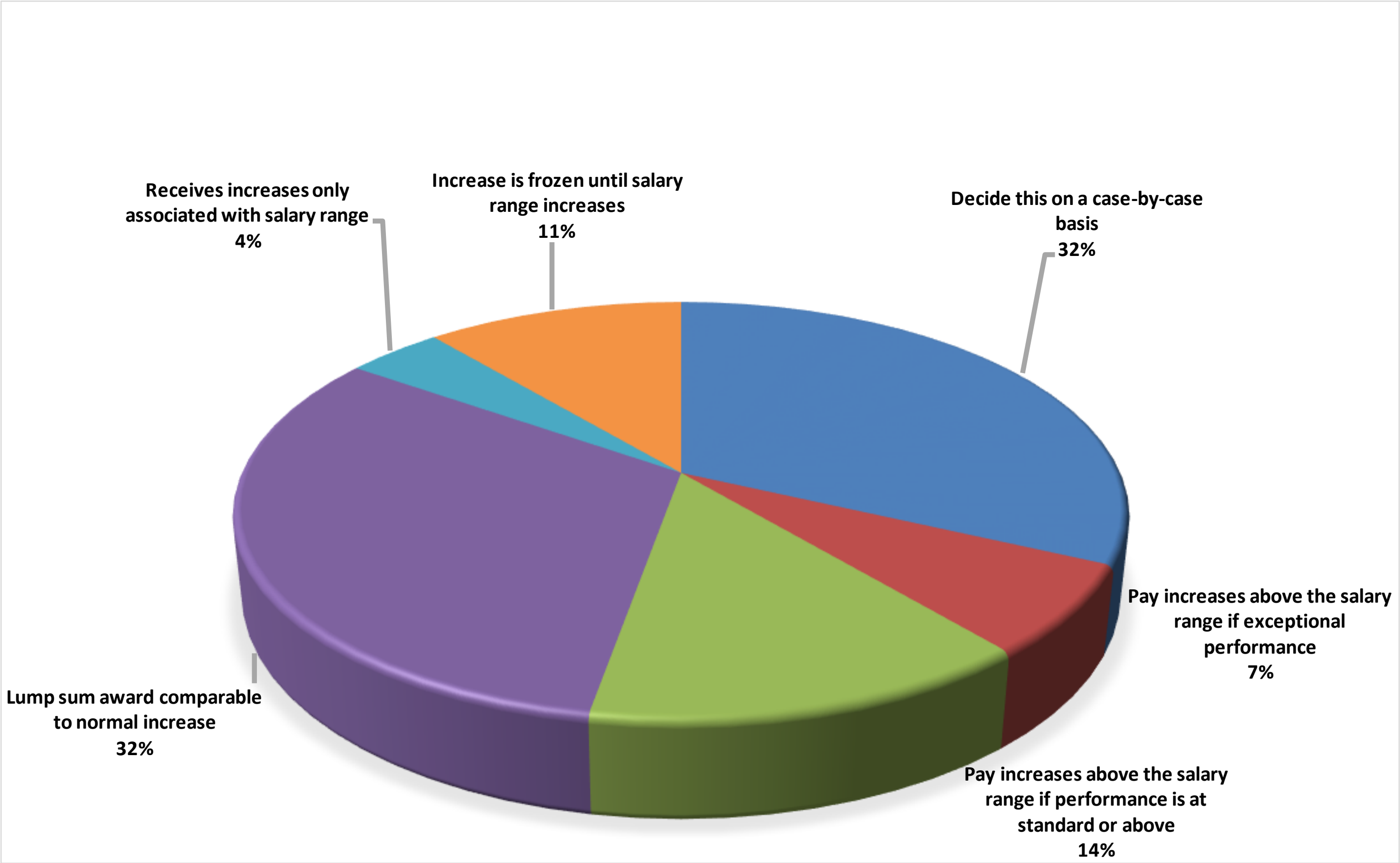
## *Salary Management Guidelines*

The bar graph below shows an interesting guideline for salary management programs. When should pay increases be given? Traditionally companies made pay increases on the "anniversary" date of the employee, determined either by the hire date or the promotion date. But, over time the movement has clearly shifted to providing employees pay increases all on the same date. This enables the manager to then do "comparison" assessments of performance and to allocate pay increases based on comparative process. This means that pay increases are more likely linked to "relative" performance rather than an assessment of "absolute" performance. This process also minimizes the need to follow up (or chase down) managers to get their performance reviews done each month, a much welcomed change in the process. The question, although it is not evidenced by the merit pay practices, is "do managers really use this time to assess the contributions and performance of their staff members and make decisions about pay increases based on true performance?". The challenge is how to make the best use of a limited amount of dollars. The criteria for a salary increase can expand to consider performance, competitiveness of existing pay, internal equity, retention, increases in the skills and abilities (or competencies), all within a limited budget. Fortunately, base salary is only one reward "tool" that managers/executives have at their disposal.



## *Salary Increase Guidelines: When Someone is at the Maximum of the Salary Range*

When an individual is at the top of their salary range, many companies continue to provide normal pay increases but do this as a lump sum payment instead of an increase in one's pay, or they decide on a case-by-case basis. This helps to create better equity in pay as defined by the salary range. Others provide increases only if performance is at standard or above or they freeze the salary until the ranges catch up to the salary.



## *Variable Pay (i.e., Bonus) Plans -- Payouts*

The table below show the payouts for bonus plans made in 2017 based on 2016 performance. The great majority of companies in the survey have bonus plans in place. Companies will make an award based on a percent of the target payouts (100%). In our experience, an increasing number of non-profit organizations are adopting bonus plan. Since target payouts may differ across companies, this "payout as a percent of target" enables us to compare across companies and industries. For 2017, the payouts were slightly higher than the payouts for last year (2016). The payouts reflect that companies achieved their desired performance targets. The range of the payouts was between 78% and 125% of salary for most organizations (from the 10$^{th}$ to the 90$^{th}$ percentile). Only 14% of the participating companies did not make a payout this year. Compared to 2016, the 10$^{th}$ percentile increased from 50% to 78% in 2017, but the other factors remained close to the same results documented in 2016.

**Did your company make bonus payouts in 2017 for 2016 performance?**

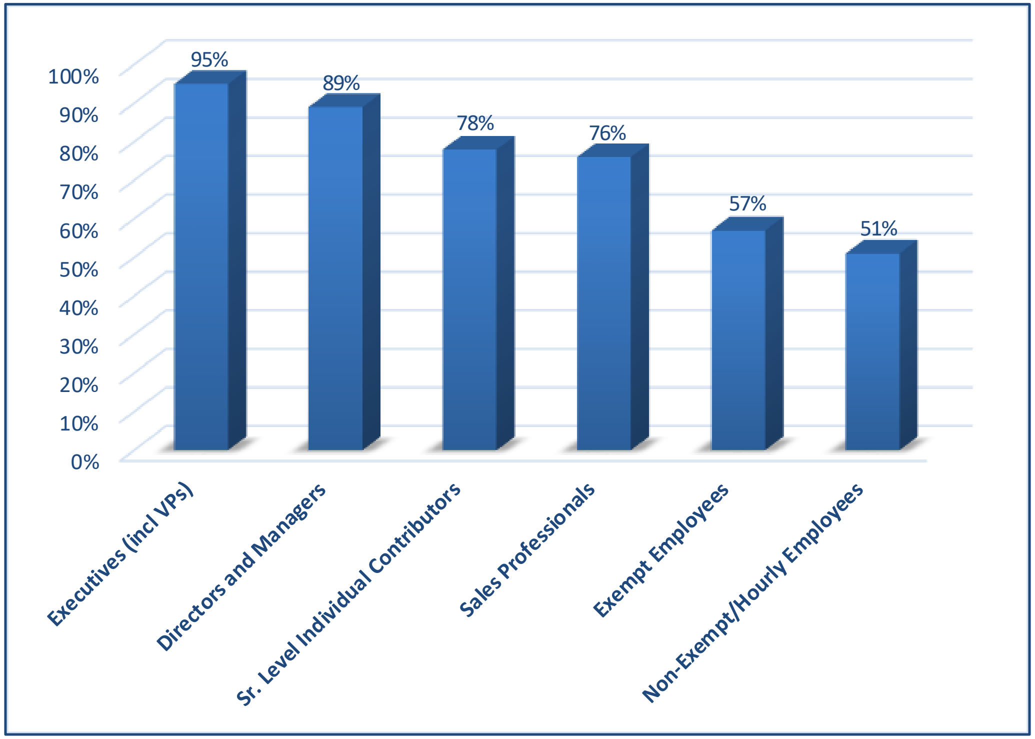
**Yes: 86%　　No: 14%**

| **Actual payouts as percent of the target payouts:** | |
|---|---|
| **10$^{th}$ Percentile** | **78%** |
| **25$^{th}$ Percentile** | **91%** |
| **Median** | **100%** |
| **75$^{th}$ Percentile** | **108%** |
| **90$^{th}$ Percentile** | **125%** |
| ***Average*** | ***101%*** |

# III. Total Cash Compensation Practices and Projections

## *Variable Pay (i.e., Bonus) Plans: Eligibility*

The table below shows who is eligible for variable pay plans. Virtually all organizations include their Managers, Directors and Executives in a bonus plan; those that do not have bonus plans for senior management tended to be smaller, non-profit type organizations. Senior level individual contributors and sales positions are almost always included in variable pay plans as well. This shows an increase in plans that include senior levels contributors from 60% of companies in last years survey to 78% this year. In over 50% of the companies, all employees are included. This clearly shows that variable pay plans are a major element of total compensation within most organizations. Where having these plans used to provide a competitive advantage to attract and retain talent, they are now common place and expected by most professional and managerial level positions. The differentiating factors in our experience are how well the plans are designed, meaningful and achievable by the participants, and how well they reinforce the strategy and desired culture of the organization.

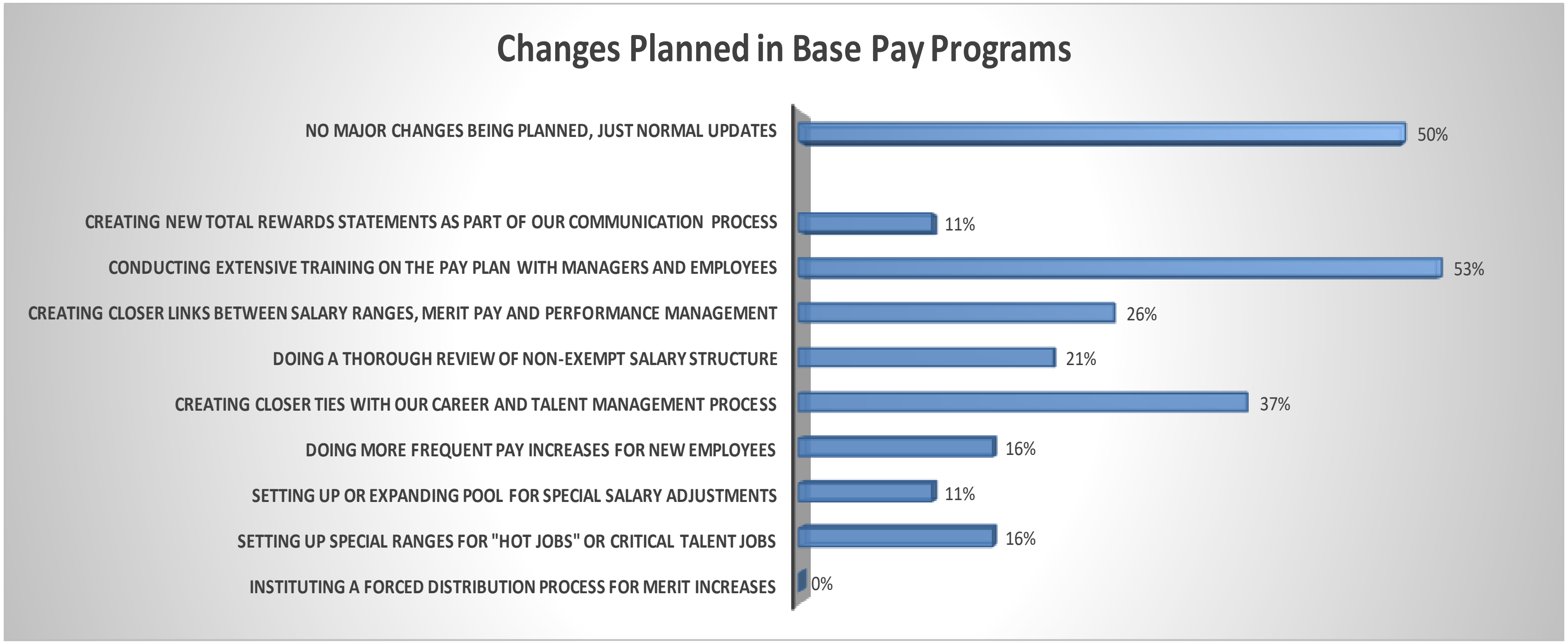


## PART IV

# Plans for Improvements in Compensation Programs

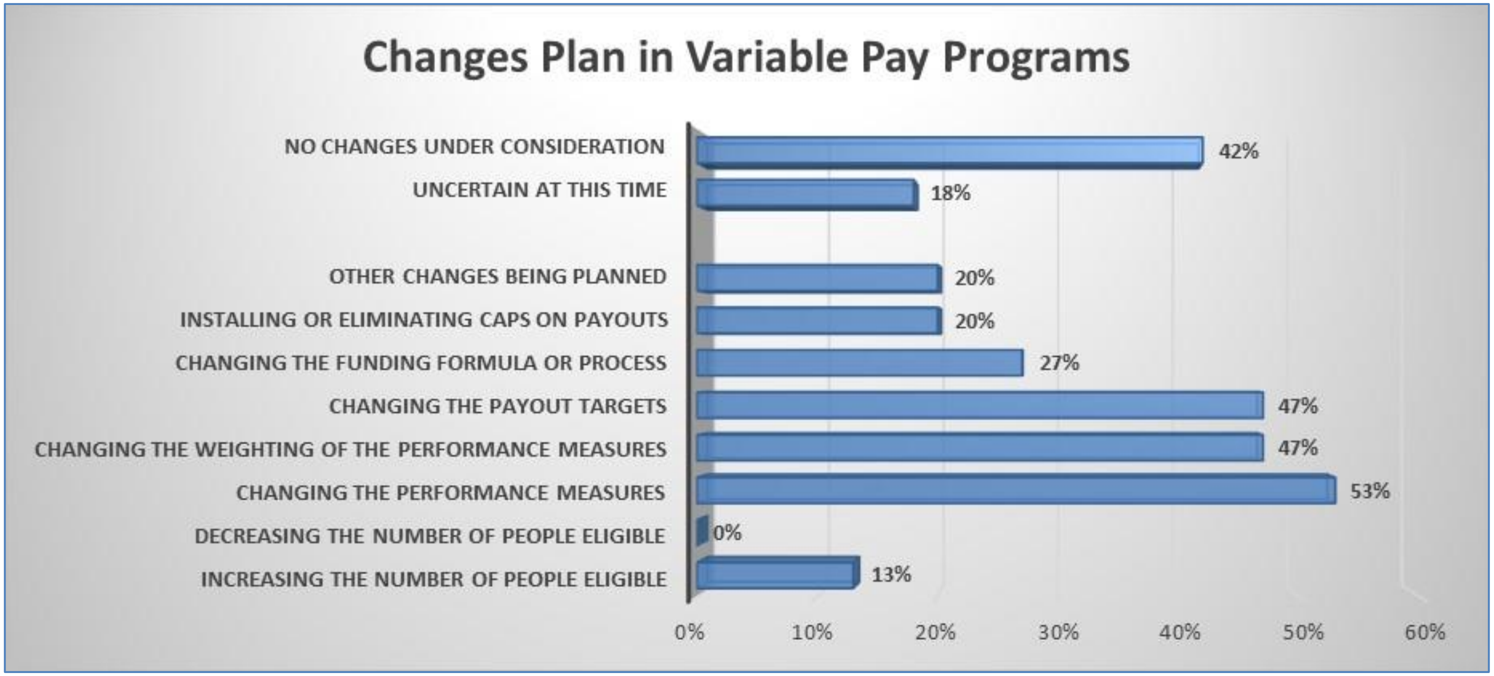
## *Changes being considered with Base Salary Programs*

The chart below shows the percent of companies that are planning changes to their base salary programs. While clearly half of the companies are not planning significant changes in their base pay plans, many are. The chart shows the types of changes being planned or executed by those who are planning changes. The survey shows that base pay plans are undergoing some rethinking or revision. The most important trend appears to be in how companies are seeking to better link their base pay program with their career development and talent management practices. Training managers and employees on how the compensation programs work is clearly a rising trend. Linking these programs to a total rewards framework and integrating these programs into a talent management process is a welcomed initiative. In this way, the company can assure that people are paid fairly, competitively, and consistent with the organization's needs for talent – for now and for the future.



## *Changes being considered with Variable Pay Programs*

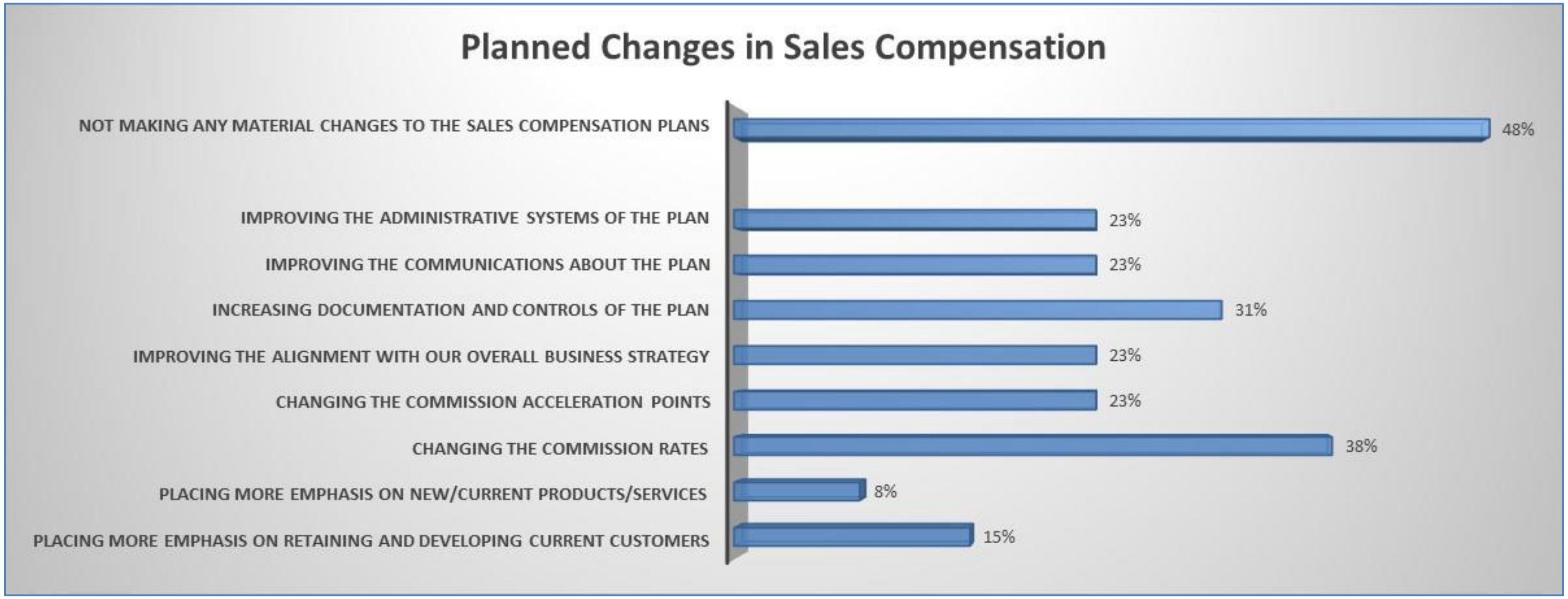
The chart below shows the percent of companies that are planning changes to their variable pay programs. In recent years the majority of companies were not planning any changes, however, for 2018 the majority are either planning changes or are uncertain at this time. Those making adjustments are shown in the chart below. The most common focus is on the performance measures, their weighting and the target payouts associated with these metrics. This is similar to previous years. Some organizations are expanding the people eligible for the company's variable pay program in order to engage them more deeply in the strategy, priorities and goals of the organization (none indicated they were reducing the number eligible). Through these efforts, these firms seek to create greater value from their workforce and provide greater rewards to those who achieve their goals. These programs perhaps provide a better mechanism to reward performance financially to their workforce.



# IV. Plans for Improvements in Compensation Programs

## *Changes being considered with Sales Incentive Plans*

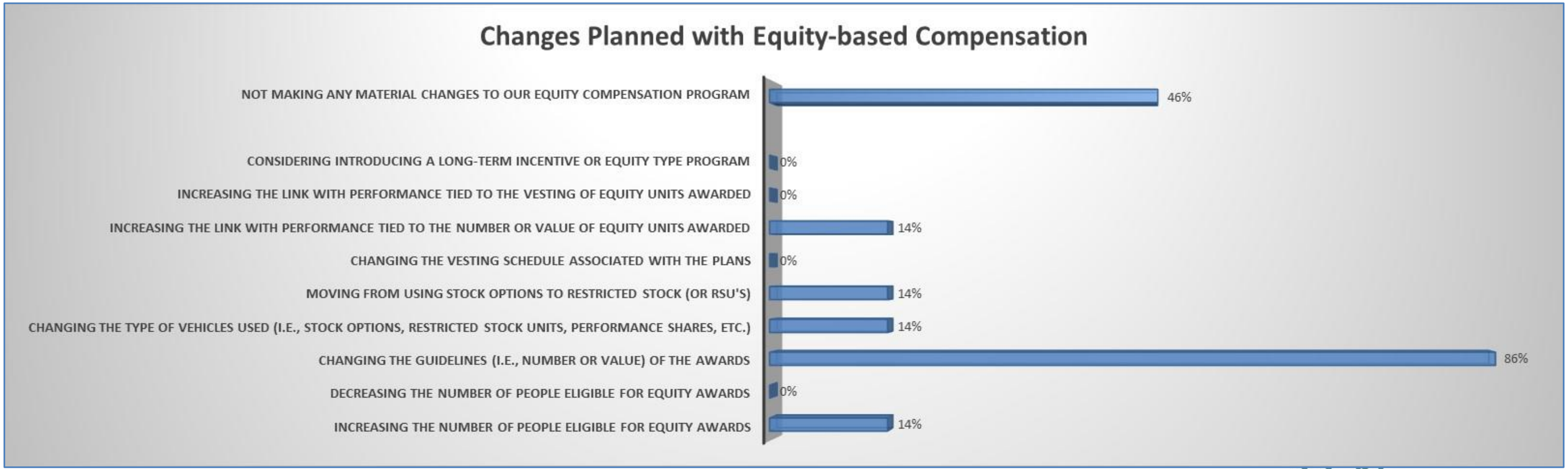
The chart below shows the percent of companies that are planning changes to their sales incentive plans. Less than half indicated that they were not considering any changes to these plans, this is down from 80% in last year survey. For those that are taking action, the primary focus is on changing the commission rates and controls on the sales compensation plans. Perhaps they have discovered that a plan that is not well conceived results in unacceptable costs of sales. Many companies are seeking to improve the communications associated with these plans and assessing the overall payout opportunities. It is interesting to note that less changes are being considered with regards to the focus on expanding business within existing clients versus seeking to acquire new clients (or new logo's). For a more in-depth look at sales compensation plan design practices, I encourage you to obtain a copy of the Wilson Group 2017-2018 Sales Compensation Practices Survey Report, which provides a summary of best practices from our surveys and research on best practices (https://www.wilsongroup.com/resources/surveys-and-reports-for-purchase).



## *Changes being considered with Equity/Ownership Pay Programs*

Forty-six percent (46%) of the participants provided data on their equity plans. The chart below shows the percent of companies that are planning changes to their equity or ownership incentive plans. Less than half of the respondents indicated that they were not making any major changes to these programs. Those that are making changes were clearly focused on changing the award guidelines associated with these awards. The nature and type of these guidelines, however, varied across all sectors of the respondents. We have yet to see any impact on the new SEC requirement on the CEO Pay Ratio.  We look forward to viewing these change in new year's survey.

Over the last several years we have seen a dramatic shift from stock options to restricted stock (or restricted stock units). In our discussions with the Boards, Compensation Committees and executives of our clients, we hear that the challenge to achieve growth in market value is more intense. Desired growth comes from a combination of organic performance and acquisitions. This is one reason why full valued programs (like restricted stock units) are more popular than stock options. However, they are not just "awarded", they need to be earned. Making these awards based more on performance is both complex and critical. This is reflected here in those companies that are changing the guidelines used for making awards, and other changes indicated below. Several of those who don't have long-term incentive or equity programs are starting to explore whether or not (and how) such a plan would work for them. Clearly these programs have shown both a major value and challenge for the organization.



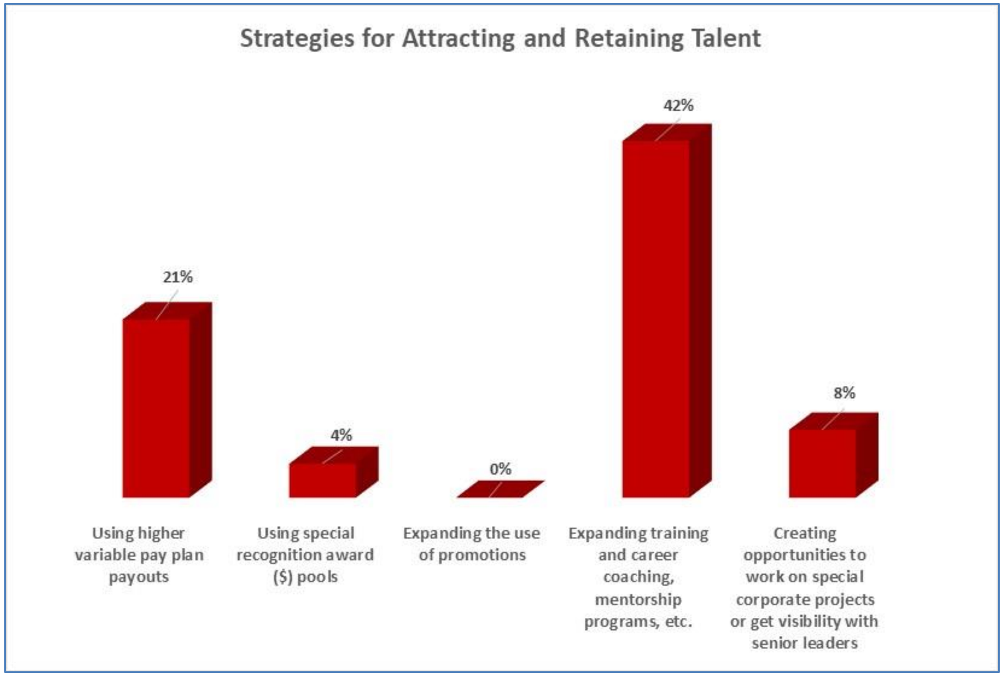
## *Changes in special cash, recognition and other award programs*

The chart below shows the level of use in 2017 of special cash, recognition and award programs. Companies are using a variety of special compensation programs for attracting and rewarding performance. New hire bonuses are used by 63% and a similar number of companies are using Spot Awards (66%) and gift card, movie passes and similar awards to reward special performance (59%). What is interesting is the few number of companies that are considering these programs for 2018. Clearly these programs have demonstrated their value by companies that are using them, as no company reported interest in discontinuing any of these programs. Perhaps those companies that use more innovative recognition techniques, such as innovation days, engaging employees in team, social networking and building relationship develops a unique culture. One interesting note on the research on retention, when people have "friends at work", their tendency to continue "shopping around" diminishes. Perhaps a forward looking firm should investigate creative ways to build social networks within their workforce. This will be an important area to monitor as the market for talent and the pressure to remain highly competitive increases.

| | Current Use | Planning for 2018 | Discontinuing |
|---|---|---|---|
| Retention bonuses | 37% | 2% | 0% |
| New Hire bonuses | 63% | 2% | 0% |
| Spot awards | 66% | 2% | 0% |
| Project based bonuses | 41% | 5% | 0% |
| Recognition cash awards (formal program) | 44% | 10% | 0% |
| Gift card, movies passes, etc. awards | 59% | 10% | 0% |
| Unlimited vacation policies | 5% | 2% | 0% |
| Engaging programs like sports, socials | 5% | 0% | 0% |
| Innovation days or creativity events | 15% | 5% | 0% |
| Create mechanism for social networking | 12% | 2% | 0% |
| Conduct "town hall" meetings | 66% | 2% | 0% |

## *Plans or Programs for Attracting or Retaining Critical Talent*

Given that the market for talent is becoming increasingly competitive, we explored how survey participants were addressing the "hot jobs" in their organizations. As shown earlier, compensation programs are being more closely linked with career development and training initiatives within organizations and this is clearly shown in the chart below. These programs also communicate how the company is seeking to "invest in" the individual and build bench strength for the future. Building on the previous page, spot recognition and gift card awards are the mainstay mechanisms for showing employee appreciation. The key question is, how will your company create a competitive advantage to attract and retain the talent the company needs today and in the future? If one does only what the common market does, then there is no competitive advantage. Finding the unique elements of your organization, and expanding them through your population may, if done successfully, create this desired competitive advantage and strengthen your talent base for today and for the future. What could be more important or provide a greater return on this critical investment?



## PART V

# Breakout by Industry Category & Company Size

# V. Breakout by Industry Categories and Company Size

## *Primary Survey Results by Major Industry Categories*

The following table shows the survey results for the major industries of companies in this survey.

| | Technology | Retail & Consumer Products | Manufacturing | Professional Services & Communications | Financial Services |
|---|---|---|---|---|---|
| **Background** | | | | | |
| **Revenue Growth Projections** | | | | | |
| Actuals for 2017 | 8.1% | 4.3% | 7.0% | 6.0% | 4.0% |
| Projections for 2018 | 8.7% | 4.6% | 6.8% | 7.5% | 4.0% |
| **Staffing Changes** | | | | | |
| Increasing Staff | 75% | 63% | 83% | 67% | 17% |
| No Change in Staff | 25% | 38% | 17% | 33% | 50% |
| Decreasing Staff | 0% | 0% | 0% | 0% | 33% |
| Unknown at the time | 0% | 0% | 0% | 0% | 0% |
| **Turnover rates (average)** | | | | | |
| Voluntary | 6.1% | 4.5% | 9.5% | 5.6% | 2.3% |
| Involuntary | 2.0% | 1.7% | 3.0% | 7.8% | 0.9% |

# V. Breakout by Industry Categories and Company Size

## *Primary Survey Results by Major Industry Categories (continued)*

| | Technology | Retail & Consumer Products | Manufacturing | Professional Services & Education | Financial Services |
|---|---|---|---|---|---|
| **Total Cash Compensation** | | | | | |
| **Merit Pay Increases** | | | | | |
| Actuals for 2017 | 3.1% | 3.0% | 3.0% | 3.0% | 3.0% |
| Projections for 2018 | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| **% EE's with NO Increase** | | | | | |
| Actuals for 2017 | 6.0% | 4.0% | 5.0% | 1.5% | 3.5% |
| Projections for 2018 | 5.0% | 4.5% | 3.0% | 1.7% | 5.0% |
| **Salary Range Movement** | | | | | |
| Actuals for 2017 | 2.3% | 2.5% | 2.5% | 0.0% | 2.0% |
| Projections for 2018 | 2.2% | 2.5% | 2.0% | 0.0% | 2.0% |
| **Bonus Plan Payouts** | | | | | |
| % Making Payouts | 100% | 100% | 80% | 50% | 100% |
| Payouts as % of Target | 106% | 100% | 98% | 85% | 125.4% |

## *Primary Survey Results by Company Size*

The following table shows the survey results by size of company in this survey.

| | Under $50M | $50M - $250M | $250M - $1B | Over $1B |
|---|---|---|---|---|
| **Background** | | | | |
| **Revenue Growth Projections** | | | | |
| Actuals for 2017 | 8.7% | 5.2% | 4.4% | 4.8% |
| Projections for 2018 | 8.6% | 7.2% | 5.8% | 4.2% |
| **Staffing Changes** | | | | |
| Increasing Staff | 89% | 80% | 80% | 28% |
| No Change in Staff | 11% | 20% | 20% | 56% |
| Decreasing Staff | 0% | 0% | 0% | 11% |
| Unknown at the time | 0% | 0% | 0% | 6% |
| **Turnover rates (average)** | | | | |
| Voluntary | 5.0% | 8.6% | 7.3% | 6.5% |
| Involuntary | 5.0% | 4.4% | 2.2% | 2.0% |

## *Primary Survey Results by Company Size (continued)*

| | Under $50M | $50M - $250M | $250M - $1B | Over $1B |
|---|---|---|---|---|
| **Total Cash Compensation** | | | | |
| **Merit Pay Increases** | | | | |
| Actuals for 2017 | 3.5% | 3.0% | 3.0% | 3.0% |
| Projections for 2018 | 3.5% | 3.0% | 3.0% | 3.0% |
| **% EE's with NO Increase** | | | | |
| Actuals for 2017 | 5.0% | 1.0% | 3.9% | 5.0% |
| Projections for 2018 | 5.0% | 5.0% | 5.0% | 5.0% |
| **Salary Range Movement** | | | | |
| Actuals for 2017 | 1.5% | 2.7% | 2.7% | 1.0% |
| Projections for 2018 | 1.5% | 2.4% | 2.4% | 2.0% |
| **Bonus Plan Payouts** | | | | |
| % Making Payouts | 100% | 80% | 100% | 71% |
| Payouts as % of Target | 93.0% | 100.0% | 100.0% | 110% |

PART VI

# Summary Observations
# and
# Overview of Wilson Group

# VI. Summary Observations and Overview of Wilson Group

## *A Commentary on These Trends in Compensation*

By this point in your review of the report, you have seen the data and most likely compared this to your own practices and plans for 2018. So if you will indulge me a little, I would like to offer my commentary or observations about what we are seeing in the market and heard from the comments of the participants. I want to thank those who provided their comments, as this provided meaningful insights into best practices and the challenges you face.

It is clear that we exist in a strong economic environment, at least for most organizations. However, with the actions in Congress and the Trump Administration, it is unclear what impact the implementation of legislative and regulatory changes will have on the economy and broader business conditions. The national and regional unemployment rates are low and reflect the perspective of many economists as full employment. However, it is also clear that many people feel "under utilized" and are working in jobs to make an income and are looking to get a job that pays more and is better suited to their abilities and interests. This presents a challenge to today's employers, which is seen in the data and comments about the importance of employee career and professional development. So the task for most organizations, if you have not done so already, is to examine your talent needs now and in the future, assess the staffing, capabilities, and effectiveness of existing programs and determine your RISK PROFILE – where are you most likely to encounter a serious business impact if certain individuals find employment elsewhere. We believe that initiatives that are focused on both retention and development of talent are critical business imperatives because the company is the one that will experience the negative impact of losing critical talent. Much research has demonstrated the economic and cultural impact of terminations, and the answer is not to bribe or force people to stay, but to offer them a "more attractive" alternative.

There are several areas where we suggest you begin your examination and build your competitive strategy for talent. While there are many factors, such as leadership, mission, treating people with respect, and reinforcing desired actions, my focus here will be on programs and practices for total compensation and rewards. First, base pay programs do two things for people: (1) provide a level of economic security to meet personal/family needs and (2) create opportunities for income growth that are based on both performance and demonstrated competencies. When people understand how the pay programs work they naturally have more confidence in them.

Second, variable pay programs have different levels of importance to different population segments of your company. At managerial levels and above, these programs are common and expected. For senior individual contributors, they are important but are viewed with some level of skepticism between the pay opportunity and the ability to truly understand and appreciate their performance. For service and operational people, these plans are nice when they happen but people often have little confidence in them.

# VI. Summary Observations and Overview of Wilson Group

## *A Commentary on These Trends in Compensation (continued)*

This may be because they have little impact on the measures or they have been promised things before and been disappointed in the outcomes. One's past experience often creates one's expectations. Creating variable pay programs that are simple (but not simplistic), are translated into factors that people can understand and act on, and be based on a philosophy of sharing the results of our common effort have a better chance of succeeding than one that is driven by metrics people see little connection or value. Variable pay programs can provide a critical connection between people and the company in terms of shared economic interests. It is often said that "What gets measured, gets done" but that is not true. In reality what gets measured and rewarded (or punished) gets done – we measure many things but only those that have an impact on the individual get their attention. So as you examine your performance measures, weighting and target payouts, consider these principles and move with both care and urgency to do what is right for the organization and the people who are included in these plans.

Third, effective sales compensation programs create a strong linkage between the strategy and economics of the business and the actions of those who represent the company in the marketplace. Ineffective sales compensation plans create relationships with customers that are often inconsistent with the values of the company and sales people see the need to exploit or protect themselves from the company. With sales people, "how much" is always important, but the more important question is "how" they will be compensated. We have been asked recently to review a number of sales incentive plan documents, and many plans came across like they were "written by attorneys for attorneys." With all due respect to my attorney friends, these documents are used to inform sales people about their compensation plans. The structure and the messages often are more "demotivating". Further, our research and experience on best practices clearly demonstrate that these plans should have a mix of pay (salary vs incentive) based on the nature of the sales role, focus on two or three critical measures that drive desired business, and create opportunities to reward performance achievements frequently and based on challenging/achievable targets. We find that sales plans that are the product of a collaboration between Sales Management, Finance and Human Resources often get it right. If you would like to learn more about sales plan design practices, visit our website and see our most recent survey on sales compensation practices (www.WilsonGroup.com).

Fourth, equity based compensation has undergone major revisions over the last several years. Whether for executives or key contributors, these plans have shifted from stock options (where the income opportunity was based on the growth in the company's market value) to restricted stock or units (where the income opportunity is based on performance achievements and the company's market value). For executives, particularly in public companies, equity plans are becoming their primary source of wealth. Many private companies are exploring how to develop these programs as a mechanism to attract and retain leadership talent, and encourage/reward the growth and development of the enterprise toward a variety of potential long-term outcomes.

## *A Commentary on These Trends in Compensation (continued)*

Fifth, recognition programs have often been used as a way to say “thank you” for a job well done. Some programs are more oriented to appreciating those with long services with the company and others are focused on special efforts, contributions and achievements. These programs come in many shapes and sizes, and are best designed around certain core values and “wants” of the organization and your people. Their value is often created by their timeliness and personalization. I was once asked which is more important: Recognition or Money? The answer is both! Imagine an organization where people were meaningful recognized and appreciated for their efforts and accomplishments, and rewarded for their primary results. What if this happened with great certainty and effectiveness at all levels of the organization. Would this be a place you would like to work? Would this be a place where you would seek to achieve your best?

Finally, there is much discussion about the impact of Millennials on the workplace and market for talent. Many of them saw their parents get laid off and treated poorly by their employers. They have seen pensions and other economic benefits be reduced or eliminated for their parents. It is no wonder they see themselves as “agents” in a “gig” economy. Plus, there is terrific technology to connect and communicate with them (and others) so that the actions of a company are well known. The challenge of the company to attract and retain this talent (and this talent is now entering their 30’s and starting to have families) is to create an environment where they can create friends in the workplace, be part of the strategic discussions of the company and their part of the enterprise, and to provide creative ideas and actions that make the company more competitive, stronger and more attractive to others. There are emerging technologies that promote this social networking within organizations, and these programs can influence many areas of talent management including training/development, project performance, company communication and cultural connections between people. There is fascinating research indicating that when people have close friends at work, hear and participate in discussion about what is going on with the organization, and feel appreciated for their contributions, retention is not a problem. And, attraction is easier too because these people promote the company with their friends. While this makes common sense, it is not common practice.

I hope you have enjoyed and gained a few important insights from this Commentary. Things are changing in our organizations and market place, and the tools and strategies are as well. There are exciting new developments and ideas emerging to help us all create a place where people are valued for the work they do and that work is what is needed to fulfill the mission of the organization.

# VI. Summary Observations and Overview of Wilson Group

**Our Mission:** ***"To help our clients assess, develop and implement performance systems and total compensation plans that translate strategy and values into action."***

**Our Primary Services:**

- Sales effectiveness and total rewards
- Executive total compensation
- Board of directors governance structure and compensation
- Employee total compensation and rewards
- Special studies in market trends and practices

**Key Differentiators:**

- **Our expertise --** Work with highly seasoned, experienced professionals
- **Our approach --** We engage our clients in a collaborative, open communication fashion
- **More cost effective --** Highly customized, value added to address just what the client needs
- **Innovative insights --** Simplify complex data into easy to understand information and actions plans

**Founded:** 1994, Concord, MA

**Clients and Markets:**

**We have worked with over 150 clients. They include:**

- Technology – iRobot, IANS, Visual IQ, PeopleFluent
- Manufacturing – MorphoTrust, Coopers-Atkins, IMTRA, HTP,
- Professional services – Copyright Clearance Center, Care.com, Shepley Bulfinch, SWA Architects
- Healthcare –Dana Farber Cancer Institute, Franciscan Children's, DentaQuest
- Financial services – Quincy Mutual, Boston Mutual, Commonwealth Financial, Jeanne D'Arc Credit Union
- Consumer products/Retail – Randolph Eyewear, Aubuchon, ECCO, Gemline, Stavis Seafood, Roche Brothers

# VI. Summary Observations and Overview of Wilson Group

## Wilson Group Leadership Team:

- Thomas B. Wilson, President
- Susan Malanowski, Principal
- Rhonda Farrington, Principal
- Plus a team of 5 other experienced professionals
- Our Network of additional specialized resources:

  **Marsh & McLennan Agency - New England** (known locally as Bostonian Group) – Executive and Employee Benefits
  **Compensation Insights** (a national network of boutique peer compensation consulting firms)
  **Thomas E. Shea & Associates** – Executive and Board Compensation
  **Independent Stock Plan Advisors** – Global Equity Compensation

## Thought Leadership:

- Trends in Compensation – 2012, 2013, 2014, 2015, 2016, 2017, 2018
- Sales Compensation Practices Survey Report – 2011, 2012, 2013, 2014, 2017-18
- "Goal Setting: What Has Gone Wrong and What Can Be Done" – published WorldatWork Journal, Fall, 2011
- "Changes for Challenging Times – Survey Report on Economic Challenges and Company Responses", 2009
- Innovative Reward Systems for the Changing Workplace (McGraw-Hill)
- Rewards that Drive High Performance (AMACOM)
- Published over 30 articles and book chapters
- Presented at over 100 leading regional and national conferences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