

The "Learn & Earn" Series™

June 21, 2012

"Compensation that Drives Not Hinders Growth"



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com



Course Credit

Per State Requirements:

To receive CPE credit for today's course, you must respond to at least 75% of the monitoring events – given in the form of polls.

Each person taking the course must respond to the monitoring events from their own computer. You may not share a computer when taking the course

We're happy to provide a copy of today's slides.
Information will be provided at the close
of the presentation.

For questions during today's presentation:

Use the question panel
To the right of your screen

Course Objectives

- Understand what drives business growth
- Define strategic role of compensation
- Identify elements of a pro-growth rewards strategy

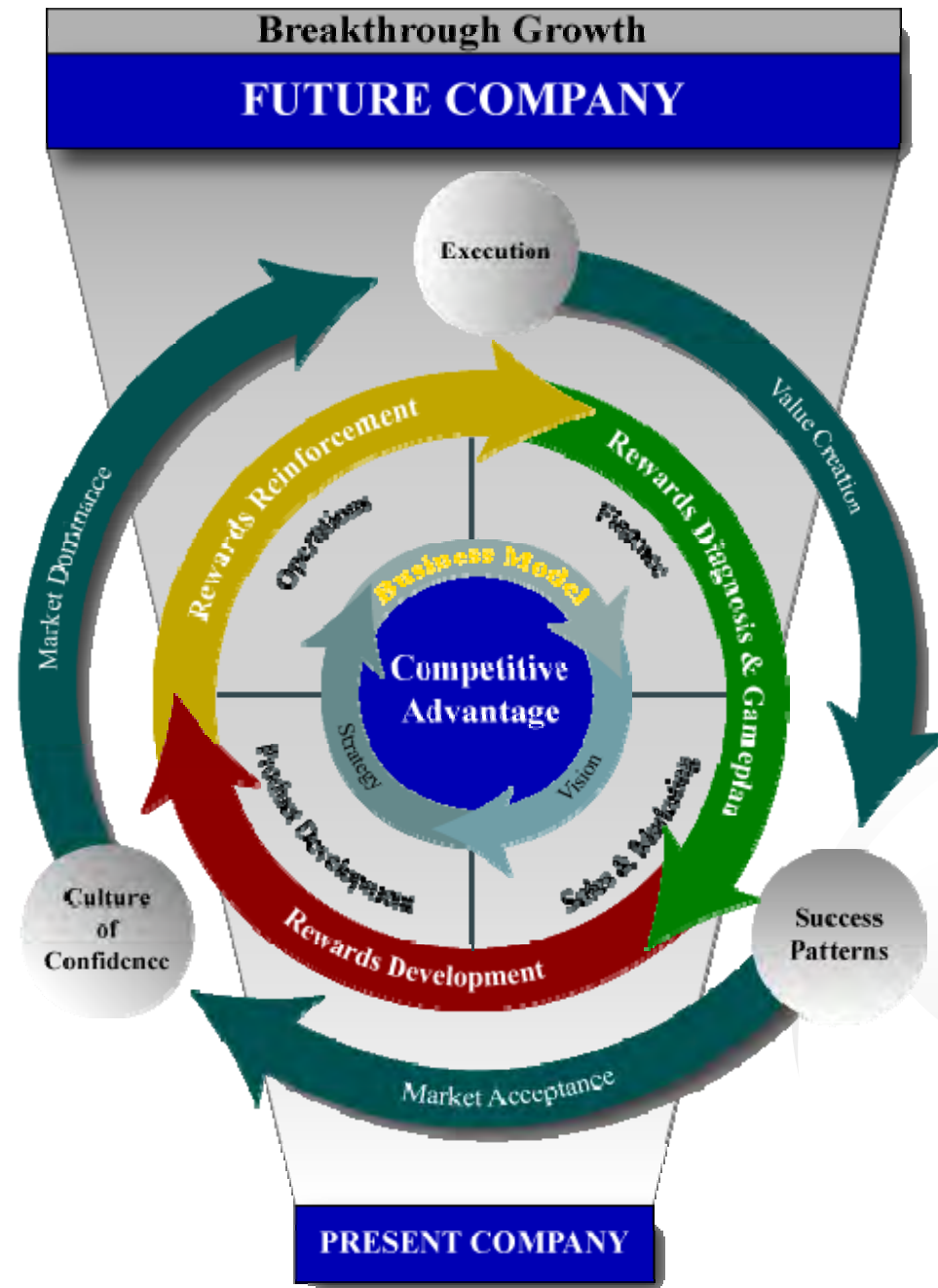
Key Concepts



- Business model and strategy execution
- Compensation's role
- Structure vs. mindset
- Wealth multipliers
- Return on compensation investment
- Creating alignment
- Components of pay

So...what drives business growth?





Purposes of Compensation Plans

- Build a sense of partnership between ownership and the workforce—*yes*
- Communicate and reinforce the values, goals, and objectives of the company—*yes*
- Engage employees in the organization's success—*yes*
- Reward contributors for successful achievements—*yes*
- Create a unified financial vision for growing the business—*yes*

However...



The "Must"

It **must** reinforce the logic of the business **model**, not just the business strategy



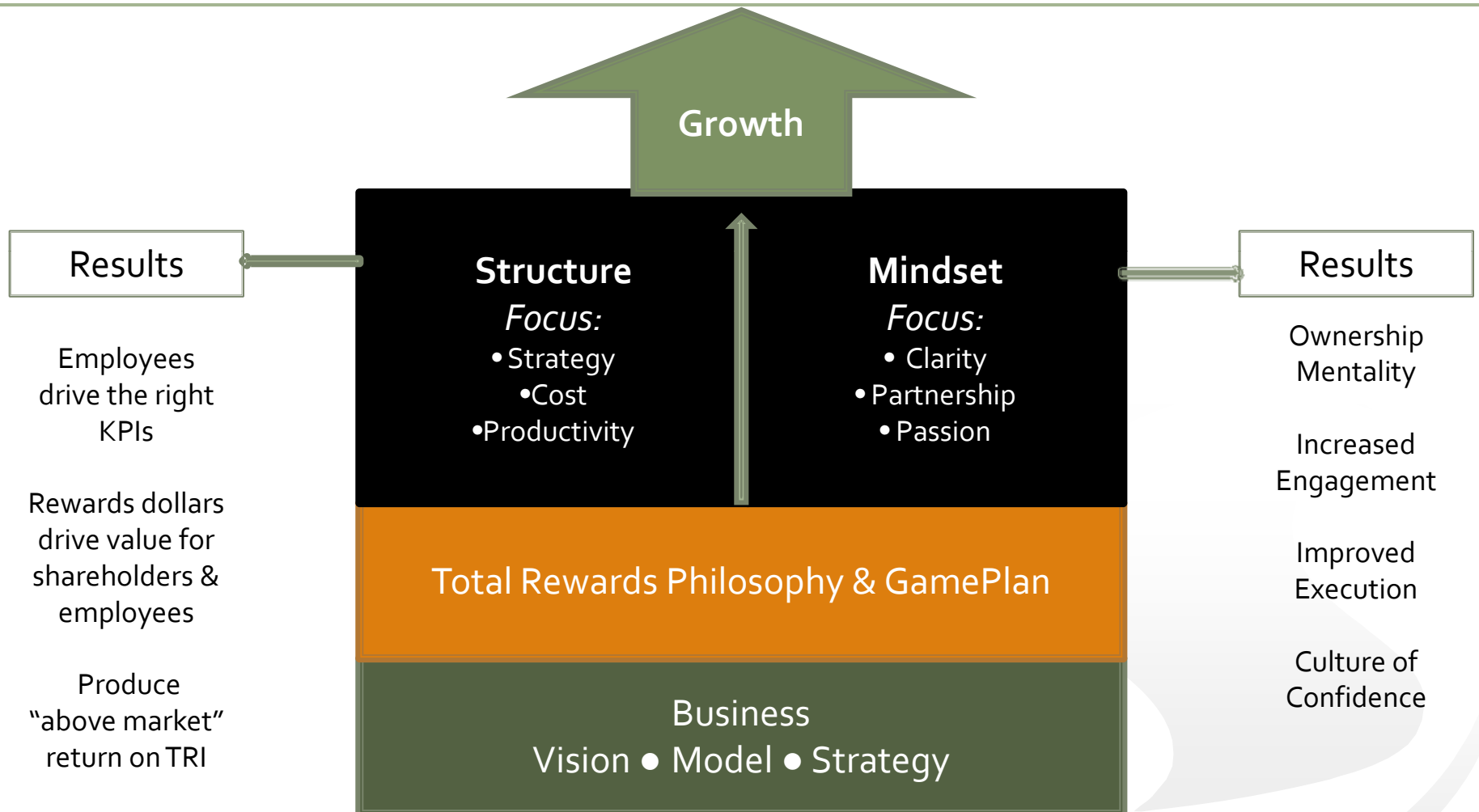
Source: Harvard Business Review

What any new compensation plan should achieve...

Communicate what's important so execution will align with the business model

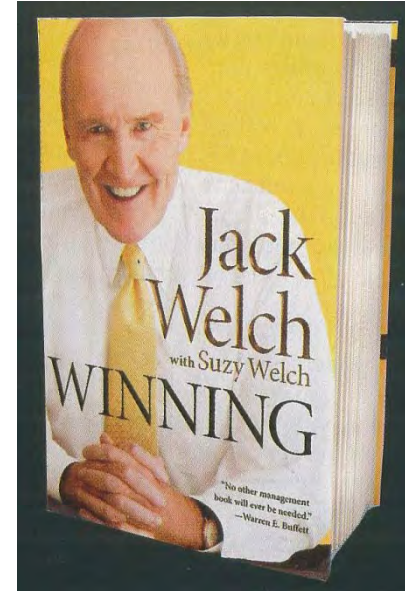


The Compensation Framework



Jack Welch

in his book ***WINNING***



“Show me a company’s various compensation plans, and I’ll show you how its people behave.”

Poll #1



Wealth Creator vs. Wealth Multiplier

WEALTH CREATOR

- Profitable business
- Modest but successful results
- Focus on shareholder growth



WEALTH MULTIPLIER

- Above market returns
- Breakthrough results
- Focus on growth for all stake holders



A Difference in Perspective

Wealth *Multipliers* fundamentally view the role of compensation differently than Wealth *Creators*...

Wealth *Multipliers* understand that multiplying the economic value for everyone increases the likelihood their wealth will increase



ROTRI™ - Return on Total Rewards Investment



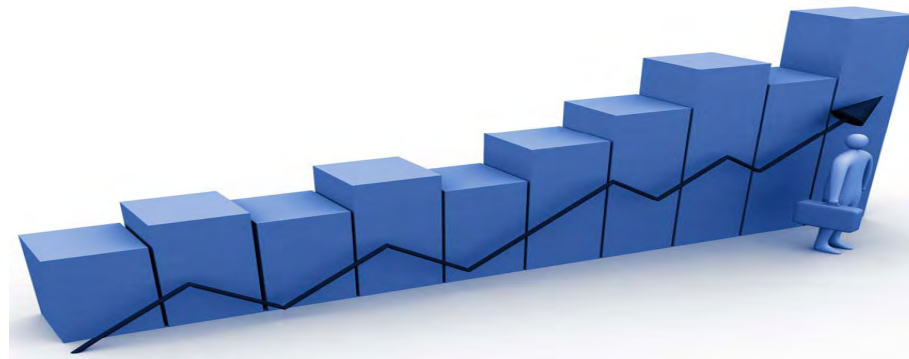
How much is the Total Rewards Investment?

- Salaries
- Commissions
- Bonuses
- Deferred award accruals (LTIP)
- Core benefits
- Executive benefits
- Retirement contributions
- Payroll taxes



What return do you get on that investment?

_____ %



ROTRI™ Example:

Capital Account	\$ 2,000,000
Cost of Capital	12%
Capital Charge	\$ 240,000
NOPAT	\$ 1,000,000
Productivity Profit	\$ 760,000
Total Rewards Investment	\$ 4,500,000
ROTRI™	16.9%

(ROTRI = Productivity Profit/Total Rewards Investment)

Current Equity Value	EOY	10% GR (Threshold)	11% GR	12% GR	13% GR	14% GR	15% GR
25,000,000	1	27,500,000	27,750,000	28,000,000	28,250,000	28,500,000	28,750,000
	15	104,431,204	119,614,737	136,839,144	156,356,759	178,448,449	203,426,541
	Incremental increase in value		15,183,533	17,224,407	19,517,615	22,091,690	24,978,091
	Cum Value Increase Above Threshold		15,183,533	32,407,940	51,925,555	74,017,245	98,995,336
	% Shared		10%	15%	20%	25%	30%
	\$ Shared		1,518,353	4,861,191	10,385,111	18,504,311	29,698,601
	Net Increase for SH		13,665,180	27,546,749	41,540,444	55,512,934	69,296,736
	New SH Value		118,096,384	131,977,953	145,971,648	159,944,138	173,727,940
	IRR		10.9%	11.7%	12.5%	13.2%	13.8%

Poll #2



Creating Alignment Between Leadership and Workforce through Compensation



CEO Worry List—Focus on The Model



Sales

Productivity

Competitive Advantage

Execution

Talent

Worry List

- No award should be generated unless improvements are made in one or more of these 5 strategic areas— ***all impact business model***
- Must have ways to measure each
 - Sales growth—easy
 - Employee productivity—multiple metrics
 - Competitive Advantage—market share, ROE
 - Execution—critical KPIs, employee engagement
 - Talent—turnover, attraction strength



When the Worry List is addressed...

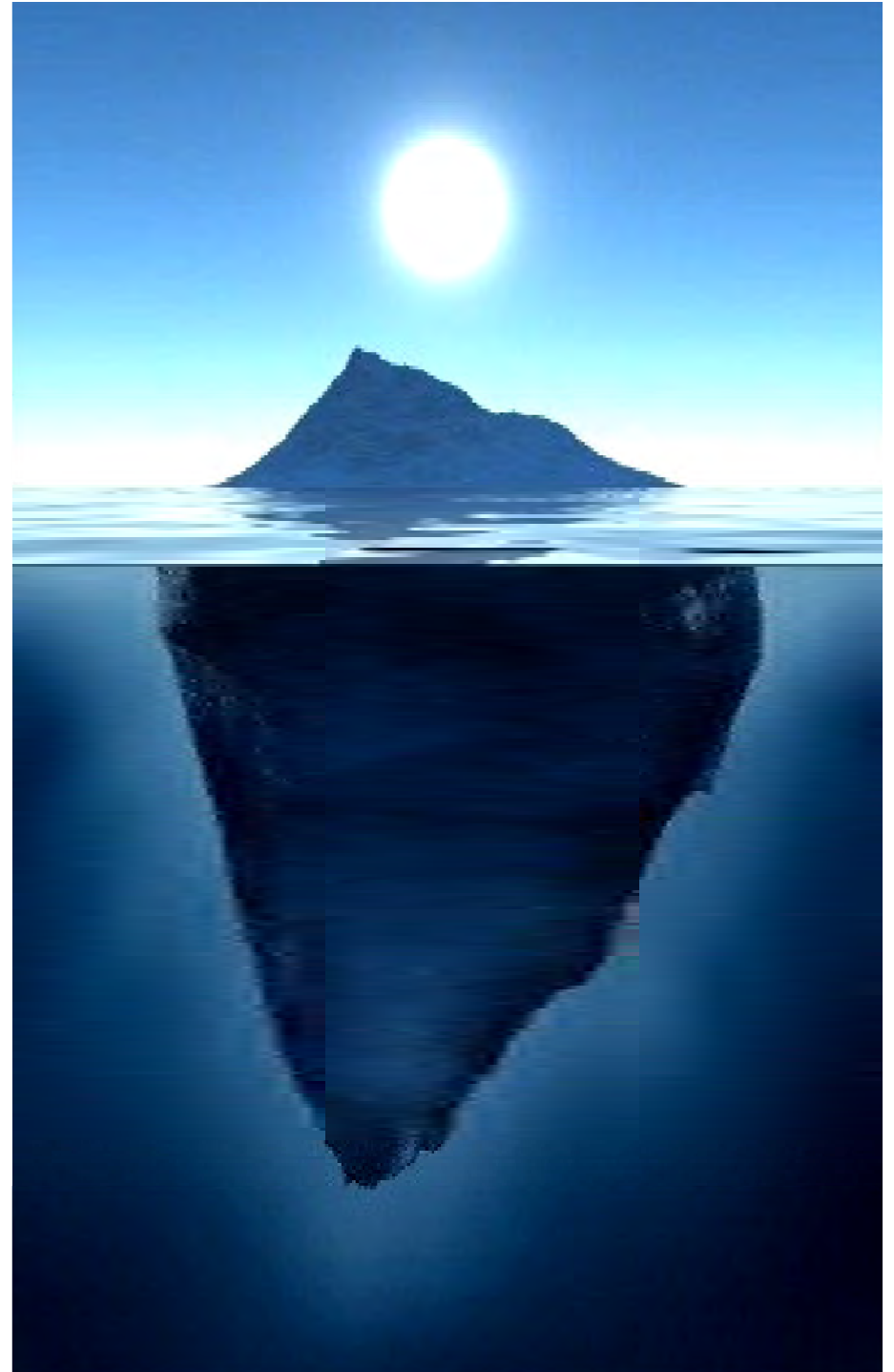
Leverage is achieved:

- New value is created (sustainable profits)
- Competitive advantage is enhanced
- The company becomes an employer of choice
- The culture is all about execution



However...

Things going on
“below the
surface” that are
hindering
execution



Alignment

Action

Clarity • Focus • Rewards

Attitude

Ownership • Accountable • Commitment

People

Talent • Vision • Right fit

Plan

Achievable • Understandable • Compelling

**“Growth” implies different results,
therefore the pay cannot be
the same**

Poll #3



Eight components of pay

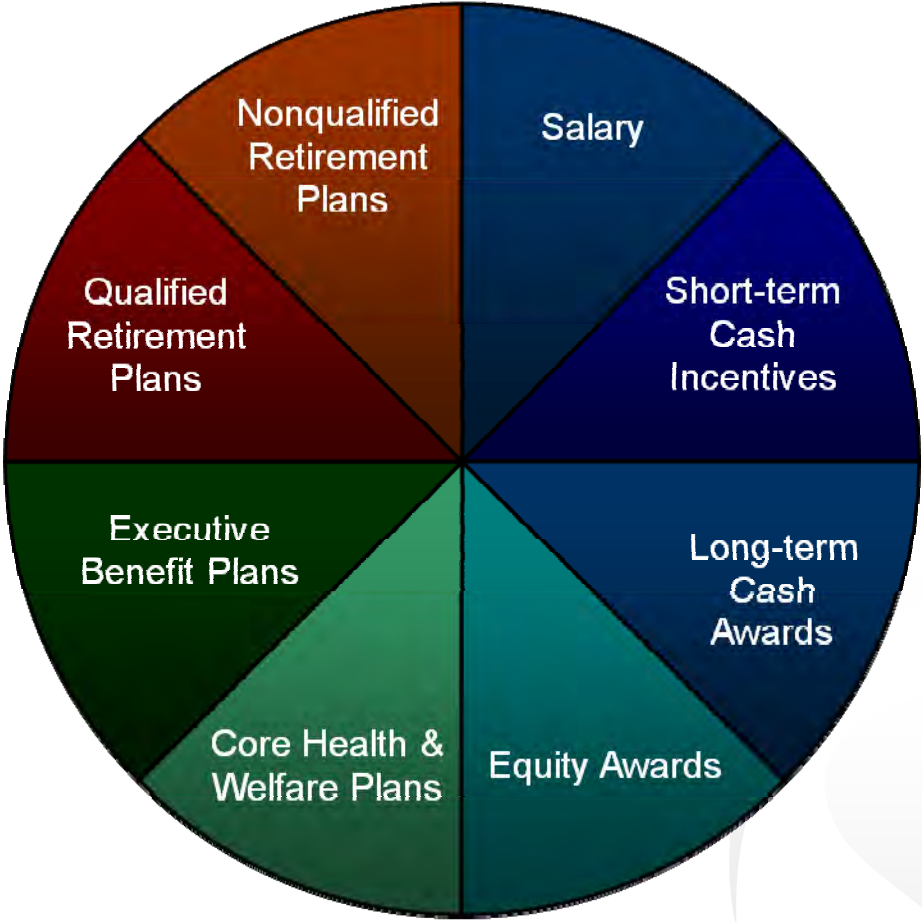
Benefits

- Core benefits
- Executive benefits
- Qualified retirement plans
- Supplemental retirement plans

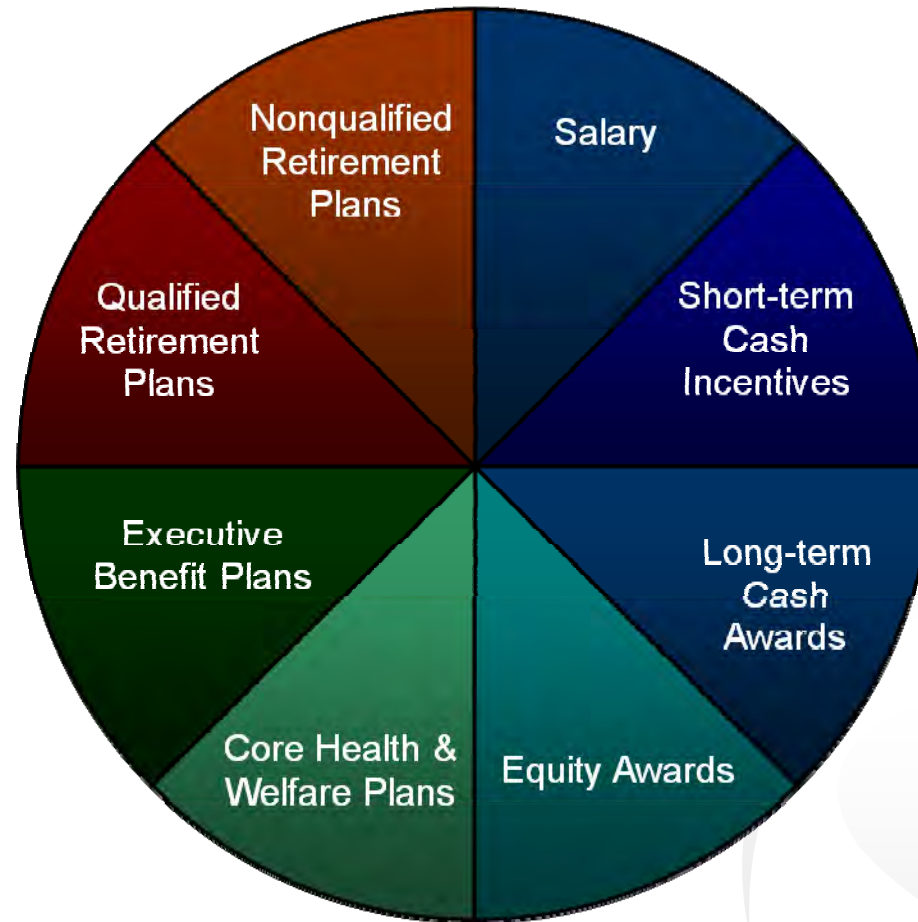
Compensation

- Salary
- Short-term incentives
- Long-term incentives (cash)
- Long-term incentives (equity)

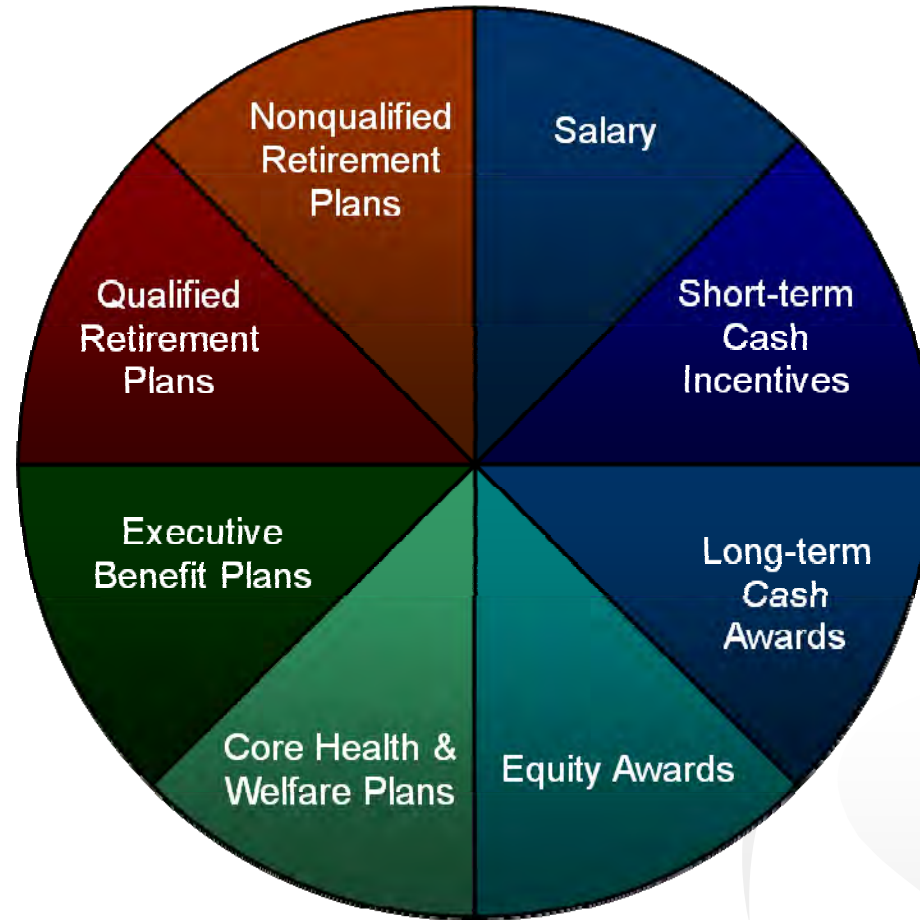




How do these slices differ?



When or if they're paid



How much they'll be worth when received

Form of Pay	Purpose	Standard	Investment	ROI
Salaries	Provide for the current cash needs of our executives	40-50th percentile for peer group	\$500,000	Achieve ROA standard of 0.75%
Short-term Incentives	Enhance current cash payments to executives for achieving top and bottom line annual goals	30-40% of base salary	\$168,000 (Target)	15% revenue growth and 12% margin
Long-term Incentives (Cash)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Long-term Incentives (Equity)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Core Benefits	Meet basic security needs of the executives	50th percentile for peer group	\$25,500	ROA of 0.75%
Executive Benefits	Enhance basic security needs and meet market standards for perquisites	50th percentile for peer group	\$24,000	ROA of 0.75%
Qualified Retirement	Provide wealth accumulation opportunity for executives	40th percentile (3% of salary)	\$15,000	ROA of 0.75%
Supplemental Retirement	Strengthen rewards value proposition to help recruit and retain executives; meet wealth accumulation needs	30th percentile compared to companies that have plans	\$135,000	ROA of 0.9%

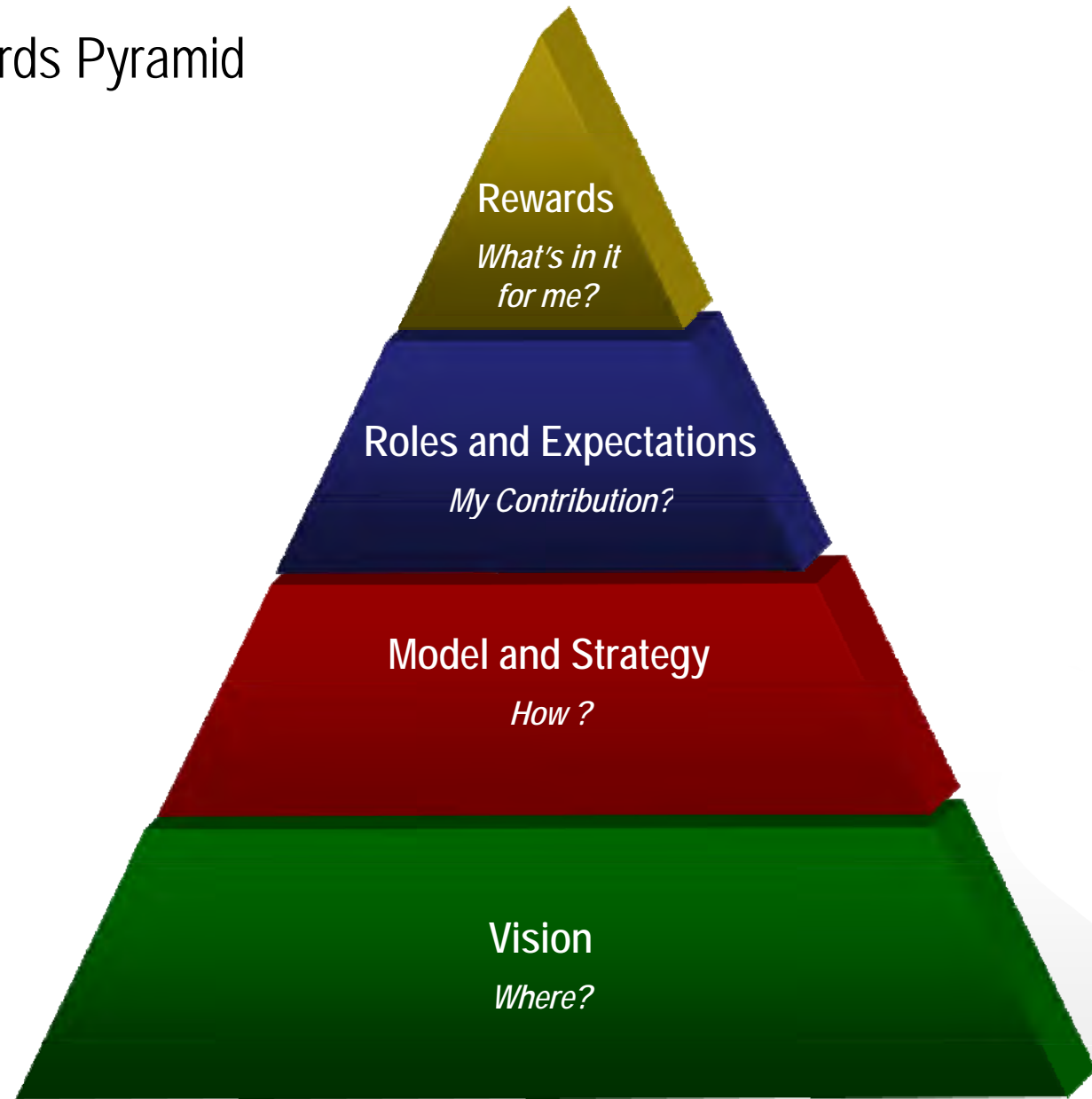
Employee Value Statement

Year	1	2	3	4	5
5-Year Plan Achievement Level	100%	100%	100%	100%	100%
Current and Inflated Salary	\$ 160,000	\$ 166,400	\$ 173,056	\$ 179,978	\$ 187,177
Cash Incentives Paid at Target	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 74,871
LTIP Vested Value at Year End	\$ -	\$ 74,000	\$ 186,000	\$ 311,000	\$ 448,000
Retirement Plan Value (at 7%)	\$ 17,120	\$ 36,123	\$ 57,169	\$ 80,428	\$ 106,086
Total Cash Received	\$ 224,000	\$ 232,960	\$ 242,278	\$ 251,970	\$ 262,048
Total Wealth Accumulation	\$ 17,120	\$ 110,123	\$ 243,169	\$ 391,428	\$ 554,086
Total Paid or Accumulated	\$ 241,120	\$ 567,083	\$ 942,407	\$ 1,342,636	\$ 1,767,343

How do you know a Rewards System is properly focused?



The Rewards Pyramid





Rewards to Results



Next CPE Course:

“Do Incentive Plans Really Work?”

To be held on:
Thursday, July 19, 2012

If you have three or members that can attend, we will make a specific presentation just for your firm on a mutually agreed upon date.
(Indicate interest on survey.)

Next Public Webinar:

“Creating an Ownership Mentality without Giving Away Equity”

Next Tuesday,
June 26, 2012

Check out our UPDATED website:

www.VLadvisors.com

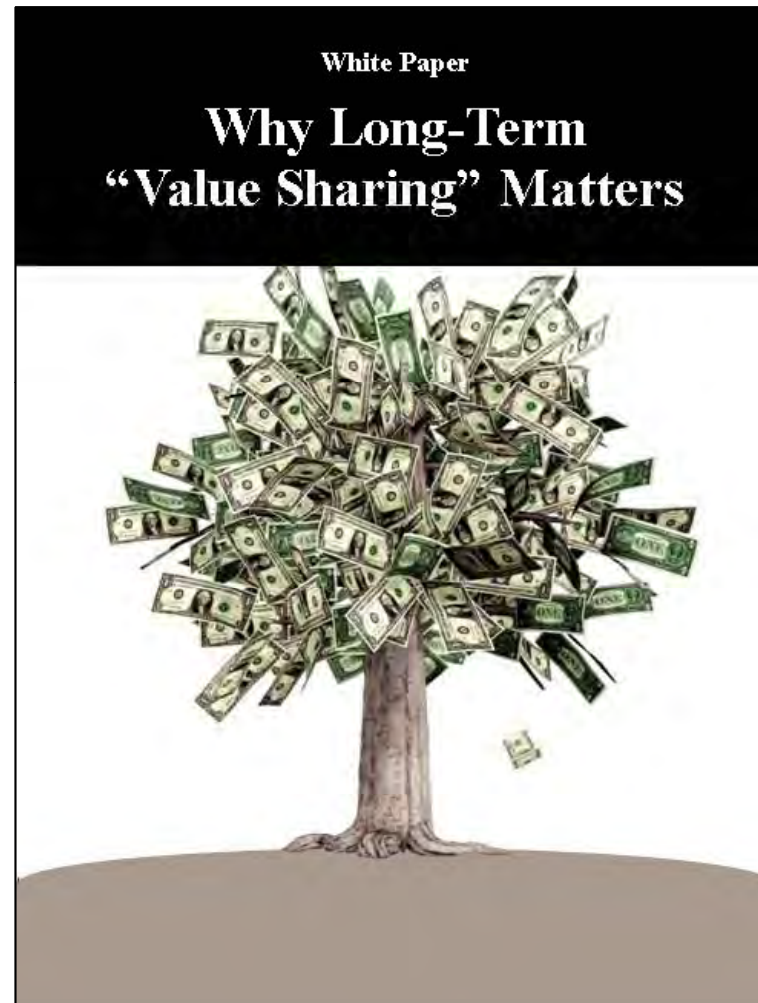
The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the logo, and at the top right is a 'Client Login' button and a phone number: (888) 703 0080. A navigation bar contains links for Home, About Us, Client Profile, Knowledge Center, Speaking Engagements, Events, Blog, and Contact Us. The main content area features a large image of a mountain peak. Below the image are three article teasers: 'WHAT IS PHANTOM STOCK?', 'HOW SHOULD I SHARE VALUE?', and 'HOW DO I END ENTITLEMENTS?'. To the right of the image is a featured article titled 'How should I Share Value?' with a 'Learn More' button. Below the main content is an 'Events' section with a list of dates and topics, and a 'Join our webinar invitation list' form with an 'Email Address' field and a 'Go' button. At the bottom, there are three columns with the headings 'ASK THE RIGHT QUESTIONS', 'FOLLOW THE RIGHT PROCESS', and 'CHOOSE THE RIGHT COACHES', each with a brief introductory sentence.

You can also subscribe to our blog

Check out our NEW website:
www.PhantomStockOnline.com

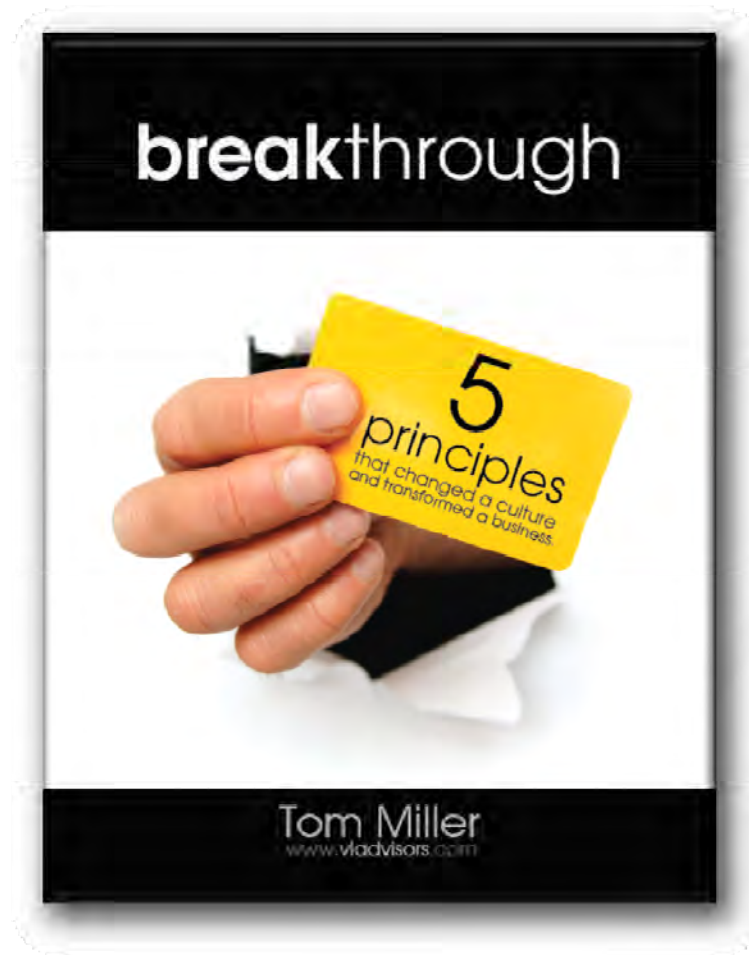
The screenshot shows the Phantom Stock website homepage. At the top left is the logo for Phantom Stock, 'The Equity Alternative', featuring a green arrow pointing up and to the right. To the right of the logo is a dark green navigation bar with white text for 'KNOWLEDGE CENTER', 'TOOLS', 'BUILD A PLAN', 'BLOG', 'ABOUT US', and 'CONTACT'. In the top right corner, it says 'POWERED BY VISIONLINK'. The main content area has a light gray background. On the left, there are three green arrow-shaped buttons pointing right, labeled 'WHAT IS IT?', 'WHAT WILL IT CHANGE?', and 'WHERE DO I BEGIN?'. To the right of these buttons, the text 'A way to share ~~equity~~ Value' is displayed, with 'equity' crossed out and 'Value' written in red cursive. In the top right corner of the main content area, there is a red play button icon and the text 'Phantom Stock Watch overview'. Below the main content area, there are four white boxes with dark green headers: 'KNOWLEDGE CENTER' (with an information icon), 'TOOLS' (with a briefcase icon), 'BUILD A PLAN' (with a wrench and screwdriver icon), and 'BLOG' (with an RSS icon). Each box contains a short description of the respective section. At the bottom, there is a dark green footer bar with white text for 'Knowledge Center', 'Tools', 'Build a Plan', 'Blog', 'About Us', 'Contact', and a copyright notice '© 2010 PhantomStockOnline.com'.

NOW AVAILABLE!



Express interest on the final survey

ALSO AVAILABLE!



Express interest on the final survey

Thank you for attending

Please complete our survey form immediately following our presentation.

This will be counted as a monitoring event.

You may also request a copy of the slides from today's presentation

Questions?



Thank You!



Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com



THE VISIONLINK
ADVISORY GROUP