

April 26, 2011

“Reduce Pay Costs While Increasing Productivity”



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

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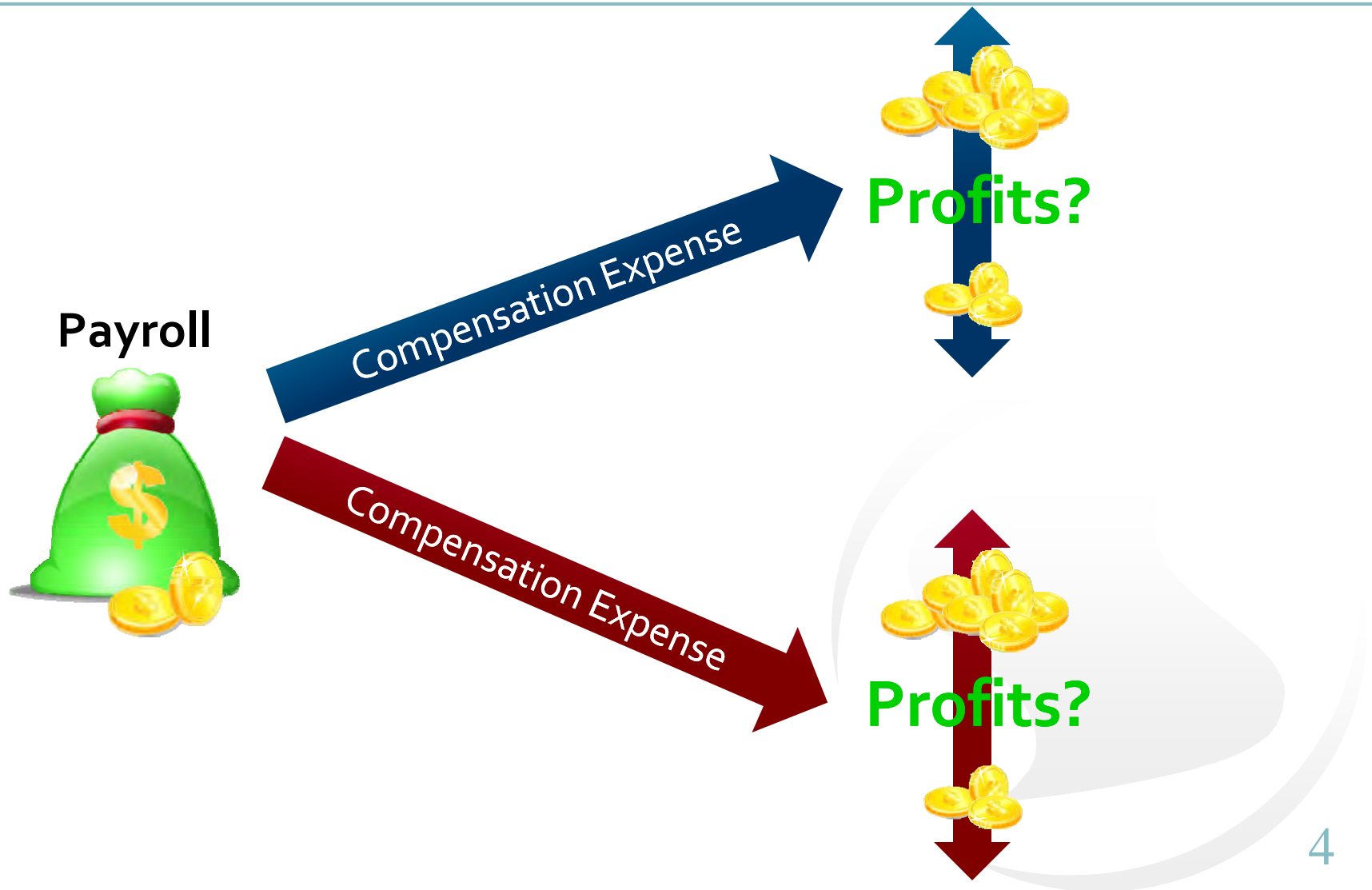


We're happy to provide a copy of today's slides.
Information will be provided at the close of the
presentation.

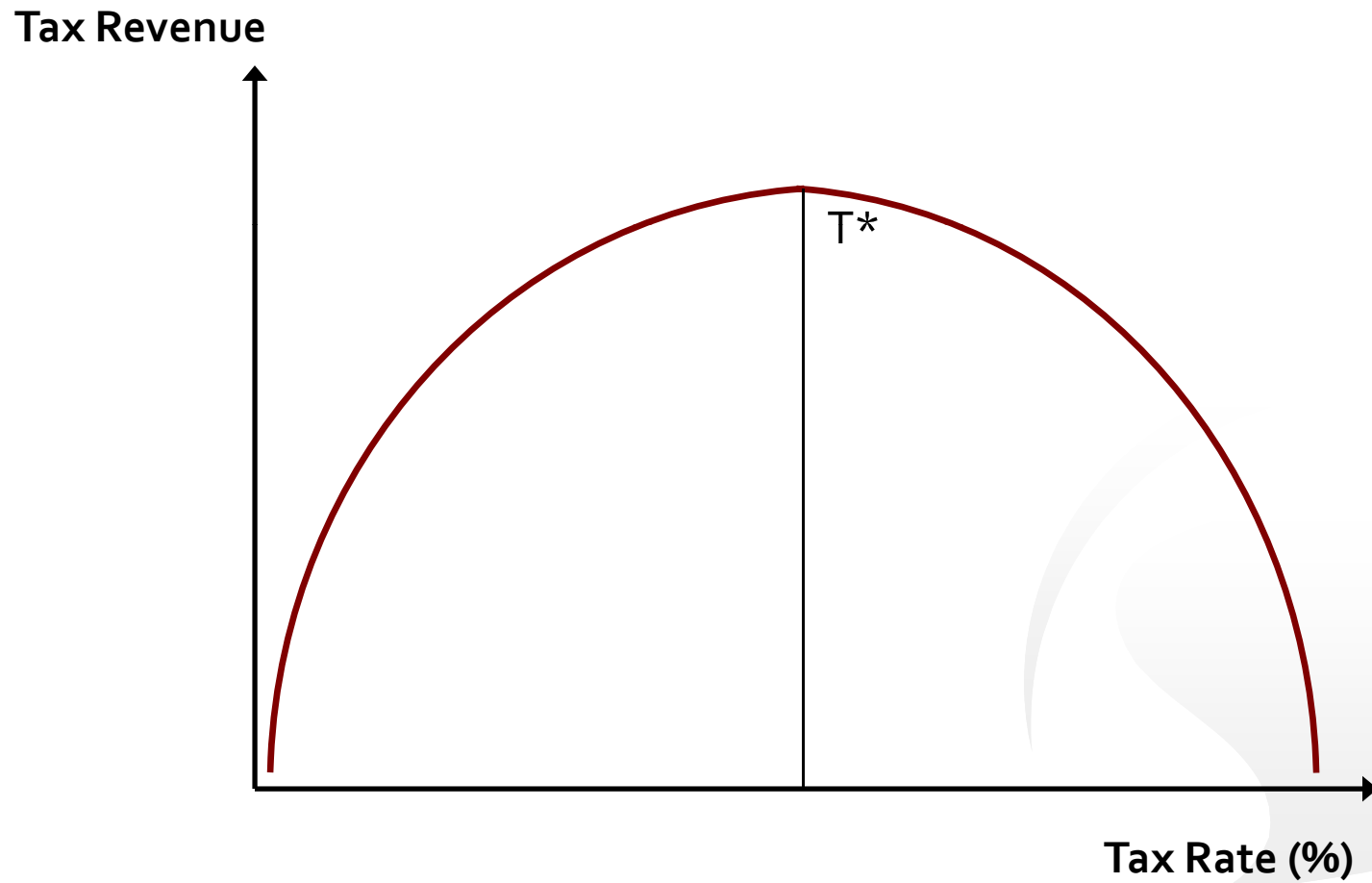
For questions during today's presentation:

Use the question panel
to the right of your screen

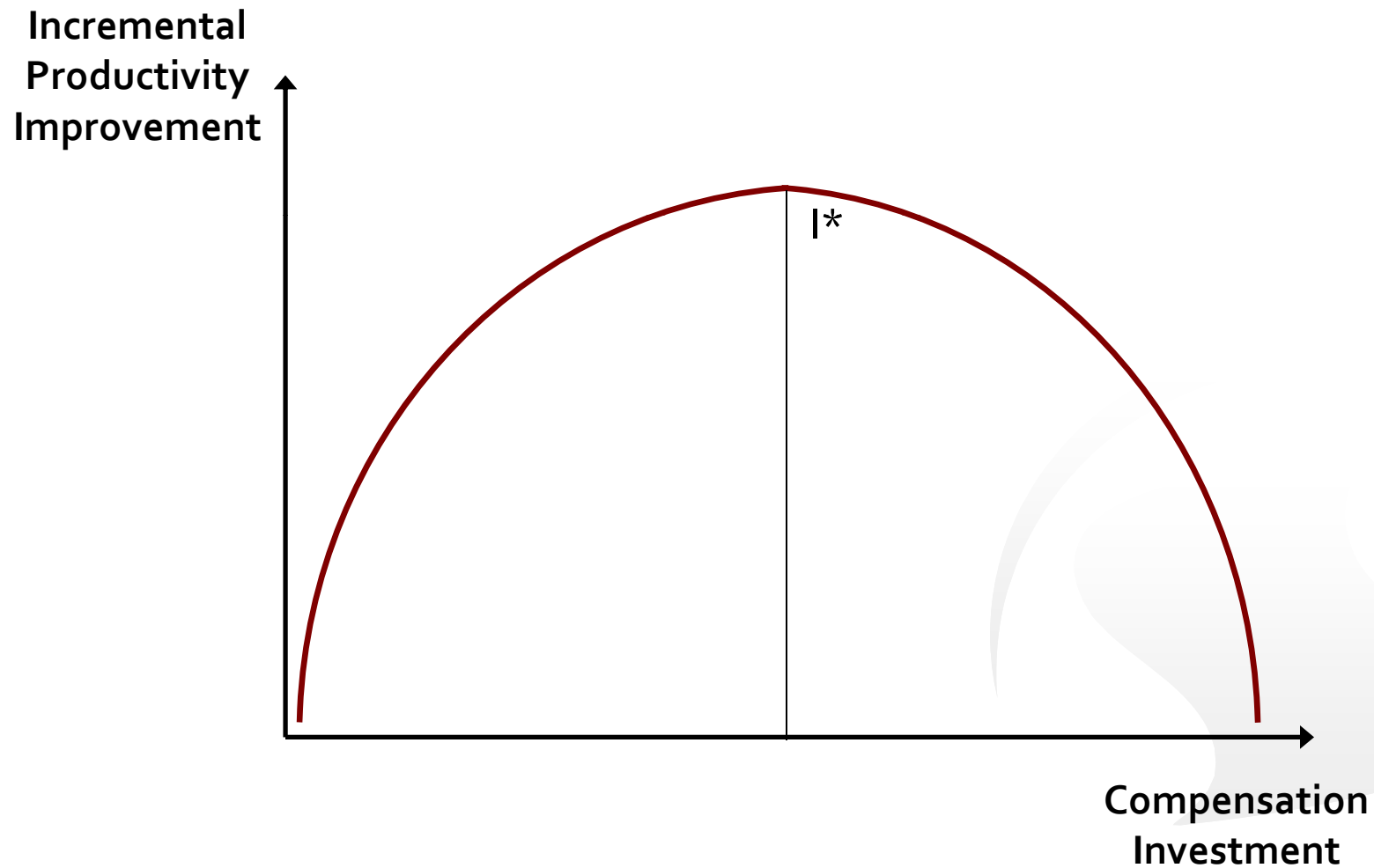
What influence does pay have on productivity?



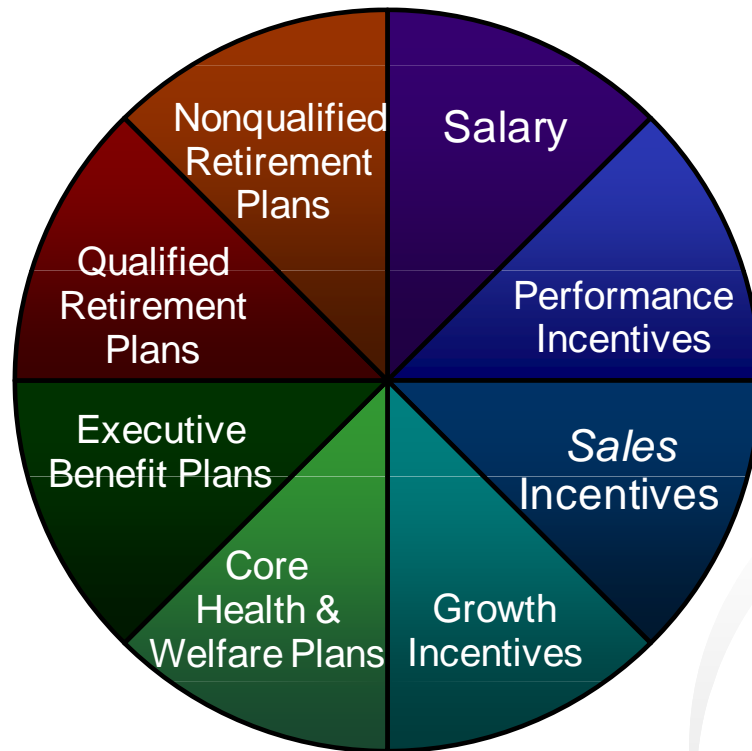
The Laffer Curve



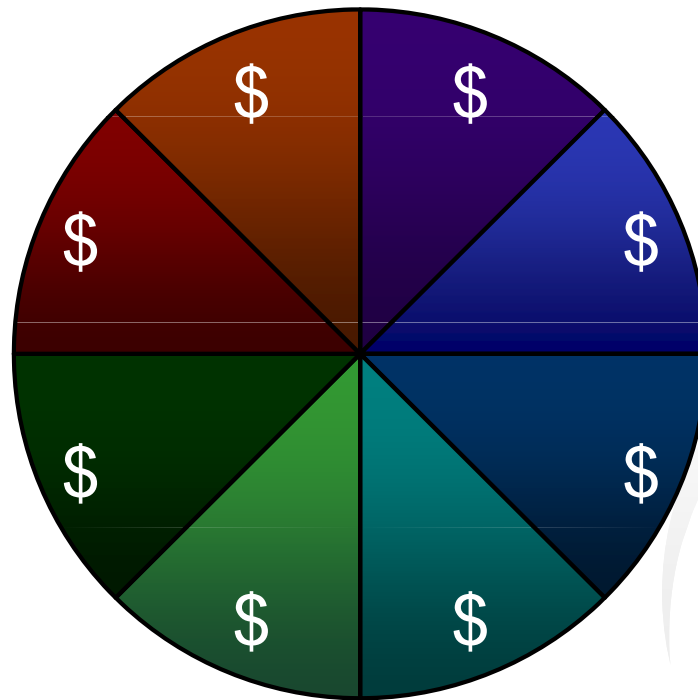
The Compensation Curve



Total Compensation Allocation



So, how should we measure the cost of compensation?



Pay what about

Micro-managed bonus plans

Gamed commission incentives

Sandbagged sales or purchasing delays

Above market salaries

Poorly timed bonus payments

Hidden or excessive fees in benefit plans

Mismatched value propositions

Unnecessary turnover

Distracted employees

What's the lost annual value?

- **Waste**—overpaying for something and getting it
- **Loss**—paying for something but not getting it
- **Drain**—paying for something but getting something worse

Let's look at some examples

Total Compensation Allocation



#1 Salary Management

Error: *targeting all salaries "at or above market" (i.e., median)*

Danger: loss

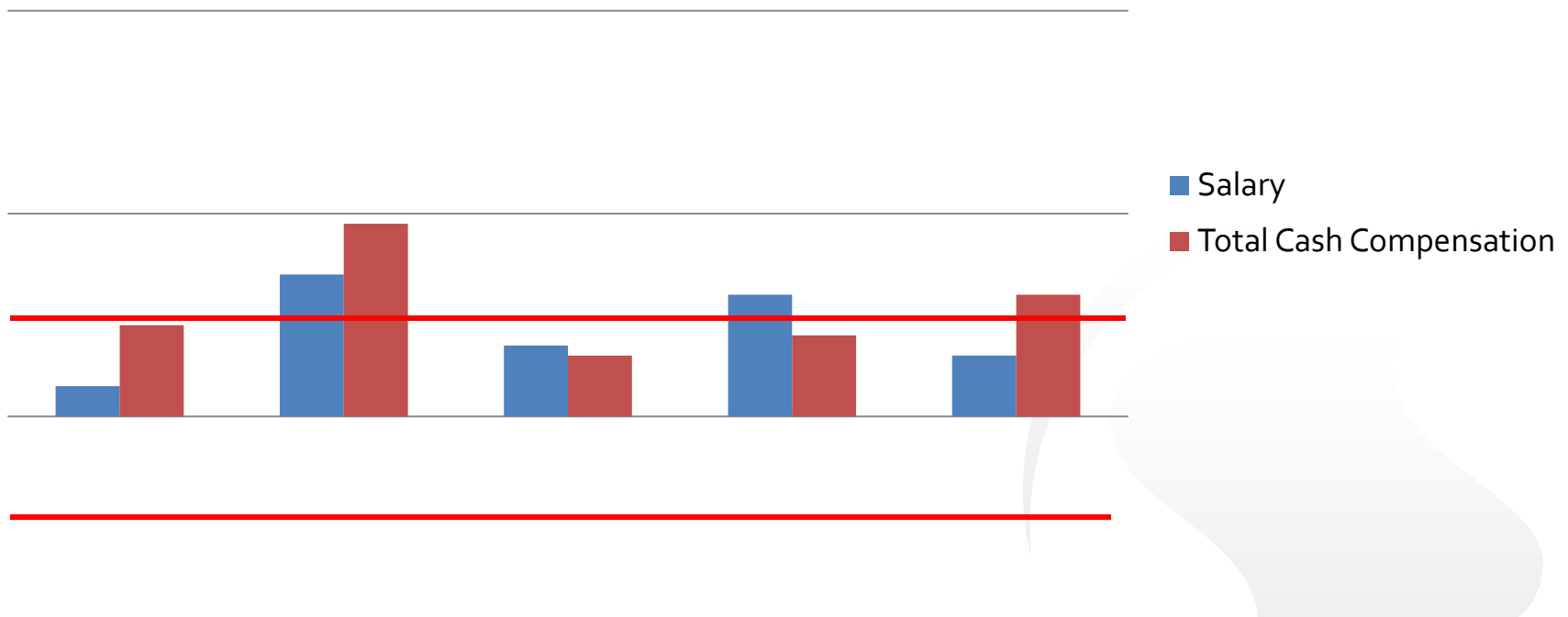
Salaries are a fixed cost. They're paid regardless of productivity gains.

Try to target salaries "at or below market" and, in exchange, create more aggressive incentive targets.

FoxHill, Inc.

Competitive Compensation Analysis

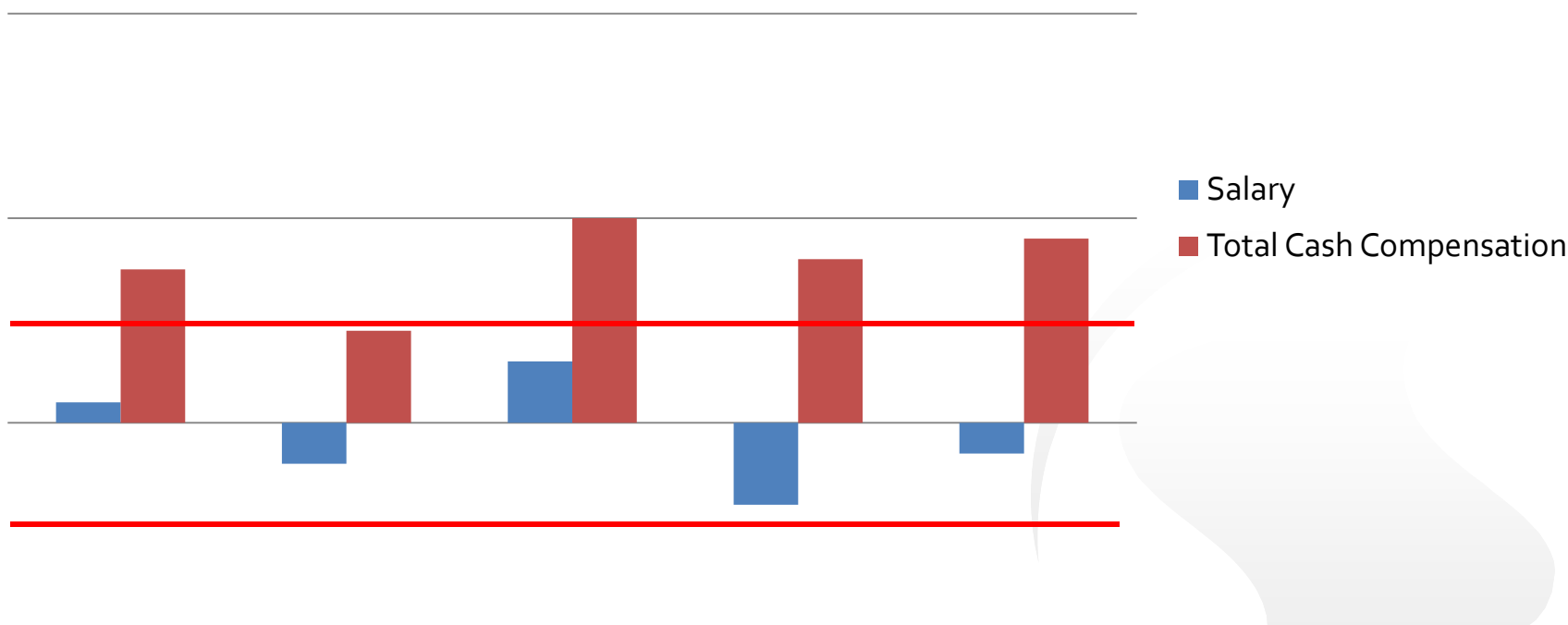
50th Percentile Variance



FoxHill, Inc.

Competitive Compensation Analysis

50th Percentile Variance



Watch for Salary Compression

- Targeting more modest salaries may appear to result in a recruiting challenge
- Make sure your bands are wide enough to accommodate range of hires
- But stick to your guns by presenting a “full value” compensation picture

#2 Short-term incentive plan

Error: *attempting to influence behavior*

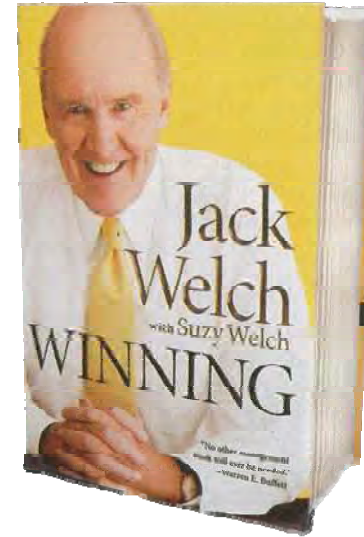
Danger: drain

When the bonus plan tries to manage behavior it tends to produce negative results.

Treat the incentive plan as a reinforcement and celebration of great results rather than an effort to produce certain behaviors.

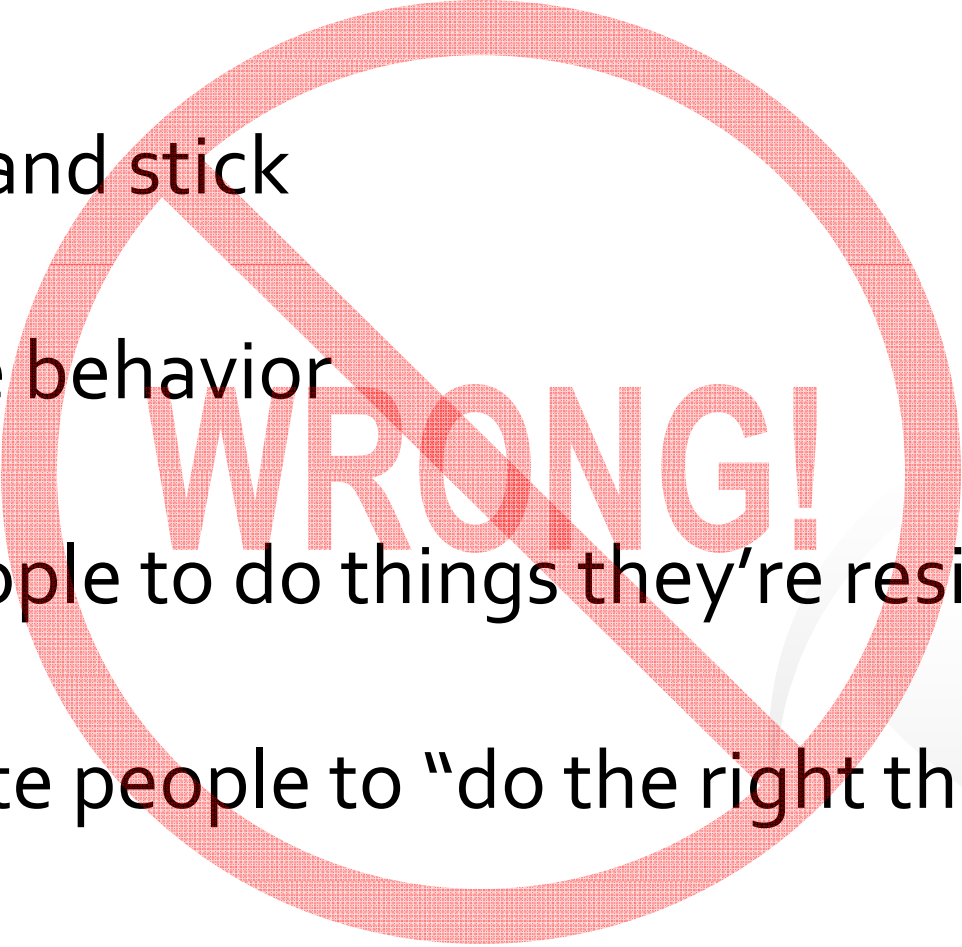
Jack Welch

in his book *WINNING*



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

Purposes of the incentive plan

- 
- Carrot and stick
 - Change behavior
 - Get people to do things they're resisting
 - Motivate people to "do the right thing"

Purposes of a good incentive plan

- Demonstrate a financial partnership with employees
- Communicate the outcomes and results most valued by the organization
- Create flexible means of rewarding high performers and recognizing special circumstances and achievements

Force

Reinforce

This is the behavior that's expected and rewarded.

These are the results that are valued and rewarded.

Do these things whether you like them or not (they're a necessary part of the job).

As you can see the outcomes we're striving for, determine the best ways to get them done. Here are our standards, patterns, expectations.

Our bonuses are reflective of our "market pay" analysis for your job classification

Our bonuses reflect the way we share value that you help create.

Bad profits

Good profits

#3 Timing of incentive payments

Error: *paying all incentives at the same time*

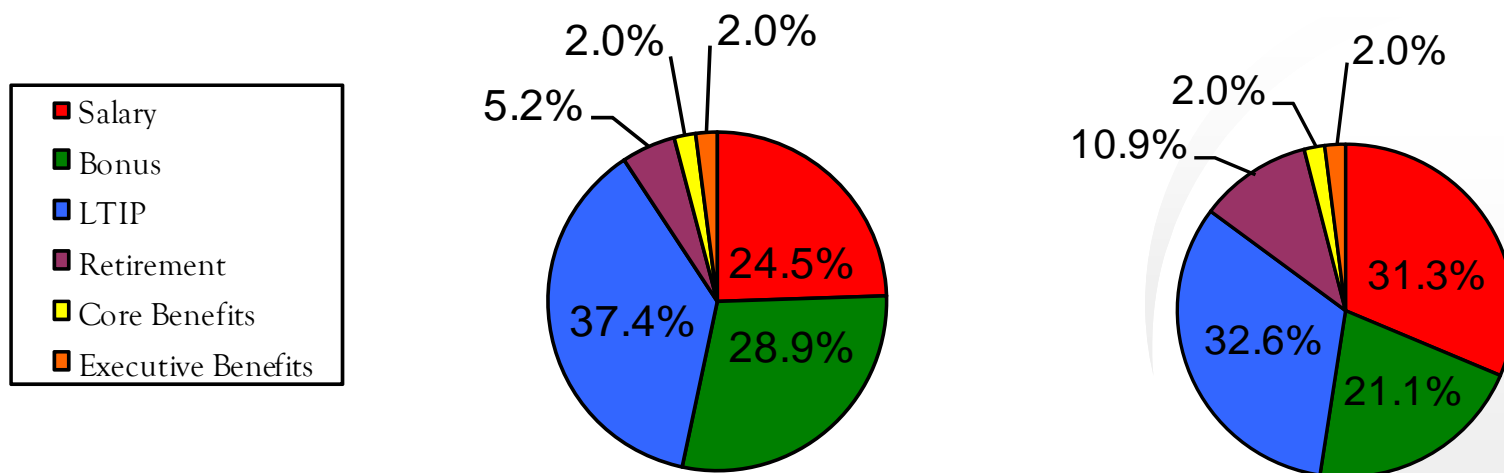
Danger: drain

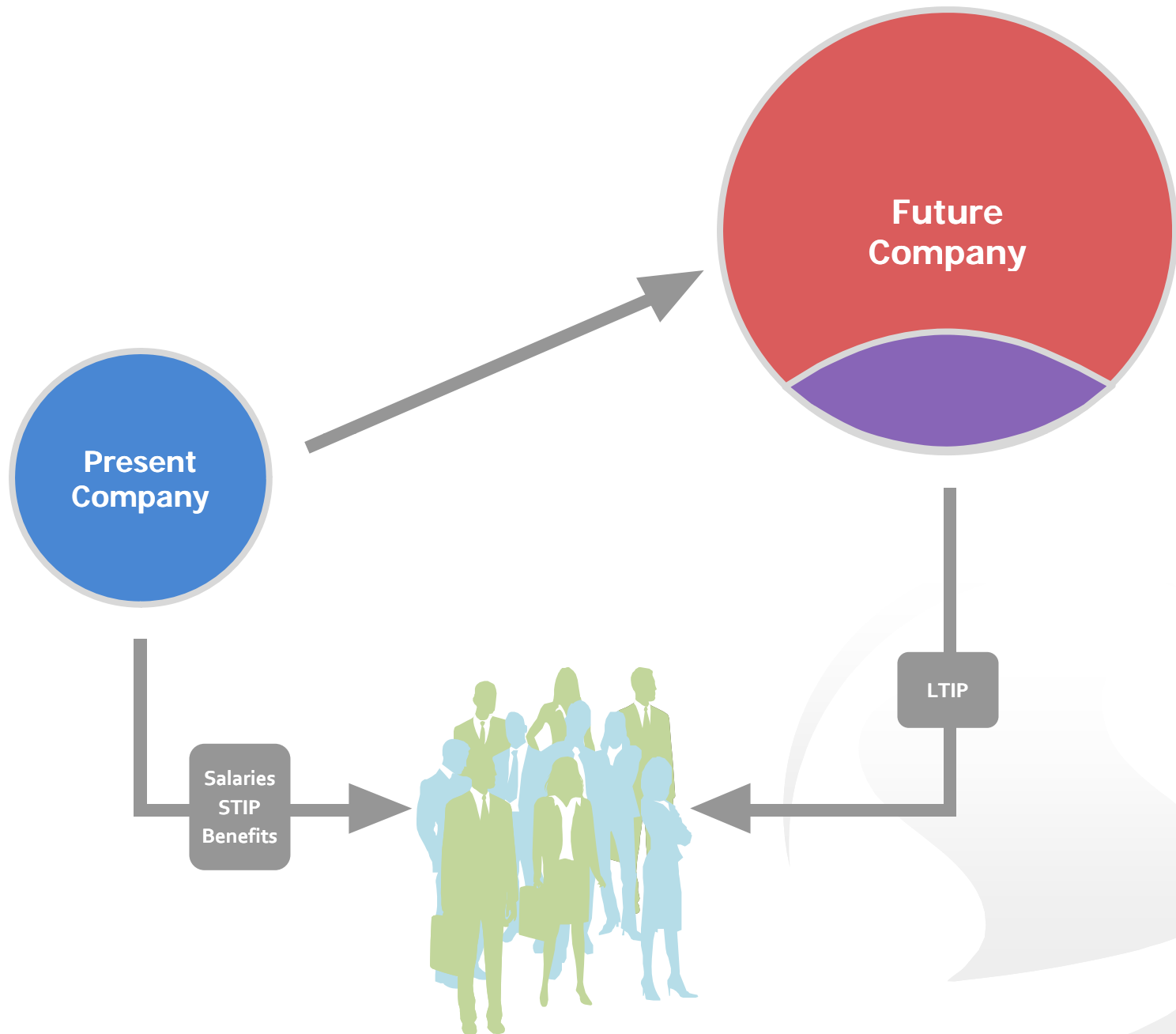
Most plans pay off within or at the end of the fiscal year. This fails to align with shareholder objectives

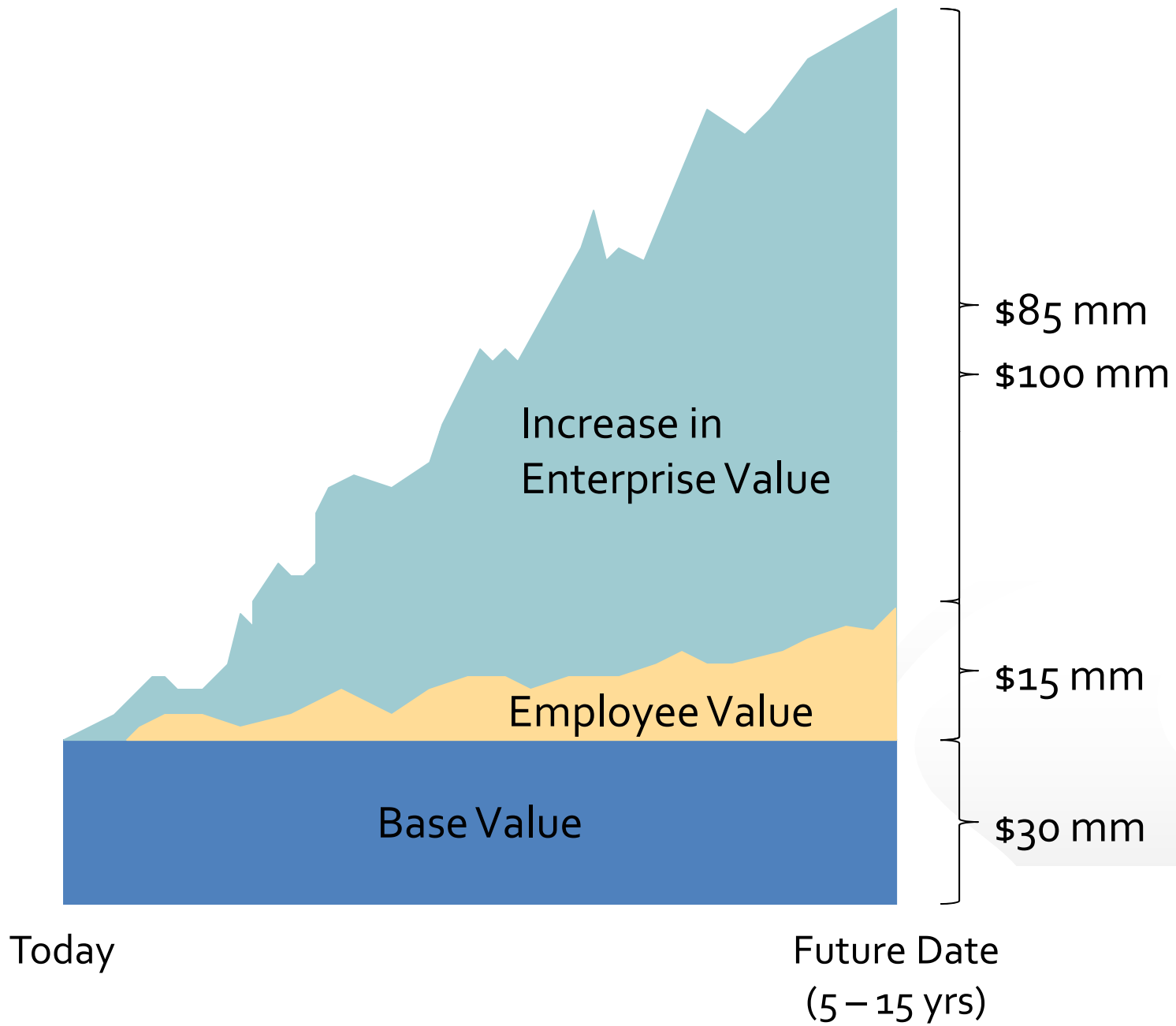
For top performers you need both a short-term and long-term incentive program. This creates truer alignment with the shareholders.

Findings

The VisionLink Advisory Group				
Total Rewards Assessment 2006 Proxy Study Analysis				
Top 25 Companies			Bottom 25 Companies	
	"At Risk" Pay	Long Term Pay	"At Risk" Pay	Long Term Pay
ROE	66.3%	37.4%	53.7%	32.6%







#4 Sales commission “gaming”

Error: *allowing gaming within sales commissions*

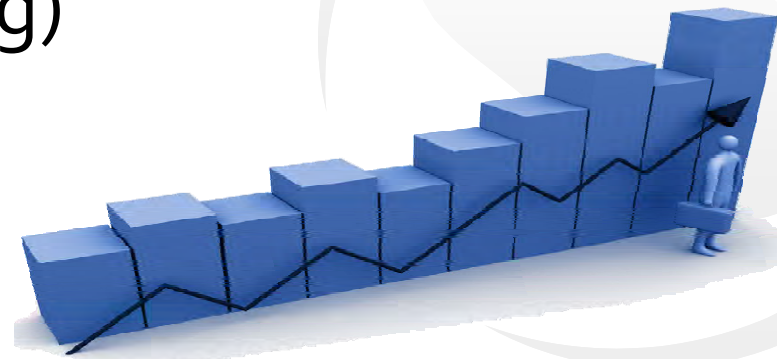
Danger: drain

Most sales commission programs promote gaming, sandbagging, and/or other draining practices.

Use proper design techniques to place business ownership burden (profitability impact) on the sales team. (I.e., they win if you win, vice versa.)

Examples

- Pay on Gross Profit instead of Sales (requires focus on margin)
- Consider chargebacks to discourage costly or short-term sales (improves sales quality)
- Use rolling averages for period-to-period measurements, e.g., monthly or quarterly (curtails sandbagging)



#5 Poor 401(k) management

Error: *tolerating hidden or excessive fees inside qualified plan*

Danger: waste

Most 401(k) programs, even if “at market,” are unnecessarily expensive.

Assess all vendor arrangements regularly to clearly understand costs. Compare, cut and negotiate.

Recent survey by Hewitt:

Only 33% of plan sponsors attempted to calculate the cost of operating their plan

Another study:

81% not aware of sub-transfer agency fees
(paid by mutual fund company to service provider)

69% not aware of amount of 12(b)(1) fees
(paid by mutual fund company to broker-dealer)

80% not aware of placement (marketing) fees
(paid to broker for transfer of assets)

Bottom Line

- Plan fees are high
- Just because they're fully disclosed, it doesn't mean they're low
- Plan fees can be reduced



Impact of high fees

- Cost to employees (*loss*)
- Cost to employer (*loss*)
- Failure in fiduciary duty (*drain*)



VisionLink Recommendation

- Compare your plan costs with those of other vendors every 3 2 years
- Seek independent (objective) help to evaluate relative costs
- Hold open discussions with vendors to negotiate costs (understand trade-offs)



#6 Poor corporate insurance management

Error: *tolerating hidden or excessive fees inside company sponsored life insurance*

Danger: waste and loss

Many insurance policies used for company benefit plans are poorly priced or underfunded

Review market pricing and underwriting options periodically to assure best results.

Areas to check

- Retail vs. corporate pricing
- In-force re-pricing
- Mismatched allocations in deferred compensation plan
- Out-of-date policy expenses



#7 Misaligned executive benefits

Error: *using a uniform strategy for executive benefits*

Danger: loss

No two executives have the same needs; some plans will be wasted, some needs will go unmet

Build a flexible executive benefit structure that can meet the varied needs of your team.

Sample mismatches

- Disability income vs. Long-term care
- Medical reimbursement (individual vs. family)
- Oversold life insurance (dollars spent better elsewhere for some employees)



What happens with loss, drain and waste

1. Direct hits to profits
2. Bad results (sales, focus, efforts misdirected)
3. Lost results (opportunity costs)
4. Energy drain (What's wrong? How do we fix it?)
5. Harder to recruit
6. Increased turnover



Cost of Turnover

- Average cost of replacing a non-manager is 29% of the person's annual salary.
- Average cost of replacing a manager is 46% of the person's annual salary.
- Replacement costs do not generally vary based on company size, revenue, or public/private status.
- Turnover costs an organization with 13,000 employees more than \$27 million per year.
- One employee represents \$239,888 of an organization's revenue during a one-year period.

$$T + C + R = P$$

**Long-term retention of committed,
talented personnel means higher
productivity**

4 Keys

I'm not sure there's
a future here for me

I just don't
feel like this is the right
place for me

I'm not sure I want
to be doing this
for the rest of my life

I can
make more somewhere
else

4 Keys

Compelling Future

Positive Work
Environment

Opportunities for
Personal and
Professional Growth

Financial Rewards

Is it possible to have all 4 of these “in spades” and still fail to retain?

Compelling Future	Positive Work Environment
25	25
25	25
Opportunities for Personal and Professional Growth	Financial Rewards

Yes

- Failure to *communicate* the vision of the future
- Failure to *communicate* the opportunities for growth
- Failure to *communicate* the total rewards proposition



Financial Rewards

- Which elements of compensation assist with retention goals?
- Is it necessary to pay “above the market” for compensation to be a contributor to retention goals?
- What are the best ways to use compensation to help achieve your retention goals?



4 Keys

**A clear written statement
regarding our future
company, its purpose and
value**

**Physical plant, culture,
comfort, values, attitudes**

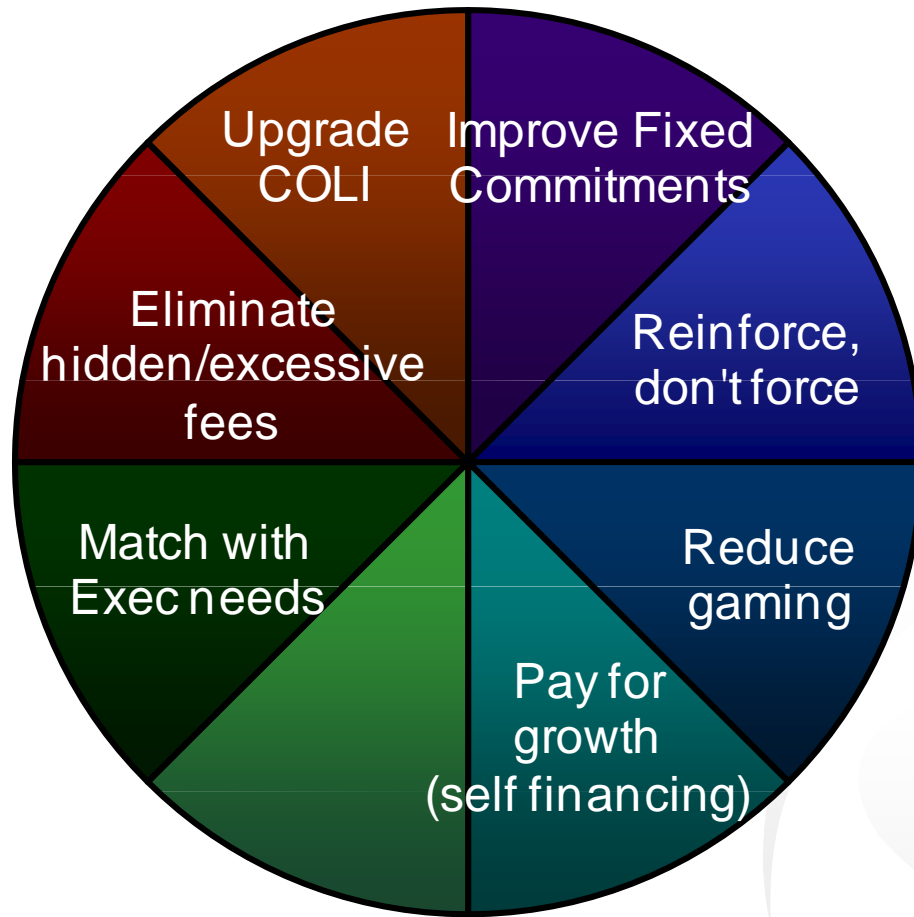
**Unique ability recognition,
career paths, no ceilings,
entrepreneurial**

**Attractive balance of cash,
security and accumulation
plans**

Results

- Cost savings
- Higher employee productivity
- Sharper long-term commitment
- Unified vision
- Higher growth and profitability





Attracting Premier Talent



- They will find non-traditional pay structures alluring and differentiating
- The pay structure will respect their entrepreneurial mindset and appeal to their interest in wealth accumulation opps
- They will accept the responsibilities and accountability associated with true value creation (i.e., they won't "expect" higher pay without creating results)

Salaries at or slightly below market	Direct cost savings
STIP has strong “reinforcement” focus	Eliminate misdirection; secure greater results
Attractive LTIP	Balances STIP; self-financing
Win-win Sales Incentives	Reduce costs due to gaming
Eliminate wasted qualified plan expenses	Direct cost savings
Reduce insurance costs	Direct cost savings
Customize executive benefits	Eliminate wasted costs





Stronger overall total rewards package that communicates:

- Balanced package
- Pay-for-performance
- Wealth accumulation opportunity
- Shareholder alignment
- Individual needs respected

Cost savings and value creation for shareholders through:

- Several immediate reductions in budgeted expenses
- Higher pay correlated with stronger performance
- Incentive plan payments timed with realization of value
- Lower turnover
- Stronger recruiting proposition



Lower cost + Higher Productivity

Where to begin?



Quantitative and Qualitative Assessment

The Alignment Appraisal™

Partnership



Do our employees feel like participating partners in our business successes?

Clarity



Do we effectively communicate and reinforce our organizational standards and the value of our total rewards opportunity?

Engagement



Do we achieve a crucial level of employee commitment, passion and engagement?

Practices



Do we follow best practices in managing our compensation investment?

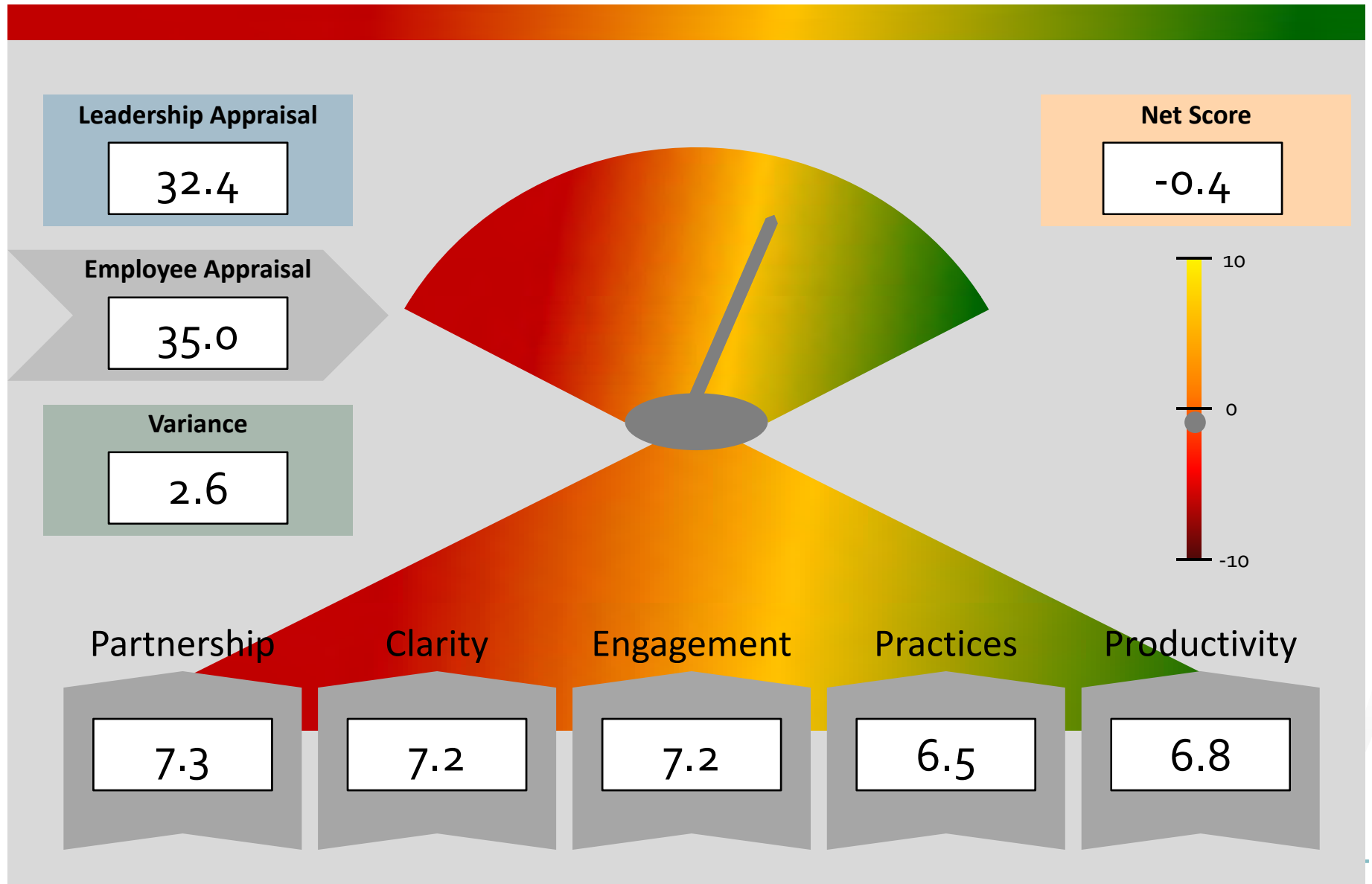
Productivity



Do we conscientiously measure and manage employee productivity?

Alignment Appraisal Index = 70^* / -0.4

*Scale of 100



Next Online Seminar:

“Do Incentive Plans Really Work?”

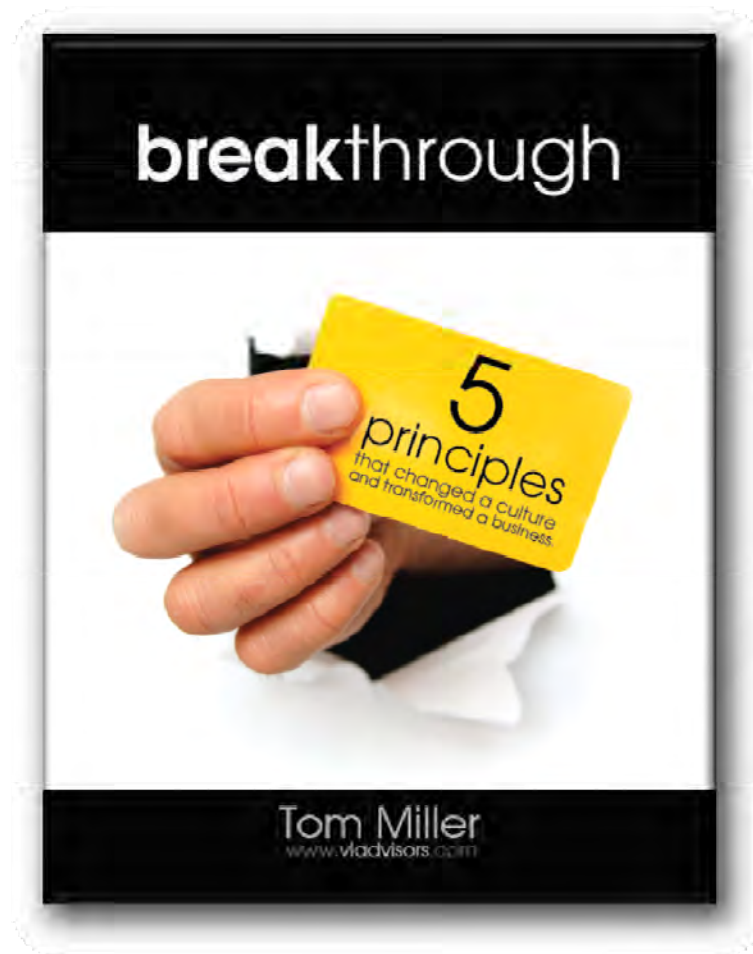
To be held on:
Tuesday, May 24th, 2011

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Questions?

Thank you for attending

Please complete our brief survey immediately following our presentation.

We value your input.

You may request a copy of our slides and more information about the Alignment Appraisal™.

Thank you!

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