

The "Learn & Earn" Series™

November 3, 2011

“Creating Effective Metrics and Measures for an Incentive Plan”



THE VISIONLINK
ADVISORY GROUP



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ADVISORY GROUP

Today's Presenter:

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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, course syllabus/summary, and a CD of the presentation. Information will be provided at the close of the presentation about requesting these.

For questions during today's presentation:

Use the question panel
To the right of your screen

Course Objectives

- Examine what factors influence performance
- Learn the two basic approaches to building metrics for an incentive plan
- Understand the concept of return on total rewards investment
- Analyze how a company determines whether incentives are working

Key Concepts



- The primary purpose of an incentive plan is to:
 - Focus employees on a company's most important goals
 - Create a sense of partnership
- Selecting the right metrics can focus key employees on the right outcomes
- There are two core approaches to selecting metrics – each with pros and cons
- The effectiveness of your client's performance management system should be considered before selecting from the two approaches
- What is VisionLink's "Best Practice" approach?

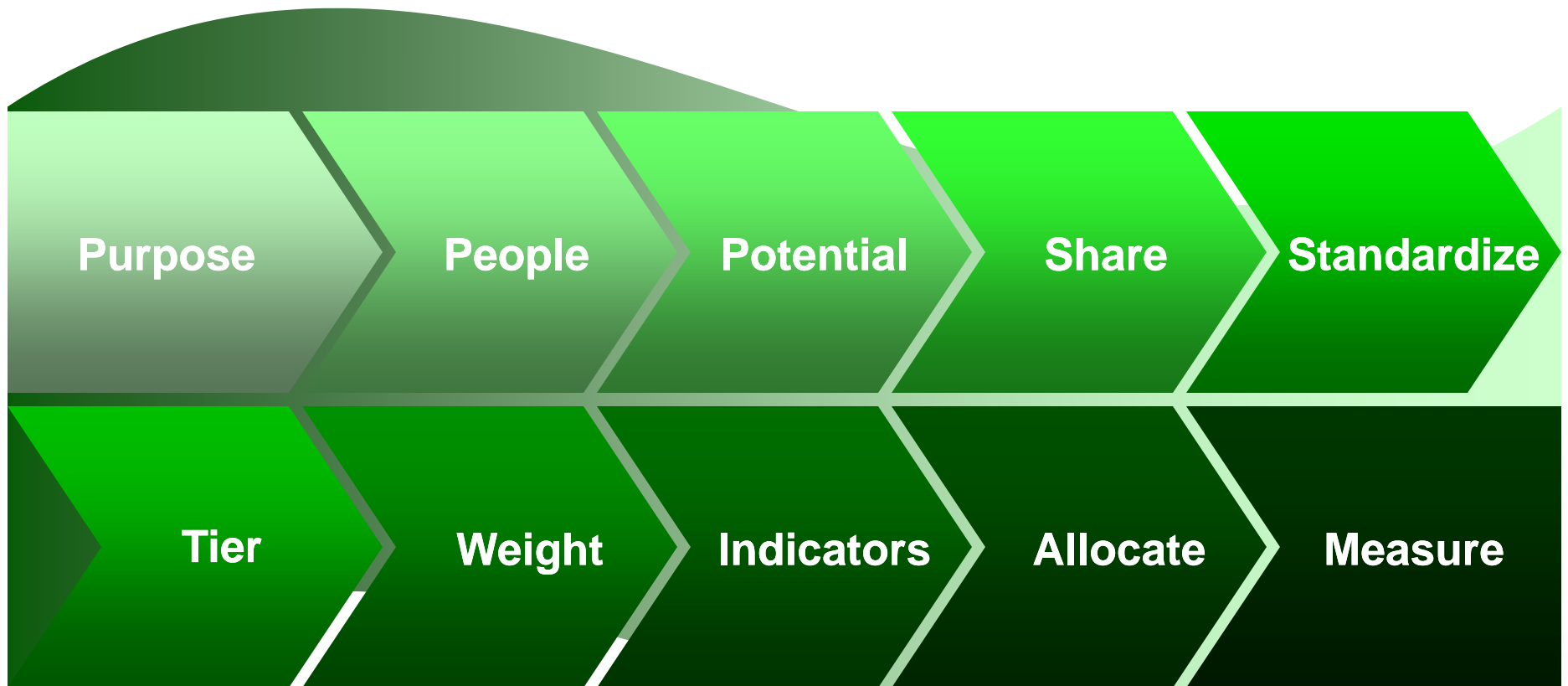
Pay For Performance Objectives



- Recruit and retain highest quality employees
- Communicate and reinforce the values, goals, and objectives of the company
- Engage employees in the organization's success
- Reward contributors for successful achievements
- Communicate a sense of partnership with employees
- Create a unified financial vision for growing the business

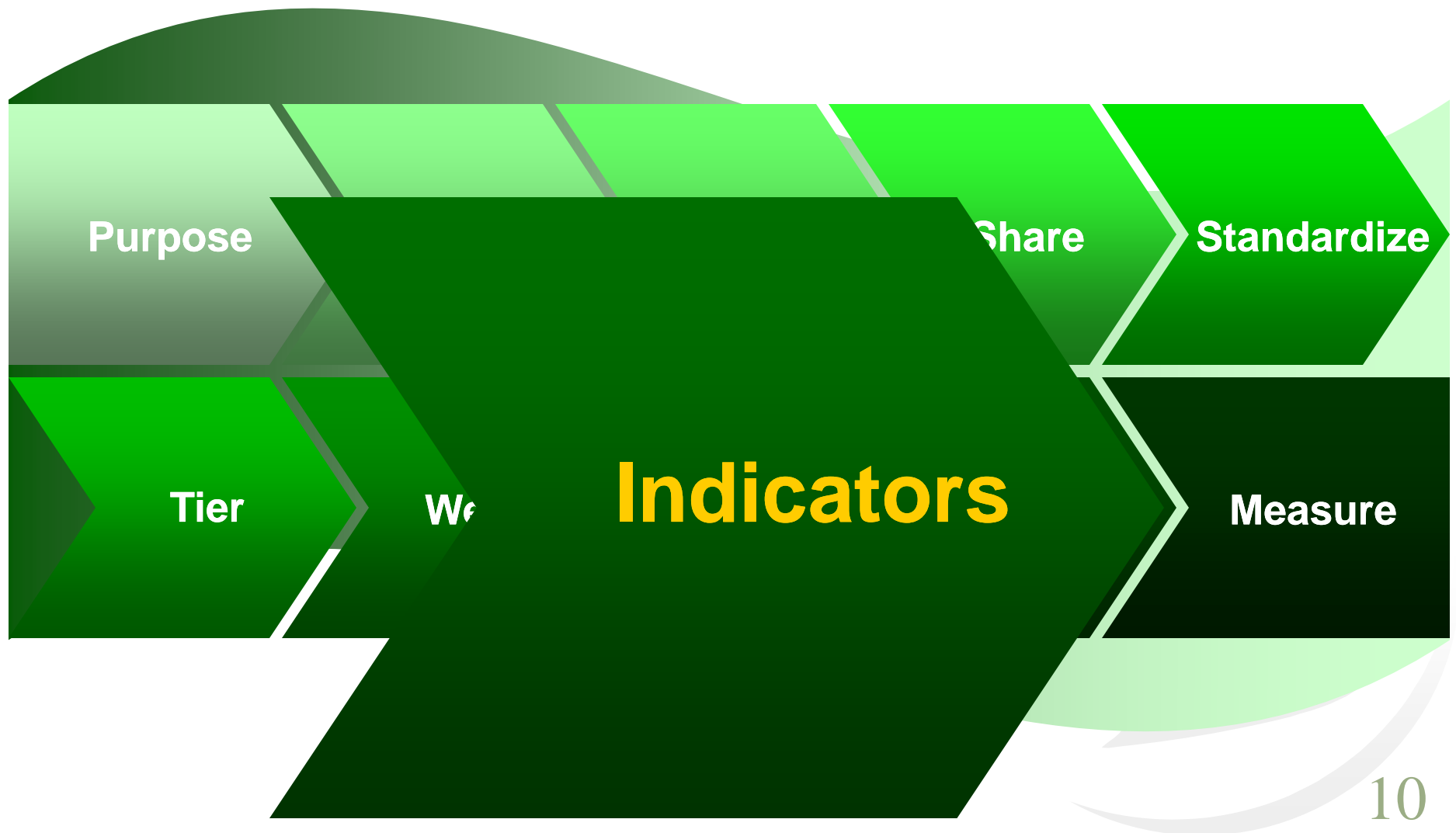
Building an Incentive Plan

A Unique Process



Building an Incentive Plan

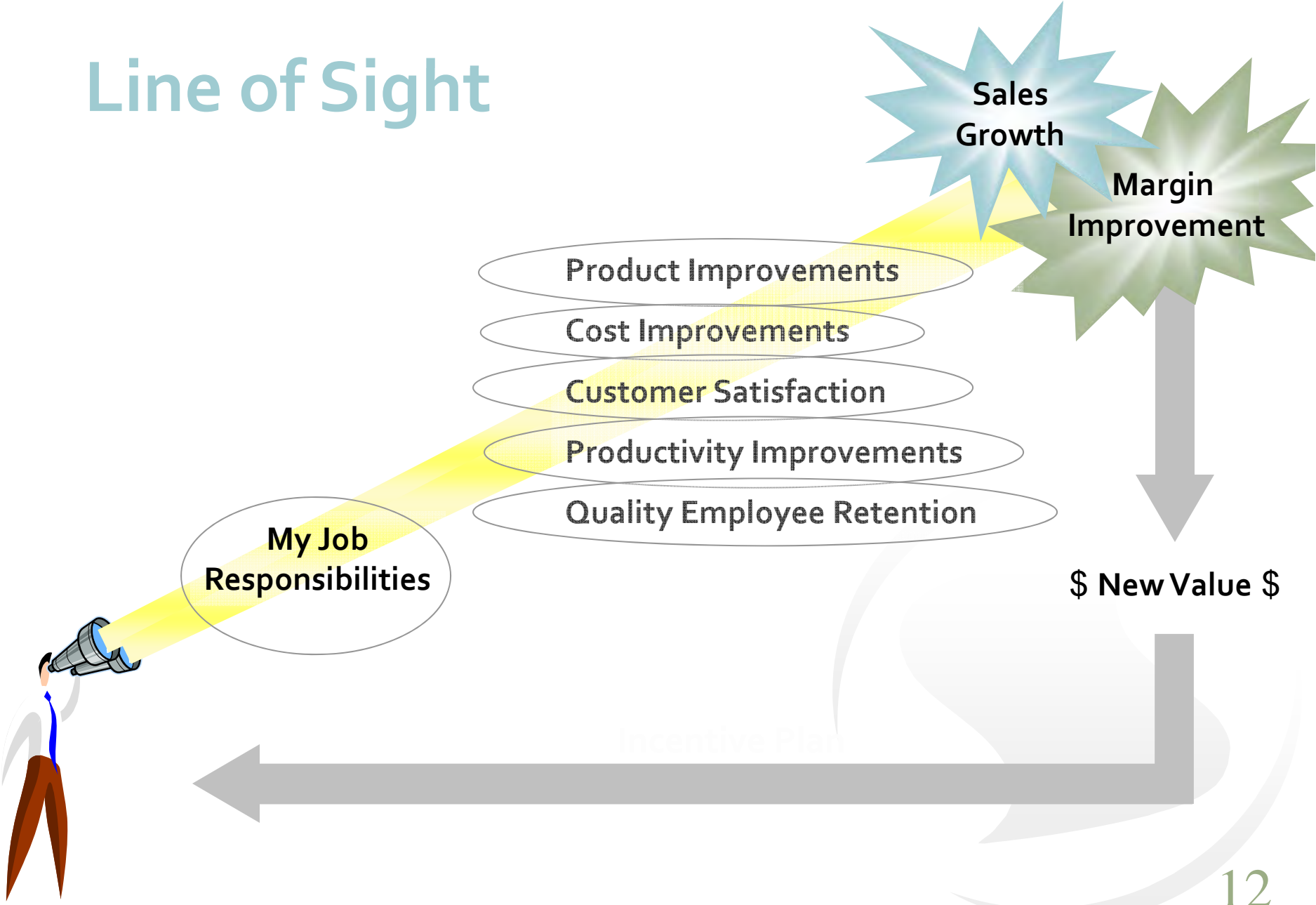
A Unique Process

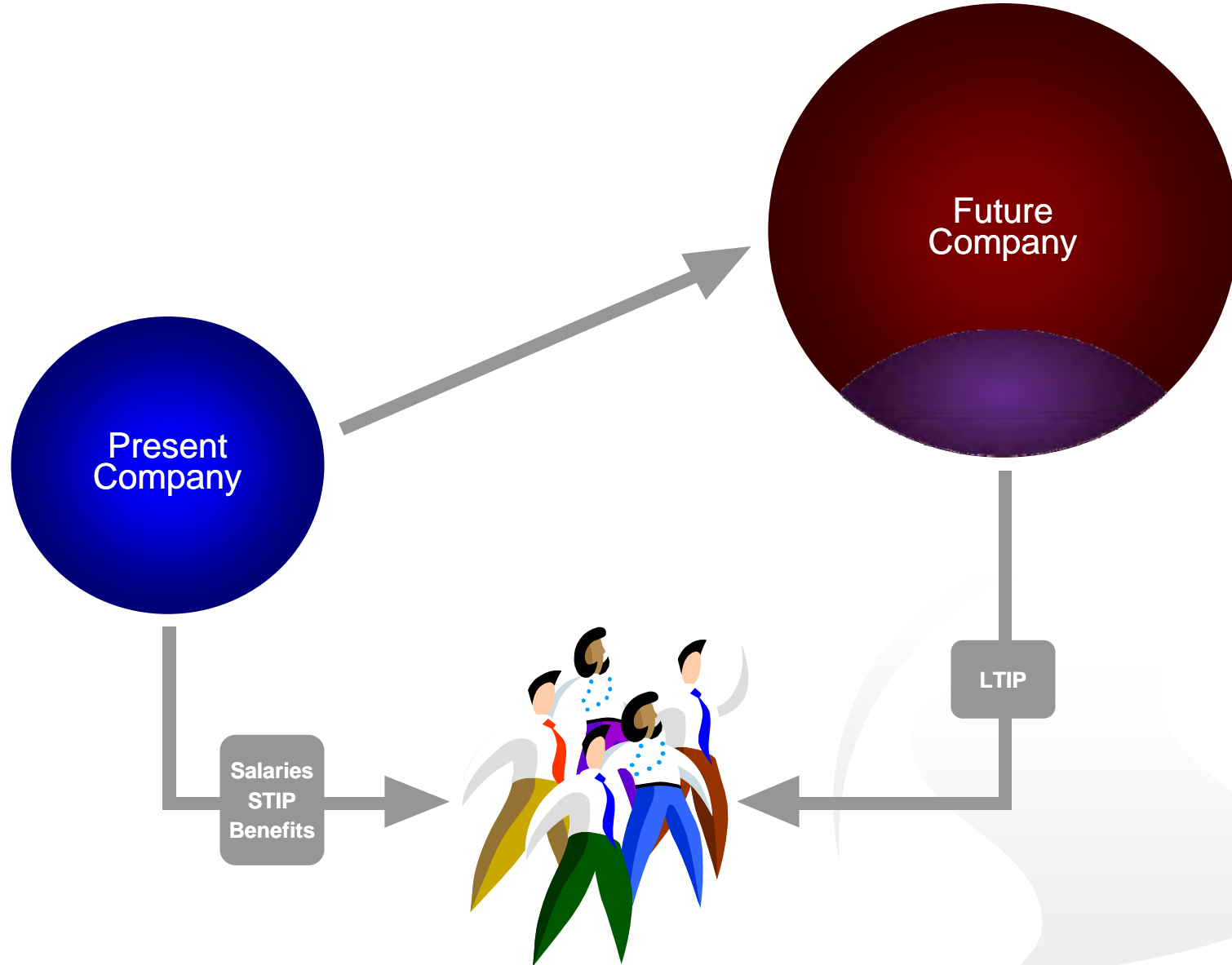


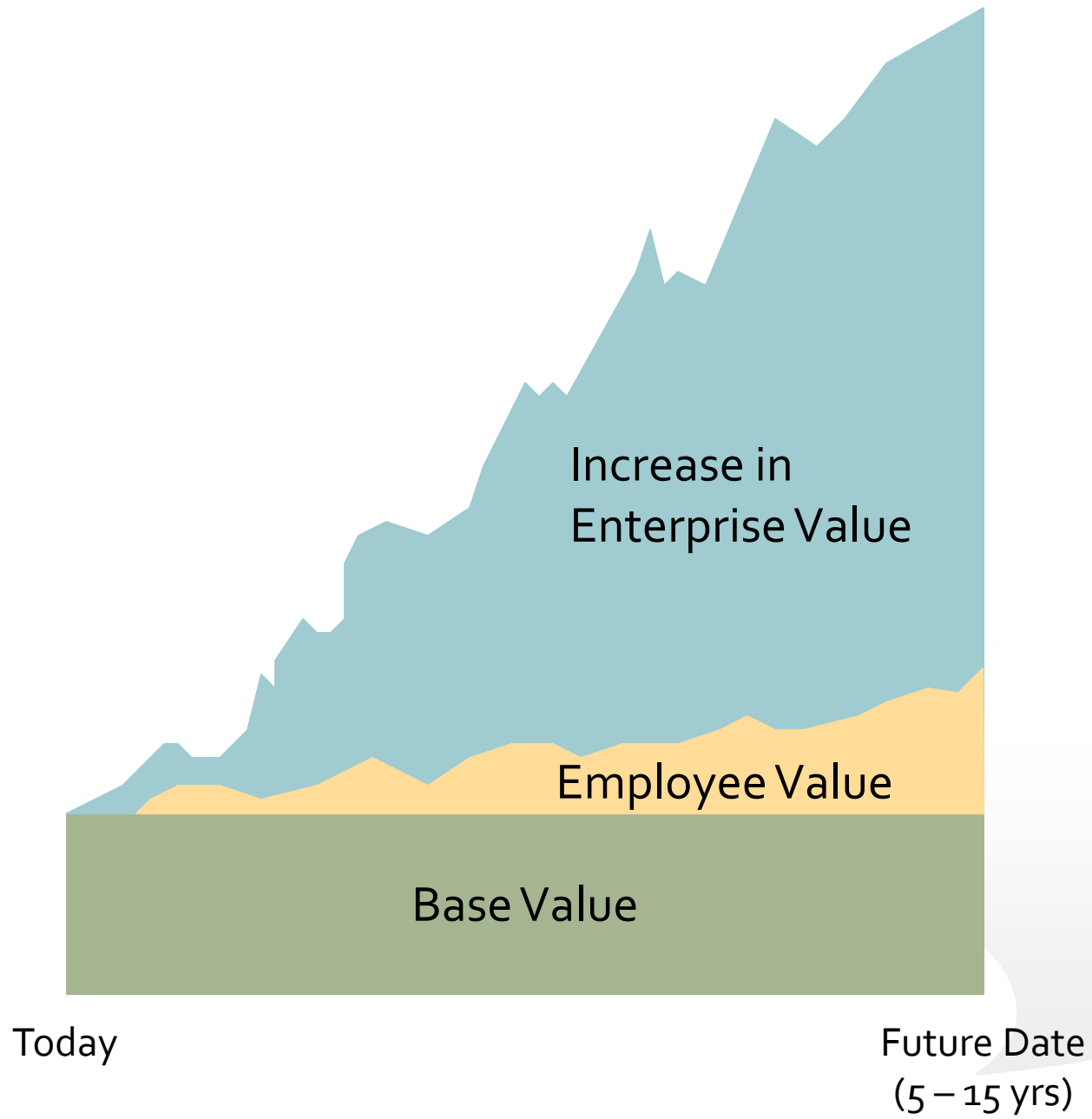
Poll #1



Line of Sight







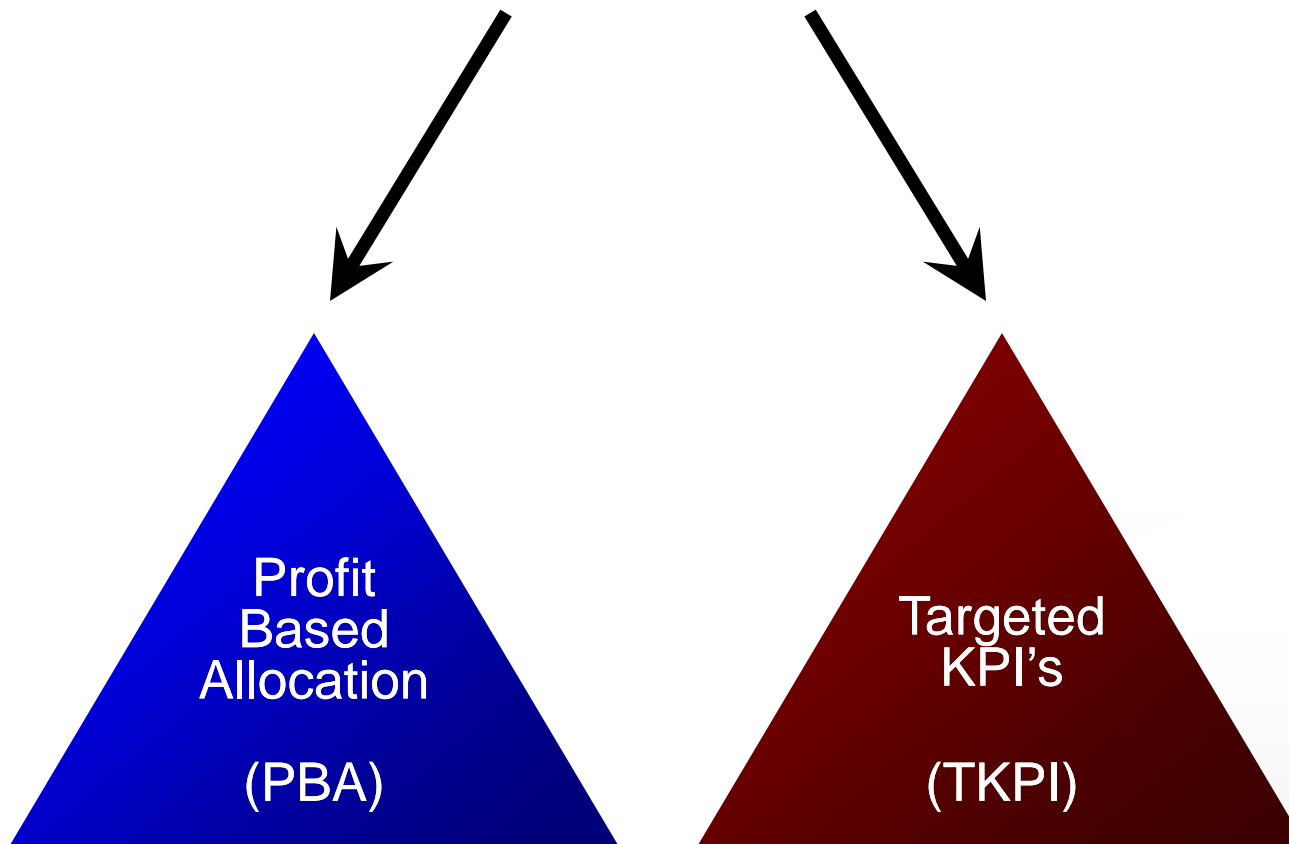
Why?

- Treats employees like true partners
- Allows for values to grow and mature
- Creates ownership mentality
- Strengthens both recruitment and retention
- Self-financing





Two Core Approaches



Profit
Based
Allocation

(PBA)

A percentage of
annual profits awarded
to employees

The award amount
is divided among
employees based on a
pre-determined formula

Paid at year-end

Targeted
KPI's

(TKPI)

Employees assigned
a "targeted" incentive
value – often based
on a percentage of salary

Achievement of award is tied to
multiple specific measurements
or "metrics." Metrics
can vary person to person.

Typically paid at year end,
but may be quarterly.

Profit
Based
Allocation
(PBA)

Focus

Solely annual profits

Value

May be open-ended

Design

Relatively simple

Essential

Strong Performance
Management System

PBA—Best Practices

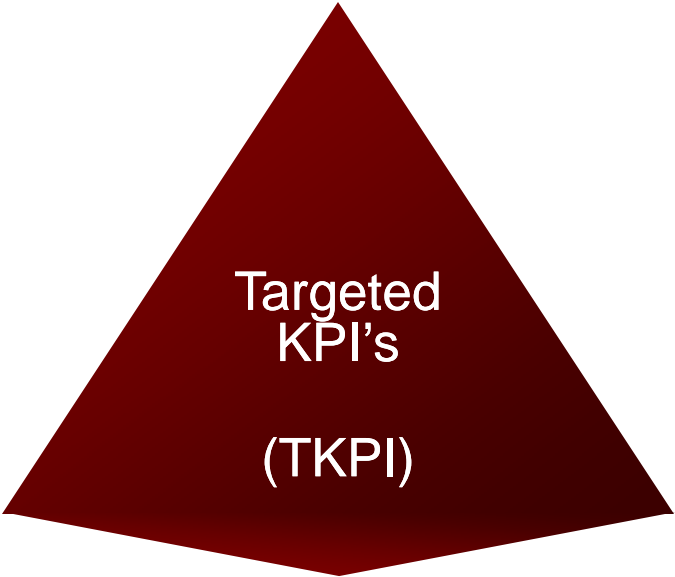
- Define profits
- Select “benchmark” or “growth” approach
- Identify threshold
- Select percentage to share (fixed or tiered)
- Select allocation formula
- Determine whether employee awards will be influenced by personal performance



PBA—Dangers

- Failure to create line-of-sight
- Apathy
- Morale
- Lack of strong performance management system





Focus

May include company, dept,
team & individual metrics

Value

Typically capped

Design

Can run from
basic to complex

Essential

Selecting the
right metrics

TKPI—Best Practices

- Select range of targets
- Select components
- Select drivers (metrics)
- Select performance tiers (eliminate all-or-nothing)
- Set up measurement systems



TKPI—Dangers

- Miscalculation
- Gaming
- Sandbagging
- Misalignment



Profit Based Allocation
(PBA)

Targeted KPI's
(TKPI)

Focus

Solely annual profits

May include company, dept, team & individual metrics

Value

May be open-ended

Typically capped

Design

Relatively simple

Can run from basic to complex

Essential

Strong Performance Management System

Selecting the Right metrics

Poll #2



Indicators:

Selecting Indicators for a TKPI Plan



Indicators:

Identify the indicators that will be used to measure performance in each area.

For example:

Company - Revenue growth and Net Income;

Department - Improvement in Customer Retention goal; Collections rate;

Employee Productivity factor;

Individual - performance goal achievement



2009 Performance Matrix

Loans					
36,000	100%	115%	130%	140%	150%
33,000	80%	100%	115%	130%	140%
30,000	60%	80%	100%	115%	130%
27,000	45%	60%	80%	100%	115%
24,000	30%	45%	60%	80%	100%
	\$81,000	\$85,000	\$90,000	\$94,500	\$99,000
	Deposits				

Company Indicators

Return on Equity
Return on Assets
EPS
Gross Sales
Net Income
Earnings Before Incentives
EBT, EBIT, EBITDA
Economic Profit (Productivity Profit)
Revenue per employee
Profit per employee
Customer satisfaction indicators

Department Indicators

New Loans
Deposits
Net Interest Spread
Gross Sales
Gross Margin
Overhead Percentage
Average Daily Room Rate
Average Daily Occupancy Rate
Contribution Margin
Expenses to Budget
Production Quotas
Employee Retention Percentage
Registrations
Client Referrals
Alpha
Number of MBOs met

Critical step:

Sensitivity Testing



Sensitivity Testing

- Tie incentive plan to annual budget projection
- Test highs and lows
- Test each matrix
- Show ROTRI™
 - Open up the incentives to be as high as possible



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)

Poll #3



PBA Allocation Schedule

Productivity Profit	Award %
First \$500,000	10%
Next \$500,000	15%
Amounts over \$1,000,000	20%

ROTRI™ Table

NOPAT	Productivity Profit	Award Amount	Owner's ROTRI (\$\$)	Owner's ROTRI (%)
\$1,000,000	\$ 760,000	\$ 89,000	\$ 671,000	14.9%
\$1,500,000	\$1,260,000	\$177,000	\$1,083,000	24.1%
\$2,000,000	\$1,760,000	\$277,000	\$1,483,000	33.0%
\$3,000,000	\$2,760,000	\$525,000	\$2,235,000	49.7%

Next CPE Course:

“5 Success Factors Every Compensation Plan Must Fulfill”

To be held on:
Thursday, December 1, 2011

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:

“What Think Ye of Phantom Stock? Does it Work?”

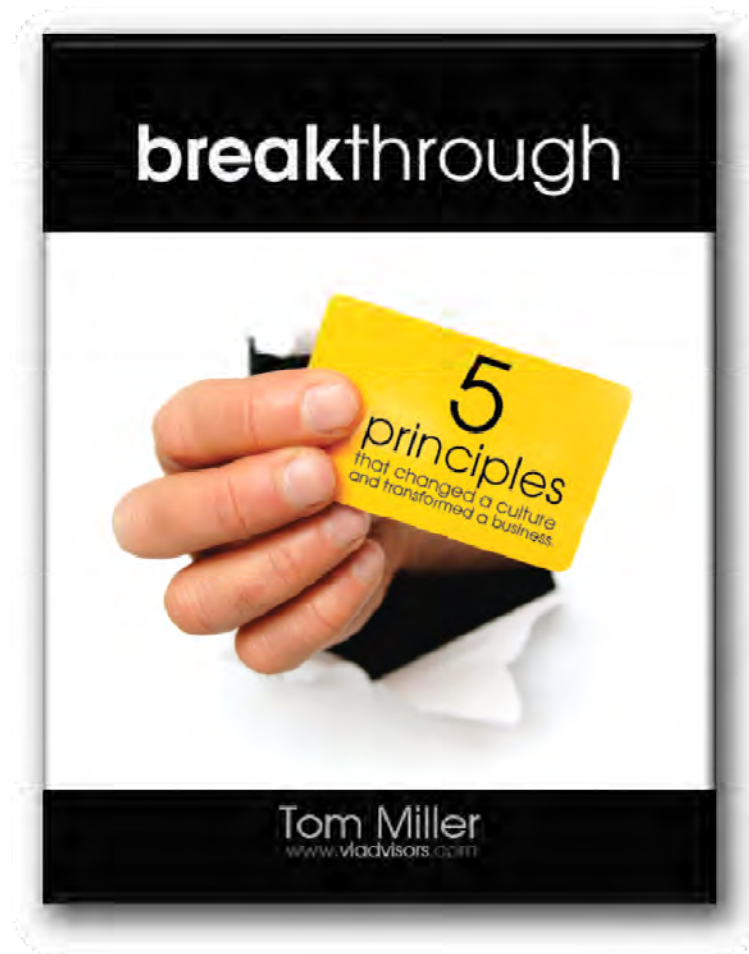
To be held on:
Tuesday, December 6, 2011

Check out our website:
www.VLadvisors.com

The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the company logo. To the right is a 'CLIENT login' section with fields for 'User:' and 'Password:', and a 'Login' button. Below the login section is a phone number '(888) 703 - 0080' and social media icons for RSS, Facebook, Twitter, and LinkedIn. A navigation menu includes 'Home', 'About Us', 'Client Profile', 'Information and Resources', 'Client Locations', 'Events', 'Blog', and 'Contact Us'. The main content area features a large banner with a lightbulb icon and the text 'How Do I Get My Employees to Think Like Owners?'. On the left side of the banner are three vertical buttons: 'Incentive Plans', 'Think Like Owners', and 'Top People Management'. Below the banner is a section for 'Strategic Compensation Development and Management Firm' with a text box for a webinar invitation list and a partial sentence: 'VisionLink enables mid-market companies to achieve'.

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Questions?



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, course syllabus/summary and a CD of today's presentation

Thank You!



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