

The "Learn & Earn" Series™

May 17, 2012

"How Much is Enough Compensation?"



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

Robert Rainey

Senior Vice President

(949) 265-5711

rrainey@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, 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

- Understand compensation as a strategic tool, not just an expense
- Identify a process for determining both “how much” and “how” compensation should be paid
- Envision potential drivers of compensation strategies

Key Concepts



- *How much* you pay people is less important than *how* you pay people.
- Inefficiencies in compensation are a drain on profits and productivity.
- Productivity is a function of execution, and rewards reinforce expectations.
- Effectively engineered compensation plans help sustain company growth and breed confidence.
- Rewards strategies can be tools that shape and mold a culture of confidence.
- Companies that focus on paying their people the right way instead of the right amount perform better.

The “Right Amount”



Why?

- I don't want to pay above the market
- I don't want to pay below the market

What is “the market?”



**Is this a cost issue or a
productivity issue?**





Would you increase your payroll commitment by \$100,000 if it resulted in a return of the \$100,000 plus an appropriate after-tax yield?

How Much?

- What is the market standard?
- What is everyone else paying?
- What is the market median?
- We need to pay above the median to attract great people



salary.com story

- 3 employees within 2 weeks
- Lending officer—\$175,000

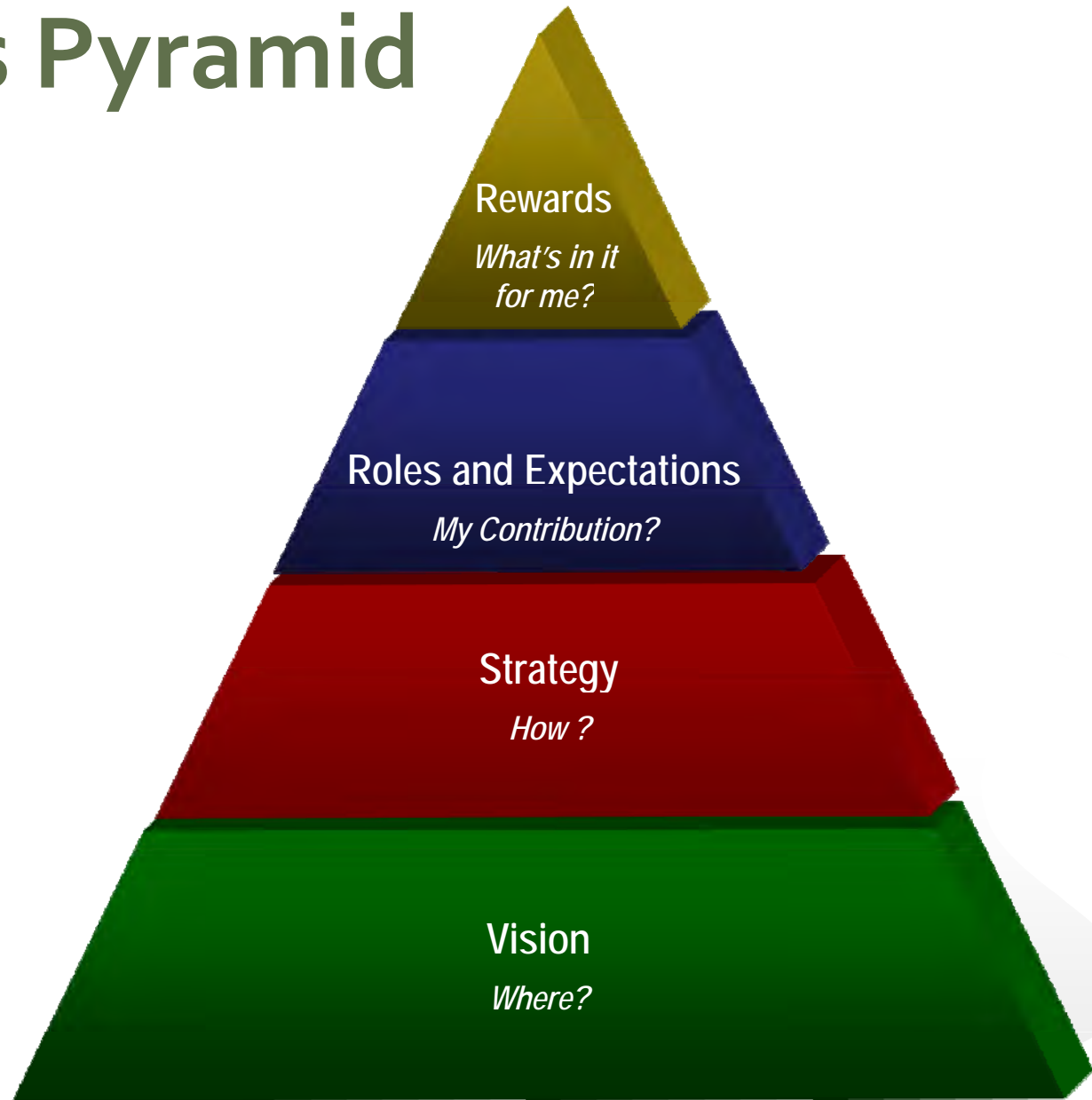


salary.com lesson

- Is it comprehensive?
 - Salary or total cash compensation or total package?
- Is it accurate?
 - How reliable is the information?
- Is it in context?
 - Does it represent the full picture?



Rewards Pyramid



Outcomes

- Higher quality employees
- Stronger retention
- Higher productivity per employee (performance change)
- Control costs
- Increased profits
- Increased value sharing
- Higher confidence
- Sustainable results



Rewards to Results





What would your company's culture be like if...

- Everyone believed that fulfilling the shareholder's vision would bring them above market compensation and wealth?
- Everyone understood exactly what results were necessary to fulfill the goals and exactly what was expected of them personally?
- Everyone received regular reports informing them of progress and areas needing improvement?




If I'm your employee, I'd be asking you:

- What specific results do you want me to achieve?
- How will we measure progress?
- Will I participate in the value I help create?



Poll #1

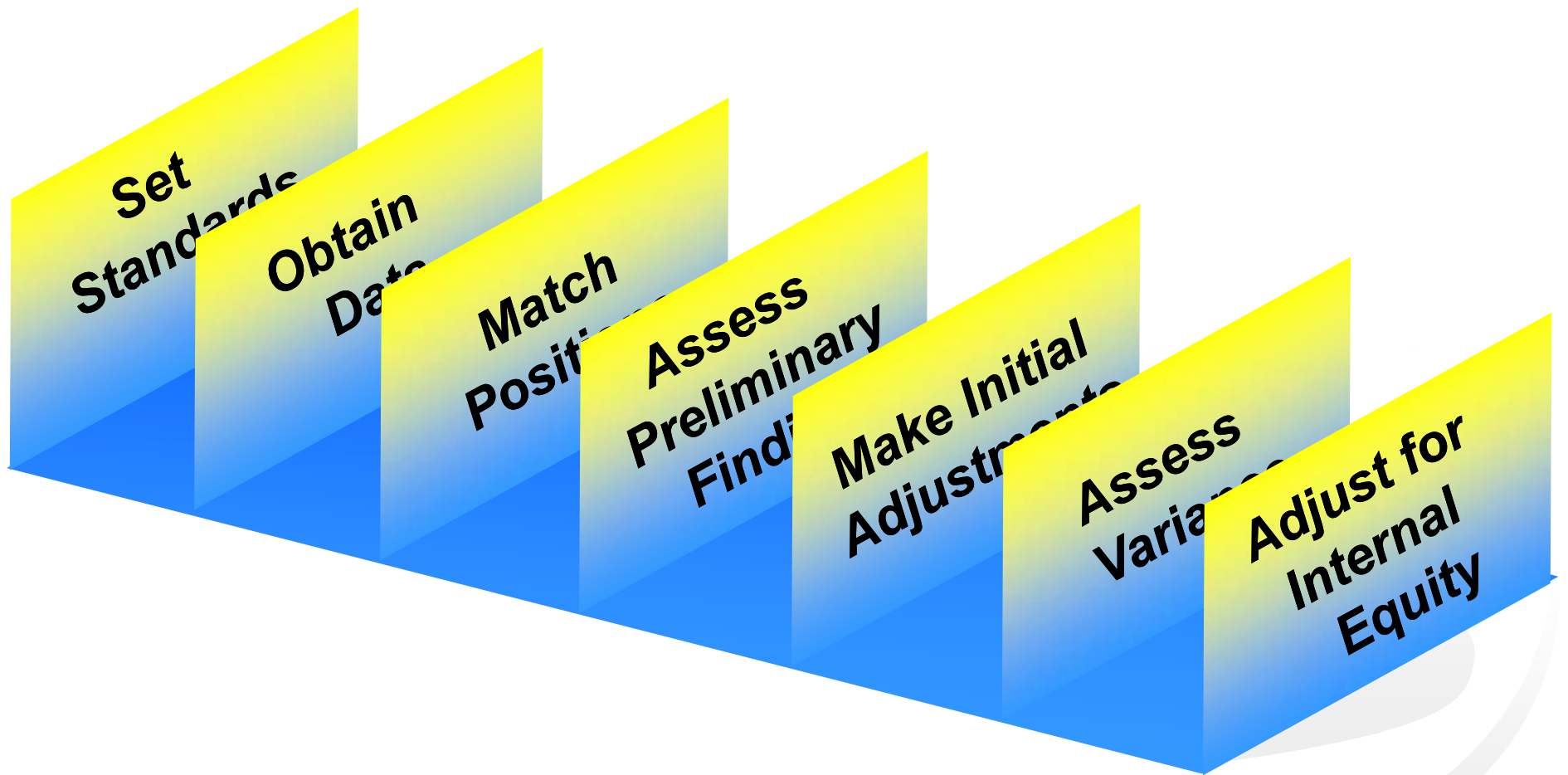




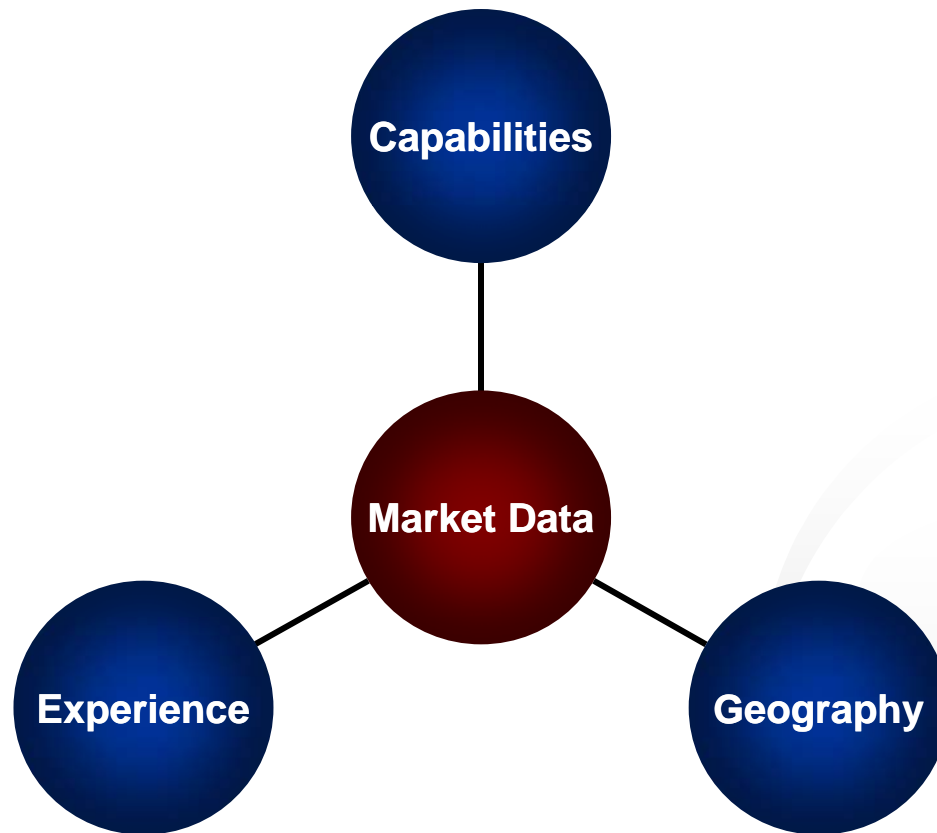
**Are we suggesting that you
shouldn't ask "how much?"**

Setting Pay Levels

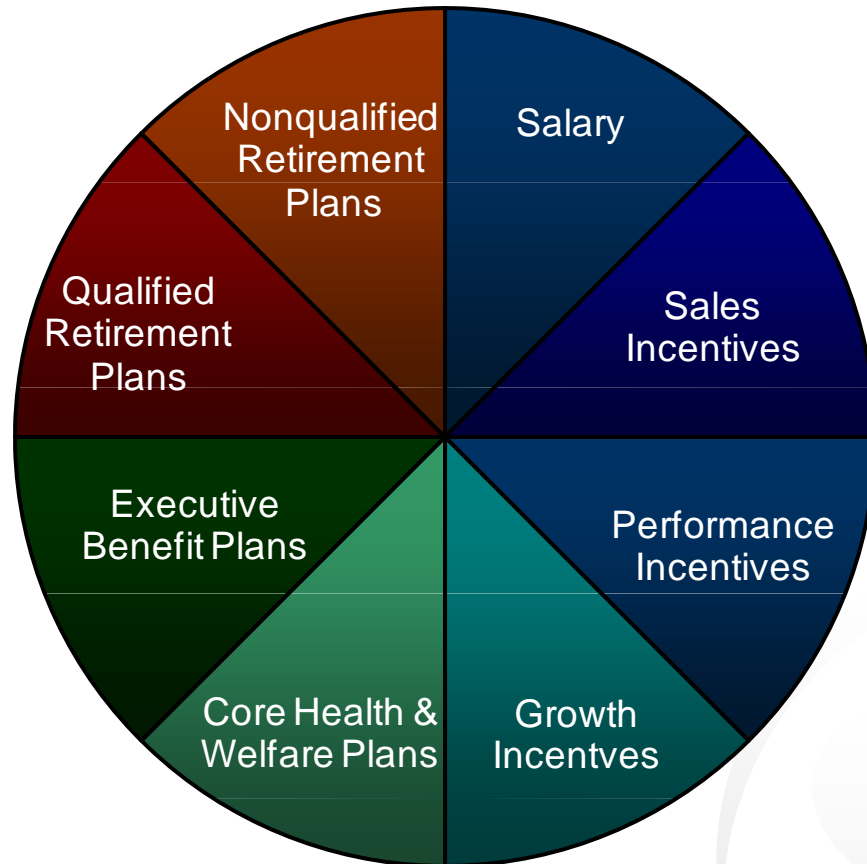
A Unique Process



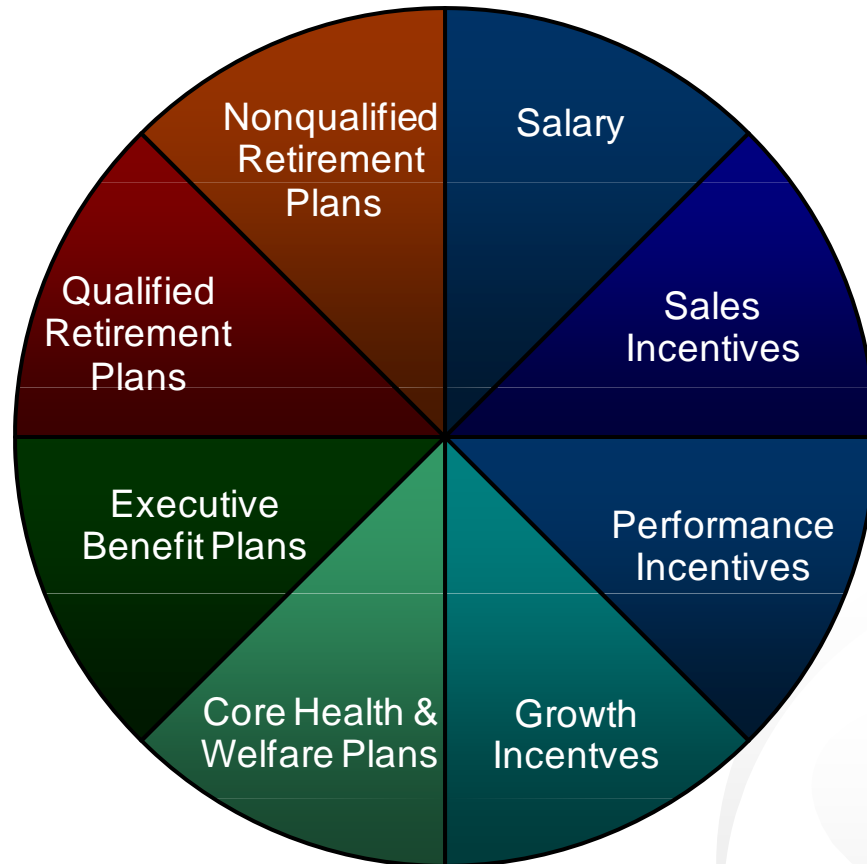
Setting Pay Levels A Unique Process



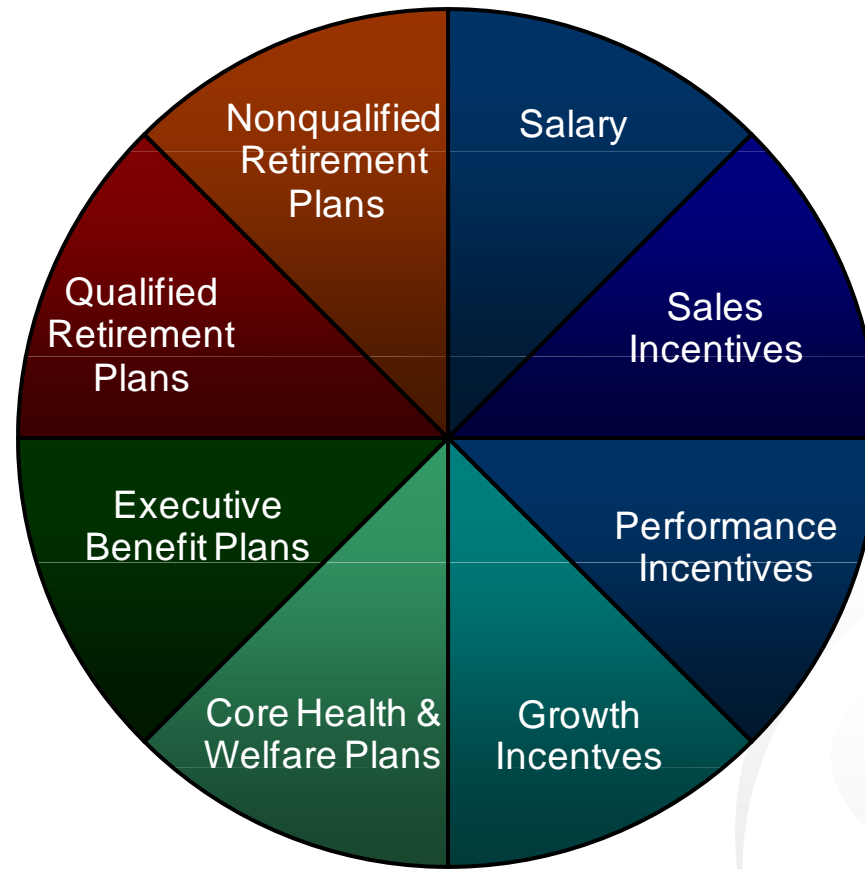
The Compensation Pantry



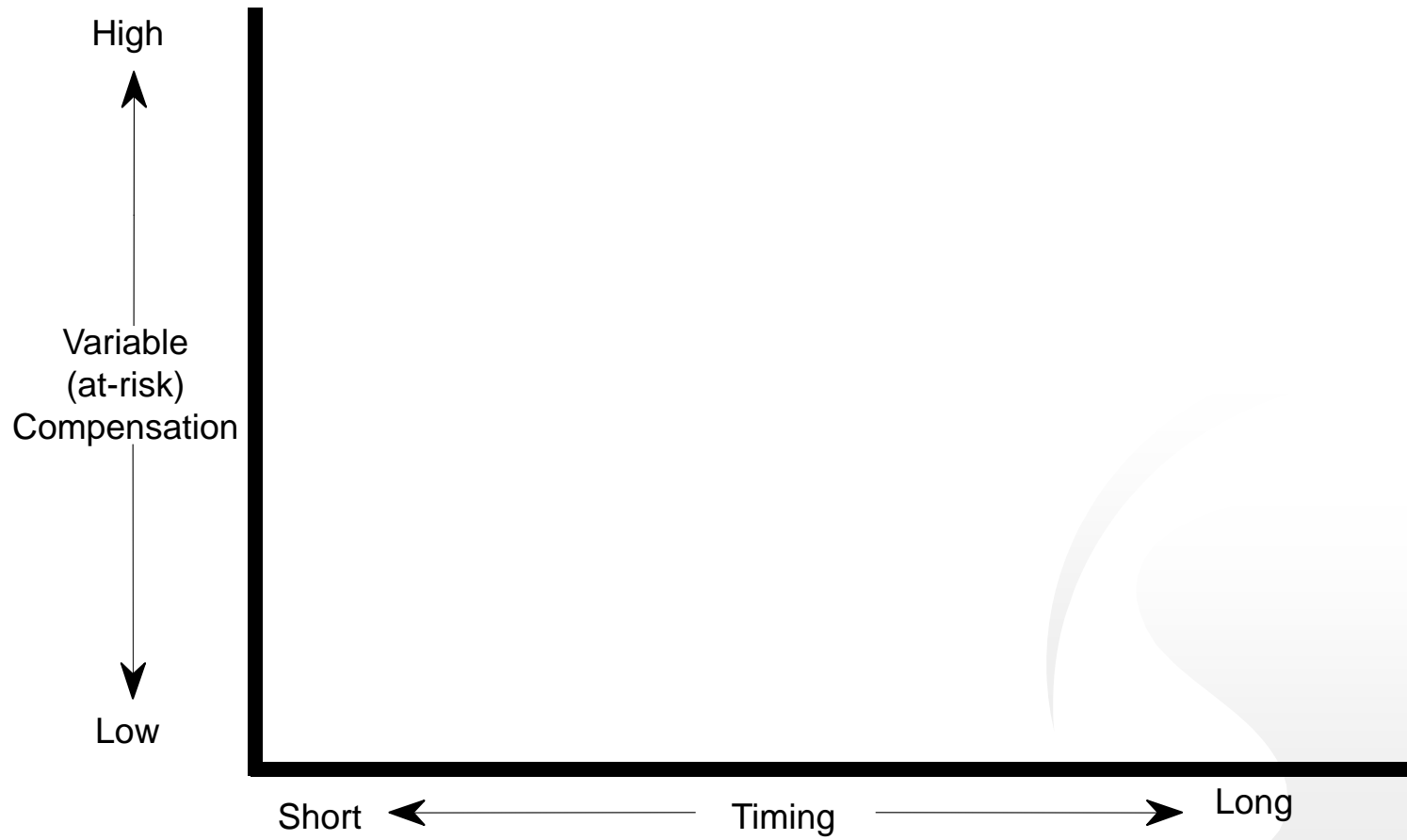
How do these slices differ?



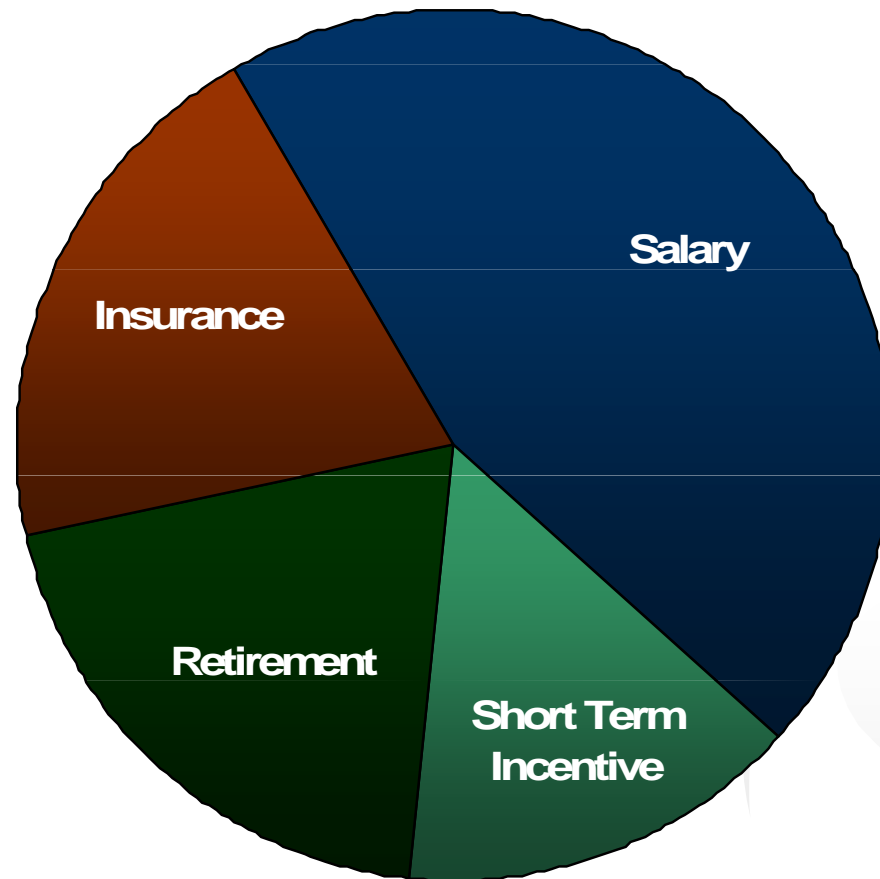
When or whether they're received, and...



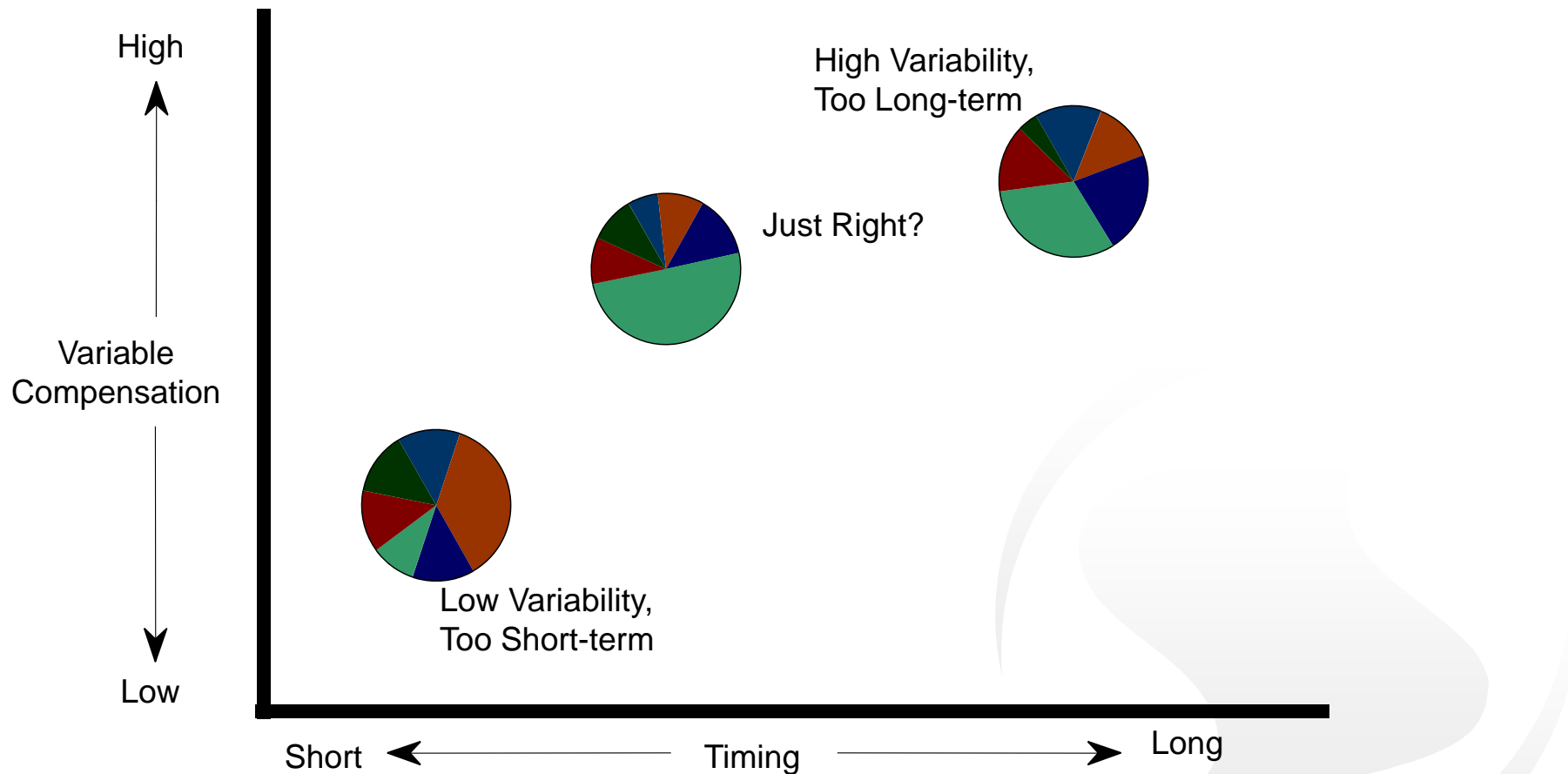
how much they'll be worth when paid



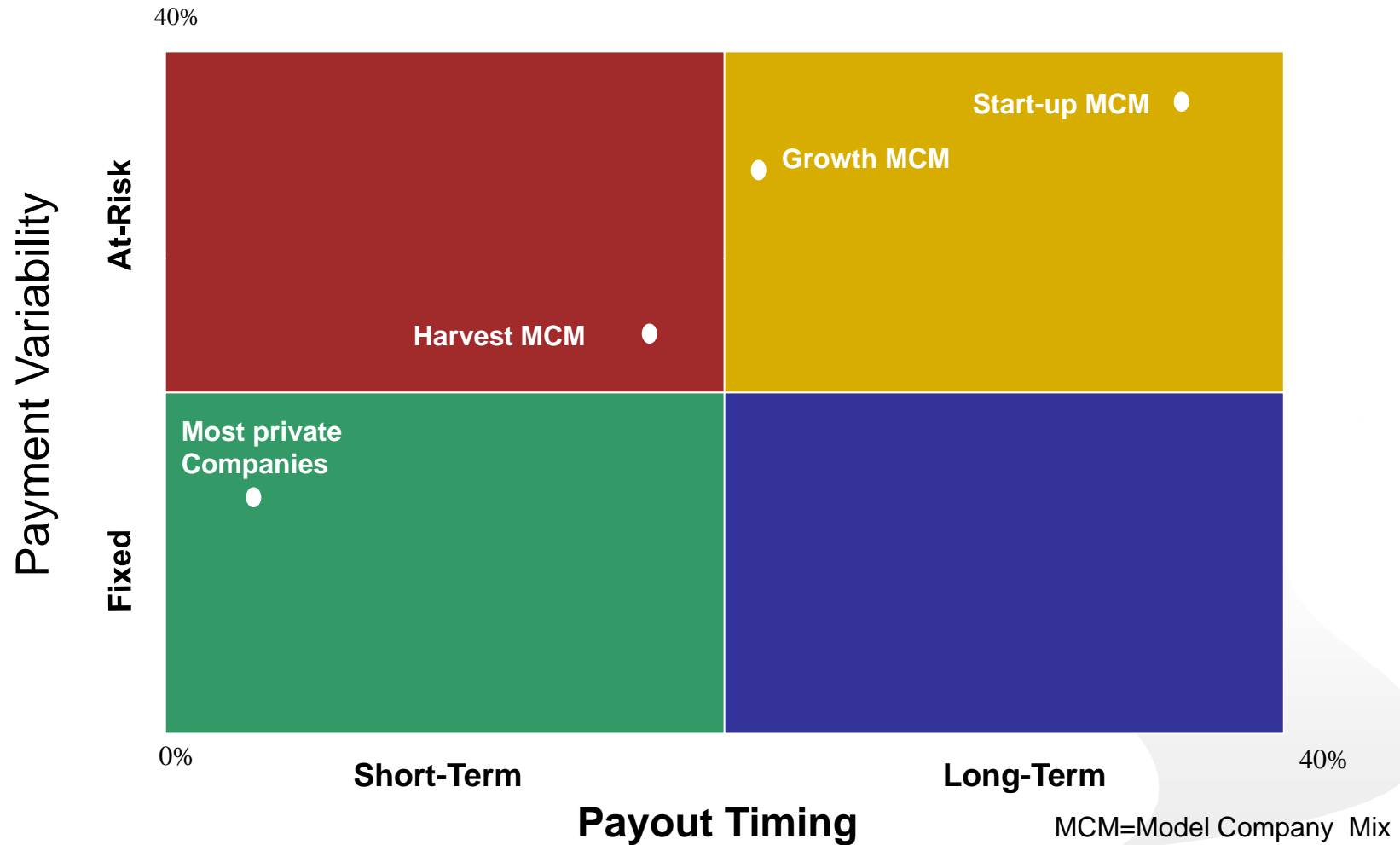
Typical Compensation Allocation



Identifying Ideal Compensation Allocations



Total Rewards Positioning



VisionLink's 2006 Survey of Executive Compensation



- 139 Companies with revenues between \$250mm and \$1B
- Sorted by ROE, Diluted EPS and net profit margin
- Compared top quartile and bottom quartile

Observations

- Top quartile companies place a greater amount of compensation “at risk”
- Top quartile companies place greater emphasis on long-term awards



Poll #2

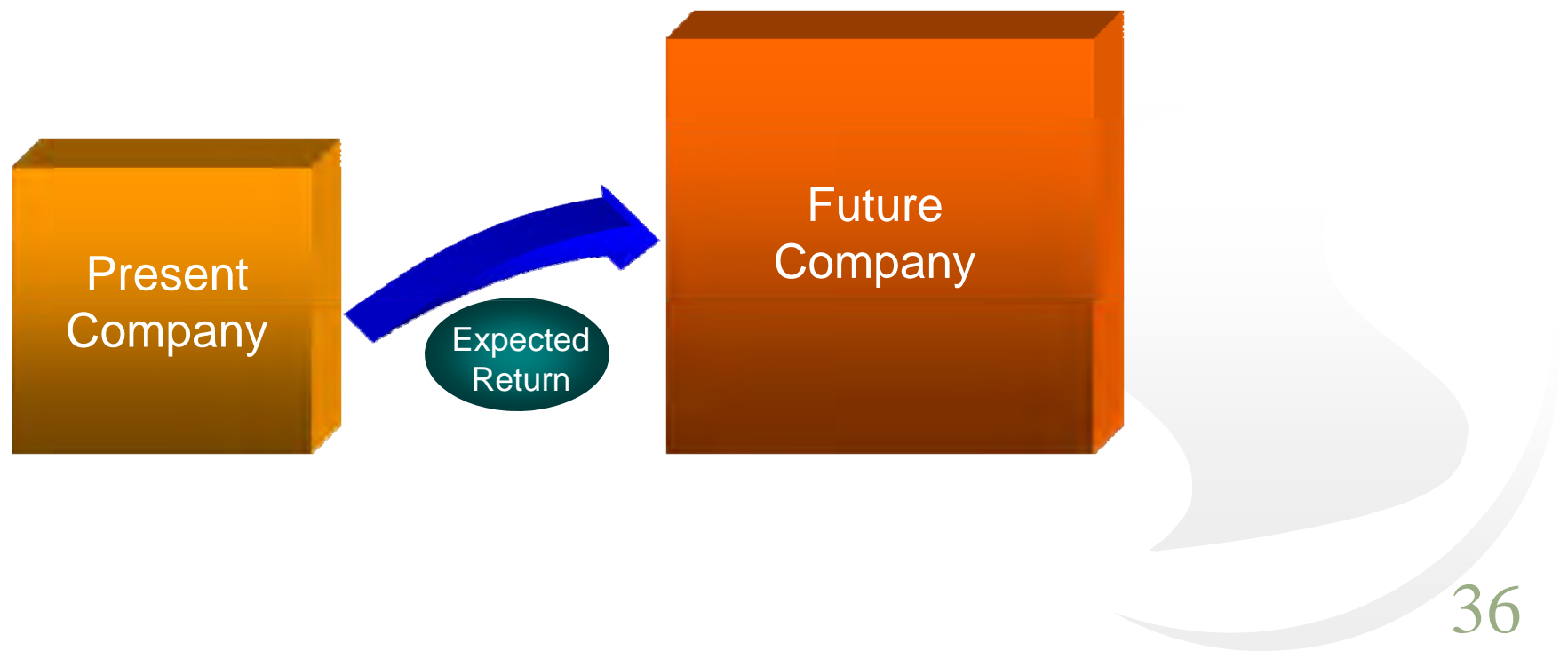


Why is this important?

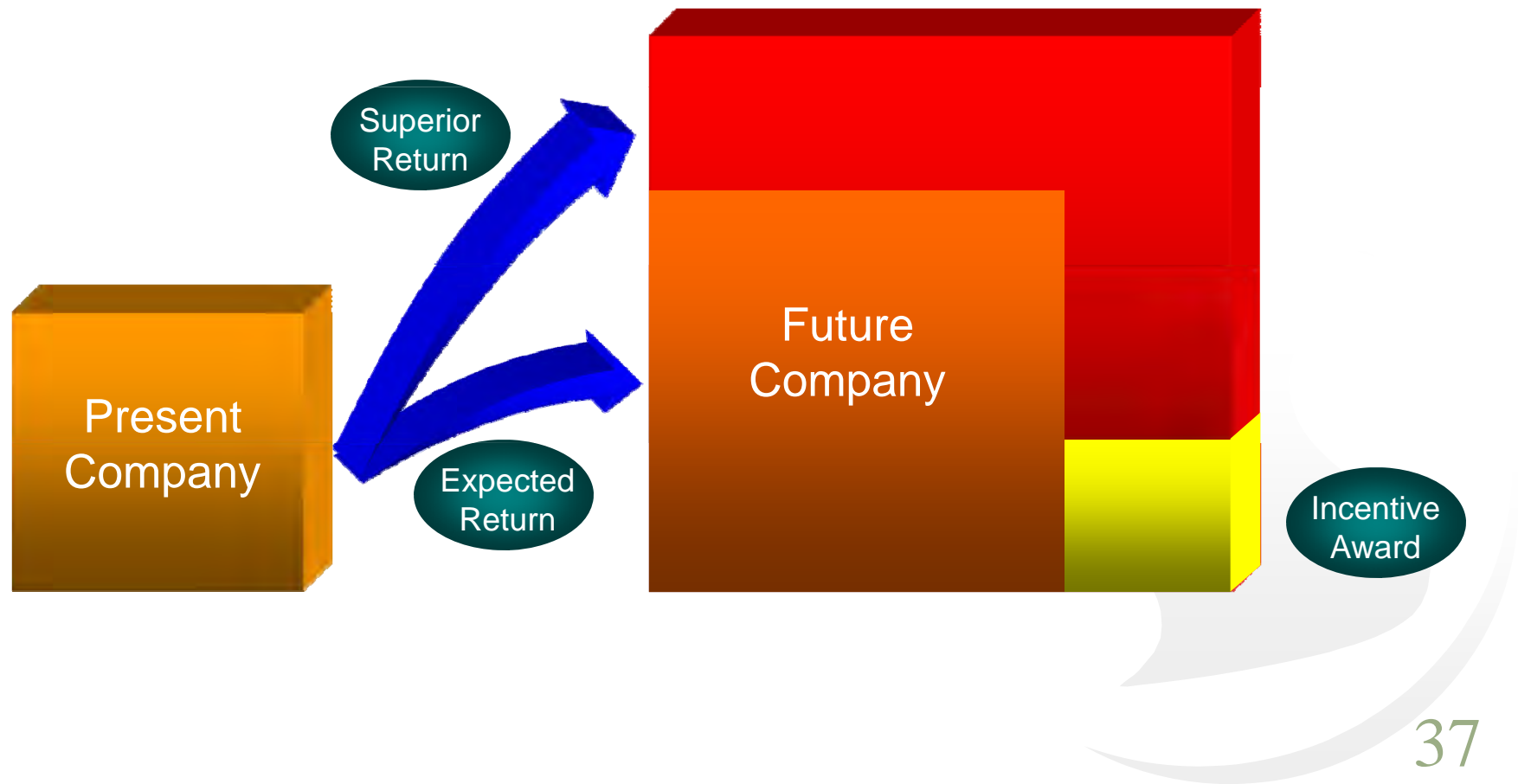
In search of "x"

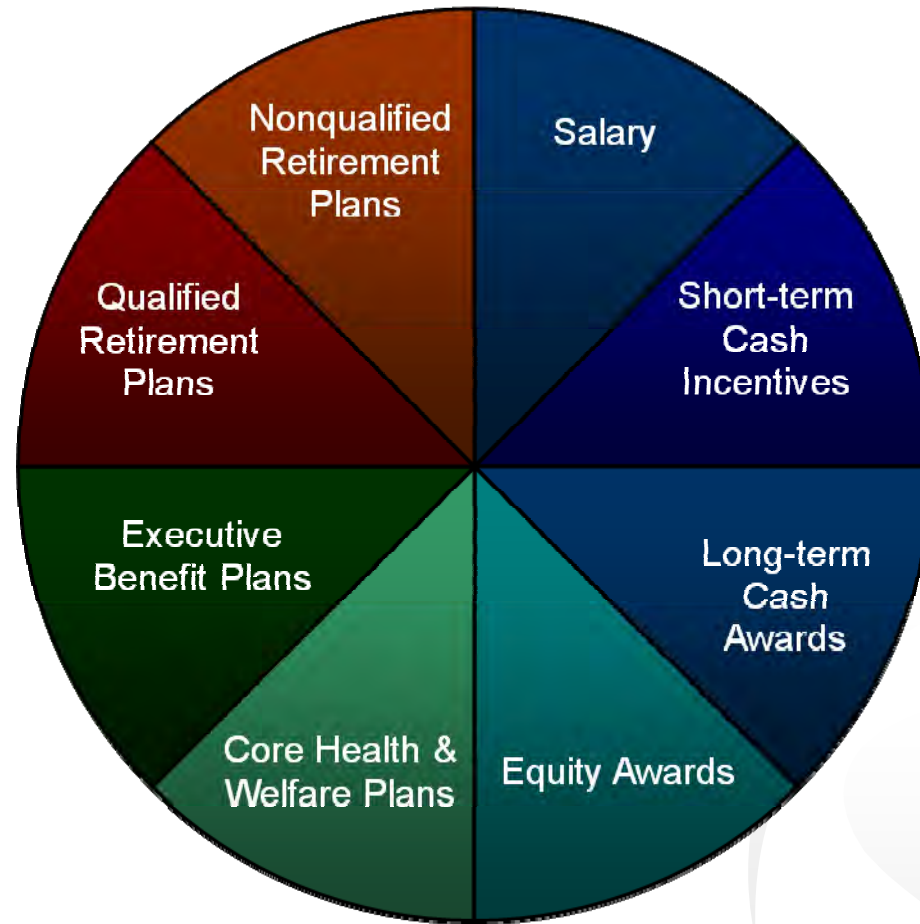


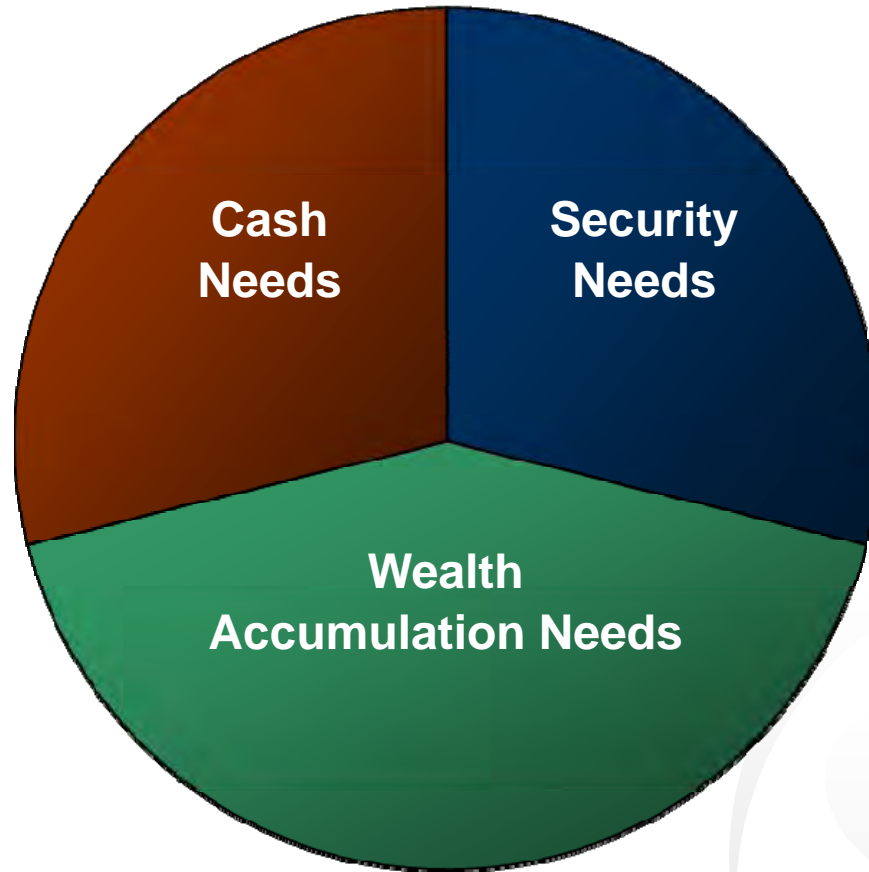
How should we think about compensation as an investment?



How should we think about compensation as an investment?









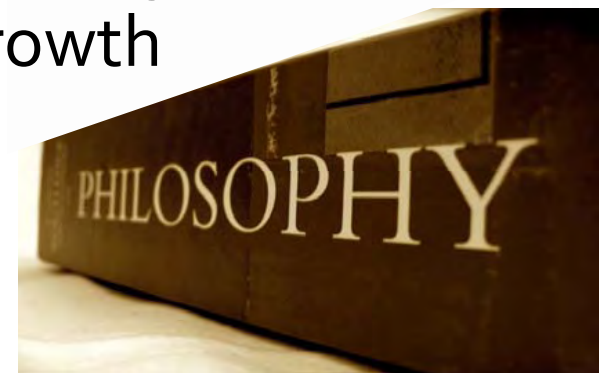
Fundamental Philosophy



Fair salaries, strong benefits, great upside for short- and long-term growth and profitability. We share the economic value our employees help create.

Fundamental Philosophy— Written Guidelines

- Salaries targeted between 40th and 50th percentile (varying by experience and contribution)
- Total cash opportunity targeted at 75th percentile for excellent performance
- Security program at 50th percentile
- Wealth accumulation opportunity at the 90th percentile for excellent long-term growth



Fundamental Practice

Clear alignment between each employee's day-to-day duties, company goals and pay-for-performance incentives. Regular reinforcement and communication.



Fundamental Practice— Concrete Application

- Company, department and individual goals are established as part of the annual budgeting process
- Annual incentive plan is tied to goals and communicated in writing at the beginning of the year
- Quarterly statements to all employees indicate progress and results
- Performance appraisals tied expressly to goals



Company's Core Goals

- Hit budgeted operating income
- Hit budgeted revenue target
- Grow EBITDA

Balanced Goals

- Short-term
 - Operating Income
 - Revenue Targets
- Long-term
 - Grow EBITDA



Balanced Compensation

■ Short-term

- Annual incentive plan
- Company-wide
- Tied to company and department goals
- Expressed as a percentage of each employee's salary

■ Long-term

- Phantom stock option plan for executives and managers
- Performance unit plan for all other employees

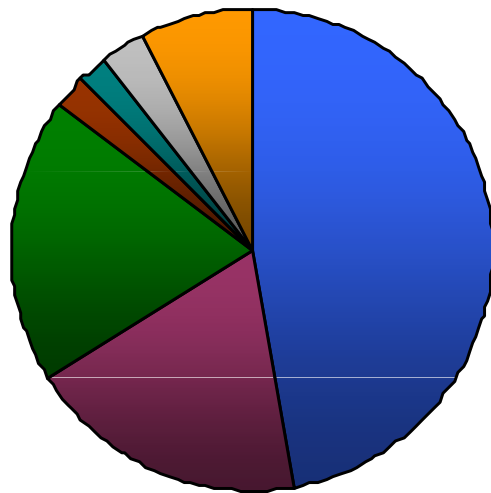


Poll #3



Target Allocation - 2011

John Sample	\$	%
Salary	\$ 170,000	47.3%
Bonus	\$ 68,000	18.9%
Long-term Incentives	\$ 68,000	18.9%
Core Benefits	\$ 8,000	2.2%
Executive Benefits	\$ 7,200	2.0%
Qualified Retirement	\$ 10,914	3.0%
Nonqualified Retirement	\$ 27,285	7.6%
Total	\$ 359,399	100.0%



- Salary
- Bonus
- Long-term Incentives
- Core Benefits
- Executive Benefits
- Qualified Retirement
- Nonqualified Retirement

Employee Value Statement for John Sample

	2010	2011	2012	2013	2014
<i>Cash Needs</i>					
5-Year Plan Achievement	100%	100%	100%	100%	100%
Annual Salary	\$ 170,000	\$ 175,100	\$ 180,353	\$ 185,764	\$ 191,336
Target Bonus	68,000	70,040	72,141	74,305	76,535
Total Cash Received	238,000	245,140	252,494	260,069	267,871

Employee Value Statement for John Sample

	2010	2011	2012	2013	2014
<i>Security Needs</i>					
Core Benefits	8,000	8,880	9,857	10,941	12,145
Executive Benefits	7,200	7,560	7,938	8,335	8,752
Total Value	15,200	16,440	17,795	19,276	20,896

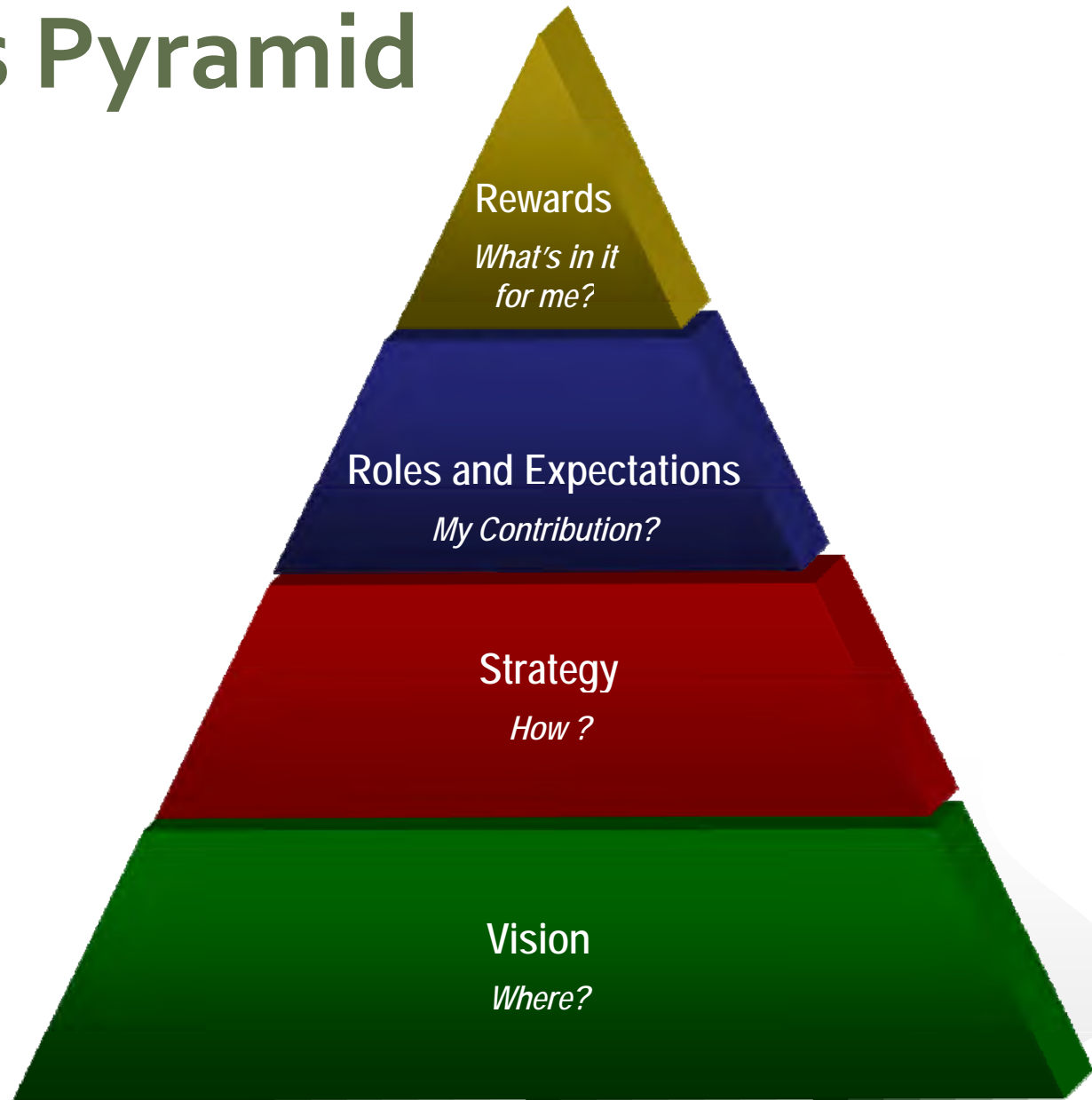
Employee Value Statement for John Sample

	2010	2011	2012	2013	2014
<i>Wealth Accumulation</i>					
Stock Price (EOY)	6.72	7.53	8.43	9.44	10.57
\$ Value of Annual Option Grants	68,000	70,040	72,141	74,305	76,535
<i>Number of New Options Granted (BOY)</i>	34,343	31,584	29,046	26,712	24,565
EOY Value of All New Options Granted	24,727	77,891	163,667	286,757	452,448
Annual Increase in Options Value	24,727	53,164	85,776	123,090	165,691
Cumulative Option Value	24,727	77,891	163,667	286,757	452,448
Qualified Retirement Plan Value	10,914	22,155	33,734	45,660	57,944
Deferred Compensation Value	27,285	55,389	84,335	114,150	144,860
Total Wealth Accumulation	62,926	155,435	281,737	446,567	655,252

Employee Value Statement for John Sample

	2010	2011	2012	2013	2014
<i>Total Rewards</i>					
Cash Received (Annual)	238,000	245,140	252,494	260,069	267,871
Value of Benefits Received (Annual)	15,200	16,440	17,795	19,276	20,896
Wealth Accumulation Earned (Annual)	62,926	92,509	126,302	164,831	208,685
Total Rewards Value (Annual)	316,126	354,089	396,591	444,176	497,452
<i>Cumulative Rewards Value</i>	\$ 316,126	\$ 670,215	\$ 1,066,806	\$ 1,510,982	\$ 2,008,434

Rewards Pyramid



Rewards to Results



Next CPE Course:

“Compensation that Drives not Hinders Growth”

To be held on:
Thursday, June 21, 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:

“Why Deferred Compensation is Making a Comeback”

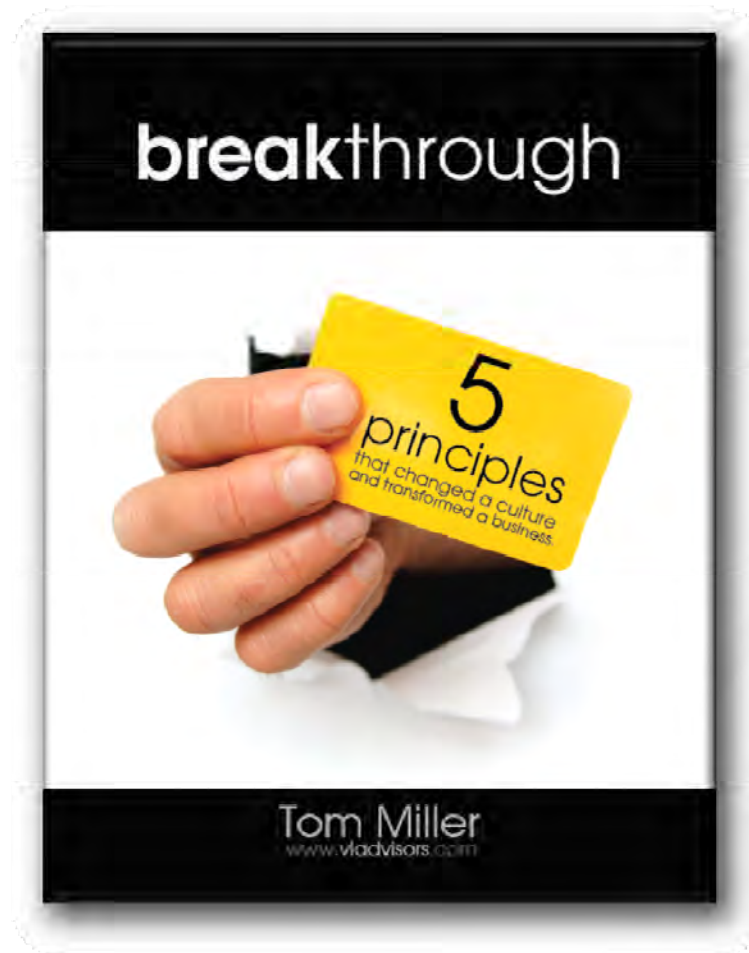
Next Tuesday,
May 22, 2012

Check out our website:
www.VLadvisors.com

The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the logo, which consists of a stylized globe icon and the text "THE VISIONLINK ADVISORY GROUP". To the right of the logo is a "CLIENT login" section with fields for "User:" and "Password:" and a "Login" button. Below the login section is a phone icon with the number "(888) 703 - 0080" and social media icons for RSS, Facebook, Twitter, and LinkedIn. A dark blue navigation bar contains the following links: Home, About Us, Client Profile, Information and Resources, Client Locations, Events, Blog, and Contact Us. The main content area features a large background image of a man in a suit. On the left side of this area are three dark blue buttons: "Incentive Plans", "Think Like Owners", and "Top People Management". In the center, there is a lightbulb icon and the text "How Do I Get My Employees to Think Like Owners?". Below this is a section titled "Strategic Compensation Development and Management Firm" with a sub-headline "VisionLink enables mid-market companies to achieve". On the left side of this section is a form for a webinar invitation list with the text "Join our webinar invitation list: Please enter your email address:" and an input field.

You can also subscribe to our blog

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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!



Robert Rainey

Senior Vice President

(949) 265-5711

rrainey@vladvisors.com



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