

July 22, 2014

“What is a Total Compensation Structure...and How Do I Build One?”



THE VISIONLINK
ADVISORY GROUP

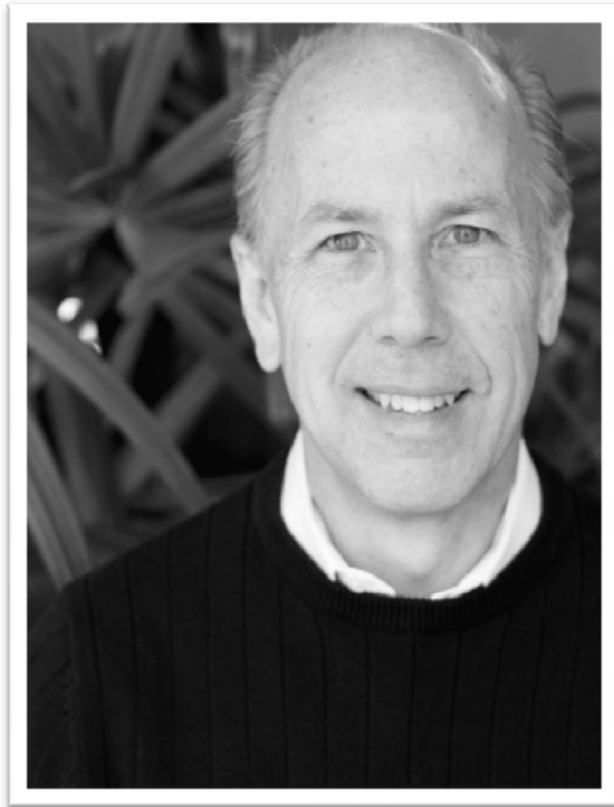
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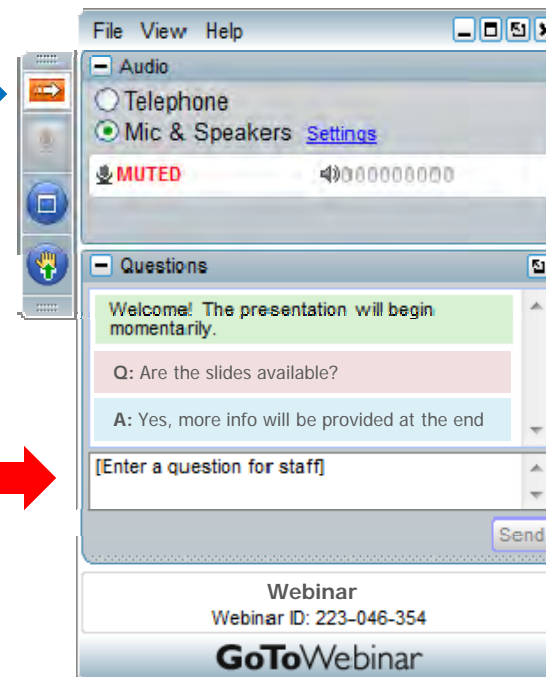
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We're happy to provide a copy of today's slides.
Information will be provided at the close
of the presentation.

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Key Questions



- How do I simplify decisions about pay?
- How do I balance salary and incentives?
- Who should participate in incentives?
- How do I avoid making pay decisions in a “vacuum?”

Framing the Issue

Company A

- 10 Year-Old Healthcare Company, \$50 million in annual revenue, 250 ees
- Collects online pay data once every two years
- Sets salaries at the high end of market pay
- Pays an annual discretionary bonus—owners' decision
- Considering long-term profit-based incentive plan
- Calls VisionLink to determine who should be eligible for the LTIP



Framing the Issue

Company B

- 15 Year-Old Logistics Company, \$100 million in annual revenue, 500 ees
- Has three primary divisions—fulfillment, product development, shipping
- Has some salary ranges set but not company wide
- Has four different bonus plans
 - One for each division and another one for senior execs
- Calls VisionLink for help with designing a phantom stock plan



Framing the Issue

Company C

- 20 Year-Old Manufacturing Company; \$150 million in annual revenue; 750 employees
- New CFO & VP HR
- Set salary grades seven years ago, but has doubled in size since then
- Bonus plan tied to KPIs, senior level management only
- Want to expand bonus eligibility
- Want to introduce long-term incentive plan
- Calls VisionLink and asks what's typical for companies in their industry and of their size—bonus and LTIP



If You Were VisionLink...

- What would you recommend?
- Where would you begin?
- What is the right answer for each company?
- What are the common denominators?

Company A



Company B



Company C



The Common Denominators

Company A



Company B



Company C



- No underlying pay philosophy
- Ad hoc or “siloed” decision making
- No compensation strategy continuity
- No framework for making pay decisions

The Key to Success—Starting Point

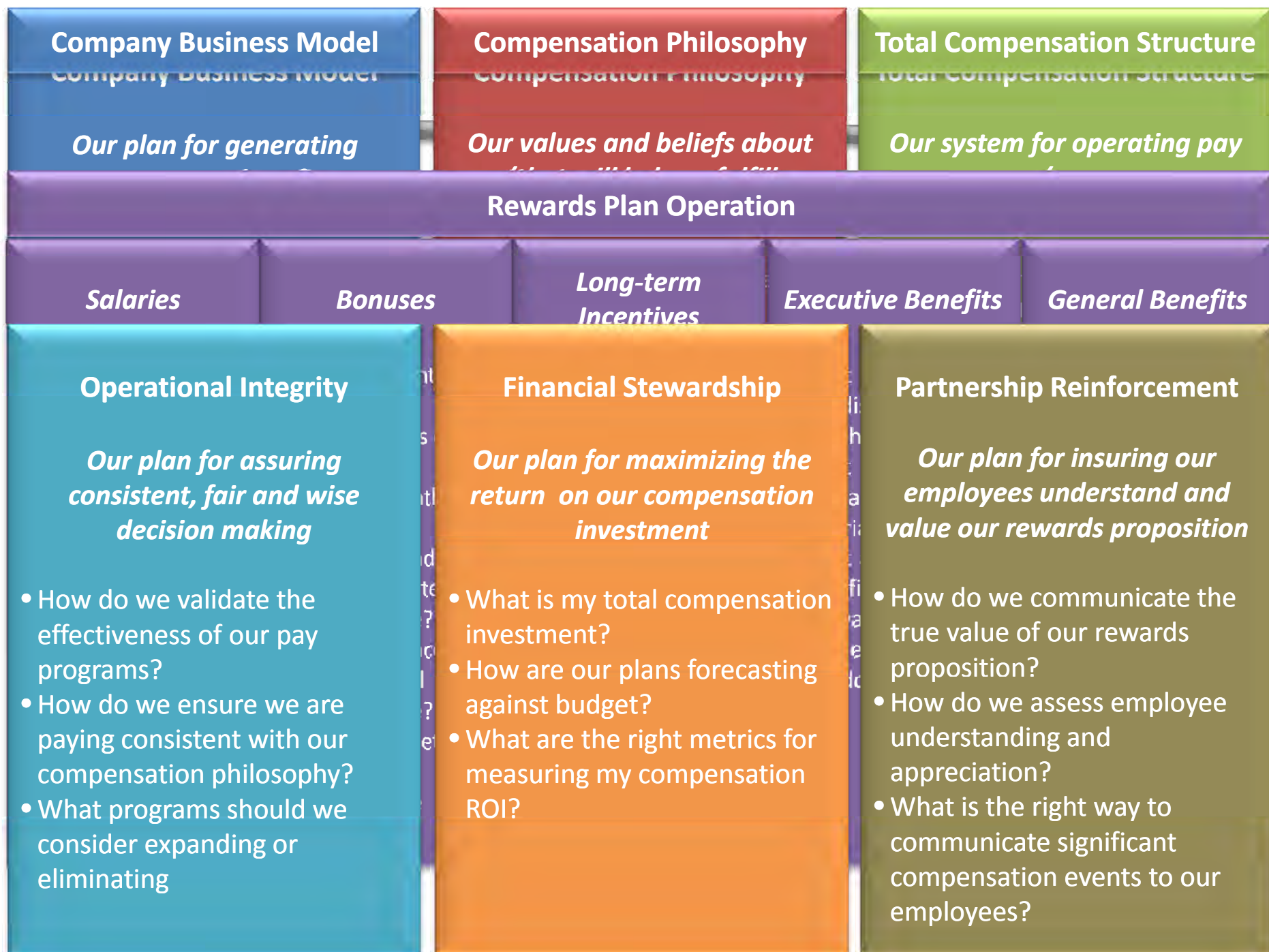
Form a Total Compensation Structure



Total Compensation Structure

- Meaning
- Types
- Benefits
- Construction





Compensation Philosophy



- Does the company have a written compensation philosophy statement?
- Does it clearly articulate what the company will pay for and how it plans to share value?
- Does it define where the company wants to be relative to market pay standards for salaries and total compensation?
- Does it establish a balance between guaranteed and incentive pay?
- What about between short-term and long-term incentives (or what VisionLink refers to as value-sharing)?

What Is Your Compensation Philosophy?

- Where should salaries be targeted?
- How will the company budget employee bonuses?
- What about long-term incentives?
- How do retirement and employee benefits fit into the picture?
- Do you have other employee perquisites?



Market Pay Assessment

- Benchmark your roles against salary surveys
 - Major House Surveys
 - Industry Surveys
 - Internet Surveys
 - Government Statistics

Position	Survey	Match	Premium/ Discount	Weighting	Employee Average	Market Data		
						25th	50th	75th
Junior Accountant	Towers Watson	Accountant 1		15%	51.4	47.0	52.5	58.0
	Mercer	Accountant - Entry	10%	10%		50.1	52.5	55.3
	Radford	Accountant 1		5%		55.4	59.1	63.8
	Salary.com	Accountant	-5%	15%		40.7	44.3	46.5
	ERI	Accounting - Junior		10%		50.2	54.6	61.3
	Kenexa	Accounting Associate		10%		53.7	58.9	62.4
	BDG	Accountant I	5%	5%		44.2	50.1	54.3
	Pay Scale	Junior Accountant		15%		42.7	46.8	49.0
	Robert Half	Accounting Level 1		10%		51.3	56.0	59.5
	DOL	Accountant		5%		47.3	51.8	55.4
Aggregate Benchmark				100%		48.3	52.7	56.6

Building Salary Ranges

- Align salaries to your Compensation Philosophy and the Market Data
- Four Approaches
 - Pure Market Pricing
 - Traditional Grade Structure
 - Broadband Structure
 - Hybrid Structure



Pure Market Pricing Approach

Creates a fixed range of pay for positions based exclusively on market data.
Rewards eligibility and targets are set at the position level.

Role	Market Source	Salary		
		25th	Median	75th
Accountant I	Towers Watson - Accountant I	38.1	42.1	43.2
	Mercer - Accountant Level I	35.5	37.4	39.8
	Pearl Meyer - Junior Accountant	40.1	44.2	47.4
	Radford - Accountant Entry	37.6	39.1	43.1
	Average	37.8	40.7	43.4

Role	Market Source	Salary		
		25th	Median	75th
Accountant II	Towers Watson - Accountant II	46.3	51.1	52.5
	Mercer - Accountant Level II	43.1	45.4	48.3
	Pearl Meyer - Accountant	48.7	53.7	57.6
	Radford - Accountant Intermediate	45.7	47.5	52.4
	Average	45.9	49.4	52.7

Role	Market Source	Salary		
		25th	Median	75th
Accountant Senior	Towers Watson - Accountant III	54.8	60.6	62.2
	Mercer - Accountant Senior	51.1	53.8	57.3
	Pearl Meyer - Accountant Senior	57.7	63.6	68.2
	Radford - Senior Accountant	54.1	56.3	62.0
	Average	54.4	58.6	62.4

Pros:

Highly accurate.
Works well in very small companies where positions are common.

Cons:

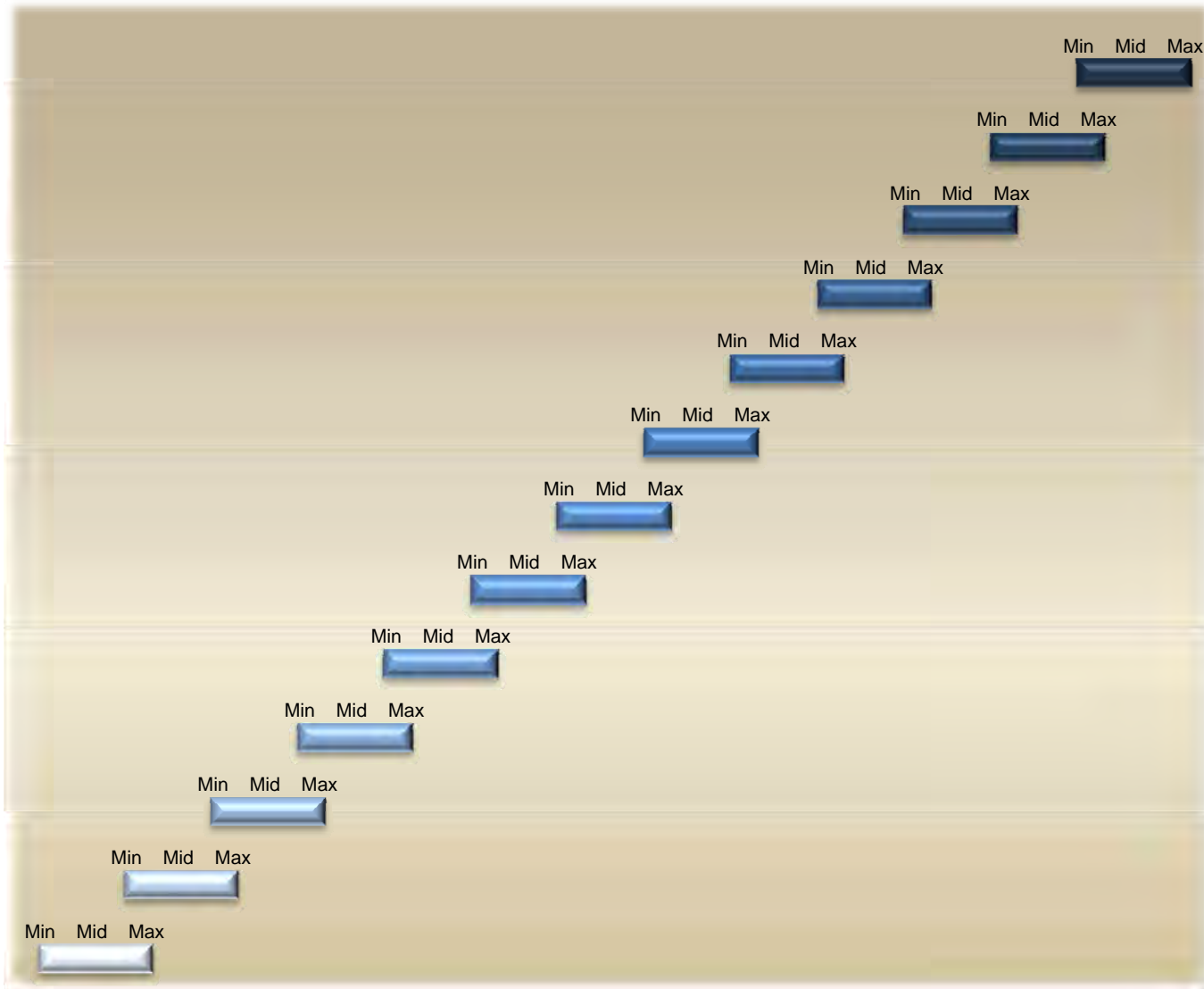
Can be administratively burdensome. Lack of relevant market data for positions makes it challenging to establish a pay range.

Example Use:

A small hierarchical accounting firm with very limited rewards structure.

Traditional Salary Structure

Positions are categorized inside of a system with many ranges, each with a minimum midpoint, and maximum. Rewards eligibility and targets are determined by level.



Pros:

Provides narrow ranges of pay for all positions. Works well in very large, highly structured promotion minded organizations i.e.: Government, Military, Universities.

Cons:

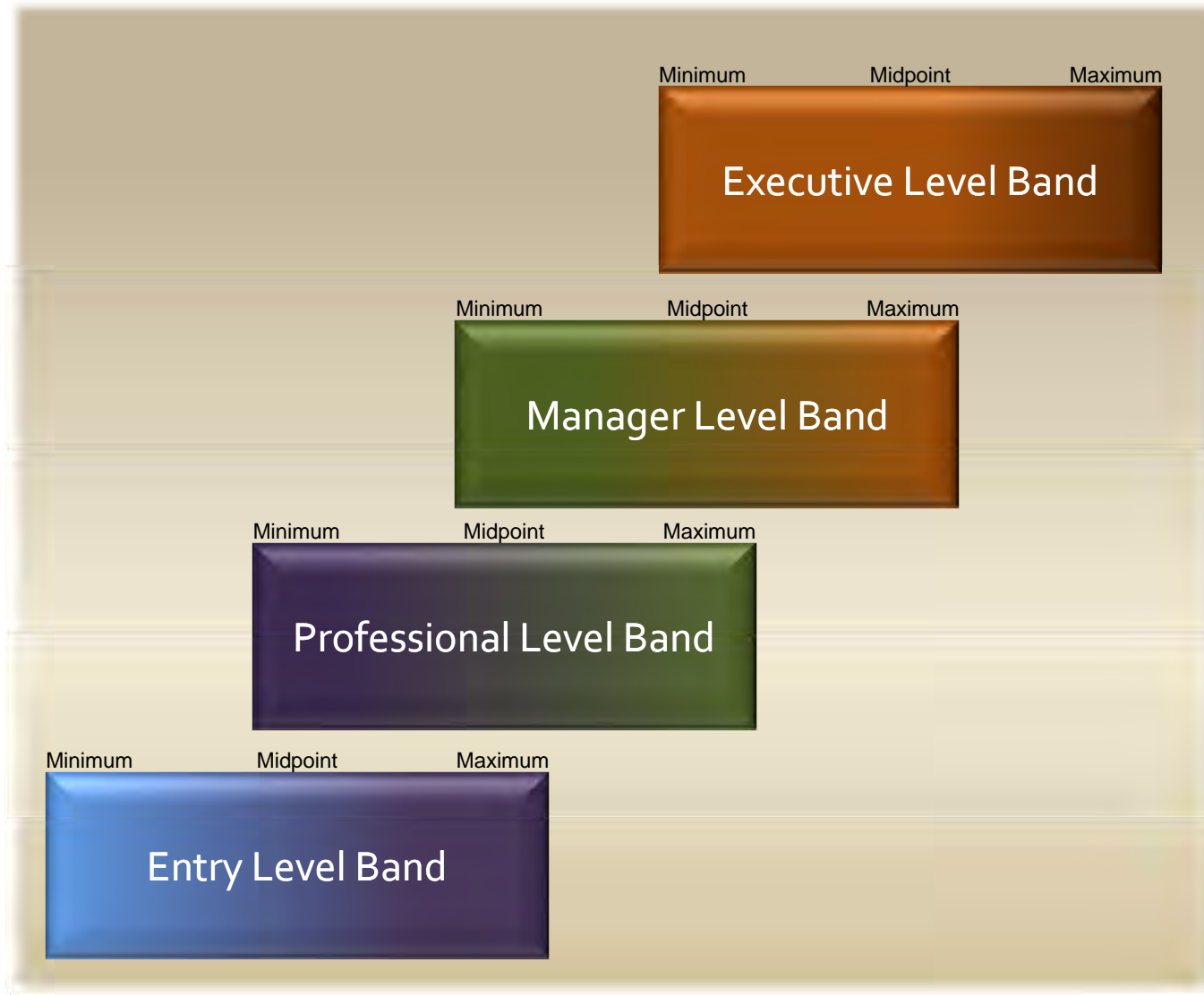
Extremely Rigid. Very little overlap of ranges. Can be difficult to maintain and administer.

Example Use:

The U.S. Military, where promotion into a new position may grant you access to a new level of reward eligibility

Broadband Structure

Positions are categorized inside a few broad ranges to allow for maximum discretion in pay decisions. Rewards eligibility is flexibly determined by band.



Pros:

Provides maximum flexibility for making pay decisions.
Simple to administer.
Focuses on lateral movement rather than promotion.

Cons:

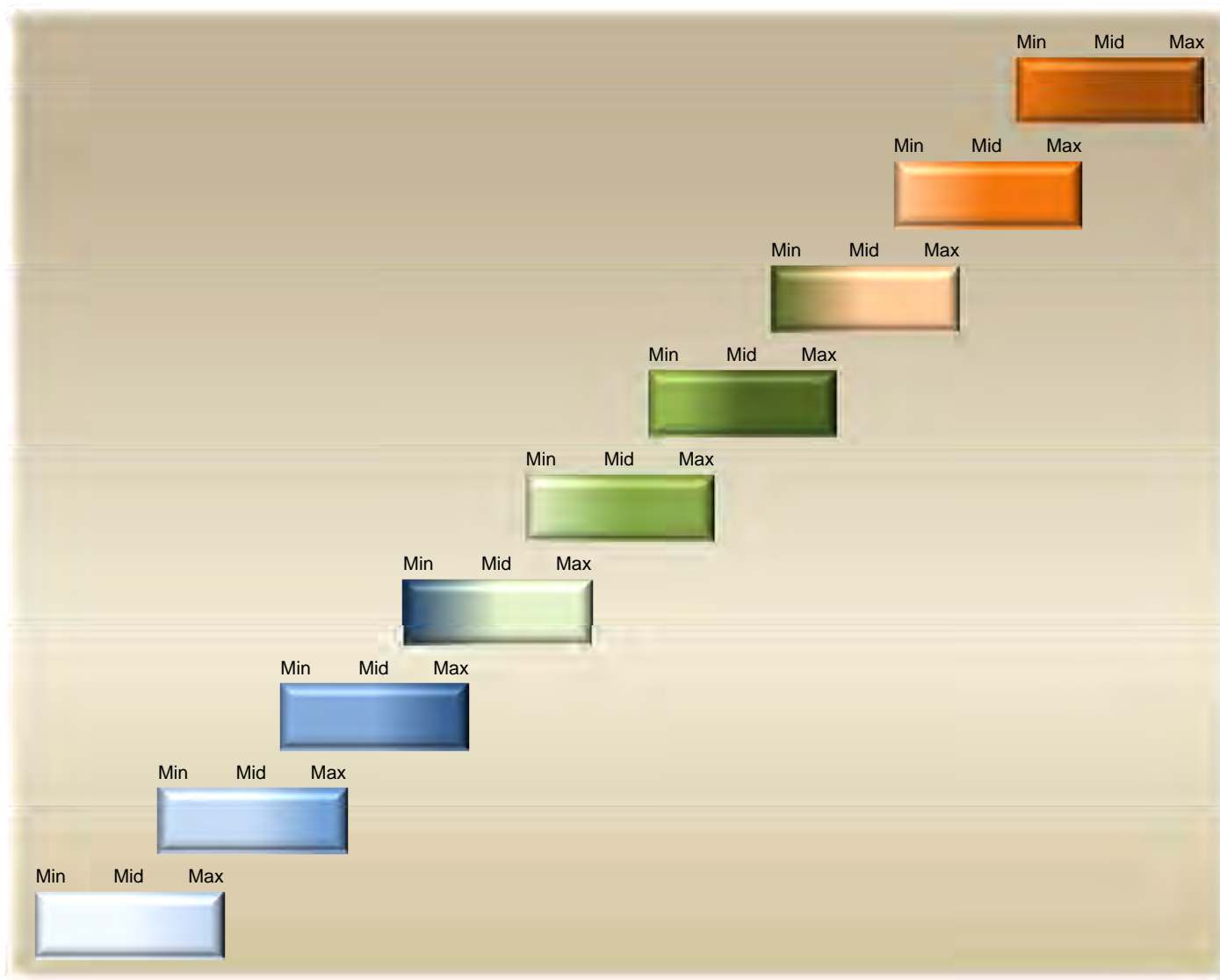
May not provide tight correlation to actual market conditions. Actual pay, although inside the range, may not be tightly correlated to the market.

Example Use:

A progressive online business where employees are encouraged to explore lateral moves over promotion. High level of rewards flexibility and eligibility is simply defined.

Hybrid Rewards Structure

Allows for broad flexibility inside of a progressive pay hierarchy.



Pros:

Combines the best of elements of a broadband and traditional structure.

Cons:

Does not capture the full value of either a broadband or traditional structure.

Example Use:

Hybrid structures are fairly common today. Because of the number of bands/grades it is easy to tie eligibility to multiple rewards programs. They support both lateral movement inside the grade as well as promotional movement to the next grade.

Building Out Your Structure

- Now that Salary Ranges have been established we can see what other rewards can be tied to the structure
- Use your **Compensation Philosophy**
- Common to have all rewards tied to the ranges
 - Incentive Eligibility (Short & Long Term)
 - Incentive Targets
 - Executive Perquisites
 - Vacation (PTO/FTO Programs)
 - Supplemental Insurance Programs



The Final Structure

Grade/ Band	Salary Range			Bonus Target	LTIP Target	% Phantom Stock FV	% Phantom Stock AO	401k Match Max %	Deferred Comp Eligible	Deferred Comp Max Match	Health, Dental, Life	Vacation Days	Sick Days	Financial Planning Perk	Annual Car Allow
	Min	Mid	Max												
1	203,531	271,375	339,219	50.0%	100%	50%	50%	5%	Yes	5%	\$11,141	Unlimited	Unlimited	15,000	20,000
2	150,078	200,103	250,129	35.0%	75%	50%	50%	5%	Yes	5%	\$11,141	Unlimited	Unlimited	10,000	12,500
3	119,497	159,329	199,161	25.0%	50%	100%	0%	5%	Yes	5%	\$11,141	25	5	5,000	8,000
4	102,632	136,843	171,054	20.0%	25%	100%	0%	5%			\$6,127	25	5	5,000	
5	81,293	101,616	121,940	15.0%				5%			\$6,127	25	5	5,000	
6	69,720	87,150	104,580	15.0%				5%			\$6,127	15	5		
7	58,564	73,205	87,846	10.0%				5%			\$6,127	15	5		
8	50,176	62,720	75,264	10.0%				5%			\$6,127	15	5		
9	44,038	51,809	59,580	5.0%				5%			\$6,127	15	5		
10	37,211	43,777	50,344	5.0%				5%			\$6,127	10	5		
11	30,784	36,217	41,649	5.0%				5%			\$6,127	10	5		
12	23,562	27,720	31,878	5.0%				5%			\$6,127	10	5		
13	19,529	22,975	26,421	0.0%				5%			\$6,127	10	5		
14	17,354	20,417	23,479	0.0%				5%			\$6,127	10	5		



The Financial Dashboard

Grade/ Band	Total Salary Cost	STIP Target	LTIP Target	401k Match Contribution	Deferred Comp Match	Health, Dental, & Life	Vacation Days	Financial Planning	Car Allow	Total Cost	Cost per EE
1	275,000	137,500	137,500	17,500	13,750	11,141	Unlimited	15,000	20,000	627,391	627,391
2	606,900	212,415	159,311	52,500	30,345	33,423	Unlimited	30,000	37,500	1,162,394	387,465
3	516,214	129,054	64,527	52,500	25,811	33,423	49,636	15,000	24,000	920,091	306,697
4	748,942	149,788	187,236	93,000	-	36,762	72,014	30,000	-	1,332,144	222,024
5	887,638	133,146	-	135,000	-	61,270	85,350	50,000	-	1,369,473	136,947
6	149,488	22,423	-	22,400	-	12,254	8,624	-	-	218,064	109,032
7	1,241,521	124,152	-	156,400	-	104,159	71,626	-	-	1,721,734	101,278
8	826,026	82,603	-	86,800	-	85,778	47,655	-	-	1,144,747	81,768
9	423,320	21,166	-	28,720	-	49,016	24,422	-	-	554,785	69,348
10	501,331	25,067	-	25,080	-	73,524	19,282	-	-	653,924	54,494
11	123,000	6,150	-	3,270	-	18,381	4,731	-	-	157,897	52,632
12	210,800	10,540	-	8,720	-	49,016	8,108	-	-	291,238	36,405
13	257,000	-	-	10,450	-	67,397	9,885	-	-	349,674	31,789
14	452,770	-	-	19,950	-	128,667	17,414	-	-	627,508	29,881
Total	7,219,950	1,054,003	548,574	712,290	69,906	764,211	418,747	140,000	81,500	11,131,066	

The Total Compensation Structure in conjunction with your Compensation Philosophy helps determine how to make efficient and strategic changes to your rewards programs

How should the Structure be used?

- Setting Budgets
- Adding/Cutting a Rewards Program
- Reviewing Labor Costs
- Examining Total Compensation Expenditure



Setting Budgets

Grade/ Band	Total Salary Cost	STIP Target	LTIP Target	401k Match Contribution	Deferred Comp Match	Health, Dental, & Life	Vacation Days	Financial Planning	Car Allow	Total Cost	Cost per EE
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8	826,026	82,603	-	86,800	-	85,778	47,655	-	-	1,144,747	81,768
9	423,320	21,166	-	28,720	-	49,016	24,422	-	-	554,785	69,348
10	501,331	25,067	-	25,080	-	73,524	19,282	-	-	653,924	54,494
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14	452,770	-	-	19,950	-	128,667	17,414	-	-	627,508	29,881
Total	7,219,950	1,054,003	548,574	712,290	69,906	764,211	418,747	140,000	81,500	11,131,066	

- 1) What is your total budget for that element today?
- 2) How much are you looking to increase/decrease that budget?
- 3) How should each grade/band be impacted?
- 4) What is the total cost impact of that change?

Total Salary
Budget

Adding/Reducing Rewards Programs

Grade/ Band	Total Salary Cost	STIP Target	LTIP Target	401k Match Contribution	Deferred Comp Match	Health, Dental, & Life	Vacation Days	Financial Planning	Car Allow	Total Cost	Cost per EE
1	275,000	137,500	137,500	17,500	13,750	11,141	Unlimited	15,000	20,000	627,391	627,391
2	606,900	212,415	159,311	52,500	30,345	33,423	Unlimited	30,000	37,500	1,162,394	387,465
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6	149,488	22,423	-	22,400	-	12,254	8,624	-	-	218,064	109,032
7	1,241,521	124,152	-	156,400	-	104,159	71,626	-	-	1,721,734	101,278
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13	257,000	-	-	10,450	-	67,397	9,885	-	-	349,674	31,789
14	452,770	-	-	19,950	-	128,667	17,414	-	-	627,508	29,881
Total	7,219,950	1,054,003	548,574	712,290	69,906	764,211	418,747	140,000	81,500	11,131,066	

Estimate the
Cost of Each
Reward

- 1) What is the Total Cost of Your Bonus Plan?
- 2) How much savings are you looking to produce?
- 3) Do you cut/reduce awards across the board?
- 4) Do you focus on individual levels (grades) or specific positions?

Reviewing Labor Costs

Grade/ Band	Total Salary Cost	STIP Target	LTIP Target	401k Match Contribution	Deferred Comp Match	Health, Dental, & Life	Vacation Days	Financial Planning	Car Allow	Total Cost	Cost per EE
1	275,000	137,500	137,500	17,500	13,750	11,141	Unlimited	15,000	20,000	627,391	627,391
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Total	7,219,950	1,054,003	548,574	712,290	69,906	764,211	418,747	140,000	81,500	11,131,066	

- 1) What is the average cost per employee for each grade?
- 2) What is the true “cost” of hiring a new Accountant?
- 3) Are rewards too expensive at that level?
- 4) Do you need to reallocate rewards to be more competitive at certain grades?

Cost Per
Employee

Examining Total Compensation Expenditure

Grade/ Band	Total Salary Cost	STIP Target	LTIP Target	401k Match Contribution	Deferred Comp Match	Health, Dental, & Life	Vacation Days	Financial Planning	Car Allow	Total Cost	Cost per EE
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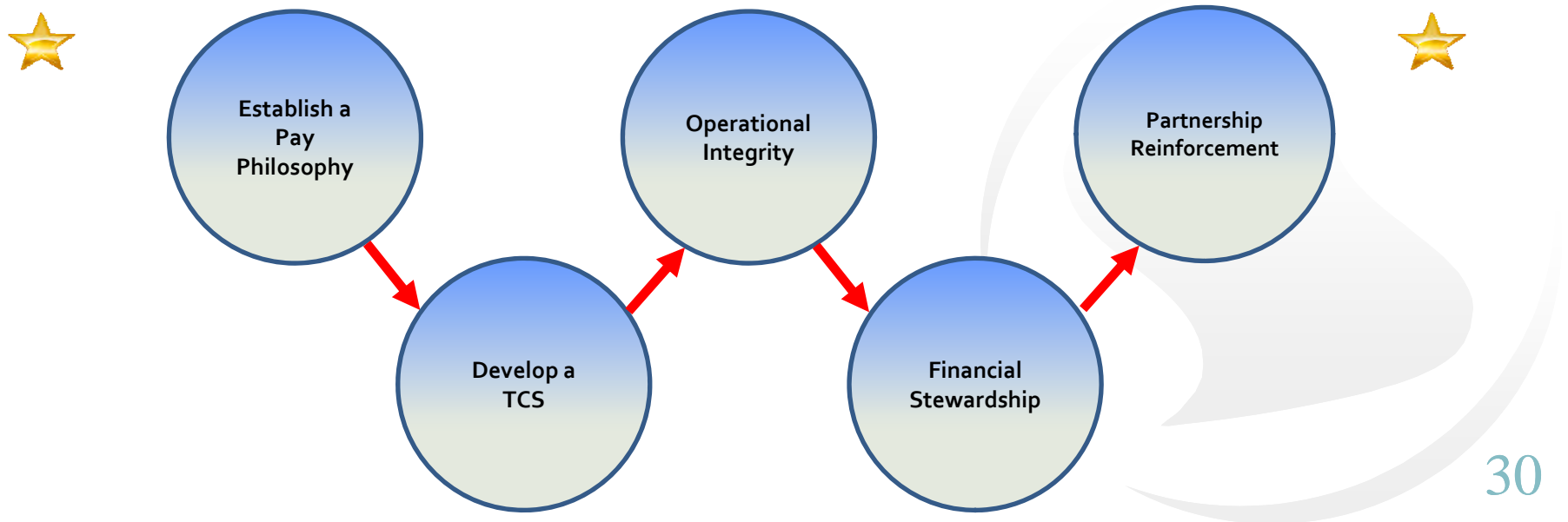
- 1) What is your total compensation Expenditure?
- 2) How has that number been increasing/decreasing?
- 3) Is there a correlation to overall company performance?
- 4) If you need to make adjustments, where do you adjust?

Total
Compensation
Expenditure

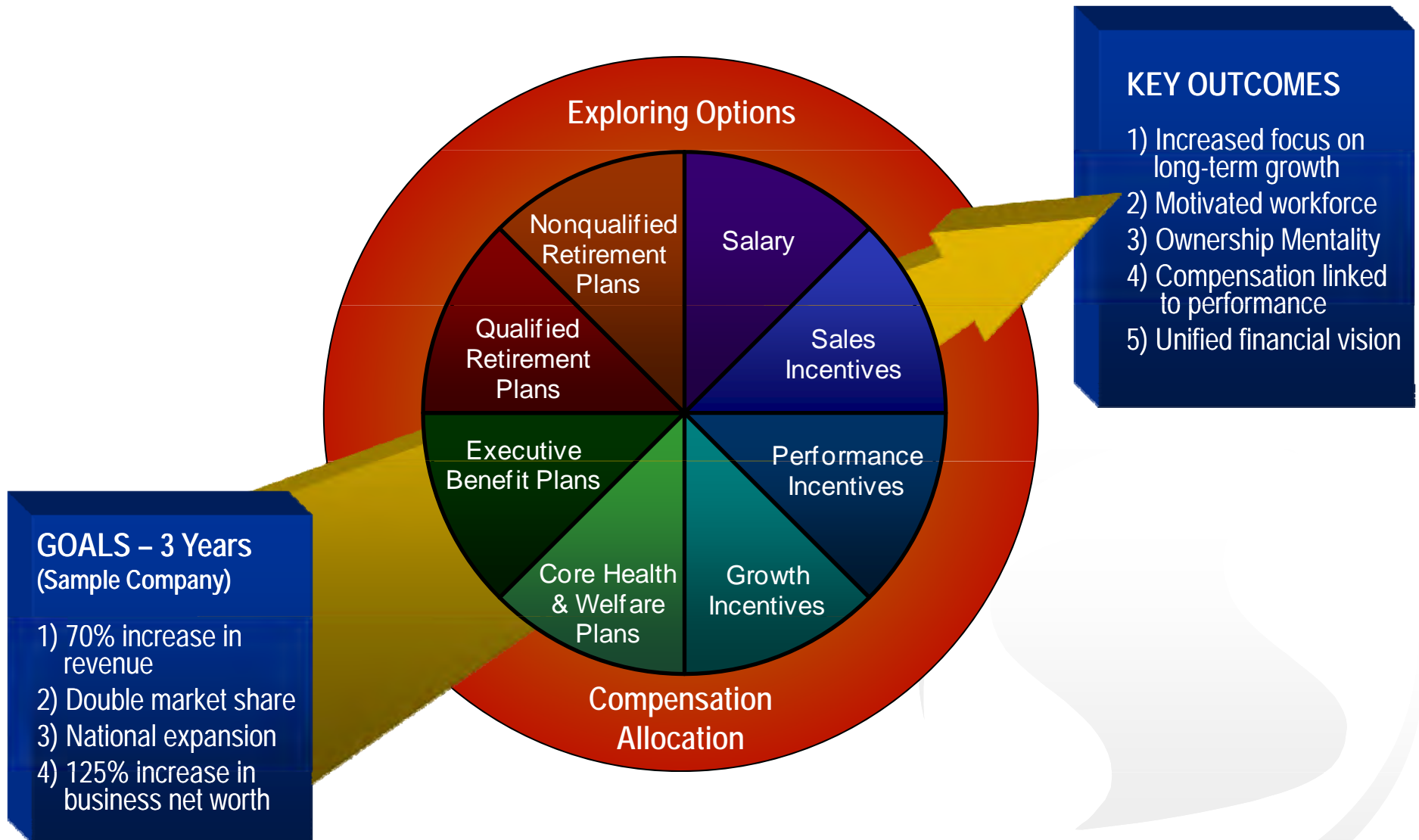
Manage the Process

- Operational Integrity
- Financial Stewardship
- Partnership Reinforcement

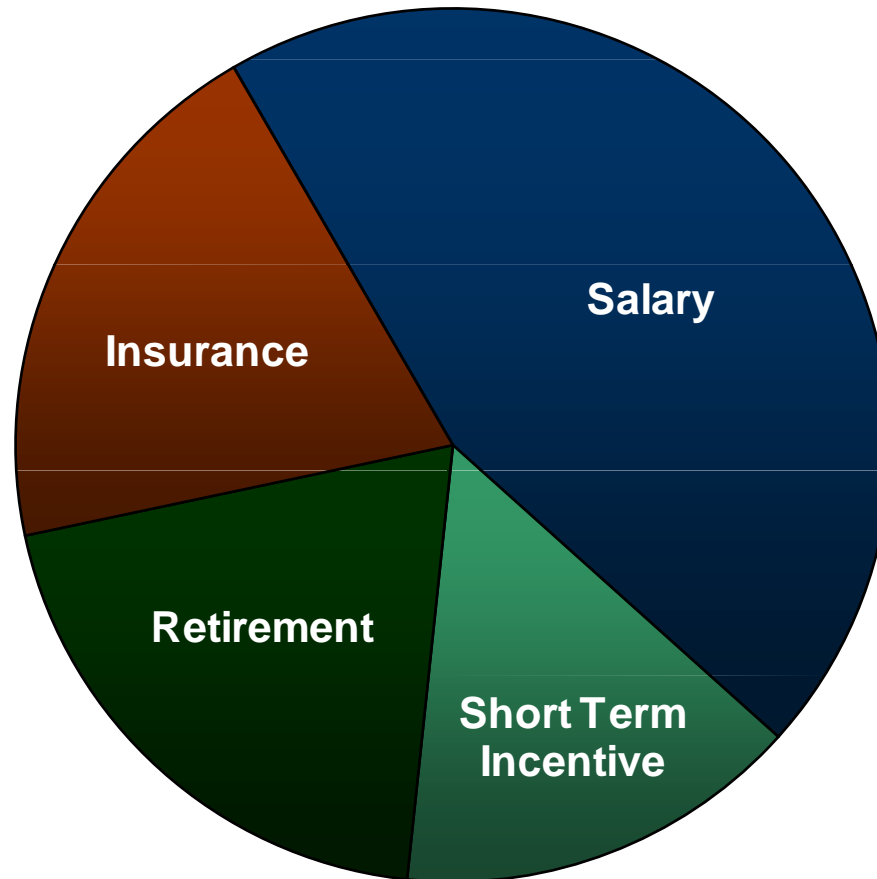
Strategy assessment and adjustment

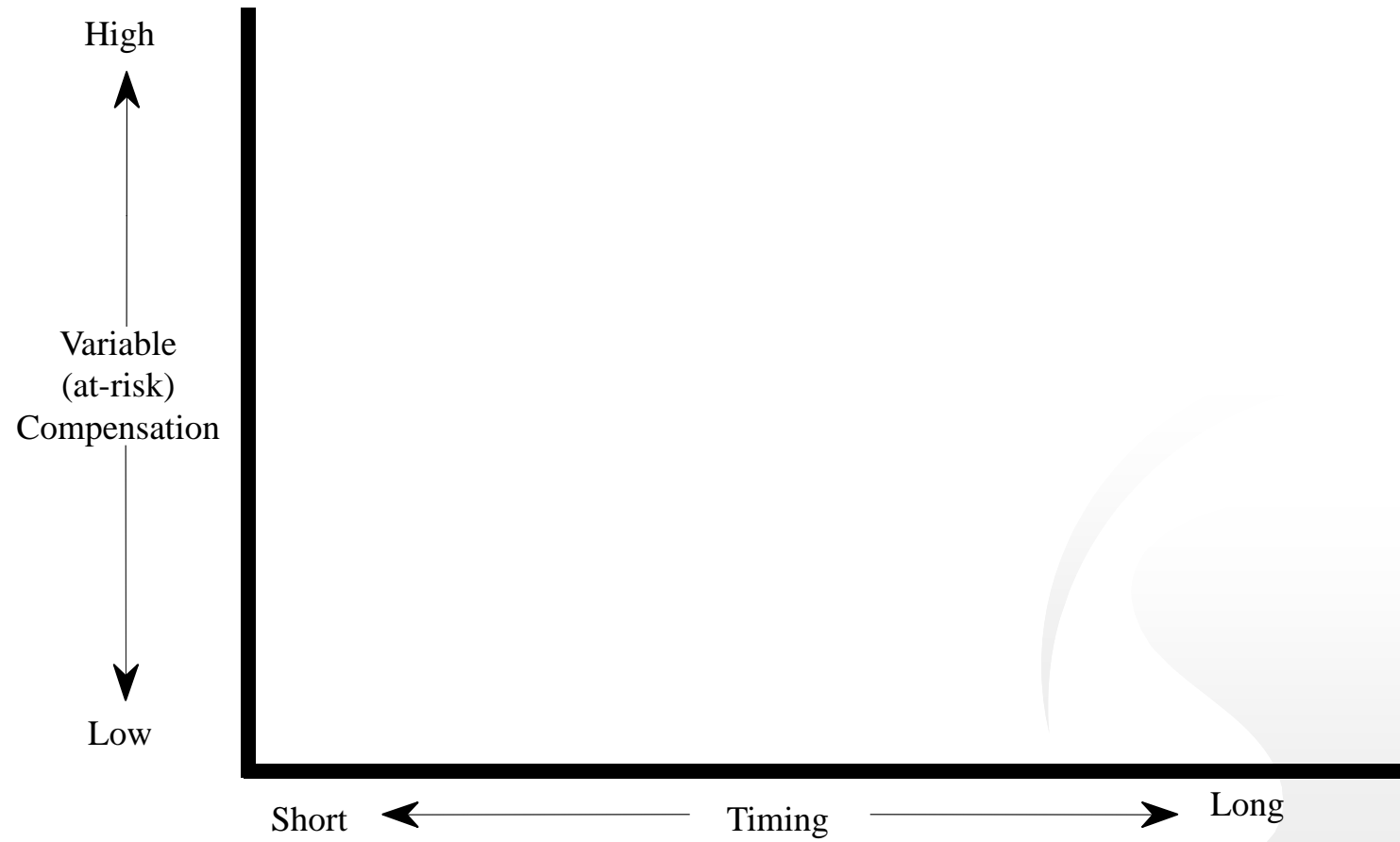


Pay Allocation

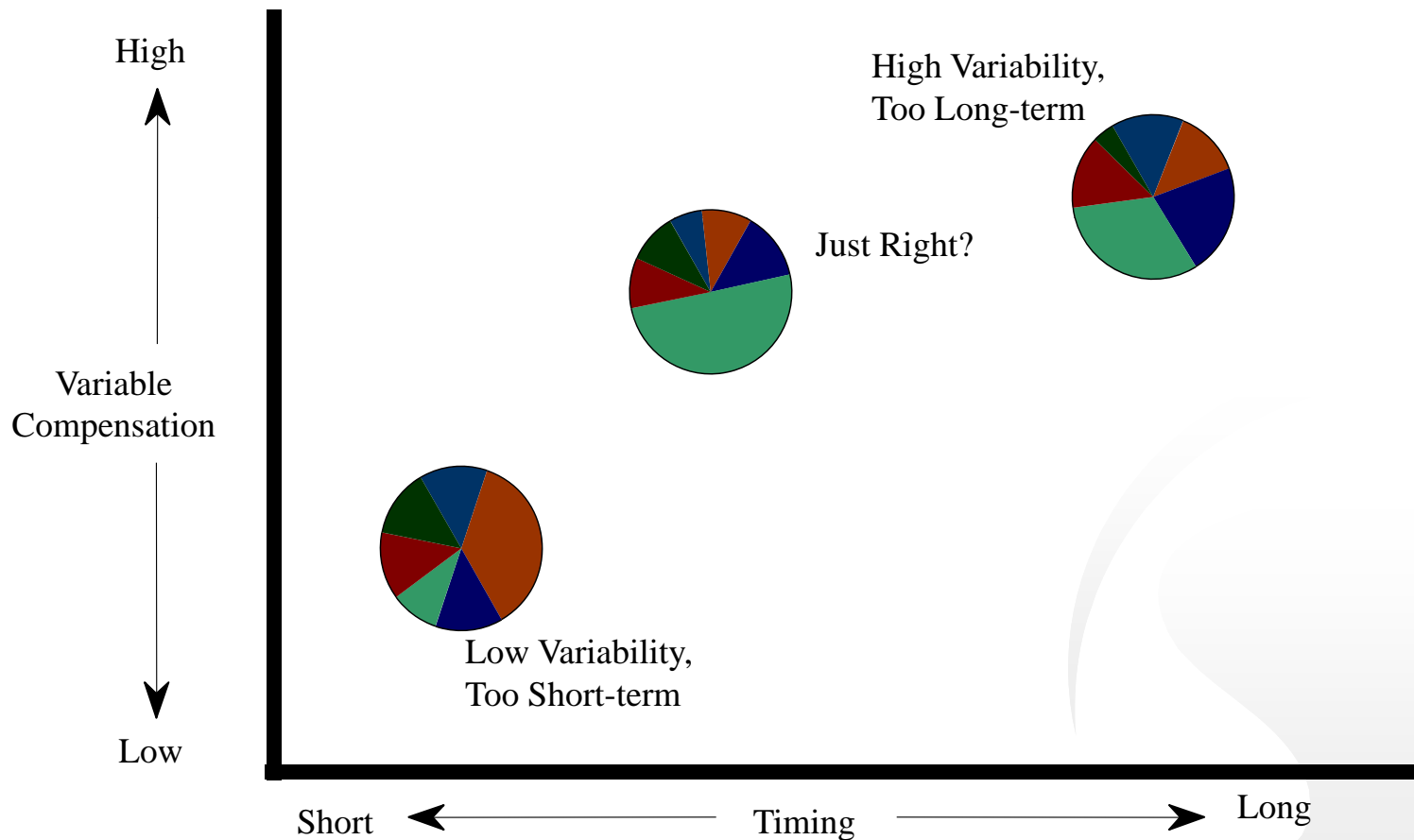


Typical Compensation Allocation

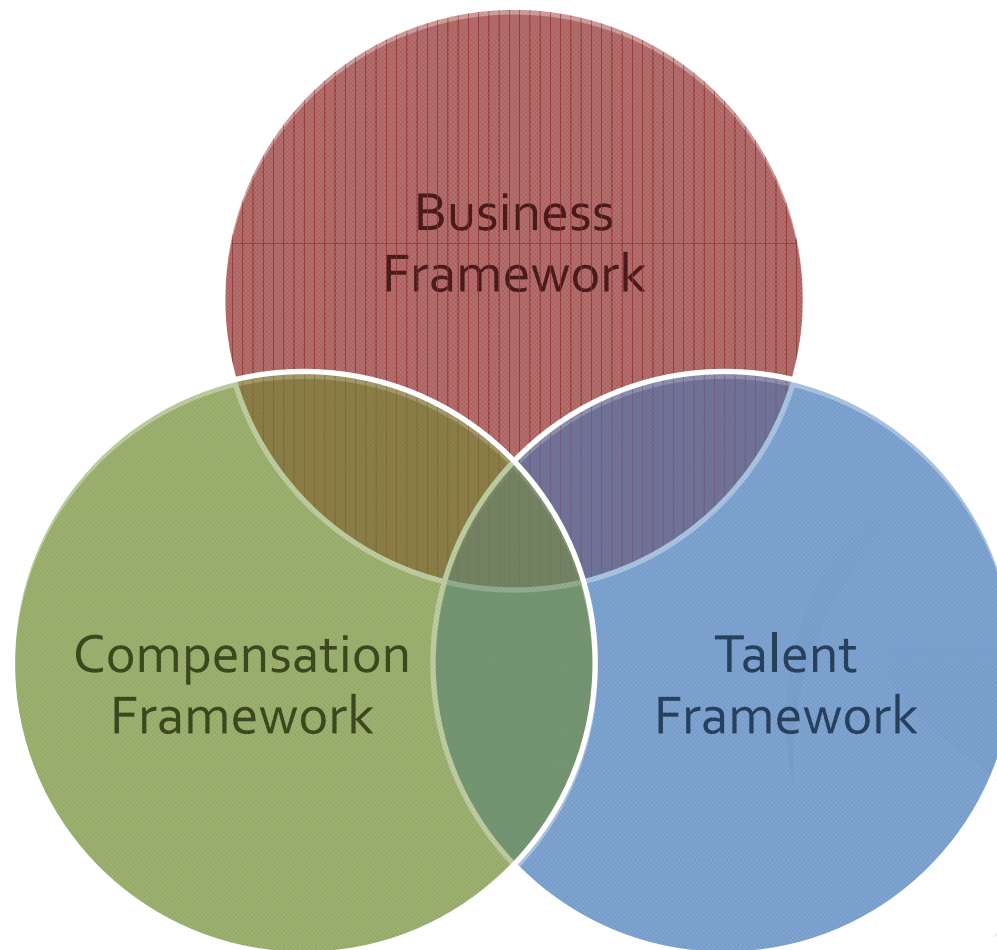




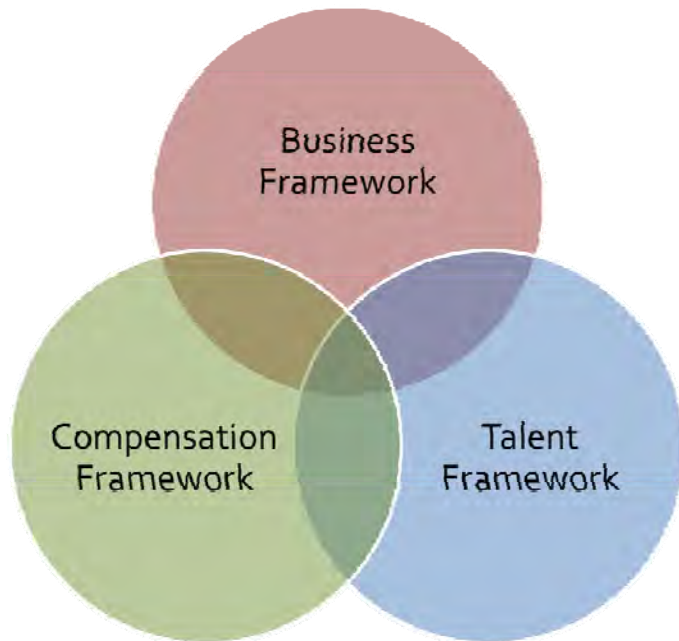
Identifying Ideal Compensation Allocations



Establish a Performance Framework



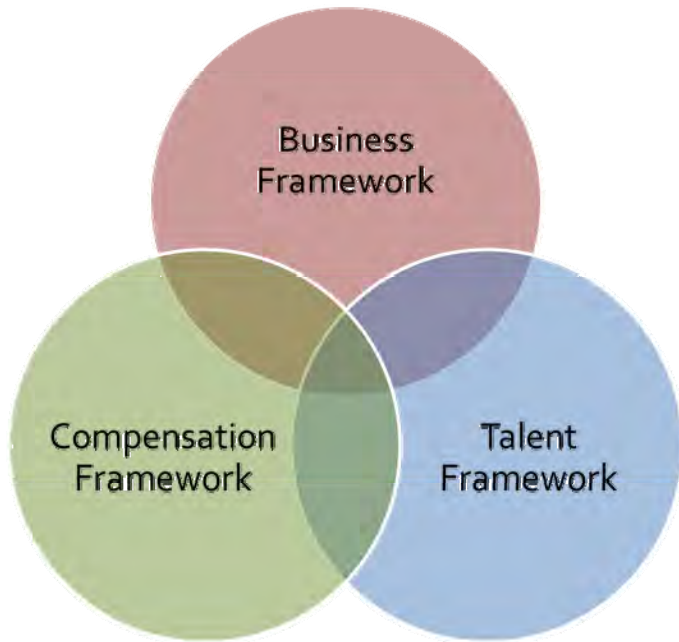
Establish a Performance Framework



Phase One—Business Framework

- Define Growth Expectations (Vision)
 - Key outcomes that must be achieved
- Define Business Model and Strategy
 - Performance Engine
 - How the company will compete
 - Where are growth opportunities?
- Identify Roles and Expectations
 - Establish Performance Criteria
 - Define "Success"

Establish a Performance Framework



Phase Two—Compensation Framework

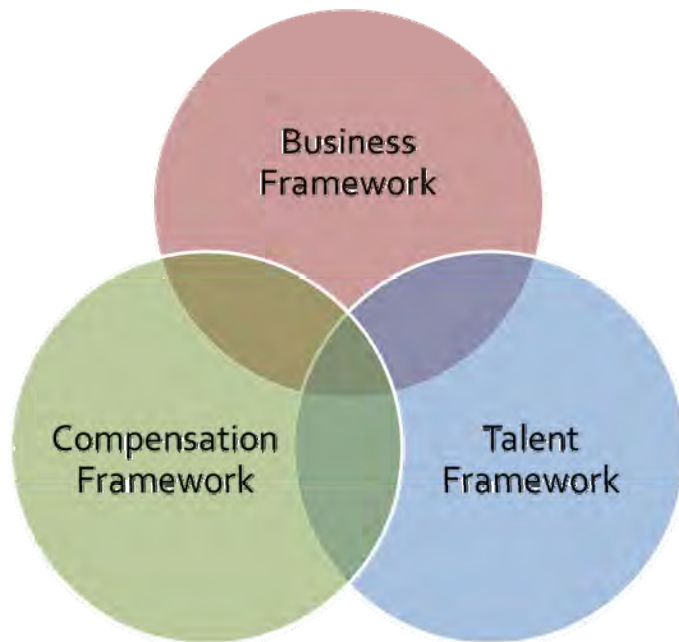
- Establish a pay philosophy
 - Define what the company is willing to pay for
- Engineer a pay strategy
 - Structure
 - Mindset
- Implement a Total Compensation Structure

Total Rewards Approach



Establish a Performance Framework

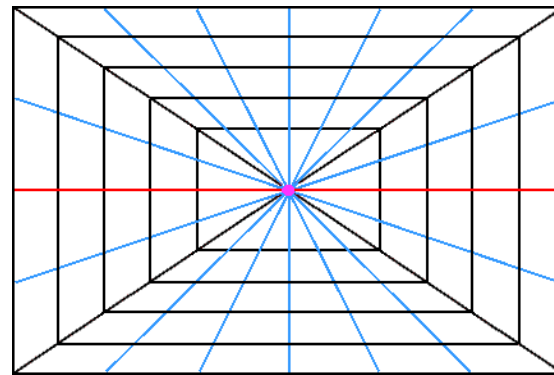
Phase Three—Talent Framework



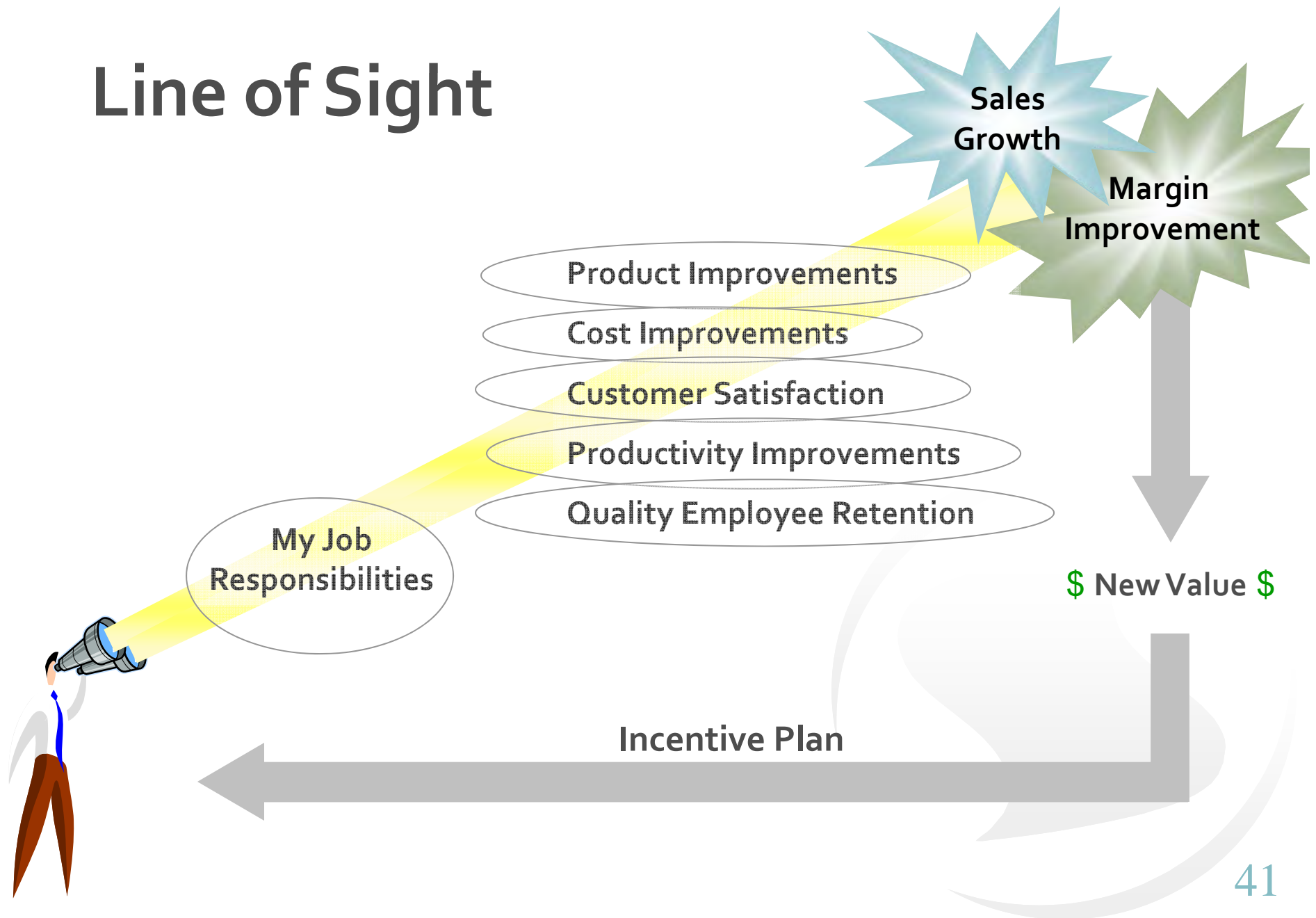
- Identify Key Producers
 - Meeting “success” standards
- Identify Talent “Gaps”
 - Recruiting Strategy
- Communicate Expectations
 - Define success
- Communicate Rewards
 - Philosophy
 - Programs
 - Value Statement

Proper View of Compensation

- Strategic Tool
- Not One Dimensional, it's Multi-Faceted
- Define:
 - Role
 - Outcomes
 - Financial Partnership
- Communicate:
 - What's Important
 - Priorities



Line of Sight



Rewards to Results





Type Your Questions

Special Offer

One hour consulting call with a VisionLink principal at no charge

Indicate interest on final survey

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Tuesday
August 26, 2014

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The screenshot shows the homepage of The VisionLink Advisory Group. The header includes the company logo, navigation links (About Us, Capabilities, Knowledge Center, Tools, Blog, Contact Us), social media icons (Facebook, Twitter, RSS), a Client Login button, and the phone number (888) 703 0080. The main content area features a large banner with a mountain landscape and the text "How Do I End Entitlements? Click here to learn more". Below the banner are three colored boxes with white text and a plus icon: "Learn About VisionLink's Capabilities", "Register for a VisionLink Webinar", and "Speak to a Compensation Expert". Each box has a "CLICK HERE" link at the bottom.

THE VISIONLINK
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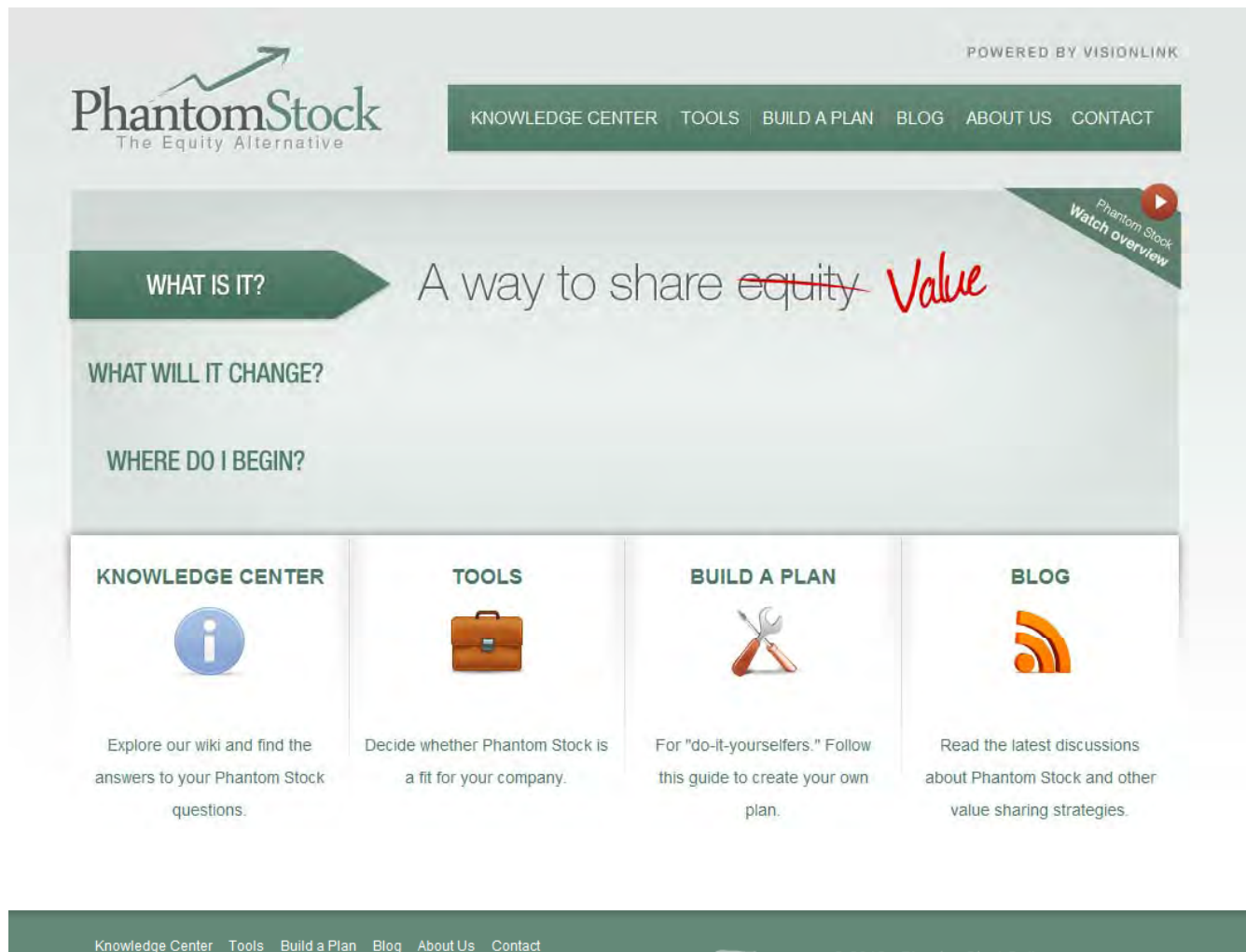
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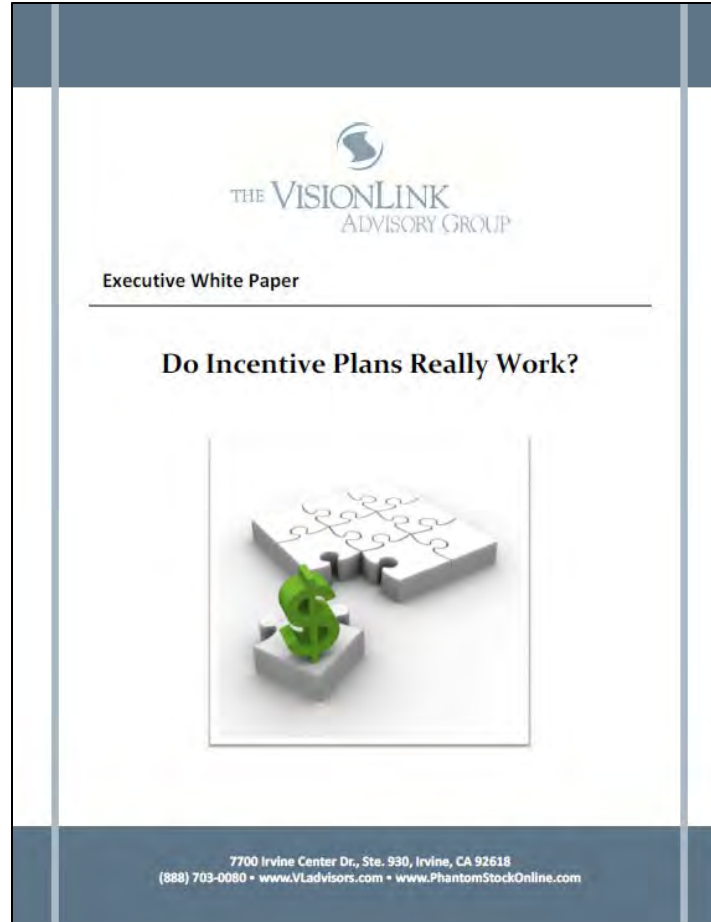
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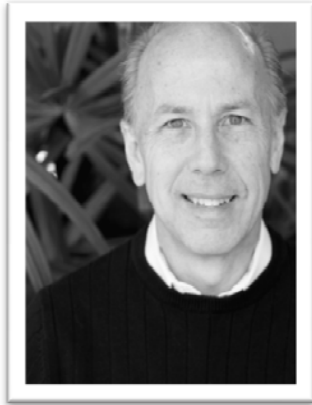
We value your input.

You may request a copy of our slides, White Paper and the 1-hour free consultation time with one of our principals.



Q&A

Thank you!



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