

June 24, 2014

The Most Important Compensation Plan a Company can Have



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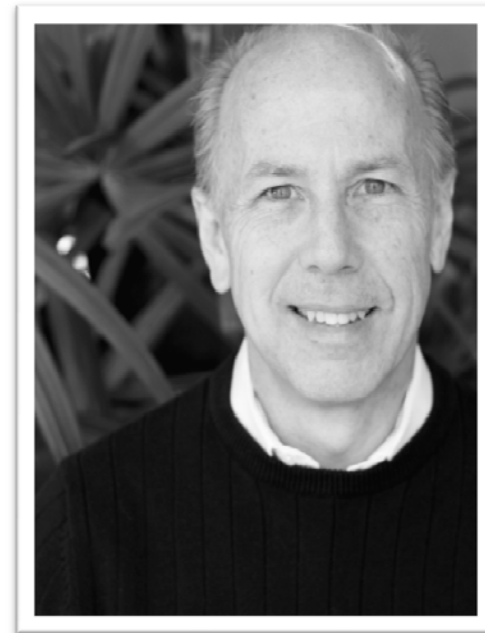
Today's Presenter:

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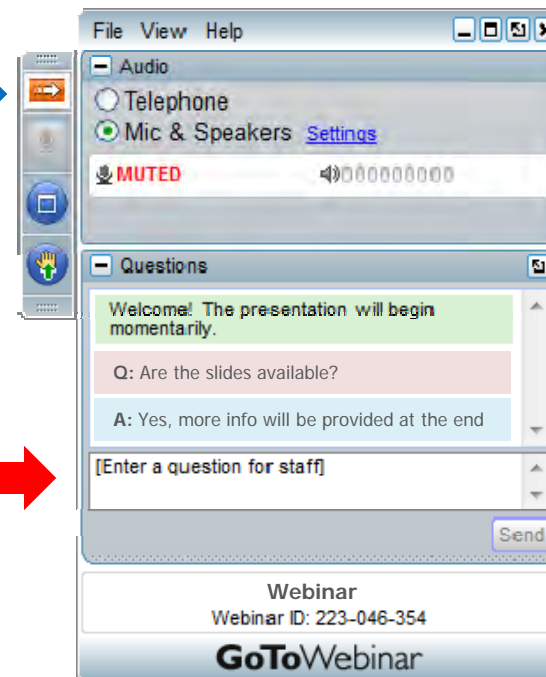
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We're happy to provide a copy of today's slides.
Information will be provided at the close
of the presentation.

**To open or close
the control panel:** →
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today's presentation:** →
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on your control panel



Key Question



- “Which compensation program or strategy should get most of my attention right now?”

Answer

- “It depends....”



Framing the Issue

Company A

- 10 Year-Old Technology Company
- Grown from \$50 to \$75 million in revenue over past three years
- Wants to grow to \$125 million over next three years
- Salary & Discretionary Bonus
- High Attrition
- Privately Owned



Framing the Issue

Company B

- 18 Year-Old Transportation Company
- \$45 million in annual revenue, unstable growth (averaged 3% over past 5 years)
- Wants to grow to \$75 in the next five years
- Salary & Discretionary Bonus
- Low Attrition
- Family Owned: Two sons working in the business, no formal succession plan



Framing the Issue

Company C

- 20 Year-Old Manufacturing Company
- \$150 million in annual revenue—up from \$75 million three years ago
- Plans to grow to \$200 million in the next three years
- Salary and Profit Sharing Bonus Plan
- Modest Attrition
- Privately Owned: New CEO hired by owner three years ago



Is there one right solution for all three companies?

Company A	Company B	Company C
10 Year-Old Technology Company	18 Year-Old Transportation Company	20 Year-Old Manufacturing Company
Grown from \$50 to \$75 million in revenue over past three years	\$45 million in annual revenue, unstable growth (averaged 3% over past 5 years)	\$150 million in annual revenue—up from \$75 million three years ago
Wants to grow to \$125 million over next three years	Wants to grow to \$75 in the next five years	Plans to grow to \$200 million in the next three years
Salary & Discretionary Bonus	Salary & Discretionary Bonus	Salary and Profit Sharing Bonus Plan
High Attrition	Low Attrition	Modest Attrition
Privately Owned	Family Owned: Two sons working in the business	Privately Owned: New CEO hired by owner three years ago



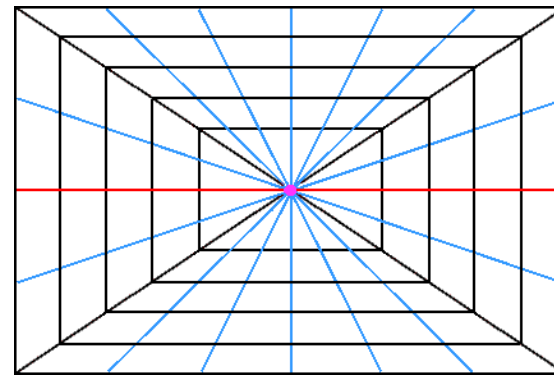
What's the Most Important Compensation Plan a Company can Have?



- There is no single, “silver bullet” solution for every company.

Proper View of Compensation

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



Eight Components of Pay

Benefits

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

Compensation

- Salary
- Short-term incentives (bonuses, sales compensation)
- Long-term incentives (cash)
- Long-term incentives (equity)



An Aligned Compensation Strategy



Salaries

Competitive with market standards?
Tied to strong performance management process (merit)?
Managed within a flexible but effective structure?

Performance Incentives

Tied to productivity gains?
Clear, achievable and meaningful?
Self-financing?

Sales Incentives

Challenging yet achievable?
Reinforcing the right behaviors?
Differentiating your offering?

Growth Incentives

Linked to a compelling future?
Supporting an ownership mentality?
Securing premier talent?

Core Benefits

Responsive to today's employee marketplace?
Allocating resources where most needed?
Evaluated to eliminate unnecessary expense?

Executive Benefits

Flexible enough to address varying circumstances?
Communicating a unique relationship?
Reducing employee tax expense?

Qualified Retirement Plans

Giving employees an opportunity to optimize retirement values?
Operated with comprehensive fiduciary accountability?
Avoiding conflicts and minimizing expenses?

Nonqualified Retirement Plans

Optimizing tax-deferral opportunities?
Aligning long-term interests of employees with shareholders?
Structured to receive best possible P&L impact?

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 banks that have plans	\$135,000	ROA of 0.9%

What's the Most Important Compensation Plan a Company can Have?



- There is no single, “silver bullet” solution for every company.
- There are, however, “silver bullet” questions that can guide priority setting.

Four Key Areas of Focus

- Company Vision
- Compensation Philosophy
- Compensation Structure
- Incentive Plans

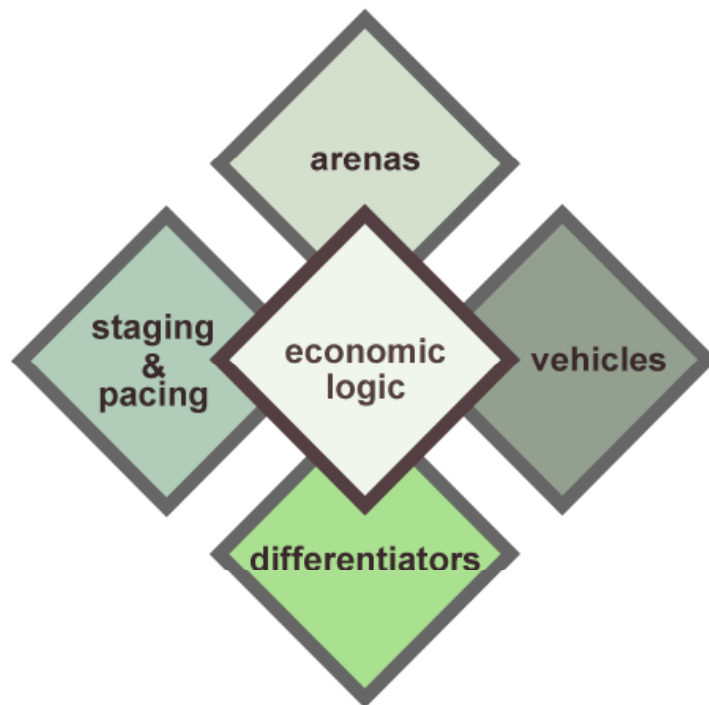


Company Vision

- What has to happen in the next three years for owners to feel satisfied with company progress and growth?
 - Structurally
 - Quantitatively



Company Vision



- What is the company's business model?
- What is the company's business strategy?
- What needs to happen with each for the company vision to be achieved?

Company Vision

- What roles and skills are needed to make the business model and strategy succeed?
- Are those roles and skills presently being filled?
- Where are the gaps?
- What value proposition will best support those roles and attract the right talent?



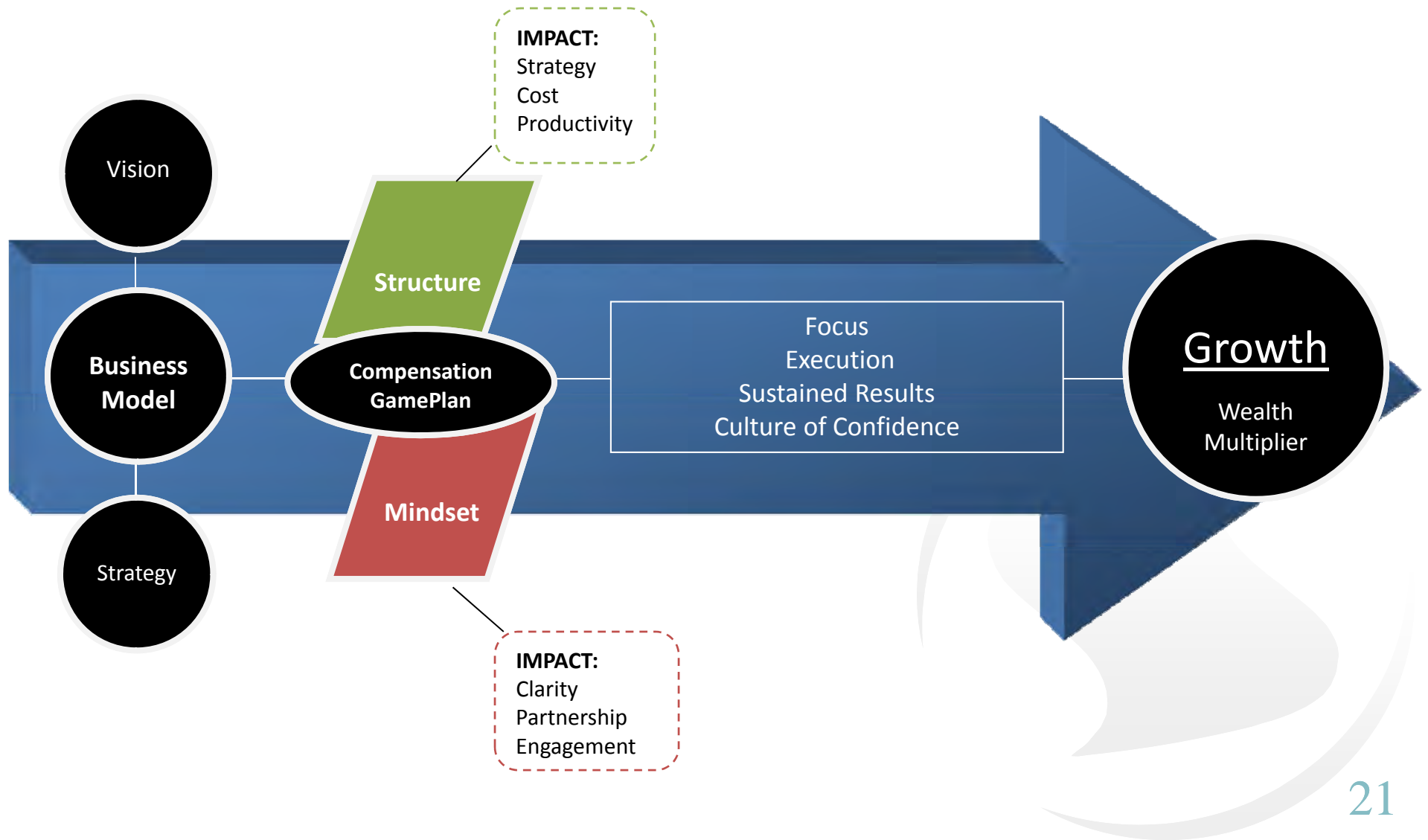


What are you trying to do when you introduce a new compensation plan?

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

Framework:

Building a Unified Financial Vision for Growing the Business



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)?

Know Your Philosophy

- We believe the company should be paid first
- Beyond an appropriate return on capital (12%), we believe value should be shared with those who help create it
- We believe value sharing should be split 50/50 in rewarding short-term and long-term performance
- We believe in being at the 45-50th percentile with guaranteed pay but in providing unlimited upside earnings through value sharing



Tie Philosophy to Strategy

Form a Total Compensation Structure



Company Business Model

Company Business Model

Our plan for generating

Compensation Philosophy

Compensation Philosophy

Our values and beliefs about

Total Compensation Structure

Total Compensation Structure

Our system for operating pay

Rewards Plan Operation

Salaries

Bonuses

*Long-term
Incentives*

Executive Benefits

General Benefits

Operational Integrity

*Our plan for assuring
consistent, fair and wise
decision making*

- How do we validate the effectiveness of our pay programs?
- How do we ensure we are paying consistent with our compensation philosophy?
- What programs should we consider expanding or eliminating

Financial Stewardship

*Our plan for maximizing the
return on our compensation
investment*

- What is my total compensation investment?
- How are our plans forecasting against budget?
- What are the right metrics for measuring my compensation ROI?

Partnership Reinforcement

*Our plan for insuring our
employees understand and
value our rewards proposition*

- How do we communicate the true value of our rewards proposition?
- How do we assess employee understanding and appreciation?
- What is the right way to communicate significant compensation events to our employees?

Market Pay Assessment

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

Position	Survey	Match	Premium Discount	Weighting	Average Salary	Salary		
						25th	Med	75th
Accountant 1	Towers Watson	Accountant 1		11.1%	51.4	47.0	52.5	58.0
	Mercer	Accountant - Entry		11.1%		50.0	52.5	55.0
	Radford	Accountant I	10.0%	11.1%		55.0	59.4	63.8
	Salary.com	Accountant		11.1%		45.0	51.5	58.0
	ERI	Accounting - Junior		11.1%		48.0	54.0	60.0
	Kenexa	Accountant Entry		11.1%		45.0	50.0	55.0
	BDG	Accountant		11.1%		50.0	52.5	55.0
	Pay Scale	Associate Accountant		11.1%		50.0	54.5	65.3
	Robert Half	Accountant I		-10.0%		11.1%	50.1	56.0
Average				100.0%		48.9	53.7	59.1

The Final Structure

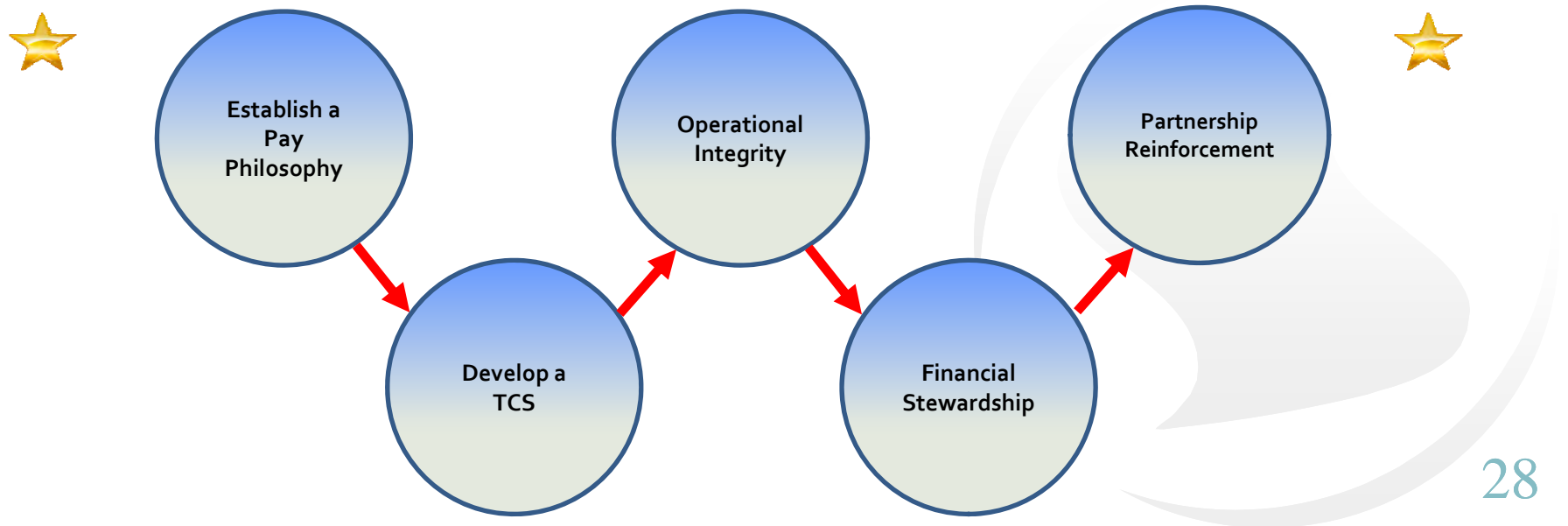
Grade/ Band	Salary Range			Bonus Target	LTIP Target	% Phantom Stock FV	% Phantom Stock AO	401k Match Max %	Deferred Comp Eligible	Deferred Comp Max Match	Health, Dental, Life	Vacation Days	Sick Days	Financial Planning Perk	Annual Car Allow
	Min	Mid	Max												
1	203,531	271,375	339,219	50.0%	100%	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		



Manage the Process

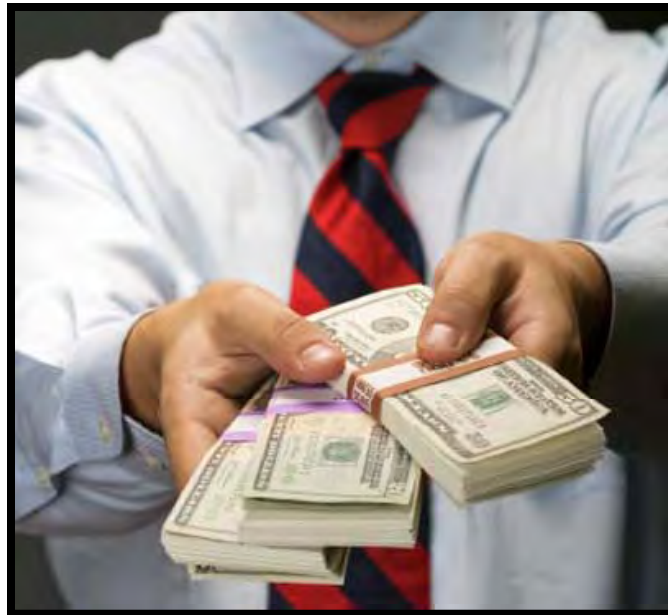
- Operational Integrity
- Financial Stewardship
- Partnership Reinforcement

Strategy assessment and adjustment



Incentive Plans

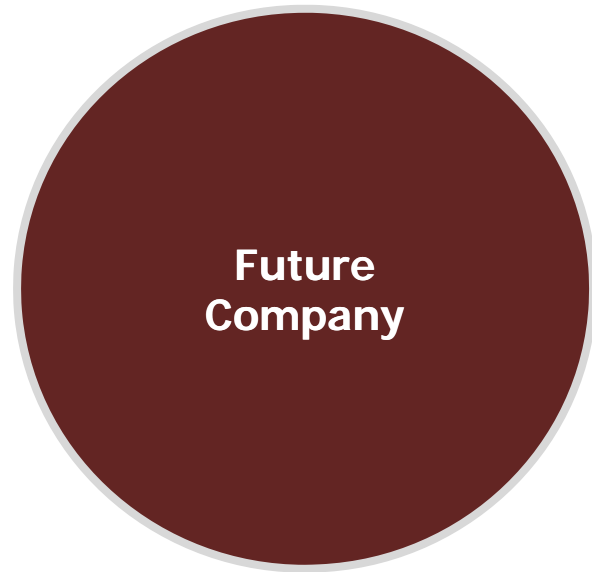
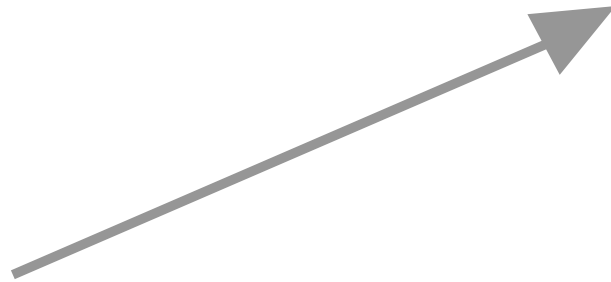
(Value Sharing)



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





How are you rewarding people for successfully operating your present company?

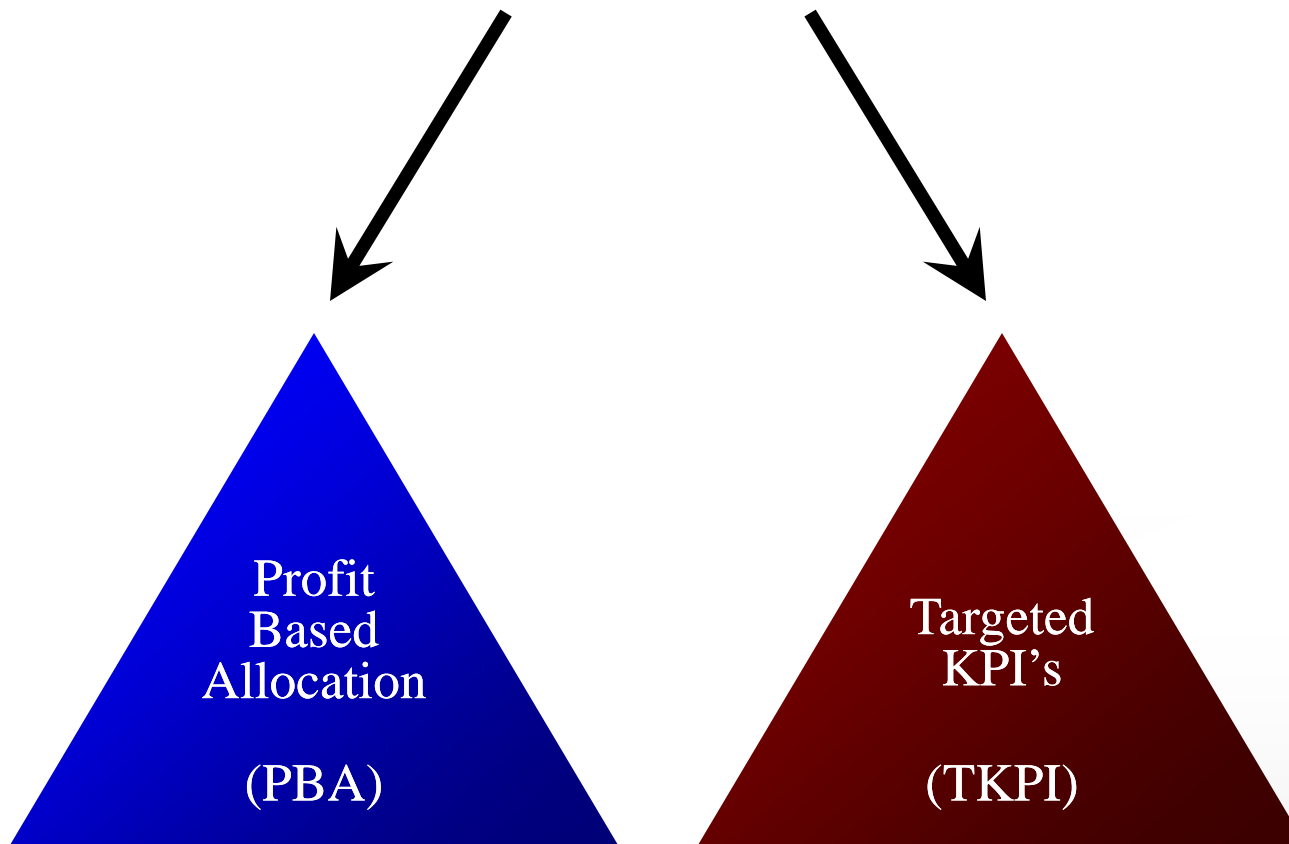


How are you rewarding people for successfully building your future company?

PERFORMANCE INCENTIVES



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

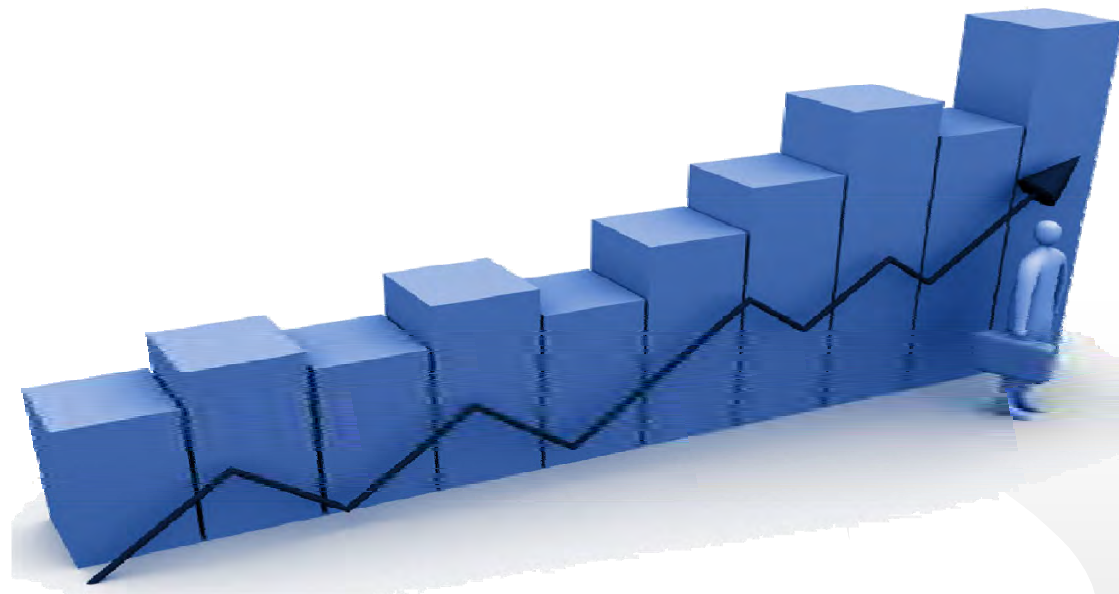
(TKPI)

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.

GROWTH INCENTIVES



Growth Incentives (Value-Sharing)

- AKA “long-term incentive plan (LTIP)”
- Ultimately funded by future value
- Types of Plans:
 - Stock and stock options
 - Phantom stock and phantom stock options
 - Long-term performance pools
 - Performance unit plans
 - Strategic deferred compensation

Select the Right Plan Type

Phantom Stock
Option

Restricted Stock

Profit Pool

Performance Shares

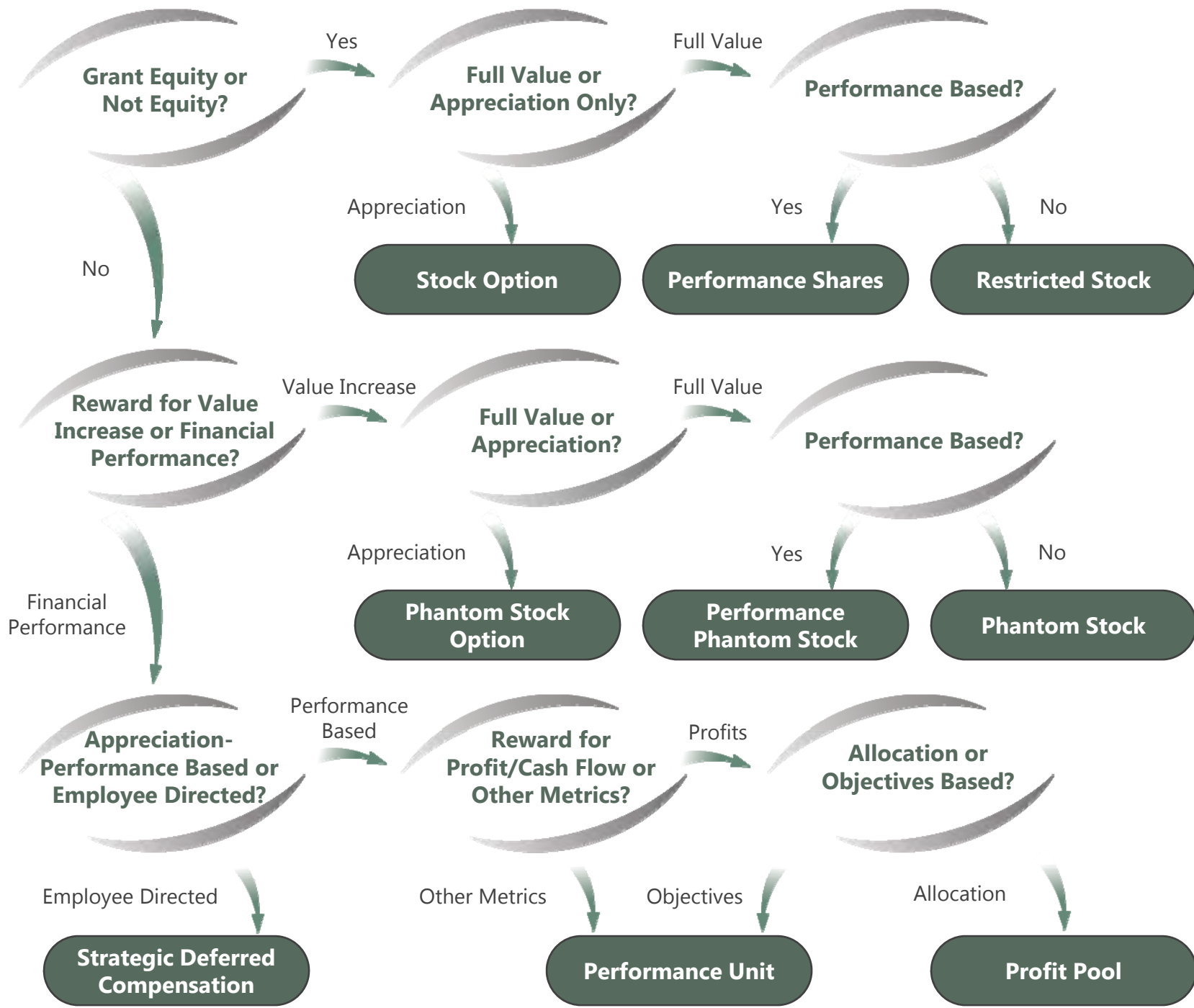
Phantom Stock

Strategic Deferred
Compensation

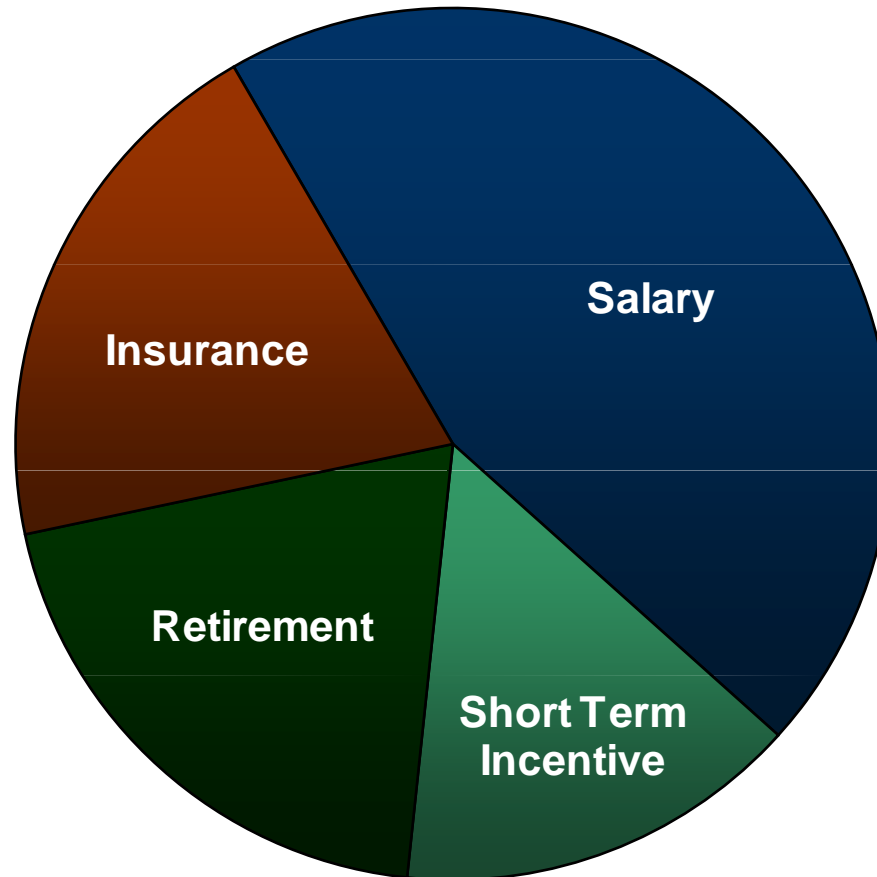
Performance
Phantom Stock

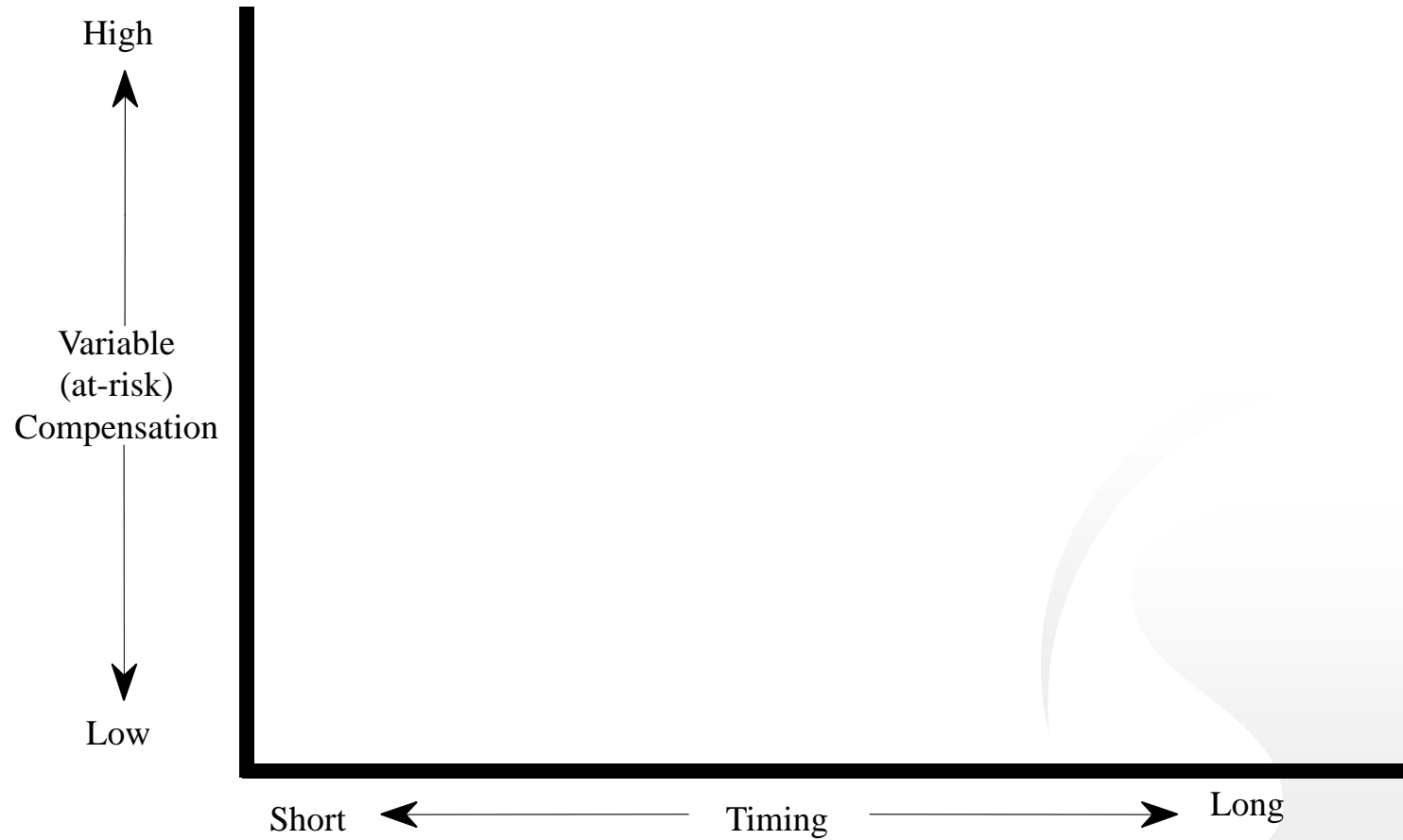
Stock Option

Performance Unit

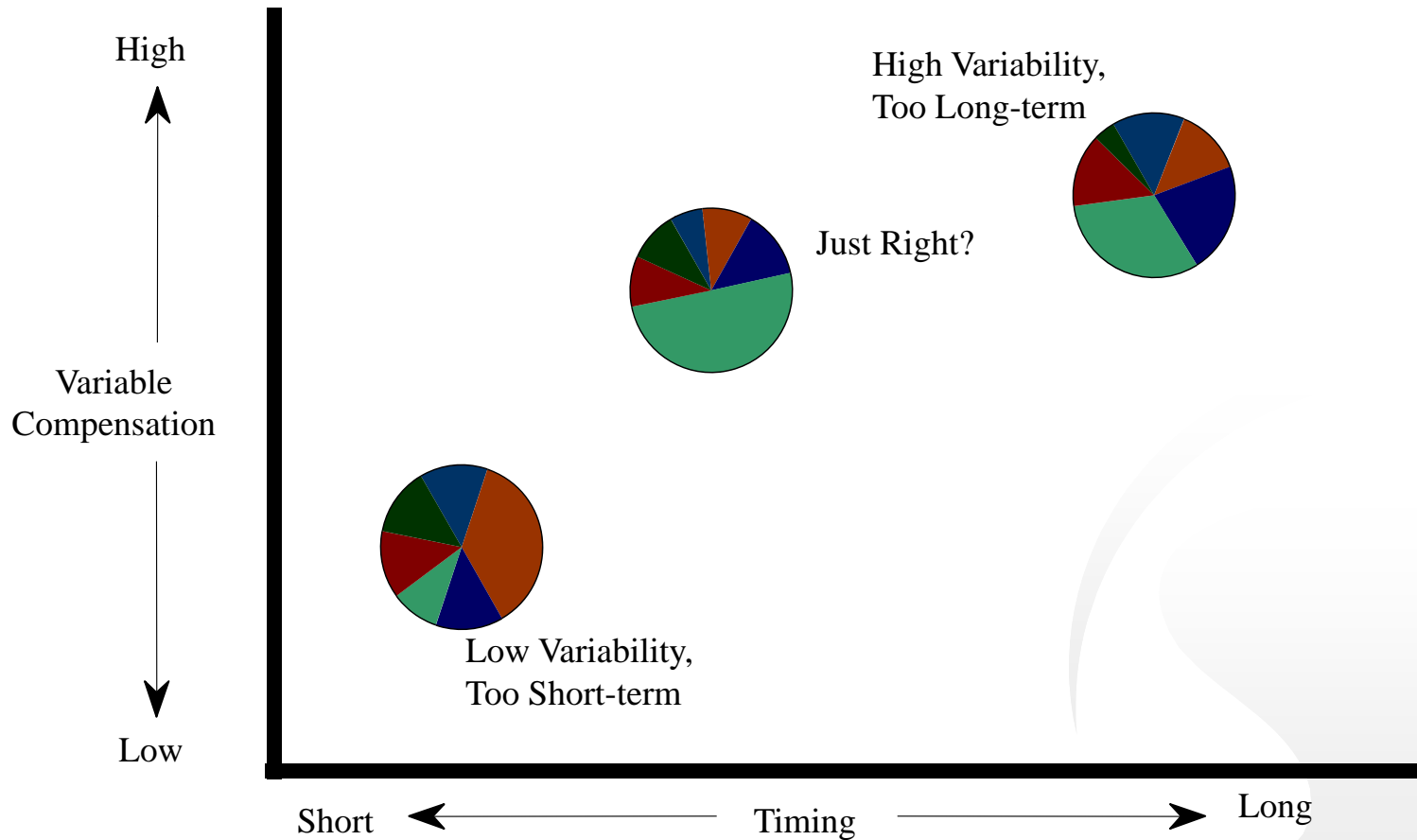


Typical Compensation Allocation

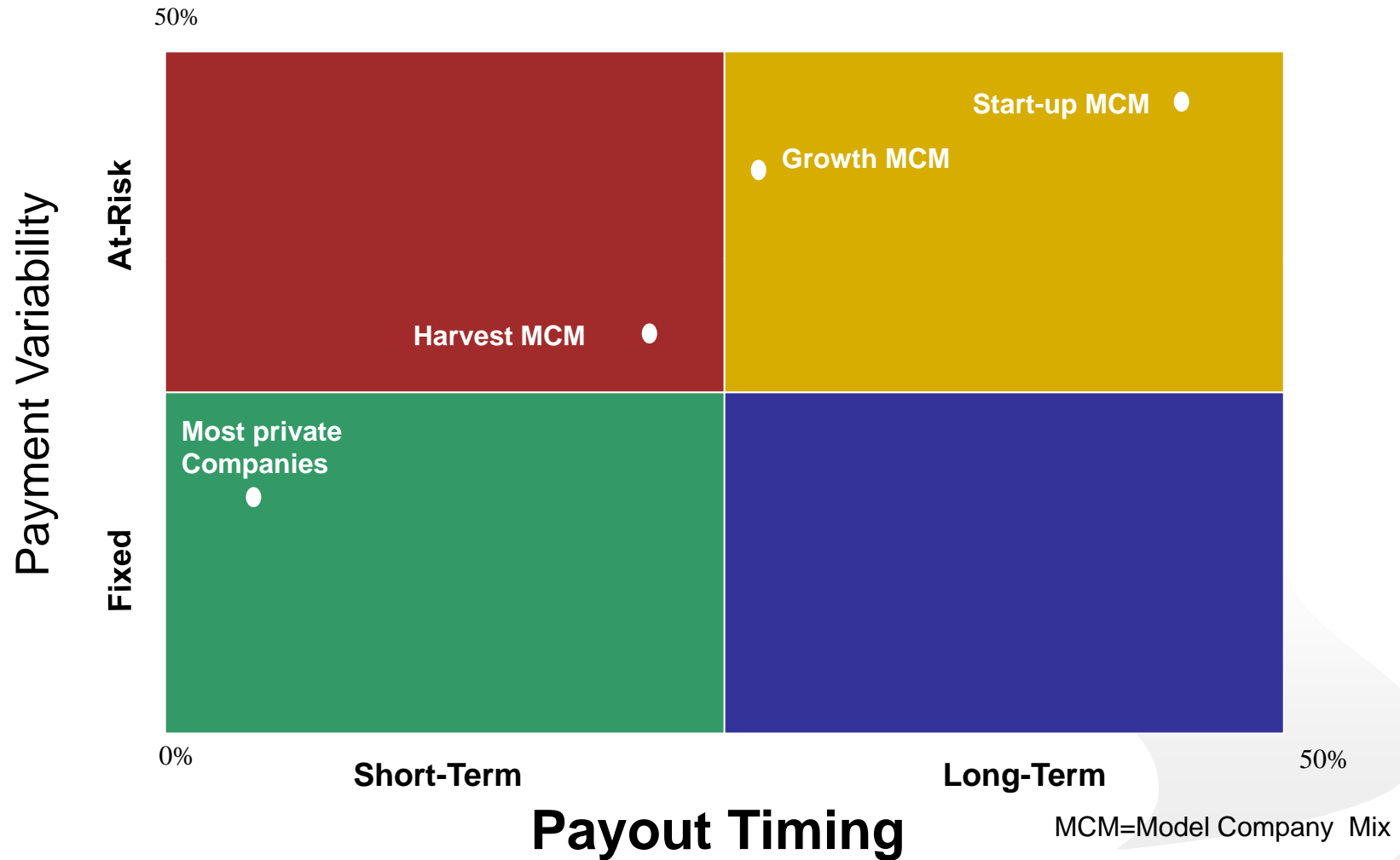




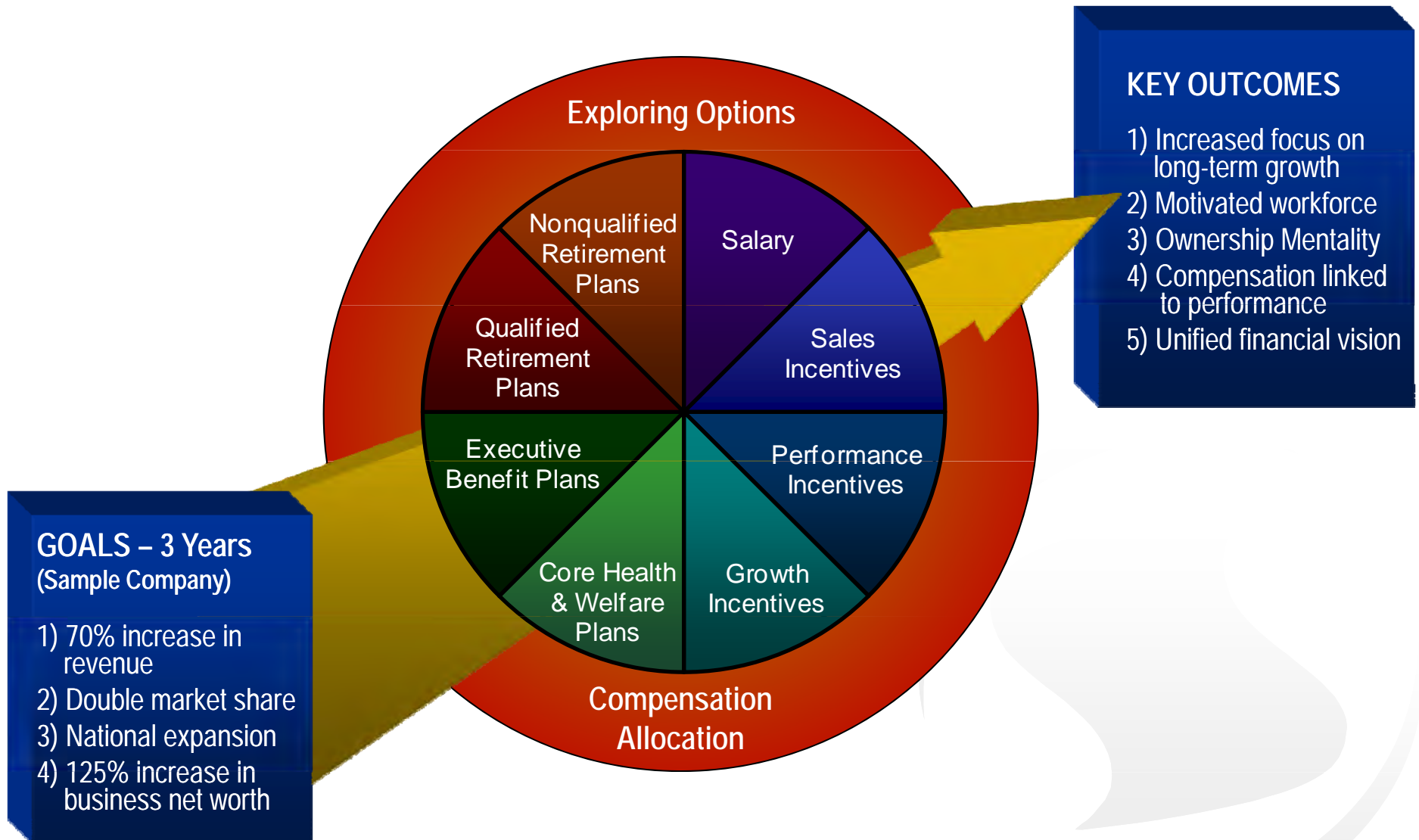
Identifying Ideal Compensation Allocations



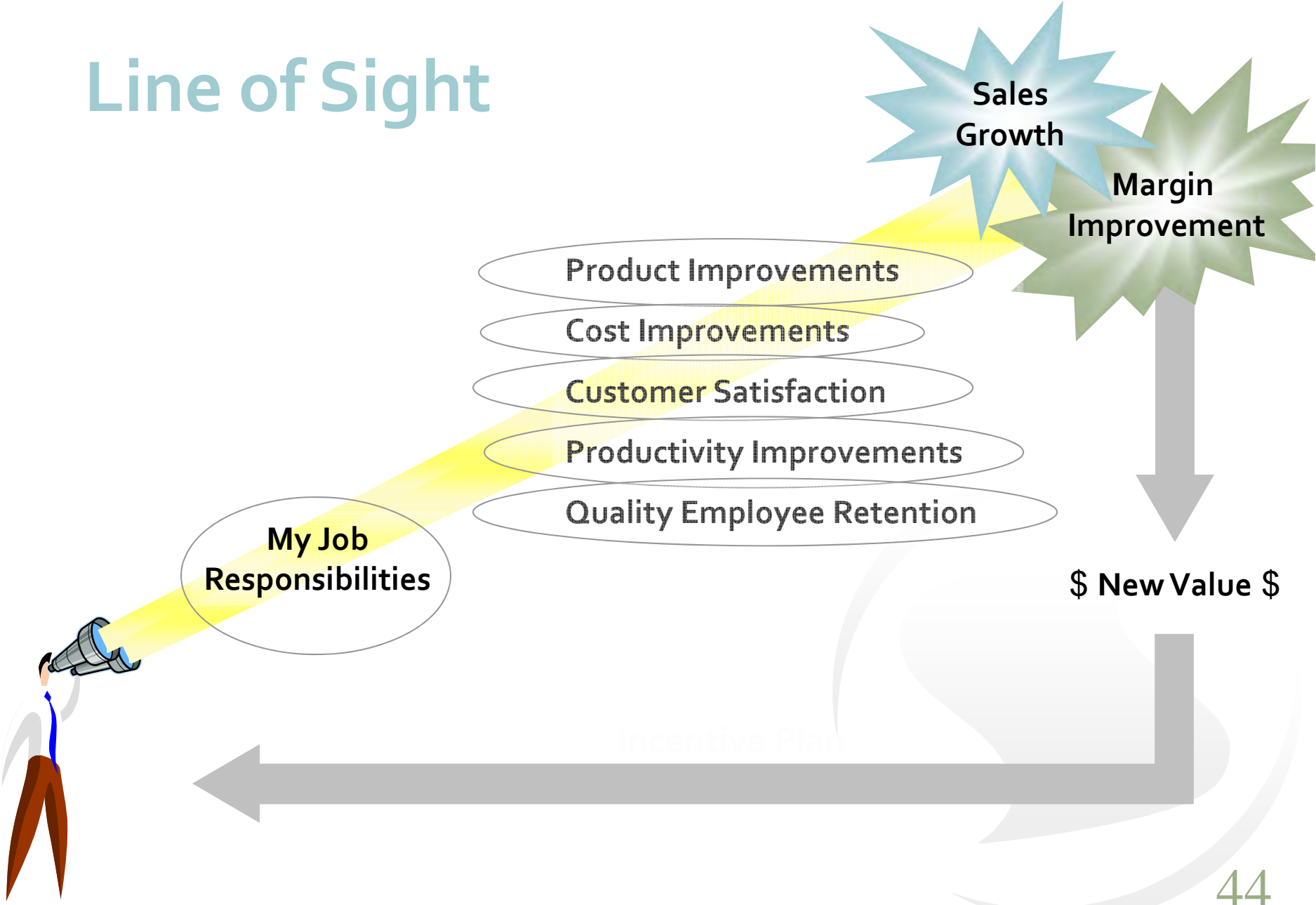
Total Rewards Positioning



Examine Alternatives



Line of Sight



The Most Important Compensation Plan *YOUR* Company can Have

What's Next?

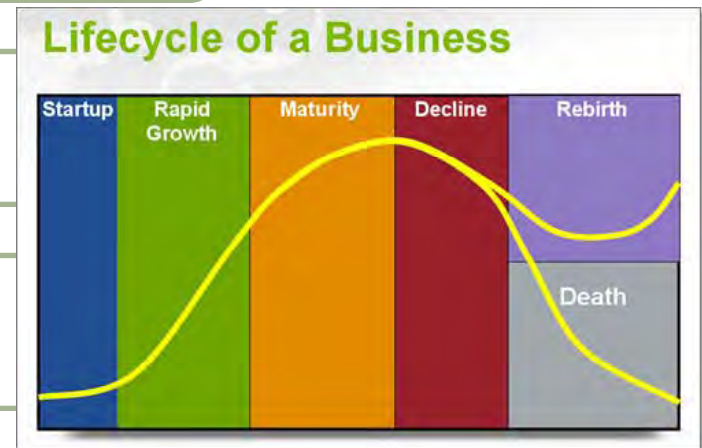
Think in Terms of Planning Phases



The Most Important Compensation Plan *YOUR* Company can Have



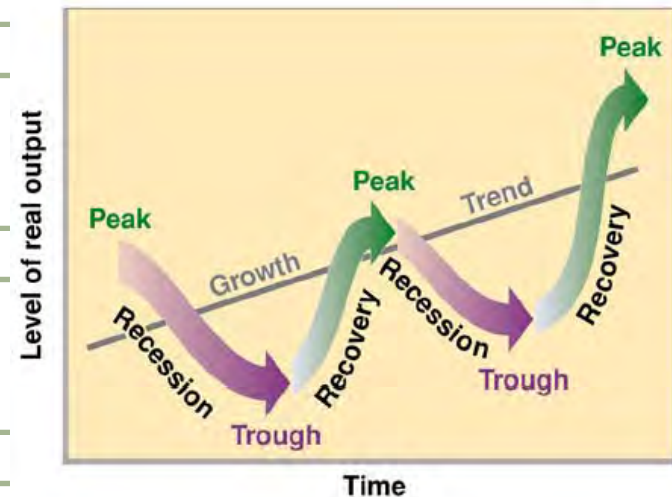
Ask Where You are in your Business Evolution



The Most Important Compensation Plan *YOUR* Company can Have

What's Next?

Ask Where You are in the Business Cycle



Is there one right solution for all three companies?

Company A	Company B	Company C
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Type Your Questions

Special Offer

One hour consulting call with a VisionLink principal at no charge

Indicate interest on final survey

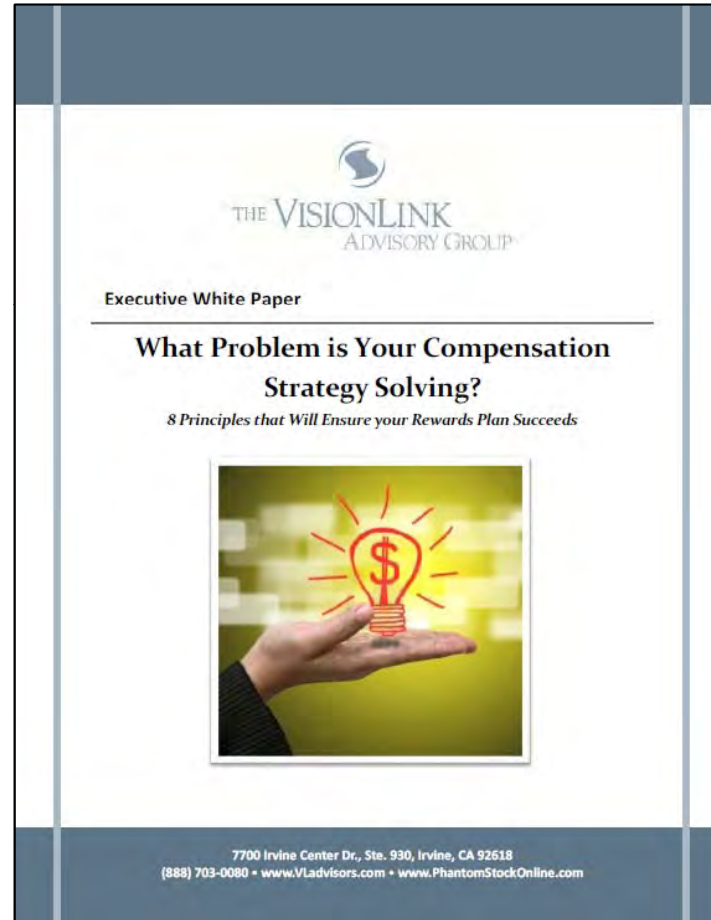
Next Online Seminar:

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

To be held on:
Tuesday, July 22nd, 2014

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New White Paper



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The screenshot shows the PhantomStock website homepage. At the top left is the logo "PhantomStock The Equity Alternative" with a green arrow icon. To the right, it says "POWERED BY VISIONLINK". A dark green navigation bar contains the links: KNOWLEDGE CENTER, TOOLS, BUILD A PLAN, BLOG, ABOUT US, CONTACT. Below the navigation bar is a large banner area. On the left, a green arrow points to the text "WHAT IS IT?". To its right, the text reads "A way to share ~~equity~~ Value", where "equity" is crossed out and "Value" is written in red. Below this are three sections: "WHAT WILL IT CHANGE?", "WHERE DO I BEGIN?", and "WHERE DO I BEGIN?". A small video player icon in the top right corner of the banner says "Phantom Stock Watch overview". Below the banner is a grid of four white boxes with icons and text: 1. "KNOWLEDGE CENTER" with an information icon and text: "Explore our wiki and find the answers to your Phantom Stock questions." 2. "TOOLS" with a briefcase icon and text: "Decide whether Phantom Stock is a fit for your company." 3. "BUILD A PLAN" with a wrench and screwdriver icon and text: "For 'do-it-yourselfers.' Follow this guide to create your own plan." 4. "BLOG" with an RSS icon and text: "Read the latest discussions about Phantom Stock and other value sharing strategies." At the bottom, a dark green footer bar contains the same navigation links and the copyright notice "© 2012 PhantomStockOnline.com".



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, white paper and more information about the complimentary consultation.

Thank you!



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