



“How to Achieve a Competitive Advantage in Pay”

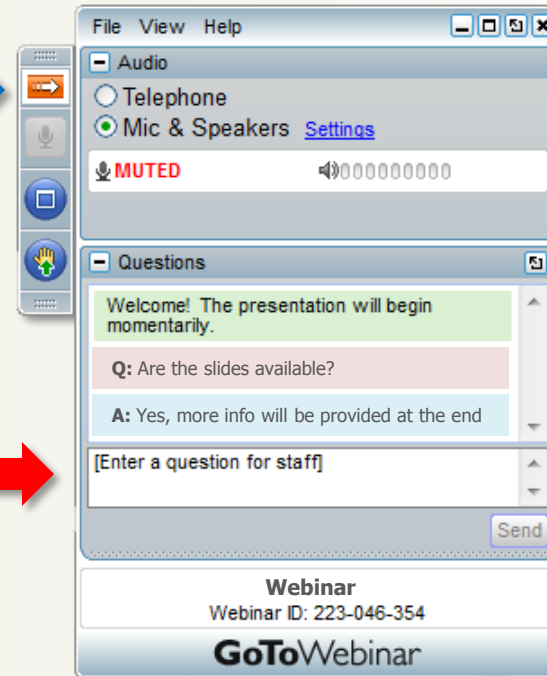


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- Founded in 1996
- Over 450 Clients in North America
- Focus: Compensation design and management that drives growth

A Tale of Two Companies

Company A

- Large Manufacturing Company
- \$500 Million in annual revenues
- Workforce – Mostly blue collar technical positions
- Owner's primary goal: grow the business

Company B

- Small Web Based Technology Company
- \$10 Million in annual revenues
- Workforce – High performing, entrepreneurial college grads
- Owner's primary goal: control costs

A Tale of Two Companies

Assume that both companies were looking to hire a new accountant:

- **Would** they both offer the same offer?
- **Should** they make the same offer?

Company A

- Large Manufacturing Company

Company B

- Small Web Based Technology Company

A Tale of Two Companies

If you were on the receiving end of the offer why what would attract you to **Company A** versus **Company B**?

Company A

- Higher base salary
- Better core benefits
- 401k match
- Lower incentives
- No long-term incentives

Company B

- Lower base salary
- Below average benefits
- No 401k
- Much higher incentives
- Restricted stock and stock options

A Question of Age Demographics

As an employee, your priorities in compensation change with age

As an employer, your programs need to target the life cycle of the demographic you are looking to hire



A Question of Demographics

Are you looking to hire an entry level accountant? Right out of college. Brand new apartment, cell phone bill, and car payment.



Or are you looking for a senior accounting professional to create your accounting programs and systems? Semi-retired, part-time, & established.



A Competitive Advantage

Your compensation programs should be intentionally designed to help you to attract and retain the **right** kind of talent to your organization.



Wheel of Compensation

- Each piece sends a message to potential employees
- Not all pieces may be necessary
 - Public companies usually have all 8 pieces
 - Private companies may not
- Focus on the mix
- Allocate compensation budget



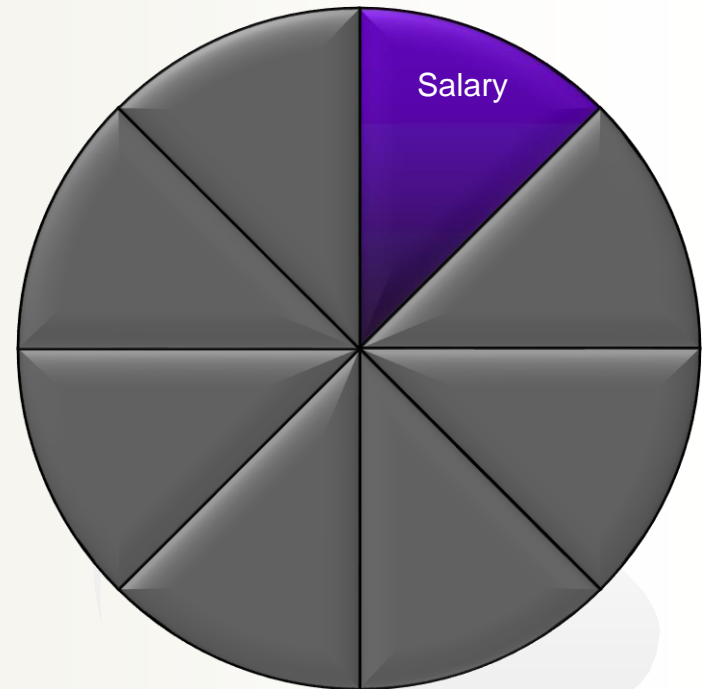
Where should you place your competitive advantage?

Salary?

- Probably one of the largest investments in any organization
- Fixed Pay
- Easy to Give
- Hard to Take Away

Key Objectives:

- Provides employee security
- Minor Pay for Performance tool



Where are salary programs most important?



Younger Employees

- All employees value salaries
- However, younger employees typically prefer higher salaries with lower incentives

| | Option A | Option B |
|-------------------|---------------|---------------|
| Salary | 37,500 | 40,000 |
| Bonus Opp | 7,500 | 1,000 |
| Total Cash | 45,000 | 41,000 |

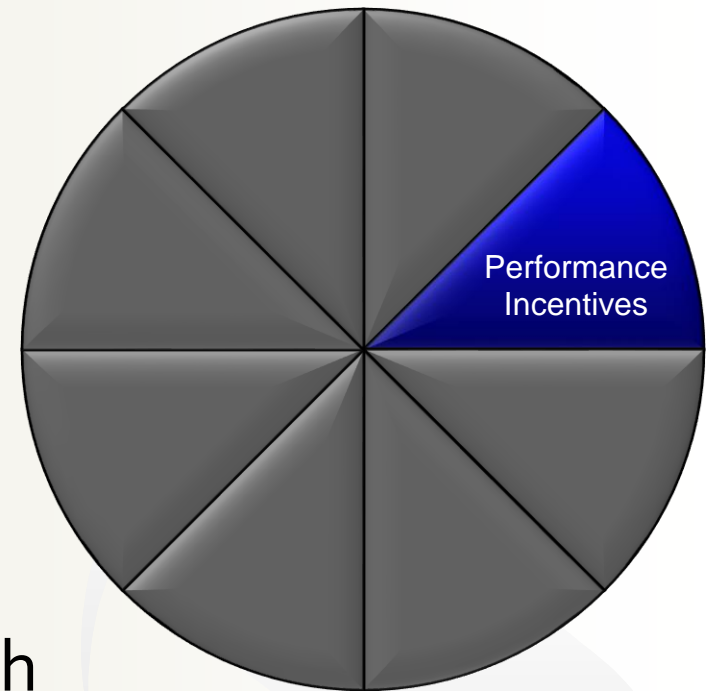
- High salaries are particularly important to younger demographics
- How deep are your pockets?

Performance Incentives?

- Typically expressed in the form of cash bonus
- Variable Pay
- Short-Term Focus
 - Annual, Monthly, Quarterly
- Selective eligibility

Key Objectives

- Align individual performance with department, division, and company objectives
- Key Pay For Performance



Where are performance incentives most important?



Established Professionals

- Employees whose basic life needs are met and seek supplemental income
 - Recreation
 - New Car
 - Swimming Pools
- Most employees want some form of performance based pay. Should it be your competitive advantage?

| | Option A | Option B |
|-------------------|---------------|---------------|
| Salary | 72,500 | 70,000 |
| Bonus Opp | - | 7,500 |
| Total Cash | 72,500 | 77,500 |

Sales Incentives

- Most variable form of pay
- Sometimes offset with salary or a draw
- Performance differentiation
- Very select participation

Key Objectives

- Drives Revenue/Sales
- Pay For Performance



**Where are sales incentives
most important?**



Dedicated Sales Professionals

- Only attractive to risk attracted employees

| | Option A | Option B |
|-------------------|---------------|----------------|
| Salary | 75,000 | - |
| Bonus Opp | 5,000 | 125,000 |
| Total Cash | 80,000 | 125,000 |

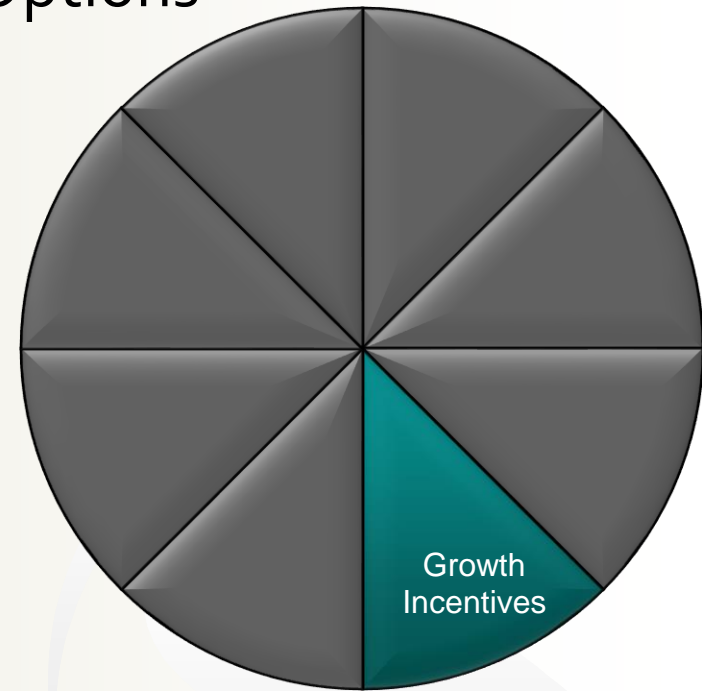
- Should not be incorporated as a company-wide bonus
- Most employees want some form of performance based pay, but not company wide sales incentives
- Should only be considered as your competitive advantage if your entire employee population is a sales population

Growth Incentives

- Typically Restricted Stock or Stock Options in Public Companies
- Phantom Stock or Cash based programs in Private Companies
- Long-Term Focus
 - 3-5 Year Payout

Key Objectives

- Aligns long-term company objectives with pay
- Pay For Performance
- Long-Term Retention



**Where are growth incentives
most important?**



Key Employees

- Executive/Sr Mgmt & Entrepreneurial/Innovative Employees
- Provides line of sight to grow organization
- Provides retention tool through vesting
- Only selectively useful (Demographics)

| | Option A | Option B |
|-------------------|----------------|----------------|
| Salary | 125,000 | 100,000 |
| Bonus Opp | 25,000 | 30,000 |
| Total Cash | 150,000 | 130,000 |
| Long-Term | - | 45,000 |
| Total Comp | 150,000 | 175,000 |

Variable vs. Fixed Pay

- Balancing Act
- Too much variable pay may frighten away younger employees. Too little variable pay may not attract professional/key employees

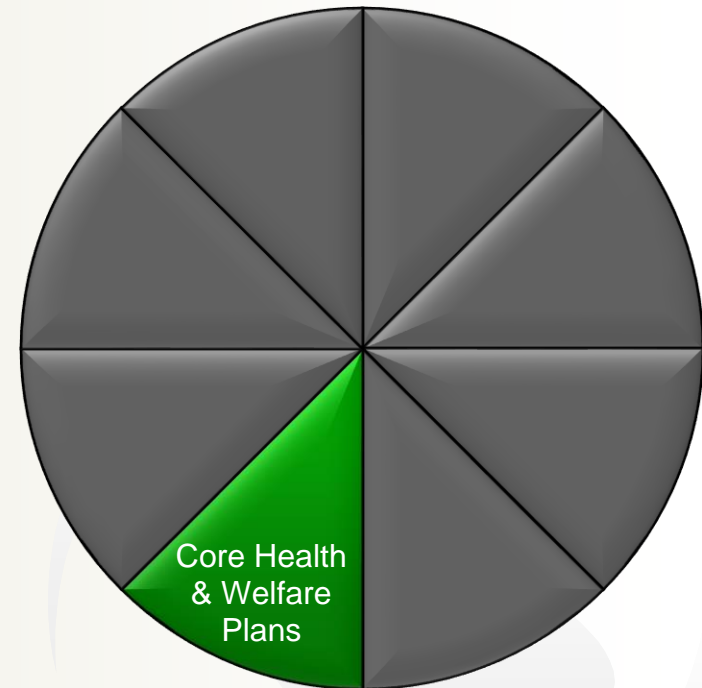


Core Health & Welfare Plans

- Health, Life, Dental and other Employee Insurance Programs
- Increasingly more expensive
- Employers becoming selective with supplemental insurance

Key Objectives

- Remain Market Competitive
- Provide Employee Security



Where are employee benefits most important?



Employees with Dependents

- The Affordable Care Act has placed more stress on employers to cover Health programs
- Cost of providing security programs is a major financial factor for employees with dependents
- Providing top notch employee benefits can be a competitive advantage for employers whose employee base have dependents at home

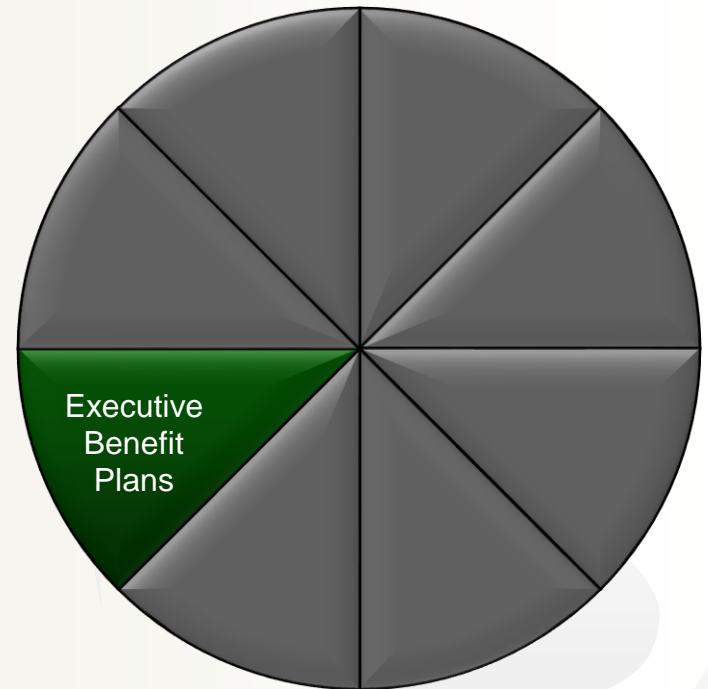


Executive Benefit Programs

- Supplemental executive insurance, health, as well as car, phone, and other executive perquisites.
- Highly customized & specific

Key Objectives

- Key Attraction for top talent



Where are executive benefits most important?



Executive Benefits

- Key & Executive Employees
- Helpful in the attraction and retention of key leadership and innovators
 - Country Club
 - Car
 - Medical Reimbursement
- Often provide supplemental security to highly compensated individuals
(Supplemental Insurance)

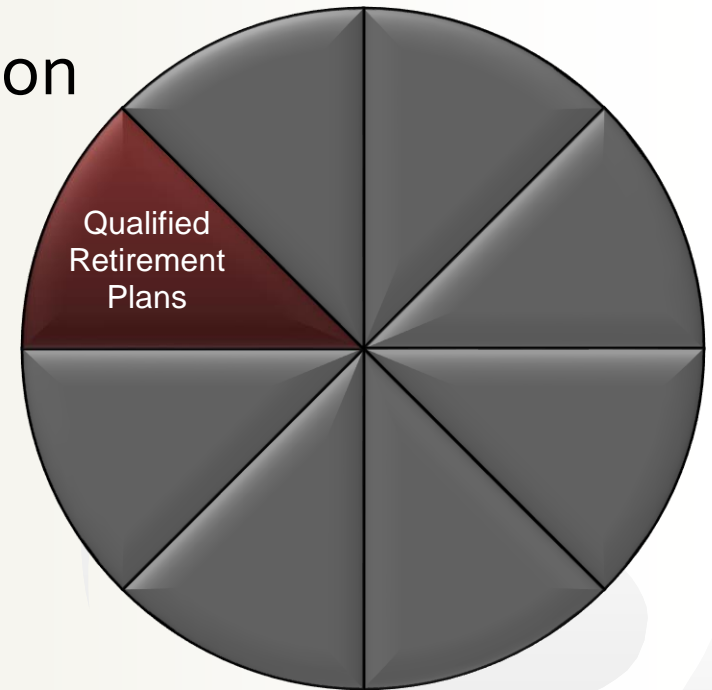


Qualified Retirement

- Company wide retirement plans
- Typically 401(k)
- Qualified retirement = contribution limitations

Key Objectives

- Modest Long-Term Security
- Remain Market Competitive



Where are qualified retirement benefits most important?



General Employee Population

- Qualified Retirement Plans are the market norm
- 401(k), Profit Sharing, Defined Benefit Plans, Money Purchase Plans
- Not taxed until money withdrawn
- Contribution limits!
- Great for supplementing retirement, probably not sufficient to retire on alone

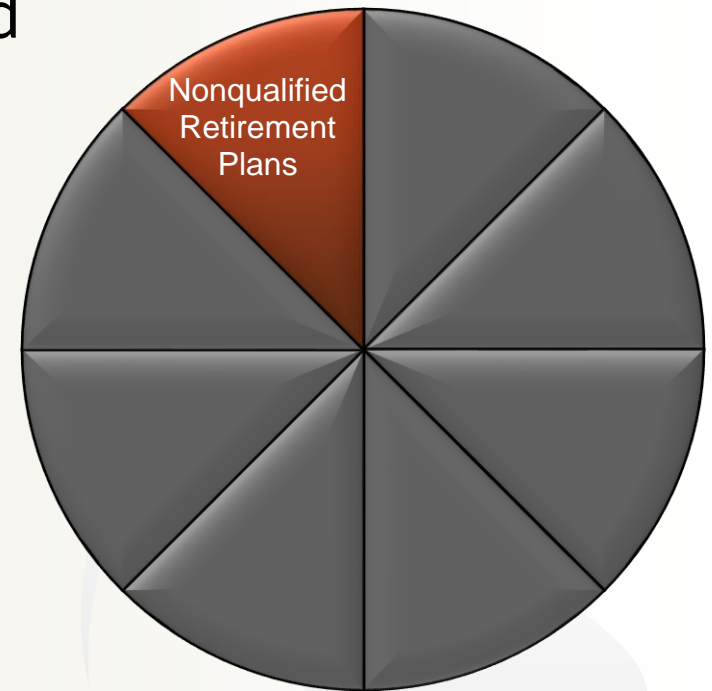


Nonqualified Retirement

- Supplemental Retirement Programs
- Deferred Compensation/ Defined Benefit Programs
- Nonqualified retirement = increased contribution & increased risk

Key Objectives

- Provide for key employee retirement
- Long Term Security



Where are nonqualified retirement benefits most important?



Key & Executive Employee Population

- Have higher risk than Qualified Plans
- Deferred Compensation, SERP, Split Dollar Life Insurance, Group Carve Out
- Allow highly compensated individuals the opportunity to accrue higher retirement balances at greater risk



Wheel of Compensation

- How should we be allocated in our compensation programs?
- Where should our compensation programs lead the market?
- Where can we afford to lag the market?
- Who are you looking to attract, hire, and retain?



Compensation Philosophy

- Every Company needs a defined and consistently applied Compensation Philosophy
- Your Compensation Philosophy should identify a competitive advantage within your pay programs
- The philosophy should also capture the uniqueness of the company and its culture



What should be included?

- Why we pay?
- What we pay for?
- How much we pay?
- How we pay?
- Why we are different?



Purpose of a Compensation Philosophy



- The Compensation Philosophy should be written down and shared with current and future employees
- It should cover all areas of pay (salaries, incentives, benefits, retirement, perquisites, etc).
- The philosophy statement should help to eliminate inconsistencies in style and individual pay preferences from manager to manager

Conservative Pay Profile

| Profile | Base Pay | Short-Term Incentives | Long-Term Incentives | Core Benefits | Profile |
|--------------|----------|-----------------------|----------------------|---------------|----------|
| Conservative | High | Low | Moderate | High | Moderate |

Provides a high degree of employee security at the expense of variable pay

High base salaries and low incentives

Generally offers high level of core benefits

Cash friendly stable organization

Generally attractive to a younger employee population

Can inhibit the hiring of “high performers”

Rewards performance through merit/promotion

Retains executive leadership through moderate long-term awards

Moderate Pay Profile

| Profile | Base Pay | Short-Term Incentives | Long-Term Incentives | Core Benefits | Retirement |
|----------|----------|-----------------------|----------------------|---------------|------------|
| Moderate | Moderate | Moderate | Moderate | Moderate | Moderate |

Provides a middle of the road approach to pay

Base salaries at middle of market

Some upside incentive potential

Performance rewarded moderately

Attracts a diverse employee population

Rewards performance through multiple facets

Tries to provide a balanced approach without any distinguishing element of pay

Variable Pay Profile

| Profile | Base Pay | Short-Term Incentives | Long-Term Incentives | Core Benefits | Retirement |
|----------|----------|-----------------------|----------------------|---------------|------------|
| Variable | Low | High | High | Moderate | Moderate |

Provides a high degree of upside earning potential with higher level of risk

Base salaries at low end of the market

Rewards tied directly to business performance

Entrepreneurial mindset – less cash friendly

Attracts high performers, frightens risk averse

Rewards performance through incentive pay

Promotes high level of value sharing

Attracts entrepreneurial leadership through long-term awards

Sample Philosophy

- Joe Miller Enterprises is a brand new start-up Company
- Looking to 10-15 hire professional level employees
- Limited capital- privately owned
- Entrepreneurial
- My competition focuses on having high salaries and above market benefits
- How should I frame up my philosophy?



Joe Miller Enterprises

| Profile | Base Pay | Short-Term Incentives | Long-Term Incentives | Core Benefits | Retirement |
|---------|----------|-----------------------|----------------------|---------------|------------|
| JME | Moderate | High | Moderate | Low | Low |

Can not afford high base salaries - target middle of the market

Offset salaries with high Short-Term Incentives

Phantom Stock Plan for Key Employees

When JME performs well, my employee's total cash compensation leads the market

Low but competitive employee health and retirement benefits. Not important to my employee base at this time

My leadership team will be drawn in with my Incentive Programs

Where companies go wrong

"The market data says..."

| | Low | Mid | High |
|------------|--------|--------|--------|
| Accountant | 40,000 | 45,000 | 50,000 |

...so that's what we pay!"

"I cant seem to find talent within my salary budget. Everyone wants much higher salary."

"I know we have much better benefits and incentives but my competitors salaries are higher. I guess we will have to pay higher salaries too!" 46

Where companies go wrong

- They incorrectly start with market intelligence first
 - Buy a salary survey
 - React to competition
- Compare employee population to the intel
- Make adjustments

Compensation decisions made without seeing the "big picture"



Apply Your Philosophy

- Obtaining Market Intelligence is only step 1
- Step 2 is to apply your philosophy to the data
- Recall our Pay Mixes (Conservative, Variable, Moderate)

| 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 |

Conservative

Variable

Moderate

Where companies go wrong

- Use market data
- But use your philosophy to help interpret the data
- Salary surveys are still widely used and accepted
- Align your philosophy to the data
 - 25th Percentile to 75th Percentile considered competitive



Don't be afraid to be unique

- People are all different
- Companies are all different
- Why should we all pay the same way?
- Define your own competitive
 - Customize it based on who you want to attract





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*How to Solve the Key Performer
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To be held on:
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(for HR specific audience)

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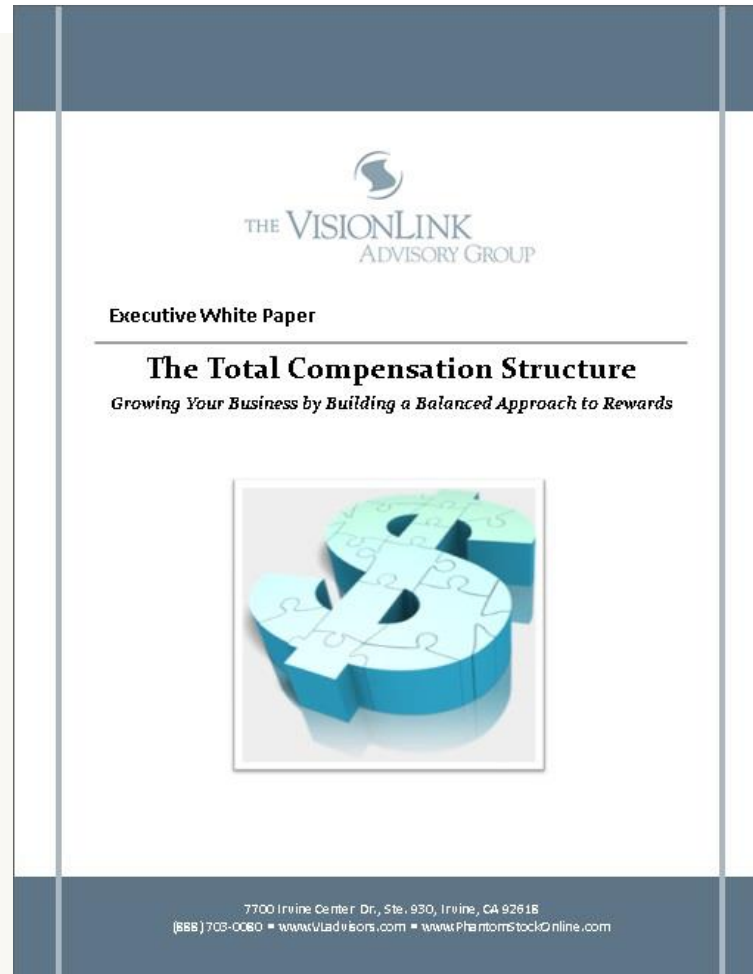
| | |
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Q&A



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