How to Pay Millennials

Building an Effective Value Proposition for the Largest Generation in Today's Workforce

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CHAPTER 1

INTRODUCTION

Millennials are growing up…and have assumed majority status in today's global workforce. According to a Pew Research Center analysis of U.S. Census Bureau data: "More than one-in-three American workers today are Millennials (adults ages 18 to 34 in 2015), and this year they surpassed Generation X to become the largest share of the American workforce." Given the data, odds are that a significant block of the employees within *your* organization are in this group. If they're not, they soon will be.

For most business leaders, this demographic shift is posing a basic but significant challenge: "How do I pay these people?" It's an issue for which few CEOs and enterprise owners have found a satisfactory solution.

So let's solve it, shall we? To do so, we'll need to start by dispelling some Millennial myths.

CHAPTER 2

MILLENNIAL MYTHS

> Millennial myths are often referenced when a business leader doesn't have a solution to the cultural shift he or she is experiencing.

Recently, I participated in a roundtable with other business leaders. The purpose was to discuss issues we were each facing in our organizations and get feedback from the group. One company president expressed this frustration: "We installed a profit sharing bonus plan for our employees and it absolutely bombed." Another in the group immediately asked, "What's the age range of the employees in your business?" "Most are between 21 and 35," was the response. "There's your problem," the questioner asserted. "Millennials just don't care about money. That's the reason it failed."

Millennials don't care about money. Really? It's that simple?

With all due respect to the good intentions of the business owner who made that comment, it was a lazy response. By suggesting that Millennials just don't care about money, he was essentially excusing himself from the hard work of figuring out how to appeal to this critical employee constituency. Millennials is a group whose influence is expanding, not shrinking, and dismissing people in that age range as simply not interested in money won't help any business succeed.

We could add other myths to the one just described. You'll hear that Millennials don't want to work hard, that they change employers frequently and that they will never extend sustained loyalty to any one organization. These myths feed on each other and are often referenced when a business leader doesn't have a solution to the cultural shift he or she is experiencing. The exchange between the two company chief executives at our roundtable is a case in point.

This kind of rationalization provides a temporary balm for an owner or CEO's anxiety because it allows him or her to postpose the challenging prospect of figuring out a more effective approach. Unfortunately, that kind of reasoning also leaves business leaders vulnerable in the talent wars that are raging. And without great people, their growth ambitions will be frustrated.

So let's sort truth from fiction regarding workforce Millennials by looking at what the data tells us. In a recent Strategy+Business article, authors Jennifer Deal and Alex Levenson corrected the misconceptions many business leaders carry about this age group.

> ...studies have started to dispel the myth of the itinerant millennial. Using data from the U.S. Bureau of Labor Statistics, for example, the website FiveThirtyEight.com has shown that millennials change jobs less frequently than gen Xers did at the same age.
>
> This disconnect between perception and reality is rooted in common stereotypes about millennials. Among the most damning? They are inherently disloyal to their employers. But our research suggests that it's time to change the conversation. Whether the millennial generation…is loyal or not is not the point. Loyalty isn't driving them to stay, nor is lack of

loyalty driving them to go. Their motivations, instead, are deeply rooted in the economic and social conditions that have shaped their youth and early adulthood. Company leaders need to understand these drivers and focus their talent strategies accordingly. If they do, they just may find their millennial employees to be their most enduring. ("Millennials Play the Long Game," Strategy + Business, October 5, 2015, Jennifer Deal and Alex Levenson)

A study conducted by Deal and Levenson (referenced in the same article) further indicated that "at least 40 percent of Millennials see themselves staying at their current organization for a minimum of nine years — a much longer period than the 16 months to three years that's often reported."

At least 40% of Millennials see themselves staying at their current organization for a minimum of nine years.

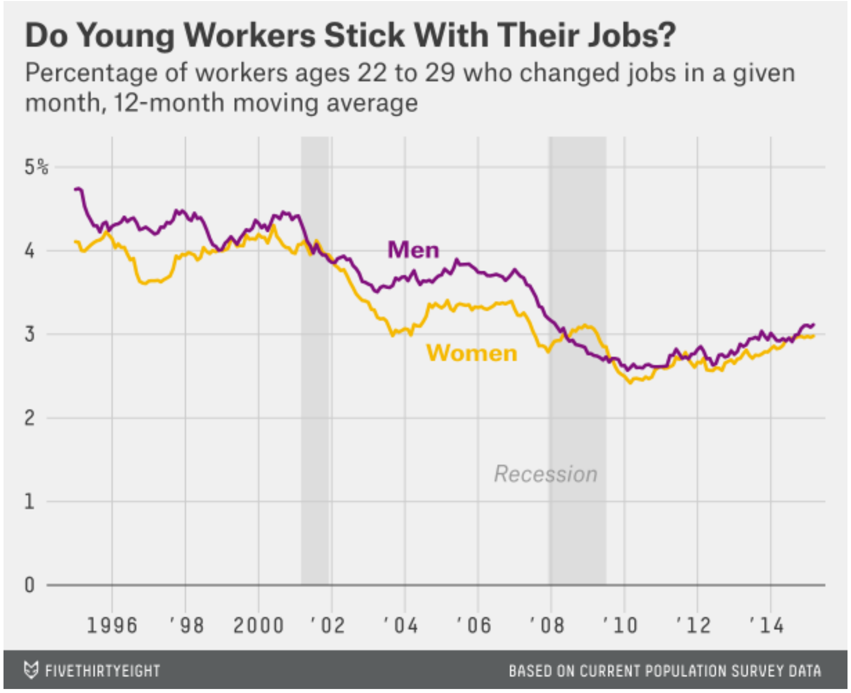
A Wall Street Journal (WSJ) article from May 2015 by Lindsay Gellman entitled, *"Millennials: Love Them or Let Them Go,"* debunks the idea that the younger generation is a band of job-hoppers. The data suggests that Millennials are actually less professionally transient than the generations that preceded them. Referencing the WSJ article, Ben Casselman, at FiveThirtyEight Economics, makes this point:

To support its case, the Journal…cites Bureau of Labor Statistics data showing that the typical worker aged 20 to 24 has been in their job for about 16 months. "For those aged 25 to 34, it was three years," the

Journal continues, “still far short of the 5.5-year median tenure for all workers age 25 and over.”

But those numbers are highly misleading. Sure, most people in their early 20s are fairly new to their jobs, but most of them are fairly new to the workforce, period.

More importantly, comparing today’s 20-somethings to today’s 30- and 40-somethings misses the point. Younger workers do tend to change jobs more often than older workers, but that’s always been true. Numbers on job tenure for Americans in their 20s were almost exactly the same in the 1980s as they are today. Monthly data tells a similar story, as the chart below shows: Every month, about 3 percent of young workers (defined here as those between 22 and 29) change jobs, compared to about 4 percent in the mid-1990s.



So what are we to conclude from these studies and commentary? Here are a few assumptions the data allow us to make:

- Millennials are as career-minded as their predecessor generations and, in some segments, even more so.
- Younger Millennials move employers more frequently than their more seasoned counterparts, but that has always been the case with twenty somethings. However, given the right opportunity and direction, they will sink their roots deep into an organization.
- The key to successfully channeling Millennials is to understand the things that drive their ambition as well as those that feed their fears—and then construct a partnership with them that addresses both.
- To build that partnership, you must start with an accurate picture of who Millennials are and the spectrum of attributes that defines them.

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CHAPTER 3

WHO ARE THE WORKFORCE MILLENNIALS?

Most of us like to be able to put things in nice, neat categories. It makes life simpler because generalizations are easier to digest and accept. However, when it comes to people, categories can be dangerous. Just when we think we have a group "pegged" and labeled, someone does something out of the norm and ruins our model.

That said, generalizations can be helpful in painting a picture of an audience in at least broad strokes. Once we have that overall picture, we can become more granular in defining audience segments and their individual peculiarities, which we will do later.

So let's start with what researchers tell us about Millennials as a group.

In February 2014, Nielsen issued the results of a comprehensive Millennial study it conducted. In its report on that study, Marketing Charts summarized the following key insights and conclusions:

> Nielsen covers a lot of ground…structuring its analysis around some myth-busting findings. But of particular interest are the statistics made available regarding the demographics of this oh-so-coveted generation, described as "diverse, expressive and optimistic."
>
> First off, a quick note about the definition of a Millennial, which…can take many forms. In its report, Nielsen refers to Millennials as being between the ages of 18-36, *noting that their behavior may not be homogenous*. In some cases, Nielsen breaks the age bracket down into younger (18-27) and older (27-36) Millennials.
>
> Here are some intriguing, cherry-picked statistics from the report (limited for the most part to demographics):
>
> - Millennials (18-36) comprise 24% of the US population (77 million individuals), on par with Boomers (1946-1964) and Gen Z (born 1995-present);
> - The median income for younger Millennials is $25k, while it's almost double that ($48k) for older Millennials;
> - Millennials account for 1 in every 5 same-sex couples;
> - Only 21% of Millennials are married, while 42% of Boomers were married at their age;

- Almost 1 in 4 (23% to be exact) have a Bachelor's degree or higher, making them the most educated generation;
- Millennials are the most ethnically and racially diverse generation, with 19% being Hispanic, 14% African-American and 5% Asian;
- As for those Millennial mothers, some 36% of Millennial women have had children;
- About 2 in 3 Millennials are US-born;
- An impressive 38% of Millennials are bilingual, up from 22% in 2003.

Almost 1 in 4 Millennials have a Bachelor's degree or higher, making them the most educated generation.

So where are Millennials most likely to be found? The study points to an increasing desire on their part to live in urban environments, doing away with the suburban picket-fence mythology. Interestingly, the top markets by concentration of Millennials are primarily in the Western side of the country, while for Boomers, the top markets are mostly on the East Coast.

Here are the top 10 markets by concentration of Millennials, along with their index relative to the rest of the country:

Austin, TX (120);
Salt Lake City, UT (117);
San Diego, CA (117);
Los Angeles, CA (117);
Denver, CO (109);
Washington, DC (109);
Houston, TX (108);
Las Vegas, NV (108);
San Francisco, CA (107); and
Dallas-Ft. Worth, TX (106).

So there’s the broad picture of this workplace force that now represents a majority of employees in global enterprise. Now let’s consider how that data help us identify the Millennial *career segments* that will impact the approach to pay you adopt for those in this age group who work in your organization.

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CHAPTER 4

MILLENNIAL CAREER SEGMENTS

One of the most common mistakes businesses make in trying to construct pay for Millennials is to treat them as one monolithic group—almost as if they were all the same person. As the data just reviewed indicate, Millennials represent a diverse range of age, experience and ambition. Trying to make assumptions about what "all Millennials" desire (or reject) in the realm of compensation and rewards, without an acknowledgement of those segments, is a recipe for disaster. So, let's consider the career groupings into which Millennials typically fit:

> ***Launchers***. These are young professionals at the start of their careers. They have either just left the university or are within their first few years of graduating. Your company has provided their initial or perhaps second career-related job. Most of them are single.
>
> ***Accelerators.*** These are Millennials who have had some experience with more than one company and are now trying to settle in with an organization where they can rise in ability, recognition, contribution and influence. Most in this group are probably still single but a growing number are married or have life partners and are starting families.

> A "one size fits all" pay approach is not going to succeed when it comes to a value proposition for Millennials.

Catalysts. These are individuals who are either entering or are well into their 30s, have gained meaningful experience and possess unique abilities. They are able to affect significant (positive) change in an organization and companies are competing for their talents. They may not be Elon Musk from Tesla Motors or Jony Ive from Apple (yet), but they are still catalysts who could change the growth trajectory of your business. As a result, they have leverage and are in a position to negotiate. These Millennials either want to put their talent to work in a business that has resources they can leverage to accomplish their ambitions or start a business of their own. More in this group are married (than in the previous two segments) and many of them have children.

As you look at each of those descriptions, it should become obvious that a "one size fits all" pay approach is not going to succeed when it comes to a value proposition for Millennials. This does not necessarily mean you need to construct a different compensation strategy for each group, however. It simply suggests that the components of pay you offer, and the emphasis you give to each, will differ based on the life history and career trajectory of each group. That is because those issues will inform how these employee segments will each evaluate what I'll call their "Hierarchy of *Financial* Needs" when it comes to pay and wealth accumulation opportunities. Let's examine what that means.

CHAPTER 5

THE MILLENNIAL "HIERARCHY" OF FINANCIAL NEEDS

Borrowing from Maslow's theory on human motivation, let's consider how Millennials might prioritize their compensation-related needs based on the career category they fit in. We might graphically depict that hierarchy as follows:

As the picture above illustrates, there is a range of financial needs that most people (not just Millennials) expect to be fulfilled through the financial partnership they have with their employer. And different elements of pay are intended to address each level or type of need. All of those reward components have value but the level of importance each has to Millennials depends largely on which career segment they belong to. Let's look at that hierarchy in the context of the groups we identified in our previous chapter.

Level One—Cash Flow/Standard of Living

This need has to do with how Millennials view the costs associated with the kind of lifestyle they want to provide for themselves. This requirement is going to be met primarily through salary and annual incentive plans.

Launchers will likely view this need through the prism of their present living arrangement. Their compensation expectations are still being formed and their cash flow needs are usually pretty modest. Their focus is on gaining experience and having sufficient time and means to engage in recreation with their peers. A competitive salary, consistent mentoring, encouragement and appreciation will likely meet the expectations of Millennials in this category.

There is a range of financial needs that most people expect to be fulfilled through the financial partnership they have with their employer.

Accelerators are starting to evaluate their cash flow and standard of living expectations in the context of their experience, their peers' pay levels and the additional life responsibilities they are starting to assume: marriage, family, first home purchase, etc. They are likely to be more aware of their worth in the marketplace than launchers. They anticipate being paid a competitive salary and look for a means to increase their earnings potential through some kind of annual incentive that compensates them for higher performance.

Catalysts will not be sold on a role in your organization based solely on a high salary and annual bonus. They are looking for higher leverage in their earnings opportunity. That focus isn't necessarily driven by life cycle issues such as marriage, family and home purchase (although those are factors), but instead they are influenced by a keen sense of their ability to create value. As a result, they would prefer an arrangement where they are paid at perhaps the 45-50th percentile of market pay in salary but with the possibility of earning an additional 100% of that amount (or more) in incentive awards—only part of which would be in the form of an annual bonus. They are looking for long-term wealth accumulation opportunities that mirror that of owners.

Level Two—Security

This issue has to do with the level of financial vulnerability Millennials might feel about the risks to which daily life exposes them—mostly health-related. This will primarily be addressed through the company's benefit plan.

Launchers will not likely have large concerns about security. They want to minimize costs associated with any coverage or benefits for which they have to pay. Because they are young, they don't view financial risks associated with their health as a major priority. Their primary concern is limiting participation in anything to which they have to contribute financially.

Accelerators who are married and starting families will view this area with greater scrutiny than launchers. They certainly want an adequacy of coverage so that issues ranging from injuries to pregnancies and well-baby care don't impair their standard of living. However, like launchers, they will be cost sensitive in evaluating benefits.

Catalysts will want flexibility in their benefit choices. They are looking for options in how their benefit dollars can be applied. For example, some may be willing to just carry catastrophic major medical coverage so they can apply benefits dollars to disability income protection, vision care or a legal service benefit. They are interested in maximizing control over their financial environment and how it might impact their ambitions.

Catalysts will want flexibility in their benefit choices. They are looking for options in how their benefit dollars can be applied.

Level Three—Retirement

This is self-descriptive and has to do with the opportunity to save for retirement in a tax-favored manner. Most organizations do this through 401(k) plans which allow for pre-tax contributions and tax-deferred investment earnings. Some also offer an employer match.

Launchers, it will not surprise you, will have little interest in retirement plans—with or without a match. Their focus is on current cash flow and earnings.

Accelerators are focused on career and life advancement and retirement is becoming more of an issue for them—especially if they are married and have a family. That said, cash flow and standard of living are probably still higher priorities for them.

Catalysts will likely have an interest in the organization's retirement plan, but not solely as a means of planning for the future. Millennials who are considered catalysts are probably also highly-compensated. As a result, they have an interest in the current tax relief retirement plans offer almost as much the ability they provide to accumulate funds for the future. If your organization has several Millennial catalysts (or other highly-compensated employees), they will likely anticipate participating in some kind of "executive" or supplemental retirement plan such as deferred compensation where they can delay receipt of income until a later year. Traditional qualified retirement plans limit the amount highly compensated employees can contribute—and, therefore, the level of tax relief they can achieve.

Wealth accumulation has to do with the nature and scale of the opportunity an employee is afforded to participate in the value he or she helps create.

Level Four—Wealth Accumulation through Value-Sharing

This has to do with the nature and scale of the opportunity an employee is afforded to participate in the value he or she helps create. This is usually addressed through some combination of short and long-term incentive plans.

Launchers are not typically as interested in long-term value-sharing opportunities as they are in short-term programs such as annual incentive plans. Again, their focus is more on the "here and now" and having ample means to enjoy a comfortable lifestyle today.

Accelerators will take an interest in value-sharing and will likely weigh the nature of the opportunity for that kind of participation as they consider their employment options. Accelerators, by definition, want to leverage their opportunity with their current employer to take their career and earning power to “the next level.” Their focus, however, will still probably be more short-term than long-term when it comes to the value they place on incentive plans.

Catalysts consider value-sharing and wealth accumulation opportunities to be a critical part of the financial partnership they form with their employer. Keep in mind, Millennials in this segment are typically with your organization because they view it as the best way they can leverage their unique ability to create value and are confident in their ability to do so. They are trying to mirror inside your organization the kind of financial result they could achieve if they started their own business. They recognize they are putting less at risk than owners so they don't expect the same kind of return shareholders are entitled to, but they do expect significant upside wealth accumulation potential. As a result, they prefer a scenario in which they are paid at or slightly below the median of market pay for salary but with significant additional earnings and accumulation opportunities through both short and long-term value-sharing.

Obviously, what are presented here are generalizations. The information provided is intended to give you some rules of thumb to think about as you plan compensation for this growing employee constituency. What Millennials want in a pay plan is largely a function of multiple variables, each of which has to be considered as specific compensation options are evaluated and designed. Looking at the construction of pay for Millennials as a marketing strategy, as we discuss in Chapter Eight of this e-book, will help you approach your planning efforts more effectively. As you do, keep in mind that compensation is just one of four parts of a Total Rewards approach you will want to take to be successful in your Millennial value proposition efforts.

CHAPTER 6

THE TOTAL REWARDS FRAMEWORK

In addressing the topic of pay for Millennials, we must place compensation in its proper context. Financial rewards are just one of four parts of a Total Rewards strategy you will need if you want to have success in recruiting and retaining premier Millennial talent and having them meet the performance standards you have set.

A Total Rewards approach is based on the premise that there is a comprehensive experience your employees are seeking in their relationship with your company that extends beyond how much they are paid. Millennials in particular evaluate their employer association in this context and new recruits will weigh these issues in determining whether to join your company. Here is what a Total Rewards approach should include:

Compelling Future. Millennial catalysts certainly want to feel compelled by where the business is headed. More importantly, however, they need to be able to see themselves as an integral part of making that future a reality; that their unique abilities are needed to have the company realize its full potential. However, launchers and accelerators also want to feel as though their contributions have meaning and that they can, through the *company's* success, somehow make the *world* better. They will be as concerned about the social contribution the company makes as the financial success it realizes.

Financial rewards are just one of four parts of a Total Rewards strategy you will need if you want to have success in recruiting and retaining premier Millennial talent.

Positive Work Environment. Millennials expect to enjoy the nature of the work they are doing and with whom they are engaged in that effort. In addition, they want a role that is in the sweet spot of their unique abilities so they are energized by the career experience they are having with your organization. High-performing Millennials want to know that the culture supports their desire to achieve and succeed.

Personal and Professional Development. This category is not just about training, although that is important. Rather, companies with a successful Millennial value proposition nurture an environment where people with distinctive talent find they are able to accelerate their learning curve and improve more quickly at what they do because of the resources of the organization. In other words, not only are they working in the realm of their unique abilities, but they are getting better—personally and professionally—as a result of the framework within which they're working.

Financial Rewards. A company's compensation philosophy, practices and plans frame the financial partnership an organization has with its Millennials. When done effectively, financial rewards communicate and reinforce to each Millennial segment (launchers, accelerators and catalysts) "what's important" to the present and future success of the business. Further, they give shape to workplace roles, define successful outcomes and align shareholder and employee interests and vision. Pay is most effective when it creates a unified financial vision for growing the business. That appeals to the intrinsic desires most Millennials have to align themselves with excellence, success and a sense of purpose.

Now that we've discussed the Millennial "Hierarchy of Needs" and the need for a Total Rewards approach to your value proposition, let's turn our attention to the specifics of your compensation strategy. What are the pay elements that should be considered in your Millennial pay program and how do you use them to create the unified financial vision for business growth you seek?

…A unified financial vision appeals to the intrinsic desires most Millennials have to align themselves with excellence, success and a sense of purpose.

CHAPTER 1

BUILDING YOUR PAY "PORTFOLIO"

Whether you are paying Millennials, baby boomers or anyone else, how you compensate people needs to create alignment between the vision of the company, its business model and strategy, roles and expectations and how people will be rewarded for fulfilling those expectations. That alignment is called *line of sight*. Without it, your pay programs will lack purpose and can end up pulling employees in a strategic direction that is at odds with shareholder priorities and goals.

Creating a comprehensive pay strategy is not unlike constructing an investment portfolio.

Creating a comprehensive pay strategy is not unlike constructing an investment portfolio. The precise investments chosen for your portfolio will be dictated by the goals you're trying to achieve and the specific performance outcomes you'll need financially to fulfill them. As a result, you must first adopt an investment philosophy that is consistent with your objectives, then construct an asset allocation model that reflects that philosophy, and, ultimately, begin selecting the specific products for each asset class.

The same needs to happen in your approach to Millennial pay. So let's talk about how your compensation portfolio can be most effectively organized.

Pay Philosophy

The starting point in building a successful compensation strategy is the development of a well-defined pay philosophy. The specific rewards strategies you build should embody that philosophy. It should be written, reviewed and updated frequently, and referred to often as decisions about compensation are considered and made. Without that philosophy, it will be hard to achieve continuity in your overall pay strategy; instead it will be a loose construct of disparate rewards elements—kind of like a portfolio of random investments. Without continuity, it is impossible to have line of sight.

A compensation philosophy statement clearly articulates what your company is willing "to pay for." It first defines what value creation means in your business and how you feel it should be shared with those who produce it. It further describes what balance you seek to maintain between guaranteed and variable compensation as well as between short-term and long-term incentives—and for whom. It defines whether you will adopt an expansive or selective approach to pay; expansive meaning all employees will be treated essentially equal in the kinds of rewards they will receive and selective implying that key performers (such as catalysts) will be treated differently in how they are compensated.

Here is an example of what might be included in a compensation philosophy statement:

- XYZ defines value creation as achieving a minimum of (define the amount) in operating income for the period of (define the period) while maintaining a profit margin of (define the margin). It seeks a minimum increase of (define the percentage) in operating income each year while maintaining or improving current margins. At this level, shareholders are receiving an adequate return on their capital investment and are willing to begin sharing value.

- XYZ believes in sharing value beyond the just stated levels with employees who are key contributors to growth up to (define the cap) of operating income. Beyond that level, the company believes in sharing additional value with key producers and rank and file employees on a 50/50 basis between the company and its workforce.

- The company believes all employees should have some part of their compensation tied to performance.

- The company believes in paying at 45-50th percentile of market pay for salaries of executive level employees with significant upside potential that can be earned through value-sharing—even up to 100% of their annual salary—by meeting certain performance standards. It believes half of those variable earnings should come in the form of short-term incentives (bonuses for performance periods of 12 months or less) and half in long-term value-sharing (incentives tied to performance of 12 months or longer).

- XYZ believes it should pay middle management employees at the 50-60th percentile of market pay with good upside earnings potential through value-sharing—up to half the value of their annual salary. It believes two-thirds of those variable earnings should come through short-term performance rewards (meeting targets within a period of 12 months or less) and one-third tied to long-term results (performance sustained over 12 months or longer).

- XYZ believes it should pay all other employees at the 60-70th percentile of market standards with some upside potential earnings through value-sharing—with as much as 10 to 20% of their guaranteed compensation achievable through additional incentives. It believes three quarters of those variable earnings should come through short-term performance rewards (meeting targets within a period of 12 months or less) and one quarter tied to long-term results (performance sustained over 12 months or longer).

- XYZ believes that incentives should be tied to company, department or team, and individual performance targets. The weight attached to those components will be dependent upon an employee's ability to have an impact on each. However, all will have at least some portion of their incentive tied to company-wide performance.

A compensation philosophy statement can give direction and shape to specific compensation strategies you consider and develop.

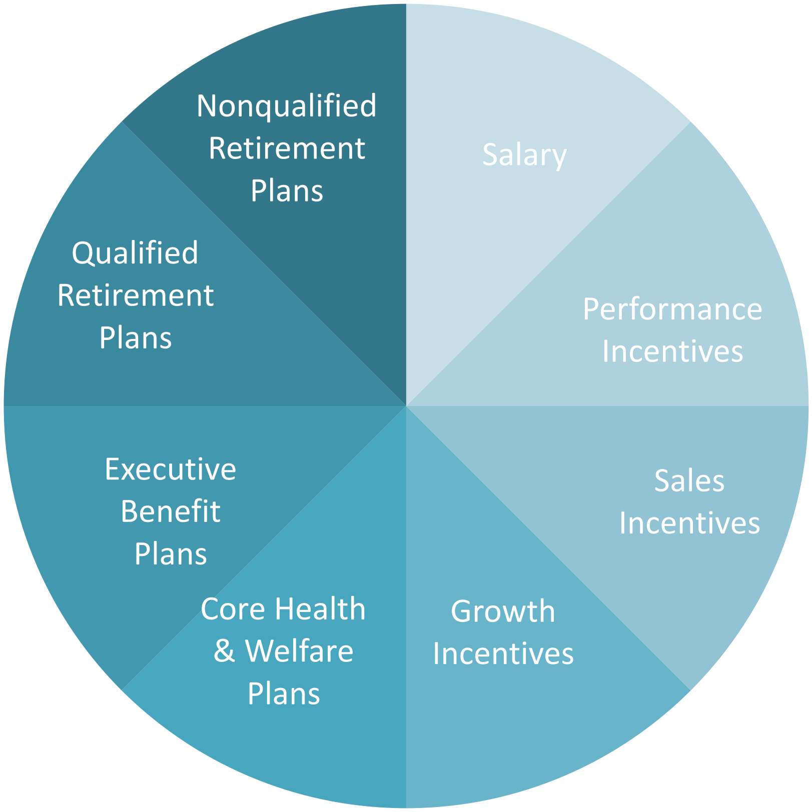
More or less may be included in your philosophy statement. Regardless, hopefully you can see how such a philosophy can give direction and shape to specific compensation strategies you consider and develop. With a philosophy statement as a foundation, the kinds of rewards programs you should be considering will become clearer to you—not just for Millennials but for everyone in your workforce.

An Aligned Compensation Strategy

A unified financial vision for growing your business occurs when you are able to bring the right combination of pay elements together in a cohesive strategy for rewarding employee performance. In other words, an aligned pay strategy is one where specific rewards programs reflect your compensation philosophy and are organized into appropriate pay "asset classes." You will likely end up with a guaranteed and short-term value-sharing asset class, a sales performance asset class, a long-term value-sharing asset class and so on. Each of those asset classes has specific plans that reflect the purpose of that compensation segment.

Ultimately, there are eight components of pay (compensation "asset classes") that should be given consideration when developing a comprehensive rewards structure for your business. Each has a separate purpose and will impact Millennial performance in varying ways and degrees. For example, an annual bonus plan will help reinforce the need to maintain the revenue engine of the company even while the business is focused on growth. On the other hand, a long-term incentive plan will help protect "good" profits, so that employees don't game the system for their short-term benefit. For Millennial "catalysts" in particular, a certain (and significant) portion of their pay will only be received if performance is *sustained*.

Following is a graphic that diagrams the eight components of pay you should consider in developing a comprehensive Millennial pay strategy. You may not include all in your compensation "portfolio." However, to the extent each is assessed (or is part of your pay construct now), certain questions should be addressed to ensure you are taking the most effective approach with that element. Those questions are included below.



1. *Salaries*
    a. Are you making sure they are competitive with market standards?
    b. Have you tied them to a strong performance management (merit) process?
    c. Are you managing them within a flexible but effective structure?

A unified financial vision for growing your business occurs when you are able to bring the right combination of pay elements together in a cohesive strategy for rewarding employee performance.

2. *Performance Incentives*
    a. Have you tied them to productivity gains?
    b. Have you made the performance metrics clear, achievable and meaningful?
    c. Are they self-financing—meaning they are only paid out if value creation standards have been met?
3. *Sales Incentives*
    a. Have you made them challenging yet achievable?
    b. Do they reinforce the right behaviors?
    c. Do they differentiate your pay offering from competitors?
4. *Growth Incentives*
    a. Have you linked them to a compelling future?
    b. Do they support an ownership mentality?
    c. Are they helping you secure premier talent?
5. *Core Benefits*
    a. Have you made them responsive to Millennial segments?
    b. Have you allocated benefit resources where they're most needed?
    c. Are evaluating each benefit program for unnecessary expense?
6. *Executive Benefits*
    a. Have you developed a flexible enough approach to address varying circumstances especially for catalysts?
    b. Do they help you communicate a unique relationship with your top producers?
    c. Are they helping the highly compensated minimize their tax expense?
7. *Qualified Retirement Plans*
    a. Are you giving employees an opportunity to optimize retirement values?

    b. Are you operating them with comprehensive fiduciary accountability?
    c. Are you avoiding conflicts and minimizing expenses in the management of the plan?
8. *Nonqualified Retirement Plans*
    a. Are you optimizing tax-deferral opportunities for catalysts and other highly-compensation employees?
    b. Are you aligning long-term interests of employees with shareholders?
    c. Are your plans structured to achieve the best possible P&L impact?

Millennial Pay Alignment

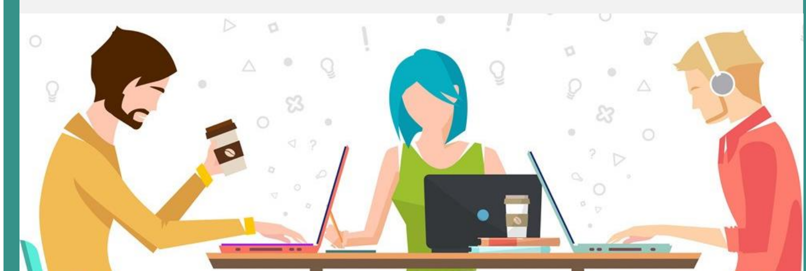
The components on that list, along with their associated questions, make it clear that compensation cannot be approached on a one-dimensional level when you're attempting to define an effective Millennial rewards strategy. If you want pay have to have an impact on results—especially its influence on the kind of Millennial employees you are able to attract and retain—you must be comprehensive in your thinking. Each piece of your rewards allocation has a different purpose and must complement the others so you end up with a "whole" strategy.

As you look at the specific pay plans summarized above, you will want to consider what role each should play in the Millennial career segments discussed earlier. This is because the process of pay alignment really has two dimensions to it as framed by the following questions:

1. What is the mix if rewards elements that makes the most sense for each of the career groupings (launchers, accelerators and catalysts)?
2. What is the approach to each of those pay components that will best reinforce the role of each segment in the business

model and strategy of the company? (For example, the balance between short and long-term value-sharing for catalysts will be different than it is for accelerators. The same will be true for the "weighting" of guaranteed versus variable compensation for each segment.)

If you want pay have to have an impact on results, you must be comprehensive in your thinking.



CHAPTER 8

TURN YOUR PAY PLAN INTO A MARKETING STRATEGY

With pay alignment defined and considered, let's return to the roundtable discussion I referred to towards the beginning of this book; the one where a certain CEO had concluded that Millennials just don't care about money. Let's face the hard work of figuring out how to appeal to each part of our Millennial workforce.

In my view, the failure of the profit pool that the company president bemoaned was due to something bigger than poor plan design or employees just "not getting it." It was a marketing flaw. Here is what I mean.

Suppose that company thought of Millennial pay as a marketing strategy instead of a compensation strategy. If that was its orientation, what framework would have guided its approach? If the context was marketing and not just rewards, here is the sequence its leadership probably would have followed (and you might also consider adopting) in constructing a pay strategy for Millennials...or any other part of its workforce:

The critical issue is making sure you know the people to which you need to appeal with your value proposition.

1. *Identify the Audience*

This isn't a matter of simply putting a broad label on the group such as "Millennials." If you were creating a marketing strategy, and Millennials were a key customer category, you would spend time identifying the "personas" within that grouping that you are trying to reach. What is their age? At what point are they in their career? What is their family situation? What are their career goals? Where does your organization fit in that trajectory? Where do they live? What do they read? Is there more than one kind of Millennial employee in your business (people just looking to gain some early career experience versus those looking for an entrepreneurial opportunity, for example)? How do they spend their free time? You get the picture. Before being able to design an effective marketing strategy, you would have to first clearly define your audience.

The career segments talked about earlier in this book give you some broad categories to consider in this regard. However, you may decide there are more or less than these groupings in your business—or you may determine to label them differently. The critical issue is making sure you know the people to which you need to appeal with your value proposition and that you don't just rely on old methodologies and assumptions.

2. *Identify What you Want the Audience to Do*

This relates to the role you want Millennials to perform in your company. Those roles are also probably best thought of in terms of the segment categories discussed earlier. What are the outcomes for which each group or persona is responsible? What is impacted if they achieve those outcomes? What is the course they will need to follow if those outcomes are to be realized? What unique abilities do they have that will allow them to succeed in those roles? And so on. All great employees—including those of the Millennial generation—want to know where they fit and why it matters. They need context—both micro and macro. They want to know what role they're fulfilling, not just what position they're occupying.

The profit sharing bonus plan the business leader had tried to implement only provided a "macro" view of the business. Without further role context—and “micro” outcome definition—it became a well-intentioned plan in search of an audience who could relate to it.

3. Identify What your Employees Need to Believe in order To Do What You Want them to Do

People are moved to action by compelling beliefs. So, what would your employees have to believe to produce the outcomes for which they have stewardship in *your* business? Who will benefit from those outcomes? Why does that matter? What positive impact will role fulfillment have on your Millennial employees? On their careers? On their co-workers or teams? On the company? On the customer or client? Simon Sinek refers to this as "Start with Why."

Millennials believe their work should have meaning. Their motivation to produce results will come when they understand why it matters. The financial component is part of this—but its only one piece of the Total Rewards picture talked about earlier that they need to form for their “belief” to take root. And Millennials will identify their own hierarchy of needs when it comes to the financial element, as discussed in a previous chapter. How they rank their needs is largely rooted in the lifestyle issues described in the "Identify the Audience" step—which is why that exercise is so critical.

4. Identify What Your Employees Need to Know in Order to Believe (so they'll subsequently "do")

Once you are clear about what is meaningful to Millennials, a critical next step is to determine what they will need to know for that sense of purpose to take root. This is primarily a line of sight issue. What do employees understand about the vision of the company? Do they "see themselves" in the future business; has that picture been painted for them? Do they understand what the business model and strategy is and how those two things relate to fulfilling the organization's vision? Do they know what the revenue drivers of the business are and how the company competes in the marketplace? Do they understand their role in the business model and what's expected of them in that role? Do they know what the leverage points are in driving profitable revenue for the company and how their role impacts them? Do they understand how they will be rewarded If they fulfill those expectations? Are they clear about how those rewards relate to their own financial priorities? All of these are things Millennials have to *know* if they are going to *believe* that what you want them to do should matter to them.

If you approach rewards development as a marketing strategy, you will be able to more effectively evaluate various components of pay.

The process just described puts you in a better position to construct a Millennial pay plan that fits the audience. It helps you better envision a pay philosophy and game plan that makes sense for your business. If you approach rewards development as a marketing strategy, you will be able to more effectively evaluate various components of pay and come to a conclusion about where they might fit in the value proposition you are creating for the Millennials in *your* company. Where should *you* be relative to market pay for salary? What is the right balance in *your* organization between guaranteed and variable pay? How much of *your* value-sharing should be short-term and how much should be long-term—and how will that differ by "audience?" What will *you* consider "long-term" to be (3, 5, 8, 10 years?) and what form should that kind of value-sharing take (equity, phantom stock, performance units, profit pool, deferred compensation, other)? What about benefits such as group health and retirement? Should they have more or less emphasis based on what you know about your group of Millennials?

With the Millennial generation..a traditional approach to pay planning is not going to get you the outcomes you want.

In the end, compensation is a strategic tool to market a future to your employees and define the financial partnership you want to have with them. So make no mistake. Building a rewards strategy is as much a marketing project as it is a financial exercise. With the Millennial generation emerging as the dominant employee constituency, a traditional approach to pay planning is not going to get you the outcomes you want.

CHAPTER 9

CONCLUSIONS

The percentage of your workforce that is made up of Millennials is not going to decrease; it is only going to grow. As a result, if you expect to attract, develop and retain the cream of the crop in this employee segment, you will need to roll up your sleeves and dig into the kind of planning covered in this e-book. It is not an issue you can afford to ignore or simply wish away.

Conversely, if you take the time to get pay right for Millennials, you will be ahead of the competition in waging the talent war for the most skilled part of this audience. Within the Millennial talent pool there are launchers, accelerators and catalysts who can drive your business to new performance heights. But you won't find them or tap into their enormous potential if you buy into the myths about Millennials that so many accept and build rewards programs based on those myths.

So, here's to your success in building a pay strategy that draws the best out of your Millennial employees—one that transforms them into growth partners who have a meaningful impact on your company's progress and development.

Ready to Speak to a Compensation Specialist?

If you would like to speak with a pay expert about your business goals and pay strategy, call us at 1-888-703-0080.

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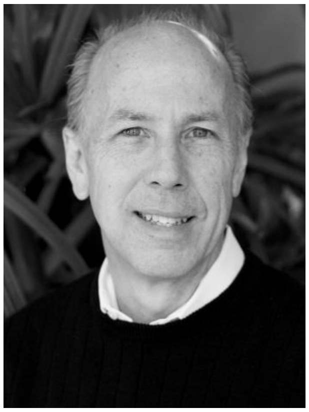

Ken has been consulting with middle-market private and public companies on executive compensation and benefits issues for over 30 years. In addition, he has authored numerous articles and white papers addressing compensation and rewards topics that modern businesses face. Ken also conducts monthly webinars for business leaders on compensation best practices. His client work centers on the development of compensation and rewards strategies that drive performance and transform employees into growth partners. He is one of VisionLink's five principals. And full disclosure, Ken is not a Millennial.