Arizona Total Rewards Association
presents
COMPENSATION 101
a 5-part workshop series

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TOTAL REWARDS
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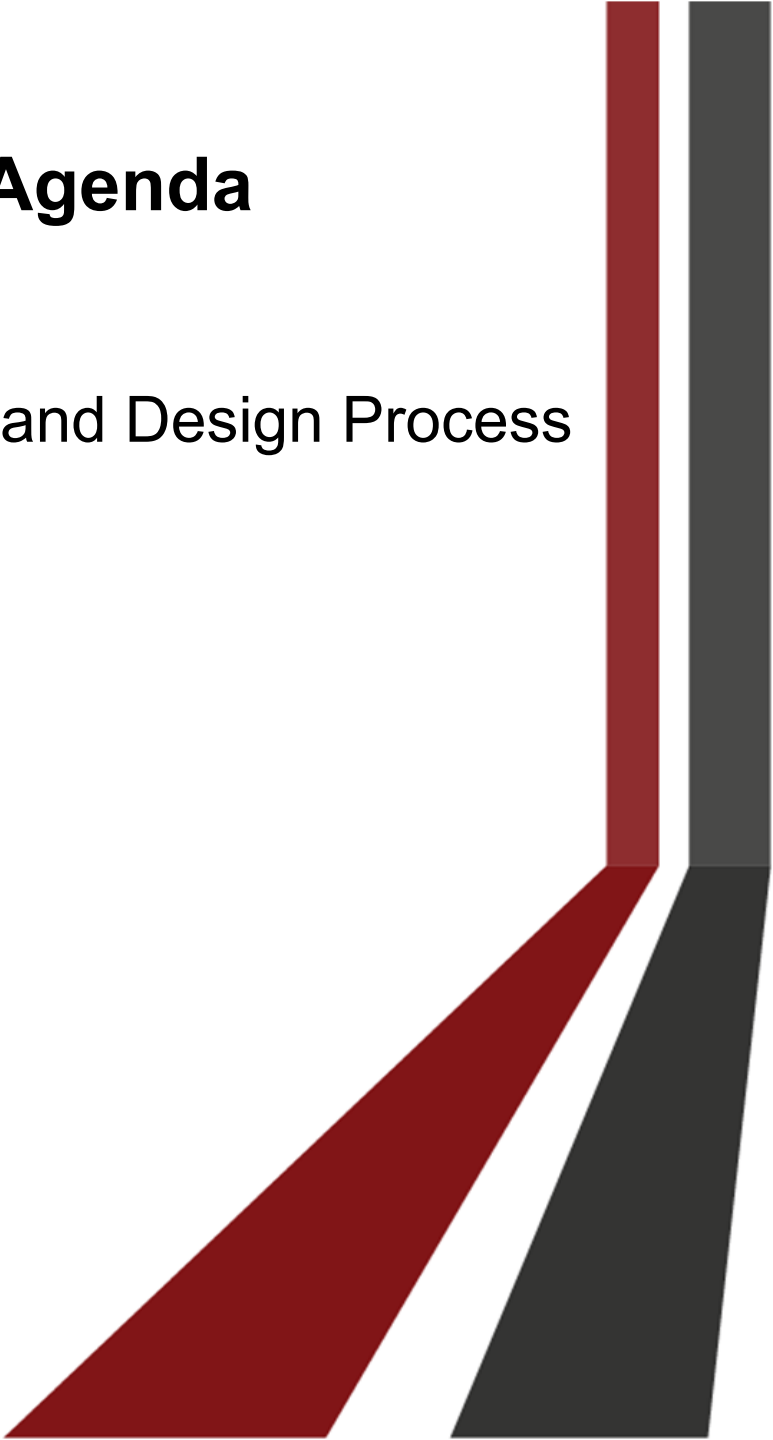ASSOCIATION

OnTargetIncentives
COMPENSATION SOLUTIONS

Part 5: Variable Compensation

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Managing Principal, OnTarget Incentives

# Introduction and Agenda

- The Basics

- Incentive Compensation Strategy and Design Process

  – Communications

  – Key Principles

- Governance

- Administration and Payout

- Miscellaneous

Variable Compensation Definitions

- Broad version: Any compensation that varies based on metrics other than **time**

    - Stock-based compensation

    - Corporate bonus programs

    - Cash and non-cash contests

    - And…

- Narrow version: Any compensation that varies based on **individual performance** or sometimes **team performance**

Variable Compensation Types

- Non-Sales Bonus Programs

  – Call center phone agents

- Sales Incentive Programs

  – Commissions

  – Bonuses
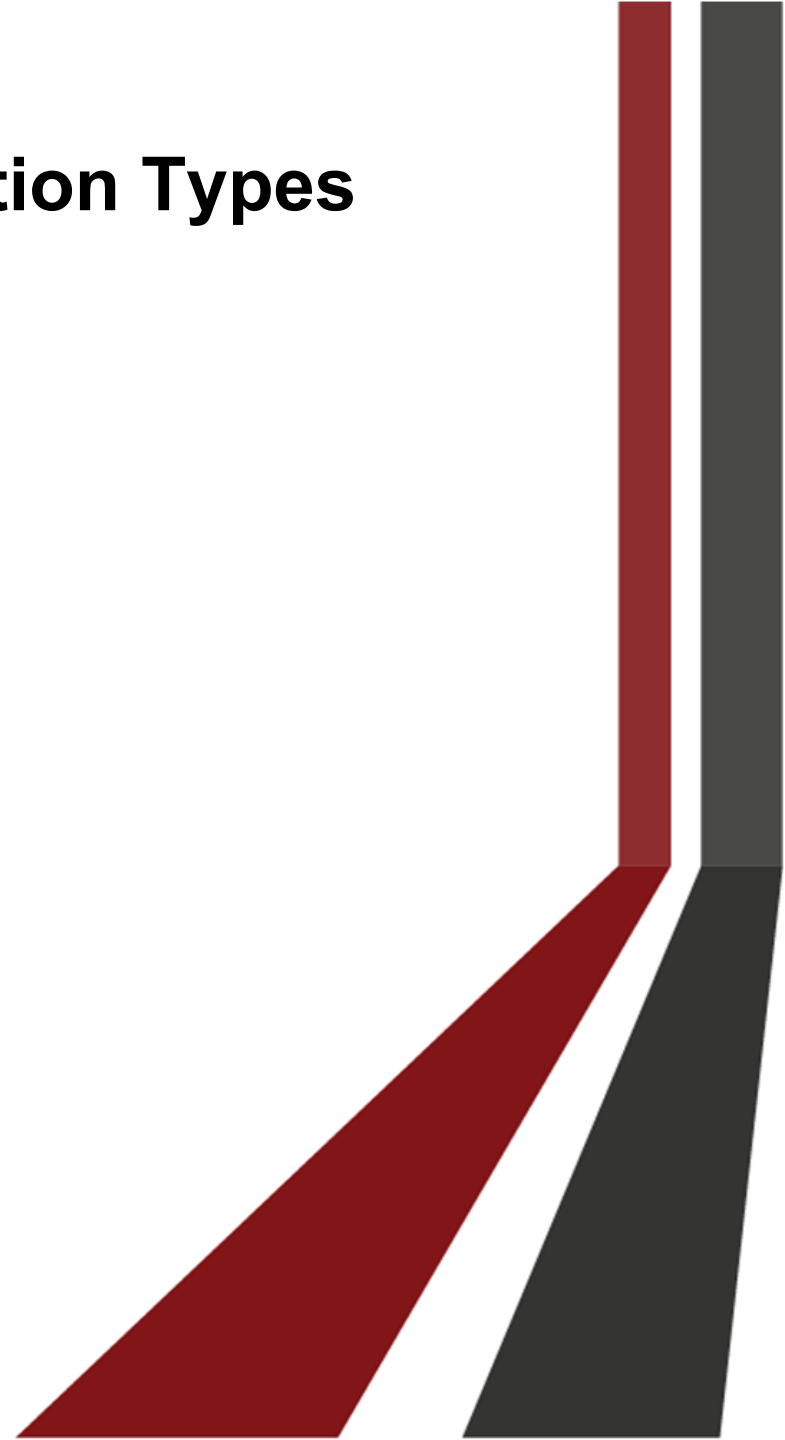
Variable Compensation Eligibility

- Key question: how well can we **quantify** the performance of this role?

  – Car Salesman

  – Call Center Customer Service Rep

  – HR Business Partner

  – Software Developer

  – Shoe Cobbler

  – Software Presales Rep

- What do we mean by quantify?

  – Numerically Measurable

  – Degree of influence

 – Team Performance vs Individual Performance
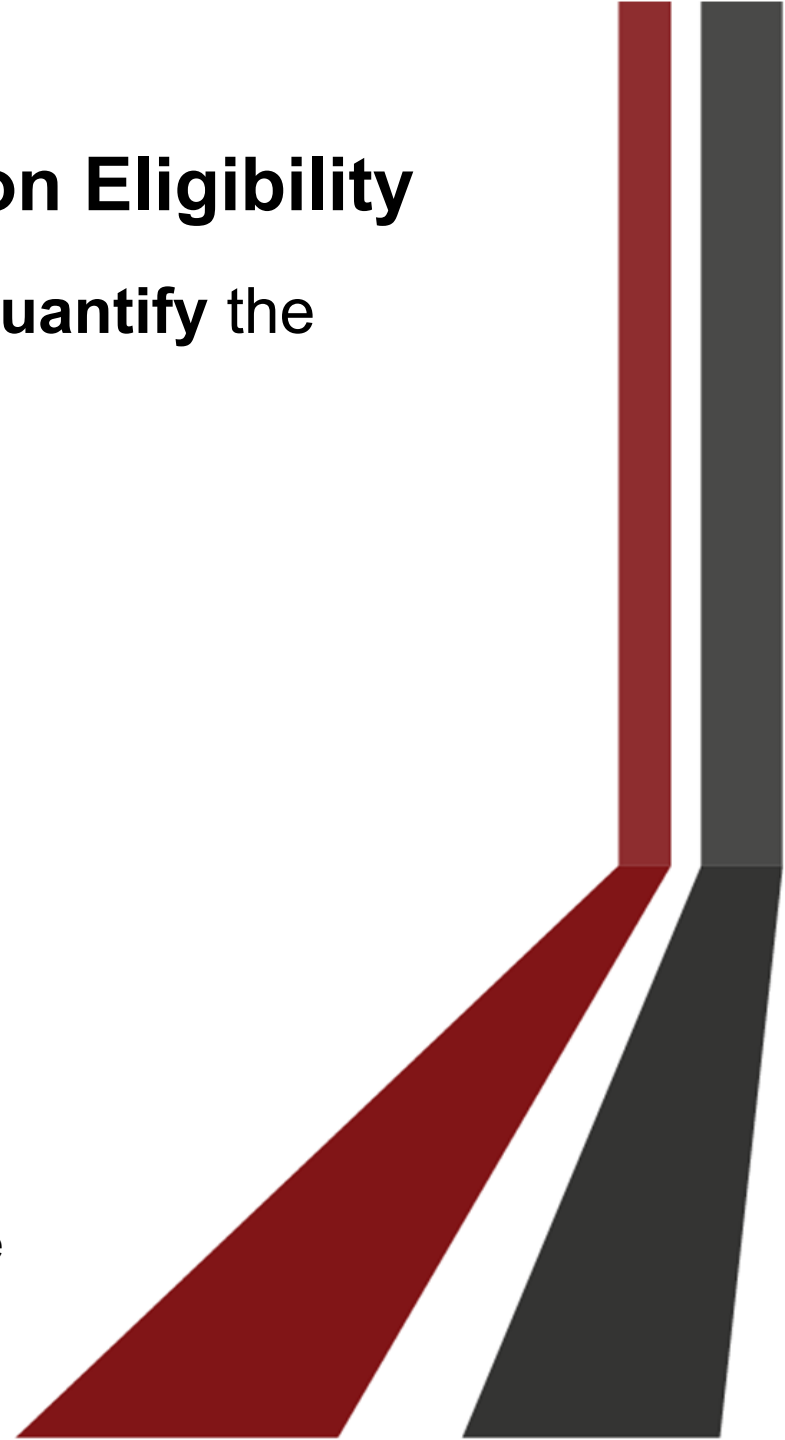
Incentive Planning Process

- Phase 1 – Eligibility

- Phase 2 – Compensation Target-Setting

- Phase 3 – Role Responsibilities and Component Decisions

- Phase 4 – Payout Modeling and Risk Management

- Phase 5 – Documentation and Roll-out
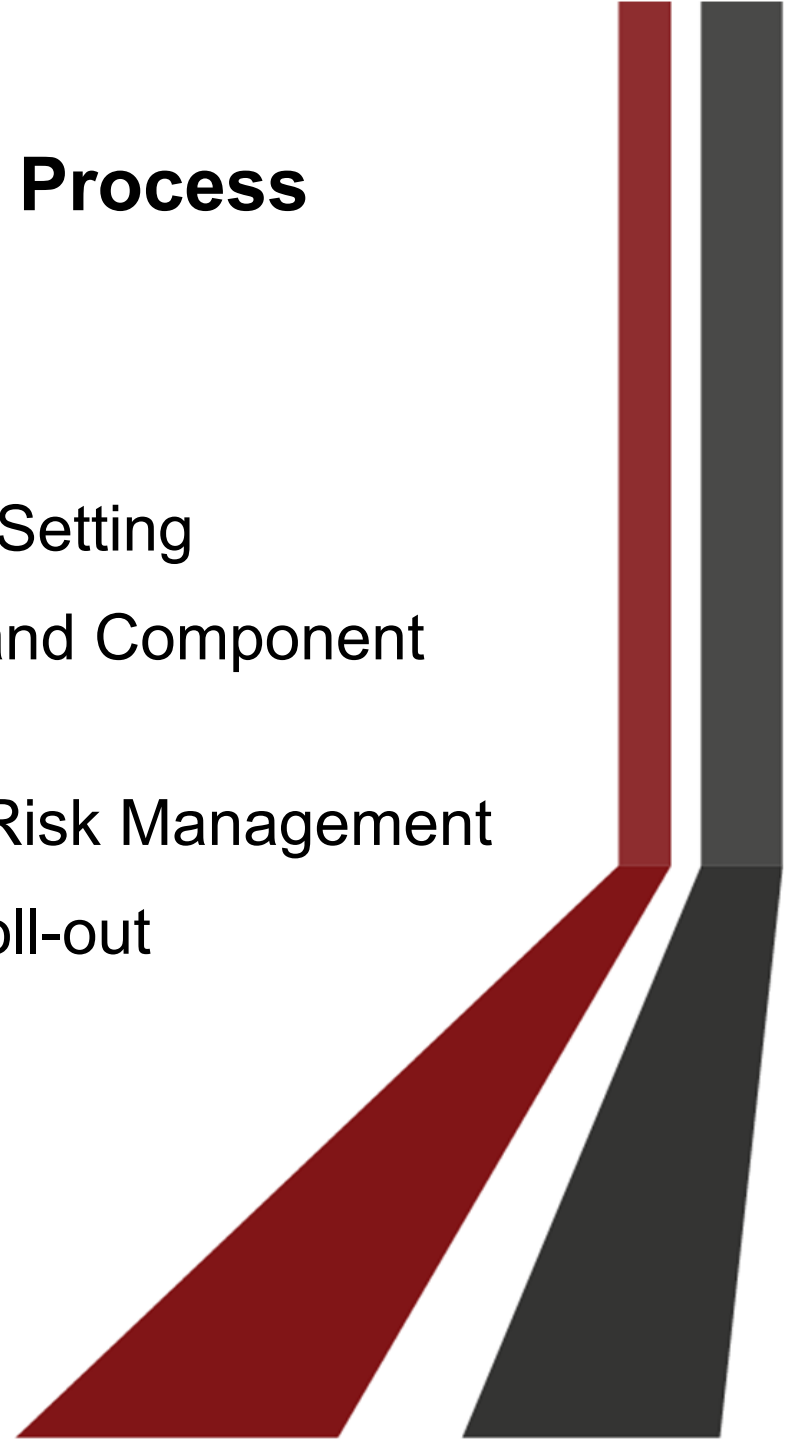
Phase 1 – Eligibility

- Inputs

  - Accurate and relevant job descriptions

    - Responsible, not *involved*

  - Documented Sales Strategy

  - Documented Rules of Engagement

- Process

  - Determine degree of customer influence required for each role (sales) or quantifiable individual performance (non-sales)

- Outputs

 - Role-level Variable Compensation Eligibility Decisions
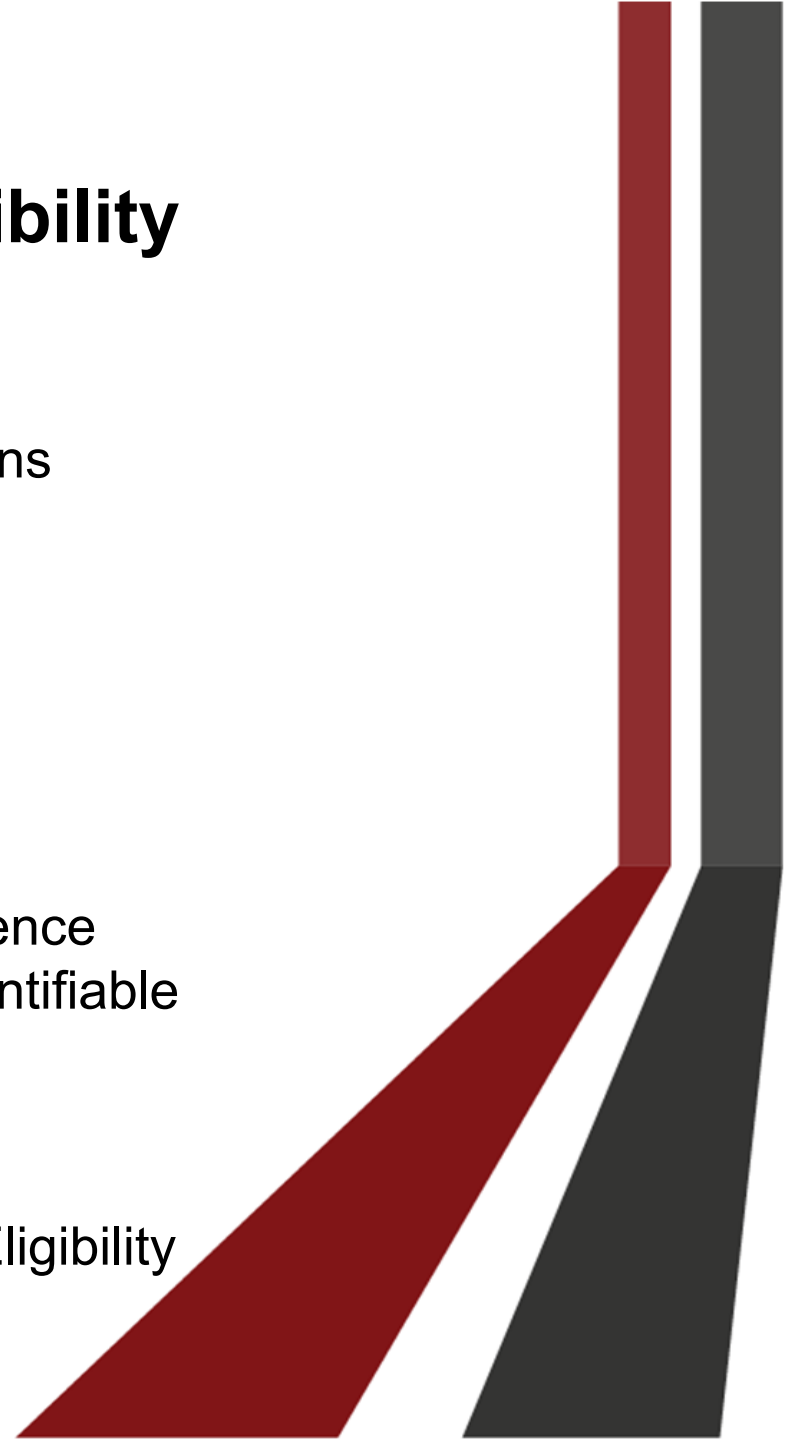
Phase 2 – Compensation Target-Setting

- Inputs

  - Accurate and relevant job descriptions for Variable Compensation eligible roles

  - External and internal benchmarking data of Total Compensation Targets and Pay Mixes

    - Internal Benchmarking Concept – "Effective" Comp Targets

- Process

  - Using all available benchmarking data, set Total Compensation Targets

  - Sales Roles - Based on how much customer influence/persuasion is included in role, decide on pay-mix. More persuasion-heavy roles should have more at-risk pay, and therefore more upside and downside

  - Non-Sales Roles – no more leveraged than 80/20

- Outputs

 - Total Compensation Targets, Salary Ranges and Sales Incentive Targets

Phase 3 – Role Responsibilities and Component Decisions

- Inputs

  - Job Descriptions

  - Knowledge of Data Sources

- Process

  - Decide what compensation components should be

    - Keep to a maximum of 3-4, with no single component being under a 20% weight

- Outputs

  - Components with Weights
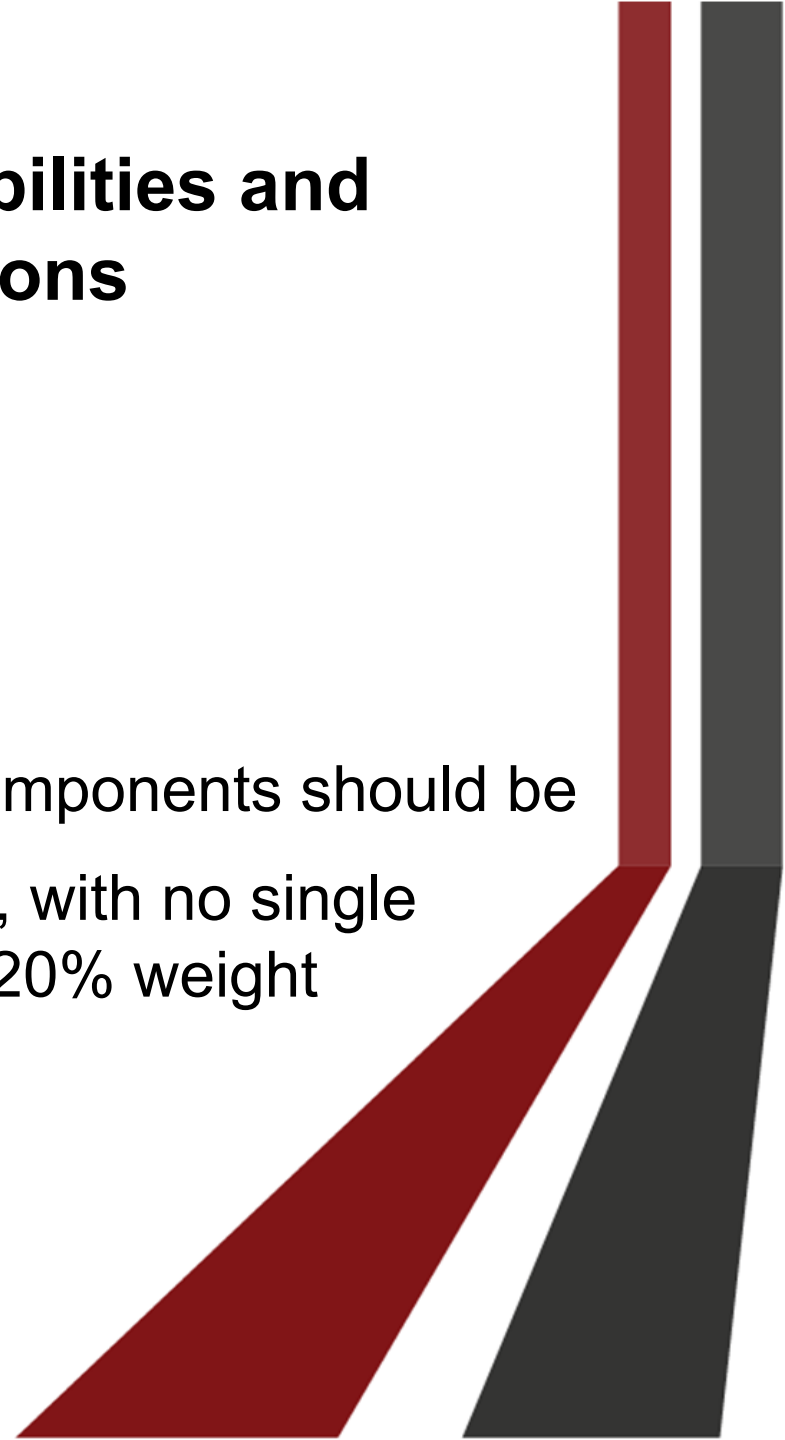
Phase 4 – Payout Modeling and Risk Management

- Inputs

  – Historical Performance Data of chosen Components

  – Historical Payout Data

- Process

  – Discuss how much upside or downside is appropriate for each component

  – Using past performance data, calculate how top, bottom and average performers would do in the new model

  – Go through multiple iterations as needed

- Outputs

 – Component details and payout scales are fine-tuned
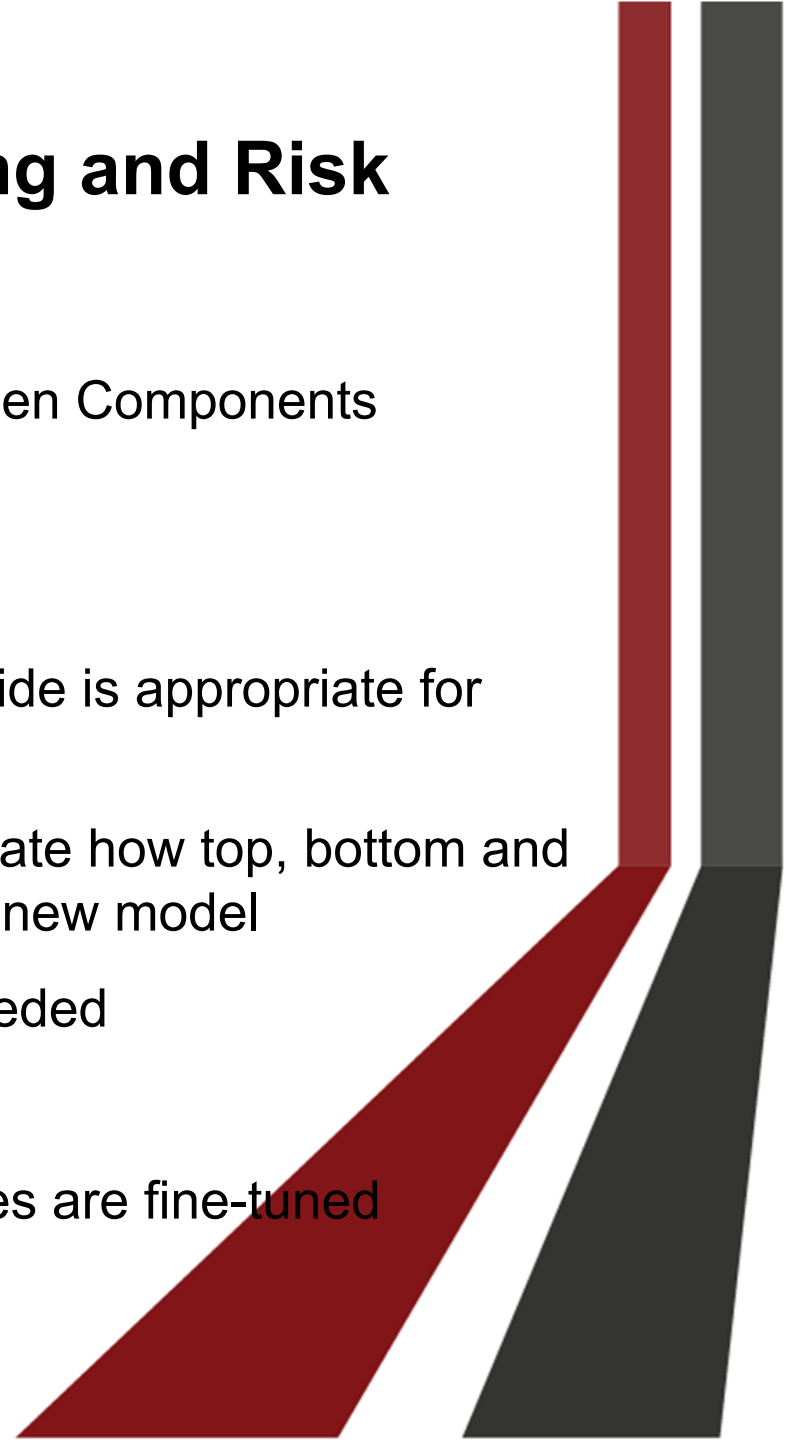
Phase 5 – Communications and Documentation

- Inputs
  - Finalized and approved plan structures

- Process
  - Create plan documents, FAQ documents, and presentations for each role
  - Hold Roll-out meetings led by Departmental/Sales Leadership (not Compensation Leadership) since the compensation plans are just tools to support the Departmental/Sales Strategy
    - Change Management
  - Hold 1 on 1 roll-out meetings when quotas are finalized

- Outputs
  - Plans are communicated and ready to administer
  - Plan Distribution and Acknowledgement

Incentive Design Key Principles

- Be consistent across roles and plans. Do not force a one-size-fits-all approach if real role differences exist.

- Offer affordable upside to constantly motivate reps to reach the next level of performance.

- Structure plans so that whenever appropriate, while working a deal a sales rep can understand what their potential earnings would be for closing it. Make sure the sales rep understands their priorities.
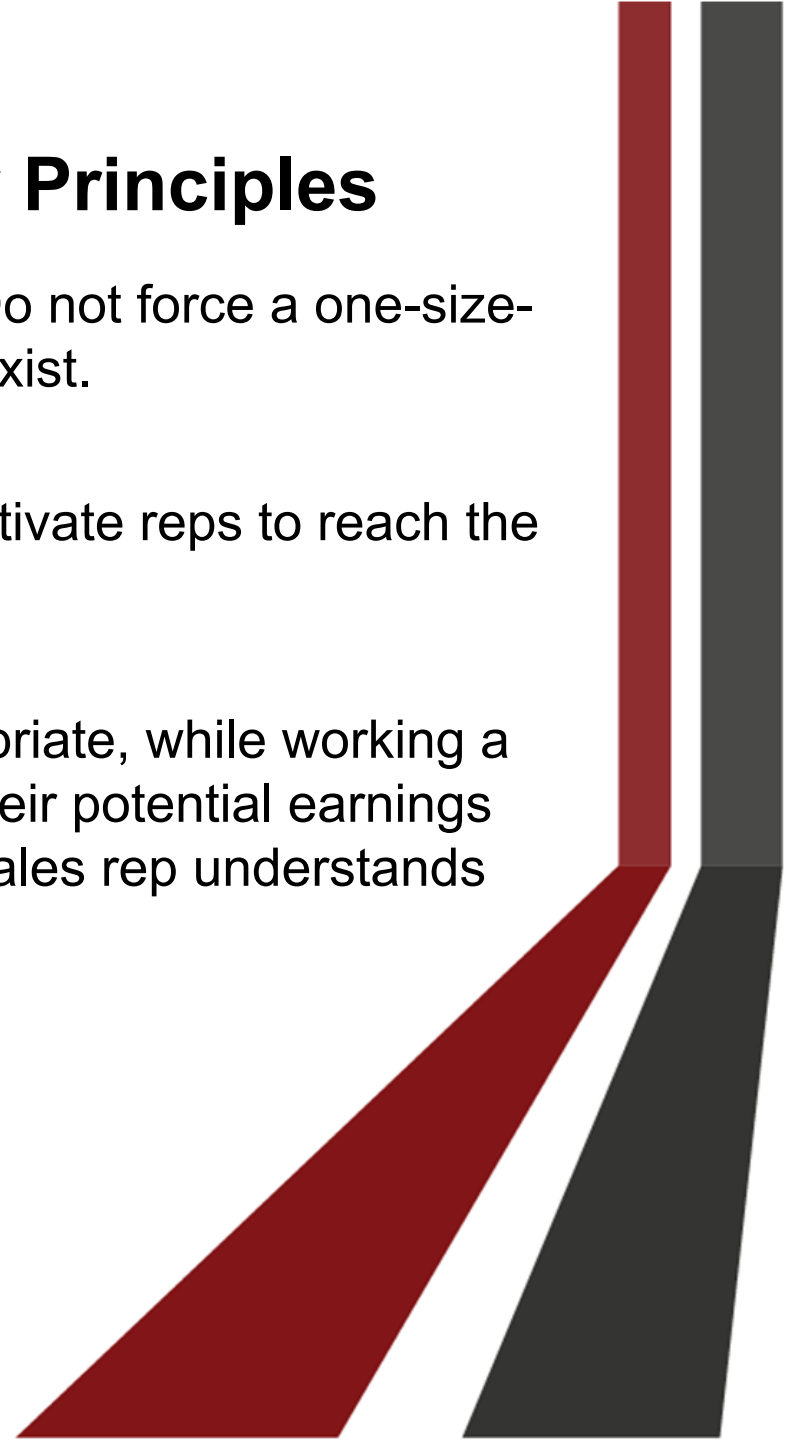
Incentive Design Key Principles Continued

- Seek out the true ways that high performers differentiate themselves from low performers. Talk with management about how they identify those high performers.

- Recognize that not all books of business are the same. Sometimes compensation targets should be different because of customer or book of business differences.

- On Team vs Individual Incentives, keep the influence principle in mind and apply it to leverage/pay mix.

- Above all else, always seek to keep things as **simple as possible**.

Governance – Organizational Structure

- Organizational Structure
  - Centralized vs Decentralized
  - Functions
    - Benchmarking
    - Design/Strategy
    - Technology
    - Financial Analysis/Modeling
    - Reporting
    - Payout Cycle Administration
    - Quota/Performance Target-Setting
    - Audit and Compliance
    - Policy Management
      - Guarantees, retention bonuses, etc.
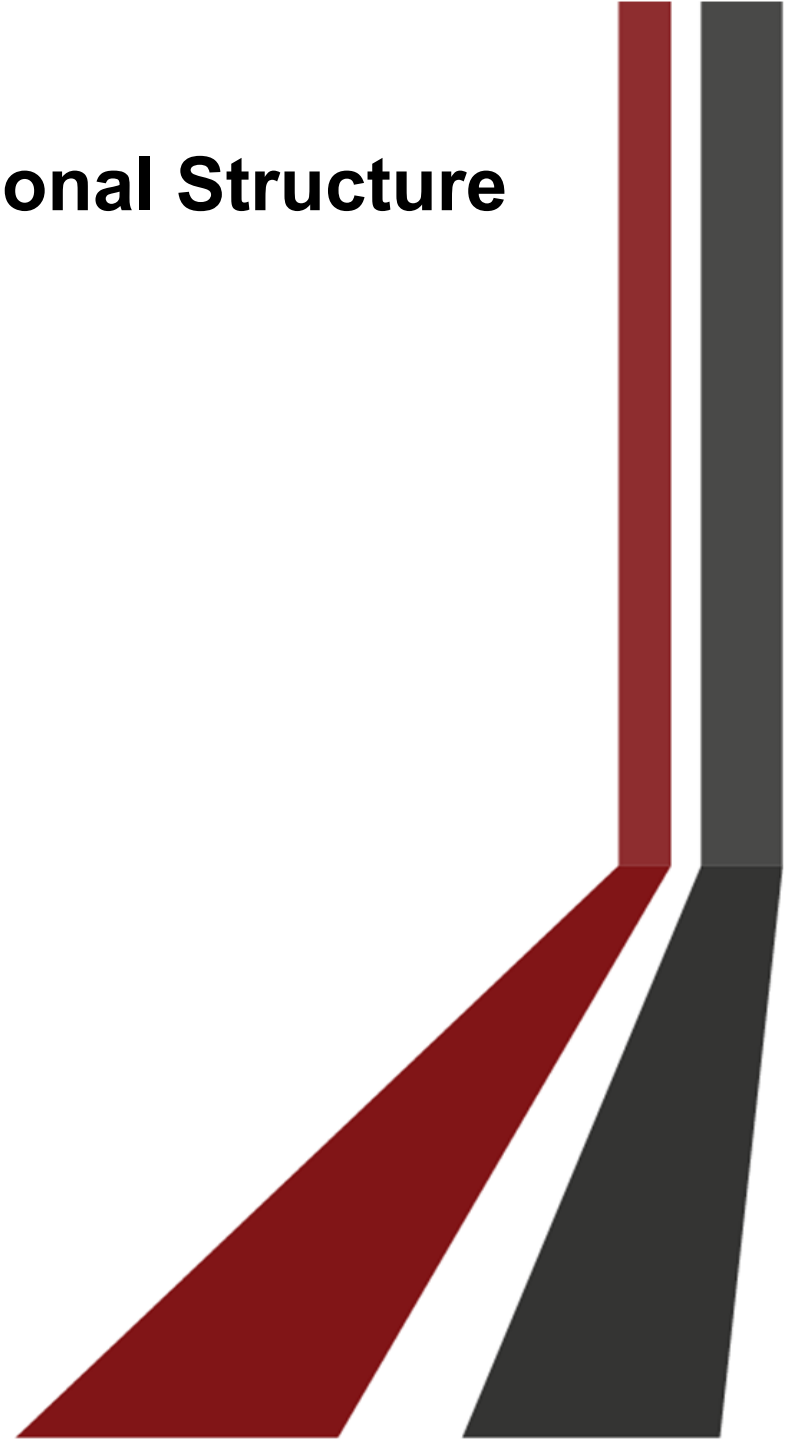
Governance - Committees

- Plan Design
  - HR
  - Finance
  - Sales (or departmental leadership for applicable non-sales dept)
  - Sales Ops
  - IT

- Exception/Policy Administration
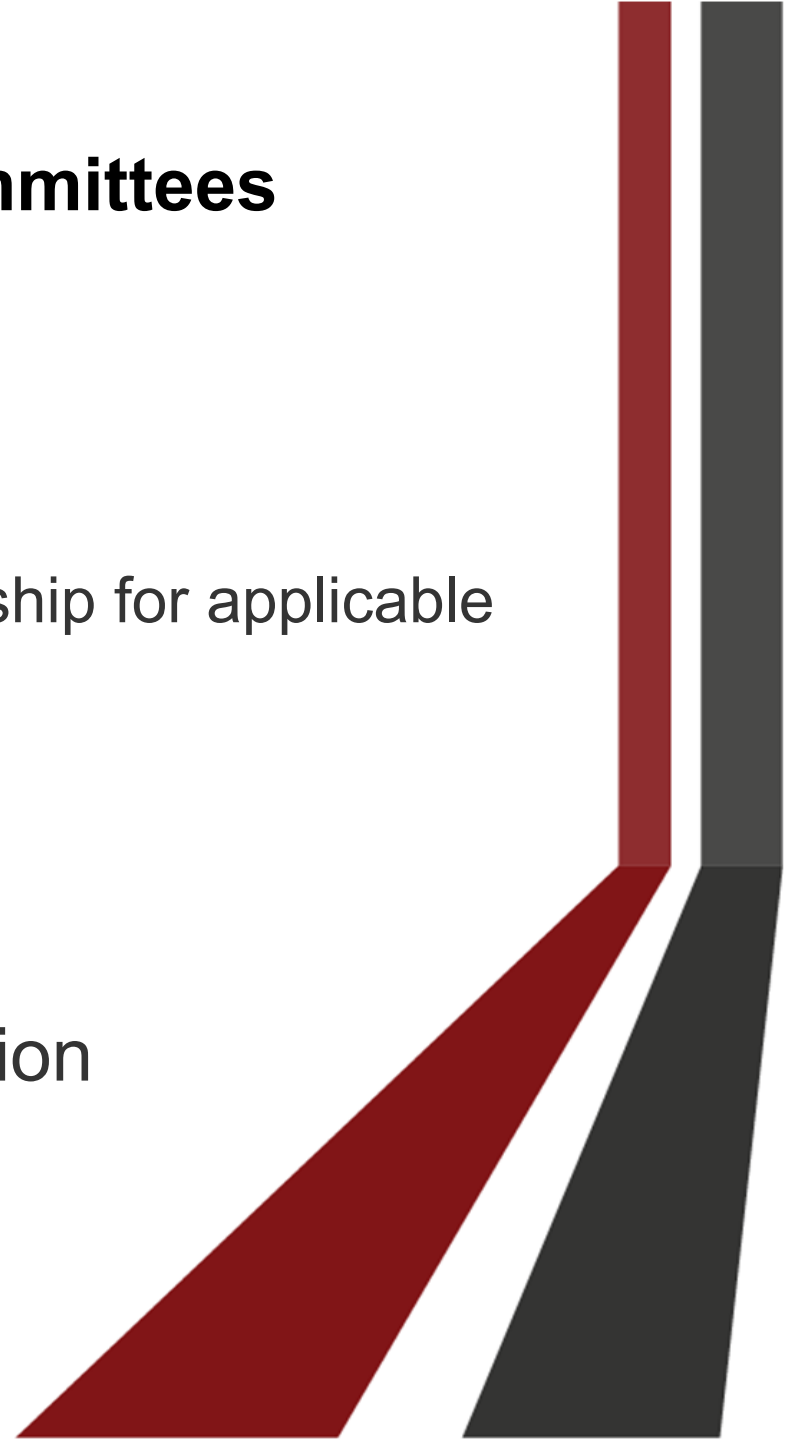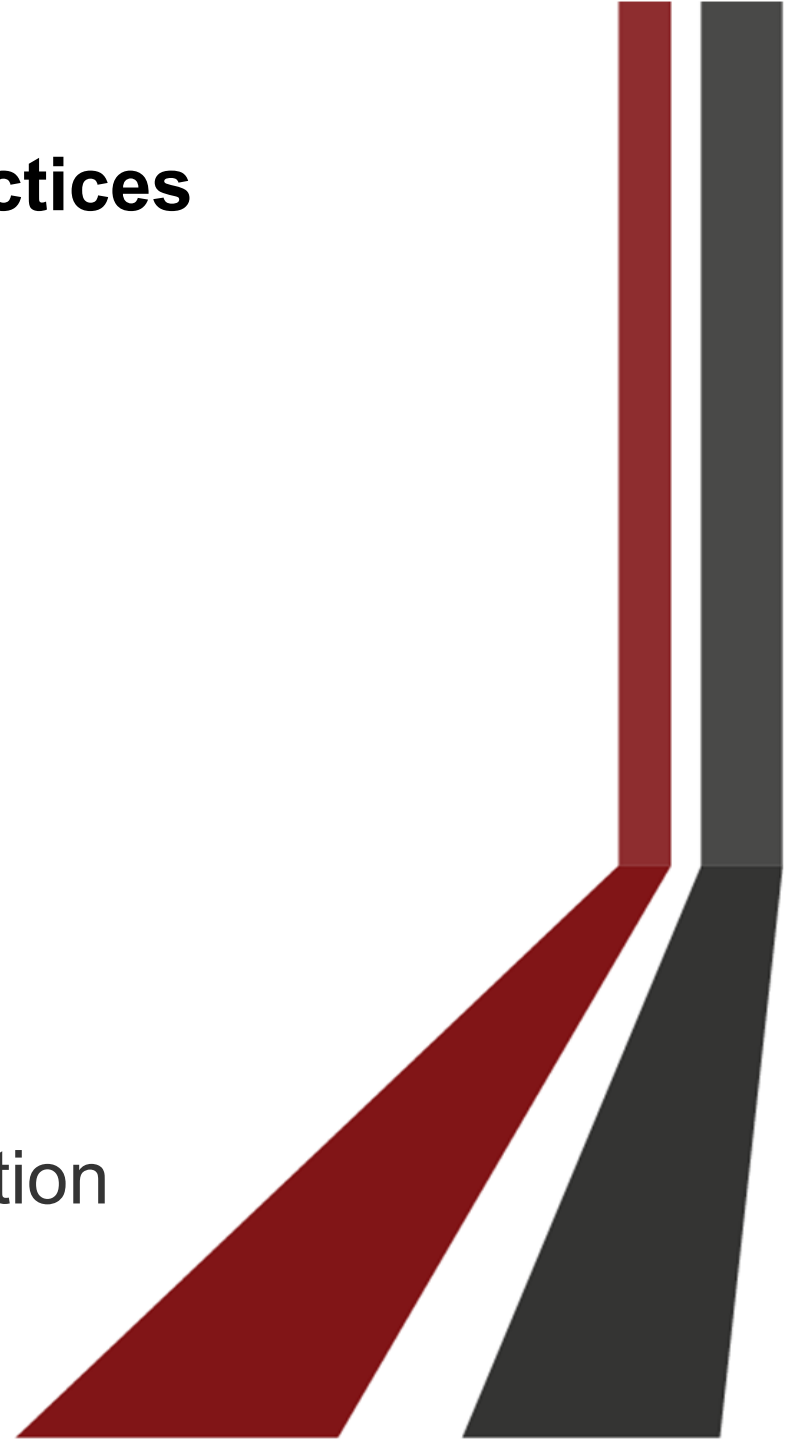
Administration and Payout

- Technology Options
  - Excel/Access
  - SPM/ICM Tools
    - Vendors
      - SAP-Callidus
      - Xactly
      - IBM
      - Others
  - Factors for choosing between tools
    - Cost
    - Connection to other tools (HRIS, CRM, financial systems)
    - Flexibility and Quality of Reporting
    - Flexibility of different plan types
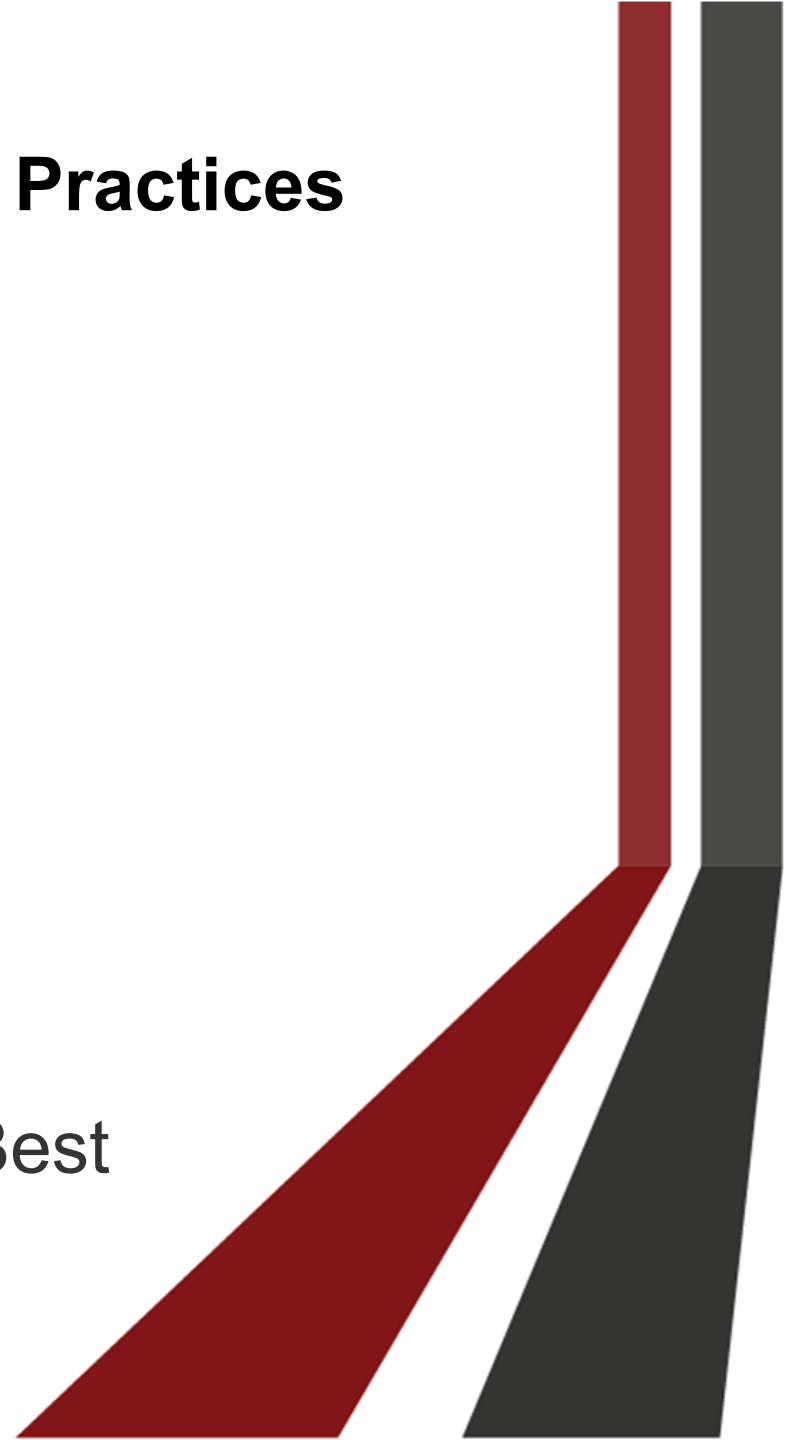   - Admin usability

Policy Best Practices

- Plan Exceptions

- Guarantees

- Sign-on Bonuses

- SPIFFS and Contests

- Jumbo-size Sale Risk Mitigation

Administration Best Practices

- Payout Frequency

- Audits

- Legal/Compliance

  – Sales Crediting

- Performance Target/Quota Best Practices

Any questions?