In Pursuit of the Holy Grail: Developing the Ultimate Sales & Recruiter Comp Plan

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In Pursuit of the Holy Grail: Developing the Ultimate Sales & Recruiter Comp Plan

Agenda

- Introductions
- Compensation Planning: Some Fundamentals
- Sample Plans
- Key Performance Metrics
- Q&A
- Other Resources
Compensation Planning: The Fundamentals

Good compensation programs......

1. Are aligned with the company’s strategy
2. Reward the behaviors that drive the results
3. Recognize the difference between results and effort
4. Emphasize pay for performance and reward superior performance with “accelerators”
Good compensation programs......

5. Fall within a range of acceptable impact to the company’s overall profitability

6. Are fair, consistent and are predominately based on quantitative instead of subjective results

7. Are well communicated, transparent and easy to understand

8. Are uniform for groups of people performing the same role
Compensation Planning: What Do You Want To Incent?

- New starts
- Growing new GM$
- Achieving YTD GM% Tiers
- Increased GM%
- Business with new customers
- Growing GM$ or BHC at existing customers
- High SLA grades
- Meeting or beating ramp-up (for newer producers)
- Targeted activities (i.e. submittals)...but be careful
- Team Goals
- Combination of one or more of above
Compensation Planning: What Do You NOT Want To Incent

Things to be careful of when designing your plans:

• To easy to “cruise”
  – Ride large BHC with little new activity
  – Not enough leverage....salary too high

• Too easy to “game the system”

• High GM$ at the cost of low GM%

• Too hard to make $$ so people give up

• Too easy to make $$ so hard to cut back
Sales and Recruiting Comp Plans
Salaries and Guarantees

Good Rules To Follow For Salary Administration

• Strive for uniform salary structure for all producers in the same class....and have very few classes!
• Assume they will know....and be able to justify
• Tenure or years of experience is not important; recent production is!
Good Rules To Follow For Salary Administration

• For high leverage plans, 50-50 ratio after ramp up time is a good minimum ratio, 30-70 salary to variable comp for star producers

• Use monthly bonus in lieu of salary increases for great producers......keeps them focused!

• Use guarantees to attract the right talent vs. upsetting your salary structure!
Sales and Recruiting Comp Plans
Salaries and Guarantees

Guarantees – Best Practices

• Avoid future headaches – guarantees are much better than overpaying on salary
• They provide a “runway” or safety net for good producers to get up to speed upon initial hire
• Sell potential new hires on the merits vs. them selling you on a high salary!
• Mechanics of an “unrecoverable draw” guarantee
Guarantees – Best Practices

• Let them know up front what typical HC needs to be to “cover” their draw

• Frequent communication on progress – no surprises!

• Treat guarantees like an investment (that is what it is) and don’t wait until the end to cut your losses!
Sales and Recruiting Comp Plans
Common Flaws and Mistakes

• Multiple plans (particularly salaries) that are hard to justify
• Lack of transparency – lots of “one offs” to keep individuals happy
• Using high salaries instead of guarantees to attract new hires
• Incenting the wrong behavior
• Allowing large producers to cruise
• Too complicated and hard to understand or administer
• Too rich so you can’t make any profit!
Sales and Recruiting Comp Plans
Examples

Comp plan that rewards GM$ (Spread)

• Commission % based on amount of weekly or monthly cumulative GM$
• The higher the GM$ the higher the commission %
• Probably the most common plan in our industry
• Pros: easy to administer, easy to understand
• Cons: doesn’t incent/drive higher GM% and can allow “cruising” at higher levels of GM$
Sales and Recruiting Comp Plans
Examples

Comp plan that rewards GM%

- Commission based on GM% of individual deals
- The higher the GM% the higher the commission
- Pros: will drive GM% higher; will promote better negotiating skills
- Cons: Harder to administer; sometimes incents turning down business, can also promote “cruising”
Sales and Recruiting Comp Plans Examples

Comp Plans That Rewards Starts

- Each person has monthly Start Goal (say 2)
- A persons commissions are at 100% of plan if start target achieved
- A persons commissions are above 100% of plan if they beat their start target
- A persons commissions are at below 100% of plan if start target is missed
- May want to do this quarterly vs. monthly
Sales and Recruiting Comp Plans
Examples

Comp plan that rewards Starts (continued)

- May want to administer quarterly: 6 per quarter (evens out poor month and keeps them motivated)
- Consider “reward” not “penalty” aspects of this plan
- Pros: Incent monthly starts, penalizes person who “sits’ on a large HC base
- Cons: Management oversight is needed to avoid bad deals just to get starts
Sales and Recruiting Comp Plans
Examples

Start Bonus, No Commissions

• Pay one time bonus for every start (ex: $1000 - $2,000)
• Amount depends on GM$ or GM% or duration
• Additional amounts for new customer, growth of HC at a customer, other desirable behavior
• Pros: Easy to understand, easy to administer, incentive to always be focused on new starts
• Also good plan if you have lots of FT salaried consultants
• Cons: Needs to be competitive with more traditional commission/annuity based plans
Sales and Recruiting Comp Plans
Examples

“No Touch” VMS Accounts: Sales & Service

• Separate “sales” from “service”
• For sales person who brought in the business:
  – Transition over to service team as soon as contract is signed (and he/she starts finding new business at new accounts!)
  – Pay them one time bonus each time the cumulative GM$ hits new tiers over the first 12-24 months then done
  – Make sure bonus $$ are in line (affordable) with the VMS
• For person(s) who service the business:
  – Low leverage plan; i.e. salary is >80% of comp
  – Small bonus for starts ($100-200)
  – Other bonus opportunities for following SLA’s/good report card, etc.
Sales and Recruiting Comp Plans Examples

“No Touch” VMS Accounts: Recruiting

• Assign recruiters based on quality of Req
  – Low quality to sourcers or entry level recruiters
  – Higher quality to more seasoned recruiters
  – Make a career path/promotion to go from one to the other

• Heavy focus on submittal activity. Consider bonus for beating targets

• Consider off-shore for some or most of your recruiting needs

• Avoid mixing No Touch with Relationship business within same team (or location?)
Sales and Recruiting Comp Plans
Examples

Hybrid comp plans that incorporate several incentives

• Use GM% comp plan and add bonuses for hitting YTD GM$ thresholds (drives good GM% and rewards superior GM$)
• Bonus for specific activities: new customers, building HC at a customer, team achievements, etc.
• Lead programs
• Monthly bonus for high GM$
• Monthly bonus for most new GM$ or starts
• Be attentive to what you are trying to incent and make sure plans promote desired behavior!
Sales and Recruiting Comp Plans
Key Performance Metrics

“You Can’t Manage What You Don’t Measure”!

Sample Comp Plan Key Performance Metrics:

• Sales and Recruiting Expense Ratios
• Contribution Margin
• Breakeven Margin
• P.O.T (Production Over Tenure) Standards
• Leverage Ratio: Amount of total comp that is variable
Examples & Resources

The next several slides are some examples and other resources to use as you work on perfecting your sales and recruiter comp plans
Sales and Recruiting Comp Plans

Tracking and Measuring Impact & Affordability

Tracking Selling and Recruiting Expense (ECR)

• Selling Expense Calculation:
  – Salaries, commissions, bonuses for all sales people
  – Employer Taxes
  – Employer Benefits
  – T&E Reimbursement
  – Other direct costs: i.e. headhunter fees, contests, etc.
  – Same calculations for Recruiters
  – Ideally group this together on your chart of accounts
Sales and Recruiting Comp Plans
Tracking and Measuring Impact & Affordability

Tracking Selling and Recruiting Expense (ECR)

- Selling & Recruiting expense ratios:
  - Compares S&R expense to Gross Margin $
  - Make sure you are comparing the same periods
  - Do a ratio for each (Selling and Recruiting)
  - Good target is for Selling and Recruiting expense ratio is 33% of GM$
  - Watch out if below 30% or above 40%

- Tracking and reviewing monthly will tell you a lot!
Sales and Recruiting Comp Plans
Tracking and Measuring Impact & Affordability

What if S&R ratio is above desired target?
• Comp plans may be too rich
• Comp plan may be inappropriate for certain types of business (VMS/no manager contact does not support “full” sales commissions for example)
• Too many below average performers
• Heavy weighting of new people (not yet up to full production)

What if S&R ratio is below desired target?
• Comp plan may not be competitive
• You have a hybrid model i.e. salaried consultants
Sales and Recruiting Comp Plans

Key Performance Metrics

Breakeven Margin: The point in which a producers HC/GM$ are covering their fully loaded cost

• “Full loaded cost” is the same as “selling expense” but for an individual
• Up to this point you are loosing money on this person
• Look at “Breakeven Month” & “Breakeven Contribution”
• Good to establish timeframes for a person to get past both breakeven points above
Sales and Recruiting Comp Plans

Key Performance Metrics

Production Over Tenure (P.O.T.) Standards

• Excellent method for establishing expectations and managing performance

• Methodology:
  – Assume producers have 24 months from hire to be fully ramped
  – For each month 1-24 establish “Minimum”, “Average” and “Star” GM$ targets.
  – After 24 months tenure, targets remain the same
  – Targets need to be consistent and you may have different ones for sales people vs. recruiters of inexperienced vs. experience hires
Sales and Recruiting Comp Plans
Key Performance Metrics

Production Over Tenure (P.O.T.) Standards

• Methodology (continued):
  – Track each persons actual monthly GM$ to standards and have them see their report
  – Consider everyone seeing everyone's to promote competitiveness
  – Be careful in establishing your “minimum” targets: if no consequences for being below; the process lacks credibility and effectiveness

• Tie GM$ targets to breakeven and contribution margin targets
# Sales and Recruiting Comp Plans

## Sample P.O.T Report

<table>
<thead>
<tr>
<th>Name</th>
<th>Months in Position</th>
<th>Current HC</th>
<th>April GM$ Actual</th>
<th>Performance Standards</th>
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<td>Sales Person #1</td>
<td>&gt;24</td>
<td>26</td>
<td>$96,184</td>
<td>Minimum GM$: $40,000</td>
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<td></td>
<td></td>
<td>Employee Performance: Above Average</td>
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Sales and Recruiting Comp Plans

Some Final Thoughts

• Implement at beginning of new year
• Introduce 6 – 8 weeks before implementation
• Do modeling to show what they make “old plan” vs. “new plan”
• Have an upside! (Better for high end GM production, etc.)
• Offer a review period with time for Q&A
• Be open to universal changes (if they make sense) but not one-offs
• Avoid “grandfathering” of alternative plans
Sales and Recruiting Comp Plans

Some Final Thoughts

• Use kickers as incentives to up the prize (# of placements; Highest monthly/quarterly GM$, etc.)

• Clearly define the reason for the change. Don’t dictate.

• Test their ability to understand the plan (make them do the math).

• Address discontent head on. Do not let negative discussions linger.
### Sales and Recruiting Comp Plans

#### Managing Change

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Your Turn

Q&A
In Pursuit of the Holy Grail: Developing the Ultimate Sales & Recruiter Comp Plan

Thank-You!

Follow up questions? Contact Tom or Rick:
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