

How to Use Rewards to Drive Company Growth

And Transform Compensation into a
Profit-Driving Investment



Who We Are



- Compensation Design Firm
- Headquartered in Orange County, CA (near Irvine Spectrum)
- Founded in 1996
- Over 1,000 clients across North America



What to Expect



30-minute presentation

“How to Use Rewards to Drive Company Growth and Transform Compensation into a Profit-Driving Investment”

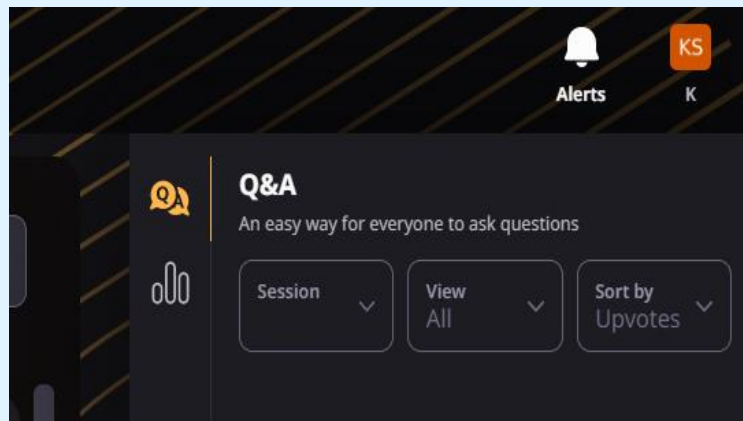


10-minute Q&A



2 poll questions

- Give us feedback
- Request a complimentary consultation



Key Questions

1. Do you consider compensation an investment or an expense?
2. Does your company's pay offering help or hinder profits and growth?
3. How do you measure the return on your company's compensation "spend"?
4. What performance results should you be rewarding?
5. In what way are all these really the same question?



What These Questions Reveal



Compensation is expensive. It's the biggest line item on the P&L.

Most business leaders don't know whether their pay offering is helping or hindering company growth.

A company's pay commitment must be allocated in a way that aligns with the results you want.

Those outcomes must lead to higher profits and increased growth. If not, what are you paying for?

5 Keys to Creating a Compensation Strategy that Drives Growth

- 1 – Define Value Creation
- 2 - Have a Clear Compensation Philosophy
- 3 - Transition from Incentives to Value Sharing
- 4 - Adopt a Balanced Pay Strategy
- 5 - Communicate a Growth Partnership



1 – Define Value Creation

Measure Productivity Profit



Item	Amount
Capital Account	\$20,000,000
Cost of Capital	12%
Capital Charge	\$2,400,000
Operating Income	\$10,000,000
Productivity Profit	\$7,600,000
Total Rewards Investment	\$25,000,000
ROTRI™ (Productivity Profit/Total Rewards Investment)	30.4%

Measure Productivity Profit



****Variable Pay Plans (Value Sharing) are financed from Productivity Profit**

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2 – Have a Clear Compensation Philosophy



Compensation Philosophy

A written statement of what the company is willing to “pay for.” Should be tied to value creation.

Compensation Philosophy Statement

- How value creation is defined.
- How value is shared—and with whom.
- How market pay standards apply.
- How guaranteed pay and value-sharing will be balanced.
- How short and long-term value-sharing will be balanced.
- How merit pay is defined.



3 – Transition from Incentives to Value Sharing

Reward Outcomes, Not Methods

Stephen R. Covey

1

"You cannot hold people responsible for results if you **supervise** their methods."

VisionLink

2

"You cannot hold people responsible for results if you **pay** them for their methods."

From Incentives to Value Sharing

The premise should be to promote value creation and value-sharing:

- “When you help us create value you participate in that value”
- Define value creation around the shareholders’ most important goals



Reward Productivity Profit



Productivity profit is that surplus that can be attributable to the contributions of your people, not just the contributions of capital.

4 – Adopt a Balanced Pay Strategy

8 Components of Pay



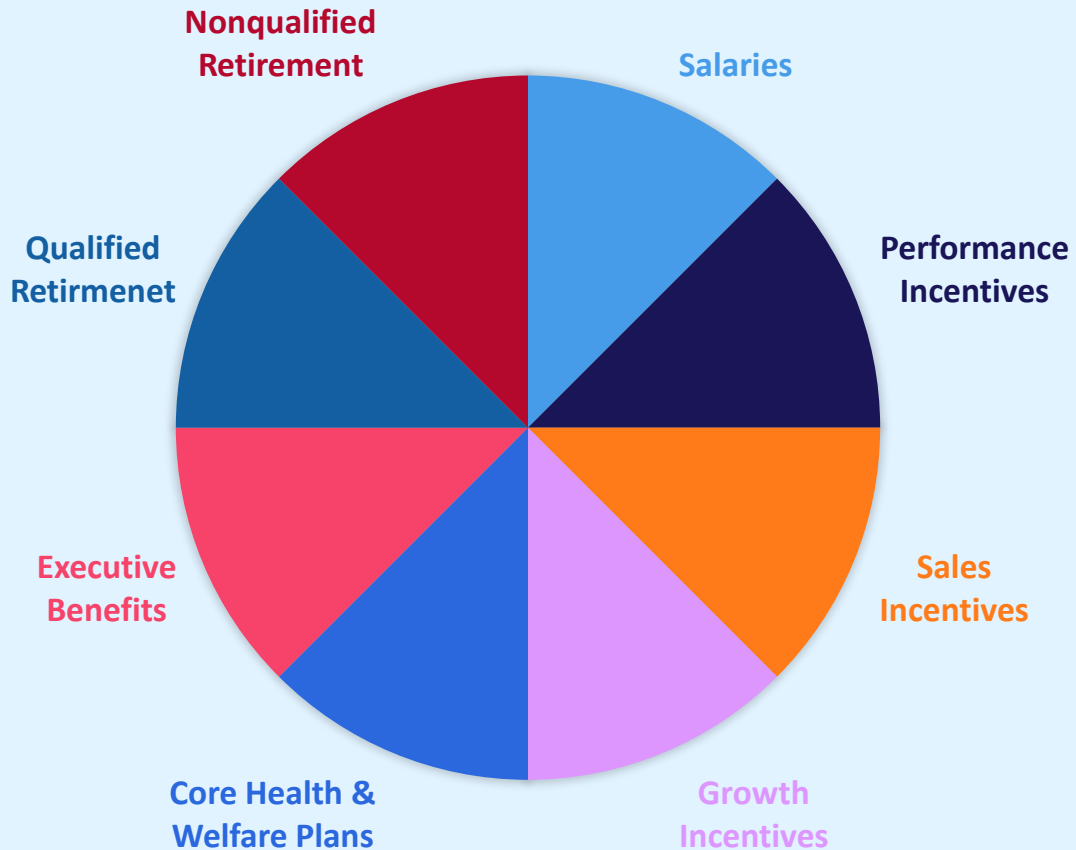
Benefits	Compensation
Core Benefits	Salary
Executive benefits	Performance incentives
Qualified retirement plans	Sales incentives
Supplemental retirement plans	Growth incentives (should be in the form of value sharing)

8 Components of Pay

Key Decision: Which pay components should we offer and how should they be balanced?

Benefits	Compensation
Core Benefits	Salary
Executive benefits	Performance incentives
Qualified retirement plans	Sales incentives
Supplemental retirement plans	Growth incentives (should be in the form of value sharing)

A Balanced Pay Offering = an Aligned Pay Offering



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

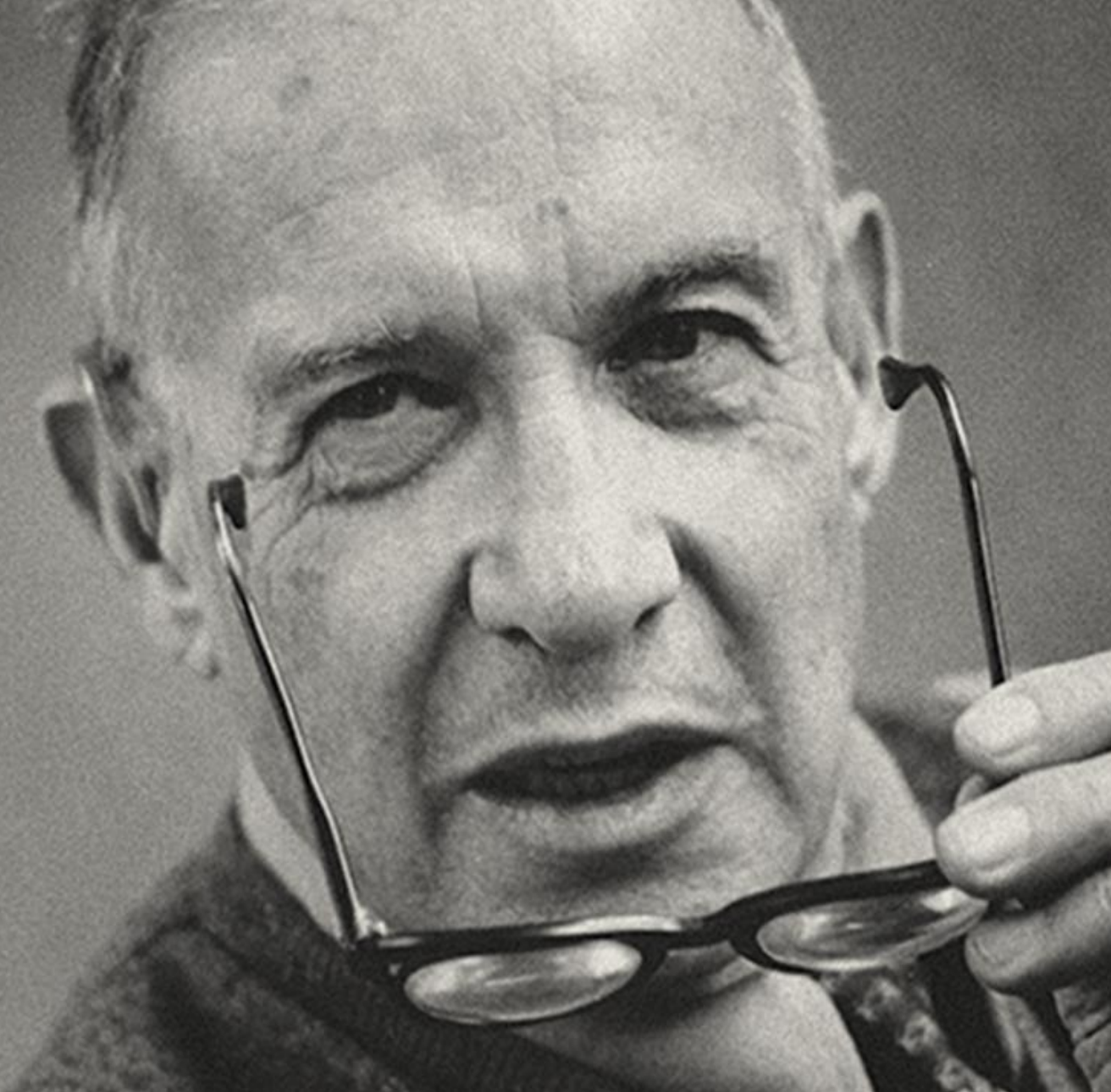
Giving employees an opportunity to optimize retirement values?
Operated with comprehensive fiduciary accountability?
Avoiding conflicts and minimizing expenses?

Nonqualified Retirement Plans

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

Peter Drucker once wrote that the manager's job is to keep his nose to the grindstone while lifting his eyes to the hills. He meant that every business has to operate in two modes at the same time: producing results today and preparing for tomorrow.

(Ken Favaro, Strategy+Business)



5 – Communicate a Growth Partnership

Give Context to Your Compensation Offering

- Here's our future.
- Here's how we're going to get there.
- Here's the role we picture for you.
- Here's how we encourage our people to grow and contribute.
- Here's our philosophy about pay and rewards.
- Here are our specific pay programs.
- Here's how our pay programs will work for you if we achieve our plan.



Employee Value Statement

Year	1	2	3	4	5
Targeted Results	100%	100%	100%	100%	100%
Salary	\$160,000	\$166,400	\$173,056	\$179,878	\$187,177
STVS	\$64,000	\$66,560	\$69,222	\$71,991	74,871
LTVS (EOY)	--	\$74,000	\$186,000	\$311,000	\$448,000
401(k) @7%	\$17,120	\$36,123	\$57,169	\$80,428	\$106,086
Total Cash	\$224,000	\$232,960	\$242,278	\$251,970	\$262,048
Wealth Accrual	\$17,120	\$110,123	\$243,169	\$391,428	\$554,086
Total Value	\$241,120	\$567,083	\$942,407	\$1,342,636	\$1,767,343

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Special Attendee Offer

Request your copy on the poll.



**What Is an Effective
Employee Value
Proposition?**

 visionlink

Q&A Next, But Remember to Take the Survey



Q & A



Thank You!



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