

SECTION IV

CHAPTER 29: Compensation Plans

Compensation Plans

As discussed in previous chapters (Sales Structure and Sales Management), many providers are transitioning the occupational health sales position to a target market sales position representing the health care system and its services to specific target audiences, such as payers, employers and their employees. The shift to employer target market and portfolio selling tends to strengthen the importance and value of the sales position within an organization. Consequently, salespeople are being recruited at a higher level of sales skills and experience, and are being offered higher base salaries with performance based compensation plans.

As the scope of responsibility (territory, product and sales management oversight) is expanded, sales personnel can be held accountable for tangible results and sales outcomes. The compensation plan needs to reflect the provider's sales outcome focus and, ultimately, the provider's return on investment.

Compensation plans need to be designed to drive the activities and results desired by the organization. Additionally, they need to recognize, value, and reward outcomes. A compensation plan should be developed with an outline, or template model, which can be updated each year with the new performance standards and outcomes derived from the annual sales planning process.

Compensation plans should provide base pay, benefits (core and supplemental), and variable (incentive) compensation. Variable compensation, historically called "commission," can be comprised of commission or referral fees paid by percentage or flat dollar, merit pay, and individual pay for performance, bonus payments, and team pay for performance. Variable pay components should identify pay frequency (e.g., monthly, quarterly or annually). Compensation plans should be kept simple, as it will need to be tracked, monitored, and used to calculate compensation payouts on a regular basis. Within the incentive pay plan it will be important for the organization to determine what the salesperson will receive credit and be accountable for. Typical questions to resolve are clinic revenues versus net; credit for new business versus growth of current accounts, decreased volumes due to capacity or physician coverage, collections that aren't at appropriate levels etc. Stay focused on the desired outcomes for the sales function and appropriate parameters of responsibility within their job. If they have focused on new business sales and delivered a 10% growth in new revenues to your program, they should not be penalized by your program's billing department's inability to collect payments.

Position descriptions, including responsibilities, expectations, and performance standards, should be reviewed and other internal positions (both program and organizational) evaluated for equity. Many providers are unfamiliar with sales compensation, base, and variable pay. Providers should also do an external search for market value from similar industries such as managed care, banking, brokerages, insurance, hotel and intangible sales organizations (selling services rather than tangible

products). This external search for market value will assist the provider in developing a strong base of reference information to support the compensation plan design request.

Performance Standards and Measures for Compensation Purposes

Performance standards and measures establish and drive the answers to the provider's central question, "What does our program want to achieve through this sales effort?" Once standards and measures are established, the compensation plan design focuses on the value, weight and compensation dollars to be affiliated with the desired sales outcomes. Sales outcomes that are valued by providers may include: increased client revenue, new clients, growth of business from current accounts, focused growth on profitable services, additional new covered lives, customer satisfaction levels, completed client profiles, or new patient visits.

The provider should develop compensation philosophy. This philosophy may indicate a focus on relationship development, retention and growth with key target audiences, customer satisfaction and service, growth of key service lines or enhanced image, identity, and awareness.

Once the compensation philosophy is developed, sales objectives should be identified. These objectives are related to actual sales force and staff management issues, not those placed within the sales plan or performance standards. Common objectives for a sales compensation plan may include: retention of experienced staff, recognition of high performance, motivation, reward for outstanding performance, and the differentiation between performance levels of partially meeting, fully meeting, or exceeding expectations. When developing compensation philosophy and compensation objectives, pay is not everything. Value must be attached to other, less tangible components, such as autonomy, corporate culture, relationships with peers and superiors, and the extent to which the salesperson feels valued and rewarded.

Base Pay and Annual Increases

Base pay should be externally competitive and usually fall within the 50th and 75th percentile of market compensation. Base pay also needs to be internally equitable within the provider organization's salary structure.

Salary ranges may need to be modified by staff skill, experience and knowledge, market size, scope, value to the service line(s), and sales performance standards and outcome expectations. Examples of a typical salary range for an occupational health sales professional are listed below with a summary of recommended benefit packages. Although these salary ranges are fluid, they serve as a representative range nationally. As the salesperson is being increasingly challenged with a higher skill and experience level requirement, the national base salary range has been elevated to between \$48,000 and \$88,000. The extreme range is due to the market value, organizational size and regional or urban/rural variations.

See Exhibit 29-1 on following page. Review your organization's salary survey data usually held within the Human Resources department. If not available, seek out Hewitt, Watson-Wyatt, Hay Group, Towers-Perrin for their current salary survey data.

Exhibit 29-1
Examples of Base Salary Ranges

Job Function	Single Site	Multi-Site/System
Vice President of Sales	65-85K	75-125K
Director of Sales	55-75K	68-88K
Manager of Sales	45-65K	55-75K
Sales Representative	48-68K	68-88K
Customer Service Representative	28-48K	32-52K*
Teleservices	18-32K	32-52K
Clerical Support	28-48K	48-68K

* This position usually becomes a requirement due to the volume of business and post-sales account management strategies impacting customer retention and growth. The position may either serve as a reporting function to the sales position, direct report to sales management serving the entire customer population or as a peer to the sales position.

Base salaries should be treated in a manner consistent with the institution's current standards. For example, a base salary will only be increased in concert with institution-wide annual cost-of-living and standard base pay increases. As an organization adds pay for performance programs and/or bonus payment plans, sales staff may opt out of an annual merit pay review in lieu of receiving variable compensation through the optional plans.

Establish Core and Supplemental Benefits

Core benefits are those that an organization provides to all employees at a comparable level to the salesperson. Supplemental benefits are intended to assist personnel in accomplishing their job functions or to meet current market standards. They may include a car allowance, car expense, car pool, cellular phone/car phone, pager, laptop computer, sales contact management software and training, club membership, sales training workshops and conferences and a calendar system. Additionally, organizations may need to offer expanded vacation benefits in order to be competitive when recruiting staff at a higher skill and experience level.

Exhibit 29-2
Example of Individual Salary Base Pay and Benefit Package

Base Range: \$48,00 - \$68,000
 Benefits: Standard benefit package
 Car allowance and cellular telephone
 Pager
 Laptop computer and appropriate software
 Sales contact management software system
 Contact database
 Training (computer, sales, and product)
 Expenses and mileage reimbursement
 Vacation time - three to four weeks

Variable Compensation

Variable compensation is the incentive compensation provided to a salesperson for meeting or exceeding performance standards. Variable pay can comprise up to 50% of the employee's total compensation package. Typically, a range of 60% base pay with 40% variable to a 75% base pay with 25% variable pay is provided in most provider-based occupational or portfolio sales programs. Pay for performance and other variable pay plans are designed to measure and reward sales behaviors, activities and results.

Merit Pay

Most healthcare organizations have adopted merit pay programs that enhance the traditional annual performance review. Merit pay is provided based upon the employee achieving targeted or above performance on identified objectives as determined by their manager. Merit pay programs will provide an incentive range of 0-7% annually.

Individual Pay for Performance

Pay for Performance programs have continued to gain favor as an option for variable or incentive compensation. Many senior health care management teams are being compensated through personal and team incentive compensation. Due to senior management's exposure to this compensation model, it has become easier to recommend this compensation format for the sales position.

A pay for performance plan provides a program with a positive measurement tool and is directly linked to institutional strategic initiatives such as revenue, expense management, customer service and retention, volume, new business development, and covered lives acquisition and retention. Pay for performance for the sales function takes the organization's strategic initiatives and the sales performance standards/objectives and translates them into quantifiable results that produce an actionable compensation payout.

Pay for performance provides measurement standards consistent with the product and allows occupational health programs to accurately measure a salesperson's contribution and ability to meet or exceed target objectives. The first step in setting up a pay for performance plan is to establish target objectives that identify the range and differences between poor performance and a performance that exceeds target expectations. Verbiage commonly used to measure salesperson performance in meeting target objectives includes: does not meet (1 point or below 85% of target), sometimes meets (2 points or 85-92% of target), meets (3 points or 93-100% of target), exceeds expectations (4 points or 101-107% of target), far exceeds expectations (5 points or 107%+ of target).

Pay for performance programs usually pay a percentage of the person's base pay. Typical percentages of base pay ranges may be from 0-8%, 0-15%, or 0-25%. Meets expectations or target performance would payout at midpoint of your incentive range, so using the examples above 4%, 7.5% or 12.5%.

Exhibit 29-3 (page 1)

Individual Pay for Performance Evaluation
Option 1

Sales Representative

Exhibit A: Key Results Areas
Individual Pay for Performance Evaluation
(75% OF PERFORMANCE EVALUATION)

Percent Goal Met	<u>Does Not Meet Expectation</u> 85-90%	<u>Partially Meets Expectation</u> 90-95%	<u>Fully Meets Expectation</u> 95-100%	<u>Exceeds Expectation</u> 100-105%	<u>Far Exceeds Expectation</u> 105%+
# ___ New Prospect Face-to-Face Meetings	1	2	3	4	5
Complete ___% Satisfaction Survey	1	2	3	4	5
Employer Seminars (___ #)	1	2	3	4	5
Number of Visits with Current A Accounts	1	2	3	4	5
Number of Sales with A Category Companies	1	2	3	4	5
Number of Sales with B Category Companies	1	2	3	4	5
Number of Follow-up Letters Post-Meeting	1	2	3	4	5
Met Revenue Goals by Territory	1	2	3	4	5
Target with Sales Plan Objectives	1	2	3	4	5
Completed Client Needs Assessment (% Client Base per Month)	1	2	3	4	5

Exhibit 29-4 (page 1)

Pay for Performance Evaluation - Additional Expectations

Sales Representative
Exhibit B: Additional Expectations
Individual Pay for Performance Evaluation
(25% OF PERFORMANCE EVALUATION)

	<u>Does Not Meet Expectation</u>	<u>Partially Meets Expectation</u>	<u>Fully Meets Expectation</u>	<u>Exceeds Expectation</u>	<u>Far Exceeds Expectation</u>
Focus on Primary Markets	1	2	3	4	5
Territory Involvement	1	2	3	4	5
Participation in Sales Meetings	1	2	3	4	5
Sales Plan	1	2	3	4	5
Sales Reports	1	2	3	4	5
Attitude/Cooperation	1	2	3	4	5
Position Senior Management with Clients	1	2	3	4	5
Responsiveness to Job Demands	1	2	3	4	5
Administrative Effectiveness	1	2	3	4	5
Professional Development	1	2	3	4	5
Initiative & Resourcefulness	1	2	3	4	5
Judgment/Decision Making	1	2	3	4	5

Exhibit 29-4 (page 2)

Sales Representative
Exhibit B: Additional Expectations (Continued)
Individual Pay for Performance Evaluation
(25% OF PERFORMANCE EVALUATION)

Relationships with Peers	1	2	3	4	5
Relationship with Hospital Personnel	1	2	3	4	5

Comments:

Plan for Future Development:

Document 29-1 (page 1)

Individual Pay for Performance Evaluation Chart

Option 2

(75% OF PERFORMANCE EVALUATION)

Percent Goal Met	<u>Does Not Meet Expectation</u> 85-90%	<u>Partially Meets Expectation</u> 90-95%	<u>Fully Meets Expectation</u> 95-100%	<u>Exceeds Expectation</u> 100-105%	<u>Far Exceeds Expectation</u> 105%±
#__ New Prospect Face-to-Face Meetings	1	2	3	4	5
#__ Client Profiles Completed (Enrollments)	1	2	3	4	5
#__ Appointments w/Current Accounts - Update	1	2	3	4	5
Development of Annual Sales Plan	1	2	3	4	5
#__ Number of Visits to A Employers	1	2	3	4	5
#__ Number of Visits to B Employers	1	2	3	4	5
#__ Referrals Generated to Other Service Lines	1	2	3	4	5
Met Client Utilization Goals (70% annual goal)	1	2	3	4	5
Met Net Revenue Goals	1	2	3	4	5
Learn with Lunch-internal Education	1	2	3	4	5
Initiative & Resourcefulness	1	2	3	4	5
Judgment/Decision Making	1	2	3	4	5

Document 29-1 (page 2)

(25% OF PERFORMANCE EVALUATION)

Percent Goal Met	<u>Does Not Meet Expectation</u> <u>85-90%</u>	<u>Partially Meets Expectation</u> <u>90-95%</u>	<u>Fully Meets Expectation</u> <u>95-100%</u>	<u>Exceeds Expectation</u> <u>100-105%</u>	<u>Far Exceeds Expectation</u> <u>105%+</u>
Maintains Current Client Data Base	1	2	3	4	5
Client/Territory Management	1	2	3	4	5
Participation in Sales Meetings	1	2	3	4	5
Sales Letters sent	1	2	3	4	5
Submits Monthly Sales Activity Reports	1	2	3	4	5
Attitude/Cooperation	1	2	3	4	5
Works Collaboratively with Staff	1	2	3	4	5
Responsivenss to Job Demands	1	2	3	4	5
Administrative Effectiveness	1	2	3	4	5
Professional Development	1	2	3	4	5
Initiative & Resourcefulness	1	2	3	4	5
Judgement/Decisions Making	1	2	3	4	5

Team Pay for Performance

Pay for performance and incentives may be designed for the entire occupational health team. Team pay for performance should be based on measurable activity and results. Examples of team pay for performance measures may be net operating revenue, number of sales contracts, results of employer satisfaction surveys, and a targeted annual objective for the team, such as new product lines introduced and sold.

Team pay for performance programs can be paid out in a variety of ways. Examples include:

- An incentive pool which is shared either equally or by percentage of payout
- A percentage of base pay within a range of either 0-8% or 0-15%
- An incentive pool that the team determines how to allocate (e.g., purchase software, new equipment, training, or events to reward and recognize team for their efforts)

Exhibit 29-5 provides an example of team pay for performance:

Exhibit 29-5

Team Pay for Performance

Volume of First Time Visits		
Objective: Target is 40 per day or 800 per month or 2400 per quarter		
Standard	Objective	Payout
Does not meet (90%)	2,160 - 2,279	0
Sometimes meets (95%)	2,280 - 2,399	1.5%
Fully meets (100%)	2,400 - 2,519	3.0%
Exceeds (105%)	2,520+	5%

Team pay for performance might provide for an additional 5-20% compensation should the entire team meet and/or exceed all of the performance standards.

Document 29-2

Team Pay for Performance or Stretch Bonus

	<u>Fully Meets Expectations</u>	<u>Exceeds Expectations</u>	<u>Far Exceeds Expectations</u>	<u>Achieved Pay-Out</u>
1. Retention of 90% active customer base	1.5%	2.0%	2.5%	_____
2. Customer Satisfaction 93% level	1.5%	2.0%	2.5%	_____
3. Met Revenue/Visit Projections	1.5%	2.0%	2.5%	_____

Document 29-3

Team Pay for Performance Objectives

		<u>Fully Meets Expectations</u>	<u>Exceeds Expectations</u>	<u>Far Exceeds Expectations</u>	<u>Achieved Pay-Out</u>
1.	98% Current Business Retention	1.5%	2.0%	2.5%	_____
2.	Increased accounts, revenues, visits	1.5%	2.0%	2.5%	_____
3.	Implementation of programs @ delivery sites	1.5%	2.0%	2.5%	_____

Document 29-4

Summary of Team Pay for Performance

At Expectation: Compensation Payout

SUMMARY OF TEAM PAY FOR PERFORMANCE

- | | |
|---|--------------|
| ▪ <u>Fully Meets Expectations</u> | <u>%Base</u> |
| Objective 1 | 1.5 |
| Objective 2 | 1.5 |
| ▪ <u>Exceeds Expectations</u> | |
| Objective 3 | 2.0 |
| ▪ Total Team Pay for Performance = 5% of base pay | |
| ▪ 5% x \$11,500 = \$575.00 | |

Commission and Referral Fees

Commission: Commission is the traditional form of variable compensation used to reward specific sales results. Typically commission is paid based on contracts or profiles signed, clinic financials, revenue generated, total contract value or specific service line sales. Commission is usually a percentage of the product or contract value (e.g., contract value is \$50,000 with a commission of 1% paid to the salesperson).

In order to design an accurate commission structure, the service line needs to be assessed for margins, profitability, length of sales (selling cycle to closure), customer service and delivery support required, and frequency of sales. If a program selects the commission model and payout format, it should be tied to the overall financial and sales objectives, not just the sales volume or contract value.

Occupational health programs typically place a ceiling on the commission a salesperson can earn (also known as building a cap to the commission plan). The rationale for this cap is driven by either a desire to internally budget for the dollars allocated to commission or the fear of a salesperson making more than anyone else within the organization. If the issue is related to budget, the sales manager can either revert to a budgeted pay for performance compensation plan or develop an overall variable compensation budget using sales forecasts and a review of historical sales results. If fear of overcompensation is the issue, the organization should reassess the overall value and strategic initiatives accomplished through the sales effort and further educate senior management. A cap may serve as a disincentive. Conversely, an experienced salesperson often develops a loophole to the commission structure to work around the cap.

Renewal Fee: In times where keeping the business is just as critical as growing new business, it may be important to set aside some financial incentives for client, volume or revenue retention. This option associated with variable pay is a renewal fee to reward the sales and delivery team for customer service, annual contract updates, and quarterly "staying in touch with the customer calls." The fee may be nominal, but can serve as a steady reward check tied to performance behavior and activity directly tied to client retention.

Referral Fees: As health care organizations further integrate or centralize their sales efforts by target audience, it may become imperative to provide referral fees to the sales staff. This directly ties their qualified lead generation activity to service lines. The salesperson may be directly responsible for service line sales (wellness, rehabilitation, and employee assistance programs) or indirectly responsible for recognizing leads for other sales staff (managed care, direct contracting, and behavioral health).

Referral fees may be paid as either a percentage or flat dollar. Some referral fees are calculated according to the number of potential covered lives the provider may acquire.

The commission or referral fees may be paid on a per incident basis or through a tiering mechanism.

Exhibit 29-6

Commission and Referral Fee Examples

Commission Example

<u>Contract value</u>	<u>%</u>	<u>Flat dollar</u>
\$50,000	1%	500.00

<u>Contract value</u>	<u>%</u>	<u>Flat dollar</u>
\$0-25,000	1%	250.00
\$25,001-50,000	2%	500.00 (or you can match to the %)
\$50,001-75,000	3%	750.00

Referral Fee Example

<u>Product</u>	<u>Value</u>	<u>%</u>	<u>Flat dollar</u>
EAP	\$50,000	1%	\$500.00
Direct Contract	\$75,000	•%,	\$1,000 or "x" \$ per head

<u>Product</u>	<u>Value</u>	<u>%</u>	<u>Flat dollar</u>
EAP	\$50,000	1%	250-500 (covered lives = \$) "x" \$ Per employee/ per month

Document 29-5

Sample of Compensation Payment Plan Options

Option One

Sample Monthly Commission Plan	
New Contracts	20 @ \$ 15.00 Each = \$ 300
Renewal Contracts	5 @ \$ 10.00 Each = \$ 50
Service Calls	20 @ \$ 7.50 Each = \$ 150
Total Patient Visits	350 @ \$.50 Each = \$ 175
Total Monthly Commission Amount: \$ 675	

Option Two

Sample Monthly Commission Plans	
I.	New Contracts 25 @ \$ 10.00 Each = \$ 250
	First Patient Visit 30 @ \$ 25.00 Each = \$ 750
	Follow-Up Visit 15 @ \$ 2.00 Each = \$ 30
	Total Monthly Commission Amount: \$1155
-Or -	
II.	Total Patient Visits 350 @ \$.50 Each = \$ 175
	Service Calls 25 @ \$ 5.00 Each = \$ 125
	Total Monthly Commission Amount: \$300

Option Three

Additional Service Lines	
Employee Assistance Program	
250 Ee's @ \$32.00 = \$ 8000.00 @ 15% = \$1200	

Option Four

- | |
|--|
| <p>Performance Bonus Plans</p> <ul style="list-style-type: none"> • Quantity: volume, revenues, contracts • Quality: related to sales work • Attendance: timeliness, critical meetings, client presentations • Interpersonal Relationships • Timeliness Of Projects: on time, professionally done • Customer Relations: demonstrated effective relationships and account management • Responsiveness: timely, accurate, demonstrate follow-up • Initiative/Innovations: product, policies, solutions |
|--|

Document 29-6

"AT EXPECTATION" COMPENSATION PAYOUT

Commissions-Quarterly

- **Companies**

No. of Sales	# Employees	\$ Fee	Total Commissions
50	0-25	\$ 10 =	\$500
25	26-100	\$ 20 =	\$500
15	101-250	\$ 30 =	\$450
5	251-500	\$ 40 =	\$200
1	501-750	\$ 50 =	\$ 50
1	750+	\$100 =	\$100

- **Revenues**

- New business \$175,000 @3% = \$5,250
- Retained business \$500,000 @1/4% = \$1,250

OTHER VARIABLE COMPENSATION OPTIONS

Performance Bonus

\$6,000.00 Per Year/\$1,500.00 Per Quarter Available

Rating Per Performance	Obj	Points	\$Value	\$Range
Does Not Meet	= 0	0- 75	\$5	\$ 0-375
Sometimes Meet	= 1	76-150	\$5	\$ 380-750
Fully Meets	= 2	151-225	\$5	\$ 755-1125
Exceeds	= 3	226-300	\$5	\$1130-1500

Objectives	Rating	Weight	Points	\$Value
Quantity	2	10%	20	
Quality	3	30%	90	
Customer Serv	3	25%	75	
New Clients	2	25%	50	
Interpersonal	2	10%	20	
Total Points			255	\$1275

Gain Sharing

Gain sharing is a human resource system that involves all employees by using a financial formula to share organizational gains. Gain sharing is an option similar to pay for performance, but is applied to the team model of rewarding and recognizing the team performance in meeting measurable and tangible objectives. It is used to align employees and their performance with the organization and its strategic initiatives. Gain sharing increases organizational and service line performance, recruitment of staff, retention, and improved teamwork.

Other Rewards

Whereas financial compensation is a direct tangible reward for good performance, salespeople may also appreciate less tangible methods of recognition. A combination of financial reward and other recognition can go a long way to keeping the salesperson motivated, happy, and driven to sell more. Examples of other rewards include media recognition, press releases, a simple thank you from their manager or clinical staff, non-monetary incentives, additional sales perks such as car telephone, expense account, car allowance, paid membership dues, earned time off and dinner/shopping/travel certificates. Many times it is not the dollars that count, it is the thought, quality, consistency, and follow-through.

Staff Retention

Retaining superior salespeople is as important as recruiting them. Be certain to involve these sales people in the development of the steps so that you are certain that you have buy in from the person. Vital steps to staff retention include:

Have A Plan

- Growth opportunities
- A Long Term Career Ladder
- A Compensation Ladder

Identify Career Tracks

- Senior Sales
- Sales Management
- Health Care Management

Reward & Recognition

Measure, Evaluate, Nurture and Develop

- Use performance or merit evaluation systems and identify training and development opportunities for each staff member. Craft an annual agreement with staff members as to your commitment to support their ongoing growth.

Listen, Identify Needs, Problem-Solve

Commitment to the Salesperson and the Sales Function

- Demonstrate commitment through reports to leadership as to sales success, performance management and incentive pay programs and engaging sales staff in ongoing program growth opportunities

A program needs to implement a regular communication plan with their salesperson in order to keep them abreast of sales activity and accomplishments, and make them feel part of the organization. The most difficult time for retention is between year one and two of employment.

Sales Manager Compensation

The sales manager/director has considerable influence on the sales results. When provider goals and objectives are developed for the sales manager/director, they are often in conflict with those set for the salespeople within their territory. For example:

1. If sales managers are rewarded for keeping down expenses, sales promotion or commissionable opportunities may be lost.
2. If sales managers are compensated for sales efforts that place them in direct competition with their sales staff, conflicts may occur.
3. If sales managers have a large portion of their compensation measured by non-sales-oriented objectives, they may lose focus.

An occupational health program needs to clearly define responsibilities and the measurable outcomes expected of the sales manager and his or her direct reports. This definition should result in a well-developed job description. Once these two documents are built, a compensation strategy and methodology can be developed.

Sales Management Compensation Strategies

In addition to holding a sales manager accountable for achieving overall results, a program should consider territory enhancement. Methods of creating a balance to a sales manager's incentive compensation plan include:

1. Providing incentive compensation only if both overall and individual goals are achieved.
2. Providing target incentive compensation when overall goals are achieved with individual bonus payments paid for each individual goal completed.

See Exhibit 29-7 for different incentive plans for sales management staff.

Compensation Plan Summary

Focus on the value of a well-designed variable or incentive compensation plan to your organization's goals and objectives. Keep the plan design simple, easy to implement, track and monitor, and pay out in a timely manner. Successful incentive compensation plans drive the salesperson's focus and rewards them for achieving or exceeding the established objectives. Incentive compensation should recognize and reward sales behaviors and results.

See Exhibit 29-8 Checklist for Developing a Compensation Plan

Exhibit 29-7 (page 1)

Sales Management Compensation Plan Options

Option 1 - Goal/Incentive Based

- X Sales Manager target incentive is 30% of base salary
- X 1 key measurable objective = % sales \$/quote achieved

	<u>% sales/\$quota</u>	<u>Incentive as % of base</u>
	<80%	0
	80	15
	90	20
Target =	<u>100</u>	<u>30</u>
	110	40
	120	50
	130	55

This model may also be utilized when there is more than one measurable objective. For example:

A % of Objective	A Incentive of base	B % objective	B incentive
<80%	0	<80%	0
80	7.5	80	7.5
90	10	90	10
<u>100</u>	<u>15</u>	<u>100</u>	<u>15</u>
110	20	110	20
120	25	120	25
130	32.5	130	32.5

The target incentive still represents 30% of base salary, but the manager will earn the full amount only if they achieve 100% of the performance targets in *each* category.

Exhibit 29-7 (page 2)

Option 2 - Override Approach

If the occupational health program is focused on maximizing sales productivity and return-on-investment, a common form of incentive called the override approach may be used.

For example, the sales manager's performance might be measured on:

- Training of sales representatives and subsequent results
- New account revenues
- Retention of the current book of business

The following demonstrates how an override might be calculated:

A new account revenues	B incentive as % base	C % of accounts retained	D Multiplier <small>(Apply to column B)</small>
Target =			
<80%	0%	<80%	0
80	10%	80	1.05
90	20%	90	1.10
<u>100</u>	<u>30%</u>	<u>100</u>	<u>1.15</u>
110	40%	110	1.25

Exhibit 29-7 (page 3)

Option 3 - Bonus tied to business goals

In this example, a sales manager's pay is tied to the sales team's results. This formula requires the sales manager to achieve specific revenue and growth goals before attaining a desired earnings level.

Assume, for example, that the desired earnings level is \$75,000. If \$50,000 is paid as base salary, the remaining \$25,000 represents the incentive portion. The override can be calculated by establishing a dollar value for the measured goal and determining what percentage yields \$25,000.

For example, the sales objective is \$5 million:

$$\begin{aligned} \$25,000 &= x\% (\$5 \text{ million}) \\ x &= .005 \\ \text{Override} &= 5\% \text{ of sales} \end{aligned}$$

If gross sales fall below \$5 million, the manager makes less than their desired earnings level, if gross sales exceed this goal, they will make more.

Overrides may be used in a similar fashion based on territory goals. Using the override principle, the formula could be based on sales, the sales representative's earnings, or both.

Option 4 - Total Sales

An incentive plan can also be developed for the sales manager using a formula tied to total sales. For example:

<u>Sales Revenue</u>	<u>Management Override</u>
< \$1 million	0
\$1-3 million	2.5
\$3-5 million	5

Exhibit 29-8

Ten Steps to Compensation Design

1. Analyze your business strategy and the role of sales.
2. Analyze your current plan.
3. Establish total pay parameters.
4. Determine base pay and the fixed and variable mix
5. Determine the variable pay components: pay for performance, commission and referral fee structure, and team pay for performance, bonus and stretch bonus.
6. Design a variable pay process and payout system.
7. Educate, communicate and obtain plan approval.
8. Simulate the results of the compensation plan.
9. Implement the compensation plan.
- 10 Measure, evaluate, and fine-tune the plan. Re-adjust for each year's performance standards, goals and objectives.