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**Guest,**

**Welcome to:**

## **The Keys to Using Performance Incentives**

Presented by  
Lighthouse Consulting Services, LLC

To print program slides, click here: 



**Featured Guest:**  
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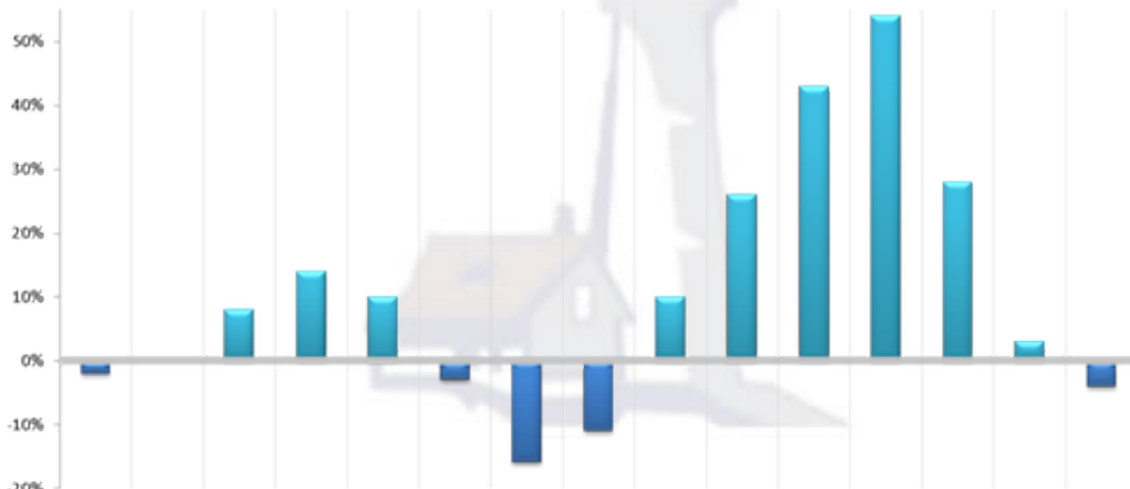
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## The Keys to Using Performance Incentives

### U.S. Employment Market

U.S. Population Growth by Age Segment



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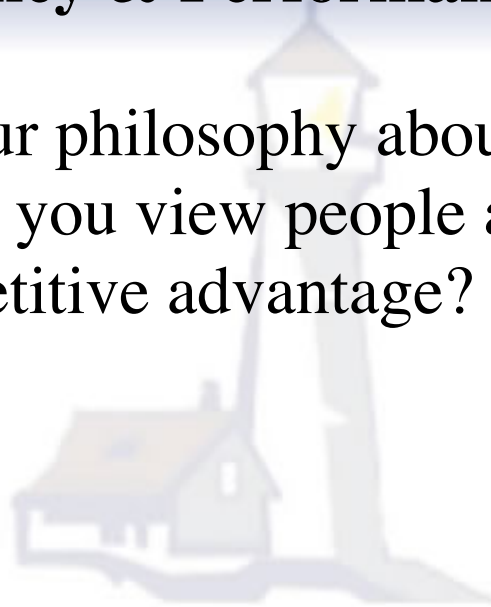


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## Money & Performance

What is your philosophy about human capital? Do you view people as integral to your competitive advantage?



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# The Strategic Importance of Performance Pay



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## The Business Problem

- Preceding the recession, the average merit increase was 4%\*. With a flat economy, employment costs escalating faster than profits is a zero sum game.
- Employers with inflexible compensation systems were forced to lay off workers during the downturn.



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## Limitations of Traditional Compensation Models

- Do not allow for modifications during economic fluctuations (such as 2008-2009 downturn).
- Places all the burden of such fluctuations solely on the employer.
- Subjective evaluation puts the employer at risk.
- Does not reinforce accountability.

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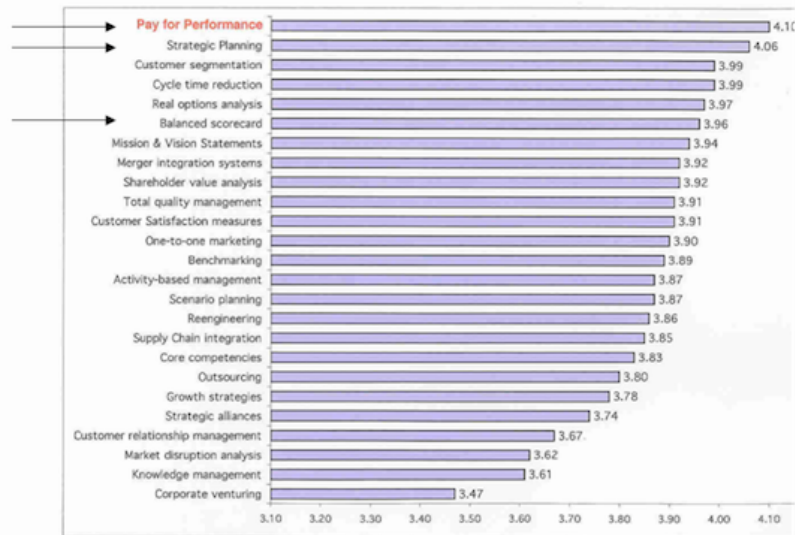
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# Initiatives that Deliver Greatest Financial Returns



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## Top Financial Performers – Best Practices

	Bottom 10%	Top 10%
Sales per employee	\$ 158,101	\$ 617,576
Market value to book	3.6	11.1
% whose merit increase or incentives tied to performance	2%	87%
# of hours training-new employees	35	117
# of hours training-experienced employees	13	72
% of employees-regular performance appraisal	4%	95%

\*The top and bottom financial performers in a survey of 2800 companies.

Source: The HR Scorecard



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## Challenges in Implementing Performance Based Pay

- The proportion of incentive must be sizable enough to motivate staff.  
Once base pay is established it is hard to unwind.
- Must be supported by a credible system of measurement.
- Requires management to be thoughtful in the creation of a bonus pool.
- Financial incentives alone are ineffective - must be coupled with other PM tools.

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## A Powerful Combination Scorecard Performance Based

- Scorecard provides a framework for universal measurement and teamwork.
- Creates organizational alignment. Rewards and reinforces desired behaviors.
- Promotes clear goal setting and removes subjectivity.



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## Keys to Instituting a Scorecard

- Be a derivative of the strategy.
- Balance customer, financial, operational and learning and growth measures.
- Creates organizational alignment. Rewards and reinforces desired behaviors.
- Predictive in nature.
- In public view.
- Real time (daily, weekly or monthly).
- In public view.

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## Scorecard Example

Measure	Q1 Target	Jan.	Feb.	March	%Attained
<b>Financial</b>					
\$ Receivables +60 Days in arrears	\$ 85,000	\$ 103,000	\$ 90,123	\$ 84,000	33%
Margin Custom Shipments	55.0%	52.5%	53.5%	55.1%	33%
Sales per CS representative	\$ 50,000	\$ 44,154	\$ 47,234	\$ 47,388	0%
<b>Customer</b>					
Monthly shipments Custom	\$ 300,000	\$ 284,000	\$ 304,000	\$ 312,000	67%
Average Custom Shipment	\$ 75.00	\$ 71.00	\$ 72.44	\$ 73.05	0%
Call Center Inbound Calls	25,000	23,500	23,750	27,400	33%
CS Upsell Rate	50%	55%	52%	52%	100%
New Customers Acquired	300	312	333	340	100%
Net Adopter Score	40%	33%	38%	40%	33%
<b>Internal Process</b>					
Custom Cycle Time	3	3.7	2.9	2.9	67%
Volume Manufacturing Cycle Time	2	1.9	1.9	1.8	100%
Equipment Uptime (lost hours)	24	23	16	9	100%
Shipping Error Percent	1.0%	2.0%	0.5%	0.4%	67%
<b>Learning and Growth</b>					
% Performance Reviews on Time	100%	75%	100%	100%	67%
Lost Time Injuries	0	0	0	1	67%
Training Hours per FTE Upselling	4	0	4	4	67%
<b>Total Score Achieved</b>					<b>58%</b>

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## Example Pay for Performance Calculation

**Tom Jones**

**Beginning:** 04/01/2012

**Ending:** 03/31/2013

**Base Salary:** \$100,000

**Allowable Bonus %:** 10%

**Weighting of Bonus Potential**

**Financial Indicators** : 50%

**Scorecard Indicators** : 25%

**Job Performance Indicators** : 25%

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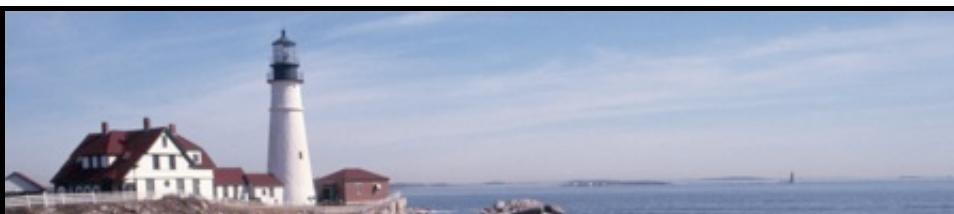
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## Example Pay for Performance Calculation

Financial Indicators (Actual Bonus Calculation)						
Weight of this Section : 50%		Bonus Potential : \$5,000		Must Equal .75 – 1.25		
	Weight	Goal	Actual	Min	% Realized	Bonus Achieved
EBITDA% Increase	100%	10%	6%	8%	0%	\$ 0 -
Bonus Achieved Financial						\$ 0

Scorecard Indicators (Actual Bonus Calculation)						
Weight of this Section : 25%		Bonus Potential : \$2,500		Must Equal .75 – 1.33		
	Weight	Goal	Actual	Min	% Realized	Bonus Achieved
Customer Service Up sell percent	50%	50%	53%	53%	100%	\$1,250
New Customers Acquired	50%	3,600	3,844	98%	100%	\$1,250
Bonus Achieved Scorecard						\$2,500

Job Performance Indicators (Actual Bonus Calculation)						
Weight of this Section : 25%		Bonus Potential : \$2,500		Must Equal .75 – 1.25		
	Weight	Goal	Actual	Min	% Realized	Bonus Achieved
Integrate with cost system by 06/01/12	50%	Yes/No	Yes		100%	\$1,250
Hire 5 qualified CS reps and train by 12/01/12	50%	Yes/No	No		0%	\$ -
Bonus Achieved Job Performance						\$1,250

Total Bonus Achieved						\$3,750
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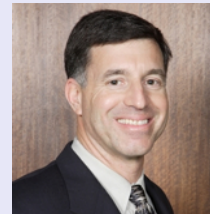


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## Assumptions

- The following steps assume:
  - Salaries are within the industry norm
  - Performance reviews are performed consistently

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## Steps to Creating a Performance Based Pay System

1. Gain agreement on strategic direction.
2. Create a scorecard that measures strategy. Institute a scorecard culture first.
3. Analyze the costs and benefits of an incentive plan.
4. Conduct a salary survey (you may need to freeze salaries).

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## Steps to Creating a Performance Based Pay System (cont.)

5. Establish a pay for performance system with 2-3 buckets.
6. Budget for a bonus pool favorable to the bottom line and a win for employees.
7. Gain buy-in.
8. Implement a performance review cycle. In the distribution of bonuses, a fixed performance cycle works best.

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**Featured Guest:**  
Marc Emmer  
President, Optimize Inc.  
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**Thank you for attending  
The Keys to Using Performance Incentives**

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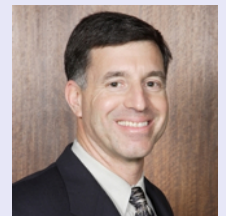


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