

Work Product Sampler for
Sales Compensation Plan Design

June, 2016

The Cygnal Group has prepared this document for the benefit of IMS Health. This document is incomplete without the accompanying discussion and contains proprietary material.



THE CYGNAL GROUP

We have identified the following keys to successful sales compensation plan design

1. Start with clear business objectives and selling role definition
2. Understand historical patterns in performance and pay
3. Develop the pay structure, and align pay mix and upside with role prominence
4. Design the incentives: right measures, right mechanics, right payout curve shape
5. Test the plans thoroughly
6. Communicate the plans well
7. Plan for changes in future years where appropriate

Example: Project business objectives

Reinforce the right kind of sales

- Solutions = more products in each deal
- Build partnerships with customers
- High price/margin
- New account acquisition
- Retention

Avoid complexity

- Include the ability to calculate payout at a deal level
- Ensure a consistent approach is applied where sales roles are similar
- Assist in attracting and retaining key talent

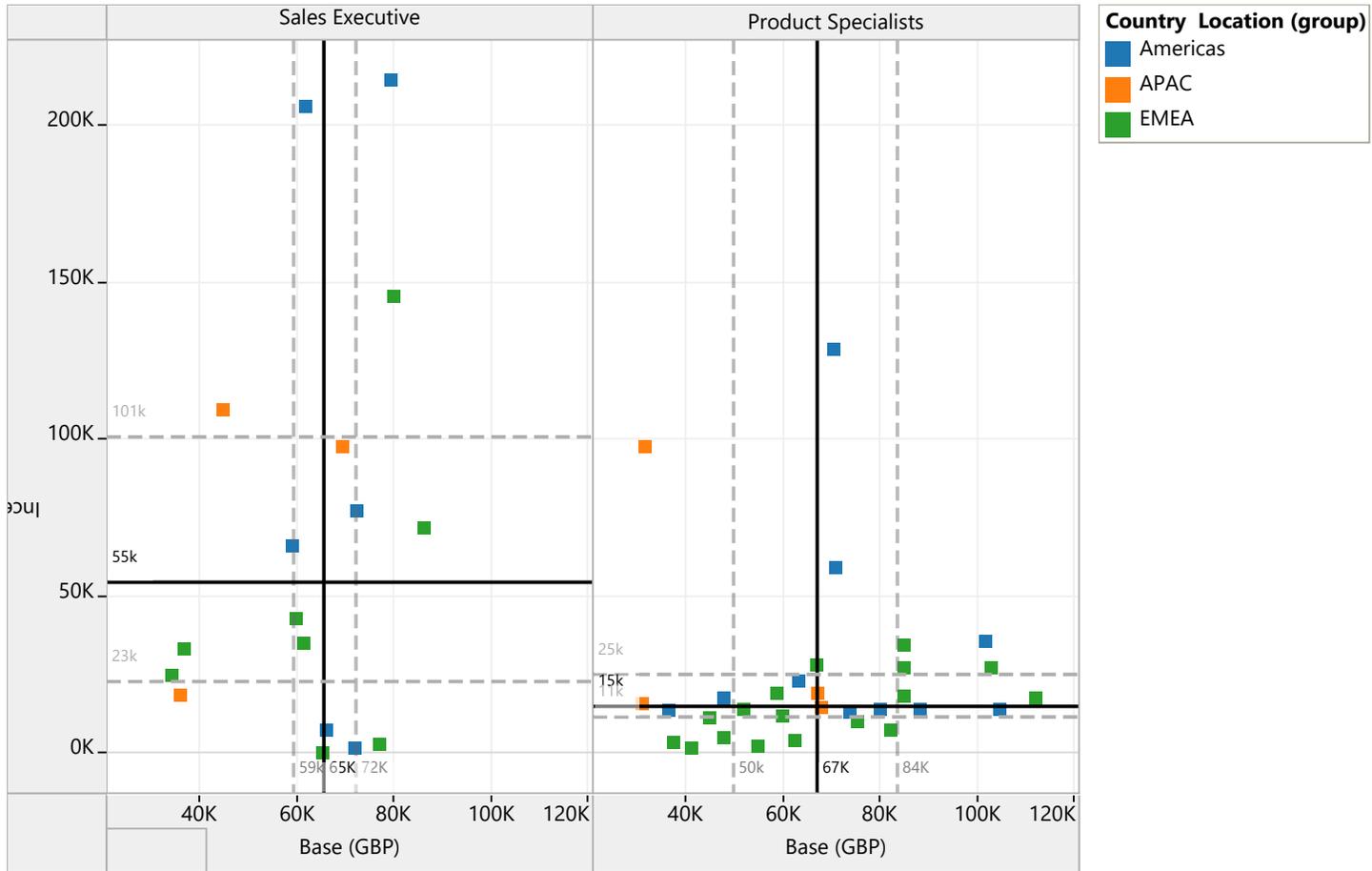
Pay for value created

- Ensure the people creating the most value earn the most money
- Decreased payout for decreased value (lower commission rates for lower margin)
- Reward people for involving the right team in each opportunity (not too many, not too few)
- Reward well for the big win – even if it's a one-time win

Example: Role profiles

Role Name	<i>Inside Sales</i>	<i>Field Sales</i>
Sales Cycle Length	< 1 week (ideally 1 call close, but may take 1 week for paperwork)	1-2 months
Relative Prominence	■ ■	■ ■ ■ ■
Performance Range	50 – 100 - 150	50 – 100 – 150
Key Accountabilities	<ul style="list-style-type: none"> ◇ Close sales from inbound calls triggered by external marketing campaigns ◇ Upsell to higher level of service or add-on additional products ◇ Maximize contract term ◇ Identify larger opportunities and refer to field sales ◇ Work with field sales to implement territory and account development plans 	<ul style="list-style-type: none"> ◇ Generate interest in products with prospective customers through cold calls and in conjunction with marketing campaigns ◇ Make at least 5 customer visits per day ◇ Sell the whole spectrum of products, making as many multi-product sales as possible ◇ Maximize non-recurring charges (add-ons) ◇ Maximize contract term ◇ Minimize installation charge waivers
Ideal Incentive Measures	<ul style="list-style-type: none"> ◇ Number of sales ◇ Number of installs ◇ Number of products sold ◇ Average revenue per sale ◇ Monthly contract value ◇ Total contract value (monthly value x term) ◇ Average term length ◇ Non-recurring charges 	<ul style="list-style-type: none"> ◇ Number of sales ◇ Number of installs ◇ Number of products sold ◇ Average revenue per sale ◇ Monthly contract value ◇ Total contract value (monthly value x term) ◇ Average term length ◇ Non-recurring charges

Example: Comparing variability in base pay to variability in incentive pay



Normally, we expect to see the base pay varying little, and incentive pay varying more

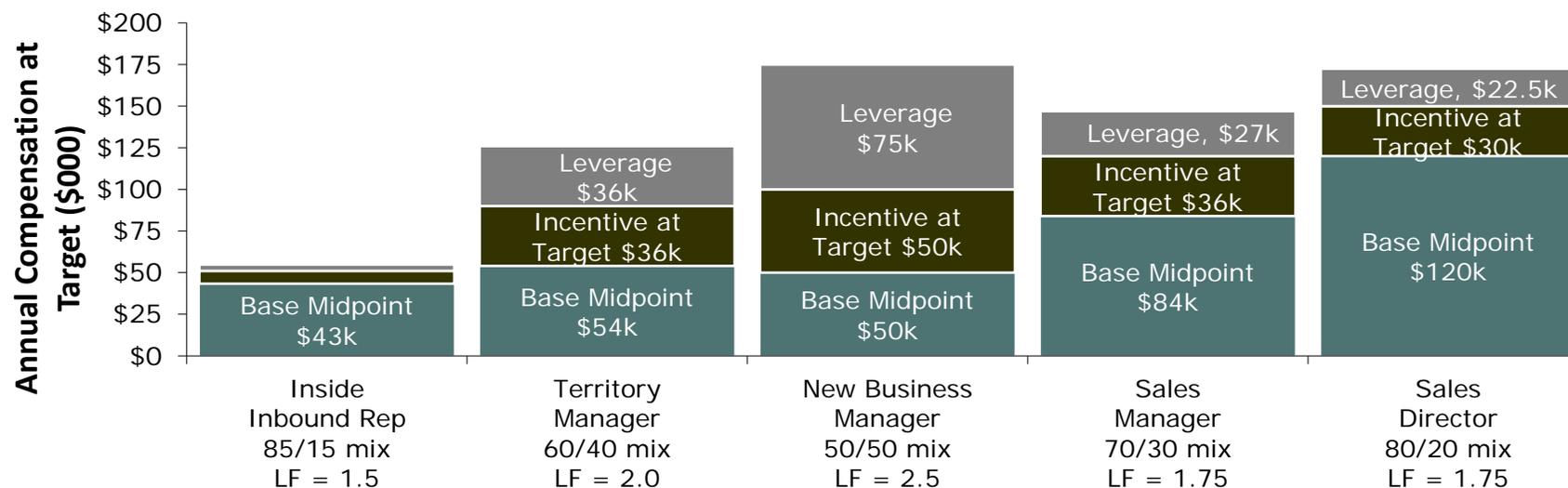
In this data, the base pay for the Product Specialists varies significantly while the incentive pay varies much less

Example: Summarized findings from pay and performance history analysis

<i>Pay/Performance Findings</i>	<i>Implications for sales compensation design</i>
<p>Goal setting</p> <ul style="list-style-type: none"> ◆ Goal setting accuracy varies widely by manager and market 	<ul style="list-style-type: none"> ◆ Goal-based plans may not be perceived as fair and accurate without normalization of standards
<p>Pay level dispersion</p> <ul style="list-style-type: none"> ◆ Base pay dispersion is relatively high in individual contributor roles, likely due to rapid growth and decentralized reporting structures ◆ Incentive pay dispersion is very high, due to the highly competitive nature of the market with some reps doing far better than others ◆ Significant volatility from month to month for a given rep indicates buying may be triggered by marketing campaigns from company or competitors more than individual rep prowess 	<ul style="list-style-type: none"> ◆ For roles with higher prominence, base pay dispersion should be controlled so that pay differentiation is attributable to incentive earnings ◆ The entire structure could be brought into better alignment with a move to payouts calculated based on target incentive dollar amounts by role
<p>Pay mix and leverage</p> <ul style="list-style-type: none"> ◆ On average, pay mix is at the desired level per stated policy but many are not earning enough on their incentive plan for long-term retention ◆ Top performers are not making enough in the strong months, due to caps and decelerations in the payout curve 	<ul style="list-style-type: none"> ◆ Too much pay may be at risk, given the external factors which influence performance ◆ A change in the payout curve shape to increase payouts for over-performance would likely improve results

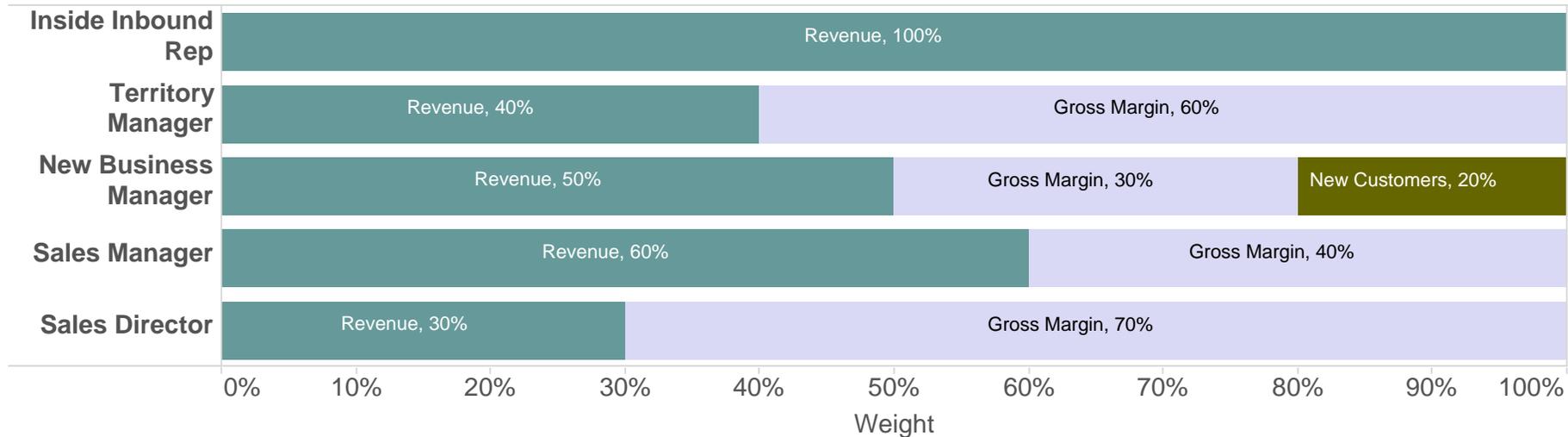
Example: Pay Structure

Role Name	Design Target Total Comp	Pay Mix				Leverage Factor	Upside Pay		
		Base Mix	Incentive Mix	Base Mid-point	Target Incentive		Incentive Target	Excellence	
								Incentive	Total Comp
Inside Inbound Rep	\$50,000	85%	15%	\$42,500	\$7,500	1.50	\$7,500	\$11,250	\$53,750
Territory Manager	\$90,000	60%	40%	\$54,000	\$36,000	2.00	\$36,000	\$72,000	\$126,000
New Business Manager	\$100,000	50%	50%	\$50,000	\$50,000	2.50	\$50,000	\$125,000	\$175,000
Sales Manager	\$120,000	70%	30%	\$84,000	\$36,000	1.75	\$36,000	\$63,000	\$147,000
Sales Director	\$150,000	80%	20%	\$120,000	\$30,000	1.50	\$30,000	\$45,000	\$165,000



Example incentive measures and weights

Role Name	Incentive Measures		
	Revenue	Gross Margin	Number of New Customers
Inside Inbound Rep	100%		
Territory Manager	40%	60%	
New Business Manager	50%	30%	20%
Sales Manager	60%	40%	
Sales Director	30%	70%	



Example: The Comp Design Model provides more detail for each component in each role

Incentive Tuner

Role: Territory Manager

Measure: Revenue

For the Role		For this Component	
Target Total Comp	\$90,000	Weight	40%
Mix	60/40	Quarterly Timing	
Target Incentive	\$36,000	Target Incentive	\$14,400
Leverage Factor	2.00	Leverage Factor	2.00
		\$2.0M	Annual Goal
		\$500,000	Quarterly Goal

% Quota	Value / 1% to Quota > Commission over Quota		
Performance Range	Rate (in range)	Payout EXAMPLE for Quota of \$0.5M	
		Payout Calculation in Range	Payout top of range
175.0% or more	0.60% Sales	\$7,200 + 0.60% of Sales > 175% Quota	uncapped
100.0% - 174.9%	0.96% Sales	\$3,600 + 0.96% of Sales > 100% Quota	\$7,200
60.0% - 99.9%	\$54 per 1%Q	\$1,440 + \$54 per 1% Quota > 60% Quota	\$3,600
0% - 59.9%		no payout below 60% Quota	\$1,440

Sales % Goal	Comp % Target
OEC:	63%
175%	200%
100%	100%
60%	40%
Threshold	Yes

out table

Quarterly Payout by Quota Attainment Levels - % Sales (Base + Variable)							Include Base & other components?	Yes	Display:	% Sales		
% Quota Attainment: Revenue												
	10%	25%	50%	74%	75%	90%	100%	110%	120%	150%	175%	200%
	37.80%	15.12%	7.56%	5.70%	5.64%	4.88%	4.50%	4.18%	3.91%	3.32%	2.98%	2.69%

Example: Aggregate Cost Analysis

	Prior Full Year	Current Year projected	Next Year Proposed Plan			
			All at Goal	Expected distribution centered over...		
				90% Goal	100% Goal	110% Goal
Revenue	\$5,010M	\$4,928M	\$5,084M	\$4,576M	\$5,084M	\$5,592M
Base Compensation	\$97M	\$99M	\$106M	\$106M	\$106M	\$106M
<i>per headcount</i>	\$76k	\$78k	\$80k	\$80k	\$80k	\$80k
<i>% Revenue</i>	1.9%	2.0%	2.1%	2.3%	2.1%	1.9%
Variable Compensation	\$69M	\$59M	\$48M	\$42M	\$52M	\$63M
<i>per headcount</i>	\$54k	\$46k	\$36k	\$32k	\$39k	\$48k
<i>% Revenue</i>	1.4%	1.2%	0.9%	0.9%	1.0%	1.1%
Total Compensation	\$166M	\$158M	\$154M	\$148M	\$158M	\$169M
<i>per headcount</i>	\$130k	\$124k	\$117k	\$112k	\$120k	\$128k
<i>% Revenue</i>	3.3%	3.2%	3.0%	3.2%	3.1%	3.0%
Headcount (FTEs)	1282	1274	1318	1318	1318	1318
Average Revenue/FTE	\$3.9M	\$3.9M	\$3.9M	\$3.5M	\$3.9M	\$4.2M
Average Comp Cost/FTE	\$130k	\$124k	\$117k	\$112k	\$120k	\$128k

Example: Incumbent Analysis

Sales Person	Current Year Projected (\$000)				New Plan (\$000)				
	Current Base A	Variable Pay B	Actual % Quota	Total Comp A + B	New Base highlighted if changed C	Full Year Variable Pay at 100% Quota D	Total Comp at 100% Quota E = C + D	Total Comp at Quota Over / (Under) Prior Year Earnings E -(A+B)	% Quota on Primary Component Needed to Earn at Prior Year Level
Name 1	90.1	78.1	57%	168.2	90.1	110.0	200.1	31.9	84%
Name 2	88.0	71.8	62%	159.7	88.0	110.0	198.0	38.2	81%
Name 3	76.5	82.4	71%	158.9	76.5	110.0	186.5	27.6	86%
Name 4	80.9	86.4	77%	167.3	80.9	110.0	190.9	23.6	88%
Name 5	84.0	102.6	91%	186.6	84.0	110.0	194.0	7.4	96%
Name 6	90.0	135.3	94%	225.3	90.0	110.0	200.0	(25.3)	113%
Name 7	61.8	150.6	95%	212.4	65.0	110.0	175.0	(37.4)	119%
Name 8	105.0	66.3	120%	171.3	105.0	110.0	215.0	43.7	78%
Name 9	72.0	129.2	122%	201.2	72.0	110.0	182.0	(19.2)	110%
Name 10	70.0	43.9	136%	113.9	70.0	110.0	180.0	66.1	67%
Name 11	89.3	204.0	151%	293.3	89.3	110.0	199.3	(94.0)	147%
Name 12	95.4	295.6	166%	391.0	95.4	110.0	205.4	(185.6)	193%

Example: Communication plan overview

Communication Step	Objectives	Delivered by	Format	Materials Needed
<i>Announce the launch of the new plans</i>	<ul style="list-style-type: none"> ◆ Alert sales people to the fact that new plans are coming ◆ Create excitement ◆ Establish credibility 	Sales or divisional leadership	<ul style="list-style-type: none"> ◆ Email and/or voicemail, or ◆ Article in regular newsletter 	<ul style="list-style-type: none"> ◆ Memo ◆ Voicemail script
<i>Introduce the plans</i>	<ul style="list-style-type: none"> ◆ Demonstrate linkage from business strategy to sales objectives to sales roles to the comp plans ◆ Describe the plans in overview format ◆ Emphasize how to succeed under the new plans 	Sales management in small groups based on reporting relationships	<ul style="list-style-type: none"> ◆ In-person presentation 	<ul style="list-style-type: none"> ◆ Management presentation
<i>Individual plan review and coaching</i>	<ul style="list-style-type: none"> ◆ Ensure each sales person understands all aspects of their compensation plan ◆ Work with each sales person to create a plan for them to meet their own earnings goals for the year 	Sales managers to subordinates	<ul style="list-style-type: none"> ◆ One-on-one in-person discussion 	<ul style="list-style-type: none"> ◆ Plan document ◆ Earnings and productivity history ◆ Earnings calculator for the new comp plan

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Example: Management Presentation pages

A well-composed management presentation

- ◆ Starts with business strategy
- ◆ Links strategy to selling roles
- ◆ Provides an overview of the pay plans for all roles
- ◆ Provides basic concepts and definitions common across pay plans
- ◆ Finishes with a clear statement of the path to maximum earnings

The basic components of the business strategy point to a key role for the sales team

ABC Co Strategic Imperatives

- Enhance the balance sheet through improved gross margin performance and asset management
- Expand globally
- Grow higher margin new product sales
- Develop fast, focused entrepreneurial leaders who execute

Key accountabilities of the sales and sales management roles are directly linked to the new incentive plan measures

Roles	Key Accountabilities	Incentive Plan Measures
Account Manager Export Account Manager	<ul style="list-style-type: none"> ■ Meet or exceed gross margin goals ■ Work to support business unit goals 	<ul style="list-style-type: none"> ■ Individual gross margin vs. goal ■ Business unit gross margin
Sales Manager	<ul style="list-style-type: none"> ■ Coach Account Managers to make them as successful as possible ■ Help allocate fair and equitable margin goals to Account Managers 	<ul style="list-style-type: none"> ■ Business unit sales team gross margin ■ Business unit gross margin ■ Account Manager goal attainment

Plan Overview: Account Manager Export Account Manager

Total Compensation	=	Base Salary	+	Individual Gross Margin Bonus	+	Business Unit Gross Margin Bonus
		Weighting		80%		20%
		Annual Incentive Target		\$16,000		\$4,000
		Timing		Quarterly		Annually
		Overview		Individual incentive based on actual Gross Margin dollars vs. quarterly goal		Team incentive based on percent goal attainment for overall business unit performance vs. annual gross margin goal
		Caps		Uncapped		Capped at \$6,000 per year

The greatest rewards will go to those who exceed their Gross Margin goals

Focus on profitable accounts and opportunities

- Maintain high service levels and ensure customers are satisfied with the entire experience of buying from Unifi

Kill bad business

- If an account or opportunity cannot be serviced profitably, walk away

Focus on premium products

- Represent the entire Unifi product line to assigned accounts, including those outside your business unit
- Add value with customers by sharing market insights, offering premium products, and meeting needs for specialized capabilities

Run it like you own it

Example: Plans for future years

The design team recommends a gradual move to change pay mix for a few roles

<i>Role</i>	<i>Current Incentive % Base</i>	<i>Recommended Incentive % Base</i>
Territory Manager	50%B	40%B
Area Manager	50%B	40%B
District Manager	40%B	30%B
National Account Manager	25%B	50%B

The rationale is to align pay mix with role prominence (the degree to which the individual sales person directly controls their sales results)

An orderly method for transitioning pay mix over a number of years is shown on the following page using the TM (reduce %B) and NAM (increase %B) roles as examples

While there is interest in moving to a fixed dollar incentive at target over time, it was agreed that this will be a transition for another year

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