

Incentivizing the Team: Compensation Plans for Sales & Recruiters That Drive Performance

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Introduction

- **Brief Overview of Agenda**
 - Ten Best Practices
 - Trends
 - Fundamentals & Varsity of Plans
 - Metrics & Affordability
 - (High Level) Overview of Exec & Manager Comp
- **Cover Material (45-50 minutes)**
- **Q&A (10-15 minutes)**
- **Best To Hold Questions Until Q&A**



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Ten Compensation Best Practices

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. Know the difference between satisfiers and motivators



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Ten Compensation Best Practices

Good compensation programs.....

5. Emphasize pay for performance and reward superior performance with “accelerators”
6. Fall within a range of acceptable impact to the company’s overall profitability
7. Are fair, consistent and are predominately based on quantitative instead of subjective results



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Ten Compensation Best Practices

Good compensation programs.....

8. Are well communicated, transparent and easy to understand
9. Are uniform for groups of people performing the same role
10. Are customized for managers and executives based on their role and ability to influence certain results



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Sales and Recruiting Comp Plans

What Do You Want To Incent (or not incent!)

**Good comp plans reward the behaviors that drive the results:
what are the results you want?**

- **Gross Margin \$\$ (Spread)**
- **Gross Margin %**
- **Starts**
- **Candidate Submittals or Other “Close to the \$\$” Activity**
- **New Customers**
- **Overachievement/Accelerator's**
- **Discourage “cruising” or poor starts**
- **Other individual, team or company goals**
- **Combination of any of the above**



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Producer Compensation Trends

- 1/3 of all Producers fall below breakeven contribution (more on this later)
- Top Producers have the best activity metrics (surprise, surprise!)
- Producers with leverage plans >50% produce significantly more GM\$ than those with leverage <50% (leverage is amount of total comp that is variable)
- Top Producers at typical firm have an ROI of 4-5 x their cost (more on this later)
- Recruiter compensation typically less than sales people but trending to parity
- Bonus opportunity for “Closest To The Money” Leading Indicators



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Producer Compensation Trends

- **Variable commission on every start with commission % based on GM%...on business that allows this**
- **Targeted activity bonuses: new customers, growing existing customers, new GM\$, Higher GM%, etc.**
- **More leverage/reasonable salaries with excellent upside if they produce**
- **Separate plans for hunters vs. servicers or high touch vs. no touch business**
- **“Declining” guarantees/draws that allow a runway but puts emphasis on steady progress of production**

Producer Compensation Trends

The Not So Good

- High salaries because “that’s what it takes to attract talent”
- 10 producers, 10 different salaries...equals headaches!
- Guarantees that last too long or failure to cut your losses
- High comp for legacy GM\$ combined with low new activity
- High sales comp for “no touch/no influence” business

Producer Compensation Tools

- **Basic Training On How To Calculate GM% and \$\$**
- **Margin Calculator on Desktop**
- **Mark-up To GM% Calculator**
- **Negotiation Best Practices – workshops & Roll-play**
- **Manager Approval In Advance For GM below XX%**

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!



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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!**
- **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!**



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!**
- **“Declining Guarantees” work best**



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Sales and Recruiting Comp Plans

Salaries and Guarantees

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 Administration

- Ideal time to change is as of January 1
- OK, even encouraged to tweak plans each year.
Bigger deal if wholesales changes are being made
- Important to model the impact of your plans using simple assumptions to make sure you stay affordable and competitive
- Consider 3-6 month “Floors” for certain producers
- When changes are made, communicate them consistently and before they start!



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Sales and Recruiting Comp Plans

Tracking and Measuring Impact & Affordability

- **Model all plans for financial impact prior to finalizing**
- **Understand impact on current producers**
 - **For negative impact on your best producers offer a bridge or runway**
 - **For negative impact on below average or poor producers avoid bridges, etc.**
- **Track Selling and Recruiting Expense (next slides)**



“The Rule of Thirds”

High Profit firms are high profit because their costs are in line with the GM\$ they generate.

Ideal breakdown:

- 1/3 of total GM\$ covers their “Producer” costs**
- 1/3 of total GM\$ covers all other expenses**
- 1/3 of total GM\$ goes to profit before taxes**

Sales and Recruiting Comp Plans

Tracking and Measuring Impact & Affordability

Tracking Selling and Recruiting Expense

➤ Selling Expense Calculation:

- Salaries, commissions, bonuses for all sales people
- Employer Taxes
- Employer Benefits
- T&E Reimbursement
- Car allowance, other perks that cost \$\$
- Same calculations for Recruiters
- Ideally group this together on your chart of accounts



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Sales and Recruiting Comp Plans

Tracking and Measuring Impact & Affordability

Tracking Selling and Recruiting Expense

- **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**



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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
 - Everyone is a superstar so fully leveraged!
 - You have a hybrid model i.e. salaried consultants



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Sales and Recruiting Comp Plans

Key Performance Metrics

Breakeven Margin: The point in which a producers 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 (or Week)” & “Breakeven Contribution”
- Good to establish timeframes for a person to get past both breakeven points above



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Contribution Margin & Multiple

Producer Contribution Margin Report

For Quarter Ending:

Name	Tenure (Months)	Commissionable GM\$	Burdened Cost	\$ Contribution	Multiple	Comments
Sales Person 1	36	\$297,500	\$46,300	\$251,200	5.43	Stud!
Sales Person 2	5	\$21,325	\$18,500	\$2,825	0.15	First Break Even Month!
Sales Person 3	12	\$17,250	\$21,250	-\$4,000	-0.19	Consider letting go?
Sales Person 4	24	\$88,000	\$31,250	\$56,750	1.82	Needs to produce more
Sales Person 5	18	\$102,000	\$32,000	\$70,000	2.19	On track
Recruiter 1	40	\$109,000	\$35,000	\$74,000	2.11	Up or OUT
Recruiter 2	24	\$95,000	\$31,250	\$63,750	2.04	B or C player
Recruiter 3	6	\$8,100	\$28,750	-\$20,650	-0.72	Consider letting go?
Recruiter 4	19	\$184,522	\$38,000	\$146,522	3.86	Tracking very well
Recruiter 5	35	\$297,850	\$52,325	\$245,525	4.69	Excellent - keep pushing

Contribution Analysis: Combining Quantitative & Subjective Performance

Staff Rankings As of Date _____

Name	Months in firm	Contribution Margin \$	Contribution Multiple	Activity Metrics	Work Ethic	Teamwork	Willingness To Be	
							Coached	Culture Fit
Contribution Margin & Multiple quantitative data from CM Reports								
For all other ratings use letter grades (A-F)								



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What The Best Producers Want

- **Surrounded by other good producers**
- **Faith that management will top-grade poor producers**
- **Leveraged comp plans...the better I do, the bigger piece of GM I get”**
- **Great support including coaching them to get even better**
- **Flexibility that is earned**

Manager Comp (Quick) Overview

- **Player-Coaches/Team Leads (personal production & manage producers)**
- **Leaders (no personal production)**
- **Executive Comp**
- **Bonus Based On Financial Targets**
- **Bonus Based on MBO?SMART Goals**
- **Shared Fate**
- **“The Four Legs Of The Stool”**
- **Common Flaws**

Q&A

Thank-You!

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