

Remedy Webinar



Is Your Sales Compensation Plan Ready for the Economic Recovery?

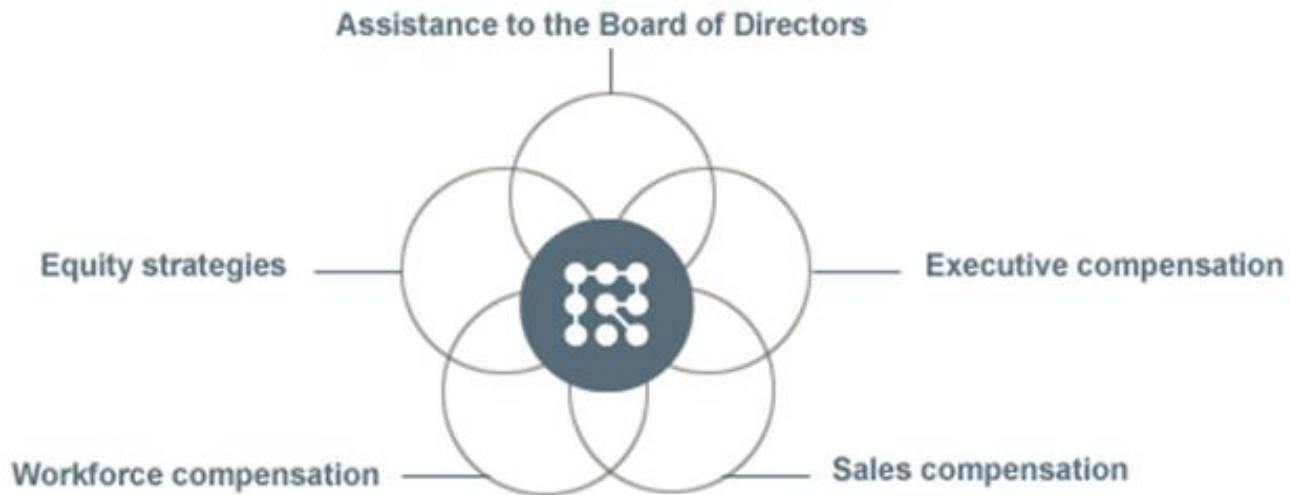
Practical Insights for the Medical Technology Industry

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September 23, 2009

About Remedy

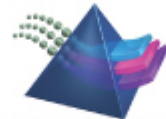
Remedy is a leading compensation consulting firm, specializing in the life sciences and broad technology industries ...



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About Remedy

Some of our clients ...



A-LIFE MEDICAL
Streamlining the Code to Collection Process



NEW DIMENSIONS IN DIAGNOSIS



A Promise for Life

Today's agenda

- ▶ What are the key business challenges being faced by medical technology companies today?
- ▶ What are the current sales compensation “hot topics?”
- ▶ Leveraging data collected by Remedy in the past several weeks, what are the current sales compensation market norms?
- ▶ What kinds of plan changes are being considered?
- ▶ What factors should you consider in assessing your company's sales compensation plans?
- ▶ What are some basic tools you might use to improve your plans?

Key Business Challenges

- ▶ Recent economic conditions and their impact on business results
- ▶ Difficulty setting accurate quotas in volatile economic environment
- ▶ Philosophical debate about revising quotas mid-year
- ▶ Shifting business priorities
- ▶ Emphasis on productivity...doing more with less
- ▶ Uptick in merger and acquisition activity and difficulty integrating sales forces
- ▶ Organizationally, an increasing number of “specialist” roles

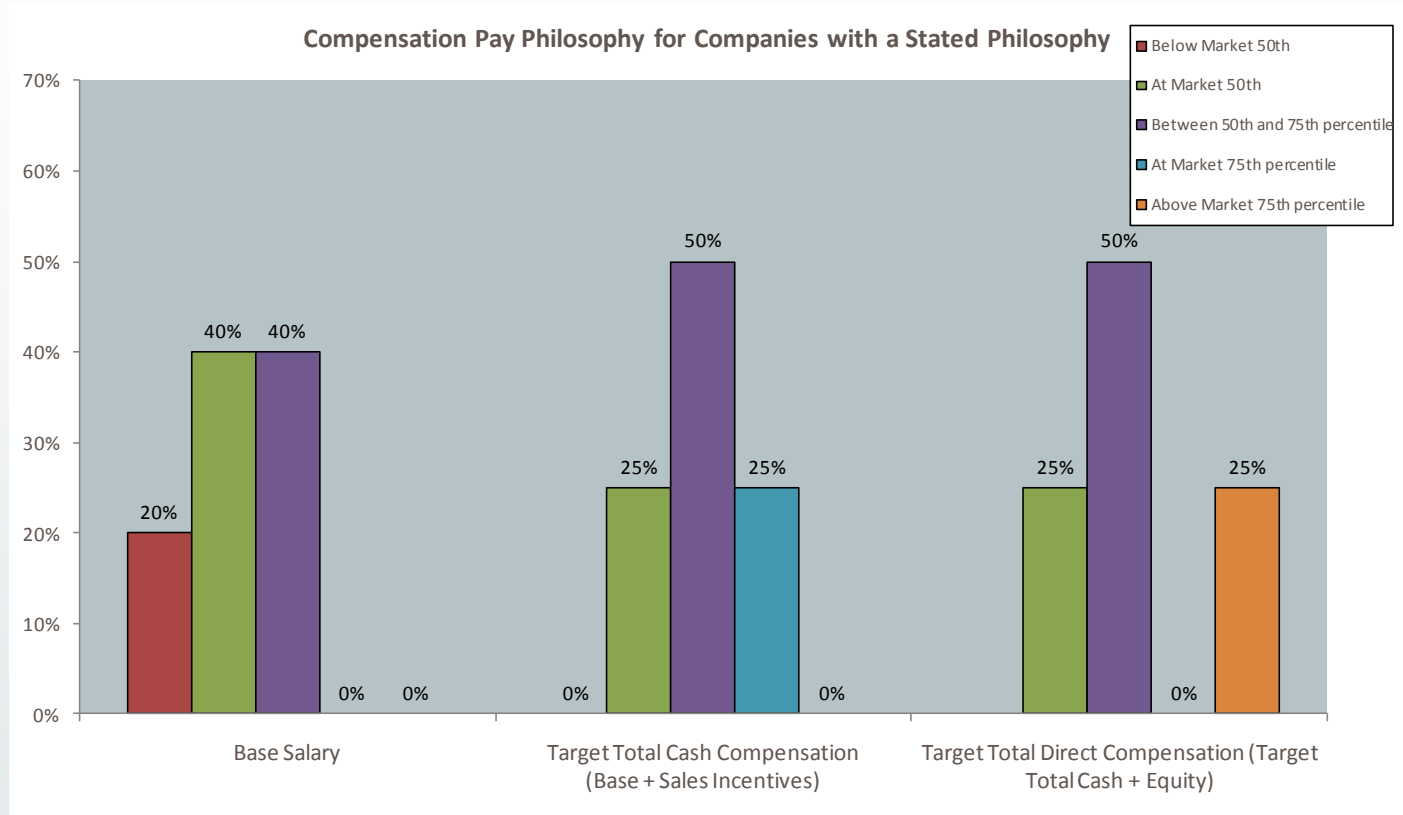
Sales Compensation “Hot Topics”

- ▶ Quota adjustments when business results are unexpectedly weak
- ▶ Assessing pay competitiveness in current fast-changing market
- ▶ Increasing the sales force’s stake in profitability
- ▶ Encouraging cross-selling and “bundling”
- ▶ Keeping pay plans aligned with shifting business priorities
- ▶ Rewarding customer satisfaction, penetration, and/or retention
- ▶ Increasing the productivity of new hires through effective on-boarding
- ▶ Team selling and its impact on sales compensation programs
- ▶ Finding the right balance of consistency vs. customization in plan design (across roles, business units, or geographies)
- ▶ Increased emphasis on cash incentives (where perceived value of equity has diminished due to stock price decreases)

What are the Market Norms?

Compensation Philosophy

- Base salary**
- ▶ Over 40% of companies have a stated compensation philosophy
 - ▶ Most position at the *market median* or below the *market 75th percentile*
- Target total cash**
- ▶ Over 40% of companies have a stated compensation philosophy
 - ▶ Most position above the *market median*
- Target total direct**
- ▶ Over 40% of companies have a stated compensation philosophy
 - ▶ Most position above the *market median*



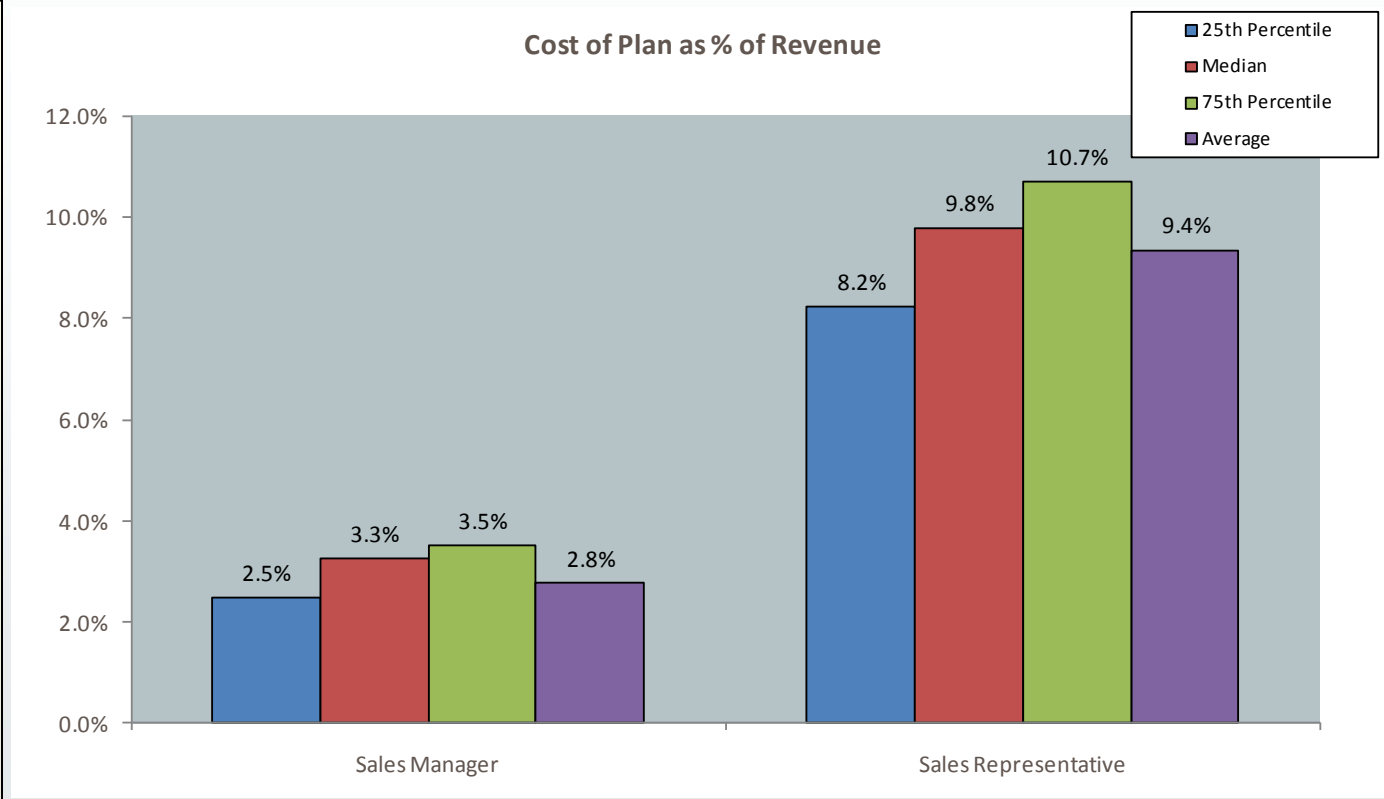
Source: 2009 MEDTECH Sales Compensation Survey conducted by Remedy Compensation Consulting

Market Norms

Plan Costs

Cash as a % of Revenue

- ▶ Median cost of cash compensation is 9.8% for sales reps
- ▶ Median cost of cash compensation is 3.3% for sales management
- ▶ % of revenue varies significantly by company size

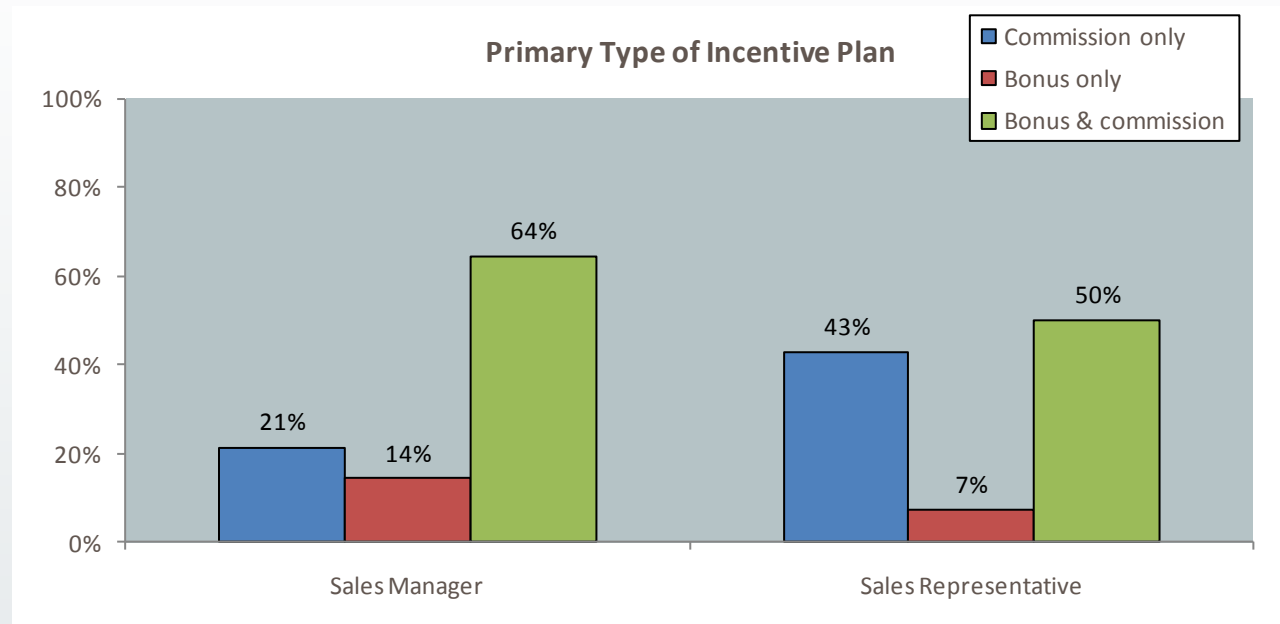


Market Norms

Type of Plans

Plan Types

- ▶ *Sales Managers* = combination of commission & bonus-based plans
- ▶ *Sales Reps* = combination of commission & bonus-based plans



Market Norms

Minimums and Maximums

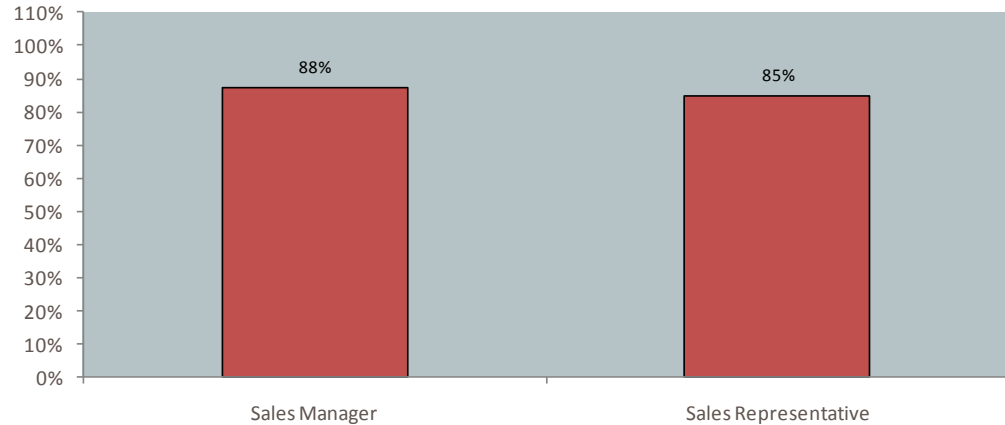
Minimum Performance Requirements

- ▶ Over 60% of companies require a minimum level of performance prior to incentive payouts
- ▶ 80%-85% of goal is the norm for sales representatives
- ▶ 85%-90% of goal is the norm for sales managers

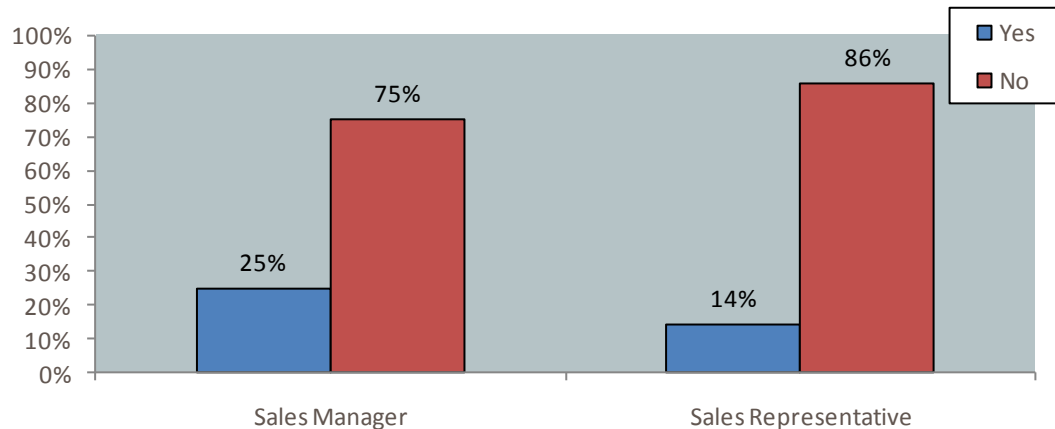
Limits (“Caps”) on Pay

- ▶ Few companies limit the amount of incentives that can be earned
- ▶ For those that do, the typical limit is 100% of target incentives

Minimum Performance Requirement as a % of Plan - Median



Limits on Sales Incentives



Market Norms

Slope of the Payout Curve

Percentage of Target Sales Incentives Earned Relative to Performance

Level of Q uota Attainment	Sales Managers	Sales Representatives	Field Support
75%	51%	52%	54%
80%	55%	64%	71%
85%	66%	73%	76%
90%	74%	77%	81%
95%	87%	86%	89%
100%	100%	100%	100%
105%	119%	112%	111%
110%	137%	123%	124%
115%	152%	134%	134%
120%	168%	146%	146%
125%	176%	156%	156%

Multiple of Target Sales Incentives Earned Relative to Performance

Level of Q uota Attainment	Sales Managers	Sales Representatives	Field Support
75%	0.7	0.7	0.7
80%	0.7	0.8	0.9
85%	0.8	0.9	0.9
90%	0.8	0.9	0.9
95%	0.9	0.9	0.9
100%	1.0	1.0	1.0
105%	3.8	2.3	2.2
110%	3.7	2.3	2.4
115%	3.5	2.3	2.2
120%	3.4	2.3	2.3
125%	3.0	2.2	2.2

Payout Curves

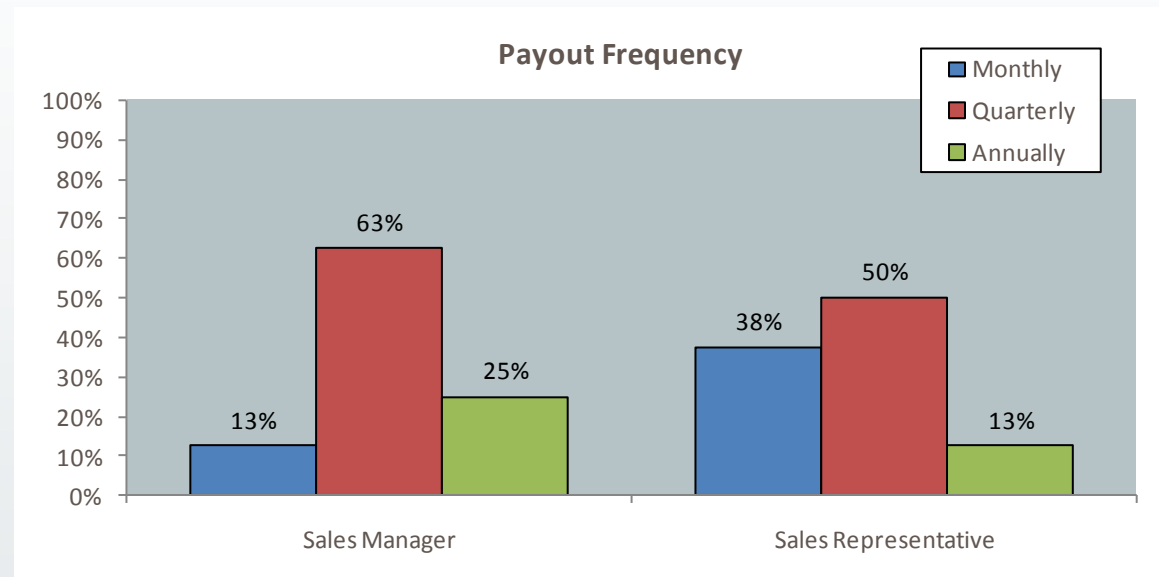
- ▶ *Sales Management* = lower tolerance for under-achievement but more upside on a percentage basis
- ▶ *Sales Reps* = proper risk/reward relationship below and above plan
- ▶ *Field Support* = downside risk similar to sales management but with less upside

Market Norms

Payout Frequency

Payout Frequency

- ▶ *Sales Management* = Quarterly
- ▶ *Sales Reps* = Monthly and Quarterly
- ▶ Although quarterly payouts are most common across sales positions, sales representatives are generally paid more frequently than sales managers.
- ▶ Sales managers generally have a quarterly component of pay to better align with sales leadership's longer-term view on company performance



Market Norms

Performance Metrics

Most Common Metrics

- ▶ *Sales Management* = Revenue + operating income
- ▶ *Sales Reps* = Volume only (revenue or units)

Sales Managers – Top 3 Metrics in Addition to Total Revenue
Product-specific revenue
New product revenue
Operating income

Sales Representative – Top 3 Metrics in Addition to Total Revenue
Product-specific revenue
New product revenue
Units sold

Market Norms

Changes Considered for Next Year

Potential Changes
Target sales incentive opportunity - increasing
Eligibility for base salary merit increases – decreasing
The use of draws – decreasing
The use of guarantees – decreasing
Minimum performance requirements – increasing
The number of performance metrics – increasing
Specific incentives for new product launches - increasing

Assessing and Improving Your Plans

- ▶ Sales compensation plans are an important contributor to achievement of your financial, customer, and employee goals
- ▶ Done right, a good sales compensation program can:
 - **Communicate** performance expectations very clearly
 - **Focus** attention on the most important goals
 - **Motivate** people to perform and maximize selling effort
 - **Correlate** compensation expense with business results
 - **Attract and retain** great sales talent
- ▶ How might you assess the effectiveness of your existing sales compensation plans? What reference points can be used?
- ▶ On the pages that follow, we present scorecards you can use to assess your company's plans

Scorecard #1: Support for Business Objectives

How well does your current plan support your business objectives?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
1. Revenue goals <ul style="list-style-type: none"> - Overall revenues - Revenues by product or product category - Revenues by customer or market segment 	_____
2. Profitability goals <ul style="list-style-type: none"> - Overall margin percentage - Product mix - Customer penetration (add-on products, service contracts, etc.) 	_____
3. Customer goals <ul style="list-style-type: none"> - Target customer acquisition - Customer satisfaction/retention 	_____
4. Financial goals <ul style="list-style-type: none"> - Sales compensation expense to budget - Sales compensation expenses as a % of sales 	_____
5. Human Resources goals <ul style="list-style-type: none"> - Attraction/retention of strong sales talent - On-boarding and career progression 	_____

Scorecard #2: Pay Levels and Differentials

How effective is your plan in terms of the link between pay and performance?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
1. Target performance results in expected pay levels	_____
2. Excellent performers realize appropriate pay levels	_____
3. Poor performers are sent an appropriate pay message	_____
4. Pay levels are not affected (up or down) inadvertently due to territory size, account assignment, or other factors	_____
5. Total compensation expense correlates to overall sales performance to budget	_____

Scorecard #3: Employee Perceptions

How effective is your plan in terms of employee perceptions?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
1. The plan is perceived as fair and equitable	_____
2. Employees understand the plan	_____
3. There has been minimal controversy about the plan	_____
4. Employees do not believe some territories have a natural advantage or disadvantage under the plan	_____
5. Employee morale is high	_____
6. Employees find the plan motivating, and exhibit behaviors that demonstrate this	_____

Scorecard #4: Technical Soundness

How effective is your plan in terms of overall technical soundness and consistency with market best practices?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
Plan complexity	_____
Clearly stated plan objectives	_____
Pay for performance linkage	_____
Performance distribution (quota setting effectiveness)	_____
Plan format (commission vs. bonus)	_____
Incentive-impacting performance metrics	_____
Salary to incentive mix	_____
Leverage (upside pay for “excellence”)	_____
Payout frequency	_____
Quota measurement (discrete periods vs. cumulative)	_____
Thresholds and caps	_____
Balance of team and individual metrics	_____
Number/frequency of exceptions	_____

Common Technical Design Flaws

- ▶ How can you avoid common pitfalls like these?
 - Having a salary-to-incentive mix that is wrong for the role
 - Insufficient upside
 - Sub-optimal performance factors
 - Thresholds that are too lenient or non-existent
 - Caps, when other tactics can be more effective
 - Payout frequency out of synch with selling characteristics
 - Using the wrong incentive format (commission vs. bonus)

- ▶ A series of “best practices” tools and methodologies for making sound design decisions and optimizing plan effectiveness are included in the Appendix to this material
 - These practical, experience-based concepts should be useful to you in considering modifications to improve your plans for 2010

In Closing...

Thank you for letting us share some ideas with you today

What questions do you have about any of the concepts presented?

What are the most pressing sales compensation issues your company is facing?

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APPENDIX

Practical tools and decision-making frameworks
for improving your plans

Improving the Plan: Use the Right Levers

Cash	<p>Commission Immediate sale-by-sale or day-by-day results Often volume oriented</p>	<p>Bonus Measurable goal-oriented aspects of performance requiring consistent reinforcement Often strategic</p>	<p>Salary/Performance Review Less quantifiable (the “how”) aspects of performance</p>
	Noncash	<p>Contests Temporary priorities and action items that require “hype” to attract attention</p>	<p>Recognition Distinguished or “role model” performance</p>
	Immediate/ Short-Term	Sustained/ Medium-Term	Ongoing/ Long-Term

Improving the Plan: Determine the Right Mix

Appropriate Salary:Incentive Ratio

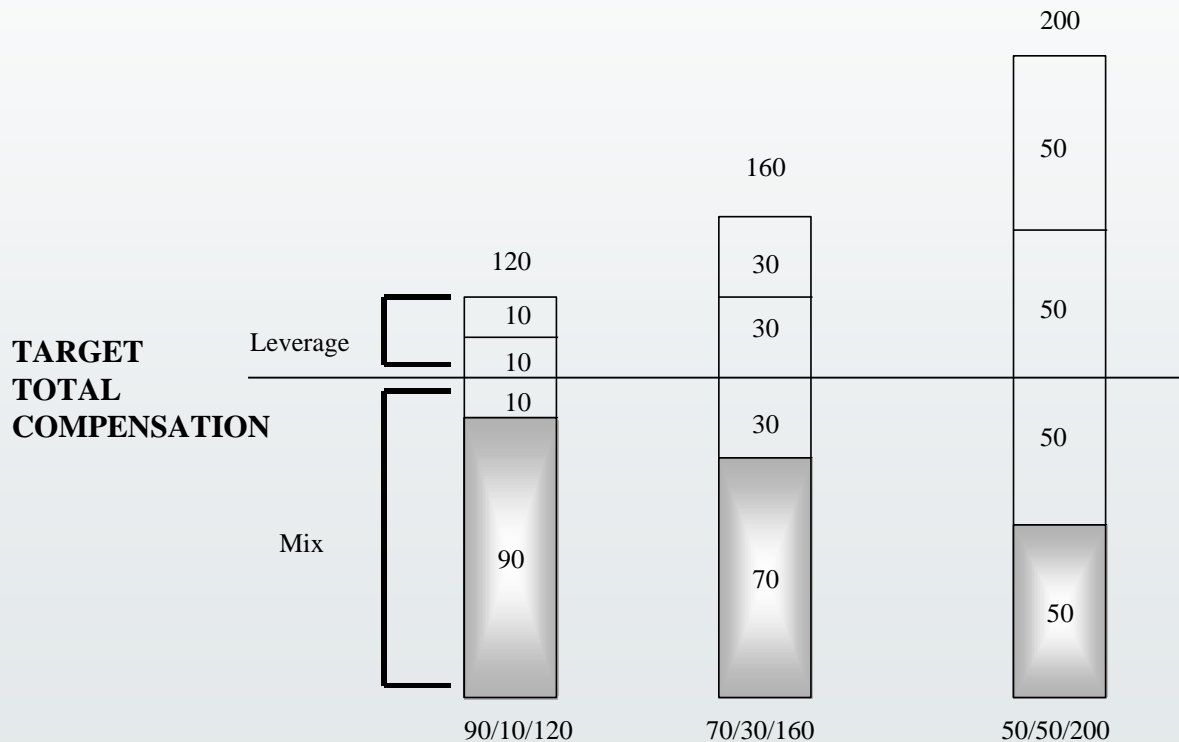
Importance of Personal Persuasion vs. Other Sales Drivers (Advertising, Price, etc.)	High	Around 80:20	75:25 to 60:40	50:50 to 0:100
	Medium	90:10	80:20 to 65:35	70:30 to 60:40
	Low	Consider salary only or small bonus	90:10	85:15 to 75:25

- Length of Sales Cycle:** Long Short
- Primary Customer Type** Current/Existing Nonbuying/New
- Number of Accounts:** Few Many
- Responsibility for Service:** High/Heavy Involvement Low/None
- Sales Channel Configuration:** Indirect Direct
- Nature of Sales Role:** Consultative Transactional
- Product Maturity Level** Established New

Improving the Plan: Provide the Right Upside

General rule:

- ▶ **2:1 ratio**—for every dollar at risk, the plan should be able to pay twice as much for high performance



Improving the Plan: Reward the Right Factors

A reward factor should be “high” in at least two areas

Performance Factor	Control by Salesperson			Impact of Factor			Ability to Measure		
	High	Medium	Low	High	Medium	Low	High	Medium	Low
1.									
2.									
3.									
4.									

Improving the Plan: Use Thresholds Appropriately

► Lower Thresholds

- Significant pay-at-risk in target total compensation
- Developing or underdeveloped quota-setting process
- Individual-based performance measures
- Volatile business
- Desire to have all sales representatives finish “in the money”

► Higher Thresholds

- Salary is predominant portion of target total compensation
- Well-defined, proven, established quota-setting process
- Team-based performance measures
- Mature, established business
- Desire large compensation spread between “eagles” and “adequate” performers

Improving the Plan: Use the Right Format

► Commission

- Rewards territory size
- More difficult to manage to “target” compensation
- May minimize focus on quota attainment
- Direct link between production and reward
- May not reflect level of effort

► Bonus

- Rewards achievement of expected level of performance
- Easier to manage variable amounts of pay-at-risk
- Increased focus on quota attainment
- More likely to reflect effort—if quotas are set properly

Improving the Plan: Use Team Incentives Wisely

- ▶ Companies using team incentives generally do so for the following benefits:
 - Customer service is enhanced, e.g., the effort is truly a “team sell,” requiring input from employees with special expertise
 - To support and encourage collaboration and cooperation among salespeople and between sales and other employees
 - “Producers” in the group help others and there may be peer pressure to perform
 - Fewer “arguments” over measurement and tracking of results
 - May align sales force more closely to management’s reward system

Improving the Plan: Use the Right Pay Frequency

Considerations	Monthly	Quarterly	Annually
Relative size of incentive amount	Moderate to large (target incentive is at least 30% of salary)	Moderate (target incentive is at least 20% of salary)	Small (target incentive is less than 20% of salary)
Ability to track and measure results	Easy to count results and evaluate performance	Actual sales or progress toward sales can be measured easily	Difficult to assess progress toward objectives
Length of selling cycle	Day-to-day or week-to-week	Sales usually closed in a few months	Several months; sometimes longer than a year
Importance of results for full year	Low	Moderate	High