

# In Pursuit of the Holy Grail: Developing the Ultimate Sales & Recruiter Comp Plan

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TOM NUNN CONSULTING, LLC  
strategic growth planning



*...harvesting talent*

# **In Pursuit of the Holy Grail: Developing the Ultimate Sales & Recruiter Comp Plan**

## **Agenda**

- Introductions**
- Compensation Planning: Some Fundamentals**
- Sample Plans**
- Key Performance Metrics**
- Q&A**
- Other Resources**

# **Compensation Planning: The Fundamentals**

**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. Emphasize pay for performance and reward superior performance with "accelerators"**

# Compensation Planning: The Fundamentals

**Good compensation programs.....**

- 5. Fall within a range of acceptable impact to the company's overall profitability**
- 6. Are fair, consistent and are predominately based on quantitative instead of subjective results**
- 7. Are well communicated, transparent and easy to understand**
- 8. Are uniform for groups of people performing the same role**

# **Compensation Planning: What Do You Want To Incent?**

- **New starts**
- **Growing new GM\$**
- **Achieving YTD GM% Tiers**
- **Increased GM%**
- **Business with new customers**
- **Growing GM\$ or BHC at existing customers**
- **High SLA grades**
- **Meeting or beating ramp-up (for newer producers)**
- **Targeted activities (i.e. submittals)...but be careful**
- **Team Goals**
- **Combination of one or more of above**

# Compensation Planning: What Do You NOT Want To Incent

Things to be careful of when designing your plans:

- **To easy to “cruise”**
  - Ride large BHC with little new activity
  - Not enough leverage....salary too high
- **Too easy to “game the system”**
- **High GM\$ at the cost of low GM%**
- **Too hard to make \$\$ so people give up**
- **Too easy to make \$\$ so hard to cut back**

# **Sales and Recruiting Comp Plans Salaries and Guarantees**

## **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!**

# **Sales and Recruiting Comp Plans**

## **Salaries and Guarantees**

### **Good Rules To Follow For Salary Administration**

- **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!**
- **Use guarantees to attract the right talent vs. upsetting your salary structure!**



# **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!**
- **Mechanics of an “unrecoverable draw” guarantee**

# **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 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!**

# **Sales and Recruiting Comp Plans Examples**

## **Comp plan that rewards GM\$ (Spread)**

- **Commission % based on amount of weekly or monthly cumulative GM\$**
- **The higher the GM\$ the higher the commission %**
- **Probably the most common plan in our industry**
- **Pros: easy to administer, easy to understand**
- **Cons: doesn't incent/drive higher GM% and can allow "cruising" at higher levels of GM\$**

# **Sales and Recruiting Comp Plans Examples**

## **Comp plan that rewards GM%**

- **Commission based on GM% of individual deals**
- **The higher the GM% the higher the commission**
- **Pros: will drive GM% higher; will promote better negotiating skills**
- **Cons: Harder to administer; sometimes incents turning down business, can also promote “cruising”**

# **Sales and Recruiting Comp Plans Examples**

## **Comp Plans That Rewards Starts**

- **Each person has monthly Start Goal (say 2)**
- **A persons commissions are at 100% of plan if start target achieved**
- **A persons commissions are above 100% of plan if they beat their start target**
- **A persons commissions are at below 100% of plan if start target is missed**
- **May want to do this quarterly vs. monthly**

# **Sales and Recruiting Comp Plans Examples**

## **Comp plan that rewards Starts (continued)**

- May want to administer quarterly: 6 per quarter (evens out poor month and keeps them motivated)**
- Consider “reward” not “penalty” aspects of this plan**
- Pros: Incentivizes monthly starts, penalizes person who “sits” on a large HC base**
- Cons: Management oversight is needed to avoid bad deals just to get starts**

# **Sales and Recruiting Comp Plans Examples**

## **Start Bonus, No Commissions**

- **Pay one time bonus for every start (ex: \$1000 -\$2,000)**
- **Amount depends on GM\$ or GM% or duration**
- **Additional amounts for new customer, growth of HC at a customer, other desirable behavior**
- **Pros: Easy to understand, easy to administer, incentive to always be focused on new starts**
- **Also good plan if you have lots of FT salaried consultants**
- **Cons: Needs to be competitive with more traditional commission/annuity based plans**



# **Sales and Recruiting Comp Plans Examples**

## **“No Touch” VMS Accounts: Sales & Service**

- **Separate “sales” from “service”**
- **For sales person who brought in the business:**
  - **Transition over to service team as soon as contract is signed (and he/she starts finding new business at new accounts!)**
  - **Pay them one time bonus each time the cumulative GM\$ hits new tiers over the first 12-24 months then done**
  - **Make sure bonus \$\$ are in line (affordable) with the VMS**
- **For person(s) who service the business:**
  - **Low leverage plan; i.e. salary is >80% of comp**
  - **Small bonus for starts (\$100-200)**
  - **Other bonus opportunities for following SLA's/good report card, etc.**

# **Sales and Recruiting Comp Plans Examples**

## **“No Touch” VMS Accounts: Recruiting**

- **Assign recruiters based on quality of Req**
  - Low quality to sourcers or entry level recruiters
  - Higher quality to more seasoned recruiters
  - Make a career path/promotion to go from one to the other
- **Heavy focus on submittal activity. Consider bonus for beating targets**
- **Consider off-shore for some or most of your recruiting needs**
- **Avoid mixing No Touch with Relationship business within same team (or location?)**

# **Sales and Recruiting Comp Plans Examples**

## **Hybrid comp plans that incorporate several incentives**

- **Use GM% comp plan and add bonuses for hitting YTD GM\$ thresholds (drives good GM% and rewards superior GM\$)**
- **Bonus for specific activities: new customers, building HC at a customer, team achievements, etc.**
- **Lead programs**
- **Monthly bonus for high GM\$**
- **Monthly bonus for most new GM\$ or starts**
- **Be attentive to what you are trying to incent and make sure plans promote desired behavior!**

# **Sales and Recruiting Comp Plans**

## **Key Performance Metrics**

***“You Can’t Manage What You Don’t Measure”!***

**Sample Comp Plan Key Performance Metrics:**

- **Sales and Recruiting Expense Ratios**
- **Contribution Margin**
- **Breakeven Margin**
- **P.O.T (Production Over Tenure) Standards**
- **Leverage Ratio: Amount of total comp that is variable**

## **Examples & Resources**

***The next several slides are some examples and other resources to use as you work on perfecting your sales and recruiter comp plans***

# **Sales and Recruiting Comp Plans**

## **Tracking and Measuring Impact & Affordability**

### **Tracking Selling and Recruiting Expense (ECR)**

- **Selling Expense Calculation:**
  - **Salaries, commissions, bonuses for all sales people**
  - **Employer Taxes**
  - **Employer Benefits**
  - **T&E Reimbursement**
  - **Other direct costs: i.e. headhunter fees, contests, etc.**
  - **Same calculations for Recruiters**
  - **Ideally group this together on your chart of accounts**

# **Sales and Recruiting Comp Plans**

## **Tracking and Measuring Impact & Affordability**

### **Tracking Selling and Recruiting Expense (ECR)**

- **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!**

# **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**
- **You have a hybrid model i.e. salaried consultants**



# **Sales and Recruiting Comp Plans**

## **Key Performance Metrics**

**Breakeven Margin: The point in which a producers HC/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” & “Breakeven Contribution”**
- **Good to establish timeframes for a person to get past both breakeven points above**

# **Sales and Recruiting Comp Plans**

## **Key Performance Metrics**

### **Production Over Tenure (P.O.T.) Standards**

- **Excellent method for establishing expectations and managing performance**
- **Methodology:**
  - **Assume producers have 24 months from hire to be fully ramped**
  - **For each month 1-24 establish “Minimum”, “Average” and “Star” GM\$ targets.**
  - **After 24 months tenure, targets remain the same**
  - **Targets need to be consistent and you may have different ones for sales people vs. recruiters of inexperienced vs. experience hires**

# **Sales and Recruiting Comp Plans**

## **Key Performance Metrics**

### **Production Over Tenure (P.O.T.) Standards**

- **Methodology (continued):**
  - **Track each persons actual monthly GM\$ to standards and have them see their report**
  - **Consider everyone seeing everyone's to promote competitiveness**
  - **Be careful in establishing your “minimum” targets: if no consequences for being below; the process lacks credibility and effectiveness**
- **Tie GM\$ targets to breakeven and contribution margin targets**

# Sales and Recruiting Comp Plans

## Sample P.O.T Report

Name	Months in Position	Current HC	April GM\$ Actual	Performance Standards			Employee Performance
				Minimum GM\$	Average GM\$	Star GM\$	
Sales Person #1	>24	26	\$96,184	\$40,000	\$60,000	\$95,000	Star
Sales Person #2	>24	21	\$85,476	\$40,000	\$60,000	\$95,000	Above Average
Sales Person #3	8	5	\$14,100	\$10,650	\$14,600	\$23,000	Acceptable
Sales Person #4	18	8	\$24,326	\$27,250	\$39,000	\$62,100	Below Minimum
Recruiter #1	10	12	\$36,164	\$14,250	\$20,000	\$29,400	Star
Recruiter #2	10	6	\$16,044	\$14,250	\$22,500	\$32,500	Acceptable
Recruiter #3	23	10	\$33,242	\$38,350	\$52,500	\$75,500	Below Minimum
Recruiter #4	>24	27	\$89,815	\$40,000	\$55,000	\$80,000	Star
Recruiter #5	12	8	\$28,755	\$18,000	\$25,000	\$36,000	Above Average

# Sales and Recruiting Comp Plans

## *Some Final Thoughts*

- Implement at beginning of new year
- Introduce 6 – 8 weeks before implementation
- Do modeling to show what they make “old plan” vs. “new plan”
- Have an upside! (Better for high end GM production, etc.)
- Offer a review period with time for Q&A
- Be open to universal changes (if they make sense) but not one-offs
- Avoid “grandfathering” of alternative plans

# Sales and Recruiting Comp Plans

## *Some Final Thoughts*

- Use kickers as incentives to up the prize (# of placements; Highest monthly/quarterly GM\$, etc.)
- Clearly define the reason for the change. Don't dictate.
- Test their ability to understand the plan (make them do the math).
- Address discontent head on. Do not let negative discussions linger.



# **Your Turn**

## **Q&A**



# In Pursuit of the Holy Grail: Developing the Ultimate Sales & Recruiter Comp Plan

## Thank-You!

Follow up questions? Contact Tom or Rick:

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