



**The Talent Management and Rewards Imperative for 2012:
Leading Through Uncertain Times**

Presentation to The Greater Cincinnati Compensation and Benefits Association

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TOWERS WATSON 

Who we are



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 - Senior consultant in Towers Watson's Talent Management and Organizational Alignment Practice in the Cincinnati office
 - Greg joined Towers Watson in 2003 and specializes in selling and managing projects related to talent management, executive compensation and broad-based compensation



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- About the Talent Management and Rewards survey
- Economic uncertainty and attraction and retention in 2011
- Leading through uncertain times
 - The three key principles to a sustainable talent management and rewards model
 - Segmentation
 - Agility
 - Integration
- Summary and questions

About the survey

- North America Talent Management and Rewards Survey
 - Conducted in May through June 2011
 - Captures the current landscape of rewards and talent management
 - Represents 316 companies, including 218 U.S. organizations and 98 Canadian organizations
- Employee data from North America
 - Conducted in June 2011
 - Includes over 10,000 full-time employees in mid-size to large organizations, representing a broad cross-section of industry sectors
- All data presented in the report represents North America unless otherwise noted

Economic uncertainty continues

Merit pay remains relatively flat

- While business results have been improving in many sectors, recent fluctuations in the market create questions regarding the sustainability of the improvement
- Salary growth remains relatively flat

U.S. Merit Budget Increases*					
Year	Executive	Management	Exempt	Nonexempt Salaried	Nonexempt Hourly
2008	3.7%	3.5%	3.5%	3.5%	3.4%
2009	3.3%	2.9%	2.8%	2.8%	2.8%
2010	3.0%	2.8%	2.8%	2.7%	2.7%
2011 ^P	3.0%	3.0%	3.0%	2.9%	2.8%
2012 ^F	3.0%	3.0%	3.0%	3.0%	3.0%

Salary increases still well below 2008 levels

*Data represents median merit increases for the United States. Includes participants providing no merit increases.

Source: Towers Watson Data Services

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Responding to uncertainty

Organizations continue to adjust talent management programs

Already Redesigned or Anticipate Redesigning:	Have Already Made Change	Plan to Change Over Next 24 Months	No Changes Made or Anticipated
Organizational structure	51%	17%	32%
Talent management strategy	31%	35%	34%
Reward (compensation) strategy	23%	39%	39%
Job leveling or job evaluation process	19%	32%	49%
Competencies	22%	33%	45%
Made some changes to at least one of these	66%	65%	--

Almost two-thirds of all organizations have made a significant change to HR programs. Most organizations expect to continue to make significant changes going forward as well.

Source: Towers Watson 2011 Talent Management and Rewards Survey.

towerswatson.com

Attraction in 2011

Today's headlines miss the real story

- Unemployment remains stubbornly high at around 9%: There is an abundance of available talent
- Yet employers say they are still having problems attracting critical skill and high-performing employees

Percentage of companies that are having difficulty attracting workers

Employee Group	Year	2004	2005	2006	2007	2008	2009	2010	2011
Critical skill employees*		46%	58%	63%	64%	66%	28%	52%	59%
Top-performing employees*		42%	48%	53%	60%	54%	25%	45%	42%
All employees*		18%	22%	29%	34%	28%	8%	15%	13%
# of unemployed per job opening		2.20	1.96	1.52	1.49	2.14	6.13	5.33	4.63

*Data represents U.S. employees only.

Source: Data on number of unemployed per job opening comes from U.S. Bureau of Labor Services. Other data are from Towers Watson survey data.

towerswatson.com

Retention in 2011

It's about the "who"

- With quit rates at historical lows since the recession began, employers don't seem concerned about retention for employees in general
- But that number jumps significantly for key groups such as critical skill and top-performing employees

Percentage of companies that are having difficulty retaining workers

Employee Group	Year	2004	2005	2006	2007	2008	2009	2010	2011
Critical skill employees*		30%	39%	43%	49%	47%	16%	31%	36%
Top-performing employees*		27%	30%	36%	40%	37%	14%	25%	28%
All employees*		17%	20%	20%	27%	19%	5%	11%	11%
# of quits per month (millions)		2.5	2.9	3.1	3.1	2.7	1.7	1.8	1.9

*Data represents U.S. employees only.

Source: Data on number of unemployed per job opening comes from U.S. Bureau of Labor Services. Other data are from Towers Watson survey data.

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Managing the “give” and the “get”

The key question . . .

“ Is your employment deal sustainable going forward? ”

In order to attract, retain and engage key employees, do you have in place an approach to talent management and reward that remains vital no matter the economic cycle?

Creating a sustainable talent management and reward model

Three principles stand out

Segmentation

Defining a different employment experience for different segments to most effectively attract and retain them

Agility

Adapting programs to changing conditions in order to effectively manage risks and improve performance

Integration

Aligning talent management and reward programs with each other and to the business strategy and objectives

Sustainable Talent and Rewards Program

Segmentation

What it means and how it works

Key Steps for Segmentation

Segmentation

- Defining a different employment experience for different segments to most effectively attract and retain them

Agility

- Adapting programs to changing conditions in order to effectively manage risks and improve performance

Integration

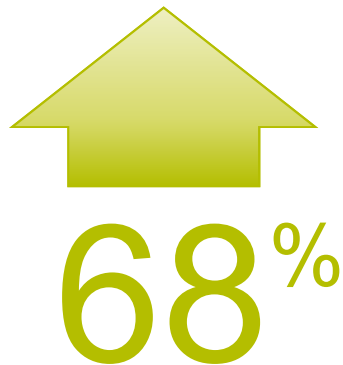
- Aligning talent management and reward programs with each other and to the business strategy and objectives

- Define workforce segments and differentiate the employment deal
- Be on the look out for emerging segment
- Meet the execution challenge (execution is key)

Effective segmentation

Who matters most to organization strategy and success?

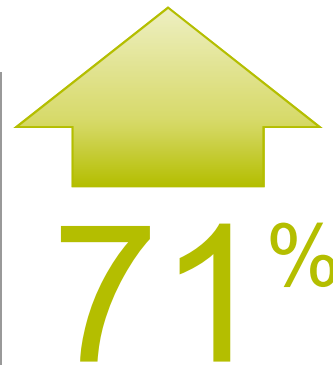
While most organizations formally identify top performers, less than half are identifying critical skill employees or informing high-potentials



Formally identify high potential employees



Inform employees who have been identified as high-potential employees



Formally identify top-performing employees



Formally identify employees with critical skills

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Segmentation

Execution – Unlock hidden value

Creating a differentiated focus on talent segments will unlock hidden value

Supply Side Segmentation: What the organization can offer to attract and motivate

Demand Side Segmentation: What the organization needs from current and potential employees

Driven by...
Generational differences
Cultural distinctions
Work/life challenges

All about...
Identifying the roles that most directly contribute to key strategic capabilities (Pivotal Roles)

Allows for unique “deals” that can be essential in unlocking hidden sources of value

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Effective segmentation

Emerging segments can provide competitive advantage

Older employees delaying retirement — many working because they have to

High-potential employees with career advancement blocked due to lack of opportunities

Younger employees have been passed over in the job market and are unemployed

To gain competitive advantage organizations must understand attraction and retention drivers for these new groups of employees

Segmentation

Execution — Define supply-side segmentation

Attraction Drivers	Gen Y	Gen X	Boomers
Career advancement opportunities	1	2	8
Competitive base pay	2	1	1
Learning and development opportunities	3	6	—
Challenging work	4	3	2
Convenient work location	5	4	3
Organization's reputation as a good employer	6	7	4
Flexible schedule	7	5	5
Vacation/paid time off	8	10	7
Competitive benefits	9	9	—
Reasonable workload	10	—	9
Organization's financial health	—	8	6
Competitive retirement benefits	—	—	10

Note: Gen Y = under age 30, Gen X = ages 30 – 46, Boomers = ages 47 – 64.

Source: Towers Watson 2010 Global Workforce Study — Global.

Segmentation opportunity

Understanding attraction drivers

**Employers underestimate the importance of “fundamentals”
to attracting employees — even top talent**

All Employees		
Rank	Employers	Employees
1	Base pay	Job security
2	Organization’s mission, vision and values	Base pay
3	Organization’s reputation as a great place to work	Health care benefits
4	Career development opportunities	Length of commute
5	Challenging work	Vacation/PTO

High-Potential Employees		
Rank	Employers	Employees
1	Challenging work	Job security
2	Career development opportunities	Base pay
3	Organization’s mission, vision and values	Career development opportunities
4	Base pay	Promotion opportunity
5	Organization’s financial performance	Health care benefits

Source: Towers Watson 2011 Talent Management and Rewards Survey.
towerswatson.com

Segmentation opportunity

Understanding retention drivers

Employers do not completely understand what would cause employees to leave — especially the best employees

All Employees			Top Performing Employees		
Rank	Employers	Employees	Rank	Employers	Employees
1	Base pay	Work-related stress	1	Promotion opportunity	Work-related stress
2	Promotion opportunity	Base pay	2	Career development opportunities	Promotion opportunity
3	Relationship w/ supervisor	Promotion opportunity	3	Base pay	Base pay
4	Career development opportunities	Trust/confidence in management	4	Relationship w/ supervisor	Trust/confidence in management
5	Work-related stress	Incentive pay opportunity	5	Incentive pay opportunity	Length of commute

Source: Towers Watson 2011 Talent Management and Rewards Survey.
towerswatson.com

Segmentation opportunity

Differentiating talent management and reward programs

Organizations that invest more resources on the following groups than in other groups for that program

Program	Not Differentiated	Critical-Skill Employees	High-Potentials	Top Performers
Base pay	34%	45%	39%	57%
Short-term incentives	47%	26%	27%	49%
Long-term incentives	53%	25%	29%	37%
Coaching or mentoring	42%	15%	55%	29%
Recognition programs	74%	9%	11%	24%
Recruiting and selection	50%	46%	23%	17%
Career pathing and planning	47%	19%	51%	32%
Employee learning and development	58%	21%	37%	27%
Leadership development	31%	16%	65%	40%
Succession management	30%	26%	65%	44%

Source: Towers Watson 2011 Talent Management and Rewards Survey. Numbers in bold indicated differentiated strategy for identified group.

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Segmentation opportunity

Merit pay differentiation

- Given the importance of the fundamental forms of reward, pay differentiation is one mechanism to segment high performers
- Organizations are differentiating merit pay increases based on performance, with financially high performing companies doing a better job

What Is the Average Merit Increase as a Percentage of Salary for Each Employee Group at Your Organization?	High-Performing Organizations	Low-Performing Organizations
Employees who did not meet expectations	0.0%	0.0%
Employees who partially met expectations	1.0%	0.7%
Employees who met expectations	2.8%	2.5%
Employees who exceeded expectations	4.0%	3.1%
Employees who far exceed expectations	5.0%	4.5%

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Segmentation opportunity

Short-term incentives

- Organizations are differentiating short-term incentive payouts on individual employee performance relative to target funding levels — but there is still opportunity to do more

	Target Funding	Actual Funding
Employees who did not meet expectations	0%	0%
Employees who partially met expectations	60%	74%
Employees who met expectations	100%	100%
Employees who exceeded expectations	112%	112%
Employees who far exceed expectations	133%	128%
Differentiation*	2.2	1.7

Although organizations *target* payouts so that top performers will receive 120% more than employees who only partially meet expectations, they typically only get about 70% more

*The ratio of payouts to employees who far exceed expectations relative to those who partially met expectations.
Source: Towers Watson 2011 Talent Management and Rewards Survey.

Segmentation

Execution is critical

- The importance of segmentation and differentiation needs to be socialized throughout the organization
 - Needed to overcome the disinclination on the part of many managers and HR to treat different employee groups differently
- Employees already recognize their organizations' failure to execute these programs well



Fewer than half of all employees report that high-performing employees are rewarded for their performance

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Agility

What it means and how it works

Key Steps for Gaining Agility

Segmentation

- Defining a different employment experience for different segments to most effectively attract and retain them

Agility

- Adapting programs to changing conditions in order to effectively manage risks and improve performance

Integration

- Aligning talent management and reward programs with each other and to the business strategy and objectives

- Use more flexible reward programs
- Monitor program effectiveness to make data-driven decisions
- Use managers to deliver your programs to meet employee needs
- Communicate with employees and then encourage more self-direction
- Develop leadership capability
- Manage change effectively

Agility opportunity

STI practices promote agility

- Organizations adjust organizational performance targets and individual performance expectations frequently to reflect changing conditions

How Have You Adjusted These Features of Your STI program over the Last 12 Months?	2006	2007	2008	2009	2010	2011
Organizational financial performance targets						
Decreased	4%	3%	11%	19%	16%	4%
Stayed the same	39%	51%	51%	64%	55%	56%
Increased	56%	46%	39%	17%	29%	40%
Individual performance expectations						
Decreased	2%	0%	1%	3%	3%	1%
Stayed the same	69%	68%	69%	78%	74%	77%
Increased	28%	32%	30%	19%	23%	22%

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Agility opportunity

Monitoring program effectiveness

- Organizations are monitoring leadership development, base pay and STI programs but not career management

Organization Monitors Program Implementation to Ensure Consistency with Program Objectives and Guidelines	% of Companies That Agree
Base pay	72
Short-term incentives	75
Long-term incentives	54
Sales force compensation	64
Recognition	46
Leadership development	77
Competencies	54
Career management	26
Learning and development	49

Formally monitoring the effectiveness of reward and talent programs supports data-driven adjustments to their design or implementation

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Agility opportunity

Manager execution

- Managers are the front line in delivering most programs or changes
- Managers have limited flexibility to adjust programs and apply policies to create a compelling employee experience
- Organizations are very mixed in their views on managerial effectiveness in executing reward and talent programs

Managers Execute Program Well	% of Companies That Agree
Base pay	43
Short-term Incentives	49
Long-term incentives	32
Sales force compensation	59
Recognition	35
Competencies	40
Career management	14

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Agility opportunity

Employee understanding

- Employee understanding is one aspect of the successful delivery of programs
- Towers Watson research has shown that employees have more favorable views of programs they understand
- Many organizations are requiring employees to assume more responsibility for their own health care and retirement
- Employees are also using self-directed learning opportunities or external job search tools or networks to manage their own career development and advancement to supplement information and guidance from manager
- This approach can greatly facilitate agility as employees become willing to take on new roles and are better able to adjust more quickly

Our Employees Understand Our Programs	% of Companies
Base pay	44
Short-term incentives	58
Long-term incentives	31
Recognition	46
Competencies	46
Career management	22

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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Agility

Taking action and managing change

- Effective change management is a key characteristic of the agile organization
- Effective communication and change management are both associated with significant increases in organizational performance
- Effective change management comes about through a four-stage process:
 - Planning
 - Building
 - Implementing
 - Improving

Integration

What it means and how it works

Key Steps for Achieving Integration

Segmentation

- Defining a different employment experience for different segments to most effectively attract and retain them

Agility

- Adapting programs to changing conditions in order to effectively manage risks and improve performance

Integration

- Aligning talent management and reward programs with each other and to the business strategy and objectives

- Align your programs* with what you stand for both in the market and your EVP
- Align your programs with your strategic objectives
- Integrate programs with each other
- Leverage the performance management process across a range of programs
- Integrate your competency model with other programs
- Leverage technology to deliver programs

*Programs imply Talent and Reward programs.

Integration opportunity

Aligning programs with what you stand for...

Companies that report their reward and talent management programs support their...

...**Business Objectives**

Are TWICE as likely to be a high-performing company

...**Attraction and Retention Goals**

Are LESS likely to have trouble attracting critical skill employees or retain high performers

...**Desired Culture**

Are more than TWICE as likely to have a high-performance work culture

Integration opportunity

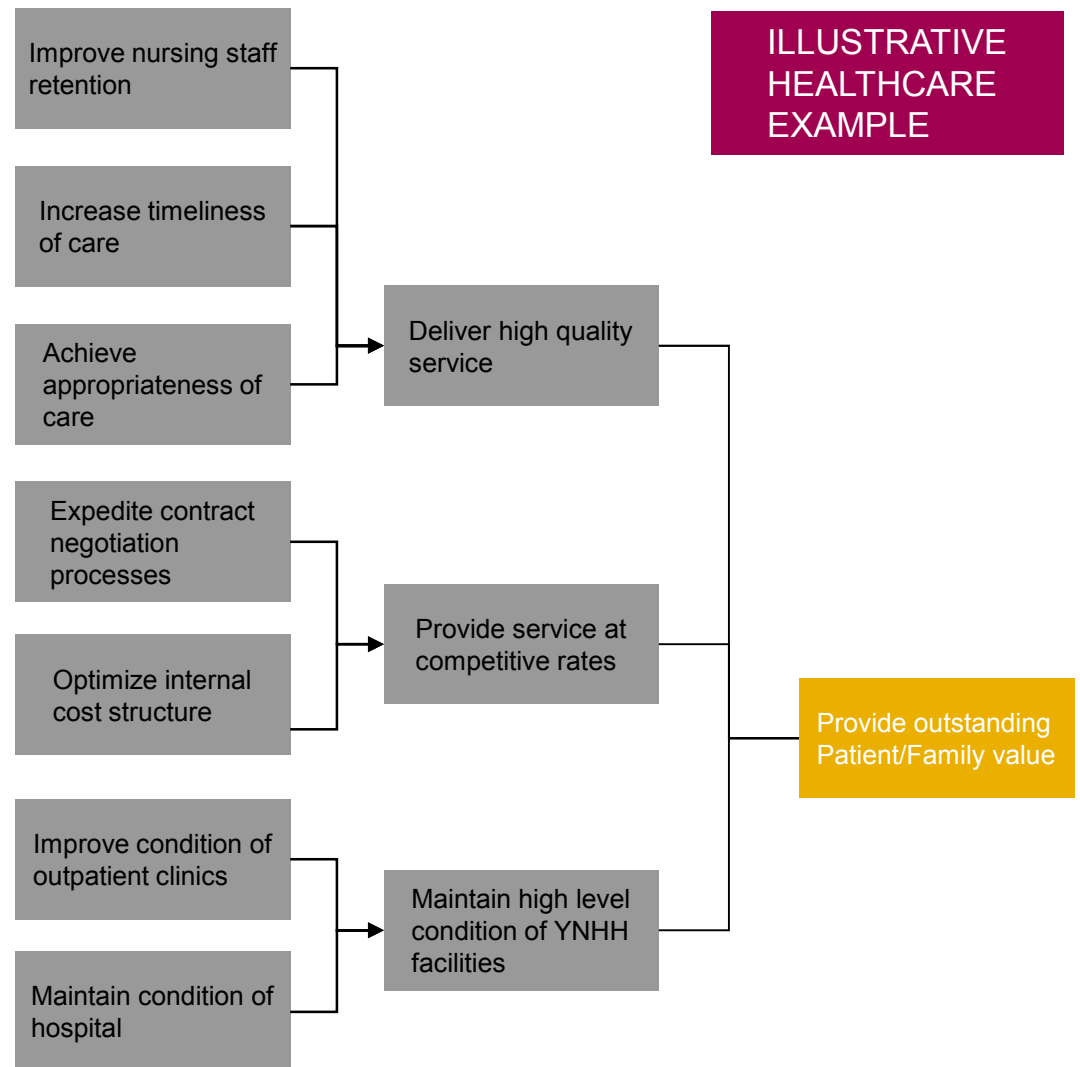
Using value drivers and goal cascading

- High performing organizations typically take a four-step approach to aligning their programs with their strategic objectives
 1. Identify Value Drivers — Create a value driver map of customer, operational and financial activities and initiatives associated with achieving stakeholder objectives
 2. Prioritize Drivers — Prioritize drivers based on employee influence and impact
 3. Cascade Goals — Develop relevant goals by level (department/team/individual)
 4. Reward — Create compensation programs to align compensation with goal achievement

Integration opportunity

Build map of key value drivers for all stakeholders

- Value drivers should focus on customer, operational and financial priorities



Integration opportunity

Prioritize value drivers based on employee influence and impact

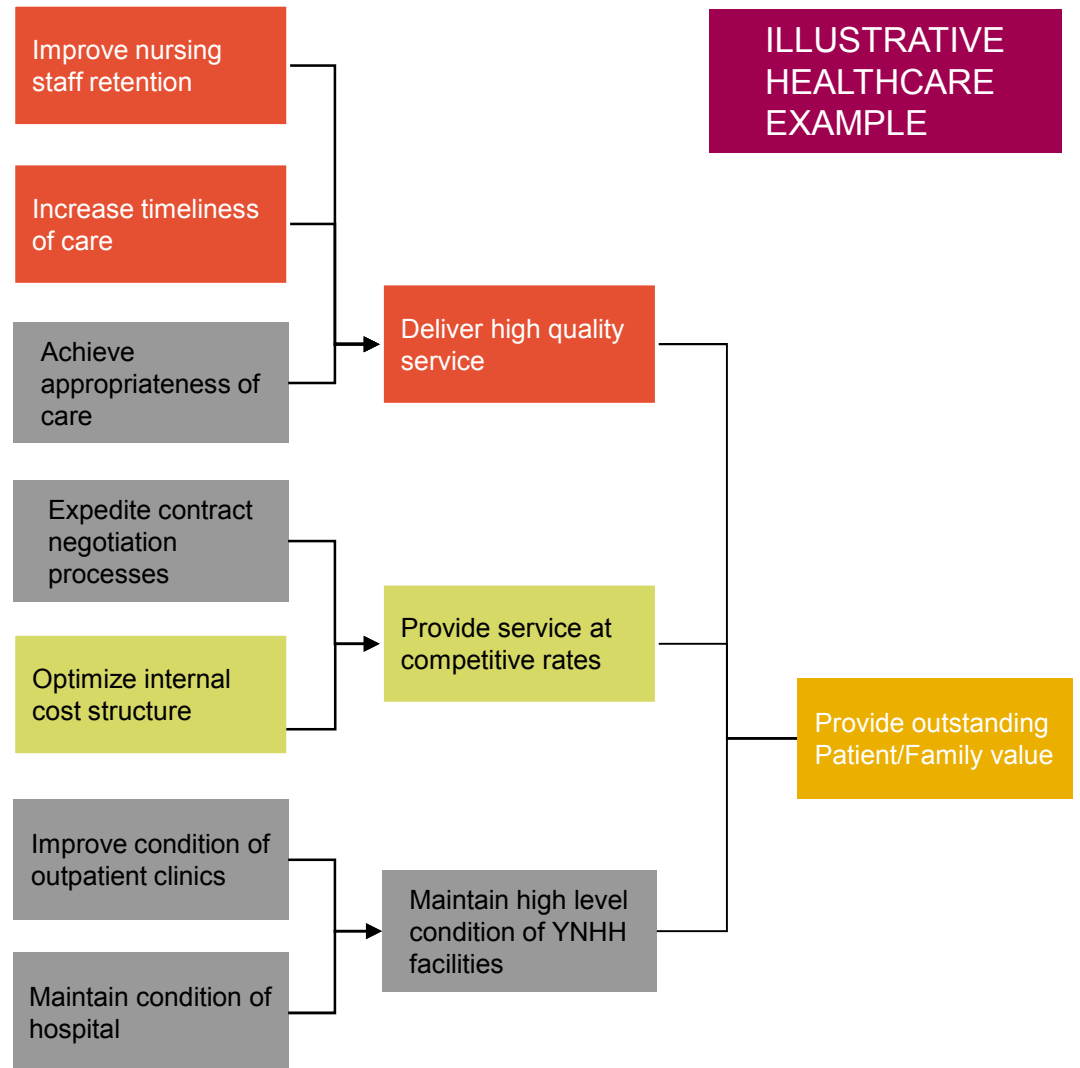
- Link the drivers to key functional responsibility

Patient Care Services

- Increase timeliness of care
- Improve nursing staff retention

Finance

- Optimize internal cost structure



Integration opportunity

Connect broad drivers to individual measures/goals

ILLUSTRATIVE
HEALTHCARE
EXAMPLE

Head Nurse

	Nursing Department Drivers	Individual Measures
Provide Outstanding Patient/Family Value	<ul style="list-style-type: none"> Increase timeliness of care 	<ul style="list-style-type: none"> Attain x% of prescribed nurse-patient staffing ratios on monthly basis Track and record number of instances patient response time exceeds xx mins on weekly basis Achieve quarterly patient satisfaction score of x% and higher on “timeliness of care” measure
	<ul style="list-style-type: none"> Improve nursing staff retention 	<ul style="list-style-type: none"> Conduct quarterly meetings with staff members to assess developmental needs and identify training opportunities Conduct semiannual employee satisfaction surveys Communicate action items stemming from semiannual employee satisfaction surveys and provide quarterly progress updates

Integration opportunity

Leveraging performance management

- Most organizations have a formal performance management process
- Allows managers to provide employees with feedback on their current performance and guidance on how to improve it
- This process should also provide a forum for discussing career development opportunities

	All Firms	High-Performing Firms	Average-Performing Firms	Low-Performing Firms
Organization's performance management process is effective at incorporating career development	53	56	53	43
Organization's performance management process is effective at incorporating competencies	63	75	59	60
Managers are effective at conducting career development as part of the performance management process	54	60	53	38
Managers are effective at utilizing performance results to determine development plans	57	67	54	55

Source: Towers Watson 2011 Talent Management and Rewards Survey.
towerswatson.com

Integration opportunity

Using competency models

- Organizations continue to miss key opportunities to integrate talent management and reward programs for maximum effect
- For example, most organizations are not aligning competencies to reward programs

Competencies Are Tied to:	% of Firms That Agree
Selection	65%
Performance management	89%
Career development	70%
Succession management	68%
Assessment (e.g., 360 Feedback)	68%
Reward programs	36%

Source: Towers Watson 2011 Talent Management and Rewards Survey.

towerswatson.com

Integration opportunity

Leveraging technology

- Another example — less than half of survey participants believe they leverage their investments in technology to more effectively deliver talent management and reward programs

Organization Effectively Leverages Technology to Deliver:	% That Agree
Base pay programs	40%
STI programs	39%
LTI programs	30%
Sales compensation programs	27%
Recognition programs	29%
Performance management programs	41%
Leadership development	41%
Competency models	44%
Career management	17%
Learning and development	47%

Source: Towers Watson 2011 Talent Management and Rewards Survey.

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The value of integration

Attraction and retention

- Companies with an integrated approach to talent management and rewards report they are:
 - 33% less likely to have trouble retaining critical-skill employees
 - 25% less likely to have trouble attracting top-performing employees
 - 20% less likely to experience problems attracting critical-skill employees
 - 18% less likely to have trouble retaining top-performing employees
 - 18% more likely to be among the top financially high-performing organizations

Source: The Power of Integrated Reward and Talent Management: The Watson Wyatt/WorldatWork 2008/2009 Global Strategic Rewards Report.

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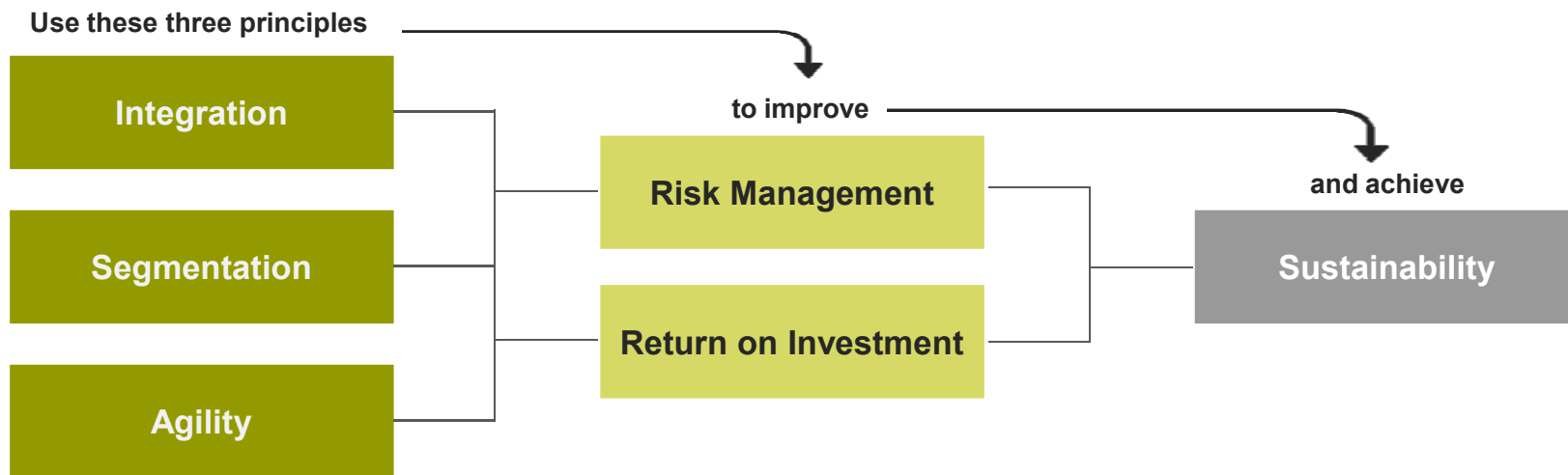
Conclusion

Key findings

- Attraction and retention in today's economic environment is complicated
 - Headlines are about high unemployment, but they miss the real story
 - Job churn (turnover) is down, reflecting a relatively stagnant labor market overall
 - While high unemployment means there is an abundance of available talent, employers say they are still having problems attracting critical skill and high-performing employees
- Employers must take a long-term view to lead successfully in this uncertain environment
 - Three key principles can serve as guides for sustainable talent and rewards programs
 - Segmentation
 - Agility
 - Integration

Leading through uncertain times

Leverage three principles to achieve sustainability



Although budgets remain tight, these principles can help guide actions organization can take to reduce human capital risks and increase ROI on their reward and talent management programs

Questions



Contact information

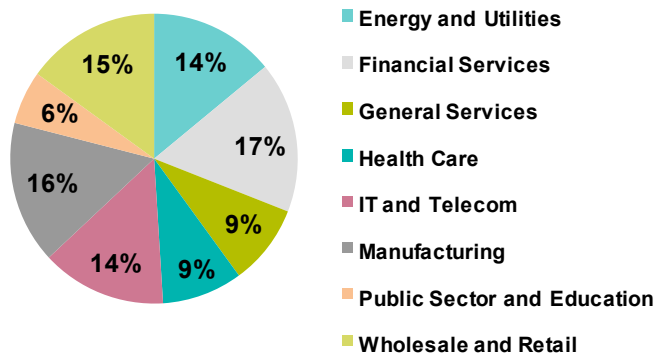
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Appendix

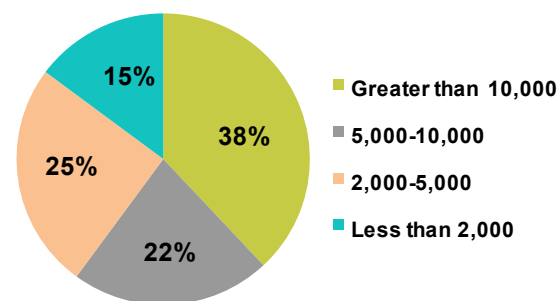
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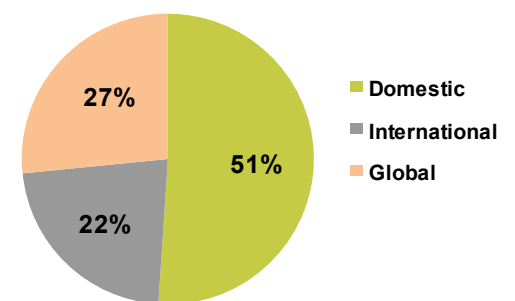
Industry



Organization Size

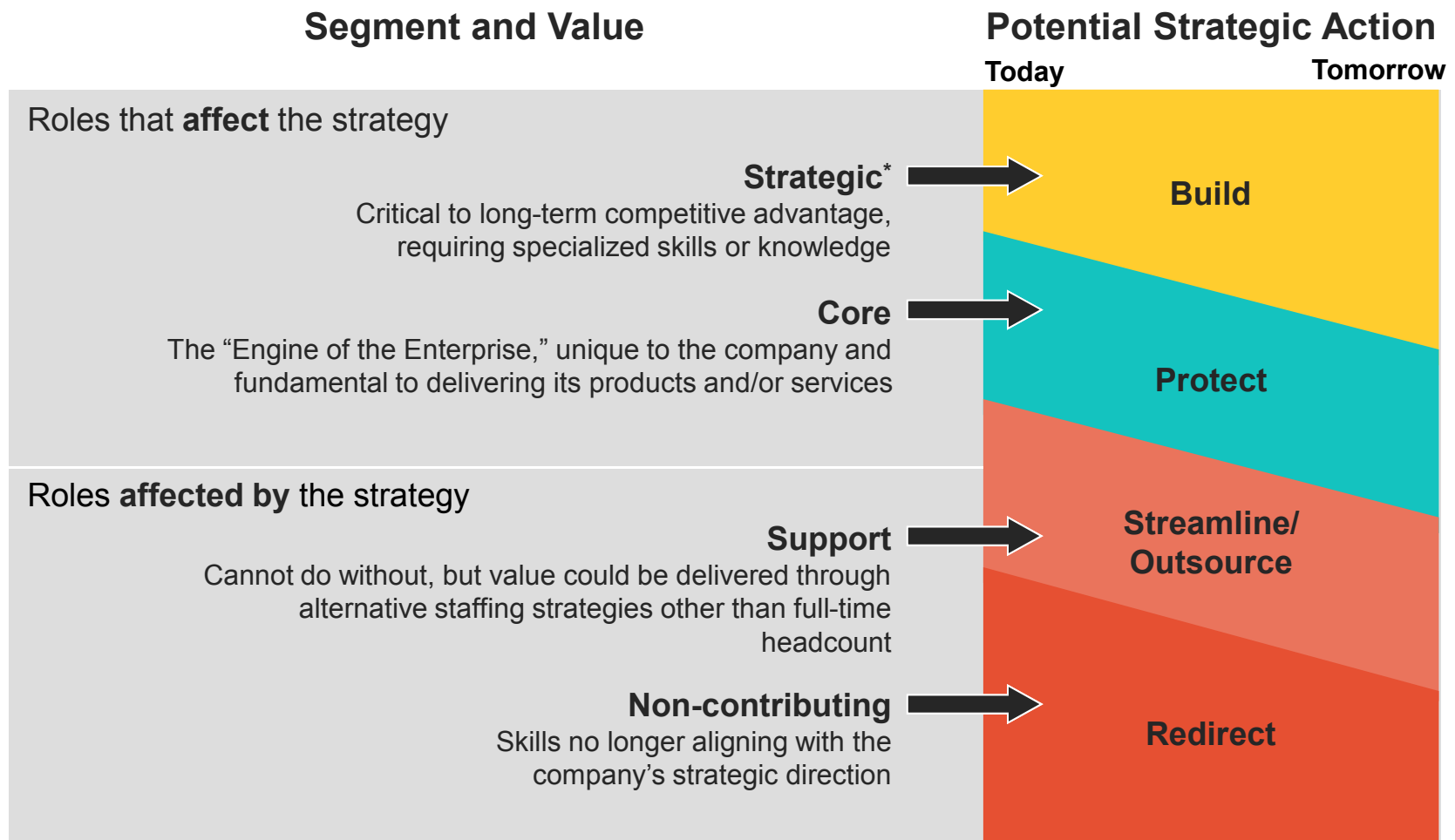


Organization Type



Segmentation

Execution — Define supply-side segmentation



*We use the term “strategic” and “pivotal” interchangeably to describe the positions that contribute most directly to strategy implementation. Source: The Conference Board, Strategic Workforce Planning, 2006.

Definition of pay

Element	Target Pay	Earned Pay	Realizable Pay
Base Salary	Base salary rate	Base salary rate	Base salary rate
Annual incentive/bonus	Target	Incentive/bonus earned in the measurement period	Incentive/bonus earned in the measurement period
LTI: Restricted Stock/Units	Fair market value of restricted stock awards granted during the period	Value of restricted stock that vests during the period, even if granted prior to the measurement period	Market value at the end of the measurement period of all time-based restricted stock grants made during the measurement period
LTI: Performance Units	Value of performance units granted	Value of cash earned under a performance-based grant, even if performance period started prior to the measurement period	Long-term incentive payout (for completed award periods) Long-term cash target (for outstanding award cycles)
LTI: Performance Shares	Fair market value of performance shares at grant, based on accounting expense	Value of stock that vests during the measurement period, even if granted prior to the measurement period	With respect to any still-outstanding grants made during the measurement period, market value at target at the end of the measurement period Value of shares vested under awards commenced and completed during the measurement period
LTI: Stock Options/SARs	Fair market value of options/SARs at grant	Gain upon exercise of options/SARs during the measurement period, even if granted prior to the measurement period	With respect to any stock options/SARs granted during the measurement period, the intrinsic value as of the end of the measurement period

Companies tend to say, “we pay for performance” – but do they analyze the degree to which executive pay is truly aligned with performance?

- Corporate stakeholders want to know if the compensation delivered to senior executives is truly aligned with corporate performance
- A pay-for-performance analysis can help a company “tell its pay-for-performance story” to such stakeholders

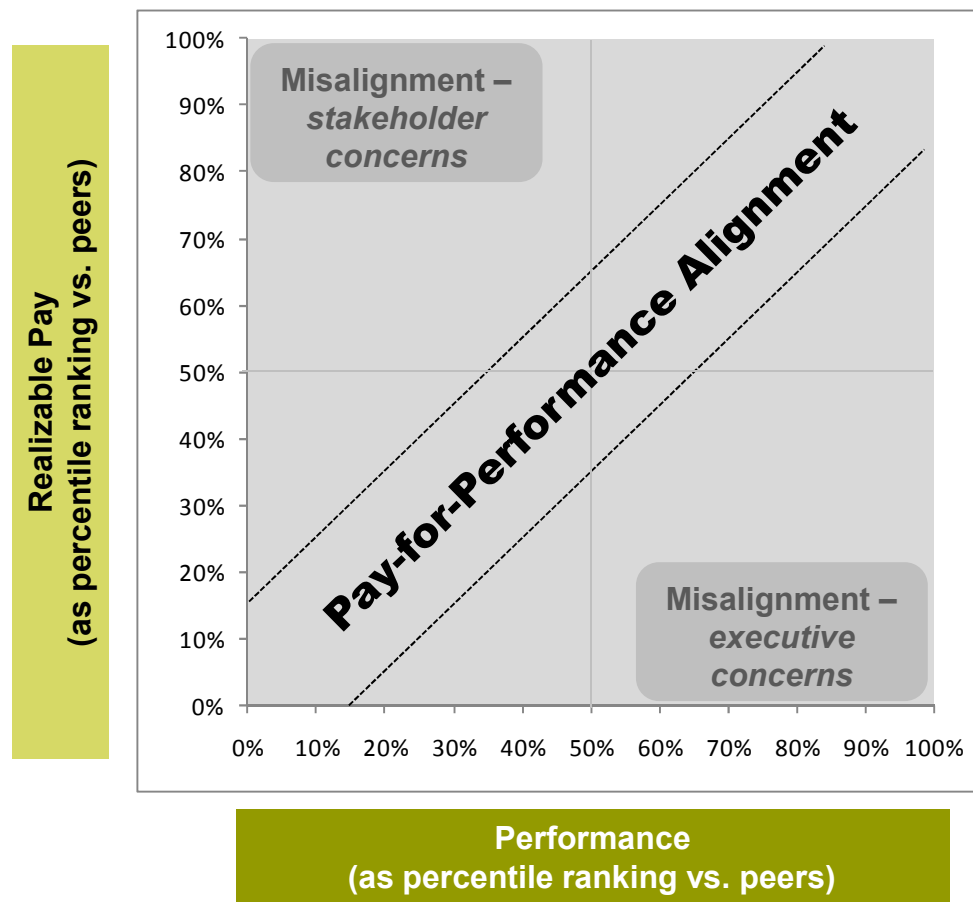
External Stakeholders	Internal Stakeholders
<ul style="list-style-type: none"> • Shareholders • Lawmakers • Business news media 	<ul style="list-style-type: none"> • Board of Directors • Non-executive employees

- Towers Watson’s approach to testing a company’s executive pay-for-performance alignment focuses on:
 - The company’s corporate financial performance for a historical period in relation to financial performance of a designated set of peer companies
 - “Realizable compensation” of the most senior executives* over the same historical period in relation to realizable pay of senior executives among the same set of peer companies

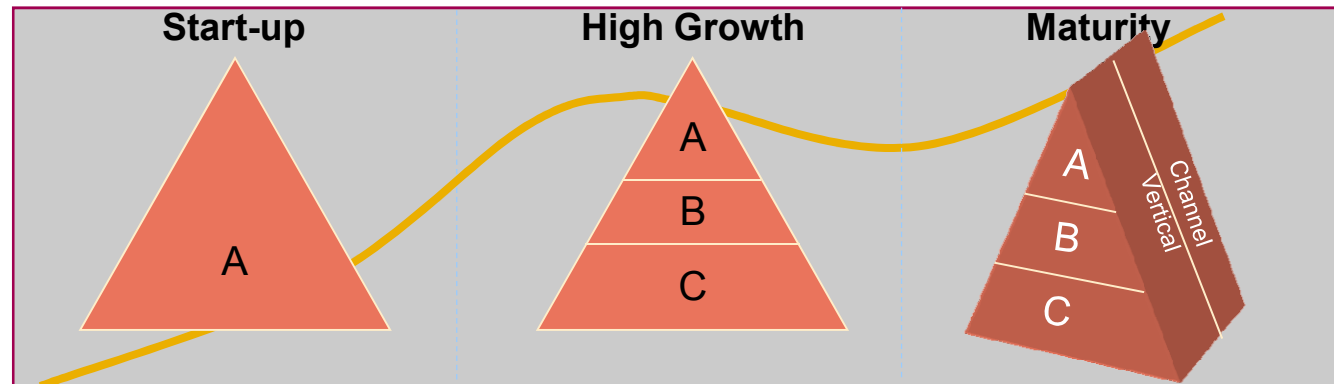
* In the US, publicly traded companies must disclose details about compensation paid to the CEO, the CFO and the three other most highly-paid executives. Collectively, these five executives are referred to as Named Executive Officers, or NEOs.

What questions can a pay-for-performance analysis help to answer?

Pay for Performance Alignment – To what degree is the client’s executive realizable pay aligned with company performance?

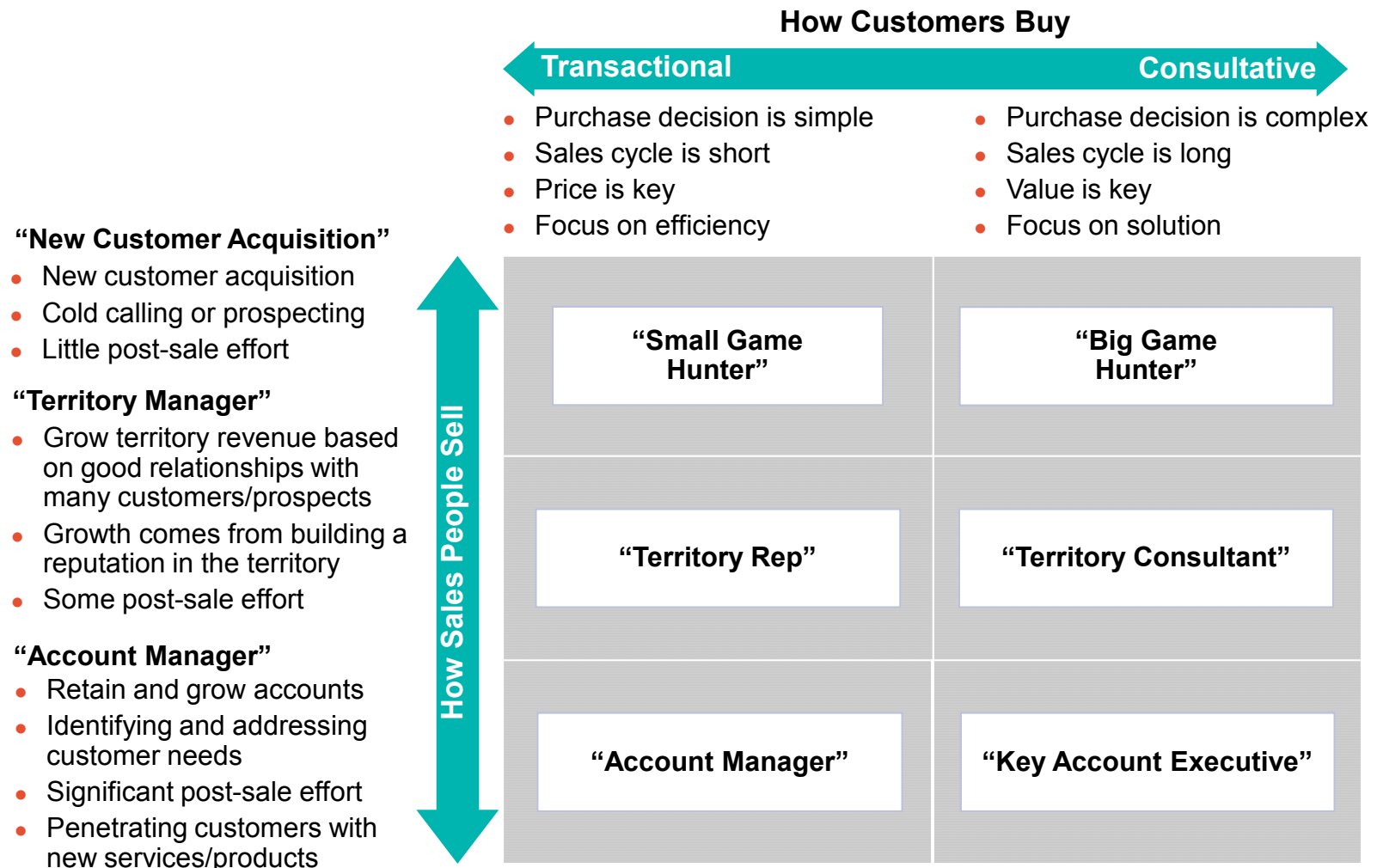


A business unit's position on the growth curve is a key indicator of sales strategy and sales compensation philosophy

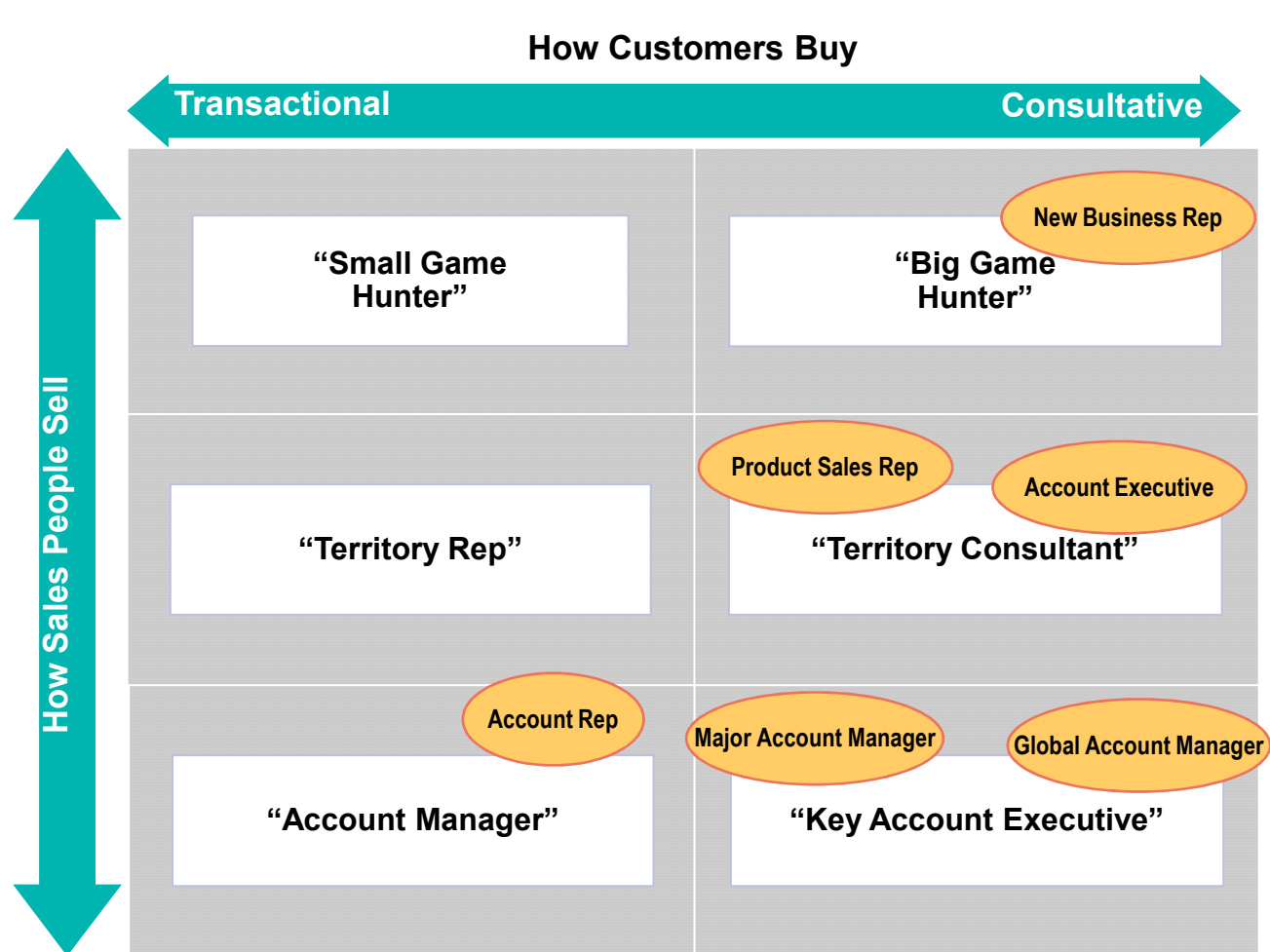


	Start-up	High Growth	Maturity
Sales Deployment	Geographic territories	Geographic territories by account size Market verticals	Market verticals Sales specialists Alternative channels
Sales Roles	A: Generalist Sales Representative	A: New Business Dev B: Territory Managers C: Account Managers	By vertical and/or channel: A: New Business Dev B: Territory Managers C: Account Managers
Sales Compensation	Commission (cost of sales) Volume driven Cost of sales Uniform plan	Migrate to bonus (cost of labor) Revenue/profit/product mix driven Introduce goals Differentiation by role	Bonus (cost of labor) Multiple measures Linked measures Volume plus quality Differentiation by role

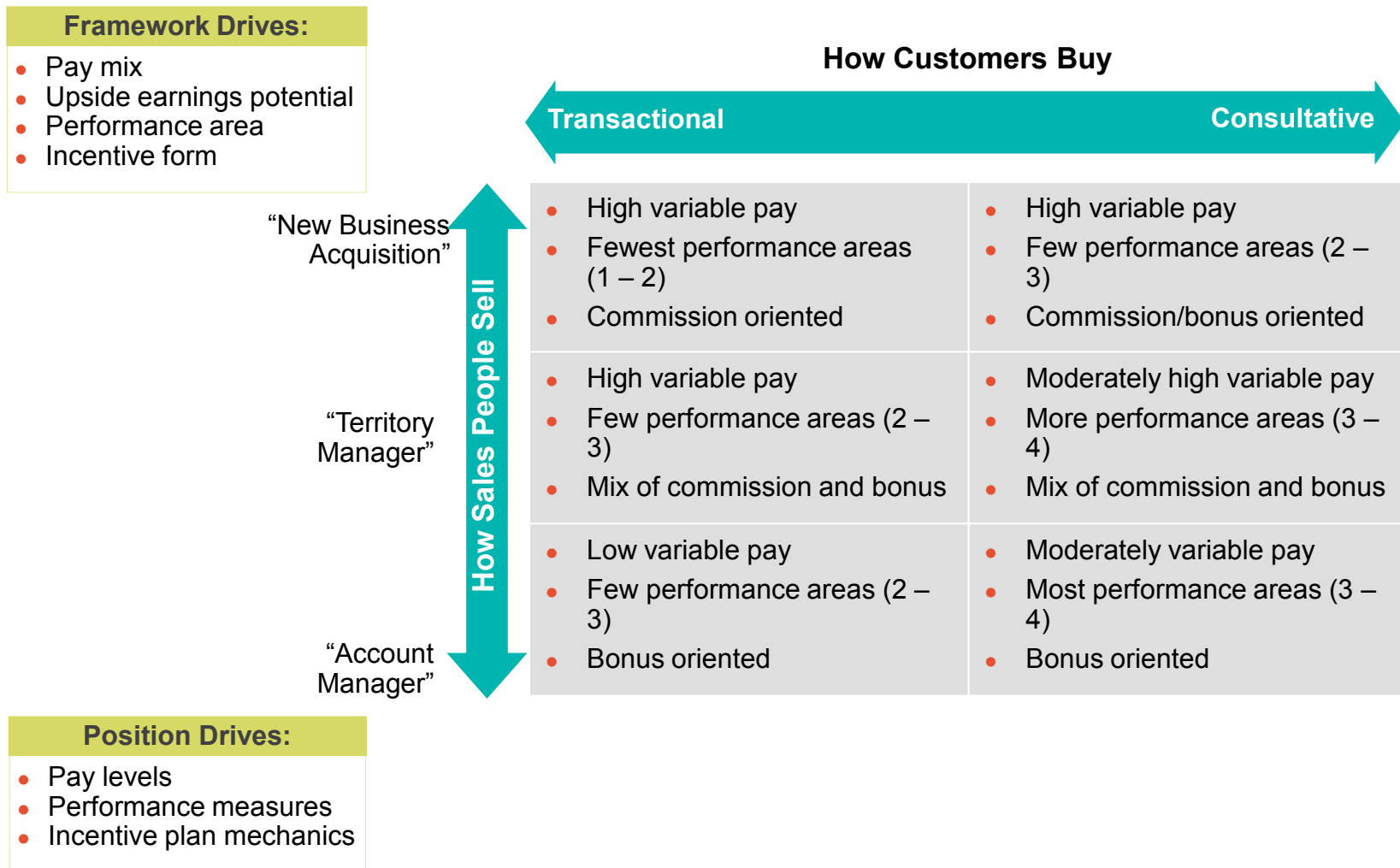
And, sales strategy determines the nature of the selling roles required



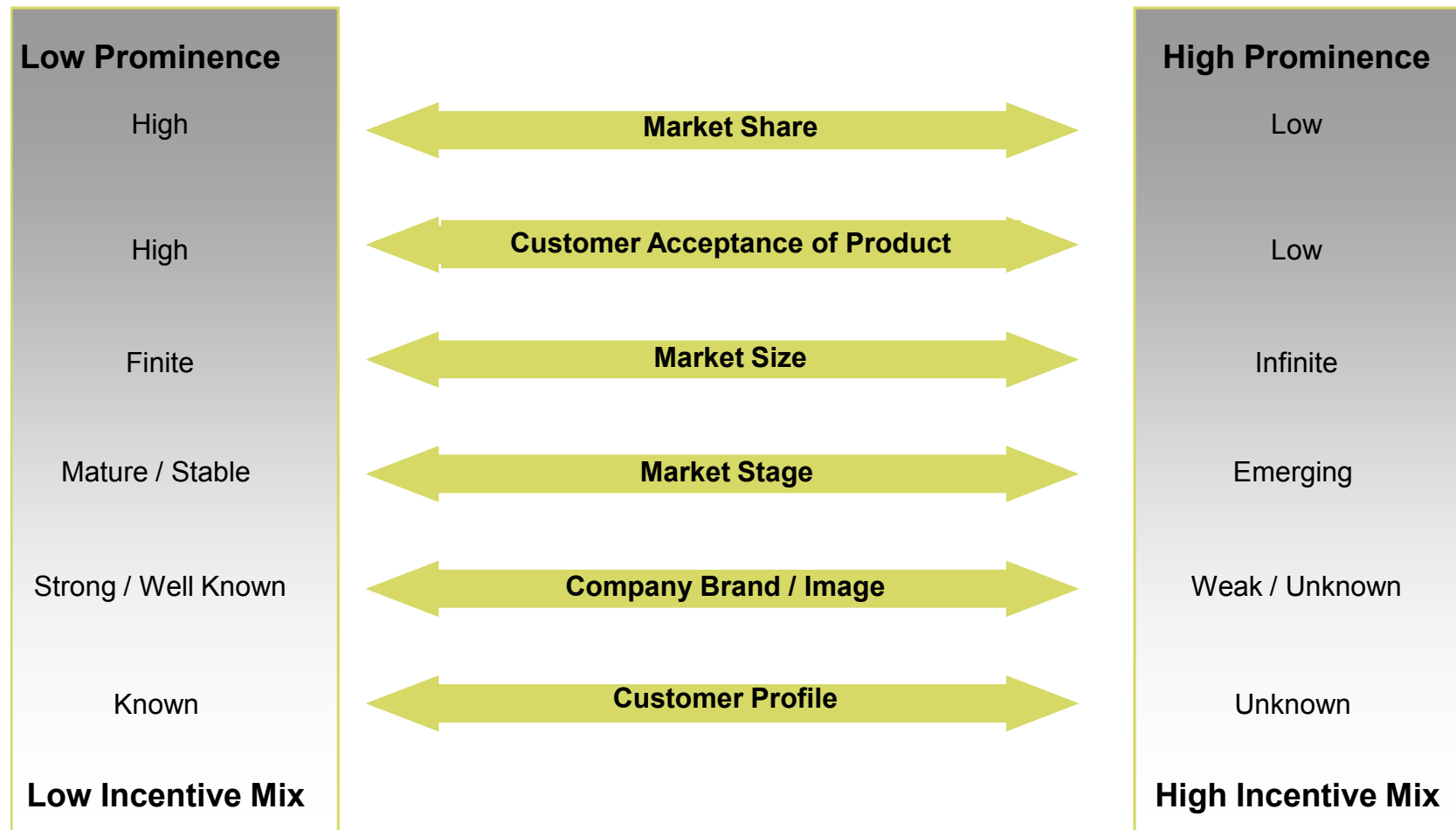
Most sales organizations required a combination of roles to successfully execute



Furthermore, sales roles determine key parameters of sales compensation design



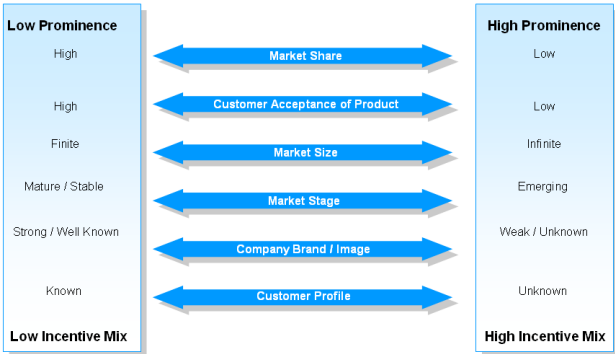
The boundaries of fixed-to-variable pay mix are informed by the market environment



Market conditions may dictate more or less aggressive practices

The combination of the role mapping and market environment combine to determine fixed-to-variable pay mix

Market Environment



Low Market Prominence

	Transactional	Consultative
How Sales People Sell	70/30	80/20
	95/5	85/15

Medium Market Prominence

	Transactional	Consultative
How Sales People Sell	50/50	60/40
	90/10	80/20

High Market Prominence

	Transactional	Consultative
How Sales People Sell	30/70	50/50
	85/15	75/25