



INCENTIVE COMPENSATION PRE-PROCESS & PHASE I PROCESS STEP OVERVIEW

TO BE USED FOR ALL PLAN TYPES

The steps described herein apply to all incentive plan types. Once the client has determined their desired plan design type, refer to that incentive plan process overview for specific plan steps on the Incentive / Bonus Plan Development Module Resources Compensation \$ense portal.

All relevant email template(s), marketing collateral, meeting agendas, module training, project management templates, proposal template, and structure templates mentioned throughout this document are assessable by using the “Quick Links” under the Pre-Process & Phase I Process - All Incentive Compensation Plan Types. See Attachment A.

Step 1 – Understand a client’s needs, project scope and overall costs: The first step in conducting an Incentive Compensation project is to understand the client’s needs, project scope and costs associated with performing the work. *Refer to document titled “How to Determine Cost”. (Refer to Project Management Templates folder → How to Determine Cost.)*

1. Schedule a telephone call with the prospective client to gain an understanding of the company and to determine their overall needs and scope of the project.
 - a. Does the organization have a current incentive compensation structure / program?
 - i. If so, when was it designed and last updated?
 - b. What are the growth plans for the organization over the next few years in terms of number of employees and financial metrics?
 - i. Will they grow modestly or double in size?
 - c. How many employees will be included in the incentive compensation project?
 - d. Does the client anticipate one plan will be used for all employees included in the project or will there be multiple plans.
 - i. Multiple plans will result in additional time / costs and should be accounted for in the proposal and project planning.
 - e. What is desired timeline the client desires to have the work completed? Is the timeline flexible?
 - f. Current compensation data should be used to understand the extent in which incentive compensation is prevalent in the market for the roles / employee groups included in the incentive compensation plan. Will the project require the roles included in the incentive compensation plan be externally market benchmarked or does the client already have



competitive external market data? *If yes, it will be necessary to understand the actions and steps in the benchmarking process. Costs associated in conducting external benchmarking need to be considered in determining the overall project costs. **If roles are not to be benchmarked, skip to Step 2. Prepare the Proposal.***

- i. If roles are to be benchmarked, what are the total number of distinct roles to be externally market benchmarked?
- ii. Each level of a job is considered as a different role to be benchmarked. For example, an Account Manager I, Account Manager II, and Account Manager III are considered as three distinct jobs. Each of these roles will have different job matches resulting in different benchmarking results.
- iii. Does the client have any specific salary surveys they want used in the benchmarking process?
- iv. Using a client specific salary survey or surveys impact the overall costs of conducting the actual benchmarking and should be factored in when preparing the client proposal (*see Step 2*).
- v. What is the potential client's industry, i.e., financial services, healthcare, nonprofit, etc.?
- vi. What are the company's annual revenues, assets, and/or budget?
- g. Prior to or after a call or meeting with a prospect, you may want to send them the Incentive Compensation Plan Development Process marketing collateral sheet located in the ICP Marketing Collateral folder.

Step 2 – Prepare the proposal: Upon gaining understanding of the client's needs, prepare the engagement proposal. The proposal is often called "Scope of Work" or "Scope of Engagement" by some consulting organizations.

Determine the project's cost by using the instructions on "How to Determine Cost" template. (*Refer to Project Management Templates folder → How to Determine Cost.*)

1. Once the costs have been determined, use the "Incentive Compensation Proposal Letter template" and send the client the proposal. The proposal should be sent as a PDF file. (*Refer to Proposal Template → Incentive Compensation Plan Proposal Template.*)
 - a. A PDF copy of the Incentive Compensation Plan Development Process Overview marketing collateral document should accompany the proposal if it has not been sent previously.
 - b. Follow-up in a few days to answer any questions on the proposal and try to secure a signed copy returned electronically. If the prospect does not commit right away, follow up approximately once a week until accepted or rejected.



2. Upon receiving the signed proposal, send email #1 "Incentive Plan Project Welcome". (*Refer to Email Template folder.*)
3. Begin to track the project's time using the Client Time Tracking Sheet. (*Refer to Project Management Templates folder → Client Time Tracking Template.*) Refer to Step 4 - Tracking of Overall Project Work by Client for additional information on tracking time spent on the project.

Step 3 – Phase I: Discovery: Phase I on Incentive Compensation Plan Development Process marketing collateral sheet is known as the discovery phase of the project.. The discovery phase entails gathering specific information relative to the client's needs and desires.

1. Schedule a "kick-off" meeting with the client and prepare the meeting agenda.
2. Use the Incentive Compensation Project Meeting Agenda #1. (*Refer to Meeting Agenda Template folder.*)
 - a. Several documents need to be prepared in advance of the scheduled meeting.
 - b. Prepare the four types of bonus plans by customizing the client's company name at the top of each template. (*Refer to Structure Templates folder for templates of the four types of incentive plans. You may choose not to include the Net Income Based Plan unless it is a small company with only 1 or 2 owners.*)
 - c. Be sure to include the clients' name on each of the documents that are prepared in advance, e.g., meeting agendas, plan design options, etc.
3. Determine objectives of the project.
 - a. What objectives are the client trying to achieve with their bonus plan and what behaviors and goals do they want to drive.
4. Review the design process steps as described on the Incentive Compensation Plan Process marketing collateral piece with the client. (*Refer to Marketing Collateral folder.*)
5. Gather resource documents from the client.
 - a. Does the client currently have an incentive plan? If yes, obtain current plan documents.
 - b. Determine what is working/not working with their current plan.
6. Gain an understanding of the roles to be included in the new or revised incentive compensation program.
7. Discuss the four (4) types of typical incentive plans. (*Refer to Structure Template folder.*)
 - a. Objective-Based: An objective- based incentive plan links individual employees typically at the management level directly to company goals and objectives. The plan design typically has corporate financials (1 or 2 measurements), other corporate-based objectives as well as individual



management by objectives (MBOs) components. ***This plan design is the most used design amongst organizations.***

- b. Scorecard-Based: A scorecard is a performance metric used to identify, improve, and control a business's various functions and resulting outcomes. The scorecard-based plan uses overall company-wide measurements.
 - c. Profit-Sharing Based: Distributions based on profits of the organization. Profit-Sharing plans provide direct or indirect payments to employees that depend on company's profitability in addition to employees' regular salary.
 - d. Net Income Based: Distributions based on the "Company's Net Profits" which are defined as the Company's net income, after taxes, as determined in accordance with Generally Accepted Accounting Principles (GAAP). ***This may be an option for a smaller sized organization.***
 - e. Once the four options have been presented and discussed with the client, determine which option or combination of options the client wants to pursue.
 - i. Explain to the client, regardless of the option or combination of options chosen, the incentive compensation plan will be tailored to their needs.
8. Identify the behaviors and goals needed to drive the desired plan's objectives.
 9. Discuss and determine the appropriate metrics to measure success.
 - a. Ask the client what does a "win" look like?
 - b. What would make the project a success?
 10. Process step modules have been developed for each of the four (4) incentive plan types discussed in Step 3 – Phase I: Discovery #7. *(Refer to the chosen plan design module for the subsequent process steps.)*

Step 4 - Tracking of Overall Project Work by Client: Throughout the project, the time spent on each project step and activity needs to be recorded via a tracking mechanism. This would include the business owner's time as well as any other employee(s) and/or subcontractor(s) time. *(Refer to Project Management Templates folder → Client Time Tracking Template.)*

1. Having a record of the time spent on each step of the project by client enables the business to understand the time spent on each project activity.
2. The tracking mechanism can be a valuable resource in estimating future time and cost(s) associated with each of the project's work activities.
3. Employees and/or subcontractors should submit their time on a weekly basis to the business owner.
 - a. The employee and/or subcontractor should indicate the word "**NEW**" on the timesheet for each client activity that had not previously recorded.



- b. Having the word "**NEW**" will easily identify time not previously recorded on the Client Time Tracking Worksheet.
- c. After the time has been recorded (by the owner) from the Client Time Tracking Worksheet, inform the employee(s) and/or subcontractor(s) the time has been recorded and "**NEW**" can be removed from his / her on-going timesheet.



ATTACHMENT A

INCENTIVE / BONUS PLAN DEVELOPMENT MODULE RESOURCES INCENTIVE COMPENSATION PRE-PROCESS & PHASE I PROCESS MODULE RESOURCES

Note: ICP = Incentive Compensation Plan

