



# Compensation Expectations of Young Workers

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10:30-11:30 a.m. Central

Dan Horan & Mike Marks  
Indian River Consulting Group  
www.ircg.com

1

## Indian River Has Been Providing Business Advisory Services for 30+ Years

*We know your industry with over 10 Non-disclosure Agreements in place and six published books on industrial distribution*

2



### Mike Marks, Boomer

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- I am a founder and currently the Managing Partner
- NAW Institute Research Fellow, past graduate adjunct faculty at Texas A&M and currently with Purdue's UID
- I currently hold road racing competition and instructor licenses, have a Medicare card, two granddaughters, enjoy fine distilled spirits, & cigars

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### Dan Horan, Millennial

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- I grew up in distribution – working as a sales rep for my father as well as two regional distributors
- I spent the last 10 year working in marketing – specializing in national CPG brands and B2B marketing
- I live in Minnesota, have two little kids and spend my little free-time teaching how to make hand-sewn leather goods

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## Our Starting Point - Generational Differences

3

If you want a rich explanation of differences, go read

<https://www.kasasa.com/articles/generations/gen-x-gen-y-gen-z>

PTDA is a major sponsor of the University of Innovative Distribution with a deep dive on the subject this year, learn more at [univid.org](http://univid.org)



There are multiple hotlinks in this deck that take you to additional information

*Today we are only going to discuss the differences in how they want to consume compensation*

3

## If Boomers Really Want to Understand, Start Here

4

Baby boomers were like millennials in the 70's:

<https://www.theatlantic.com/national/archive/2013/05/me-generation-time/315151/>

Watch this 2016 Simon Sinek Video with 11 million views

<https://www.youtube.com/watch?v=hER0Qp6QJNU>

Or try

<https://www.youtube.com/watch?v=D1eB--DsKfl>

Learn about the research

<https://www.youtube.com/watch?v=RtDxPcQ8GJg>



*What is the commercial benefit if everyone understands generations?*

4

## Our Ingrained Life Assumptions Are Different

5

**Mike Marks – overdeliver now for a promised future benefit (work was first)**

I know that I couldn't be a job hopper and that I had to pay my dues first to get the downstream benefits, including promotions and a defined benefit pension. Loyalty to my boss was more important than to coworkers. I would overbuy my home in the beginning as it was a guaranteed wealth creator. I was proud of my country and trusted my institutions. My future was bright if I got with the right firms.

**Dan Horan – deliver value and contribution based on current balance (work, family, personal)**

I know there will be always be another job for me, so what can I learn on this one? I can't count on a company for my retirement, and what does that word even mean today anyway? I trust my coworkers and can't trust the company because they all get sold. Since I will probably have to move, owning a home may be a potential risk. I am skeptical of my institutions and my government. My future is uncertain and on me to manage.

Relationship value is different\*

	Millennial/Gen Z	Gen X	Boomer
Small Customer	Highly Electronic	Electronic	Hybrid
Medium Customer	Electronic	Hybrid	Personal
Large Customer	Hybrid	Personal	Highly Personal



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\*Source: <http://www.salesgps.mdm.com/>

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## The Old School Employer View of Attractive Candidates

6

*My best employees stay a long time and fit in, so the best candidate is one who really wants this job and is willing to adapt and commit to our values and business model*

They are willing and eager to put some of their income at risk because they are excited about the upside

They worry about the company and I worry about their compensation

They recognize our career benefits and long-term growth, so they are very willing to start at the bottom and work up

They are willing to put this career opportunity as their top priority in their work/life balance because they are eager to get ahead

*Boomers were willing to sacrifice their health for their careers, millennials won't*

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## That Old School View Just Doesn't Work Any More 7

*To a boomer, the old school model was the promised value exchange, and this is so ingrained in many firms that most can't even see it*

### Ten Different Things that Millennials Want from Their Employer

Value	Your Score	Value	Your Score
1. Corporate learning		6. Strong Manager / Employee Relationships	
2. Purpose		7. Innovation	
3. Culture		8. Room to fail	
4. Flexibility		9. Volunteer opportunities	
5. (REAL) Responsibilities		10. Snacks and puppies	
Score		Score	
11. Compensation (We are now going to share what is valued)			
<b>Team discuss the article and then allocate 1 -10 points to each &amp; find ways to improve your score</b>			

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<https://www.wespire.com/10-things-millennials-look-for-in-an-employer/>

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## The Unanswered Questions that Never Got Asked 8

*The boomer knows, the millennial doesn't, and ambiguity is bad for both*

What is a reasonable set of expectations around the range of my potential income increases over the next 24 to 36 months?

*This range is easy to define from past experience, if you look (next slide)*

What are the work rhythms through a year with respect to events?

What kind of training will I receive?

Can you do anything to help with my student debt\*?

*A starting point: <https://youbenefited.com/> does this for companies*

What kind of travel will I get to do?

Where should I focus in this business to try and find better ways to do things?

*Remember that a great compensation program, in a low scoring company, will only hold a millennial until they find a better opportunity*

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*\*Data indicates that credit card debt is the larger issue for many*

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8

Trust Me Doesn't Work Until the Trust Is Earned Over Time

## Setting Appropriate Millennial Expectations

9

Explicitly define the ten-things list first, e.g. training & development

Drill into proven career paths in distribution sharing compensation data from NAW around future earning expectations

- Explain your version of, "You were hired into the first quartile of salary grade 8 and our annual performance evaluation will generate an increase from this table."

These are the past typical time in grades before promotion, but our industry is in flux so we will be developing new positions as our business model evolves

(Merit grid example for a 4% budget)  
Grade Quartile

		Grade Quartile		
		1	2 - 3	4
Employee Performance	GOOD	10%	7%	4%
	O.K.	6%	4%	2%
	LOW	2%	1%	0%

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[https://www.google.com/search?q=how+to+set+up+a+salary+grade+system&rlz=1C1CHBF\\_enUS839US839&og=how+to+set+up+a+salary+grade+system&aqs=chrome..69157.7750j0j4&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=how+to+set+up+a+salary+grade+system&rlz=1C1CHBF_enUS839US839&og=how+to+set+up+a+salary+grade+system&aqs=chrome..69157.7750j0j4&sourceid=chrome&ie=UTF-8)

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## Never Forget - Pay and Benefits Really Matter

10

Without significant intrinsic benefits, a salary with an annual COLA raise can cause a millennial to leave

- Creating more intrinsic benefits is often not about ability or cost, rather it is limited by awareness and willingness (The 10 things)

Signing bonuses are powerful

- Upfront money amortized 1/24 per month

It today's world, job switching is required for income growth unless you change something

What are the most important factors you consider when seeking a job?

	Gen Zers		Millennials
1	Pay	1	Pay
2	Benefits	2	Benefits
3	Job Location	3	Job Location
4	Ability to grow career	4	Values/mission of the company
5	Values/mission of the company	5	Ability to grow career
6	How the product impacts world	6	How the product impacts world

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Source: <https://www.zenefits.com/>

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## Playing the Millennial Recruiting Game to Win

11

*Personal income growth, without promotions, is limited to a single digit percent annually, but a job switch is worth 10% to 20% for many*

This has been true forever and data demonstrates that millennials don't job hop more than Gen X'ers and probably the same as boomers, but the data wasn't collected back then

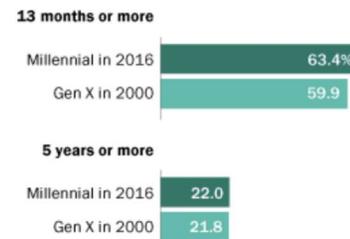
Distributors often can't pay the initial wages paid by the big firms, so the top talent goes where the money is

- Many of these end up in distribution when they tire of the bureaucracy and BS, look at the ex-manufacturer folks that run PTDA houses as CEOs and VPs

The obvious solution is providing incremental promotions on a career ladder than needs to be built around increasing responsibilities

### Millennials' job tenure no shorter than that of prior generation\*

% of 18- to 35-year-old workers by length of employment with current employer



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\* <https://www.pewresearch.org/fact-tank/2017/04/19/millennials-arent-job-hopping-any-faster-than-generation-x-did>

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## How Do Millennials Want to Be Compensated?

12

*"Recognize that I have debt and am still uncertain with how conservative I must be to take care of my own future"*

*"I do not want to place my income at risk if it jeopardizes my ability to pay my bills"*

Rule One: Shift from variable to fixed pay (initial risk mitigation) and from commission to bonus (economies of scale with growth)

*"I would like to be paid for the value that I create, when it is created, and not in some fuzzy annual review"*

*I love salaries with bonus upsides that I can impact with effort*

The fundamental principle is that as the perceived ability to affect personal income rises, there is also a rise in energy investment and commitment, assuming the employment experience doesn't suck

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[https://www.google.com/search?q=what+questions+do+millennials+have+of+their+employers&rlz=1C1CHBF\\_enUS839US839&og=wh at+questions+do+millennials+have+of+their+employers&ags=chrome\\_69i57.15784j0i4&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=what+questions+do+millennials+have+of+their+employers&rlz=1C1CHBF_enUS839US839&og=wh at+questions+do+millennials+have+of+their+employers&ags=chrome_69i57.15784j0i4&sourceid=chrome&ie=UTF-8)

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12

## Pay Components Used In Designing Algorithms

13

*All are exchanging impacted value for compensation*

	Salary	Commission	Bonus	Profit or Gain Share
Description	Fixed amount paid in equal amounts regularly during the year.	Percentage of a revenue stream (e.g. 5% of sales or GP).	Fixed or other amount not directly tied to revenue stream (e.g. % of salary).	Payouts based on team performance.
Pro	Reliable income provided regularly. Does not scale as an expense with revenue	Variable cost that scales with dollars coming in. Simple to understand and often requires little managerial intervention.	Ties pay to managerial defined objectives. Provides flexibility relative to risk and reward. Mitigates pay inflation.	Encourages enterprise view of the business. Can be used as golden handcuffs.
Con	Fixed cost that does not decrease during a downturn. Some argue it sub-optimizes motivation.	Locks in cost ratio as expense scales with revenue. Can lead to defensive mind set. Often does not differentiate GP\$. Main contributor to appreciating pay.	Requires management defined goals and more administratively burdensome. Can be difficult to transition to from commission when pay levels are high.	Collective approach viewed by some as demotivating (free rider). Invites scrutiny of spending. Often not found attractive without other pay mechanisms.

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## Definitely Worth It for the Top 10% of the Recruits that Are Important to Retain Salary Plus Bonus Design Principles

14

*Employee market value compensation is defined by skills and capabilities by competition between their alternatives*

Get some data on total market value (W-2 or T-4) by positions and skill sets, starting with the NAW cross-industry compensation study

Determine how much of the total compensation market value should be at risk, and using a \$50,000/year total compensation example

- 80% fixed and 20% at risk would be a salary of \$40k and target bonus of \$10k, perhaps \$5K / quarter, broken down into a specific commercially valued output
- The bonus has an agreed payout range, often from 80% of the target up to 120% of target, but often is wider, so there is some potential upside to offset risk

The valuable part is the discussion on selecting the right targets

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<https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/designingincentivecompensation.aspx>
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14

## Where Could A Millennial Add Real Value, Earning a Bonus?

15

Some initial ideas for consideration

*Setting up a pilot vendor managed inventory program, creating a process to reduce dead inventory, building a new employee onboarding program, designing a real customer satisfaction program, setting up an innovation pilot or a proof of concept project, developing a viable social media presence, conducting some customer focus groups, cleaning up the product file in advance of an E-Business site, or self-funding by reducing warehouse errors from X to Y*

The millennial wants to learn and add value so they can impact their career and compensation growth

The distributor doesn't have time for research and innovation, but their survival requires it

How much would a consultant charge to perform one of these tasks?

So why not set up a bonus for a commercially important project with clear deliverables and a schedule?

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The Tricky Part at the Beginning Is Setting the Goal, but It Gets Routine Quickly

## Switching From Sales Rep Commissions To Bonus

16

Simple bonus program example: core sales growth generates equivalent percentage of salary payout, which is consistent with most programs and you can raise bases, lowering the at-risk

- One metric and one respective payout matrix

Another approach is a multi-factor program (next slide)

- Primary or funding factor (GP\$s or sales to goal)
- Secondary factors tied to key objectives (products, customers, profitability, etc.) increase or decrease "funded" amount based on performance to goal

% of GP Goal	% of Salary
75%	0%
80%	15%
85%	30%
90%	45%
95%	60%
<b>100%</b>	<b>75%</b>
105%	90%
110%	105%
115%	120%
120%	135%
125%	150%

A multi-factor approach is preferable to multiple single-factors

- With sales or GP\$s as primary factor, payouts strongly linked to what funds them
- Avoids dilution, e.g. reducing the importance of the first factor when the second is added

***Bonus allows you to reassign customers without an individual compensation impact, but with a short-term productivity impact to you***

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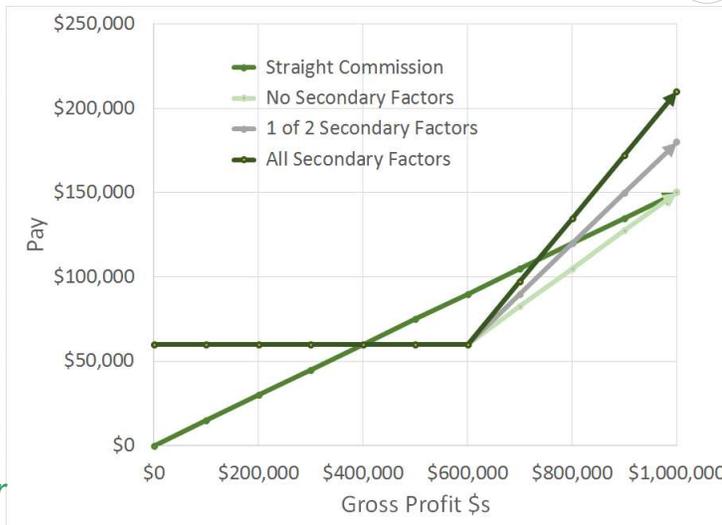
16

This Is an Art and They Can Be Uniform or Tailored to Each Territory

## Multiple Factor Approach Illustration

17

% of GP Goal	0 Factors Achieved	1 Factor Achieved	2 Factors Achieved
75%	0%	0%	0%
80%	15%	20%	25%
85%	30%	40%	50%
90%	45%	60%	75%
95%	60%	80%	100%
<b>100%</b>	<b>75%</b>	<b>100%</b>	<b>125%</b>
105%	90%	120%	150%
110%	105%	140%	175%
115%	120%	160%	200%
120%	135%	180%	225%
125%	150%	200%	250%



The payouts can be linear, or stair stepped

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## This Is Extra Credit for Those Going Further with This

18

### Target compensation

- Prior year total earnings = \$120,000
- New salary = \$90,000 (75%)\*
- Target bonus = \$30,000 (25%)

### Goal

- GP\$ (primary) = \$1.5M
- GP% = 25%
- New customer GP\$ = \$250K

Above goal could also be commission

% of GP\$s to	# of Secondary Factors Met		
	0	1	2
<80%	0%	0%	0%
80%	75%	80%	85%
90%	80%	90%	100%
100%	85%	100%	115%
110%	90%	110%	130%
120%	95%	120%	145%

#### Example 1

Actual GP\$ = \$1.65M (110%)  
 GP% = 27%  
 New customer GP\$ = \$200K  
 Payout = \$33,000 (110% of target)

#### Example 2

Actual GP\$ = \$1.35M (90%)  
 GP% = 27%  
 New customer GP\$ = \$300K  
 Payout = \$30,000 (100% of target)

\* Salaries can adjust automatically to 75% of total earnings every six months

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18

This Is Why Everyone Cares About Hitting The Number

## Everyone Gets A Raise When Your Year Starts

19

Hit the GP dollar plan between 90% and 120% and get a monthly incentive

Hit the annual values between 90% and 120% and get a year end bonus

This is a team incentive, so everyone gets the same each month even when it is zero

*This will not cost you anything!*

MONTHLY AWARD	Achievement Level	Bonus Award	Achievement Level	Bonus Award	YEAR END AWARD	Achievement Level	Bonus Award	Achievement Level	Bonus Award
		90.0%	\$0.00	106.0%		\$130.00		90.0%	\$0.00
	91.0%	\$10.00	107.0%	\$135.00		91.0%	\$120.00	107.0%	\$1620.00
	92.0%	\$20.00	108.0%	\$140.00		92.0%	\$240.00	108.0%	\$1680.00
	93.0%	\$30.00	109.0%	\$145.00		93.0%	\$360.00	109.0%	\$1740.00
	94.0%	\$40.00	110.0%	\$150.00		94.0%	\$480.00	110.0%	\$1800.00
	95.0%	\$50.00	111.0%	\$155.00		95.0%	\$600.00	111.0%	\$1860.00
	96.0%	\$60.00	112.0%	\$160.00		96.0%	\$720.00	112.0%	\$1920.00
	97.0%	\$70.00	113.0%	\$165.00		97.0%	\$840.00	113.0%	\$1980.00
	98.0%	\$80.00	114.0%	\$170.00		98.0%	\$960.00	114.0%	\$2040.00
	99.0%	\$90.00	115.0%	\$175.00		99.0%	\$1080.00	115.0%	\$2100.00
	100.0%	\$100.00	116.0%	\$180.00		100.0%	\$1200.00	116.0%	\$2160.00
	101.0%	\$105.00	117.0%	\$185.00		101.0%	\$1260.00	117.0%	\$2220.00
	102.0%	\$110.00	118.0%	\$190.00		102.0%	\$1320.00	118.0%	\$2280.00
	103.0%	\$115.00	119.0%	\$195.00		103.0%	\$1380.00	119.0%	\$2340.00
	104.0%	\$120.00	120.0%	\$200.00		104.0%	\$1440.00	120.0%	\$2400.00
	105.0%	\$125.00	OVER 120%	\$200.00		105.0%	\$1500.00	OVER 120%	\$2400.00

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This Assumes That You Have a Real Business Plan For 2020

## Gainsharing Incentives Are Actually Free

20

Add the cost of the gainsharing program to the actual GP goal to have the gainsharing goal and let everyone know how it works

Accrue it, then release it to cover payouts, so the P&L has overachieved on GP and gone over on commission cost the exact amount

Then 100% of the overage goes back to the capital owners

### Accrual Example (For 50 People)

*As a senior executive, remember that the firm gets 100% of the revenue, margin, and profit in your plan first, then you pay incentives*

- Monthly \$100/Head/Month = \$5,000
- Annual \$100/Head/Month = \$5,000
- Total Cost/Month = \$10,000
- Add To Your Real GP Forecast, e.g. \$150,000
- Equivalent GP \$ Is The Goal, then \$160,000

*Remember that this is actually a \$200/month incentive plan with a 50% holdback in case the second half of the year is bad*

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## Homework: Read the Article and Have the Discussion

21

*To a boomer this is the promised value exchange, and this is so ingrained in many firms to the point most can't even see it*

### Ten Things that Millennials Want from Their Employer

Value	Your Score	Value	Your Score
1. Corporate learning		6. Strong Manager / Employee Relationships	
2. Purpose		7. Innovation	
3. Culture		8. Room to fail	
4. Flexibility		9. Volunteer opportunities	
5. (REAL) Responsibilities		10. Snacks and puppies	
	Score		Score
11. Compensation		<i>(Review the information from these links and learn how to play)</i>	
<b>Team discuss the article and then allocate 1 -10 points to each &amp; find ways to improve your score</b>			

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<https://www.wespire.com/10-things-millennials-look-for-in-an-employer/>

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21

## Action Steps for Consideration

22

Improve the quality of your employment experience in the ten categories other than compensation

Research the links included in this deck extracting insights that apply directly to your business, including the videos

Have a clearer conversation on how each of you would or should disengage from the other (mutually appropriate expectations on compensation)

If the firm uses no bonus structures currently, put the challenge of at-risk percent and target measure selection on the millennials themselves (Pilot??)

*Remember that this is actually a conversation around the best way to improve the business*

Let the millennials manage your university engagement and recruiting efforts

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22