ALTERNATIVE STAFFING ALLIANCE

People-Based, Market-Driven

Driving Business Performance:

Incentive Plans for ASO Staff

ALLIANCE in FOCUS Report, Spring 2015

1330 Beacon Street, Suite 355 |Brookline, MA 02446|Tel: (617) 232-5380 | www.altstaffing.org

Introduction

In May 2014, the Alternative Staffing Alliance published its first Compensation Survey Report to help alternative staffing organizations (ASOs) benchmark salaries and benefits for six common internal staff positions. Our 2014 survey found that that nearly half of ASOs use commissions as part of their total compensation for sales staff.

To address member inquiries about the design of ASO compensation and incentive plans, we sought to dive deeper into how these plans are structured. This report documents specific ASO practices in using incentive plans to drive performance in their staffing businesses.

We would like to thank the seven ASOs who gave their time to be interviewed between January and April 2015 for this report, and shared detailed and confidential information about their plans. Their responses are presented anonymously.

For any questions concerning the data, please contact:

Jonathan Ward
Alternative Staffing Alliance
(617) 232-8765 x 107
jward@ica-group.org

Overview

In many ASOs, one sales or business development manager constitutes the "sales staff." Larger ASOs have a sales director overseeing a team of salespeople, referred to as business developers, account executives, or account managers. In this case, for the purpose of this report, "sales staff" refers to the non-director-level salespeople. Additionally, "placement staff" refers to any employee whose primary responsibility is recruiting and placing workers to fill the job orders sold by the sales team. Some placement staff may also provide supports or case-management services to candidates.

No two incentive plans used by ASOs are exactly alike. Although most of the incentive plans for sales staff at the participating ASOs are based on gross profit, the commission rates, periods over which the rates wind down, and other aspects vary widely. ASOs commonly advised against basing incentives on gross revenue, and recommended paying a percentage of gross profit as commission in order to encourage mindfulness about the profitability of a contract during the sales process.

The majority of ASOs interviewed also incentivize their placement staff with commissions in order to drive and recognize their efficient delivery of well-matched candidates.

In general, ASOs expressed a sentiment that their incentive plans have changed over time and will continue to evolve based on staff feedback and organizational demands.

Typical ASO Incentive Plan for
***Sales** Staff:*

- ✓ Base salary of $37,000
- ✓ Commission on gross profit:
    - 10% in Year 1 of securing a new account
    - 8% in Year 2
    - 4% in Year 3
    - 1% for Years 4+
- ✓ No-cap commission paid monthly before A/R collections

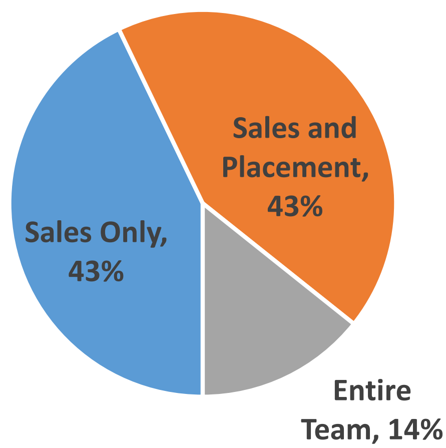
Typical ASO Incentive Plan for
***Placement** Staff:*

- ✓ Base salary of $27,500
- ✓ 2.5% commission on gross profit
- ✓ Capped commission paid at least monthly

Findings & Analysis

Of the seven ASOs participating in this report, three use incentive compensation for sales staff only, another three use incentives for both sales and placement staff, and one uses incentives to reward their entire team (sales, placement, and other positions, such as accounting). The three ASOs not currently incentivizing placement staff all have plans to do so in the future, based on a widely shared belief that this is important for ensuring the overall success of business operations. ASOs generally felt that when placement coordinators are also incentivized, jobs ordered are filled more quickly and sales and placement staff are motivated to work together to ensure the candidate pipeline is filled with the right workers for the job orders on hand.

Positions with Incentive Plans, (n=7)



Incentive Plans for Sales Staff

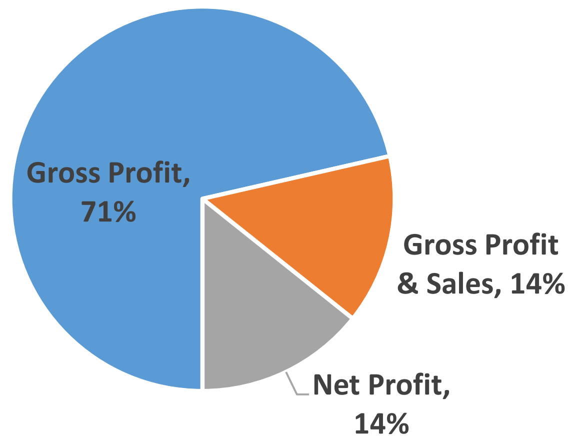
Basis for Incentives

ASOs often expressed the need for using competitive incentive plans that largely mimic the plans used in conventional staffing firms in order to attract top sales talent and keep their sales staff motivated. Five out of the seven participating ASOs use gross profit as the incentive basis for sales staff. Gross profit typically refers to the amount billed to an account in a given month less the associated wages, payroll taxes, workers' compensation insurance, and, potentially, other job-related direct costs, such as transportation. ASOs felt that using gross profit as the basis for incentives encourages sellers to be mindful of the overall profitability of what they are selling, especially in terms of workers' compensation rates.

One ASO employs a tiered commission structure for the commission on gross profit that varies with the account's gross margin. The higher the gross margin on an account, the higher the percentage of gross profit paid. For example, the highest commission rate is earned when the account's gross margin is 25% or above, and the lowest rate is paid when the margin is below 16%.

Of the other two ASOs interviewed, one pays a very small percentage of gross sales as commission on top of a typical commission on gross profit. The other ASO incentivizes sales staff by instead paying a few percentage points of the business's net profit, as opposed to gross profit, as a form of profit sharing.

Incentive Basis for Sales Staff, (n=7)

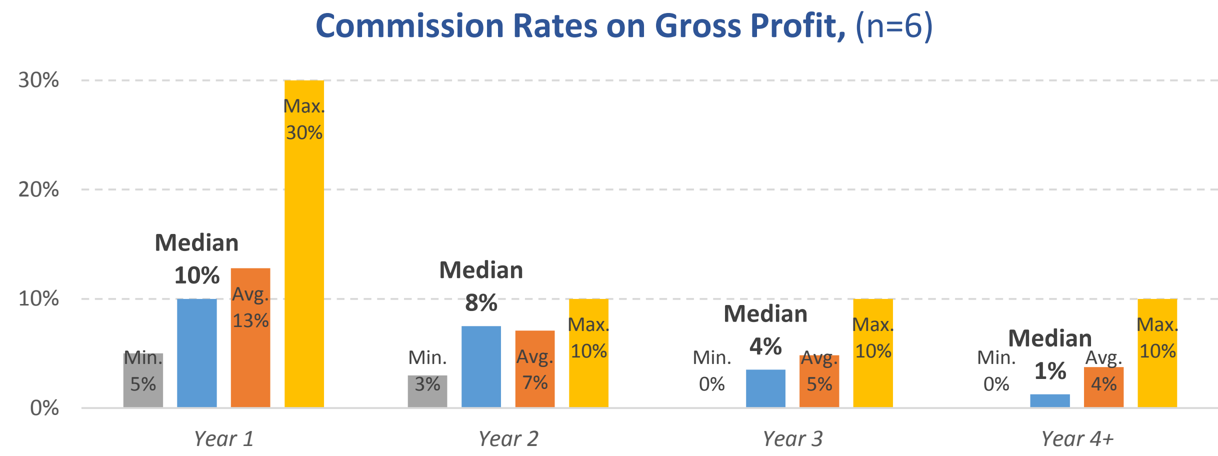


Multiple ASOs strongly recommended against using gross sales as the basis for an incentive plan, as this approach might unintentionally motivate sales staff to accept business with undue risks (evidenced by high claim activity, for example), or make them less mindful of certain occupations' high workers' compensation rates and fail to price accordingly. Thus, ASOs preferred to incentivize on gross profit to promote the right selling behavior. One ASO temporarily ceases commissions on an account if multiple workers' compensation claims are filed at the client site during a three-month period. While incentivizing based on gross sales may be appropriate for some professional and office-clerical positions, ASOs believed it is counter-productive for a business filling industrial job orders.

Commission Rates on Gross Profit

For the six ASOs paying sales staff a commission on gross profit, the rates varied most widely in the first year for a new account, from 5% to 30%. At four of the ASOs, the commission rates decrease over time on a schedule to reflect the presumed need for less maintenance on the account. The commission rates for the other two ASOs stay the same year after year, although both of those ASOs were actively considering if their rates should also decrease. The median commission on gross profit was 10% in year one, 8% in year two, 4% in year three, and 1% for year four and beyond.

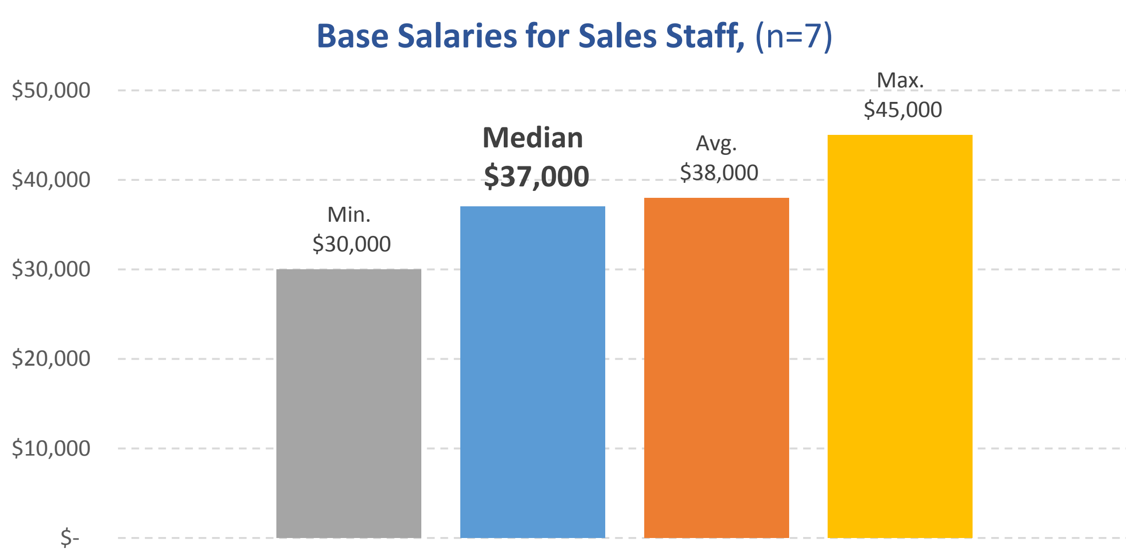
Caps on total incentive compensation for sales staff were generally described as prohibitive to attracting top sales talent and driving overall business performance. Only one of the seven ASOs caps total incentive compensation, and has recently discussed removing the limit for the very same reasons cited by the other ASOs for not having a cap.



Base Salaries and Total Compensation for Sales Staff

The average base salary for sales staff at the seven ASOs ranged from $30,000 to $45,000. The median was $37,000, and the average was slightly higher at $38,000. There was no overall correlation observed between the base salary and the commission rate paid on gross profit.

Additionally, sales staff generally receive supplementary compensation for gas and mileage, a cell phone, and other selling expenses paid as a monthly stipend in a set amount (e.g., $500).



One ASO provides new sales staff with a higher base salary for the first six months of their employment (30% higher in months 1 to 3, and 15% higher in months 3 to 6) to compensate for the industry's longer sales cycle and time required to close new accounts.

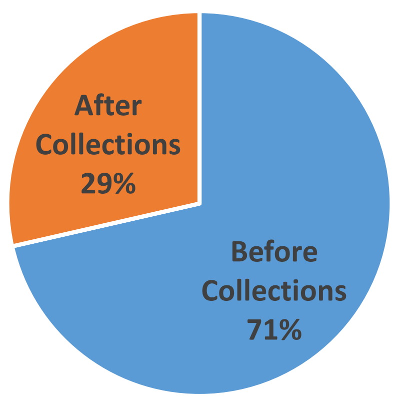
Some of the participating ASOs use the concept of a pay mix to conceptualize the target ratio of base to incentive compensation for sales staff. Essentially, a pay mix defines how much of a salesperson's compensation is at risk. In general, when an industry such as temporary staffing has a longer sales cycle, the incentive component should be lower than in industries where the cycle is shorter. Further, the more loyal employer clients tend to be to their current staffing providers in a particular market, the lower the incentive component should be, as closing sales will be more difficult.[1] The pay mixes used among our sample of ASOs varied widely, from 80/20 (base %/incentive %) to 50/50.

Total compensation paid, including a base salary and incentives, ranged from $40,500 to $90,000 per year for sales staff. Median total compensation was $60,000.

Payment Period & Collections

Participating ASOs typically said that paying commissions monthly was necessary to quickly reward good performance. Additionally, five out of seven ASOs pay commissions before collecting payment from the employer client, while the remaining ASOs pay after. ASOs that pay before collections generally expressed a belief that it is the organization's shared responsibility, from sales to management and accounting, to ensure that a client pays. The other ASOs instead believed that it should be the salesperson's own responsibility to secure payment.

When Incentives Are Paid, (n=7)



Activity Requirements

Three out of the seven ASOs require a minimum number of activities per period, including cold calls, client meetings and presentations, and closes on new accounts. Other ASOs choose simply to evaluate seller performance during reviews without regard to the actual number of activities completed in a shorter span of time. Among the ASOs reporting activity requirements, sales staff are expected to make an average of ten cold calls per day, meet with and present to five potential clients per week, and close four new accounts per month.[2] At least one ASO required that any activity goals not met in a given

[1] Culpepper Sales Compensation Design Practices Survey of 276 organizations. See more at: http://www.shrm.org/hrdisciplines/compensation/articles/pages/salespaymix.aspx

[2] A close generally refers to establishing a contractual arrangement for job orders with a completely new client or new department at an existing client site.

month be made up in the following month. Sales leadership at some ASOs also monitor the closing ratios for their sales staff.[3]

Incentives for Sales Leadership

During the interviews, some ASOs provided information on the incentive plans used for sales leadership positions, such as sales directors and vice presidents of sales. As might be expected, these plans are highly varied. Some plans are based on organizational goals, such as a commission based on the number of job seekers employed by the business. Other sales leaders spend a portion of their time performing sales in the field and have plans that resemble the compensation structures for the sales staff, but with a higher base salary. Some ASOs pay a commission to their sales leadership, ranging from 5% to 15%, on the overall gross profit from all of the business's accounts, including house accounts.[4]

Incentives Plans for Placement Staff

Four of the participating ASOs also have an incentive plan for placement staff, and the other ASOs are leaning towards implementing one. All of the ASOs currently paying commissions to placement staff use gross profit as the basis for incentives. One of these ASOs also pays a small percentage of net profit as profit-sharing to placement staff, in addition to a commission on gross profit.

Commissions generally range from 2% to 3%, although one ASO uses a much smaller percentage (0.4%), and another employs a tiered structure where the percentage varies slightly based on the overall gross margin on the account. One ASO calculates and pays the commission to placement staff on a team basis, where the entire team receives a percentage of the total gross profit across all of their accounts, which is then distributed equally among the team of placement staff each month.

The base salaries for placement staff at these ASOs ranged from $25,000 to $30,000. As opposed to the objections voiced towards capping incentive compensation for sales staff, two of the ASOs cap this for placement staff, and believed having a limit is appropriate for this position.

---

[3] The "closing ratio" indicates the percentage of contracts executed on new client accounts out of the total number of appointments held with potential clients in a given period. For example, a 10% closing ratio refers to the salesperson closing one new account for every ten client meetings or presentations held. A 10% closing ratio is relatively standard for a sales process that is heavily based on cold-calling, while a 20% or higher ratio is common for clients introduced to the seller through a network, such as through an existing employer client of the staffing business.

[4] A "house account" is an account with an existing employer client that no longer requires significant maintenance from sales staff after a period of time. Subsequently, the commission paid to sales staff on that account is greatly reduced or eliminated.