



V I S U S
G R O U P

Sales & Recruiting Compensation Best Practices

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Tom Kosnik

- 25+ Years Servicing the Staffing Industry
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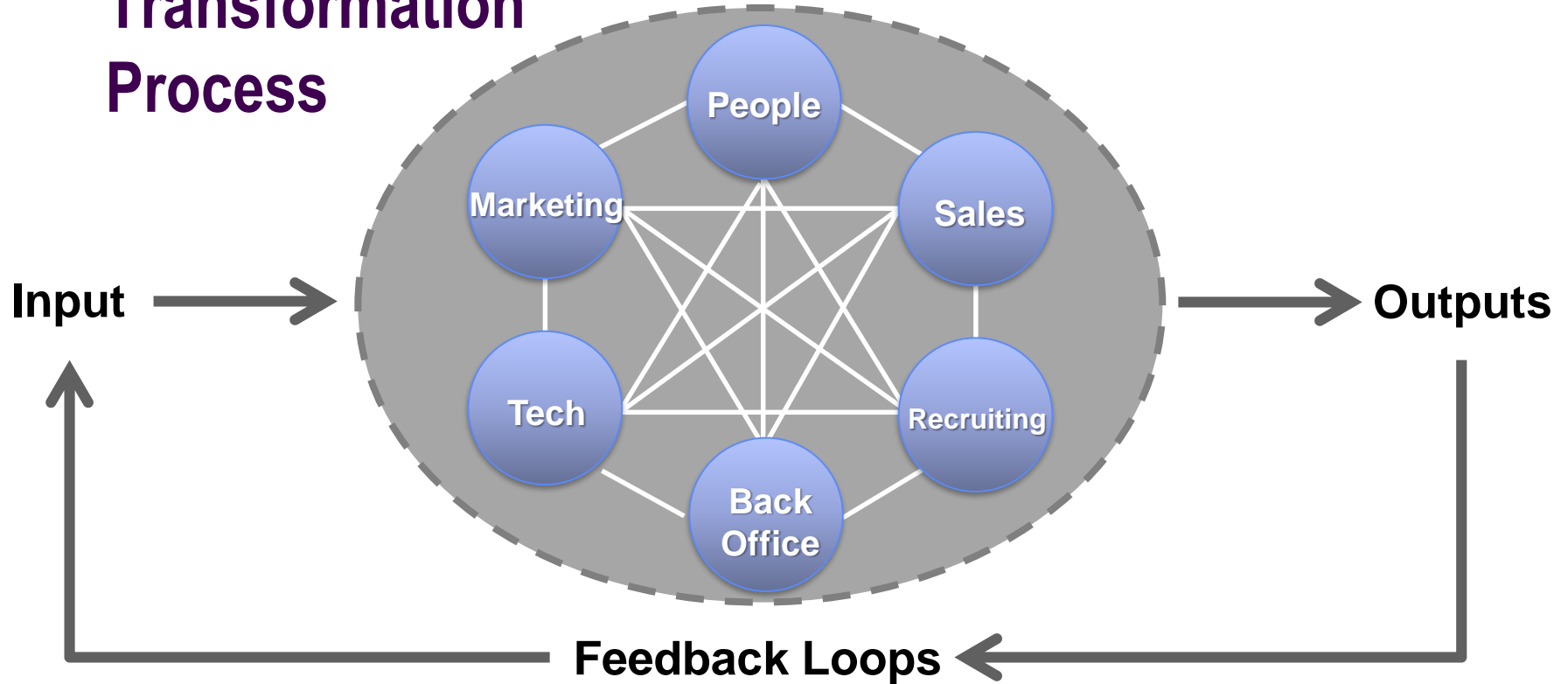

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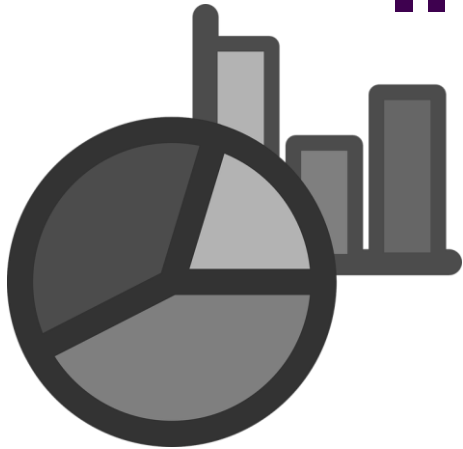
Transformation Process



Outline

- I. Economic Models
- II. General Compensation Guidelines
- III. Building out a Great Compensation Plan
- IV. Direct Hire Validation Tool
- V. Compensation Tips

I. Economic Models



Staffing Industry P&L

- Refer to Staffing Industry P&L Handout



Economic Model A

Refer to Handout

Revenues	“X”		
Direct Costs	75%		
Gross Profit	25%		
Operating Overhead	15%		
		5%	Sales
		4%	Recruiting
		2%	Management
		4%	Administration
Corp. Overhead	5%		
Pretax Profit	5%		

Economic Model A: \$

Refer to Handout

Revenues	10,000,000		
Direct Costs	7,500,000		
Gross Profit	2,500,000		
Operating Overhead	1,500,000		
		500,000	Sales
		400,000	Recruiting
		200,000	Management
		400,000	Administration
Corp. Overhead	500,000		
Pretax Profit	500,000		

Economic Model B

Refer to Handout

Revenues	“X”		
Direct Costs	84%		
Gross Profit	16%		
Operating Overhead	7%		
		4%	Sales/Mgt.
		3%	Recruiting
General & Administrative	2%		
Corp. Overhead	2%		
Pretax Profit	5%		

Economic Model B: \$

Refer to Handout

Revenues	10,000,000		
Direct Costs	8,400,000		
Gross Profit	1,600,000		
Operating Overhead	700,000		
		400,000	Sales/Mgt.
		300,000	Recruiting
General & Administrative	200,000		
Corp. Overhead	200,000		
Pretax Profit	500,000		

VMS Model

Revenue	100%	\$18,500,000.00
Cost of Sales	82.97%	\$15,350,000.00
Gross Profit	17.03%	\$3,150,000.00
Business Unit Expenses	9%	
Sales	2%	\$370,000.00
Recruiting	2.5%	\$ 462,500.00
G&A	4.0%	\$740,000.00
Mgt	0.5%	\$92,500.00
Business Unit Contribution	8%	
Corporate Expense		
Exec Mgt	1.5%	\$277,500.00
G&A	1%	\$185,000.00
Net Income before Taxes	5.5%	\$1,017,500.00

Non-VMS Model

Revenue	100%	\$20,700,000.00
Cost of Sales	76.00%	\$15,732,000.00
Gross Profit	24.00%	\$4,968,000.00
Business Unit Expenses	12.0%	
Sales	4.0%	\$828,000.00
Recruiting	3.0%	\$621,000.00
G&A	3.0%	\$621,000.00
Mgt	2.0%	\$414,000.00
Business Unit Contribution	12.0%	
Corporate Expense		
Exec Mgt	2.0%	\$414,000.00
G&A	2%	\$414,000.00
Net Income before Taxes	8.0%	\$1,656,000.00

II. General Comp Guidelines



General Comp Guidelines

- 30% to 35% of the company's gross margin is typically allocated toward the total "Sales & Recruiting" expenses
- This includes:
 - Base
 - Commissions
 - Taxes
 - Benefits

General Comp Guidelines

For Sales Executives:

- 15% to 20% of their personal total “gross margin” production is allocated toward their total package = base, commission, taxes and benefits
- Or, 5% of their personal total revenue production is allocated toward their total package
- Gross Margin = revenues minus cost of sales (temporaries wages, taxes & insurances)

General Comp Guidelines

For Recruiters:

- 12% to 15% of their personal total gross margin production is allocated to their total package = base, commission, taxes and benefits

Evaluate Your Comp Plan

- Run the gross margin percentage numbers on each employee
- How much of their total gross margin production is going toward their total package?

Evaluate Your Comp Plan

If the total payout package is greater than 15% to 20%, then:

- The company plan is too rich
- The employee is under performing
- The employee is new and has not yet reached full performance levels

III. Building Out a Comp Plan



Building Out a Sales Comp Plan

Step One:

Build out the “Economic Model” based on your company’s average gross margin percentages. Use the examples shown above or other

Building Out a Sales Comp Plan

Step Two:

Based on the economic model, determine:

- a) How much money you have to allocate toward the compensation plan
- b) What are average and peak performance levels

Building Out a Sales Comp Plan

For Example

- The average bill rate is \$50 an hour, the average pay rate is \$30 an hour, the average spread is \$20 an hour, (minus 15% for burden and the actual spread = \$15.50), the average temp works 38 hours a week, the average length of assignment is 13 weeks
- If a sales person has 25 people consistently billing over 13 weeks, then the total gross margin production will be \$191,425 (25 people x 38 hours per week = 950 hours weekly. 950 hours weekly x 13 weeks = 12,350 hours for the quarter. 12,350 hours x \$15.50 actual spread = \$191,425 quarterly gross margin production)
- 20% of \$191,425 = \$38,285
- Annualized out = \$153,140
- Subtract 20% of \$153,140 for taxes and benefits
- The dollars we can allocate toward base and commission is \$122,512

Building Out a Sales Comp Plan

Step Three:

Determine “what” specific results and performance drivers you want to reward

- Account management
- Account penetration
- New account acquisition
- Connects (phone or email)
- Face-to-face meetings
- Networking events
- Referral follow ups

Building Out a Sales Comp Plan

Step Four:

Find out base ranges for your market place

- Our Staffing Industry Associations (ASA, SIA, TSA)
- ACA (American Compensation Association)
- SHRM (Society of Human Resources Management)
- BLS (Bureau of Labor Statistics)
- Local competitors

Building Out a Sales Comp Plan

Step Five:

Build out a commission matrix

- Percentage of gross margin achieved
- Percentage of gross margin paid out to the Sales Exec

Building Out a Sales Comp Plan

Comp Matrix Example One

Gross Profit dollars billed for the month +	% of the Gross Profit paid out to the Sales Exec	Dollars paid to the Sales Exec monthly
1 st \$30,000	4%	\$1,200
2 nd \$30,000	6%	\$1,800
3 rd \$30,000	8%	\$2,400
4 th all gross margin greater than \$90,000	10%	\$\$\$

Building Out a Sales Comp Plan

Comp Matrix Example Two

GM%	% of GM paid out up to 10 temps billing	% of GM paid out on 11 to 20 temps billing	% of GM paid out on 21 to 30 temps billing	% of GM paid out on 31 to 40 temps billing	% of GM paid out on 50+ temps billing
0-14%	0%	0%	0%	0%	0%
15-19%	3%	4%	5%	6%	7%
20-24%	5%	6%	7%	8%	9%
25-29%	7%	8%	9%	10%	11%
30+%	10%	11%	12%	13%	14%

Building Out a Sales Comp Plan

Comp Matrix Example Three

Gross Margin Achieved	Percentage of Gross Margin Paid Out
Under 20%	Zero
From 20% to 24%	4%
From 24.1% to 26%	6%
From 26.1% to 28%	8%
From 28.1% to 30%	10%
Above 30.1%	12%

Building Out a Sales Comp Plan

Step Six:

Build commission dollars to reward performance driving activity – Sales Example

- 50 connects a week
- 10 face to face appoints a week
- 10 referral follow up a week
- 1 networking event a month

Sales Performance Driving Activities Defined:

- A “connect” is any response by a prospect or client. This includes a returned phone call, a direct call from a client or prospect, a reply to an email....,
- A “face to face appointment” is a meeting with a client or prospect. This includes meetings in the client’s office, a luncheon, a dinner meeting.
- A “referral” is a lead that comes to the sales team via the fulfillment team or via the automated reference check tool.
- A “networking event” is an industry specific engagement, a SHRM event, a Chamber of Commerce event, taking a client to a sporting event, etc.

Sales Performance Driving Activity

Monthly Performance Activity Expectations		69% or under	70-79% of Goal	80-89% of Goal	90-99% of Goal	100% of Goal
50/wk	Connects	0%	70%	80%	90%	100%
10/wk	F2F	0%	70%	80%	90%	100%
10/wk	Referrals follow ups	0%	70%	80%	90%	100%
15/wk	Networking	0%	70%	80%	90%	100%

How Activity Commissions are Calculated

- Activity Commissions are calculated as a percentage of the actual required activity completed for the month. A Sales Executive can earn an extra \$500 a month for reaching 100% of their targeted activity numbers. Each Sales Executive will have activity targets in four performance driving areas. At the end of each month, an aggregated average percentage will be determined of actual activity performed and paid out as follows:

How Activity Commissions are calculated:

- If the average is 100% then the Sales Executive will be rewarded a \$500 activity commission
- If the average is 90% then the Sales Executive will be rewarded a \$400 activity commission
- If the average is 80% then the Sales Executive will be rewarded a \$300 activity commission
- If the average is 70% then the Sales Executive will be rewarded a \$200 activity commission
- If the average is below 60% then the Sales Executive will be rewarded zero activity commission

Building Out a Recruiting Comp Plan

Step Six:

Build commission dollars to reward performance driving activity – Recruiting Example

- 75 phone calls a week
- 25 connects a week
- 10 in-house interviews a week
- 15 client submittals a week
- 5 Client Interviews a week
- 10 leads a week

Recruiting Performance Driving Activities Defined:

- “Phone Calls” are considered; (a) calls to new candidates meaning candidates that the Consultant has not yet worked with or taken care of, (b) calls to hiring managers meaning hiring managers that the Consultant has not yet worked with or taken care of.
- “Phone Connects” are considered; (a) connects with new candidates meaning that one has spoken with the candidate, (b) connects with new hiring managers meaning that one has spoken with the hiring manager.
- “In-house-interviews” (IHI) are considered candidates interviewed face-to-face at our Alliance Staffing office. This includes SKYPE interviews and/or detailed phone interviews with “out of State” or “out of town” candidates.
- “Client Submittals” are considered candidates presented to open client job orders.
- “Client Interviews” are candidates that go on a face-to-face interview at a client site or have a phone interview with a hiring manager.
- “Leads” are considered a) company name and company contact name or b) company name and open position type. Contact person’s title and/or phone number are helpful additional information.

Recruiting Performance Driving Activity

Monthly Performance Activity Expectations		69% or under	70-79% of Goal	80-89% of Goal	90-99% of Goal	100% of Goal
75/wk	Phone Calls	0%	70%	80%	90%	100%
25/wk	Connects	0%	70%	80%	90%	100%
10/wk	IHI	0%	70%	80%	90%	100%
15/wk	Client Submittals	0%	70%	80%	90%	100%
5/wk	Client Interviews	0%	70%	80%	90%	100%
10/wk	Leads	0%	70%	80%	90%	100%

How Activity Commissions are Calculated

- Activity Commissions are calculated as a percentage of the actual required activity completed for the month. A recruiter can earn an extra \$500 a month for reaching 100% of their targeted activity numbers. Each recruiter will have activity targets in six performance driving areas. At the end of each month, an average percentage will be determined of actual aggregated activity performed.

Building Out a Sales Comp Plan

Step Seven: Validate

- Run out the numbers at the various levels in which a Sales Exec can perform both in gross margin billed, or hours booked, or contractors billing and check these levels against the economic model to make sure you don't end up paying too much out at the top end

IV. Direct Hire Validation Tool



Direct Hire Validation

- 40% equals the total average payout to a Recruiter. This includes draw salary, commission dollars, taxes and benefits
- Another way to look at this, the average expense of a Dire Hire Recruiter is 40% of this person's revenue
- 20% equals the average Net Income range on a Direct Hire business
- Watch out for the “negative draw balance” on Recruiters
- What counts? Placements and Cash In. Nothing else

Direct Hire Validation

Model

60,000	Average Salary Direct Hire Recruiter places
15,000	Average fee of 25%
180,000	At one placement a month
72,000	40% of 180,000 and what is allocated to the Recruiter
Percentages	P&L Category
100%	Revenue
40%	Recruiter Expense
30% to 40%	G&A and Mgt. Expense
20% to 30%	Net Income

Direct Hire Validation

Determining a Recruiter's monthly revenue dollar to hit:

- If the Recruiter is asking for an annual draw salary of 60,000 (5,000 on a monthly basis)
- Then, we need this Recruiter to bring in 12,500 on a monthly basis to validate the draw salary
- How do I figure? \$5,000 is 40% of 12,500

Direct Hire Validation

- If the Recruiter is asking for an annual draw salary of \$40,000 (\$3,333 on a monthly basis)
- Then, we need this Recruiter to bring in \$8,500 on a monthly basis to validate the draw salary
- How do I figure? \$3,333 is 40% of \$8,500

Direct Hire Validation

- In the examples above, it is only after the monthly quota is met that we then start allocating 35% or 40% or 45% of the revenue in to commissions
- In example one above, if the Recruiter brought in \$15,000, \$12,500 goes toward validating the draw salary, \$2,500 is left over. 35% of \$2,500 equaling \$875

So, for that month, the Recruiter will receive \$5,875
(\$5,000 for draw salary + \$875 (35% of \$2,500))

Direct Hire Commission for Sales Representatives

- Many of my staffing clients are paying Sales Reps a flat 10% on all Direct Hire job orders secured. This is a mistake.
- 5% paid out to the Sales Rep is more the industry norm. The reason for this is that the only thing the Sales Rep does is negotiate the fee structure and get the Direct Hire agreement signed. The Direct Hire Recruiter does all the work from there on both the client and candidate end.
- But why not have a graduated scale commission that pays more for higher fee structures secured?

Direct Hire Commission for Sales Representatives

Fee Secured	Percentage paid out to Sales Representative
20%	5%
21% to 25%	7.5%
26% to 30%	10%

Direct Hire Commission for Sales Representatives

Fee Secured	Direct Hire Revenue Secured	Percentage paid out to Sales Representative	Commission paid out to Sales Representative
20%	\$20,000	5%	\$1,000
21% to 25%	\$25,000	7.5%	\$1,500
26% to 30%	\$30,000	10%	\$2,000

V. Compensation Tips



Compensation Tips

- Shoot for 50/50 = 50% base & 50% commission
- Keep it somewhat simple
- Tweak the plan annually

Compensation Tips

- Don't forget to reward performance drivers
- Pay commissions weekly or monthly, the closer the \$\$\$ is to the behavior, the more effective the plan will be
- Utilize multiple sales levers: base, gross margin, activity, team, President's Club, spiffs, etc.

Compensation Tips

- Have your employees sign their compensation plan
- Include a “definition of terms” in the document
- Include a “confidentiality” statement in the document

Compensation Tips

- Don't over sell the comp plan
- Cash is not always king when it comes to compensation
- The best form of recognition is listening, which happens to cost the company close to zero



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