Fall 2012

VIEWpoint

MANAGEMENT COMPENSATION RESOURCES

New and Improved

Welcome to our "new and improved" newsletter. With this updated format, our goal is to provide you with informative and interesting viewpoints that offer advice and perspective on areas that impact the future prosperity of your organization.

In the inaugural issue of VIEWpoint:

- *Mike Frommelt of Keystone Search shares his thoughts around senior-level talent recruitment. Mike and his partners at Keystone Search specialize in key employee search services and have our highest recommendation if you are ever in need of new management team members.*
- *In a client project case study, we outline how a phantom stock program was used by one company to link its key employees into the long-term growth of the business and reward them based on that growth. This is the most frequently raised topic that we discuss with clients and prospective clients these days.*

This newsletter is a "work in progress" and what matters to you matters to us, so please share your comments as well as requests for future topics.

Also, let us know how we can help you with your growth and expansion plans – we want to be your resource for management compensation and benefits information. Thank you!

~Scott Rollin

Phantom Stock Program Transforms Company's Culture and Its Future

The transition of a family-owned business to the next generation is a critical junction in a company's evolution. This was certainly the case for Omnium Worldwide, a 30-year old accounts receivable management and cost containment company in Omaha.

Purchased from his father, Doug Wilwerding found an organization led by a legacy management team which lacked strategic direction and the impetus to evolve. In order to pay off the note and create real value long-term, he needed to grow the company substantially in a short period of time.

"When I took over there were a lot of cultural roadblocks that I knew would have to be overcome in order for the company to be successful going forward," said Wilwerding. "To transform the business, I needed to rebuild the management team so that everyone was on board with the new strategic direction."

For Wilwerding to recruit the level of talent needed, he would have to compete with public companies that could offer more compensation than Omnium could afford. He needed a robust compensation program that would be attractive to management candidates and tie their personal gain to company success.

Omnium had tried to implement its own version of an employee stock program. However, the program was met with hesitancy as well as concern with its complexity. Recognizing that the program needed to be simplified and the perceived value of the program among managers increased, Omnium asked MCR for assistance.

For MCR, the first step was to forget what the existing plan did or didn't do, and spend time uncovering what the company wanted the program to accomplish. Once these desires were on paper, it was clear how the existing plan had to be modified and clarified in order to accomplish those goals.

"Deferred compensation, in this form, was the perfect fit for Omnium because the company needed to use current cash to pay down the debt that Doug owed, and to help finance the expansion and growth of the business," said Scott Rollin, President and Founder of MCR. "Not much current cash was needed to implement or maintain this plan and yet it helped very clearly get everyone in management 'pulling the wagon' in exactly the same direction and for the same reasons."

At the end of the day, Omnium had in place a well understood phantom stock plan with 90 percent of eligible managers participating and contributing the maximum allowable. The plan provided multiple options for payout at retirement as well as protection in the event of the sale of the company. As the plan grew, additional shares and another incentive plan were added for a more limited group of managers — based on the same plan design concepts.

The "supplemental" plan helped speed the turn-around of the company and it provided them with even greater rewards. In fact, within five years Omnium had grown to become the 8th largest accounts receivable management company in the nation. Wilwerding attributes much of the success the company experienced to the phantom stock program.

"It (the program) galvanized the management team towards a common goal," said Wilwerding. "Without the program and the guidance from MCR, we would have struggled to achieve the unprecedented growth we did."

When the company was sold, the value per share the buyer paid was over \$87 per share — 11.4 times the initial value of the company (over 1000%) in just over 5 years. At the time of the sale, the collective value of the phantom stock programs was \$25 million.

OMNIUM WORLDWIDE®

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It's Back!

The War for Talent is on again – are you preparing for battle?

By Mike Frommelt, Principal, Keystone Search

I heard an interesting statistic a couple weeks ago from a trusted media source – Jerry Springer. Yes, that Jerry Springer, the one with the crazy TV show featuring dysfunctional families, tangled love triangles and on-stage fist fights. Jerry stated the unemployment rate in the U.S. among college graduates is only 4.5%, while the general unemployment rate is still over 8%.

Given I don't trust anyone completely (even Jerry Springer), I went to the internet and checked it out. Indeed, a 2012 study conducted by Georgetown University revealed the unemployment rate for those with at least a bachelor's degree is a mere 4.5%.

Jerry Springer was using this statistic to make a political statement (why aren't we investing in education in this country), but I'll take poetic license and use it just a bit differently here. I think Jerry would be proud of me on this.

Given the great majority of executives and other senior managers are at least college grads, and the unemployment rate among them is 4.5%, the "available" talent pool for leadership positions has gotten pretty tight again. If you take this a step further and factor in that there are always a certain number (an estimated 1-2%) of individuals who are not working by choice (to raise a family, etc...) the market for strong leadership talent looks downright paltry.

Basically, we are back to the talent wars we faced through the '90s and mid-2000s. It can't be long before we start seeing escalating compensation packages, big signing bonuses, retention bonuses etc...

Actually, I personally don't find this data too surprising; our firm has been incredibly busy over the last year and a half, executing searches for senior executives. I also know most of our competitors have seen a major upsurge as well, meaning companies are getting back to the business of growth.

So what? First of all, and maybe most obviously, if you have gaps on your leadership team, don't assume there are "a lot of great people out there." If you are looking to add A-Class talent, you will most likely have to lure it away from other companies.

To be successful in luring talent, you must do a few key things:

1) Your recruiting process needs be crisp; well thought out and well executed. Processes that take too long, leave candidates in the dark between interviews, or are just poorly organized turn off great candidates. Remember the best people have multiple options.

2) Get clear about your vision/strategic direction. Strong executives/managers can assist in rounding out these areas, but relying on them to do it for you is not a great idea. An "A-player" will not often risk leaving their current situation for a company with little chance of succeeding. It's important that you can lay out at least a framework for how the company can grow (ideally with some data to back it up) so candidates can see where they add value to the mix.

3) On the cultural side, it's essential for candidates to understand the existing culture of the company. If the culture fits with who they are as a person, they will be much more attracted to the role. If they do not, better to know early and save everyone some time, or worse yet, a bad hire.

4) Lastly, it's time to start thinking again about "retention." Your best people have more options now than they've had in three plus years. They are being contacted by recruiters continuously, pitching new opportunities. If your company's morale has fallen over the last few years, or if you haven't said "Thank You" enough in terms of compensation, bonuses, or just pats on the back – you may be vulnerable to losing your best and brightest. In fact, making sure you shore up the talent you want/need for the future should be job one.

It may seem a little early to be worrying about these things, as the economy isn't exactly hitting on all cylinders yet. However, I do believe it is just around the corner. Our industry (executive search) has always been a leading indicator, and with Jerry Springer weighing in as well, what other proof do you need? Taking action now to make sure your best people will stick around and preparing yourself to hire the best and brightest for future growth should put you well ahead of the competition.

Who would have thought: "Jerry Springer, the great foreseer of the American business landscape?" Move over Warren Buffet, there's a new Sheriff in town.

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What's Happening in D.C. These Days?

I'm glad you asked... and the answer is "not much except running for re-election!" I was recently in D.C. attending industry meetings and have a few thoughts on where tax reform is headed after the election:

- There is some bipartisan agreement that tax reform is a good idea and simplification of the tax code is likely in 2013 and beyond, no matter the outcome of the elections. If the three "chambers" of government remain divided between the parties – then reform will likely be taken in small, incremental steps. This is the most likely outcome in 2012, given that it takes 60 votes in the Senate in order to really drive major swings in policy.
- ***Tax reform*** is likely to include increases in rates on top earners – either in the form of higher marginal tax rates, or in the reduction of available deductions for mortgage interest, charitable contributions, etc. Many of these "increases" will be used to offset the "cost" of an overall simplification (fewer brackets, loopholes, etc.) of the tax code.
- ***Entitlement reform*** will likely be the can that is "kicked down the road," unless the President is not re-elected. Even though Presidents don't directly control the legislative agenda, they are very influential in setting policy direction. A change in the White House could signal a desire for change by voters in the direction of policy around Social Security, Medicare, and healthcare.

While election rhetoric is all about "change," the bottom line is that until the elections are over, no real progress will be made on any of these issues. However, most businesses we talk to these days are moving forward with life and business. Waiting for Washington to make decisions is likely to lead to: 1) a LOT of waiting; and 2) getting passed by as your competition moves ahead with plans to grow and expand.

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