

How and how much should a marketing communication firm pay its business development personnel? While there is no easy answer, following these five steps should help lead to a compensation (pay) plan that works for employee and employer. This article builds on last month's Win Without Pitching Newsletter issue, Business Development Planning, which discussed setting proper goals, aligning performance incentives and forecasting results. Together, these two articles should help to point you toward business development success in 2008.

Business Development Compensation

Step One: Set Proper New Business Goals

(What follows is a recap of the goal-setting principles I addressed last month. If you read and retained that and want to skip to step two, go ahead.)

A firm's business development person is charged with shaping its future client base. Goals around her performance should largely be goals of quality over quantity. As ReCourses' David C. Baker laid out for us in last month's issue, the typical firm should have between eight and twelve ongoing clients, each representing about 10% of the agency gross income (AGI, which is the sum of all fees, mark-ups and commissions).

A firm with \$2 million in AGI should target the distribution of that AGI across ten client or so, with each client representing approximately \$200k in AGI, on average. Appropriate business development goals for such a firm should be to replace two, three or four of these clients with a roughly equivalent number of clients at the same level of AGI or higher.

The average AGI per client is important because this number, or one close to it, should serve as the firm's minimum level of engagement. The business development employee needs to see her role as identifying and helping to secure the next two, three or four perfect fits for the firm, at or above this minimum level of engagement.

In our example above, any incentives should be aligned to encourage adding three new clients at \$200k+ in AGI and discourage pursuing a larger number of smaller clients. So while the magic number is \$600k in AGI from new clients, the avenue to reaching this number (three clients or less) is just as important. With incentives properly aligned, the minimum level of engagement will come up early in conversations with clients-to-be. Those whose spending capacity falls well below will be weeded out quickly. Without aligning the incentives to this goal the firm's principals are likely to find themselves being brought opportunities that they shouldn't even be considering.

Step Two: Determine Target Compensation Level

Once appropriate business development goals have been set, the next step is to set target compensation for the employee. This number is calculated on a few factors, most importantly, experience/seniority, market considerations and results required.. Generally speaking, I believe business development personnel should earn roughly what those of similar experience and performance earn in other roles in the firm (e.g.: creative, account services), possibly with additional, properly aligned incentives that provide for the opportunity to earn more.

The business development position can be staffed at the EVP/VP, director, manager or coordinator level, depending on other variables such as how the firm approaches the function and the principals' level of involvement in it. As a result, business development compensation can quite rightly vary wildly even among firms of similar size and financial performance. Some questions to consider include, what do others of this seniority/experience level earn? Does the market place a premium on the value of the business development role relative to others? What are the employee's income goals? For the sake of this discussion, let's assume the employee wants to earn \$100k and both parties agree that the market values her experience level accordingly. \$100k, then, becomes our target compensation.

If the employee wants to earn \$150k and the employer feels the position is worth \$100k, then we either have a poor fit between person and position, unrealistic compensation expectations, or the employer will have to look at bridging the gap through incentives in a carefully constructed compensation plan, with the employee understanding the exemplary performance required to achieve this target compensation level.

Step Three: Establish a Base

Most employees (not all) want security of income, and most employers want stability in employee performance. The way to get this security/stability is through base salary. Many business development employees (again, not all) want the chance to be rewarded for good performance beyond their salary. Someone with a high competitive drive tends to use her income as a means of keeping score on how she is doing in life. Such a person enjoys the idea that her earning potential is not capped.

Start with a High Base

Some business development employees prefer the high-reward model of straight commission (with no base salary), and some employers equally prefer this model as they see it greatly reducing their risk. This is not a model I favor, and one needs to only revisit step one above (setting proper goals) to deduce why. The best plans offer a high base salary and simple incentives for meeting the stated business development goals.

A base salary is provided in exchange for certain things such as following policies, protocols and systems, putting the needs of the agency first and generally being a team player. The higher the base salary, the higher the implied expectations of the employee on this front. The lower the base, the more implied freedom she has to do things her way. An employer who has his business development personnel on full commission has very little authoritative ground to stand on when it comes to dictating how things should be done. His employee is likely to see herself as an independent contractor with all implied freedoms.

Employers should seek to construct a plan with a high base - as high as they are comfortable with. Using our \$100k target income example, I recommend a base salary of between \$70k and \$90k (70%-90% of the target). Generally speaking, the more risk the employee takes (lower base) the more reward she should get for hitting targets.

Step Four: Add Performance Incentives

In the example we've been working with, we have a firm that does \$2 million in AGI that has set new business goals for the year of three new clients at or greater than \$200k each. We've set a target income for the employee of \$100k, and we've determined that \$80k, or 80% of the target, is an appropriate base salary. That leaves us \$20k in incentives short of the target. Now let's examine the best form and dispersal methods for these incentives.

The two most common forms of variable performance incentives are commissions and bonuses. Commissions earn the employee a percentage of whatever the firm earns. Bonuses are awarded for meeting specific targets. Commissions make sense in high-volume, transactional sales organizations, not in low-volume, consultative selling organizations like expert advisor marketing communication firms. Remember that incentives should not be aligned to reward the employee for pursuing a volume of small clients. Rather, they should direct her to dismiss those opportunities that are poor fits for the firm. I much prefer bonuses to commissions: they are cleaner and more easily aligned to the simple business development goals advocated above. If you insist on commissions over bonuses, make sure they apply only to client that meet the minimum engagement level.

Commissions also open the door for draws against future commissions, which almost always get messy. Avoid commissions if you can, but if you cannot, avoid draws against commissions absolutely. It is also tempting (for both parties but employee especially) to seek to leave commissions in place for the longer term, usually declining to nothing after three or four years. My preference is to approach business development goals, and therefore incentives, on a year-to-year basis. A properly constructed plan should offer a base high enough to negate the need for commissions or variable incentives of any kind that reward this year's performance next year, and again the year after. It's in the interest of both parties for incentives to be realized as soon after the objective is reached as practical, and not extend rewards out into the future.

Back to our example, we might determine that the employee should receive the \$20k in bonuses only when all three \$200k+ new clients are secured, or we may decide to split up the incentives into three bonuses of \$6,666 each, with one bonus awarded for each of the three new clients added. We could alternatively craft a plan that sees the employee bonused at \$5k for the first new client added, \$6.5k for the second and \$8.5k for the third. Any of these models and a few others work just fine.

Bonuses for Exceeding Targets

Should incentives be offered for exceeding stated business development goals? That depends. In most successful firms it would be a stretch on capacity to be able to integrate more than three or four new clients representing 30% - 40% of the firm's AGI, even in a year where the equivalent client dollar volume walked out the door. More likely, exceeding the firm's business development goals means bringing in bigger clients, not more of them. If this is desirable, then yes, extra incentives might be considered. They might be extra year-end bonuses based on new client AGI beyond the \$600k targeted. Such bonuses could be set and agreed to in advance, or could be discretionary. Further bonuses could be tied to highly desirable clients-to-be. The employer might decide to put an additional \$5k bounty on the head of the ten clients-to-be that the firm covets most. There are lots of creative avenues to reward exemplary performance, but again, better clients is a more desirable goal than more clients, so structure incentives appropriately, and keep them simple.

Step Five: Some Final Considerations

Here are two last points to consider.

To Bonus or Not to Bonus?

Is it fair to have a 12 month ramp-up period before the employee begins to earn her target compensation? That depends on the point of view of all involved, the level of risk/reward in the plan and the extent to which the agency is systematic about its business development efforts.

In most firms, hiring a new business development person means starting over. Again. The employee brings new contacts, new methods and very often ignores the work of her predecessor. Think of going on a long car journey and having to back up to the starting point whenever you have to change drivers. This is necessary only when the driver owns the car. The firm should own the car (business development system) and should be able to change drivers without having to go back to the start. Train the new driver and ask her to get in the car where the last driver left it and move it forward. If this is the firm's approach to business development (investing in the car and recognizing its responsibility for training the driver) then its compensation plan should reflect it. To this end, I recommend that for the purpose of distributing bonuses the principals *not* make the distinction between the firm's business development results and the employee's role in those results.

A business development employee in a firm with defined business development processes can reasonably expect to benefit from the performance of her predecessor and should in turn expect to perform in a manner that will benefit her successor. If it meets its business development goals regardless of the performance of the employee, the employee should receive her bonus. She is either benefiting from the work of her predecessor (as her successor will someday similarly benefit) or she is not adequately contributing and should be trained, otherwise supported or replaced. But if she is in the seat when the car performs, then she should be rewarded. When this is decided upfront (the driver will be rewarded when the car performs well), the principals rid themselves of the stress of having to determine whether the employee actually earned the bonus. It will keep them clear of those situations where they may decide not to 'involve' the business development person because the opportunity came through them or someone else and not through the employee's efforts. Keep things simple by resolving to reward the driver when the car performs well.

Incentives for Non-Business Development Personnel

As a final point on incentives, I suggest that formal 'finder' fees should *not* be offered to others in the firm. Discretionary bonuses based on this are fine, but everyone in the firm should see it as their responsibility to identify clients-to-be that would be great fits. For all but a few employees, their business development obligations largely end there.

It should be obvious from this article that simpler compensation plans are better, and paramount above all is that any incentives in the plan must be aligned to proper goals.