

VARIABLE PAY TACTICS

Once your salary is firmly aligned with market value through a Competitive Pay Raise, you can focus on a well-negotiated Merit Raise to get to the high end of market value or even above market value.

Then what? Then there's Variable Pay. Variable Pay is a third type of pay increase that can make your income take a big jump. That's the topic of this supplement to the Build Your Custom Plan module.

Simply defined, **Variable Pay** is a compensation approach which ties pay to some measure of job performance. It's also known as **Pay-for-Performance** and **At-Risk Pay**.

Did you know that your employer probably offers this type of compensation? According to one survey, "91% of organizations currently offer a variable pay program..."¹ Yes, 91%, so chances are, that includes your employer.

And a report from the Society for Human Resource Management says this: "Variable pay as a percent of payroll spending among U.S. employers hit a record high in 2014...Conversely, salary increases for U.S. workers rose only slightly, reflecting companies' continued focus on holding the line on fixed costs."²

What that means for you is, the potential for higher income at your current job is probably a lot greater in a Variable Pay opportunity than in a base salary increase or a Merit Raise. Why? Because those base salary increases or Merit Raises are fixed costs driven and constrained by your employer's budget and projections about fixed costs, whereas Variable Pay is *detached* from fixed costs.

A while back, Aon Hewitt, a global human resources consulting service, offered advice to all employees that still holds true today. Here it is: "To see a significant increase in compensation this year, workers will need to focus on meeting their performance goals, as companies continue to allocate a greater portion of their compensation budgets toward variable pay programs that reward and retain high-performing workers."³

That was a lot of business speak, so let's translate it:

Go where the money is. And more and more, the money is going into Variable Pay programs for high performers.

So what does Variable Pay look like? Components include one or more of the following:

- awards for achievements against defined objectives
- cost savings sharing
- retention bonuses
- on-the-spot bonuses
- end-of-year bonuses
- stock-options plans
- profit sharing

Any of these might be rewarded on an individual, departmental or organizational basis.

For my money, a program at the individual level or the team level is best because you otherwise don't have control on others' performance or on a department that has a huge loss that impacts the rest of the company's gains. So you could perform really well and still lose out. So an individual or team arrangement could be a better deal in many cases.

Variable Pay programs are not always well-communicated or publicized. Or even understood. So take the initiative to inquire about any Variable Pay program(s) your employer has.

Then start thinking about how you could tap into it: what current and upcoming work projects could you match to your employer's **Variable Pay** incentive plans.

HOW MUCH?

For this type of pay raise, how do we answer the "how much" question? It's trickier because Variable Pay takes on a variety of forms, as I just listed.

If your employer has these plans in place, the company defines the performance goals, the parameters and the pay-outs, especially if it's a company-wide program. But for individual programs, there's room for negotiation. I'll give an example in a minute.

If your job performance review is soon, applying the Variable Pay option has little application. But for your *next* one...think of the possibilities!

Let's say that you find out that your employer doesn't offer formal incentives, or they don't have a Variable Pay option for your job or department. What then?

Don't let that stop you; craft your own incentive pay proposal. Work with your manager to design and get upper management approval of a custom pay-for-performance plan so you can reap the dollar dividends of your efforts.

This strategy is especially useful if your manager pleads “no budget” for the other types of raises, or if your manager can only dole out a measly Merit Raise, far short of your Aspiration Value.

Present and position your Variable Pay proposal as a risk-free innovative solution to the limits (or absence) of the Merit Raise she would like to give you, but can't because of budget constraints. By its structure, **Variable Pay** lowers your employer's *fixed* costs when compared with any type of Merit Raise, so it's a plus for your manager, too.

The “scripted replies” resource on Day 5 gives word-for-word scripts for presenting this option to your manager.

For now, I'll share an example from my own experience. When I was the Director of Nutrition Services for a 40-physician outpatient medical group, a big part of my job was responsibility for the clinical, financial and operational aspects of The Optifast Program. The Optifast Program is a medically-monitored, multidisciplinary supplemental fast for obese adults.

For the newly created role, I was hired at the mid-market value level for a registered dietitian. The role was given management status, which included four weeks of vacation, and profit-sharing bonuses. Annual bonuses were dependent on the fiscal performance of the medical group as a whole. That would fit into the Variable Pay category.

But wait, there's more. The Chief Operating Officer and I also came to an agreement on an *individual* Variable Pay arrangement.

As an incentive to grow The Optifast Program, which my team and I were starting from zero locally, I was to receive a percentage of the gross sales on all packages of the Optifast protein powder that enrolled patients were required to purchase.

This put my income at above-market levels as my team and I grew the program to several groups of patients a week. But then, something totally unexpected happened.

A little more than a year and a half after we started The Optifast Program, Oprah, on her wildly popular television show, wheeled out a red wagon containing 67 pounds of fat.

That represented the amount she had lost on a liquid protein diet called...yep, you guessed it, The Optifast Program.

Because of Oprah, we had to go into acceleration mode. I was buying more patient furniture, hiring more staff and...ordering lots more cases of Optifast product.

By the time things settled, my income had nearly doubled from the date I was hired fewer than two years earlier.

This is not a brag; believe me, I've had my share of salary missteps over my career, even after that big win. We all make mistakes along the way. Rather, I'm sharing this as an example of knowing and using the different types of remuneration, in this case, a Variable Pay arrangement.

Of course, the Oprah episode wasn't something I ever could have predicted. And yes, my job got a lot more challenging. But my income increased to match the growing patient base. Why? Because of the Variable Pay arrangement that was in place.

Otherwise, my salary would have stayed the same while the patient load almost doubled in a short period.

Let's turn this back to you: Could you arrange variable pay compensation? Do you see the possibilities? I challenge you to explore the answer to these questions. Why not brainstorm some ideas with some trusted friends or colleagues? Be creative and see what you come up with.

As a registered dietitian, my Variable Pay arrangement was far out of the norm for both the profession and for my employer. So don't think it can't be done in your job or where you work.

You might not come up with something immediately, but I want you to be thinking about how you could craft a Variable Pay arrangement where you work and propose it to your manager. Again, probably the best approach is to first brainstorm ideas among trusted colleagues or friends.

HOW TO USE THE PAY RAISE LABELS

Let me note that in the Day 1 worksheets and in these Day 1 supplements, I've put labels on each type of pay increase to guide you in your negotiation strategy. Use those labels

with your manager *only if* they move the discussion forward. If they don't, let the labels go and move on toward your goal for the pay increase itself, no matter *what* it's called.

Let's recap the Day 1 Supplements. You've made your way through the negotiation tactics for a Competitive Pay Raise, including a salary adjustment, a Merit Raise and Variable Pay.

At this point, you've determined which type or types you will pitch to your manager, when to ask for it, and roughly how much to ask for. Fine-tuning your custom plan around the "how much" topic happens on Day 3.

NOTES

1. Variable Pay Spending Spikes to Record High, <https://www.shrm.org/>
Accessed June 26, 2017
2. Ibid.
3. Hewitt Survey Shows Slight Rebound in Global Corporate Spending On Salary Increases This Year <http://aon.mediaroom.com/index.php?s=25825&item=607>
Accessed June 26, 2017