

Chapter 6

FORMULA CONSTRUCTION [Corrected Pages—D. J. Cichelli] Worksheets #1, #2 and #3

Worksheet 3: Bonus Formula with Steps

Worksheet 3 shows how to calculate a bonus formula with steps, a base salary, and a performance threshold.

Steps		Formula Parameters																												
1	Total Target Compensation	\$100,000																												
2	Pay Mix	75/25																												
3	Leverage	3x																												
4	Pay Opportunities	Base Salary Range Minimum: \$60,000 ($\$75,000 \times .8 = \$60,000$) Midpoint: \$75,000 ($\$100,000 \times .75 = \$75,000$) Maximum: \$90,000 ($\$100,000 \times 1.2 = \$90,000$) Target Base Salary: \$75,000 ($\$100,000 \times .75 = \$75,000$) Target Incentive: \$25,000 ($\$100,000 \times .25 = \$25,000$) Outstanding Pay: \$150,000 ($\$25,000 \times 3 + \$75,000 = \$150,000$)																												
5	Measures and Weights	Sales Volume:	100%																											
6	Quota Distribution	Meet/Exceed Target:	60%-70%																											
		Below Target:	30% - 40%																											
7	Performance Expectations	Performance Range <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;"><u>Percent to Goal</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>Revenue</u></td> <td></td> </tr> <tr> <td>Threshold:</td> <td style="text-align: center;">50%</td> <td></td> </tr> <tr> <td>Target Performance:</td> <td style="text-align: center;">100%</td> <td></td> </tr> <tr> <td>Excellence Performance:</td> <td style="text-align: center;">140%</td> <td></td> </tr> </table>			<u>Percent to Goal</u>			<u>Revenue</u>		Threshold:	50%		Target Performance:	100%		Excellence Performance:	140%													
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8	Assign Pay Opportunities to Performance Expectations	Total Pay Opportunity <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;"><u>Components</u></td> <td style="text-align: center;"><u>Cumulative</u></td> </tr> <tr> <td>Threshold:</td> <td style="text-align: center;">\$75,000 (base salary)</td> <td style="text-align: center;">\$75,000</td> </tr> <tr> <td>Target Incentive:</td> <td style="text-align: center;">\$25,000</td> <td style="text-align: center;">\$100,000</td> </tr> <tr> <td>Excellence:</td> <td style="text-align: center;">\$50,000 (Outstanding Pay)</td> <td style="text-align: center;">\$150,000</td> </tr> </table> Pay Compensation By Performance Measure <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;"><u>Sales Volume</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>Result*</u></td> <td style="text-align: center;"><u>Pay</u></td> </tr> <tr> <td>Minimum:</td> <td style="text-align: center;">60%</td> <td style="text-align: center;">\$5,000</td> </tr> <tr> <td>Target:</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">\$25,000</td> </tr> <tr> <td>Outstanding:</td> <td style="text-align: center;">140%</td> <td style="text-align: center;">\$50,000</td> </tr> </table> <p>*Sales results are expressed as a percent of quota performance</p>			<u>Components</u>	<u>Cumulative</u>	Threshold:	\$75,000 (base salary)	\$75,000	Target Incentive:	\$25,000	\$100,000	Excellence:	\$50,000 (Outstanding Pay)	\$150,000		<u>Sales Volume</u>			<u>Result*</u>	<u>Pay</u>	Minimum:	60%	\$5,000	Target:	100%	\$25,000	Outstanding:	140%	\$50,000
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<p>9</p>	<p>Calculate Formula</p>	<p>Bonus Formula Payout Steps</p> <p>Calculate payout in four steps of 10% increments. Express payout as a percent of target incentive (\$25,000)</p> <p>To calculate the bonus formula steps, determine the value of each step for below quota performance and then for above quota performance.</p> <p><u>Below quota performance:</u> Calculate the steps for below target performance:</p> $\frac{(\$25,000)/\$25,000}{(100 - 50)/10} = .20$ <p><u>Above quota performance:</u> Calculate the steps for above target performance.</p> $\frac{\$50,000/\$25,000}{(140 - 100)/10} = .50$ <p>The schedule for the steps is as follows:</p> <table border="1"> <thead> <tr> <th><u>Percent Quota</u></th> <th><u>Rate</u></th> <th><u>Percent of Target Incentive</u></th> </tr> </thead> <tbody> <tr> <td>50%</td> <td>.0</td> <td>0%</td> </tr> <tr> <td>60%</td> <td>.20</td> <td>20%</td> </tr> <tr> <td>70%</td> <td>.20</td> <td>40%</td> </tr> <tr> <td>80 %</td> <td>.20</td> <td>60%</td> </tr> <tr> <td>90%</td> <td>.20</td> <td>80%</td> </tr> <tr> <td>100%</td> <td>.20</td> <td>100.0%</td> </tr> <tr> <td>110%</td> <td>.50</td> <td>150.0%</td> </tr> <tr> <td>120%</td> <td>.50</td> <td>200.0%</td> </tr> <tr> <td>130%</td> <td>.50</td> <td>250.0%</td> </tr> <tr> <td>140%</td> <td>.50</td> <td>300.0%</td> </tr> </tbody> </table>	<u>Percent Quota</u>	<u>Rate</u>	<u>Percent of Target Incentive</u>	50%	.0	0%	60%	.20	20%	70%	.20	40%	80 %	.20	60%	90%	.20	80%	100%	.20	100.0%	110%	.50	150.0%	120%	.50	200.0%	130%	.50	250.0%	140%	.50	300.0%
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