



Unleashing the Power of Your Employees: Getting a Better Return on Your Incentive Plan Investment

World at Work Conference
New Orleans
May, 2005



Presented by Sue Tosh

Head: Human Capital Management
Human Resources – South Africa



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Your presenters...

- Terri Allender, CCP
Worldwide Compensation Director
Audodesk, Inc.
- Catherine Dovey, CCP, SPHR
Principal
Dovey HR Strategies

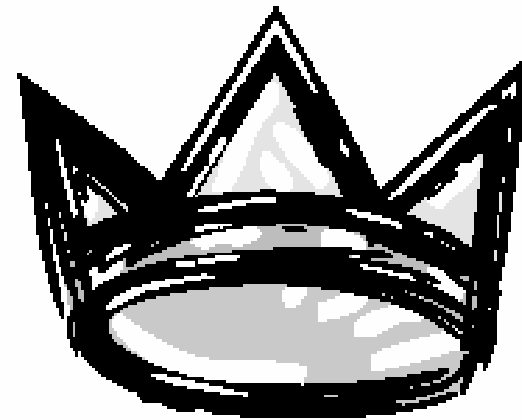


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Performance is King

- Pressure for increased profits
- Global workforce creates pressure for labor cost containment
- Shift to increased weight on costs that fluctuate with corporate performance (variable vs. fixed costs)



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Variable Pay Links to Organizational Performance

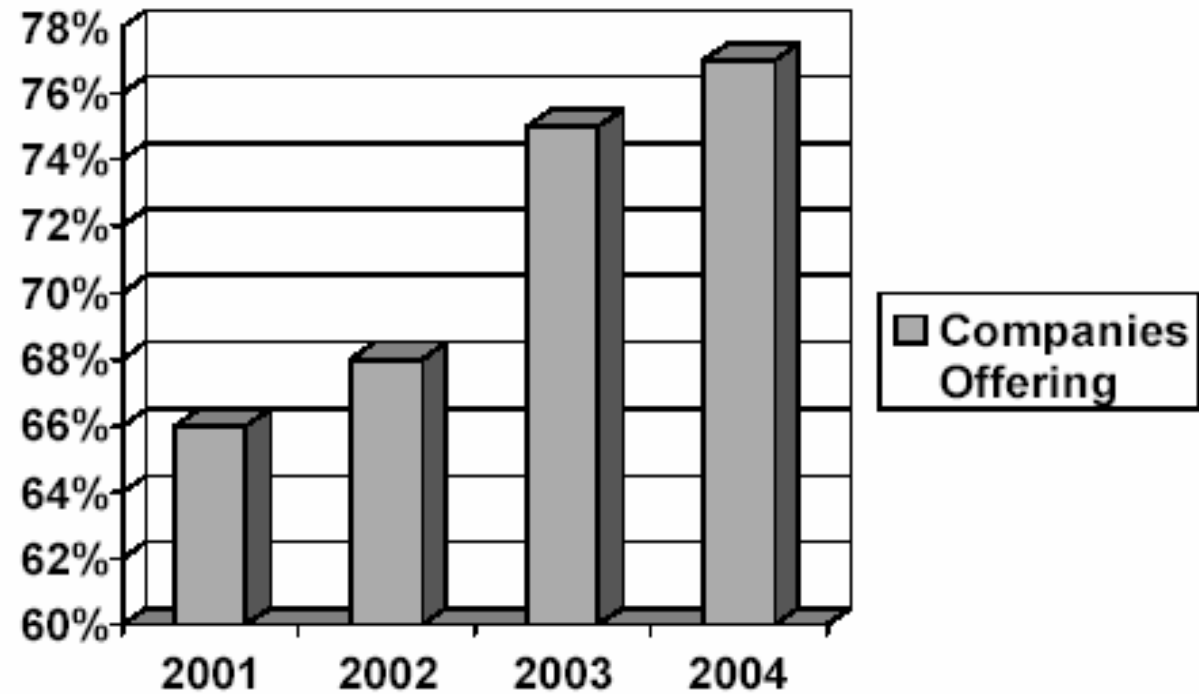
- A 2003 study by Hewitt reports that 78% of organizations surveyed believe variable pay plans helped improve organizational performance
- A 2004 study by WorldatWork reported 70% of organizations list variable pay as an important part of their competitive strategy



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Increased Use of Variable Pay



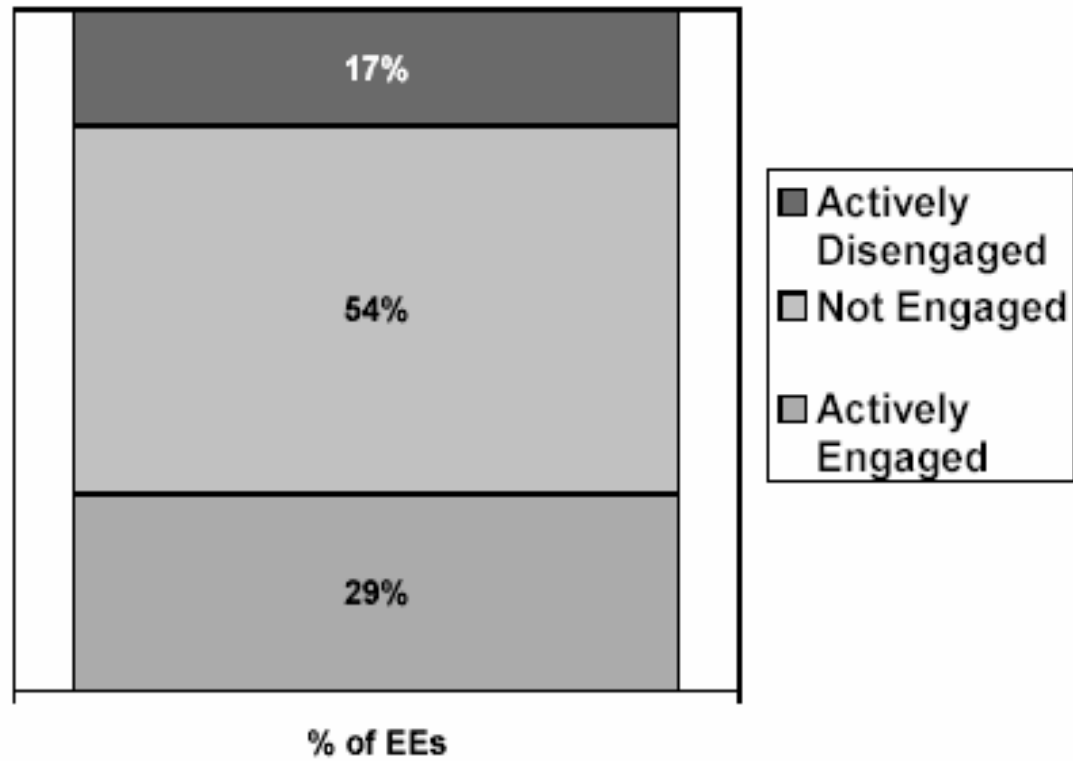
Based on 2004-2005 WorldatWork Salary Budget Survey



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Employee Engagement Survey



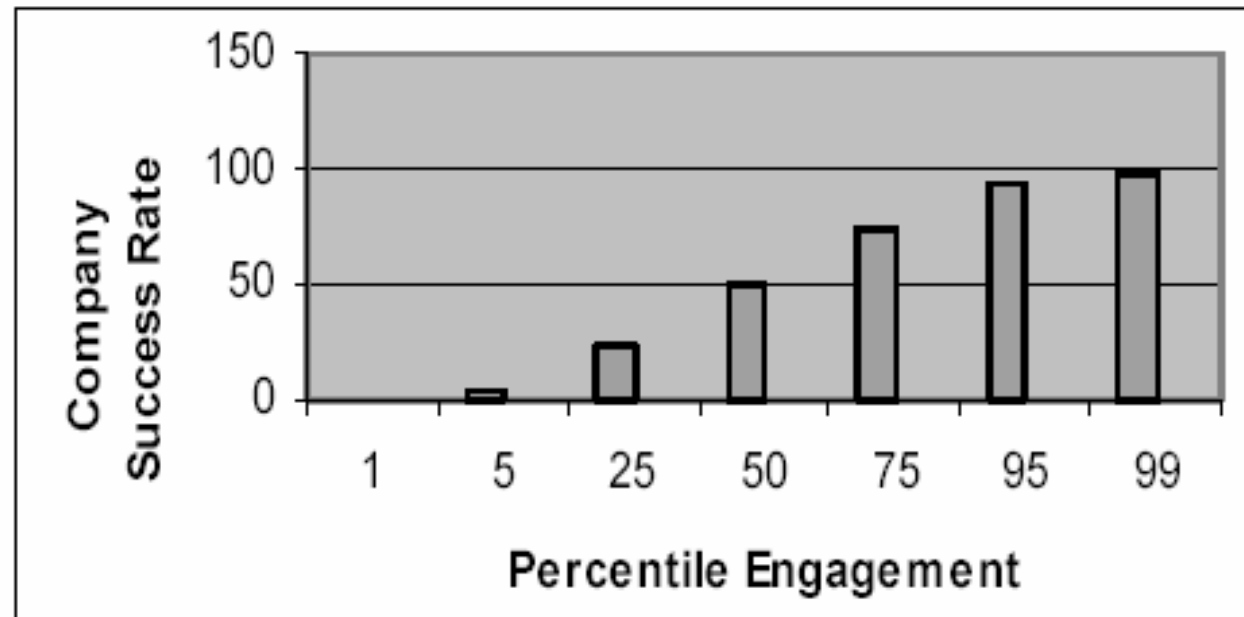
Curt Coffman, Gabriel Gonzalez-Molina, in *Follow this Path* 2002



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Employee Engagement Statistics



Source: Well-Being in the Workplace and its Relationship to Business Outcomes: A Review of the Gallup Studies

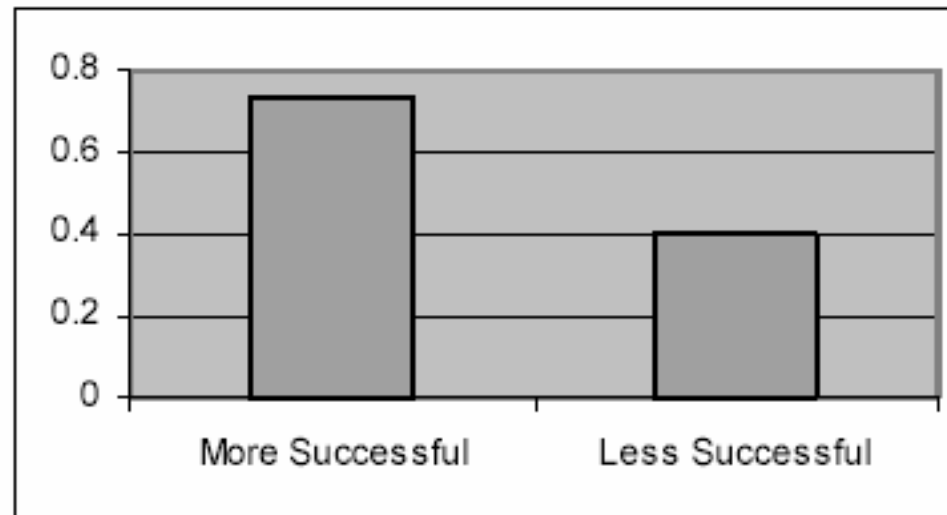


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The Incentive Link

Individual incentives are linked to communication and openness in marketing/sales



Successful Talent Strategies: Achieving Superior Business Results Through Market-Focused Staffing by David Sears 2003



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Autodesk Case Study



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Autodesk, Inc.

Autodesk, Inc. (NASDAQ: ADSK) is wholly focused on ensuring that great ideas are turned into reality.

Autodesk is the world's leading software and services company for the building, manufacturing, infrastructure, digital media, and wireless data services field with six million users worldwide.

Founded in 1982, Autodesk is headquartered in San Rafael, California. For additional information about Autodesk, please visit www.autodesk.com.



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Timing is Everything!

- Financial results had been unremarkable in recent years but cost of the bonus plan continued to escalate.
- Efforts were underway to transform the company into a High Performance Organization.
- We were implementing a Global Compensation Framework.
- The COO had expressed a desire for Business Unit plans vs. the traditional Corporate plan.



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Diversification and Growth

- Autodesk had a large number divisions/product groups – varying widely in size, market sector, and maturity.
- Corporate measures were far from the “line of sight” of many employees – and were not an accurate reflection of a given division’s performance.
- The COO wanted Business Unit Executives to feel the ‘Pain’ or the ‘Gain’ based on their results.



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Were we getting our money's worth?

- The Bonus Plan didn't change employees' behavior because of a lack of understanding of how the plan was funded and how payouts were determined.
- Funding was based solely on corporate performance didn't drive division performance/growth.
- Employee "line of sight" to corporate performance measures was generally weak.



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Global Compensation Framework

- Global Compensation Framework had been defined and we were beginning to implement the strategy.
- In the U.S., Bonus Targets were tied to salary, not grade level creating a problem in expanding the plan worldwide.
- Outside of the U.S., bonus opportunity was unevenly applied across the organization.



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New Incentive Plan Proposed



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Major Plan Changes

Funding

- Division Performance would be a component in Incentive Plan funding.

Goals

- Sales and Product Development would be aligned through shared revenue goals.

Targets

- Target bonus percentages would be based on salary grade (rather than actual salary) to facilitate worldwide expansion.

Education / Communication

- Employee financial information /education opportunities would be increased.



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Benefits

- Greater incentive for Divisions to keep pulling – even if overall corporate numbers were weak.
- Clearer employee line of sight to performance measures.
- Easier to expand – and more competitive – globally (based on salary grade).
- Greater alignment between sales & product development.
- Greater focus on driving future growth.
- Better educated & more engaged workforce.



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Risks

- Plan costs could be higher (in extreme situations).
- More complex to administer (more performance matrices).
- We could lose the 'all in this together' feeling (some winners and some losers).
- Divisions might sandbag their goals.
- Employees might fail to see how they could influence results.
- Competitors might learn of our financial goals & initiatives.
- Financial information might distract, rather than engage, employees.



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Plan Goals and Metrics

- Plan goals were set to fund the plan as close to the employee line of sight as possible without overcomplicating the plan.
- Stayed one or two levels from the top of the organization for funding:
 - Sub-Division levels could change, consolidate, or disappear during the year.
 - Kept the plan simple.



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Plan Funding

- Corporate Metrics:
 - 100% Corporate revenue growth and operating margin goals.
- Division Metrics:
 - 70% Division revenue growth and contribution margin goals.
 - 30% Corporate revenue growth and operating margin goals.
- Emerging Business Metrics:
 - 70% on Defined Growth Initiatives
 - 30% on Corporate revenue growth and operating margin goals.



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Incentive Payouts

- Plan results would drive funding of the incentive pool.
- Individual employee incentive payouts would be discretionary based on individual performance and contribution.
- Overall spend would be constrained to the total pool allocated for the business unit.



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Initiatives to Improve Employee Understanding of Financials

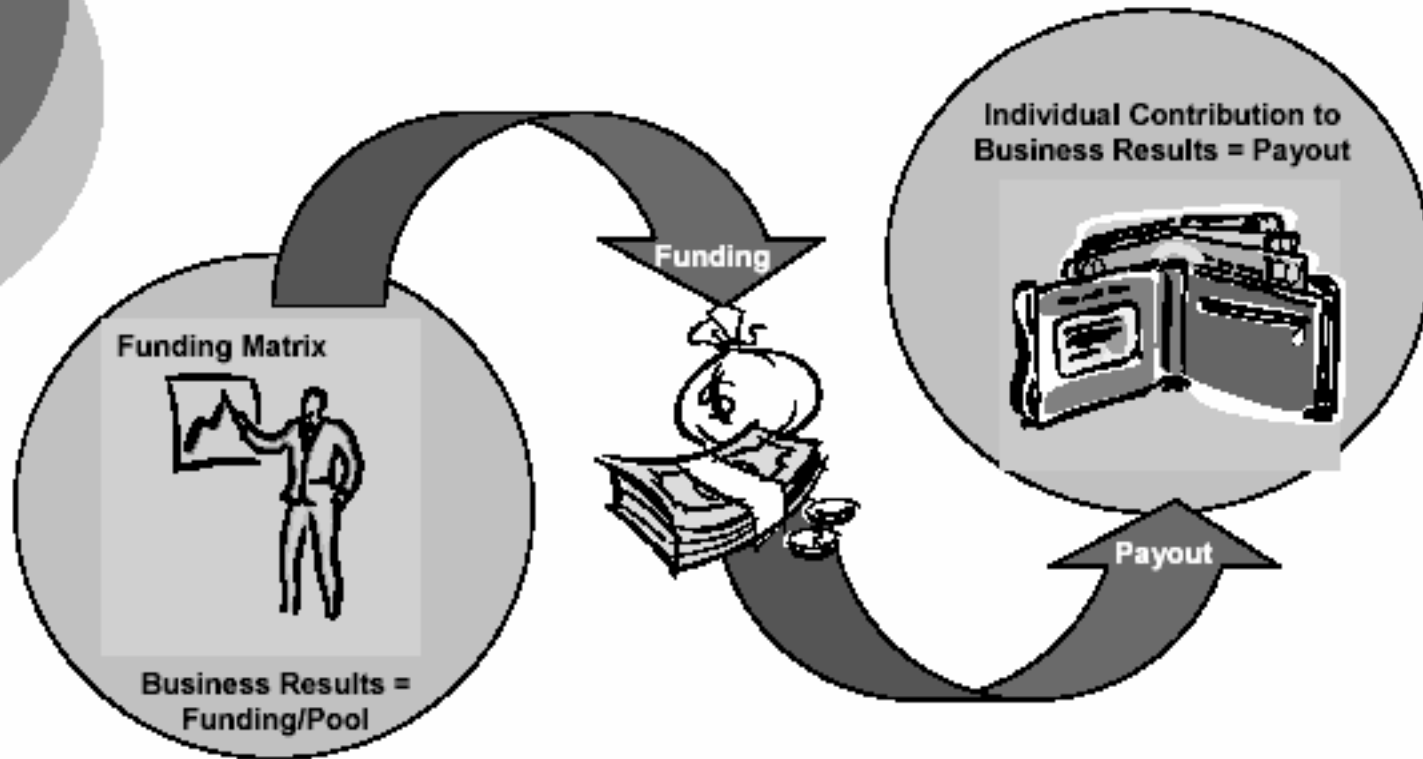
- Training would be provided to participants regarding the new Incentive program
- Following each quarterly financial release, the CFO would offer online education on an aspect of the financials.
- Financial training ("Apples and Oranges") would be offered to all employees.
- Incentive Plan Website would be launched to provide participants further information on the plan.



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Funding vs. Payouts



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Communication Was Key

- Divisional All Hands meetings to introduce the plan to participants
- Quarterly updates on progress toward goals through:
 - Divisional Executive at All Hands Meetings
 - Website updates
- Website provided real time information as employees had questions.



Website



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Employees want to know...

- How does the plan work?
- What are the plan goals?
- How are we doing?
- How do my day-to-day actions and decisions affect achievement of goals and ultimately, plan funding?
- How did you decide my incentive plan payout?



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FAQ
Funding & Quarterly Progress Reports
Incentive Targets
Payment
Plan Document
Plan Glossary
Tips for Participants

The Autodesk Incentive Plan (AIP) is designed to drive company and business unit objectives by linking incentive pool funding to the achievement of annual financial goals. Participants are tied to a group plan with goals that they have the most opportunity to influence.

```

    graph LR
      A[Your Success] --> B[Your Team's Success]
      B --> C[Your Division's Success]
      C --> D[Autodesk's Success]
  
```

Even if you are not in Sales or don't have your own budget, there are specific things that you can do that will help achieve the plan objectives. Check out [Tips for Participants](#) to find out more.

Use the links below to find out more about your incentive plan and progress to plan throughout the year. You will learn:

- ▶ What drives funding of my plan?
- ▶ How are we doing on achieving plan objectives?
- ▶ How can I affect plan funding? See [Tips for Participants](#).
- ▶ How can I affect my profit?
- ▶ What is my incentive target?
- ▶ What is a multiplier?
- ▶ Answers to other frequently asked questions.

If you are having trouble finding what you need, please contact your manager or your [HR Business Partner](#).

Site maintained by Corporate Communication.

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[Payout](#)
[Plan Document](#)
[Plan Glossary](#)
[Tips for Participants](#)

Incentive Plan Award and Payout



Following the end of year financial release, **plan multipliers** are determined based on total year results and the **targeting** for each group plan is calculated. This marks the beginning of the incentive plan award and payout process.

It's important to remember that funding does not equal your **actual payout**. Your share of the plan incentive pool depends on your **incentive target** and your individual performance. Managers are ultimately responsible for making the incentive award decision for each plan participant on their team.

There is a strong correlation between individual performance ratings and incentive awards. An overall performance rating is determined for each participant at the end of each fiscal year based on a number of factors, including:

- ▶ Overall individual performance
- ▶ Contribution to the success of the team goals and objectives
- ▶ Individual goal achievement
- ▶ Relative difficulty and importance of the goals to the achievement of business objectives

Incentive Award Payout Schedule
Annual incentive award payouts are distributed at the end of the fiscal year, typically in April. However, after the second quarter and dependent on business financial results, at the discretion of the CEO, a mid-year payment may be



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Plan Glossary

Actual payout: discretionary incentive payout based on individual performance, group performance and contribution to achievement of business goals.

Autodesk Financial Business Model: a set of spending targets for the company in areas of general and administrative (G&A), cost of goods sold (COGS), research & development (R&D), and Sales & Marketing.

Contribution Margin: Revenue minus certain Expenses. When expressed as a percentage, contribution margin dollars as a percent of revenue.

Cost of Goods Sold – also known as "COGS": includes the people and materials directly involved in shipping products to customers. Also included are royalties on the technology as well as labor costs associated with providing support and services.

Emerging Business Unit: a new business unit that does not yet have a predictable revenue stream.

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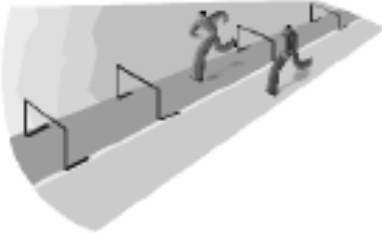
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Tips for Participants

You are a participant in your group AIP plan because you can make a difference in whether or not your group achieves its business objectives. There are three ways you can help:

- ▶ [UNDERSTAND THE HIGH LEVEL GOALS OF YOUR PLAN](#)
- ▶ [UNDERSTAND HOW YOUR ACTIONS IMPACT ACHIEVEMENT OF PLAN GOALS](#)
- ▶ [UNDERSTAND HOW YOUR GROUP IS DOING AND WHAT COURSE CORRECTIONS ARE NEEDED NOW TO STAY ON TRACK](#)

UNDERSTAND THE HIGH LEVEL GOALS OF YOUR PLAN



Each group plan includes one or two [funding matrices](#). These matrices are the basis of plan funding. When two matrices apply, each one is weighted based on the participants' ability to influence achievement of the goals.

Each matrix has two measurement categories: [Risk to Revenue Growth](#) and the

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Learn how small changes in the way decisions are made about spending lead to better operating and contribution margin



All of us have a responsibility to use the resources of the company wisely. Now that many of the group AIP plans have a large component based on business unit performance, your actions in this area will have a direct impact on results and ultimately, on the plan funding.

It's important to understand that it is just as unwise to not spend when the investment is required to achieve business objectives as it is to engage in unnecessary spending.

Following are a few ways all of us can help reduce expenses:

- ▶ Use [CTR](#) to book business travel and select the low cost option whenever schedule allows
- ▶ Use [Delta](#) for business purchases and carefully consider alternatives to get the best value for Autodesk
- ▶ Use teleconferencing and/or video conferencing instead of travel whenever feasible
- ▶ Plan ahead and take paid time off rather than accumulating hours that stay on the company books and affect financial performance

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Learn more about the company and its short and long term goals



Knowledge of the Company is a key competency for all jobs at Autodesk. If employees understand what the company is trying to accomplish with its strategy, it's much easier to make day-to-day decisions that will help the company get there. *Knowledge of the Company* also includes an understanding of our products and services, how they work and the market that they are designed to help.

Following are just a few ways to build this important competency:

- ▶ Listen to quarterly broadcasts of the company's performance by our Executive team
- ▶ Read the quarterly email message from our CEO-ask questions to make sure you understand the current situation and our future strategy
- ▶ Attend quarterly all-hands meetings at your work site
- ▶ Check out InfoSys on a regular basis to find out what's new around the company
- ▶ Attend Product Awareness Seminars to learn more about our products and the problems they solve for our customers. Seminars offered by [Autodesk Training](#)

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Learn more about the financial aspects of business



There are many different ways for the non-financial expert to learn how common financial measures help a company and its shareholders track performance, allocate money for investments in the future of the business as well as everyday operations, and reward employees and shareholders on its success. Following are just a few suggestions:

- ▶ Attend Al Castino's [Finance 101](#) following each quarterly financial release
- ▶ Check out the [Earning](#) section of the AIP website for plan metrics and quarterly updates on performance to plan
- ▶ Refer to [financial webpage](#) (glossary, education material)
- ▶ Sign up for Financial training (like "Apples and Oranges")

Learn how transforming your team into a Customer Focused Work Group leads to increased revenue



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Results



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Industry/Direct Competitor Comparison²

	ADSK	PMTC	Pvt1	Pvt2	Industry
Market Cap:	6.52B	1.48B	N/A	N/A	177.47M
Employees:	3,493	3,042	460 ¹	5,250 ¹	349
Rev. Growth (ttm):	15.40%	-1.80%	N/A	N/A	7.60%
Revenue (ttm):	1.17B	672.41M	158.30M ¹	897.00M ¹	78.00M
Gross Margin (ttm):	86.13%	73.58%	N/A	N/A	65.20%
EBITDA (ttm):	214.92M	85.73M	N/A	N/A	2.10M
Oper. Margins (ttm):	18.28%	12.15%	N/A	N/A	3.70%
Net Income (ttm):	213.34M	80.51M	30.40M ¹	N/A	132.00K
EPS (ttm):	0.873	0.293	N/A	N/A	N/A
PE (ttm):	32.52	18.67	N/A	N/A	34.46
PEG (ttm):	1.86	1.35	N/A	N/A	1.70
PS (ttm):	5.80	2.28	N/A	N/A	2.41

PMTC = Parametric Technology Corp; Pvt1 = SolidWorks Corporation (subsidiary or division); Pvt2 = UGS Corp. (privately held); Industry = Software & Programming

1 = As of 2003

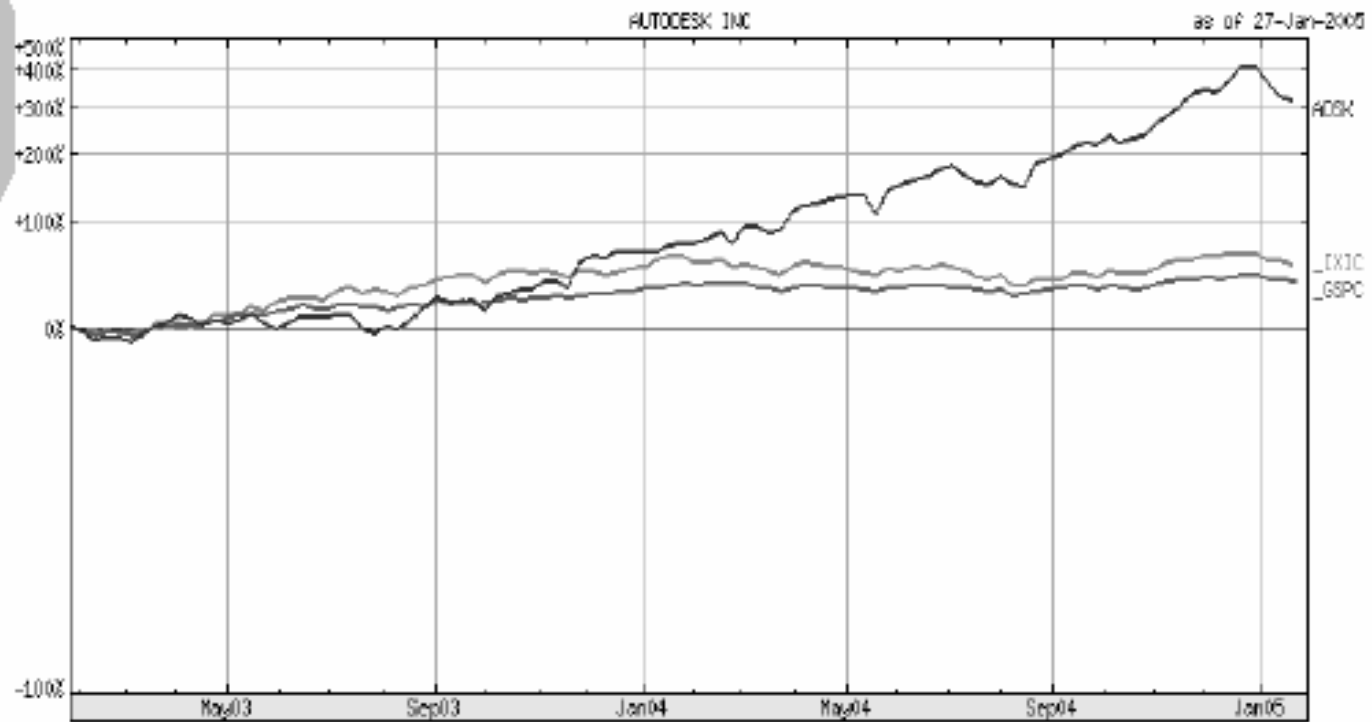
2 = From Yahoo Finance, 1/28/05



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Three Year Stock Performance



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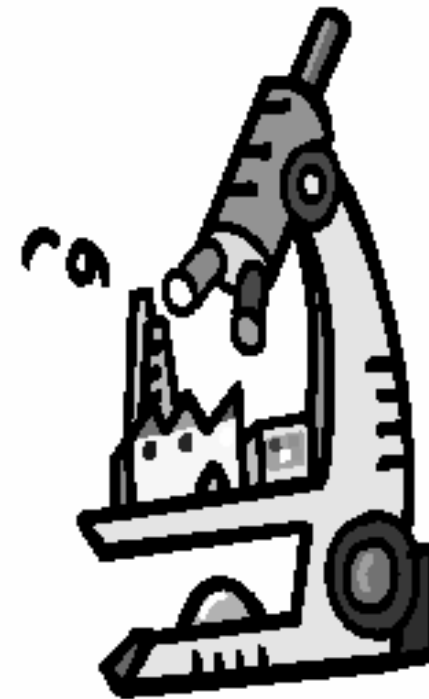


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If you think you're not getting your monies worth...

- Audit your current incentive pay plan using the attached assessment form

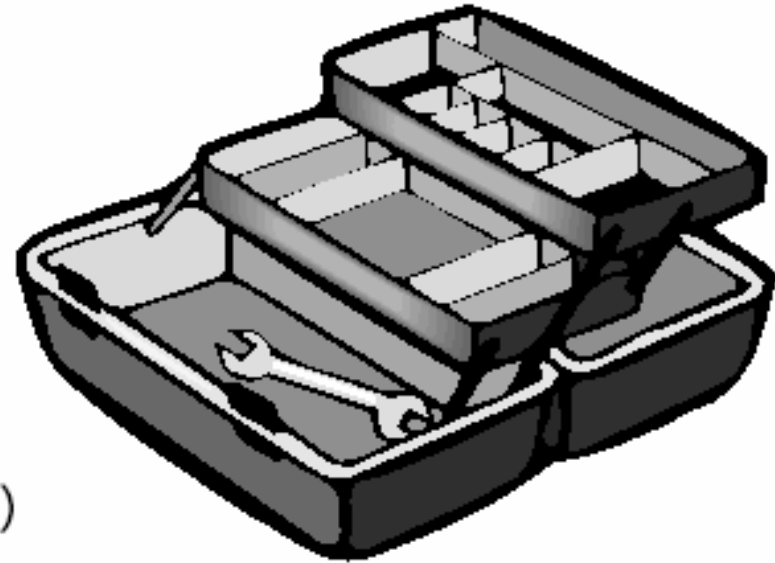


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If you want to develop a new plan

- Conduct a readiness assessment (sample attached)
- Design a new plan (steps in sample attached)



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Questions?



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