

IT Industry Slowdown Impacts Executive Compensation

Apparently the days of ballooning executive salaries in the face of sagging corporate profits are over, at least in the IT services industry. The slowdown that has gripped the IT industry for the last year has had far-reaching and significant impact. Every sector of the IT industry has felt the impact from the slowdown in some way or another, and feeling it perhaps worse than most are the industry's executives.

Specifics, Inc., has recently published its annual report that analyzes the compensation and plan structure of executives and managers in the IT services industry. A total of 68 firms responded to the survey with more than 3,000 data points. These firms are both public and private and garner more than \$9 Billion in revenue. Almost two-thirds reported revenues of less than \$30 Million, but 20% exceeded \$100 Million, thus representing a typical cross-section of the IT services industry. A large percentage of revenue was derived from staffing services, but solutions firms were also well represented.

The 2001 edition of this Executive and Management Compensation Study (EMC) shows that for many C-level positions, compensation levels through 2000 were flat to lower on a year-to-year basis when compared to 1999, and the projections for 2001 show little growth. As the slowdown has impacted various industry sectors and business models in different ways, the results can vary significantly based on geographical location and service mix. The trend with respect to company size is that the largest firms tend pay more to their executives and managers than the smaller firms.

For example, firms reporting salaries for the top position in the study, President/Chief Operating Officer, report an average overall increase in base salary of 3.0% in 2001, less than half of the increase in base compensation projected in 2000. Further, the average total salary, which includes base and incentive pay, reported in 1999 for this position was \$418.4K. The average total compensation for this position in 2000 was \$260.3K and the projection in 2001 is \$282.5K. The base salary for this position has not changed that significantly, this drastic difference is primarily the result of economic conditions that brought with them a significant reduction in the incentive portion of compensation. The median incentive was \$150K in 1999 and \$97K in 2000. The largest firms with revenue greater than \$100M provide a base so close to \$400,000 – or about two times that of smaller firms.

The median salary and incentive payments are perhaps a more accurate reflection of the industry. The absolute midpoint as reported by respondents in 2000 and projected for 2001 is about 20% less than the average. In the table below each line is the average reported as a separate item, so base salary plus incentive do not necessarily equal total compensation

	COO	CFO	SALES
2000 Base Salary	\$207,300	\$132,500	\$124,000
2000 Incentive	\$112,900	\$35,200	\$48,300
2000 Total Compensation	\$260,300	\$156,200	\$166,400
2001 Base Salary	\$213,000	\$135,700	\$128,300
2001 Incentive	\$125,900	\$57,000	\$66,500
2001 Total Compensation	\$282,500	\$174,900	\$192,200

The pinch in executive salaries is also being felt as we move further down the management chain. The average increase in base compensation for the position of Chief Financial Officer from 2000 to 2001 is 2.4%, compared to an average of 12.7% from 1999 to 2000.

Solutions firms project a decrease of 2.4% from 2000 to 2001. However, the average base compensation for CFO's in staffing firms is projected to increase 8%.

Another position that is representative of this trend is the top sales and marketing officer. In large firms, >\$100M, the average base salary in 1999 was \$201K. The average in 2000 was only \$212,8K, and the projected average base salary in 2001 for this position is \$211.3K. The average incentive payout is significantly lower than in previous years. The actual average incentive payout in 1999 was \$58K, and the actual average incentive payout in 2000 was \$48K. The average base salary for the top sales and marketing officer for all firms is projected to increase only 3.4% in 2001.

Vice Presidents and Business Unit Heads reported 2000 compensation levels between \$200,000 and \$300,000 with two-thirds in salary and the rest in incentive pay. Optimism feigns and the same pay structures are reported for 2001 even though incentive paid only about 50% of targeted levels in 2000. At target, incumbents in these positions would be paid between \$300,000 and \$400,000. The more pessimistic respondents projected 2001 incentive pay at 50% of target.

Across the board, regional and branch level positions are projected to increase base salaries 5% to 6%. Incentive plans at these levels only paid out at 50% of target in 2000, however, there is optimism that 2001 will pay out at higher levels.

With branch and account management positions, regional differences in compensation, as well as service mix, can enter into the equation. For example, the higher levels of compensation are for revenue >\$25 million, firms with a heavy mix of staffing and solutions revenue, and in the Northeast region. As shown in the table below, projections for 2001 are much more modest.

Branch Manager	Average	Maximum
2000 Base Salary	\$98,900	\$225,000
2000 Incentive	\$53,600	\$373,000
2000 Total Compensation	\$144,300	\$593,000
2001 Base Salary	\$106,200	\$240,000
2001 Incentive	\$59,400	\$275,000
2001 Total Compensation	\$153,100	\$350,000

Now that Second Quarter results are in, it looks like the incentive payments will be in line with 2000 levels, but not up to projected levels at 100% of plan. It will most likely be 2002 before there is a return to higher levels of executive and management pay. For companies seeking to hold onto key executive and management talent, it will require creative thinking to provide reasonable levels of compensation when faced with marginal financial results.

In today's e-market, managers who can stay the course and not experience severe revenue shortfalls are worth compensating at or above average market levels. The full report is available through www.specifics.com.