

# Retail Industry Incentive Plans & the Response to Economic Pressures

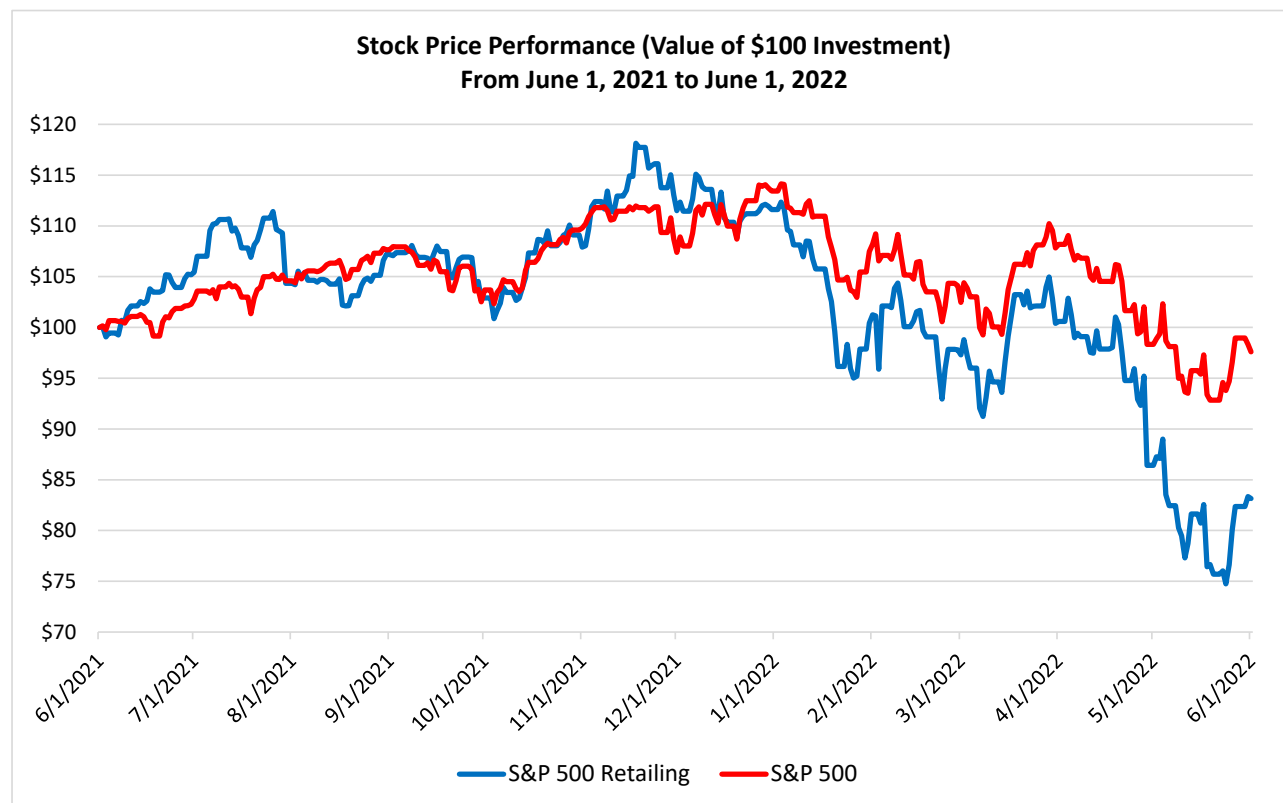
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When the COVID-19 pandemic started to spread across the United States, corporate management teams and boards initially focused on ensuring the safety of their employees and customers and stabilizing their businesses for uncertain times ahead. Shortly afterwards, Compensation Committees had to shift focus to in-flight incentive plans to ensure they remained relevant and appropriate as key priorities and company strategies shifted (although only a minority of companies made mid-year adjustments to annual bonus plans and even fewer approved adjustments to outstanding equity awards). Currently, many Committees, particularly in the retail industry, again are carefully reviewing and monitoring the impact to incentive plans resulting from current economic pressures (e.g., inflation, labor shortages, supply chain disruptions, and global conflicts).

## Retailers are Feeling the Pain

Retailers and restaurants are currently attempting to balance these economic disruptions as inflation continues to rise. While many companies have successfully navigated these challenges in the near-term, the pressure may only continue to worsen. As companies release earnings, several themes are beginning to emerge: increased supply chain costs are hampering results, margins are lower than expected due to inflation and shifts in consumer behavior, labor shortages are creating unforeseen and additional costs, and company financial outlooks and forecasts are being revisited.

While the S&P 500 is down 2% from June 1, 2021 until June 1, 2022, the S&P 500 Retailing Industry Group Index is down 17% over that same time period.



## What Does this Mean for Annual Incentive Plans?

If costs are rising, margins are shrinking, and management is lowering financial forecasts, should in-flight or future incentive plans also be adjusted? At Meridian, we are working with clients to review the status of in-flight incentives to ensure they continue to align executives with the achievement of relevant financial and operating goals.

To provide real-time insights into how these issues are being addressed, Meridian conducted a pulse survey of our retail and restaurant clients in May 2022. We collected information on past discussions and upcoming decisions related to annual incentive design in response to current economic pressures.

## Key Findings

- 15% of our retail and restaurant clients intend to make an adjustment to the annual incentive plan before year-end or are currently discussing adjustments; the rest are taking a “wait and see” approach or have decided that changes will not be made.
- 90% of companies have a 12-month performance period for the annual incentive plan (or at least a portion of the plan is based on a 12-month performance period).
  - 10% of companies have at least a portion of their plan tied to four, 3-month performance periods.
  - 10% of companies have at least a portion of their plan tied to two, 6-month performance periods.

*Note: These percentages total to more than 100% as some companies use both a 12-month performance period and a period of less than 12-months for different employee populations or metrics.*

- Of the companies with shorter performance periods, only 25% of the companies moved to this structure for the first time this year, while others have either continued a design implemented earlier in the pandemic or have maintained a legacy program design with shorter performance periods.

## Looking Ahead

As boards and management continue to witness the company-wide impact of inflation, supply chain disruptions, labor shortages, and global unrest, it will be vital to understand how these factors affect operations, company results, and the effectiveness and potential payouts of annual incentive plans. Meridian will continue to monitor our clients' decisions and provide periodic updates throughout the year.