Monetary Bonus Programs: Now Is the Time to Sit Down and Review Them

Dennis McCarron

At about this time of year, small business owners around the U.S. should be looking at their employee bonus program structure to see if the current system is driving the results intended and is keeping payroll in line with net profit expectations.

Here is a review of some common bonus programs, their advantages and disadvantages, as well as a suggestion to at least consider.

Most retail or selling businesses establish a wage that is below market value with incentives based on performance that will increase the employee's total compensation above market value. These incentives are designed to help the employee as long as the company outperforms expectations as well. For hard workers with the ability to lead others and sell service and tires, this is an exceptional agreement.

What to pay on (and avoid)

One common method of bonus is a percentage of sales. The advantage of this program is that it is easily tracked under any program.

Disadvantages are aplenty. Bonuses based on sales do not distinguish among what naturally "walked through the door" and what was sold in addition to the customer's original request. Sales bonuses are empty bonuses as well. A salesperson whose bonus is based on sales could conceivably sell something below cost and get paid additional earnings for it.

A better way to compensate the manager and/or sales staff is on gross profit. Front line sales have the direct ability to not only affect sales, but also their margin of profit based on customer needs. Selling at a profit is a win-win for the employee, the company, and in reality the customer.

An owner could structure the bonus payout on gross profit dollars achieved, a certain payout on a certain margin achieved, or a combination of both. One caution is to never overpay. It is far better to start a program off small and increase it if it works than to start too ambitiously and have to pull back on it later. Also, do not forget that hourly employees must be paid an overtime premium on a bonus if they worked more than 40 hours.

For managers, there is also the consideration of achieving gross profit targets within a specific amount of payroll. Since managers are directly (or should be) in control of how much payroll is spent generating sales, they should be rewarded for doing so within a certain amount — and in this instance, I believe, should be punished (bonus deduction) for going too far out of line. When you set your payroll goals, anything outside of 5% is careless, and the business needs to recoup that loss.

To balance a bonus-pay plan, one might also choose to have small incentives outside of gross profit such as car count, Yelp reviews, Facebook likes, and other CRM (customer relationship management) markers.

When to pay

There are many options here, all with pros and cons. If you pay out weekly or monthly, there is a good chance by the end of the year you will have paid out more than you anticipated due to swing months where performance drops. In other words, months where you may have reduced some payouts.

You can't end a week and tell employees they owe you money. However, if you wait too long to pay on a performance, employees are likely to disassociate their performance with reward.

In today's age, employees expect their reward to be almost instantaneous. The carrot and a stick method was disproved long ago.

So what to do? My suggestion is to balance small, quick payouts with accumulative larger payouts. For example, weekly car count goals can be met and paid in, say, $50 increments, or unit sales of a particular brand or overstock.

Who to pay and how

Antagonistic bonus programs have very little advantages. These are the types of programs that pit one employee against another. Pay one employee for tire gross, another for volume. Pay one for car count, another for average RO.

I'm sure there's also a fair number of owners who have experienced "That's my ticket — he stole it!"

The solution? A structured payout that builds on each other. For example, a store manager is paid X dollars for gross profit, X dollars for tire units and X dollars for tire margin. An assistant or service manager is paid 25% of the payout of the manager, and sales staff is paid out 5% of the store manager. Each can have their separate mini payments of car count, payroll, CRM, etc.

Dennis McCarron is executive director of Dealer Strategic Planning Inc., a company that manages multiple tire dealer 20 Groups in the U.S. (www.dsp-20group.com). To contact McCarron, email him at dennis@dsp-20group.com.