THE INCENTIVE PLAN THAT REALLY WORKS

A successful and positive incentive program can become a reality when you follow a few basic rules.

By Paul Erickson

Nearly every retailer that I have worked with has asked me at some point if I can help them develop an effective incentive structure that is also simple to manage. The answer is yes, but there are some basic rules that must be followed for a bonus plan to work.

Begin by deciding what you are trying to accomplish. Are you creating a program for the sales staff, the buying department or the management personnel? A one-size-fits-all approach may not work for all three. In some stores, these positions may even be combined. For the purpose of this discussion, let's focus on a buyer/manager scenario. We will assume that the buyer in this case is responsible for the department's sales, assortment and quantity of products being offered, maintained margin and shrinkage.

When introducing any incentive plan, it is important to make certain that the rules are attainable and measurable, and simple to understand. A plan that is too complex or loaded with caveats and disclaimers soon takes on an almost "gotcha" like feeling. Keep it simple and straight forward.

Remember, the goal is to reward an employee that has achieved his or her corporate goals. Programs laden with loopholes or "outs" for the employer only serve to reduce morale and are therefore counter productive. Make sure the goals set are realistic. Sure, you want to challenge and grow, but creating an unattainable target may in fact cause the employee to dismiss the plan altogether. Benchmark numbers must be objective not subjective; they must also be measurable. A point-of-sale system or merchandise planning program that captures this data may be credible sources from which to derive needed data.

I once developed a program for a store that had a rather significant payout if everyone achieved their preset goals. When the program was first proposed however, the owner explained that there was no way such a rich payout would ever get his support. "We've never done anything like this before," he said. "What if we can't pay the bonuses?" What finally won his approval was the fact that the program had built in safeguards. If objectives were not attained, bonuses would not be paid.

If, on the other hand, all initiatives were met, the increase in sales and profitability would offset the generous payout several times over. What he soon discovered was that his employees became more motivated and more enthusiastic about their jobs. They actually became engaged in the process which was the ultimate reward. They seemed to embrace the structure the plan provided as well as the potential of monetary gain.

I prefer a four-part program because it satisfies all required objectives and is a win-win situation for the store and the employee. The four parts of the program are as follows: sales, maintained markup, turnover and shrinkage. Each component is worth a certain dollar value. The dollar amount is arbitrary, but needs to be something substantial. I will use $1,000 to illustrate how this works.

The owner and the employee arrive at a sales goal for the upcoming year that fits into the company's overall growth plans. Previous sales history will be helpful in establishing these goals. A maintained markup goal is then agreed upon followed by a turnover objective for the classification, department or store. A shrinkage percentage is the final piece of the puzzle. At the end of the year, bonus money is awarded for all met objectives. If an employee achieves all four objectives, he/she would then receive $4,000. If only two objectives are attained, then only $2,000 will be paid out.

Encourage the Kicker

I have experimented with variations of this premise that work well. One idea is to use GMROI (gross margin return on investment) as a substitute for either the turn or margin objectives if it works in the employee's favor. This gives the plan added flexibility as the employee can substitute the achieved GMROI goal if either the turnover or margin goals have been missed.

Another option is an additional bonus, which I refer to as a "kicker." If all four objectives are met an additional $1,000 "kicker" is paid bringing the total bonus payout to $5,000. If three out of the four points are met, the "kicker" is $500. If fewer than three goals are met, there is no additional bonus money available. The "kicker" encourages focus on all facets of the plan.

Checks and Balances

A common mistake on incentive plans is to pay on sales only. This can be disastrous if the sales are generated through markdowns or aggressive discounting. If the store pays on gross margin or maintained markup only, there is no incentive to improve turnover and therefore cash flow. If turnover is the only consideration, the objective might be reached at the expense of margin. A combination of sales volume, margin improvement and turnover protects the store, thus ensuring profitability, while providing incentive to the employee.

Review in Private, Pay in Public

Always conduct the review when you say that you will. Employees expect this and count on it. Review should be conducted privately and should not be put off. Areas in need of improvement should be addressed at this time. For future reference, it is a good business practice to keep signed and dated copies of each review within an employees personnel file.

Remember the saying your mother taught you about it being better to give than to receive? You now get the best of both worlds. The fact that you are paying bonuses at all indicates some level of success. Too many stores miss the opportunity to celebrate employee achievements. Make the payout a celebration. What better way to instill morale than to recognize an employee in front of his or her peers for a job well done. Perhaps a staff meeting or even a rewards dinner including significant others might be in order. The ultimate goal should be to pay out maximum bonuses to all eligible parties. If you are able to do this, you will not only be rewarding the employees that helped you achieve the corporate goals, you will be setting the stage for even greater results in the future through the motivation, recognition, and job enrichment that a well managed incentive program offers.

Paul Erickson presently serves as senior vice president, client services, of RMSA Retail Solutions. RMSA provides retail consulting and forecasting services to independent retailers. Paul and the RMSA team can be contacted at 800.727.7672 or info@rmsa.com.

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