DANGLING THE CARROT

Incentive plans: whether or not they're right for you depends on what your long-term goals are.

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MANAGEMENT IN BUSINESS

Incentive plans are key elements in the continuing growth of many service industries. Most firms have at one time offered employees an opportunity to make money above the annual salary with an income plan known as bonus or incentive.

These plans are used in order to achieve goals that may not have been reached with standard compensation. In 1985 many lawn service firms abandoned the use of incentives for their workforce, learning the hard way that employees depend on that extra income as a total part of their compensation.

Thus, when choosing an incentive plan, you need to gauge not only its long-term impact on your company but also the compensation expectations and needs of your employees.

Incentive plans currently used in the green industries are either group or individual plans.

There are times when one type of plan is preferable but for most firms a combination of the two works best.

Individual plans

The customer growth plan compensates employees for increases in new customers. The compensation, usually in the $10-20 range per new customer, is spread over the fiscal year.

It allows for customers who cancel or do not take the full program and also helps assure employee retention.

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In maintenance and construction businesses this plan rewards employees with a percentage of the day's revenue.

Pros: All employees hustle to follow-up leads; cold sales calls become more acceptable to employees; customer call-backs to close a quote become more valuable.

Cons: Increased office record-keeping pressure; technicians may close sales not on their route resulting in potential problems if a customer cancels due to poor service; if plan limits a technician to only customers in their route area, plan may discriminate due to quality of potential customers remaining to be obtained; payouts may be so small that employees' interest is lacking.

Setting goals

Another plan involves an individual establishing yearly goals. Ideally these goals should be quantifiable so that both employee and management can agree on how and when they are to be accomplished.

The compensation in this system is set by management and should be based on the goals and their attainment.

The maximum possible compensation should be the same for each individual in the plan. Payoffs seen have ranged from $500-1,500.

Pros: Individual is in complete control of his or her own goal accomplishment; the incentive is sizeable enough to encourage employee involvement; route location or size of customer base does not affect one's ability to earn an incentive.

Cons: Employee dissatisfaction with plan can arise if significant differences exist in the goals for different employees; it takes a year to learn what the payoff for the year will be; due to the variability of goals, it may be harder to manage the company; record keeping can develop into a complex nightmare.

Performance plan

This plan rewards employees based on a mix of services performed each week or month. Various weighted factors are multiplied times the services an employee performs to determine a weighted work effort for the period.

Based on some published table, additional income is earned by the employee for effort over the base minimum performance criteria for the period.

Payouts usually are awarded monthly and range from 1-10 percent of a worker's pay during the period.

Designing this plan takes more time than with others but it seems to receive the greatest acceptance once implemented.

Pros: Frequent payouts resulting in a better motivated workforce; employees earn credits toward bonus payments for all duties performed in the course of the period; individual controls ability to earn better than average pay for services performed; individual can be motivated by peer pressure to increase performance to earn more money.

Cons: Periodic rewards may be so small that they fail to motivate; table of rewards can be set so high only one or two employees in a firm will earn any money in a given period.

Group Plans

The customer pay period plan pays an incentive for attaining certain customer levels at the end of a fixed period of time.

The current trends are to set

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payoffs at the end of April, July, and November. For lawn maintenance companies the fixed periods need recalibrated to correspond to the mowing season in your market.

The annual payment monies generally range from $250-1,000.

Pros: Team effort is necessary; office personnel can easily be included in this plan; periodic payments keep workforce motivated; payouts are financially significant.

Cons: Individual stars are treated just like everyone else in the payouts; plan may not recognize dynamic growth results in the super year; external forces can destroy any chance of rewards under the plan.

Direct profit

This plan rewards employees for meeting or beating the budgeted direct profit of a business for a month or longer period.

A percentage of the increased performance above the projected direct profit is shared with the employees. The payouts early in the work year are usually only a percentage of the total payment an individual would receive for the entire year.

For example, the direct profit amounts to $10,000 over projected budget for the first quarter. Employees would be entitled to l0 percent or $1,000.

However, at the end of this period only 20 to 30 percent of this compensation would be paid. The remainder would be paid out at the end of the year when final accounting is done.

Pros: Gets employees concerned with the profitability of company; involves the employees with more than revenue generation; encourages team effort of all individuals who may affect the direct profit line; provides periodic payouts to keep workers motivated.

Cons: May not drive employees to achieve customer growth goals desired; service quality is prone to deteriorate; payoff for stars may not keep the best personnel for the future.

Assessing costs

The key to choosing a plan is to assess the costs involved as well as the reason you want to put a compensation plan in place.

Usually the first is done but the second is forgotten. The plans should help motivate the employees as well as generate growth for the company.

Be sure that you are attentive to not only how to prepare a compensation plan but also to why you are installing a plan. Your company will benefit in the future. **WT&T**