

Building a Bonus Program Outline

**Step One: Establish the behaviors and results you want to reward**

Examples Team Work or Individual Efforts with Growth – Profit – Safety – Customer Retention

Note: It will take 10%-20% of Base Pay to help drive the needed motivation to achieve the desired goals

This range could be lower or higher depending on the position: Gardener to Top Management

**Step Two: Determine the pool source**

Either from Revenue – Gross Margin/Profit – Net Profit

**Step Three: Determine % from one of the sources to be used**

* Typical starting ranges: 8%-12% Revenue, 2.5%- 5% Gross Margin, 10%-15% Net Profit
* Note: Start with a 10% of Net Profit as a base then move from there.
* Remember: You can always go up on these but going down can and will cause severe angst

**Step Four: Establish Company Safety Valves and Minimum Criteria**

* Achieve a minimum Net Profit either as percentage or multiples of bonus dollars IE 3x-4x
* Or a minimum GM % along with minimum growth levels as a percentage or by dollars
* If these are less than needed then re calibrate / reduce bonus dollars proportionately
* Must be employed at the time of distribution
* Payout date or dates (usually after full P and L has been completed) 2 months after close of year
* Can be changed each year / modified
* Add Accounts Receivable into equation with > 90 days deducted from bonus pool as percentage of Net Profit then use that percentage to subtract from Gross Margin dollar bonus pool
* Run several scenarios of your program to determine all or most possibilities to see if it works!

Example: AR $ over 90 days divided by Net Profit $ = \_\_\_\_%

Take \_\_\_\_\_% X Gross Margin Dollars = These $ are then deducted from the Gross Margin bonus pool

**Step Five: Determine if this is by individual results or by team results**

For multiple branch companies determine if it’s by branch or by the whole company and for individual stand alone companies determine if bonuses are by individual efforts or by overall team effort

**Step Six: Determine who is in the program and Establish Distribution**

Example: Senior Leadership 30%; Middle Managers 30%: Field Supervisors/ Top Support 20%

Crews 10%; Staff 10%

**Note:** Often Sales People or Business Developers are separate from this program and their Incentive plan is based on revenue sold. This incentive payout can be by a percentage of revenue and possibly achieving the desired GM in some cases. The range is 1.5% - 5% depending on the type of sale. Start with a total cost of sales to be 8%-12% as a general rule. This includes base salary plus incentive.