

Simple Numbers Approach to Compensation and Incentive Plans for BrightStar Franchises

Slides at:
Simplenumbers.me/brightstar

by
Greg Crabtree

Greg.crabtree@crbcpa.net

256-704-0620

Simple
Numbers[™]
PROFIT + PURPOSE = IMPACT

FOREWORD BY **VERNE HARNISH**, CEO, GAZELLES, INC.,
AUTHOR, *MASTERING THE ROCKEFELLER HABITS*

SIMPLE NUMBERS,

STRAIGHT TALK,

BIG

4 KEYS TO UNLOCK YOUR
BUSINESS POTENTIAL

PROFITS!

GREG CRABTREE

WITH BEVERLY BLAIR HARZOG

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Overview

- **Market Based wage management process**
- **Incentive models**
 - **Design to pay only when true gain has been achieved**
 - **Gain sharing with teams vs individuals**
 - **Key drivers to model**
 - **Integration with “Rocks”**

Simple Numbers... Straight Talk... Big Profits

4 Keys to Unlock Your Business Potential

- Your data is lying! - Why how you deal with Owner's compensation is distorting your data
- Profit matters more than you think – How to set the right profit targets for your business
- **Labor Productivity drives you profit engine – How do measure it and improve it**
- 4 Forces of cash flow – Get the priorities right to set your business on a solid foundation

What drives performance?

Teams with unequal pay won fewer games when pay differences were not connected to performance. But they won more games when differences in pay were based on players' contributions.

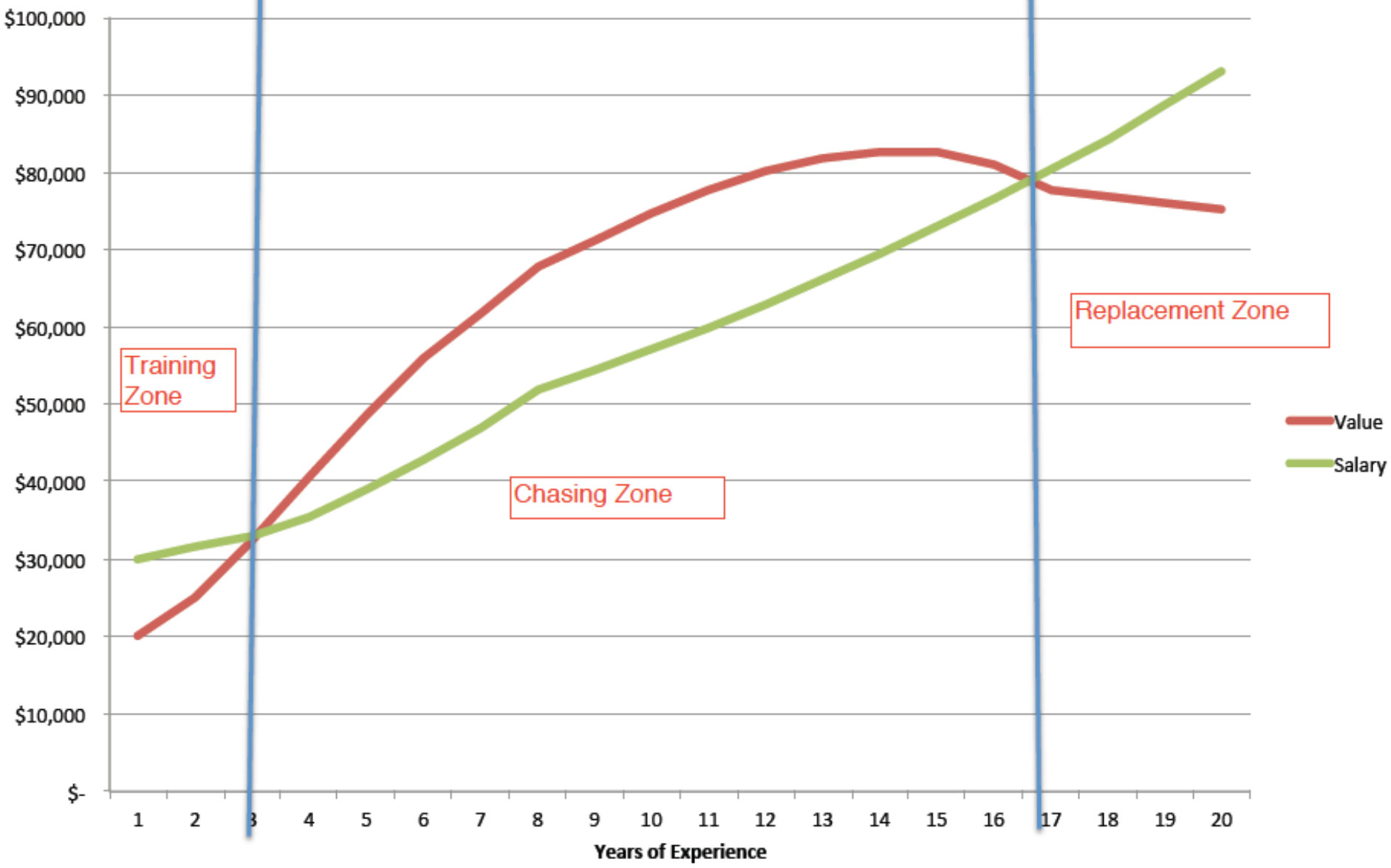
Equity matters more than equality. Differences in pay aren't a problem as long as they're fair. When players are paid less than teammates who aren't performing any better, jealousy, resentment, and discouragement often follow. When they're paid less than teammates who deliver more value, they understand.

Source: Adam Grant is a Wharton professor and the bestselling author of [Give and Take](#). [Sign up for his free newsletter at www.giveandtake.com](#)

Principles of Market Wages

- Create your own “market wage scale”
- Compare productivity by team member if possible
- Evaluate teams in total performance
- Adjust wage scale before adjusting individual wages
- No “cost of living wage adjustments”
- Raises based on moving up a level or scale increase

Career Labor Efficiency Curve



Sample Wage scale

CRB			
Payscale			
2015			
	Salary	Hourly Rate	Net Revenue
Administrative Asst			
Level 1		10.00	
Level 2		14.00	
Level 3		15.00	
Level 4		16.50	
Firm Administrator			
Level 1	62,000.00		
Level 2	69,000.00		
Level 3	77,000.00		
Level 4	87,000.00		

Sample Wage scale

			Reg 2080	OT 200
Non-degreed Accountant				
Level 1	31,500	\$	13.24	78,750.00
Level 2	34,500	\$	14.50	86,250.00
Level 3	38,600	\$	16.22	96,500.00
Level 4	42,700	\$	17.94	106,750.00
Degreed Accountant				
Level 1	40,000	\$	16.81	100,000.00
Level 2	43,000	\$	18.07	107,500.00
Level 3	47,000	\$	19.75	129,250.00
Level 4	55,000	\$	23.11	151,250.00
Degreed CSM (assumes MBA, CMA or CPA)				
Level 1	55,000	\$	23.11	151,250.00
Level 2	65,000	\$	27.31	195,000.00
Level 3	75,000	\$	31.51	225,000.00
Level 4	90,000	\$	37.82	270,000.00
Level 5	105,000	\$	44.12	315,000.00

SALARY ASSESSOR

Individual Position Profile

Business Development Director

Estimated Survey Mean Annual Base Salaries

All Incumbent Average: \$105,824

Years Of Experience	10th Percentile	Survey Mean	90th Percentile
18	103,615	124,406	149,210
9	88,025	105,824	125,849
1	70,928	85,028	101,167

Specifications

Prepared For: Integrated Landscape Management, LLC

Area: Phoenix, Arizona

Industry: Landscape and Horticultural Services

Industry Codes: eSIC: 0780, NAICS: 115110, usSEC: 0700

Organization Size: (Data reported by years of experience)

Planning Date: December 3, 2014

Database as of: July 1, 2014

Annualized Salary Trend: 1.90% (Adjustment: 0.79%)

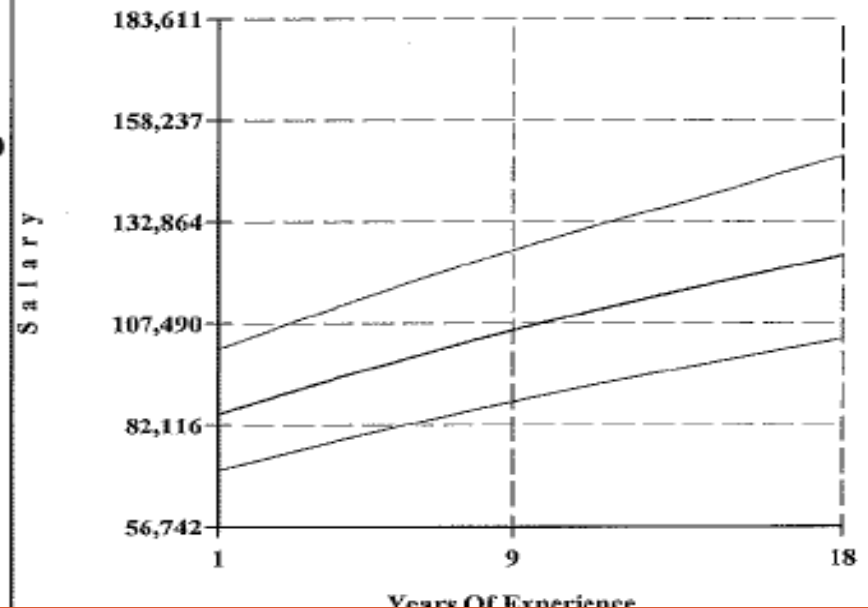
eDOT: 189.117-001

SOC: 113031

Printout Date: December 3, 2014

ERISA File:

Annual Base Salaries Graph



Sample Wage Survey

MARKET ANALYSIS

Position Description

Business Development Director

ERI Survey Code: 220146 **Business Development Director**

Alternate Titles

Director Long-Range Planning; Long-Range Planning Director; Planning Director Long-Range; Planning Long-Range Director; Strategic Planning Director

Overview

Directs planning, research, and analysis of organization's objectives, long-range planning, business opportunities, and business development activities, including mergers, acquisitions, and divestitures.

Develops, coordinates, and implements plans and research projects to improve and expand the organization's strategic market position and to achieve growth and financial profitability.

Getting to 10%+ Pre-Tax Profit

- Know your current capacity
- Being Profitable and Maintaining Market Share can be better than growth
- Remember, 10% is the new breakeven
- Incentives count towards profit target!

BrightStar P&L Examples 2013

	Company 4	Change	Revised
Revenue	1,768,625	132,248	1,900,873
Cost of Goods Sold	6,765		6,765
Gross Margin	1,761,860	132,248	1,894,108
as a % of sales	100%		100%
Direct labor	901,956	-	901,956
Direct Payroll Taxes & Benefits	209,155	-	209,155
as a % of sales	51%	-3.55%	47%
Direct LER	1.95	0.15	2.10
Contribution Margin	650,749.00		782,996.60
as a % of sales	37%		41%
Operating expenses:			
Facilities	36,483		36,483
Royalty	99,620		99,620
Marketing	47,553		47,553
Management Labor	241,542		241,542
Payroll Tax and Benefit	72,896	(36,665)	36,231
Other Operating Expense	100,590	(30,000)	70,590
Total operating expenses	598,684		532,019
as a % of sales	34%		28%
<i>Management LER (compared to CM)</i>	2.69		3.24
Net operating income	52,065	198,912	250,977
as a % of sales	3%		13%
Total other income (expense)	(19,456)		(19,456)
Net Income	32,609	198,912	231,521
as a % of sales	2%		12%
Key Factors			
Marketing (as % to sales)	3%		3%
Payroll Taxes and Benefit - Direct Labor	23%		23%
Payroll Taxes and Benefit - Management Labor	30%		15%
Other Operating Expense (as % to sales)	6%		4%
Contribution Margin/Marketing\$	13.68		16.47
Direct LER	1.95		2.10
Management LER	2.69		3.24
Management Salary & Benefit Cap	17.8%		14.6%
Net income %	2%		12%
Revenue \$	\$ 1,768,625		\$ 1,900,873

Company 4 Changes

- Improve Direct LER
- Management Payroll Taxes & Benefits
- Discretionary Expenses
- For a 10% target, maximum incentive payment would be \$40,000
- Operating expenses are more controllable and predictable than Contribution Margin
- If you hire more Management Staff, CM target must be reset

Principles of Incentives

- Outcome must produce a win/win scenario
- Needs to be relatively simple to calculate and is based on a true “driver” metric that can be significantly influenced by the recipient (we like contribution margin)
- Establish Minimum, Target and Stretch and reset scale each year
- Base Target as a % of Base pay
- Payout Quarterly but back end load

Single Factor Executive Incentive Plan

Incentive Plan						
Base	\$	50,000				
Bonus	\$	5,000	10%	of base salary		
Total	\$	55,000				
Bonus components			Weight	Results	Attainment	Amount
Contribution Margin			100%	\$ 760,000	40%	\$ 2,000
Discretionary			0%		100%	\$ -
						\$ 2,000
				Performance		
Q1		20%	\$ 400	\$ 201,250.00	Base	\$ 50,000
Q2		20%	\$ 400	\$ 402,500.00		
Q3		20%	\$ 400	\$ 603,750.00	Total Comp	\$ 52,000
Q4		40%	\$ 800	\$ 805,000.00		
			\$ 2,000			
Payment Recap:						
1st Qtr		-				
2nd Qtr		-				
3rd Qtr.		-				
Total Paid		-				
Total Bonus Due		2,000.00				
4th Qtr. - To be Paid		2,000.00				

Single Factor Executive Incentive Plan

				Cumulative Targets		
				Q1	Q2	Q3
Scale	Increments					
		\$ 7,500				
		\$ 8,000				
Performance Goal	Contribution Margin					
Minimum Acceptable Performance	\$ 730,000	0%		\$ 182,500	\$ 365,000	\$ 547,500
	\$ 737,500	10%		\$ 184,375	\$ 368,750	\$ 553,125
	\$ 745,000	20%		\$ 186,250	\$ 372,500	\$ 558,750
	\$ 752,500	30%		\$ 188,125	\$ 376,250	\$ 564,375
	\$ 760,000	40%		\$ 190,000	\$ 380,000	\$ 570,000
	\$ 767,500	50%		\$ 191,875	\$ 383,750	\$ 575,625
	\$ 775,000	60%		\$ 193,750	\$ 387,500	\$ 581,250
	\$ 782,500	70%		\$ 195,625	\$ 391,250	\$ 586,875
	\$ 790,000	80%		\$ 197,500	\$ 395,000	\$ 592,500
	\$ 797,500	90%		\$ 199,375	\$ 398,750	\$ 598,125
Target Performance	\$ 805,000	100%		\$ 201,250	\$ 402,500	\$ 603,750
	\$ 813,000	110%		\$ 203,250	\$ 406,500	\$ 609,750
	\$ 821,000	120%		\$ 205,250	\$ 410,500	\$ 615,750
	\$ 829,000	130%		\$ 207,250	\$ 414,500	\$ 621,750
	\$ 837,000	140%		\$ 209,250	\$ 418,500	\$ 627,750
	\$ 845,000	150%		\$ 211,250	\$ 422,500	\$ 633,750
	\$ 853,000	160%		\$ 213,250	\$ 426,500	\$ 639,750
	\$ 861,000	170%		\$ 215,250	\$ 430,500	\$ 645,750
	\$ 869,000	180%		\$ 217,250	\$ 434,500	\$ 651,750
	\$ 877,000	190%		\$ 219,250	\$ 438,500	\$ 657,750
Stretch Performance	\$ 885,000	200%				

2 Factor Executive Incentive Plan

Compensation Plan					
Executive Name					
Base	\$ 170,000				
Bonus	\$ 42,500	25%	of base salary		
Total	<u>\$ 212,500</u>				
Bonus components				Attainment	Amount
Contribution Margin \$		60%	\$ 2,240,000	100%	\$ 25,500
CM \$ Override		4%	\$ -		\$ -
CM per Labor \$		40%	\$ 1.98	0%	\$ -
Discretionary		0%		100%	\$ -
					<u>\$ 25,500</u>
Q1	10%	\$ 2,550		Base	\$ 170,000
Q2	20%	\$ 5,100			
Q3	30%	\$ 7,650		Total Comp	\$ 195,500
Q4	40%	\$ 10,200			
		\$ 25,500			
Payment Recap:					
1st Qtr	-				
2nd Qtr	-				
3rd Qtr.	-				
Total Paid	-				
Total Bonus Due	25,500.00				
4th Qtr. - To be Paid	<u>25,500.00</u>				

2 Factor Executive Incentive Plan

	Increments				
	\$	50,000			
	\$	50,000	0.05		
Performance Goal	CM\$	CM\$/PR\$		NOI After Bonus	
Minimum Acceptable Performance	\$	1,735,000	1.98	0%	354,185.35
	\$	1,785,000	2.03	10%	385,900.00
	\$	1,835,000	2.08	20%	417,784.62
	\$	1,885,000	2.13	30%	449,827.23
	\$	1,935,000	2.18	40%	482,016.97
	\$	1,985,000	2.23	50%	514,343.95
	\$	2,035,000	2.28	60%	546,799.12
	\$	2,085,000	2.33	70%	579,374.25
	\$	2,135,000	2.38	80%	612,061.76
	\$	2,185,000	2.43	90%	644,854.73
Target Performance	\$	2,235,000	2.48	100%	677,746.77
	\$	2,285,000	2.53	120%	706,482.02
	\$	2,335,000	2.58	140%	735,305.04
	\$	2,385,000	2.63	160%	764,210.84
	\$	2,435,000	2.68	180%	793,194.78
	\$	2,485,000	2.73	200%	822,252.56
	\$	2,535,000	2.78	220%	851,380.22
	\$	2,585,000	2.83	240%	880,574.03
	\$	2,635,000	2.88	260%	909,830.56
	\$	2,685,000	2.93	280%	939,146.59
Stretch Performance	\$	2,735,000	2.98	300%	968,519.13
Any amount over Stretch gains this % additional bonus				4%	
	\$	2,935,000	2.98		
	\$	3,135,000	2.98		
	\$	3,335,000	2.98		
	\$	3,535,000	2.98		

2 Factor Executive Incentive Plan

Financial Targets			
	Minimum	Target	Stretch
Revenue	6,290,299.95	7,738,940.63	9,431,034.48
COGS	982,562.10	1,083,451.69	1,320,344.83
Gross Margin	5,307,737.86	6,655,488.94	8,110,689.66
Direct Labor	3,573,667.88	4,416,737.36	5,375,689.66
<i>Direct LER</i>	1.49	1.51	1.51
Contribution Margin	1,734,069.98	2,238,751.58	2,735,000.00
	27.57%	28.93%	29.00%
Opex:			
Management Labor	873,667.98	901,209.68	917,785.23
All other Opex	640,756.49	613,543.55	721,195.64
Total Opex	1,514,424.48	1,514,753.23	1,638,980.87
Net operating Income	219,645.50	723,998.35	1,096,019.13
Less: Exec Bonus	-	42,500.00	127,500.00
Net.	219,645.50	681,498.35	968,519.13
Management LER (incl bonus)	1.98	2.37	2.62

How this plan works with Rocks

Based on an example of an agency that needed help in certain areas based on diagnostics of the business. The things that were off on the scorecard drove the following Rocks:

#	Area	Rock
1	Revenue	Increase MSC/PMSI business by \$5k/wk
2	Revenue	Increase Senior Bridge business by \$15k/wk
3	Revenue	VA Contract signed + \$2k/wk
4	Revenue	Increase Skilled business by \$5k/wk
5	Process	5 of 12 Recruiting Best Practices implemented
6	Process	Everyone trained on HELP Method and Inquiry Conversion to 50%.
7	Org/accountability	Hire and onboard a Salesperson

Working with “Rocks”

- 1. Identify the Contribution Margin dollars needed to hit your profit goals**
- 2. Identify the action necessary to achieve those goals**
- 3. Tie “recognition incentives” to actions (gift cards, company lunches, etc)**
- 4. Tie major compensation to contribution margin achievement**
- 5. Reward based as a percentage of base pay**