“Shared Success”

A Key Employee Bonus Plan

**“Shared Success”** simply means sharing some of the extra profits made from a company with those who actually created the performance or incremental profits for the company.

This program is based upon the team first, individual second philosophy.

The plan fosters high standards, and demands alignment between the key measures and actual compensation.

Alignment is all about getting rewards/compensation aligned with the company’s goals.

Placing rewards/compensation directly in line with the requirements of what the company needs its goals to be in the marketplace, and then rewarding those who achieve those goals both individually, and as a team.

This type of system is designed for company’s who already have a management team in place, and are ready to pay for upside performance (although it could be adapted).

The rollout, customization, and understanding of this type of plan must be the responsibility of the leader, so all involved within a program of “Shared Success” can be:

1. Held accountable for their activities.
2. Understand how the P&L, and GP structure relates to them.
3. Able to understand how they get rewarded from the process.
4. Can lead and manage in an environment of open book management.
5. Are focused on team-oriented activities first, before individual activities.

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**Goals of the Bonus System:**

1. To allow the employees at key designated positions to participate in the overall success of the company. Through sharing of excess GP over target. So long as the company hits its overall target Gross Profit.
2. To share “Overage” profits based upon a standard/stretch goal (Gross Profit) set by the management team based upon the operating budget of the company, and a stretch target that is set which is a challenge, but attainable.
3. Create an atmosphere of teamwork, and innovation by aligning compensation and rewards with the goals of the company operating plans.
4. Support the “Open Book” management philosophy, of sharing information with the employees about the company operations, and aligning rewards with the information.
5. Place the Stretch Target of “Shared Success” in front of all key employees to raise the standard of expectations for the employee, and the company.
6. Allow budgeting for success to occur. The allowance for bonuses needs to be factored into the net budget as a part of bonuses.
7. A rolling 12 month budget process is recommended but not essential to this process.

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Structure of a Bonus Plan

1. The plan is based on Gross Profit dollars. The total of the company and departmental.
2. A budget will be established by the management team, and all managers should participate in the budgeting processes.
3. A baseline goal for gross profit is assigned from the budget for the year for each department and totals for the company.
4. The company’s operating profit goal, based on an operating plan.
5. The management team determines the “Stretch GP target”, which will be used for the “Shared Success” bonus program.
6. (50)% of the overage from the base target is used for the available bonus pool for “Shared Success”.

**Example:**

Company Planned GP = 40% or $ 400,000 on sales of 1,000,000 million

Actual GP of 45% on Sales of 1,000,000 or GP Dollars of $450,000

Shared Success Calculation = overage is $50,000. So 50% of this figure is available

Shared Success Bonus Pool = $25,000 Available dollars

**Impact to P&L is**

1,000,000

550,000 Cost of Sales

= 450,000 Gross Profit

- 250,000 Overhead

200,000 = 20% EBIT

1,000,000

550,000 Cost of Sales

= 450,000 Gross Profit

250,000 Overhead (but overhead accrues added $25,000)

25,000

- 175,000 = 17.5% EBIT

So it is important for the company to set the target well, based on how GP affects the profit. Understanding overhead in a budget is also a key.

1. The management team can split the bonus among managers based on various methods.

*Bonuses are ONLY paid if the company exceeds its base targets of Gross Profit even though an individual may meet or exceed their individual KPI’s, if the company does not exceed its primary base target, and then there is no bonus available to anyone.*

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Program Guidelines

1. Shared Success is a program designed for key management team members.
2. Eligible employees must be employed by the company through the end of a calendar year, December 31st to be eligible for the bonus plan and also in employment when the bonus is paid out. Calculations are for the calendar year.
3. Managers that begin the year after January 1 of the current calendar year, may be made eligible for the plan, and are compensated on a pro-rated basis after approved departmental KPI’s are established for the new manager.
4. Shared Success is over and above any other compensation.
5. A participating Manager may designate some or all of the Shared Success earnings to be paid to employees who work within their performance unit. This distribution needs to be approved by the GM, and should be based on a predetermined program of distribution prior to the announcement of such a plan and once this plan is announced to an employee group it may not be rescinded.
6. The Shared Success reward/compensation will not be paid later than the February pay period after the close of the Calendar year, and final entries are completed.