PROFIT SHARING - A WIN-WIN SITUATION

There are many different factors that affect the profitability of a Rural Merchant, particularly the Gross Profit result. Paying for stock twice, shoplifting, damages, not booking out and paying for inventory never received, for example, are all factors that will lead to poor profitability. Most of these factors are caused by staff ineffectiveness and training. For your store to become a high profit business, it is important to get value from the money you have invested into staff. A profit sharing scheme is a great way to improve your profitability, as well as being rewarding for staff.

There are three basic ways for a Rural Merchant to implement a profit sharing scheme. The first is to measure improved performance based on sales. This however can be a problem, as increasing sales in your store through discounting will increase your sales but will probably decrease profits (refer my previous articles on discounting). The second is based on Net Profit. Some of the problems here concern owners who are not willing to share the store's profit results with staff. Other problems occur due to expenses that staff have no control over, for example non commercial rates of rent paid to an associated company for tax purposes.

The best way to put a Profit Scheme together is to base it on Gross Profit. To make this scheme work it is important to set a realistic target for staff. Also, the profit shares to be paid out more than once a year, otherwise staff lose their focus on the results. I suggest a minimum of two payments a year. An example of a Profit Sharing Scheme based on Gross Profit is detailed below:

Profit Sharing System for XYZ Rural Store

Goal One: - Set a Realistic Gross Profit target

Gross Profit Last Year for the store $350,000

Targeted Gross Profit of: $375,000
(around a 7% increase)

Goal Two: - Set amount to be shared over this targeted Gross Profit

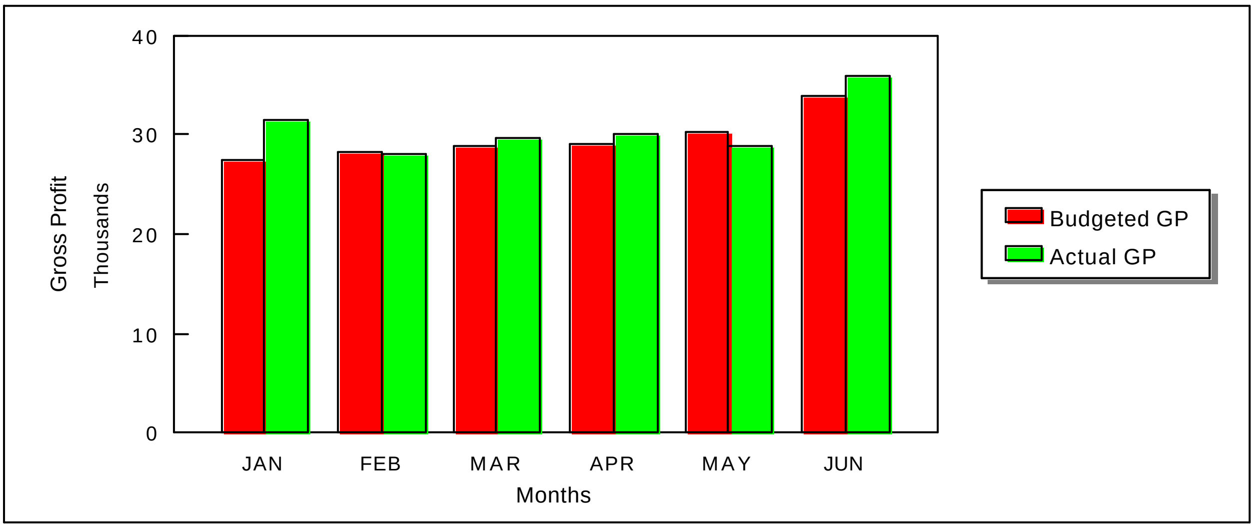
Staff is to get a share of $0.25 in every dollar of Gross Profit generated over the targeted Gross Profit of $375,000. This money is then to go in a pool

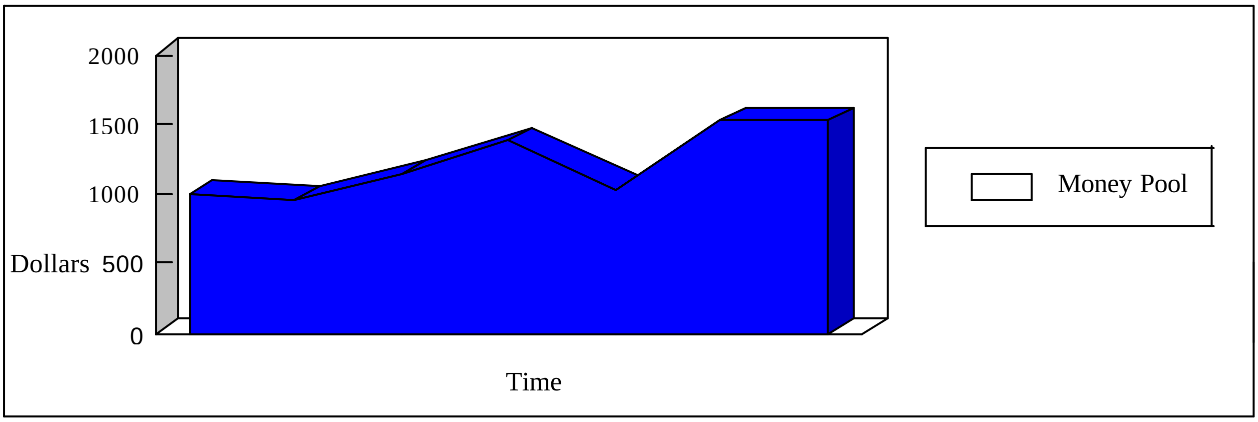
Goal Three: - Set monthly targets for staff and keep actuals up to date

EXAMPLE

	JAN	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**Total for six months**

Budgeted Gross Profit	27,500	28,200	28,800	29,100	30,200	34,000	$177,800
Actual Gross Profit	31,500	28,000	29,600	30,000	28,800	36,000	$183,900
Gross Profit Increase	4,000	(200)	800	900	(1,400)	2,000	$6,100
Money Pooled	$1,000	($50)	$200	$225	($350)	$500	$1,525





From the table, it can be seen that for the six months to June the store's gross profit is higher than budgeted. It has been a ***win for the management,*** target has been exceeded; and it has been a ***win for the staff,*** who get to share in $1,525 among themselves for six months for working more efficiently.

Problems

1) Some problems that occur with this scheme include setting unrealistic Gross Profit Targets and minuscule shares of the extra profit for staff. For example, if the store had a Gross Profit last year of $350,000 and a new target is set of $1,000,000, with staff getting a one cent share of extra Gross Profit dollars after the $1 million result is achieved, you can easily guess what the staff's reaction to this scheme will be.

2) Sharing the profits in the pool can cause serious staff grievances. Is it really fair to share the pool equally if half the staff threw their energy into achieving the target and the other half did nothing? A suggestion to get around this and to stop cries of favouritism is if the owner or management allocates the pool using the 'rough justice' system. Give each employee a list of employee names and ask what percentage they would give the other staff members, BUT they can not put a figure beside their own name.

Once you have them you can average the results, determining what percentage each staff receives. Put together a list of guidelines on how to improve profitability to give to staff to assist them in arriving at their allocations.

A profit sharing scheme can be a very handy tool for improving staff motivation and involvement in the business. It is important however, to show them what does affect Gross Profit. You can easily improve the margin in your Rural Merchant store by two to three percent, by simply getting back the margin you are losing now through inefficiencies in the way you do things (eg, not booking out), which comes back to staff practises and motivation. Staff now has a stake in the operation and if stock goes missing, rather than it being "the management's problem" it affects their back pocket as well. Money is a motivating factor and good staff are worth rewarding.

Remember, the scheme must be a win-win situation for all participants, management and staff and, ultimately, the store.