



# JIM LESLIE

**DIRECTOR HOME SERVICE FREEDOM**





# PERFORMANCE PAY

*ALIGNING INCENTIVES TO DRIVE PERFORMANCE*

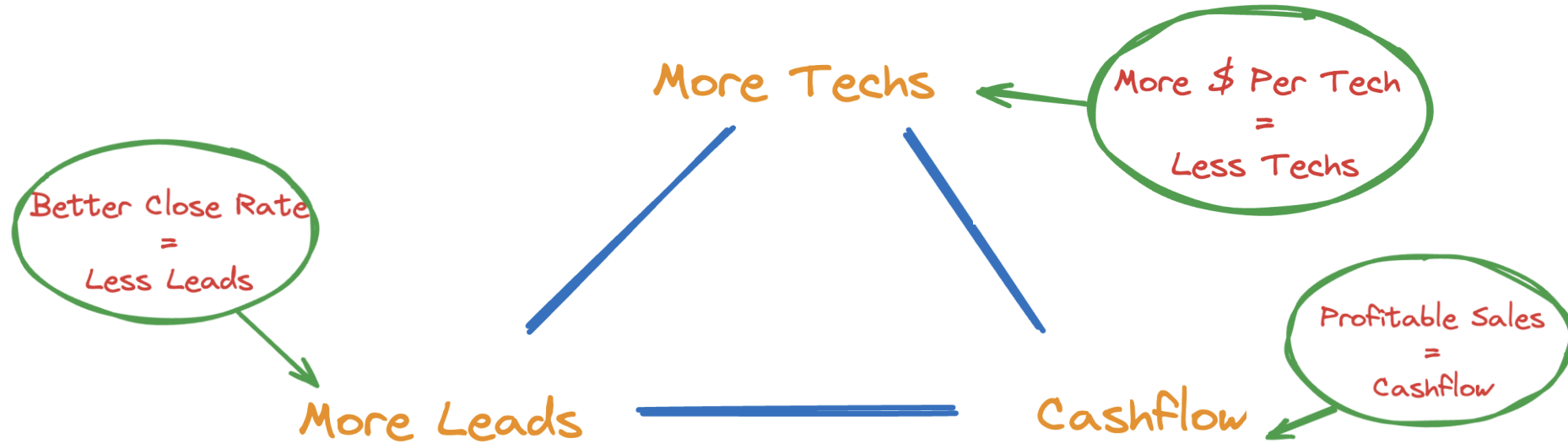
# PERFORMANCE PAY

- **Build High-Performance Team**
- **Attract & Retain Top Talent**
- **Create a Performance Driven Culture**
- **Enhance Customer Experience**
- **Simplify Administration and Management**





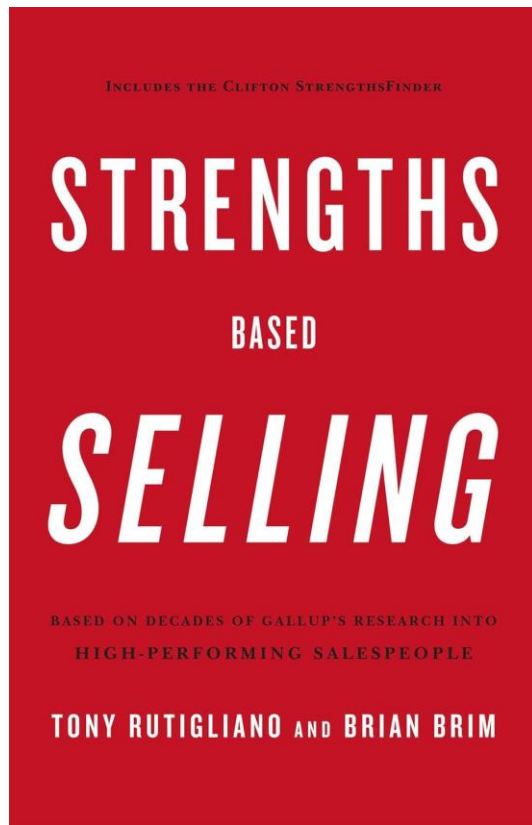
# SCALING IMBALANCE



# HIGH DRIVE EMPLOYEES

**“A Gallup analysis of 250,000 sales reps at 170 companies found that the top 25% of sales reps generated 57% of the growth”**

*Brian Brim - “Strengths Based Selling”*



# HIGH DRIVE EMPLOYEES

- **Motivated by a need to achieve outstanding results.**
- **Love to compete, both with themselves and others.**
- **They are optimistic; certain of their ability to win.**



# HIGH DRIVE EMPLOYEES

- **Top Performers Want High Earning Potential**
- **Performance Pay Attracts and Retains High Drive Employees**
- **Performance Pay Aligns Incentives (Profitably)**

# EXERCISE

WHAT IS IT COSTING YOU?



## EXERCISE

"A" Rev: \$1,100,000

**1: Write down the annual revenue  
you expect from an A-Player.**

### EXERCISE

"A" Rev: \$1,100,000

"C" Rev: \$500,000

**2: Write down how much  
revenue one of your C-Players  
generates.**

### EXERCISE

**3: Subtract the C-Player Number from the A-Player Number. This is your Revenue Gap.**

"A" Rev: \$1,100,000

"C" Rev: \$500,000

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Rev Gap \$600,000

## EXERCISE

**4: Consider lost revenue from poor sales skills, neglect, misbehavior, etc.**

"A" Rev: \$1,100,000

"C" Rev: \$500,000

Rev Gap \$600,000

Lost \$110,000

*\*Difficult to estimate, but let's conservatively use  
10% of A-Player Revenue.*

## EXERCISE

**5: Think about all the extra time you spend coaching C-Players.**

*\*Again, Difficult to estimate, but let's conservatively use 25% of a C-Players Annual Salary.*

"A" Rev: \$1,100,000

"C" Rev: \$500,000

Rev Gap \$600,000

Lost \$110,000

Coaching \$21,250

Coaching Time  
 $\$85,000 * 0.25 = \$21,250$

### EXERCISE

**6: Add up all those numbers, this is your total annual revenue loss per C-Player.**

"A" Rev: \$1,100,000

"C" Rev: \$500,000

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Rev Gap \$600,000

Lost \$110,000

Coaching \$21,250

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Total Loss \$731,250



### EXERCISE

7: Multiply by your gross profit margin to get your lost profit per C-Player.

Lost Profit \$160,875

"A" Rev: \$1,100,000

"C" Rev: \$500,000

Rev Gap \$600,000

Lost \$110,000

Coaching \$21,250

Total Loss \$731,250

### EXERCISE

**8: What is the cost of  
Delayed Action?**

Lost Profit \$160,875

3-Months \$40,218

6-Months \$80,437

1-Year \$160,875

2-Years \$321,750

3-Years \$482,625



# COMMON MISCONCEPTIONS

ABOUT PERFORMANCE PAY

# MOTIVATION

- **Performance Pay is not going to motivate an unmotivated person!**
- **Performance Pay profitably rewards the driven A-Players**

# CAN'T AFFORD PERFORMANCE PAY

- **I don't make enough money to offer performance pay. I'll go broke if I pay more than I'm already paying!**

# ONE SIZE FITS ALL

- **“Tell me what percentage I should pay!”**



# BEST PRACTICES

FOR PERFORMANCE PAY

# **SIMPLE**

- **Easy to Explain, Not Overly Complex**
- **The average employee should be able to calculate what they make on a given job.**



# **OBJECTIVE**

- **Well defined. Not open to interpretation. Not based on feelings.**

# UNIFIED

- **Incentivizing one position shouldn't dis-incentivize another position.**
- **Plans should foster teamwork.**

# **ATTAINABLE**

- **Metrics should be achievable.**
- **It's OK to have stretch goals.**

# **CONNECTED TO BEHAVIOR**

- **Incentivise the right job behaviors.**
- **Don't Incentivise basic job requirements (attendance, dress, etc)**

# **HIGH PERCEIVED VALUE**

- **The bonus or compensation should be worth achieving.**



# STRUCTURING PLANS

FOR MAXIMUM IMPACT

# JOB COSTING

- You must have accurate job costing data to profitably structure the plan.
- If your jobs aren't profitable, performance pay will accelerate your losses.

# **SLM (SALES LESS MATERIALS)**

## **FOR SERVICE / REPAIR**

- **Gross margin of the job, less the burdened material costs.**
- **Basing service job incentives on SLM simplifies calculations and ensures job profitability.**



# 1-Level Vs. 2-Level Plans

## A 1-Level Plan is Pay Per Action

Get 5 Star Review



\$

Sell Membership



\$

Close Rate



\$

# POTENTIAL ISSUES

## WITH A 1-LEVEL PLAN

- **Difficulty Scaling**
- **Prone to Errors**
- **A Lot of Info to Track**

Get 5 Star Review



\$

Sell Membership



\$

Close Rate



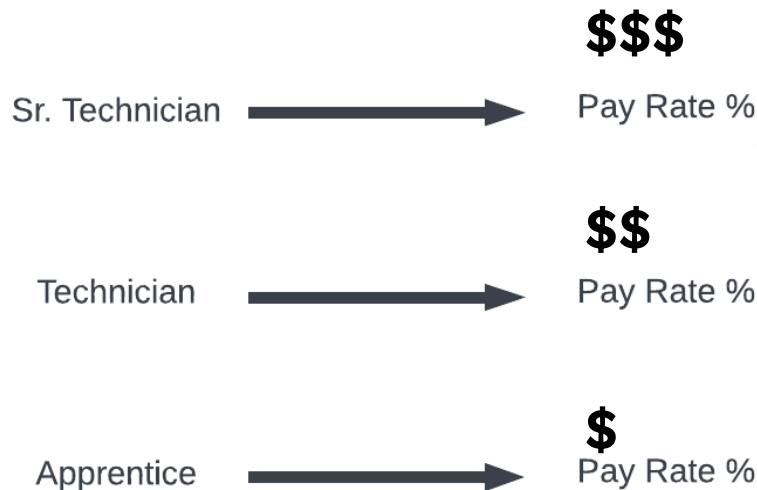
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# 2-LEVEL SYSTEM

## SCORECARD & QUALIFIERS

- Positions & Pay Levels
- Promotions based on KPIs and Experience

KPIs  
+  
Experience



# 2-LEVEL SYSTEM

## BENEFITS

- **Measure more KPIs, with less administration.**
- **Factor in experience and specific qualifications.**
- **Easier for employees to understand, and calculate pay.**

# SCORECARDS

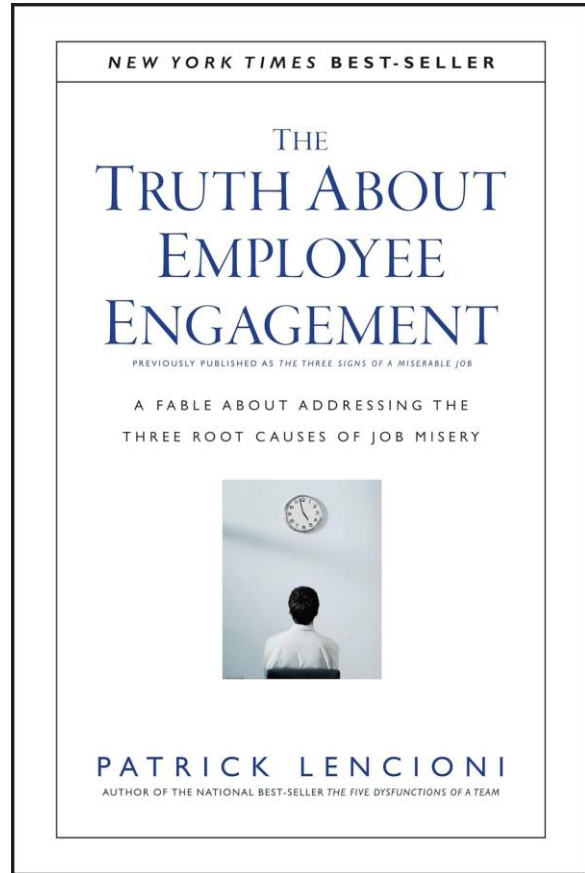
## BENEFITS

- Used to coach performance (daily / weekly / monthly).
- Inspire competition between employees.
- Benchmark for promotions in 2-Level system.

## WHY PERFORMANCE PAY?

**“Immeasurability is one of the  
key signs of a miserable job.”**

**- Patrick  
Lencioni**



# SCORECARDS

## BENEFITS

- Used to coach performance (daily / weekly / monthly).
- Inspire competition between employees.
- Benchmark for promotions in 2-Level system.

# INDIVIDUAL VS. TEAM

## INCENTIVES

- Individual performance plans recommended, as a minimum, for core positions: Tech, CSR, Dispatch, etc.
- Team bonuses can be added on top of individual plans.





# CALCULATING INCENTIVES

(SERVICE TECHNICIAN EXAMPLE)

# **EXPECTATIONS**

- **What will a top performer expect to make in your market?**
- **What is the revenue potential of a top performer?**
- **What structure and metrics?**

# REVERSE ENGINEER

Example: Service Technician

Target \$125,000

Average Revenue \$950,000

Average GM 75%

$$SLM = 75\% \times \$950,000$$

$$SLM = \$712,500$$

$$\frac{\text{Target PP}}{SLM} = \frac{\$125,000}{\$712,500} = 17.5\%$$

# AVG JOB TEST

Example: Service Technician

17.5% SLM

Average Ticket \$1,100

$\$1,100 * 75\% = \$825$  SLM

$\$825 * 17.5\% = \$144$

3 Jobs per Day, over 50 weeks

$3 * 5 * 50 = 750$

$\$144 * 750 = \$108,000$

# TOP PERFORMER TEST

Ideally within 20-25%  
of Target Comp

Example: Service Technician

17.5% SLM

Average Ticket \$1,600

$\$1,600 * 75\% = \$1200$  SLM

$\$1200 * 17.5\% = \$210$

3 Jobs per Day, over 50 weeks

$3 * 5 * 50 = 750$

$\$210 * 750 = \$157,500$

# HISTORICAL TEST

- Pick an average week over the previous 90 days, and calculate the PP according to your model for each tech.
- Take the projected weekly performance payroll and average it out over the TTM.
- Compare to your actual payroll over the period. How does it compare, with and without improved performance?
- What structure and metrics?

# 2-LEVEL SYSTEM

Example: Service Technician

17.5% SLM Target

Sr. Tech 18%

Tech 16%

Apprentice 14%



\$111,375

\$99,000

\$86,625

Top Band within 10-15% of  
Target Comp, based on Avg



**HOME SERVICE**  
**FREEDOM**

# UNIQUE SITUATIONS

FOR PERFORMANCE PAY



# MULTIPLE TRADES

## MATRIX SYSTEM

- How to handle multiple trades?
- Techs qualify for 1 or more trades based on skills
- Promotions based on skills, experience and scorecard

	Plumbing	Electric	HVAC
Sr. Tech	8%	10%	19%
Technician	7%	8%	17%
Jr. Tech	5%	6%	15%

# MULTIPLE TECHS

## INSTALLERS

- Usually due to larger jobs with multiple installers.
- Budgeted sold hours determines available pool
- For each installers, their hours as a percentage of actual job hours earns them a corresponding percentage of the pool

# **MULTI DAY JOBS**

## **INSTALLATIONS**

- Usually due to larger jobs in certain trades.
- Multiple Tech considerations apply
- Consider a fixed \$/hr “project management” bonus if the project is completed under the budgeted hours.
- PM Bonus is paid to each installer, based on job hours worked.

# **MINIMUM WAGE**

## **AND OTHER WAGE / HOUR ISSUES**

- **You must ensure workers are earning minimum wage.**
- **This becomes a consideration if they aren't selling enough, or there isn't enough work on the books.**
- **You must track hours worked, and pay 1 ½ time for any hours over 40 hours.**
- **Warning: Some states require the 1 ½ time to be computed based on averages of the workers weekly salary. (not min wage)**



**HOME SERVICE**  
**FREEDOM**

# ROLLING OUT

## INCENTIVE PLANS

# **INITIAL TRIAL**

## **BEHIND THE SCENES**

- **Calculate incentive pay for 2-4 weeks, or more, until you are comfortable with the process and the numbers make sense.**
- **Don't share with employees yet, just verify to yourself.**
- **Verify the numbers are in bounds, get comfortable with the process, and learn how to handle unusual situations.**

# **KICKOFF MEETING**

## **EXPLAINING TO THE TEAM**

- **Explain the concept of performance pay, and WIIFM**
- **Explain that you're going to be conducting a 2 week trial.**
- **Explain that their earnings will be unlimited during the trial period, based on solely on their performance under the plan.**
- **Explain this is a trial, and adjustments may be necessary.**

# KICKOFF MEETING

## EXAMPLE ROLLOUT SPEECH

*“We know in the past we’ve rolled out programs too fast, without enough thinking behind them and without enough of your input. For that, I hope you will accept our heartfelt apologies. What were going to discuss today is a trial of new program that will allow you to earn more money based on your performance. If the company makes more money, we believe you should too and this program will allow you to do just that. It’s important that we get this program right, so we’re going to conduct a 2-week trial and then measure the results and gather feedback...”*



# **2 WEEK LIVE TRIAL**

## **FOR TESTING PURPOSES**

- **If your business is seasonal, watch out for bad timing.**
- **Consider a guaranteed minimum of their current wages during the trial period. (If you expect resistance)**
- **If possible, go over jobs daily and show them what they have made... especially in the first few days.**

# AFTER THE TRIAL

## GETTING CONSENSUS

- Not everyone will be receptive to performance pay, even if they came out ahead during the trial. Be prepared.
- Low performers may threaten to leave. Often, the top performers quickly make up for the bottom 20% that go.
- Verify everything went according to plan, and that jobs remain profitable. If necessary, make adjustments.