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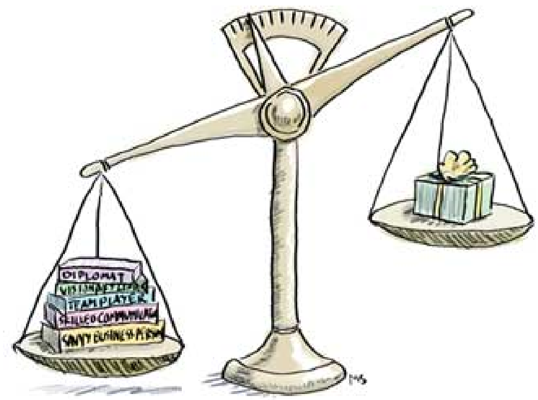
Improving General Manager Compensation Packages

BY CAROLEE COLTER



For what they are expected to do, general managers of food co-ops are underpaid. They have to manage not only the operations of a retail store (or stores), they also have to manage budgeting, accounting, marketing, information technology, and human resources—functions that are provided by corporate headquarters to managers of chain stores.

In conventional grocery or natural foods chains, a manager typically has to take direction from one boss. A co-op manager has to take direction from multiple bosses—seven, nine, 15—who are always changing. Ideally, the board of directors is disciplined enough to speak with one voice for consistent supervision. In practice, however, this isn't always so.

When it comes to staff, co-op managers typically are both blessed and challenged with exceptionally intelligent employees who hold extremely high expectations of their employer. As for the co-op owners, unlike corporate shareholders, they aren't content with (or perhaps even interested in) return on investment, but also hold extremely high and often conflicting expectations of their store.

To be a co-op general manager, a person must be visionary leader, team player, savvy business person, and a skilled communicator and diplomat. However, when it comes to compensation, all these qualifications don't seem to be as valued as they would outside the co-op sector.

Food co-ops grew out of members' garages into cramped storefronts without loading docks or parking, expanded into more spacious quarters with point-of-sale systems and delis, and keep growing into gleaming new stores with "green" designs that win architectural awards and draw thousands of new members. Food co-ops don't run on a shoestring budget anymore, and the general managers shouldn't be paid on one either.

Even when entry-level staff are making the going rate in the labor market or, better yet, a livable wage, when it comes to upping the general manager's compensation, many co-op boards seem mired in "poverty consciousness." Perhaps some board members have a visceral resistance to seeing the manager paid more than they make themselves. At the same time, managers often feel uncomfortable raising the subject of pay.

Furthermore, I have anecdotal reason to believe that female co-op general managers are paid significantly less than males. I also suspect that general managers who have been in their position for many years are paid significantly less than those more recently hired.

To draw on more than merely anecdotal evidence would require a survey of general manager compensation. There hasn't been such a survey published in this magazine for over four years. Certainly boards want to know what other co-ops are paying their managers. But is this the benchmark we should be striving for? Would the data from such a survey just reinforce the practice of underpaying our general managers?

Rather than looking to the base salaries paid by other co-ops, I suggest that boards concentrate instead on working with their general managers to develop a total compensation package that ties increases to achievement of agreed-upon results. By total compensation I mean base salary, bonus, deferred compensation, plus benefits such as medical insurance, paid time off, group retirement plan, short and long-term disability and life insurance.

Contingent pay

One of the key components of executive compensation in the private sector is contingent pay, usually in the form of cash bonus or stock options that are paid out if certain conditions are met. The further up the ranks, the higher the percentage of total compensation that is contingent or "at risk." From my research, most compensation experts agree that for the CEO (the person with ultimate accountability), 15 percent of base salary is a minimum amount to put at risk. Below that number, the time and attention involved in negotiating the bonus plan are not financially justified by the results in increased performance. Each individual's motivation is different and this number of 15 percent is not sacrosanct, but it does represent a guideline for boards and managers contemplating contingent pay.

The main advantage to the co-op of having some management compensation "at risk" is that it focuses the manager on the board's top priorities. The main advantage to the manager is that it provides an opportunity to substantially increase income based on her or his own efforts. Politically speaking, such a plan may make it easier for staff and members to accept that the manager's income is significantly higher than theirs if they feel that the manager has "really earned it."

In no way am I suggesting that boards reduce base salary currently paid to general managers and put it at risk as contingent pay. Rather, I am advocating that boards use contingent pay to add to what they are already paying.

Cash bonus

There is no easy "one size fits all" formula for a bonus. The board and the general manager must work together each year to plan the bonus strategically, based on the changing conditions the co-op is facing. (For an example, look at Co-op A, below.)

A pitfall to avoid in designing a bonus program is making it “all or nothing,” so that performance that is close to the goal doesn’t earn anything. Just as you build in a 10 percent buffer in your projections for expansion costs, you can build in a 10 percent buffer on a bonus goal. You also can base a bonus on several different factors, allowing the general manager to be successful in some areas, if not in all, and still earn some contingent pay. (See Co-op C, below, for an example.)

There is always room for board discretion in setting the amount of a bonus. For instance, a board could recognize stellar achievement in the face of unexpected adversity and pay a bonus even if an established goal was not met. But if the entire bonus is only at the discretion of the board, that deprives the general manager of any guidance for what he or she needs to do to earn it next year, especially if there is board turnover.

Salary increases

If contingent pay is offered, what about raises in base salary? The general manager’s salary should rise to keep pace with the cost of living. If the board wants to give merit raises, in addition to or instead of a bonus, then the criteria for the merit component of the raise should be clearly stated up front and put in writing. With board turnover, there could be a loss of organizational memory, and the general manager could be left high and dry with no pay raise.

Deferred compensation

While a 401(k) or other group retirement plan can benefit the general manager along with other employees, tax rules greatly limit the amount that the general manager can receive in relation to the other plan participants. However, there are options for a co-op to pay funds into a vehicle which earns income and will be available to the manager later in life. Over time, the value of such deferred compensation could add up to many times the value of a cash bonus. One vehicle for deferred compensation is a so-called nonqualified retirement plan. Another is a life insurance policy that accrues cash value (as opposed to term life insurance, which is actually just accidental death insurance.) Of course, this is an area where boards and managers should seek expert advice.

Real life examples

Following are the contingent pay practices of three co-ops whose general managers were willing to share them anonymously.

Co-op A: A set of annual goals (this year, a total of four) are developed by the board’s human resource committee and the general manager and are approved by the full board. Some goals are measurable, based on reaching certain financial indicators, while others are based on completion of projects (e.g., a business plan, a professional development plan for department managers, etc.). The bonus is paid out in quarterly increments, subject to the general manager’s progress toward the goals. This is evaluated in a written report from the general manager to the HR committee, which then recommends to the board whether to approve the payout for the quarter. This general manager says, “I like this system, and I am motivated to achieve the goals set forth. Having the extra incentive works for me, too! This year, the bonus amount works out to be about 16.5 percent of my annual salary.”

Co-op B: If at fiscal year end all the requirements of the Financial Conditions Report are met, the general manager gets 5 percent of the profits after taxes, capped at 15 percent of base salary. Up until now, this has been a satisfactory arrangement. However, this co-op is going into a major expansion. This general manager says, “My concern is that going into the new store and working extremely hard in year one and beyond, I could potentially make less (because I would receive no bonus in year one, given the current formula) than I have been making now.”

As we have seen in previous Cooperative Grocer surveys, co-ops that undergo expansions typically take two years to regain profitability. During and after an expansion, the general manager works longer hours, develops new skills, and carries heavier responsibilities. But bonuses don’t have to be based on profit. Sometimes it’s easy to get confused between how a bonus is earned and how it is paid. In years of no profit, the bonus can come from cumulative retained earnings, a different pot of money than annual net earnings.

Co-op C: The general manager is eligible for a cash bonus of up to 25 percent of base salary: 10 percent based upon financial performance and 15 percent based upon success in achieving annual strategic goals. In addition, this general manager receives deferred compensation. The co-op invests $5,000 a year into a life insurance policy and an additional $5,000 annually with every million dollar increase in sales between the first year and the manager’s retirement (or leaving the co-op.) The manager will be fully vested after seven years of employment. In the event of the manager’s death or leaving the co-op prior to retirement, the co-op would split the insurance payout with the manager or his or her heirs.

What these three co-ops share in common is the active participation of the general manager in the development of the compensation plan. All three managers, incidentally, are women. They all acknowledged that asking for money made them uncomfortable. Yet, as one said, “It was really hard to stick up for myself, but it was clear that no one else was going to.”

In conclusion, my advice is: General managers—take the initiative! Propose a plan that is motivating and fair to you. Boards—invite your general managers to participate with you in the development of a compensation plan that is fair to them and fair to the co-op.

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