

GM Compensation

An online CBL300 series course, Thinking and Acting Strategically
Provided as part of the CBLD program

www.cdsfood.coop/cbld

Webinar: April 9, 2008

Recorded for later use by registered participants

Related files are available (link shown on next page)

Presented by Mark Goehring and Carolee Colter

Special thanks to CBLD team and
special guest, Dan Gillotte, GM, Wheatsville Co-op, Austin, TX!

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Outcomes for GM Compensation

A Thinking and Acting Strategically CBL course

1. GM compensation decisions become strategic and not emotional or contentious.
2. GMs are fairly compensated for their work and feel satisfied with their compensation.
3. Directors understand the consequences of GM compensation decisions.
4. Boards understand the components of compensation and their relative uses.
5. The GM compensation plan is relative to the market so that it is attractive to qualified candidates when a board needs to hire a new GM.
6. Directors can articulate the board's values related GM compensation.

GM Compensation: Thinking Strategically

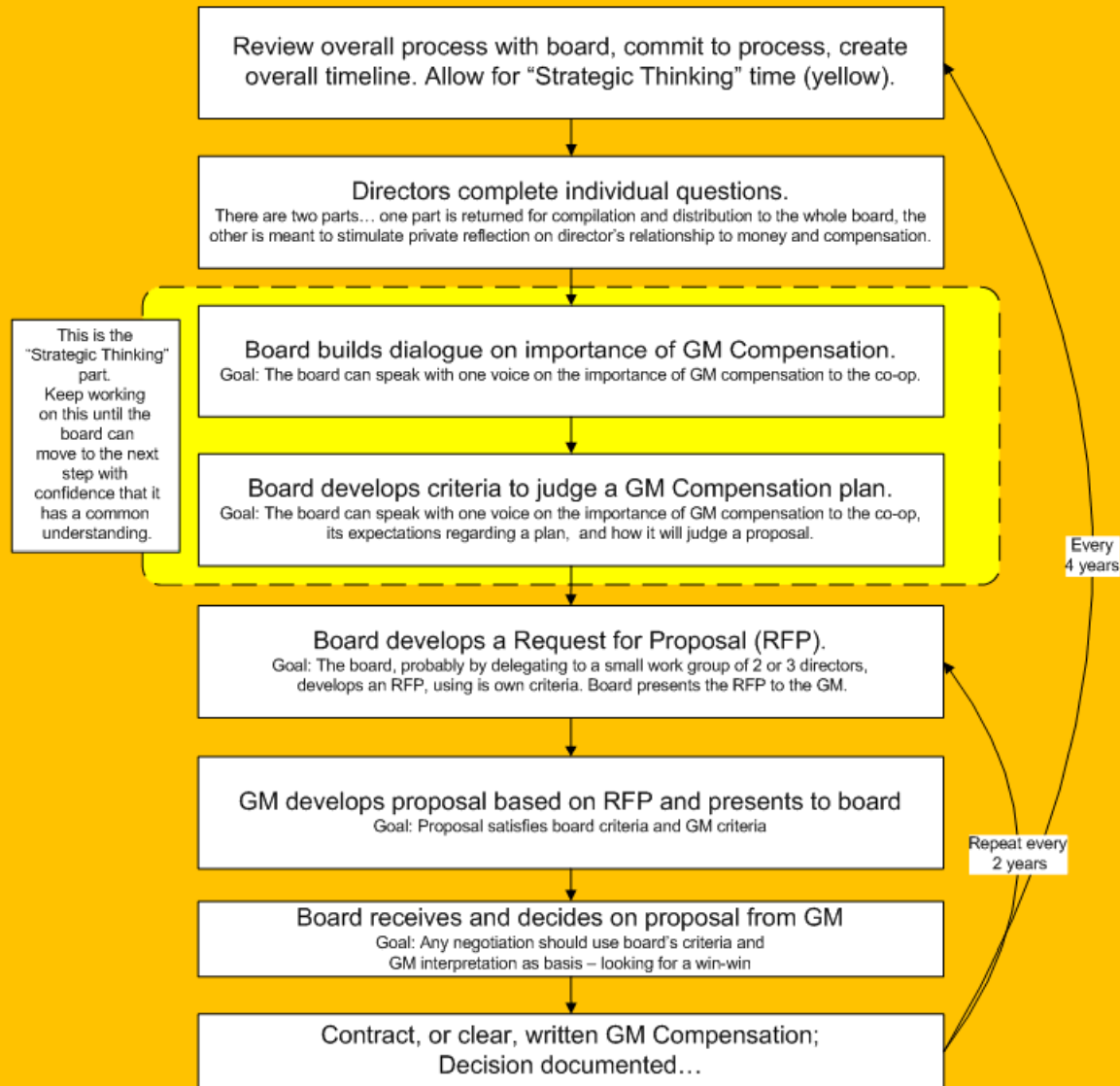
Here's what we're going to cover in the webinar...

1. Strategic thinking, board process and timeline
2. Components of a compensation package
3. Setting criteria and requesting a request for proposal
4. Response: elements of a compensation proposal
5. Finalizing the compensation package
(Board decides, GM agrees)
6. Documentation and evaluation of process

GM Compensation: Thinking Strategically

This flow chart presents the process as outlined in CBL Distance Learning Workshop

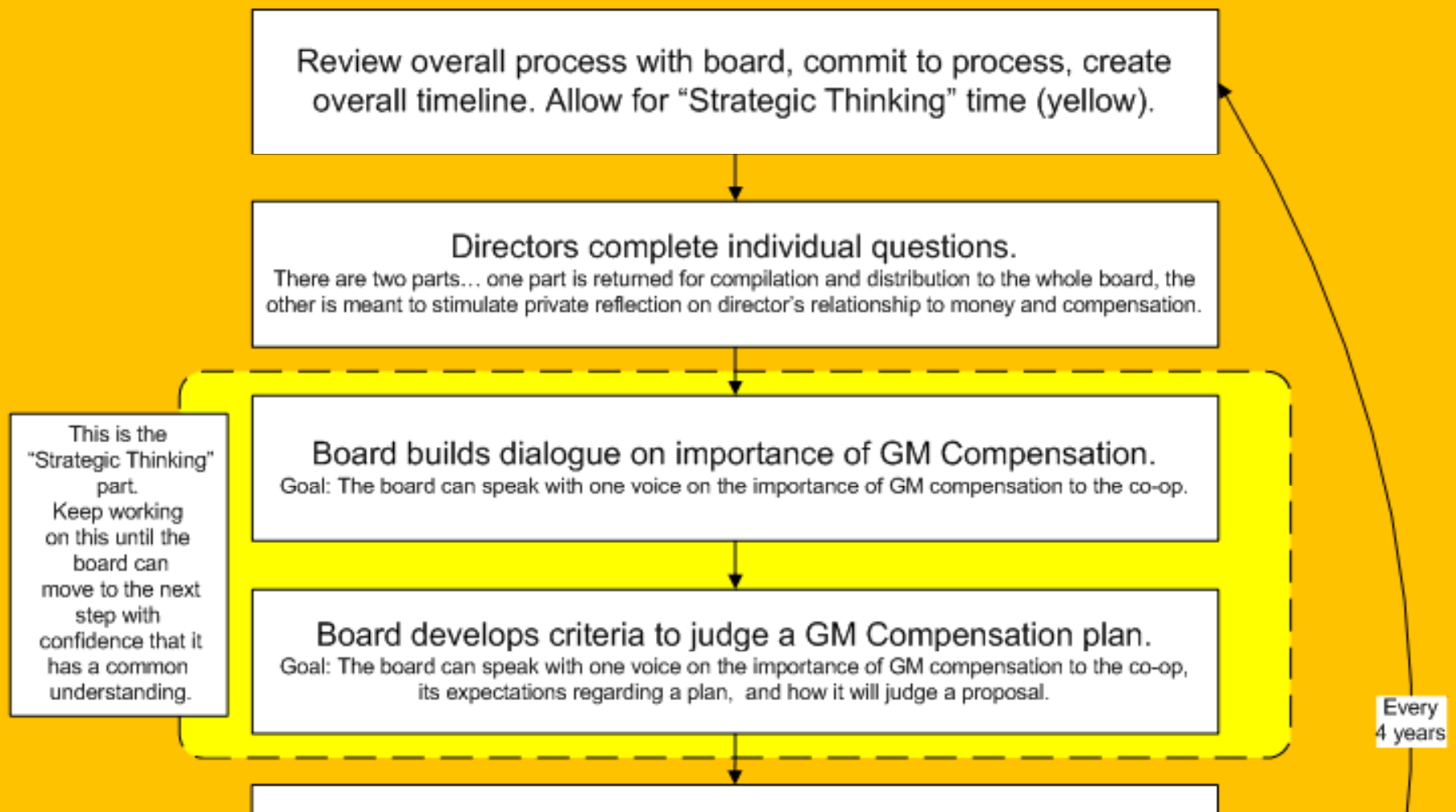
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GM Compensation: Thinking Strategically

This flow chart presents the process as outlined in CBL Distance Learning Workshop

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Directors complete individual questions.

There are two parts... one part is returned for compilation and distribution to the whole board, the other is meant to stimulate private reflection on director's relationship to money and compensation.

Questions for private reflection:

Distribute these in advance along with the ones on the following page.

1. What is your own relationship to asking for money?
2. What experiences have you had regarding asking for fair compensation? (or not being able to ask)
3. What experiences have you had that may influence how you consider the topic of GM compensation?
4. Do you feel you are able to contribute to the GM compensation process without your own issues about compensation or money getting in the way?

Directors complete individual questions.
There are two parts... one part is returned for compilation and distribution to the whole board, the other is meant to stimulate private reflection on director's relationship to money and compensation.

Questions to prepare for board dialogue:

Distribute in advance. Ask for written responses to these in questions, compile answers and distribute in board packet.

1. Looking ahead to the future of the organization....
Do you see the organization growing/changing or staying the same? How important is the role of GM in this future? Why?
2. What worries or concerns do you have about the process we will use?
3. What worries or concerns do you have about the resulting compensation plan?
4. Within the context of your work as a director, how important is the GM compensation plan?

Board builds dialogue on importance of GM Compensation.
Goal: The board can speak with one voice on the importance of GM compensation.

Board Dialogue: Strategic thinking

Looking ahead to the future of the organization....

Do you see the organization growing/changing or staying the same? How important is the role of GM in this future? Why?

How would you describe the importance of GM compensation from the point of view of...

* The GM * The Board * The member/owners

Goal as a result of board dialogue:

The board can speak with one voice on the importance of GM compensation to the co-op.

Before we consider what criteria might be appropriate, let's review some basic components of a compensation package

1. Base salary
2. Contingent pay (incentive, bonus)
3. Special benefits
4. Deferred compensation

Components of a Compensation Package

Different roles of base salary and contingent pay

Base Salary	Contingent Pay
Paid out regardless of performance	Paid out contingent on performance
Rewards stability, longevity	Rewards achievement of goals
Increases with labor market	Increases with performance
Retains manager by being competitive with the labor market.	Retains manager by opportunity to increase earnings.

Components of a Compensation Package

Effective Contingent Pay

1. Changes with the co-op's circumstances
2. Focuses on top priorities, limits the number of goals
3. Relates to existing policies
4. Builds in some reduced reward for partial achievement of goals
5. Comprises 10 to 40% of base salary
6. Motivates the manager personally

Components of a Compensation Package

Examples of Special Benefits

1. Extra vacation
2. Health insurance for family
3. Additional retirement benefits

40% of managers surveyed in 2006 had extra benefits not available to other staff.

Components of a Compensation Package

Deferred Compensation

1. An arrangement in which a portion of the manager's income is paid out at a date after which that income is actually earned.
2. Examples of deferred compensation: pensions, retirement plans, and cash value life insurance.

OK. Where do we go from here?

- ✓ Strategic thinking, board process and timeline
- ✓ Components of a compensation package
- 3. Setting criteria and requesting a request for proposal
- 4. Response: elements of a compensation proposal
- 5. Finalizing the compensation package
(Board decides, GM agrees)
- 6. Documentation and evaluation of process

Board develops criteria to judge a GM Compensation plan.

Goal: The board can speak with one voice on the importance of GM compensation, its expectations regarding a plan, and how it will judge a proposal.

Board Dialogue: What criteria would the board use to evaluate / judge a GM compensation plan?

Discuss and create a set of criteria to use in judging and acting on a GM compensation proposal.

Develop the criteria so it can be used in producing an RFP.

Goal: The board can speak with one voice on the importance of GM compensation, its expectations regarding a plan, and how it will judge a proposal.

Board develops a Request for Proposal (RFP).

Goal: The board, probably by delegating to a small work group of 2 or 3 directors, develops an RFP, using its own criteria. Board presents the RFP to the GM.

Sample Request for Proposal (RFP)

Goal: To help inspire and motivate the GM to do what is best for the Coop / to achieve goals not yet achieved

Expectations & Limitations

1. The plan should run from __/__/08 to __/__/10
2. The plan should comply with a reasonable interpretation of all relevant policies
3. The plan should be affordable for the co-op
4. The plan should be in scale to the compensation plans of the other managers employed by the Coop
5. The plan should be easily and objectively measurable/calculable
6. The plan should consider the complete compensation package (base, contingent, benefits, deferred compensation, etc.)
7. The plan should be in line with industry and local standards

GM develops proposal based on RFP and presents to board
Goal: Proposal satisfies board criteria and GM criteria

General Manager's Response to Request for Proposal

for co-op with gross annual sales of \$12 to \$18 million

I am proposing a compensation package to run for two fiscal years, from October 1, 2008 to September 30, 2010.

This package consists of:

- Base salary of \$83,200 per year, with an increase in the second year for inflation, based on the Consumer Price Index as of 10/1/09.
- Bonus of up to 15% of base salary (see table below)
- Four weeks of paid vacation (one week more than the vacation available to staff with under 5 years of employment at the co-op).
- Deferred compensation of \$5000 a year that funds
 - a) a retirement account in which I will be fully vested in 7 years and
 - b) a life insurance policy for \$1 million. In the event of my death, my heirs will receive \$.5 million and the co-op will receive \$.5 million to pay for consulting help, interim management and a GM search as needed.

General Manager's Response to Request for Proposal

Proposed bonus of up to \$10,000, (approximately 12% of base salary)

Criterion	Total Available Bonus	Gradations	Pay-out
Sales Growth	\$3,000	Sales growth over 10% Sales growth 8 to 10%	\$3,000 \$2,250
Net income	\$3,000	Net income over 3.5% Net income 2.42-3.49%	\$3,000 \$2,250
Planned achievement of Ends Policy E1.	\$4,000	Board acceptance of interpretation of achievement in monitoring reports	\$4,000

General Manager's Response to Request for Proposal

Alternative version of bonus

Bonus of up to \$12,840, 15% of base salary

Criterion	Total Available Bonus	Gradations	Pay-out
Sales Growth	\$3,000	Sales growth over 10% Sales growth 8 to 10%	\$3,000 \$2,250
Net income	\$3,000	Net income over 3.5% Net income 2.42-3.49%	\$3,000 \$2,250
Planned achievement of Ends Policy E1.	\$4,000	Board acceptance of interpretation of achievement in monitoring reports	\$4,000
Board discretion	\$2480	Board satisfaction with overall performance, whether other criteria are met or not	\$2480

General Manager's Response to Request for Proposal

How this compensation package meets the board's expectations and limitations in the Request for Proposal:

1. The plan should run from 10/01/08 to 9/30/10

The proposed plan covers those dates.

2. The plan should comply with a reasonable interpretation of all relevant policies.

All policies were reviewed for possible relevance, identifying the following:

Under L4, Compensation & Benefits, this proposal is in compliance with the global policy "not to cause or allow jeopardy to financial integrity," as described below.

Under L8, Emergency Management Succession, the life insurance policy in my proposed deferred compensation would help to protect the co-op from a sudden loss of GM services.

General Manager's Response to Request for Proposal

3. The plan should be affordable to the co-op.

My compensation as proposed, when added into all the other labor costs (payroll, payroll taxes, benefits) would still allow the co-op to meet the net profit target of 2.42% as identified in the long range strategic plan presented to the board in August.

General Manager's Response to Request for Proposal

4. The plan should be in scale to the compensation plans of the other managers employed by the co-op.

The co-op pay scale has six levels according to responsibility, with the top of each level 50% above the base, excluding the general manager. The difference between levels ranges from about 15% to 25%. The top of Level VI is only \$6000 (8%) below my current salary.

<u>Pay Levels</u>	Annualized for full-time positions
Level I \$8.00 to 12.00	\$16,640-to 24,960
Level II \$10.00 to 15.00	\$20,800 to 31,200
Level III \$12.00 to 18.00	\$24,960 to 37,440
Level IV \$15.00 to 22.50	\$31,200 to 46,800
Level V \$18.00 to 27.00	\$37,440 to 56,160
Level VI \$22.00 to 33.00	\$45,760 to 68,640
General Manager current	\$74,880
General Manager proposed	\$83,200

General Manager's Response to Request for Proposal

5. The plan should be easily and objectively measurable/calculable.

The proposed bonus is based sales growth and net income which are easily measurable, and on acceptance by the board of monitoring reports demonstrating planned achievement of Ends Policy E1.

The payout for the retirement funds in the deferred compensation plan is determined by a vesting schedule of seven years (see the detailed description of the plan in a separate document).

6. The plan should consider the complete compensation package (base, contingent, benefits, deferred compensation)

My proposal contains all four elements.

General Manager's Response to Request for Proposal

7. The plan should be in line with industry and local standards.

The Occupational Employment Statistics program of the Bureau of Labor Statistics provides a description for Chief Executive which most closely fits my job:

Determine and formulate policies and provide the overall direction of companies or private and public sector organizations within the guidelines set up by a board of directors or similar governing body. Plan, direct, or coordinate operational activities at the highest level of management with the help of subordinate executives and staff managers.

General Manager's Response to Request for Proposal

Local Standards

Using CareerJournal.com, I found the following data for a Chief Executive of a specialty retail establishment here in our state:

State Specialty Retail Chief Executives	
Low, 17 th percentile	\$61,581
Average	\$91,666
High, 67 th percentile	\$122,218
Bonus	16.7% of base salary
Benefits	11.9% of base salary

General Manager's Response to Request for Proposal

Industry Standards

The general manager compensation survey in 2006 in *Cooperative Grocer* did not contain enough specific information for co-ops in our size range, except to show that over 60% of managers of co-ops with sales of over \$10 million were making \$70,000 or more. Therefore, I conducted a phone survey of the 12 managers of co-ops with gross sales of \$12 to \$18 million.

Co-op GM's \$12 to \$18 million gross sales	
Low	\$63,300
Average	\$84,000
High	\$112,500
Bonus where applicable	5% to 20% of base salary
Benefits	Average 18% of base salary

General Manager's Response to Request for Proposal

Conclusion on industry and local standards:

Twelve co-op managers is a very small sample, but their compensation does fall within the range for salary and bonus for Chief Executives of specialty retails in our state.

There was no apparent correlation between size of co-op GM base salaries and the sales volume of their respective co-ops.

My proposed salary is below the local average, but within the range of comparable positions in our state. My proposed salary and total compensation is within the range of other co-ops our size.

Board receives and decides on proposal from GM

Goal: Any negotiation should use board's criteria and GM interpretation as basis – looking for a win-win

Almost done...

- ✓ Strategic thinking, board process and timeline
- ✓ Components of a compensation package
- ✓ Setting criteria and requesting a request for proposal
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Board receives and decides on proposal from GM

Goal: Any negotiation should use board's criteria and
GM interpretation as basis – looking for a win-win

Contract, or clear, written GM Compensation;
Decision documented...

Board makes decision...

Potential for negotiation...

Documentation, signed, dated, goes in GM's file and to HR.

Questions to consider for reflection/evaluation on process.

Examples:

What were the key questions, either planned or unplanned that were useful in building the board's dialogue on how it thinks about GM compensation?

What was the biggest challenge in creating criteria?

What data did the board find useful in the proposal?

What will be helpful to the board next time?

**Thanks for coming! Don't forget to contact your
CBLD consultant for support!**