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# ENTRELEADER'S GUIDE TO COMPENSATION

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Is it possible to turn your team members into rock stars who are unfailingly loyal and ready to bring it every day? Yes, you can. And one of the major ways to fire them up is paying for performance. When done well, there is no stopping how far they can go. This guide will help you get started.

## A COMPENSATION CHECKLIST

Compensation plans are funny things. You can start them with the best intentions. But before you know it, paying for performance blows up in your face. And instead of good feelings and motivation, you end up with team members who feel entitled or think you are a cheap jerk, not to mention the hit on your bottom line with nothing to show for it. So to get you started on the right path, we created this checklist. When you can answer yes to the following questions, you are well on your way to creating a compensation plan that works for everyone.



### DO YOU HAVE A COMMUNICATION PLAN?

When creating your incentive plan, always keep the end goal in mind. You want to make sure the behavior you're trying to drive is achieving what you want to accomplish. And that starts with communicating with your team. Set up the expectations from day one and remind your team on a regular basis how and why you are paying them. Your team feeling entitled is something you always have to guard against. Getting ahead of it through communication is your best bet.



### DOES YOUR TEAM UNDERSTAND IT?

When a plan is set up well, your team will easily understand what winning looks like because they'll be monetarily awarded for it. Keep it simple and easy to calculate. You don't want your team members spending their time trying to figure out what their next paycheck will be.



## WILL IT MAKE AN IMPACT?

You need to share enough of the profits to drive the correct behavior. An additional \$37 per two weeks is not going to make a difference or fire them up to win. If you can't afford to share, hold off starting a program and find other ways to reward them.



## IS IT SUSTAINABLE?

When it comes to compensation, never forget you are messing with people's livelihoods. If you haven't been in the black for a sustained period of time, don't start your program until you get there. You need a history behind you. If you share profits and then have to stop, you'll just make everyone mad instead of motivated.



## DOES THE PLAN FIT THE ROLE?

There is no one-size-fits-all compensation plan. Be intentional about what you value and reward the activities you want duplicated.



## HAVE YOU RUN SIMULATIONS?

You don't know if your plan will work until you test it out. Run the numbers using four different scenarios: conservative, expected, aggressive, and revenue-based.



## IS IT FLEXIBLE?

When creating a new program, look beyond the now. For example: if you pay someone 10% off the top line, are you going to be okay if your numbers grow ten times what they are today? You also need to reserve the right to be able to change compensation as your company grows.



## DO YOU VIEW AN INCENTIVE PROGRAM AS AN INVESTMENT INSTEAD OF A COST?

Those who win in business don't do it alone. They need a smart, passionate team behind them. And that starts with being generous and rewarding your people for great work. It's how you attract and keep amazing team members.

# THE 6 FINANCIAL REPORTS THAT CAN SAVE YOUR COMPANY

Before you can start a profit-sharing program, you actually have to start making a profit. And the best way to do that is to stay on top of your financials. When you know what's going on, you don't freak out about cash flow and you can instantly spot potential problems before they get out of control.

By learning how to read just a few financial reports, you'll know where your company is headed. Once you learn the basics, you'll only need a few hours a month to get a clearer picture. Here are the six financial reports that you need to check each month.

## 01 PROFIT AND LOSS STATEMENT (P&L)

Also called an income statement, the P&L shows revenue minus expenses and either your net profit or loss.

**Why You Need It:** For Dave, who still reads his company's income statement each month, it gives him a quick snapshot of how each area of his business is performing. Did each department hit their revenue projections? Are leaders staying within their budgets?

## 02 BALANCE SHEET

This simple document shows what your business is really worth, listing all of your assets and liabilities.

**Why You Need It:** In one statement, you'll see what you own, who you owe, and revenue owed to you.

## 03 RECEIVABLES REPORT

This report shows who owes you money, how much they owe, and the age of their debt.

**Quick Tip:** The best policy is to avoid extending credit to anyone. You know how we feel about debt! If you have to, though, keep it short term—thirty days or less.

## 04 PAYABLES REPORT

This report is a quick summary of who you owe money to that has not been paid yet.

**Quick Tip:** It's never a good idea to hold your money until the last second. If you owe something, pay it. We clear bills every Tuesday, which allows us to negotiate further discounts and build incredible goodwill with our vendors and suppliers.

## 05 CASH FLOW REPORT

If you've ever kept a checkbook register for your personal account, this one should be a breeze. It's just a slightly souped-up version of the one at home, showing the checks you've written, your deposits, and your account balance.

**Why You Need It:** This is still the absolute best way to verify that your bank account balance is correct and there are no unusual charges or errors.

## 06 PURCHASE ORDER (PO)

This is a record of all your open purchase orders, including quantity.

**Why You Need It:** The PO is a simple way to quickly review what has been purchased and the cost of each item.

# WHY COMMUNICATION IS KEY

Sharing profits is an amazing way to let your team know how much they are valued. But to truly make your people feel like they are self-employed and not entitled, it needs to come with an explanation. Once a month at a company-wide weekly meeting, our CFO:



REMINDS THE TEAM THAT DAVE IS SHARING PROFITS.



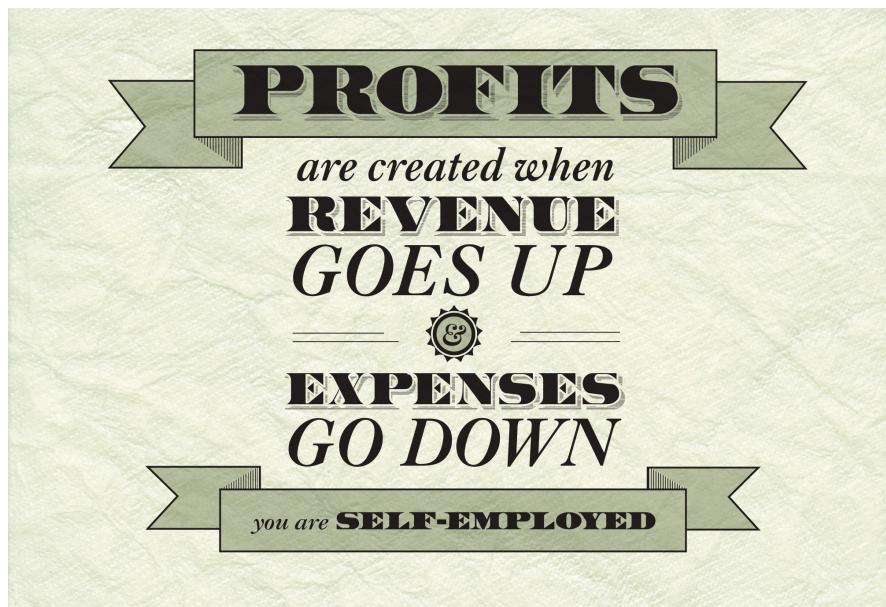
GOES OVER THE BASIC FINANCIAL INFORMATION, USING PERCENTAGES ONLY. (“WE WERE UP 10% OVER LAST YEAR AT THIS TIME.”)



REMINDS EVERYONE THEY ARE ALL SELF-EMPLOYED.



PROMPTS EVERYONE TO SAY WITH HIM, “PROFITS HAPPEN WHEN REVENUES GO UP AND EXPENSES GO DOWN.”



As part of his profit-sharing talk, our CFO further reminds the team how profits are created by showing the slide above. It’s a great reminder of what role everyone plays in making money together.