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in this issue . . .

- **EMPLOYEE MOTIVATION AND INCENTIVES**
- **DO YOU HAVE A WEB SITE?**
- **QUOTE OF THE MONTH**
- **SPECIAL OPEN-TO-BUY SERVICE OFFER – EXTENDED THROUGH JULY 31, 2010**
- **KEEP YOUR EMPLOYEES HONEST**
- **PEER GROUPS**
- **RETAIL JOB DESCRIPTIONS**
- **BUDGET PREPARATION AND CASH FLOW PROJECTION SERVICE**
- **WHAT WE DO . . .**

EMPLOYEE MOTIVATION AND INCENTIVES

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In last month's newsletter we discussed how to hire the "right" employee. This month we will continue our discussion of employees with steps you can take to keep them motivated and also some ideas for incentives.

There are almost as many effective ways of motivating employees as there are ways of enticing customers into your store. Of course, there are also innumerable ways to "turn off" your associates and it is equally important to recognize these poor practices so they can be avoided. A disgruntled salesperson is unlikely to present a shining countenance to a prospective customer.

Some store owners and/or managers prefer to drive rather than lead and this manifests itself in a tense and uneasy store atmosphere. Fear destroys confidence as well as pride in one's place of employment; its effect on productivity is negative and destructive in the long run.

It is desirable for management to be highly enthusiastic, articulate and effervescent although each person comes across in a different way. Sincerity, fairness and candor are essential. True personal interest in your associates problems is valuable.

One of the very best ways to motivate is to consciously try to help bring out the very best in your staff and to do everything in your power to develop leadership talent and knowledge. There is great satisfaction in being able to point to successful people and honestly claim that you contributed to that success. This kind of interest comes through to all your people and enhances the image of your store.

### **ON-GOING TRAINING**

It is not good enough to hire and train someone, then provide no follow up. Management must continually follow up to see that employees are performing their job properly, and following the company's procedures. This lets the employee know that it is important to follow procedures and do the job correctly.

It is also very important to give your sales employees an opportunity to expand their knowledge and upgrade their skills by providing on-going training. This can be accomplished through regularly scheduled sales meetings and with the use of sales training materials.

## **MOTIVATION**

Motivation of employees, especially sales staff, is probably the single most important manageable factor for success and profitability in specialty store retailing.

Make your employees feel part of the store by asking their opinions on different issues, such as "what can we do to get new customers?". They will start to feel they are an important part of the business and this will instill loyalty.

To protect your investment in personnel it is important that employees be motivated to increase their output. Incentive compensation plans can be very effective motivators. To be effective, incentive compensation must be based on those aspects of the position over which the employee has control or influence. For example, store manager compensation can be dependent upon meeting sales, shrinkage and payroll goals. Ideally, salesperson incentive compensation should be directly related to their own sales.

## **INCENTIVES**

Incentives are an important part of employee motivation. Incentives do not just have to be sales based. It is good to add some fun into the mix. Some ideas are:

Implement store contests and events that stimulate and motivate sales associates and make selling fun and rewarding. These add spice and excitement to routine. Contests can be planned with individual winners; team against team; or store against store in a multi-store company. Contests can run for one day, one week, or as long as a month and could be based on total sales, most items sold in a single transaction, highest transaction, etc.

Money is generally the greatest motivator, but it should be used wisely. More isn't always better and how it is applied is very important. A \$20 bill passed around all day to the salesperson who has the highest sales transaction may be more effective than offering a single \$100 bonus for the person with the highest sales for the week.

Salespeople could be given rewards for sales volume increases over last year, for selling older merchandise, getting customers to sign up for the store's email list, calling customers, etc.

## **SALES COMMISSION PLANS**

Ideally, incentive compensation plans should have no limit on potential earnings. The more a person earns for himself the more the company will profit, provided the plan is soundly developed. Thus, management should be pleased to have a high-earning team rather than feel that its employees are overpaid.

Methods of compensation in retail apparel stores can vary all the way from straight salary to straight commission with countless variations in between. The most commonly used are draw against commission or a base rate plus commission. It is incumbent upon retailers to use the method or combination best suited to their particular business. Although we prefer individually based plans, for some stores that does not work out the best as it requires a level of on-going management to make sure everyone is acting in the best interest of the store. In instances where management wants the sales staff to work together as a team without that type of competition, we have set up team-based incentives. Following are several examples of individual salesperson incentive compensation plans:

- a. Salary plus a commission of 1%, 2% or 3%. This is simple to explain, understand and operate, although not as motivating as a commission plan.
- b. A variation on the Salary-Plus-Commission plan would be to set a quota beyond which the commission rate would be higher. For example, assume you pay salespeople \$7.00 per hour plus 1% and want 7% to be your top selling cost. For a 40-hour week the base rate could be \$335. A salesperson doing \$5,500 volume weekly would earn \$280 plus \$55 commission for a total of \$335. In such a case you could set a weekly quota of \$4,786 (\$4,786 times 7% equals \$335) and pay as much as 4% or 5% for sales over quota. Your cost percent for that salesperson would go down as that person reaches higher volumes. For example:

Wages: \$7 Hour

Hourly Wages at 40 hours: \$280.00

Sales: \$5,500

1% Commission on all sales: \$55.00

Commission on Sales Over \$4786 Quota at 4%:  $(5500-4786) * 4\% = 28.56$

Total Wages, including all commissions:  $\$280.00 + \$55.00 + \$28.56 = \$363.56$

Selling Cost % (Wages / Sales): 6.61%

Wages: \$7 Hour

Hourly Wages at 40 hours: \$280.00

Sales: \$7,000

1% Commission on all sales: \$70.00

Commission on Sales Over \$4786 Quota at 4%:  $(7000-4786) * 4\% = 88.56$

Total Wages, including all commissions:  $\$280.00 + \$70.00 + \$88.56 = \$423.56$

Selling Cost % (Wages / Sales): 6.05%

c. A Draw-Against-Commission arrangement is common. The draw should be sufficient for weekly living costs and can be increased as evidence of greater productivity is shown.

d. A variation of the Draw-Against-Commission plan is to use a plateaued commission rate. If an employee is to work 40 hours per week and draw \$320 per week (\$8.00 per hour) their annual sales must equal \$237,700 if direct selling costs are to be held to 7%. A plateaued commission rate might call for:

7% commissions for sales up to \$249,999

7 1/2% commission rate when sales reach \$250,000

8% commission rate when sales reach \$300,000

At each plateau the higher rate applies to ALL sales so that when sales reach \$250,000 the employee receives a \$1,250 bonus. (An extra ½% commission on the first \$249,999 sales.)

Generally, we are in favor of incentive compensation plans; however, this is a decision that must be made by each store. When used, incentive compensation plans should be adapted to each situation. To be considered successful, incentive compensation plans must result in an increase in sales and/or profits. We've helped dozens of retailers implement an incentive compensation plan for their sales staff. Several years ago we developed a compensation plan for every position in the store for an Arts & Crafts store in West Virginia. Everyone from the store manager to the janitor was able to take part in the incentive plan. If you would like help setting up a plan in your store, call me and let's discuss your needs.

## DO YOU HAVE A WEB SITE?

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If you are not on the web yet, you need to be. According to Discover Small Business Watch, 47 percent of consumers surveyed say they are more likely to use a small business that has a Web site. Despite the fact that so many customers put stock in a Web site, 45 percent of small businesses don't have one. If you are not on the web, you are invisible to these people! Can you afford to be invisible to a large portion of the population? The answer is NO, you can not!

Many retailers, especially smaller ones, do not think it is important to have a web presence. They are wrong! Like it or not, the world is tuned into electronic communication. Many people do not even look at the phone book anymore. (My husband is one of them.) They go directly to the web to find the information and merchandise they need. This means that if you are spending a lot for a display ad in the yellow pages, you *might* be wasting your money.

You may think you can not afford to have a web site. However, the statistics above show you can not afford to be without one. You do not have to spend thousands of dollars to have a web site. Years ago

that may have been true but it is not true anymore. To help independent retailers we have decided to add web site development to our list of services for independent retailers. My assistant is also the webmaster for The Retail Management Advisors and will be working with retailers to help them get their web site up and running. To find out more about this service, check us out or the web at <http://the-retail-advisor.com/services.html>.

QUOTE OF THE MONTH

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I heard someone say this and loved it: "I don't want to waste a good recession." Take what you learned this year and make it part of your permanent discipline going forward.

- 1) Constantly make sure your inventory and expenses are aligned properly.
- 2) You need to have great partners. There can be no more win-lose situations; it has to be win-win. Both vendors and retailers must make adjustments and compromise to ensure that relationships are healthy.
- 3) Thank every customer and let them know you appreciate their loyalty.

*Mario Bisio (as quoted in MR magazine e-newsletter-Jan. 2010)*

## SPECIAL OPEN-TO-BUY SERVICE OFFER - EXTENDED THROUGH JULY

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If you are not now using an Open-To-Buy to help you with your buying you are missing an opportunity for more profits and better cash flow.

Get a 100% money back guarantee on the monthly service fee if you sign up for our Open-To-Buy Service by 7-31-2010 and use it for 6 months!*

With our monthly service starting at only \$230 a month for up to 15 classifications, after a one-time set-up fee, there is no reason to wait.

We have the experience (35 years)! We have the right price for independent retailers (no need to pay high fees)!

Call 877-206-1299 or email LC@the-retail-advisor.com today giving us the total number of classifications in your store(s) and we will provide a quotation.

We can make this special offer because of our confidence in our Open-To-Buy Service and it's ability to help you reduce inventory, improve your cash flow and increase your Gross Profit (and Profit).

Contact us today! This offer expires July 31, 2010.

* Sign up for our Open-To-Buy Service by July 31, with the Open-To-Buy starting either August or September, and if after 6 months you are not satisfied that you are benefiting from it, you can cancel and we will refund 100% of all monthly service fees paid.

KEEP YOUR EMPLOYEES HONEST

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Studies have shown that 48% of employees steal from their employer. Don't let dishonest employees walk out with your profits. Make sure you have in place the internal controls needed to help prevent employee theft. For more information visit us on the web at <http://the-retail-advisor.com>. Click on "Keep Your Staff Honest".

## PEER GROUPS

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Belonging to a Peer Group is a gift you give yourself! It can be difficult to open yourself up to others but it is necessary!! You will come away with new ideas to try out at your store to build your business and make more money. We offer 4 different levels of groups to fit your needs. To check them out and join one, send us an email to [eswap@the-retail-advisor.com](mailto:eswap@the-retail-advisor.com) or go to our web site at <http://the-retail-advisor.com>. Click on "Peer Groups."

## RETAIL JOB DESCRIPTIONS

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The best way to find the right employee for a position and make sure they are successful is to have a detailed job description you can use as your guide for both hiring and training. For information on our very detailed job descriptions in WORD format that can be easily customized by you to fit your store, visit us on the web at [the-retail-advisor.com](http://the-retail-advisor.com) and click on the "Job Descriptions" icon.

## BUDGET PREPARATION AND CASH FLOW PROJECTION SERVICE

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Studies have shown that those who prepare a detailed plan for their business are almost twice as likely to reach their goals. If you would like help with this important project, call 877-206-1299 or email [LC@the-retail-advisor.com](mailto:LC@the-retail-advisor.com) today.

## WHAT WE DO . . .

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- o [Monthly Open-To-Buy Service](#)
- o Open-To-Buy Implementation on Your System (if available)
- o Merchandise Performance Evaluation
- o [Shrinkage Control](#)
- o Development of Incentive Plans
- o [Development of Job Descriptions](#)
- o Seminars On Retail Subjects
- o Financial Analysis
- o Financial Budgeting and Cash Flow Projections
- o Computer/POS System Evaluation, Selection, Usage
- o Policy and Procedure Development
- o [Lead Tele-SWAP Groups](#) (Share With A Peer)