



Home

Mission ▾

Services ▾

Testimonials

Clients

About ▾

You Are Here: JAN 2003



## Focus

A Newsletter published for clients and friends of Wagner Consulting Group

JAN 2003

VOL. IV, NO. 1

### Plan for Christmas Bonuses Now

Companies that distribute employee bonuses in December often waste money because they ignore the opportunity to engage employees in achieving business goals. Bonuses paid on a purely discretionary basis are viewed by most recipients as gifts, and over time become expected entitlements.

#### Transform Gifts to Profit Sharing

Explicitly linking year-end bonuses to company profitability, and announcing the plan to eligible employees at the beginning of the year, helps align employee goals with those of the company. Moreover, developing a bonus plan helps management focus on goal achievement.

#### Key Concepts

1. Total bonus payments - the "Bonus Pool" - are tied to company profits.
2. Predetermined profit ranges define the amount of the Bonus Pool.
3. The dollar amount of profit targets and results need not be published.
4. Bonus Pool distribution may be discretionary, predefined, or both.

#### Determining the Bonus Pool

Begin with the year's pre-tax Net Income goal. Ask: "How much in bonuses would I want to pay if we achieved this target?" If the answer is "None," pick an amount at which you would pay bonuses. Then pick a larger profit amount, and set a total bonus payout. Then pick a third.

#### Decide Who is Eligible

Choose the employees, or employee classes or groups, who will be eligible for bonuses. If more than one class or group is chosen, decide what percent of the total Bonus Pool each group may receive. Establish other eligibility requirements, as appropriate.

#### Establish a Distribution Plan

Actual bonus payments to an employee within an eligible group can be purely discretionary, but I recommend a minimum distribution to all who are eligible. *If the person is not worth some minimum, why are they working for you?* A "fixed" distribution plan is simple, and uses some factor (like base pay, level, etc.) to allocate the Bonus Pool among the group. A combination of fixed and discretionary components (say, 50% of the available pool to all, and the balance to just those who really made a difference) suits most situations.

#### Announce the Plan

Announce the plan to all eligible employees, and let them know their good efforts may be rewarded at year-end. *However, clearly establish there is no guarantee any bonus will be paid, and the company may alter or abolish the plan at any time, without notice.*

#### Keep Participants Informed

#### Page Links

Case Studies  
 Signup for our free newsletter  
 Newsletter Archives  
 Downloads

Share monthly or quarterly profitability results, in real dollars or as a percent of the goal, will eligible employees. The best of them will work hard to boost profits. The worst won't care. Those in the middle represent an opportunity for improved company operations, but you must communicate goals and expectations clearly and often.

*Tom Wagner*

We help clarify options so our clients  
identify the Right Questions  
and solve the Right Problems.

Call us at 800 422-1374 to learn more.

Copyright 2006, Wagner Consulting Group, Inc.

[Home](#) | [Mission](#) | [Services](#) | [Testimonials](#) | [Clients](#) | [About](#)

Copyright 2011 Wagner Consulting Group, Inc. - (800) 422-1374