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Management Bonus Plans That Work

by Chris Tripoli

This is a story about Frank. He was one of three managers of a popular full-service, casual-theme suburban restaurant. He worked his schedule, fulfilled his responsibilities and on the 20th day of the month received a bonus for his previous month's efforts.



This went along for more than a year, over which time he received about the same bonus, on the same day each month for the same work. Then, like a

light switch turning on it happened: Frank peaked. He didn't work any harder, didn't do anything extra, didn't make any suggestions for improvement or help out if needed. Frank was just there, simply going through the motions, putting in his time doing the basic daily shift duties. Soon, things began to slip. It was little things at first, but then it worsened and became quite obvious that Frank had lost his incentive to provide top performance.

This shouldn't happen right? After all, he was getting paid a competitive salary for his time and earning a bonus for his work every month. This was the first time I came face to face with this situation because this was my restaurant and Frank was one of my managers.

"What is wrong with him?" was my first thought. He should want to work harder, grow to become a better manager, and look to do the little things that may be needed without being told, because that is why he was getting a bonus. I knew I was right to expect this. After all, I know that a bonus is supposed to create an "incentive." So where did I go wrong?

Maybe it was the routine of the payment that made it appear to be "less than extra" and allowed Frank to feel this was expected as a part of his paycheck. Perhaps it was because the basis for the bonus was a sales and profit target I alone set. In any event, the incentive bonus lost its effect and was certainly not providing the motivation I had hoped it would. So, I blamed Frank, thinking he failed me and must not have been the right person for the management position after all.

I discussed this with other independent restaurant owners I knew and after learning of their similar disappointments with bonus plans that did not provide an incentive, I decided to focus my attention on the process rather than the person. That was back in 1989, and incentive bonus structures are every bit as large an issue for operators now as they were for me then.

This article takes a close look at the incentive bonus process, why some miss the point and how you might be able to adopt one that hits the target.

Bonus Basics

By definition a bonus is something paid or given over and above what is due; i.e., a sum of money granted or given to an employee in addition to regular pay and usually in appreciation for work done above and beyond expectation. We all can learn from bonus plans gone bad; those are usually ones that sacrifice long-term incentive for short-term gain. For example:

A West Virginia diner operator wanted to create an incentive for his kitchen manager to lower the food cost, so he developed a sliding scale bonus plan that allowed the kitchen manager to earn more, the lower he kept the food cost. After a few months of low food cost and high bonus payments, the owner found that they had created more than a low food cost. Recipe portions became smaller and product specifications had changed. That, along with some poor customer comments, were enough for him to realize that this was only a "win" for the kitchen manager and a large "loss" for the long term of the concept.

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A restaurant-bar owner in Southern California wanted his managers to pay more attention to service staff labor, as current costs were overbudget and overtime was too high. A bonus structure was developed with specific labor cost targets. The management teams met and beat the targets so they received their incentive bonus payments. However, per-person check averages became lower, service was slower, reducing the gratuities left for servers and negative guests comments increased.

This created a serious concern for the owner who quickly realized he was actually rewarding people for short-term gains at the risk of his long-term brand and reputation. These "specific task" incentives do not create the fairness, long-term benefit or personal development we recommend be included in any restaurant incentive bonus plan.

Recipe for Success

As with anything you make in your restaurant, having a recipe to follow helps make it right consistently. The recipe for a good incentive bonus program for managers starts with an "annual plan." Having management involved in the planning process and goal setting for sales, marketing, facility maintenance and improvements, as well as cost budgets for food, labor and controllable expense items give them a sense of "buy-in" and makes it easier for them to feel responsible and to be held accountable.

Add a reasonable time period for review and bonus (quarterly goals work better than monthly). Then, mix in the tools and materials management requires to be successful because knowledge is an incentive. The more a manager knows of the business he or she is managing, the more they try, the longer they stay, and the easier it is for them to succeed. Finally, develop an evaluation format that allows management to review successes, identify opportunities for improvement and list specific steps to take each quarter. Now you have created an incentive plan to help managers grow, develop and win. The goal of every incentive plan is to hear the manager ask at the end of each bonus period not simply, "How much did I earn?" but rather, "How well did I do?"

So, how does this get put into action? What is the best way to reward management? How much bonus is anticipated? And how often is a bonus typically paid? To answer these questions I have included a model developed from a case study.

The Tamale House is a fast-casual, counter-service Mexican restaurant open for lunch and dinner seven days a week. The owner wanted to place the manager and assistant manager on an incentive-based bonus plan. This restaurant has a strong weekday lunch meal period, good weekend nights and steady early dinners during the week. Although this concept offers beer and

wine, 95 percent of sales are from food. Both managers work positions during their shifts either behind the counter or in the kitchen.

Following the steps outlined in this article, the managers worked with the owner to develop a bonus plan based on an annual budget. This was an educational experience for them, as they had been familiar with cost of sales and labor cost before, but not until this process had they realized which costs were controllable and which were not. The owner preferred a bonus based on the net operating profit so that the managers would have an incentive to raise sales while watching expenses. The managers signed off on a budget (See "[Tamale House Budget](#)" below), as well as a once-a-quarter performance review and bonus evaluation.

With annual sales of \$1.2 million, cost of sales of 32.6 percent, and total labor costs of \$375,874, the annual net operating profit is projected to be \$204,626 (17.1 percent). It is quite common to base the incentive bonus on Net Operating Profit (NOP) because as management you feel it includes all items you are able to influence in one way or another. As an owner you are comforted that occupancy expenses, corporate overhead, debt service and other "owner related" items are kept off the manager's profit-and-loss statement, as they cannot influence those items and some amount of privacy may be necessary.

Managers begin to pay more attention to utility management, repairs and maintenance, paper, small wares, linen cost and uniforms once they prepare an itemized budget like this and are working to earn a bonus from their reports.

The Bonus Formula

Five percent of the NOP of \$204,626 was reserved for the two managers. That amount is \$10,231.20, or less than 1 percent of projected annual sales.

Manager (GM) receives 60% of bonus total \$6,138.78

Asst. Manager (KM) receives 40% of bonus total \$4,092.40

Total \$10,231.18

Each manager is reviewed-evaluated each quarter using a format they helped develop. If a manager's score is 90 percent or higher, he or she may be entitled to receive 100 percent of the bonus amount.

This type of incentive-based bonus program is quite popular among smaller independent restaurant owners. Variations can be made to the breakdown depending on the amount of management staff. The advantages include a motivated management team becoming more knowledgeable as they gain experience from a broad scope of responsibilities (maintaining sales while managing costs) rather than from specific tasks and an "operate as an owner" approach to business that comes from having input into a budget and operating plan.

Charting Bonus Success

When developing the management incentive plan evaluation format, consider the participants' tasks and personalize the ratings so that you may receive maximum benefits from their job functions (capabilities) and personal characteristics (compatibilities). **The following charts below** illustrate a system based on a restaurant that is full-service, with management positions in the front of house (service) as well as a chef-kitchen manager.

Charting Bonus Success

It is important to rate performance and provide specific measurements of success to support your ratings whenever possible. This rating scale should be used for all sections.

Rating	Explanation of Rating Level
5 (Outstanding)	Performance, which is exceptional and is sustained at a level far beyond that of a fully proficient manager; extraordinary.
4 (Excels)	Performance consistently better than that expected of a fully proficient manager.
3 (Proficient)	Performance that meets the expectations of a manager in this position.
2 (Needs Improvement)	Performance less than that of a fully proficient manager; improvement necessary.
1 (Unsatisfactory)	Performance does not meet job requirements; immediate and substantial improvement is necessary.
0 (Not Applicable)	Job factor considered not applicable to the position.

If your restaurant manager's responsibilities include management of the bar and its related functions, you might have a section to rate like this example.

BAR MANAGEMENT	Rating Scale (check one)				
	1	2	3	4	5
▪ Lockers					
▪ Weekly inventories					
▪ Waste – (promo comps + spills)					
▪ Current item cost					
▪ Ordering procedure – par levels					
▪ FOH supplies (to-go) (bar consumables)					
▪ Quality – recipe to specification					
▪ Portion – presentation, consistency					
▪ Bar training, staff following operating procedures					

TOTAL = ____ out of 50

Most restaurant dining room management includes those listed in this example.

FRONT OF HOUSE (FOH) SERVICE	Rating Scale (check one)				
	1	2	3	4	5
▪ Hostess phone etiquette					
▪ Wait list effectiveness and accuracy					
▪ Uniforms and appearance to standard					
▪ Server, service steps (accurate-consistent)					
▪ Food and bar product presentation service to standard					
▪ Pre-bussing					
▪ Dessert presentation					
▪ Daily special explanations-presentations					
▪ Mystery shoppers reports					
▪ Side work – running duties					

Charting Bonus Success

Commonly found office-administrative duties in a full-service restaurant environment might include these to the right.

BACK OFFICE	Rating Scale (check one)				
	1	2	3	4	5
▪ Invoice procedure – accurate and filed					
▪ Labor schedule to target for FOH departments					
▪ P&L, weekly procedure reporting					
▪ Cash management – deposits accurate and change orders					
▪ Daily reports – complete and accurate					
▪ Employee file information current					
▪ Review and edit daily labor information					

TOTAL = _____ out of 35

Management usually plays a role in the implementation of the approved marketing program and should be evaluated on their efforts.

RESTAURANT MARKETING	Rating Scale (check one)				
	1	2	3	4	5
▪ Execution of marketing plan					
▪ Implementation of special programs (wine dinners, etc.)					
▪ Media – public relations programs					
▪ Catering program effectiveness					
▪ Banquet (private dining) programs					

TOTAL = _____ out of 25

Maintaining a clean, safe, healthy work environment is a most basic and extremely important management responsibility.

SAFETY & SANITATION	Rating Scale (check one)				
	1	2	3	4	5
▪ Effective daily-weekly closing procedures					
▪ FOH shift cleanliness to standard					
▪ Health department inspection scores					
▪ Bar-bus stand equipment in good repair					
▪ Training and supervision of staff to standard					
▪ Company unit inspection score					
▪ Safety measures posted – staff trained					
▪ Outdoor areas clean and safe per standard					
▪ Restroom facilities clean and safe per standard					

TOTAL = _____ out of 45

Charting Bonus Success

FOOD SERVICE RELATED	Rating Scale (check one)				
	1	2	3	4	5
▪ Quality of items – specifications					
▪ Menu effectiveness (items sales, PPA)					
▪ Presentation as specified & consistent					
▪ Research and Development (features and promotions)					
▪ Taste, temperature, freshness					
▪ Product handling as per procedures					
▪ Mystery shopper score to target					
▪ Consistency in product preparation as per recipe					
TOTAL = _____ out of 40					

Chefs and/or kitchen managers should have a similar format and rating procedure. The departmental duties and responsibilities are different from the service management team and might include the categories and items as listed above.

OVERALL APPRAISAL SUMMARY

Directions: Using the definitions for each performance level, check the box that best matches your appraisal of the manager's overall performance.

Outstanding	Excels	Proficient	Needs Improvement	Unsatisfactory
[]	[]	[]	[]	[]

Areas for Improvement and Development

List up to three key areas in which manager needs to improve or develop.

Goals/Objectives for Next Evaluation Period

List major goals and objectives for upcoming review period agreed upon by manager and supervisor.

Based on these scorecards, you can complete your overall appraisal summary, grading the manager's performance on a scale of the total possible points. **RS&G**

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✓ Checklist

Four Components of a Successful Incentive Bonus Structure

Gary Turner, president of Hospitality Pro Search, a national restaurant management placement firm based in Houston, tells us that all successful incentive bonus structures include the following components:

✓ **Fair.** To provide an incentive to managers and create the motivation required for owners and managers to succeed, the bonus must be a "win- win." Both management and owners

must see benefits (increased sales plus profits).

✓ **Reasonable.** If the objectives are easily understood and goals are reasonable (within industry standard) then there is a far greater chance of management becoming motivated, and succeeding.

✓ **Sufficient timeline.** The incentive plan must have targets and a realistic schedule for implementation. Quarterly bonuses rather than monthly are more popular because they seem to allow the management team time to chart progress and meet expectations.

✓ **Regular evaluation.** Each manager included in the incentive bonus plan should receive an individual evaluation at the end of each bonus period to review accomplishments, receive constructive criticism and set developmental goals for the next period.

Involve the Recipients

When it comes to developing and putting in place an incentive-based bonus plan for your management, remember to involve the recipients in the process, and evaluate regularly to celebrate the successes and chart new goals and objectives. Although there may be no "one size fits all," if you follow the steps outlined here, you may just custom-tailor a net operating profit bonus plan that provides the incentive you were looking for and becomes the win-win situation that helps your managers grow and your restaurant succeed.

Tamale House Budget

Sales			Other Controllable Expenses (cont. from left column):		
Food	\$ 1,140,000.00	95.00%	Marketing		
Liquor	\$ 60,000.00	5.00%	Advertising, PR & Materials	\$ 12,000.00	1.00%
TOTAL SALES	\$ 1,200,000.00	100.00%	Printed Materials	\$ 24,000.00	2.00%
			Total Marketing	\$ 36,000.00	3.00%
Cost of Sales					
Food	\$ 376,200.00	33.00%	Utilities		
Beverage	\$ 15,000.00	25.00%		\$ 20,000.00	1.70%
			Electrical		
TOTAL COST OF SALES	\$ 391,200.00	32.60%	Gas	\$ 9,000.00	0.80%
			Water	\$ 6,000.00	0.50%
Gross Profit	\$ 808,800.00	67.40%	Trash Removal	\$ 5,000.00	0.40%
			Total Utilities	\$ 40,000.00	3.30%
Payroll					
Salaries & Wages			General & Administrative -		
Management	\$ 72,000.00	6.00%	Office Supplies	\$ 1,800.00	0.20%
Hourly Employees	\$ 228,000.00	19.00%	Postage	\$ 1,300.00	0.10%
Total Salaries & Wages	\$ 300,000.00	25.00%	Telephone	\$ 4,800.00	0.40%
			Dues & Subscriptions	\$ 2,400.00	0.20%
Employee Benefits -			Credit Card Charges	\$ 27,000.00	2.30%
Payroll Taxes	\$ 31,374.00	2.80%	Cash (Over) / Short	\$ 1,200.00	0.10%
Worker's Comp	\$ 27,000.00	2.50%	Bank Deposit	\$ 2,400.00	0.20%
			Services		
Medical Insurance	\$ 15,000.00	0.80%	Bank Charges	\$ 1,200.00	0.10%
Other	\$ 2,500.00	0.20%	Professional Fees	\$ 12,000.00	1.00%
Total Employee Benefits	\$ 75,874.00	6.30%	Miscellaneous	\$ 2,000.00	0.20%
TOTAL PAYROLL	\$ 375,874.00	31.30%	Total General & Administrative	\$ 56,100.00	4.70%
			Repairs & Maintenance		
PRIME COST	\$ 767,074.00	63.90%	Building & Grounds	\$ 15,000.00	1.30%
			Equipment	\$ 17,000.00	1.40%
Other Controllable Expenses:			Total Repair & Maintenance	\$ 32,000.00	2.70%
Direct Operating Expenses					
Uniforms	\$ 3,000.00	0.30%	NET OPERATING PROFIT	\$ 204,626.00	17.10%
Laundry & Linen	\$ 18,000.00	1.50%			
Tableware & Smallwares	\$ 7,500.00	0.60%			
Paper Suppliers	\$ 17,100.00	1.40%			
Cleaning Supplies	\$ 6,000.00	0.50%			
Contract Cleaning	\$ 6,000.00	0.50%			
Security System	\$ 3,600.00	0.30%			
Miscellaneous	\$ 3,000.00	0.30%			
Total Direct Operating Expenses	\$ 64,200.00	5.40%			

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