Can't give raises? How about bonuses?

**Can't afford to give raises?** Is giving raises to your employees your best option? Yes, employees will always take a raise, but consider a better approach.

Q. We have a few employees who are getting dissatisfied because they haven’t gotten a pay raise in the last couple years. Frankly, if we give these people raises we’ll have to raise everyone’s pay, and we just can’t afford it. Any suggestions on how to handle this?

A. Set up a bonus (or premium pay or profit sharing) plan for your employees, tied to improve profits.

First, though, you and your employees have to decide where and how you can realistically increase profits. Because the only way you can pay out bonuses is to have more profits coming in. Examine where your profits are coming from and where and how you can increase profitable production and sales.

Second, identify the contributions each employee can realistically make in their work to increase profitable production and sales. Each employee needs to identify specific ways they can work smarter, work better, to help achieve the increase in profits.

Example: XYZ Company’s increased profits flow from increased sales generated by a 10-person sales team, supported by a 10-person management, office and shipping staff. These 20 people work together as a team to increase profitable sales by 20 percent without increasing staff costs. This means everyone must work more, and smarter and more efficiently, so that the increased profits aren’t eaten up by increased payroll and benefits costs.

Third, set goals for each employee and for the entire company to reach within realistic time frames. Meet with employees to openly discuss all this and to get their input into the profit improvement plan.

Fourth, decide with your employees how and when they will share in the increase in profits.

**Bonus Plan Considerations**

In setting up your bonus (or premium pay or profit sharing) plan keep these factors in mind:

1. How will you schedule the bonus payments? Some possibilities:
   - A percentage of the increase in profits, paid out in lump sums quarterly, to all employees who achieve the goals set for them?
An escalated schedule, with the percentage of increased profits put into a bonus fund, and paid out monthly to employees in increasing amounts.

A de-escalating schedule, with the percentage of increased profits put into a bonus fund and paid out monthly to employees in decreasing amounts.

2. How will you educate your employees on how the bonus system will work and how each employee's efforts fit into achieving the plan?

3. How will you and your employees work together to improve the employees’ skills so that they realistically can contribute more and achieve more?

4. How will you assure that your employees know the plan is not a guarantee of unending income increases? Suggestion: Write up a memo in which you explain the bonus plan, all the key elements of it, and explain in clear words that the plan is limited in duration (perhaps include a date for its end). State clearly that the bonus plan is not a permanent arrangement. Have each employee sign a copy of the memo acknowledging that they understand the plan, and place this signed memo in each employee's file.

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