

Kramer Consulting

“specializing in the construction industry”



Box 14195, Scottsdale, AZ 85267

Phone (480) 314-0711 // **Fax** (480) 314-0007

Website: www.k-advise.com

E-Mail: tkramer@kadvice.com

xxx CONSTRUCTION

Incentive Plan Roll-Out

2010

I. INCENTIVE PLAN ROLL-OUT

A. Basis For Incentive Program

1. This Incentive plan is a company-wide plan built upon achieving the return on investment (ROI) threshold the company has outlined, currently set at 25 % ROI. This ROI benchmark falls within the reasonable profit expectations of General Contractors.
2. This ROI threshold approach is designed to maximize bonus payouts when achieving the threshold, but it is also designed to protect the company financial position when the ROI threshold has not been met.
3. The performance criteria have been developed to establish a more collaborative work environment within the company. The performance criteria are designed to target work tasks and goals that are within specific positions that have challenged the company for some time. Achieving the performance criteria should contribute immensely to company teamwork and a stronger team environment. If we help each other to complete our performance criteria, we will all be rewarded.
4. This program is designed to reward company personnel based upon collective profitability, not upon individual project profits. We have included office personnel in the incentive pool to acknowledge their contributions in generating company profits.

B. Detailed Roll-out Points About The Incentive Program

1. Show and discuss with employees the ROI threshold/bonus payout Excel worksheets
 - a. Show employees they will receive more than their 3 year average bonus
 - b. Tell employees that the incentive program will be flexible enough to grant discretionary bonuses in specific situations
2. Show and discuss with employees the performance criteria
3. Show and discuss how the performance criteria impact the payouts
4. In every situation allow employees to poke holes in the plan and make suggestions
5. Keep in mind that the company is still trying to create full buy-in
6. Share the starting date of the plan
7. Let employees know how you handled the recent bonus payouts
8. Performance criteria will be scored within 6 months on a test basis to provide employees with the necessary feedback to alter their performance and to increase their opportunities for maximum bonus payouts leading up to their annual review
9. The bonus pool is designed to grow through the years, thus the maximum bonus amounts and performance criteria per employee will be revisited and adjusted every 3 years

10. The 3-year Average Bonus Analysis is for your reference
11. Use the Profit & Bonus Projections worksheet to adjust the forecasted Revenues/Net Profits
 - a. Use the 3 ½ % forecasted for NPBT
12. All bonus calculations will adjust accordingly on the following worksheet – Bonus Payout Adjustments
 - a. When the NPBT changes so does the bonus pool, either up or down
 - b. All employee bonuses will adjust to equal the maximum bonus payout
 - c. After any adjustment, the company can see where the bonus pool amount is at, where individual bonuses are at, and where individual bonuses are projected to be
13. The calculations are all based on the maximum bonus amounts. If the company continues to create challenging performance criteria, average scores should come out around 75 %.
14. Owners will have to let employees know that they affect the bonus pool. The more money the company makes the more employees will get.

Example:

- a. If the company finishes the year at 4 % NPBT then the Supt. max bonus would be \$ 13,714 instead of \$ 12,000. If the company finishes at 3 % NPBT then the Supt. Bonus would be \$ 10,286

C. Procedures For Bonus Calculations

1. The company must maintain 25 % ROI for the bonus pool to be created
2. The bonus pool will consist of 20 % of the net profit when the 25 % ROI threshold is achieved
 - a. In the event the company *does not* meet the 25 % ROI threshold, employee bonuses are at the sole discretion of the Owners
3. The final performance review will be conducted at year end
4. Managers will grade according to the Performance Criteria Worksheets
5. Employees will receive a percentage of their maximum bonus based upon the performance criteria scores

Example:

- a. Project Manager maximum bonus = \$ 18 K
 - b. PM scores 80 % on performance criteria
 - c. PM bonus = \$ 14,400
6. Bonuses will be paid within 60 days of the FYE or when the year-end audit is complete, whichever comes sooner
 7. As the company grows or contracts, employees will likely be either added or terminated. This change in the number of employees will influence the amount of the total bonuses paid

out. The company will decide whether to limit the overall bonus pool to the maximum of 20 % of NPBT. The company reserves the right to adjust individual bonus % allocations to remain within the overall 20 % of NPBT bonus pool.

8. The Owners of the company reserve the right to rescind, modify, or alter this incentive plan to protect the financial position of the company or to benefit the employees.