

# 13. Compensation

*Choose the Compensation Plan that is Right for Your Business and Right for Your Employees*

Compensation is an important element in your business. It attracts and retains employees. If you offer or pay too little, you won't attract or retain good help. Conversely, if you offer more than you can reasonably afford to pay, you will be forced to go out of business because you're paying more than the business can support.

## Factors Influencing Compensation

There are several factors which influence how much money you can afford to pay your employees. These factors are critical in allowing you to offer wages which are competitive with other service businesses, while still keeping your operating costs in check. Pay attention to each element in a critical fashion:

**Hiring the right person for the job.** Trying to fit a square peg into a round hole is a waste of time. The right individuals need to meet the recommended qualifications for the job. No matter what kind of compensation program you use, you must pay more than the general population probably would demand for this job. If you paid them \$20 an hour, they would quit.

**Training.** The more you invest in training your employees in the cleaning business, the more they will work for you. While many employees may not have the necessary skills, with enough training, your employees can become the best in the business. To afford you to compensate them, you would need to invest in training. *Importantly, an amount they can't get elsewhere.* This is a key element leading to client satisfaction, which is a justifying cleaning price you can charge.

**Your pricing strategy.** Think about it: Do you think it's more important to be the lowest priced cleaner in your area or might it be strategically more important to be the highest priced? You might be able to charge a little more so you can afford to pay your employees a little more.

Remember that while competitive factors may influence the wages you offer and charge the consumer, it's perhaps even more important to consider competitive wage compensation factors. It takes good employees to achieve client satisfaction. Wrong employees will result in lost clients no matter how competitive your cleaning prices are to the consumer.

You've got to charge enough to enable you to be wage competitive on the labor market, if you expect to attract and retain good employees.

**Scheduling Efficiency.** Efficient scheduling is as important to overall efficiency as efficient cleaning methods are. Teaching your employees to save time cleaning and then losing all that time due to inefficient scheduling is an expensive waste.

Expecting efficiency to translate to maximum revenue per hour (*a major factor influencing the compensation you can afford to pay*) will only materialize if your teams' daily cleaning schedules are equally efficient.

### What IS a Competitive Wage?

The answer to this question depends on a number of factors.

1. An hourly pay rate which at least meets but preferably exceeds the average hourly wage paid to unskilled or semi-skilled workers in your market;
2. More specifically, an hourly pay rate which exceeds the rate being offered by competitors in your market;
3. A gross weekly income (sum of hours times hourly rate) which meets the needs of your employees (if not her wife).

### Compensation Alternatives

There are a number of ways a house cleaner can be paid. We have listed some of the pros and cons of each of them to better understand the pros and cons of each and to help you choose the best:

#### A. "Mission-Critical Independent Contractors."

You could, of course, create your labor force as independent contractors, thereby relieving you from such burdens as Social Security, Medicare, State and Federal unemployment taxes, and perhaps even Workers' Compensation insurance.

The IRS has defined what constitutes an "employee" and this pretty much eliminates the option of classifying your work force as independent contractors. (See <http://www.irs.gov/businesses/small/article/0,,id=99921,00.html> )

It is well known that some operators in our industry do claim this status for their labor force, but we can assure you they're walking a very fine and dangerous line. Independent contractors can legally work for whom they want, when they want, how they want, and choose their own work with and for.

You would have very little, if any, control over the quality or quantity of their work. The fact is, even if they could qualify (*under IRS rules*) as independent contractors, the potential downside would be greater than the upside.



(usually the kitchen person), and 12% for the second associate (usually the bathroom person). In the case of a team of two persons, the team leader might receive 21% and the assistant would get 19%. Of course, individual business owners sometimes modify this arrangement, but this is basically the type of compensation program most typically used.

**E. Hourly Wage/Percentage Combination.**

Because the Revenue Sharing Plan we just described is based on employees being paid on a percentage of the price they often complained about not being paid for "other" time and rightfully so.

Travel time, for example, is frequently underestimated and considered at all when owners are trying to bring clients' homes. An alternate compensation plan would combine a base hourly wage with revenue sharing.

This compensation plan consists of both a base hourly rate, and a bonus which is an amount based on their own efficiency. Under this plan you establish a guaranteed hourly rate for each member on the team.

On a three person team, for example, if the team leader was guaranteed \$11/hour, then person would be \$10/hour and the bathroom person would be \$9/hour. If the team's overall efficiency for the week was 100% for the team, this translates to a total of 90 man hours (30 hours x 3 people).

The minimum guaranteed pay for this team in this example would be \$900 (90 man hours x \$10/hour).

Assuming the team in your example generates \$2,700 in revenue, the owner's payroll cost would be \$1,080 if the allocation for direct labor cost at 40% of the revenue share program.

Under this compensation program the team would be entitled to an "efficiency bonus" for this pay period, which would be split between the team members. This would equate to an average bonus of \$2/hour per team member, increasing the overall hourly rate for the team in this example from \$10 to \$12/hour.

Thus, if the team's overall efficiency for the pay period were to be less than \$30/hour (including travel and other paid time), the owner's payroll cost for this team would work out to be \$1,080 (40% (\$30/hour X 40% = \$12/hour).

If a team of three people worked 30 hours (90 man hours), it would need to generate \$2,250 in order to keep direct cleaning wages at 40% (40% X \$2,250 = \$900)..

If the team worked 30 hours at an average guaranteed rate of \$10/worker, the direct payroll cost would jump to 50% (plus payroll burden) if the team only did \$1,800 worth of cleaning in that time. And of course, at \$2,250 or less the team members would not earn a bonus in this example, either.

**F. "Fixed" Revenue Sharing**

The allocation of a fixed dollar amount share provides a built-in incentive for the team to work efficiently. The more work they do in the same amount of time, the faster it gets done. Team members can work faster for the same money and wind up earning higher hourly rates.

On Fixed Revenue Sharing the team's compensation is determined based on a percentage of the total price. It is discussed in detail in *Pricing for Profit*. The revenue share is a part of the formula for determining the price.

If you want your employees to earn \$1,800 for example, and the team's gross pay is paid based on the total price, you calculate it will take to complete the job as a percentage of "other" time (such as travel and administrative time).

If you calculate 2.4 hours of working time (a total of 7.2 hours in the home office, 4.8 hours for a three person team), and a 20% share of time, the team share would be 2.4 hours. If you have 12 hours in total, the share would be 2.4 hours. (2.4 hours / 12 hours = 0.2 or 20%)

The Fixed Revenue Sharing compensation program provides the incentive to work faster with the **Percentage Revenue-Share Plan**. An example of the **Percentage Revenue-Share Plan** is provided in the *Pricing for Profit*.

For the employee, the incentive employee can increase her actual pay by working faster. The plan is simple to understand, but she also knows exactly how much she is earning that day by simply looking at the price. She does not need to do any percentage calculations. Some employees are often intimidated and suspicious of percentage-based plans.

When allocating a percentage of the price to labor, if you increase your price to cover additional operating costs or to increase your profit, your payroll (wages plus payroll burden) eat up about half of every dollar you raise your price.

**Your cost of labor is a key factor in determining your cleaning price.**

The topic of PRICING FOR PROFIT is covered in a later chapter in Chapter 23 of this manual. Before you settle on your employee compensation plan, you should review the section on Pricing. Owners often tend to determine what they're going to pay their employees by working backward from their cleaning price, which is often determined by guess and by golly.

Our POM=CP pricing formula starts by determining how much your employees will be paid to perform their service ("P" = Payroll and payroll burden, including FICA, FUTA, SUTA and Workers' Compensation expense) and then adding a fixed, pre-determined overhead factor (including all other business related expenses based on a percentage basis) and then adding your profit ("M" = Margin) to arrive at your Cleaning Price (hence, the "POM=CP" formula).

When you review and study the POM=CP formula you're likely to conclude for yourself that the Fixed Overhead Factor method we recommend actually makes sense if seen in the context of other compensation options.

### A Word to the Wise

You can choose to pay your employees by the hour, providing it is legal under the general employment law. **BE SURE TO REVIEW ITS TERMS** before you do this.

We believe that revenue sharing is the one most worthy of your consideration. You need to be aware of possible pitfalls that can arise from this method.

Revenue sharing can be a problem if you underestimate the time required to complete a job. If your employees could wind up on the clock for a long time, especially in the case of big first-time or one-time jobs, this is a sure way to demoralize a team in a hurry.

Any time you must be prepared to guarantee your employees a minimum wage rate, that rate must meet your state's minimum wage requirement. From a practical perspective it should be at least \$1 or more above the minimum wage.

You must be very conscious of travel time. Since travel time is not productive time, sending a team a half hour out of their way on a given day for a client doesn't make economic sense under any compensation program.

That's a wasted one hour for the team (half hour there and back). On revenue-sharing, that's an hour of unpaid time for the team; three hours of pay you must cover (for a three-person team).

Some owners who pay their employees on a revenue-sharing basis calculate their employees' hourly wage based on actual cleaning time only. However, in order to compare apples to apples a direct comparison needs to be calculated based on total working hours.

Compensation of \$10 per hour calculated only on actual cleaning time, with 25% of the day being taken up by office and travel equates to a wage of \$7.50 per hour, just 25 cents an hour higher than the 2009 U.S. federal minimum wage.

### Other countries

Recognizing that if you are in a country other than the United States, your minimum wage and typical hourly wage rates for workers in the service industry will be different. Canada's minimum wage for example ranges from \$8 to \$10 per hour, depending on the province (<http://canadaonline.about.com/od/bl/faq/wage.html>). As of October 2009, the minimum wage in the United States is \$7.25 (and as of January 2009, the minimum wage in the United Kingdom is £5.80 (approximately \$9.60 U.S.) However, regardless of your country, the domestic principles above described apply uniformly.

### Payroll Record Keeping

It is extremely important that you maintain your revenue sharing program effectively. You want to ensure that your employees are being properly compensated and that you are in compliance. (Keep accurate payroll and tax records for all employees. Records must be kept *in file for 6 years.*)

Whether you use a payroll company or manually on your computer (and whether is preferred by your employees) you should comply with the following forms in your payroll records:

- 1. Team Roster
- 2. Invoicing and Payroll Summary (4 versions)
- 3. Employee and Employer Tax Record
- 4. Annual Expense and Payroll Tax Summary

**Record Keeping**  
It is primarily the responsibility of the Team Leader. The Team Number and Date is first recorded at the top.

The Team Leader (who should be the first to sign in every day) has the others sign in below her name as they arrive at the office. Each "start" time is then recorded under "Start: Clock-in-Time". Remember that the team members' "guaranteed" hourly rate starts from the time they clock in until they leave the office (less only lunch and other "off-the-clock" break time).

When the team leaves the office, the Team Leader must note the time of departure in the "Time Left the Office" column. Assuming the team leaves as a group (which will occur in most cases), the departure time will be identical for each team member

*(Note that there are five rows available for listing team members. We have designed the form to accommodate potential switch-out personnel which can occur on any given day. In the event there are different people on a team throughout the day, this will assist you in keeping hours and wages straight.)*

In the next column is the name of the final client of the day. The client's name should be written in under "Client Name", and the time of arrival so noted under "Arrive". When the team finishes the hour, the Team Leader then records the time of departure under "Leave".

*(We recommend that you do not have the Team Leader to complete the calculations at the bottom of the record. This information should be calculated by you or a member of the office.)*

The *Daily Team Record* can be used to record multiple days of cleanings a day. It's important to keep track of the time and date in order to determine if there is any non-paid time. If there is, it should be noted each day. Both you and the Team Leader should check the record regularly to see if more efficient scheduling could be used to save time.

Some clients in the office may have an open door for esprit-de-cadre, an important part of the culture. Encouraging camaraderie is vital, but since time is not paid for this, it should be noted. Since time is required for folding linens and for washing trays and aprons, these things should be noted as well. The time spent in the office (not during work hours) should be noted and engaged in.

It is important that the Team Leader accurately records "off-the-clock" time throughout the day. You should keep track of this non-paid time at the bottom of the *Daily Team Record* sheet and record the time in the third column under "Leave Time." The Team Leader should also record other paid (if applicable), on the back of this record.

Ensure that all reports are accurately completed and computed since information will be transferred to other reports.

### **Employee and Payroll Tax Record**

This form combines information you need to track as well as records that you are required to maintain. You will keep one of these forms for every employee (*and remember, these records are required by law to be kept for 6 years*).

If there are any non-cleaning hours, like paid meeting time, or perhaps time the person may have spent on marketing-related activities (*like*

sticking labels on direct mail pieces, putting brochures into Poli-Bags, or door-hanging activities), these hours should be recorded in the "Non Clean Hours Worked" column, and the related wages paid for these hours in the "Non Clean Wages" column to the right of it.

Other bonuses or compensation should appear in the "Other" column, and, of course, compensation for use of vehicle is indicated in the "Auto Allow".

Appropriate tax deductions are taken from the *Individual Payroll Summary* and written into the appropriate columns. The deductions should be listed on this record.

The final tabulation on this record is the employee's net pay after all deductions.

### **Individual Payroll Summary**

We have provided two different formats for forms 28-95 and #28-01). 28-95 is used if you are a sole proprietor; 28-01 is used for Revenue Sharing companies. This form is used for calculating each employee's weekly hours worked and net pay. You will need to create copies of this report - one for your files and one copy for the employee.

Information provided by this report, with information obtained from the *Payroll Summary*, like all record keeping, will not be your top priority, but it will make the job easier to manage. Only look after this task once a week.

It's important to have notes for their clients every week. You do the same on the *Payroll Summary* that you do with your payroll checks every week. There should be a section with a section headlined, "NOTES". Think of it as a place to write down every payday.

It's also a good idea to use a vehicle to announce meetings, recognize birthdays, announce outstanding performance, pass along information to clients, announce new staff members, and a host of other projects.

### **Record of Labor Expense and Payroll Tax Summary**

This record serves a dual role. It is an ongoing record of your payroll costs as a percentage of revenue month by month for the year, as well as a record of all deductions and tax payment records.

You absolutely need to record and track your labor costs as a percentage of revenues.

The backside of this report is where you will keep the required Payroll Tax Summary information needed for reporting and remitting required taxes and withholdings to the IRS.

Information for this report will be taken directly from all of the *Individual Payroll Summary* forms prepared and issued to each employee during each calendar month of the year.

Updating this form will only be done once each

***Save Time with a Payroll Service***

There are a number of payroll services in the country, notably, Paychex and ADP. You can save a lot of money hiring a service to look after your payroll and tax obligations.

All you have to do prior to each calendar month is call the office with gross pay for each employee. The service will calculate the required withholdings, prepare the checks for the employees, and you can then look after filling out all tax obligations, or they may report directly to it that your required tax payments are covered through automatic withdrawal.

**SAMPLE**

Documents relating to  
Compensation

Daily Team Record  
Individual Weekly Revenue Share Summary  
Individual Weekly Hourly Payroll Summary  
Employee Wage & Payroll Record  
Record of Labor Expense and Payroll Summary

**SAMPLE**