

# Restaurant Management Incentive Plans: Spot Survey of Practices

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# Prepared By



Tom McMullen  
Senior Consultant  
Chicago, IL  
312.228.1848  
Tom\_McMullen@Haygroup.com

# Survey Background

- Purpose: survey short term incentive practices for key restaurant level jobs
- Jobs covered:
  - ◆ Kitchen Manager:
  - ◆ 1st Asst Restaurant Manager
  - ◆ 2nd Asst Restaurant Manager
  - ◆ Restaurant Manager:
- Topics covered:
  - ◆ Plan design and administration features
  - ◆ Performance measures
  - ◆ Program effectiveness

# Survey Participants

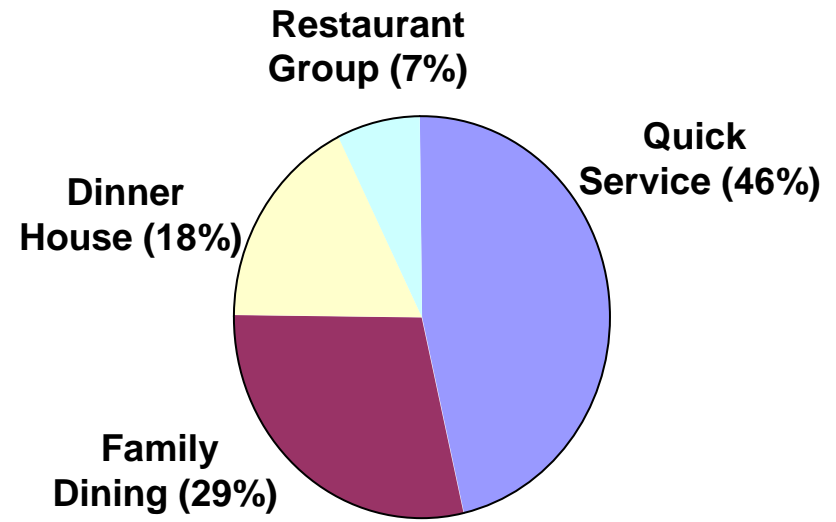


- **Applebee's International, Inc.**
  - **Bob Evans Farms, Inc.**
  - **Brinker International**
  - **Burger King Corporation**
  - **Caribou Coffee Company, Inc.**
  - **Carlson Restaurants Worldwide**
  - **CEC Entertainment, Inc.**
  - **Chi-Chi's**
  - **Chipotle Mexican Grill, Inc.**
  - **Denny's Restaurant Group**
  - **Domino's Pizza LLC**
  - **Friendly's Ice Cream Corporation**
  - **Frisch's Restaurants, Inc.**
  - **Golden Corral Corporation**
  - **Jack in the Box Inc.**
  - **Koo Koo Roo**
  - **Krispy Kreme Doughnuts, Inc.**
  - **Little Caesar Enterprises, Inc.**
  - **McDonald's Corporation**
  - **Metromedia Restaurant Group**
  - **Ninety Nine Restaurant & Pub**
  - **Papa John's International**
  - **Perkins Restaurants and Bakery**
  - **Red Robin Gourmet Burgers**
  - **Starbucks Coffee Company**
  - **VICORP Restaurants, Inc.**
  - **Wendy's International, Inc.**
- Twenty Seven (27) organizations submitted data for 28 plan designs.

# Participant Demographics

## ■ Median participant profile

- ◆ Number of employees: 10,000
  - Full time: 3,600
  - Part time: 4,000
- ◆ Company restaurants: 285
- ◆ Franchised restaurants: 275
- ◆ Revenues: \$620MM



# Plan Design and Administrative Features

# Plan Design Features

- Over 50% of plans implemented within past 2 years
  - ◆ Approximately 75% of plans implemented with 5 years.
  - ◆ Two plans in place for over 20+ years.
  
- Primary type of plan design
  - ◆ Payments based on results vs. pre-defined objectives: 100%
  - ◆ Discretionary payments based on after-the-fact results: 0%

# Plan Design Features

- Other plan types (check all that apply)
  - ◆ Recognition Awards: 21%
  - ◆ Skill Based Plans: 0%
  - ◆ Earned Time off: 4%
  - ◆ Other: 7%
    - Includes: tenure in same store, results-based vacations
  
- Minimum eligibility requirements
  - ◆ Job title, level, grade: 86%
  - ◆ Performance based: 43%
  - ◆ Time in job 29%
  - ◆ Length of service/other: 0%

# Incentive % of Base: Practice and Policy



	Kitchen Mgr	1st Asst Mgr	2nd Asst Mgr	Rest Mgr
<b>Actual Incentive as % of Base Salary</b>				
P25	8%	3%	2%	5%
P50	13%	8%	5%	13%
P75	20%	13%	12%	19%
<b>Target Incentive as % of Base Salary</b>				
P25	17%	8%	8%	12%
P50	19%	10%	8%	15%
P75	21%	15%	13%	18%
<b>% Employees Bonus Eligible</b>	85%	86%	53%	91%
<b>% Employees Receiving Bonus</b>	82%	71%	38%	78%

- Notes:
  - ◆ Dinner house provides most pay at risk, followed by Family Dining and then by Quick Service concept types
  - ◆ Relationship to unit size inconclusive
  - ◆ Source: 2002 CRCA Survey

# Aggregate Performance Relative to Target



- Historically, how has your organization performed relative to its corporate or operating unit financial performance targets?
  - ◆ FY02 (est): 98%
  - ◆ FY01: 87%
  - ◆ FY00: 90%

# Incentive Plan Objectives

***Four key objectives of the incentive program.***

Incentive Plan Objective	Plan Intent		
	Not Applicable	Intended Objective	High Priority
Move from fixed to variable pay to better manage compensation costs	71%	18%	4%
Noticeably improve organization or team financial performance	7%	50%	39%
Noticeably improve individual employee performance/productivity	32%	50%	7%
Better recognize employee contributions	39%	43%	4%
Improve productivity	18%	57%	14%
Create a more competitive total compensation market position	14%	50%	21%
Support culture change	61%	21%	4%
Reduce employee turnover	50%	25%	11%
Promote a sense of ownership	21%	54%	18%
Improve employee involvement	39%	39%	4%
Other	4%	4%	0%

# Plan Payouts

## ■ Method used for incentive determination:

- ◆ % of base pay actual: 36%
- ◆ % of base salary policy: 4%
- ◆ Flat dollar amount: 14%
- ◆ Other: 46%
  - Profit driven pools (e.g, % of profit, profit before bonus, % of P&L results, % of profits, % of revenue less manager-controlled expenses, % of pool based on job level + a share of incremental PAC dollars, not salary related - % of operations, incremental growth of business)
  - Other: % of bonus pool based upon position multiplier., \$ targets based upon market, % of actual sales performance, % of CTI,

## ■ Frequency of payouts:

- ◆ Every four weeks: 7%
- ◆ Monthly: 29%
- ◆ Quarterly: 54%
- ◆ Semi-annually: 4%
- ◆ Annually: 7%

The substantial majority of participants provide payouts in cash immediately following the performance period (i.e., no deferrals).

# Incentive Plan Funding

## ■ Is the incentive plan funded?

- ◆ Yes: 57%
- ◆ No: 43%

## ■ Criteria for incentive plan funding (of the 57% responding yes):

- ◆ Criteria are discretionary: 13%
- ◆ No funding limit: 25%
- ◆ Fixed % of payroll: 19%
- ◆ Fixed \$ amount: 13%
- ◆ Plan is self funded: 0%
- ◆ Varied % of payroll: 13%
- ◆ Other: 19%

### ◆ Comments include

- Plan is based on profit therefore self-funded, we do budget for the amount of expected payouts
- Accrued for each month
- Projected results and payout potentials
- Incremental PAC dollars and an incentive pool which establishes dollar amounts for each restaurant to allocate based on employee job level

# Performance Measures

# Performance Measures: Types of Measures



- Financial (96% of plans)
  - ◆ Profit -- controllable income, operating profit, store controllables, PAC,
  - ◆ Sales -- incremental sales, net sales, sales incr over prior year, actual vs. budget sales,
- Operational (35% of plans)
  - ◆ Cost control -- cost of sales, food and paper costs, food costs, food vs. labor costs, crew labor costs, labor cost vs target,
  - ◆ Other -- food safety, food quality
- Customer (32% of plans)
  - ◆ Satisfaction -- quality, service, cleanliness, friendliness, passionate service
  - ◆ Attraction -- local store marketing
- Employee (18% of plans)
  - ◆ Employee satisfaction, retention, competency development, goals

# Performance Measures: Combinations of Measures



- Financial measures only: 36%
  - ◆ Sales only: 7%
  - ◆ Profit only: 14%
  - ◆ Sales and profit: 14%
- Financial and operational measures only: 18%
- Financial and customer measures only: 18%
- Financial, customer, employee measures: 7%
- Financial, operation, customer measures: 7%
- Financial, operational, customer, employee: 7%

# Performance Measures: Miscellaneous



- Median number of total plan measures is 3.
  - ◆ Interquartile range: 2 to 4 measures.
  - ◆ Low to high: 1 to 9 measures
- Most plans consistent in measures across jobs.
- Primary focus on measurement at the restaurant unit level
  - ◆ Some plans provide focus on corporate/business unit, regional level

# Performance Measures: Miscellaneous



- Use of discretion in payouts
  - ◆ Are measures strictly predefined or is there some after-the-fact judgment involved?
    - Strictly predefined: 68%
    - Judgment may be used: 32%
  - ◆ If after-the-fact judgment is used, it is typically the Area Mgr/Dir, Regional Mgr/Dir, VP Opns, COO who makes the qualitative decisions
  
- Is measurement of individual performance tied to a formal performance management program?
  - ◆ Yes: 50%
  - ◆ No: 39%

# Program Effectiveness

# Incentive Plan Effectiveness

***Against key objectives, plans are effective, but not exceptional.***

Incentive Plan Objective	Level of Success			
	Not Achieved	Met Objectives	Exceeded Objectives	Too Soon to Tell/NA
Move from fixed to variable pay to better manage compensation costs	7%	11%	0%	4%
Noticeably improve organization or team financial performance	14%	46%	7%	25%
Noticeably improve individual employee performance/productivity	7%	32%	0%	14%
Better recognize employee contributions	4%	32%	0%	7%
Improve productivity	14%	46%	0%	18%
Create a more competitive total compensation market position	11%	46%	4%	7%
Support culture change	7%	18%	0%	4%
Reduce employee turnover	18%	18%	0%	7%
Promote a sense of ownership	11%	39%	0%	14%
Improve employee involvement	0%	36%	4%	4%
Other	0%	0%	0%	0%

***High level assessment of effectiveness confirms perception that plans are successful, but not great.***

	Mgmt	Empl.s
<b>Needs significant improvements</b>	11%	4%
<b>Needs minor improvements</b>	18%	14%
<b>Adequate</b>	11%	18%
<b>Successful</b>	39%	39%
<b>Highly Successful</b>	7%	7%
<b>Too new to tell</b>	7%	7%
<b>Feedback not collected</b>	11%	14%

Employees' assessment based on:

- ◆ Management's perception: 64%
- ◆ Employee survey: 21%

# Measuring Plan Effectiveness

- How does your organization typically measure the effectiveness of annual incentive plans? (Check all that apply.)
  - ◆ Informal opinion gathering: 46%
  - ◆ Formal, quantitative measures: 39%
  - ◆ Formal, qualitative measures: 18%
  - ◆ If plan pays out, it is considered effective: 14%
  - ◆ HR determines: 14%
  - ◆ Feedback not collected: 14%
  - ◆ Other: 7%

# The Good, Bad and Ugly Test

## “The Good” -- i.e., Keep Doing



- Focus (and balance) on key performance measures
  - ◆ “Continue to have incentive that rewards for achieving goals that support corporate goals.”
  - ◆ “Emphasis and rewarding on core customer service measures.”
  - ◆ “Keep it tied to financial performance and guest satisfaction.”
  - ◆ “Ensure balance in measures... must have greater financial performance tie in for funding.”
  - ◆ “Tie to sales and controlling expenses.”
  - ◆ “Tie to operating profit and sales”
  - ◆ “The requirement that customer service objectives must be met before a payout on any measure is made.”
  - ◆ “Tie measure to only one target - ebitda”
  - ◆ “Keep sales and profit as a measure.”

# The Good, Bad and Ugly Test

## “The Good” -- i.e., Keep Doing



- Plan design
  - ◆ “Providing significant upside opportunity”
  - ◆ “GM feedback in determining payouts for his/her subordinates with Operations Director oversight.”
  
- Administration
  - ◆ “Provision of quarterly and annual reports”
  - ◆ “Limiting exception administration”

# The Good, Bad and Ugly Test

## “The Bad” -- i.e., Stop Doing



- “Paying out bonuses to negative cash flow stores.”
- “Making the bonus plan so complicated with many different multipliers.”
- “Manual administration through excel spreadsheets.”
- “Measuring participants on the same thing in both the incentive plan and performance appraisal.”

# The Good, Bad and Ugly Test

## “The Ugly” -- i.e. Need to Change



- More focus on key performance measures
  - ◆ “Simplify and determine focus, i.e., financial vs. operations. Possibly move customer satisfaction into a separate plan.”
  - ◆ “Adding critical, non-financial measures.”
  - ◆ “Having separate sales and expense targets vs only profit.”
  - ◆ “Consistency of measures across the organization - rolling down from our annual business plan.”
  - ◆ “Need a better measure to capture customer satisfaction.”
- Administration
  - ◆ “Make the bonus calculations & monthly results available to the Manager's via a web site for quick easy access”
  - ◆ “Better setting of threshold, target & maximum levels.”
  - ◆ “Way too complicated. We are currently working on a redesign that will have a lot more flexibility.”
  - ◆ “The manual nature of administration.”

# The Good, Bad and Ugly Test

## “The Ugly” -- i.e. Need to Change



### ■ Design mechanics

- ◆ “Paying out on an annual vs quarterly basis to eliminate seasonality component.”
- ◆ “Need to better deal with maintenance expenses.”
- ◆ “Need different scale for older stores”
- ◆ “Change QSC Measurement”
- ◆ “Guest Satisfaction - currently use a table for payout amounts but need to come up with a better approach for funding.”
- ◆ “Based 100% on unit bottom line profitability... huge disparity from the “haves” and “have nots” -- 10% of stores receive 45% of all bonuses.”
- ◆ “Implementation of an annual stock option plan”

# Additional Information



■ FLSA exemption status	Exempt	Nonexempt
◆ Kitchen Manager	100%	0%
◆ Asst Restaurant Manager*	90%	10%
◆ Restaurant Manager	100%	0%

Note: (\*) no distinction made between 1st and 2nd Asst Restaurant Mgr.

# Additional Questions: Hiring Ranges



- Does your company have separate hiring rates depending upon level of experience or education?
  - ◆ Yes: 57%
  - ◆ No: 39%
  
- Does your company ever hire below the minimum of the salary range?
  - ◆ Yes: 21%
  - ◆ No: 71%
  
- What is the average hiring rate in annual base salary for:
  - ◆ 1st Asst Restaurant Manager \$26,700
  - ◆ 2nd Asst Restaurant Manager \$28,100
  - ◆ Restaurant Manager \$35,700
  - ◆ Multi Unit Restaurant Manager \$53,100

# Additional Questions: Salary Ranges

- What is the typical salary range spread for:
  - ◆ 1st Asst Restaurant Manager: 43%
  - ◆ 2nd Asst Restaurant Manager: 39%
  - ◆ Restaurant Manager: 49%
  - ◆ Multi Unit Restaurant Manager: 60%
  
- How often do you typically adjust salary structures or ranges (check one)?
  - ◆ No set schedule/as-needed: 39%
  - ◆ Once a year: 43%
  - ◆ Once every two years: 11%
  - ◆ Once every three years+: 4%

# Conclusions

- More similarity than difference in plan design for the four jobs covered
- Most plans focus on several core performance measures of sales, profit, cost control and customer service, while some focus squarely on 1 financial measure (profit or sales)
- Tight distribution on incentives as % of base pay
- Most plans viewed as OK-to-successful, but not great
- Desire to simplify plan design and administration



# Your Questions