

— WHITE PAPER —

Team-Based Pay

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Team-Based Pay

For a better way to do business

- Consistent bottom-line profits.
- A pay program that makes sense.
- Getting paid as an owner, not just an employee.
- Clients loyal to the business – not to an individual.
- A team culture that is fueled by growth.
- Bulletproof systems.

It's time for these statements to be the standard in the professional beauty industry. Are you on board? Join the revolution.

Team-based pay always sparks a lively discussion between diehard believers and diehard commission advocates. But in recent years, a gradual yet powerful shift in compensation is taking place throughout the industry. Owners and managers are searching for ways to incentivize and reward a multitude of behaviors that contribute to business growth – behaviors that reach far beyond sales.

In one very important way, a compensation system functions exactly like any other business system: It will yield the results you want, if you structure your system in a way that enables it to deliver them. The problem for many owners is that they expect and desire results that their chosen method of compensation simply cannot deliver. Some business leaders who espouse a commission system swear by it and, indeed, it does seem to work in certain circumstances. In a purely sales-driven environment, commission is capable of delivering the desired result: increased sales. But if you want different results, commission isn't quite so spot-on. You need something else.

What is team-based pay?

The collective behavior of a business defines its operating culture. The method of compensation is at the core of a business's culture.

If you want team, you have to “team” pay.

There's nothing more stimulating to business leaders than a debate over which compensation system is best for their company. Too often, there is little or no debate on compensation system design because many industries have solidly and historically entrenched pay practices – so much so, that to question their validity today would be viewed as sacrilege. Pundits say, “This is the way we pay, and it's the way it's always been done.” Even if there is a willingness to explore

new ideas, the result is often just another spin on the old system. Unfortunately, all you get when you modify an old pay program is a modified old pay program. Simply put, there is a limit to how much horsepower an old engine can produce, no matter how sophisticated the modifications. The thinking must go deeper and wider. It must begin with a clean slate and clear objectives.

Today's relentlessly changing business climate demands a compensation system that meets the following five non-negotiable criteria:

1. Combined with fiscal responsibility, it must fit the financial reality of the business – today and into the foreseeable future.
2. It must be controllable, not a large “fixed percentage” of revenue.
3. It must encourage and reward the right individual behaviors, and performance consistent with the vision and culture of the business.
4. It must give clear guidelines and pathways for individual growth.
5. It must inspire and reward teamwork, team culture, and attainment of the business's overall performance and revenue goals.

Commission fails to qualify.

Commission-based pay programs are among the most commonly used in the attempt to inspire revenue growth. And why not? It's safe. If sales are down, payroll is down. If employees want to earn, they must produce. What could be simpler?

Problem is, commission's very simplicity is its Achilles' heel. It leaves too many productivity decisions in the hands of the employee. Because it's based on a percentage of sales, commission offers rewards even when performance and behavior issues persist. Commission is individual-based and, by design, feeds the “my customer; it's all about me” thinking that contaminates team cultures. Fighting over “who owns the customer,” especially when top producers leave, is a common occurrence in commission-based businesses. And commission locks the business's payroll into a fixed percentage of revenue – making it impossible for the business to adjust to constantly escalating operating costs. To top it off, any owner of a commission-based business knows

that adjusting or lowering commissions is the equivalent of opening Pandora's box.

Team-based pay in its simplest terms

Team-based pay is an hourly and/or salary program, which ties a team bonus to the achievement of critical numbers (e.g., revenue, gross margin, client retention, productivity, net profit). Individual growth is tied to overall performance – not just the employee's ability to generate revenue. A team-based pay system is designed to reward the right behaviors and performance – those that support the business's goals and culture.

On page 7, we talk about broadbands, which are designed to offer employees guidelines for growth in key areas, such as performance goals, technical-skill development, and non-technical-skill development. Within the broadbands are the cultural behaviors that drive teamwork.

There's going to be a culture shift

If you change your pay system, especially to a team-based system, your business will go through a culture shift, like it or not. The wider the gap between the five non-negotiable criteria and your current program, the greater the shift will be. The most significant shift will occur if you're moving from commission to team-based pay. Remember, commission encourages an "I/me" culture. Team-based pay encourages a "we/us/the team/the customer/the company" culture. The shift will be dynamic. Best of all, your customers will notice the change, and identify it as positive.

The leadership factor

Pay systems are foundations that great companies are built upon, but a pay system alone does not change behavior, performance or culture. Leadership must step up to the plate. Communication, goals, standards, skill development, financial accountability, openness and integrity are non-negotiable elements of a successful pay conversion. Businesses that fail at pay conversions and culture shifts are managed by leaders who pick and choose which elements they want. They compromise the system from the beginning. They fall asleep, and then wonder why it didn't work. They sink into the blame game. Leaders need to be tenacious. No compromise.

Team-based pay is an exciting way to grow a company.

Change gets the business juices flowing. The reward at all levels is extraordinary.

Managing Overall Performance and Team-Based Pay

*It takes new management skills,
detailed planning and team focus*

You've been reading and hearing about the new pay programs. All this stuff about "pay for performance," skill-based pay, team-based pay, open-book management and advanced levels of teamwork has finally piqued your interest. So much so that you're truly considering implementing such a program. The signs that it's time for your business to make major changes are present: shrinking profits, a less-than-motivated staff, no clear growth direction, marginal client retention and productivity performance. You know the time has come for change, new thinking and a fresh beginning.

Maybe you already have the new pay program in place, but are frustrated that not too much has really changed. You're still experiencing the same behaviors and less-than-satisfying results you were getting with the old system. You may be saying to yourself, "I must have done something wrong," or "This new pay program just doesn't work in my business." This problem is not uncommon, and almost always boils down to one simple fact: You changed the business's pay program – but not its behaviors and systems. The business's culture and thinking are still "on commission."

Understanding the differences

Commission pay, with its graduated scales and multi-level pricing, directly conflicts with the new pay program in the following three ways:

1. Commission is driven entirely by individual sales dollars, not overall individual performance.

For example: One company that contracted Strategies to reengineer its pay program and systems was paying 60% commission and falling deeper into debt. Payroll was out of control. The decision was made to implement a new program, based on overall individual and team performance.

To calculate each employee's starting pay, we looked at their previous year's earnings, their gross pay for the last three to four months, and their overall individual performance. Until then, the salon had only tracked request rates – not first-time

client retention. (The salon scored a disturbing 36% in its first retention report. Only 58 of the 158 first-time clients returned.)

During the pay calculation process, red flags went up with two stylists. Both had very low client retention rates. One, who had been with the salon five years, had earned \$44,000 the previous year on 60% commission. The other had earned \$38,000. Both had first-time client retention rates of only 13%. Commission rewarded them for losing eight of ten first-time clients assigned to their chairs. The owner, who only looked at how busy their chairs were, never saw what these individuals were costing the company in lost business and client dissatisfaction. The decision was made to start them at an average of last year's earnings, but with a 90-day window in which to coach, correct and improve their retention performance. If specific and measurable improvements were not realized, they would have to be released. The owner was beginning to understand the impact and scope of the new pay program. He summed it up with, "I can't believe we've been paying people so much in spite of poor performance." Such discrepancies over pay versus performance will not occur on the new pay program.

2. Commissions are out of control.

Collectively, most salons, spas and medspas cannot afford to continue funding their present commission rates and expect to keep pace with rising operating costs. Product cost deductions and salon/spa/medspa service charges, which simply cannot keep up with increasing overhead expenses, are not the answer. Such deductions are not permanent solutions and often cause significant staff upheaval.

The recession of the early 90s forced companies and businesses of all shapes and sizes to reengineer their systems and cultures. Those that succeeded quickly realized they could not expect new behaviors and levels of team performance if they didn't also reengineer their pay program.

Reengineering Rule #1: You cannot reengineer halfway.

Reengineering Rule #2: Don't expect new behaviors and team performance if your pay program still rewards the old behaviors you are trying to change. You'll only confuse staff and stall your efforts.

Published studies show that 30% of all U.S. companies now use the "new pay" (the "new pay" is defined as overall performance, skill-based pay with team-based incentives). That

number was zero percent in 1990. The driving forces behind the "new pay" and reengineering phenomenon are efficiency, productivity, quality, value and customer service.

3. Commission does not inspire team performance.

Commission rewards individual sales and creates natural roadblocks to the team service and performance concept. Team-based incentives are perhaps the most powerful new performance-driving tools to arrive on the management scene in the last half century. Team incentives focus employees' energy on growing the business. Few, if any, commission programs can make that claim. Since many salons, spas and medspas already pay out more in commission than they can afford, there's no room left for team incentives. Reengineering the entire pay program is the only logical alternative.

Shifting into "new pay" thinking

There is no "gold medal" for reengineering your pay program. It won't solve all your business problems or instantly inspire staff to behave just the way you want. It's a reward system and nothing more. How efficiently you manage the program will be the determining factor for success or failure.

The most common mistakes owners make after switching to the new pay:

- Introducing the new pay program without a vision (goal, objective, purpose) of where the business is going. Employees must first understand your vision in order to understand the changes that must take place to achieve it.
- Focusing on the pay program itself and not the behaviors and results it must inspire and reward. The new pay program will drive your business forward only if you steer it toward your vision. The team must know what the weekly/monthly targets are (sales, retention and productivity rates, average ticket, etc.). The new pay is simply the reward system.
- Thinking that the pay program will manage itself and hit target goals. Commission is easy because it placed the burden of building sales on the technician. Commission says, "If they're hungry, they'll produce." The new pay says, "You and the team must produce to these levels and standards of performance." If one or more team members drops the ball, the entire team – and the client – pays the price. It's like learning to walk again.

Getting Outside the Commission Box

What gets rewarded, gets repeated:

Lessons from a mother of six

From an early age, we seek to reinforce certain behaviors, especially in our children. We strive to teach them greater responsibility, and a sense of family and community. In school, they are often split into teams for group activities and sports. Culturally, the concept of team and working together is highly regarded and encouraged. The goal is to educate them about being responsible, working hard and properly handling money. Consider the concept of giving children an allowance. Sounds simple, but is it?

Barbara, mother of six, had for years rewarded her children for completing their chores. You can imagine the work that went into checking their progress. Furthermore, there were always certain tasks left uncompleted because the children were not particularly motivated. They were happy taking less money to avoid the hard labor.

One day her oldest child, Rick, demanded his allowance and justified his poorly completed list by blaming his siblings. “Mom, I did all I can do. John’s side of the bedroom is a mess and Anne’s art project has taken over the dining room. That’s the best I can do and I want my allowance now.”

Barbara was familiar with this dialogue. Most times she felt the whole allowance approach was more work than help. However, she wanted to teach her children about responsibility and the value of money.

She told Rick to call a family meeting immediately. When she arrived, the kids were bickering and blaming one another for what they feared would be the end to their allowance program. Barbara explained that, although she appreciated their work around the house, the bickering was not helpful, and jobs around the house were not being completed satisfactorily. She explained that they would receive money each week for completing household chores. There would also be a new family bonus prize.

Barbara explained that there was now a family chore list, which would be posted and updated each week. When all the chores were done by all the children, they would receive a bonus. Together they would determine the bonus. All the chores had to be completed by 3 p.m. Saturday. She also suggested that, if they worked together, the work might go more quickly. As Barbara left the room, she turned and offered one more suggestion: “Today is Friday. We can all

work together to get everything done by tomorrow at 3 p.m. If you do, we will go to the movies to celebrate.”

As Barbara left the room, she wasn’t sure what she had just done. Would this work? Only 24 hours would tell.

The house was unusually quiet on Saturday. The children were making noise, but there wasn’t the usual yelling or bickering. Barbara decided to check on their progress. What she witnessed stopped her in her tracks. The older children were helping the younger ones. Her daughter Cindi was teaching her sister Ellen how to fold her clothes; John was teaching Chris to empty the dishwasher. Two others were dusting the bookshelves. No longer were they focused on their single list of assignments. Instead, they were tackling the entire house and knocking the duties off the combined lists. Barbara had to pinch herself for fear this was a dream. It was then that she realized her former allowance program had always recognized and rewarded individual responsibilities – the exact opposite of what she wanted to create in her family.

On Saturday at 1 p.m., the children found Barbara gardening out back and alerted her to the time. As she made the rounds through the house, she marveled at their work. Holding back tears, she asked what they thought of the new family bonus plan. Chris, the littlest child, spoke up first. “This was fun, Mom. I learned how to empty the dishwasher and John told me a funny story about a kid at school. Can we do this again tomorrow?”

Ah, finally, thought Barbara. “Get cleaned up, kids. We’re going to the movies.”

You may feel your business is more complicated than a household of six children (though Barbara would argue that point with you). Imagine if you could create a feeling of team in your business, similar to Barbara’s newly refocused family. Imagine if everyone was working in the same direction, with the same goal in mind. What would it do for your business if everyone was invested in the greater good and success of the company, not just their own personal accomplishments and bank accounts? What if you could create an atmosphere of total team synergy – a business comprised of combined energy, operations and systems?

How would you rate the effectiveness of the current reward and compensation program in your company? Are all hands on deck, rowing in the same direction at a similar pace? Consider what one person’s oar dragging in the water does to the speed and direction of a boat.

You may believe that you have effectively communicated the focal point of the business. You may feel that a job well done is rewarded handsomely. The bigger question is: If you altered the way you rewarded your employees, would you get different results? Aha! You shook your head yes, didn't you? Then you do recognize that the way you compensate people influences their behavior.

Let's take a closer look at the ways people are compensated for their efforts. Compensation is a complex puzzle, whose pieces must all fit together into one program that will both motivate and inspire employees to perform at consistently high levels. To best understand why the standard approach to commission is out of alignment with today's business thinking, just look at the behaviors and attitudes it rewards. Commission pay, in its many variations, rewards employees solely for their individual sales performance. You may believe that you have a sales team. However, in their minds, they are working toward their own goals and leveraging their own positions on the company ladder.

Commission pay has endured because it's easy for owners, managers and employees to understand. It's a low-risk compensation approach with a seemingly high-performance requirement. The belief behind it is that people are ultimately motivated by money. Individuals who offer this pay system believe that if employees want to make more money, they will do more on an individual level. But there are many challenges with this thinking.

The most important challenge is: How do you create a true team environment from a commission mindset and system? After all, you get what you reward. Have you ever heard an employee say, "I'm not paid enough to do that!" Or, "That's not what I was hired to do?" Typically, the task at hand is necessary to grow the business. However, the compensation plan and the agenda of the employee are focused on growing their bank accounts. It is impossible to have a team atmosphere with individual agendas.

Commission is also a safe pay program for those with weak cash-flow management skills because, unlike the fixed expense of salary and hourly wages, commission payroll rises and falls along with sales. This model assumes that there is no greater motivating force for employees than getting an attractive percentage of what they produce.

All about Bob!

Pay must reward the right behaviors

Consider the behaviors your current commission pay model rewards. Is this in alignment with your business and company culture? Commission is entirely sales-driven and rewards only individual performance. It also encourages customers to build relationships with whomever is responsible for their account. The customer has limited interaction with the company because "Bob the sales representative" is single-handedly responsible for, and compensated for, that interaction. This can create nightmares if an employee is performing poorly.

How many customers has your company lost because they couldn't stand to do business with Bob, their only point of contact with the company? What if Bob isn't necessarily good at all the aspects of the business? What if you could help support Bob with a team of people who would build on the customer experience, and get more people involved in servicing them? Just consider what happens when Bob leaves, and someone else has to try to regain his momentum – or worse, Bob leaves and takes his customers with him.

At face value, these may appear to be performance and customer service issues. However, they are systems designed and built to support a pay plan for the company.

What about Bob?

All for one – not one for one

Today's business world is slowly waking up to the fact that, together, a team can accomplish more than Bob alone. Delivering a good product or service alone does not guarantee success, or the level of customer satisfaction that drives loyalty and retention to new heights. To shine brightly, you must focus on fundamental competencies and capabilities that go far beyond the basics of servicing a customer.

As the world becomes more and more "electrified," today's customer is left connected to voice mail, e-mail and automated responses. Team and service are more important in our touchless world than ever before.

Today's employees are more demanding and less loyal. They want to see career growth paths. They want to know their income can continue to grow, even when their schedules are completely booked. (Last time I checked, we have only two hands.)

Commission creates a certain type of culture within a business. If your goal is to move toward a total team mindset, then you must evaluate the method in which behavior is rewarded. Look at your business with a magnifying glass. Peel back the layers and look at the behavioral outcomes. Are you rewarding what the company needs most from the employees?

If people are showing up late, does your current system ignore this behavior – or worse, reward it? When someone is struggling to reach a sales goal, do other employees volunteer to coach that person? Barbara’s system rewarded individual chores for her children. Initially, they didn’t make the connection between their list of responsibilities and the overall well-being of the home and family. After peeling back the layers and getting to the heart of your business, do you think the people who make up your company culture understand and get rewarded for the overall well-being of the business – or just their slice?

What’s in it for you. What’s in it for staff. What’s in it for the business.

- If you can, just imagine how your business might perform if everyone was forging ahead in the same direction.
- The way an employee is compensated is typically the launching pad for all the operational systems within a company
- What would your company look like if you built the vision and mission first – then designed a compensation plan to support the desired behavior? With team culture as the objective, how would you design systems to support this?
- Employees want to know the rules of the game.
- If you reward them for individual accomplishments, they will forge ahead with running their “own clientele” businesses within yours.
- If you reward them based on overall performance and for growing the company, they’ll grow it faster and bigger than you can imagine.

Broadbands Visually Communicate TBP

Employees need to know the rules of the game, what’s expected of them and how they can grow

When it comes to assessing employee performance and compensation, broadbands are an invaluable tool. They visually link compensation levels to skill requirements, and help employees and management plot growth paths. They define skill sets, pay ranges and income potential. They are an effective way to share critical information, and eliminate claims of ignorance of standards at performance reviews. They are integral to fair hiring practices, graduated skill acquisition and consistency in performance reviews. They outline the responsibilities associated with each position within a business, and define the reward potential for goal accomplishment.

In short, broadbands provide a complete picture of an employee’s position within the business. They not only draw the outlines of job responsibility; they paint in all the colors.

While every purpose they serve is important, perhaps the most significant is establishing a correlation between skill and compensation. A broadband derives its name from its function: It separates, into “broad bands,” the specific skills, competencies and contributions that are required at each level of compensation within a business. The bands are broad so that employers and evaluators have a little wiggle room, and are able to incentivize accomplishments without guaranteeing what could be a significant pay increase to someone who may be only marginally deserving.

They’re a guide – not an absolute

Broadbands are not a replacement or substitute for detailed job descriptions or position contracts. They are not designed or intended to provide the same level of detail concerning a position’s duties, responsibilities and desired outcomes. We stress this because we’ve seen many businesses over-build and over-complicate their broadbands to the point that they confuse and even demoralize staff.

When designing broadbands for the various positions in your business, you’re building a guide for career growth and income advancement. Broadbands should not be so rigid that an employee’s performance is strictly measured against it. Remember, team-based pay is about overall performance, creating the right behaviors, and business culture. That’s why we stress that broadbands are a guide – not an absolute.

	Skill Set 1		Skill Set 2		Skill Set 3		Skill Set 4		Skill Set 5		Skill Set 6	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Year	\$18,000	\$23,999	\$24,000	\$31,999	\$32,000	\$44,999	\$45,000	\$59,999	\$60,000	\$79,999	\$80,000	\$100,000
Month	1,500.00	1,999.92	2,000.00	2,666.58	2,666.67	3,749.92	3,750.00	4,999.92	5,000.00	6,666.58	6,666.67	8,333.33
Week	346.15	461.52	461.54	615.37	615.38	865.37	865.38	1,153.83	1,153.85	1,538.44	1,538.46	1,923.08
40 Hours	8.65	11.54	11.54	15.38	15.38	21.63	21.63	28.85	28.85	38.46	38.46	48.08
	<p>PERFORMANCE REQUIREMENTS</p> <ul style="list-style-type: none"> 1st Visit Retention...35% Existing Retention...7.0% Ave. Revenue Per Hour...\$40 90% Retail Recommendations Service Time Standards Prebook ratio 70% <p>TEAM RESPONSIBILITIES</p> <ul style="list-style-type: none"> Support Team Culture - We/Us/Team/Company Support Team Goals Everyone is Responsible <p>TECHNICAL SKILL DEV.</p> <ul style="list-style-type: none"> Salon Shampoos Draping Basic haircuts/finish Basic Color Formulation Basic Color Techniques Color Application in 10 min. Foil Highlighting Standard Perm Wrap Basic Updo Styling Attend 2 educational events per year <p>NON-TECHNICAL SKILL DEV.</p> <ul style="list-style-type: none"> Salon Flow Client Handling Skills Escorting/Tours Professional Dress Positive Attitude Teamwork Retail Product Knowledge Service Descrip./Pricing Laundry/Cleaning Product Recommendations Service Closing Procedures <p>BONUS DISQUALIFIERS</p> <ul style="list-style-type: none"> No Punch in/out Unexcused absence Being late for work 											
	<p>PERFORMANCE REQUIREMENTS</p> <ul style="list-style-type: none"> 1st Visit Retention...40% Existing Retention...7.5% Ave. Revenue Per Hour...\$45 90% Retail Recommendations Service Time Standards Prebook ratio 70% <p>TEAM RESPONSIBILITIES</p> <ul style="list-style-type: none"> Support Team Culture - We/Us/Team/Company Support Team Goals Everyone is Responsible <p>TECHNICAL SKILL DEV.</p> <ul style="list-style-type: none"> Salon Shampoos Draping Intermediate haircuts/finish Color Formulation Basic Color Techniques Color Application in 10 min. Foil Highlighting Standard Perm Wrap Basic Updo Styling Attend 2 educational events per year <p>NON-TECHNICAL SKILL DEV.</p> <ul style="list-style-type: none"> Salon Flow Client Handling Skills 1st Visit Consultation Escorting/Tours Professional Dress Positive Attitude Teamwork Retail Product Knowledge Service Descrip./Pricing Laundry/Cleaning Product Recommendations Service Closing Procedures <p>BONUS DISQUALIFIERS</p> <ul style="list-style-type: none"> No Punch in/out Unexcused absence Being late for work 											
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The Purpose of Broadbanding

Increasing business performance by decreasing the complexity of work and compensation systems

Remember, a broadband is nothing more than it claims to be: a compensation strategy that consolidates a large number of pay grades into a few “broad bands.” Jobs are grouped based on the tasks involved and required skills. This means that employees can move up the compensation ladder without traditional promotions and job delineations, because their movement is based on skill attainment and performance rather than their tenure with a business or in a certain position. Does this mean everyone gets a free pass? Hardly. An effective broadband will actually be fairly rigorous to move through, especially in the upper levels, where skill levels and competencies are already high. It will demand not only skill attainment, but the ability to put those skills to use during client services, team meetings, brainstorming sessions, and leadership and mentoring scenarios. It will demand a depth and breadth of growth from employees that reaches far beyond technical capability. And, finally, it will show employees the personal and professional rewards they will attain as a result of their efforts.

By now, you may be thinking that broadbands will only work in businesses that have strong teams. In reality, they will only work in businesses that have a culture strong enough to support a team. Everything needn't be “just so” in order to build and use broadbands – but they do work better in some businesses than in others. A new kind of redesign, broadbanding works best in businesses ready to shirk traditional employee roles and job classifications that support outdated management systems. In other words: If you want to create a high-performance, team-oriented workplace that offers greater flexibility, cross-training and employee involvement in decision-making processes – you'll likely need to change a few things in the way the business is managed.

The manner of employees' work, and the way they are compensated for it, is the heart of the matter. (In many companies, it's an absent heart, because there is no consistent methodology for either.) What do the CFOs know? Broadbands offer obvious advantages to employers: When jobs are defined more broadly, it's easier to get things done. Employees can be encouraged to multi-task and cross-train, which increases their learning opportunities while improving the business's productivity. But that's not all:

Broadbands can also reduce the number of pay levels, or at least help you get a handle on them, by tying pay advancement directly to factors other than seniority and client lists. This results in greater control over allocation and total payroll costs. Of course, broadbanding can be used with any compensation system – whether salary, commission or seniority-based. But it seems to work best when some sort of skill-based element is incorporated. While nothing about broadbanding or certifying employees' skills is meant to diminish the current importance or integrity of the individual, it is meant to increase their value to the business by ramping their skills upward and involving them more deeply in decision-making processes. Performance-based broadbanding:

- should focus on ongoing and effective communication and employee trust.
- works best in businesses where the existing culture encourages improved performance.
- works best in businesses that have strong performance management systems.
- needs adequate funding. Increases in pay should be meaningful to employees and appropriate to their contributions.
- requires adequate controls, in order to keep total costs in line with the company's true capabilities.
- requires high levels of training for employees.
- requires innovative reward systems.
- should result in growth for employees and the business.

Team Bonus: Designing Your Team's Brass Ring

Team bonus sounds great, but where is it going to come from?

The mandate of team-based pay is simple: Everyone is responsible for growing the business. These words are powerful, but words alone aren't enough to inspire dynamic team performance. A pay program alone cannot instill a business-wide sense of urgency to drive revenues up, manage costs and build net profit. Given this, team-based pay uses team bonus as a means of driving the four business outcomes: productivity, profitability, staff retention and customer service.

Before going any further, let's be clear. A team bonus is not

an entitlement that employees receive simply because the business hit a goal or generated profits. Entitlement-based bonuses cannot shape or encourage dynamic team behavior. For example, an annual Christmas bonus that is not attached to any performance goal is an entitlement. Employees will expect it every year and, should it stop, there will surely be a disturbance in the force.

What's your critical number?

Every business has critical numbers that, when achieved, have a profound impact on one or more of the four business outcomes. More specifically, driving a critical number shapes team performance and behavior in a lasting way. Clearly the most obvious critical number is net profit – but it can also be productivity rates, client retention, gross margin goals, product and material costs, etc.

Tying team bonus to the achievement of a critical number makes the business game interesting. It also adds flexibility and variety to your program, which will help maintain the all-important sense of urgency that drives team performance.

Give careful consideration to defining your critical numbers. Begin with a number that, when achieved, will have the most profound impact and give cause for major celebration.

It has to be about the “stretch”

Team bonus is not about maintaining status quo performance. It's a reward, earned through hard-fought achievement of clearly defined goals above what is considered reasonably achievable. The thinking is simple: If you want growth, team performance has to stretch. A word of caution here: When we say “stretch,” we mean incremental growth steps, not giant leaps. Remember, a team has to win regular-season games before going to the Super Bowl.

It has to be self-funding

Nothing will demoralize a team more than to achieve their goal, but be told, “Oops, there's no money for bonus.” Whether your team bonus is based on hitting net profit goals or some other critical number, your system must be self-funding. Achieving the goal must create net profit – cash – at the bottom line. Caution: Do not play the team bonus game if you and your leadership team are not committed to being fiscally responsible.

One way to create a self-funding bonus program is to set

minimum net profit targets that must be achieved before bonus is awarded. For example: If net profit currently averages a lackluster 5%, you may set a new baseline of 7%–8%, which needs to be achieved before any money drops into the team bonus pool. This approach ensures that current profit levels are not only maintained, but actually increased before team bonus is calculated. (Remember, securing the company's future must be part of the team-based bonus program.) Once net profit exceeds the baseline set for funding and activating the team bonus pool, you can schedule monthly, quarterly or annual payouts. To keep the game interesting, consider ramping up the payout in progressive stages, leading up to the big-game payout at the end of the year. How much of the gain goes into the team bonus pool requires careful consideration and a thorough understanding of the current and near-future financial realities of the business.

It has to be super simple

There's nothing worse than a team bonus program no one can understand. Resist the temptation for elaborate formulas and payout schemes. Focus instead on creating a program that every employee can understand. Try quizzing employees on the final plan, to see if they can explain it to you or other employees. If they can't, it's too complicated.

You have to keep score

Since team bonus is tied directly to performance and hitting your critical numbers, your program must include a rapid-fire communication system. To accomplish this, team-based businesses incorporate daily huddles and scoreboards, which keep everyone informed, engaged and focused on achieving goals. Every one of our coaching clients that uses daily huddles and scoreboards reports faster growth, significant cost reductions and stronger profits. Daily huddles and scoreboards maintain that essential sense of urgency. Don't overlook this key piece of team bonus.

Distributing bonus

Team achievement means everyone on the team gets a share of the bonus payout. Some businesses take the “everyone gets a fair share” approach – from top management to housekeeping. Others use a system of differentiated levels to distribute bonus based on decision making and accountability – not excessively so, just enough to reward and recognize their leaders. A balanced team bonus program

should also include qualifiers for participation. Nothing will dash teamwork more quickly than players who don't contribute or play the game.

Conclusion

Team bonus is a key element in creating a well-balanced team-based pay program. It's that special ingredient that keeps business exciting and employees laser-focused on growth, cost control and driving net profits.

The Financial Accountabilities of Leadership

Financial statements are like crystal balls

Financial control is a cornerstone for implementing a team-based pay program. It has been said that one of the marks of a good leader – and any change in business operations will require good leadership skills – is the ability to predict the future. Updated, accurate and frequent financial statements enable you to do this. Cash-flow plans, balance sheets and income statements are three financial tools that allow you to predict and control your financial future, hold everyone accountable for your company's growth – and honor promises made to the team. Let's look at the cash flow first.

What do you get from cash flow?

Cash-flow planning tells us the amount of cash our business will or did generate during a specific period of time. Cash is the fuel that drives a business. The more cash on hand, the greater the business's ability to help get rid of (or at least pay down) debt, provide revenue for company investment, and grant incentives to the team.

Cash-flow planning also tells us:

- when expenses will come due, and how much has to be paid out. Taking a sharp knife to all the company's expenses in order to decrease its cash outlay will obviously increase your cash position. But involving the team in the process can often lead to surprising and dramatic results.
- where the income will come from to pay these expenses. Making realistic goals, or predictions, gives your team a "road map" to success, as well as inspiration for team performance. Periodically reviewing these goals will help keep the fires burning and ensure they are neither too high (which can cause a sense of discouragement) nor too low (thus failing to provide inspiration).

- everyone is fiscally responsible. Accountability is an important ingredient in cash-flow planning. Without the transparency that derives from frequent – we suggest weekly – cash-flow updates, even the best-made plans can go awry. This accountability also instills trust in the company's leadership team.
- where the leaks are. When extra effort is needed to stop the bleeding of certain expenses, or efforts need to be redirected at increased sales, cash-flow plans allow us to put our manpower to use where it's most needed. This allows a company to turn its financial ship on a dime.

If you really want to supercharge your company and its growth, there is probably no better way than through excellent cash-flow planning! Cash-flow planning is forward thinking. (Think of it as a highly detailed budget.) Remember, now that payroll has become a fixed expense under team-based pay, it does not go up as sales do – ensuring an even greater cash position.

A good cash-flow plan is created on a calendar or fiscal year, and broken down by individual months. Some of the specifics:

- Sales revenues (the top line) are created through sales over a certain period of time, including sales of services, retail goods, and gift cards or packages.
- Cost of sales. This expense usually includes costs directly incurred by the company in providing goods and services – payroll for service personnel and their associated payroll taxes, cost of retail items sold, and cost of supplies needed to provide said services. Each of these expenses is listed separately; the final "cost of sales" line shows the total.
- Gross profit (or gross margin). Subtract cost of sales from the top line to find gross profit.
- G&A, or general and administrative, costs. Here is where all other business expenses are listed, from advertising to utilities. Each is listed separately, and all are normally paid on a monthly basis. Again, there is a separate line that shows their total.
- Gross net profit. The amount of cash available after all expenses are paid but before taxes are paid.

We now have a completed cash-flow plan, which should show the most accurate and up-to-date status of your business. But while it's an important tool, it's not the only one.

What's on the income statement?

Income statements, otherwise known as profit-and-loss statements (or P&Ls), are a summary of a company's profit or loss during a given period of time, whether one month, three months or a year. The income statement records all revenues for a business during this period, including those that come from sources other than its core business, as well as all operating expenses.

Income statements help determine the performance of your business. Small-business owners use them to find out what areas of their business are over- or under-budget, according to their cash flow. Items that are using more cash than expected – such as phone, rent, shipping and postage, supply expenses – can be pinpointed. Income statements can also track dramatic increases in product returns or cost of sales. They can be used to determine income tax liability, as the cash-flow plan cannot.

Income statements contain some of the same information found in cash-flow statements, plus some greater detail:

- Sales revenues – not just the ones generated from “normal” sales, but also any derived from sources other than a company's core business (e.g., any income generated from renting company space for a party).
- Cost of sales.
- Gross profit.
- General and administrative.
- Depreciation. This is an annual expense that takes into account the loss in value of equipment used in your business. Equipment subject to depreciation may include furniture, computers and printers. While depreciation is important to help reduce tax liability, it's not actual cash leaving the business. This is one reason why an income statement cannot replace a cash-flow plan in determining how much cash a business has.
- Taxes. Ouch – you knew they were coming sooner or later.
- Net income. This is the amount of money left after the business has paid income taxes.

It is very important to build an income statement that is appropriate to your business, so work with your accountant. Income statements, along with balance sheets, are the most basic elements needed by potential lenders, such as banks,

investors and vendors. They will use the information to determine credit extension and financing eligibility.

What's on the balance sheet?

Balance sheets list a company's assets, debts and owner investments as of a specified date.

A balance sheet helps a business owner quickly get a handle on the financial strengths and capabilities of the business – Is the business in a position to grow and expand? It can help identify and analyze trends. Can the business easily handle the normal highs and lows of revenues and expenses? Or should it take immediate steps to boost its cash reserves?

A simplified balance sheet includes assets (what a business owns), liabilities (what it owes) and equity. Equity is the money a business owes its owners after all creditors have been paid. It is also the “book value” of your business. As with home ownership, you'd like to see the value – the equity – of your business increase without taking out a second or third mortgage.

Okay, where to start?

First, it's probably time to set up that meeting with your accountant. Review the cash-flow plan, income statement and balance sheet, line by line. Maybe take a financial management class and/or find a coach who will not only explain the workings of financial statements, but also hold you accountable for putting the numbers into action.

Build a 12-month cash-flow plan and get into the habit of working with your cash flow, weekly. Only through becoming familiar with your numbers will you become proficient at understanding them. Share these numbers with your team, using scoreboards and huddles, to help communicate the company's goals.

While sharing the numbers may seem scary, it's the key to inspiring your entire team to move your company forward. Your financials are your company's scorecard – you can't expect your team to play to win if they don't know the score.

Owner Compensation: Can you still pay yourself?

Leaving the “hands-on work” is the easy part. Continuing to take a salary is the challenge

In these days of stiff competition and rising operating expenses, there is an ever-increasing sense of urgency for owners to focus exclusively on the financial, managerial and marketing needs of the business. More and more owners are echoing the key lesson espoused by Michael Gerber in his best-selling book, *The E-Myth*: “Work on your business, not in your business.”

Finally, the traditionally dominant creative and technical side of the salon/spa/medspa business is giving way to the long-neglected business side. Owners are recognizing the need to work on their businesses, and many are willing to give up the comfort zone of their “chairs” to do so.

Who gave your pay away?

The decision is made. The wheels are in motion. Whether “cold turkey” or in gradual steps, you are shifting your clients into the capable hands of other employees. Finally, there’s time to focus exclusively on growing the business, fixing all those problems and working on the big picture. You’re in control. Everything is falling into place.

A few weeks into the transition, you notice that cash flow is getting tight. You dive into your point-of-sale software program and start running sales and performance reports. These reports tell you that revenues are not only holding steady without you doing technical work, but are actually increasing. You open the accounting software and run some profit-and-loss statements to see where all the money is going. You call the accountant to help find the financial leak. You know it’s there.

After an exhausting search, reality hits like a lead balloon. When you left the technical side, you continued to take the same salary each week, never factoring in the effect of commissions on the cash flow and the ability to continue to take the same salary you enjoyed previously. Simply put, when you shifted your clients to the staff, you also gave away your pay. In effect, your commission pay program gave the other employees a raise.

Failure to recognize the combined financial impact of leaving the hands-on work, shifting clients to staff, paying commission and attempting to maintain a salary is a costly error made by some of the best owners with the best business intentions.

“What ifs” and cash flow

The only way to properly plan and finance your new position as a full-time leader, manager, coach and administrator is to do a 12-month cash-flow plan. Constructing monthly cash-flow plans is not an option. You are flying financially blind without them. Although many accounting programs include cash-flow or budgeting features, some simply use averages to fill in the blanks. Others don’t allow you to custom-build separate, unique cash flows for each month. The best strategy is to create a cash-flow plan for each of the upcoming 12 months. Microsoft Excel® is a wonderful program for cash-flow planning. You can “what if” as much as you want, and see how changes in each revenue and expense category will affect profits.

Should you rethink compensation?

If your goal is to work full-time “on” the business, now may be the best time to rethink the company’s pay program. As stated, commission pay presents some interesting obstacles that must be addressed. Remember, if you shift your clients to other staff members, they will receive commission on those sales. If you also continue to take the same pay each month, your net profit will take a major hit.

Lots to consider

Leaving the chair or technical side is a commitment to grow your business. It’s also the perfect time to reengineer and modernize your systems. We are not saying that moving to a team-based pay program is a mandatory step, but, depending on your company’s financial position it certainly deserves serious consideration.

Communication Skills

Explaining what, why, how and the score

In order for team-based pay to be successful we must remember the importance of promoting clear, effective and open communication.

We often deal with new ideas, with changing the way things are done, and with trying to persuade others to our point of view. However, there are many built-in obstacles that prevent people from automatically accepting and absorbing information.

Making your staff want to hear you is primary. Why would someone else spontaneously become interested in your

vested interests? You'd need a propellant – something that could make a difference and actively turn your staff toward your view.

What makes people listen? Self-interest

The best way to generate your staff's self-interest and to get them to listen is to discover and show them what's in it for them. It's to let them know that you understand their self-interest – by focusing on their point of view at the start, before you tell them about yours. This will motivate them to tune in, and it is critical when talking about people's pay.

When working the team-based pay system, one of the most important things to focus on is driving sales upward. This is where pay increases will come from. It's important to communicate this to staff, and teach them how to drive sales upward, so that they can continue to have increased growth opportunities. Show them how increased productivity and efficiency will affect sales. Show them in real numbers. Show them where the numbers need to be in order for raises to be granted. When they know and understand the numbers, they will be better able to work toward your stated goals.

In his book *The Great Game of Business*, Jack Stack states his ninth higher law of business: "If nobody pays attention, people stop caring." This is as true with your team-based pay system as with any other new system you implement. People have to know what the goals are and how what they do affects those goals, or they won't care.

At Strategies, we always say, "If you fall asleep, they'll fall asleep." This means that you, as the leader, must always know what's happening in the business and continually communicate with your staff. Keep them informed of what's happening, and inspired to keep moving forward. If you fall asleep, they'll fall asleep.

Communication tools

Scoreboards are the basic vehicles of communication. They are designed to keep staff informed of what the business's goals are, as well as the progress being made toward those goals. One thing we know about human nature is that "what gets measured, gets done." When staff sees that performance goals are being tracked, and they understand how they can help push them in the right direction, and they have a stake in the outcome, they begin to make those numbers happen.

Scoreboards force a level of accountability and, hence, per-

formance, that's missing in many companies. The numbers come in quickly – usually daily, or at least weekly. And they're watched not just by owners, but also by managers; they're passed on to employees, so problems get addressed faster. Communicating the company's progress lets managers and employees see the effects of their work. It will definitely have a positive impact on performance, productivity, efficiency and quality.

Huddles are regular, short, structured meetings designed to verbally communicate what's happening in the business. This is the time to discuss financial information from the most recent period, and forecasts for the coming week and month. Huddles are the next link in the chain of communication.

Huddles and scoreboards go hand in hand. The scoreboards will be more effective if verbally communicated, and this happens in the huddle.

Huddles pass vital information through the company. It's when and where employees get to see the big picture: what still needs to get done and how to get it done. Huddles get and keep people moving in the right direction. They get everyone working together to make the improvements that will determine whether the team will succeed.

As Jack Stack says, "The huddles are how we regenerate the pride and sense of ownership, how we create mutual trust and respect, build credibility, light the fire in people's eyes. Above all this is how we drive ignorance from the workplace and teach people how to make money." Huddles are very powerful indeed!

Using a system of scoreboards and huddles, and holding everyone accountable for goals, will help you to continually communicate with employees, and drive your business to higher levels of performance, productivity, efficiency and quality.

Comments from Team-Based Pay Business Leaders

Team-based pay has taken my business from something that looked like "cross my fingers and hope for the best" to leadership clarity and predictable outcomes. It was fundamental that I understand what it takes to lead and grow a company – to be able to show our team members genuine and achievable career paths. Team-based pay and the Strategies systems put all of the pieces together. We now have a cul-

ture that we can all be proud of. We have systems in place that ensure customer service, communication and overall growth. I no longer spend my days putting out “fires.” We rebuilt our business on the foundation of team-based pay and, even though it is always changing as we grow, my team and I couldn’t be more proud of the company we have created together.

Michael Yost
Salon H₂O
Erie, Pa.

Team-based pay has made the biggest difference in the overall quality of my business since opening my first salon in 1989. Having been a “technician,” I had little business experience or knowledge of how to run my business and pay my staff other than the customary commission method. Commission was an easy way to run my business and worked well until I tried to change certain behaviors. No matter what I did, I could not get the technicians to embrace “my” business. It was all about them, the individual, and it made for strenuous relations.

After a walk out, I reengineered our business model to begin using some of the Strategies systems and tools and changed to a salary with commission override. This helped us grow but there was still that individualist behavior. The system was still rewarding the wrong thing.

Once I attended an Incubator and did a full conversion to team-based pay, things changed rapidly for the better. Our business really took off and we had to expand to more than double our size within 14 months. A year later we added 1,500 square-foot spa. We opened a second location in 2006 in a neighboring community.

The team-based pay business model helps you to take control of your business. It’s not a business on autopilot. You must develop skills to manage the systems. In the end, team-based pay will give you the freedom to run your business as you see fit and develop the real value a good business deserves.

Sonny Rapozo
Hot Locks SalonSpas
N. Falmouth and Plymouth, Mass.

I do not know if team-based pay (TBP) is for everyone. However, one thing I do know is that the salon industry will have the exact same challenge 30 years from now if we don’t change the system and do things differently. Strategies’s TBP offers a new option for a reward system that encourages the right behavior in the entire salon team. The salon will be free from a fear-based culture and won’t be held hostage by celebrity stylists. When the student is ready, the teacher will show up. Are you ready? I believe that Neil Ducoff and the Strategies team has the answer for the salon industry worldwide.

Ping Chu
Canmeng International – (six locations)
Taipei, Taiwan

What difference has team-based pay made in our company? Simply in one word, “everything.” Where commissions fall short, team-based pay (TBP) goes the distance. TBP allows you to take control of your financial future through controlling your budget and planning your spending, including raises for the team by merit.

When I started my search for the perfect pay system, I looked for something that would fit within my values system. By design, TBP truly rewards the behaviors that will create growth for my company. More importantly, it gave me back control of my company. As we all know, top paid technicians aren’t always top team players or even the most loyal to the salon.

Ask yourself, what would happen if there is a walk out? Are your clients loyal to your company or a technician? Since going on TBP, I’m no longer hostage to my staff and “their clients.” TBP truly gave me the team and business culture I was seeking but didn’t think was possible. It has also given me a recruitment tool as well. I can project what I can afford to pay a new hire whether it is a veteran technician or a rookie just out of school – and they can budget their income as well.

The first year we switched from commissions to TBP, we grew more than \$100,000. I believe in TBP .

Shari Sell
Adavia Salon & Spa
Forest Lake, Minn.

When my pay structure was the industry standard of commission, my payroll costs were more than 65% with taxes. I attended Strategies Incubator and then, getting more Strategies information and applying what I've learned, I went from commission to salary, then ultimately I've stayed with hourly and team bonus as suggested. This has freed our team up to think as a group vs. just individually and has brought payroll to more reasonable levels to work with in my cash flow.

Learning how to manage the cash flow in and out of the business keeps the business healthy and can help provide inroads to course corrections, if necessary. Thanks, Mr. Ducoff!

Kimberly Acworth
Indulge, A Colour Salon 180 from Ordinary
York, Penn.

A few years ago, I had the opportunity to listen to Neil Ducoff talk about team-based pay; it made total sense for me.

It wasn't until I was totally committed to the concept that I saw results, and not just results, amazing results!

My husband and I purchased everything from Incubator and other courses to private coaching. (Of course we did not have much money to start with, but we made this a priority and got great financial help to be able to do this.)

We believed that for us, real team is what we stand for. Sharing is empowering.

I served in the Israel Army for two years, so I understand structure, but what I have learned from Neil is the art of no compromise.

The minute you start to compromise, you lose you, and you cannot lose you!

My team had to change several times. Yes, yes I know that you have to put some cash out front there — salaries and benefits — and make some hard life changes. You have to commit and work hard, but boy! When you get to the other side, seeing your staff grow and support you and love the team-based concept.

That trust is infectious, and isn't that what it's all about?

For a while there, I thought that the most important thing is your client, but I have learned from Neil's concept that there are eight important drivers, not just one.

Neil and his coaches have been a mentor at every level of Maxime's progress and the development of my professional and personal growth.

Team-based pay is not only the way, it is the only way.

Ronit Enos
Maxime Salon/Maxime Beauty
Hingham, Mass.

Team-based pay gives us control on salaries to make a business budget that keeps payroll at or under 38%. It strongly encourages team not individuals. It offers broadbands that make sense to staff and owners. It enabled us to hire an office manager and give paid vacations.

Team-based pay has given Andrea and I a business that runs without us there. That sounds like a dream, as only a few short years ago, we both were working six days a week behind the chair.

We feel very lucky to have found Strategies and Neil. We are now in the beginning stages of my retirement. I will still go in two days a week and do what I enjoy, working on a few clients and helping set the vision of the future for our company. Team-based pay started it all.

Dan Green
Hair Professionals
West Palm Beach, Fla.

Eight years ago, my wife and I started our journey to create Mango Salon.

Like most energetic, highly charged, naïve business owners, we wanted our salon culture to be different. My wife had more than thirty years of experience as a hair stylist working in over ten salons in multiple states. As a business professional, I wanted to collaborate with her to create a professional organization that was founded on team concepts and principles.

The existing compensation methods (commission-based or booth rental-based) failed to support the behavior we desired for our new Mango culture. Why couldn't a salon offer the same best practices as other professional industries?

After spending many hours, days, weeks and months evaluating our strategy, we discovered Neil Ducoff's team-based pay approach to salon compensation. After reading Neil's

book *Fast Forward* and attending the Incubator course, we had found our solution for our new business venture. “Eureka!” we thought.

However, reading about this new way of thinking was far easier than implementing a totally new approach for rewarding salon professionals.

How could we attract and keep hair stylists? Why would they consider a salon that rewarded team-based behavior over individual commission rewards?

Would we be able to survive during the first year with the fixed cost commitment of paying professional pay regardless of the sales levels? Would our Mango “brand” be built around the ego of the owner or individualistic rock stars? Tough questions for two nervous and naïve business owners.

Today, I strongly believe our success in building Mango from a small ten-person salon to a multiple location salon organization with eighty professionals started the moment eight years ago that we committed to the team-based pay strategy. It is not just a compensation method. Team-based pay, or our “Mango Professional Career Pathing Program” is our way of helping our team members reach their individual dreams to become the greatest professionals in the salon industry. Mango has become a vibrant village in a world of falling rock stars and failing businesses.

By pulling together as a team, we have cried, worried, sweated, pondered, analyzed, experimented, failed, succeeded – but never hesitated or compromised on our resilience to stick to the team approach to managing our culture. It’s about the culture, not about the pay. Team-based pay is the engine that drives our culture train. The track is our strategic path to success. Without an engine like team-based pay, our culture train would never have reached the destinations we have seen over the past eight years. We continue to stoke that engine with our team-based pay program and have many new destinations to reach in the years ahead.

Pat Heaney
Mango Salon
Richmond and Glen Allen, Va.

I have been using team-based pay concepts since 1997. I attended an Incubator, and my eyes were opened to the missing piece to growth and real teamwork. I think we really can’t call our businesses a team if we focus on rewarding the individual and not the whole organization. These concepts have allowed our company to grow and expand and also made us sustainable in “The Great Recession” with more profit. That can only be had by everybody involved in the team-based pay concept.

I would shut down my operation before I did it any other way.

Mark “Pardo” Gonzales
Mark Pardo Hair Skin Body
Albuquerque, New Mexico (six locations)

Team-based pay allows us to reward the right behaviors in the company, not just busy service providers, but real team players. It really gives you control of your business to forecast revenue and projections, to budget and to plan. You can know what your payroll will be; you can do goal setting; you can plan your purchases better.

Really understanding what the numbers need to be is huge. Learning about team-based pay and having benchmarks and adopting it in my company, turned things around.

The biggest thing it’s done for us is it helped us build a brand. Now you don’t have guests who are loyal to a team member; they’re loyal to your business. Team-based pay helped us create the brand we’ve always dreamed of.

Lisa Cochran, Certified Strategies Coach
The Studio
Laurel, Miss.