

## **Show Me the Money! Surveys Show Direct Links between Retail Compensation and Employee Performance and Turnover**

None of us are naïve enough to believe compensation isn't a critical part of the hiring and retention equation. But what do employees want: Salary? Bonuses? Shares? Factually, there is plenty of information available to make this more than guesswork. The following excerpts from studies conducted by leading consulting firms (and even a Government study) verify this for anyone unsure of what the correlation really is...both in our own industry and other Retail venues.

In an effort to increase shareholder value, compensation for executives in the retail industry is rapidly becoming performance-based, a PricewaterhouseCoopers LLP study found. The Total Compensation in the Retail Industry Study found that compensation is being linked to the accomplishment of goals that directly contribute to shareholder value. In addition, today's retail compensation is being designed to improve employee recruitment and retention. Respondents reported that finding and training new talent has become increasingly difficult and expensive, particularly at the corporate level.

### **COMPENSATION FINDINGS:**

Long-term incentive programs decreased from 41% to 32% year over year. This follows what had been an increase in the presence of long-term incentive programs and is contrary to recent trends and may signal an overall move away from long-term compensation in retailing.

--A larger share of senior managers have long-term incentive programs, with a smaller percent of supervisors eligible for such programs. The eligibility of middle managers stayed constant. This shift makes sense: long-term compensation rewards corporate-level performance, as opposed to individual or business unit results.

--The most typical long-term incentives reported are stock options (80%), followed by cash (46%) and restricted stock (23%).

--Overall, the use of short-term incentives (those that measure performance over one year) declined year over year, from 65% of retailers reporting such plans, down from 77%.

--However, more middle managers (from 69% to 77%) and many more supervisors (up to 49% from 30%) were eligible for short-term incentives.

### **EMPLOYEE TURNOVER FINDINGS:**

Historically, retailers have been concerned with employee turnover at the store level, with new entrants to varying regional markets and new store additions, Today, double-digit turnover rates at the corporate level are raising new concerns for the head office. Over a two-year period:

?? Turnover for store sales associates dropped to 63% from 67%.

?? Turnover for store managers dipped from 27% to 25%.

?? Executive turnover was at 19%, up a full 10% from 9% two years' prior. Turnover for store buyers soared to 26% in the same two-year period (Writer's note: our executive

search business confirms these facts).

?? Professional/Administration employee turnover was at 24%, up from 13%.

Employees are accepting jobs with competitors who make lucrative offers in order to attract talent. Reasons mentioned for high turnover include: low pay, career change, job satisfaction, long hours and support of educational updates.

A career in retail management can be more lucrative in some segments of the retail industry than others, according to the 2000 Multi-Outlet Retailer Compensation Survey from human resource consultants William M. Mercer, Incorporated.

The new U.S.-based survey shows that the manager of a building/home/hardware store receives median annual base pay of more than double that of the manager of a music/video retail store. Other high-paying store manager jobs can be found in the electronics/appliances retail segment and in grocery/supermarket segment. On the lower end of the pay spectrum and almost identical in compensation are gas/convenience stores, specialty retailers, and regular bookstores.

Similar pay variations are found in other retail management jobs. For example, median annual base pay for a buyer for building/home/hardware stores was found to be one-third higher than that of grocery and supermarket businesses.

In addition to information on retail management compensation, the survey also provides data on pay for hourly retail employees. Non-commissioned salespeople receive a median base pay of almost \$1.00 per hour higher than cashiers at retail establishments.

"Pay differences across the retail industry reflect a number of factors, including competition for labor in different segments, as well as the profitability – or margins – of a given segment," says Mercer's practice leader for employee compensation. "Another important factor in determining pay for retail store managers is the scope of responsibility, in terms of the store size, the number of employees supervised, and the value of the store's inventory."

Mercer's survey gathered compensation data from 119 large retail organizations nationwide. The data reflected base pay and short-term incentive levels for 57 store-level and corporate management jobs in the retail industry in such areas as operations, franchising, merchandising, distribution, buying, construction, real estate, human resources, loss prevention, and training, for more than 380,000 employees across the country.

Compensation systems vary by type of establishment and merchandise sold. Many managers receive a commission, or a combination of salary and commission. Under a commission system, retail managers receive a percentage of department or store sales. These systems offer managers the opportunity to significantly increase their earnings, but they may find that their earnings depend on their ability to sell their product and the condition of the economy. Managers who sell large amounts of merchandise often receive bonuses or other awards.

Retail managers receive typical benefits and, in some cases, stock options. In addition, retail managers generally are able to buy their store's merchandise at a discount.

Even Government studies corroborate this finding: a recent study confirmed Retail and Service establishment employees are generally compensated (apart from any extra payments for overtime or other additional payments) by one of the following methods:

- ?? Straight salary or hourly rate: Under this method of compensation the employee receives a stipulated sum paid weekly, biweekly, semimonthly, or monthly or a fixed amount for each hour of work.
- ?? Salary plus commission: Under this method of compensation the employee receives a commission on all sales in addition to a base salary.
- ?? Quota bonus: This method of compensation is similar to commission, except that the commission payment is paid on sales over and above a predetermined sales quota.

More often than not, the store employee had a “bonus” of some sort to attain.

It appears conclusive that, no matter what the level of position and/or job satisfaction, money still can't be overlooked

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