

Updating Trends in General Manager Compensation

BY CAROLEE COLTER

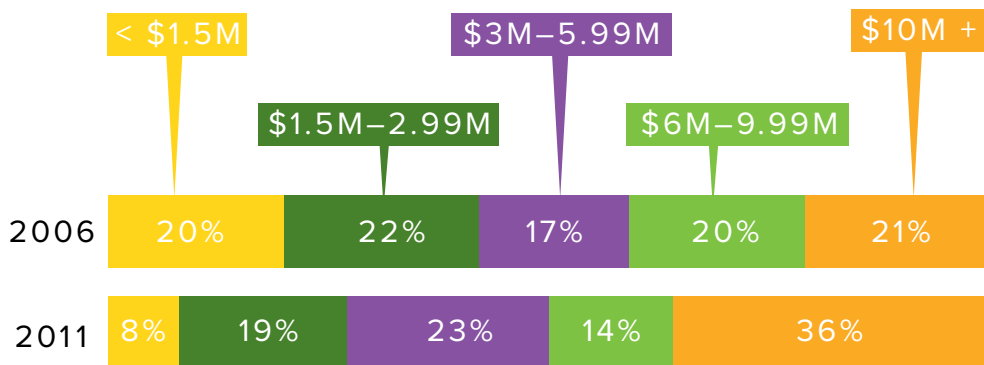
Several years ago in this magazine, Mark Goehring and I proposed a new process for management compensation (CG #134, Jan.–Feb. 2008). In a nutshell, we suggested that boards hold a strategic conversation on the importance of management compensation and then come up with a Request for Proposal (RFP) to give their managers. Then managers would propose their own compensation plan, while meeting a set of criteria laid out in the RFP.

Since that time, more and more boards have adopted this process. One of the most common criteria in board RFPs is that the compensation plan meet “industry and local standards.” As part of meeting an “industry standard,” managers had to find out what other managers of similar-sized co-ops were paid.

This was a time-consuming process; it involved defining a peer group, contacting the managers in that group and requesting they share their compensation information, then packaging that data into a format to present to the board and sharing it with the other participating managers, while keeping the identities of the participants confidential. With many different managers undertaking this task, no doubt there was some duplicated effort. Managers needed a way to efficiently and confidentially access information on the pay rates of their peers.

To meet that need, CDS Consulting Co-op’s Cooperative Board Leadership Development (CBLD) team, in collaboration with the National Cooperative Grocers Association and CoopMetrics, created a new resource for boards and managers—the GM Compensation Database. How this database

Chart A: Participating Co-ops by Sales Volume, 2006 vs. 2011



was constructed is detailed in the sidebar below.

Additional background was provided by a 2006 management compensation survey Peg Nolan and I conducted, which was commissioned by NCGA and this magazine. For the conclusions from the study see the May–June 2006 issue of CG.

Caveats

This latest article, like any survey, represents just one point in time. It will soon become dated. The advantage of the CBLD database is that it is updated as each manager adds new information. Therefore the information in the database, rather than the information in this article, is the standard that boards should consider when asking their managers to compare their proposals to “industry standards.”

Keep in mind that the 96 co-ops in the 2006 study and the 89 co-ops that have participated in the GM Compensation Database to date are not necessarily the same organizations. That small co-ops with less than \$1.5 million in sales represent a much lower percentage this time, and large co-ops with over \$10 million in sales represent a much higher percentage, may reflect the fact that co-ops have grown a great deal in the past five years. But it also may reflect the fact that fewer managers of small co-ops participated in the online database than answered the paper survey they received in the mail in 2006.

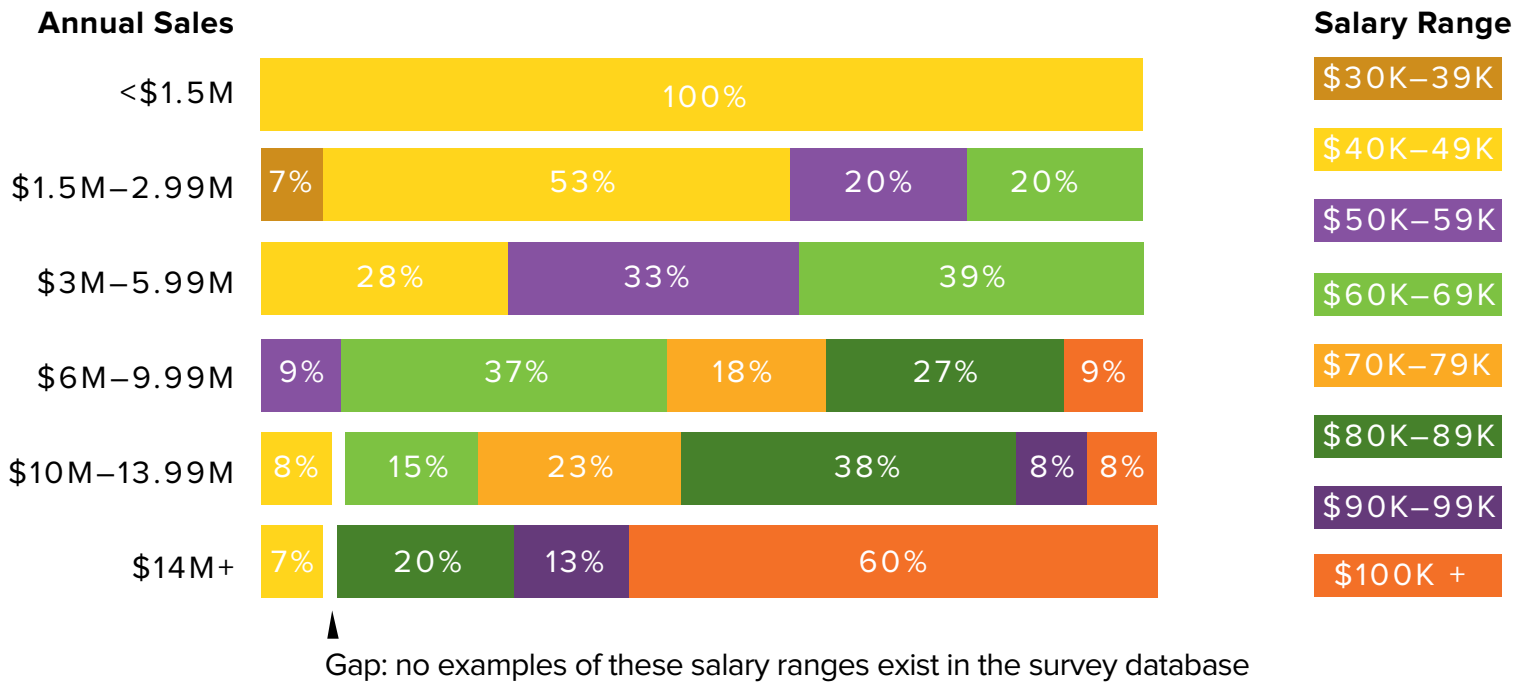
Methodology

Access to data on general manager compensation is available to those participating in the Cooperative Board Leadership Development (CBLD) program as well as to other general managers. There are no restrictions on participation, but general managers of co-ops not in the CBLD program should contact Mark Goehring (markgoehring@cdsconsulting.coop) first for access.

Users access the database via the CoopMetrics website with the same username and password they use to access CoCoFiSt. Here is the link to step-by-step instructions: <http://cgsconsulting.centraldesktop.com/cblD/doc/7681176/w-GmCompensationDatabase>.

After answering 15 questions, users can then pull reports that show the range, median, and average for the base salaries, bonuses, and total compensation for managers of other co-ops in the same size range. These reports can be organized by a co-op’s size class in CoCoFiSt or by the four co-ops with sales volumes immediately below and the eight with sales volumes immediately above. The latter format may be preferred by co-ops projecting strong growth or co-ops with sales right on the cusp of a CoCoFiSt group. In either type of report, no identifying information is given about the other co-ops in the sample. Reports from the database are produced in pdf format and provided to boards along with the proposal.

Chart B: Total GM Compensation by Store Size, 2011



Trends and bonuses

With those caveats in mind, here are some trends in manager compensation between 2006 and 2011:

- Managers are earning higher base salaries today than in 2006.
- More managers now receive some form of contingent pay—a cash bonus or other form of pay that is contingent upon realizing specified results.
- The amount of bonus available in contingent pay programs has increased.
- More bonuses are now based on pre-established criteria.

In the 2006 survey, many managers described their bonus as “unpredictable,” “unclear,” “at the board’s discretion,” “no formal plan,” or “same as other staff.” In contrast, the current database shows that for 88 percent of those with contingency pay plans, criteria for their bonus are set in advance. From how 42 managers described their bonus criteria, I drew these conclusions:

- The most popular bonus formula consists of a small number of financial indicators (typically sales growth and/or net profit) plus board acceptance of monitoring reports on Ends policies or all policies.
- The next most common formula uses two to four financial indicators, while a handful of co-ops focus solely on profit or EBITDAP (Earnings Before Interest, Taxes,

Chart C: Manager Compensation Trends, 2011 vs. 2006

Base Salary Before Bonus	2011	2006
<\$40,000	9%	32%
\$40,000-\$49,999	20%	17%
\$50,000-\$59,999	12%	16%
\$60,000-\$69,999	20%	19%
\$70,000-\$79,999	9%	5%
\$80,000-\$89,999	9%	3%
\$90,000-\$99,999	6%	3%
\$100,000+	15%	5%
Managers with bonus	58%	40%

Available bonus as % of base pay	2011	2006
<10%	25%	44%
10%-20%	45%	29%
>20%	18%	8%
No set amount	12%	19%

Managers with extra benefits	2011	2006
	57%	43%

Many managers now receive some form of contingent pay, usually based on criteria set in advance.

Depreciation, Amortization, and Patronage).

- Some bonus plans include completion of a project as well as some financial indicators.
- In only two cases does the board set the annual goals without, apparently, management initiative or involvement.

The rising numbers of managers with bonuses based on pre-established criteria is a good thing—for those managers who are motivated by the idea of contingent pay and have a lead role in designing their own bonus plan. However, there are managers who much prefer not to have a bonus at all. As a general manager once said to me, “It’s not like I’m going to kick out an extra 10 percent of good work just because there’s a bonus.” This is indicative of why it’s important for boards to ask managers to propose their own compensation, including bonus plans. Only the manager knows what will motivate him or her.

Beyond bonuses

More managers receive special benefits above and beyond those received by all staff. Of those who report extra benefits: ►

The median compensation for managers with over 10 years seniority is lower than that of managers with less seniority in co-ops of the same size.

- 33 receive additional paid time off
- 16 receive additional health insurance benefits
- 16 receive deferred compensation, e.g. life insurance
- 23 received some other kind of extra benefit. Examples given by respondents: expenses for professional development, cell phone bill reimbursement, health club membership, special orders at cost, and paid parental leave.

Seventy percent of the managers with special benefits also have a contingent pay plan. However, there appears to be no correlation between receiving special benefits and amount of base salary or total compensation.

There is a clear correlation between sales volume and manager compensation, although there are anomalies.

Because contingent pay has become a prominent factor in co-op GM compensation, chart B considers total compensation (base salary plus bonus, if any) rather than base salary alone, as in the 2006 study.

In general, managers of larger co-ops earn more than those in smaller co-ops. There were some outliers of exceptionally high or low compensation in certain sales categories. It's possible that these actually represent data entry errors by the managers themselves.

Gender

More male managers have entered information in the database than female (50 to 39). Two-thirds of the men receive special benefits, while only half of the women do. While 64 percent of male respondents report some form of contingent pay, only 50 percent of women do. Within four of the

six categories of sales volume, the median total compensation for men is higher than for women. The difference is most pronounced for the largest co-ops.

Longevity

Managers in the database are fairly evenly spread over four categories for length of time in their position: less than two years, two to five years, five to 10 years, and over 10 years. Longevity does not always translate into higher total compensation. The median compensation for managers with over 10 years seniority is lower than that of managers with less seniority in co-ops of the same size. In fact, in

four of the six sales categories, the newest managers have higher total compensation than the most senior managers.

Among managers with two or more years of service, those with and without special benefits are evenly split. At the same time, twice as many newer managers (less than two years) receive special benefits as those who don't. Perhaps newer managers are negotiating for higher salaries and benefits than general managers who have been in their positions longer.

Conclusion

The General Manager Compensation Database is a promising tool, but it needs more manager participation. Managers can save time and contribute to the quality of information for other co-ops by entering their compensation each time it changes. Boards can be strategic in planning for their manager's compensation and know that their approval of their manager's proposals rests on sound information. ■

Thanks to Mark Goehring and Helena O'Connor for feedback on this article.

POSITION OPENINGS

Hunger Mountain Co-op Human Resource Manager

Hunger Mountain Co-op, a natural food cooperative with \$19 million in annual sales located in Montpelier, Vt., has an opening for a full-time Human Resource Manager.

We seek an experienced manager to oversee all aspects of Human Resources, including customer service, employment policies, recruitment, staff development, benefit administration, and labor relations. Prior experience in HR administration, excellent customer service and communication skills, and demonstrated ability to follow through on commitment are required.

We offer a competitive salary including health, dental, and vision benefits, paid time off, and a 401k plan.

Candidates should send a résumé and names of three references with their email addresses to:

HR Manager
Hunger Mountain Co-op
623 Stone Cutters Way
Montpelier, VT 05602
dang@hungermountain.com

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