



Implementing A Performance-Based Compensation Model

By Dori Soukup

Remember how happy you were when you first decided to go into business for yourself and act upon your entrepreneurial spirit? You had big dreams and a vivid vision on how your medi spa or spa was going to be... delivering great guest experiences while operating a successful and profitable business. Did you make your vision a reality? Or is the pressure of running and sustaining a business getting to you? Most entrepre-

neurs face financial difficulty, frustration, and challenges to make ends meet or to be more profitable.

One of the main factors that keeps medical spa or spa owners from being super successful is payroll cost. Most have high compensation payout rates that lead to lower profits due to the lack of a performance-based compensation model.

If you want to increase profits and attract high performers you will need to imple-

ment a performance-based compensation model. The team pay should be based on how much revenue each provider generates from each guest. The more revenue the team member generates per guest, the more income they can earn. The less they generate, the less they will earn. No one should earn just a flat rate for just showing up. The flat rate compensation model is outdated and does not work.

It's time to discover the Volume Per Guest Compensation model. It's innovative and



effective, it allows the team to get paid their true worth. Your compensation model must include a pay mix with a base pay, bonuses, benefits, and rewards.

In this article you will discover compensation model principles designed to motivate the team, increase revenue, enhance the guest's results, and reduce your payroll cost.

Principles to implementing a performance-based compensation model

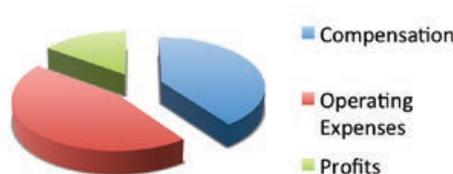
1. Realize Your Compensation Payout Rate

Prior to developing your compensation model, it is essential to determine your financial ratios. Calculate your current compensation payout and discover what is your compensation rate from your overall gross revenue.

Example: From your P&L statement take the overall amount you paid out in compensation and divide it by the total gross revenue - this will give you a percentage rate. What is that percentage? Is it more than 35%? If it is, you need to reduce it. The second ratio you need to know is your profit ratio. Is your profit rate between 10 to 20%? If it's less, you need to get financially healthy.

Of course, the financial ratios may vary due to several factors, it's best to check with a medical spa business consultant and have them perform a detailed financial assessment to learn how healthy your business is and how to improve it. This is a good rule of thumb.

Financial Ratios



2. Determine Compensation Ranges by Position

How do you decide how much to pay team members? Go to websites such as indeed, salary.com, etc. enter your zip code and the type of positions you offer and discover the pay ranges for each. You will see the high, the median and the low rates for each position. This will provide guidance of the value of each position instead of pulling numbers out of thin air. Once you know the value you can reverse engineer your compensation model to fit within the ranges for each particular position. This is an important exercise to do prior to setting up your medical spa or spa compensation model.

3. Team Status - Independent Contractor vs. Employee Status

Some business owners are still hiring independent contractors. If you are doing so be aware of the laws and guidelines for independent contractors. Status has changed, making it difficult to manage independent contractors and the IRS has strict guidelines for this classification. It's wiser and safer to hire employees. This will provide you the ability to manage, set expectations, and lead the team. Having employees will also raise your employee retention and loyalty. Yes, it's a little more costly but the payoff in the long term is worth it.

4. Offering a Compensation Mix

Offering a compensation mix based on performance is the way to go. Your mix must include an hourly rate or a salary base, premium pay or bonuses, rewards, and benefits. This will help you attract spa professionals who are desiring to get paid their true worth. This mix allows your team to earn more the better they perform. Half the mix should be guaranteed base and the other half allows them to earn a lot more when they bring in more value.



This compensation model offers the team the opportunity to generate income in different ways. It makes them more aware of their performance, their goals, and their ability to improve performance so they can earn more.

5. Hourly or Salary

Set the hourly and or salary at as low of a rate as possible. This strategy will help you reduce the payroll payout, enhance your cash flow but at the same time the team still has the opportunity to earn more with the other compensation mix that is based on performance.

As mentioned earlier the hourly rate or salary should represent about half of their



compensation opportunities. The remaining of the income is based on performance.

6. Premium Pay or Bonuses

Premium Pay and Bonuses can be based on the Volume per Guest or reaching certain revenue targets you want them to reach on a monthly basis. I love the VPG model because it truly helps the team focus on each guest and try to help them as much as possible by recommending additional treatments they would benefit from and by taking products home with them.

Calculating the VPG is very simple. You simply take how much in revenue they generated for a certain period and divide by the number of guests. This will give you the average amount of revenue they are generating per guest. When they hit the VPG target they will earn the premium pay or a bonus therefore increasing their pay.

All you need to do is set VPG targets and it's up to them to increase their pay by achieving it! You give them the opportunity and it's up to them to step up and earn it!

7. Employee Benefits

To encourage team retention, you may want to offer benefits. This may include medical insurance, 401K plan, taxes, profit sharing, vacation, education, etc. The benefit will vary depending on the percentage you designate for benefits.

8. Rewards

Rewards are earned based on Key Performance Indicators - KPIs. You can reward the medical spa or spa team on key indicators such as number of referrals, reviews, retention rate, cross marketing, hitting their targets, work ethic, training attendance, image, skills and more. Set targets for everyone and at the end of the month you can reward them based on hitting their KPI targets.

Switching to a Performance-Based Compensation model has many benefits:

- Provides targets and goals to focus on and strive towards
- Encourages upgrade opportunities, resulting in increased Volume Per Guest
- Increases retail sales
- Promotes performance stretching to reach the highest target
- Rewards exceptional performance
- Provides a performance measurement tool to the leadership and the team
- Fosters a motivational environment
- Great management & recruiting tool
- Reduces payroll costs
- Increases profits

The goal is to have everyone earn a great income, but it must be a win/ win for everyone. Currently, many owners are barely breaking-even due to the compensation model they utilize. We encourage you to implement Performance Based Compensation to revitalize your business and ensure profitability & growth.

Compensation Pitfalls to Avoid:

- A compensation plan paying all providers a flat rate not based on performance
- Hiring independent contractors

and expecting them to behave like employees

- Not accounting for gratuity and other benefits as part of the compensation model
- A compensation plan not based on targets
- Unawareness of your overall compensation plan pay out and related costs

It's essential to offer a compensation plan that attracts and retains professional individuals and high performers. Currently, the medspa industry is experiencing a human capital shortage. Retaining employees and investing in them is less costly than operating with a high employee turnover rate.

Implement a performance-based compensation plan and watch your business grow exponentially.

Need help? Check out the VPG Compensation Model on InSPArationManagement.com or reserve a Success Planning Session to guide you!

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