

Motivating Crews and Increasing Profit: How Movers Use Percentage Pay

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Fuel prices have come down from over \$4/gallon but in early summer they started to climb again. The housing market is showing some signs of recovery. However, higher unemployment, the growing deficit, and daily stories of more layoffs signal that opportunities to improve our businesses still demand our attention. Movers are more familiar with the impact of economic changes than other industries.

Difficult economic times force business owners to look at all aspects of their businesses to cut costs and increase revenue. Last year's dramatic change in fuel prices caused movers to take actions like setting governors on speed to conserve fuel, loading more efficiently to carry more goods, and training to get more out of the crews. As the down economy continues some movers are reevaluating the way they pay their crews. Employees represent an asset that does not appear on the balance sheet but one that can make the difference between profit and no profit.

A frequent debate at Profit Enhancement Group (PEG) meetings is whether to use percentage pay for crews. While commonly used in some form to pay contractors and owner/operators, percentage pay for employees requires more thought and planning.

Those on the yes side of the debate claim cost savings, claims reduction and increased employee motivation. One mover refused to give details about the company's percentage pay program because "it's the way I beat my competitors and I wouldn't want my competitors to read your article." Those on the no side of the debate claim they can be more profitable if they train their operations manager and crew leaders well. Many suspect that the drivers will win in the percentage pay scenario and the company will lose. Jimmy Adams, Adams Transfer & Storage, in the Atlanta, GA, says, "I have a problem admitting that a foreman can manage better than my manager can."

Looking at the many moving companies MGI has worked with in the PEGs since 1989, those that have adopted percentage pay for the appropriate moves for their market have been the more successful and more profitable companies. Most companies that use percentage pay use it for local moves and for packing. Some also use it for office and industrial moves.

Companies who pay on percentage

If you talk to someone like Tim Brady, trucking veteran, author ([Driven 4 Profits](http://Driven4Profits.com), <http://truckersu.com/bookstore.htm>) and winner of the 2002 Super Van Operator from AMSA, his formulas all depend on motivating his crews to accomplish the moves most efficiently. Moving company owners can take some of the methods used with owner/operators such as Tim and adapt the principles to their employee drivers and crews.

Tim Puliz, Puliz Moving and Storage in Nevada, has "been using it for 14 years. The good guys will never go." In setting up the program originally, the objective was to increase the amount of profit for the company and the employees. It took several revisions before Puliz developed a system that accomplished both. They use percentage pay for full-time employees who have completed the company's quality labor program.

They require that the helpers be paid out of the percentage pool. If a claim happens during the move, a portion of the total claim comes out of the percentage pool. Puliz uses percentage pay on local jobs for employees who qualify. Crews are penalized if the job exceeds its estimate.

When adopting this plan, Puliz used existing jobs to illustrate how a crew would have been paid using the percentage method. Training programs introduced the new pay structure. Then, for three months Puliz presented what each crew member and driver would have been paid if the job had been paid by percentage. This period gave the crew more time to understand. Then, Puliz shifted to percentage pay.

Neil Holder, All American Van and Storage in Las Vegas, has been using percentage pay for 20 years. Holder presents a document that describes percentage pool compensation to those eligible to ensure understanding. Employees who participate in the plan sign this document. It contains all the information about the kinds of jobs and the percentage paid on the job. Holder also requires that the crew pay a portion of claims. "We started percentage pay because we wanted to make sure the crew didn't stop and waste time during jobs."

Many PEG members who have adopted percentage pay on local or office moves initially resisted the idea. They were suspicious of whether the work to implement the plan for their company would be worth the effort. They were reluctant to figure out where it would provide the most benefit for their company. They didn't know if state regulations would prevent them from holding back pay for claims. They preferred to have something more simple and easy to understand. However, those who invested in developing a plan, trained their crews and made the change, report increased productivity, increased profit and/or a general improvement in their crews.

Transition to Percentage Pay

The transition from hourly pay, easily understood, to percentage pay, more complicated, often discourages owners from changing to percentage pay. A well-thought out plan, scheduled to ease employees from one system to another requires time for training. The training includes examples of jobs the employees worked on, what they received in pay and what they would have received in pay under the percentage system.

Owners should anticipate some turnover. The crews have more opportunity to earn more money. Some crew members understand this right away and work more efficiently seeing the advantage of doing more jobs in a day. Others stick with their old ways and drag jobs out. Usually the crew members who understand and look to earn more money put pressure on those who slow the crew down. But some employees choose to leave rather than change. As Tim Puliz says, "The good guys will never go."

Some companies report that claims go up as the company transitions to percentage pay. Crews work more quickly and some carelessness results. In the long run, a penalty to the crew for claims tends to adjust the initial higher claims.

Finally, be sure to review local and federal regulations on the use of percentage pay. Puliz designates a training program the employee must complete before participating in the plan. Diane DeAutremont, Lile International Companies, confirms that they "are very selective about the parties with which we have chosen to establish these relationships because of the IRS and other regulatory requirements surrounding both our industry and the independent contractor issues, as well as, of course,

insurance/liability/risk exposure we take on with those who perform work for our company." Both training and good knowledge of regulatory requirements contribute to the success of the transition.

Tim Brady claims he invented *Survivor* before it ever appeared on TV. He often hired more crew members when he arrived in a city than other owner/operators. He always instructed crews to notify him immediately if something was damaged. Then, he handled the customer right away. Finally, he allowed crew members to vote each other off the crew if they felt one was impeding progress. The combination allowed him to keep his claims rate "the lowest of any Super Van Operator that I know."

Key considerations

- Determine who is eligible to participate - this is an opportunity to reward good workers, raise standards within the organization and provide additional steps in the career paths of workers. Requiring additional training, good customer ratings, low claims records helps to clarify eligibility.
- Set up a system that is easy to understand. Most companies pay a percentage of the labor cost only. The customer's bill shows labor and equipment costs. The driver receives a percentage of the labor. Companies interviewed pay between 30% and 42% to the driver. The helper's costs, percentage or hourly depending on the system used, come out of the driver's percentage. Sharing of the percentage pool happens after the hourly costs if any and claims costs are subtracted. When companies use percentage pay for other services the percentage vary by service and by local market pressures.
- Test the system out by calculating what the percentage pay would be on existing jobs. Verify that both the company and the employees will benefit.
- Train the crews. Some companies choose to try this out on a subset of their crews and use the word of mouth that happens to entice the rest of the employees, then launch the whole program.
- Gather feedback to make sure it is working for everyone.

Test it out and adjust

What about Jimmy Adams concern that his manager is not doing his job at controlling costs if he implements percentage pay? With percentage pay the manager has another tool to motivate his employees. The manager can use the performance of crews to determine how to assign people most effectively. The driver has the carrot to keep crews motivated on the job. The objective is to reward the employees and the company. If the percentage doesn't benefit the company, adjust it.

Each of the companies interviewed had systematic definitions of how the program worked in their companies. Percentages vary from company to company and market to market. The key to implementing a win-win program is defining it clearly, communicating it clearly and tracking it to make sure it is working.

Profit Enhancement Group (PEG)

Management Growth Institute, Inc. (MGI) has offered PEGs to moving company CEOs since 1989. MGI forms a group of 10 non-competing moving company CEOs and leads the group through an MGI-developed process. At each meeting, PEG members

convene at one member's business location. The visiting PEG members use their years of experience and expertise to review the host's company and to offer recommendations on how to improve profits. The groups do not make recommendations on any matters related to setting prices or other collusive or non-competitive initiatives. Each company operates in a unique geographic/regulatory/van line environment. The visiting members usually lack the knowledge of the local economy, regulations and/or the governing van line requirements. Kathi Barry Albertini is CEO of MGI.