

*"A must-read for any entrepreneurial organization."*  
—Gino Wickman, Author of *Traction* and *Entrepreneurial Leap*

# PROFIT WORKS

Unravel the Complexity of **Incentive Plans** to  
**Increase** Employee Productivity,  
**Cultivate** an Engaged Workforce, and  
**Maximize** Your Company's Potential



ALEX FREYTAG TOM BOUWER

## PRAISE FOR PROFIT WORKS

*At Strategic Coach, we have what we call a No-Entitlement Attitude, which means we believe that you need to create value first before you receive any reward. Profit Works helps entrepreneurs design an incentive plan that teaches this attitude to your team. I strongly recommend this helpful guide for entrepreneurs who want their employees to think and act like owners!*

— Dan Sullivan, Co-founder and  
President of Strategic Coach®

*I loved this book. It's an incredibly simple and practical guide to profit sharing and incentives. It's customizable to your organization with great take-a-ways! A must read for any entrepreneurial organization.*

— Gino Wickman, Author of *Traction* and  
*Entrepreneurial Leap*

*Profit Works definitely falls into the "I wish I had this years ago" category of a resource that would have been incredibly valuable to my CEO peer group members. A must read and reference for ANY owner/CEO who wants to drive performance in their company.*

— Larry Hart, Vistage Chair (Retired)

*I wish I had this book for the previous companies that I owned. We spent a tremendous amount of time trying to figure out a structure for incentive plans and when we finally got it to work, it changed our business. Nearly all of my EOS® clients ask the question: "Is there a model for a great incentive plan?" and now there is. Great work, and a very simple read. I will be purchasing this for all of my clients.*

— Coach Bob Shenefelt, Certified EOS Implementer®

*We have a good profit-sharing program in place with measurables reported weekly. It feels like an eternity ago that we made Mistake 5: My Incentive Plan Is Disconnected from day-to-day jobs! We have come a long way since those days of giving out bonuses during the holidays that were disconnected from performance-driven rewards. I highly recommend all entrepreneurs read Profit Works and follow their simple formula! Sharing profits with my well-deserved work family is fun and the favorite part of my job.*

— Sandy King, President of Symbiont Service

*Profit Works reveals a simple and practical way to implement incentive plans in your company. Too many entrepreneurs get stuck here because they can't connect the incentive payout to a unified and collective increase in productivity. This book and its tools provide everything you need to avoid the pitfalls of becoming one of those business owners. I'm recommending the Profit Works method to all of the teams I coach.*

— Jill Young, Author of  
*The Advantage Series* books and courses

*The great balancing act of creating a challenging, motivating, safe and exciting work climate and culture is a task all leaders take on as elemental to success. Profit Works shows the reader how to practically approach one of the tough parts of this balancing act: getting a really good incentive plan in place and implemented. This book shows how to avoid the common and even many of the advanced mistakes in the design and execution of incentive pay. Do yourself a favor and use all the ideas in this book you can.*

— John Schuster, Co-author of  
*The Power of Open-Book Management*

*Simple and effective! Step-by-step clarity for employees and entrepreneurs. Please do yourself a favor: don't implement a bonus program or incentive-based pay until you have read this book! Use an earned compensation plan instead!*

— Don Sasse, Certified EOS Implementer  
at High Country NW

*All the critical components surfaced in Profit Works align with companies of ANY size. Clearly defined individual metrics must align with incentive targets that are supported by clarity and consistent, often repeated, communications. It thus makes it possible for everyone to align the needed behaviors to accomplish all personal, team and company goals and expected results.”*

— Denise Foley, Chair, Vistage Florida; Former VP of  
Procurement, Payroll and Variable Compensation for  
AutoNation Inc., a Fortune 200 Company

*In this great read, Tom and Alex provide real-world experience and examples that take the mystery out of productivity, engagement and motivation. Readers will discover that motivation comes from a blend of fair incentive programs and organizational culture—all with an eye toward the firm's profitability. They'll learn what works in the financial incentive arena, and more importantly, what doesn't work. I highly recommend Profit Works to all growth-oriented entrepreneurs.*

— Dr. Dino Signore, President of The Signore Group

*Alex and Tom have boiled down and simplified a complex subject, delivering a logical roadmap you can travel with ease. It also supports the 7 Questions Culture and Engagement Framework. All 7 questions are supported in a well-designed Incentive Plan following this guidance.*

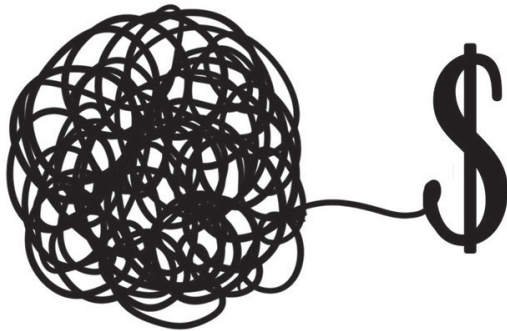
— Walt Brown, Author of *The Patient Organization* and  
*Death of The Org Chart*

*Profit Works is very helpful and clear on a topic that is often overwhelming for business leaders because it is complicated, emotional and fraught with impact. Thank you, Alex and Tom, for providing a clear explanation, a simple enough road map to apply to real life, and some tools to help us dive into the complexity in a way that gives useful answers.*

— Lynda Martin, Certified EOS Implementer®

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Unravel the Complexity of **Incentive Plans** to  
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## **OTHER BOOKS BY THE AUTHORS**

*What The Heck Is EOS? A Complete Guide for  
Employees in Companies Running on EOS*

Gino Wickman and Tom Bower

See the end of this book for a sample chapter.

*Achieve Your Vision*

Alex Freytag

Look for more books from ProfitWorks in the near future.

# **PROFIT WORKS**

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Cultivate an Engaged Workforce, and  
Maximize Your Company's Potential**

**ALEX FREYTAG AND TOM BOWER**

**AUTHOR  
ACADEMY elite**



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Printed in the United States of America

Published by Author Academy Elite  
PO Box 43, Powell, OH 43065  
[www.AuthorAcademyElite.com](http://www.AuthorAcademyElite.com)

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LCCN: 2020915480

Paperback ISBN: 978-1-64746-448-6

Hardback ISBN: 978-1-64746-449-3

eBook ISBN: 978-1-64746-450-9

Available in paperback, hardback, e-book, and audiobook

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Some names and identifying details have been changed to protect the privacy of individuals.

# DEDICATION

To all our clients, coaches and mentors—  
past, present and future.  
Thank you for trusting us,  
for believing in us, and  
for serving as a mirror.



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# INTRODUCTION

This book is for entrepreneurs and business owners who want to learn how to appropriately incentivize and reward employees for their efforts to make their organization more successful. We use the term “appropriately” because many incentive plans just don’t work; they pay out too much (wasted money) or too little (not motivating), they aren’t fair, they become expected (i.e., an entitlement), and most of the time, they are too complicated. Regardless of your company’s size, this book will give you simple tools and philosophies to design and maximize your incentive plan.

Like so many of you, we recognize that we are standing on the shoulders of giants with this topic. We appreciate those mentors, influencers, and visionaries who shared their time and expertise with us along our journey. We have provided further reading and resources in the back of the book, and we strongly encourage you to tap into these.

This book combines and simplifies the research and our experience. We hope it will inspire you to consider different alternatives and will provide you with specific ideas to create the best incentive plan for *your* organization.

## Profit Works

In this book, we use the terms “we” and “you” intentionally: “we” to represent our knowledge and experiences; “you” meaning, well, you. We want you to know we are truly a part of your team as you go down this path. We are passionate about helping entrepreneurs. This is a tricky topic, and at the end of the day, we recognize there’s no silver bullet for incentive plans. Know that we are here to help you along the journey.

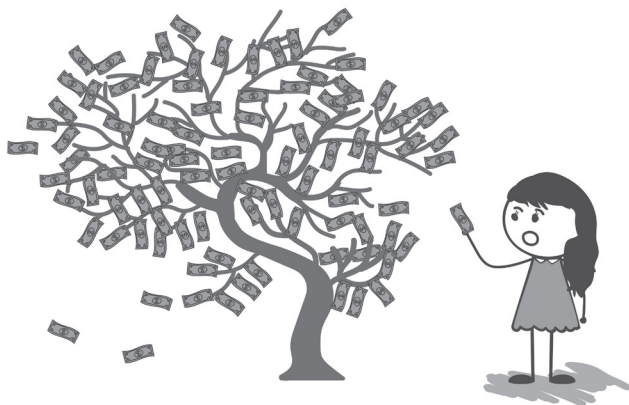
In this book, we also will use the term “incentive” generically to mean any extra money that is earned by an employee as a result of their changed behavior. This could be profit sharing, an incentive for hitting a certain target, gainsharing, and sales commissions.

Ultimately, recognize that whatever incentive plan you choose to implement, it is one more tool in your toolbox—a powerful tool, but still just one tool. Implemented effectively, the incentive plan is another lever that will help your company increase employee productivity, cultivate an engaged workforce, and maximize your company’s potential.

## CHAPTER 1

# WHY PROFIT WORKS

Since 1996, when we first founded ProfitWorks, we have asked employees, “What percent of sales do you think profit is?” Their answers may surprise you; most employees think bottom line profit is 30-50% of sales! While those results would certainly be wonderful, they are not common for most businesses. Upon seeing their employees’ answers, one business owner exclaimed, “Are they out of their minds? Do they think I have a money tree in the backyard that I just shake when I want to make more money?”





## Profit Works

If your experience is like ours, you know that profit percentages are usually in the single digits, and that profit is incredibly precious. Unfortunately, most employees don't think about this fact as much as you do. They certainly don't see profit numbers as often as you do, if at all. They don't feel connected to profits, and they commonly believe profit is something only the owner or executives need to worry about. Profit is powerful, though, because it funds growth, provides investors and owners with a return, and creates opportunities for employees.

You may have heard profit referred to as the "score at the end of the game." The comparison of business to a game makes it fun and accessible for everyone involved in a company. The game metaphor makes profit that first place trophy that stretches you and your team. The potential for profit can encourage a competitive spirit and the potential for everyone in a company to win (does anyone like to lose?). The fact that profit is typically small, hard to generate, and easy to lose creates what we call positive tension.

Positive tension is that level of anxiety where people are most productive and motivated. The objectives are not so overwhelmingly difficult or unachievable that no one tries. Conversely, they are not so easy that no one cares or puts in any effort. Think about if

**Positive tension is that level of anxiety where people are most productive and motivated.**

you tried out for an NFL team: making the team is probably not going to happen and as a result, you're not going to be motivated. (Well, you might be motivated to avoid getting hurt.)

## Why Profit Works

Alternatively, think about your state's DMV: there is no motivation because there is no tension, pressure, or anxiety. Each of you will need to find that optimal level of positive tension in your company. Focusing everyone on profit is a great way to do that.

## PROFIT WORKS FOR EVERYONE

**Profit works for owners and investors.** The potential for profit creates positive tension to generate a return on investment for investors, relative to the risk they have taken. If there is no profit potential, investors typically won't take the risk to invest in the opportunity.

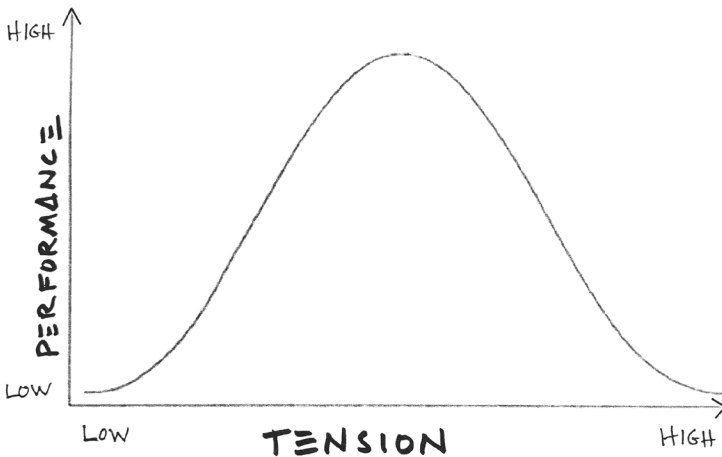
**Profit works for your external relationships.** It creates tension for you as it pulls against what it costs you to provide your products and services. It stretches you to make smart decisions related to your sourcing relationships as well as to the investments you make to grow your company through innovation, geographic expansion, and new product and/or service development.

**Profit works for your employees.** When focused on profit, you have the opportunity to create that right level of tension and to increase opportunities for all of your employees (e.g., advancement, learning new skills, increased compensation). When focused on profit, your entire workforce can benefit by understanding this tension. It can create an incredible culture of winning where everyone is focused on generating more profit.

## Profit Works

In addition, we've found that companies win when their employees understand how they benefit from being part of a profitable company; they will see the source of new jobs, the opportunities for reinvestment in the business, and their own potential for growth. We've also found that employees are more motivated when they understand the consequences due to a *lack of* profit, from reductions in force (RIFs) to pay cuts to fewer opportunities for professional growth.

Successful companies understand the benefits of creating positive tension or pressure. Tension isn't a bad thing. According to the Yerkes-Dodson Law, performance increases with tension, but only up to a point. When the level of stress becomes too high, performance decreases. So, a moderate amount of tension creates the most buy-in and effort and, therefore, the most productivity. Like a rubber band, you want to stretch your team to grow and reach for something more than mediocrity. Believe it or not, most people want this.



## Why Profit Works

Instilling just enough tension in your culture encourages a higher level of performance. You and your team win when you implement simple and effective tools like weekly meetings full of intense debate and discussion on company issues, and when everyone is accountable. When there's just enough tension in your company, no anchors hold you back from higher performance.

Creating tension in your culture is a blend of art and science. The art is in what tools you decide to teach and how you choose to use those tools. The science comes from using a simple and transparent formula when you design your incentive plan.

Over and over again in client sessions, we hear executives discussing budgeting for bonuses, creating profit-sharing programs, and trying to figure out how to pay employees more so they don't leave for more pay elsewhere. In many cases, though, they're just winging it. There's no clear strategy or methodology for the design. It's often too complicated, not transparent, and has a high degree of subjectivity to it. You may be afraid to draw a line in the sand. You're often shooting from the hip. When incentives aren't truly "earned" and clearly understood, you create an entitlement mentality in your workforce. Entitlement is the death knell for a thriving culture and higher organizational performance.

One of our clients didn't want to follow a formula because she said it might "trap" her. She didn't want to reward underperforming employees. Our question was: "Why are they still with your company?" In the following chapters, we'll give you ideas on how to avoid feeling "trapped."

## Profit Works

We encourage you to embrace the intentional philosophies and formulas we share with you in this book. We're capitalists with decades of experience working with hundreds of companies. We've seen what works and what doesn't work. Like you, we want your employees to add more value, to be happy, to be productive and to earn more, and not to get a bigger paycheck for no real reason.

Before we go further, let's provide an example of a simple incentive plan design that works:

- Imagine an annual profit trigger of \$1,000,000. Above this amount, the employees can make more by participating in an incentive pool funded by their efforts. Below this, there's no incentive payout.
- Let's say 30% of every dollar above the \$1,000,000 trigger goes into the incentive pool. If the company hits \$1,500,000 in profits for the year, the incentive pool is \$150,000 (30% x \$500,000). It can be as simple as that. We'll talk about some ideas for how that gets distributed later.

COMPANY PROFIT (TRIGGER = \$1,000,000)	INCENTIVE POOL (30%)	COMPANY PROFIT (AFTER PAYOUT)
\$1,000,000	\$0	\$1,000,000
\$1,500,000	\$150,000	\$1,350,000

## KEY TAKEAWAYS

- Most employees think bottom line profit is 30-50% of sales.
- Profit is the score at the end of the game and when everyone is focused on profit, you can create positive tension.
- Profit works for everyone involved in a company including investors, external partners, and employees.
- Successful companies create just the right amount of positive tension in their cultures to create higher levels of performance.
- Successful companies commit to a simple formula when designing an incentive plan.

# THINKING QUESTIONS

**These are questions to help you slow down and reflect on what you read as well as to help you think about where your head is on the topics discussed in this chapter.**

1. What do you think your employees would guess bottom line profit is as a percentage of sales in your company?

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2. What are three examples of positive tension practices you've implemented in your personal life?

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3. What changes in your own behavior and thinking have you seen as a result?

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