**PEP 128 Edited\_Transcription**

[Daniel Hill] (0:05 - 41:10)

Welcome to the Official Property Entrepreneur podcast with myself, Daniel Hill. We are now rated in the top 10 of all business entrepreneurship podcasts in the UK. Last year, we were rated the seventh most popular property podcast.

And every month by downloads, we are rated in the top 5% of most popular podcasts in the entire world. Thank you all for your support, for sharing and subscribing to these podcasts. This is literally my life's work broken down into simple blueprints for you to execute everything that you want, be it wealth, health, or life by design.

Success and failure are both very predictable. Let's get into it. Throwback Tuesday.

As we're in the winter months, we're getting a lot of requests from property entrepreneurs and podcast listeners for information about how to build out a bonus blueprint. Last year, I recorded a podcast to cover this exact topic. Now, if you're recruiting team members and you want to know how to use salaries, how to calculate bonuses, how to use PDPs or performance related pay, it's really important to overcome the bonus brainache, understand the blueprint, and be able to follow the formula that's used to accurately structure and correctly calculate the different bonuses and packages you want to use for your team.

In this blueprint, I'll take you through it step by step, and I guarantee by the end, you will know exactly what to pay, when to pay it, and how to apply it to each of your team. I hope you enjoy. Welcome to this next official property entrepreneur podcast.

What I'm going to do is I'm going to take you through something today where, I suppose, one of the challenges I have is I've been in business all my life, I've learned lots of things from my mentors, I've built different businesses, I've started, systemized, scaled, bought, sold lots of companies, worked with small teams, worked with big teams, done investment growth strategies, all of these things. And through making all the mistakes, a lot of the things that I know, I just know through trial and error, learning from other people, things like that.

On Property Entrepreneur, the biggest challenge I have is these things that I just know, having had decades of experience with them, is how do you actually communicate them so that not only people sort of understand them, but also can apply them. And this is one of the biggest challenges I have on Property Entrepreneur, is taking complex or confusing subjects and topics and boiling them down into easy to understand models, frameworks, and methodologies and blueprints. So this is what we do.

And today, I'm going to take you through the bonus brain ache. So basically, the amount of time I get asked, and this is prompted by one of the businesses that I work as a non-exec for, so I sit on the board of a number of companies. And one of the ones that I work with approached me today asking, or this week, asking about should they pay one of their team members a bonus?

And if they should, how should it be structured? I thought, do you know what? It's a great question.

It's one of the questions I always get. And I was thinking, how do I break it down and make it really easy to explain? So whilst bonuses, pay structures, we do three months worth of building the dream team training on the Property Entrepreneur program, which takes you through everything from profiling, recruitment, listing, shortlisting, interviews, onboarding, contracting, pay packages, bonuses, all of these performance-related pay, phase contracts, all of these things that you need to know if you're going to build a high-performance team. And I thought, how can I break this down to start to explain to people in easy terms how bonuses work? Because everybody gets confused about how much should I pay my team?

Should I pay them a bonus? What should the bonus be? How should it be structured?

When should it be paid? And it's very easy to disappear down this wormhole and not actually get anywhere, or at worst, put something in place that's not highly strategic. So the first thing to note in this is everything should be highly strategic, and nothing should ever be arbitrary.

And what I'm going to do is I'm going to take you through the bonus brain aid and basically give you the bonus blueprint to understand when you're recruiting somebody, specifically with regards to bonuses, when you're recruiting somebody or when you're managing somebody or employing somebody or leading somebody, how do we use packages and bonuses to get the best performance out of our team and how do we structure them basically? So the way I'm going to do this is just try and understand, try to enable you to understand how it works.

And one of the biggest things I think is confusing is the terminology that we use in pay. So this is basically the bonus blueprint. The three things that, the three elements that make up people's pay packets and how it will apply to different people.

I'm going to take you through this. And by the end of this, you'll understand when you're approaching paying the team, who you should pay what, how you should structure it, and when you decide to use bonuses in inverted commas, how to approach that. So the first thing to note is there's three different terminologies about how you pay people.

And the first is salary. The second is bonus. And the third is performance-related power.

The use of these terms is where things get confusing because a bonus is a very specific thing and should be used at a very specific time. People get it confused and they misuse the term and they misapply the logic. And when you understand that there's salaries, there's bonuses, and then there's performance-related pay, it just makes it so much easier to understand and apply in practice.

So the first is a salary. And basically, when you employ somebody, you have a job description and they have a contract. And they're expected within that job description and contract to deliver you specific key deliverables, roles, responsibilities, and deliverables.

This is their job. Now, a salary is basically a salary equals you doing your job. So we have an expectation of a team member.

A team member has an expectation of the business. If that team member delivers to the expectation, they get paid the salary. So they turn up, they do their job, and they get paid the salary.

That's it. You pay somebody $30,000, $20,000, $30,000, $50,000 a year. And their salary is in exchange for what you expect them to do.

So everybody doesn't have to have a bonus. There's people in your team that will not have a bonus scheme in traditional sense. And you'll understand why this is as I go into it in a bit more detail.

But the salary element is basically just to do your job. If you turn up, you do your job, you deliver your key deliverables, you don't underperform, you don't overperform, you get a salary. And that's it.

And the majority of your team will probably be on salary. So the salary is paid to do your job. That's it.

If you do your job, you get paid your salary. The second is bonus. So a bonus is used where somebody does more than their job.

So they've got a salary. There's an expectation of what's required of them. And then they actually go above and beyond and do extra work or deliver extra performance and do something that is not expected within their salary.

And if you think, for you as an employer, this is bonus work. And for them, they deserve to a degree, in some cases, to be paid a bonus payment because they do extra work, winning for you. You could potentially give them a bonus payment because they're going above the expectations.

This is the important thing here is salary is what you do what's expected of you. You use a bonus where somebody does more than what's expected, either exceeding targets or doing extra hours or performing better than you'd expected. You've got a bonus in what they give you, and then they get paid a bonus.

So that's the difference between a salary and a bonus. And then the third is where, and this is where, again, hopefully this makes it really straightforward to understand. Some people will be on a salary.

Some people who are on a salary may also get paid a bonus for going above and beyond. Other people might not have a salary and may not have a bonus, but they may have what we call PRP, which is performance-related pay. Now, this is where you have somebody that really has to, the deliverables they have have a key impact on the business.

And what you do is with performance-related pay, you introduce a type of payment gain contract or mechanism or structure or calibration to their package where the performance-related pay element means they will get paid based on the performance of the business. Now, this could be very highly geared. So you might give somebody, say, a 10% basic, which is a retainer or covers their costs or something.

It might be a 10% retainer, but then 90% of their package is actually performance-related pay. So you see this in certain roles where that's just industry standard. And actually, on a daily basis, the performance that they bring in is directly reflected to the performance of the business, which is directly reflected in the amount of money they take home every week, every month, every year.

And this is performance-related pay. And this is where people get confused of bonuses, because they think salespeople or people who are on a high performance-related pay get really big bonuses. It's like, actually, they don't.

Actually, it's not a bonus structure. It's a performance-related pay contract where based on X, they get paid X. So let's go through a few examples.

So just to clarify, your salary is paying somebody to do their job. Turn up, do what's expected. That's it.

If somebody goes above and beyond, you may then also pay a bonus. It might be a one-off bonus that they weren't expecting. Or it might be part of – we'll talk about this in a minute because you don't want to put it in their contract – but it might be part of their package that actually, if they do go above and beyond, they'll also get this bonus payment because they've delivered more than you expect for their salary.

And then the third is performance-related pay, where actually, their package, they have to perform to earn the money. And if they completely overperform, they get loads more money because that's a performance-related pay contract. If they completely underperform, they get completely underpaid.

This is where the pain and gain element of the contract comes in. So let's apply this to a few examples just to illustrate it. If you think about salary, most people in your team will be on a salary.

So the majority of people in your – if you have an office-based team or remote team, mainly around sort of the operational side of the business – operations, finance, administration – all of the running of the day-to-day business, most of them will be on a salary. And that's the expectation is they turn up, have a good lot of time, do their job, and as long as they do a good job, they get a salary. If you think about where bonuses might be used, this is where people go above and beyond.

So it might be, for example, I paid a bonus to a team member recently. In one of our companies, we had a campaign season. So we call it the championship season on Property Entrepreneur.

Lots of events, lots of campaigns, lots of sales. The company broke every record in the book, sold out in record time, sold out at record price points. Everybody went above and beyond.

So the people that were involved in that, I paid them bonuses. So I said, you know what? The business has done better than expected.

We've sold out an extra 30%, 35% of sales we weren't expecting. So the business has overperformed. We've gone above the expectation.

And because of that, you guys have gone above and beyond. You've delivered well. The company's done incredibly well.

You've personally exceeded expectation. I'd like to pay you a bonus because as an employer and as a business owner, I've done really well. I'd like that to reflect in what you're being paid.

So here's an unexpected, unagreed bonus that I'd like to pay you for exceeding expectation. So it might be the end of a project like that, or it might be at the end of the year. You get to the end of the year.

You were planning on making 35% net profit. You ended up making 38% or 45%. And you go to your team and said, you know what?

We were expecting, if everybody did their job well, we were expecting 35% net. We've ended up clearing 42%. Of that, I'd like to give you a bonus because you've overperformed.

The company's overperformed. We've all done well. And here's a bonus payment.

So the bonus is for going above and beyond what's expected. And then finally, performance-related pay. So where you've got team members on performance-related pay is where you want to have the payment gain element of a contract directly reflected or calibrated against their performance and the reward to the business.

So, for example, you might have – and this is not a bonus. It's just their package. It's like this is how your package is structured.

So it might be something like traditionally sales teams. So you might say, right, sales team, we really need you to deliver these sales. So if you do a good job, your salary, if you were employed, would be £50,000 or let's say £30,000 if you did a really good job and you were on a salary.

Actually, we're going to put you on performance-related pay because it's really important that you deliver these sales. If you don't, the business can't work. There isn't any money to pay you if you don't bring the sales in.

So what we're going to do is we're going to pay you a £12,000 or £15,000 basic, and then we're going to pay you X amount for every union you sell. And then that's how sales people's contracts are made up. They're not necessarily bonuses.

They're performance-related pay. So you might say, well, I'll pay you to the extreme. We have some of our team that are on performance-related pay contracts, specifically sales teams, and they might get a zero basic if they're self-employed.

If they're employed, they might get 10% as a basic, but then the 90% is made up on the sales. And obviously, they'll know roughly what they're expected to get, and if they deliver what's expected, they would earn the expected amount. If they overperform, they'll do incredibly well.

They'll walk out with incredible performance, but so does the business. And also, if they underperform and you say, well, I'm investing in you. I want you to do well.

You put them in there representing the company and they don't do well, then it's a pay and gain contract because there's no revenue and there's no pay for them. It's a performance-related pay contract. You might also, because this is all about driving performance, so where there's a mechanism in the business that's really important, it might be that actually in order to achieve their salary, again, this is not a bonus.

It's performance-related pay. You say, well, the market value for this role or the rate for this role is £25,000 a year. And for £25,000, let's say you benchmark it.

The market rate is £25,000. You say, right, well, £25,000 is what you'd earn if you were employed anywhere else. We're going to pay you £22,000, which is lower.

However, you're also going to have a performance-related pay mechanism in your salary, which let's say for a customer service team, for our customer service team, we maybe pay £22,000 as a basic, and then every month, based on how many world-class customer service scores they get, they then build that up. So they might be targeted to say, well, this month we're expecting a good month would be 60 world-class scores, two a day, 60 world-class scores for this department or this business or this team member. So say, right, we're expecting you to get 60.

Your salary would be £25,000 on the open market. We're actually going to probably give you £26,000 because there's a little mechanism in there to entice you to take the risk of doing a good job. And if you just do a good job and you get those 60 world-class scores, the business does well, you've delivered the expectation, and you've actually got £1,000 more than you would elsewhere because you've agreed to take a performance-related pay contract where as long as you do a good job, you'll get paid.

Also, then, if they go above and beyond and say, right, well, I've got this performance-related pay mechanism, I'm going to go for 70, I'm going to go for 80, the business does better because they over-deliver and they over-perform. And what you're doing here is you're trying to drive performance anywhere you can. So in everybody's contract, the use of performance-related pay is, this is what we're expecting you to do.

This is what we're expecting you to get. And if you do get that, this is what you're going to be paid because there's a performance-related pay mechanism in there. Now, this can be used for sales.

It can be used in sales roles. And in that case, you probably have it very highly geared towards low-basic, high-performance. You might have it in customer service, anyone who's on the front line of the business, really.

And just think about when you're doing performance-related pay, you treasure what you measure. So you might say, so I had a conversation with a team member this week about, so we're heading into that sort of season now where we're looking at roles, we're looking at strategy for next year, and we're starting to think about things. We're looking at giving people contracts for next year, and they're attractive-looking contracts and packages subject to doing a good job.

So in there, every month or every month, basically, there's a list of things they have to deliver. And if they deliver all those things, they'll get paid. And I'd like to think that we pay above the market rate anyway, especially for our high performers, so where people maybe come in and we can see that they need a runway to progress.

We'll give them those opportunities, and it will say on paper, you're going to earn, working for this company, 25%, 50%, 100% more than you would in the same role elsewhere. However, these are the things that we expect to be delivered within that. And it's not a bonus structure.

It's performance-related pay. It's like, this is what we expect. If you deliver that, you will get paid this.

Hopefully, that gives you some insight into that. And salaries, bonuses, and performance-related pay. I'm just going to give you a few sort of top tips to apply this in practice.

But what I want you to do is just understand bonuses is where people go, the word bonus, like the word bonus is bonus. It's somebody going above and beyond. So salary is just doing your job.

If you just do your job, you don't need a bonus. You just do your job. This is your job.

You've delivered on expectation. You've got paid your salary. If you go above and beyond and you've done bonus work or bonus performance or bonus results, you then get a bonus payment because you've gone above and beyond.

And then finally, wherever suitable, maybe for people in the front line, in fact, that may or may not be true, but you normally see this in sales, customer service, marketing, where you're driving activity, and they've got a handle on how well the business can perform. And, you know, turn the tap on. If they can turn the tap on more, then that performance-related pay mechanism is they've got the expected to do X within their role, and then they'll get paid.

So you've got a constant driving mechanism. You're constantly pushing that performance. And just think you treasure what you measure.

What is the one to three things that person in that person's role, which in that person's role, which you treasure, is it customer service? Is it sales? Is it margins?

Is it delivery to budget? Is it certain timings of complete projects? Whatever it is.

And then you put performance-related pay mechanism in there so that if they do a good job, you know, a payment gain element, really. Hopefully that makes sense. So a few top tips for you to consider.

So the first one is nothing should ever be arbitrary. And what I mean by this is in business, nothing should ever be arbitrary. Nothing should ever be made up.

When you're thinking, how much should I pay? When should I start? Should there be a bonus?

Nothing should ever be arbitrary. There's always a calculation, or an algorithm, or a mechanism, or a strategy, or a structure, or a blueprint, or an asset. There's always a methodology and a way to do something.

So nothing should ever be arbitrary. Nothing should ever be made up. When you're thinking about bonuses and you're looking at that, you want to find something to allocate.

It's like salaries as well. People say, how much should I pay this person? Well, I'll tell you what you do.

You benchmark it. You write the job description. You send it out to three local recruiters who know the market, know the area.

And you say, based on the current market. And this changes. I mean, the current market, it's October at the moment, October 2021, and the market is hot, hot.

So there is, in some spaces, premiums. We're already seeing it. We're seeing a shift in the workforce.

We're seeing a shift in lifestyles, especially in hospitality and retail. If you look at some of the stuff coming out of the States at the minute, there's a very deliberate change happening in that industry. Wages can change literally on a monthly basis.

So you go to employers and say, based on the current market, based on this job description, based on this company, what would you expect to pay? You have three local recruiters to give you the range of what they'd expect. And that's called benchmarking.

You say, right, well, that is what the market's doing. If you want to be cheap and you want to go perhaps for a second high and sell them cheap or pay cheap, then you want to go to the bottom end of the range. If you want to be most appealing and arguably attract the best talent, it's not all about money, but you can move towards the higher end of the pay scale.

It's called benchmarking. Nothing's ever arbitrary. You get that data and then you calibrate against that where you want to be on the range.

It's the same with bonuses. Don't pick a number out of thin air. You think, right, well, if it's part of the sales team, you might want to give the thing about the sales team.

That's basically the marketing cost. It's an overhead of the business. It's not cost of sale.

It's an overhead of the running business. It's marketing and sales. It's how much of the revenue, perhaps, are you going to pay for that?

Let's say, within the revenue, you know that one of ours, for example, a business that I can think of off the top of my head, will spend 10% a year on sales and marketing. If we get a million pounds, we know that our budget for sales and marketing is 100 grand. We then break that down and say, well, actually, you might say 5% of that or 3% of that goes on marketing, 7% goes on the sales team.

7% goes on marketing, 3% goes on the sales team, depending on what the business is. Nothing should ever be arbitrary. It might be a percentage of revenue, or it might be a percentage of the margin.

Now, if you're driving them on margin and say, well, we're looking to make 30% net profit this year, anything over that, we'll pay 20% to the team. It's like, right, well, they're then going to be driven to, you know, they get their salary for what's expected. Deliver 30%, they get a salary.

If they deliver 35%, they know they're going to get 20%, or whatever you agree, 20%, 10%, 5% of the overage. You know, it's nothing should ever be arbitrary. Percentage of salary is a good one, because set just parables of all things being equal, it wouldn't always be fair.

If you said, like, you know, if we're targeting a half a million pound profit in this business this year, if we get over, anything we get over that, we're going to split 30% of it's sustained in business, 30% of it's going to the owners, and 30% of it's going to the team. We're going to split it per capita, per head. Not always the fairest way to do it, because if you've got the, you've got somebody that works in credit control, and they do three hours a day, and they're part-time, and then you've got the head of finance who does 40, 50 hours a week, probably not fair that they both walk out with a grand bonus at the end of the year.

What you might do then is say, well, this is the pot. It's going to be 20% of the overage, and then we're going to distribute it based on salary. So let's say, for example, your payroll is half a million pound a year, or 300 grand a year, or a million pound a year.

You say, right, well, this will then be distributed by the basics. So those who are on 10 grand, well, you might say, yeah, they get 10. This is another way to do it, is a percentage of salary.

That's a really good way to do it. So you say, right, in fact, just pulling back on that, if it's a distribution of overage, so you get an additional surplus of, you made an extra 200 grand in a year. You say, right, well, let's say 300 grand, 100 grand stays in the business, 100 grand goes to the founders, or the directors, or the owners, or the board, and the other 100 grand goes to the team.

And you might say, right, what we'll do is we'll calibrate what's our payroll, divide the bonus by the payroll, and then you can work out pro rata or per capita who earns what. So if somebody was on a 20,000 pound salary, they would get half as much as somebody on a 40,000 pound salary, the argument being that it's calibrated against packages, which is position, hours, engagement, contributions, performance, all of these things. And then the other way is percentage of salary is always a good one.

I remember reading a report, this was about four or five years ago, and the markets changed. Markets changed a bit. Obviously, there's been a lot going on, which was about Mercedes-Benz.

So Mercedes-Benz had one of the best bonus schemes. They were constantly voted, I believe, like one of the best employers or places to work. It was a Times report, which I read.

And it was saying that they offer one of the best bonus schemes in the UK, where you can earn up to 8% bonus through doing X, Y, Z, completing training, delivering on customer service, contributions to team, culture, ethics, execution, all these sort of things. So they said 8%. I thought, you know, that's interesting.

So that's a good benchmark. So 8% of a salary as a bonus was deemed in recent years to be up there. Now, I believe that 5% is a good place to be.

So 5% is not a rule of thumb, because hardly any, very few companies actually pay bonuses. Whereas if you think 8% is to be the top of the UK, if you were to pay 5%, that would be well-received, or you move up towards, say, 10%, it's just good to calibrate, in reality, what that money means. Because it depends who your team member is and what the business is.

But when you're looking at, say, you are running a million-pound company or a multi-million-pound company, the bottom-line profit compared to what the majority of the team's salaries would be were obviously significantly different. And I remember one of my mentors saying, I said, how do you calibrate? What does, in a completely non-crude way, how do people think about money?

What is a decent amount of money? Because to somebody, £100 is a lot of money. To other people, you give them £100, and you do risk offending people if the bonuses are too low.

How do you think about it? And his feedback was, one is cars and kitchens, is think about, is he going to buy somebody a new car? Is he going to buy somebody a new kitchen?

That's how people calibrate money. And the other is percentage of salary, is when you're looking at your team in the main, is what percentage of salary, if they are used to earning X, don't worry about the actual numbers, look at it as a percentage. So are you going to pay them 3%, 5%, 10%, 20%?

When you calibrate it against that, it just gives you some comfort that it makes complete sense in real terms. If you're used to earning 50 grand a year, and you get a £5,000 bonus, that's the same basically as just under a month's salary, which is 10% or, yeah, I forget the numbers, but you get the point of what I'm saying, is calibrating it against something, nothing should ever be an option. Just jumping in quickly with two things.

So the first is, if you're enjoying these podcasts, and you haven't already ordered a copy of my brand new first ever released book, Karma Credits, please go to Amazon now and order yourself a copy of Karma Credits by Daniel Hill, and it'll explain to you the universal law of wealth, health, and happiness. And the second, if you want a free report that you can read straight away, go to www.boomorbust.co.uk to understand the five things that I'm doing as we head into this next phase of recession. Back to the podcast.

The second is, top tips, four top tips for you. And the second is highly strategic. Everything should be highly strategic.

And I don't mean in an arm twist, head winking, trying to sort of cloak and dagger people. What I mean here is everything should be highly strategic and the package should be built in a way that it delivers for everybody. The easiest way to think is win, win, win.

It's a win for the employer, it's a win for the employee, and it's a win for the business. That's it. So for me as a company owner, I need to win.

For the team member, they need to win. And for the business, the business needs to win. And when I'm approaching every package that I structure, the forefront of my mind is it's got to be a win, win, win.

And one of the things that we talk about as well is you want to take money off the table. You want to pay people enough that money is just not on the table, and especially moving into this next phase of our businesses. This is where I'm moving out and on the basis I'm taking you off next year.

Really looking at who are those great people in the business. And basically the mantra is, pay great people great money for an easy life. That's it.

And being explicitly clear to be like, look, I'm happy to give you a 20%, 30%, 40%, 100% pay increase on this or performance-related pay package, but this is what I want from you. Your expectations of me is you can expect from me support, investment, resources, pay increases. You can expect these from me.

What I expect from you is a gatekeeper that doesn't bring, look, no problems, only solutions, getting things dealt with. And you can be explicitly clear when you put these packages together to say, this is what you can expect from me and this is what I expect from you. And then putting that together and being highly strategic in how it's calibrated, especially if it's sales team, it's easy.

Pay them a ridiculous amount of money, but benchmark it to revenue. They're paying with a very modest, I think majority of our sales team are probably on like a 10, 90 split, maybe 15, 10, 90, 20, 80 split as basic to performance, but they earn the top of the market. I don't think anybody pays what we pay our sales team.

But the outcome of that is money's off the table. Whatever it takes, full hands to the pump. It gets stuffed up.

And that's how you build world-class businesses. That's how you break sales records every year. It's how you end up with companies that have been oversubscribed every year since 2013.

It's win, win, win for everybody. Highly strategic packages where everybody's a winner is tip two. The third is, and this is just, again, a benchmarking one because it's, again, it's just how, so benchmarking is easy.

That's what you pay the salary. And then when we start to talk about bonuses and performance-related pay, you want to be able to benchmark. And there's two bits of benchmarking here, which I'll share.

The first is if somebody, I used an example earlier, like a customer service team member or a property manager or somebody that's looking after the team in front of house, if they could go and get a job somewhere else with no performance-related pay mechanism, and it was 25 grand a year for 40 hours a week, and you want to put them on a performance-related pay mechanism, what you probably want to do there is provide an incentive.

So if it's 25 grand if I do a good job and deliver on expectations at company A, I want to come over to you and do the same job, but I've got to take the risk of the performance-related pay element, you probably want to be pitching it at, say, 26, 27. You probably want to be working towards somewhere around a sort of 10% premium for taking a PRP element. But it's a win-win because you know that they're going to be driven, they're going to be constantly focused, and every month you're going to get the same performance, whether they've been there for a month or they've been there for a decade, and that's really important to maintain performance because that's really important to maintain performance for longevity.

You can have all the target trackers and scoreboards and whooping and hollering in the world, but if people aren't financially motivated, there's always a time limit on that. So the first is if you're going to put somebody on a performance-related pay rather than a basic salary, rather than a fixed-rate salary, I would be suggesting somewhere around a 10% premium for that, depending on what the role is. The second is self-employed versus employed.

You'll get this a lot in sales teams specifically. Where you've got sales teams or lettings teams or agents, consultants, brand ambassadors, things like this, if somebody's going to go on a high performance-related pay package or even 100% performance-related pay package, the question is always, well, I can bench that, mark that with a mark. Obviously, you can run this back off revenue, sales, things like that, but if you're looking at it and thinking they're self-employed, but how do you calculate it for a self-employed person?

Easiest way to do it is think, well, I will benchmark this person with earning 50 grand. This salesperson is going to bring me a quarter of a million a year in new sales. The open market sale value would be 50 grand, is, say, 50 grand if they were employed.

You say, right, well, how do I calibrate if they're self-employed? Because they're going to do the same job, get the same results, but they're taking a higher risk, which is the pain and gain contract to get. The easiest way to think about this is somewhere between 120% and 150% premium.

So if you've got an employed salesperson out on the road bringing you in new business, bringing in new work, account management, client, subscription, whatever you want to call it, out there bringing in business. If they were employed, give them 50 grand. If they go self-employed with a high performance related pay element, if not 100%, you want to be looking between 125% and 150%.

So rather than 50 grand, if they deliver, they'd actually be bringing in more like, what's the maths on that? 25% to 50% premium. A 50% premium would be £75,000 per year.

So somewhere between 50 and 75,000 for delivering the same job. So if you've got an employed salesperson and a self-employed salesperson, they're doing exactly the same job. The self-employed would get 50.

The employed would get 50. The self-employed would get somewhere up to, say, 75. So a premium of 25% to 50% for doing exactly the same job.

And then finally, number four, top tip number four when you're looking at structured bonuses is don't make a rod for your back. So what I mean by this is a bonus is a bonus. And especially in the early days, when you're starting companies out, you want to reward the team.

You're the band of brothers. You're tearing down trees together. You're going all guns blazing.

And you want to reward people effectively. The business is going to change. You might listen to this, and say, oh, no, the team's not going to change.

It's never going to change. X, Y, Z. I just want to make sure everyone sits after.

I want to give 20% of profits to the employees, to the team. That's fine, but don't make a rod for your back because 20% of profits when you're making 100 grand a year is 25 grand. 25% of profits when you're making a million pounds a year is 250 grand.

And you don't want to mismanage expectations by giving bonuses now that you can't on it for the long term. So there's a few things here. When you're doing bonuses, bonuses are also forms of outpaying contracts.

The business is going to change. The market's going to change. The margins are going to change.

The pricing's going to change. The team's going to change. And you need to have control over these.

So a few things here about not making a rod for your back. The first is using fixed term bonuses. So you might say, well, this package is fixed term.

So it's valid for 12 months. I'd like to come in. This is the contract.

This is valid for 12 months, and then we'll redo it. That's what we do with all of our self-employed team. Give them a 12-month contract, and at the end of each year, everybody can review it, because things always change.

And you want to have that control. The other thing is, if you are using bonuses, is having them as one-offs. So you can say, look, without prejudice or without mismanaging expectations or without setting precedent, this is a one-off bonus.

Based on the last 12 weeks, you've done exceptionally well. The business has done incredibly well. This is a one-off bonus for X.

Well received. Thank you very much. No ongoing commitment.

Another thing would be not having it as part of a contract. So we don't actually include any of our bonus packages in the employment contract. So in our employment contracts, it says you may be eligible for some company bonus schemes or incentives.

These do not make up part of your contractual, basically part of your contract with the business. But then we send them a letter in addition, which is the bonus scheme. And the bonus scheme could be valid for 12 months, could be valid for 12 weeks.

Depending on what's going on in the business, there'll be bonus schemes that they're entitled to. But it doesn't actually make up part. In the main, it doesn't actually make up part of their contract.

And then also is, I think that's pretty much it, actually. The main thing is you don't make a review back. You don't offer something today that you won't be able to honor in 10 years.

And there's very few schemes and structures that you could honor in that capacity. So it's reviewed annually. It's a fixed term period.

It's a one-off. And it's ideally reviewed and renewed annually. So we do all of our strategy, all proper entrepreneurs, all strategy October, November, and December.

What's the business going to look like next year? And then through winter, January, February, March, is finance, budgets, business structures, systems, recruitment, and doing everybody's contracts ready to start on the 1st of April, which is the beginning of the new financial year. And then you set the bar.

Everybody knows where they are. You can go off and run with it for a year. And then you get to the same point the same year, the same point a year later, and you restructure it accordingly.

Hopefully, that makes sense. And hopefully, that clears up for you the bonus brain ache of, oh, how much do I pay these people? How do I structure it?

Who gets a bonus? Who doesn't get a bonus? Just remember the basics.

The salary doesn't have to include a bonus. The salary is I want you to do this job, and I expect you to deliver these key deliverables. If I can expect that from you and you deliver it, what you can expect from me is I'll pay you this salary, this amount, every month.

That's what it is. If they then go above and beyond expectation and they actually exceed expectation, or the business does better than planned, or they excel on a project, you might give a one-off bonus or an annual bonus to reflect the additional performance that's above what was expected. Salary is the expectation.

Bonus is above expectation. And then finally, wherever suitable, is introducing a performance-related pay mechanism into your team structure. So you can have team members at all walks of the organization on PRP, performance-related pay, where there's mechanisms in there.

Now, open market, with no PRP, they would get 25 grand working for you. They're going to get 27 and a half. But for 27 and a half, every month they need to have 50 world-class service scores.

So every month their time to reply on their email needs to be 100% in line with the company's SLH, service level agreement. It might be the client scores at the end of the month. It might be Google reviews-based.

It might be profitability-based. It might be operating against budget. It could be anything.

But the aim of the game is you pay a small premium, a modest premium of between 5% and 10% in exchange for having that pay and gain element, which will give you long-term buy-in. It'll give you long-term performance. And it'll just keep those accountability spikes up so that whenever someone's with you for a year or a decade, they deliver what you need and what you want and what you need in the business.

So it's a win-win-win and pulling all of that together without making a lot for your back. Hopefully you enjoyed that and that broke into that. There's some other podcasts I'm probably going to do around phased contracting and how you can use PDPs and things like that to give your team a runway to progress, again, in a win-win-win fashion where everybody does well out of it.

But for now, hopefully you've enjoyed that. Hopefully that's going to free up your bonus brain-ache and it gives you an insight into how to use salaries, bonuses, and performance-related pay for your team moving forward. So I wish you all the best.

Have a great day. And I look forward to seeing you on the next official Property Entrepreneur podcast. I hope you enjoyed this episode of the official Property Entrepreneur podcast.

If you are not already subscribed, click Subscribe now to make sure you never miss an episode again. If you're not already following me on social media, Instagram is PropertyEntrepreneur underscore. Facebook is Dan Hill.

And if you're not already in the official Property Entrepreneur community on Facebook, there's over 8,500 of us in there now. Join that group. And if you're not in one of the private WhatsApp groups, maximum of 20 people in each group, in the show notes, type VIP podcast and send it to the number that's in the show notes on WhatsApp, and we'll get you added to one of the private VIP WhatsApp groups where you can request your own podcast.

It'll be dedicated to you and your business. And every Tuesday, I'm in there answering questions, giving you one-to-one direct support. And we don't know how long we're going to keep these open for.

Success and failure are both very predictable. I will see you on the next episode.