NHPA
North American Hardware and Paint Association

TOPIC 2

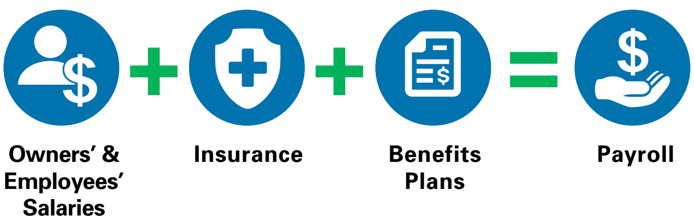
Understanding Payroll

Learn How to Use Financial Metrics From the
Cost of Doing Business Study to Improve Your Business

Understanding the Metric

WHAT IS PAYROLL?

Payroll is a major portion of your expenses, and you must find a balance for paying the necessary number of employees to run your business while also producing a healthy profit margin. Employing more workers than necessary results in an excess amount of money tied up in payroll, but having too few employees can mean poor customer service, a stressed and stretched-thin staff and unhappy customers.



To compare your store's payroll against the industry average, determine payroll as a percentage of sales by simply dividing payroll dollars by net sales.

HOW DOES YOUR STORE MEASURE UP?

Before you make any drastic changes or decide if payroll is a metric you need to take action on, evaluate your payroll compared to averages in the industry by using the North American Hardware and Paint Association (NHPA) *Cost of Doing Business Study*. NHPA has conducted this study annually for more than 100 years and provides detailed financial information from hardware stores, home centers and lumber/building material outlets, and also compares data from typical and high-profit stores.

Use the percentages in the green box on the right to see how your store's payroll as a percentage of sales compares to other stores in your operation's sector. Is your store's payroll lower than or above that of a high-profit store?

Even if your payroll numbers are lower than a high-profit store's, you may still want to evaluate your payroll on a regular basis to continuously look for ways to improve productivity and profits.

If your operation's payroll is higher than a high-profit or typical store, make an effort to determine what factors are causing the difference. For the next month, take time to analyze payroll and employee productivity. Look at when and why overtime occurs. Analyze how many employees are on the floor at one time. Is there downtime? Are you overstaffed during certain times and understaffed during others?

Without being too intrusive, monitor how long employees are on paid breaks. Are they adhering to company policies or are they going over break time by 10 or 15 minutes?

Use your POS system and payroll processing data to their full potential in analyzing the number of employees on the floor compared to productivity levels.

PAYROLL AS A PERCENTAGE OF SALES PER STORE

	Typical	High-Profit
Hardware Store	**20.8%**	**18.4%**
Home Center	**17.4%**	**15.1%**
Lumberyard	**12.4%**	**12.2%**

Source: 2023 Cost of Doing Business Study, *NHPA*

PAYROLL AND PRODUCTIVITY

Think about payroll from multiple angles. Rather than simply decreasing payroll, consider how you can help current employees be more productive, and in turn receive more value from payroll dollars.

METHODS FOR REDUCING PAYROLL

Below is a list of different methods used to affect payroll expenses, whether it be by decreasing payroll or increasing employee productivity. To achieve the best results, use a variety of these strategies.

- **Be transparent:** If you plan big changes for your operation's pay structure, let your employees know and explain what is happening, what to expect and why. Make your staff aware of the changes up front, and they will likely respect that they were brought into the process early and accept the changes before they happen.
- **Ask for volunteers:** Maybe a few hourly employees have wanted to take time off, or others want to retire but are under the impression that the store needs them. If you are honest and direct about the store's staffing needs, then volunteers may come forward to take vacation time or set retirement dates.
- **Consolidate job descriptions:** Analyze the current positions at your store. Group similar positions together and determine if multiple jobs could be consolidated into one.

- **Evaluate pay structure:** Once you've analyzed the different positions within your operation, decide if there are any full-time positions that could be part time or vice versa. For example, there may be two similar part-time job descriptions that could be consolidated into one full-time position.
- **Let people go:** Decreasing head counts is an option, but should never be a go-to choice unless you have to do it for the business to survive. However, if employees are already leaving, use the opportunity to assess whether you need to replace them. Take a time of transition to operate with one less employee and see how it impacts your customer service and productivity levels.
- **Make a pay cut:** Pay cuts should never be your first step to decrease payroll, but may be necessary. If you do implement pay cuts, handle them delicately, and do not exclude the owner and upper management.
- **Move outsourcing in-house:** Instead of outsourcing lawn care and maintenance, move those and other duties in house and assign them to current employees.
- **Reduce hours and pay to match:** Rather than letting employees go, reduce employees' hours and decrease pay accordingly. Maybe an employee would like more free time and would prefer to work half days rather than full days. Maybe an employee wants to slowly transition into retirement, decreasing their hours over time.
- **Hire slowly, fire quickly:** If you recently let someone go, do not post job listings immediately unless you are already short staffed. Take time to assess workflow without that person present.

Average Hourly Pay of Sales Associates in 2023

Hardware Stores: **$16.60**

Home Centers: **$20.86**

Lumber/Building Centers: **$21.74**

Source: 2023 Cost of Doing Business Study, *NHPA*

You may realize that only a part-time employee is needed rather than a full-time employee, or that eliminating the position doesn't decrease the business's ability to operate at the same level of service and productivity.

If you need to hire new employees to fill positions, do not hesitate to let them go if problems arise. Do not employ people long term if their attitudes and work ethics are mediocre and they consistently underperform or violate company policies.

- **Determine optimal scheduling times:** Do you have enough employees on the floor at busy times? Are there too many people on the floor at one time?

  Use POS data to determine what your store's busiest hours are and how many people are needed to effectively help customers.

  Sometimes stores have four employees mingling and talking near the cash registers, while other stores have five different staff members asking if a customer needs assistance within a few minutes' time. Overstaffing is expensive, so you need to ensure you not only implement optimal scheduling but also track employee productivity.

  New technology solutions, such as apps and software, can do the scheduling for you so you don't have to spend hours determining optimal scheduling manually.
- **Overtime:** Is overtime being abused? Assessing this issue goes hand in hand with deciding on optimal scheduling and setting pay scales that make sense for specific positions. Determine if overtime hours can be reduced or eliminated, or if it would be more cost effective to move some workers' overtime hours to a new part-time employee who gets a lower pay rate.
- **Reduce turnover:** Improving turnover involves hiring the right people, providing effective training and having regular conversations with employees to ensure they are happy with the company. Ensure they are achieving their goals and can openly communicate about their needs.
- **Training:** Have a good onboarding program and continuous training initiatives. A focus on training will not only help decrease turnover but will also increase employee productivity.
- **Rethink bonuses:** Link monetary bonuses to productivity or goals so employees who are truly deserving of bonuses receive them. Or, find ways to give nonmonetary bonuses, such as extra days off.
- **Restructure benefits:** Evaluate your current benefits structure or find different service providers. Consider making changes to insurance plans by increasing deductibles and copays. If your insurance provider repeatedly increases its prices, check what other companies offer the services you need and be open to alternatives. Aside from changing insurance plans, you can also cut costs by lowering company matches for your employees' 401(k) plan.

This article is reprinted from 2016

Dale Hardware

Fremont, California

Dale Hardware had weathered the sales declines of the recession years, but was still struggling to grow its profits in 2014.

Even when sales grew, net profit wasn't getting a corresponding boost.

So when the company's management team decided to attempt to fix that issue, they saw clearly that they needed to start cutting costs. One of the big problem areas was payroll.

"It became pretty apparent that our payroll-to-sales ratio was askew. It was higher than the norm in the industry," says Kyle Smith, general manager.

Smith used NHPA's *Cost of Doing Business Study* and data from his co-op to benchmark where Dale Hardware's payroll rate should have been, and then launched into planning a project to overhaul staffing, pay rates and overtime expenses.

The business had about 120 employees at the time, and the leadership decided that running the company with a smaller staff was a necessary part of the plan.

The team used attrition to reduce the number of positions within the business, and employees have gotten on board with making changes. They have upped their productivity, accepted pay caps, learned to work with fewer people on staff and adjusted to new scheduling rules. Implementing the plan has cut payroll expenses by about 9 percent.

"Reductions in payroll go straight to the bottom line," Smith says.

Finding Problem Areas

When they began searching for ways to cut payroll costs, Smith and the rest of the Dale Hardware leadership team looked at how much overtime hours were costing and whether the staffing schedule was appropriate for the level of customer traffic during work shifts.

They found overtime expenses had reached about $75,000 annually, and much of the overtime was unnecessary. However, there were no company rules placing restrictions on overtime.

Many employees were showing up 20 minutes early for work and clocking in when they walked in the door, not when their shifts started. Dale Hardware was paying time and a half for employees to put on work clothes and get coffee at the store, and nobody had ever frowned on the paycheck padding that some made a steady habit of doing, Smith says. "You could tell there was a pattern."

In response, management made a rule that employees could not clock in sooner than 5 minutes before their shifts or clock out later than 5 minutes after, unless they were helping customers.

Adapting to that new rule took a little time, but even chronic overtime earners only needed a conversation or two with a manager to understand why they had to change their habits, Smith says.

Cutting Jobs Without Cutting People

Reducing the number of employees on Dale Hardware's payroll was a stickier issue, and one that Smith and the other company leaders approached very carefully.

They bought new scheduling software and assessed when an unnecessarily high number of employees were working during low-traffic times.

By making schedule changes so the store wouldn't be regularly overstaffed, they were able to decide how many employees overall were needed for the business to operate well. They saw that by being more careful about scheduling, they could eliminate some jobs.

However, the managers didn't want to ask anyone to leave or retire, if possible.

"Morale was our biggest concern," Smith says. "It was the biggest priority for us to do a project that everybody felt was beneficial without hurting any individual in the process."

Before deciding to let any employees go, the managers chose to look at how many employees already planned to leave due to graduating from school, retiring or other similar reasons.

Talking to retirement-age employees about whether they were planning to retire was part of the process. The managers simply asked questions and discovered that some of the long-term employees were hanging onto their jobs because they thought the business needed them to stay.

They wanted and were ready to retire, but hadn't received their bosses' blessing yet. After realizing they wouldn't harm the company, some of them decided to retire, Smith says. No one had to be bought out or asked to leave.

The store was able to cut 10 jobs within a few months, and currently has 107 employees.

"It worked out even better than what we had hoped. It really started out as a new way of thinking for our business," Smith says. "Our company hadn't really focused on staff levels positively or negatively. It had never really been a focus, and it was running a little out of control."

Pay Changes

The Dale Hardware leadership also looked at pay and decided to cap salaries where doing so made sense.

Their reasoning, for example, was that 20-year cashiers shouldn't perpetually increase their incomes when their work performance or the importance of their positions weren't any higher than a five-year employee's, Smith says.

The store assigned a pay scale to every position in the business, considering factors such as how difficult a job is to fill.

Under the new system, an employee won't receive pay raises, except for cost-of-living increases, after reaching the cap unless they take a promotion to a different position.

Existing employees were grandfathered in at their existing pay rates, but all new employees are being paid under the new system.

In addition, because it was impossible for managers not to work overtime, the company chose to give the managers slight pay raises, and then switch their positions from hourly to salaried to save money.

The employees have responded well, accepting the explanations from leadership on how and why the changes had to happen to improve profits, Smith says.

"We initially thought that effecting payroll or changing a payroll structure would be pretty detrimental to certain employees. We felt it would hurt morale," he says. "What we learned is that some things that you assume are going to be negative, if done properly—if you take time to decide the best way to do them and how to best take care of your employees—can turn out to be, actually, 100 percent positive."

This article is reprinted from 2016

Buchheit Enterprises

Eight stores in Illinois and Missouri

Buchheit Enterprises operates stores that are high performers by industry standards, and the company's payroll-to-sales ratio reflects that, with payroll costing roughly 10 percent of sales.

However, that impressive percentage doesn't mean the business hasn't had payroll problems to tackle. Those issues have included high turnover—which requires time and money for repeatedly recruiting, hiring and training for the same positions—and lack of employee productivity where standardized work procedures weren't in place.

The company's leadership knew the staff turnover was high and that the stores were procedurally inconsistent with tasks as basic as refilling the soda coolers or restocking snacks in the impulse areas, says Tim Buchheit, president and CEO. He felt like he was repeatedly training employees on the same small duties, he says.

And when it came to turnover, the leadership saw many new employees weren't sticking with Buchheit Enterprises longer than one week on the job. Exit interviews with outgoing employees confirmed what they had begun to suspect: new employee training was consistently inadequate.

In 2015, the leadership team heavily emphasized a revamp of training to reduce turnover and improve productivity for all 400 retail staffers. The initiatives have brought dramatic results.

Addressing Turnover

Buchheit's training program prior to 2015 included bringing new employees to the company's corporate office to complete paperwork, learn to log into the computer system and get some safety orientation.

Once new hires started their duties at the stores, they missed out on some simple, yet important, training steps, such as meeting their coworkers, learning who to talk to if they had work questions and getting clarity on whether they were making progress on learning to do their jobs.

"We put them on the floor and they didn't know the basic stuff," Buchheit says.

So, Buchheit Enterprises took its meager training program and beefed it up, adding about 80 percent more training, including a formal in-store orientation and videos to improve product knowledge.

Now, new hires get all of their training at the store where they work. In the first week, they systematically meet coworkers, get to know the store layout and learn how to ring up transactions and take product exchanges at the cash registers.

Managers also now use standard checklists to make sure training is consistent and happening the way it should be.

In addition, every employee gets daily, weekly and monthly checklists for the jobs they do. Workers then mark off completed tasks on electronic checklists so managers can track how much of their work they're completing.

Holding employees accountable for following their checklists allows managers to move beyond retraining on basic tasks to growing their workers' skillsets.

"That's the beauty of it. It allows you to go in and work on a simple little process, fix it and go on to the next thing," Buchheit says. "All of the sudden, you start getting traction, and after you get traction, you get momentum."

The added training has resulted in growth in productivity overall for Buchheit staffers, as well as increased confidence, competence and job satisfaction for both existing and new employees at the stores.

Within about one year, the company cut turnover by 25 percent, quickly reducing hiring costs and improving job performance.

Improving Payroll Productivity

In addition to reducing turnover, Buchheit's revamp of its training methods has brought opportunities to improve overall staff productivity.

The checklists provide ways to measure employee performance and offer accountability for continuous improvement.

With standard new-hire training procedures in place, Buchheit Enterprises has advanced to a focus on maximizing overall staff productivity through ongoing training and incentives for top-notch work.

Now that the company has training systems and a library of industry-specific educational videos, Buchheit managers can push all employees to learn more and always be polishing their skills.

"One of the things I would like to be able to say in a few years is that we have the highest paid people in our industry."

—Tim Buchheit, Buchheit Enterprises

Initially, many of the existing employees weren't enthusiastic about new expectations for ongoing training, but they have embraced the new system after watching how quickly new hires are learning responsibilities—even some tasks that longtime employees hadn't learned yet, Buchheit says.

The managers are also now required to evaluate their employees quarterly, unbeknownst to the workers, on areas including willingness to help customers, punctuality and productivity. The managers can then acknowledge and reward great performance, but also identify employees' weak areas.

"We've done a 180," Buchheit says. "It's helped us recognize our superstars, but also, with the middle of the road folks, it's allowed us to see what we needed to focus on to make them superstars."

These training changes have helped Buchheit employees be more productive, offering opportunities to increase their compensation.

Better use of time adds to the value of the money the company already invests in employee salaries and benefits.

"One of the things I would like to be able to say in a few years is that we have the highest paid people in our industry," Buchheit says. "But to do that, they have to be that much more productive."