Written analysis

Finance

Incentive Plan Analysis Incentive Plan Analysis i. What type of employee is receiving the bonus? The incentive plan of Ladbrecks states that sales-force personnel will get a bonus if they achieve an excess over the targeted sales for the quarter. Each employee's targeted sales differ and are calculated according to their hourly rate times hours worked.

According to Exhibit 1, not all employees have received a bonus. An initial analysis shows that majority of the employees receiving the bonus have fewer years of service and a lesser hourly wage rate as compared to those who have not. Besides that fact, receivers of extra compensation achieved their targeted sales plus excess. For example, Bob Marley's expected sales are:

Hourly wage rate x Hours worked x 12. 5 = Expected sales

4 x 400 x 12. 5 = 20000

Marley's targeted sales were 20000 units. He achieved 25000. His bonus calculated on the excess 5000 units is:

0. 08 x 5000 = 400.

CU400 is the bonus he earned, according to Exhibit 1. Similar is the case with other workers who got a bonus. Jimi Hendrix, on the other hand, earned no bonus as he failed to meet his target of 41250 units, let alone an excess.

j. Should the company keep the plan?

Figure 1 exhibits a mighty 9% increase in sales in month 25 (rollout). Till month 47, sales have mainly seen increases, including crossing the peak of 10%. Cost of goods sold as a percentage of sales have seen more declines after month 25. However, they have remained around 63% and have not shown drastic reductions. Wages as a percentage of sales, though, went up by 2% immediately and have not reduced much since.

It is evident that Ladbrecks has not seen a considerable deduction in costs. However, it is an incentive plan. By definition, it adds to wages rather than deduct. Cost of goods sold does not cover wages of sales-force (Moore, 2014). Here, they would increase expenses by 2%. However, initial costs must be borne when implementing a change. In the long-run, changes get subtle and rise in sales should be considered. Employees will be satisfied, will provide better customer services and will be motivated to increase sales.

The plan should be kept, but changes should be made to effect the motivation of employees who are not meeting their targeted sales. If pay does not motivate them, some other initiative should be adopted targeted to them to ensure further rise in sales. This would decrease the difference in wages/sales percentage and would not impact expenses drastically.

References

Moore, M. (2014). Accounting. prezi. com. Retrieved 14 February 2015, from https://prezi. com/uevwiwrazlzl/accounting/