

BUSINESS ACTION GUIDE

Leading at the Intersection of People & Profits

RECOGNIZE AND REWARD

Effective Profit Sharing: Marlin Steel

Companies that want to boost employees' productivity, engagement, and alignment with the company's goals should consider a well structured bonus or profit sharing plan. Many



DREW GREENBLATT, CEO

experts, including those at the Great Game of Business, maintain that the most effective bonus plans are self-funding and do not foster a sense of entitlement. To learn more about profit sharing, we spoke with Drew

Greenblatt, CEO of Marlin Steel Wire Products LLC of Baltimore, MD, a company that specializes in the creation of custom metal forms including stainless steel parts, washing baskets, racks, S-hooks and sheet metal material handling containers. Marlin Steel has 35 employees.



Six years ago, we had orders but we weren't able to deliver the product on time. Our clients were disappointed and our revenue was weak. So I worked with the plant manager and gave him a target – if he shipped a certain number of sales in a certain time, he would get a cash bonus. He was like the general, and in turn he realized he needed a similar level of buy-in from the people reporting to him – the lieutenants – so we expanded the program to them. Then we got the sergeants involved; then the privates in the trenches. Within two to three months, everyone in the company was part of a system designed to help push products out the door. Now we're all rowing the same way. And since we implemented the bonus system, our sales are up two to three times what they were, and profits have gone up. We are getting high quality products to our clients fast and they are coming back again and again. These are some key lessons we learned in the process:

1. Track goals weekly and pay bonuses with each paycheck

The production manager sets weekly and biweekly production goals by work cell or project group. The targets are aimed at being achievable but requiring some effort to attain. The targets are posted publicly to spur friendly competition between the teams. Hitting the targets earns each team member a percentage bonus, which is paid quickly in the next paycheck. That makes it much more real and urgent than an annual or even a quarterly bonus. When we don't hit the goals, we figure out why so we can hit them the next time.

2. Tie bonuses to quality, not just quantity

It was not a straight line to success after we implemented the bonus system. One issue was quality; when bonuses were just tied to revenue, we were shipping junk and disappointing our clients. So we also tied the bonuses to quality – if the product doesn't meet our standards, we deduct it from the next bonus

MARLIN STEEL'S FORMULA FOR EFFECTIVE PROFIT SHARING:

1. Track goals weekly and pay bonuses with each paycheck
2. Tie bonuses to quality, not just quantity
3. Give all employees skin in the game
4. Make it essential to your company's culture

check. For example, if we are doing a \$10,000 job for Company ABC and the product is returned due to quality problems, the next bonus will have \$10,000 deducted from it.

This resulted in a big positive change. People started rejecting things internally if they were not up to quality standards. It's a small company and everyone wants to have a good reputation. Employees are very motivated to do it right the first time because they know if they see that product again, there will be no bonus.

3. Give all employees skin in the game

Another big change was to manage direct labor costs. If we are aiming for \$100,000 worth of production jobs in a week, then we wouldn't hire 80 temps, because we would have no profit margin. We tied the bonus to percentage of productivity. If you are productive, you get a bonus. If you are very productive, you get a bigger bonus.

Most blue collar employees are paid their hourly rate regardless of how productive they are. Our employees have skin in the game and as a result, they are entrepreneurial and aggressive. The last two weeks' payroll included \$7,800 in bonuses – no little amount. Sometimes people get a check equivalent of more than 40% of their salary in bonuses. Annually our employees are making \$40K - \$100K doing skilled or semi-skilled work. We treat them like professionals. We don't tell them when to go to the bathroom, or not to talk about the Orioles. If you hit the targets, you get a bonus. They know what to do.

4. **Make it essential to your company's culture**

Every part of the company has to be part of the system – it is an iterative process. Our engineers have elegant

designs that our production employees can whip out fast. Purchasing has to have the materials on hand. And when was the last time you had blue collar workers getting in the face of your sales team demanding more work? Those on the factory floor sucked up the backlog so the rest of the team had to get productive too. If you give employees clear goals and an incentive to achieve them quickly, they will knock down those targets.

The end result is a more motivated, productive workforce. They nurture the machinery and make sure it is working well because they won't get bonuses if the machines are down. They are paid more and they are better, more skilled, with a safer work environment. They're in a growing company where they are appreciated and the work is fulfilling.

FINAL WORDS OF WISDOM

When I bought the company, everyone was earning minimum wage and I was the only one who owned a home or a car. I could park wherever I wanted because there were no other cars in the parking lot. Now more than half of the employees own a home, 100% own one or even two cars, and the parking lot has cars double or triple parked. I like it when people complain about all the cars in the parking lot because it means they are all successful!

Bottom line – you will achieve your goals quicker if you have more engaged, dedicated employees focused on the success of the company. Employees will be less likely to job hop, more likely to work hard, and you will make more money.

HOW DO WE LEARN MORE?

[The Hitachi Foundation: Marlin Steel – From Bagels to Boeing \[video\]](#)

[Precision Metalforming Association: Marlin Steel Case Study](#)

[Jack Stack and Bo Burlingham: The Great Game of Business](#)

[Willow Consulting: Build Success With Effective Bonus Plan](#)

[Inc: How to Build a Profit Sharing Plan](#)

[Inc: The Problem with Profit Sharing](#)

Other companies that have documented profit or gain sharing approaches include Springfield Remanufacturing Corporation, Zingerman's, Roll Forming Corporation, New Belgium Brewing, and Optimax Systems. High Plains Community Health Center has a similar incentive program in nonprofit healthcare.

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