Master Thesis

BAS Group “Project Loonkosten @ iCentre”

Creation of a new employee compensation and incentive plan

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EXECUTIVE SUMMARY

Personnel expenses are a big part of companies overall expenses, but not always valued as important as other expenses. Especially in time spans when companies underperform and sales decrease, personnel still has to be paid. This can potentially lead to liquidity problems, as is recently shown in the case of the Dutch retailers Blokker and Vroom & Dreesman. It is therefore important to investigate in what way manageability of personnel expenses can be increased and where possible can be connected to performance of the company. This research proposes that manageability of personnel expenses can increase by connecting personnel expenses to revenues, since both these variables together lead to the overall wage rate of a company.

Management of iCentre have recognized the problems around personnel expenses and allowed for analysis in the form of a case study of the company’s employee compensation. This analysis underlined the fluctuation of wage rate during under and over performing weeks of sales. A connection between personnel expenses and revenues has proven to increase manageability of the wage rate of the company. This connection between personnel expenses and revenues has been created by a new innovative Employee incentive plan, based on previous models of incentives and rewards for employees in sales forces.

I have all confidence that this new employee compensation and incentive plan can support the management of iCentre by controlling their personnel expenses and help increase sales and profit margins. It is of vital importance that support for this plan is carried out by management to middle managers, who carry responsibilities in the implementation and execution of this plan.
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At last I would like to thank my family for supporting me trough my years as a student and year abroad, my brothers and girlfriend Elsemiek.
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Borne, April 2015
Mark Smit
# TABLE OF CONTENTS

EXECUTIVE SUMMARY ........................................................................................................ii
ACKNOWLEDGEMENTS ......................................................................................................... iii
TABLE OF CONTENTS ............................................................................................................ iv
LIST OF FIGURES .................................................................................................................. v
LIST OF TABLES .................................................................................................................... v

1. INTRODUCTION ................................................................................................................ 1
   1.1. Problem statement ......................................................................................................... 1
   1.2. Purpose of the study and scientific relevance .............................................................. 2
   1.3. Research question ......................................................................................................... 3
   1.4. Methodology and research model .............................................................................. 5
   1.5. Structure of the thesis ................................................................................................. 6

2. LITERATURE REVIEW ........................................................................................................ 8
   2.1. Company market analysis .......................................................................................... 9
   2.2. Employee contracts and compensation ..................................................................... 9
   2.3. Compensation and incentives .................................................................................. 11
       2.3.1. Different types of incentive compensation schemes .......................................... 12
       2.3.2. Frequencies of incentives ................................................................................. 13
       2.3.3. Performance measures ...................................................................................... 14
   2.4. Personnel expenses .................................................................................................. 15
   2.5. Till so far .................................................................................................................... 17

3. CASE STUDY @ICENTRE .................................................................................................. 19
   3.1. iCentre ....................................................................................................................... 19
       3.1.1. Market analysis ................................................................................................... 19
       3.1.2. iCentre Shops .................................................................................................... 20
       3.1.3. Softbrick ............................................................................................................. 21
   3.2. Employee contracts & compensation ....................................................................... 22
       3.2.1. Current contracts ............................................................................................... 22
       3.2.2. Optimal contract form ....................................................................................... 23
   3.3. Personnel expenses .................................................................................................. 24
   3.4. Performance measures ............................................................................................. 27
   3.5. Summary of case study ............................................................................................ 29

4. A NEW COMPENSATION & INCENTIVE PLAN @ICENTRE ........................................ 31
   4.1. Employee compensation and contracts ..................................................................... 31
       4.1.1. Optimal form of contract ................................................................................... 31
   4.2. Personnel expenses .................................................................................................. 33
       4.2.1. Personnel expenses ........................................................................................... 33
       4.2.2. Funding and payment of the incentive program ................................................. 36
   4.3. Practical example ..................................................................................................... 36

5. CONTRIBUTIONS AND CONCLUSIONS ..................................................................... 38
   5.1. Contributions to literature and practice ................................................................. 38
   5.2. Conclusions ............................................................................................................... 38

6. LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH ........ 40
   6.1. Limitations ............................................................................................................... 40
   6.2. Future research ........................................................................................................ 40

7. RECOMMENDATIONS TO ICENTRE ............................................................................ 41
7.1. Recommendation on personnel expenses and Softbrick................................. 41
7.2. Recommendation on Employee contract and compensation..................... 42
REFERENCES........................................................................................................ 43
Appendices ........................................................................................................... 46
Appendix A – Conversion target for each shop .................................................. 46
Appendix B – Average Cost per hour ................................................................. 47
Appendix C – Standardization table Softbrick.................................................... 48
Appendix D – Sales minutes and targets per store (forecasted for random week
in Q2) .................................................................................................................. 49
Appendix E – Average wage rate per shop category ........................................ 50
Appendix F – Weekly overview of performance and personnel expenses ........ 51

LIST OF FIGURES
Figure 1 Connection between revenues and personnel expenses................ 3
Figure 2 Research model based on and extracted from Hevner et al. (2004)..... 5
Figure 3 Relationship of wage rate and revenues and personnel expenses ...... 7
Figure 4 Porters five forces (Porter, 1979) ......................................................... 9
Figure 5 Types of incentive compensation schemes ....................................... 13
Figure 6 Incentive programs as an additional variable .................................. 18
Figure 7 Relationship between budgeted hours and wage rate ...................... 26
Figure 8 Relationships between variables within iCentre ................................ 30
Figure 9 Proposed targets for a new incentive program .................................. 32
Figure 10 Old and new standardization table Softbrick ................................. 35

LIST OF TABLES
Table 1 Optimal form of contracts (Albers, 1996).............................................. 11
Table 2 Characteristics and constructs retrieved from knowledge base (rigor
circle) .................................................................................................................. 18
Table 3 iCentre stores and store categories ..................................................... 21
1. INTRODUCTION

With 24 retail stores, iCentre is the biggest Apple Premium Reseller (APR) in the Netherlands. Founded in 1988 and acquired by BAS Group in 2013, over 200 people work in the stores and on companies’ headquarters in Almere. Apple Premium Resellers are companies that have exclusive contracts with Apple and are closely connected to it on basis of shop interior and assortment. The company is part of BAS Group, which is the overarching company that besides iCentre, also consists of two other consumer electronic retail formulas (Dixons and Mycom), an Apple certified repair centre called Apple Repair, an insurance business unit Harmony Financial Services, and a distribution channel BAS Distributie. An in house brand was established a couple of years ago under the name ICIDU, which produces several accessories.

Since the moment BAS Group acquired iCentre mid 2013, no clear insight about wage structures and bonuses and their relation to profit or revenues has been gained. Discussion about these structures and the way to measure and respond has risen, and need for more transparency and openness grew. This led to projects “Loonkosten” (employee expenses) and “in Shape”, that aim for a bigger and more sophisticated insight in total wages and the way wages are structured at the moment within the company. Besides, since the entire company went to a huge reorganization last year and several shops will open their doors in the near future, it is time to reorganize the way the company now looks at their wage structure/employee compensation plans.

1.1. Problem statement

Total personnel expenses are determined by several factors such as fixed wages, bonuses, travel costs and taxes. These cost are forecasted and calculated for every single physical store and based on several variables such as revenue, sales minutes, visitors per CPU¹, optimal amount of men hours on the shop floor and conversion. Total personnel expenses are calculated as a percentage of total revenues. Although it would seem that optimization of this percentage means decrease all cost and improve revenue, first expectations are that this

¹ CPU is the abbreviation for central processing unit, but in this research used as an abbreviation
assumption is not valid. A better understanding of the interrelationships between variables could deliver a greater insight of the system as a whole. The variables that are mentioned in this section will be further discussed in the following chapters of this research.

The problem statement that is composed in cooperation with the retail director of iCentre is as follows. Personnel expenses have not been given enough attention over the last quarters and questions have risen about the manageability of the wage rate of the separate stores and overall firm. Further, does a decrease of personnel expenses lead to an increase of performance, or does it cannibalize on performance of the workforce? These problems are the main reason to pay more attention to workforce scheduling and the interpretation of wage rate, which lead to the start of an Internship at iCentre. To summarize this statement in one sentence: management of iCentre have insufficient managerial control of personnel expenses, which increases the danger of overstepping their personnel budgets.

1.2. Purpose of the study and scientific relevance
The purpose of this research is ambiguous. Management of the firm have asked for bigger insight in the efficiency of workforce expenditures and to increase managerial control over these cost. Secondly, this research will focus on the design of a new employee compensation plan that will not only increase efficiency of the workforce on basis of costs, but also of revenues. Ultimate goal of this study is to deliver a model that allows management of iCentre to increase control of personnel expenses and increase revenues using a new employee compensation plan.

Besides, this research should add a greater inside of control of personnel expenses of a retail organization to literature. Since personnel expenses are a significant part of companies’ total expenses and can lead to serious liquidity issues (as is recently shown in the case of V&D and Blokker B.V., (Financiële Telegraaf, 2015; Nu.nl, 2015)), it is important to increase control over those costs for the company.

A lot is written about sales force compensation in scientific literature, but none of it is specifically applicable for todays retail operations. Most of the studies
focus on other (bigger) industries or branches and tend to generalize models that have higher applicability for more industries, but create lower validity for specific situation. This research tends to increase this validity for the specific case of iCentre by building on current model and adding information from the environment, which will be further elaborated on in the methodology part of this chapter.

1.3. Research question
For this thesis, the following research question is formulated. This main research question contains the overall purpose of this research and will be supported by several sub questions.

“What is an effective way of employee compensation in order to improve managerial control in higher efficiency of personnel expenses and increased profitability of the sales force?”

The main research question consist on three different parts, which are the (1) creation of a new employee compensation plan, (2) improvement of the managerial control over personnel expenses, and (3) increase the profitability of the sales force. Besides the fact that this new plan should have a positive influence on the two separate factors, coherence between personnel expenses and profitability must be created. This coherence insures that personnel expenses can be controlled during a period in which sales decline and the profitability of the sales force decreases.

Figure 1 Connection between revenues and personnel expenses
To support the main research question, several sub questions are conducted:

a) **What forms of employee compensation or contracts exist?**
This first sub question is stated to find a factual answer to which compensation contracts exist. Also, literature must be found that explains why a certain contract should be chosen as compensation.

b) **What is the connection between employee compensation and profitability of the firm?**
In this second sub question, profitability is measured as financial performance of the firm, and in this case study the financial performance of iCentre.

c) **How can a new form of employee compensation support an increase of financial performance and stability of profit during underperforming timespans?**
At this moment, employee expenses are quite fixed by the schedules that are made for personnel planning. This means that expenses still appear even though the firm is underperforming. Therefore, this third research question seeks for a connection between personnel expenses and revenues in order to increase control over these expenses, especially during underperforming timespans.

d) **On basis of these factors, what employee compensation plan can be designed in order to increase managerial control over the wage rate of the company?**
In the end, the actual measurement to calculate the performance of the workforce, with respect the revenues they made, is overall wage rate of a specific store of overall firm. These personnel expenses as a percentage of sales are hard to interpret. Therefore, management of iCentre have asked for recommendation on the interpretation of their wage rate in order to increase manageability. This
last sub question will seek for such answers in order to make these recommendations to the management of iCentre.

1.4. Methodology and research model
The research design of this study is will be created according the design research methodology based on the fact that design research is adequate for the development of a new system or new version of an existing system, as the gap between theory and practice is bridged. (Hevner, 2004; Röglinger, 2012). Furthermore, design research is viable with only limited information, emphasizes participation and leaves room for extension of the new design outside of the first problem definition (Romme, 2003).

The research model (see figure 1) that will be used in this study is based on the design research framework by Hevner, March, Park and Ram (2004), which will be further elaborated so it can be applied on the specific case of this study.

Figure 2 Research model based on and extracted from Hevner et al. (2004)

In short, the model describes the ways a design is build, tested and evaluated (design circle) under influence of the environment (relevance circle) and science / prior knowledge (rigor circle).

The relevance circle will be created through conversations and meetings with stakeholders and experts within the company (this will support finding answers on sub question b and c). Theories from literature will take care of the rigor circle (which will help answer sub question a and b). Also, the conclusion and
implications of this study should add to the knowledge base, as is shown in the research model.

As stated in pervious sections, this research tends to design a new employee compensation plan and therefore, the design research model of Hevner is ideal. By adding information of the environment of iCentre to current knowledge in literature, a new plan and model can be built and evaluated. During this research, new plans can be tested in a virtual environment (read: software that allows to calculate outcomes of new plans) as well as field-testing. These outcomes will help elaborate and build a new model of employee compensation and improve setting of the current workforce planning software. This obviously the design cycle stage from the model of Hevner and supports the research in order to answer the main research question and sub question d.

1.5. Structure of the thesis
Chapter 1 described the problem statement and purpose of the research, even as the research questions and methodology. In Chapter 2, a scientific literature review about the stated research question will be given in order to support the case study that will follow in chapter 3. In the context of the design research model this research will build upon, chapter 2 can be seen as the rigor cycle, and chapter 3 as the relevance cycle. The different research questions will be discussed in separated sections in chapter 2. In chapter 4, the information from the case study will be combined with the prior knowledge retrieved in chapter 2, as is prescribed by the chosen research model. Obviously the research model prescribes an on going process of evaluation and building, but for the sake of clarity of this thesis the circles are clearly separated and combined in a new chapter.

This modelling in chapter 4 will lead to a final conclusion and recommendations in chapter 5. In chapter 6 a discussion about limitations and recommendations for future research will be given. Besides, and even more important, contributions to the knowledge base and environment will be stated.

What remains is the build up of the different chapters. Since this research is looking for a way to create higher control over the companies wage rate, sections
will be divided in the two factors that are directly linked to this, as can be seen in the flow chart below (figure 2). These factors are obviously revenues and personnel expenses. This research suggest an moderating role for a third variable, that simultaneously affects revenues and employee expenses, but therefore limits fluctuation of the wage rate, since personnel expenses and revenues are more connected than usual.

Figure 3 Relationship of wage rate and revenues and personnel expenses
2. LITERATURE REVIEW

In this theoretical framework, each separate research question will be discussed according to existing literature and scientific data such as case studies and benchmarks. This framework is the “rigor circle” as mentioned in the model of Hevner et al as proposed in the previous chapter. Following this structure will lead to a bigger insight of the problems that were stated in the previous part of this chapter and answer the research questions. Since this the case study in this research is about a retail company, the theoretical background that will be given next shall focus on the retail industry. Therefore, “company” can be read and understood as a company in the retail industry.

Further, this theoretical framework will be build to answer the research questions as stated in section 1.3. Before starting with the research questions, this framework will start by describing in what way the market in which iCentre operates can be analysed. This analysis will be conducted to create conclusion about generalizability of this research in a later stadium of this thesis (see chapter 6).

In section 2.2 employee contracts will be discussed, as is according research sub question A. Further, this section will propose a model that, after analysis of the iCentre situation, will lead to a optimal form of contract for employees of iCentre.

Section 2.3 describes incentives as a way to increase sales and overall financial performance of the company, which is the connection of personnel expenses and revenues as stated in sub question B.

In section 2.4, personnel expenses and scheduling will be discussed. In this section constructs that influence this scheduling will be described. This will in the end lead to constructs that can be incorporated in a new employee compensation and incentive plan, as is according to sub questions C and D of this research.

At last, section 2.5 will provide an overview of all the constructs that where presented in this section and which can be the basis of the analysis of iCentre in chapter 3 and the backbone of the model that will be presented in chapter 4.
2.1. Company market analysis
Since this research focuses its case study on a retail organization that operates in a specific market, one should realize that outcomes of this research could have limited applicability on different other sorts of industries or markets. Besides, literature that is found to support this study could have the same limitation and should therefore be handled and used with these limitations in mind. To avoid such problems, this chapter will start with method that could provide a concise analysis of the market iCentre is operating in and the strategy that iCentre follows. The method to make this analysis is the five forces analysis of Porter. The analysis itself will be conducted in the first section of chapter 3, which is the case studies of iCentre.

![Porters five forces model](image)

Figure 4 Porters five forces (Porter, 1979)

Porters analysis consist of five forces that determine the nature and competition in an industry or market (Porter, 1979), which are the bargaining powers of customers and suppliers, threat of substitute products or services and new entrants, and the jockeying for position among current competitors. On basis of this model, the market of iCentre will be analysed. This analysis can be found in chapter 3.

2.2. Employee contracts and compensation
Employee compensation is a big part of companies’ expenses (Eisenhardt, 1988), as these costs are mostly not correlated to revenues. When a company performs badly over a certain timeframe, personnel still has to be paid. This obviously puts
the liquidity position of the company in jeopardy when revenues decrease. Firms explicitly choose between salary plans in which sales people’s pay is more or less assured and commission plans in which a substantial portion of pay depends on individual sales performance (Redinbaugh, 1976). In this part of this chapter, several forms of employee compensation will be discussed. From regular wages to bonuses, fixed and variable pay. Also, the problem of differences in risk tolerance between employees and management will be discussed.

Employee compensation schemes can consist of the following components and have been used to design a compensation scheme (Churchill et al., 1993):

- Fixed salary
- Commission rates per unit of sales volume (decreasing, constant or increasing with volume)
- Bonuses for achieving certain goals or performing certain activities
- Bonuses on quota achievement (differentiated for under fulfilment, exact meeting, and over fulfilment, if necessary)
- Contest awards
- Fringe benefits, perquisites
- Single contracts or menus for self-selection

These components are a clear answer to the first research question:

“What forms of employee compensation or contracts exist?”

Sales managers should start by deciding which components he should choose in his employee compensation scheme. This problem is formally addressed by the agency theory. The agency theory (Fama & Jensen, 1983) is directed to a particular type of organizational problem, the so-called agency problem. This agency problem refers to the relationship between a principal who delegates work to an agent who performs that work. Agency theory attempts to describe this relationship using the metaphor of a contract (Keeley, 1980). In this metaphor, the focus is on determination of the optimal contract that governs the
relationship between a principal and an agent, since these two have different roles and interests in the organization (Eisenhart, 1988). Albers compiled a table (see table 1) consisting of two variables on basis of the agency theory; the homogeneity or homogeneity of the sales force, and information symmetry or asymmetry (Albers, 1996). On basis of a combination of those two variables, an optimal form of contract for a salesperson can be derived.

<table>
<thead>
<tr>
<th>Information symmetry</th>
<th>Homogeneous sales force</th>
<th>Heterogeneous sales force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.) Fixed salary plus non linear commission rate function (Basu et al., 1985)</td>
<td>2.) Fixed salary plus bonus for quota achievement level (Rao, 1990)</td>
</tr>
<tr>
<td>Information asymmetry</td>
<td></td>
<td>3.) Menu of contracts of form 1 (Gonik, 1978; Mantrala and Raman, 1990)</td>
</tr>
</tbody>
</table>

Table 1 Optimal form of contracts (Albers, 1996)

The table is based on two restrictive assumptions. Firstly, information symmetry is about the response and utility function or their salespersons, and secondly, the homogeneity of the sales force that analyses the sales forces’ abilities and market conditions they face in their territories (Albers, 1996). These table and constructs will support analysis of an efficient contract plan for the sales force of iCentre, which will be conducted in chapter 3.

2.3. Compensation and incentives
A compensation plan can consist of many components: salary, commission, and bonuses on achieving a certain threshold of performance called quotas (Chung, Steenburgh & Sudhir, 2013). Basis for a lot of research and scientific articles about sales force compensation plans is the pioneering model of Farley (Farley, 1964), in which an optimal compensation scheme for salesmen is proposed and his argumentation about motivation of salesmen described. Experiments have shown that subjects perform tasks better when told they will receive rewards (Atkinson, 1957; Reitman, 1956), bonuses and incentives improve performance (Chung, Steenburgh & Sudhir, 2013) and companies heavily depend on the motivation of their sales force to sell the companies’ products (Albers, 1995).
Farley’s model consists of several constructs that determine an optimal compensation including commission based on measures of performance. These measures are for example company gross profit, time devoted to selling products and quantity of products sold. These measures align the performance of the company as a whole to the compensation of the salesmen. In other words, when the sales force performs, the company benefits, and the salesmen will be rewarded for their performance. This is a direct answer to the following research question:

“What is the connection between employee compensation and profitability of the firm?”

Although this model is over fifty years old, it is still quoted frequently in literature and its underlying reasoning is still valid today, and therefore a strong basis to build upon. Since IT systems help to evaluate several performance measures, new constructs can be added to the model of Farley to increase today’s validity and usability of the model. Besides, a new model will answer the next research questions of this research:

“How can a new form of employee compensation support an increase of financial performance and stability of profit during underperforming timespans?”

2.3.1. Different types of incentive compensation schemes
Different forms of incentive compensation schemes exist, as proposed by Chung et al. (Chung, Steenburgh & Sudhir, 2013), and is shown in figure 5. These schemes differ in sophistication, but are all based on sales and earnings and encounter a fixed salary. Whereas in plan A pure commission is paid on basis of sales, plan B only pays a bonus when a certain quota of sales is reached. Plan C consist of a commission per sales when a quota is reached, which is the same as plan B, only plan C has a ceiling at which no further commission is paid on additional sales. Plan E and F combine commission and a bonus, but F consists of an “Overachievement” Commission when a certain quota is reached. This
overachievement commission makes sure that a salesman is still motivated even if quota is reached.

**Figure 5** Types of incentive compensation schemes

In the case study, different existing incentives that are currently implemented at iCentre will be compared with the plans in this incentive compensation schemes.

### 2.3.2. Frequencies of incentives

Researchers have argued that frequent testing and measuring of employee performance on basis of their targets leads to better performance outcomes (Bangert-Drowns et al., 1991; Chung, Steenburgh & Sudhir, 2013). This leads to the question of which time spans should be chosen to measure performance. Last called researchers have shown that quarterly performance measures serve as a mechanism to keep sales force motivated to perform well in short-run so as to be within striking distance of the overall performance quota.

Research on the effects of incentive program terms on performance has shown that intermediate terms have the larger effect on performance than short terms (Condly et al., 2003). Combining those two findings leads to the conclusion that quarterly terms have proven to be the optimal term to measure performance and create incentive programs for. This also means that incentive programs can run parallel to fiscal quarters of the company.
These incentives will be building up to the end of a quarter, although costs are actually allocated to the specific month that they are made. This means an increase of personnel costs at the end of the quarter. Therefore a provision should be build each month to avoid a hit of extra expenses at the end of the quarter. A provision records a present liability of an entity. The recording of the liability in the entity’s balance sheet is matched to an appropriate expense account in the entity’s income statement (IFRS, 2004), and allows companies to reserve money for future costs that are most likely to erupt.

2.3.3. Performance measures
When building a new innovative employee compensation plan that will determine employees pay, performance measures must be objective and fair in order to keep employees motivated to meet their targets. Compensation plans must be operational and understandable (Farley, 1964). Specific performance measures for iCentre will be discussed in the next chapter of this thesis.

2.3.3.1. Seasonality of performance measures
As stated in the previous section, compensation plan must be operational, fair and understandable. This means that seasonality of performance measures must be taken into account. In the retail industry quite some differences in performance exists through different fiscal quarters, which can also be found in for example the tourist industry. These deviations are influenced several factors, such as the number of visitors, introduction of new products. Because of these deviations, targets and quota for incentives in a new compensation plan have to change every quarter, or should at least be reviewed and changed if necessary.

2.3.3.2. Team versus individual targets
Since the work force in shops works in teams, attention should be given to the way target are set as team and / or individual target. Research has shown that the effect of team targets has way bigger effect on overall performance of the shop than individual targets (Condly et al., 2003). In contrast with that research, others argue that team targets lead to the phenomenon of “social loafing” (Bandura, 1997), which in psychology is known as a strong tendency that of
some individuals to invest significantly less effort in teams than when they are working and being assessed as individuals (Kip & Karau, 1991; Karau et. al, 1993). Mitchell et al. proposes the so-called 75/25 rule, in which he argues that the balance between team and individual targets and rewards should be split at 75% individual and 25% team (Mitchell et al., 2013).

2.3.3.3. Complexity and risks of incentive schemes
Compensation plans must be operational and understandable (Farley, 1964). This means that a new incentive scheme should be simple and easy to understand.

2.4. Personnel expenses
As stated in the introduction of this thesis, the question from the company in which this research is conducted is quite simple: what is an optimal percentage for employee expenses in relation to the total revenues, also known as wage rate. Since benchmarking on this number is quite hard because (most) companies do not elaborate on cost of sales in their annual reports (annual report Metro AG, 2014), and so no calculations about their personnel expenses can be made. This means an optimal percentage can only be derived by testing this number in a case study (see chapter 3 for more information). This is also why a design research study is chosen a methodology for this research. Testing of the optimal percentage of personnel expenses as part of total sales, or wage rate, consists of several constructs.

**Budgeted hours**
The biggest part of the cost of personnel is actual salaries a company pays to their employees. This number consists of the total hours that are planned on a day and the costs per hour of every single employee. The optimal hours that are planned are based on the number of visitors in a store, and the average number of minutes that is spend on a single customer.

**Cost per hour**
Obviously not every employee in a store has the same personnel expenses. The costs of a working person are measured through their costs per hour (in Dutch KPU: Kosten Per Uur).

**Sales minutes**

Sales minutes refer to the average number of minutes a salesman spends on a single customer, in literature known as selling time, the relationship between sales and effort (Albers, 1995). Obviously, in industries this selling time is mostly measured in days or even months. For the specific case of iCentre, a retail environment, this selling time is set in minutes. Based on historical financial data, six minutes is an optimal selling time for an average iCentre shop. For a few shops, this optimal number is higher, since these shops are on specific locations (mostly out of a city centre or other location with low traffic). Within iCentre, these stores are called destination stores. For these specific stores, efficient sales minutes are between nine en twelve.

This means an optimal number of hours must be planned based on the number of customers that is expected to visit a store in a day. Average sales minutes are calculated as follows:

\[
\text{Sales minutes} = \frac{\text{total number of hours spend} \times 60}{\text{total number of visitors on a single day}}
\]

When this equation is written for total hours needed to hit 6 sales minutes and optimize the personnel planning, the formula is as follows:

\[
\text{Total hours needed} = \frac{6 \times \text{total number of visitors expected on a single day}}{60}
\]

**Productivity per hour**

Another measurement of performance is productivity per hour, in literature known as employee turnover of efficiency ratio (Berry & Jarvis, 2006), which can be calculated by a deviation between the total revenues of a sales man and the
number of hours worked. The calculation for the productivity per hour is as follows:

$$\text{Productivity per hour} = \frac{\text{total sales of a shop or person per day}}{\text{total worked hour per person or shop per day}}$$

For example: a sales person worked 8 hours and sold for an amount of 2000 euro's, his productivity per hour is 250. This measurement is very objective, and a direct measurement of personal performance, therefor ideal for a new employee compensation plan.

**Wage rate**

The total personnel expenses are the sum of all employee expenses that are allocated to the particular business unit. These costs are mostly reported as a percentage of total revenues in a specific time span and common known as wage rate (Berry & Jarvis, 2006):

$$\text{Wage rate} = \frac{\text{total personnel expenses}}{\text{total revenues}}$$

This wage rate function consists precisely of the two variables this research is about. Companies want to decrease personnel expenses, but increase their total revenues. In the next section this research will investigate whether it is possible to connect those two variables and make them dependable on one another, in order to provide a basis for a control mechanism that allows for more managerial control on both.

### 2.5. Till so far

On basis of this literature review, an analysis of iCentre can be made, which will be conducted in a case study in chapter 3. This entire literature review, combined with an analysis in the next chapter, will give answers to the last research question:
“On basis of these factors, what employee compensation plan can be designed in order to increase managerial control over the wage rate of the company?”

Figure 6 incentive programs as an additional variable

In table 2, an overview of the characteristics of this chapter provides a summary of the theoretical framework of this research, which will be the basis of the case study and design of a new employee compensation plan in the next chapters.

<table>
<thead>
<tr>
<th>Category</th>
<th>Construct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market analysis</td>
<td>Porters five forces</td>
</tr>
<tr>
<td>Employee contract form</td>
<td>Information symmetry</td>
</tr>
<tr>
<td></td>
<td>Homogeneity of sales force</td>
</tr>
<tr>
<td>Compensation and incentives</td>
<td>Incentive schemes</td>
</tr>
<tr>
<td></td>
<td>Frequency of incentive</td>
</tr>
<tr>
<td></td>
<td>Performance measures</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>Wage rate</td>
</tr>
<tr>
<td></td>
<td>Cost per hour</td>
</tr>
<tr>
<td></td>
<td>Budgeted hours (floor and service hours)</td>
</tr>
<tr>
<td></td>
<td>Sales minutes</td>
</tr>
<tr>
<td></td>
<td>Conversion</td>
</tr>
</tbody>
</table>

Table 2 Characteristics and constructs retrieved from knowledge base (rigor circle)
3. CASE STUDY @ICENTRE

In the previous chapter, scientific literature was consulted to build a framework that allows analysing the status quo of the employee compensation of iCentre. In this chapter, that analysis will take place. That means a factual analysis of the different subjects discussed earlier.

3.1. iCentre

In this section, a concise description will be given of the market iCentre operates in. This analysis is made to place the outcome of this case study into context and check the external validity in a later stadium. iCentre operates in the Dutch consumer electronics market, focused on the sales of Apple electronics.

3.1.1. Market analysis

Following the five forces model of Porter, as discussed in section 2.1, the market iCentre is operating will be analysed.

Bargaining powers of customers and suppliers

The bargaining power of customers is quite high because Apple electronics are sold in multiple stores these. Since a few years, Apple allowed so-called Authorised resellers (e.g. Media Markt, BCC) to sell part of Apples assortment, such as iPhones, iPads and several Apple computers. Therefore, customers have a lot of companies to choose from to buy their products. Besides, Apple itself owns several stores in the Netherlands and exploits its online store quite intensive.

Threat of substitute products or services and new entrants

The threat of substitute products is quite high, since a lot of manufacturers are on the market, although this threat has increased over the last couple of years by the so-called lock in effect, which makes it harder for customers to swap brands. Threats of new entrants to the market are quite low. Apple regulates the market extensively, so it is almost impossible to start a new Premium or Authorised reseller.
Rivalry among current competitors

Apple makes sure that Premium resellers are not in close range of each other. There are only a few numbers of Premium Resellers in the Netherlands, called Amac, Xando and iVizi. This makes the rivalry among current competitors low. Authorised resellers are allowed to sell their products wherever they want, but not at every price they want.

3.1.2. iCentre Shops

The iCentre shops are divided in 3 categories that determine stock numbers, budgets and assortment of the shop. Stores in bigger cities obtained a higher status than stores in smaller cities. Also, the location of the store in a specific city is taken into account. These categories (determined by the management of BAS Group and divided in A, B, and C stores) are as follows:

<table>
<thead>
<tr>
<th>iCentre</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alkmaar</td>
<td>A</td>
</tr>
<tr>
<td>Almere</td>
<td>B</td>
</tr>
<tr>
<td>Amstelveen</td>
<td>A</td>
</tr>
<tr>
<td>Amsterdam CS (destination store)</td>
<td>A</td>
</tr>
<tr>
<td>Arnhem</td>
<td>A</td>
</tr>
<tr>
<td>Bussum</td>
<td>B</td>
</tr>
<tr>
<td>Delft</td>
<td>B</td>
</tr>
<tr>
<td>Dordrecht</td>
<td>C</td>
</tr>
<tr>
<td>Ede</td>
<td>B</td>
</tr>
<tr>
<td>Emmen</td>
<td>C</td>
</tr>
<tr>
<td>Groningen (destination store)</td>
<td>A</td>
</tr>
<tr>
<td>Heerenveen</td>
<td>C</td>
</tr>
<tr>
<td>Hengelo</td>
<td>C</td>
</tr>
<tr>
<td>Hilversum</td>
<td>A</td>
</tr>
<tr>
<td>Hoorn</td>
<td>C</td>
</tr>
<tr>
<td>Leeuwarden</td>
<td>C</td>
</tr>
<tr>
<td>Leidschendam</td>
<td>B</td>
</tr>
<tr>
<td>Oss</td>
<td>B</td>
</tr>
<tr>
<td>Rotterdam Stationsplein (destination store)</td>
<td>B</td>
</tr>
<tr>
<td>Sneek (opens in April 2015)</td>
<td>C</td>
</tr>
</tbody>
</table>
This makes the total number of shops 26. It makes sense to use these categories for the analysis of workforce expenses as well, since the wage rate is highly dependable on total revenues of the individual stores. Rising revenues will have a positive effect on wage rates. On basis of these categories, wage rates will be calculated. Obviously wage rates fluctuate every week. A single optimal wage rate cannot be given. Therefore data of the fiscal quarter of Q4 2014 will be used to analyse theoretical optimal rates, which are tested in Q1 2015. Through these analysis limits will be designed for each shop category.

### 3.1.3. Softbrick

For their workforce management planning and forecasting, iCentre uses a software package called Softbrick. This software allows Area Store Managers of iCentre to make their personnel schedules, register working hours of individual employees and calculate employee expenses per shop. Companies that use Softbrick implement their own parameters in the software to calculate their budgets for planning of personnel. This is calculated through a standardization table. For example, forecasted revenues lead to a specific number of hours that could be spent by managers in their shops, according to the following formula:

\[
\text{Number of hours} = \left( \frac{1}{\text{Targeted PPH}^2} \right) \times \text{Revenue} + \text{Service hours}
\]

In the following sections, an analysis of the current compensation plan within iCentre, costs of personnel, and performance measures will be conducted. The current standardization table that is implemented in Softbrick can be found in appendix C.

---

2 Productivity per hour

21
3.2. Employee contracts & compensation
This section provides an overview of the constructs of the current employee compensation plan within the company. Besides, the table of Albers will help to assess which contract form is optimal in specific situation of iCentre.

3.2.1. Current contracts
At the moment, employees earn a fixed salary and can obtain two types of incentives, which are bonuses on the sales of iCare and telecom contracts. This section will describe the current way in which the iCentre workforce is compensated.

Fixed wages
The employees of iCentre earn their fixed wages on basis of a) their full-time contract at an agreed fixed salary or b) hours worked at a fixed wage per hour for part-time personnel. Besides, a Shiftleader is assigned every day that is responsible for the overall operations of the store. This Shiftleader earns an additional one Euro per hour on top of his or her regular salary.

Bonus per iCare – 2 tier (under and above 20%) – 5 or 10 euros per policy
As stated in the introduction of this thesis, another business unit of BAS Group is Harmony Financial Services (HFS). This business unit offers insurance policies for products that are sold by iCentre, Mycom and Dixons. The policies are known by the name of iCare in the case of iCentre. Since no employees of Harmony Financial Services are in shops to sell those policies, employees of iCentre are offered an incentive per policy sold, which is exactly what the agency theory proposes as discussed in section 2.1. This incentive is worth 5 euro when the hit rate of a shop on iCare is under 20% (the hit rate is based and calculated on the total number of policy sold divided by the total number of products sold that have an offer of iCare on it. These products are Macs, iPhones, iPads and iPods). This form of incentive scheme is not shown in the plans proposed by Chung et al., but show similarities with plan A and F. The two stage incentive can be seen as
and overachievement commission, in which commission increases when the hit rate on iCare exceeds the 20% barrier.

*Fixed Telecom bonus – 5 euros per contract*

iCentre sells telecom contracts of several carriers in the Netherlands, e.g. KPN, Hi, Vodafone, T-Mobile. Since the sale of such a contract is a lucrative business for iCentre (iCentre receives compensation for each contract sold and selling of telecom contract is a service that attracts people and increases traffic in the store), employees are rewarded an incentive of 5 euro per contract with no quota to be reached. This incentive is similar to plan A in the incentive compensation scheme showed in section 2.3.1. Some complains exists about the portal in which personnel can compose the telecom contracts. This creates resistance for sales of telecom contracts under personnel and counteracts the incentive that is rewarded for the sales of contract.

### 3.2.2. Optimal contract form

Albers et al based the decision of optimal contracts for the workforce on information symmetries and sales force homogeneity. Through the entire sales force, information is equal distributed, every member of the sales force has the same access to information about products, margins, prices, etc. This means that information is quite symmetrical.

Not every iCentre store has the same target on basis of for example number of visitors per CPU. This is due to the fact that not all stores have the same visitor figures and are located in different areas, although market conditions are quite equal. Therefore one can argue that the sales force is not entirely homogeneous, neither heterogeneous. This means, according to the table of Albers, an optimal form of contract is between a fixed salary with a commission rate function and a fixed salary with a bonus for quota achievement levels. This information will be used to create a new compensation plan in chapter 4.
3.3. Personnel expenses

At the start of this research, the average cost per hour that was implemented in Softbrick was 14.5. This number was based on historical financial data from other retail formulas at BAS Group. On basis of this number, total personnel costs are forecasted by given revenues, as shown in appendix xx. New averages show that this average cost per hour is higher than the actual results that are reported at the end of a week, but obviously varies during different fiscal quarters. This variation is caused by the fact that full time personnel are more expensive than part time personnel. In quarters with lower revenues and customer visits, less part-time personnel are scheduled and therefore average cost per hour increases. An overview of the costs per hour per shop over the last fiscal quarters can be found in appendix B. Besides, average costs per hour increases even more when more expensive full-time personnel is schedules in time spans when employees are given additional salary due to for example late hours or weekend. Average costs per hour could decrease when cheaper personnel are scheduled on these hours.

Within the hierarchical structure of shops different roles for employees exist. Regular employees are contracted as sales advisors and are expected to makes sales and take care of the overall state of a shop. For every couple of shops, so called Area Store Managers are contracted, who have obviously other and more sophisticated responsibilities. The expenses of these Area Store Managers are allocated to the companies HQ and the single shops they carry responsibility for. These costs are split on 50%. This means that the costs of Area Store Managers are planned in the personnel planning of the shop as well, and therefore also scheduled in Softbrick.

Since no Store Manager role exist in a shop, the role of Shift Leader was designed to bridge the gap between the sales advisors and Area Store Managers. Sales advisors that are appointed to this role earn an additional incentive of 1 euro per worked hour and carry additional responsibilities.

Besides, several hours per

Personnel budgets
As stated in the previous chapter, personnel planning are based on the optimal number of sales minutes, and revenue targets. Revenues targets are based on a set of forecasts (which will be discussed in the next section) and expected visitors. For example, one forecast is based on the amount of visitors needed to sell a computer. On basis of forecasts of sales and visitors, a budget of hours is build that shops are allowed to spend in a week. This calculation is done by Softbrick with use of a standardization table, which can be adjusted if needed. Unfortunately, only a single table can be incorporated in the software. Ideally, multiple tables should be implemented in order to create more fine tuning for different types of stores, for example on basis of store category (see table 3) or deviation between regular stores, destination stores and high traffic stores. The current table that is implemented in Softbrick can be found in appendix xx and was the basis for previous quarters. When one multiplies the scheduled hours by the average Cost per hour of a shop, the forecasted personnel expenses for a specific week are calculated. Afterwards, the efficiency of the sales force is calculated as a percentage of total sales. As mentioned earlier in this thesis, this is one of the central questions asked by the management of iCentre. What is an effective and reasonable wage rate? To advise about this rate in the specific case of iCentre, a new standardization table is conducted and implemented in Softbrick in December and directly tested for the first quarter of 2015. The new table can be found in appendix C. Every week, reports about last week’s sales and personnel expenses are analysed and evaluate on sales minutes and wage rate. The results of these evaluations will be used as input for improvement of the standardization table and help to build a more efficient planning system. Results of these evaluations will be presented in chapter 4.

For now, the figure 7 shows an analysis of the current functions of budgeted hours and wage rate per tier of revenue. For each five thousand euros of added revenues, shops can spend 10 more hours of personnel per week.
This function of budgeted hours is linear, which can be seen in the chart. This leads to the following wage rate function:

\[ Y = a \times x + b \]

In which:

- \( Y \) = the number of hours budgeted per week
- \( a \) = coefficient of hours per added euro
- \( x \) = forecasted revenue per week
- \( b \) = a minimal number of hours when revenue is zero.

At the start of this research, this function was:

\[ \text{Number of hour budgeted per week} = 0.002 \times \text{forecasted revenues} + 80. \]

The red line is the graph predicts the wage rate at any given revenue. This function is declining, but not linear. This is because the function of budgeted hours guarantees a number of hours, even if revenue is 0. As stated earlier, forecasted sales heavily depend on number of visitors, and sales minutes are
very important in order to catch up with conversion target for the shop. This additional 80 hours creates peaks and valleys in the calculation of sales minutes after Softbrick have calculated budgeted hours.

A more efficient function for hour budgets for iCentre will be given in the next chapter, since first calculation on basis of sales minutes wage rate show that the current function can be more efficient.

3.4. Performance measures
In this section an analysis of the current performance measures of iCentre is conducted. The analysis will assess whether these measures are suitable to serve in a new compensation plan, and if new measures are needed to complete the model. Multiple measures are found, but not all of them are rewarded with an incentive yet, others are singular rewarded (see previous section), but no overarching model could be found.

During the December month, a set of focus points was set and consisted of 3 measures and called CAT: conversion, attach rate and telecom. The incentive of this focus point was as follows: the salesmen or woman with the highest attach rate was awarded a bike that was sponsored by a vendor. This construction in which a vendor sponsors or co-sponsors an incentive will be further used in a new compensation plan that will be presented in chapter 4.

Conversion
Conversion is a percentage that indicated the number of invoices per 100 visiting customers. In other words: how many visitors decide to buy. A sensor that counts people entering a shop determines the number of visitors. The conversion rate is always a non-negative percentage between 0 en 100%. Obviously it is of vital importance that salespeople try to sell as much as possible, but a percentage of 100 is unrealistic since most people are not alone when they buy products, and not every visitors is willing to buy. Therefore a percentage is set for every single shop, on basis of total number of visitors and location of a shop. On average, target is around 18% (destination stores have much higher targets,
between 25 and 40%). An overview of conversion targets for each iCentre shop can be found in appendix B.

Attach rate
Attach rate refers to the number of accessories sold on an invoice together with a so-called master product. Master products are Macs, iPads, iPhones or iPods. One accessory is calculated as an attach rate of 100%, 2 accessories as 200% etc. The incentive that was rewarded to the person that scored the highest average attach rate lead to overall increase of the attach rate of almost 50 per cent in one month. Since margins on master products are not high, the sales of accessories are very important, because these products have much higher margins. Therefore, attach rate is very important as a performance measure and focus point for the sales force.

Telecom
As mentioned and explained in the previous chapter, sales of telecom contract are a lucrative business for iCentre. Since the infrastructure of composing contracts is not optimal, it is risky to add Telecom quotas to a new incentive program, since this can potentially undermine the adoption of the program by personnel. Besides, there is already an incentive on the sale of telecom contracts. Therefore this measurement of performance is not suitable as a target for an incentive plan.

Total revenues
Budgets for separate stores are forecasted on basis of customer figures and type of store. These forecasts lead to a budget for total revenues in a month and quarter. It is important to catch up with these budgets in order to generate enough cash flow for the company and increase the turnover rate of stock. Since customer figures are hard to predict, targets on total revenues for a store are unreasonable, and therefore not suitable as team target for a new incentive program.

Product Margins
Product margins are the margins that can be determined by calculating the sales price as a percentage of the sales price. This product margin is important to create enough profit margins for the company. At iCentre no further costs besides purchase costs are allocated to product margins. This margin is a perfect performance measure for performance of a store and suitable as a team target.

*Productivity per hour*
Productivity per hour is used to measure performance of individual employees. Since this measurement is very objective and will force employees to perform, it is an ideal measurement to implement in as a target in the incentive plan.

*iCare hit rate*
The iCare hit rate is a measurement that Harmony (the insurance business unit of BAS Group) uses to determine whether an employee earns 5 or 10 euros per sold policy. Since this incentive is rewarded by Harmony, there is no need to implement this performance measure as a target into a new incentive plan.

*Visitors per CPU / iPhone / iPad*
The visitors per CPU / iPhone and iPad refer to the amount visitors that the sales force need in order to sell one of these specific products. It works as a measurement of how many opportunities an employee needs to make a sale. Obviously, it is important that these figures are low, since high figures indicate that more visitors are needed to make a sale. Besides, sale of these products give opportunities to sell accessories, as is discussed earlier as Attach rate. Therefore visitors per specific products are an important measurement of performance that should be implemented in a new plan. Also, during weeks before new products will be presented (or rumours indicate such introduction) sales decrease dramatically. Therefore, employees should be extra motivated to make these sales.

3.5. **Summary of case study**
Previous sections have analysed the current situation of iCentre on basis of Employee compensation and personnel expenses. To summarize the current
situation the following chart is composed. Figure 8 shows the relationship between personnel expenses and revenues, and explains how different constructs within iCentre are linked. Besides, it shows to which areas research questions are linked.

![Diagram](image-url)

*Figure 8 Relationships between variables within iCentre*
4. A NEW COMPENSATION & INCENTIVE PLAN @ICENTRE

In this chapter, a new employee compensation and incentive plan for iCentre is proposed. Again, this chapter is divided in several sections that explains the plan that is based on the information given by literature in chapter 2, and case study that is conducted and described in chapter 3. The first section describes the optimal form of contract that should be adapted on basis of the model of Albers (see table 1), an incentive program and matching performance measures, in order to create the wanted connectivity between personnel expenses and revenues.

Section 4.2 will propose improvements for personnel schedules and arrangements in Softbrick, as well as deviation of wage rate targets per shop category. Furthermore, the section will elaborate on the payment of the incentive program that will be discussed in section 4.1.1.1.

4.1. Employee compensation and contracts

On basis of the table of Albers (see table 1) proposed in chapter 2 and the case study of chapter 3, an more efficient form of contract for employees of iCentre can be composed. As stated earlier, this optimal form will be a fixed salary with a mix of pure commission and bonus for achieved quotas. Combined with the specific situation of iCentre and its importance to achieve certain targets, the following form of contract is composed.

4.1.1. Optimal form of contract

An optimal contract for employees of iCentre stores will be a mix of fixed salary and a new incentive program. The program consists of commission for focused products. In practice, this means that an employee can build up bonus by selling specific products or product combinations. This commission will be saved through the quarter, since quarterly bonuses and commission are most effective as concluded in section 2.3.3.1.

4.1.1.1. Incentive program

The proposed incentive program will motivate employees to increase their sales or sell focused products. This form of rewarding is obviously pure commission,
but since the model of Albers proposed a bonus for quota achievement levels, an extra layer is build upon the proposed model of pure commission. At the end of the quarter, an employee will have saved a certain amount of commission. This commission will only be rewarded when certain targets (quota) are achieved. These targets will be aligned with the interest of the company, as discussed in chapter 3. These specific targets will be discussed in the next section.

4.1.1.2. Performance measures and targets

The performance measures for the incentive program is divided over team and individual targets. As stated in section 2.3.3.2, targets should be divided in 75% individual target and 25% team target. Besides, Farley stated that incentive plans must be operational and understandable. Therefore performance targets should be used which measurements are easy and reliable. In the figure below a proposal for these targets for iCentre is shown. In this model, individual targets are Attach rate, Productivity per hour, Margin and visitors per CPU. The team target is Conversion. The targets per store can be found in Appendix D and are store specific. Only Attach rate is fixed at 100%.

![Figure 9 Proposed targets for a new incentive program](image)

This means that there are 5 targets that need to be achieved in order to collect 100% of the commission that is saved through the quarter. It seems logical to
earn 20% of the total amount of commission by every target that is achieved. So if two targets are achieved, 40% of total commission will be paid, and so on. This distribution is not like the 75/25 rule as discussed in chapter 3, but since the three individual targets are equally important another distribution of targets has been made (besides, 75/25 is quite close to 60/40).

Obviously, this new incentive program will lead to higher personnel expenses, but the targets will make sure that overall performance of sales and other performance measures increase when employees indeed achieve their targets and earn their bonuses. Besides, in the next section a proposal of funding these costs will be given.

4.2. Personnel expenses
Personnel expenses in the current situation of iCentre are based on fixed salary and bonuses on the sales of iCare and Telecom contracts. These incentives are paid by the P&L of iCentre itself. The following sections will elaborate on forecasting of personnel planning and responsibilities of AMSs in executing a more efficient way of planning.

4.2.1. Personnel expenses
As stated in the previous chapter, calculation on forecasted personnel costs were based on an average per hour of €14.50. Data from previous quarters have shown that this figure is not realistic, and should therefore be reconsidered. Since these costs per hour leads to other predictions about wage rate and budgeted hours, this reconsideration is quite important.

Appendix shows the average costs per hour of the separate iCentre stores over the last 8 weeks, which will be a good prediction of the average costs per hour. The overall average of all stores is €12.68. This is a gap of more than 10% with the current €14.50 that Softbrick uses to calculate its forecasted wage rates. This means that the standardization table that is used in Softbrick should decrease. To encounter a small buffer, this number should be set at €13, which will lead to more reliable predictions of forecasted wage rates.

Besides, it is of
vital importance that the ASMs actively try to decrease the average costs per hour of their staff. Obviously this can be achieved by hiring younger part-time personnel and schedule those on hours that require premium salary, as agreed in the collective agreements and explained in section 3.3.

Since Area Store Managers are not the shop floor for 50% of his time, it is advisable to reconsider the allocation of costs of the ASM to 70/30, in which 30% is allocated to the store and therefore the personnel expenses and P&L of iCentre, and 70% to BAS Group. This will also lead to a decrease of average costs per hour, since ASMs are relatively expensive.

Softbrick calculates hour budgets on forecasted revenues on basis of the standardization table, as mentioned in chapter 3. On basis of this standardization table, it is possible to calculate forecasted sales minutes and wage rate on basis of forecasted revenues and visitor rates. As stated in section 2.4, an optimal number of sales minutes for regular stores are between 6 and 7 (between 9 and 12 minutes for destination stores). With this in mind, the calculation can be made backwards, and the standardization table can be optimized.

As mentioned in the previous chapter, the standardization table consist of a formula that consists of a coefficient that predicts hours for every euro that is added. Besides an extra-guaranteed number of hours are incorporated in the formula to compensate for lower sales forecasts. As shown, this number leads to high peaks and valleys in sales minutes. Therefore, the formula should be revised in order to average out sales minutes for all shops. This way of optimizing the standardization table was tested and leads to the following results. The number of “guaranteed hours was dropped to 40 and directed to the service hours which are now incorporated in the overall hour budgets (this 40 hours are based on the average service hours that are forecasted for the shop per week), which allows an more holistic view of personnel scheduling. Besides, the coefficient for hours per euro revenues is increased from 0,002 to 0,0033 (which is 1/300, 300 as targeted productivity per hour, see section 3.1.3). The new formula for the standardization table in Softbrick has become:

\[ Y = \frac{1}{300x} + 40 \]
Figure 10 shows the distribution of budgeted hour in regards to forecasted revenues. This way, calculation of hours heavily depend on forecasted revenue, as is desired. Furthermore, since forecasted revenues are based on visitor figures, sales minutes are more equally distributed over several stores.

Figure 10 Old and new standardization table Softbrick

A minimum number of hours that can be spent are 100. Therefore, the graphs start at 100, and not at 40. An overview of this calculation for all shops can be found in appendix D. This new standardization table is tested extensively in the virtual test environment in Softbrick. These tests have shown high validity through several performance conditions. The new standardization table is therefore robust enough use for a longer time span.

During the research, weekly overviews of performance per shop were send to all ASMs, as a reminder of the importance of control over personnel expenses and associated variables, such as sales minutes and conversion (an example can be found in Appendix F). It is important that these weekly overviews are continued to keep awareness and attention between ASMs.
4.2.2. Funding and payment of the incentive program

In this section a proposal for the funding and payment of the incentive program will be discussed.

4.2.2.1. Funding of the incentive program

Obviously, iCentre is not the only stakeholder that will benefit from increased sales if the incentive program will be implemented and succeeds. Therefore other stakeholders should be incorporated in the incentive program. This means funding from vendors, on whose products are incentives. For example, the vendor of a certain case for an iPad should be incorporated to fund the incentive on that specific product. Besides, instead of giving a discount on products that need to be sold, because they are end of life, an incentive should be given to the employee that sells the product.

4.2.2.2. Payment of the incentive

Most of the employees use their additional bonuses to buy products that are sold within iCentre. When this happens, the awarded bonus comes back into the company as additional cash flow and profit margin, which increases performance even more. Still, employees are happy with their new product. Therefore, earned commission should be awarded as a gift card that can be used to buy products in the store. This means that an additional 15-20% (which is the average profit margin returns) of paid commission is funded by profit margins and another increase of cash flow is created. As mentioned earlier, for this commission on gift cards, a provision should be build in to the P&L and balance sheet in order to be able to take costs when employees pays with their gift cards. This balance can be added to the current balance of issued gift cards that are bought by customers.

4.3. Practical example

An employee earns 200 euro in commission by selling specific focus products and product combinations in one quarter. He and his team achieve their team target of 18%, and individually, the employee achieves 3 out of 4 targets. This means 80% of his commission is achieved and the employee receives a gift card
of 160 euros. The employee earns the same amount of commission the following three quarters, which makes his total commission earned 480 euros. The employee uses this gift cards to buy an iPad of 499 euros, at a product margin of 10% (approximately). In this example, profitability of the company increases by the sales that allowed the employee to earn its commission. Besides, this commission should be funded by vendors, as discussed in section 4.2.2.
5. CONTRIBUTIONS AND CONCLUSIONS

In this chapter the final step of the research design will be compiled, which in essence is the combination of the retrieved knowledge from literature and the case study. During the research, knowledge from both literature and environment were used to create a model applicable for iCentre, which will be discussed in this chapter.

5.1. Contributions to literature and practice

This research has used information from science and other sources of knowledge, as well as information from the environment (during the case study) to build, evaluate and design a new employee compensation and incentive plan. This new knowledge can be useful for both practice and theory. It gives insights in the scheduling of retail personnel on basis of sales minutes and number of visitors. The combination of several contract forms and incentive schemes leads to a more holistic view on employee compensation in retail industry (chapter 6 will elaborate on the generalizability of this incentive plan on other branches and industries).

5.2. Conclusions

In this section, conclusions on this research are conducted. Basis for these conclusion are the research that are stated at the beginning of this thesis. First of all, a more optimal form of contracts for iCentre was determined as a fixed salary with a commission rate function. On top of this commission plan, a quota achievement plan was layered. In practice, this leads to an incentive plan existing of commission on the sales of specific products or product combination on which several targets determine which part of the earned commission is paid out. This plan leads to connectivity between employee compensation, or personnel expenses, and revenues. When employees perform well, the company as a whole and individual employees benefit together. This is a clear solution as proposed by the principal agency theory in which interest for both company and individual employees are aligned. Besides, during underperforming timespans, targets such as productivity per hour make sure that employees are aware of necessity of
downscaling of personnel in the store. Besides, ASMs should obtain bigger responsibility on this downscaling as well.

Further, using gift cards for the shop as a pay out system of the incentive program can increase cash flows for the stores, and decrease the directs personnel expenses for the company. Overall, this new employee compensation plan shows a new and innovative view on employee motivation and manageability of personnel expenses.

Recommendations on the question that were addressed by the management of iCentre have been answered by the recalculation of the standardization table and determination of distribution of wage rate targets for several shops. This distribution is based on the three shop categories and calculated as stated in section 5.3. Obviously, these three percentages should be seen and used as a rule of thumb. During weeks were traffic increases heavily, these percentages can drop dramatically, and can increase heavily during underperforming weeks. On average these percentages are feasible. The new standardization table that is implemented in Softbrick is calculated and prepared for high velocity in market conditions and therefore robust enough to use for a long time span.

In the end, this new employee incentive and compensation plan gives the management of iCentre multiple possibilities to increase the manageability of personnel expenses and gives opportunities for further stabilization of fluctuations of the wage rate of the company.
6. LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

This final chapter elaborates on limitations and generalizability of the conclusion and recommendation that have been derived from this research.

6.1. Limitations

This section will discuss the limitations that have to be taken into account when interpreting the findings and conclusions of this research. Firstly, since the theory about incentive schemes and quota achievements are tested by a case study at iCentre, one must keep in mind that applicability of the findings are limited. This is due to the fact that iCentre operates in a sector that is quite regulated by contracts with Apple. This affects the way the company operates quite heavily compared to other consumer electronic retailers and even more to other retailers in general. Even tough, the theoretical framework allows making analyses of other companies in order to determine which form of contract is suitable in a specific situation. Besides, iCentre is a company that asks employees to actively sell products, in order to passively wait till customers ask question. This mean that lot more employees need to be schedules in order to catch up with the 6 or 7 sales minutes that are planned per visitor. Since the results of the plan were tested for 24 stores, the internal validity of the research is high. The external validity is quite low, keeping the limitation described above in mind.

6.2. Future research

As stated in the previous section, one of the biggest limitations of this research is generalizability of the findings and recommendations that were presented earlier on other retail branches or industries. The idea of an incentive program of commissions supplemented with a target achievement scheme could have major impact on sales in other branches as well, but additional research is necessary to increase applicability in practice. Besides, research on motivational aspects of the incentive program on employees could improve the way the program is build.
7. RECOMMENDATIONS TO ICENTRE

This chapter will conclude and summarize the recommendations that are given in the previous chapters. The recommendations are divided in 3 main categories, which are “Personnel expenses and Softbrick”, “Employee contracts and compensation” and “Wage rate”. This recommendation are made and addressed to the management of iCentre and BAS Group to increase the manageability of total personnel expenses.

7.1. Recommendation on personnel expenses and Softbrick

Recommendations on personnel expenses and Softbrick are:

- Calculate personnel budget on basis of 6 to 7 sales minutes (9 to 12 for destination stores).
- Recalculate the standardization table within Softbrick every quarter to optimize the number of hours budgeted by given revenues and service budgets
  - Recalculate average cost per hour to increase reliability of forecast for wage rate.
  - Revise the formula for budgeted hour per forecasted revenue.
- Create awareness under ASMs for actively changing schedules if visitor rates diversify from forecasted figures by planning extra personnel or sending people home earlier than scheduled.
  - Since productivity per hour is incorporated as a target in the incentive plan, awareness under personnel will grow, because lower productivity per hour leads to lower incentives.
- Incorporate service hours into the existing budgets, since revenue on service is incorporated in the total revenue budgets. Therefore, no further need for additional budgets are necessary. These service hours are based on a fixed average of 40 hours per week. Ideally, this number should differ per shop, but Softbrick is not able to create standardization tables per store.
7.2. Recommendation on Employee contract and compensation
Recommendation for employee contracts and compensation are:

• Introduce a quarterly incentive program as proposed in chapter 4.

• Create target in which 75% are individual targets and 25% are team achievements.
  o Use conversion rate as team target
  o Use Attach rate, Productivity per hour, Margin and Visitors per CPU as individual targets

• Pay out of earned commission to personnel with use of Gift cards for the stores.

7.3. Recommendation for Wage rate
Recommendations on manageability of wage rate are:

• Since wage rates decrease when revenues increase as proven in chapter 3 and 4, a deviation between stores on basis of category should be created.
  This recommendation is calculated on basis of Appendix C and E.

• This distribution should be as follows:
  o Category A: 5,0% and lower
  o Category B: 5,5% and lower
  o Category C: 6,5% and lower

• Send out weekly overviews of performance per shop, in order to increase awareness and create competition among shops and ASM’s.
  Responsibility of these overviews should be shifted to the finance department of BAS Group, since this department has possession of all financial and performance data. An ideal situation should be that these reports are automatically generated and distributed amongst ASM’s.
REFERENCES


Appendices

In this chapter, several tables and figures are presented to which is referred in the previous chapters. Some of these appendices consist of financial data of iCentre and BAS Group, and should be handled with confidentiality as is described in the disclaimer on the front page of this thesis.

Appendix A – Conversion target for each shop

<table>
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<th>Shop</th>
<th>Conversion target</th>
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<tr>
<td>iCentre Almere</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Amstelveen</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Amsterdam CS</td>
<td>22.0%</td>
</tr>
<tr>
<td>iCentre Arnhem</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Bussum</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Delft</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Dordrecht</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Ede</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Emmen</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Groningen</td>
<td>21.0%</td>
</tr>
<tr>
<td>iCentre Heerenveen</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Hengelo</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Hilversum</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Hoorn</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Leeuwarden</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Leidschendam</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Oss</td>
<td>18.0%</td>
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<tr>
<td>iCentre Rotterdam</td>
<td>24.0%</td>
</tr>
<tr>
<td>iCentre Tilburg</td>
<td>18.0%</td>
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<td>iCentre Uitgeest</td>
<td>25.0%</td>
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<tr>
<td>iCentre Utrecht</td>
<td>18.0%</td>
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<tr>
<td>iCentre Wijchen</td>
<td>18.0%</td>
</tr>
<tr>
<td>iCentre Zeist</td>
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## Appendix B – Average Cost per hour

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<th>Week</th>
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<th>iCentre!Wijchen</th>
<th>iCentre!Utrecht</th>
<th>iCentre!Tilburg</th>
<th>iCentre!Oss</th>
<th>iCentre!Groningen</th>
<th>iCentre!Emmen</th>
<th>iCentre!Dordrecht</th>
<th>iCentre!Bussum</th>
<th>iCentre!Arnhem</th>
<th>iCentre!Amstelveen</th>
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<td>€13,03</td>
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<td>€11,32</td>
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<td>€12,32</td>
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<td>€11,28</td>
<td>€15,00</td>
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<td>€11,52</td>
<td>€11,23</td>
<td>€13,33</td>
<td>€12,79</td>
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**Average**

|               | €12,02        | €12,21         | €13,18         | €11,88        | €11,53    | €12,85          | €13,51       | €12,45       | €11,23        | €13,33       | €12,79          | €12,79         |
### Appendix C – Standardization table Softbrick

<table>
<thead>
<tr>
<th>Hours</th>
<th>Personnel expenses</th>
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<th>Revenue (€)</th>
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<td>10000</td>
</tr>
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<tr>
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<td>150</td>
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</tr>
<tr>
<td>200</td>
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<td>60000</td>
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<td>210</td>
<td>2.610</td>
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<tr>
<td>220</td>
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### Appendix D – Sales minutes and targets per store (forecasted for random week in Q2)

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<th>Store</th>
<th>Sales (€)</th>
<th>Hours per store</th>
<th>Visitors</th>
<th>Age</th>
<th>Percentage</th>
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<td>iCentre!Sneek*</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>iCentre!Veenendaal*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iCentre!Zeist</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iCentre!Utrecht</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>iCentre!Tilburg</td>
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<td>iCentre!Rotterdam</td>
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<td></td>
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<td>iCentre!Leidschendam</td>
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<td></td>
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<tr>
<td>iCentre!Hoorn</td>
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<td></td>
</tr>
<tr>
<td>iCentre!Bussum</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iCentre!Arnhem</td>
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<tr>
<td>iCentre!Amsterdam</td>
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</table>
Appendix E – Average wage rate per shop category

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<thead>
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<th>Category</th>
<th>Average wage rate per shop</th>
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<td>Centre Wijchen</td>
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</tr>
<tr>
<td>Centre Leeuwarden</td>
<td>5.3%</td>
</tr>
<tr>
<td>Centre Dordrecht</td>
<td>5.6%</td>
</tr>
<tr>
<td>Centre Zeist</td>
<td>5.2%</td>
</tr>
<tr>
<td>Centre Rotterdam</td>
<td>4.4%</td>
</tr>
<tr>
<td>Centre Oss</td>
<td>7.0%</td>
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<tr>
<td>Centre Leidschendam</td>
<td>3.5%</td>
</tr>
<tr>
<td>Centre Almere</td>
<td>5.5%</td>
</tr>
<tr>
<td>Centre Hilversum</td>
<td>6.4%</td>
</tr>
<tr>
<td>Centre Arnhem</td>
<td>6.5%</td>
</tr>
<tr>
<td>Centre Amstelveen</td>
<td>6.6%</td>
</tr>
<tr>
<td>Centre Alkmaar</td>
<td>5.5%</td>
</tr>
<tr>
<td>Centre Uitgeest</td>
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</tr>
<tr>
<td>Centre Rotterdam</td>
<td>6.3%</td>
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<td>Centre Arnhem</td>
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<tr>
<td>Centre Amsterdam</td>
<td>6.4%</td>
</tr>
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<td>Centre Alkmaar</td>
<td>5.1%</td>
</tr>
<tr>
<td>Centre Utrecht</td>
<td>4.7%</td>
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</table>
## Appendix F – Weekly overview of performance and personnel expenses

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<th>Net Profit (€)</th>
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<td>2</td>
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Note: The numbers represent hypothetical values for illustrative purposes. Actual numbers may vary.