

Develop a wage structure for your dairy

by Felix Soriano

HOW do you compensate your employees for the work they do? Do you pay your employees fairly? Do you often find yourself giving raises only to those employees who ask for it? Do you usually give raises based on seniority or merit?

These are just some of the questions that I ask my clients when discussing employee compensation. If you want to avoid having people constantly asking for raises, if you want to avoid having unhappy employees because they think they are not being fairly compensated, or if you want to reduce your labor turnover rate, I suggest that you develop a wage structure for your dairy by following these steps:

Step 1. Figure out your compensation philosophy. Do this by asking yourself the following questions:

- What can you afford to pay your employees based on your profit expectations and labor efficiency goals?
- How should your salaries compare to those of other dairies and industries in your area?
- Do you want to offer bonuses and incentives?
- How much will you spend on benefits, and how will this influence pay rates?
- How and when will raises be given?
- How often will you review your compensation philosophy?
- How will you communicate this philosophy to your employees?

There is no right or wrong answer to these questions. Whatever your philosophy may be, make sure that you keep it simple and you put it in writing. Also, communicate your philosophy and structure to your employees. Be consistent with your approach, and evaluate your structure once a year.

Step 2. Set up pay grades and

rates of pay. Having job descriptions in place will help you develop a pay grade system. A pay grade is a group of jobs within your operation that share the same wage levels. For example, in your dairy, you may consider that milkers and calf care people should be compensated the same way. Therefore, these two positions will be included in the same pay grade.

At the same time, each pay grade will have a range of pay rates. This rate of pay represents the lowest and highest pay within that same pay grade. For example, a milker with many years of experience who also is in charge of training new milkers may be at the highest pay of the pay grade. A new milker with limited experience will be at the lowest level of that same pay grade.

Step 3. Define when to give pay raises and why. Some owners or managers will give pay raises on set dates of the year, or at anniversary dates, or employment milestones. The best timing for your dairy will depend on your budgets, philosophy, and compensation system.

One of the best ways to negotiate a pay increase with employees is through the "negotiated performance appraisal." This performance appraisal system, developed by Gregory Billikopf from University of California, can be a great tool to set up individual goals and expectations for each employee. Later in the year, a more traditional performance appraisal can be performed at which time the employer or manager will determine if the employee deserves the raise or not according to expectations set during the negotiated performance appraisal.

By using this system, you can give pay raises based on performance and merit rather than just because the employee has been working at the

dairy for so many years. There are other ways to compensate seniority that can be more effective and fair for all employees.

For more information on this performance appraisal, go to my website www.apndairy.com.

Step 4. Use bonuses and incentives as part of your compensation package. These should be considered as part of the total compensation package. Bonuses and incentives are effective ways to compensate an individual or a team for accomplishing performance goals. These shouldn't be used to make people go from doing a poor job to doing a decent job. Bonuses and incentives should be used to promote excellence at work and accomplish challenging, but yet realistic goals.

These goals should be specific and should be monitored periodically. An example of this could be if a parlor manager needs to improve milk quality (going from 200,000 to below 150,000 to obtain an extra bonus). In this case, the parlor manager will set up a bonus based on SCC and prep-uring procedures based on milk flow in the first minute.

Step 5. Define your full benefit package. I often see dairy operations with excellent compensation packages, but, unfortunately, they don't do a good job promoting it with their employees. It is important to list and describe all the benefits that come with working for your dairy. Also, make sure you communicate these to your employees and you put a dollar figure to each one of those benefits. Examples of these are health insurance, housing, expenses covered with the housing, meat and vegetables available at the dairy, uniforms, vehicles, and so forth.

Step 6. Communicate your salary structure plan. Once you develop

your salary structure and define your incentive programs, how can you make the plan work? Here are some guidelines that will help you:

- Document your plan in writing, and explain it to your labor force. Use simple language when meeting with new employees to explain how your compensation package works.

- Train your middle managers and supervisors to ensure that they understand the bonus and incentive programs.

- Pay salaries and bonuses on time. Plan these payouts to occur as soon as possible after the rewarded performance occurs.

- Evaluate the effectiveness of the plan on an ongoing basis. When working with incentive programs, make sure that these are generating the intended results. Are employees motivated to achieve the goals, or did they lose interest?

When done right, a good compensation program can be a powerful management tool and a compelling motivator. It also can help recruit better quality employees and reduce labor turnover rate. So, if you don't have one in place yet, contact your consultant and work together to develop a salary structure for your dairy. In the long run, it will save you from a lot of headaches. 

The author is president of APN Consulting in Warrington, Pa., specializing in dairy nutrition and labor management.

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