



# WELCOME

This Ultimate Guide to Profit Sharing is packed with practical insights and strategies for business owners, HR professionals, and forward-thinking teams eager to lead in sustainable business growth.

Dive into this guide to design or refine your profit-sharing plan, avoiding the common pitfalls and leveraging best practices that boost morale, foster teamwork, and align everyone's efforts with your company's success



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# What is a profit share?

Profit-sharing is a type of employee compensation. Companies calculate their profits over a period, like a financial year, and give a percentage of that money to employees. It's a win-win - Employees get extra income and a direct link between their efforts and rewards, and companies attract and retain top talent. It's a great way to build a strong workplace culture and keep your best talent.



## What is Keepr?

Keepr is a first-of-its-kind profit-sharing platform from Keeper Solutions. Keepr allows businesses of all sizes to effortlessly customize, launch, and manage profit-sharing plans, making it easy to share success with the people that matter most. By simplifying the complexities of profit sharing and capable of facilitating multiple schemes, Keepr empowers teams to focus on growth and innovation.



## Types of profit-sharing plans

In the U.S., there are three main types of profit-sharing plans that companies can choose from, depending on their goals and the structure of their workforce: Traditional, New Comparability, and Age-Weighted plans.

**1**

### Traditional Plans

These plans are pretty straightforward. They distribute the profit share equally among all employees based on a percentage of their salary. This approach is simple and ensures that everyone gets a fair slice of the pie, proportional to what they earn.

- *Valued for their simplicity.*

**2**

### New Comparability Plans

These are more flexible and allow businesses to allocate different profit share rates to different groups of employees. This can be especially useful for rewarding certain roles or senior employees more significantly. It's a way for companies to strategically invest in retaining key talent or incentivizing specific groups within their workforce.

- *Valued for their flexibility.*

**3**

### Age-Weighted Plans



These take into account both the age and the salary of the employees when determining how to distribute profits. They're designed to give older employees, who may have less time left until retirement, a higher share of the profits. This can help in retaining experienced talent and recognizing their long-term contribution to the company.

- *Valued for their focus on equity and retirement fairness.*

Each type of plan has its own set of considerations and benefits. Businesses need to consider their specific needs and workforce demographics when choosing the right profit-sharing strategy



# Benefits of Profit Sharing For Businesses



A growing number of companies in the U.S. employ profit-sharing plans within their companies with major companies like Delta, Buffer, and ConvertKit. The reason is for the benefits associated with profit sharing amongst your team. Here's 6 benefits associated with profit sharing.

# 1 ▶ Ownership

When employees have a stake in the company's profits, they are more likely to take an active interest in its success. Business owners have found that employees can relate to them much more when the success is shared, profit sharing creates a more collaborative team.



# Teamwork ◀ 2

Profit sharing isn't about individual performance, but collective success. This can create a more collaborative and supportive work environment. Profit sharing can be used for teams of any size and dynamic. Keepr offers profit sharing beyond employees, allowing companies to include contractors to join in the shared success. (Quote from Ben?).

# 3 ▶ Dynamic

Regular bonuses are great, but they can put a strain on the company's finances, especially in lean times. Profit sharing, on the other hand, is tied to the company's performance. If the business is doing well then a portion of the profit is shared, if there was no profit made this year, it is a lot easier for team members to understand the absence of a bonus when it is tied to a share of the profits.



## 4 ▶ Attract and Retain..



A competitive Total Rewards offering is more important than ever in today's employment market. We hear every day about businesses that are struggling to hire qualified candidates – positions are going unfilled and strong candidates are being counter-offered by their employers to stay. The hiring process is expensive but even more so is the loss of a valued employee. Employee Benefits are being used by employers as a top attraction and retention tool. A profit-sharing plan is a powerful incentive for high-performing individuals.



## Tax Reductions ◀ 5

When a business contributes to employees' 401(k) accounts from its profits, these contributions are tax-deductible. Additionally, employees won't pay taxes on these contributions until they withdraw the funds during retirement. This setup not only offers tax benefits but also encourages employees to increase their productivity, as their efforts directly boost their retirement savings.

## 6 ▶ Alignment

Profit sharing aligns the interests of employees and shareholders. Both parties want the company to do well, and a profit-sharing plan ensures everyone works towards the same goal. According to research, profit sharing enhances cultural alignment and boosts teamwork. When employees see their contributions directly impacting company profits, it fosters a sense of ownership and collaboration, driving the entire team towards common objectives. This alignment not only improves performance but also strengthens the overall company culture by promoting transparency and shared success.





# Common Challenges to Profit Sharing



# Key Challenges in implementing Profit Sharing Plans

## COMPLEXITY

Setting up and administering a profit-sharing plan can be complex, requiring careful planning, ongoing management, and adherence to regulatory requirements. This challenge becomes even greater when dealing with a diverse team across different countries and dynamics. A professional management tool like Keepr can simplify this process by ensuring compliance, allowing you to focus on what matters most: you and your business.

## POTENTIAL FOR INEQUITY

Profit-sharing plans can lead to perceived or real inequities among employees if not designed carefully, particularly if distributions are not seen as fair or aligned with individual contributions. To address this challenge, ensure that the profit-sharing formula is transparent and based on clear, objective criteria. Regularly review and adjust the plan to reflect individual and team performance, and communicate these adjustments openly to maintain fairness and trust within the organization.

## SHORT-TERM FOCUS



Employees might focus more on short-term gains rather than the long-term health of the company if they believe that doing so will increase their immediate profit-sharing payouts.

## NAVIGATING TAX CONSIDERATIONS FOR EMPLOYEES

For cash-based profit sharing, employees might face a higher tax burden at the time of payout, as these are treated as income. For deferred plans, while the tax is deferred, the eventual withdrawal of funds during retirement will be taxed at ordinary income rates. Overall, while profit sharing can be a powerful tool for aligning company and employee interests and fostering a productive workplace, it needs to be well-designed and managed to mitigate potential downsides and ensure it supports the long-term strategy of the organization.



# Designing Your Profit Sharing Plan



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# Designing Your Profit Sharing Plan

## DEFINE YOUR OBJECTIVES

- ⦿ When designing a profit-sharing plan, align it with broader business objectives to enhance company culture and drive outcomes.
- ⦿ Determine the specific problems you aim to address, which helps in selecting relevant metrics for future evaluation.
- ⦿ For example, linking profit-sharing to employee productivity metrics like software release success can boost motivation by showing employees the direct impact of their efforts on earnings.
- ⦿ Aligning rewards with company-wide performance metrics such as revenue growth or customer satisfaction fosters teamwork and shared goals.
- ⦿ To boost retention, implement a vesting schedule that increases profit shares with tenure, encouraging longer employee tenure.
- ⦿ Distributing profits at all levels promotes a culture of ownership and commitment to the company's success.
- ⦿ Regularly review and adjust the plan based on feedback to ensure its effectiveness and alignment with changing business needs.

## THE STRUCTURE

Deciding on the structure of a profit-sharing plan—whether to opt for deferred or immediate payouts—plays a crucial role in meeting both the company's financial strategy and the employees' needs.

- ⦿ Immediate Payouts:
  - Provide instant gratification and a direct reward for contributions.
  - Boost morale and motivation quickly.
  - Effective in high-turnover environments or where quick results are desired.
- ⦿ Deferred Payouts:
  - Contribute to retirement accounts, offering tax savings for the company and employees. Support long-term financial security and employee retention.
  - Suitable for businesses aiming for long-term growth and loyalty.
- ⦿ Consider factors like company cash flow, tax implications, and employee demographics.

## Choose Eligibility Criteria

Choosing the right eligibility criteria for a profit-sharing plan is crucial for aligning the plan with the company's strategic goals and promoting fairness. These criteria can include length of service or job status, each with its own benefits:

- ⦿ Length of Service: Setting criteria based on length of service motivates long-term commitment by rewarding employees who remain with the company over time.
- ⦿ Job Status or Role: Including criteria based on job status or role ensures that those who significantly contribute to the company's success, from senior executives to critical skilled workers, are appropriately rewarded.

The decision on criteria should reflect the company's values and goals, encouraging desired behaviors while supporting retention and productivity. It is important to clearly define and communicate these criteria to ensure transparency and maintain trust within the organization.



## Decide On Your Profit Sharing Formula

Deciding on the formula for distributing profits among eligible employees is critical to ensuring transparency and fairness in a profit-sharing plan. This formula can be based on various factors such as individual performance, departmental success, or company-wide earnings. A common approach might involve a base percentage of profits distributed equally among employees, with additional percentages allocated based on performance metrics or seniority.

This method encourages individual excellence while also rewarding collective success.

### EXAMPLE PROFIT SHARE

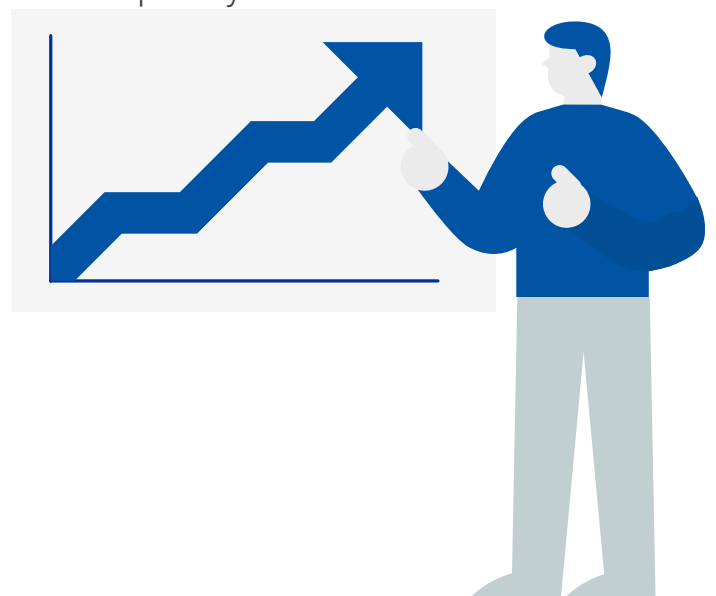
## Set Up The Vesting Schedule (If Applicable).

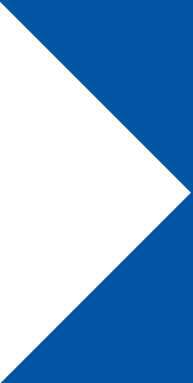
Setting up a vesting schedule for a profit-sharing plan is an effective strategy to encourage long-term commitment and retention among employees. A vesting schedule determines when employees become entitled to their share of profits.

#### ⦿ Example Vesting Schedule:


- Eligible for 25% of accrued profit share after one year of service.
- Additional portions vest progressively in subsequent years.

This phased approach balances immediate rewards with long-term loyalty incentives. Align the vesting schedule with strategic goals and work nature to motivate desired behaviors and support engagement.





# 5 Steps To Ensuring Effective Communication And Transparency





## Step 1: Present the plan to key stakeholders for approval.

This is a crucial step to ensure alignment with the company's overall strategic objectives and gain the necessary support for implementation. The presentation should effectively communicate the benefits of the plan, how it supports the company's goals, and the expected impact on team motivation and retention. Include detailed explanations about the plan's structure, eligibility criteria, profit distribution formula, and release schedule. Financial projections showing the plan's impact in different business scenarios can also help address stakeholders' concerns about feasibility and sustainability.

## Step 2: Hold meetings to explain the plan to your team members.

These meetings are essential to ensure they understand and appreciate the benefits, thereby fostering their engagement and support. Use clear and simple language to explain the details and encourage questions to address any uncertainties or concerns. Visual aids like slides or charts can help illustrate complex points, like the calculation and distribution of profits.





### Step 3: Develop a Summary Plan Description (SPD) to communicate the plan details to employees.

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### Step 4: Distribute the SPD to all eligible employees.

Ensure every eligible employee receives the SPD to maintain transparency, foster trust, and ensure your team can fully engage and benefit from the profit-sharing plan.

### Step 5: Set up channels for employees to ask questions and provide feedback.

This is essential to maintain transparency and ensure all team members feel supported and valued. These channels can include dedicated email addresses, regular Q&A sessions, or anonymous feedback forms.





# 5 Top Tips That We Can Learn From Companies Who've Mastered Profit Sharing



## 1) Transparency Is Key

The best companies ensure transparency in how profits are calculated and distributed. This clear, honest approach builds trust and aligns team's goals with the company's. A Great Place to Work Institute survey found that transparent pay practices lead to higher employee satisfaction and lower turnover. When employees understand profit calculations, they see the direct impact of their contributions, boosting motivation and engagement. Additionally, a Harvard Business Review study revealed that transparency in financial dealings, including profit sharing, enhances teamwork and collaboration. Employees in open-book management organizations were 75% more likely to help colleagues and collaborate effectively compared to those in more secretive environments.

## 2) Everyone's on Board

Inclusive profit sharing, where everyone from the CEO to the intern benefits from the company's success, isn't just fair—it's smart business. This approach cultivates a culture of unity and shared commitment to the company's goals.

Inclusivity in profit sharing helps to bridge the gap between different levels of an organization. A report from the Economic Policy Institute suggests that profit sharing plans that include lower-level employees can reduce income inequality within the company, which contributes to higher overall employee morale and loyalty.

## 3) Custom Fit Your Approach

It's important to note that success can look different for different companies. What works for one company may not work for another. Sure, extra cash is nice. But profit sharing also boosts morale, encourages teamwork, and fosters a culture of ownership. So, be open to tweaking the plan as needed. By monitoring and evaluating profit sharing plans effectively, companies can create a win-win situation for both employees and the organization.

## 4) Regular Updates

Successful companies keep their teams in the loop. Effective profit-sharing strategies depend on keeping employees well-informed about company performance. Regular updates enhance engagement by showing employees the direct impact of their work on the company's success. According to a SHRM study, frequent communication boosts employee engagement and satisfaction. Moreover, Gallup reports that teams receiving daily feedback are 3.5 times more likely to be engaged.

## 4) It's A Long-Term Game

Profit sharing isn't a quick fix. It's a long-term strategy that requires patience and commitment. Remember that profit sharing plans are dynamic. Regular reviews and adjustments are essential. Whether it's tweaking the metrics, recalibrating targets, or revisiting the plan's structure, adaptability ensures long-term success. By monitoring and evaluating profit sharing plans effectively, companies can create a win-win situation for both employees and the organization.

# Profit-Sharing Example

## Company Overview

GameZone Ltd, a gaming company, has three employees with the following annual salaries:

Employee A: \$30,000 per year

Employee B: \$60,000 per year

Employee C: \$40,000 per year

This results in a total compensation amount for all three employees of \$130,000.

### Annual Profits:

The business shares 15% of its annual profits.

GameZone Ltd earns \$200,000 in a fiscal year.

### Profit-Sharing Formula:

To calculate the amount of compensation to award each employee,

GameZone Ltd uses the following formula:

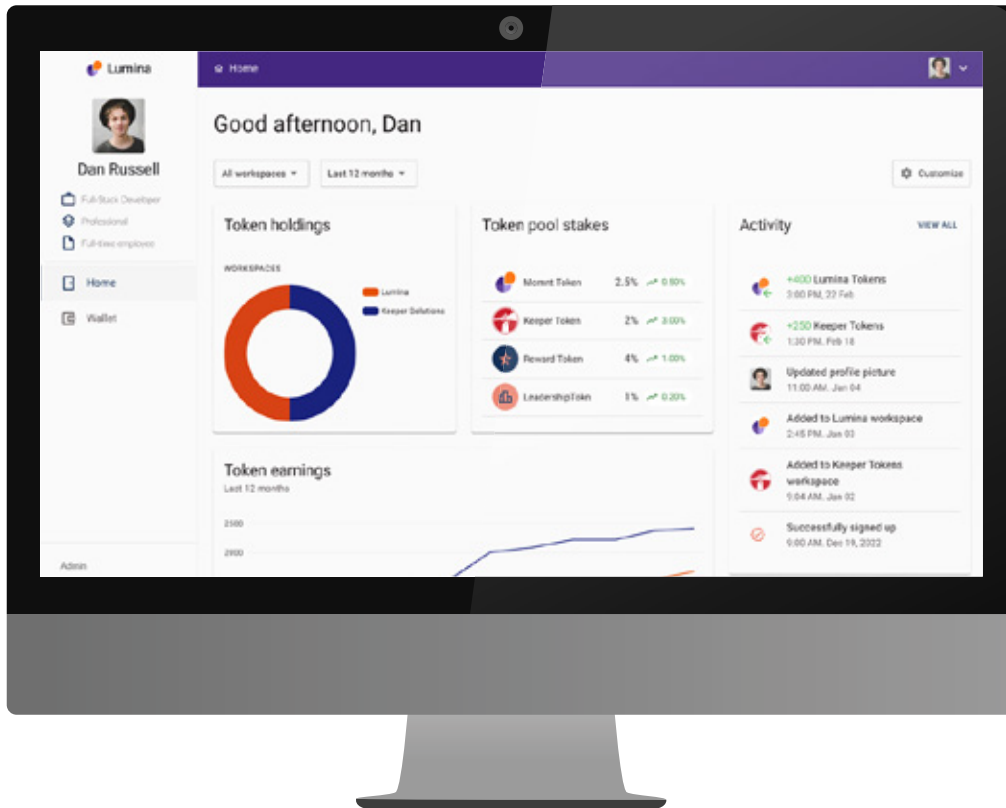
### WHERE:

EMPLOYEE'S SALARY IS THE ANNUAL SALARY OF THE INDIVIDUAL EMPLOYEE.

TOTAL SALARIES IS THE SUM OF ALL EMPLOYEES' ANNUAL SALARIES.


TOTAL PROFITS IS THE ANNUAL PROFIT OF THE COMPANY.

PROFIT SHARING PERCENTAGE IS THE PERCENTAGE OF PROFITS TO BE SHARED (15% IN THIS EXAMPLE).





# Ways to Enhance your Profit Share with Keepr



Keepr is a platform designed to simplify the profit sharing process, ensuring it's not only manageable but also compliant and transparent for all involved. Here's how Keepr can transform your profit-sharing strategy:

### N.1 Simplified Process

Profit sharing should be straightforward and transparent, and that's exactly what Keepr provides. Keepr streamlines the setup and management of profit-sharing plans with a user-friendly dashboard that allows for easy adjustments and real-time tracking of allocations.



### N.2 Tax Compliance Made Easy

Navigating the tax implications of profit sharing can be daunting. Keepr ensures that all profit-sharing distributions are compliant with both domestic and international tax laws, reducing the administrative burden and risk for your company. Keepr's system automatically updates to reflect current regulations, so you're always in compliance.

### N.3 Extend Profit Share To The Entire Team.

With Keepr, profit sharing extends beyond traditional employees enabling companies to include contractors and external partners, promoting a more inclusive environment and extending the sense of ownership to all contributors, not just in-house staff. This approach not only fosters better relationships but also boosts motivation across the board.



### N.4 Transparency And Trust

Transparency is key in profit sharing, and Keepr ensures that all participants have clear visibility into how profits are calculated and distributed for both the employer and the team. Real-time tracking and detailed reports enhance trust and engagement, helping everyone involved understand their part in the company's success.

### N.5 Enhancing Engagement And Retention

Keepr's innovative profit-sharing model offers a unique way to attract, retain, and motivate top talent. By giving employees and partners a stake in the company's success, Keepr helps build a committed and motivated workforce with a clear and engaging employee interface allowing your team to login and have visibility on their earned share. This ensures the team is aligned with your company's goals.



### N.6 Employee User Experience

Keepr has a user friendly dashboard for team members to see their earned assets and profit share. Keepr is not just about the leadership team.



Ready to streamline your profit-sharing process?

# Book a Free Call Today

Visit [Keepr.io](https://keepr.io) to see how Keepr can help transform your strategy and create a more engaged and committed team.

**BOOK A FREE CALL**

