Elements of a BOS (Business Ownership Scheme)

Under this scheme, team leaders (TLs) are able to invest in the profits of their own shops and by doing so, treat their unit more as their own business. It is not equity or shares. The overall company goal is that with the higher TL engagement, their entrepreneurial approach to sales, staff and costs, and the added focus on their business unit, profits increase and staff turnover of key leaders decrease.

The Buy-in Investment

There is a set formula for buy-in based on the valuation of the business.

Example: A mature business unit with profits of say $100k p.a.

The business is valued on say a 4x multiple of existing and next years projected profit. The team leader offered to 'buy' up to 10% profit share. E.g. $100k profit x 4 = $400k value. A 10% BOS cost is $40k.

The $40k investment returns $10k each year, hence a 25% ROI to the TL.

If it is a new business unit or one that runs at a loss, an estimate of value is made. In this case, the projected net profit multiplied by a lower multiple of say 3 times.

Once the TL has bought a BOS they get a monthly payment based on the percentage of profit share purchased.

The TL and the company benefits:

- The TL has a greater sense of ownership and treats the business as his own.
- The TL gets a good ROI on his money, better than bank interest. The ROI is pre-tax and interest. If the TL doubles the profit, then they get a fantastic return and it's a win-win.
- The TL must invest his own money. The business can facilitate a loan via the company bank, but the loan is personal and attaches to the borrower. They must have real skin in the game.
- Profit share distribution should be monthly, as the TL interest payments will be monthly. Losses are carried forward and subtracted off future monthly profit payments.
- There can be minimum requirements to qualify. These can be time with the company; time as a TL; etc. But the main goal is that a high % of TLs have tangible ownership in the business, so if they are a TL, a short qualification period is best.

The BOS document

- This needs to be prepared as a simple but formal document.
- It does not reflect shares or equity. It is a formal profit scheme.
- The investment is guaranteed, i.e., the initial investment is held in a trust account and paid back when the BOS ends. The company earns interest on the BOS trust account.
- There is no capital growth/loss on the investment regardless of the change in profits. The incentive is for profits only.
- If the TL opts to leave/cancel the BOS etc., the initial investment and profit share owing to the end date is paid out.

- The company can end the BOS at any time and at their discretion. This is rarely done but needs to be in place for performance management.
- If a TL transfers to another role, the BOS in one unit can be transferred to another, at the company's discretion.

Potential Challenges/Downsides:

- TLs take so much 'ownership' that they resist overall company strategies , such as re-branding costs, refurbishment costs, new systems etc, because these may affect their profit share. In theory, company strategies should increase profit but that can be hard to sell if the TL is looking at annual returns and the company is looking at a 2-5 year return. Some items may have to be specifically omitted from profit share calculations.
- Requires individual P & L s for each business unit. It is up to the company but 'draws' for centralised corporate services, such as marketing, branding, finance, IT and any beneficial centralised systems, should be defined and included in the P & L's. Localised costs such as rent, fitout amortisation etc. will naturally fall into the P & L. This creates a full business and entrepreneurial structure for the team, within the company.