Incentive and Motivation Program Best Practices

... how does *your* program measure up?

Do 80% of your incentive participants always win every year? If so, you have an entitlement program, not an incentive program, because your participants think it's part of *their regular compensation*.

Compensation and incentive should *never* be confused.

Executive Summary:

A strange pattern hovers over incentive/motivation programs. When economic times are good, companies launch incentive programs to reward high achievers. These programs create a positive energy that encourages competition, team play, and results.

During economic slumps, these same companies quickly disassemble their incentive programs and re-evaluate the costs. Budgets once approved without hesitation are eliminated or severely reduced.

Why?

Company executives know incentive programs can motivate their reps or dealers. Recent research, cited in this white paper, shows that properly designed incentive programs are consistently successful. The research data indicate that when salary or other incentives are not working, properly designed prize and monetary incentive programs *can increase performance by up to 44%.*[1]

To date, few executives have taken time to understand how such programs reverberate throughout their businesses. If any metrics are run, the resulting data typically lacks the depth of analysis needed for a credible presentation to a board of directors or executive committee. Worse, many company executives assume such measurement is unattainable or too difficult to execute.

That's no longer true.

Incentive and motivation programs that really work are based on an approach developed in the early 1990s: incentive return on investment. This approach has been used for small privately held companies and Fortune 500 corporations. These unique techniques have been proven in nearly every type of service or product segment, including high technology, pharmaceuticals, multi-national banking, retail apparel, and automobile manufacturing and distribution.

This guide is all about best practices. To get there, we start with a reality check: how incentive and motivation programs fail and how they succeed. We cover the right changes to make and the worst mistakes to avoid. We also introduce you to the independent research, engaged by a variety of associations and academics, which gets inside the heads of incentive program participants.

Your incentive program is not a lottery. Successful participants are not winners; they are qualifiers who earned the reward. Chance and effort are not the same.

[1] "*Incentives, motivation, and workplace performance: Research and best practices,* "January 2002. A research study commissioned by the International Society of Performance Improvement (ISPI) and funded by the Society of Incentive and Travel Executives (SITE) Foundation, conducted by Harold D. Stolovich, PhD

Eight essential steps for launching incentive programs *that work*

Motivated employees are better performers. Motivation comes not just from self-confidence but also from recognition. One Maritz Company poll sums up the issue: 53% of sales people polled said the lack of recognition, praise, and incentives were reasons they left an employer.

As with any program involving human emotions, distinct events or steps – *taken sequentially* – build the solid foundation needed for change. But first an organization's program frustrations have to be studied. That means performing a careful "gap analysis" that assesses the differences between the company's goals and its employees' performance. "If the gap analysis shows that employees are capable but lack the effort necessary to improve performance, then an incentive program can…change behavior." [2]

Notes for non-believers: Budgets for incentive/motivation programs are easy targets for cuts. Chief financial officers (CFOs) ask about effectiveness, measurement, and return on investment. The steps you are about to take are all about the metrics of return on investment.

A big difference exists between believers in incentive programs – frequent users -- and non-believers. One study showed that infrequent users of non-monetary awards programs claimed they didn't have the time to implement and sponsor such programs. Curiously, frequent users surveyed *in the same study* cited time as a top rationale for using incentive programs because *so little time was needed* to spike employee performance. In short, attitude counts. [3] This white paper can help you manage your company's incentives to gain the return you seek.

Avoid the "set in concrete" mentality: Incentives for one group of employees may not work for others. Sales people and dealers are sales motivated; non-sales employees may not be. And some sales people are so successful that cash incentives are, well, not all that motivating. Then there is the "trophy effect." The majority of respondents to one recent study indicated that travel and merchandise awards are remembered longer than cash awards, and that cash awards actually are remembered *for the shortest time*. [4] Likewise, another study indicates some qualifiers don't want to brag about the big check they got. However, they are eager to display trophy awards for colleagues to see or they can easily be prompted to recall highlights of an incentive trip. [5]

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[2] *"Incentives, motivation and workplace performance: Research and best practices,"* an executive white paper commissioned by the International Society for Performance Improvement (ISPI).

[3] *"Factors that encourage or inhibit the use of non-monetary recognition by U.S. managers."* Bob Nelson, MBA, PhD, Peter F. Drucker Graduate Management Center of Claremont Graduate University.

[4] *"A study conducted among current users of merchandise and travel items for motivation/incentive applications,"* June 2003, a confidential report prepared by the Center for Concept Development for the Incentive Federation, Inc.

[5] *"Recognition vs compensation,"* Philip Holmes, 2001, Selling Communications, Inc. and the Sales Marketing Network.

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STEP #1 -- Your business cycle:
Identifying and evaluating the business cycle/activity points affected by an incentive program

Mistakes in Program Measurement

- Not measuring any program results
- Not setting benchmarks at the start of the program
- Measuring final results only
- Measuring financial results to the exclusion of others
- Measuring only the top-line financial results
- Measuring the impact only on the incentive target group

A short success story: A manufacturer of hand tools needed to increase market share. Management was about to launch an incentive program to boost dealer sales. But during a planning session, the operations manager wisely observed that his department would need to "ramp up" to handle increased sales volumes. He remembered how prior flat years prompted a downsizing in operations. His department would need to increase its skilled labor force and upgrade equipment. The incentive meeting came to a cold, stark halt.

One manager rose to erase the white board. Other department managers added their own details to a rough flow chart of the company's overall business cycle, from the purchase of raw materials to after-sale customer service. The revised flow chart revealed that a plan to increase sales, implemented without considering all aspects of their business cycle flow, *would disrupt several areas of the business.* Management improved all points in their business cycle until they were assured they could process additional sales. Only then did they begin what became a successful incentive program for their dealers.

But how one program failed: A beverage distributor launched an incentive program aimed at retailers to increase sales of selected varieties. The six-month program, based on case quantity purchases, was well received. Orders poured in. But after three months, managers discovered that the incentive program had overpowered shipping. No one gave operations the chance to prepare adequately for such increased volume. Retailers had run promotional campaigns to help push the product, and now upset customers demanded what ads had promised. What's more, customer service phones were overloaded with retailers' calls for help.

Action #1
to increase the ROI of incentive/motivation programs

Compare apples to apples -- create baseline measures from revenue and expenses data for the same time period as the proposed incentive program dates, removing any unusual events or data not likely to recur.

Overview: Incentive programs are intended to produce change and movement. But often executive and managers implement such programs without considering the possible impact the program's success might have on their business cycle. Step #1 is a 30,000-foot view of how your company goes to market. This vantage point helps us gauge the overall organization's ability to handle additional volume.

Best Practice in business cycle analysis: Successful incentive programs must be tied to short and long-term objectives aimed at improving the overall business. (Objectives are Step #3 in our program). Companies implementing an incentive program should start with a simple flow chart depicting the cycles and flows of the business. Room for improvement exists in every situation, from improved or expanded resources to better inter-department relationships. The cycle analysis leads to better decisions about the initiatives needed and in what order they should come.

How does your incentive program measure up?

STEP #2 – Your objectives:
Identifying and evaluating precise ROI incentive program benchmarks

Mistakes in setting objectives in incentive programs

- Setting objectives on what management wants to see, not what is realistic to achieve
- Objectives set without input from departments that will be affected by the incentive program activity
- Setting objectives for short term changes only
- Objectives that conflict with other company goals and objectives

A short success story: A nationwide food distributor, long a user of incentives to motivate sales reps, suddenly was beset with cash flow problems. The company had great success generating new business sales by stretching sales objectives. But the market was now so tight that many reps -- *to maintain their incentive status* – took on accounts with questionable credit histories. When this was discovered, the incentive objectives were recast to balance sales metrics with timely collections. This added incentive objective gave sales reps the 'ownership' of client collections, leading to better relations with their clients. The result was a vast improvement in the *company's cash flow.*

But how one program failed: A commercial bank's business development vice president implemented an incentive program to attract new business customers. The objectives were to create new deposit growth and new business accounts. The business development and local branch officers began working aggressively to seek new business accounts. The incentive program exceeded the short-term objectives for both new accounts openings and new deposit dollars.

But the long-term result was not so good. Dissatisfaction increased within the bank's customer community. The added accounts triggered several operational problems, prompting management to re-think pricing strategy just eight months after the incentive program ended. Business customers were soon informed of the new pricing. The thought of transferring an account only reminded customers of the difficulty of transferring a banking relationship. They felt they had been duped into doing business with the bank, and they didn't appreciate the additional charges.

Action #2
to increase the ROI of incentive/motivation programs:

First forecast the incentive year's likely revenue and expense projections without any incentive program to determine the program's *real* starting line.

Overview: Setting incentive objectives is viewed as a simple step in planning an incentive program. If management dictates specifics (e.g. increase sales, increase market share), the objectives should be obvious to the incentive program planner. Unfortunately, many incentive objectives cause *more harm than good* -- especially over the long term. Why? Read on.

People are different. Objectives set for sales and dealer incentives are not likely to work for non-sales or operational employees. One recent study indicates the top three objectives sales/dealer motivation programs: maintain or increase sales, increase market share, build customer loyalty or trust. The same study cites these three top objectives for non-sales or operational employee recognition/motivation programs: build morale, build employee loyalty/trust, and foster teamwork.[6]

Best Practices Establishing Objectives: Setting successful incentive objectives requires more than the standard criteria: Be specific, make it easy to understand, make it realistic to achieve. Best Practice objective setting involves a building process. Long-term objectives are achieved through a carefully constructed set of shorter-term objectives. The incentive program should exhibit a steady growth curve, not spikes. Each incentive program, by ramping up the incentive objectives and ensuring they are properly handed-off, leads to an overall Best Practice for the company itself.

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[6] *"A study conducted among current users of merchandise and travel items for motivation/incentive applications,"* June 2003, a confidential report prepared by the Center for Concept Development for the Incentive Federation, Inc.

No incentive program is a lottery. Successful participants are not winners; they are qualifiers who earned the reward. Effort and chance are not the same.

How does your incentive program measure up?

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STEP #3 -- Inter-departmental impact: Managing the program impact throughout the company

A short success story: An insurance company with a history of successful incentive sales programs surveyed their employees and was startled with the results. Non-sales employees perceived incentive programs negatively because added sales increased their workload. They resented that only sales reps were rewarded for increases. Management was stuck: they could not eliminate incentives for sales reps but knew they could not gain approval for incentives for non-sales employees. So the incentive team decided to include other departments prior to any incentive program decisions. They began by asking each department a simple question: If we implement an incentive program designed to achieve the following objectives, what impact would that have on your department? The new planning sessions helped spotlight the additional resources each department needed. They also identified new revenue sources not previously uncovered. Thereafter, non-sales department employees backed the program because their opinions and positions were suddenly influential.

But how one program failed: A pharmaceutical company sponsored annual sales incentive programs to increase market share and introduce new products. The programs included incentive awards for both the outside and inside sales teams; management wanted both sales forces' involvement. Projections were made. But incentive program benchmarks were established to achieve higher than projected sales for three new products. Sales of all three products exceeded projected levels, making executives happy. But other departments reported poor operating performance. The incentive program's sales increases overloaded their staffs, prompting calls for additional hires. Overtime wage costs increased in almost every department. Sales reps trying to qualify for last minute incentive points increased overnight shipping costs. Morale decreased among employees working 24/7 schedules.

Overview: Companies use incentive programs to prompt change. But organizational changes ripple throughout the company, much like tossing a pebble into a pond. While many such programs successfully identify the target for change and the audience that has to make the change, few programs take one critical step: the change could disrupt functions of the company outside of the incentive target area unless the change effect is planned prior to program launch.

Step #1 was an overview of impact areas. This step involves interviews with specific department managers. The goal is to identify areas of revenue enhancement or costs that may impact their department if the proposed incentive program is launched.

Best Practices in Impact Analysis: Gaining the insight and support of all departments within the organization is a pre-requisite to making a decision about incentive programs. But many organizations view this as stressful. After all, why would sales want to ask finance about sales incentive programs? Yet, doing so can actually enhance the relations between sales and other departments. Open and frank discussions about "what if" scenarios will spotlight hidden costs and revenues that might be addressed by the incentive program. Such a discussion builds a positive environment for non-incentive departments in the company and can eliminate the need to provide incentive awards for everybody. When non-sales departments are consulted before the incentive program is set in concrete, they feel connected and involved in the process and have a better understanding of what's expected of them to make the program work.

How does your incentive program measure up?

STEP #4 -- External influences:
Analyzing and keeping track of outside factors on an incentive program

A short success story: A nationwide automotive repair and maintenance company conducted annual incentive programs that rewarded employees on several factors, including customer service ratings and intelligence about local competitors. Employees were encouraged to submit local competitive marketing ads, news stories, or other information. The firm's marketing team used such information to supplement wider industry news. As the incentive program unfolded, the industry learned of new legal mandates that would greatly affect automotive repair and maintenance businesses. Management began to educate their local managers to deal with the coming changes. Competitive information that employees collected provided insight into the firm's competitive position: It became clear that competitors in several key markets were going to be caught unaware of the changes. By forecasting the changes in law, management could design an incentive program that took advantage of competitors' lack of foresight. The company gained market share in a year when many competitors lost share or closed their doors.

But how one program failed: A nationwide real estate company implemented an incentive program to attract new listings and customer referrals. The program included all franchise regions. But the program's design failed to consider the differing economic climates among the regions. Regions experiencing a real estate boom soared past program objectives, while depressed regions failed even to meet minimum objectives. A survey of the firm's agents and a review of the planning process revealed problems with the incentive program. Obviously, regional objectives were not aligned with local economic indicators. Several agents commented on the changing climate in their region and how the company seemed unaware of competitive forces. Consequently, agents in depressed regions never participated in the incentive program because they saw no way to achieve the objectives.

Overview: Any company's external environment is as important as its internal environment, including when the company is planning an incentive program. Without knowledge of external factors, incentive plans can quickly turn into disaster plans.

How much is known about your company competitors? It's likely your competitors are looking at your distribution model, so your internal incentive team should size up the competition as well. Identify the top three to five competitors in your marketplace. Do these companies compete with you *in all areas*? If not, where and why? How successful is your company when competing head to head on the same business?

- What do your competitors do really well? Where do they out-perform you? How does your company address this?
- Identify your competitors' weaknesses? How does your company exploit these weaknesses?
- Have there been any changes in your competitive environment (in the past three years) that have impacted your company (either positively or negatively)?
- Are there any upcoming changes in your company channel competitive environment that will impact your company (either positively or negatively)?

Best Practices in External Influence Analysis: All influential economic, political, and social factors and trends must be considered in setting incentive program results. Competitive forces, e.g. new competitors, those that go out of business, price changes, government legislation, the economy, can impact results. A best practice is to establish a baseline for each such factor prior to starting your incentive program. It's essential to ask, "How do we know it was the incentive program that caused this to happen?"

How does your incentive program measure up?

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STEP #5 – Employee Participation: Evaluating program enrollment and activity

Mistakes in Program Participants

- Labeling qualifying participants “winners”
- Paying attention only to the “winners” at the program’s conclusion

A short success story: A call center for a vacation time-share company implemented several types of incentive programs throughout the year. These programs were introduced during both high and low seasons. Objectives were measured by such criteria as efficiency (minutes per) of calls, total calls made, closing ratio, and customer satisfaction rating.

After six months, management noticed an alarming disparity: one core group performed consistently above target, while another group ranged from far below target levels to on-target levels. Management surveyed successful team members. Respondents did not think they had sufficient product and marketing knowledge. Interviews with successful team members indicated they had assembled product information and other tools that enabled them to process more calls, close more transactions, and earn customer praise. Consequently, prior to the next incentive program, management ran workshops and produced marketing tools team members could use daily. As part of the incentive program, team members earned additional award points for mentoring others or taking additional steps to hone their marketing and sales skills. Management surveyed participants during the new program to assess the satisfaction levels, thus keeping management and teams tied to the same expectations.

Action #3
to increase the ROI of incentive/motivation programs

Build a level playing field. A single arbitrary percentage increases cannot work for everyone, so identify realistic increases for each participant.

But how one program failed: In response to months of weak customer service rating, a retail catalog company created an incentive program for customer service center employees. After analyzing the customer service ratings, key managers and supervisors choose awards they believed would motivate their customer service team to perform better.

But after several months, customer service levels had not improved much at all. Team morale was hurting. Several customer service team members resigned because they feared losing their jobs over the ratings. In exit interviews, these team members praised the incentive program and even said they wished they could have won one of those awards. When asked why they thought they could not win an award, the exiting employees told the same story: a lack of support to do their jobs. They did not know what management was seeking, i.e. objective and mission. More so, they would have preferred better regular compensation than to see all that money spent on the lavish awards in the incentive program.

Overview: Measuring the success of an incentive program goes beyond just financial data. As with financials, a baseline needs to be taken for all of the participants involved in the incentive program. This baseline is the level of sight for incentive participants. Before you can ask participants to exceed normal expectations, a general understanding must exist about the knowledge, support, and tools needed to do the job as it is today. This baseline should then be compared to management’s view on these same questions. Oftentimes, management’s view is that employees already have ‘enough’ (e.g. training, compensation) to do the job. Comparing the two perceptions helps ensure the incentive program has a unified base. Any mismatches are red flags that could negatively affect your incentive program.

It is also essential to gauge accurately where the employees or dealers are on their personal hierarchy of needs. Psychologists have long studied how people progress – in sequence -- from basic needs, such as paying their bills, to higher level needs, such as recognition and personal satisfaction. If employees or dealers believe they have been mistreated or short-changed, the research indicates that no reward will inspire them unless trust is restored or they regain job satisfaction. Also, many companies launch programs without determining first if they seek to compensate employees or recognize them publicly. Cash is spent and gone. Recognition has staying power. And a really successful sales person with a high income may be well beyond cash as motivation and is now standing on the top step of his or her hierarchy of needs. [7]

Action #4
to increase the ROI of incentive/motivation programs:
Analyze everyone's final results, not just those who meet goal. Identify what factors need changing to bring a second string participant into the first string of performers.

Best Practices in Participant/Management Analysis: An effective incentive program must create and maintain a baseline of both employee participants and management perceptions throughout the program's existence. Such baselines enable you to track the critical non-financial aspects of your results, and they provide early warning signs of areas where management and incentive participants' perceptions may be at odds. Employees make a decision, consciously or unconsciously, to participate or not. An employee decides, "Is this worth it?"

Research supports that notion. Many researchers have shown that employees like quota-based incentive programs because of the obvious opportunity to make more money. Also, quota based incentives apparently increase an employee's perception of control. [8]

How does your incentive program measure up?

[7] *"Recognition vs compensation,"* Philip Holmes*,"* 2001, Selling Communications, Inc. and the Sales Marketing Network.

[8] Bandura, 1997, *Self-Efficacy: The exercise of control*.

STEP #6 – Your Budget: Evaluation of financial impact

Mistakes in Creating Incentive Budgets

- Basing budgets only on what you think you can afford to spend
- Budgeting by what you spent last year
- Budgets unrelated to incremental expenses from all departments, including those outside the program
- Budgets not based on forecasted incremental revenue from all departments, both in and outside the program
- Lowering your budgets and naively thinking you can negotiate better prices for the same value
- Basing budgets on the discipline of savings rather than the notion of investing

A short success story: A top computer manufacturer targeted its value added resellers (VARs) with incentive programs. During the boom years, these programs were well funded. The firm's VARs were eager to compete for a seat on a spectacular trip. Then the bubble burst. The incentive budget was among the first to catch the CFO's eyes. He quickly reminded everyone of his lack of fondness for the program. The dilemma – cut the budget or cut the program.

The incentive program team wanted to show that their program worked. First they examined past programs. They were shocked that their incentive program cost the various departments and the company far more than they had thought. With a new sensitivity for incentive program ripple effects – or how a leaky hose works if only one hole is patched -- the team designed an incentive budget that included all areas of revenue and all cost points.

Knowing that even with the best of budget projections might not be 100% right, the team devised a three case scenario budget format. Using the baseline year numbers, from the same time period as the projected incentive program, they projected changes in selected key financial areas of the company. These projections were listed as Best, Most Likely and Worse Cases. The Best Case scenario was a picture of what could happen if all of their projections came to light in a perfect environment. Most Likely created a scenario that showed a modest gain in the projected areas and Worse Case indicated might happen if they read this process all wrong and only a slight improvement was realized. Only after they crunched the numbers did they arrive at a revised incentive program budget.

The CFO praised their efforts. He even began looking at the incentive program as an investment in the growth of the company rather than an expense. The following year, the incentive budget actually exceeded original projections and those of past years. Even the CFO observed the program exceeded objectives *during a depressed market*. Participating VARs were truly amazed. In spite of the market, their expectations were more than met.

Action #5
to increase the ROI of incentive/motivation programs:
Focus on the incremental revenue and expense projections that result from the incentive program, not the program's costs.

But how one program failed: A worldwide telecommunications company used incentive programs to motivate dealers to sell products and service contracts. The awards included both a luxury travel program and high-end merchandise. The incentive trip was an all-inclusive program. Participants and their guests were provided with luxury resort accommodations, all meals and amenities, sports activities, and transportation. Each year the firm's executive committee decided the budget for these awards. The company continued to expand its dealer network and, as a result, the number of incentive participants grew as well. But during budgeting, executives were reluctant to approve the increased expenditure. Instead, they asked their incentive company to revise the program, specifically, to reduce the budget per award qualifiers *without eliminating any of the features that had made this program such a success.*

The incentive company was able to find "deals" to help satisfy the company, but those same deals soon created budget issues in subsequent years. The incentive company began having problems finding the deals they needed for destination and desired trip dates. So executives decided to reduce the number of days the program would operate to accommodate the new budget restrictions. Predictably, dealers saw this a big de-motivator because of the time required just to get to and from the destinations selected. Participant numbers dropped substantially. Eventually this once valued program was cancelled altogether and this once proud company found itself losing market share. A major competitor eventually bought it.

Reality check: If you view your incentive program as a cost, it will really cost you. It should be viewed as an investment to increase net profits.

Overview: Creating a budget for an incentive program is perhaps the most misunderstood step of all. Much creativity enters the budget process, using as many factors as seem relevant. But notions of relevance are typically wrong; budgetary creativity is unnecessary. Incentive and motivation program budgets should be based on one criterion only – financial objectives. And that includes the projected ROI. In a sense, your incentive program budget already exists. Funds for properly structured and implemented incentive programs are generated as management discovers that cash is seeping through your company like water through that leaky hose. Plug the holes in your garden hose and you recoup the otherwise lost cash -- and thereby fund your incentive program.

Best Practices in budgeting: Incentive programs are designed to create change in a company. The budgets for these programs should be tied to the projected financial benefit of making the change(s), including accounting for all incremental revenues and expenses. Thus, the incentive award budget should be based on what would motivate the target audience to make the desired change. Simple math then measures the proposed incremental improvements against all incremental costs to calculate if the program will yield a satisfactory return on investment (ROI). That's followed by a financial risk analysis: how much money is at stake if this incentive does not prompt change? Monthly monitoring is then required to maintain a safe investment posture.

How does your incentive program measure up?

STEP #7 – The Rules: Evaluating and maintaining competitive benchmarks

Mistakes in Establishing Program Rules

- Establishing qualifying rules that not all participants can achieve
- Rules that are not flexible during the life of the program
- Tying rules solely to financial aspects
- Writing rules that are too hard to understand
- Constructing rules that create havoc for other departments
- Rules that don't accommodate individual and regional demographics
- Loose rules that unintentionally foster notions of *entitlemen*t (e.g. 80% repeat participants)

A short success story: An automotive parts manufacturer had long sponsored an incentive program aimed at wholesale automotive parts distribution centers. This program had always been well received and distributors were moving the manufacturer's key SKUs. Three year sales figures indicated incremental revenues were higher than pre-incentive years. But a closer look also revealed account receivables had moved beyond a 45-day average to 62 days. Distributors were obviously purchasing the targeted SKUs to gain incentive credit, but were also delaying payment.

Consequently, the manufacturer recast its incentive program to include both sales and payment terms. New rules stated that distributors could not qualify for the incentive award unless they met both a sales and a payment term objective. The recast program both increased sales and reduced account receivables to a 49-day average.

Your rules should be on a fair and level playing field. Everyone should have the opportunity to qualify, but some may not. Those who do not qualify do not earn the award. Incentive program rules without such discipline turn your program into just another entitlement or compensation program that participants expect. Every year.

But how one program failed: A winery implemented a sales incentive program aimed at the owners of their distribution companies. The winery outlined for each owner specific sales targets based on case shipments of selected varieties. The program was a short-term success story: almost 95% of the owners purchased the required cases of wine.

After three months of the program, sales of the same varieties dropped. The winery's sales reps did some checking. Buyers at the distributorships claimed no additional purchases were needed because the owners had purchased *more than enough during the incentive program and those cases were still in inventory*. While the incentive program successfully increased sales, all it really accomplished was to load up the sales chain and cause an over-supply of the product.

Action #6 to increase the ROI of incentive/motivation programs:

Create rules that give all participants a chance to improve performance.

Overview: The rules structure for an incentive program can expand the potential for greater results. While the standard practices of having rules – they should be flexible, easy to understand, and fair to all -- hold true, you can also use rules to balance the incremental changes that happen as a result of the incentive program.

Best Practice for Rules Structure: Psychologists have known about the influence of stimulus/response for years. As humans, we tend to do what we are stimulated to do. It works the same way with sales reps, dealers, or non-sales employees. *Be careful what you asking them to do because they are likely to do just that.* Research shows that quota based incentives are far more effective than piece rate, tournament, or fixed-rate incentive programs. [9]

But it is essential to gauge accurately where the employees or dealers are on their personal hierarchy of needs. Psychologists have long studied how people progress from basic needs to higher level needs, such as recognition. If employees or dealers believe they have been mistreated or short-changed, the research indicates that no reward will inspire them unless trust is restored or they regain job satisfaction.[10]

Incentive program rules should be based on a total review of the business cycle flow, the identified objectives, and a completed impact analysis. Done realistically, the rules can then smoothen the incremental changes projected by the incentive program.

Action #7
to increase the ROI of incentive/motivation programs:
Incentive programs are investments to improve the bottom line. Measure results monthly. If something isn't working -- e.g. the program's too easy, the program's too hard -- adjust the rules.

How does your incentive program measure up?

[9] Bonner, et al, 2000, Journal of Management Accounting

[10] *"Recognition vs compensation,"* Philip Holmes, 2001, Selling Communications, Inc. and the Sales Marketing Network.

STEP #8 – The Awards:
Evaluating and prescribing what works

Mistakes in Selecting Awards

- Awards chosen because the program buyer thinks they're great
- Awards based on what competitors or others offer.
- Awards chosen without profiling your target incentive audience
- Awards based on price rather than perceived value
- Awards chosen due to distress or leverage pricing

A short success story: A major automotive manufacturer provided incentive programs to dealership owners. Overall, the programs were effective. But the manufacturer soon noticed the owners were passing the travel awards to relatives or managers rather than using the award themselves. Merchandise redemption was down from previous years. A survey found the answer: the awards no longer appealed to owners.

The manufacturer's incentive team went to work on improving the participation of dealership owners. The team designed a profile of the target audience. The profile indicated these owners could purchase, for themselves, the awards that had been offered in previous incentive programs. Working from a baseline of ROI budgeting, the planners specified new incentive awards that would be perceived as exclusive and of limited availability. These awards appealed to big dealership owners. But the awards were also an incentive to owners of mid-sized and small dealerships. They saw in the incentives the opportunity to earn a great award, but also boast that they were among the select and exclusive few who could qualify.

Cash versus non-monetary awards

Opinions differ widely in this debate. But one difference is hard to argue: trophy value. Cash is appreciated, but cash disappears. Incentive trips and physical awards remain alive in office environments and conversation. They have staying power: they are visible, audible … and memorable. Status counts with everyone. Would you rather walk around the mall carrying a Sears bag or a Nordstrom bag?

But how one program failed: Every year a regional discount retailer conducted incentive programs for their store managers. The managers, young and eager-to-please, saw the incentive awards as positive. The discounter's executive management team took pride in watching their managers enjoy receiving the incentive awards each year.

The retailer's incentive planner constantly looked for new and different awards to motivate the store managers. One year he seized the opportunity to secure space at a luxury resort property. In previous years, this property would have been outside his budget. He quickly sought management's approval and the program was implemented. Each month the store managers were excited to read the appealing profiles and tidbits about the experience they would receive if they earned a spot on the trip.

Overall, the program was deemed a success because the number of qualifiers was higher than the previous year. Upon their arrival at the resort, however, winning managers felt out of place. This property certainly was something they could not "buy" on their own. But most of these young managers had never experienced such luxury and had no idea how to relax and enjoy it.

Despite being overwhelmed by this experience, the store managers praised the award selection in surveys taken after the program was concluded. The big problem occurred the next year: the company incentive planner was unable to secure a locale that was anything like the previous resort. But store managers now expected the same spectacular experience. Their expectation fizzled fast.

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Fun and creativity go a long way

Sales & Marketing Management **(October 2004) spotlighted a mortgage loan officer whose favorite incentive award --** ***and he competed successfully for nearly of all them*** **-- was a month's use of a fully loaded Hummer and its high-profile parking space.**

Overview: Incentive awards are the driving force behind the incentive program. Award selection should be given careful consideration, as this is what the participants will look at when they ask themselves, "Is this award worth doing what they are asking me to do?"

Sales & Marketing Management interviewed a sales executive who's had substantial experience with incentive programs for sales people: "It's very rarely about the money, even in sales, because if someone is good in sales, he is going to make money wherever he goes. The work atmosphere is the key to keeping people, and if people are happy where they are working, they tend to stay there." [11]

Another study raises concerns *about the perception of cash incentives*: about 75% of respondents agreed, either mildly or strongly, that award qualifiers perceived cash payments to be part of their total remuneration package – in short not much of an incentive. [12] An extensive study of non-cash incentives used in non-sales programs indicates that merchandise awards are used twice as often as travel awards, with travel and recognition awards equally popular. [13]

Action #8
to increase the ROI of incentive/motivation programs:
Identify the type of award that will motivate *that particular target audienc*e to achieve the incentive revenue and expense projections.

Best Practice regarding awards: Perceived value is the number one criterion for selecting incentive awards. Incentive awards should be based on a "could not, would not buy on their own" mentality. The needs of the targeted audience (e.g. internal sales representatives, store managers) should be carefully considered prior to selecting the award. If the Best Practices for planning incentive programs have been followed, the selection process should be fairly easy to make. But with high-value sometimes comes the emotion of expectation that may not be reachable next year.

Action #9
to increase the ROI of incentive/motivation programs:
First calculate the incentive award investment required to meet the incentive projections, then choose the award – not the other way around.

How does your incentive program measure up?

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[11] "Trophy Value, " *Sales & Marketing Management* (October 2004)

[12] *"A study conducted among current users of merchandise and travel items for motivation/incentive applications,"* June 2003, a confidential report prepared by the Center for Concept Development for the Incentive Federation, Inc.

[13] *"A study conducted among current users of merchandise and travel items for motivation/incentive applications,"* June 2003, a confidential report prepared by the Center for Concept Development for the Incentive Federation, Inc.

Conclusion:

These guidelines should leave you with *at least one profound thought*: putting together an incentive and motivation program isn't something that can be slapped together over a quick lunch with just you and your colleagues in the sales and marketing departments. Remember that leaky hose.

Incentive programs influence behaviors throughout your company. How people are motivated – and what motivates them – is part of a complex psychology that is well documented in business research.

In short, get professional advice and direction to make sure your incentive program works the way you intended so that the money you invest is returned in real added value … incentive program ROI.

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