

The Secret  
To  
Incentive Program Success

Incentive ROI that makes bean counters smile!

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## Introduction

If you are involved with incentive program planning and implementation for your company, or you are an incentive industry professional who provides that service to your customers, you have just taken the first step to change your incentive program thinking.

Forever.

As you browse through this book, the first thing you will notice is the discussion of incentive awards is delayed until Chapter Ten. That postponement is the foundation of this book and the process for creating a true incentive return on investment (ROI). The awards come *after* you have properly planned your program.

Each chapter will take you through the various steps, with each step supported by real customer stories—*both failures and successes*. One case study runs throughout the book and shows how that company attained real incentive program ROI.

The concepts and methods that are described in this book are not theories. And they surely are not guessing. Guessing has been the engine of incentive programs for years, and that engine is old technology.

These methods are based on science. Independent research has proven that incentives work, as you will see. These are concepts and methods that have been successfully implemented in companies of all industries and sizes. I've made that claim in numerous presentations to many business leaders throughout the years.

But I always run into the same question: “My business is unique. How do I know this will work in my business?” My reply is simple. “It is not a question of *if* this will work in your business, but rather *how well* it will work”.

The incentive ROI process outlined here will help transform your management of incentive programs. I consider this concept the most under-utilized, yet potentially most valuable management tool available to managers today.

### **My days in commercial banking: Where it all started**

In the 1970s, I was a commercial lending officer for a major Boston bank. I dealt with a wide variety of businesses, from Fortune 100 to local entrepreneurs starting new businesses. Numbers and intuition were my tools.

A banker is an interesting position. A banker can obtain cash resources for customers and help them grow and prosper. But from the bank's perspective, a banker's job, in addition to growing and maintaining a customer base, is to protect bank assets.

During my banker days, I also taught at a local community college. The course was for aspiring entrepreneurs eager to have a business of their own. I led these students through reviews of actual anonymous company financial statements. But I soon realized that I was getting a lot of “deer in the headlights” looks from my audience.

Not wanting to cheat any student out of the total experience, I surveyed the group at mid-semester to see if I was reaching my audience. The survey results were revealing. What I learned has become, many years and a whole new career later, the basis for a return on investment (ROI) model that I developed and is now outlined in this book.

My survey indicated my students were lost in all the numbers. We were reviewing companies that had millions of dollars in revenues and expenses. As financial statements changed, we had to re-calculate ratios,

changes in cash flow, and so on. And, no, we did not have computerized spreadsheet programs in the early 1970s.

I was simply over the heads of a majority of the class. So I returned to a basic approach that I learned years before. Forget the zeros and commas; they mean nothing in the end. Look at what a change in sales of \$1.00 means to a business. Using this format, I took the students through case after case -- real companies that I was reviewing -- to see if they, as bankers, should lend money to this customer. What became obvious to the students and to me was that these companies were asking for loans to fund sales growth. Therein lies the problem, for bankers and for incentive program managers.

### **It's not all about the top lines and bottom lines**

As a banker, I always liked to see continued sales growth. The same is true of Wall Street. We all look at the top line first, then the bottom line next and, if that is all good, we're happy. The problem is the lines in between. They can eat away at both the top and bottom line numbers.

Usually such problems don't happen overnight, but over time. Like any slowly developing disease, this disintegration will fester unless you begin to address it along the way. That's what I had my class examine.

We began to study the influence that a \$1.00 sales increase has on a business. Using this method, we tracked the impact on this growth to other areas of the income statement, the balance sheet, and the cash flow statement. What we found was something most business executives and owners don't realize because they don't review numbers as often as they should: an increase in sales prompts an increase in capital to support sales. Simple math.

Some students said, as did my banking customers, that banks exist to loan funds for sales growth. That is true to some extent. But at some point the banker must look closely at the business being funded to protect bank assets. As I told my students, it's not easy to tell a customer that no additional funding is available.

Why would I say no? Such a rejection can jump out of the financial indicators of how the company actually manages the capital, such as accounts receivable, inventory, customer support, and direct sales expenses. If receivables are slow, all the bank is doing is temporarily floating the company until its customers pay their invoices. Slow moving inventory is costly, as is the cost of additional staff that exceeds your ability to pay them. At that point, the bank has more of a financial risk in the business than the business owners do, and that puts bank assets at risk. When my banking customers reached this fork in the road, it was time to redirect them from sales growth to better management of the sales they already had.

### **Can you take this book to the bank?**

No, this book is not about how to borrow money better. It could help you to get better financing terms and financing rates, and it may even help you to reduce your need for funding by showing you how to gather the right financial data.

But this book is about establishing a new mindset. Incentive motivation is not about trips, toaster ovens, TV sets and gift cards. It is not about any awards that you may have received as a participant in an incentive program or awards that your company may have spent good money on in the past.

Rather, incentive motivation is about investing. You are investing in something that can provide your company with the lowest risk and bring your company the highest return of any business investment you can make.

Let me clear up a point: Incentive programs and employee recognition programs are not identical. Incentive programs are designed to prompt change. Participants are told ahead of time, "Do that and you can earn this." Recognition is about an effort or activity that has already taken place. Recognition awards do not involve a carrot put out in front. This book will address incentive motivation only.

***Let me clear up a point:  
Incentive programs and employee recognition programs are not identical.***

**Then I went from banker to retail travel agency owner**

Eventually I left the banking industry and bought a retail travel company. After several years I became familiar with a specialty called incentive travel. It seemed to fit my business background best. The simple overview I learned about incentive travel was that it is used to create incremental sales. Those incremental sales create incremental profits and a small percentage of those incremental profits are used to fund awards for the “winners” of the incentive program. Simple enough, and so I ventured into the world of incentive travel.

Budgets for incentive programs, whether the awards are travel, merchandise, gift cards, or certificates, are created to provide an award experience that will prompt the winning group to keep coming back for more. During good economic times, these programs are funded well because we all love to generate more sales. Motivated sales people will certainly do that. I refer to sales incentives here because, in 20 years in the motivation industry, I’ve found that 90% of incentive programs are aimed at increasing sales.

While incentive budgets are easier to obtain during good times, they are quickly scrutinized during slow times. Yet companies are hesitant to completely cut these budgets, so the funding sources become interesting, at best, and often downright crazy.

Regardless of what the economy is doing, incentive budgets are usually prepared incorrectly. Budgets that are created on a “what we can afford to spend” or “how much we are willing to pay” basis are really off base. Incentive program budgets should be created as an investment and, as such, they should be given the same due diligence of any other company investment.

Over the years I have witnessed many situations in which incentive program expectations fell short due to a budget cut. That’s because nobody told the salesperson. That’s the one poor guy who is trudging through ankle deep snow in the middle of winter in Des Moines just so he can reach the incentive quota and enjoy the great program you set up to motivate him. When he arrives on the trip destination, he reacts much like the person who bought a piece of land from an Internet ad. The pictures looked great, but the real experience isn’t living up to the pictures. Why? The budget wouldn’t allow it!

The budgeting process outlined in Chapter Seven will help you better understand the difference this can make for both your incentive program participants and those employees at company headquarters who support that program.

**Art and science of incentive motivation**

As an incentive buyer or provider, you quickly realize the incentive industry can be a great life. After all, the whole emphasis is about creating a positive message and then finding an award that will generate excitement for the participants. Just the shopping experience alone, especially in the incentive travel space, is enough to make most people drool. But like most good things, a price must to be paid and incentives are no different.

The essential question; How do you create an incentive system that (a) improves organization-wide performance and (b) pays for itself? That question has led to a science of incentives. To gain support for your incentive program, you will need to be able to demonstrate true value. True value can involve many things; those factors are addressed throughout the book. Please note the research cited in chapters end notes.

## **Defining incentive program ROI**

ROI is a term now getting lots of attention in the incentive industry. If you ask for a definition, however, you're likely to get many different answers.

My definition is clear cut and is one that provides a true picture of incentive program ROI: Incentive program ROI is created by incrementally improving revenue and by accounting for all incremental operating costs plus the cost of the incentive program itself. This is the only true measure of ROI for incentive programs. Each chapter adds more clarity and common sense to this definition.

## **Why write a book about all this?**

Although I enjoy sales and marketing, I have always struggled with my 10 second "elevator pitch." When people ask what I do, I give them a 30 second answer about working with companies to create a return on investment using incentive motivation to improve their business processes. Whenever I get that out, I never hear "Oh, I've heard of that." More often I hear "Huh?"

Understanding incentives is tough enough. But when you add the issue of ROI, the two just don't seem to connect in people's minds.

Many years ago, at a meeting of Silicon Valley executives, I had to explain what it is that I do. Lucky for me, they gave me five minutes, not 30 seconds. After my five minutes were up, one CEO probed me for at least ten minutes more. Judging from their reactions to my responses, I had indeed created a unique niche in the incentive industry. The niche was surely something executives would love to understand and embrace.

But most executives don't really do it right because it sounds, well, too "financial." I continued my responses with some brief examples – war stories -- of what this method has done and can do for companies. At that point, one of the CEOs summed it up by observing, "It sounds like what you have is like a cure for cancer, but you can only help those who are willing to have the treatments."

I could not have said it better myself.

I have written this book in the hope that I can reach at least a few sickly incentive patients who will learn and benefit from a positive treatment for what may be ailing their business. I do know this. If you stay the course with what is outlined here, your business will emerge much healthier than those who pick this book up and then put it back on the shelf.

It's decision time. Are you putting this back on the shelf or are you ready to change?

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