



THE SECRET TO INCENTIVE PROGRAM SUCCESS

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

Mistakes in Business Cycle Review

- Not performing this simple overview
- Accepting there are kinks in the cycle
- Thinking added volume can be handled as it comes

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.

To assess the flow through value of incentive programs:

Create a simple flow chart that represents each of the key departments that are touch points for your product/service market cycle from start to finish

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.

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

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.¹

To establish meaningful objectives for incentive programs:

Identify not more than 3 objectives and make sure your target audience can achieve those objectives if they stretch to do so.

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.

¹ "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.

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

Mistakes in Impact Analysis

- Silo mentality among departments
- Department budgets are viewed as competition
- Fear of having to include other departments in the awards portion of the program

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.

To increase the ability to measure the true ROI of incentive/motivation programs:

Account for all incremental revenue and expenses that are outside of the incentive program direct expenses.

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.

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

Mistakes in accounting for external influences

- Thinking that competitors will not react to your incentive program
- Not having a pulse on local-regional market changes
- Not listening to what your incentive participants are saying

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)?

To create a true measure of success for incentive programs:

Develop an honest and complete understanding of your market and maintain a pulse on key indicators that are likely to be changing as a direct result of an incentive program.

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?"

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

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.²

To create short and long term participant success:

Build a level playing field. A single arbitrary percentage increases cannot work for everyone. Identify realistic incremental change objectives for each participant.

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?”

² “Recognition vs compensation,” Philip Holmes, 2001, Selling Communications, Inc. and the Sales Marketing Network.

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

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.

To increase the ROI of incentive programs:

Focus on the incremental revenue and expense projections that result from the incentive program, not the program's costs.

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.

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
- Constructing rules that create havoc for other departments
- Rules that don't accommodate individual and regional demographics

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.

To develop and implement an effective rules structure:

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.

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.³

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.⁴

³ Bonner, et al, 2000, Journal of Management Accounting

⁴ "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

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."⁵

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.⁶ 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.⁷

⁵ "Trophy Value," *Sales & Marketing Management* (October 2004)

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.

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