

ROI Incentive Programs: Driving People, Driving Profits

Incentive programs should be viewed as an investment.

By Donna Oldenburg, CPIM. This article appeared in the 2002 Awards and Incentive Supplement of HR Magazine.

Greater Budget Scrutiny Drives The Need To Demonstrate ROI

With companies struggling to remain profitable despite a sluggish economy and questionable productivity levels, every budget line item is coming under scrutiny. Incentive programs are no exception. “One of the great ironies of incentives is that every intelligent person buys into the idea that tougher times mean a greater need for incentives. Yet, it takes a truly courageous soul to argue that point when everything is being cut and slashed,” says Jim Dittman, president of Dittman Incentive Marketing Corp. in Edison, New Jersey. The real problem, according to Dittman, is that many companies look at incentives as expenses, not as capital investments.

Design Incentive Programs As Investments – Not as Expense Items

This misconception keeps some companies from taking advantage of a tremendous investment opportunity, according to Bob Dawson, CITE, president of The Business Group, Inc. “When designed using ROI principles, incentive programs will tell you more about your external business environment and internal processes and create a better return on investment at a lower risk than other investments a company can make.” In fact, that return can be four or five times that of other capital investments, says Dawson.

Tangible Award Value Is Proven

A recent study produced by The Incentive Research Foundation (formerly known as the SITE Foundation) confirms the impact of incentive programs employing tangible awards. According to the study, incentive programs increase work performance an average of 22%. The study also finds that, “Incentives help create positive emotion in the workplace, which greatly influences commitment to a work task,” says Mike Hadlow (former President of the SITE Foundation at the time of the study, and of USMotivation, an Atlanta-based people performance management company). “Incentive programs may be the single most important performance improvement tool available to executives today,” he adds.

Finding proven methods for motivating employees and maintaining customer loyalty are vital in today’s business climate. According to the Public Agenda Forum, only one in four American workers are working at full potential.

“Organizations that have downsized are often faced with demoralized and over-stressed staffs,” said Karen Renk, executive director of the Incentive Marketing Association (IMA). “Well designed incentive programs make the participants feel valued and appreciated and are viewed as a sound investment in a business’s greatest asset—it’s employees.”

Unique Value In Focusing Behaviors

One of the most unique things about an incentive program is the manner in which it helps a company achieve desired objectives and strength relationships, according to John Farrell, senior director for Carlson Marketing Group (CMG), a Minneapolis-based relationship marketing company. “People do things for their own reasons -- and these are not necessarily the organization’s reasons. The objectives developed and awards offered in a carefully conceived performance improvement program help transfer a corporation’s marketing objectives into internal, personal goals for each participant; thus in effect making the company’s reasons the participant’s reasons.”

Additional findings from the study demonstrate exactly how effective incentive programs can be. An overwhelming 92% of workers surveyed indicated that they achieved their goals because of incentives. Incentive programs also had an equal, positive impact on both quality and quantity goals.

Proven Return To Shareholders

Employees aren't the only ones who benefit from incentive programs. Findings from a recent Watson Wyatt Worldwide study indicate that companies with an effective program in place realized a median return to shareholders that was almost double that of companies which didn't have ways to recognize employees.

Changing Perceptions

Despite the overwhelming proof of the power of ROI incentive programs, some companies have been slow to incorporate them into their arsenal of business tools.

"Most companies are not using ROI methods because they simply look at a program as an end result (travel, merchandise etc.), rather than looking at incentives as a short- and long-term investment. Incentive programs are viewed as a commodity that needs to be negotiated. As such, the process turns into a contest for the best price, not the best risk and return," says Dawson.

Integrated Strategies

CMG's Farrell agrees, "Many define incentives as an award instead of an integrated set of strategies including research, communications, training and on-going tracking. Unless you have the research, you have an energized group of incompetents. They're energized to earn an award, but they don't have the level of skill to do it. You have to give them the skills and tools in order to continually inspire and reinforce behavior."

Evaluate Performance Gaps

Research/analysis and continuous measurement are at the heart of every well-designed ROI incentive program. Whether a company's goal is to increase sales, boost employee performance, or strengthen relationships with channel partners and consumers, an ROI incentive program can generate impact assuming foundation issues are in place. "When deciding to run an incentive program you must first determine that you have a performance gap because of a motivational issue, not because you have a bad product, a distribution problem, or a weak compensation system," stresses Hadlow.

Quantify Results

As with any capital investment, an incentive program should be subject to an ROI analysis. Yet studies show that only 22% of companies measure their incentive programs. "The single greatest fault with most incentive programs is their lack of quantifiable results," according to Dawson.

It's In The Details

Jerry Moore, CEO of Quality Resource Associates, a San Jose, California research firm agrees, "If you don't do your homework and you don't go through all the questions then there is no way of measuring the success of your program. Moore says the steps involved in implementing an ROI incentive program were eye opening, "They force you to really understand your business, to think through the process. Who does what? How much do we spend? What is productivity? How many calls a day do my salespeople make? All the little details." By employing ROI principles, Moore's program, which targeted sales and operations, resulted in a tremendous return on investment with sales increasing by 22%.

Measuring Impact

ROI analysis helps a company determine the impact of an incentive program across the entire operation, something that is crucial to avoiding long-term problems. Dawson tells the story of a beverage manufacturer who determined his program goal was to increase sales across all of the company's brands. While his intentions were good, a subsequent meeting with the company's operations manager revealed there was no way the company's manufacturing plant could handle that kind of volume. Without the ROI analysis that program could have ended in disaster.

Performing an Impact Analysis

Performing an impact analysis not only helps a company gain support across departmental lines, but also demonstrates how other departments affect the bottom line. "I'm not sure I would have included operations in our program had I not gone through the exercise," says Moore, "But, business is driven by a whole lot more than salespeople. If operations had not supported sales then it wouldn't matter what the salespeople did, we just wouldn't get the business."

Team-based incentives clearly work. In fact they are credited with improving performance a stunning 45%, according to the study. That's significantly higher than incentives aimed at individuals.

Investment Tied To Performance

The analysis and measurement inherent in ROI incentive programs also make them somewhat recession proof since there is an ability to directly tie investment to performance. “The difference with an ROI incentive program is that the individual responsible for the company’s overall budget can now appropriately justify the existence of the program,” says Laura Yates, VP of marketing for Navigant Performance Group in Boston.

Adds Dawson, “With ROI incentives you are documenting the revenue increases and costs savings features each month. Even if they are not as high a number as projected, if your program is keeping your company ahead of the industry, especially during down times, and you are able to forecast these downturns sooner and plan for them sooner than your competition, then you wind up with a major competitive edge.”

Awards That Inspire

The award is only a piece of the ROI incentive program puzzle, yet it is a crucial element. “Awards must inspire increased performance, must engage the family and must change behavior,” says Farrell. When selecting award choices, capturing the input of program participants is key. A study produced by American Express Incentive Services, LLC in Fenton, Missouri, shows that people attach more value to a reward that they find personally meaningful versus one that is selected for them. The survey indicates that 63% of respondents said their loyalty would increase if the employer offered on-going incentive programs that allowed employees to choose rewards that were personally relevant.

Cash Is Not Always The Most Effective Motivator

A problem with many existing incentive programs is the emphasis on monetary awards versus more tangible items such as merchandise, travel and certificate/card awards.

While program participants are quick to say money is their award of choice, it is not always the most effective motivator, say experts. “Money absolutely will elicit a positive response when given enough of it,” says John Jack, senior VP for BI, a full-service marketing company in Minneapolis. But, he adds, the difficulty is that each time you offer a monetary award you must keep increasing the amount in order to elicit that response. “Most companies don’t have the ability to do that. It takes a lot of money to move the needle relative to what you want to get done.”

Ironically, though participants often request cash, that request runs counter to what they say truly motivates them in the workplace. In fact, cash is typically on the bottom of that list, well behind recognition, training and personal development.

Tangible Incentive Awards Offer 3X ROI Compared To Cash

Studies confirm that tangible incentive awards indeed are more effective. Findings from a study produced by *WorldAtWork*, formerly the American Compensation Association, found that non-cash awards provide a three times better return on investment when compared to cash programs.

The 2001 Study of the Incentive Merchandise and Travel Marketplace, conducted by the Incentive Federation, found that on average, 79% of respondents found non-cash reward programs to be fairly to extremely effective in motivating participants to achieve a goal.

2005 Incentive Federation Survey of Motivation and Incentive Applications

Findings from the “2005 Incentive Federation Survey of Motivation and Incentive Applications” found when it comes to incentives and rewards, merchandise incentives and travel incentives are more compelling than cash. For example:

- About four of five respondents say travel awards and merchandise awards are remembered longer than cash awards;
- Respondents feel that 60% of employees view cash as compensation;
- More than half of respondents (53%) say that employees tend to look at bonuses as something they are due.

“You can never get more than 100 cents of motivation out of a dollar,” adds Jack, referring to the fact that cash is always seen at face value. Compare that to merchandise and travel, which when purchased through the incentive channel, save money for the sponsoring company while maintaining a high-perceived value to the recipient.

Monetary Awards Not Memorable

Monetary awards are not memorable either, as they are quickly lumped in with compensation and used to buy groceries and pay bills. There's also no trophy value involved with money. A program winner may brag about his new big screen television, or his incentive trip to Hawaii, but who talks about their last cash bonus? Finally, the recipient typically considers monetary awards as compensation. Cancel your cash bonus program and your employee will view it as a cut in pay.

Making The Move To ROI

For companies considering an ROI incentive program, the analysis and measurement required may seem a daunting task. For that reason it is advisable for companies to consider the services of a professional incentive company before embarking on a program. "It's not enough for a company to say, 'if you increase sales by 10%, we'll give you a Waterford candlestick.' Incentive programs are a tool and a strategy. Incentive companies have the expertise a company needs to design a program that maximizes its return on investment," says Joan M. Steinauer, editor-in-chief for *Incentive* magazine.

For corporate executives who still remain skeptical about the power of incentive programs, Dittman invites them to look back to the time when they were following instead of leading, and he asks, "Would these programs have had a positive effect on you? If your company showed how they valued your contribution, would it have encouraged you? Motivated you? Helped you develop a sense of loyalty to the company? Adds Dittman, "Incentive programs build human relations and loyalty that will keep you out of negative behaviors such as price cutting, and will help add value to your brand."