



TAICO®  
INCENTIVE SERVICES INC. **Incentive Planning Guide**

## INTRODUCTION

Your company will get the most out of its incentive programs if it recognizes *all* the factors that affect performance: motivation, skills, understanding of the goals, recognition, and ability to measure progress. A recent Towers Perrins study defined these 5 Keys to engagement:

1. **Know your employees** by understanding what's most important to them.
2. **Grow your staff** by helping them to develop new skills and offer advancement opportunities.
3. **Inspire them** by explaining your company's core values and show concern for their well being.
4. **Involve them** in the company. Inform employees how they contribute to the organizations performance and involve them in the business process.
5. **Reward them** by showing that you appreciate their efforts and reward them for a job well done.

To make your program as productive and measurable as possible, we recommend that you create an Incentive Planning Worksheet outlining all the steps of your plan. We have provided recommended worksheets for many of the following sections. Adapting them for your program will help ensure you that you have covered all the key steps.

## STEP 1: UNDERSTAND THE ROLE OF INCENTIVES IN BUSINESS

Incentives are used to get people to focus both on your goals and what they can do to achieve them. Offer your employees, sales team, or distributors a valuable enough incentive and they'll do anything they can to meet your goal. But, you'll be wasting your money if, to do it, they sell unprofitable business, offend a lot of customers, or convince customers who would have bought anyway to buy during the contest period. Incentives work best when they focus people on sales, productivity, or quality goals, as well as the steps they can take to achieve those goals.

Companies use tangible incentives, such as merchandise, to distinguish their incentive campaigns from cash compensation or pricing issues so that the campaigns do not become an expected part of an employee's, agent's, or dealer's income. Merchandise is used in business to recognize and thank people for performance in much the same way that people give gifts in their social lives. We tip the doorman and waiter as a bonus for good service; we give gifts at holiday time or other occasions as a personal sign of appreciation. Nothing beats cash as a form of compensation or bonus, but it's a poor way to demonstrate appreciation for people who have gone the extra mile for your company, and it's dangerous if your company does not intend to run incentive programs on a regular basis.

Finally, incentive programs cannot mask problems caused by shoddy products, poor management, or misguided marketing.

## **STEP 2: IDENTIFY THE GOALS OF YOUR INCENTIVE PROGRAM**

In concrete terms, define what your company wants to accomplish with respect to a designated area, such as sales, unit volume, defect percentages, or customer satisfaction. Make sure that you can translate the goals into numbers measurable from one comparable time-period to another. Sample goals: Increase sales by 10 percent in dollars in the fourth quarter versus the fourth quarter a year earlier; decrease the number of product defects from 2 percent to 1 percent of production; increase percentage of repeat customers by 10 percent next year versus this year.

List the internal and external factors that could affect your goal, such as competition in the marketplace, introduction of new technology in your manufacturing process, a major new advertising campaign, or labor problems resulting from an expired union contract under negotiation.

Review your company's overall goals, as well as its mission statement, to make sure your goals are in line with the big picture.

**Incentive Planning Worksheet:** Spell out in a sentence or two your goals, along with the factors that could affect the outcome negatively or positively.

## **STEP 3: DETERMINE THE NEED FOR AN OUTSIDE SUPPLIER**

If the potential audience for your incentive program involves an annual budget of \$50,000 or more, chances are you can get help from a company that handles incentive programs. Otherwise, your company will probably have to use its own resources to run the program.

## **STEP 4: DETERMINE THE PEOPLE WHO CAN MAKE THE DIFFERENCE**

Specify the people inside or outside your organization who can have the most impact on achieving your goals, such as internal salespeople, customer service agents, dealers, dealer salespeople, production employees, and delivery personnel.

**Incentive Planning Worksheet:** List the people by title, function, or name, depending on the size of the company. Provide a description for each group involved with your program, including your estimates of their demographics, interests, hot-buttons, problems, etc.

## **STEP 5: INVOLVE ALL THE PEOPLE WHO COUNT**

After identifying the people who can help you meet your goals, meet with them to find out:

- Is your goal feasible?
- What is standing in the way of your meeting it?
- What actions can these people take that could help you meet your goal?
- How can they measure or monitor the quantity or quality of those actions?

These meetings work best when chaired by an outside facilitator who knows how to draw out each participant and ensure that the findings represent a consensus. No more than eight people should participate in this sort of meeting. This process should yield recommendations on:

- What you or the company can do to achieve the goal, i.e., increase advertising, improve research, obtain new technology;

- What the people involved can do, i.e., make more sales calls, learn new assembly line techniques or, in the case of retailers, put up more displays;
- How you can measure their progress.

If your incentive program is part of a long-term effort to make your people more performance-driven, you may want to conduct a written survey that measures their morale, knowledge, interest, demographics, and lifestyle.

**Incentive Planning Worksheet:** Spell out the findings of this process, organized by what your company can do and what the target audience can do to achieve your goals. Make sure you note those obstacles perceived to be standing in the way of success.

### **STEP 6: DETERMINE YOUR OVERALL INCENTIVE STRATEGY**

Here's where you specify your goals and what people must do to achieve them. You must also identify the time frame of the program and attempt to estimate the sales or profit value of the anticipated goal.

Also, be sure to look at the problems or obstacles identified in Step 5 and determine the extent to which you can address them. If you can't address any of the problems identified by your group, you'd better reduce your goal.

Obviously, this process is based on the results of Step 4, so that everybody concerned feels that your final strategy reflects their input.

The most important question to answer in this step is: How will people qualify for their awards? You can choose one of the following options or use a combination. For example, you might want to have a program that uses an open-end program to reward the average performers who improve and a closed-end approach for the top performers who merit repeated recognition. The three most common types of incentive programs are:

- **Closed-end programs** single out only the top performers, such as the 10 people who improve their performance the most. These programs are easy to budget but tend to recognize the people who probably would have performed well anyway.
- **Open-end programs** award all people who achieve a predetermined level of performance. The open-end approach is more difficult to budget but generally gets better results, since it gives you a better chance of motivating the 60 percent of people in your organization who are average performers.
- **Plateau programs** are a variation on the open-end approach. You simply divide each level of achievement into three to five increments, with the award level changing at each increment. That enables people to win ever-larger awards based on sales or productivity increments. This structure is used to motivate people to push themselves a little harder when they have come close to achieving the next award increment.

**Incentive Planning Worksheet:** Write a two- to three-paragraph description summarizing your strategy so that you can articulate it clearly to all concerned.

## **TIPS ON STRATEGY**

Compare your goals to past history: Has your company ever obtained that rate of improvement before?

- Make sure that you can measure performance in terms that you can benchmark against comparable earlier-year periods.
- Make sure that the actions promote both productivity and quality. You don't want to meet a goal if service, customer satisfaction, and quality suffer.
- Take into account what it will take to track or administer your program. Will extensive record keeping or complex computer programming be required? If so, your program is probably too complicated.

## **STEP 7: DETERMINE HOW MUCH MONEY YOU CAN SPEND**

In Step 5, you estimated the bottom-line impact if your goal were to be accomplished. If it's an incentive program to increase sales, that's easy; most companies estimate the profit margins on incremental business.

Incentive programs to improve productivity and quality require more judgment, however. What is the value of decreasing defects by 10 percent versus the year before? What is the value of increasing customer satisfaction?

Generally speaking, your arguments will carry greater weight with accountants if you are conservative in your estimates. Also, some seemingly subjective goals have highly objective measures. For instance, improved customer satisfaction can be measured both by surveys and the rate of customer retention, whose profit impact generally can be quantified.

The profitability of increasing the number of calls performed per year by service technicians can be determined by calculating the cost-per-call (total service employees' costs divided by number of calls) and comparing the result with past history.

After estimating the dollar impact of your program, determine an amount you are willing to invest to achieve your goal (usually a percentage of the dollar goal). For instance, incentive surveys indicate that companies may invest up to 20 percent of anticipated incremental sales in the awards, communications, and training necessary to achieve their goals.

**Incentive Planning Worksheet:** State the anticipated dollar impact of your program, specify the percentage you are willing to reinvest, and the dollar amount into which this translates.

## **STEP 8: SPECIFY THE AWARDS**

DON'T shoot from the hip in award selection, even though this is one of the most critical steps in program planning. Not only can the awards you select have a direct impact on motivation, they can affect the way people view your company. If your program asks people to make significant changes in the way they do business, your award selection must relate to the effort involved, or people will do little more than pay lip service to your goals. If you give away low-quality awards, people will think your company is cheap. If you use cash or the same merchandise award options every time you run an incentive program, people will come to expect your programs and will view them as compensation rather than as recognition for a goal accomplished.

Your program should contain an element of surprise to prevent employees or dealers from expecting the same old stuff. In addition, awards should be:

- commensurate with the actions needed to obtain them
- include variety – don't assume everyone will want any specific items
- Cater to all age groups, especially Generation X and Y as baby boomers are retiring soon
- available to all who improve their performance
- in keeping with the image of the company giving them
- changed from one incentive program to another

You will probably need to determine two or three award levels: a top tier for exemplary performance, a middle tier for significant improvement, and a starter tier for anyone who has improved performance. This pertains particularly to companies that use the plateau structure outlined in Step 6.

Finally, you will have to consider how those awards will be delivered and by whom, along with what form of communication. The greater the recognition value of your awards, the greater the impact.

Tangible award options include brand-name merchandise purchased from manufacturers through their incentive representatives, retail gift certificates, group incentive travel, individual incentive travel, debit cards, catalogs, and airline mileage programs.

**Incentive Planning Worksheet:** Spell out the types of awards you have selected for your program along with what they will cost. Be sure to leave room in your incentive program for communications, administration, and training, which can easily eat up half of any incentive budget. Choose a supplier that offers you the best combination of service and awards for your needs.

#### **STEP 9: SPECIFY THE TRAINING, COMMUNICATIONS, AND ADMINISTRATION YOU'LL NEED**

You should make sure that the people involved in your program have the training they need, that they understand the goals and the steps they can take to achieve them, and that they get regular feedback that shows their progress and makes suggestions. Your program might involve special training, and it should be promoted regularly in company newsletters or other mailers. You might consider using promotional products or teasers. You will probably want to develop a simple software program to track results. Specify such things at the start so that you can make the proper allocations in your budget.

**Incentive Planning Worksheet:** Specify what you will do in training, communications, and tracking systems, along with estimates of how much you will spend. Designate who will see to it that each step gets done.

#### **STEP 10: WRITE THE RULES**

Every contest has rules, and an incentive program is no different. In fact, the rules for incentive programs are not unlike those you see in ads for consumer sweepstakes. Rules provide a blueprint for what you expect from the participants in a program, so it's important to write them down before finalizing your budget. Although they should be simple and easy to follow, your rules should specify what is expected of people and cover every loophole.

They should specify: the time period of the program, who can qualify, how people can meet their goals, how they will be measured, what will be awarded and when, what is not included in the program, what actions will not be allowed, and any disclaimers.

Before announcing your program, consult with legal counsel in your area to make sure you are not in violation of any laws or regulations. In addition, be aware that the awarding of prizes or cash to program participants can create tax liabilities for you as well as for your award winners. Again, check with legal counsel so you understand your responsibilities in reporting any prizes or cash awarded.

**Incentive Planning Worksheet:** Write your rules just as you will on the incentive promotional material, numbering each element and keeping them as simple as possible. Show them to an attorney, especially if your program involves outside organizations or contractors. To make sure the rules are understandable, share them with a friend, a family member, or other person not involved with your business. If it takes anyone more than a couple of minutes to grasp what they have to do, the rules are too complicated.

#### **STEP 11: FINALIZE THE BUDGET**

After you've determined the total you can spend and the amount of awards, administration training, and communication you will need, it's time to develop your final budget. Here, you allocate the anticipated overall budget by category as well as finalize the budgeting strategy. If you are using an open-ended budget approach, you will want to create a spreadsheet with "what if" scenarios based on different performance levels.

A rule of thumb: Budget your costs for a best-case scenario. The accounting department won't mind if you spend less than budgeted if results don't meet your expectations. You'll probably encounter more problems if costs soar far beyond your budget, even if sales or other program results far exceed your forecast.

**Incentive Planning Worksheet:** Create a budget spreadsheet showing the most you expect to spend on each aspect of awards, training, and communications.

#### **STEP 12: DEVELOP YOUR CAMPAIGN**

Much like advertising, incentive programs begin with a formal launch, proceed through a specified time period, and end with an assessment or measurement period. The training, communications, and feedback should operate under a unified strategy with similar themes and reinforced messages.

The theme should reflect the goals of your campaign, those of your company, and whatever is being marketed to the consumer or employees. Specify what devices you will use to communicate your program, how you will deliver it, and how frequently.

Make sure any acronyms you use have no unintended double meanings, and make sure the image conveys quality and authority. Use humor carefully. If you have a hunch that something will offend somebody, it probably will.

**Incentive Planning Worksheet:** In a one-page condensed marketing plan format, spell out your game plan, including the theme, method of program launch, type of training, and type of communications, along with how and when they will be delivered.

### **STEP 13: GET THE APPROVAL OF THE PEOPLE WHO COUNT**

At this point, you should have an opportunity to catch last-minute problems and make appropriate adjustments. Using your Incentive Planning Worksheets as a guide, create a memo outlining your program and submit it to:

- representatives of the group you consulted in developing the program;
- upper management;
- the accounting department;
- Heads of other departments that could be affected by your program.

### **STEP 14: LAUNCH AND THEN REGULARLY MONITOR THE PROGRAM**

Using the game plan outlined in Step 12, get going. Do as much work as possible at the beginning on your communications and tracking effort so that you meet all of the deadlines specified in your plan. Even if it means making personal phone calls to participants, make sure that everybody is aware that your program has launched and that they know what they have to do to win. You don't want to hear later that people didn't understand what they were supposed to do. Review performance reports as they come in and look for problems. Be on the lookout for improvements that individuals or groups should make. Include advice or other useful information with standings reports sent to participants.

**Incentive Planning Worksheet:** Check your progress against your game plan to determine if any course corrections are required. Perhaps more training is needed or more emphasis on one aspect of the program. Maybe there's something one employee has discovered that others could use to improve a process.

### **STEP 15: CELEBRATE SUCCESS**

When your program concludes, make sure you have a system in place to quickly celebrate success. People should know as soon as possible when the overall goal is reached and what role they played in achieving it. Make sure your awards are delivered rapidly and with a personal touch.

Did your program accomplish exactly what you wanted it to? What worked? What didn't? How did the people involved feel? Consider another meeting with key participants or a survey. Two important considerations:

- If you are planning another campaign, change everything, including the timing, the awards, and the communications. You don't want your program to be predictable.
- Although you may change the goals and the measures, track the same performance measures from the program(s) before. That enables you to see what happens with performance in areas not being emphasized in your current incentive program.