

# How Incentive Programs Really Work

By Louise Anderson

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## HOW INCENTIVE PROGRAMS REALLY WORK

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*Who can dispute the premise that sales representatives, along with everyone else in a free society, work harder and show better results when they are rewarded for success? This basic tenet – that incentives build performance – is so well accepted in business that some manner of reward program is put to work enthusiastically in nearly every sales organization.*

*Occasionally such programs run continuously, with a new one beginning just as the previous one ends. Sometimes they are stacked, one atop another, during the same time frame. Almost always the effects are measured and the programs are evaluated in terms of cost versus benefit. Apparently these evaluations are reassuring to management because sales incentive programs abound and firms that provide incentive counseling and support make up a \$29 billion industry.*

*Some business managers have questioned whether these programs really fill the bill, or if other tools of management might reach the same objectives at less cost and with less bother. Some psychologists argue, for example, that employees are driven primarily by their inner want to be recognized as successful. Others point to training or empowerment, or simply strong leadership, as far more effective and efficient motivators.*

*In this paper, we examine how well-founded incentive programs pay careful consideration to the psychological needs of employees. We look at ways in which they should be positioned alongside the numerous other tools managers can use to build sales. We discuss who should be rewarded in the sales organization, how they should be rewarded, and for what accomplishments these rewards should be bestowed. Then we analyze the various types of reward programs available to managers, looking carefully at why some programs fail while others work so well.*

Imagine for a moment that you have recently been hired as vice president of sales for a large Midwestern chemical products corporation. It's a fine company and you're a skilled manager, so prospects for success seem good. But the whole thing is a bit daunting.

For one thing, you joined from another firm where the resources were fewer and the pressure was less. Everybody worked hard there and you always met your quotas, but there were no sophisticated systems in place to support the sales reps. For motivation, managers relied on a lot of company togetherness, a few catchy slogans, and the promise of a great holiday party.



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Here, however, they're looking for miracles. For example, you were handed an objective of increasing the sales volume of one particular line of products by 15 percent in just the remaining four months of this year. Similar goals were set for a few other product groups. Your new bosses made it clear that the pressure would continue into next year to get increased return out of the sales force.

Okay, so far so good, you think. Obviously you weren't hired to preside over the same old sluggish sales performance. What's more, management appears willing to invest some money in your programs. Bonuses and other cash incentives are fine with them, they said, as long as they'll get that investment back. "Some folks say money talks," the chief marketing executive told you. "I want you to make it shout. When you figure that out, show me your plan and I'll back it."

On the face of it, things look pretty good right now. For one thing, senior management clearly supports you and has given you the authority to make changes you feel are needed. Although they are not likely to grasp the details at this stage, they are willing to delegate to you the broad responsibility for building the effectiveness of the sales team.

They expect you to have a vision for where you'll be taking the sales program, which will become your objective. They want you to produce a grand plan for meeting that objective, which will be your strategy. Then they expect you will put together a detailed tactical approach that will apply the very best thinking about performance improvement.

That's a tall order. It assumes that you are well qualified to structure the sales organization properly, establish strong working ties with the company's marketing and promotion operations, and set up good internal communications. Beyond that, it asks that you have other, critically important strengths.

First among those strengths is your willingness to accept new ideas, sell them to your own management, and put them to use effectively. This can be tough in a company that is wedded to old practices and follows them out of habit. It can be even tougher when the company claims that these practices are an important part of its heritage. And if the company actually believes that these outmoded practices have been effective, you have a huge job on your hands.

Perhaps the easiest way to overcome obstacles and successfully introduce different thinking is to show how the elements of your plan have a positive effect on the profitability of your organization as the program moves ahead, and not only at the end. We will take a closer look at this opportunity when we begin to examine the fundamentals of incentive planning.

A second strength this assignment asks of you is the ability to focus on the processes you will be introducing, and not just on the results you hope to obtain.

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To many business leaders, this might not make much sense. After all, the result is what really counts, such a manager might say. But in this instance, your attention must remain glued to what you should do to get those results, both immediately and over the longer term. As we will explain later, your focus will be on changing the way your sales personnel go about improving the bottom line, and not just the bottom line itself. You can be confident that when their activities – we call them behaviors – are changed appropriately, the hoped-for sales increases will result.

Finally, you will need to clearly understand your basic strategy for meeting and sustaining the sales improvements that you and your bosses seek. That plan probably is going to be made up of some elements that will be familiar to you and some that might seem foreign. Fundamental to its chances for long-term success, however, is your ability to create lasting change in the behavior of the sales reps you are addressing.

### Causing Permanent Improvement

Sales incentive programs almost always are viewed as having worked well if they create impressive and permanent improvement in sales volume that endures after the programs have ended. They should not be seen as having worked well if sales performance fizzles after the incentives have been withdrawn. Your task will be to motivate your sales reps to do the things that will accelerate sales and maintain that accelerated rate.

All other things being equal, this will contribute to the profitability of your company and provide a compelling and useful answer to the question of how sales incentives really work. But incentive programs, even big and impressive ones, sometimes fail to do what management expects them to do.

Sometimes this is because the design of the program doesn't fit the nature of the company or because sales growth objectives are not aligned with the goals of other departments in the company.

The sales incentive program cannot be viewed as a stand-alone activity. Incentive design must be tied to the various strategic needs and wants of other departments in the company. It is your job to understand the needs and objectives of these other units, enabling their strategies and ensuring that alignment exists.

Making the program fit the culture of the company is part of your job, and it's a critical one. The better you understand the fundamentals of a truly effective sales incentive program, the better prepared you will be to fit it into your own company's heritage.



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Here are three points you need to consider carefully when introducing a sales incentive program into your company. First, the program is likely to succeed only if it targets and addresses the right people. Second, it most likely will do the job management expects only if the right incentives are used. And third, it will be considered as having worked only if it rewards people for doing the right thing. The program surely will fail if it rewards the wrong people with the wrong incentives for doing the wrong things.

Picking between right and wrong might seem simple in this case, but in our experience, far too many companies cling to outmoded incentive practices that just do not work anymore – if they ever did.

So the answer to our central question depends, essentially, on the answers to these three questions: Who do you reward? How do you reward them? What do you reward them for? We'll take a look at each of these separately.

### Who Do You Reward?

We remember a former client, a vice president of sales with a large bank, who wanted everybody in the sales organization to do a better job. She reasoned that if she were to hand out rewards for doing great work, most of the sales people would try harder.

So she set up a plan that might seem logical to anyone who ever ran in a track meet or entered a photo contest. She announced prizes for the “winners.” The incentive idea was to provide rewards on a comparative basis, with the top 20% taking home the cash.

This staff ranking notion indeed does what it claims – it gives the prizes to those who are the most productive. After all, the rationale goes, it was an open competition and the winners won. Maybe next time, the rationale continues, some of the others will try harder and become winners themselves.

We see many instances of managers rewarding only the top few, but this is a flawed idea and it seldom works the way they want it to.

The reason is that if you only reward the top performers, you may be spending money for what you already have. You won't get a decent return on that investment because these “winners” are doing what you want them to do anyhow. Nothing will change very much in terms of the total picture.

We're not suggesting that you should disregard the top performers. They can and should be recognized, and a good way to do that is to go ahead and publish the staff rankings – the results of each quarter's sales derby – understanding that you are doing it for recognition purposes only. Recognition is hugely important for high achievers, and comparative rankings certainly provide this.

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Beyond that, the top performers are critical to your program because they know how they got there. These are the people who are closing the sales, assuring the checks get into the mail, fixing problems quickly, and generally operating at top speed. They can be immensely valuable role models for the rest of your crew. Their success stories can be translated into the teaching tools you need to help the others succeed.

But your job is not to pile incentives on these winners, because they already are winning. It is, instead, to motivate the large group of average performers to behave the same way the winners do and reward the top 20% for sharing their knowledge and what they are doing. It is important to reward for teaming and personal improvement, not just for being in the top 20%.

You want to focus your incentive investment on the average performers, motivating these employees to find out what the winners are doing to be successful and copying that. If you apply your incentive investment skillfully, you will, in effect, be cloning the behaviors of your top performers by putting their Best Practices into the hands of your average (but newly motivated) performers.

Let's say that in your company the average performers represent half of the sales force. These are the people who you seek to motivate and reward. They are the largest group, so you have a better chance for broad success.

The top performers are doing the job anyway, and the low performers probably represent more of a challenge than you want to take on right now. So you will want to target the middle group (60-80%) because these are the people whose improvement will make the biggest difference.

### How Do You Reward Them?

Now that the middle group is in your sights, how do you reward those players? Nobody really has statistics on it, but we feel that 70 to 80 percent of all dollars spent on incentive programs are ineffective and probably counterproductive. Here's why, and it goes back to the marketing executive who told you that money talks: Money indeed might talk, but it only talks for the moment. If you decide to use cash as a reward for performance success, you will find that your reps, after a short period of time, will consider that cash as part of their compensation package.

Winners of cash awards tend to lump the money with other funds and forget it. When you stop the program, the employees frequently look upon that action as a cut in pay.



Programs offering cash are relatively inexpensive and easy to administer, to be sure, and they can be effective in some brief situations. But in terms of long-range effectiveness, they can't match those that offer tangible awards.

Programs offering TV sets, theatre tickets or trips to Bermuda don't suffer the "sense of entitlement" problem. Money is always viewed simply as money, but vacation trips, sports equipment, and household electronics items carry much higher value as perceived by the winner.

Winners of merchandise or travel have something to show their family members and friends – grand trophies won in the business struggle. The winners are proud of their prizes and they attach real value to them, and this is particularly true when they have the chance to select items that are relevant to their lives.

The real key to success in handing out rewards is to make them more rewarding, and this can be accomplished in large measure by giving your people a choice. When they can choose among a new DVD player, a trip to Granada or a diamond bracelet, they'll be excited and fulfilled choosers, you can be sure.

Two recent studies conducted by incentive industry groups found that 75 and 79 percent of respondents felt non-cash awards provided a better return on their investment. They said these programs were "fairly to extremely" effective in motivating participants. Given our view that non-cash is King, let's look at how that type of reward might best be applied to meet your company's goals.

### What Do You Reward Them For?

The response to this question is critical to the design of your program, so let's see if we can provide a reasonably simple answer that is supported with a (hopefully) thoughtful and comprehensive explanation of what we're talking about.

What you are trying to get your sales people to do is to improve how they go about getting a result. You want them to get better at how they operate so they can do a better job in sales and also support the total sales relationship effort. What the sales reps actually do – the various activities they undertake in the process of making sales – is what we call behavior.

There can be a bunch of separate behaviors within any sales assignment, so let's look at a few. Simplifying one's work assignment to create new efficiency and understanding, for example, is a behavior (e.g., excellence in planning and use of CRM). Collaboration with colleagues is a behavior. Attendance at team meetings is a behavior, as is sharing of one's knowledge. These are behaviors which, if encouraged and improved upon, should support the sales effort.



If your company wanted to increase its sales of a given product because it knew the competition was way behind in developing a competing item, for example, management could try to incentivize your sales people to meet higher sales quotas.

This reward program undoubtedly would create a good deal of running around by your folks who would be trying to find new ways to sell more. But it probably wouldn't do much to improve the sales process itself.

If your company, on the other hand, were to decide to reward the reps for acquiring knowledge about how to do their jobs better from the 20% top performers who share what they know with colleagues, for going to team meetings, and for helping to simplify internal processes, it is not only likely that sales numbers would increase but that the whole process would improve as well.

Here's the kicker. If the company were to provide incentives for these good employees of yours along the way, rewarding them for making progress in improving their behaviors over time instead of at the end of the incentive period, it's almost a given that the sales numbers would increase faster and the internal functioning of the sales organization would improve more rapidly as well.

Your purpose is to reward the sales people for changing their behaviors in such a way that they will achieve measurably better results. In other words, as far as individual participants are concerned, you would be rewarding these folks for learning how to succeed and for operating in a more promising way rather than for simply improving their own numbers or meeting their own goals. This is a very complicated subject because it involves setting goals for behavior change, for measuring the behavior change, and for measuring the results of the changed behavior.

But the basic notion is that the most effective rewards deal less with end-game improvement and more with incremental improvement that results from changed behaviors.

### How Incentives Work Best

When you get the assignment to design your company's incentive program, you probably are also told to make certain it works. Without knowing more, we are willing to bet it almost always accomplishes exactly what you design it to do. That's because incentives, taken in that simple context, always work.



The joker, of course, lies in identifying what you actually designed it to do. That involves taking a careful look at the “who,” “how,” and “what” issues we have discussed here. It also involves examining whether your program truly dovetails with other programs in your company that also are designed to build sales.

You will want to take your focus away from the finish line and direct it toward the behaviors that got your company there first. You will need to find out who your top people are and then reward others in the organization for doing what these winners are doing so well.

You have a bunch of potential stars in your company who are hidden among the mass of everyday performers. The best way to promote growth is to teach and encourage them to do what the winners do. If you can accomplish that, providing rewards along the way to encourage continued collaboration and learning, the success of your program will be assured.

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