Basic Facts About Designing an Incentive Program

Incentive program
An incentive program is a structured plan to get people to do what you want them to do.

Examples of Incentive Programs:
- Sales incentives
- Sweepstakes
- Service awards
- Frequency programs
- Loyalty programs
- Gifts with purchase
- Attendance programs
- Safety programs
- Training programs
- Wellness programs
- Corporate gifting

8 Steps to Building an Incentive Program

1) Establish Objectives
2) Outline the Parameters
3) Measure Performance
4) Establish the Budget
5) Select the Award
6) Implement the Program
7) Celebrate!
8) Evaluate the Program.

Tip: A more in-depth look at how to create an incentive program can be found in The Art of Motivation – An Incentive Industry Primer, available at www.incentivemarketing.org.

1) Establish Objectives – The Blueprint

- Identify what goal or objective needs to be accomplished (increased sales, improved attendance) Objectives must be obtainable.
- Objectives should be simple to understand and to communicate, yet specific so they can be measured.
- Make sure these objectives are communicated to all participants at the onset and throughout the entire length of the program.

Tip: The goal must be fair to all involved and obtainable by everyone.

2) Outline the Parameters

- Who is the target audience? Who is eligible to compete in the program? Size? Demographics?
- What are the rules of the program?
- How long will the program run?
- Close-ended or open-ended?
- Who will be doing what? – Define each person’s role (participant, administrator, arbitrator)
- Individual goals, team goals or both?
- What are the rewards?
3) Measure Performance

- What metrics will be used? (Qualifiable – more restrictive, needs to be qualified for or Qualitative – measured in numbers.)
- How is performance communicated throughout the program? (Online updates, email, etc.)

4) Establish the Budget

Three elements need to be considered:
1) Length of the program
2) Number of participants
3) Expected Results

There are basically two types of award budgets.
- **Close-Ended**: Program defines a pre-determined number of award earners. The budget is fixed and you know the maximum costs up front.
- **Open-Ended**: Enables all people who achieve program goals to earn awards. You can estimate the costs involved, but will not know the actual cost until the program is finished.

**Typical Break Down of Budget**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awards</td>
<td>80%</td>
</tr>
<tr>
<td>Communication / Promotion</td>
<td>10%</td>
</tr>
<tr>
<td>Administration</td>
<td>5%</td>
</tr>
<tr>
<td>Training / Research</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Tip:** Determine the Award values based on unit or dollar performance improvement.

Many companies allocate 5% - 10% or more of the value of incremental improvement
Example: For the first $1,000 in incremental performance, the participant gains $50 in award points.

For non-sales programs (ie. Attendance, Safety), determine what the “value” to the company is when the goals are met.

5) Select the Award

It is important to select the right award because if the individual is not emotionally vested in the incentive, they will not pursue the goal.

**Understand what motivates your target audience.**

- Send out a poll.
- Involve employees in the award selection.
- Keep in mind the employee’s income; most likely, a highly compensated employee needs to be motivated by a high value item, not a $20 portable radio.

**An effective incentive award:**

- Is appropriate for the goal;
- Reinforces the organization’s values;
- Has a high perceived value and Trophy Value;
- Creates excitement amongst the participant base.
Tip: Brand name merchandise has a high-perceived value and satisfies the need for trophy value.

Tip: Check out the Award Selection & Administration Series Topics available at www.incentivemarketing.org. See Principles of Results Based Incentive Program Design.

- When to use Branded vs. Promotional Products
- Motivational Merchandise ROI Measures
- Cash vs. Merchandise
- Why do Lifestyle Incentives Work
- Learning the Science of Reward Selection

6) Implement the Program

- Determine how the program is communicated, tracked and recorded.
- If appropriate, provide training. Participants need to know how to perform the desired function in order to improve their performance.
- Communication: Give participants all the information they need to be successful.
  1) Tell them what you want them to do.
  2) Tell them how they can do it.
  3) Tell them what they can earn if they meet their goals.
  4) Tell them how they are doing.
  5) When the program is over, tell them how they did.
  6) Tell them what they won.
  7) Deliver the award on time.

Tip: Encourage your client to use promotional products to announce the program and to keep participants’ interest high throughout the program.

7) Celebrate!

Ideally the program results and the program top performers will be recognized in front of their peers. Make a big deal out of the winners, but be sure to recognize ALL of the improvements made by all participants, not just the winners.

8) Evaluate the Program

Measure the results and program ROI (Return on Investment) to determine if the program was a success.

- Were the objectives realistic? (How many people participated? How many people stayed with the program? How many people met the objectives?)
- Did the outcome meet initial expectations?
- Was the program cost-effective?

Tip: IMA’s Principles of Results Based Incentive Program Design has a chapter dedicated to the measurement of ROI available at www.incentivemarketing.org

Measurement Series Topics

- Overview of ROI Measurements
- ROI Incentive Programs: Driving People, Driving Profits
- Overview: ROI Measurement Approaches
- The Master Measurement Model of Employee Performance
- Tracking the Long-Term Impact of Incentive Programs Using Readily Available Employee Data