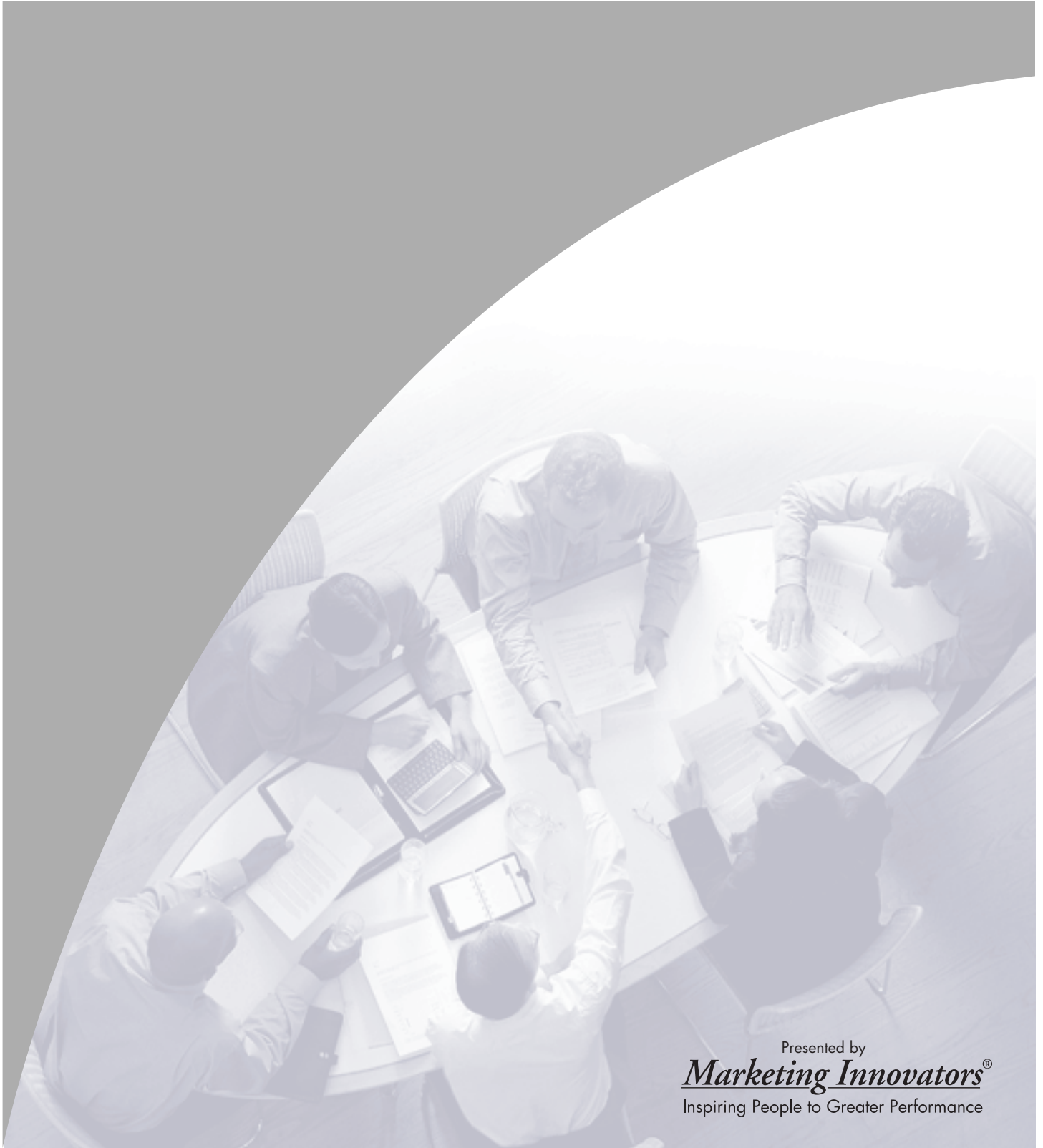


Making The Case For Sales Incentives To The Tune Of 10% ROI

Developed by the FORUM For People Performance Management and Measurement



Presented by

Marketing Innovators[®]

Inspiring People to Greater Performance

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Overview

Though sales incentives are widely used and represent a \$127+ billion-plus industry,¹ businesses are increasingly more inclined to require documented proof of results these days. This poses a major challenge for the many companies at which no cost-benefit analysis is conducted. Most of the existing literature on sales incentives is limited to descriptive accounts provided by program participants and the managers of these programs. In *An Exploratory Study of Sales Incentive Programs*, conducted by the Forum for People Performance Management and Measurement, researchers evaluated the quantitative impact of sales incentives on the bottom line. The study was designed to take an in-depth look at the impact of a sales incentive plan and significantly add to the research findings on incentives. It evaluated the investment made in a specific incentive program with a clear start and end date and calculated the absolute return-on-investment upon the program's conclusion of the program. The value of such a study becomes obvious when you consider:

- Sales incentives represent a \$127 billion-plus industry
- Sales contests account for nearly \$9 billion in annual expenditures
- Sales people account for roughly 12 percent of the full-time workforce
- Firms spend more than a trillion dollars annually on sales-force expenditures—more than they spend on any other promotional tactic

Led by Dr. Srinath Gopalakrishna, associate professor of marketing, College of Business at the University of Missouri—Columbia, the team of researchers successfully isolated the financial impact, or ROI, of sales incentives.

This white paper delves into the mechanics of sales incentive programs, providing managers with useful information to design successful sales initiatives at their own companies and providing their corporate decision makers with hard evidence.

Methodology

A Midwestern financial services company with operations in 13 states and 1,300 sales agents selling three primary product lines was selected for the research. The product line selected to be “incentivized” for the duration of the research is the most profitable for the company but the

most difficult to sell, adding an extra challenge to the sales contest period. The sales contest, which took place in 2003, had multiple award levels. Top performers received large travel vouchers, and employees who sold above predetermined hurdles were eligible for smaller awards. All participants who sold over a base hurdle received a recognition plaque. The quantitative and qualitative results were culled from three sources: sales data from the firm, surveys of sales employees and surveys of district managers. To calculate ROI, sales within the contest group were compared with sales outside the contest, and a method called “change point analysis” was deployed to study the sales pattern both during and outside of the contest periods.

Results

After analyzing sales data, surveys of sales staff (64 percent response rate) and surveys of district managers (90 percent response rate), the researchers made the following conclusions:

- Sales of the “incentivized” product nearly doubled during the program, resulting in a 10 percent return on investment. The incremental margin of sales was \$180,000 offset by the incentive program's cost of about \$164,000.
- Incentives appear to generate delayed sales effects. Not only was there a declining trend prior to the incentive period, possibly indicating a holding back of sales until the incentive period (“sandbagging”), but sales remained at a level higher than baseline sales during the post-contest phase (sales carryover).
- Though a positive impact on sales of the incentivized product was clearly established, there was no evidence to support or refute cross-product effects, i.e., the incentives did not cannibalize sales of other products.

Rewards that are most desired by employees may not be best for optimal business results. Though employees indicated a preference for cash incentives, managers believed recognition (noncash) awards are more effective in producing the desired results. The finding mirrors the results of an earlier study conducted by the Forum, titled, *Awards Selection Study: Insights From Managers*. This study of 235 managers revealed that what they believe motivates employees most is not necessarily what recipients might choose as their preferred motivational tactic.

Employee Lifetime Value: The Critical Companion To Customer Lifetime Value

The Bottom Line on Incentives

It's not enough to know that sales incentives work. It's not enough to say, "Hey, we need an incentive program; let's go out and buy some gift cards." ROI must be factored in or you're potentially throwing money into the wind. Not long ago, the Incentive Federation conducted a comprehensive study on motivation and incentive applications. Results highlighted the importance of ROI: Almost three of four of incentive program planners (74 percent) are placing greater emphasis on ROI as an evaluation criterion than ever before. Yet despite this greater emphasis, ROI is actually used by only about one half of the total sample (55 percent). This shows that planners may indeed need a little incentive of their own to factor in ROI! And, of course, they should include ROI because their budgets might increase—and their own paychecks— might increase if they can prove to management their programs help the bottom line. Here are some tips to make your next sales incentive program a success:

1. It's practically impossible to predict all of the different ways people will respond to an incentive. Focus on one tier or group of participants at a time. Chances are your top 20 percent is already motivated, so try targeting the next level of achievers. Or design a program exclusively for channel partners. It's always better to "drill down" to one audience group so you can design, as precisely as possible, a program that will yield the optimal ROI.
2. Keep the incentive program design simple, the goals attainable and delivery of the rewards expeditious. The last thing you want is frustrated—a.k.a. "unincentivized"—participants.
3. And, on that note, bring several sales contest participants into the planning phase of the program—as a focus group—so you're not guessing about fairness and what motivates them to perform better.
4. Communicate continuously and consistently. Use a variety of communication vehicles and use them often beginning with the prelaunch of the program. Maintain consistent back-and-forth "chatter" about the program—its successes, changes, opinions, and news.
5. Don't forget recognition. It costs little or nothing and can significantly increase the value of an incentive program 100 percent. Shout the achievements of your team from the rafters and keep that good energy moving forward.

¹ Stolovitch, Harold D., Richard E. Clark and Steven J. Condy (2002), *Incentives, Motivation and Workplace Performance: Research and Best Practices*. Society of Incentive and Travel Executives Research Foundation.

Marketing Innovators is a full-service people performance management and measurement company, celebrating 30 years of dedication to helping companies inspire employees, channel partners and customers. We drive improved business results by designing, communicating and managing innovative incentive, marketing, recognition and loyalty programs that drive improved business results by effectively translating business challenges into people strategies and solutions. All of our outstanding programs are custom-designed to reach each client's objectives and audience through integrated strategic solutions.

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