

## **8. Incentive program**

An incentive program is a formal scheme used to promote or encourage specific actions or behavior by a specific group of people during a defined period of time. Incentive programs are particularly used in business management to motivate employees and in sales to attract and retain customers. Scientific literature also refers to this concept as pay for performance.

### **8.1 Types**

#### **8.1.1 Employee**

Employee incentive programs are programs used to increase overall employee performance. While employees tend to approve of incentive programs, only 27% of companies have such programs in place. Employee programs are often used to reduce turnover, boost morale and loyalty, improve employee wellness, increase retention, and drive daily employee performance.

#### **8.1.2 Consumer**

Consumer incentive programs are programs targeting the customers of an organization. Increases in a company's customer retention rate as low as 5% tend to increase profits by 25%-125%. Consumer programs are becoming more widely used as more companies realize that existing customers cost less to reach, cost less to sell, are less vulnerable to attacks from the competition, and buy more over the long term.

#### **8.1.3 Points programs**

Points-based incentive programs are a type of program where participants collect and redeem points for rewards. Points programs may be used to incentivize both employees or consumers. Depending on the program type and the organizational objectives, points can be awarded on a number of criteria including positive employee behavior, the demonstration of organizational values, repeat customer purchases, the sale of new products, increased overall sales, or even the use of proper safety precautions. In addition to point awarding, the levels at which points can be redeemed can be customized by the organization. Points programs are a way for organizations to motivate behavior over time while improving the organizations' overall performance. Loyalty programs are a frequently used points-based incentive program in which customers that exhibit a certain behavior are rewarded with points, reinforcing that behavior.

#### **8.1.4 Sales**

These programs are primarily used to drive sales, reduce sales costs, increase profitability, develop new territory, and enhance margins. Sales incentive programs have the most direct relationship to outcomes.

A sales incentive plan (SIP) is a business tool used to motivate and compensate a sales professional or sales agent to meet goals or metrics over a specific period of time, usually broken into a plan for a fiscal quarter or fiscal year. An SIP is very similar to a commission plan; however, an SIP can incorporate sales metrics other than goods sold(or value of goods sold), which is traditionally how a commission plan is derived. Sales metrics used in an SIP are typically in the form of sales quotas (sometimes referred to as point of sale or POS shipments), new business opportunities and/or management by objectives (MBOs) independent action of the sales professional and is usually used in conjunction with a base salary.

SIPs are used to incentivize sales professionals where total sales are not a precise measure of sales productivity. This is usually due to the complexity or length of the sales process or where a sale is completed not by an individual but by a team of people, each contributing unique skills to the sales process. SIPs are used to encourage and compensate each member of the sales team as they contribute to the team's ability to sell. It is not uncommon for the members of such teams to be located in different physical locations and for the product introduction to happen in one location and the purchase of such a product to occur in another location.

#### **8.1.5 Dealer**

Dealer incentive programs are used to improve performance for dealer, resellers, channel partners and other types of brokers using sales incentive programs. These programs help companies capture market share, launch new products, reduce cost of sales and provide momentum for new launches by incentivizing an external party to drive additional sales.

#### **8.1.6 Online programs**

Incentive programs have gained significant traction online; 43% of companies using incentive programs use the Internet as a channel. According to the Online Incentive Council (defunct), since their emergence in 1996, the number of online incentive programs has almost doubled in size every year.[citation needed] At present, nearly every traditional incentive company offers an online component in programs including employee motivation and recognition, sales performance, channel

programs, and consumer promotions. Companies that run their programs online experience efficient communication, reporting, and awards fulfillment. Online incentive programs pose an attractive alternative to traditional offline programs since online programs save money and time and allow organizations to have greater control.

### **8.1.7 Incentive websites**

A website which pays people in gifts or cash for completing provided offers and referring other people and frequently use a model. These sites are typically sponsored by companies in order to advertise their products. The sites are in turn paid for advertising and attracting new clients. By collecting user data that the user submits, companies can target certain areas of clientele and offer products accordingly.

In most cases, incentive sites grant rewards for completing requirements. This usually requires viewing advertisements, signing up for a site, entering a PIN code (through a mobile device), purchasing trial products or full products or completing surveys. This in turn rewards the specified user in cash, points, check, or its equivalent. Alternately, an offer may entail referring website visitors by inviting them to a target site under a referral link (unique to every user). Referrers in turn are either paid for every person they invited or as percentage of resulting revenue.

## **8.2 Monetary rewards**

Selecting the appropriate rewards is vital to any program's success. The goal in choosing rewards is to select items that will spark the participant's interest or feelings, and support the program's objectives. Effective rewards will both motivate short-term behavior and provide motivation over time. There are several types of rewards.

### **8.2.1 Cash**

While incentive program participants often state that they prefer cash to non-cash rewards, research has shown that cash is a poor motivator due to its lack of "trophy value." In a recent study conducted by the Center for Concept Development, three of five respondents agree that a cash payment is perceived to be part of an employee's total compensation package and not as part of an incentive program. Additionally, cash is quickly forgotten as many participants tend to spend it on everyday items or use it to pay bills. Given that most people do not generally talk

about cash awards, cash programs do little to generate the interest required to create an effective incentive program.

Research shows that pay for performance often gives only short term gains, frequently gives no gains at all, and may give reduced performance.

### **8.2.2 Non-cash rewards**

Merchandise and other non-cash rewards are more often perceived as separate from compensation. Accordingly, non-cash rewards tend to stand out as rewards for performance, which enhances their long-term effect. Branded merchandise and other non-cash rewards have high trophy value, bringing greater recognition to the recipient at the time of the award and possessing a long-term lasting effect that can result in increased engagement in the organizations goals.

### **8.2.3 Gift cards/certificates**

Gift cards/certificates are prepaid retail cards or certificates which are redeemed at a later time at checkout. In general, they are available in two types: (1) cards which carry a major credit card brand, commonly referred to as universal gift cards (UGC), and are redeemable at all merchants accepting the credit card brand; and (2) retailer-specific cards, issued by well-known merchants, redeemable only through the issuing retailer. In the 2005 Incentive Federation Study of Motivation and Incentive Applications, gift cards were ranked as the most frequently used type of corporate reward.

### **8.2.4 Merchandise**

Merchandise rewards can range anywhere from small branded key chains to high-end electronics. In a 2005 study conducted by the Center for Concept Development, 73% of respondents agreed that more stimulating, memorable incentive programs can be built around merchandise as opposed to cash rewards.

### **8.2.5 Travel**

Travel rewards can best be defined as a face-to-face event designed to motivate, either directly or indirectly. In a 2005 study conducted by the Center for Concept Development, 51% of respondents perceived that travel is remembered longer than other incentive rewards.

### **8.2.6 Experiential**

Experiential rewards provide program participants with an experience. This form of reward gives organizations the ability to offer their employees and customers interesting experiences as incentives. Examples might include a seaplane flight and lunch, a two hour horse ride on the beach, a day of sailing for two, a chance to meet a star athlete, or the use of a party planner for an occasion of the recipient's choice. Experiential rewards allow participants to share their experiences with others and reinforce the reward and the behavior that led to the giving of the reward.

### **8.2.7 Non-monetary rewards**

Non-monetary incentives are used to reward participants for excellent behavior through opportunities. Non-monetary incentives may include flexible work hours, payroll or premium contributions, training, health savings or reimbursement accounts, or even paid sabbaticals. If it comes to environmental behavior, often labeling and recognition certificates are used. This may include stickers, T-shirts with banner logos, etc.