

## PERFORMANCE PROGRAMS

### INTRODUCTION: BASIC PRINCIPLES OF MEASURING SALES PROMOTION PERFORMANCE

The following chapter deals with performance programs—those incentive and motivational activities developed to encourage key people or organizations to make an extra effort to support a product, service, or brand and, in particular, a specific promotion. The people whose performance might be encouraged can be inside or outside the organization, and the performance programs can be short term or long term.

The key element in performance programs is how the rewards will be determined and distributed. Remember: nothing kills enthusiasm for a promotion among the salesforce (employees or external associates) as does a badly planned or confusing performance reward system. Therefore, the key elements are the nitty-gritty details of planning and measurement. You'll find substantial information in the following chapter on that. To develop an effective performance pro-

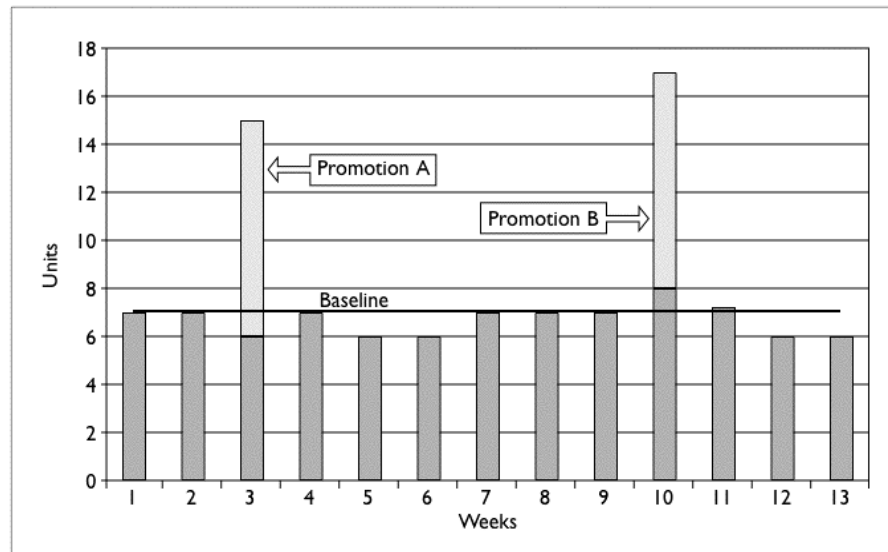
gram, you'll need to determine the basis for the performance improvement reward. For that, you need a basic understanding of how sales promotion works in the marketplace. If you don't understand promotional effects, you risk expensive mistakes in performance program design.

The illustration below shows the typical impact at retail of two sales promotion programs.

As shown, during a 13-week period the marketer employed two retail promotions. If we only looked at the bar chart, we'd assume the promotions were successful. They increased sales for a limited time—in weeks 3 and 10. The important part of the chart, however, is not the weekly promotional sales result. Instead, the real impact of those two promotions should be based on what is called the *baseline*, that is, the average sales per week during the entire measurement period.

Clearly, from the chart, overall product sales, or the baseline, is essentially flat during the measurement period. Yes, sales did increase during the two promotional periods, weeks 3 and 10, but those were offset by declines in other weeks—that is, sales were below what would have been expected. As a result,

FIGURE 12.1 *Baselining Store Level Data*



for the entire period there was no ongoing or residual impact from the sales promotion programs.

The flat baseline in this example raises some questions on how performance programs should be structured.

If, as above, no longer-term sales increase was achieved, the sales promotion events should be judged only on the incremental sales increases achieved during weeks 3 and 10—that is, how much more was sold than would have normally been expected. Those incremental sales would have to increase profits sufficiently to cover the performance program's cost and other associated activities. If the increased sales didn't provide sufficient profit to cover those costs, the marketer would likely have a net loss—not an attractive scenario for a promotion planner.

If, however, the promotional program succeeded in driving the baseline, or the trend line, up in a positive way, then the promotion planner might be justified in evaluating the performance program over the longer term.

Let's suppose that rather than being flat, the baseline, as shown in the chart, actually trended upward over the course of the 13-week measurement period. Let's say that at the end of the 13 weeks, unit sales were averaging a level of eight rather than the starting unit volume of seven. With this increasingly trending upward baseline, the promotion manager might say the performance program incentive could be justified over time rather than simply being evaluated on the results of the two weekly sales increases. The two promotions, although they did increase incremental short-term sales, also appear to have had some longer-term sales impact as well. Therefore, the promotions and the performance program could be evaluated on the entire 13-week period, not just on the incremental sales in weeks 3 and 10.

Understanding how promotions work and the basic concept of baselining are two of the most important areas for the promotion planner to understand, not only in planning promotions but in designing performance programs as well. Performance programs work, but you must be sure they provide profits as well as merely short-term incremental sales. —Don E. Schultz

## OVERVIEW

Performance programs answer the overriding question: “What’s in it for me?” Without performance incentives, “The pay’s the same” mentality can stagnate your business. And if your product is one of several a salesperson or staff member has on his or her plate, it often pays to “grease the wheel.” You may also motivate people to learn about your product, even “suggestive sell” it. A good program motivates overachievers and underachievers and high- and low-volume areas. In the end, one of the greatest motivators you can enlist is also one of the least expensive: recognition. A certificate, trophy, or simple thank-you note works wonders.

## DEFINITION

A performance program motivates key people to make an extra effort in supporting a product or service by defining goals and rewarding achievement. Performance programs are typically for sales but may also reward quality control, speed quotas, safety practices, punctuality, and the like.

*Note:* Although some consider purchase incentives to be performance, this chapter deals only with sales or tasks (with the Casino Night exception). Other tactics and chapters cover purchase incentives.

## COMMON PERFORMANCE OBJECTIVES BY TACTIC

(Also see itemized tactics below.)

TACTIC	OBJECTIVES
Quota	Meet and exceed sales projections; set benchmarks; motivate and reward all participants, either individually or collectively
Contest—greatest volume	Sales by the best performers; no outlays for lesser performers; fewer rewards; foster competition
Contest—volume and percentage increase	Sales increases by all participants, low and high performers; foster competition
Qualifying sweepstakes	Economical, rewarding a few but motivating all

<b>TACTIC</b>	<b>OBJECTIVES</b>
Strategic performance	Achieve objectives that lead to sales, such as placing displays, new accounts, up-selling, etc.; discipline sales staff
"Casino Night"	Economically reach a great number of small targets, like mom-and-pop stores; bonding opportunity
Customer submission = sales entry	Leverage consumer program to simultaneously and economically motivate sales performance
Group competitions	Build targeted trading area sales; unite and motivate regions/groups
Mystery spotter (shopper)	Demonstrate and reward model practices at work site when they occur; sustain quality staff practices, anticipating spotter; employee education
Recognition	Economically motivate employees and recognize model performance; cost savings on insurance, medical benefits, handling errors, returns, and other employee operations

## TACTICS ITEMIZED

### 123. QUOTA

<i>Definition</i>	Motivating performance (sales) through rewards for specified achievement level(s); may offer cumulative catalog reward points or program-end merchandise, trips, etc.
<i>Advantages</i>	<ul style="list-style-type: none"> <li>• Establishes benchmarks and helps achieve or exceed sales projections</li> <li>• Can motivate and reward all participants</li> <li>• Several goals can be weighted with different reward levels to address several objectives</li> <li>• No added costs if budgeted through incremental gains</li> <li>• Straightforward and easy to implement.</li> </ul>
<i>Disadvantages</i>	<ul style="list-style-type: none"> <li>• Lesser performers (or regions) may not be motivated by unachievable quota</li> <li>• If open-ended, rewards may exceed budget</li> <li>• If funded by incremental profits, rewards and motivation may be limited</li> <li>• Participants may revert to old ways once the program ends</li> </ul>

- Salesperson may forestall immediate sales opportunity anticipating program
- May require auditing and possibly subject to fraud
- May not factor in sales that are subsequently returned (which is also subject to collusion by seller/buyer)

#### 124. CONTEST—GREATEST VOLUME

<i>Definition</i>	Participants compete, but only the top performers are rewarded; performance can be sales or tactical, such as a display contest—most displays placed
<i>Advantages</i>	<ul style="list-style-type: none"> <li>• Motivates the best performers where the “critical mass” is generated</li> <li>• Spurs competition and determination to sell and win</li> <li>• Less expensive as fewer are rewarded</li> <li>• Fewer rewards allow more exciting selection</li> <li>• If budgeted through incremental gains, no added costs</li> </ul>
<i>Disadvantages</i>	<ul style="list-style-type: none"> <li>• Lesser performers (or less-developed regions) may not be motivated</li> <li>• Less flexible in combining different tactical goals</li> <li>• May upset strong performers who didn’t win</li> <li>• Competition may foster ill will, even suspicion of unfair competition</li> <li>• Salesperson may forestall immediate sales opportunity anticipating program</li> <li>• May not factor in sales that are subsequently returned (which is also subject to collusion by seller/buyer)</li> </ul>

#### 125. CONTEST—VOLUME AND PERCENTAGE INCREASE

<i>Definition</i>	Participants compete in two platforms—greatest volume increase and greatest percentage increase
<i>Advantages</i>	<ul style="list-style-type: none"> <li>• See “Contest—Greatest Volume,” above, but lower performers and regions can win greatest percentage increase (see “Motivating Everyone” on page 325)</li> </ul>

- Disadvantages*
- See “Contest—Greatest Volume” and its disadvantages; however, lesser performers can be motivated by greatest percentage increase

## 126. QUALIFYING SWEEPSTAKES

*Definition* Prize drawing entry earned for each performance achievement (such as unit sold); drawing alternatives: win a scratch card, a pull-tab pull, a wheel-of-fortune spin, etc.

- Advantages*
- Motivates all participants as everyone can win, but better performers have better odds
  - Fewer rewards allow more exciting selection
  - Easy, accountable budget—the fixed-prize cost
  - Can increase odds/participation with numerous lower-cost prizes
  - Several objectives can be entry criteria
  - Budgeting through incremental gains eliminates costs (earn entry only after achieving quota)
  - Drawings (or pull tabs, wheel spins, etc.) at weekly sales meetings generate enthusiasm

- Disadvantages*
- Minor performers may win as major performers go unrewarded
  - May require greater materials cost, such as scratch cards, pull-tab boards, etc., for each sales center
  - More administration
  - Salesperson may forestall immediate sales opportunity anticipating program
  - May not factor in sales that are subsequently returned (which is also subject to collusion by seller/buyer)

## 127. STRATEGIC PERFORMANCE

*Definition* Program rewards participants for achieving business-building objectives—display placement, new accounts, trading customer up, selling service warranty, etc.—rather than for sales

- Advantages*
- Establishes business-building disciplines that build sales

- Rewards salespeople for professional, strategic practices
- Corporate planning objectives extend tactically to field level
- Focus on long-term business-building disciplines versus short-term sales bursts

*Disadvantages*

- May be difficult to monitor and verify performance
- More complicated for participants to understand and act
- May not deliver immediate sales results
- Salesforce may not want to jeopardize current practices, customer relationships, and commissions with unfamiliar new practices
- May require training, materials, manager programs, and monitoring system
- May be less accountable without direct sales criteria
- Predicated on the success of new tactics versus direct sales objectives

### 128. "CASINO NIGHT"

(Note: This is a purchase versus sales incentive program but still an effective sales program)

*Definition*

Numerous accounts earn "point-money" toward a future group event, such as a casino-themed evening, and "spend" their points on rewards, prize games, auctions, etc.; targets are often diverse, scattered small operators who cumulatively represent significant business; can be any entertaining event theme from sports to Hollywood

*Advantages*

- Reaches, motivates, and brings together a large and profitable, but fragmented, territory—businesses that may not otherwise warrant attention
- Gives salespeople "news" for each account visit
- Event gives sales organization opportunity to fraternize with several smaller customers at once
- Night on the town for smaller rural businesses
- Everyone earns something desirable with accumulated point-money
- Strategic reward can build goodwill in family values communities—family zoo trip, ice capades, etc.



- Disadvantages*
- Requires extensive planning—entertainment venue, events, point-money distribution, verification
  - Extensive, ongoing communication materials
  - Point-money requires an accountable system
  - Casino/gambling theme may offend some
  - May require liability insurance, particularly with alcohol
  - Difficult to schedule event for all participants
  - Check local/state codes—point-money format may or may not meet gambling/lottery restrictions

### 129. CUSTOMER SUBMISSION = SALES ENTRY

*Definition* Participant earns prize-drawing entry for every customer redemption his or her efforts initiate.  
 Example: Restaurant employee gives acquaintances coupons with his or her name—redeemed coupons enter drawing, and consumer may also win

- Advantages*
- Motivates employees to generate sales and satisfy customers
  - Extends salesforce size
  - Motivates everyone, since anyone can win, while greater performers earn better odds
  - Sweepstakes economies—many participants, few winners
  - Can be simple administration  
(See “Qualifying Sweepstakes” above)
  - Can merge volume and percentage increase (above)

- Disadvantages*
- Requires process to credit performers for redemptions
  - Minor performers may win whereas major performers go unrewarded
  - Competition may cause friction in environment of close-knit employees who target mutual acquaintances
  - May not factor in sales that are subsequently returned (which is also subject to collusion by seller/buyer)

### 130. GROUP COMPETITIONS

<i>Definition</i>	Performance competition pits group against group, region versus region, shift versus shift, store versus store, etc.
<i>Advantages</i>	<ul style="list-style-type: none"> <li>• Fosters a groupwide spirit</li> <li>• Encourages teamwork</li> <li>• Utilizes existing internal systems and personnel</li> <li>• Organization can share and learn successful practices</li> <li>• Organization can better evaluate its sales dynamics</li> <li>• Can reach and motivate both the sales and the support organizations</li> </ul>
<i>Disadvantages</i>	<ul style="list-style-type: none"> <li>• Group effort may not motivate individuals who prefer personal control</li> <li>• Doesn't motivate weaker or disadvantaged groups—requires level playing field</li> <li>• May be competing with the wrong target—internal versus the external</li> <li>• May foster internal ill will, suspicion, and resentment</li> <li>• Requires fair accounting system</li> </ul>

### 131. MYSTERY SPOTTER (OR SHOPPER)

<i>Definition</i>	Employee is spotted practicing quality standards and is rewarded immediately
<i>Advantages</i>	<ul style="list-style-type: none"> <li>• Recognizes and rewards model practices at work site when they occur—in front of other employees</li> <li>• Sustains quality staff practices, anticipating spotter visit</li> <li>• Motivates employee learning</li> <li>• Gives on-site managers a performance tool</li> <li>• Vendors may tie in</li> </ul>
<i>Disadvantages</i>	<ul style="list-style-type: none"> <li>• Can be time, cost, and labor intensive</li> <li>• Limited by spotter coverage capabilities</li> <li>• Requires effective up-front communication of required practices</li> <li>• May suffer apathy if employees believe they will not be visited</li> <li>• May foster resentment as one lucky employee is spotted and rewarded for behavior the others also practice</li> </ul>

**132. RECOGNITION**

<i>Definition</i>	Employees rewarded by recognizing their personal, professional, and admirable achievements—typically awards (versus rewards) such as plaques, trophies, pins, or rings; rewards may be engraved items, gift certificates, or paid time off, even an employee-of-the-month parking space; may be business-to-business rewards, such as a retailer honoring its best vendors
<i>Advantages</i>	<ul style="list-style-type: none"><li>• More bang for the buck—very inexpensive program delivers one of the greatest motivators: recognition</li><li>• Builds employee morale, acknowledging individual tasks and achievements and demonstrating employer appreciation</li><li>• Reward (plaque, trophy, etc.) is permanent personal reminder often prominently displayed</li><li>• Platform to communicate ideal employee practices</li><li>• Recognition meetings provide “feel-good” breaks and remind employees of their value</li></ul>
<i>Disadvantages</i>	<ul style="list-style-type: none"><li>• Requires a system of identifying and tracking employee performance</li><li>• Susceptible to subjective criteria—or the perception of such criteria</li><li>• Requires reward-meeting organization and tasks</li><li>• Employee-initiated submissions can be unfair, such as stuffing the ballot box</li><li>• Some deserving employees may feel resentment for being unrecognized</li><li>• May foster perception of favoritism</li><li>• Should acknowledge diverse employee services—tenure does not necessarily mean outstanding performance</li><li>• Requires ongoing communication</li><li>• Program often gets neglected, taking second seat to daily business priorities</li></ul>

## CONSIDERATIONS

### Common Performance Objectives

- New product launch
- Liquidate product for new product launch
- Increase overall volume
- Increase margins—trade up
- Increase share of market
- Increase product/services mix
- Distribution—new accounts and/or channels
- Account penetration—more products in existing accounts
- Product/display placement
- Bolster slow season
- Enhance professional skills
- Increase product knowledge
- Support consumer promotion
- Offset competitive activities
- Build dealer traffic
- Improve morale, show goodwill
- Lead generation
- Productivity
- Reduce turnover
- Safety, health, reduced sick time, etc.
- Recognition (quality performance, tenure, punctuality, safety, etc.)
- Teamwork

For safety and quality objectives, specify goals—for example, proper safety procedures, reporting potential hazards, proper lifting techniques, and so on.

### Setting Up

- Keep it simple. Limit the number of goals, and try to coordinate them, like goals that can be achieved in one sales call. Make instructions concise.
- Base goals on previous performance, factoring in traditional slow and peak periods plus industry trends and activities.
- Are the rewards achievable and motivational enough to inspire the extra effort?

- Ask vendors their return policy to limit unearned rewards warehousing costs. Or run a drawing for unrewarded prizes—or make them employee recognition rewards.
- Set parameters to track performance. Tracking current sales can be difficult with the lag between orders and shipments, canceled orders, returns, overlapping territories and accounts, forward buying, and the like. A safety program may be measured by accident reductions, quality in returns' reductions, and so on.
- Rules should specify how performance will be monitored and judged so no one can question the results. (Remember the 2000 presidential election?) Consider an outside agency whose decisions are final.
- Try to integrate other departments into the program with roles for salespeople, order processors, administrators, shipping, and so on.
- Objectives should also be coordinated with company objectives, policies, and upcoming programs.
- Look for loopholes and conflicts. Ask everyone for advice—sales, administration, order processing, and all managers.

## The Feeding Chain

Imagine if the person taking the calls for orders is actually pushing the salesperson to perform! Consider motivating everyone involved. Following is a list of common motivation targets:

### *When pushing product*

- Company salesforce—directors, managers, reps
- Manufacturer's rep/agents
- Retailer salespeople
- Wholesaler/jobber principals and salespeople
- Employees involved in the sales and distribution process
- Customer service
- Field services

### *Insight*

The moment you have your sales meeting, assume the secret program is out of the bag. Disgruntled employees or even your own customers can spread the news.

### *When pulling buyers*

- Corporate/company buyer
- Institutional/facility buyer

- Purchasing agent
- Chain buyer
- Store owner/franchisee/manager
- End user (the IT person versus the corporate buyer)
- Consumers

## WINNING WAYS

*Incentive* magazine (©2004 VNU Business Media, Inc. Used with permission of *Incentive*.) cites the following performance criteria for additional motivation:

### Open-Ended

*Basic:* Earn 500 points for every case of product sold

*Bid and Make:* Predict the percentage increase of sales and receive a corresponding reward when the goal is reached

*Qualifier:* Earn 1,000 points if the person recruited stays on the job a year

*Retroactive:* Reach a minimum goal before earning points but receive retroactive payment that includes all sales once the goal is passed

*Team Bonus:* Each participant is eligible for a 5,000-point bonus each quarter if everyone meets goal

*Two for One:* Participating distributors earn 10,000 points per \$1,000 in incremental purchase increases, provided they buy a certain number of points to pass along to customers

*Up and Over:* Reach a minimum goal of 1,000 points before beginning point accumulation

### Close-Ended

*Lucky Squares:* Make a sale and write name in a square. Winning squares picked at the end of the week

*Make Your Own Odds:* Earn a sweepstakes entry or game card for every case of product bought/sold

*Only the Top Win:* The top 50 achievers (and their spouses) win award, or the three customers who submit the best ideas win

*Pick 5:* Every fifth purchase earns an entry into a sweepstakes drawing

*Unequal Thirds:* Participants are divided into three groups and the top 20 participants in each group win

### Short-Term Rules

*Beyond the Sale:* In addition to rewards for sales, earn bonus points for prospecting (or demonstrations, calls, expense-control efforts, etc.)

*Fast Finish:* Every sale made in the final two weeks earns double points

*Fast Start:* Every sale made in the first two weeks earns double points

*On-Target Bonuses:* For every quarter the goal is met, win an additional 5,000 points

*Sprint:* Earn bonus points on every deluxe-grade product sold during the next six weeks.

*Win Two Ways:* Earn 1,000 points redeemable for merchandise per case sold, plus the top 50 performers will win a trip.

## MOTIVATING EVERYONE

There are always high, average, and low achievers as well as regions. Following are ways to level the playing field so everyone can win and is motivated.

**First, *always* motivate high performers.** Keep all-important high performers motivated and happy. Consider a separate prize pool for highest volume or guarantee rewards for volume quotas.

**Each sale equals one entry.** Every person who sells a unit has another chance to win. High performers earn more chances.

**Volume versus percentage gained.** High-volume salespeople usually don't register a high *percentage* sales increase. If they sold 1,000 units last period, 25 more is a 2.5 percent increase. If a low performer sold 100 units last period, 25 more is a 25 percent increase. Motivate both with two criteria, one for highest volume, the other for highest percentage increase.

**Volume and percentage increase combination.** Each salesperson earns points or entries based on sales volume multiplied by percentage increase.

Example: 1,000 sales @ 3% increase = 30 points (or entries)  
100 sales @ 30% increase = 30 points (or entries)

**Volume and percentage increase ranking combination.** Each salesperson earns a point ranking based on sales volume multiplied by sales volume ranking.

Example: The highest-ranking volume seller sells 1,000 units.  
1,000 units × number 1 ranking = 1,000 points/entries

The lowest-ranking volume seller (#20) sells 25 units.  
25 units × number 20 ranking = 500 points/entries

The midranking volume seller (#10) sells 150 units.  
150 units × number 10 ranking = 1,500 points/entries

A variation adds the sales volume ranking to the percentage increase ranking to determine the final score.

Example: Low-volume salesperson places 90th of 100 in volume sales but number 18 in sales percentage increase. He places 108. (90 + 18.)

High-volume salesperson places 5th in volume but 85th in percentage increase. She places 90. (5 + 85.)

**“Best effort” category.** This category recognizes people who make the effort but don’t win, especially given their unique circumstances. Consider several best effort rewards acknowledging persistence, toughest odds, new accounts, even the toughest customer. It recognizes effort and it’s fun.

**Tiered reward levels.** Both earn rewards, but high achievers earn higher-value rewards than do low achievers. If lower-level rewards aren’t sufficient motivation, include a sweepstakes overlay with sales also earning entries.

**Weighted objectives.** Assign different values for each objective. (See “Common Performance Objectives” above.)

### *Insight*

One of the greatest motivators isn’t money or rewards. It’s simple recognition.

## HOW WILL YOU VERIFY PERFORMANCE?

Here are some guidelines in establishing a measurable program.



- Hold meetings with people directly involved in tracking sales—computer programmer, order processing, telesales, sales managers, and so on.
- Review how sales are reported in the system and how these documents can double as performance reports.
- Determine how frequently sales reports are issued—daily, weekly, monthly, or other. Look for peaks or other aberrations, like one dealer's excessive order. Also, use them as progress reports—the more frequently, the more top-of-mind.
- Use existing, controllable vehicles. For example, for display placement put a different number on each display, which becomes a drawing number when it's placed.
- Make goals simple, such as accounts opened, clients serviced, dollar sales.
- Make a policy on issues like returned merchandise—does the salesperson still get credit or is it the salesperson's job to maintain purchases? Was the merchandise defective?
- *Always* mention an audit will be conducted and violations may result in penalties—even if you don't plan to audit.

## REWARDING PRACTICES

**Rewards versus awards versus prizes.** In general and as previously noted, performance programs give *rewards*—vacations, stereos, apparel. Recognition programs give *awards*—plaques, trophies, medals, pins. Sweepstakes and contests yield prizes.

**Does your reward vendor really have the rewards?** Make sure the supplier has a sufficient reward stock or will when the reward date rolls around. Suppliers rely on vendors too. Make provisions in the rules for reward substitutions.

**Warehouse versus drop ship.** If you're offering custom imprinted rewards, consider the control a dedicated warehouse service offers. However, you're buying the prizes up front and may have warehouse costs for leftovers. To avoid additional warehouse costs and up-front purchases, have the manufacturer drop ship the rewards, although this gives you less control and may not accommodate custom-imprinted rewards.

**Aspirational.** For the greatest impact, desirability, and memorability, make rewards “luxuries.” The program is an opportunity to own what we dream of having but otherwise wouldn’t indulge in.

**Trophy value.** Recognition programs thrive on *trophy value*—the plaque on the wall (that cost mere dollars). Give winners a plaque along with the reward. If it’s a group trip, have professional photos taken and frame them for winners.

**Psychographics and demographics.** Consider the participants’ lifestyle, age, gender, geography, income, education, family status, and so on.

**Reward formats:**

*Stock catalog*—Performance agencies offer stock catalogs that you can customize with your company imprint. The reward ranges meet everyone’s taste and several achievement levels. They’re turnkey with a self-administered fulfillment process in place. These rewards typically don’t allow imprints, and they’re commonplace—not particularly exciting or brand reinforcing.

*Retailer catalog*—Many retailers and catalogers offer a reward catalog program, but you can probably shop for better values than their standard 10 percent. You may also consider the exact catalog to fit your target, from Eddie Bauer to Omaha Steaks.

*Custom catalog*—You can shop suppliers directly for your own reward selection. Many agencies offer custom programs. You might imprint the merchandise.

*Sponsorship merchandise*—If you sponsor a league or property, you might create a custom catalog with imprinted rewards to increase the merchandise’s perceived value. (Review what your sponsorship allows and what specifically you can imprint.)

*Travel*—Travel ranges from cruises to destination packages to weekend get-aways. Be cautious with hotel chain vouchers because many chains have independent franchises that may not honor the offer. Domestic trips generally run \$1,800 to \$2,300 per person.

*Group travel*—It may be pricey, but group travel can bond your customers and salesforce with an experience they’ll always remember—and associate with your company.

*Retail gift certificates/cards*—Certificates are easy to stock and send; they accommodate numerous achievement levels; winners choose their reward (which is instant); and the retailer handles warehousing fulfillment. However, rewards

are limited to the retailer's category and selection, and you might do better than the standard 10 percent discount.

*Cash*—This is the most popular reward but least efficient. You get more for your buck with merchandise, even if it's only a 10 percent retailer discount. (See "Prizes" in "Sweepstakes," Chapter 2, page 34.)

*Credit card credit*—You can give credit cards charged with buying power. Offer any level of reward, and there's virtually no administration but this can be a costly service. And although it may cost more than cash, it suffers the same drawbacks.

*On the spot*—This is a discretionary bonus or gift given as a reward for excellent performance right when it happens. It should be as objective as possible for prespecified achievements.

*Recognition*—Even a simple certificate of achievement winds up on the recipient's wall. Recognition should be for specific accomplishments so employees know the criteria for quality performance.

**Reward claims.** Set up a simple process with vouchers or certificates to claim rewards. Include:

- Name and company ID
- Location
- Performance claim
- Reward(s) and quantity (itemize rewards with a checklist)
- Where to ship
- Any liability disclaimers
- Details: Allow 0 weeks; if damaged . . . ; return policy; etc.
- Monitoring and fraud practice
  - Phone or e-mail for questions
  - Signature, possibly with truth claim

### *Insight*

It's remarkable how the 80/20 rule rings true—20 percent of the market represents 80 percent of sales.

Consider an objective of increasing the 20 percent figure and increasing your most profitable customer base.

## BUDGETING

### Ballpark Allocations

Incentive programs are typically funded by incremental sales—profits beyond those you would achieve without a program. Program budgets usually boil down to the following:

- Rewards
- Communication
- Administration
- Training possibly

The following rules of thumb may vary with each situation:

*Incremental sales increase:* Incremental sales goals average 15 to 20 percent; however, they vary greatly by industry. Base your projection on history plus the current sales climate, new products, new accounts, and other factors.

*Total performance budget:* Consider 10 percent of *incremental* sales. To generate \$100,000 in additional sales, allocate \$10,000 to your program.

Another formula is to devote 20 to 50 percent of your projected incremental profit (not sales) to the program. Of that figure, spend 60 percent on rewards and 40 percent on administration and communication.

Consider using the following allocations:

*Rewards:* 50 to 75 percent of your total incentive budget. (This includes warehousing, shipping, etc.) Higher-income, more experienced participants expect more valuable rewards. Sales or dealer rewards may total from 3 to 5 percent of the participant's annual income.

*Communication:* Consider 15 to 20 percent to communicate the program (folders, tip sheets, rules, teaser mailings, posters, progress reports, etc.), which includes creative, production, and shipping.

*Administration:* Consider 5 to 15 percent of your budget for this area, which has a lot of variables: how many employee hours are needed, how detailed your analysis will be, what your tracking and verification processes will be, and so on.

*Contingency:* Allow 5 to 10 percent for the unexpected.

*Training:* If you include training, you'll need to adjust the above figures or tap into a separate budget.

## Open-Ended and Close-Ended Budgets

An open-ended budget has no limit on the values that can be awarded. Keep selling—keep earning. It's geared to sell more product, but the reward system has to keep paying for itself or you'll risk going over budget. Also, you can't budget your total costs up front, such as projecting reward quantities and cost.

A closed or fixed budget program sets a limit on rewards. Fewer people can earn high-value rewards, which may not motivate lesser achievers. However, you can establish a firm budget up front, knowing you have the funds.

**Incremental volume requirements.** See “Discount,” “Budgeting Guidelines,” page 146, and apply the same principles.

## SWEEPSTAKES ADD TOPSPIN AT LOW COST

Because most participants don’t win, the cost is limited primarily to the prizes. Add some motivational sizzle by making every sale double as a drawing entry, so each sale earns points and can win a big prize at program-end. Minor prize drawings every week help keep things interesting.

## POINTS PAY FOR PROGRAMS

You must assign a value to your points, and that value ultimately finances the entire program. (See “Points versus Money,” page 273, plus “Breakage and Slippage,” page 272, in Chapter 10 on the benefits of a point system.)

If a reward is a mini-TV that costs \$100.00, the budget for that reward is actually \$133.33 if you allocate 75 percent of your budget to rewards. (The other 25 percent [\$33.33] is for communication and administration.)

$$\$100.00 \div .75 = \$133.33$$

At .005 cents/point, it takes 26,667 points to achieve a \$100.00 prize (with \$33.33 [25%] left for administration and communication).

$$\$133.33 \div .005 = 26,667 \text{ points}$$

Because \$133.33 represents 10 percent of your sales,\* you needed \$1,333.33 in sales to generate a \$100.00 prize (and \$33.33 for communication and administration).

$$\$133.33 \div .1 (10\%) = \$1,333.33$$

\*Assumes you’ve allocated 10 percent of incremental sales to fund the program.

*Insight*

Scrutinize your structure. Bonus points, for example, could break the house, turning a fixed budget into an open one.

Because 26,666.66 points represents \$1,333.33 in sales, each point represents 5¢ *in sales*. (The .005 cents/point above represents the value of a point.)

$$\$1,333.33 \div 26,667 = \$0.05$$

So your salesperson earns 20 points for every dollar sale.

$$\$1.00 \div \$0.05 = 20 \text{ points}$$

To check your math:

\$1,333.33 sales goal  $\times$  20 = 26,667 points (which equals \$133.33—see above)

or

\$1,333.33 in sales = 26,667 points ( $1,333.33 \times 20$ ), which earns a \$133.34 performance budget ( $26,667 \times \$0.005$ ), of which \$100 goes toward the TV ( $\$133 \times .75$ ).

*Bonus Points:* You can offer bonus points for specific achievements. Again, assign a percentage of your budget for those points and calculate the increased point value.

*Yearlong Pricing Average:* Consider your yearlong price plan when you calculate point values. If you base your points on your full wholesale price, promotional discounts to distributors and retailers will throw off your payout.

*Note:* Also see the discussion of budgeting in “Continuity,” Chapter 6, page 164.

## BREAKAGE

Breakage can save you money on unspent points. If you have a performance agency, ask for breakage credits. See “Breakage and Slippage” in Chapter 10, “Premium Programs,” page 272.

## TAX STATUS

Items valued up to \$400 for safety and length-of-service awards are tax deductible to the company and excluded from an employee's taxable income. Issue tax form 1099 to recipients of rewards valued over \$600.

## SAFETY, TENURE, PUNCTUALITY, AND THE LIKE

The goal of these areas is to save money. ("A penny saved is a penny earned.") Ask the human resources department to calculate how much is lost in productivity from absenteeism, employee turnover (and new training), and insurance claims. Begin your budget based on a percentage increase of improved behavior—fewer days off the job, less turnover/hiring/training, lower insurance premiums, and so on. Recognition rewards can be very economical, from plaques to movie tickets.

## SCAMS AND FLAWS

Ask *everyone* from shipping clerks to salespeople to computer freaks to order processors: "If you were a thief, how would you rob me?" Offer a reward to any successful scenarios.

**Red flags.** Identify indicators to discover misconduct, system flaws, and irregularities; and then establish how to monitor them—who commits them and how often. Consider such items as these:

- Exceptional sales activity (or inactivity) by a salesperson
- Exceptional order activity (or inactivity) by an account
- Duplicate addresses, invoice numbers, orders, etc.
- Any mechanical reproductions of key materials
- Previously unlisted purchasing agents or buyers

**Trial runs.** Run every element of your program through a reality check with every person who'll encounter that element from order forms to tracking reports.

## COMMUNICATION

Give your program a theme that can be a rallying cry. Make it one word or phrase so it's memorable and instantly recognized. Managers should be able to say, "Hey, how you doing in the *Hit the Beachfront Drive?*" so the salesperson instantly identifies the Hawaiian vacation incentive.

Constantly keep the program top of mind. Consider the following:

- **Teaser mailings:** Pique interest before the program
- **The company newsletter, payroll stuffers, statements, and other existing vehicles**
- **Announcement packet:** Usually distributed at sales meetings with all the information salespeople need—performance requirements, rewards, duration, and official rules; consider training materials
- **CD-ROM:** Salespeople can review the program, see training programs, even make sales presentations
- **Web site:** Use it for training, updates, logging and tracking points, and more
- **Faxes and e-mail:** You communicate with these anyway—tag on your communication
- **Audiotape or CD:** For salespeople who spend a lot of time in their car
- **Ongoing mailings:** Create exciting, fun mailings that can vary from clever postcards to novelties; consider attaching progress reports
- **800 numbers, voice mail, and text messaging:** Keep everyone posted on their respective cell phones
- **Progress wall charts:** Foster competition by posting everyone's status, which also sets benchmarks as top performers begin setting the pace and others see what's achievable
- **Home base:** Consider mailings directly to homes, so families rally behind the program and prize

## TOP-LINE COMMUNICATION POINTS

Don't let these important points get buried in the official rules. Highlight them in the program overview:

- Rewards/prizes
- Who can win—titles



- How they can win/earn—how many ways
- Eligibility—tenure, region, division, employment required before and after program period, etc.
- What products are eligible
- Promotion period
- Enrollment process and deadline
- Performance requirements and resultant points/entries
- How to report performance
- How to monitor progress
- How to receive rewards
- Who they go to for answering questions

## COMPLETE RULES

Issue to everyone a complete rules sheet that succinctly spells out every program detail. Envision the unforeseen, such as what happens with ties; if a winner leaves the company; if rewards become unavailable. Include all the dates—invoice dates, invoice submissions, reward claims—everything. Consider an independent agency so you can defer disputes. For travel or motorized vehicles, include a “not responsible” clause as well as waivers of liability for winners.

Some of the topics your complete rules should include:

- Who’s eligible—specific titles, territories, requirement to be employed throughout program duration, etc.
- Which products qualify
- Which accounts qualify
- Criteria and rewards
  - What must be accomplished—be precise
  - What each accomplishment earns
- How entries are submitted, including proper documentation (invoice photocopy, display photograph, buyer signature, etc.)
- Entry deadline
- Program dates—all of them
  - When performance begins and fails to qualify
  - How to document performance timing
  - Submission deadlines
- How entries will be verified

- Penalties for improprieties
- Policy on returns and canceled orders
- How to submit for rewards
- How rewards will be fulfilled—and timing
- Tax responsibility (typically the participant's responsibility)
- Damaged or depleted rewards policy
- Cash option policy (typically none)
- Limitations on rewards, such as the top five salespeople; cap on points; first five to achieve goal, etc.
- How to register disputed performance claims
- Independent judging agency whose decisions are final

## SELL-IN AND COMMUNICATION PROCESS

Here are seven approaches to selling in and communicating a performance program. In these scenarios, a manufacturer is selling through a distributor, who in turn sells to retailers or corporate buyers.

1. Sponsoring regional sales manager secures half-hour meeting with distributor principal:
  - Distributor signs enrollment/authorization.
2. Sponsoring regional sales managers meet distributor sales managers (DSMs) to introduce program.
  - Introduce distributor sales manager's incentive—DSM rewarded for salesforce enrollment and performance
  - Introduce salesforce incentive program
    - Enrollment/authorization form with names and addresses of participants
    - Inventory count for subsequent reward audit
3. Sponsoring regional sales manager and distributor sales managers introduce program to salesforce; enrollment forms signed; introductory kits distributed to salesforce
4. Sponsoring regional sales managers fax enrollment/authorization form to headquarters (or agency), which sends kits according to enrollment form information (unless kits were distributed in step 3); performance-tracking kits may be sent to distributor sales managers

5. Distributor sales manager receives kit to monitor program
6. Regular mailings sent by sponsor to remind and motivate various participants
7. Regular sales reports submitted by distributor sales manager to sponsoring regional sales manager to claim point earnings; sponsoring regional sales manager processes information and forwards to headquarters (or agency) for verification and fulfillment

## REPORTS

Depending on your organization, you won't need all the following reports. Check off what you need.

Enrollment forms:

- Distributor principal
- Distributor/regional sales managers
- Salesforce

Current sales and inventory (to benchmark performance):

- By distributorship
- By distributor/regional sales manager
- By salesperson

Activity reports:

- Distributor principal
- Distributor/regional sales managers
- Distributor/field salespeople
- Brand national sales director

Redemption reports

Budget recap

Tax report—1099s

## EVALUATION

Beyond sales, answer these other important questions when the program ends:

- How did you do compared to your objectives?
- What did it really cost? What was the ratio of incremental profits to cost?
- How much administration time was consumed?
- How many participated—who?
- What type of participant did or did not succeed and why?
- How did participants compare with nonparticipants?
- Were there regional variations; if so, why?
- Were there product line variations; if so, why?
- What did participants think of the program—those who did and did not receive rewards?
- How was the execution throughout the organization?
- Would an open- or close-ended program have done better?
- Was there a competitive program going on simultaneously; if so, how did yours compare in terms of scope, rewards, performance requirements, and results?
- How might other tactics have done—increased advertising, discounting, consumer promotion, etc.?
- How can you build on this model to make next year's even better?

## CHECKLIST

(See details above)

- \_\_\_ Groundwork
  - \_\_\_ Current sales and inventory (to benchmark performance)
  - \_\_\_ Performance objectives
  - \_\_\_ Sales objectives
  - \_\_\_ Criteria for success
  - \_\_\_ How to measure success
  - \_\_\_ Participants—roles and responsibilities
  - \_\_\_ Targets
  - \_\_\_ Timing

- \_\_\_ Program structure
- \_\_\_ Math—quota, point values, budget allocations
- \_\_\_ Reporting system
- \_\_\_ Performance verification
- \_\_\_ Process blueprint—how program rolls out
- \_\_\_ Program rewards
- \_\_\_ Reward claim and fulfillment process
- \_\_\_ Reward backup plans
- \_\_\_ Rules
- \_\_\_ Creative development
- \_\_\_ Communication plan
  - \_\_\_ Targets
  - \_\_\_ Vehicles
  - \_\_\_ Schedule
  - \_\_\_ Budget (including postage)
- \_\_\_ Sell-in process throughout system
- \_\_\_ Inventory counts, sales histories, or other auditing measures
- \_\_\_ “Red flag” alerts
- \_\_\_ Sales activity report forms (to submit sales and then to tabulate and track)—by salesperson, sales manager, distributor, region, etc.
- \_\_\_ Reward redemption reports
- \_\_\_ Tax forms for prizes and IRS follow-through
- \_\_\_ Program recap that reflects original objectives and projections