Incentives have been defined as “what companies put in place — above and beyond straight salary — to get people to do their jobs.” The definition is only partly tongue-in-cheek. The most successful and progressive businesses in the world increasingly are embracing performance-based compensation and incentive programs. Why? Because most of the time, they meet a need and offer tangible benefits.

The need might be strategic: to attract and retain high-caliber talent, manage risk from rising competitive pressures or lift the levels of productivity and performance across the enterprise. Other objectives for implementing employee incentive programs are more tactical, such as shoring up sagging customer service, boosting sales or addressing a shift in the balance sheet. Often, they are short-term efforts focused on driving employee behavior toward achievement of a specific productivity or profit initiative, sales target or service goal.

Incentive programs are equally as effective in either an “up” or “down” business climate. When demand softens, the best competitors recognize the advantage of increasing their share of the market to weather the storm. During an “up” swing, incentives can help accelerate new product introductions, expand distribution and increase market penetration.

**CASH OR NONCASH?**

The incentives organizations offer employees might take the form of bonuses, or they can be noncash rewards. More than three-fourths of the Fortune 500 companies prefer to use noncash incentives. Expenditures for these programs exceed billions of dollars annually, as companies supplement their employee compensation plans (straight, salaried, or commissions and bonuses) with noncash incentive programs.

The Incentive Federation’s “2005 Survey of Motivation and Incentive Applications” examined incentive users’ objectives, practices, costs and results across all levels of American business. Results of the study revealed several trends in noncash incentive use:

- 83 percent use merchandise and/or incentive travel in their sales incentive programs.
- 72 percent use merchandise and/or incentive travel in their nonsales recognition/motivation programs.
- Four out of five survey respondents (80 percent) think travel awards and merchandise awards are remembered longer by program participants than cash awards.

**CHARACTERISTICS OF A GOOD INCENTIVE PROGRAM**

Whatever form of incentive a company selects, for the program to work well and achieve the desired results, the first order of business must be understanding the target employee group, what motivates that group and what it considers valuable. Otherwise, the program won’t be personal or productive.

Identifying exactly what employees are likely to do without being paid to do it, or what their true interests are, is a complicated process. Many incentive managers make the mistake of assuming that what motivates them will motivate everyone.

For instance, employees with large disposable incomes find free travel and merchandise very exciting. Those with less overall income, however, might find “free” still costs too much. For them, the tax implication alone can be a deterrent to winning a “free” trip, let alone the costs associated with enjoying the experience. Therefore, it is important to keep these differences in mind when planning any incentive strategy.

Public recognition, on the other hand, is generally a universal motivator. Most employees rate “regular recognition of my contribution” as one of the top drivers of employee engagement. To get employees excited about the program, first implement a system for recognizing the top achievers and then make recognition a part of every program within the company. The size or value of the reward is a secondary factor, as long as the company is diligent in giving recognition where it is due.

To ensure the program is structured for success, it pays to begin by segmenting the target audience, grouping employees according to their levels and interests. Defining the participants makes it easier to develop an awards program that is appropriate, with rewards that are suitable for each group. If there is uncertainty about what motivates employees, the easiest recourse is to ask them.

The actual segments used for any incentive program are based on the character of each corporation. But in general, it is helpful to organize employees into several categories, determine what appeals most to each group and then tailor the incentive rewards accordingly. A fairly typical employee segmentation might look like this:

**LEVEL A:** The first group consists of hourly workers, clerical positions and entry-level employees. They generally are not motivated by travel or luxury merchandise — their main concern is trying to pay the
The first order of business must be understanding the target employee group, what motivates that group and what it considers valuable. Otherwise, the program won’t be personal or productive.

monthly bills. The incentive program for this group should be geared to their needs and interests.

For the Level A employee who is trying to make ends meet, extra cash is a good motivator. Gift certificates or vouchers to restaurants, movie theaters and other leisure activities, however, often motivate better than cash, and they are free from guilt. They allow the winners to indulge themselves and their families with entertainment they might have denied themselves because of budget constraints.

If travel is selected as a reward, a fully hosted travel group would be preferable for the Level A employees. A travel package that includes airline, hotel, some meals and some activities, along with the opportunity to enjoy these perks with peers, can turn this reward into a desirable incentive.

LEVEL B: The second employee group consists of middle managers, salespeople or sales managers. These employees have some equity in their homes, their cars and their careers, along with significant disposable income. Travel rewards might have greater appeal than merchandise for members of this group because they might be more flexible with their time and income.

This group contains a wide range of individuals. Therefore, incentive programs must address their incomes, education, interests and other evaluation criteria. Level B employees put a premium on flexibility and convenience, and they are attracted to vacation travel. Management-level employees are typically upwardly mobile, competitive individuals. They like to be in the forefront, and they like recognition. Individual travel is their preferred award — group trips are less appealing to these employees.

LEVEL C: This group of employees is made up of executive level managers, owners and distributors. These individuals have free time and significant disposable income. Many travel first-class, indulge themselves in fine foods and expect the best for themselves. They have participated in many incentive programs and understand the “rules.”

Their major interest is the multiplicity of choices and the prestige associated with the awards offered. Noncash incentives must be very upscale with brand recognition. Travel must be first-class, paying special attention to the personalized treatment of their “status.” To entice these employees, the reward should be something they would pay for on their own.

The word “free” is very compelling to Level C employees. These potential winners earn in excess of mid-six to seven figures a year, so money is not a motivator. They can afford to make their own vaca-
From Incentivcentral.org

Once you decide to pursue an employee incentive program, where do you turn to make it happen? There are hundreds of suppliers in the marketplace who offer a wide range of services and merchandise geared toward employee motivation. Incentivcentral.org is a nonprofit, online information center supported by the industry. The site is designed to provide an objective, comprehensive, noncommercial gateway to information about motivation programs and resources. Here is a sampling of the information you can find on the Web site about suppliers and a list of several vendors who are considered industry leaders.

**Full-Service Performance Improvement Companies**

These companies put together all the incentive program elements into an integrated, turnkey service that includes in-house communications, tracking, administration, reports and awards. The largest even provide training services.

**Incentive-Fulfillment Companies**

These companies offer print and online catalogs, plus drop-shipping awards to recipients. They do not offer comprehensive program support and generally can do everything involved with the merchandise program itself.

**Incentive Representatives**

These regional companies function as exclusive factory authorized representatives, selling brand-name merchandise at factory prices for qualified incentive programs. Some have evolved into miniature promotion marketing agencies that offer marketing and tracking support for incentive programs.

**Internet Incentives**

Web-based incentive programs (and many traditional companies) allow companies to create their own programs, including tracking, administration and qualification, as well as select from awards offered by the online incentive company.

**Debit and Loyalty Cards**

The credit card industry produces a plethora of card-based award programs including pre-charged cards that expire once they are used and new card accounts with an opening balance that can be recharged.

**Meetings and Incentive Travel Companies**

These companies offer corporate travel programs specifically designed to motivate and inspire. Most are based on strategic destination selection, on-site events and activities and multidimensional communication. The best have their roots in the incentive business, not the travel industry.

**Promotional Products Distributors**

These mostly regional ad specialty companies have gotten into the incentive business, usually to serve clients with smaller budgets than the big agencies can handle profitably.

**Consumer Products Manufacturers and Retailers**

Almost every brand-name manufacturer and retailer has a special markets division that sells branded products and/or gift certificates in quantities at bulk pricing for corporate use in incentive, recognition and business gift programs. Representative vendors in the industry include:

- American Express Incentive Services
- Anderson Performance Improvement
- Awards.com
- Carlson Marketing
- CorporateRewards.com
- Discover Network
- Disney's Incentive Rewards
- Dittman Incentive Marketing Corp.
- EGR International Inc.
- Hinda Incentives
- The Incentive Group
- James Feldman Associates Inc.
- Maritz Inc.
- Madison Performance Group
- Marketing Innovators
- Meridian Enterprises Corp.
- MotivAction
- O.C. Tanner
- USMotivation
- Visa Rewards
- Selling Communications Inc.

Incentives have "bragging rights," and nothing is more important to the Level C employee than to be able to say "I was there."

**Developing the Right Program**

The excitement and challenge of all business activity center on motivation. With a properly run incentive program you can motivate your employees to outperform expectations. But that's also where the challenge
STEPS TO CREATE AN EFFECTIVE INCENTIVE PROGRAM

1. Review Incentive History
   - What did your company do?
   - What do you know about the success or failure of the program?
   - If you ran the same program today, would the results be different?
   - If the winners were given the same reward for the same effort, what results would you expect?
   - Did you receive suggestions or complaints that would make a similar program run more smoothly?

2. Define the Role of the Motivation Program
   - Who are the participants?
   - What end result do you anticipate?

3. Set Objective Measures for the Program
   - Is the anticipated outcome measurable?
   - Is it realistic?
   - Is it attainable?

4. Create an Incentive Strategy
   - What is the business objective of the promotion?
   - What are the results you want to achieve?

5. Review the Objectives and Strategies with Management
   - Make sure everyone on staff (including support personnel staff) is involved.
   - Make sure all department heads understand the program before it is presented.

6. Determine Tactics and Creative Concepts
   - What kind of theme or graphic representation should be used?
   - How and when should the program be announced and promoted?

7. Set a Budget
   - What is the maximum potential cost of the awards?
   - What should be budgeted for a communications/promotion program to support the awards?
   - What will the administrative costs be for tracking progress for everyone in the incentive program?
   - What about training (which is often neglected within incentive programs)?
   - How can the education component be incorporated into the incentive reward?

8. Prepare the Specifics of the Incentive Program
   - When will the program begin and end?
   - Who will be the participants?
   - What type of program will it be? The rules should be clear, simple and comprehensive, and you should anticipate surprises.
   - Select a memorable, appropriate, simple, exciting theme.
   - Choose the awards.

9. Implement and Track Program Results
   - Assign responsibility for tracking.
   - Provide reports to participants at each level, managers and executives.
   - Fine-tune throughout the program.
   - Monitor fulfillment of awards.
   - Interview winners after they receive their prizes.

10. Debrief After Completion
    - When the program is history, ask for feedback from all levels.

is: to run a measurable, effective motivation program specifically designed to achieve stated business goals. Too often, an incentive program is created in a vacuum. Many sales incentive programs provide a good example. The program might be developed out of a desperate need to boost sales dramatically or to meet year-end sales goals in a "now-or-never" time frame. Managers, thus, rush to put together an incentive program with too little forethought. When the results don't meet expectations, few see the construction of the incentive program as the problem. Sometimes, the incentive plan might be blamed as the culprit. Creating a program that motivates performance in a cost-effective manner doesn't just happen — it is a multistep process that involves planning and research. Following these steps (see sidebar) increases the likelihood the employee-incentive program meets not only its identified organizational need but also the needs of the participants for recognition, appreciation and a sense of working toward a common goal. It also provides a template for future engagement efforts that can be repeated in other departments, to meet alternate goals, to address new challenges and motivate different segments of the workforce.

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