IRF®

Incentive Research
Foundation

Designing for Successes: Effective Design Patterns for Sales Incentive Programs

This and all other IRF reports are available at TheIRF.org

Designing for Successes: Effective Design Patterns for Sales Incentive Programs

With the majority of all U.S. businesses (84%) now using non-cash awards and the majority of top performing businesses (those with the highest revenue growth, customer satisfaction, and employee satisfaction) saying their executives support their non-cash recognition and reward programs as a competitive advantage, the eminent need to understand how to create effective programs becomes clear.

This begs the question: *What patterns exist in program design among effective non-cash incentive programs?* To this end, the Incentive Research Foundation (IRF) analyzed several years of relevant research to identify noteworthy design elements for effective non-cash recognition and reward programs.

As 60% of all U.S. businesses use non-cash sales rewards, spending conservatively $23 billion annually on these awards, it is important to pay close attention to the effective design elements of sales incentive and rewards programs.[1]

Setting Program Objectives: Emphasize Multiple Behaviors

Long gone are the days when sales programs concentrated solely on sales dollars. To use these tools more readily as a competitive advantage, many organizations are expanding beyond a single sales objective and incorporating other non-core job behaviors such as productivity, training, and culture into their program design. To that point, most organizations now have more than one objective for their non-cash sales program. The top three primary objectives for sales rewards and incentive programs today are *increasing overall sales* (80%), *improving morale* (76%), and *improving productivity* (58%). Other important sales program objectives include *gaining market share* (47%), *increasing sales of specific products* (27%), *changing the culture* (21%), *promoting cost reduction* (17%), and *rewarding training completion* (16%).[2]

Structuring the Rules: Center on Quotas

How should an organization structure its sales program rules to meet its primary objectives? In the same vein as objective-setting, programs now also require multiple targets, with quota-based rules structures—the first and most predominant structure in successful businesses. IRF research found that 80% of top performing organizations use *sales quotas* (individualized targets, participants earn awards when they hit those targets), 71% use *top performer* structures (goals set for all participants and top performers earn award at end of time period), and 51% gave *team recognition awards* (given to team for reaching team goals).[3] These numbers show a balance of both hard (e.g., sales) metrics and soft (e.g., teamwork) metrics. *Other goal-based* structures and *discretionary* rewards were still used by more than 40% of top performing businesses. Interestingly, top performers were also 60% more likely to have no "top stop," with three-quarters reporting they allow salespeople to have unlimited earning potential.

Rewarding the Right People: Expand Your Footprint

Program designers should aim to reach the *right* people, not just the top performers. Interestingly, who the "right people" are has shifted from a focus on only the top echelon to one that includes more of the middle. Traditionally, non-cash sales incentive programs were focused on rewarding only the top 5–10% of truly exceptional performers. However, when IRF asked planners at top performing companies in a recent survey whether their non-cash sales program structure was focused on recognizing the truly exceptional performers (exclusivity) or if it was structured to ensure each participant receives a recognition or reward in the program (reach), top performing companies were more likely to say *reach*. More than half (56%) of top performing companies said *reach* was the focus of their sales program design structure.

But how far are organizations trying to reach? Fewer than 20% of top performing organizations indicated that all salespeople are eligible to earn non-cash rewards. Additionally, the research showed that on average, roughly 56% of the sales workforce in top performing organizations is eligible to earn non-cash rewards.[4]

Designing Top Performer Travel: Understand and Reflect Your Culture

One of the biggest findings from the IRF's most recent research shows how incentive programs, specifically top performer travel programs, are a distinct distillation of the organization's corporate culture. These programs are most successful when they are designed to reflect and enhance this culture. The culture-focused design in top performer travel programs has implications for how meetings are incorporated, if spouses/significant others are invited to the trip, how the rewards are communicated, and how top salespeople are recognized.[5]

Each organization has "signposts" to help guide planners and designers to patterns that will support this cultural reflection. For example, if the company is of the "ardent" (focused on emotion and fun) or "social butterfly" (focused on relationships, the "whole employee" and family) types, business meetings will not be a central program focus and spouses will almost always be included. Alternatively, if the organization is the "icon" (top performers embody the essence of the corporate culture to which other employees aspire) or "maverick" (top performers are seen as the innovators and risk takers) type, business meetings will be a core part of the top performer program and should concentrate on the sharing of best practices and solving of business problems respectively. (Note: More information on designing for culture is available at the IRF's paper *Striking the Balance: The Integration of Offsite Business Meetings and Incentive Group Travel*.)

Program Funding: Start at the Bottom

As with employee programs, top performing companies are nearly 100% more likely than average performing companies to use a bottom-up model, with over half (57%) using income-based funding. This means instead of setting the budgets from the top with executives, top performing organizations are starting at the most base level: with the sales employee and their salary. IRF research shows that while the average business in the United States uses 7.2% of income to calculate budgets, top performing businesses use 9.4% of projected income. Additionally, while less than half of average performing companies in the United States have no top stop on their programs, almost 80% of the top performing businesses have no top stop on their sales incentive program, *meaning the sales person can earn unlimited awards based on the amount of product/ service they sell*.[6] The typical sales person can expect to earn $3,916 in a top performing business annually, with the top performers in these companies earning over $5,000 in awards.[7]

Determining Awards: Combination is Common

Sales programs can use one of many award types, including *recognition awards*, *recognition events*, *merchandise*, *symbolic awards*, *gift cards*, *logo merchandise*, *individual travel*, *group travel*, *group incentive travel*, and *cash*. On average, businesses use more than seven types of awards for sales incentives.

Specifically, 72% of U.S. businesses with sales incentive programs use *gift cards*, followed by 44% that use *award points*, 44% that use *merchandise*, and 34% that use *trips and travel*. Over 80% of U.S. firms use more than one award type.[8]

Multiple Programs: Efficiency in Consolidation

Although not yet the vast majority, a growing number of top performing businesses now maintain a single sales incentive program for the entire organization. Most interesting, however, is that these top performing companies are more than *three times more likely* than average performing businesses to have a consolidated program across the company. That translates to 42% of top performing companies having a single program. Additionally, more than *half* of top performing companies said that although they still had multiple sales programs these programs were now *designed and managed under a common purpose.*[9]

Program Support: Think Outside Your Walls

While many organizations still run part of their sales programs internally, IRF findings show a trend towards outside support—with over 60% of top performing companies seeking support from external partners. Top performing businesses are also statistically more likely than average companies to engage outside partners for their expertise.[10]

Not surprisingly, awards are a key part of supporting the program. The Incentive Federation found that half of U.S. businesses engage supplier expertise for best ways to motivate participants and over two-thirds using external award suppliers.[11]

Administration: Communications and Tech Support

Good incentive program design requires technologies and tools that *support* the program. IRF research indicates that 43% of a top performing company's budget generally goes to *program administration* (design and operation) versus only 30% of a budget of an average performing company. Top performing businesses were more than 79% more likely than average companies to integrate communications for sales programs.[12] Likewise, over 70% of businesses use some level of program-specific technology to support their non-cash sales incentive programs, showing a distinct movement away from solely using common tools such as Excel or Word.

Measuring Effectiveness: Multiple Metrics

Just as with employee programs, more than three-quarters of top performing firms reportedly fully leverage the performance data produced by their sales rewards programs and use the insights and analysis to guide decisions in sales program design.

Results from an Incentive Federation study show that the three performance metrics that are most often used to evaluate the success of sales incentive programs are *product sales in dollars* (66%), *net new customers* (49%), and *product sales in units* (37%). Other key metrics include *financial metrics such as revenue* (36), *productivity metrics* (25%), *staying in budget* (24%), *ROI* (20%), *tenure* (20%), and *satisfaction surveys* (14%).[13]

To view the full study, *Designing for Successes: Effective Design Patterns for Employee and Sales Programs,* **please visit:**
http://theirf.org/research/designing-for-successes-effective-design-patterns-for-employee-and-sales-programs/2304/

Endnotes

1   http://www.incentivefederation.org/industry-research/

2   Incentive Federation Program Design Study 2015

3   http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/

4   http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/

5   http://theirf.org/research/the-integration-of-offsite-business-meetings-and-incentive-group-travel-meeting-planner-whitepaper/260/

6   http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/

7   http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/

8   http://www.incentivefederation.org/wp-content/uploads/2016/07/Incentive-Marketplace-Estimate-Research-Study-2015-16-White-Paper.pdf

9   http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/

10   http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/

11   http://www.incentivefederation.org/wp-content/uploads/2015/10/Study-Final.pdf

12   http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/

13   http://www.incentivefederation.org/wp-content/uploads/2015/10/Study-Final.pdf