



Incentivising Incentive Programs

Concept

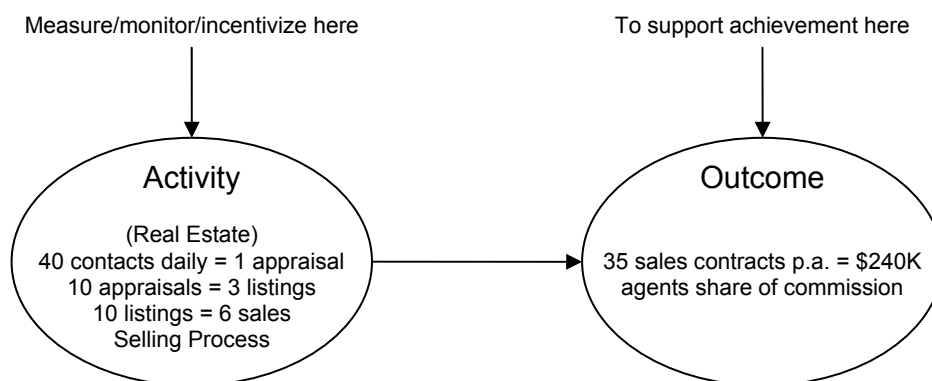
In business, as in life, you cannot produce a result if you don't do the work first.

Incentive programs typically focus on rewarding the results, like a sales target. These rewards can sometimes be a long way removed in time from the daily activities that build to produce the results to get the reward.

Helping producers focus on the activity they need to do to produce the outcome will give the achievement of the bigger outcomes a greater chance of success.

Finding ways to either directly incentivise activity or measure/monitor the contribution this specific activity makes to the achievement of the outcome or target, will help maintain momentum and build a sense of achievement and progress. This is particularly important for businesses that are not culturally "sales-" or "performance-" based businesses.

The picture below demonstrates the idea, using the example of real estate sales agents who are very sales focused and know their statistics on conversion rates through the sales process.



As a sales agent, you need to achieve up to 40 contacts a day to produce a \$240K remuneration in a year. Just knowing that every phone call or contact equates to \$24 towards your goal can keep you going on days when you really don't want to pick up the phone one more time. It also provides the business with a way to forecast their revenue based on the sales pipeline/activity. Many sales producers we see do not have the required level of sales pipeline/activity to make their target and therefore the business will not achieve its targets.



Understanding your business's sales process and conversion rates will then help to design an **appropriate to your business** and **incentivising** incentive program. Importantly, it will allow you to build sales management systems and assess marketing and training requirements for the business to achieve its objectives.

Plan it

Questions to ask yourself first:

1. What specific result do you want? As a business and by each individual. This is normally a \$ result.
2. What behaviour or action by the revenue producer will achieve this result? Normally there is a core activity that can be monitored at a data level e.g. number of contacts with their accounts that leads to the result.
3. How much are you willing to pay for this result? For example, % of revenue generated, or gross profit. An incentive program will add a cost to your business and reduce profit, so think of it in terms of what cost of sale are you prepared to accept. Your industry or business may have a benchmark revenue target as a multiple of employment cost — 3 times, 5 times or a known cost of sales benchmark e.g. 10% of sales as the total cost of revenue producers employment including commission or bonuses.
4. Remember to conditions sales if necessary to achieve the profit as well as the sales if producers have leeway in pricing.

Design it

1. Link the reward as closely in time as possible to the required behaviour or smaller/more immediate outcome e.g. no calls per day may form a component of the program.
2. Make the program as unlimited as possible in the opportunity to earn. The more that is produced, the better for you and for the individual. Sharing financial success and win/win are a great basis for incentive programs.
3. Ensure the business is already producing the data to calculate the incentive or is able to capture it easily. You don't want an incentive program to tie up lots of time in administration but you do want to be able to verify that the results are real.
4. If there are multiple parties involved in achieving an outcome, then you need to incentivise each participant. In a real estate example, there can be a different person at each step in the sales process — lead generation, appraising and listing, providing the buyer and negotiating/closing the sale. While it sounds complicated, those businesses have built the systems on understanding the importance of each step and the need to reward each participant.
5. Model the incentive to check cost and test-run on existing data to verify ease of administration and calculations. Also, verify that the model runs as expected in extreme scenarios.



6. Ensure there is a rolling component on monthly-based targets so at the end of the year or employment, the business achieved its total outcome as well as the person.
7. Structure the payment to ensure the cash-flow is generated before the commission is paid. The sale generally needs to be in the bank before paying out. There are exceptions but not often.
8. Consider that an individual's incentive program may not be able to be scaled as a sales team grows or a focus can change. Always have a 12 month program and review annually.

Deliver it

It is important that your sales people have a thorough understanding of how the program works and what it can deliver in reward to them.

1. Talk them through it so they understand your thinking - the mechanics, any conditions - and that there is a transparent way for the results to be verified on both sides.
2. Give them a spreadsheet model to play with so they understand the dynamics of it themselves and can scenario-test based on their own behaviour and performance. It can be quite exciting for them to realise that keeping their call rate up, for example, can deliver an exponential return for them.
3. Focus them on the activity that is going to produce the outcome.
4. Make sure they know how and when they get paid.

Apply it

Some application case studies to get you thinking.

Case Study 1

A BDM for a technical services business has a strategic objective to secure a total \$240,000 in new maintenance contracts over the next 12 months. The contracts can take up to 3 months to commence from first contact with a new client and then there is a 3 month probationary period for the contract to be deemed secure. It is a new role, so there are no sales statistics to forecast results from activity.

Solution

We built the incentive based on a fixed % of the maintenance contract won and a minimum Gross Profit requirement of 30% rather than creating administrative complexity by using a commission based on revenue received monthly from the contract.



This approach had a couple of benefits:

- *The BDM is able to value his pipeline and, importantly for him, value the potential earnings that he is building.*
- *He knew exactly how much he would receive once a contract was past its probation and due for payment.*

There is no risk for the owner of overpayment, even if the target was not reached, as the contracts are generally for 12 months and produce additional revenue as well.

Case Study 2

*A distribution business is experiencing a shift from the traditional **order-taking** role of the sales rep, to an **order-making** role. The ordering is becoming more centralized through buying groups at a state or even national level. Additionally, some represented products moved to an agency basis with no stock warehoused by the business, so there is no sales data by rep or state available. This agency sales activity is not included in their incentive program even though it forms at least 40% of their calls. How do you incentivise the sale reps when you cannot directly attribute sales to their accounts and them?*

The business only has data for ex-factory sales — products it warehouses and distributes — by state. It receives commission for its agency product as one bulk payment, however it can factor up these agency sales to the represented sales level (i.e. the ex-factory level).

Solution

The key activity that can be monitored and verified at a rep level is the number of contacts they make on a daily basis e.g. 8 contacts per day which can be a store visit, phone call or training.

So the incentive was built on a combination of:

- *Activity—the achievement of their contact targets and*
- *Outcome—their \$ sales target, which is now based on a state average per contact and multiplied up based on their targeted activity level.*

The upside is that they can now have the agency sales factored into their results giving them the opportunity to earn more, even though there is an averaging factoring in the equation.

The incentive is calculated based on a % commission of sales over target and a fixed reward for achievement of their call target.

White Room can help you design an effective incentive program. It is only a call and a coffee away to get started with an initial meeting.