



## INCENTIVE PROGRAMS GONE WRONG: Avoid Failure by Dodging These Seven Hazards



The road to incentive programs is always paved with good intentions. Unfortunately, when trying to achieve positive business outcomes with incentives, especially financial growth, good intentions are not enough. Strategic, and ultimately successful, incentive programs are far more complex than the all too common “do something, get something” approach still attempted by managers and marketers across every industry. Anyone who believes incentives are an intuitive strategy has probably fallen into one or more common traps.

When incentive programs fail, it is usually because of mistakes made in implementation<sup>1</sup>. The good news: if companies take precautions and explore every if/then scenario before launching an incentive program, they can derail unanticipated hazards before they become real problems. After all, no one wants an incentive program that could inflict more damage than the basic challenge it was intended to improve in the first place.

Incentives are serious business: sales incentives alone now represent a \$127 billion industry. The past five years have seen a groundswell of academic research that not only quantitatively proves incentives are a legitimate tool but also drills down further to define which incentives are most powerful for the demographics involved and the specific behaviors desired. Incentives are now enjoying a seat at the “grown-up table,” with savvy marketers and managers including them in their marketing arsenal. They recognize the power and value of incentives to influence behavior and attitudes and to drive specific actions that result in business growth. Companies deploy incentives to

promote specific behaviors and actions including, but not limited to the following:

- ◆ Recognize Performance
- ◆ Increase Sales
- ◆ Expand Productivity
- ◆ Improve Product or Service Quality
- ◆ Shorten Business Cycles
- ◆ Encourage Safety or Wellness
- ◆ Inspire Dealers and Channel Partners
- ◆ Appreciate Business Relationships
- ◆ Award Years Of Service

While this may seem a daunting and disparate array of applications (and this list does not even include business-to-consumer incentives), basic pitfalls can befall any type of incentive program. Following are seven common hazards that experienced incentive providers are trained to avoid. Ignoring them will lead to countless hours and dollars wasted and may cause your incentive program ultimately to do more harm than good.

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<sup>1</sup>2002 Incentives, Motivation and Workplace Performance study sponsored by the International Society for Performance Improvement.

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## Seven Incentive Hazards

**1 Forcing participants to reach for impossible goals.** You need to provide sufficient, attainable actions to realistically procure an award. The goal must be challenging and specific, yet achievable. Especially in the beginning, reward them quickly. It's been proven that once a participant makes his or her first award redemption, the likelihood of maintaining program engagement is very high. Break down actions into bite-size increments so participants feel like they are working towards a realistic goal. Incentive program participants must believe the program is fair, that it will be properly administered, and that they have a shot at actually achieving the reward. If not, participants will not support the program. Set goals, select rewards, and develop the administrative process. If goals are set too high (i.e. an all-or-nothing approach), early failure will discourage participation. If goals are too low, there is no effort required (thus, no change in behavior) to gain the rewards. Goals must be clearly defined and easily measured.

**2 Keeping the boss out of the picture.** Do not embark on an incentive program unless or until there is real and tangible buy-in from the highest levels of management. Support from big internal decision makers is a first step toward program success. Share some of the recent research on the value of incentives with the folks in the corner offices. If management does not believe in the incentive program and stand behind it, neither will employees – not to mention the limitations of an incentive program without sufficient budget. Participants must have trust, and this is best accomplished through an active and strong management presence and role. Bring management into the planning process and guide key executives on how to become and remain engaged in the program, perhaps

through an occasional letter on the incentive program web site or personal “atta boy” emails to participants.

**3 Rules, rules, and more rules.** Don't offer a program with fine-print conditions that result in aggravation and frustration. It happens all too often. Consider your own experience with blackout dates on travel and lodging awards after you've very meticulously counted every last dollar spent using your credit card. If you give recipients incentives that are difficult to redeem or exclusionary, the backlash will be considerable and detrimental. Make it fun and rewarding, not frustrating.

**4 Gifting gaffes.** These common errors are easily rectified. Make sure to tailor rewards to fit the participant base. If not, it's unlikely the incentive program will motivate anyone. The rewards must have value to the recipients, not management. Consider the gender, age, and lifestyle of the people you're “incentivizing.” You may think you know what they would like and value but you may be mistaken. Have you ever given the wrong gift to your “better half,” children or parents? Establish a survey for employees, customers, or a focus group. In fact, you should design every incentive program with input from participants.

**5 Straying from the game plan.** Keep programs straightforward. Failure to establish proper guidelines and administer programs consistently, is cited as the primary reason for incentive program failure. If the rules are too complicated or inadequately communicated, participants will question bothering with the program at all. If you're running an internal incentive program, honestly assess which employees you're trying to engage. Travel to the call center, fulfillment house, or production line. What's the most productive and direct way to communicate with

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them? All too often, managers in the home office/ivory tower create programs but then can't communicate the value to participants. Because the incentive program is lost in translation, the potential for backfire is enormous. Ensure effective communication about the program as it is implemented. Continually remind participants of the business reasons for the program, its rules, how it works, and how it measures progress. Again, consider bringing participants into the planning and administration process to offset these issues.

**6 Not giving programs enough time to flourish, engage and produce.** Make sure the incentive program is sufficiently long enough. The most successful programs average two years; programs extending beyond one year produce an average 44 percent gain. Give participants enough time to earn points, accrue a decent amount, and revel in their achievements.

**7 Ending abruptly.** Do not pull the plug on any program without a plan and proper communication. Consider that your participants might be saving points for something they've always dreamed of owning, but could never afford when suddenly—bam!—a door shuts in his or her face, because someone didn't think the program was working. Every program should begin with a defined timeline. Renew or extend incentive programs but never end them early.

Savvy companies increasingly see that do-it-yourself incentives are not a wise option. In addition to the seven challenges listed above, other problems can arise in the implementation of incentive programs. Large companies with multiple locations are especially susceptible to incentive program failure where separate divisions run several different programs simultaneously. Centralized and integrated programs are far more

cost-effective and successful. Another potential problem with designing and running incentive programs is that most organizations do not have a dedicated incentive champion. Instead, incentives fall variously within the bailiwicks of management, marketing, sales, or human resources. Imagine how troublesome and inconsistent programs can become if personnel from each of these areas are running separate programs within the same company? Recent research has explored the impact of incentive programs on other business operations. A novice incentives practitioner does not have the know-how to determine how an incentive program might affect cost-of-goods, shipping, customer relationships, and cash flow, to name just four critical business functions.

For all of the reasons listed above, it makes sound business sense to approach incentives with strategic preparation, long-term planning, a solid framework, and dedicated professionals to administer the program for the long haul. Fortunately, the field and its experienced practitioners have matured sufficiently to fulfill these requirements. There's a lot more to incentives than giving a prize and a pat on the back.

## About Incentive Logic

Incentive Logic Inc. works with businesses to develop performance-based rewards programs that help them achieve their goals. By combining business intelligence with a next-generation software platform, it helps clients target key performance indicators through tailored incentive solutions that ignite performance. Founded in 1998, Incentive Logic, Inc. is a privately held company headquartered in Scottsdale, Arizona.



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