Sales incentive programs boost performance and focus participants on the goals of the organization. Add the fact that, unlike most marketing investments, you typically get the results before you incur the bulk of the cost, and it’s clear why many top-performing companies use incentive programs to drive growth and maximize the achievements of their sales force.

When designing a sales incentive program, there are a number of key questions that must be answered. How much sales revenue do you expect to generate? What is the most effective time frame? What level of reward is needed to motivate the team? The purpose of this document is to identify these decision points, and provide some rules of thumb to help calculate the parameters.
How to determine the rules and budget for your program to help you achieve a positive ROI.

The design of the program can be divided into three main areas - Setting the Budget, Designing the Program, and Driving Engagement.

Setting the Budget
How much should I invest in the incentive program? That is often the first question in the planning stage, but it misses the point. Since you would only design a program that will have a positive ROI, the starting point should be how much incremental revenue you expect to generate from the campaign. This will tell you how much additional profit is created, which is then the basis for your program budget. Don’t forget that, even without the incentive program, some growth will be achieved using traditional marketing channels such as advertising and sales tools. Make an allowance for this in your calculation.

Rule of Thumb: The cost of the program should equal 15-25% of incremental gross profit, or approximately 5% of the incremental sales.

For Example:
Previous Year’s Revenue = $100M at 20% Gross Profit
Anticipated growth without a sales incentive program = 5% = $105M
Growth Target for this Campaign = 15%

- New Revenue Target = $100M x 115% = $115M
- Incremental Revenue = $115M - $105M = $10M
- Incremental Profit = $10M x 20% = $2M

Program budget = [15 to 25% of $2M] = $300-500k

“74% of U.S. businesses use non-cash rewards to recognize and reward key audiences in the form of incentive travel, merchandise or gift cards.”
— Incentive Federation
The rule of thumb also applies to channel programs. A national electrical distributor, selling to large and medium-sized electrical contractors, ran an incentive program to encourage and reward their fastest-growing customers. For eligible contractors who increased their spending by $250k for the year, the distributor took them on an all-expenses paid, seven-night Mediterranean cruise with two nights in Venice worth $10,000 (approximately 25% of the additional profit, 4% of the incremental sales).

Rule of Thumb: The potential reward should be worth approximately 5% of their normal expected compensation for the period of the contest.

For Example:

Salesperson A sells capital equipment; their base salary is $100,000/yr, and last year they earned $20,000 in commissions. For a three month sales program, their potential reward should be valued at approximately $1,500 \([120,000 \times 3/12 \times 0.05]\)

Salesperson B sells insurance policies; last year, they earned a salary of $40,000 and $15,000 in commissions. For an annual program, their potential rewards should be worth approximately $2,750 \([55,000 \times 12/12 \times 0.05]\)

Ideally, the answers to these two rules of thumb (budget and relative reward level) give similar answers. If the available budget does not allow a reward at the required level, and the assumptions (growth rates, profit margin) seem realistic, then decide if you are willing to give up more of your profit dollars to fund the growth. Running a sales incentive program with a potential reward below this threshold is unlikely to generate the excitement necessary to succeed.
Designing the Program

Setting program rules correctly is key to a successful outcome. Focus on “can do” rules as opposed to restrictions and prohibitions will generate a more positive response. Make programs rules follow the FAST principle:

- **Fair**
- **Achievable**
- **Simple to Understand**
- **Tied to Objectives**

Here are some of the key elements to consider:

**Open-ended or Closed-ended Contest?**

In an open-ended contest, people are competing only against themselves, and the number of winners is not limited – anyone who achieves the goal earns the award. This approach produces maximum motivation, and meets the “Fair” and “Simple” criteria above. It also helps to “move the middle,” since everyone should feel that they have a chance to win. Research has shown that, when the mid-level performers raise their numbers, the performance of the top 20% (the self-motivated high-achievers) will also be pushed to the limit.

In a closed-ended contest, the prize is only awarded to a fixed number of people, (providing they exceed the goal). This is typically preferred by the CFO because it results in a low-risk, predictable expense. Unfortunately, it can be demotivating for people who have been in the middle of the pack in previous years – they may assume that it will be the same top performers who win every year. And even worse, it is extremely demotivating for those who finish just below the winners bracket (who wants to be 101st on the leaderboard when the top 100 go to the Caribbean?)

Best Practice is to use an open-ended contest, to engage and motivate the maximum number of participants. This takes courage, and requires a thorough understanding of the mechanics to justify the approach to senior management. If the contest is designed properly, with appropriate goals and effective forecasting, then the reward is self-funding, and there is little financial risk. The more winners you have, the more incremental profit these winners have generated to pay for the award.
Measurement
It’s tempting to put together a program based on multiple metrics – revenue, profit margin, and product mix are the three most common. But if you want the sales force to keep the contest “top of mind”, then keep it simple. One or two threshold numbers make it easy for your sales team to manage, your marketing team to report, and your finance team to track. Which do you think is most in line with the FAST principle?

- Sell 100 units
- Beat last year’s sales by 15%
- Sell $100,000 of total product, or 115% of last year’s sales (whichever is greater); or sell $75,000 of product, of which at least 50% is of product A.

Calculating the Program Budget
The program budget should equal 15-25% of the expected incremental profit. For this calculation, assume the midpoint of 20%.

Previous Year’s Revenue = $_____ [A]
Average Gross Profit = _____ % [B]
Anticipated growth without incentive program = _____ % [C]
Growth Target for this Campaign = _____ % [D]
Anticipated Revenue without incentive program = [A] x [C] = $___________ [E]
New Revenue Target = [A] x [D] = $___________ [F]
Incremental Revenue from Campaign = [F] - [E] = $___________ [G]
Incremental Profit from Campaign = [G] x [B] = $___________ [H]
Program Budget = 0.20 x [H] = $___________

Calculating the Value of the Reward
For a reward to be a significant motivator for the participant, its value should be 5% of their compensation for the period of the campaign.

Annual Compensation = Average Base Salary + Average Commission + Average Bonus
= $___________ + $___________ + $___________ = $___________ [A]
Length of Campaign ____________ months [B]
Approximate Value of Reward = [A] * [B/12] * 0.05 = $___________
Length of Program

A Sprint Campaign will typically run for two to three months, and can be used to kick off the year with a fast start, close out the year strongly, or focus on a new product launch. It can also be used to encourage a certain type of behavior, with goals based on activity (making a certain number of sales calls, closing a deal in a new vertical market etc.) Rewards are typically points-based or individual travel packages.

A Split Program can allow a focus on two or more elements, with a common theme. For example, a technology company set a bookings target for the first two months, with hotel certificates as a reward; the contest for the following two months was based on a billings target, and an airline certificate was given to the winners. A split program creates an extra burst of attention at the mid-way point as the first level is awarded, and allows the communication program to pull together multiple elements.

An Annual Campaign runs for the full year, and is typically based on sales volume. It is most often tied to group travel programs, and frequently heralded as a special achievement. A Top Performers or Presidents Club program may be created as a recurring theme to enhance the reward, and to reinforce the social aspect of being recognized as among the best of the best.

Rewards

Know your audience. If your sales team is predominately 25-35 year old men, then a sports-related reward or an active travel program may be popular; a group of family-oriented employees might prefer an incentive that allows them to spend time with their spouse and children, so consider an individual travel reward, or a points-based program. And of course, the budget will also guide the type of reward. The Incentive Research Foundation reported that the average spending per-person on merchandise awards was $255 in 2014, and $195 on gift cards.

Rule of Thumb: Budget per winner:
- up to $1,000 – Points redeemable for merchandise, event tickets, and gift cards
- >$1,000 – Individual Travel Award or Points
- > $5,000 – Group Travel, Individual Travel, or Points
Timing of Reward

Recognition should always be delivered in a timely manner, to ensure that it is associated with the action that it relates to. For sales incentives, aim to deliver a merchandise reward within 30 days, and plan a travel incentive program to occur 75-120 days after the close of the contest.

Driving Engagement

Once the rules and parameters have been selected, the next step is to engage the participants with well-designed communication materials. An evocative marketing campaign will create excitement, elevate the appeal of the rewards, and keep the contest fresh in their minds. The cost and complexity of the communications will be driven by several factors:

- A first-time program will require an extensive campaign, including a significant push at the launch, and frequent reminders and updates.
- A program with a multi-year history will benefit from word-of-mouth and the previous experience of participants. A lively launch program with periodic, scheduled reminders, will be sufficient.

Programs aimed at channel partners are competing for mind-share with other suppliers, and so will need a larger budget, more frequent communication, and more enticing message and graphics.

Decide on the communication elements that are most appropriate to your audience, and your budget.

Direct mail to the home will engage the spouse and family to provide encouragement to the participant. This is particularly effective for travel programs or high-value merchandise that will benefit the entire family. A dimensional mailer will garner even more attention – for example, send a box containing coffee beans and a hand grinder to promote a travel incentive to Costa Rica. Vivid, branded postcards are a low budget, but highly effective, alternative.

Branded microsites are a high-visibility way to provide rich information to the participants, and can include the rules, a leaderboard, and information on the rewards. They can be hosted on the company intranet, or password protected on the internet, to restrict access only to your community.
Internal emails and banners on the company intranet are the simplest and easiest ways to promote an employee program, but they can also become repetitive and get lost in the noise. e-Postcards can help your materials to stand out from the crowd; and be sure to mix up who they come from, and use a variety of message headers and formats.

A strong theme is critical, to bring together all the elements of the program. Travel programs are well served by focusing on destinations – “The Heart and Soul of Europe” evokes a trip to Paris & Brussels; “RockStars” will motivate a sales team with a trip to the Hard Rock Hotel in Punta Cana. Otherwise, it is best to use the goal or situation as the theme, making sure to include action-oriented phrases. Consider “Raise the Roof” for a home-lending campaign for a regional bank, or “Turn up the Heat” as a summer sales sprint.

Did it Pay Off?

Once the winners have received their rewards, the final question should be “was it effective?” Can you prove that the ROI justifies the resources and expense invested in the program?

There are several ways to evaluate this. The most obvious is the financial return. Based on a similar time period, did the program generate enough incremental profit to offset the investment? A survey of the participants will also give insight into how the program changed behavior and attitudes, and can give ideas on how to improve the program for next year. An incentive program may also reduce the turnover rate of top performers.
Bringing it Home

A study by SITE (Society for Incentive Travel Excellence) and the Incentive Travel Council found that 95.5% of people who earned a travel reward were motivated by the program, and, just as importantly, 90.7% of non-earners were also motivated[^1]. So the program has a motivational effect before and after the actual event, and beyond the actual participants.

With a well-designed program, a strong communications strategy, and an enticing reward, you have all the elements for a successful campaign. Remember to employ these simple guidelines:

- Rules should be FAST – Fair, Achievable, Simple and Tied to Objectives
- Budget should be 15-25% of the expected Incremental profit
- Value of the reward should be 5% of the compensation for the participant
- Consider Travel Rewards when the budget is >$1,000 or >$5,000 for group

[^1]: Incentive Travel: The Participant’s Viewpoint Part I; Site International Foundation and the Incentive Travel Council