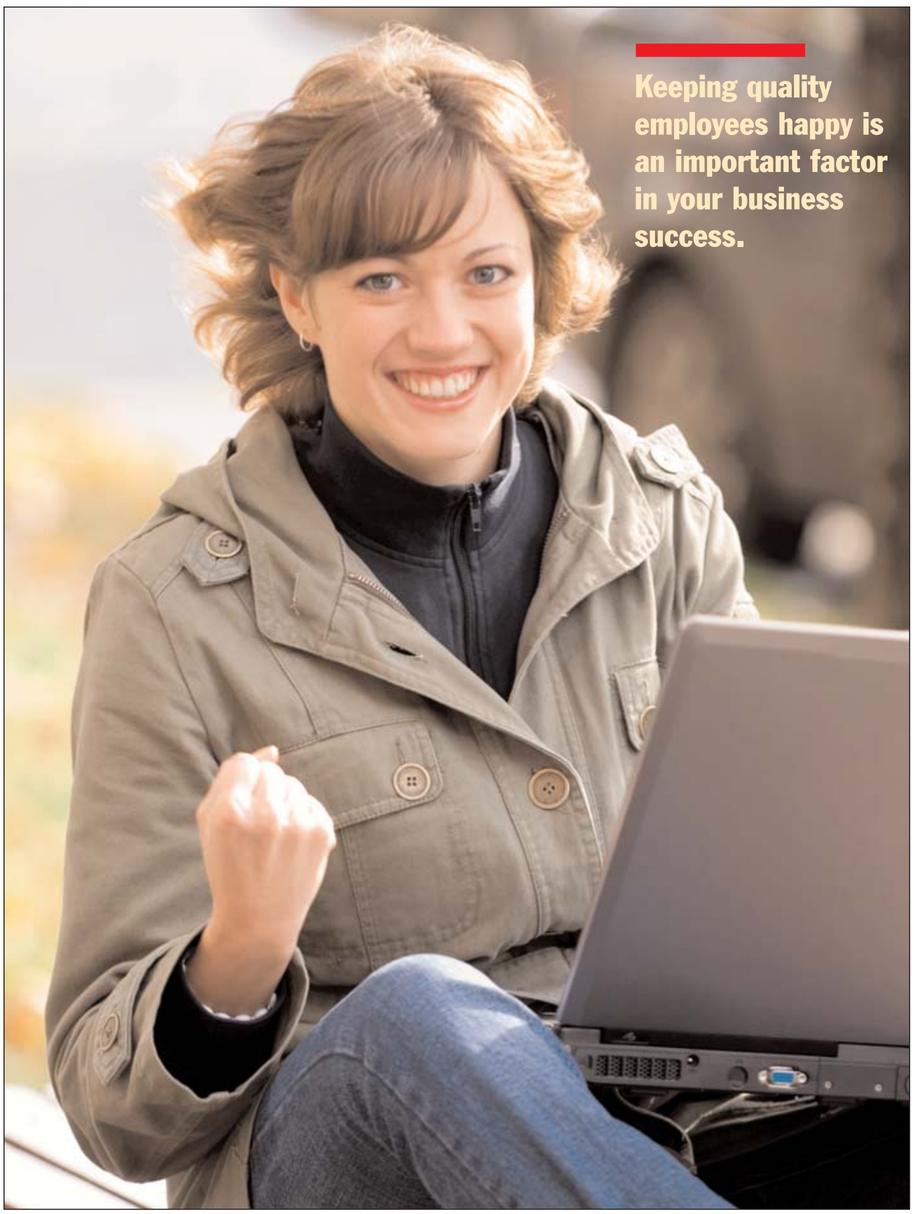
Why Incentive Programs Endure Recessions



Historically, incentive programs, unlike other sales and marketing strategies, have endured economic downturns. In fact, according to a review of past Incentive Federation and industry studies, the incentive industry managed to grow following the recessions that occurred in the late 1980s, after September 11, 2001, and during the downturn of the late 1990s, following the dot-com collapse. In fact, there is no evidence that the industry suffered serious declines following the recession in the late 1970s/early 1980s, and the industry continued to prosper even during the Great Depression when the industry's trade magazine at the time, *Premium Practice*, was filled with advertising pages.

This is not to say that the incentive business is completely immune to recessions. In the early phase of a downturn, the effects can be dramatic. Projections for consumer, sales, and channel partner programs, or even employee productivity programs, can go haywire when the economy experiences a jolt, as it has over this past year. Fewer participants qualify for rewards, and companies seek ways to cut costs by curtailing motivational meetings and incentive travel programs. Afterwards, the business tends to experience a rebound as organizations turn to highly targeted, cost-effective, and measurable programs aimed at maximizing specific market or cost-saving opportunities.

This white paper, produced by the Incentive Performance Center (IPC), explores why incentive programs tend to thrive during times of economic stress, despite the initial hit when bad times set in. It helps explains why savvy companies turn to incentive programs to drive business growth even while cutting budgets for other business development functions.

Advertising May Falter but Incentive Programs Persist

Numerous industry studies reveal a pervasive decrease in spending on advertising during economic downturns. Consider just one recent survey, a summer 2008 survey of 100 marketers conducted by the Association of National Advertisers. It found that 47 percent of respondents who answered a question about budget cutbacks planned to trim spending by at least 11 percent, and of those, about 10 percent would slash spending by more than 30 percent. The remaining 53 percent expected cuts in the 1-10 percent range.

Why Savvy Companies Turn to Incentives During Times of Economic Uncertainty

Five fundamental reasons explain why incentive programs, unlike other sales and marketing strategies, withstand economic downturns:

1. Low fixed costs, variable costs driven by performance, high potential return
2. Ability to effectively target audiences (no *pay and spray*)
3. Relative ease of measurement
4. Flexibility
5. Potential for both short-term and long-term results

These five points are described in detail below, so you can see what it means to your organization in practical terms:

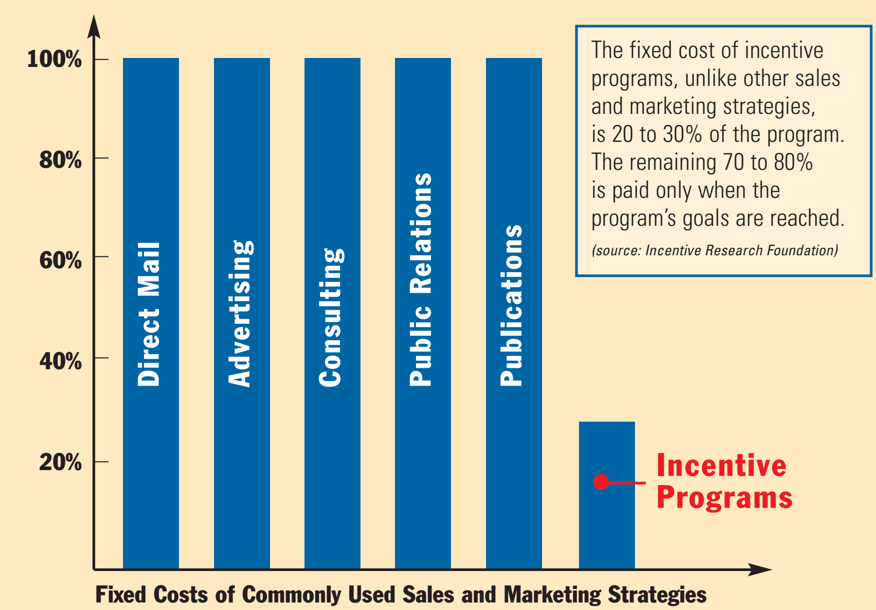
1) Low fixed costs, variable costs driven by performance, high potential return

Set-up and ongoing communication are the primary fixed costs of any incentive program, whether it's an employee, channel partner, consumer or sales initiative. The standard fixed costs related to strategic planning, communications, training, and systems are approximately 20 to 30 percent of any incentive program. This involves the time or fees allotted for:

- Developing a strategic plan and budget for your campaign, which might include meetings with key representatives of your audience to make sure your plan stands the test of reality;
- Designing and implementing a tactical communications and engagement plan;
- Setting up the necessary systems for managing and measuring the program, and then monitoring results so that you can make strategy shifts if necessary;
- Organizing meetings or events, etc., to help communicate the effort.

In properly structured open-ended programs, the remaining 70-80 percent of the cost of your program is not incurred until the program has achieved its goals, or some portion of those goals, and the rewards have been issued or redeemed. Compared with advertising, direct marketing, and event marketing, well-designed incentive programs have by far the highest level of cost accountability related to results. This is probably the No. 1 reason for increased incentive usage during tough times.

Fixed costs of commonly used sales and marketing strategies



In addition, for those companies with a low tolerance for risk, incentive plans can be close-ended, designed to fit a set budget. While not as motivating as open-ended programs, these programs can deliver improved performance during times of extreme budget stress.

2) Ability to effectively target audiences

Long before the days of the Internet and database marketing, organizations turned to incentive programs to boost sales and productivity because they didn't need technology to identify the people most important to their business. As long as there was an economical way to deliver a message to the targeted audience, organizations over the last 100 years or more have used incentive programs to target offers, enhancements, or other engagement strategies to change behavior and, subsequently, business performance. As noted above, incentive programs are attractive during tough economic times because the cost of communicating with a well-identified audience of people is generally much less than mass-marketing programs, such as advertising, direct mail, and trade shows. Why? Because you have already identified the audience that can change your business outcome if they focus on what they can do to help you achieve those goals. In good times or bad, business results depend on the willingness of a key audience to do what they can as customers, channel partners, salespeople, or employees to contribute to our business success.

Today, using a low-cost Internet portal to communicate your programs with a simple enrollment or opt-in strategy, organizations can deploy highly targeted, personalized, and measurable ways to communicate on a one-to-one basis with the people who can drive your business results, no matter what the audience or business goal. And this can be done via the Internet very economically.

3) Relative ease of measurement

Naysayers argue that it's impossible to effectively measure any marketing program, because of the multiple factors that can affect outcomes. Sure, the actions of a competitor, the economy, or internal operational and other issues can affect outcomes of any program. That said, effectively structured incentive programs make it possible to screen out the noise of external factors to find at least some cause and effect. Here's how:

- Build at least three measures into your program: one outcome measure, such as increased sales, or increased output, or decreased defects; and two related process measures—i.e., actions that can contribute to the results, such as making more cold calls (easily measured today with a customer relationship management system), or complete machine maintenance compliance to reduce downtime, or consistently recalibrate equipment to reduce defects, etc. Then monitor the correlation between the specific behaviors promoted in the program to achieve results and outcome. These leading and lagging measures allow one to confirm the inter-relationships and to produce the desired results.

4) Flexibility

Things change. It's much easier to address change when the audience is highly defined and the communication program in place. You might wish to offer bonus points to promote a new feature your product team turned out; you might want to add bonus points to behaviors that early results indicate are having a highly effective impact on results.

You might learn that product knowledge is an issue and that you have to give your sales team a quick refresher. It's quite difficult to change a trade show, advertising, or direct marketing program in mid-stream but it's fairly easy, in a timely manner, to adjust an incentive program.

5) Potential for both short-term and long-term results

Companies, of course, turn to incentive programs to achieve short-term results. They like the equation of being able to put down only about 30 percent of the total potential cost, with the remaining budget determined by the degree of performance improvement. That said, programs structured based on research and best practices have the additional value of producing residual value. That's because the behaviors promoted during the incentive program generally have long-standing value to the organization.

Few Marketing Options Offer Such a High Degree Of Accountability

This so-called *over-hang* effect helps explain why so many organizations whose cultures are based on promoting positive behaviors outperform their competitors in terms of share price performance or financial results.

Compelling evidence shows that incentives drive bottom line performance and the business and academic communities have begun to understand and embrace their use for a variety of constituents and wide range of needs. In the area of employee motivation, a study by the Forum for People Performance Management and Measurement— "The Impact of Employee Attitudes on Market Response and Financial Performance"—revealed a direct link between employee satisfaction and customer satisfaction, and between customer satisfaction and improved financial performance. Other studies target channel partners, sales personnel and consumers.

A Note of Warning

The positive, long-term benefits of incentive programs are not a simple do-this, get-that proposition. The era of the carrot and the stick is arguably gone, as people look for a higher level of satisfaction in their business relationships and are not quite as likely to respond to a simple offer. For any incentive program to succeed, the target audience has to be convinced that the behavior change is in their best interests, and people are not as easily engaged as in a more trusting era.

It is a great testimony to the power of incentive programs that they have continued to flourish despite the fact that so few business people have formal training in program design and that so relatively few organizations strategically design, implement, and measure their programs. The best programs weave an essential combination of business planning, inspiration, technology, communications, and mathematical measurement that merit professional help—either from trained internal or external resources. The Incentive Performance Center recommends that any organizations seeking to maximize results through incentive programs employ either internal or external resources trained in incentive program design. The first place to start is with organizations that have individuals certified by the Incentive Marketing Association, which offers a complete program planning curriculum on strategic program design.

As companies make the shift from mass-marketing to target-marketing, they will ultimately turn to incentive programs as a primary solution rather than a secondary or complementary tool, for all the reasons outlined above. Each time an organization replaces a mass marketing technique with a one-to-one strategy, such as an incentive program, it will realize a ripple effect of benefits—engagement, satisfaction, behavioral changes, etc.— that will last over time.

The IPC is the corporate outreach arm of the Incentive Federation, an organization comprising associations, publications, trade shows, incentive providers, and others involved with all aspects of incentives, rewards, recognition, and promotional products. The IPC manages incentivecentral.org, a not-for-profit information portal providing comprehensive, objective information to help organizations improve the motivation, engagement, and performance of customers, channel partners, salespeople, and employees.

ipc
INCENTIVE PERFORMANCE CENTER
www.incentivecentral.org