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As businesses discover the value of incentives, the corporate goody bag is swelling.

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FIVE YEARS AGO a leading information-search company faced a serious problem: It was losing 20% of its employees each year. The hemorrhage required the company, which has annual sales of \$3 billion, to spend \$40 million each year to recruit, train, and settle grievances with workers.

Today the organization has shaved \$19 million off that tab with only a \$1 million yearly investment. A companywide incentive program enables its 8,000 employees to earn merchandise, ranging from electronics to appliances, when they deliver targeted results for their divisions. The goodies cost the company between \$100 and \$200 per employee each year—and turnover has dropped to less than 10%.

Welcome to the rapidly expanding world of incentives in corporate America. Once the province of sales departments that doled out prizes to top performers, incentives are fast

penetrating every area of business. In competitive environments burdened by rising overhead costs, incentives are helping stressed-out managers retain top talent, inspire superior customer service, and—stretching these programs beyond employees—breed loyalty among notoriously fickle customers. American companies now spend about \$30 billion a year on rewards and inducements, up 11% from the \$27 billion spent in 2000, according to the Incentive Marketing Association, an industry trade group in Naperville, Ill.

● **PERK POWER GROWS**

“Incentives are really putting tools in managers’ hands and allowing executives to recognize people publicly for accomplishing the goals set by their top management,” says Jeff Beegle, executive vice president of sales and marketing for Motiv-Action, a Minneapolis consulting firm whose clients include the 8,000-

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employee information-search firm mentioned earlier. "And the programs are getting much more sophisticated as we study approaches that haven't been used before."

Trusting that well-designed incentive programs will increase their bottom lines, companies are pushing the envelope of possible applications. For example, Cadillac is using incentives to reward dealerships that take steps to boost customer satisfaction ratings. In another case, a major oil company awards trips to retailers who impress undercover inspectors (known as mystery shoppers) with litter-free stations, well-lit signs, and courteous clerks, says Jerry Klein, client solutions director at Maritz Incentives, a management-consulting firm near St. Louis.

As trips, merchandise, and other enticements are increasingly deployed in new corporate territory, using them effectively is getting tougher. One of the issues is expectation creep: "We always try to make next year's trip better than last year's so employees will stay productive," says Michael Key, assistant vice president of sales support at Monumental Life Insurance in Durham, N.C.

Another problem: Benchmarks are relatively easy to track when the goal is simply to increase sales. But other areas, such as customer service or inventory management, don't always lend themselves to easy quantification. "It's certainly more challenging to measure return on investment when you're talking about an employee-recognition program," says Karen Renk, executive director of the IMA. What's more, she adds, not everyone is inspired by the same set of perks: "Incentive programs today have to make sure



A TRIP to an upscale resort is a wonderful reward for a job well done.

performance Management and Measurement at Northwestern University. In fact, companies that treat rewards as behavior bribes for workers are usually doomed to suffer paltry returns on their investment. The reason: Employees are probably not internalizing their organization's mission.

"Programs generally fail when they put too much emphasis on the rewards and not enough on all the factors that go into engaged behavior

leading to performance," Bolger says. A better way, he believes, is to frame rewards the way families view their gifts at holidays: as tokens of appreciation for an individual's special place in a community committed to lofty values.

Leading to performance," Bolger says. A better way, he believes, is to frame rewards the way families view their gifts at holidays: as tokens of appreciation for an individual's special place in a community committed to lofty values. "Cutting-edge programs don't focus on the trip as much as they focus on the recognition that you're going to receive for top performance," Bolger says. The emphasis is "on the honor and the status newly attained within the organization. The trip is the embodiment of that."

To convey the idea of rewards as symbols of achievement and appreciation, consultants say, companies must make sure that top managers communicate it often and in detail—at all levels of the organization. Success also hinges on the reward itself reinforcing, rather than undermining, what the company is trying to communicate about its values.

For example, last summer a uniform manufacturer set out to foster awareness of its unified corporate mission by sending top salespeople from every division to a single exotic destination. The format: Play by day, bestow awards by night. At the Aventura Spa Palace on Mexico's Yucatán

the reward is a motivator for the target audience."

Companies are searching for new ways to measure the effectiveness of their incentive programs in part because they have to. The Sarbanes-Oxley Act of 2002 instituted strict rules requiring companies to show that a trip or perk is not a gift to a worker and has some correlation to the company's performance. With both Congress and the Securities and Exchange Commission looking for measurable returns on investment, corporations must become more sophisticated. Highly effective incentive programs now incorporate the findings of experts in management psychology and deliver programs that pay dividends on every penny spent. For executives with businesses to run, getting the most out of these new opportunities means boning up on the options available as well as the principles that distinguish effective programs from failures.

● BEYOND BEHAVIOR BRIBES

Though they seem simple, well-designed incentives don't boil down to "Do this in order to get that," says Bruce Bolger, executive director of the Forum for People Perfor-

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easily spent on day-to-day expenses and quickly forgotten. “A nonmonetary reward is more effective because it creates a memory,” says Tom Mahoney, executive vice president and chief operating officer at ITA Group, an incentive program consulting firm in West

● EYE ON THE PRIZE

Paula Murphy, account executive for Destination Success, an incentive travel division of the American Automobile Association (AAA) in Cincinnati, also found the answer at the Aventura Spa Palace. “We needed to find the right location and the right hotel for what our client was trying to accomplish,” she says. This one worked because participants “liked being together, and that was a concern for the client—what was it going to feel like with 1,100 people there? How do you make it feel special? And I think that was accomplished through all the staff at the hotel who really catered to the individuals.”

While well-designed rewards symbolize the accomplishments of individual or team achievers, they can also foster a sense of growing prosperity within a company. But no matter how far incentives evolve, says Renk, a fundamental rule should always govern: Behaviors that trigger rewards are those that generate value or revenue beyond a program’s cost.

Companies have traditionally tethered incentives to sales because a cost-benefit ratio is easy to calculate and justify. But research suggests that incentives might be worth incorporating into any area that could have a positive impact on customer experience.

A 2004 Purdue University survey of corporate cultures at 100 companies revealed “a direct link between employee satisfaction and customer

satisfaction” and another “between customer satisfaction and improved financial performance.” These findings, by James Oakley, assistant professor of management, have emboldened companies to pour millions into employee-incentive programs to cultivate “engaged” workers who like their jobs, are motivated to perform, and will wholeheartedly recommend their company’s brand.

● VALUABLE BRAGGING RIGHTS

Once a firm knows what it aims to achieve through an incentive program and has a system in place to measure results, choosing the right reward becomes imperative. The best ones inspire greatness and loyalty without breaking the bank. The worst are overpriced, quickly forgotten, and prone to leave strong achievers feeling underappreciated.

In almost every case cash rewards garner attention, but consultants caution that cash seldom fulfills an incentive program’s long-term goals. One primary reason: Cash is all too

desire for a long period of time, feel good about themselves, and feel recognized within the organization and among their peers.”

To convey a sense of hard-earned status, companies often reward performance with merchandise, says Renk. Popular items such as iPods or Coach bags give customers a durable reminder of a company’s gratitude for repeat business or, in the case of employees, appreciation of a job well done.

“Merchandise has a trophy value,” says Terry Markwart, Canon’s director and assistant general manager for special markets. “If it’s a really nice camera, people will see you with it and say, ‘Wow. That’s a really nice camera. Where’d you get that?’ And you begin to tell the story: ‘Well, my company gave it to me....’ Then you start telling how you won the sales contest or made a really good suggestion.”

“A nonmonetary reward is more effective because it creates a memory.”



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At one company, anyone who boosts sales 10% over the prior year gets rewarded with a trip.

Whatever the reward, managers sometimes feel pressured to top the prior year's prize with something even better. Doing so can push costs upward, shrinking a company's return on investment. Going down that road is a mistake in Bolger's view.

"I don't think there's any need whatsoever" to spend more on incentives from year to year, Bolger says. "There's always an effort to make a trip special every year so that people feel this was really a remarkable thing, but that's different from saying, 'I've got to up the ante. We went to Paris, now we need to go to Timbuktu.' The focus should be on the objective, the performance, and the meeting of the goals. The trips and the merchandise, or whatever, are part of that celebration, but they are not the reason we are doing it."

As incentive programs become increasingly ubiquitous, cost-conscious managers are learning techniques for keeping expenses down while continuing to make their recipients feel special. One approach used by casinos is to offer regular clientele a selection from Canon's digital cameras, which have a high perceived value, Markwart says. A digital camera often "appears to the consumer as being worth more than it was actually purchased for," he points out.

To meet growing corporate demand for travel awards, convention and visitor bureaus are beginning to woo in-

centive-program consultants with package deals. "They know all the perks and all the deals" to be arranged among various venues in a given city, says Michael Gehrisch, president and CEO of Destination Marketing Association International, which represents more than 650 locations. Among the most aggressive cities with packages to sell are New York, San Diego, Anaheim, Miami, and Sydney.

● KEEPING INCENTIVES FRESH

The biggest risk associated with incentive programs is that they'll get stale. Consider the traditional sales contest. Here's the theory: Because the top salespeople will share a reward—such as a group trip—every salesperson is inspired to be the best. The drawback, as Maritz's Klein observes, is that "the same people tend to win year after year." After a while, the also-rans tend to give up.

To reverse these dynamics at a financial services company with annual sales of \$4.6 billion, Maritz recently helped its client redefine qualifying requirements. The new deal for about 100 salespeople: Anyone who raises sales by 10% over the prior year gets to go on the trip. By giving new hope to the middle ranks, the program over one year yielded a remarkable 45% sales increase in a flat market because half the staff met the new target.

As customers and employees get used to having myriad options in their lives, one-size-fits-all rewards don't always satisfy. Companies are taking a few different approaches to overcome this problem. Some programs allow employees or customers to earn points redeemable for merchandise from a catalog that lists thousands of items. Canon offers high-end as well as inexpensive

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items for diverse workforces because, as Markwart says, "everybody likes a digital camera" regardless of age, race, or gender.

Palace Resorts positions its all-inclusive resorts as pleasers for crowds of all types because the point of a reward trip is to leave stressors behind. "People have expenses, mortgages, kids in school," says Ginny Davito, vice president for groups and incentive sales at Palace Resorts. "An incentive doesn't have the same meaning if, on their trip, the winner has to pay for meals, drinks, and activities. Those things add up."

The dramatic impact that incentive programs can have on a company's sales is enough to make a CEO drool. But boosting sales isn't the only reason top executives are soon likely to view incentive systems as essential to corporate health. Baby-boomers' looming retirement will be just as compelling. "The impending labor shortage in high-skill areas is going to be very real in not too long a time," Renk says. To retain in-demand older workers—who already have significant disposable income—future rewards will have to offer an even higher perceived value than those most commonly used today.

It's no surprise that employees and customers feel good about being appreciated. What's new is how far companies are finding they can spread their gratitude. Beyond one type of incentives for sale departments and others for customers, rewards are taking new forms and infiltrating relationships inside and outside the corporate office. The key for businesses to remember is that success isn't about giving away the right stuff. It's about that stuff making the right connection for your company. ■

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