

## ***A Measurement Model to Validate the Performance of a Motivational Experience Program***

Respected business professionals know that it is their role and responsibility to ensure that all programs receiving applied resources be viable to the company's overall strategy. This is true for customer service initiatives, productivity goals, marketing campaigns and any operational area within an organization. This is also true for the employment of motivational reward programs.

It is clear that, like any sound business investment, the use of motivational programs to engage employees and partners to achieve business objectives must have proven value to the organization. This was again supported by the publication of the *Model Board Policy for Approval of Meetings, Events and Incentive/Recognition Travel* released in 2009. If we look at guideline number two it reads, "All proposed meetings, events and incentive/recognition travel organized by the company must serve one or more specified legitimate business purposes. Each proposed meeting, event or incentive/recognition travel with a cost exceeding \$75,000 must be supported by a written business case identifying a specific business purpose."<sup>1</sup>

Therefore the tracking and measurement of these programs is a vital component of the business plan. But where do you begin? Knowing that you need to do this is very different than knowing how to do this.

This particular model offers a measurement methodology that may be altered to fit multiple business and revenue strategies. A well-designed motivational reward program clearly demonstrates communicated goals, incremental measurement and attained business targets. As the program is reviewed for its ability to produce quantifiable facts and figures, one should not underestimate the additional benefits that will be gained: employee loyalty and brand building.

### **MOTIVATING TEAMS TO ACTION**

Motivational programs are fundamentally about achieving business results. We will use a hypothetical software company as our model.

### Baseline Data

- Average annual gross profit on sales = 30% (The software business is volatile; however it often offers generous margins on new products.)
- Estimated annual sales without the incentive program = \$10 million
- The company's objective with the program: A \$2 million increase in sales (producing \$12 million in annual sales) on existing product lines with a 30% gross profit margin.<sup>2</sup> The extra \$2 million in sales with a 30% margin would yield \$600,000 in additional incremental gross profit.
- Since the funding for this program is based on achieving some or all of the \$2 million in incremental sales, the company is willing to apply 40% of this incremental gross to the program. Forty percent of the \$600,000 increase in gross profit is \$240,000.

If the company sells exactly \$12 million in product next year, achieving the goal of \$2 million in incremental revenue; they will earn an additional \$600,000 in gross profit.<sup>3</sup> That would make their return on investment a very impressive 150%. They will invest \$240,000 (40%) of the estimated \$600,000 profit increase while retaining the additional \$360,000 as profit. In other words, a business centered decision to invest \$240,000 (the total estimated cost of the program including admin and promotion) will produce \$360,000 in gross profit.<sup>4</sup>

In reality, the odds of hitting those numbers exactly are almost zero which is why scalability of a program is key to any design and decisions. The business plan should therefore build a model to illustrate how the investment is spent and what the ROI would be by making some additional assumptions.

### The Sales and Gross Profit Estimate

- The company tells us they have 100 sales people and all of them have the same performance objective.
- Using a modified version of the Pareto Principle (80-20 rule) we'll create a model showing how the distribution of sales might look with our 100 people.<sup>5</sup> Remember if each has the same goal, each would have to increase sales by \$20,000 ( $\$20,000 \times 100 = \$2 \text{ million}$ ). Here are our hypothetical results.
- *15 people each sell an incremental \$40,000 = Total sales of \$600,000*
- *20 people each sell \$30,000 = Total sales of \$600,000*
- *15 people each sell \$20,000 = Total sales of \$300,000*

- 50 people each sell \$10,000 = Total sales of \$500,000
- Total increase \$2,000,000
- Gross profit on incremental sales (30%) \$600,000

Determining the Award Program Investment

- Program Investment (40% of gross profit) \$240,000
- Less 15% for administration/promotion<sup>6</sup> -\$36,000
- Available Funds for Award \$204,000

Determining Award Spend Per Qualifier

- Assume 50% of sales force (top performers) will earn award = 50 qualifiers
- $\$204,000 \div 50 = \$4,080$  per qualifier
- If qualifier may bring a guest spend becomes  $\$4,080 \div 2 = \$2,040$  per individual participant/traveler

The ROI factor

- Total incremental profit gain \$600,000
- Program investment \$240,000
- Additional profit for the company \$360,000
- $\$360,000 \div \$240,000$  150% ROI

If fewer people qualify, less is paid out. If more qualify, more is paid out. The actual investment is directly linked to the results. The only fixed expense is the \$36,000 allocated for promotion and administration.

Non-qualifiers will contribute a substantial portion of the cost by selling more than before, however not enough to qualify. Super-achievers will do far better than necessary to qualify helping pay for others. Being at the top is an important goal for them as well as attaining the incentive travel experience.

USING ROI TO VALIDATE THE BUSINESS CASE

A budget model such as this one proves the positive ROI that well-designed incentive programs provide. Unlike many business tools, costs are directly related to results. With advertising, for

example, one hopes for this kind of relationship. With motivational events and incentive travel it is easy to make the link. You only pay for the results you get. Upfront fixed costs are minimal and the programs can be designed with scalability in mind. Even in a down market, where staying even may be the goal, there is no other marketing tool with this level of predictability for the relationship between the investment and the return.

When a motivational program is designed with the business purpose and measureable results in mind, the outcome is a win for all involved.

### **Footnotes**

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<sup>1</sup> American Hotel and Lodging Association, Destination Marketing Association International, International Association of Exhibitions and Events, Meeting Professionals International, National Business Travel Association, Professional Convention Management Association, Site and the U.S. Travel Association in consultation with Maritz, Inc., *Model Board Policy for Approval of Meetings, Events and Incentive/Recognition Travel*, 2009.

<sup>2</sup> The estimated gross profit number is fictional and serves only as a model. The software industry typically has widely fluctuating profit margins and this is in the realm of possibility. In creating your own model, please substitute the average gross profit margin for your specific industry or organization.

<sup>3</sup> In most businesses, gross profit margins will vary with total volume or turnover. That is, fixed costs amortized over total production will generally decline if production is increased. If you are working with a product where production costs would vary dramatically, it may be worth factoring in the new average gross profit. Typically, in a manufacturing process, fixed costs amortized over total production will decline on a per-unit basis when production is increased, making the incentive program even more attractive.

<sup>4</sup> It is virtually impossible for the company to achieve exactly these results; however the investment will be tied directly to the gross revenue in this model. If they sell more than \$12 million, the investment would increase in the same ratio as more people would qualify. Conversely, if they sell less than \$12 million, fewer people would qualify and the investment would be reduced.

<sup>5</sup> In reality of course, you would have 100 different results. Our model is built around theoretical averages of those 100 results. An organization with previous history using non-cash incentive awards could construct a more specific model.

<sup>6</sup> Incentive travel programs require more than a great award to be successful. Two additional activities must take place: 1) Participants must be reminded over the length of the earning period about their opportunity to earn the trip; which requires ongoing communication with them from the company, and 2) their sales performance must be tracked to provide an ongoing benchmark for each participant so they know how well they're doing and the company has an idea of what the final numbers will be. Typically, 12-20% of any incentive travel program's budget is allocated to these two factors as well as covering other administrative tasks associated with promoting and monitoring the program. To make this model realistic, we chose the very typical average of 15% of the budget being allocated for these purposes.