



Measuring Results of Incentive Programs and Meetings in a Down Economy

Historically, incentive programs and meetings have been the early victims of economic downturns. Although the current economy does not seem to have seriously impacted the industry so far, there are scattered reports of cancellations, delayed plans, and general cutbacks. With that as background, it is wise to restate the need for continued use of incentives and meetings even if on a somewhat contained basis.

Some managers react to these situations by immediately cutting all “unnecessary” expenses without looking at bottom line impact. “Unnecessary” becomes a very subjective evaluation. Others assess the value of each program before deciding the reasonable course of action.

There are now numerous studies that show a very definite relationship between motivation, the work environment, and bottom line profits. Satisfied workers produce at a higher, more efficient rate. The management dictum that *employees are satisfied just to have a job in difficult times* has long been disproven. Keeping employees and customers satisfied *especially* in difficult times is the basis of reaping healthy profits.

In their book, *Contented Cows Give Better Milk*, Bill Catlette and Richard Hadden compared business results of companies considered *employers of choice* with a comparable group of Fortune 500 companies. (An *employer of choice* is a company that is primarily people-driven.) Although the Employers of Choice had about 1/3 of the revenue of the others at the start of the study, over a 10-year period (one that included a recession), they:

- Outperformed the latter about four to one in revenues,
- Increased net income 202% vs. 139%,
- Roughly doubled the net income of the latter group,
- And added 79,000 jobs while the latter LOST 61,000 jobs.

The point: simply that a motivated, committed work force --- one that continues to be recognized by incentive programs that reward excellent performance --- continues to achieve growth while others stagnate.

Using these programs correctly is a competitive advantage, especially under difficult economic conditions.

Measuring the success of incentive programs and meetings --- whether *return on investment (ROI)* or *return on objectives (ROO)* or anything else --- is the best way to show their value. Measurement as a tool for planners and business leaders is essential at *all* times. It addresses requirements of the Sarbanes-Oxley Act, the need to demonstrate results to management, and, often, the justification for one's job.

Both incentive suppliers and corporate planners say that they are increasingly asked for data related to measuring program results. ROI analysis also helps a company determine the impact of an incentive program across the entire operation, something that is crucial to avoiding long-term problems.

According to the MPI Foundation, "...ROI is THE single most important tool for a meeting professional. In today's economy, with more and more meeting professionals answering to their Procurement office, the emphasis on ROI has never been more important."

Other trade organizations have also highlighted the need for measurement and have taken steps to make the process easier for their members.

Measuring ROI

There are various approaches to measuring ROI for incentive programs and meetings. They can be as different as night and day with some approaches being very basic (perhaps too much so) and others very complex. Still, every approach has merit and some are more applicable in one situation than another. What follows is a brief overview of some of these varied approaches and related research studies.

However, a disclaimer is needed: this is not intended to serve as an instruction guide for measuring ROI. Its purpose is to provide a synopsis of different approaches. The appendix to this article cites sources for finding detailed information.

Prerequisites for ROI Measurement

There are elements that are common to all approaches for measuring ROI. The first is ***identifying objectives*** --- what the program is meant to accomplish --- whether for a meeting or an incentive program. It's impossible to truly measure the success of a program unless there is a clear understanding of the desired outcome.

Next, ***a measurement strategy*** has to be determined. This may simply mean that hard numbers will be evaluated: projected sales vs. actual sales, bottom line impact of a program, etc. The strategy may deal with less tangible factors: the increase in knowledge resulting from a training meeting, improvements in morale among the targeted audience, or the like. Whatever the approach, the measurement device must relate directly to the program's objective.

Finally, the means to gather the data for measurement must be in place before the program can begin. In some cases, this is more obvious --- and easier --- than in others. Nonetheless, there has to be *an agreed upon method of measuring performance* against the objective.

1. The Basic Approach to ROI Measurement

Probably the simplest and most common measurement of ROI is to simply compare performance against the objective set for the program.

Let's assume, for example, that a company expects to achieve \$50 million in sales *without* an incentive program. However, an incentive program is launched with the expectation that it will generate a 15% increase in sales. That would bring in an additional \$7.5 million in incremental volume for a total of \$57.5 million in sales.

\$50 million base sales x 15% increase = \$7.5 million in incremental sales.

Assume further that this company enjoys a 30% gross margin on sales, their incremental profit -- the profit generated from the extra sales --- would be \$2,250,000.

\$7.5 million in incremental sales x 30% gross margin = \$2,250,000 incremental profit.

If the cost of the incentive program were equal to 20% of the incremental sales, that means the cost of the program would be \$1.5 million.

***\$7.5 million in incremental sales x 20% as the cost of the program =
\$1.5 million actual cost of the incentive program.***

If we reduce the incremental profit by the cost of the program, we have a net incremental profit of \$750,000. That would be considered the *return on investment* from this incentive program. It is earnings the company would not have realized without the program.

\$2,250,000 incremental profit - \$1,500,000 cost of program = \$750,000 net incremental profit.

This is a good basic approach to ROI measurement but it falls short in not considering other factors that might have impacted the sales increase. Similarly, it really doesn't recognize any extraneous costs that might have been incurred as a result of implementing the program. Even so, this approach might be all that is required to accomplish measurement in certain situations.

2. Determining the Return on Investment of Incentive Travel Programs

This study, which was conducted by researchers from Ryerson University in Toronto, is at the opposite end of the spectrum from the Basic Approach. It is a more complex approach that calls for thorough preparation and analysis. The full research paper includes templates that can be used for implementing the procedures described by the researchers.

It begins with the construction of an Attribute Evaluation Tool --- a means of deciding which elements of a program to evaluate. The planner can then determine the attributes that are critical in achieving specific goals by:

- 1) reviewing the attributes,
- 2) reviewing corporate goals,
- 3) identifying potential program goals,
- 4) dividing potential attributes into short-term or long-term goals,
- 5) and prioritizing the short-term goals.

Using the Program ROI Measures template, the procedure is completed by:

- 6) creating a Program Measures list,
- 7) identifying specific pre-program objectives in real terms,
- 8) calculating the results vs. company goals,
- 9) calculating the Program Impact,
- 10) and calculating the ROI.

Yes, these steps ARE complicated and require a major commitment of time, but remember that the full study contains the templates that are needed together with instructions for accomplishing this procedure.

3. The Business Group Approach

Bob Dawson, CITE, of The Business Group has developed a comprehensive ROI-based approach that, unlike traditional incentive programs, does not focus on one or two objectives but, instead, evaluates the performance of the entire company. Incentives are used, as needed, to stimulate activity in various functions within the company. In that respect, it is unique. Its approach is to evaluate and involve every aspect of a business. It considers the impact of an incentive program on every department, not just the one to which the program is targeted.

If, for example, increased sales cause accounts receivable to increase in age, that impact is deemed to be a cost of the incentive program. Similarly, if the collections department has increased costs in order to collect past due accounts, that too is considered a cost of the program.

Another unique aspect of this approach is that it requires an on-going relationship with the client. It cannot readily be accomplished in a short period like incentive programs with one or two specific objectives. This approach has only one objective --- to improve bottom line results by examining and adjusting performance throughout the company.

4. The Phillips Model

Measuring the ROI from meetings and similar programs can be more challenging in that their objectives are frequently intangible. Dr. Jack Phillips, founder of the ROI Institute, has formulated a model that has definite application in that connection. The article, *The New ROI: Too Tough To Tackle?*, tells us that this model looks at what was learned at a meeting and later

applied on the job. It quantifies the results into dollars and cents. Once that's done, measuring ROI is simply a case of dividing benefits by program costs.

This model considers six factors:

1. *Reaction, satisfaction, and planned action*: How was the meeting received and what will happen as a result?
2. *Learning*: What did they learn from it and will it change their perceptions?
3. *Application implementation*: How will they apply what they learned to their jobs?
4. *Business impact*: How will implementation affect the organization?
5. *ROI*: What is the monetary value of that impact?
6. *Intangibles*: If the impact cannot be converted to a monetary value, what are the intangible benefits?

Analyzing each of these points and determining their value in the most tangible terms --- translating them to dollar measurables --- achieves ROI measurement.

5. ROI Measurement of Intangible Objectives

ROI measurement is not limited to incentive programs and meetings. Obviously, every business investment warrants such analysis. The metrics used to measure other applications can be useful in evaluating the results of activities in our industry.

Marcia Connor, in an article that appears on Learnativity.com, deals with measuring the ROI of learning programs. At first glance, her formula appears similar to the basic approach described above but, when applied, is far more complete.

$$\frac{\text{Total Benefits} - \text{Total Costs}}{\text{Total Costs}} = \text{xxx X } 100 = \text{ROI}$$

Total Benefits are defined as savings or anything else that adds to the bottom line. Similarly, *Total Costs* includes *all* costs related to the program making it more inclusive than the Basic Approach. If it were applied to an incentive program, one would have to include costs beyond those that are directly associated with the program. They would have to look at the "hidden" costs that result from it. For example, if additional production hours were required to meet the demand for more product generated by the incentive program, the cost of those labor-hours would be included in total costs. This more comprehensive approach underscores the need for a system to readily gather all related data for measurement.

Ed Jones also identifies areas of savings generated by a program even if they are not immediately obvious. In *Finding the ROI Payoff* he is quoted as saying that he "...counts dollars in three categories: the ability to generate revenue; the ability to decrease costs; and 'the one that no one suspects', the value of promotion." That "value of promotion" might be the value that comes from promoting a meeting. Otherwise, expenditures would have been incurred for advertising, public relations, or the like.

These examples underscore the need and the possibility for establishing measurement strategies for meetings and other events whose outcomes are not readily quantifiable.

6. Defining Financial Benefits & Return

Maritz Incentives has developed a five-step program that addresses the measurement of *effectiveness* and answers the question *why am I spending these dollars*

Intended for use in designing solutions to business challenges, the steps are:

- 1) Future Environment Scan/Market Assessment: What will change in the future environment that will affect us?
- 2) Desired Outcomes: Where do we want to be?
- 3) Feedback Loop/Measurement: How will we know when we get there?
- 4) Current State Business Assessment: Where are we now?
- 5) Solution Design: How do we get there?

Each of the five steps in the process calls for analyzing both current and future situations. This leads to the design of the program/solution that will achieve desired outcomes and measurement procedures that can be fairly simple at the completion of the program.

Summary

The programs described above are only a sampling of approaches that are being used today. The purpose of this paper has been to show that there is a need for measurement and that the approaches vary from very simple to highly complex. Finding and choosing the best method for your needs becomes an individual choice.

Applying these approaches requires different degrees of knowledge and skill. Some motivation programs deserve the closest scrutiny if they are to be proven effective but others don't warrant a full-blown approach to measuring ROI. The desire to reduce results to a quantifiable measure is often elusive at best. In reality, the success of some programs should be evaluated in intangible ways --- reaction from attendees, focus groups, questionnaires, testing, etc. Knowing when to measure ROI as opposed to focusing on measuring the soft results is often driven by the corporate environment.

The one true fact about *all* programs is that if they are worthy of implementation, they deserve measurement to insure that program goals have been accomplished.

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