

WHAT'S THE BEST STRUCTURE FOR SALES INCENTIVE PROGRAMS?

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“What is the best rules structure for sales incentive programs?”

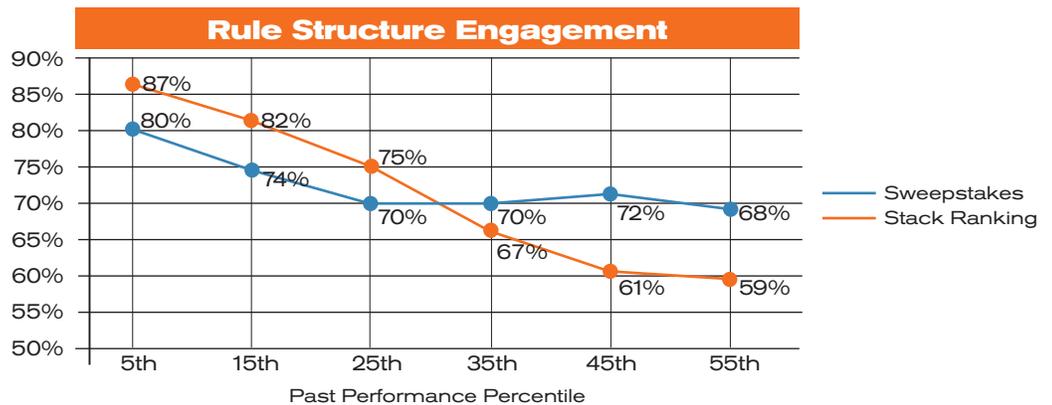
Behavioral Economics Insight: Probabilistic vs. Deterministic Rules Structures

The core of this study examines the difference between probabilistic and deterministic program designs. Probabilistic designs require the salesperson to perform a behavior or achieve a result at which time they have a chance to earn a reward. The most common structure of this type is a sweepstakes or lottery. Part of the success of probabilistic design is the number of winners and the ease of entry. But the rewards you use are just as important. Awards should be highly motivational, aspirational and appealing to the participants. Things they wouldn't or couldn't buy for themselves will get attention. Also, things they can talk about with others help build word of mouth about your program.

It's a question clients often ask us. To gain insights on this important topic, we conducted an in-depth study of two different sales incentive program structures. Participants were asked to identify how engaged they would be in a two-month sales incentive that rewarded sales of a new product. Participants were from all different levels of past sales performance, ranging from the fifth to fifty-fifth percentile.

In one scenario, participants rated a **stack ranking** incentive structure, where the top ten salespeople would be rewarded for selling the most new products in the incentive period. In the second scenario, participants rated a **sweepstakes** rules structure, where participants would be given a ticket for each sale and ten winners would be drawn at random to receive a reward at the end of the incentive period. In both scenarios, there would be ten winners, but how the winners are determined is quite different.

Here are the overall engagement levels¹ for the stack ranking and sweepstakes incentive rules structures:



Stack Ranking Incentive:

In the stack ranking incentive, engagement is much higher for top performers. One of the top five performing participants remarked: *“I would believe I had a very good chance to win if I kept working hard to keep my performance up.”* The research suggests top performers will engage vigorously in such a program because they perceive their chances of winning to be high.

Engagement drops substantially as we look towards participants whose past performance level is below the top ten. As one participant at the lowest percentile stated, *“I would feel like I had no chance of winning as other people ahead of me would be even more motivated.”* In this situation, the behavior of salespeople who believe they don't have a chance to break into the top ten may not change substantially.

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On the other side of the spectrum is deterministic program design, otherwise known as a “Do This, Get That” structure. When a behavior is performed or a result is achieved, the salesperson knows exactly what award or recognition they will receive. With a structure of this type, smaller awards or points can be offered that accumulate over the length of the program period. Deterministic programs can also use levels or plateaus to drive performance even higher.

A combination of these two types of program designs can be highly successful as well. You can reward participants as they progress through the program and achieve specific goals but also include a sweepstakes at its conclusion to give every participant a chance to win something for their efforts.

Sweepstakes Incentive:

Engagement for sales associates with lower past performance levels remains high in the sweepstakes incentive. Although they may not sell as many of the new product as compared to top performers, they understand they still have a chance of earning a reward. They may have fewer tickets in the sweepstakes but at least they have some tickets, giving performers at all levels a chance to win. On the other hand, top performers are less engaged in this incentive because the element of chance in a sweepstakes incentive may, in their eyes, reduce their ability to achieve the reward.

And the Winner is...

So what's our response when clients ask us what the best sales incentive structure is? It depends! The best rules structure will depend on what the goal of your incentive program is.

If you believe your top sales performers have the ability to sell even more and you want to push them to do so, then a stack ranking incentive may make sense. On the other hand, if you believe your best performers are already receiving the proper incentives and adding a program like a stack ranking would not meaningfully increase their engagement, then you may want to consider an approach such as a sweepstakes that engages more of your sales force.

At BI**WORLDWIDE**, our goal is to partner with our clients to create sales incentives that align with the strategic goals of the business. Using insights from research like this, we can drive engagement among your sales force to maximize your incentive program results.

To learn more, visit:
BIWORLDWIDE.com or email info@BIWORLDWIDE.com.

ⁱThere were over 800 participants in the study. The measure is a proprietary index of questions related to perceived attainability, emotional engagement and discretionary effort.

