What's My Motivation?

Offering Incentives by the Numbers

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Few people-management subjects generate more questions and discussion then methods of how to motivate your employees. There are many ways to motivate employees, and not all of them work for everyone or every time; but regardless of this, managers still tend to look for a formula that can be simply and easily applied. The good news is that when it comes to basic incentive motivation, there is formula that will apply in every case:

IP = GSR x GAP x MR + MCCT

After reading this, you might be thinking, "What are you doing here? Trying to create nuclear fusion?" In a sense, yes. Although on the surface, this looks like your name has to be Einstein to understand it, you'll see that this is really a quite simple concept to grasp, yet when applied, it can produce "motivational fusion."

Here is a breakdown on the formula's abbreviations:

- IP is Increased Performance
- GSR is Goal Setting & Resetting
- GAP is Goal Achievability Perception
- MR is Meaningful Rewards
- MCCT is Management Coaching, Counseling & Training

Let's take each component one at a time.

IP/Increased Performance. Increased is the key word. You're not in the business of maintaining your current levels of revenues and profits. To make growth for the company, your employees – and most importantly, you – need to believe that more performance and effort is the goal. To achieve that increased performance or production from your employees, you need to satisfy the right-hand components of the formula.

GSR/Goal Setting and Resetting. Human beings act and react to benchmarks of progress or goals. Most people don't set any more meaningful goals for themselves than what to eat or which TV program to watch. Unfortunately, most employers are just as bad at setting goals for themselves as they are for their employees.

It seems to be a fundamental weakness of most human beings that they don't understand that wishing for something and setting defined goals can be worlds apart. We don't seem to have a problem planning what's for dinner or what to do next on the job as long as these plans are quickly achieved and don't demand a lot of effort. This is where the effective manager or leader enters the picture.

That manager is aware of this common weakness and insists on goal-setting for themselves and their employees. That's because we operate best when we have a definite performance target. Goals give our efforts definition and direction. As the wily Cheshire Cat said to Alice in Alice in Wonderland, "If you don't know where you are going, any road will take you there."

Your employees need to know where they're going. With goals you're drawing them a map for success, but this is only part of the concept of goals. The other is to reset them. Motivation takes place when goals are set, accomplished and then reset for higher achievement. Goal setting is a dynamic task that demands constant attention. By paying attention to goals and their changes, you demonstrate your involvement and serious caring for your employees' success.

Don't surmise from this that resetting always means that goals are increased. On the contrary. Your consistent involvement might mean that some goals are reduced to bring them in line with the realities of business. Market conditions, competition and the value of your goods or services could be such that doubling previous performance, for example, doesn't make sense. A reduction will show employees your desire to reset goals so they are more realistic.

Last, but not least, you should, as often as possible, include the employee in establishing the goal. You want them to "take ownership" in the goal by being in on the decision process. This avoids the feeling that they were dictated to.

GAP/Goal Achievability Perception. Now that you've made a commitment to goal setting and your employees feel a part of it, do they also believe they can achieve those goals? It's great for them to be a part of the process, but motivation is either explosive or dies an agonizing death, depending on the perception an employee has of how achievable the goals are. Just because you've made them part of the goal-setting process doesn't mean that in their hearts they think they can achieve what you want.

You must hold an effective conversation with employees where they can be open about their doubts if and when they have them. This doesn't mean that you need to make the goals ridiculously easy to help your people have a positive perception. If you did that, the motivation formula breaks down because the goal-setting process is meaningless. Employees need to know that you're flexible and realistic enough to set or reset goals that are a "reasonable stretch."

The word perception is one for you to focus on. Perception of achievability is their belief of how attainable the goal is, not your belief that you're trying to force upon them. You can change their perception through first listening to their reasons for their perception, then stating why you feel they can achieve the desired goals.

A display of positive expectations by you concerning their potential to achieve is a powerful motivator and a molder of positive employee perceptions. Establish yourself as a boss who believes that their people will achieve certain goals and consistently communicates this expectation, and you'll find some excited workers who go after their assignments! It's quite natural for most people to want to please others, particularly those in positions of superior authority.

MR/Meaningful Rewards. We've now motivated employees by establishing a continuing goal-setting process, and we've worked hard at having goals that they think can be reached. Now they ask, "What's in it for me?" Rewards, whether monetary or non-monetary, need to be of real value commensurate with the effort employees have to expend in accomplishing the goals.

In short, if employees don't think the rewards you're offering are good enough for themselves personally, their efforts will be marginal. This is especially true when people do the effort-reward balancing act. How would you feel if, as a sales clerk, your goal was to double your sales and still make the same compensation.

Of course, what is meaningful to some people might not be to others. So what's meaningful to your employees? Ask them. If you decide on a certain percentage of incremental profit that's payable to workers when predetermined goals are reached, then ask for their ideas, you'll find the employees' ideas will usually be quite reasonable for your business. If anything, they will have a tendency to ask for too little.

Money is not the only meaningful reward employees want to anticipate. They also want recognition for their efforts and achievements. If I work for you and know that achieving certain obtainable goals will not only put more money in my pocket in meaningful amounts, but that you'll also feed my ego, I have reason to enthusiastically push beyond the normal.

Note that recognition for effort as well as achievement is important. Motivated employees are those who know they'll receive recognition for their hard work or efforts, even if they don't quite reach their goals. If they work very hard to increase sales and fall short, they'll still feel some satisfaction if the boss says, "I know you didn't hit your goal for the month, but I also realize you really tried hard. I want you to know I really appreciate your efforts." It's a great way to get the employee to push harder on the next goal or project.

Reinforcement via recognition of effort is one of the more powerful motivators. Simply stated, if you like what they do, tell them and then stand back and expect that is exactly what they're going to do again.

Now having talked so much about recognition, don't fool yourself into thinking that recognition of efforts is all that is needed for a meaningful reward system. If that's all you do, you'll be viewed as trying to manipulate workers on the cheap. People will never admit that their self-esteem is the most important aspect of their lives, thus material rewards that show your sincerity are also quite important.

MCCT/Management Coaching, Counseling & Training. So far, the formula has said that for increased performance, we need to have a consistent goal-setting process that involves employees to determine achievable goals that are connected to meaningful rewards. By themselves these parts of the formula will produce a good share of employee motivation.

When all the other components are there but the employee's job knowledge, attitudes or skill level still needs help, it's time for management's most important role: the helpful coach, cheerleader and teacher. This last piece is the icing needed on top of such an important cake. When you help someone get past a problem, they'll think of you as a boss who cares enough to take the time. Employees don't forget that investment.

When you understand this basic formula, you'll understand why some incentives work well and others fail miserably. So you ask, "If this is all so simple, why do managers or owners attempt ineffective incentive ideas?" The answer is that what's simple isn't always so obvious. Management must not arbitrarily initiate any incentive that happens to pop into their heads. Their job is to test any incentive idea, whether their own or one of their employees, and test it against the formula.

For any incentive to be effective, it has to satisfy the formula' right-hand components:

- Is there a consistent goal-setting and resetting process with which employees are involved?
- Do employees believe they can achieve the goals?
- Are monetary and non-monetary rewards meaningful?
- Does management aid performance with good coaching, counseling and training?

If your incentive plan meets these criteria, you have a winner!

A word of caution: Even with good incentives, not every employee will be a winner. Some people just aren't motivated by incentive plans. Their drive might come from other forms of motivation. This doesn't mean that these people aren't or can't be good employees, it merely underscores that there are many different people-motivation combinations, and that the manager's job is never as simple as only a formula.

The "Rules of the Road"

When an incentive plan is decided upon, it's imperative to discuss all of the rules, goals and dates with participants to make sure they completely understand what is expected, when and how. There are few issues that will ruin the morale of an incentive program when employees don't understand all the rules. Understanding feeds the incentive drive.

Finally, it's vital that these discussions are timely and that employees know of the incentive before the incentive period begins. But don't give them too much advance notice, because they might tend to delay performance now and then to load in as much business as possible when the program period starts.

Incentives need to be changed. The same incentive every day, week or month, all year, and the same next year will bore people into inactivity. And it will bore them enough to seek another job. Keep the job fun and interesting by varying what you offer. One caution: Employees may rebel over changes in a good incentive plan. Change itself is not the issue, it's their fear of what will be lost with change. This can only be minimized with lots of employee-employer communication.

Incentives also must be fair. Many small businesses in the service industry are entrepreneur-managed outlets with relatives as employees. Be very certain that the goals for incentive rewards are fair and not weighted to reward someone's son or daughter. Even when they are, it might be tough to convince people of it. Just be ever conscious of the fact that if you manage one of your sons or daughters, or if you have an employee favorite, the others will be watching!

Persons who earn incentive rewards should be recognized and the reward should be given immediately. By doing so, you reinforce the employee's increased performance and give motivation for it to be repeated. Human beings avoid pain and seek pleasure, likewise, activity that is rewarded is reinforced and has a high probability of recurrence.

Idea No.1

Many retailers have put their employees to work as recruiters by offering an incentive for bringing in a new employee. Here's how it works:

Employees get $25 if the candidate is hired and another $50 if they're both working at the company six months later. In addition, the employee recruiter gets another $50 if both are still there one year from the initial new-hire date. (This might sound like a lot of money, but if the new person is good enough to be working to your standards for a full 12 months, considering the cost of turnover, you've made a very affordable investment.)

Any successful recruiting employee who receives these incentive payments is also the subject of a memo from company management to all employees. This reinforces the recruiter and encourages others to do the same.

Idea No. 2

"Up selling" is one of your biggest challenges and one of the best ways to improve revenues and profits. Here's one way to do it:

All employees – full and part time – should have a track record of what they've sold or rung up in the past 30-day period. If you don't have this tracked, start tracking it! Both they and you need to know what results they're getting from your customers.

Talk with your employees about setting a goal for an increase in their "dollars per transaction” or DPTs. Increasing DPTs is one of the critical goals of every retailer. It was the reason why McDonald’s went from only selling millions of their hamburgers in the 1960s to making millions of dollars in profit because they pushed their front-line employees to suggest fries, “super size” or many other impulse suggestions.

Set the percentage increase number based on an employee’s shift schedule, time of the year and trend of your business, as well as seasonal fluctuations, product availability, pricing trends and any other objective inputs to a goal decision you and your staff can imagine. For example, assume: that the last 30 days DPTs of $6.75, and assume a DPT goal of-$7.25.

Goal payoff suggestion. If the clerk hits that goal and increases their DPTs by 50 cents, then a seven-and-a-half cent per-transaction incentive would make sense for them as well as for your business. If that clerk normally rings up 1,000 transactions in a 30-day period, it would mean an incentive payoff of $75. For that payoff, your business got $425 in additional, mostly bottom-line, profits. Do the math: 1,000 transactions times 42.5 cents. That does not touch your base profits or revenues, but only gives the incentive on “incremental” dollars per transactions.

Now consider a sell-through incentive assuming these numbers:

Normal monthly sell thru $ results = $2,500. Assume a 20% increase goal x 1.20, 20percent improvement goal, and a sell through dollar total goal of $3,000 (20% increase). A Gross margin (GM) $ assuming overall GM of 10percent, $3,000 x 10 = $300. The incentive to be paid out is 20percent of total incremental GM $ or $300 x .20 = $60

This plan has given you a 20 percent increase in sales, but only cost you 20percent of your increased or incremental margin if they meet the 20 percent goal. This is a two percent of revenues cost to you; however, for that you increased you gross profit margin by $240 and kept your base line of profits intact without paying anything from those dollars. Of course, you’ll need to play with these numbers to a.) satisfy your profit requirements, and b.) make the potential payoff meaningful. Don’t be stingy!

You could set a goal with employees for total dollars and units for a 30-day period. This should be predicated on what their dollars and units are normally, and then increased by a percentage you and they feel can be obtained. Assume a “stretch” effort on their part. If you have given them a goal of 30 percent more sales, the analysis would look like this:

Assuming normal 30-day sales dollars for an individual is $5,000 transacted at a $2/unit. The normal revenues and units sold equal $5,000 for 2,500. The new goal (30 percent increase) eqiuals $6,500 or 3,250 units. Assume a 25 cent incentive per incremental equal to a $187 incentive payoff

At first glance this looks like you’re paying out a rather large incentive of $187; but remember, this is for incremental sales dollars. Your employee created $1,500 in additional sales income splitting $187 for them and $1,313 for you, which is $1,313 you never had before, and $1,313 you would probably never have had.

You can, of course, change this plan in many ways. You could pay less on the incremental sales and more after they hit their goal. Remember that good incentive plans should be paying some real money to employees, and that this incentive is based on extra money earned. This means you continue to make your full margin on the base transactions.

Don't be afraid to give your people a big cut of the profits they earn for you that you wouldn't have had before. Your biggest problem in running your store should be the huge incentive dollars – based on incremental revenues they produce – you'll pay sales people. What a nice problem to have!

Idea No.4

Not all incentives should be well publicized before they're given. "Spot" incentives, or "lightning strikes," are impulsive, on-the-spot payments made when a manager sees a specific incident, such as a sales clerk doing an outstanding job of handling several customers in a row, suggesting additional products or services and, in general, making the customer feel important.

Give the employee a $10 bill as soon as the customer leaves and thank them for a job well done. This doesn't mean that a precedent is set. This incentive is given at the discretion of the manager, and only they can decide when such a payment should be made. This kind of incentive can be very powerful in reinforcement and motivation because it's so immediate. Owners should establish a budget or pool for this kind of payment for managers to utilize.

These few examples should help you start dreaming up your own incentive brainstorms. If you want more specific ideas, ask other retailers at local association meetings and shows, or your vendor representatives. They spend most of their lives in companies similar to yours, and no one will have witnessed more good (and bad) incentive programs then them. Whatever you dream up, stick to the disciplines of being fair and satisfying the incentive formula.

Employees Also Want Non-Case Incentives

There is much an employer can offer that will motivate employees to become long-term employees. Here is are some ideas:

- Employee merchandise discount plans.
- An Employee assistance program (E.A.P.). These are organizations in many cities, small and large, that aid employees who are facing debilitating personal problems, such as drug or alcohol abuse, marital problems, spousal or parental

abuse, etc. A good E.A.P. can be invaluable to both the employee and the employer because the personnel are trained to help solve these problems and, in turn, this should make some employees much more productive. Beware: Some employees might try to use an E.A.P. as a crutch to avoid being fired for poor performance.

- For full-time, long-term employees, you might want to set up a retirement or employee savings plan. The 401(k) section of the Internal Revenue Code allows you to offer a long-term, tax-deferred retirement-savings program at minimal investment and risk to you.
- More and more service companies are offering health benefits to retain long-term, mature employees. To make this an even more appealing incentive, put trigger dates into the plan where employees get a higher percentage of coverage the longer they stay employed. Example: 10 percent to start, 50 percent after 12 months and 75 percent at the end of two years.
- Non-cash benefits can be more motivating to some employees than an hourly raise. For example, a young working mother will find help with daycare and health insurance coverage more beneficial than an additional 50 cents per hour.
- Childcare cost discounts. Some retailers are offering young mothers a percentage reimbursement of daycare cost that increases with length of service. For example, after three months, the employee gets back 25 percent of daycare costs, 50 percent after 1 year and 75 percent after two years. Of course, you will have to decide if you want to make this available for one or all the children of one parent.

Managers' Incentive Compensation Plan

Incentives for managers are equally important as incentives for lower-level employees. In general, management incentives should be based on the results of the company's or location's total sales, profits and aggregate efforts of all employees on individual incentives.

Base Salaries

To hold onto good, motivating managers, just remember that you cannot usually buy high quality at a low price. Frankly, if you want the best, you have to pay the price, which really applies to all employees. To know that price, you'll have to do some research.

What are your service retail competitors paying? If you don't know, find out. It's the first step in formulating a motivating management-incentive program. This research should extend beyond just competitors in your own industry. Your competition for excellent store management is most retail-service outlets. They are potential competitors for your good human resources.

Management Bonuses & Incentives

There are many ways to determine bonus levels for managers. First, it's important to be committed to having a bonus for them. Some owners try to get off cheaply by only offering a base-salary. That's a big mistake. You get the effort and commitment you pay for.

A bonus should be part of the incremental profits. Don't pay incentive dollars for achievement of the status quo. The exception is if you believe that several elements outside your manager's control has caused such poor results that bonus opportunities were not possible regardless of how much effort was extended. What you pay then becomes a subjective call on your part.

To begin with, you and the manager must agree upon yearly and quarterly goals for sales revenues and profit dollars. Assuming this goal exceeds the previous year's performance, it makes sense to pay a flat amount for achieving this objective. Payment should be made according to quarterly and year-end results.

For purposes of illustration, assume your store's sales revenue last year was $250,000. Also assume that the mutually agreed-upon goal for the year is a 20 percent increase, or $50,000 more in sales, for a year-end goal of $300,000. For each quarterly goal the manager meets, he is paid $750. If the year-end goal is met, he gets another $750. Altogether, you will have paid $3,750 to achieve $50,000 in additional sales. It's worth the cost!

In addition to the flat cash payments, you should consider giving the manager a percentage of the incremental profit dollars at year's end. This is their piece of the pie, their cut of the profits that they contributed to achieving. Remember, you're dealing with incremental, or new profit dollars, which are profits you didn't previously have.

With this kind of reward system, the manager should be informed and mindful of the operation's expenses, such as inventory, personnel, shrinkage, advertising and others. It makes them care about how and when money is spent. The percentage you pay for the year-end bonus is a personal decision, but 10 percent of the new extra profit over last year is a good figure, and one you should be able to afford.

Let's see how this would work, assuming that both sales and profits have improved:

1. Current year's profit: $15,000 (assuming 6 percent after-tax profit rate or $250,000 sales x .06)
2. Previous year's profit: 11,250 (assuming 4.5% after-tax profit rate or $250,000 x .045)

Incremental profit (1 minus 2): $3,750

Year-end piece of the pie: 10percent x $55,550 or $ 375

For purposes of illustration, combining base salary, quarterly and yearly flat bonus payments for sales achievement, and year-end profit cut, your manager's compensation would be (assuming the manager made two quarterly sales objectives and the year-end goal):

Base Salary: $23,000

Flat Quarterly Bonuses: $3,000

Profit Cut: $375

$29,075

In addition to this package, you might consider giving them an override on the individual incentive programs offered to employees, such as the incentives you're giving for incremental increases on DPTs, sell-through and late-fee collections. The manager's focus should be on quarterly and yearly sales totals and total profit and watching over the day-to-day increases in employee profit production will help the monthly and annual results.

Final Note

Remember that there is no one way to increase all employees' performance, but making a real commitment to inspire your employees each day to achieve bigger and better things is the approach that always wins. Iincentives are the icing on the motivational cake, and specific performance is what they're are all about. If you're an accomplished manager and offer no incentives, you will still have motivated employees and a company attitude of growth and positive energy. But good incentives still aid the need for recognition.

The incentives in this ebook assume bonus payments based only on revenue achieved. As an incentive for the manager to work on improving certain areas of non-financial performance (that is, people-management skills, attitudes, cooperation and the like) you might want to budget a few more dollars for an "administrative" discretionary component tied to their performance reviews.

One more thought: The ideas presented in this ebook are a good starting point that have been used in retail-service industry outlets. Most important than the incentive ideas – are the formulas for effective incentives. Those that satisfy the formula will serve you much more in the long run.

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