

Imagining new incentives.

Companies believe in the power of free markets and incentives. Yet, they are often frustrated when they attempt to apply these principles to their own workforce. It's easy to give salespeople performance-based incentives. Why is it so hard for everyone else?

Incentives-based systems for an entire workforce can lead to unpredictable results – or even, in some instances, abuse. For example, rewarding managers for budget cuts may lead to eliminating the R&D department or promising projects. Incentives can also invite abuse, such as excessive overtime.

So, companies feel they have little choice. Outside of the sales team, they often default to a “do it or else” approach to employee management: lots of sticks, no carrots. This command-and-control strategy is popular when it comes to pushing employees to control costs. But rules-based straitjackets don't work very well. Costs don't go down; productivity doesn't increase; and employees feel demoralized.

Fortunately, modern technology has opened the door to a new third strategy - one that combines the advantages of top-down management and the time-tested strengths of incentives-based systems.

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A new kind of “dynamic” incentive combines employee flexibility and initiative – while still retaining the benefits of cost controls.

Dynamic incentives are the kind that change from one moment to the next – or from one purchase to the next – or from one person to the next – or all of the above – depending on factors including real-time supply and demand, individual employee status, company objectives and more.

Using tools such as Big Data, mobile networks, the Cloud, GPS and software, companies can deploy a dynamic incentives program in which every possible choice available to employees is carefully structured to benefit the enterprise as well as the worker.

Consider how Uber uses dynamic driver-payment incentives. Uber offers higher earnings opportunities to drivers during peak demand periods. As customer demand gradually rises, so does drivers' immediate pay. Uber drivers aren't salespeople, but that's the point: incentives work well for them regardless. As the labor pool expands, so do Uber's profits and ability to serve more customers at a market-clearing price. This dynamic approach wouldn't have been possible five years ago.

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Command-and-control spending policies and one-dimensional incentives are especially problematic when employees face complex choices that impact the bottom line.

Suppose you run a small company where employees purchase their own business trips. Buying one trip could easily involve 50 or 100 small decisions by the employee (i.e., choice of airport, flights, airline brand, connections, cabin class, hotel brand, hotel

quality, hotel location, and dozens of other options). These accumulated employee choices add up. They can save – or cost – your company a lot of money.

In this situation, enforcing strict spending limits or supplier limitations can result in fewer vital trips and/or greater employee discomfort. Neither is good for the company. An incentives-based offer to “share savings” sounds good, but it assumes that anyone with a computer can suddenly become an expert at finding, evaluating and integrating dozens of smart travel options. These are time-consuming, difficult and often impossible tasks for “amateurs.”

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A better system: use advanced software to find the best money-saving options for each employee in real-time, then combine each option with dynamic incentives.

This is the system that we have built with my newest company, Upside. We use Big Data software to instantly analyze 10,000+ possible travel choices to find “needles in the haystack” – the six best money-saving flights and six best hotel rooms that meet the employee's needs for a specific business trip.

Result: an itinerary that might have taken an hour to research and purchase with conventional tools is arranged in minutes, with incentives that make employees eager to cut costs. The company can save 5-15% on each trip, buying only business-quality airlines and hotels. As the employee chooses to spend less, they receive larger and larger incentives from Upside – a gift card worth \$100 to \$500 at Amazon.com or their choice of 50 other name-brand stores. (And, they still keep all of their frequent-flyer miles and credit card points.)

Airlines and hotels benefit too. They get a new way to capture valuable business customers. Upside's system enables suppliers to offer lower prices while protecting their advertised prices elsewhere. How? We only sell flights and rooms together for a single blended cost (Upside never breaks out individual component prices). Even suppliers are happy.

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Dynamic incentive systems can transform trillion-dollar sectors of the global economy.

At Upside, business travel is our initial proving ground. We demonstrate how dynamic incentives unleash employee initiative in a simple, motivating and profitable way. The power of using *personal* motivations in the workplace will revolutionize industries such as healthcare, insurance and more.

Companies no longer have to choose between the benefits of a rule-based system vs. the flexibility of employee initiative. With dynamic incentives, they can have both.

– Jay Walker
Chairman and CEO
Upside.com

 **UPSIDE**
It's all about the upside.

Third in a series of essays imagining the future of business. @upsidetravel