Calculating Incentive Payments at Alpine Valley Skis

Case

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Abstract

Incentive programs are designed to reward employees and/or teams for achieving certain productivity benchmarks. When designed and implemented correctly, incentive programs are mutually beneficial to both the employee and the company. The company achieves the desired behaviour and outcome from the employee, and the employee receives a financial award for achieving the desired productivity benchmarks. This case is designed to help students understand how incentive programs are designed and to calculate specific incentive payments for employees.

Case Learning Outcomes

1. Understand the difference between group and individual incentive programs.
2. Explain the advantages and disadvantages of an incentive program.
3. Learn how to calculate incentive payments.
4. Understand how incentive programs can be used to drive desired performance.

Background

Alpine Valley Skis is a fictional family-owned manufacturer of high-quality skis in the Northeastern United States. Their skis are sold at various retail stores throughout the United States. The company is headquartered in Augusta, Maine and they have a total of 25 full-time employees. Alpine Valley Skis prides itself on the quality of the skis they produce, and their product is highly sought after by experienced and professional skiers. Last year’s revenues were listed at USD 5,000,000.

The company’s president has noticed a significant drop in the number of skis that are passing their stringent quality tests each week. Second quarter projections are indicating that the company may not meet its operating expense for the fiscal year. This is worrisome to the executive leadership team and is directly affecting the company’s profitability, reputation, and continued success. They may be forced to lay off employees or to shut down the production facility for a certain number of months. Currently, the company earns a gross profit of USD 25.50 for each quality ski they produce and sell.

As a way to improve the number of quality skis produced each week, the president wants to implement a Quality Skis Incentive Program with the staff that produce and fabricate the skis. He wants to incentivize these employees to have a vested interest in the company and is willing to share a portion of the profits with them if they meet certain productivity quotas each week.

There are five full-time employees who work on the production line fabricating skis. They work a standard 8-hour work shift per day. Historical data indicates that an average employee should be able to produce at least 30 quality skis per week.

Incentive Program Design

The Quality Skis Incentive Program is based on producing high quality skis that pass all safety and quality tests on a weekly basis. The payments will vary per person based on the number of quality skis they can produce each week (Table 1).
Table 1. Incentive Program Payments Chart

<table>
<thead>
<tr>
<th>Quality skis produced</th>
<th>Weekly payout (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–20</td>
<td>0</td>
</tr>
<tr>
<td>21–30</td>
<td>200</td>
</tr>
<tr>
<td>31–40</td>
<td>350</td>
</tr>
<tr>
<td>41–50</td>
<td>500</td>
</tr>
<tr>
<td>&gt;50</td>
<td>800</td>
</tr>
</tbody>
</table>

In order for a weekly payment to occur, a minimum amount of 150 quality skis must be achieved by the group as a whole. If they do not produce at least 150 quality skis in a week, then no one receives an incentive payment that week, regardless of individual performance and productivity. Table 2 shows the actual number of quality skis produced by each employee over the last 5 weeks.

Table 2. Quality Skis Produced by Each Employee

<table>
<thead>
<tr>
<th>No. Quality Skis Produced</th>
<th>Dominick Johnson</th>
<th>Patrick Boyd</th>
<th>Vincent Pounds</th>
<th>Megan Henry</th>
<th>John Florence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>27</td>
<td>39</td>
<td>35</td>
<td>32</td>
<td>35</td>
</tr>
<tr>
<td>2</td>
<td>15</td>
<td>31</td>
<td>38</td>
<td>25</td>
<td>34</td>
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<tr>
<td>3</td>
<td>30</td>
<td>17</td>
<td>37</td>
<td>42</td>
<td>24</td>
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<tr>
<td>4</td>
<td>24</td>
<td>29</td>
<td>42</td>
<td>47</td>
<td>34</td>
</tr>
<tr>
<td>5</td>
<td>42</td>
<td>32</td>
<td>48</td>
<td>51</td>
<td>48</td>
</tr>
</tbody>
</table>

Discussion Questions

- 1. What are the weekly incentive payments for each employee? What are the 5-week total payments for each employee? Use the charts and information contained in the case. Explain how you came to these payments. Feel free to show your work.
- 2. Based on the charts in this case (Tables 1 and 2) and the gross profit Alpine Valley Skis earns from
each quality ski produced, what amount of profit can the company expect from the last 5 weeks of productivity?

3. What are some benefits and disadvantages of a team-based incentive program? What are some benefits and disadvantages of an individual-based incentive program?

4. Do you think tying the weekly incentive payment trigger to a team-based goal is fair to all employees? Support your answer with examples.

5. Do you think productivity incentives are beneficial to companies? Do you think incentives drive the desired type of employee performance?

6. Do you think the Quality Ski Incentive Program is beneficial to the company? Explain your answer.

Further Reading
http://dx.doi.org/10.4135/9781526499370