



**The Management Experts**

## **Why Did One CVS Incentive Plan Soar While Another Sank?**

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### **Main article**

Having covered compensation conferences for many years, *PFP* has found that few presentations offer a real "warts and all" look at HR/compensation managers' experiences during the incentive plan design and implementation process. Happily for our readers, we can report on one remarkably candid presentation on the subject at the latest WorldatWork (Scottsdale, Ariz.; [www.worldatwork.com](http://www.worldatwork.com)) Annual Conference & Exhibition in Boston.

As the title of the session, "CVS Pharmacy: A Story of Incentive Plan Success ... and Failure" suggests, the discussion addressed the widely divergent fates of identical incentive plans as they were piloted and then adopted (or not) in two of the retailer's districts. Presenters Brad Hill, senior consultant with the HayGroup ([www.haygroup.com](http://www.haygroup.com)), and Angela Schmitt, corporate compensation manager for CVS, provided a combination how-to and cautionary tale to the HR/compensation managers in attendance. We offer highlights of the session below.

**The incentive plan that wasn't pitched as an incentive plan.** To focus employees on the plan's reason for being, CVS was careful not to call the program a pay plan—instead, it was referred to as an improvement program, noted Hill. He also noted the following objectives, which make it clear that whatever the program was called, incentives certainly played a role. *The objectives:*

- Creating focus and communications around the key drivers of store success.
- Recognizing superior team performance with pay.
- Pushing incentive decisions and information down to the lower levels.
- Providing pay opportunities for new efforts and ideas that are beyond expectations.
- Providing every individual with an understanding of his or her role in creating store success.

**Putting the program together.** To develop the plan and reinforce the idea of a participatory work environment, CVS engaged employees throughout the process. For starters, it polled employees in its Philadelphia and Greensboro districts about their views on various work practices and, interestingly, both districts scored about the same (for the results, see the sidebar, "CVS Incentive Scorecard").

It then sought volunteers in each district for a deeper study of employee perceptions via focus groups and also selected employees at random from a pool of volunteers to be on design teams, one per district. Hill said that while the original idea was to have 16 people on each team, it became clear that 10 to 12 was more realistic in a retail environment.

Each team was supposed to meet five times, one day every other week for 10 weeks, to develop the plan and prepare to present it to CVS management. *The agenda:*

**Meeting one: Introduction to store incentives.** Design team members reviewed the study results, learned about store incentive concepts, and examined store incentives at CVS, specifically plan mechanics and design considerations.

**Meeting two: Design a store incentive plan.** Design team members were presented with additional plan alternatives, discussed the advantages and disadvantages of each, arrived at a consensus on a plan framework, and assigned members to store incentive sub-teams devoted to finance, improvement, or communications. To keep things simple for the design teams, Hill said they were given an incentive formula that required them to make 10 decisions (see the sidebar, "Design Challenge: Pick One From Each Column").

**Meeting three: Develop a store incentive program (SIP).** Sub-team members for finance identified focus factors; the improvement sub-team identified the design involvement framework and idea flow; and the communications sub-team members developed a communications plan. The team also reviewed employees' questions and answers and a chart of accounts.

**Meeting four: Document SIP.** Members developed personal-impact maps, documented involvement process, drafted communications packets, devised their final presentation outline, recommended process improvement courses and vendors, and identified their presentation team.

**Meeting five: Final presentation preparation.** Members rehearsed their final presentation, brainstormed management questions and concerns, developed an implementation schedule, and simulated payout scenarios.

In the presentation members were asked to cover seven areas: (1) What, how, and why; (2) plan mechanics; (3) personal-impact map; (4) idea flow; (5) improvement framework; (6) ongoing communication plan; and (7) plan document/Q&A guide. This was to be followed by a management review and update.

**The result?** As we already know, the plan in one district worked and the other didn't. Hill and Schmitt offered five good reasons why the Philadelphia and Greensboro districts saw such radically different results:

**1. Design team stability.** In Greensboro, only one member left the original design team. Beyond that, Hill reported that team members "enjoyed each other, looked forward to the meetings, and the work of the team felt important." In Philadelphia, however, 20 people showed up for the first meeting for 12 slots—apparently, a district manager decided to send extra people, "some of whom didn't care," in Hill's

view. And while the design team started out over-staffed, it ended up with only nine members at the end. *Why?* "Store managers pressured members not to attend meetings, participation felt optional, and the work of the group felt unimportant," said Hill.

**2. Corporate/HR staff involvement.** In Greensboro, he saw that corporate/HR staff "visited stores the day/evening before meetings, worked in stores alongside employees, had several social meetings with local design team members, and did research between meetings." In Philadelphia, which was closer to CVS corporate headquarters and therefore had higher-level personnel involved, Hill reported that corporate/HR staff flew in and out the day of the design team meetings, "left early on occasion, and missed meetings due to work 'emergencies.'" He also noted that while there was a company rule against having cell phones, beepers, or pagers on during meetings, it didn't apply to "these people."

**3. Local/district manager support.** Greensboro's district manager didn't participate directly in the design team meetings, but he did what he could to keep them going strong. *For example:* He outlined his expectations for his people at the kickoff meeting; hand-delivered greeting cards to each team member with the message, "Don't be afraid to dive in"; personally delivered Krispy Kreme donuts before each meeting; touched base with team members between meetings; and incorporated new program concepts in all of his communications. As one would expect by now, the Philadelphia manager took a different approach. He appeared at the kickoff, but since he had a "history of 'avoiding' employees," he didn't participate at anything below what Hill termed a "high profile" level. Instead, he "got busy with 'management,'" which made sense, since he was known to "visit" stores by walking in and making a beeline into the store manager's office where he promptly shut the door.

**4. Regional manager buy-in.** Hill told attendees that the Greensboro district manager "kept updated on the program design, came to the final presentation with tough questions, and formally/publicly blessed and supported the program." In fact, when the design team said, "we're not leaving until we get your final approval," he stayed around to give it. In Philadelphia, however, the final presentation was "delayed several times." When it finally did come to pass, the regional manager listened "politely" to the presentation, but left saying he needed more time to "think things over." A disappointing conclusion to all that effort.

**5. Start to implementation timing.** When it came to the design schedule, the Greensboro design team overachieved—instead of five meetings over 10 weeks, it held six. According to Hill, the team "demanded a sixth" meeting because they "weren't comfortable." The final presentation took place four weeks after their last meeting—Hill would have preferred a gap of only two weeks. Further, team members held several practice presentations beforehand, and they won management approval "on the spot." In Philadelphia, the design team also held six meetings, but over 12 weeks. And they didn't ask for the sixth, Hill did—he said they needed it because they "didn't have their act together." As for their final presentation, it took place 20 weeks after their last meeting—and management approval is still "pending." *In other words:* The Philadelphia program was never implemented.

**What Philadelphia may be missing.** Though Greensboro put more time and energy into its SIP than Philadelphia, it was amply rewarded for its efforts, according to Schmitt. *She offered the following overview of program results:*

- Sales are up 9%—which is "significantly more than in the surrounding region."
- Scan rates (of the CVS loyalty/discount card) have improved by 22%.
- Triple S—stock/shop/service—has increased 5%. That's "huge movement," in Schmitt's words, considering that management sees improvements of 1% or 2% as "significant." Greensboro is now in the top quartile of the company in this measure.
- Turnover has decreased by 12%—no small feat in the retail sector.
- More than 500 ideas have been submitted (there are 600 employees in the district). (For examples, see the sidebar, "Improvements From CVS's Store Incentive Program.")
- Employee satisfaction has improved, as measured by surveys and discussions with store managers.

**Conclusion.** You may be wondering, "Why did CVS stick to the two-team approach?" Hill explained CVS's decision to keep two distinct teams as further proof of the company's commitment to employee involvement. Plus, CVS thought it might help if employee "disciples" were around to help sell the idea to their peers. A noble and perhaps effective decision as far as Greensboro was concerned—but as the above tale makes plain, management "disciples" are crucial to any plan's success as well.

## Sidebar: CVS Incentive Scorecard

Here is a sampling of results from a survey of employee attitudes toward workplace practices in two districts of CVS stores in Philadelphia and Greensboro. From the WorldatWork Annual Conference & Exhibition in Boston, at the session, "CVS Pharmacy: A Story of Incentive Plan Success ... and Failure," led by Brad Hill, senior consultant with the HayGroup ([www.haygroup.com](http://www.haygroup.com)), and Angela Schmitt, corporate compensation manager.

Category	Description	Grade
Business Focus	Extent to which the organization has a clear focus and consistent goals and direction	A-
Teamwork	Degree to which accomplishments depend on integrated efforts among employees and departments	B-
Empowerment	Extent to which employees are encouraged to take risks and suggest improvements	C-
Willingness and Ability to Change	Degree to which employees: (1) trust supervision; and (2) are more motivated to get the job done than by fear of making a mistake	B+
Human Resource Programs	Effectiveness of measuring job performance, and perceived equity and motivational value of the compensation system	A-

## Sidebar: Design Challenge: Pick One From Each Column

Brad Hill, senior consultant with the HayGroup ([www.haygroup.com](http://www.haygroup.com)), believes organizations place "too much emphasis on formula" when developing incentive plans. In other words, it needn't be such a chore. To back up his assertion, he offered the following sample "menu" approach to formula design during his part of a presentation at the WorldatWork Annual Conference & Exhibition in Boston, "CVS Pharmacy: A Story of Incentive Plan Success ... and Failure." *Key:* As he notes about the menu: "The challenge is to design a plan using only one item from each column." Hill told attendees, "for every factor you add, you make it more difficult" to calculate. While many of the following factors are specific to CVS and the retail pharmacy environment, *PPF* can see how managers could modify this checklist to suit their own organizations' purposes. **The 10-Part Incentive Menu**

### 1. Funding factors:

- Controllable cost/sale
- Dollars per transaction
- Four-walls profit
- Growth in customer count
- Management controlled profit
- Sales growth
- Sales/payroll \$

### 2. Modifying factors:

- Employee satisfaction
- ExtraCare card
- Inventory turns
- Shrink
- Total execution
- Triple S (stock/shop/service)
- Turnover
- Waiting time

### 3. Payout factors:

- Attendance
- Equal dollar
- Equal percent of pay
- Hours worked
- Individual ratings
- Performance rating
- Position
- Years of service

### 4. Participation:

- Front store employees
- Pharmacy employees
- Part-time employees
- Summer employees
- Salaried employees

### 5. Eligibility:

- Attendance
- Minimum service
- First day of period
- Last day of period
- Date of payout

### 6. Performance period:

- Monthly
- Quarterly
- Semi-annually
- Annually
- Improvement-based

### 7. Basis of comparison:

- Historical performance
- Internal CVS benchmark
- Budget, plan, or target
- Retail benchmarks

### 8. Store protection:

- Rolling payout
- Year-end opportunity
- Loss recovery
- Year-to-date gain
- Sharing formula

### 9. Employee protection:

- Roll store incentive into base pay
- Change sharing formula
- Blend actual/baseline

### 10. Sharing formula:

- Employee \_\_\_%
- CVS \_\_\_%
- Improvement fund \_\_\_%
- Charity \_\_\_%
- Employee distress fund \_\_\_%

## Sidebar: Improvements From CVS's

### Store Incentive Program

Below are selected reward-winning employee ideas for improvements at CVS stores in Greensboro, as presented by Angela Schmitt, corporate compensation manager for the retailer, during her part of the WorldatWork Annual Conference & Exhibition presentation in Boston, "CVS Pharmacy: A Story of Incentive Plan Success ... and Failure."

- **Secret pal program.** Pairing employees from the front of the store with those in the prescription department.
- **Stop blinding paying customers.** Do this by reducing the glare on cash registers and keeping sun out of customers' eyes. *Note:* Ideas typically aren't implemented until the store "earns" the improvement money necessary, but in this case, the district manager told the store manager to "just go get the blinds."
- **Rolling pegboard for displays.** This allowed employees to set up new displays in the back of the store, instead of bringing boxes of materials into the aisles and blocking traffic until they got everything together.