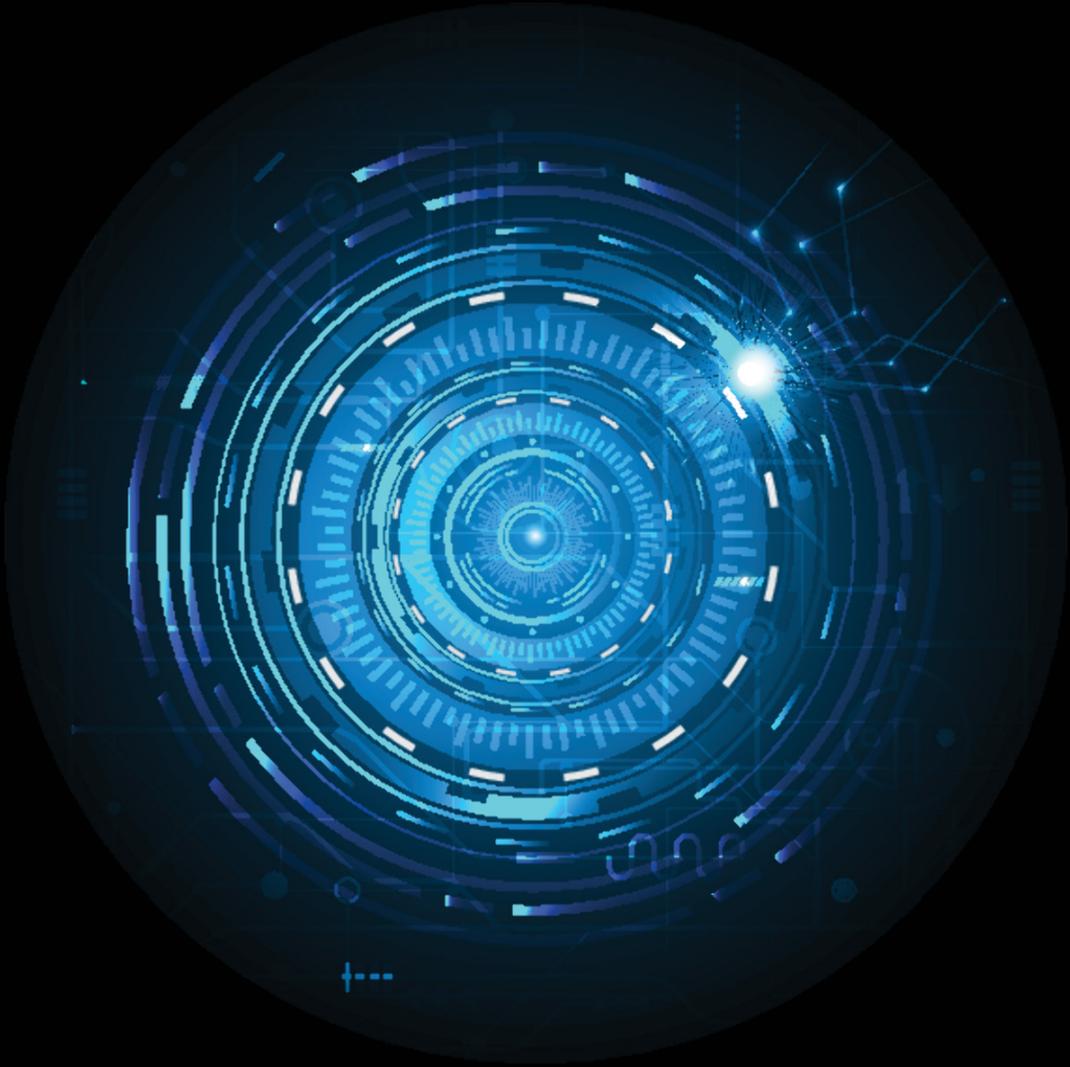# Deloitte.

Rewards Optimization

Rewards Optimization

Rewards Optimization is a powerful approach enabling employers to identify the most effective reward package that better meets the needs of their workforce at the same or lower cost to the organization. The optimization process consists of two primary activities – conjoint analysis to measure preferences and portfolio optimization to look at the most effective combination of reward options relative to cost.

The first piece of the optimization leverages a concept called conjoint (trade-off) analysis to measure employee preferences through a simple series of trade-off questions. Conjoint allows for a comprehensive understanding of the preferences that drive employee behavior, providing both the rank order and magnitude of preferences for the program features tested.

The second piece of the optimization borrows the idea of the efficient frontier from economics, allowing us to gain insight into the impact that program changes will have on the behaviors of our employee population and is illustrated in the figure below.

In this chart, the horizontal axis shows a change in costs to the organization; on the left side of the axis, the organization would be achieving a cost savings, either by removing features from the total rewards package altogether, or by reinvesting current dollars more efficiently. On the right side, we see the organization making an investment in reward dollars in order to increase the effectiveness of the reward package.

The vertical axis is a measure of plan effectiveness linked to an employee behavior such as engagement, retention, motivation, satisfaction, etc. As we move up the axis, plan effectiveness increases, driving an increase in the desired behavior; as we move down the axis, plan effectiveness decreases, resulting in a decrease in desired behavior as well. The efficient frontier provides us with a series of optimized packages—pinpointing the most efficient way to spend dollars and maximize employee preferences.

Optimization of preferences and cost is key to unlocking reward potential
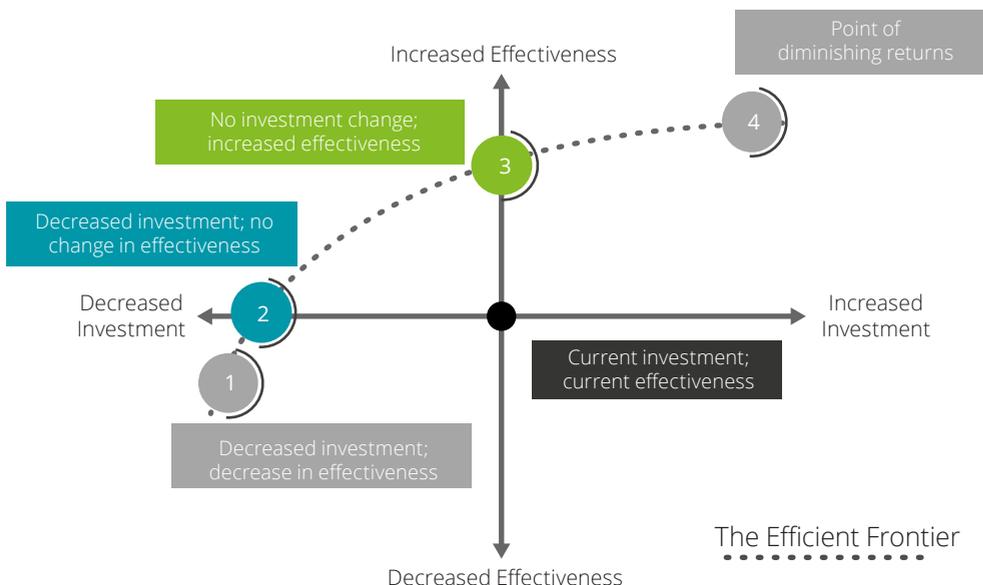
- Point 1 along the efficient frontier (bottom left) would result in savings from an organization's perspective, reducing the investment for all rewards; however this comes at a cost, dramatically reducing the efficiency of the package for employees.

- Point 4 along the efficient frontier (top right) would result in both an increased investment from an organization' perspective, and an increase in effectiveness from the employee perspective. While making an investment in rewards might make sense for some organizations, at some point, along this frontier we see diminishing returns, resulting in very little return on each increase in investment.

- Between points 2 and 3 along the efficient frontier are reward packages that deliver greater value to employees than their current package, but will also result in some level of cost savings for the organization. Ultimately this is where many organizations strive to be, designing a package that meets the needs of their employees while also maximizing company investment and potentially identifying an opportunity for cost savings.
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Our research has shown that through leveraging this rewards optimization concept, organizations can deliver a total rewards package that better satisfies the needs of employees (a package that the majority of employees think is better than the package that they have today) at the same or lower cost to the organization by taking out "wasted" dollars and reinvesting them in under-delivered reward areas.

Rewards Optimization is key to unlocking the power of total rewards programs. It enables organizations to differentiate their packages, tailoring their rewards offerings to the specific needs of their workforce, rather than simply reacting to what the market is doing. Through Rewards Optimization, employers can align their rewards, which can result in increased employee satisfaction, reduced waste, and a better measurement of ROI – contributing to better attraction, retention, and engagement.

Learn more:
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