

The Role of Gift Cards in Corporate Recognition and Incentive Programs

They offer the advantages of both cash and merchandise.

Gift cards are familiar to American consumers as an easy, convenient way to give the gift of choice. But usage reaches far beyond department store cards for birthdays and holidays. Businesses use gift cards to recruit, recognize, and motivate employees; to reward workplace safety; to forge relationships with dealers and distributors; to build trade show traffic; and encourage consumers to buy their products – see graphic: *How do you use gift cards in your incentive programs?*

Studies prove that gift cards achieve concrete business results such as:

- Increasing sales
- Improving employee performance
- Increasing loyalty
- Building teamwork
- Creating new markets.

Gift cards also offer the following advantages over cash incentives:

- They are more memorable
- They aren't confused with compensation
- They can be branded
- They can be personalized
- They can be customized
- They include administrative benefits such as usage tracking and a variety of redemption options.

The gift card industry continues to play a key role in both business-to-consumer and business-to-business markets. In particular, use of the cards to help build incremental sales is expected to expand.

How do you use gift cards in your incentive programs?

| | |
|--|-------|
| Recognize performance..... | 70.2% |
| Sales incentives | 48.6% |
| Non-sales recognition awards..... | 30.4% |
| Spot rewards..... | 30.4% |
| Business gifts | 29.3% |
| Service awards | 27.6% |
| Consumer promotions | 14.9% |
| Safety awards..... | 9.9% |
| Dealer incentives | 9.4% |
| Wellness programs..... | 6.6% |
| Start/maintain business relationship | 6.1% |
| Other | 4.4% |

Source: 2008 Incentive Magazine survey

Definitions

Despite the simplicity of gift cards, the variety of options requires an understanding of the following basic terms.

Prepaid Product: Any device that can be loaded with monetary value in advance of the time when it will be converted into goods and/or services. Prepaid products include both open and closed loop products.

Closed Loop Cards: These cards can only be used at specific retailers. Gift cards and some filtered prepaid cards are examples of closed loop cards.

Open Loop Cards: These cards are identified with a Visa®, MasterCard®, Discover®, or American Express® logo. Some large shopping mall enterprises also offer open loop cards. These cards can be used anywhere these brands are accepted and/or at the participating malls.

Filtered Prepaid Cards: These cards allow the giver to specify the exact merchants and even locations that will accept the card.

Debit Cards: These cards are redeemable only at participating merchant outlets and are reloadable.

Prepaid Cards: These cards are supported by a consolidated demand deposit account (DDA) versus the debit card's individual DDA.

Gift Cards: These are plastic cards made with a magnetic strip and/or barcode preloaded with a dollar or point amount. Some are reloadable (often called debit cards); others are not. They are generally available in two types:

1. Those that carry a major credit card brand and are redeemable at any merchant accepting the brand.

Inside This White Paper

- Definitions
- Applications
- Research
- Attributes
- Case Studies
- Choosing a Provider
- Finding a Provider
- Summary

2. Merchant-specific cards, such as those issued by well-known retailers, which are redeemable only through the specified merchant.

Gift Certificates/Gift Checks: These terms for paper awards are rarely used because paper awards are rarely issued anymore. The preferred term is gift card.

Virtual Cards: These gift cards are delivered via e-mail directly to the recipient's mailbox, saving time and the expense of printing and delivery. The virtual card may contain a link to a Web site where recipients select and claim their rewards.

Applications

Gift cards serve a variety of functions in many types of incentive programs – see graphic: *For which activity do you give out a gift card most often?*

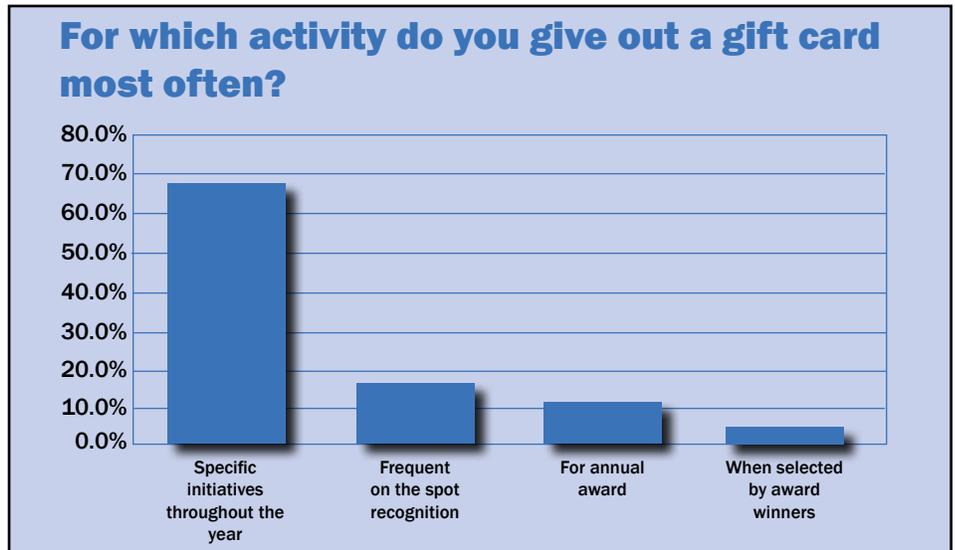
Recognition

Gift cards have both trophy and halo value. The cards have trophy value because they're marks of accomplishment that can be given in an awards ceremony or included in congratulatory note or e-mail. And they produce a halo effect when employees are reminded of their accomplishment as they plan how to redeem the card and when they receive and use the merchandise or travel.

There is also opportunity to share the experience with family by involving them in rewards such as restaurants and travel. Unlike cash, employees are unlikely to consider gift cards as compensation and thus do not learn to expect them.

Sales

Gift cards work especially well as sales incentives. They're available in many denominations—and thus flexible enough to reward any incremental sales volume. And unlike cash, which is a common and expected form of variable compensation in



this field, gift cards are seen as a one-time reward for a job well done.

Safety

Gift cards are used to recognize individual or team safety milestones such as:

- Months without injury or accident
- Reduced days off for illness or injury
- Following and documenting safety procedures
- Demonstrating knowledge of preventative practices
- Demonstrating emergency preparedness.

Comprehensive safety programs yield lower insurance rates, increased productivity, and preparedness for impromptu safety audits. But none of this will happen without full employee participation. Studies show that gift cards are an excellent employee motivator.

Dealer Incentives

Monetary incentives such as discounts and rebates are common and expected in most distribution channels, but gift cards can make a motivation program more targeted and memorable without raising sensitive pricing issues. They can be used to spur channel partners to participate in

new product training, increase overall sales/purchase volume, or to promote a particular product or line.

Trade Show Traffic-builder

Branded cards can be sent to trade show attendees with the promise to load in points or dollar value once they visit the sponsor's booth.

Consumer Promotions

Because consumer populations are so diverse, makers of goods from cereal to cell phones have tapped the versatility of gift cards. They're used to entice a consumer to try a product, switch from a competitor's product, buy large quantities of a single product or try other related products sold by the same company or retailer. Cards are also popular in cross-promotions: a brokerage house can offer cards for a software store, or a popcorn manufacturer can offer cards for a movie theater chain.

“Gift cards work especially well as sales incentives.”

How would you rate the overall effectiveness of gift cards with 5 being most effective?

Mean Score = 3.94

Source: 2008 Incentive Magazine survey



Loyalty Programs

Gift cards are a popular reward for repeat purchases. Retailers offer gift cards to consumers who spend minimum amounts. For example, a \$10 card for every \$100 in purchases.

Research

A number of studies validate the merit of gift cards. While the study topics vary, together they provide a complete picture of global value.

Overall Usage

An Incentive Federation Study of merchandise and travel incentive users found that gift cards have become the number one award of choice for sales incentives.

Target Audiences

The Incentive Federation study also found that 78 percent of respondents offer incentives for salespeople, 57 percent for resellers, 77 percent for consumers, and 67 percent for employees.

Need for Motivation

As the workforce ages, organizations will need extra stimuli to encourage

productivity, flexibility, and the willingness to change and learn. Research by Bain and Co. found that major companies lose and have to replace half their customers in five years, half their employees in four years, and half their investors in less than one year.

An article in Marketing Management indicated that the degree of loyalty customers have for an organization typically mirrors the level of commitment and loyalty organizations have for their employees. The same study showed that there is an average lag of six months between customer satisfaction and future financial performance.

Motivation Results

Andersen Consulting’s survey of 500 executives revealed that programs to retain and reward sales, marketing and customer service employees could give a \$40 million lift to the bottom line of a \$1 billion business. The biggest payback - \$13 million - came from efforts to motivate and reward employees. Programs to draw and retain talent added \$10 million.

Incentives, Motivation, and Workplace Performance, a study of incentive programs by the International Society of Performance Improvement, found that properly structured programs aimed at individuals improved performance by 25 percent, those aimed at teams improved performance by 45 percent. An overwhelming majority of workers - 92 percent - said they achieved their goals because of incentives.

Consumer Attitudes

A survey of 1,200 adults by ValueLink, a Denver-based gift card provider, showed that women are slightly more likely to buy gift cards than men; however, it found that men spend more per card: \$58, versus \$45 for women. Very young adults and older adults were less informed and less likely to buy the cards than those in the 25 to 54-year age group, which accounted for 70 percent of purchases.

Ubiquity

A study by Taylor Nelson Sofres Intersearch showed that 37 percent of U.S. consumers had purchased or received a gift card in the past 12 months. The

Attributes

The following chart helps put gift cards in the context of other award options.

| | Merchandise and/or Travel | Gift Cards | Cash |
|-----------------------------|---|---|--|
| Perceived Value | Variable. Can be higher or lower than actual cost. If item is available at retail, the recipient can determine approximate cost. | Not variable if denomination is in dollars. Slightly variable if points-based, because recipients may be able to approximate the dollar equivalent. | Not available. |
| Branding | Available but can be costly. Often not available on single items. | Available and relatively inexpensive. | Not available. |
| Time Frame of Recall | Long to Medium. Recipients will remember accomplishment and reward each time they look at or use merchandise or recall a trip. | Long. Recipients recall accomplishment as they consider and choose reward. Once received, memory is reinforced. | Short. Once spent, recipient is unlikely to remember giver or occasion for award. |
| Versatility | Low. Generally cannot be converted or exchanged for other goods and services. | Medium. Can be converted to services or merchandise within issuer’s selection. | High. Redeemable for any service or merchandise. |

average value of purchased cards was \$50, up from \$44 the previous year. Also, 12 percent of respondents said they had purchased cards for their own use in the past year. Of those who had ever purchased or received prepaid cards, 61 percent said they usually spend more than the initial value of the card.

Case Studies

Case Study 1: To update an employee recognition program

A leading national telecommunications company found that its employee recognition program, which had been in place for seven years without significant change, had become stale. Through surveys, recognition officials realized that employees weren't really bought into the program. One of the reasons was that the company didn't offer gift cards – for which there was enormous demand.

Although the former recognition program was leading edge at the time and won the company a Recognition Professionals International Best Practice Standards Award in 2002, usage was declining. It was time for a change.

The company's HR Recognition team conducted research and collected employee feedback regarding:

- What they liked and disliked about the old program
- Their ideas for a new program
- How the application should look
- Award structure and award value
- Their preferences for new reward options.

The goal was to develop and build a leading-edge recognition program that would re-energize employees and foster a culture of appreciation. Among improvements, the company began offering gift cards to a variety of retailers.

Combining successful components of the former program, along with new offerings such as gift cards, resulted in a world-class program that employees, managers, and administrators say they can believe in.

The successful new program was recently honored with a 2009 RPI Best Practice Standards Award.

Case Study 2: As a dealer incentive

For a Massachusetts manufacturer of water pressure tanks, dealer relationships are critical. The plumbers and new-home builders who constitute the company's target market rely on the recommendations of a dealer's salespeople. It's the job of the sales and marketing manager to make sure the company holds its own against competitive products.

Typically, the company mounted two big incentive pushes: one early in the year, to encourage dealers to stock up for the coming spring rush; and the other in June or July to get them to replenish their shelves. In the past, the company offered branded apparel as incentives. But all those embroidered caps and jackets in a wide range of sizes required a substantial cash outlay upfront.

Instead, the company decided to roll out a reward program for Minnesota and Wisconsin dealers that featured gift cards called Lobster Grams. Offered by a Boston company of the same name, Lobster Grams come in various denominations and are redeemable for fresh steaks or live lobsters (shipped overnight with frozen gel packs). Dealers accrued points based on the number and size of the equipment they purchased; points were redeemable for any of three steak and/or lobster packages.

Dealers latched onto the program because it offered an unusual item they weren't likely to buy themselves. In the two states where the program ran, sales increased by 23 percent over the previous year.

Case Study 3: To unite employees during a merger

Merging two companies, no matter how compatible, is never easy. Each

organization comes with its own personnel and its own distinctive approach to everything from marketing to accounting to data processing to customer service. During the merger of two pharmaceutical giants, a task force of a dozen people across different departments at one of the companies was charged with making the transition a smooth one. Members met virtually nonstop over six months, including nights and weekends, to plan how to blend the operations of the two companies.

The director of global compensation

wanted to reward the team for its sacrifices. She chose a fitting thank you: gift cards that were the gift of time - literally.

Each member received a gift card from a home maintenance and cleaning company, good for any of a dozen services

including housecleaning, lawn care, carpet cleaning, and pest control. The fact that recipients could choose the type of service they wanted was a big plus, as was the trophy value of personalized rewards, which were hand delivered with a letter from the project leader.

Due in part to the thoughtful reward program, the merger was a success.

Case Study 4: To recruit employees

To combat a severe shortage of nurses, a university medical center began recruiting in the Philippines and other English-speaking countries. Part of the recruitment package was a relocation allowance to cover the first month's rent and the cost of basic items needed to set up an apartment.

The medical center decided to provide the allowance in the form of Visa gift cards, for several reasons:

- They can be used at any of the 28 million worldwide locations where Visa is accepted.

“Dealers latched onto the program because it offered an unusual item they weren't likely to buy themselves.”

- They can be replaced if lost or stolen.
- They can be used to get cash at ATMs.

The program has been a resounding success: in the first year, 150 nurses were recruited.

Choosing a Provider

Following are questions to ask when seeking a gift card provider.

Redemption Options

- How can cards be redeemed: online, by phone, by mail, in person?
- If redeemable only at a specific merchant, how close are retail locations to where recipients live?
- When do the cards or value loaded in the cards expire? Is the amount recipients don't spend refundable?
- Is there an administrative charge levied even if the recipient doesn't redeem the card?

Branding and Customization

- Does the vendor offer branding with the company name and/or logo?
- Can the recipient's name be imprinted?

Communications

- Can the vendor provide a personalized letter on the company's stationery?
- Is there a Web site or catalog where recipients can view and or buy available merchandise?
- Does the vendor provide reports or

a Web site on which participants can see how many dollars or points they've accrued and redeemed?

Reporting on Redemption

- How often can the program sponsor view data on activation and redemption?
- How often is data updated? (Remember, gift cards can offer the unusual ability to track how people redeemed their awards, giving useful insight into the preferences of your target audience.)

Discounts & Fees

- Is there a discount for buying in bulk, or for limited redemption options such as Web-only?
- Is there a set-up fee for issuing cards and tracking redemption?

Individual Fulfillment vs. Bulk

- Can the cards be sent to each individual recipient, or are they sent in bulk to the person placing the order so he or she can disburse them?

Administration

- Are cards shipped "live," or must they be validated on receipt?
- If cards are lost or stolen, can they be replaced?

Finding a Provider

Gift cards are available through numerous channels, including directly from the

special markets department of the issuer, which can also provide promotional copy and logos. Other procurement channels include incentive companies, sales promotion and advertising agencies, and promotional product distributors.

The Incentive Gift Card Council is an industry group whose goal is to educate the motivation industry and end users on the benefits of gift cards. The group's Web site: www.usegiftcards.org offers a member directory.

Summary

Gift cards are a preferred motivator in both the consumer and business-to-business arena. They build on the strengths of non cash incentives by offering rewards that are more memorable and can be redeemed for merchandise and travel that recipients wouldn't otherwise buy for themselves. And they offer the power of choice: recipients can select the reward that's most meaningful.

Buoyed by these strengths, the industry is expected to grow. Particular areas of development to watch for include use of gift cards as a sales incentive for dealers and direct sales people. In addition, expect more online gift card programs.

The bottom line is that 80.2% of respondents to a 2008 Incentive Magazine survey reported that they use gift cards in their corporate incentive programs (see graphic) – demonstrating that gift cards are a versatile, proven way to motivate employees, customers, resellers, and revenues.

► For more information from Incentive Gift Card Council (IGCC), a strategic industry group of the Incentive Marketing Association, please visit www.usegiftcards.org or contact the IMA:

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