



IT'S IN THE CARDS

**An In-Depth Look at PrePaid Cards in Incentive,
Rewards & Recognition Programs**

By: Allan Schweyer

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EXECUTIVE SUMMARY

Prepaid Gift Card usage by consumers and by organizations in their incentive, reward and recognition programs has soared over the past decade. While gift certificates have been in use for generations, their colloquial image barely resembles the sophisticated “gift card industry” that thrives today.

In 2012, gift cards, referred to as “prepaid” cards in this report, have become the most popular gift among consumers shopping for friends and relatives and the tool of choice for businesses hoping to motivate employees, customers and partners. The research conducted for this paper—both through a review of past studies and from the results of two surveys we conducted—revealed several key findings:

- Prepaid cards are now the most frequently used reward in corporate incentive programs;
- Prepaid cards are being used as incentives across the spectrum, from spot rewards to holiday bonuses and for merchandise, dining, travel and entertainment;
- Closed cards are still the most commonly used type of prepaid card in incentive and reward programs, but they are losing ground to open cards. Restricted cards are a distant third;
- All prepaid cards, but especially open cards, are near cash substitutes. Open cards can be used virtually anywhere with the same ease as cash or personal debit cards. Cards of any kind can be redeemed online, or exchanged on secondary markets for other cards or cash. Despite this, card recipients demonstrate a strong preference for cards over cash;
- Prepaid cards are among the most popular gifts for recipients (whether as gifts from friends and family or as rewards from employers and other organizations). As above, prepaid cards are much more popular among recipients than cash. A full 44 percent of our card recipient survey respondents told us that prepaid cards are their favorite type of gift or reward. When offered a prepaid card or equivalent cash, five times as many of our respondents chose the prepaid card;
- The majority of incentive planners believe prepaid cards can be more meaningful, personal and impactful than cash; almost half believe that, dollar for dollar, they are the most effective reward available. More than 75 percent believe that they are among the most effective of all rewards — especially in driving loyalty and engagement.

Despite criticism and skepticism surrounding the use of cards as gifts and rewards, they have taken firm root in incentive, reward and recognition programs. They seem certain to grow in use, volume and value as long as recipients want to earn them and as long as incentive planners believe they have greater impact and higher ROI than cash incentives.

Ultimately, this research emphasizes the importance of reward program design. Like merchandise, travel or any form of non-cash incentive, prepaid cards must be thoughtfully selected and carefully presented if they are to drive returns to the organization greater than their face value.

Gift Card, Gift Certificate, Debit Card, Pre-Paid Card Reloadable Card, Virtual Card: What are we talking about?

For the purposes of this paper, we refer to all forms of redeemable cards as “prepaid cards”. By “prepaid card” we mean a preloaded debit card that allows the cardholder to use it for the purchase of goods or services. Some prepaid cards can only be used at select retailers, but some can be used anywhere that accepts major credit cards. Some cards may also be reloadable, which provides the cardholder with the ability to add funds to the card and continue using it. More recently, many cards are virtual – they are purchased online, awarded online and redeemed online.

- Adapted from the American Management Association definition of Gift Card

INTRODUCTION

The use of tangible, non-cash rewards for employees, partners and customers has become a \$46 billion plus industry in the United States (Incentive Federation, 2007). This represents more than double the \$22.8 billion spend ten years earlier (World Incentives, 2000).

“There is a big ‘underground’ market for non-cash incentives and rewards. The estimated market size of \$46 billion only includes the spend that goes through incentive houses. It does not include the millions that are spent directly by organizations on rewards, such as when merchandise is purchased directly from retailers. The real number is at least double.”

- Bob Dawson, President,
i-Myth

Tangible, non-cash rewards consist mainly of merchandise and travel, yet the largest and perhaps fastest growing component of non-cash rewards is prepaid cards, debit cards and gift certificates (referred to collectively as prepaid cards in this report). Indeed, according to Incentive Magazine’s 2011 Gift Card IQ Survey, about 75 percent of organizations use prepaid cards. This makes prepaid cards more popular in incentive programs than travel, merchandise and even cash according to the October 2011 report “*State of Gift Card Use in the U.S.*” by the Incentive Research Foundation.

Prepaid cards typically come in three varieties: Open, Closed and Restricted. Open prepaid cards can be used virtually anywhere. They are normally issued under a major credit card and are redeemable wherever that card is accepted. Closed cards, on the other hand, are accepted by one vendor only — for example, at a particular restaurant or restaurant chain. Restricted cards fall in the middle; they might be eligible for use at an entire venue—for example, any store in a specific shopping mall or for any merchandise or service at a specific resort. A new category of prepaid card is also emerging, the virtual card. Virtual cards can be purchased, delivered, tracked and used online (or offline) saving time and costs.

Collectively, the popularity of prepaid cards has soared over the past decade or so, both as gifts given by individuals (i.e., to family, and friends) and by organizations, as incentives, rewards and recognition for employees, channel partners and customers. To gauge how steep has been the increase in prepaid card use as incentives, we examined the research literature as far back as the early 1990’s. Most of what we found came from the period 2000-2011 and is summarized in Appendix A: Popularity and Growth in Prepaid Card Usage.

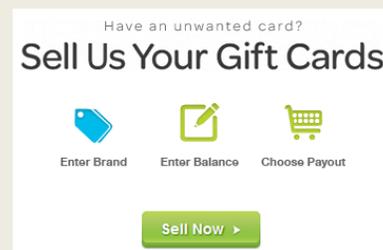
As detailed in Appendix A, by 2001, the Incentive Federation’s bi-annual study of motivation and incentive applications already listed combined “gift certificates” and “debit cards” as the most popular rewards across four categories of recipients: sales employees, non sales employees, consumers and partners (dealers). The results were similar in their 2003 and 2005 studies: prepaid cards were found to be among the most or second most used merchandise rewards across the four categories of recipients, and most popular overall. In 2007, the Foundation found that the use of prepaid cards among large companies with more than \$100 million in revenue was, by a large margin, the most popular reward at 89 percent usage, followed by “token items” at 79 percent.

In 2008, according to the IRF in its paper: *The Effects of a Down Economy on the Incentive Industry*, the use of debit/prepaid cards had increased 21 percent in rewards and recognition programs over 2007. In the IRF’s *Incentive Industry Trends Report 2011* 17 percent indicated a greater use of debit/prepaid cards in their programs. In 2011, Scott Jeffrey of Monmouth University reported that prepaid cards were used significantly more than cash, travel or merchandise for employee and partner rewards among the 170 participants in his survey. Jeffrey concluded that *“Many incentive program managers are selecting prepaid gift cards as awards, presumably due to ease of use and the believed preferences of employees.”*

Sidebar: Are All Pre-Paid Cards Open?

The future for prepaid cards is likely to be open cards, whether incentive planners or providers approve may be immaterial. The fact is, prepaid cards have become so prevalent that markets for their purchase, exchange and sale are thriving.

In effect, it doesn’t matter whether one receives an open, closed or restricted card. Recipients who are unsatisfied with a closed card that limits them to a particular retailer, for example, can visit websites like plasticjungle.com, cardhub.com, giftcardrescue.com, cardcash.com, eBay and many others to exchange or sell their cards, often at 90% or more of their face value or even of their remaining value.



So what are the implications for incentive planners? Perhaps open cards should be used in any circumstance where there is doubt concerning the interests of the recipient.

Planners might track usage of prepaid card exchange sites and understand which of their gifted cards are being exchanged and for what. It might also be possible to collect useful data from the larger exchange sites. Future research might work with exchange sites to determine which cards and card types are most frequently sold or exchanged, which are most requested and which sell at the greatest discounts, for example.

It's in the Cards!

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It appears that the upward trend in prepaid card use is also accompanied by a trend to larger budgets for prepaid cards in incentive programs. According to Incentive's 2011 Gift Card IQ Survey, *"The number of respondents with incentive gift card and certificate budgets of more than \$100,000 nearly doubled to 15 percent this year [2011], compared with 7.8 percent in 2010. The most dramatic gain was in programs with budgets between \$250,000 and \$499,999, which jumped from 0.4 percent to 3.9 percent—nearly 10 times the number seen in 2010."*

It is difficult, however, to estimate the proportion of overall incentive spending consumed by prepaid cards or trends surrounding those figures. A 2009 survey by First Data Corp. (summarized also in Appendix A) found that companies already using prepaid cards spend 49 percent of their incentive budget on them.

Why Are Cards So Popular?

"Organizations today want to reward more people, not just the high performers but also those that support them. Gift cards make it easier to spread the incentive budget across more recipients and they give recipients broader choice over their reward."

- Mike Ryan, President Emeritus of The Performance Improvement Council

"When comparing to card programs, merchandise and travel programs require a significant investment in time, resources, and funding. If organizations are struggling to justify an incentive program to key decision makers, on the surface, the economics of a card program will always be the most attractive."

- Damon Riddle, Automotive Incentive Manager, Suzuki Motor Corporation

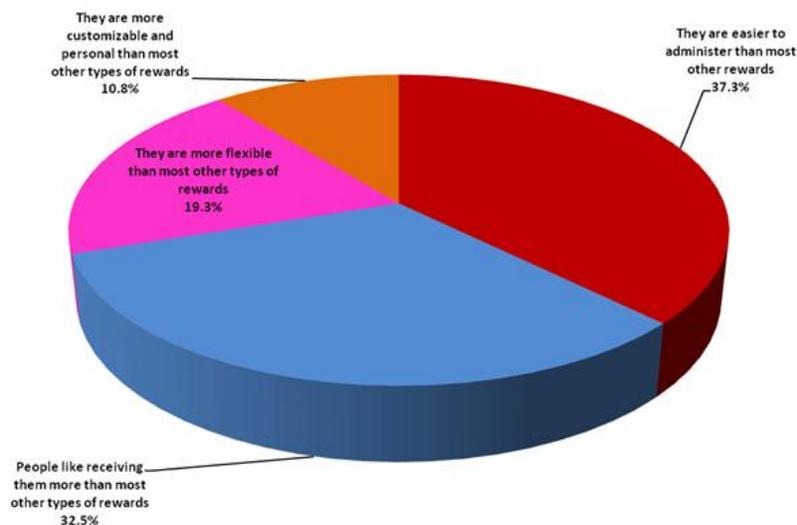
PREPAID CARD PREFERENCE

The growth in prepaid card use, from obscurity to prominence in little more than a decade begs the question why. According to 2011 research conducted by First Data Corp. among consumers: “When asked why they choose to purchase gift cards rather than a gift, 83 percent of respondents said that gift cards make gift-giving easy, and more than half said they save shopping time. Almost three quarters of consumers liked the ease of mailing gift cards to recipients who live far away.” Though this information pertains to prepaid cards purchased by consumers for friends and relatives, it is also relevant to the corporate use of prepaid cards in incentive plans.

For organizations that aim to leave lasting impressions on employees, customers, partners and others, prepaid cards offer the opportunity for branding and, depending on how they are used, personalization. In these respects at least, they offer better potential return on investment than cash as rewards.

In our survey directed at incentive program planners, conducted for this research, the largest reason given for using prepaid cards was that they are easier to administer than most other rewards (37%). Many respondents also believe that people like receiving prepaid cards more than most other types of rewards (32%) and that prepaid cards are more flexible than most other types of rewards (20%). 11 percent felt they were more customizable and personal than most other reward types (Figure 1).

Figure 1: Why do you use gift cards in your incentive, rewards & recognition program?



IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

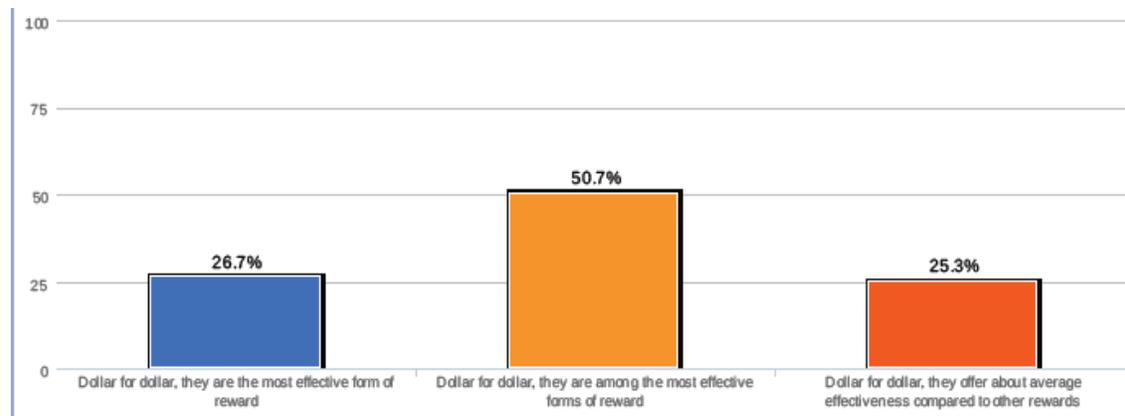
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While it appears certain that incentive planners choose to use prepaid cards, in part, because they are easy to administer and popular with recipients, it is unlikely that prepaid cards would be a lasting reward choice if their users felt they were ineffective at driving desired behaviors and outcomes.

Twenty-seven percent of our incentive planner survey respondents believe that prepaid cards are, dollar for dollar, the most effective form of reward. The majority, however, believe that they are *among* the most effective rewards (51%). 25 percent believe they are about average in effectiveness compared to other types of rewards (Figure 2). Conversely, of the 37 percent of our survey takers that do not use prepaid cards in their rewards programs, only 10 percent do not because they have tried them and are disappointed with the results. In other words, it appears that very few organizations that have tried prepaid cards stop using them because they are ineffective as rewards.

Figure 2: Why do you use gift cards in your rewards and recognition program?



IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

TYPES OF PREPAID CARDS USED

Most incentive plan designers and industry experts argue that tangible, non-cash rewards have greater impact than cash rewards. Travel incentives, for example, are thought to generate more buzz and publicity for programs than cash and to create longer-lasting memories associated with the reward. Cash, while often a favorite among recipients, has little “trophy value” (people don’t generally talk about cash rewards) moreover, it is argued, cash loses its impact and memorability quickly because recipients tend to lump it in with other forms of cash compensation and spend it on routine items, save it, or use it to pay bills (Lovio-George, 1992; Jeffrey, 2009).

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Though prepaid cards may be used in these ways also, there is evidence that the use of prepaid card rewards for routine expenses is less frequent than for cash rewards (White, 2008). It is also a simple matter for incentive planners to encourage the use of prepaid cards for memorable merchandise and experiences, which is impossible with cash.

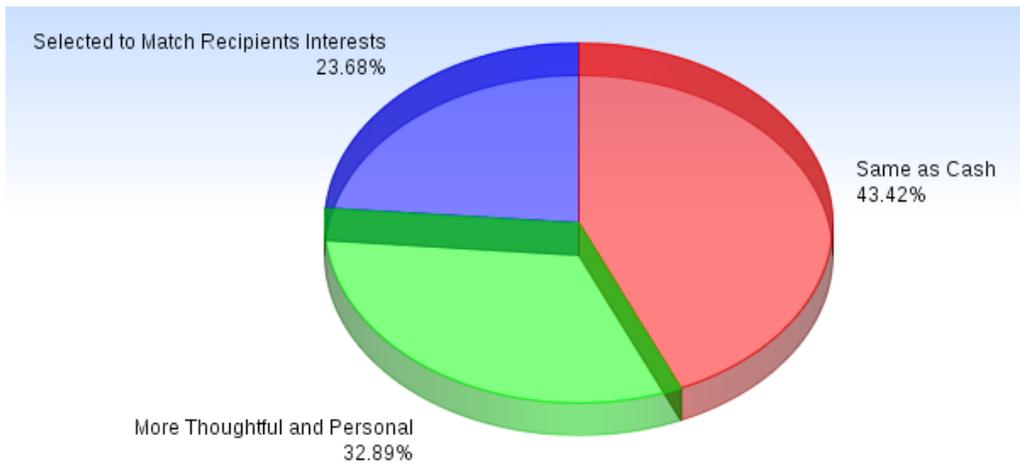
“Closed cards remain a popular choice among incentive planners partly because they can be purchased in bulk at a discount, further stretching the incentive budget.”

- Mike Ryan, President Emeritus of The Performance Improvement Council

However, the closer a prepaid card is to being completely “open”, the more it becomes a cash substitute (Mu & Jeffrey, 2011). Many argue that giving an open prepaid card is really not much different than giving its equivalent value in cash. Indeed, as far as the IRS is concerned, open prepaid cards amount to cash wages and are subject to tracking, reporting, and tax withholding when issued to employees.

The response to our survey suggests that many organizations use cards as substitutes for cash (43%). However, a much larger number, 57 percent, either believe that cards are more thoughtful and personal (33%) or, per Figure 3, are “a carefully selected reward matched to the recipient’s interests and tastes” (24%).

Figure 3: When you use gift cards as rewards, what are you intending to give?



IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

While we did not ask survey takers to describe their intentions by type of card (open, closed, restricted) it is reasonable to assume that had we done so, responses would move away from “same as cash” where restricted and closed

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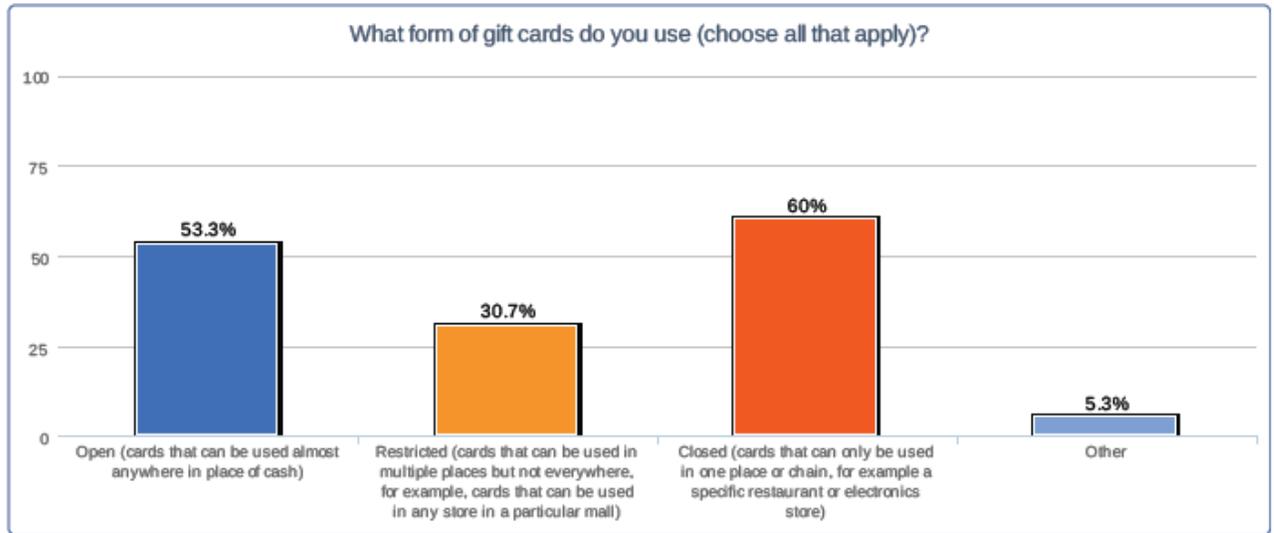
cards are concerned. Restricted prepaid cards, and certainly closed prepaid cards, act somewhat more like non-cash rewards in that they can be designated for the purchase of a specific thing or a range of things.

While all cards can be branded, closed and restricted cards offer greater personalization and design flexibility. As such, one might expect that organizations would use them significantly more than open cards. However, in our survey of incentive plan designers, we found only a slight preference for closed cards over open cards and significantly less use of restricted cards (Figure 4).

“The closer you get to open cards the closer you get to cash. Until we get solid research that recipients are using open cards for memorable purchases, I am skeptical. Open cards can also cost more than their face value due to fees. The purchaser may end up paying more for that card but they say it may be worth it because recipients can use them anywhere. That may be valid, you have to keep in mind what the recipient wants, and they want a lot of choice. Either way, open or closed, cards offer ‘trackability’ where cash does not.”

- Donna Chrobak, Vice President, QuintLoyalty

Figure 4: What form of gift cards do you use?



IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

While we can only speculate as to why organizations use open prepaid cards, it is useful to revisit the reasons prepaid cards of any sort are popular. Ease of use and flexibility score highly among prepaid card givers. A large part of this is the desire to give something the recipient will perceive as valuable. Open cards offer the greatest flexibility and are afforded the most value by recipients.

It’s in the Cards!

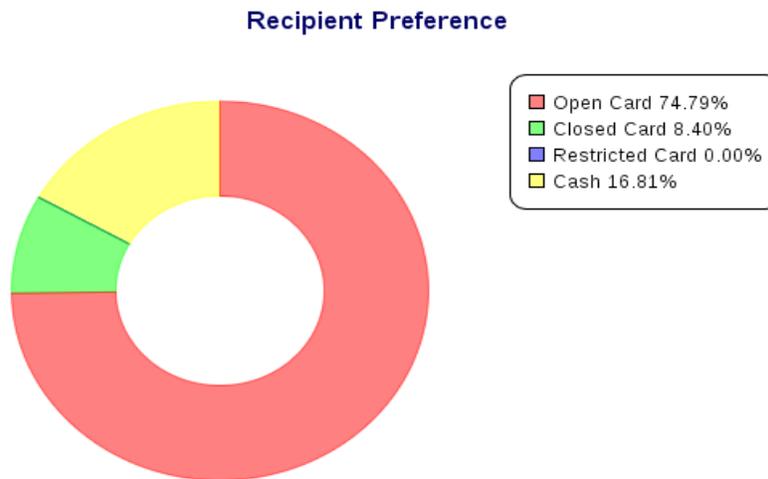
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“A responsible person who receives cash as a reward, may not feel comfortable about spending it on themselves, so it is not exciting for them. A \$25 gift card is better than \$25 cash because it gives them license to spend on themselves and this makes it appealing.”

- Mike Ryan, President Emeritus of The Performance Improvement Council

Indeed, gift cards have proven popular among recipients, in part because they offer choice (as opposed to specific merchandise items, for example). Given their ultimate flexibility, it is perhaps not surprising that the great majority of prepaid card recipients prefer open cards. In our survey of prepaid card recipients conducted for this research, Figure 5 reveals that of 121 responses, 89 (75%) would prefer an open prepaid card for \$50 over a closed (8.5%) or restricted card (0%). Paradoxically, only 17 percent would opt for \$50 cash.

Figure 5: What type of reward would you prefer to receive (\$50 value)?



IRF/IGCC GIFT CARD RECIPIENT SURVEY, 2012

An interesting question arises from the results in Figure 5; if open prepaid cards are near cash equivalents why is there so strong a preference for open prepaid cards versus the equivalent cash? If there were no difference between the two, we would expect preferences to be evenly divided, yet the preference gap is wide. This might be partially explained in the behavior (and psychology) of prepaid card recipients.

It is well documented that prepaid card recipients treat cards much differently than they do equivalent cash (Kahneman and Tversky 1984; Thaler 1985, 1999). Various research studies have demonstrated that

“Branded gift cards are more memorable than cash when they are aimed at what the recipient wants rather than needs. A gift card for a new golf club has to be spent on a golf club, so it’s guilt free. The cash can be spent on groceries, and probably will be.”

- Bob Dawson, President, i-Myth

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recipients of prepaid cards are more likely to classify them as discretionary or “fun” spending than cash they receive as rewards (White, 2008). Indeed, recipients of prepaid cards are more likely to add than incorporate the value of the prepaid card to their monthly budget than they would if given the cash equivalent, and to make more “hedonic” (and therefore memorable) purchases with prepaid cards than with cash rewards (White, 2008).

These behaviors, which distinguish open prepaid cards from cash, might help to explain their growing popularity among prepaid card givers as well as receivers. In our survey of incentive planners, the use of open prepaid cards is increasing or significantly increasing (42%) at a pace eclipsing those of restricted (20%) and closed cards (28%). It is also noteworthy that the use of closed cards is declining more steeply (20%) than for either of the other types of cards. Finally, the survey results support a raft of other recent research that shows prepaid card usage overall is increasing in significantly more organizations than it is decreasing (Table A).

Table A: This year and over the past three years, what are the trends in your use of the various types of gift cards?

	Increasing Significantly	Increasing	About the same	Decreasing	Decreasing Significantly	N/A	Total
Open Cards	17.6% 13	24.3% 18	27.0% 20	2.7% 2	6.8% 5	21.6% 16	100% 74
Restricted Cards	1.3% 1	18.7% 14	37.3% 28	8.0% 6	5.3% 4	29.3% 22	100% 75
Closed Cards	5.4% 4	23.0% 17	40.5% 30	9.5% 7	10.8% 8	10.8% 8	100% 74
Other	2.8% 2	1.4% 1	15.5% 11	1.4% 1	2.8% 2	76.1% 54	100% 71

IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

While the use of closed prepaid cards may be increasing at a slower rate than open cards, they remain the most used type of card (Figure 4). We asked our incentive planners what types of closed cards they give. Consistent with other research we reviewed¹ closed prepaid cards for electronics and other merchandise are the most common and desired; and by a wide margin. The least common use for closed prepaid cards is for travel. As above, these results are consistent with other recent research. Perhaps the only surprising finding is that entertainment (including sports, theater, cinema, etc.) is used so sparingly (Table B).

¹ 2010 & 2011 Consumer Insights into the U.S. Gift Card Market, First Data; GiftCardRescue.com poll of 6,000 users – January to October, 2010; Incentive Mag 2011 Gift Card IQ Study

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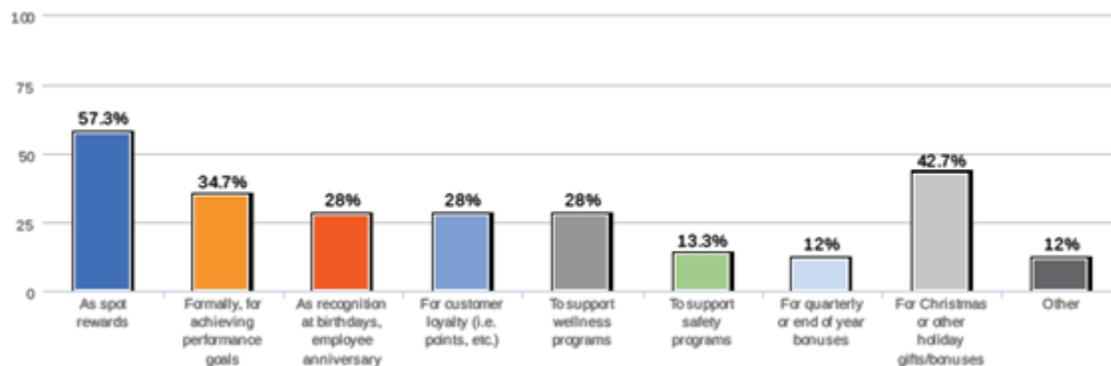
Table B: If you use closed cards, what type(s) of rewards do you give with gift cards and in what proportion?

	0	1-10%	11-20%	21-30%	31-50%	51-75%	76-100%	N/A	Total
Gift cards for restaurants	6.5%	15.6%	15.6%	11.7%	7.8%	7.8%	6.5%	28.6%	100%
	5	12	12	9	6	6	5	22	77
Gift Cards for electronics	15.8%	11.8%	11.8%	6.6%	7.9%	5.3%	0.0%	40.8%	100%
	12	9	9	5	6	4	0	31	76
Gift Cards for other merchandise	9.2%	7.9%	7.9%	17.1%	9.2%	7.9%	15.8%	25.0%	100%
	7	6	6	13	7	6	12	19	76
Gift Cards for travel	23.7%	15.8%	5.3%	3.9%	2.6%	3.9%	1.3%	43.4%	100%
	18	12	4	3	2	3	1	33	76
Gift Cards for entertainment	14.5%	14.5%	14.5%	6.6%	5.3%	3.9%	3.9%	36.8%	100%
	11	11	11	5	4	3	3	28	76
Other	13.2%	7.9%	6.6%	2.6%	9.2%	3.9%	5.3%	51.3%	100%
	10	6	5	2	7	3	4	39	71

IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

As has been established by this research and many other studies over the past decade or more, prepaid card usage in incentive, rewards and recognition programs is growing quickly. Beyond the question of why is how. How are prepaid cards being used in organizations? As demonstrated in the results of our incentive planners' survey, there is no dominant use for prepaid cards. Figure 6 reveals a wide distribution of use – from spot rewards to holiday bonuses with more than a quarter of organizations using six of nine of the reward types surveyed and none of the nine being used by fewer than 12 percent of organizations.

Figure 6: How do you typically use gift cards in your organization (choose all that apply)?



IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

It comes as no surprise that prepaid cards are most commonly issued as spot rewards. The value of prepaid cards is typically low— between \$25-\$100 in most cases and slightly lower for customers and higher for sales employees (Table C). They are also used most frequently for employees, making them ideal for spot rewards.

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Table C: What is the average value of a gift card reward in your organization?

	Less than \$25	\$25-\$50	\$51-\$100	\$100-\$500	More than \$500	N/A	Total
Customers	10.5%	25.0%	7.9%	6.6%	1.3%	48.7%	100%
	8	19	6	5	1	37	76
Employees(general)	6.7%	32.0%	26.7%	14.7%	2.7%	17.3%	100%
	5	24	20	11	2	13	75
Employees (Sales)	4.0%	16.0%	10.7%	24.0%	5.3%	40.0%	100%
	3	12	8	18	4	30	75
Channel partners	2.7%	13.3%	6.7%	8.0%	0.0%	69.3%	100%
	2	10	5	6	0	52	75
Other	5.4%	12.2%	5.4%	2.7%	0.0%	74.3%	100%
	4	9	4	2	0	55	74

IRF/IGCC INCENTIVE PLANNERS SURVEY, 2012

THE IMPACT AND EFFECTIVENESS OF GIFT CARDS

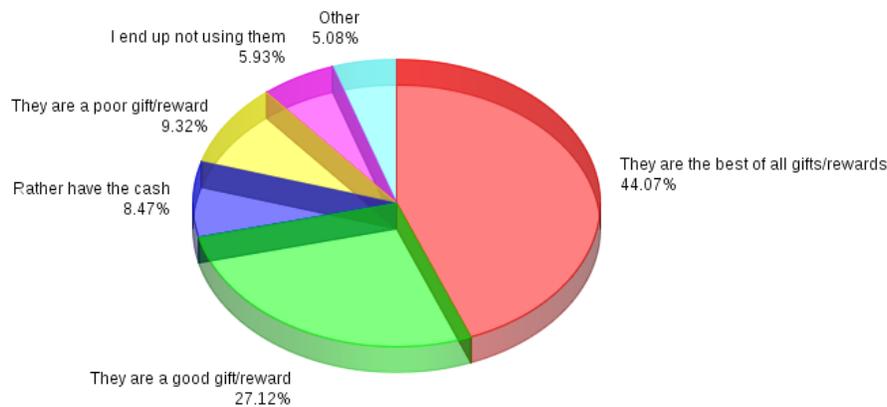
The growth of prepaid cards in both in their use as gifts by consumers and within incentive, reward and recognition programs is striking. Visit any grocery or convenience store, even gas stations and there are likely to be rafts of prepaid cards for sale of every description. Their popularity with vendors is no mystery. As alluded to previously, prepaid cards are often mentally classified by recipients as “fun money” for use outside the household budget. This increases spending. It is also well documented that purchases made with prepaid cards are ordinarily greater than the value of the card (Tower Group, Horn, NewBold Corporation). Finally, studies have estimated that between 5-7 percent of prepaid cards go unused altogether, a boon to the merchants and credit card companies that sell them.²

“Gift cards offer organizations an easy way to run their incentive reward programs. While I would usually recommend the use of a professional incentive consultant in the design of programs, a gift card program makes programs less complex, and much easier to administer.”

- Bob Dawson, President, i-Myth

It is only slightly less obvious why consumers purchase prepaid cards for friends and relatives. They are easy. Easy to buy, easy to give — in many cases they can be purchased and gifted entirely online. This is true in rewards and recognition programs also. Most importantly, people like to receive prepaid cards. This was demonstrated clearly and unequivocally in our survey of prepaid card receivers (Figure 7).

Figure 7: Do you like receiving gift cards?



IRF/IGCC SURVEY OF GIFT CARD RECIPIENTS, 2012

² *Americans Sitting on \$30 billion in Unused Gift Cards*, Daniel Terdiman, c|net, January 24, 2011

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The results in Figure 7 leave little doubt and even more dramatically emphasize the point made in Part One, Figure 5. Given the choice between cash and prepaid cards, prepaid cards are preferred by a ratio of about 7:1. In fact almost half consider prepaid cards to be the best gift or incentive reward of all.

For consumers purchasing cards as gifts for friends and family, this is normally enough. For incentive planners, it is not. Thoughtful incentive planners must also be convinced of the *effectiveness* of a reward *for the organization*. Today, senior executives are demanding more evidence of the Return on Investment (ROI) of incentives. Facing attacks on budgets, incentive planners must demonstrate that a dollar invested in rewards generates more than a dollar in measurable ROI. Last year, the Incentive Research Foundation reported ROI and budget considerations to be among three key trends for the year. Research conducted by Promo Magazine in 2005 and Premium Incentive Products Magazine in 2011 also flagged ROI considerations as critical to incentive planners.^{3 4}

Fortunately, there is compelling evidence that carefully planned, strategic incentive programs return tangible and measurable value beyond the investments made.

For example, a broad meta review of past research, looking into the effectiveness of incentives in general (cash and non-cash) concluded that incentive plans increase productivity between 25- 45 percent *when implemented correctly* (Stolovitch, Clark, Condly, 2003).

Over the past decade, several studies, including our own for this paper, have been

“Gift cards are a great complement to any R&R program and are more effective with certain audiences over others. However, I do not believe every program that exclusively utilizes cards as their R&R program will really see the benefits they are looking for. While cards are easy to implement, economical, and versatile, they are also highly impersonal and tend to behave just like money. There is plenty of research citing the importance of providing an emotional connection between the program, award, and recipient...cards by themselves won’t do this.”

- Damon Riddle, Automotive Incentive Manager, Suzuki Motor Corporation

conducted into the effectiveness of prepaid cards specifically. As prepaid cards are growing in popularity, they seem also to be growing in perceived effectiveness. For example, the Incentive Foundation’s Annual Survey in 2001 found that “Cash Awards” were rated most effective in reaching both marketing and sales goals and personnel goals. “Gift Certificates”, ranked a distant second. Yet four years later, IncentiveCentral.org conducted a study that ranked gift certificates

slightly ahead of cash in effectiveness. Then in the Incentive Foundation’s Annual

³ 2005 Premium and Incentives Report, Promo Magazine

⁴ *Beyond ROI. Incentive and reward Benefits Surpass Hard Numbers*, Rick Dandes, Premium Incentives Products, 2011

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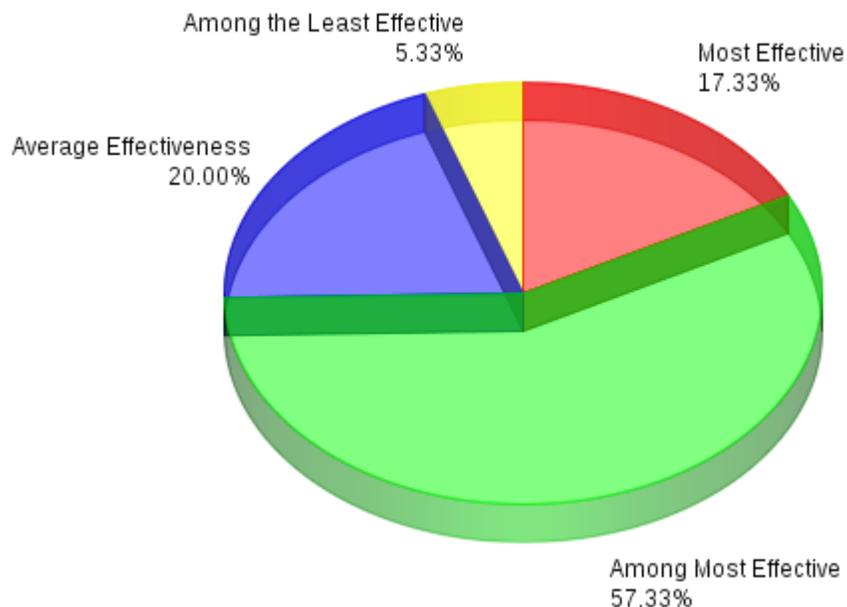
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Study 2007 (focused on large companies) “Gift certificates/gift cards” were in a near dead heat with cash in terms of effectiveness.

By 2010, more than 70 percent of respondents to Incentive Mag’s Gift Card Usage survey ranked prepaid cards as effective or highly effective rewards. In the same survey in 2011, almost three times as many respondents ranked prepaid cards as more effective than cash than did those who ranked them less effective than cash. In the same survey, more than two-thirds felt that prepaid cards were superior in effectiveness to “other merchandise” rewards.

In our own surveys for this report, we found overwhelming support for prepaid cards in incentive programs among our incentive planners. 75 percent reported that, “Considering all factors, including costs, impact on recipients and outcomes, they [prepaid cards] are among the most effective rewards we have”, or “... the most effective reward we have.” (Figure 8)

Figure 8: How do you rate the impact and effectiveness of gift cards in your R&R program (consider their trophy value, buzz generated, behaviors influenced, etc.)?



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Specifically, our respondents ranked prepaid cards superior in effectiveness to all other forms of rewards surveyed except incentive travel. 36 percent prefer cards to cash versus 20 percent who prefer cash to cards. 58 percent prefer cards to merchandise over 12 percent who prefer the opposite, and 64 percent prefer cards to verbal recognition versus 27 percent who would choose verbal recognition. Where

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incentive travel is concerned, an exactly equal number (41%) prefer cards as prefer travel.

It is also critical to understand *where* prepaid cards are effective. In other words, what desired behaviors or outcomes can they help drive? According to our survey, prepaid cards appear more effective than all other types of rewards in driving a number of desired behaviors and outcomes. 48 percent of our respondents said prepaid cards are effective or highly effective versus other reward types in driving “Loyalty/Retention”. Even where prepaid cards were ranked least effective – in driving sales – 35 percent ranked them more effective than other forms of rewards versus only 16 percent who ranked them less effective (Table D).

Table D: In your estimation, how do gift cards recipients rate them against other forms of rewards of roughly equal value?

	Highly effective	Effective	About the same	Less effective	Much less effective	I don't know	Total
Loyalty/Retention	7.9%	39.5%	21.1%	10.5%	3.9%	17.1%	100%
	6	30	16	8	3	6	76
Engagement	9.3%	30.7%	29.3%	5.3%	4.0%	21.3%	100%
	7	23	22	4	3	16	75
Safety	4.0%	20.0%	18.7%	4.0%	4.0%	49.3%	100%
	3	15	14	3	3	37	75
Sales	10.7%	24.0%	21.3%	10.7%	5.3%	28.0%	100%
	8	18	16	8	4	21	75
Wellness	6.7%	21.3%	17.3%	9.3%	2.7%	42.7%	100%
	5	16	13	7	2	32	75
Revenues/Profits	2.7%	26.7%	25.3%	4.0%	6.7%	34.7%	100%
	2	20	19	3	5	26	75

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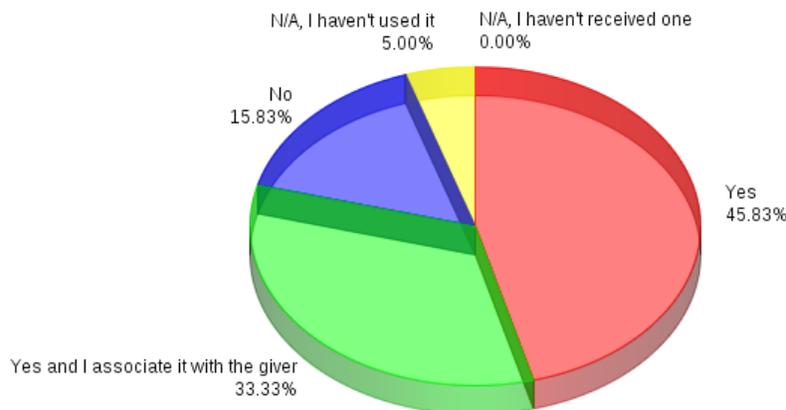
THE BOTTOM LINE

All the research in the world might not convince an incentive planner to use prepaid cards if they believed them to have little or no impact advantage over cash. Cash is easy to give—even easier than prepaid cards—and there is no risk that a recipient will value the reward at anything less than the amount of cash rewarded.

In Part One, a number of studies were cited that demonstrate the advantages that a well selected merchandise, travel or prepaid card reward can have over cash. Those advantages boil down to personalization, memorability and attribution. We asked our prepaid card recipient survey respondents how well they remembered prepaid card purchases and whether they attribute purchases made with the card to the organization that gave them the card.

Though we have no way to know when (after receiving them) our respondents used their cards and how long it had been since they exchanged their card for a good or service, the results suggest that when given by a friend or relative, most people do remember what they use their prepaid cards for (79%) and that a full third also associate that experience or thing with the person that gave them the prepaid card (Figure 9).

Figure 9: If you have received a gift card from a friend or a relative recently, do you remember what you used it for?



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It is interesting that where the recipient received the prepaid card as a reward at work, the memorability and association each drop a significant degree — from 79 percent remembrance to 64 percent and from 33 percent association to 28 percent. While both sets of numbers are strong, these findings reinforce the principle that rewards, recognition and incentives must be personal and meaningful to reach their full impact potential.

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The results suggest, not surprisingly, that family and friends do a better job of selecting gift cards than do organizations. Moreover, they probably do better at positioning and presenting the gift card. And while it might be unrealistic to expect organizations to close the gap entirely, it points to better ROI for those managers, supervisors and incentive planners who are more thoughtful about rewards, more selective and more personal.

Important Considerations for Organizations in Their Use of Prepaid Cards

- *What happens to the breakage? Funds not spent after the card and program expires – does the card provider keep this, or does it come back to the organization that issued the funds?*

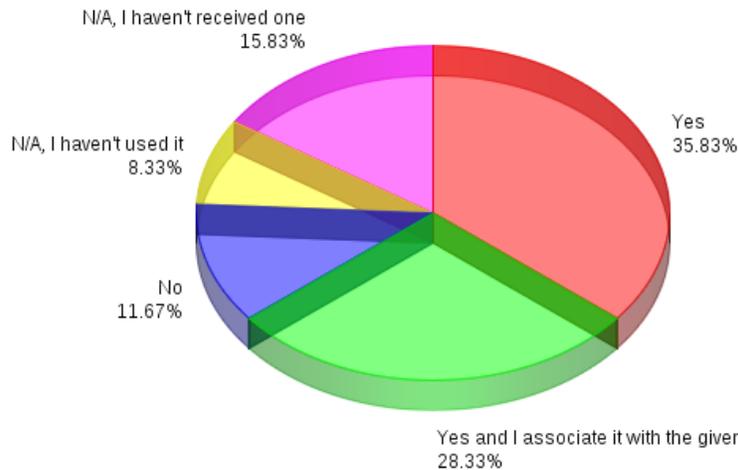
- *What are the tax implications?*

- *Are there any escheatment or “unclaimed property” issues?*

Answering these questions before deciding to implement a card program will really help to address whether or not the program will be advantageous.

- Damon Riddle, Automotive Incentive Manager, Suzuki Motor Corporation

Figure 10: If you have received a gift card at work as a reward recently, do you remember what you used it for?



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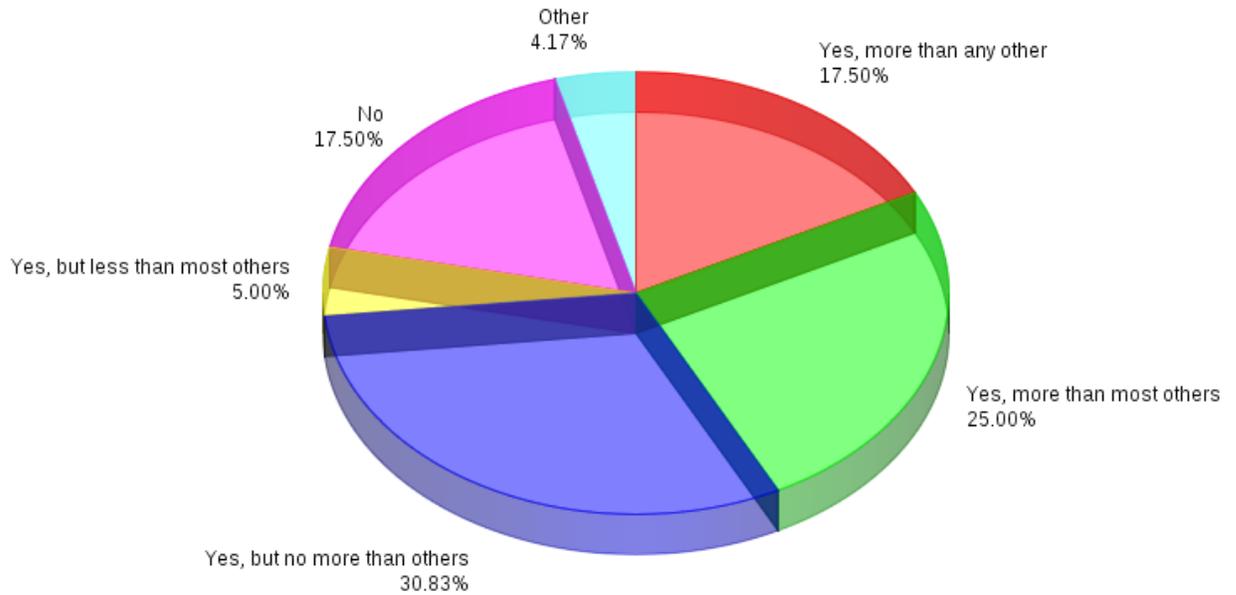
In Table D above, we reported results from our incentive planner survey in which 48 percent said that prepaid cards are effective or highly effective versus other rewards in driving engagement and loyalty. Asked a similar question, 42.5 percent of prepaid card recipients (or potential recipients) say that prepaid cards motivate them more

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than all or most other types of rewards. 22.5 percent say that prepaid cards motivate them less than most other rewards or do not motivate them at all.

Figure 12: As rewards at work, do gift cards motivate you [relative to other types of rewards] or, if you have never received a gift card from an employer, would it motivate you?



IRF/IGCC SURVEY OF GIFT CARD RECIPIENTS, 2012

CONCLUSIONS

There is skepticism surrounding the growing use of prepaid cards as rewards and as gifts. And while it is easy to understand why – they are “easy”, impersonal, too much like cash, etc. – the evidence pointing to their effectiveness cannot be easily dismissed.

According to our research and a growing body of both academic and “applied” research over the past decade, prepaid cards are not only the reward of preference among givers and recipients, they are also among the best drivers of positive behaviors and outcomes. Though prepaid cards are ubiquitous, almost completely fungible (see sidebar page 6) and even sometimes annoying (our wallets and purses are already crammed with cards) they almost certainly have an appeal that goes beyond their cash equivalency.

Logically, there may be little difference between prepaid cards (especially open cards) and cash. Yet academic (i.e., White, 2008) and applied research such as our own for this study, show strong preferences for cards over cash (and most other reward types). Why? Recipients can proudly show off prepaid cards but more importantly perhaps, prepaid cards offer recipients a guilt-free opportunity to indulge.

Organizations can brand and personalize prepaid cards. Incentive planners can use them in thoughtful, personalized reward programs. Unlike cash, prepaid cards can leave an emotional imprint when selected and presented carefully. Indulgence creates the memories and associations that may generate more ROI from a prepaid card than its cash equivalent. At the same time, prepaid cards offer many of the benefits of cash in terms of flexibility and choice.

There may be no need for more explanation concerning the preference of prepaid cards over cash than to acknowledge that people respond to both rational and emotional drivers. Further research may be better spent on understanding how incentive program prepaid cards can stimulate emotions to make their use even more memorable, meaningful and attributable. This might further distinguish cards from cash as a lead tool in the design of incentive, reward and recognition systems. Regardless, it is clear that prepaid cards, along with cash, merchandise and travel, are now among the most important and essential ingredients of incentive, reward and recognition programs.

APPENDIX A: POPULARITY AND GROWTH IN PREPAID CARD USAGE

2000-2005	2006-2010	2011-2012
<p>Incentive Federation’s bi-annual study of motivation and incentive applications listed combined “gift certificates” and “debit cards” as the most popular rewards across four categories of recipients: sales employees, non sales employees, consumers and partners (dealers).</p> <p>The results were similar in 2003 and 2005, prepaid cards were found to be among the most or second most used merchandise rewards across the four categories of recipients, and most popular overall.</p>	<p>IncentiveCentral.org: Awards Selection Study Phase I:</p> <p>“Gift Certificates” ranked as most used among 11 cash and non-cash tangible rewards.</p> <p>In 2007, the Incentive Foundation found that the use of prepaid cards among large companies with more than \$100 million in revenue was, by a large margin, the most popular reward at 89% usage, followed by “token items” at 79%.</p> <p>In 2008, according to the IRF in its <i>Effects of a Down Economy on The Incentive Industry</i>” paper, the use of debit/prepaid cards increased 21% in rewards and recognition programs over 2007.</p> <p>A 2009 survey by First Data Corp. (an electronic payment solutions provider) showed that 33% of HR professionals plan to boost the use of prepaid cards as an employee reward for their workers. The survey, of 501 HR people at firms with 100+ employees, also found that companies already using prepaid cards spend 49% of their incentive budget on them.</p>	<p>According to the 2011 IRF/CMI Merchandise Poll, the most common award items in corporate rewards and recognition programs were apparel (69 percent) and prepaid cards (66 percent). Moreover, prepaid card usage appears to be still growing.</p> <p>The IRF’s <i>“Incentive Industry Trends Report 2011”</i> 17% indicated a greater use of debit/prepaid cards in their programs. In 2011, Scott Jeffrey of Monmouth University reported that prepaid cards were used significantly more than cash, travel or merchandise for employee and partner rewards among the 170 participants in his survey.</p> <p>In 2012, 65% of 121 respondents to the IRF’s survey on Gift Card usage used prepaid cards in their incentives, reward and recognition programs.</p>