

Staff Incentive and Reward Cards

What are they & what are their future?



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What are staff incentive/reward cards?

The first question must be is what is meant by incentive? An often-used definition is: “something valued by an individual or group that is offered in exchange for increased performance”. Based on this, a prepaid card is part of an incentive system defined as: “an organised programme of rewards and/or recognition offered for the purpose or motivating people to perform in specific ways”. A prepaid card incentive card is thus a method of delivering to an individual the incentive, in this case a monetary value that can be spent, in the case of closed-loop, only at pre-determined locations, and in the case of open-loop, anywhere where the network is accepted.

The market opportunity

Harold D. Stolovitch, Richard E. Clark and Steven J. Condly (‘SCC’) in 2002/3 estimated that US\$117 billion was spent on a global basis annually on cash/non-cash incentives, and in the US alone, SalesDriver in 2004 stated that based on 2000 data companies spent approximately \$27 billion a year on travel and merchandise programmes. The recently published Mercator Advisory Group Report stated that corporate purchases of gift/incentive cards for employees are set to increase from a \$9 billion industry to a \$15.5 billion industry by 2008, with SalesDriver finding that around 81 percent of North American executives ran sales incentive programmes to increase or maintain sales. However, even in the US, the volume of corporate-branded merchandise and travel is on the decline. In its place, the Incentive Federation now ranks gift cards as the most frequently utilised and most requested reward among surveyed corporations and employees. Further, it is open-loop incentive/reward cards that staff value most and prefer when given a choice. In Europe though, research from prepaid solution provider and processor eFunds reported that only 6 percent of employers currently use prepaid cards to administer benefits programmes and only 2 percent use prepaid for incentives.

Do incentives work?

Incentives can provide a key input into the ‘Behavior Engineer Model’ as outlined by Thomas Gilbert in 1978. It identified six factors affecting performance improvement and specifically identifies incentives as one of these. They are:

1. Data and Information
2. Resources, tools and environmental supports
3. Consequences, incentives and rewards
4. Skills and knowledge
5. Individual capacity
6. Motives

SCC carried out research that disproved two key myths around incentives and rewards:

1. Myth: Incentives destroy personal, intrinsic interest in work. To the contrary, rewarding people for exceeding targets causes them to value work more and even heightens self-confidence and employee loyalty.

2. Myth: Incentives only lead the business to pay for results it would have gotten anyway. To the contrary, only 8 percent of the workers surveyed said they would have achieved the same results without incentives.

Perhaps more importantly for incentive cards, long term programmes, ideally suited to reloadable incentive cards and those that are monetary-based, worked better. From their research questions they asked:

What gain did different types of programmes achieve?

- Individual-based incentives: 27 percent performance gain
- Team-based incentives: 45 percent performance gain

What difference did the time frame of the incentive system have?

- Short-term: 1 week or less = 20 percent performance gain
- Intermediate term: approximately 6 months = 30 percent performance gain
- Long-term: >6months = 44 percent performance gain

What incentive worked best?

- Monetary: 27 percent increase in overall performance
- Gift/travel: 13 percent increase in overall performance

The key conclusions are that cash when used as an incentive over the longer term can lead to dramatic improvements in performance. But these results are hardly a surprise, given that in Dean Spitzer's 1995 large-scale study of work attitudes, slightly over 50 percent of workers admit that they do only the minimum to avoid being fired and over 80 percent admitted that they could work "much harder".

Recruitment and retention of staff

Incentive programmes can do more than just improve performance. They can also be used to aid retention - a major challenge and cost for businesses. According to the Chartered Institute of Personnel Development (CIPD) Recruitment, Retention and Turnover 2006 survey, 69 percent of companies reported difficulties retaining employees, with their 2007 survey finding that in the private sector, staff turnover was running at 22.6 percent. Apart from the fact that this means that around one in five members of staff leave each year causing disruption to an organisation, it also has a major cost. The CIPD in their survey put the estimated costs of labour turnover per employee as £8,200, rising to £12,000 for senior managers or directors.

Occupational Group	Cost of Recruitment* £	Cost of Labour Turnover** £
Senior managers/directors	8,000	12,000
Managers/professionals	5,000	12,500
Administrative, secretarial and technical	2,000	2,000
Services (customer, personal, protective and sales)	1,000	9,000
Manual/Craft Works	500	2,000
All Employees	3,600	8,200
Median costs , *Advertising costs, agency or search fees, **Vacancy cover, redundancy cost, recruitment/selection, training and induction costs		

Source CIPD survey 2006.

It is a known fact that making employees feel valued and engaging them in the business develops loyalty and increases motivation to perform. This is certainly evident from the CIPD survey which reported that 31 percent of companies are improving their benefits to try and address retention, 20 percent have revised the way that staff are rewarded so their efforts are better recognised, 10 percent are putting emphasis on better promoting the employer brand and 9 percent have been using recruitment or induction bonuses.

HR attitudes

For most incentive programmes there are often two key departments involved; Human Resources and if the incentives relate to sales, the Sales department. HR people and senior management are frequently well aware of what incentive programmes can deliver. They obviously need to be carefully constructed and a whole industry has been created with specialist firms providing consultancy and insights as to how this should be done. Several of these firms have been quick to recognize what prepaid cards can achieve and have launched cards. John Schratz, Director of Prepaid Cards Sales and Marketing at Alliance & Leicester Commercial Bank, which issues several of the incentive/reward cards in the UK, said: "We quickly recognised the potential of using prepaid cards for incentives and rewards and have partnered up with some of the biggest specialist providers in the industry. With Grass Roots for example, we work with them closely to enable them to deliver these highly effective Visa prepaid programmes to their corporate customers, both as bespoke programmes as well as using the non-branded Grass Roots version."

Prepaid incentive/reward cards do need to deliver meaningful and relevant rewards/incentives to those employees, without this they become unvalued. However, perhaps slightly concerning is that recent research by eFunds reported that only 18 percent of HR managers are familiar with prepaid incentive and benefits cards, and 26 percent of HR managers say that prepaid will never be used for performance rewards. There is therefore further education required with HR managers on the potential and flexibility of the cards.

Types of incentive/reward cards

Reward and incentive cards are very similar to all other prepaid cards. The key fact is that generally they do not require any know-your-customer (KYC) requirements on the employee, as the end customer is a 'corporate' who by employing the staff person has in effect done KYC on that person. Cards can be either magnetic stripe or chip and PIN and either disposable, or with chip and PIN, reloadable cards.

The very flexible nature of prepaid and the cards mean that the programmes can be created and used for a wide range of staff incentive/reward programmes, including paying bonuses or rewarding for:

- Sales commission
- Closing deals
- Bringing in new business
- Retaining business
- Christmas/holiday payments
- Long service
- Staff recognition e.g. employee of the month
- Behaviour change programmes

Many incentive and rewards specialists argue though that for incentive programmes to truly deliver they need to not only engage staff but to ensure that what they use the funds for are 'aspirational/non everyday' purchases. The philosophy behind this is that rather than spend a bonus on the weekly grocery shopping, it is important to drive the employee to use the funds for something special, a treat. Thus something they will remember and be encouraged to strive for again in the future. In the US a survey of more than 1,000 employees by Wirthlin Worldwide asked staff how they spent their last cash incentive or bonus. Among respondents, 29% said the money went on bills, and 18% could not remember how they spent it. Only 14% treated themselves to something special, like a holiday.

One of the ways to drive the spend towards 'memorable' purchases is to restrict the spend, even on open-loop cards, to particular retailers where these types of aspirational items are sold. MasterCard scheme rules currently allow for merchant, merchant code and cash restriction for employees, those who work within a franchise and those within a single brand distributor. However, where a multi-brand distributor is used, only cash restriction is allowed e.g. HP printers distributed through PC World. PC world staff would be considered as a 'non-exclusive distributor'. Phil Davies, business development

director of MasterCard Europe, commented: “MasterCard has designed a set of regulations that we believe allow consultancies and corporates to create incentive/reward prepaid card programmes that can truly support the business objectives.”

	Merchant Restriction	MCC Restriction	Cash Access Restriction
Employer/Employee	Yes	Yes	Yes
Franchisee	Yes	Yes	Yes
Single Brand Distributor	Yes	Yes	Yes
Non-exclusive Distributor	No	No	Yes

Source: MasterCard Selective Authorisation Guidelines

Visa has already started to trial a number of programmes that permit restricted acceptance. The key criteria for these trails is that they have easily and clearly communicated to the end user which merchants the cards are acceptable at. Further we understand Visa require additional reporting to monitor the number of declines the restricted acceptance cards have experienced. In this way they can ensure that end user communication has been properly carried out and the cards are being used as per the terms and conditions.

Benefits of incentive/reward cards

‘I want it now!’ How often do we hear that stated about modern day life? People want things instantaneously - they are not prepared to wait around, they don’t want it at someone else’s convenience they want it at theirs. Incentive/reward cards deliver this and much more in the area of reward and motivation. The benefits for using prepaid/incentive cards are real and tangible for all parties involved in the delivery process, from the professional consultancies through to companies using them and the individual receiving them.

Professional consultancies and corporate perspective

Many of the benefits that consultancies get from creating and running the programmes for their end corporate customers apply equally to those corporates as well. The key benefits are:

Motivation and engagement: no incentive and reward programme is going to work unless it can motivate and engage the employee. As previously discussed, cash is a key motivator, but with prepaid cards it gives the employee the freedom to use it wherever and whenever they choose, including on the internet. Further, with an open-loop solution they have the ability to spend it on whatever they like – the key though is that it can be instantaneous. An award is made and the funds deposited onto the card within minutes. There is no issue of ‘catalogue fatigue’ and no waiting around, if the recipient wants to spend it and get it from the store, they can do so at their convenience. In addition, unlike cash or payments made into a ‘payroll’ run, the prepaid card also allows the ‘incentive’ to be clearly highlighted to the employee and not disappear into the ‘general income and spend’ of that person. There needs to be a clear correlation between action and reward and by separating the payment out onto a prepaid card the employee clearly understands that they are receiving/purchasing x because of their actions or reward, but they also get it immediately.

Elimination of cash and cheques: by being an electronic form of payment, prepaid cards instantly bring a range of benefits to the consultancies and companies using them. They eliminate any cash or cheques, and subsequent paperwork associated with them. But it goes far further than this as it also provides much clearer audit trails and thus can also substantially reduce fraud, as there are clear records of who was paid what for what action.

Stock: many consultancies and companies moved to the use of paper retailer vouchers to avoid the cost and hassle of directly fulfilling incentives themselves. The costs of stocking goods, and risk of them remaining at the end of the promotion along with the handling costs, all made it prohibitive. Prepaid cards potentially go one stage further, with funds from the company only being deposited as they are required. Normally, a certain level of cover would be required by the consultancy/issuing bank, but this is likely to be less than the total funds for the whole incentive/promotion. Prepaid cards

thus can help to improve corporate cash flow as they do not need to fund the complete promotion/incentive on day one, but can drip feed funds in as they are required.

Flexibility: although prepaid card programmes may cost initially more to set up for the companies using them, when used with reloadable cards they offer a range of unique advantages to all those concerned. Different types of rewards and incentives can all be paid onto a single point, allowing employees to build up to 'big/memorable purchases', it allows programmes to be turned into engaging games. It also allows companies to react to events 'on the hoof'. With the business environment becoming ever faster-paced, there can often be the need to provide short-term tactical incentives to staff around an event that was unforeseen. With prepaid cards this can almost instantly be put into place and payments made with virtually no additional costs.

Building a brand: ask someone the brand of car they drive or mobile phone they have and nearly everyone will know. Similarly, they nearly always know the brands of the plastic payment cards in their wallet. A corporate-branded prepaid card presents a unique opportunity for the corporate to help build the corporate culture. It is a great way for staff to talk about their company and 'show off' the reward card they have, along with building the company's brand in both its current and potential workforce. Companies can customise all aspects of the communication, from the card design through to the websites and even materials/statements sent to employees. They thus have a whole range of employee touch points at which they can convey key corporate messages.

Receiver's perspective

As discussed, the key to any incentive/reward programme is that it can deliver the motivational element instantly, tangibly and with choice. A prepaid card does all of this and more. As highlighted, there is no catalogue fatigue as the end user has a far wider choice, and with the ability to 'go and get it now', it means that the correlation between action and reward is real for the person, thus ensuring engagement in a programme, and more importantly, a desire to repeat the behaviour and thus earn a reward again.

Where are we now?

Whilst Grass Roots launched their and the UK's first prepaid incentive card in 2004 on their own platform, in 2007 they moved over to working with Alliance & Leicester Commercial Bank and launched their Visa product. Likewise in 2007, Corporate Rewards and P&MM also launched their programmes. The market is thus still at very early stages of growth, although from the arguments above it would seem that prepaid incentive/reward cards are a logical development in the motivation and incentive market and set to potentially grow substantially in the near future.

Being new though is both a negative due to large amounts of education to be done, and a positive, as Jackie Barker, head of product development and management at Grass Roots, explains: "There are two key things our clients like about the prepaid cards. Firstly they are innovative, prepaid cards are just starting to be understood by consumers. Companies working with us feel they are giving their staff the latest and best solution. Further, as the rewards are instantaneous, they get better engagement. Secondly, from their perspective the cards provide a great communication channel to staff."

Grass Roots offers three branding versions of incentive/reward cards with generic, generic with clients logo on and fully bespoke all available - the latter only requiring orders of 3,000 cards or more. Its largest prepaid card client, a major utilities group, has over 10,000 cards in use by staff.

Corporate Rewards have also had similar success with one of their its clients being Williams Lea, a global print management firm who are using over 7,000 of their reloadable prepaid incentive cards in some 13 countries. The cards used are moving to chip and PIN and will be fully reloadable. Currently staff nominate people for rewards and Sean Wilkinson, managing director of Corporate Rewards, commented: "Prepaid incentive cards provided the ideal platform, allowing us to get the incentive to the employee on a global basis with the ability for them to instantly obtain and appreciate the reward. No

other system could offer this global scale and with our unique web interface we have developed for Williams Lea, we get very strong staff involvement to the programme.”

P&MM also launched a Visa-branded prepaid incentive card called the ‘Spree’ card in 2007. British Gas was the first corporate client and rebranded this to the Qdos card as part of its strategic internal rewards programme. Nicola Mayling, incentive and rewards manager at British Gas, commented: "We are constantly looking at ways to improve the benefits we offer – and our research pointed strongly to a prepaid card as the next step. Our staff have told us they want us to be innovative." British Gas have since moved this card to a new motivation supplier, but again it is interesting to note that it was one offering a prepaid card solution to their staff.

Other programmes launching include Clydesdale and Yorkshire Bank, who in April 2007 launched a prepaid card for its 11,500 employees as part of its voluntary benefits scheme. Staff can apply for and load money onto the card online. This can then be spent at a number of high street retailers and leisure firms including Asda, Argos, TGI Fridays and Marriott Hotels. Staff benefit from discounts of up to 10 percent, which are awarded using a rebate system. Employees' transactions are tracked by P&MM, and the next time they load money onto the card, they receive the savings. Also, more recently Allianz announced they would be using the P&MM platform. Launched in January 2008, they expect to offer their 4,000 employees a prepaid incentive card as an option within the Allianz flex scheme. Staff will be able to select an amount from their net monthly salary to be loaded on to the card, to obtain discounts of up to 10 percent at a range of retailers.

So what does the future hold? John Sylvester, director of P&MM's motivation and incentive division, is on record as saying: "We expect to see 75 percent of traditional incentive voucher business switching to plastic in the next five years." However, only in March 2007 National Express announced that it preferred to issue staff with a ‘dummy’ cheque which allowed them to purchase goods from the firm's website, or opt for vouchers from various retailers and service providers, rather than provide prepaid cards.

So despite the predictions and arguments for prepaid cards in the incentive/rewards business, it appears there is still a need for considerable education required amongst HR departments and companies as to their benefits and potential uses; given the very strong arguments in favour of these products though it would be safe to assume that they have a strong future.