



**AwardEmployees**

... with the award they would choose for themselves.

## **Are Traditional Merchandise Awards Overpriced?**

## Are the Traditional Merchandise Awards Used in Incentive Programs Overpriced?

If you compare what companies pay for traditional incentive merchandise items with those same items at retail the answer is emphatically....YES! The problem is that the people who receive the value of these awards...your employees, are rarely if ever the same people who purchase them. They often don't see the price or value because they are hidden in "points" or "award levels" or other schemes. For example, a company issues you a recognition award and tells you to pick an item from a booklet or grouping of awards. You have no idea of what your company paid for that award. Although you do have an idea of what the award is worth. Frankly any employee can easily find out what an item is worth by quickly browsing the internet and reviewing any of the many shopping sites, the most prominent of which is Amazon.com. If the actual cost of the award ever does come to light, and it often does, employees start to question why their company paid so much for the award. Then the questions start...can I get a gift card for the same price you paid for the award? This is probably the main reason why gift cards have jumped to the top of the list of most used recognition and incentive awards...because of the value.

While the rewards industry has argued long and hard about their value as suppliers of incentive awards, the bottom line of whether an item is overpriced or not is up to the buyer. From our perspective in looking at this situation for over 35 years, we believe that even the most novice buyer would have to see that they are paying more than retail for these items. The question is how much more than retail, and is there a value in the infrastructure provided by the supplier to offset the higher price? Recent research by the Incentive Foundation clearly states that nearly 80% of the client respondents didn't use outside incentive companies for anything other than for fulfillment of the award. That would seem to indicate that a buyer shouldn't pay anything more than retail if the vendor is not providing any other service. Unfortunately for the employees that's just not the case. Ask yourself this question. Shouldn't your employee receive as much of the value of your award budget as possible? If you have \$25, or \$50 or \$100 or more to reward an employee, shouldn't they receive a choice of an award that approximates that cost? Anyone we ask that question certainly agrees that they want their employee to receive as much of the value as possible. Unfortunately, that is usually not the case when traditional merchandise is the offered reward. We have done extensive research and analysis and can confidently say that the standard cost for the traditional merchandise used in this industry is, on average; 50% HIGHER THAN RETAIL. We won't argue here what "Retail" really is, but suffice it to say that with the advent of the internet, retail is easily determined by what the employee perceives it to be. While they can understand fluctuation of pricing from one retailer to another, swings of up to 50% are deemed unacceptable.

The question then remains. "Why are the merchandise items sold by the incentive industry so much higher than the same items sold at retail?" This is a complex question and the answer can be found in a multitude of reasons. We offer just a few that when combined would make up a large % of the difference in pricing.

- Some assume that the incentive merchandise award suppliers can purchase the items from the manufactures at about the same price that the retailer can. Nothing could further from the truth. Most of the incentive awards used in the industry are “dropped shipped” from the manufacturer to the award winner. The incentive companies pay a very high cost for this convenience, often as much as 15-20% more than retailers.
- Prices that the manufacturers charge are volume driven. Incentive companies, even the top two or three, cannot buy merchandise in the quantity to compete with retailers, especially the top tier retailers. Best Buy purchases more Sony or Panasonic TVs in one day than all the incentive companies combined would buy in a year! This pricing differential can be dramatic!
- Manufacturers sell directly to large retailers. The same manufactures sell to the incentive industry through a network of distributors, wholesalers, manufacturer reps. etc. and then to the incentive companies who in turn sell to the client. The subsequent margins of profit on each step of this distribution process will raise the price accordingly.
- Sales costs are higher. The incentive industry typically pays commissions to reps to sell the awards to the client. The commission averages at least 10% and can go as high as 25% if the client is not wary of the pricing.

While there are many details that can affect the pricing of traditional merchandise awards, the above should provide some of the fundamentals of why the pricing discrepancy is so great. We have been providing clients with cost comparisons for years, and will be happy to provide one for you if you want to know how much you are really paying for your employee awards.

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