



**AwardEmployees**

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

## **Incentive Research Foundation Study**

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For any of us selling in this industry for more than just a few years, a thorough review of the latest Incentive Research Foundation's Vertical Market Study must have been painful. At least I hope it was. In that study, it indicates that 78.5 % of the respondents did not engage the services of an outside incentive company for the design, management and measurement of their incentive programs. Of the balance of the respondents who did engage an outside company, the majority were engaged to provide fulfillment services only. Wow, have things changed!

I must say that I was absolutely amazed that nearly 80% of the respondents didn't use outside incentive companies other than for fulfillment. In the not too distant past, when we developed a proposal for a piece of business, that proposal contained all the elements to make an incentive program successful. We concentrated specifically on the design and rules structure, the measurement, the administration or management and the communications. The end of the presentation was mainly reserved for the fun stuff...the dazzle, glitz and glamour that could be provided by the awards. But the important points of how to make the program work well were almost always discussed first. Frankly, everyone in the industry could present a travel destination (it's not hard to make Hawaii or Rome look good) or a beautiful book of merchandise awards (but TVs and toasters are the same for everyone). If our salespeople were doing their job, our proposals could capture the essence of what the client really wanted to do because we knew their industry and we had done our homework to know how to make their program successful. That's what we were trained to do, that's what we did best. Evidently the clients of today don't have that same opinion of the suppliers that sell them awards.

When asked why they didn't use outside agencies in the design, management and measurement, following were the three major reasons:

- ◆ 70% of the respondents felt that they had in-house resources with the ability to design programs without assistance.
- ◆ 11.3% said the cost was too high to engage an outside agency,
- ◆ 10.8% said that the agencies lacked the specific expertise in their specific industry to be of any value.

I won't comment here on the first reason, but you might want to take a look at the very first article I wrote for this column that touched on why only 1/3 of all non-cash incentive programs produce results. Evidently we have allowed our stock in trade, our real reason for being in the business, our expertise, to be devalued in pursuit of the profits of just the awards. And that is a shame! What we used to be proud of was implementing programs that produced results for our clients, not just fulfill awards.

So what changed? Well, I really don't know the exact reasons, there are many, but I can make an educated guess on one of them. For years, it was common practice in the industry to not charge for the program design, management, measurement and design/ layout of the communications campaign. The full service incentive companies actually gave all this away as a cost of doing business and made up their profits on the high margins they received on the production of the communication pieces and the awards, specifically the merchandise awards. It was not uncommon for these companies to be selling merchandise, guised in points, at very inflated prices, often 50% to 100% more than retail.



Over twenty years ago I recall a meeting where we invited a high level executive from McKinsey & Company, the well respected and successful business consultancy, to come and listen to our plight of shrinking profits. After respectfully listening to what we did, how we did it, and spending a morning touring our college-like campus, he said...."I'm very impressed by what I've seen and what it is that your company does, but let me get this straight. You provide all the design, management and measurement services to your clients at no cost and give away your intellectual property, while trying to make your profit on selling what is essentially a commodity, is that right?" When we answered "yes" he said...."we do just the opposite."

Well, the eyes of our chief executives opened in amazement, the smirk on the faces of the sales executives was palpable, and the rest is history. From that day forward, we tried to change our entire pricing philosophy and invoice clients for all of our services. But, unfortunately, the sales force was very reluctant to make the change and the clients were less than agreeable to being billed for what they had previously received for nothing. So the die was cast, we were essentially hoisted on our own petard, and rest is history.

As time went on, because there is relatively no real barrier to entry, more and more companies got into the business, the competition stiffened, and many of these much smaller companies started nipping at the heels of major incentive companies. Today it is not uncommon to find very large multi-million dollar programs in the hands of very capable small local incentive companies who will provide tremendous service to the clients for the profit derived from the fulfillment of the awards. Most of these companies don't have the resources to provide analytical assessment and measurement, detailed program structure and design, and a marketing services company quality communications campaign. They leave a lot of that up to the client. But they can and do provide any and all, and often more of the awards that are provided by the larger incentive companies.

If clients don't put much stock in our capabilities other than fulfillment, when they turn to us only to purchase what is essentially a commodity we should expect to be challenged to provide commodity pricing. And, if clients see it that way, they should be getting the best price they can....or shame on them!

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