



AwardEmployees

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

Why Gift Cards Are The #1 Award

Why Gift Cards are the #1 Incentive & Recognition Award

Industry research constantly points to Gift Cards as the #1 choice by participants in award programs. Gift cards are also the #1 award used by companies implementing these programs. The reasons are simple: they provide the greatest choice at the greatest value to both the client and the award winner. Nothing else even comes close.

How Did It Start?

Gift card awards actually started in the travel industry as an award that clients, who couldn't afford expensive group travel, could use to motivate individuals. Individual travel has always been a very popular award. In the early 1980's S&H with the TravPass and Maritz with the Exclusively Yours program starting using gift certificate packages for individual travel. These packages could be redeemed for major hotel chains, car rental companies, airlines, independent hotels, other specialty stores, resorts, spas etc.

Not until the early 90's when paper gift certificates started to evolve into plastic debit cards did gift cards really begin their dynamic growth. The more popular they became with consumers, the more participants in incentive programs started to ask for them. Retail industry figures show that gift card sales have grown at a staggering rate. In 1995 sales were approx \$1 billion. In a little over ten years to 2006, sales were \$83 billion; in 2007 they were up another 17% to \$97 Billion and early estimates for 2008 show the increase continuing to over \$100 Billion. The growth of gift card in the incentive business has paralleled the growth of gift cards overall. In addition, studies of consumer loyalty programs in banks, airlines, hotels etc. consistently show that as much as 95% of the point redemption in the non-travel portion is for gift cards. They are inarguably what participants want!

The Incentive Industry Reluctantly Followed

Since its inception, the incentive industry has utilized merchandise as the prominent award in recognition, years of service and incentive programs. Starting with watches and jewelry in the depression and moving to full catalogs of awards throughout the years, merchandise profit has been the engine that has driven the train. Profit margins that approached 80% and more were the standard throughout the industry. These margins are still employed where novice buyers do not question pricing when it is packaged into an overall program infrastructure. The net result of this type of pricing was that participants universally received items valued at 50% or even less of the actual cost of the award to the sponsoring company. In other words, if a company pays for and is awarding a \$50 award to an employee in a recognition program, that same award can be found at retail for \$25, and often less. In especially hard economic times is this really the value you want to receive from your awards budgets?

You can imagine how protective the merchandise award companies were and still are of their merchandise profits. All the bricks and mortar in the industry came into existence because of these high profits. Over the years these companies have developed sales story after sales story of the evils of gift cards and the merits of merchandise. Why? Because when gift cards are introduced into an award program, the redemption automatically and overwhelmingly

goes to gift cards. And subsequently a program that may have produced over 70% or more in profit was reduced to one that might not even approach 20%. This is a dramatic reduction in profits for the incentive companies.

Smoke & Mirrors Pricing

The industry was built by companies that consistently hid the real price of their awards in sophisticated point systems, special “your choice” groupings of merchandise, or merchandise in different price levels. All of these had the effect of hiding the actual value of the award from the participants as well as the clients. Prior to the internet, it was extremely difficult for clients to determine and compare the actual retail value of an award. In the 1980’s when the IRS started to enforce the reporting of incentive awards as income, and participants and clients alike started to see the real price/value of merchandise. The pricing came under a great deal of scrutiny. With the advent and rapid growth of the internet, uncovering and determining value is relatively easy for the clients and just as easy for your participant. To think that employee today don’t know or can’t easily determine the dollar value of an award is somewhat naïve. That being the case, does it really make sense to continue to try to hide the dollar value of the award that you are giving them?

And the Argument Goes On

To defend their core profits the incentive merchandise industry developed many arguments against gift cards. They were simply “too much like cash.” They did a marvelous job of convincing the buyers that anything other than deluxe merchandise was the only way to motivate or recognize performance. Unfortunately there is little if any empirical research to support that premise. The vast majority of years of service and recognition programs today contain only merchandise and then only in certain categories. They are the same types of merchandise that have been used for decades. Are silver or crystal giftware, clocks and watches or jewelry etc. all that people really want as an award? Who made that determination? Was there research conducted? Is there research conducted today? Were these awards originally chosen because they were in high demand by those who received them? When given an option are these the awards employees would really choose? Is it a coincidence that these are also the same items that are very difficult to compare pricing at retail and contain the highest profit margins?

Where Are We Today?

Can you believe that Gen “X’rs” are already in their 40’s? Do you think that the traditional service and recognition awards that may have worked for their parents and grandparents are the same awards today’s workplace really wants? With the diversity that exists in the complex workplace of today...we think not!

Arguments on this subject have been around for years, and some stalwarts in the merchandise side of the business continue to foist them on the buying world. We encounter these arguments daily and find that full disclosure of the facts is a tremendous justification for gift cards and why they are the #1 award solution. While one or two of these arguments may hold

minor validity from a philosophical perspective, there are none that can't be refuted. Others are simply fallacious and have no basis in fact.

Gift Cards are Not Gift Cards

In fact, gift cards are not gift cards. They are to the holder the same kind of dreams and desires that used to be generated by the coffee table award catalogs the 1960's. Except as proven at the beginning of this article, they have far more appeal to the workers of today than any other award. They are the stylish new outfit seen in the window at Macy's; they are the new wide screen plasma HDTV at Best Buy, they are the deluxe Barbecue shown on sale at Home Depot, they are a child's bike at Wal-Mart; they are the beautiful diamond necklace offered at Costco. They are all these things and millions and millions more. The only real difference between them and merchandise used in traditional award programs is that with a gift card, for the budget you have, your participant will be able to get a larger TV plus a DVD probably two bikes, the new outfit plus a glamorous sweater, a grandfather clock and a watch, and they may still have money left over.

Giving a gift card as an award is definitely giving something tangible. It is just as much a symbol of success as choosing an item or group of items of merchandise to pick from. It is the award currency of today, proven effective and the choice of the vast majority of participants. But don't be surprised if you don't hear this from the many vendors who call on you for your recognition business. They simply don't want you to know it! But the final decision is yours. You can give the vast majority of your award budget to your employees, or you can give it to the bottom line of the merchandise companies who need it to pay for the bricks and mortar, and infrastructure that they created for a market over 75 years ago.

With All Due Respect

In closing we must say that the message of employee recognition is one we grew up with and completely support. We wholeheartedly agree with and respect the writings and teachings of the experts in the recognition and service awards field, but not in the award that the majority of them choose to sell. We embrace the beliefs that employees need to be recognized for improved performance and actually go beyond that belief. We feel that a company should also consider a true performance improvement effort that rewards the actual results of all performers rather than simply a few who worked above and beyond. And we wholeheartedly believe that when employees produce results that they be rewarded with something that has the value and choice that they deserve for their accomplishment.

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