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IMPROVING PRACTICE & APPLICATION

CONTENTS

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EDITORIAL

Welcome to the special "Gift Card Issue" of the *IRF Quarterly Academic Review*. You might be thinking it's about time. According to Statista, the U.S. gift card market rose to a mind-blowing $160 billion in 2018, effectively doubling in twelve years. To put that into perspective, the gift card market in the U.S. alone is larger than the entire economies of three-quarters of the 192 countries on the planet! Globally, Statista estimates the gift card market at $320 billion in 2017 and expects it to rise to more than half a trillion by 2023.

According to CEB Tower Group and other sources, gift cards have reigned as the most popular holiday gift request every year since at least 2006…and not by a whisker. In surveys, almost two-thirds of Americans say they prefer gift cards over any other gift category. Not surprisingly then, the average American adult spends a lot on gift cards – more than $160 each year.

So why are gift cards so popular with both givers and recipients? A lot of it boils down to the fact that, like cash, they're easy. But unlike cash, they carry no stigma. Moreover, givers can be reasonably sure that recipients will like what they get; after all, gift cards are flexible, portable, and even potentially memorable. Whether it's grandma sending birthday greetings with a coffee shop card inside or an employer rewarding extra effort with $100 restaurant cards, gift cards have found a sweet spot in between crass cash and risky tangible gifts. Done right, they convey thoughtfulness while avoiding the stress of giving someone something they don't want.

In the workplace, gift cards have the potential to capture most – and perhaps all – of the well-known benefits of non-cash rewards. When selected and presented thoughtfully – like other gifts – they communicate recognition and appreciation. In doing so they can generate positive behaviors and better outcomes in the workplace.

Surprisingly then, the published academic research around the use of gift cards in employee incentive programs is nearly non-existent. Indeed, the six articles covered in this issue, including two working papers, might capture nearly the entire genre. Fortunately, each article is thought-provoking and builds on the last, offering valuable insights into reward program design using gift cards.

Ultimately, you'll find that researchers seem to like gift cards, especially those of the restricted type. You'll also find evidence in this issue that even open-loop cards are superior to cash. You be the judge. We hope you enjoy this issue of the *IRF Quarterly Academic Review* and, as always, we look forward to your feedback.

Sincerely,

Allan Schweyer
Chief Academic Advisor, Incentive Research Foundation

Unrestricted Gift Cards: Compensation, Not Recognition

Citation: Di Sabrina Mu & Scott A. Jeffrey. *Academy of Business Research Journal*. 2014.

Availability: This article is available on request from Allan Schweyer at: allan.schweyer29@gmail.com

Introduction

As the provocative title of this research suggests, the authors conclude, based on an analysis of purchasing data, that open-loop gift cards are spent and perceived in essentially the same ways as cash, rendering them ineffective tools for employee recognition.

Summary

The authors point out that incentive consultants and organizations take considerable effort to separate rewards meant to recognize and appreciate extraordinary work, from compensation for simply doing one's job. If employees perceive and use pre-paid (open-loop) cards in the same way they do cash, then, the authors reason, the cards become like compensation. If employees perceive cards as compensation, it diminishes their value in terms of recognition and appreciation.

The authors acknowledge the appeal of unrestricted, open-loop cards and their popularity, given that employees can spend them on virtually anything they want. However, they question whether open cards retain any of the known psychological benefits of non-cash, tangible rewards that lead to better work performance (versus the use of cash). Ultimately, the authors conclude that open gift cards do not. They warn, "*… providing an unrestricted card will be viewed as additional compensation by the employee rather than recognition for a job well done.*"

The Research

The authors analyzed a series of over 100,000 transactions in more than 350 businesses using open-loop cards. Total expenditure exceeded $8 million. Cash spending analysis was performed against the Bureau of Labor Statistics (BLS) data involving about 120 million U.S. households. Spending categories were formed for gift card spending and mapped to those in the BLS consumer data for comparison of spending habits. A standard scale was used to rate expenditures on a hedonic (i.e., luxury) versus utilitarian continuum.

Results

- Of the $8.3 million spent in open gift cards, $2.7 million was withdrawn as cash. It follows then that right off the top, about one-third of open-loop gift card value is spent like cash, because it is cash.
- The authors found virtually no difference in how open card currency and cash is spent; including in terms of hedonic versus utilitarian purchases. In other words, people spend open card money and cash in almost exactly the same ways.

Actionable Takeaways

- If employees perceive and use open gift cards virtually the same way as cash, then they will view the cards as compensation. An incentive professional who believes that a) non-cash, tangible rewards offer more separability from compensation as opposed to cash, and b) that separability is critical in recognition and appreciation of extraordinary work, must conclude c) that open cards are not effective employee recognition tools or rewards.

- Firms and incentive program designers should consider using restricted (closed-loop) cards in place of open-loop cards. In doing so, employers can restrict the recipient to making more rewarding and memorable purchases, thereby retaining the value of non-cash, tangible rewards. As the authors put it, "… *firms who wish to continue offering prepaid gift cards may want to consider some different implementation methods. One suggestion we can offer is placing some restriction on the venues at which the card can be spent. This type of 'filtered' card could encourage spending on more hedonically rich items which would carry the benefits of tangible incentives."*

Question & Answer with Dr. Jeffrey

1. Do you agree with the actionable take-aways listed above? Either way, can you please comment on each?

   Open spend cards are spent like cash, one of the uses we saw in our data set was on bail. Gas was a frequent use as well. So – since open spend cards are basically spent like cash, I strongly believe that they are viewed by recipients as cash. Nothing wrong with that per se, but employers should realize that they will not be obtaining many of the benefits of tangible rewards/recognition.

2. Other research suggests that recipients of gift cards (open or restricted) mentally classify them different than cash and so perceive and spend them differently. For example, White (2008) finds that gift cards prompt more liberal spending. Helion & Gilovich (2014) find that gift card holders spend more on hedonic items than do equivalent cash gift recipients. Neither research explicitly tested open vs restricted cards, they just called them "gift cards." If you are familiar with these papers, do you see any conflict with your results?

   There is significant research, with which I agree, that people are likely to spend more with gift cards than some other form of spending. This is one reason that vendors and stores love them. Whether that is good for employees is debatable. On the Helion and Gilovich article (see below), I agree that people are potentially more likely to "splurge" than with a credit card or cash. This is consistent with early work on windfall spending by Hal Arkes and colleagues in 1994: The Psychology of Windfall Gains. This leads to my response to number three.

3. Since you wrote the paper, has anything changed your opinion of prepaid, unrestricted gift cards?

   Nothing has changed my opinion. Even "branding" the card with the employer's name will not change employees' perception of it as cash.

More Questions?

Please forward any additional questions you may have to the author, Dr. Jeffrey.

Scott Jeffrey, (AP, Business, Monmouth University)
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Format Matters in the Mental Accounting of Funds: The Case of Gift Cards and Cash Gifts

Citation: Rebecca J. White (2008)

Availability: This article is available on request from Allan Schweyer
at: allan.schweyer29@gmail.com

Introduction

Though more than a decade old, this article provides an evidentiary foundation for the discussion of mental accounting theory in the use of gift cards. The next two articles in this issue discuss mental accounting as well and build on this paper. Here, the author describes four experiments she conducted testing the use of gift cards versus cash in terms of spending and types of goods and services purchased. She finds that gift cards drive greater spending than cash and that they are also liked and remembered more than cash.

Summary

The author cites past research and statistics extolling the benefits and popularity of gift cards over cash. In summary, well-chosen cards convey and are received with the same emotions as tangible gifts while also avoiding the stigma of cash. Despite the popularity of gift cards, logic and classical economic theory argue that gift card recipients should treat a gift card the same way they would equivalent cash or a check. On the other hand, modern behavioral economics and social psychology suggest they might not.

Mental accounting is a well-established theory within the field of behavioral economics. It is attributed to Professor Richard Thaler who earned a Nobel Prize for his work. Mental accounting theory argues that – contrary to classic economic theory – people spend money differently depending on how they acquire it. This means that some money, especially from modest windfalls, is mentally set aside for fun things, for example, while other money from more "serious" sources – salary, for example – is reserved for utilitarian purposes, like paying the rent or contributing to a savings account.

The author hypothesizes that because gift cards are perceived differently than cash, recipients will mentally classify them differently, and therefore, spend them differently -– more liberally than cash. She controls for the possibility that people spend more using gift cards because they are less fungible (i.e. flexible) than cash, in most cases, rather than due to mental accounting.

The Experiments

Study 1: In the first study, 180 psychology students are randomly placed into three groups. The first is asked to imagine receiving a $20 cash gift from a beloved aunt, $15 of which they spend to buy a music album. Next, they're asked whether they would use the remaining $5, plus $10 of their own money, to buy another album they want or put it aside for future use. The second group is given the same scenario but with a $20 gift card instead of cash. The third group also receives a $20 gift card but is given the option of converting the leftover $5 into cash.

Study 2: The author attempts to determine how much a gift card recipient is willing to spend. Forty-four psychology students are asked to imagine receiving a birthday gift of $50 cash from a cherished aunt and depositing it in their checking account for future shopping. Forty-five students are asked to imagine getting a $50 open-loop gift card from their aunt on their birthday and putting it in their wallet for future shopping. In both cases, the students are asked to imagine going shopping and finding $200 worth of items they would like to purchase.

Study 3: Seventy-seven psychology students are asked to imagine receiving either $50 cash or a $50 gift card from a friend and using it to buy a $53 box DVD set they had been wanting for some time. All are then asked whether they feel a) they have been given a free DVD set as a gift; b) like they saved $50 on a DVD set; c) like they just spent $3 on a DVD box set, or d) like they just spent $53 on a DVD box set. Participants are also told to imagine they spend about $30 a week on entertainment and then asked how the cash/gift card would impact that spending for the week.

Study 4: In January, for the fourth and last study, 84 psychology students are asked about actual gifts they received during the past holiday season and their use. Half were asked to recall a cash gift, half, a gift card. They're asked the amount of the gift, how much they spent of it and what they bought. They are also asked to rate their overall "experience" of the gift including its memorability and use.

Results

Study 1: 56% of those in the gift card group would buy two albums using $10 of their own money. Only 28% of the cash group would do the same. Interestingly, 48% of those in the gift card group that is given the chance to redeem the balance of their card for cash would buy two albums using $10 of their own money.

Study 2: The average gift card recipient indicated they would spend $93.56 versus the cash group at $54.11.

Study 3: In the gift card group, 62% felt like they got a free DVD set compared to only 32% in the cash group. Significantly more of those in the cash group would alter their weekly entertainment spending (i.e. not spend as much of their $30) as in the gift card group.

Study 4: Cash recipients spend nearly the exact amount of the gift. Card recipients spend far more – 60% more – on average. Card recipients, even though they received smaller amounts on average, report liking their gift more and they are more likely to remember how they used it (what they spent it on).

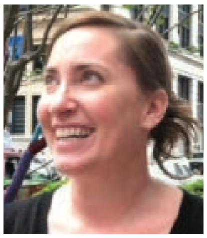
Actionable Takeaways

- These experiments provide compelling evidence that people do not treat gift cards the same way they do gifts of equivalent cash or checks from the same sources. People appear to mentally categorize gift card gifts as fun money.
- Accordingly, they are much more likely to spend it and add their own money to the gift card. Moreover, this research suggests that people like and remember gift cards more than cash – at least where gifts from friends and close relatives are concerned. This might help explain the explosion in gift card popularity over the years.
- For incentive program designers, this research supports the use of gift cards over cash. An extensive body of other research suggests that when people receive rewards (in this case, use their gift card to buy things they like, want or need) positive feelings are generated between the recipient and the giver, including a desire to reciprocate (e.g. exert more effort at work). Cash recipients are less likely to spend their reward; hence they forget it faster. Gift cards recipients are more likely to spend their reward, generating positive memories and associations.

- Organizations should consider, however, that gift card recipients' willingness to spend large amounts of their own money on top of the gift card could generate some resentment when their credit card bill arrives. In other words, irrationality is a two-sided coin.

More Questions?

Please forward any questions you may have to the author, Dr. White.



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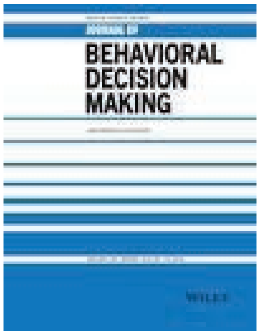
Bio



Gift Cards and Mental Accounting: Green-Lighting Hedonic Spending

Citation: Chelsea Helion and Thomas Gilovich, *Journal of Behavioral Decision-Making*. Vol. 27 (2014) 386-393

Availability: This article is available on request from Allan Schweyer at: allan.schweyer29@gmail.com

Introduction

Across three experiments, the authors explore how gift card purchasing decisions differ from purchasing decisions made using cash or credit cards. They test mental accounting theory, hypothesizing that people using gift cards think of that currency differently than those using cash or credit cards, resulting in a greater frequency of hedonic (i.e., luxury) purchases with gift cards and greater utilitarian (i.e., necessities) purchases with cash and credit cards. Their results suggest that merely possessing a gift card increases the preference for hedonic products and services.

Summary

It is well-established that people classify money into different mental accounts depending on how they receive it, but does the same apply to the form of the money? In this research, the authors determine whether cash, credit cards or gift cards make a difference in how the money is spent.

The Experiments

Study 1: In the first study, 215 participants imagine going to a bookstore to buy two books at the same price. One, a novel by their favorite author and the other a guide to doing their taxes. They imagine having a gift card and cash, each sufficient to buy one book. They're asked which currency they would use for which book. Afterward, 106 of the subjects answer questions related to their beliefs about gift cards (i.e., cards should or should not be spent on utilitarian things).

Study 2: Forty students are rewarded with $5 cash or a $5 "Cornell Lab Store" gift card. Cash recipients are directed to spend their $5 in the lab store. The store contains several luxury and several utilitarian items.

Study 3: Six years of transactions from the Cornell campus bookstore are analyzed, involving over 13,000 customers who used a credit card and/or a gift card to make their purchases (cash records were not kept). Purchases are rated on a scale according to their hedonic vs. utilitarian characteristics.

Results

Study 1: 69% would use the card for the novel and the cash for the tax guide. These participants are most likely to believe that gift cards should be used for fun rather than utilitarian purchases, and that all money is not the same.

Study 2: 76% of the students with $5 gift cards spend most of their money on luxury items versus only 47% of cash recipients.

Study 3: Half of the purchases made with gift cards are concentrated among the three most hedonic types of items in the bookstore versus less than 20% of purchases by those using credit cards.

Actionable Takeaways

- The authors conclude that *"…when individuals are given money in the form of a gift card… they have the justification they need [to buy hedonic items]."* For employers, this is significant because hedonic or luxury rewards often deliver greater emotional impact, memorability, and reciprocity effects (i.e., the desire to return the favor and exert more effort at work).
- For employers and others, gift cards are easy to give compared to choosing specific tangible gifts/rewards. If the same effects can be gained, it may follow that reward programs can be greatly simplified and made more efficient.
- Versus cash, gift cards appear to generate more excitement, anticipation, and planning, all leading to greater reward impact, especially because gift card recipients tend to spend their cards on luxury items. At the low end (when the amount isn't high), all of this is likely to be true (although things like anticipation and planning haven't been tested). At the high end, where the sums are quite substantial, it's an open question whether the same effects would be obtained. A big pile of money is a very exciting thing for most people.

Question & Answer with the Authors

1. Your studies imply the use of closed-loop gift cards because they could only be used in specific retailers (study three is less clear). If your subjects were given open-loop cards do you think they would have spent them any differently? For example, do you believe your subjects might have considered them more like cash?

   Yes, we would predict that a "generic" gift card, (because it can be spent on a very wide range of items), would be experienced more like cash than a closed-loop gift card – and therefore our effect would be diminished, but not eliminated. Generic gift cards are still gift cards and likely occupy a space in between cash and closed-loop cards, and probably closer to cash. This is just the sort of further research that you mention below.

2. You recommend further research into the effect of cards based on who gifted them (grandmother vs. roommate) and for experiential purchases. Have you done this research since or do you know of anyone who has?

   Unfortunately, no, we haven't [been able to] continue…this line of investigation.

More Questions?

Please forward any additional questions you may have to the authors, Professors Helion and Gilovich.

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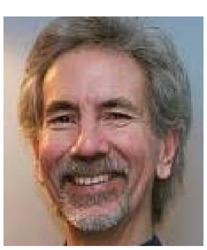

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On the Mental Accounting of Restricted-Use Funds: How Gift Cards Change What People Purchase

Citation: Nicholas Reinholtz, Daniel Bartels & Jeffrey R. Parker *Journal of Consumer Research*. Vol. 42 _ 2015
DOI: 10.1093/jcr/ucv045Vol. 82 (September 2018), 696-614

Availability: This article is available on request from Allan Schweyer at: allan.schweyer29@gmail.com

Introduction

Here, the researchers build on the study by Helion and Gilovich, in part, by distinguishing between the type of gift card in question. They conduct a series of experiments to investigate the imagined purchase behavior of individuals using branded gift cards. They find that when a person carries a retailer-specific card, they form an intent to spend it with the retailer and a mental account associated with the products the retailer is most known for. For example, McDonalds = hamburgers. Compared to people using open gift cards, those with retailer-specific (branded) cards tend to redeem their cards for product/service-types most associated with the brand.

Summary

As above, mental accounting theory argues that people spend money differently depending on how they acquire it. In this research, the authors apply mental accounting theory to branded gift cards to explore whether the possession of a retailer-specific card creates a mental account associated with that retailer's best-known goods.

The researchers hypothesize that possession of a retailer-branded card will influence people to redeem their cards for the goods that the retailer is most known for. They test their assumptions through a series of experiments in which, under various conditions, large groups of subjects are randomly placed into branded gift card groups, and others into equivalent value open-use cards (i.e., American Express). Subjects are asked to imagine a variety of shopping scenarios using imaginary cards in various amounts that they receive as rewards or gifts. Imagined retailers include Levi's, J.Crew, Fossil, Target, Whole Foods and Safeway.

Results

- Participants with branded cards are significantly more likely to 'buy' items according to their strongest associations (i.e., Levis = Jeans) than are open cardholders. The effect is more pronounced with some branded cards (i.e., Levis) than others (i.e., J. Crew). And the more a subject knows about a brand, the greater the effect.
- One of the studies asks participants to imagine earning a gift card for use in a German beer hall. In this experiment, the researchers add a third type of card: an open Amex card embossed with images of the beer hall and typical foods that go with German beer (e.g., bratwurst). Interestingly, this doesn't alter the results. Branded gift card holders remain significantly more likely to use their cards for food strongly associated with the retailer than open cardholders, whether plain Amex cards or those embossed with images.
- Based on the separate and aggregate results of their experiments, the researchers conclude that *"… gift cards change preferences: People shopping with a retailer-specific gift card express greater preferences for products they perceive to be more typical of*

the retailer than people shopping with more fungible currency." They attribute these preferences to mental accounting theory: "… once a mental account is initiated, purchases that are more congruent with the purpose of the mental account become more preferred."

Actionable Takeaways

- We know that for many employees, "hedonic" (i.e., fun, luxury) goods and experiences are more anticipated, valued and remembered, leading to a greater reciprocity effect (propensity to work harder). If branded (retailer-specific) cards influence purchase decisions, managers might use them strategically to nudge employees toward selecting the most advantageous reward-types.
- It is common for firms to reward employees for participation in health and wellness activities. In order not to be too restrictive, a firm might use a branded card from a nation-wide retailer that carries a wide range of products – Whole Foods, for example. Though Whole Foods carries a range of healthy and less healthy foods, employees are likely to use the card for health foods rather than, for example, potato chips.
- The study results reinforce the idea that a carefully selected gift delivers more emotional impact than one that conveys less thought. The researchers note that people want gift cards that are aligned to their likes and interests. Employers should reward employees with branded cards that align with their known likes and interests as this is likely to deliver greater perceived value than an equivalent open gift card or cash.

More Questions?

Please forward any questions you may have to the authors, Professors Reinholtz, Bartels, and Parker.

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Employee Incentive Programs: Recipient Behaviors in Points, Cash, and Gift Card Programs

Citation: Patricia A. Norberg, Quinnipiac U. (2017). *Performance Improvement Quarterly*. 29 (4) 375-388

Availability: This article is available for purchase at PIQ: https://doi.org/10.1002/piq.21233 or free on request to Allan Schweyer: allan.schweyer29@gmail.com

Introduction

The previous two summaries offer evidence that gift cards affect peoples' buying decisions, leading them to spend more and prefer luxury items over utilitarian ones. In this summary, employee psychology is explored further in relation to which type of reward (cash, point-based or gift cards) evoke deeper thought, greater engagement, and more discussion. These are important factors in program design. The more an employee thinks about, plans for and talks about a reward program, the more likely they will derive satisfaction and engagement from it; and, as is proposed in the article, the more likely that employee will stay with the organization.

Summary

The many reward options, including cash and almost unlimited non-cash reward types, can make choosing an optimal reward very challenging for reward program designers. After all, there is a small body of research that says cash rewards drive better returns for organizations and a larger body of research that argues in favor of non-cash rewards. In this study, the author hypothesizes that "reward currencies" (cash vs. points vs. cards) matter significantly in affecting recipients' perceptions and behaviors. Specifically, the author draws from theories in mental accounting and research in consumer loyalty programs to argue that some rewards generate more employee involvement and greater feelings of loyalty. As such, some reward types might lead to improved employee satisfaction, engagement and retention.

The author relied on survey results from 747 working people to test the following hypotheses:

1. Those who receive reward points will plan for (think about) their use significantly more than recipients of cash or gift cards.
2. Those who receive reward points will talk about the rewards significantly more than recipients of cash or gift cards.
3. Those who receive reward points will be significantly more satisfied with their rewards than recipients of cash or gift cards.
4. Those who receive reward points will be significantly more able to remember how they used their reward than recipients of cash or gift cards.

Key Findings

- Type of reward matters in the degree to which recipient employees derive satisfaction from the rewards, plan for their use and talk about them.
- A significant portion of cash reward recipients used their reward to pay bills, a utilitarian choice that may deliver satisfaction but little enjoyment.
- Points recipients appear much more likely to plan for the use of their rewards, which, in a further regression analysis performed by the researchers, was significantly related to satisfaction with the reward.
- Points and gift card recipients are much more likely to talk about their rewards with

others than are cash reward recipients. The degree of discussion about a reward also correlates with reward satisfaction, which can generate a wider interest in the reward program.

- Surprisingly, gift card recipients reported significantly lower satisfaction with their reward even than cash. Almost three-quarters said in using their card, they had to add money of their own.

Actionable Takeaways

- The reward program design is an important consideration in maximizing employee satisfaction, engagement, and retention. Think about what types of rewards you use, and which are likeliest to improve each of these measures.
- Extend measurement and evaluation of reward programs beyond increased sales, revenue, and market share to include intangibles like positive behavior change.
- Use rewards that are more likely to cause employees to plan for their use. Thinking about their rewards and saving points to acquire something meaningful likely increases engagement and motivation. If people still prefer gift cards, they can use points to acquire them, so there is little risk.
- Use rewards that generate discussion amongst recipients and potential reward earners. When a person talks about their reward, they create deeper, longer lasting associations with the organization and more feelings of satisfaction with the reward. They also generate positive buzz about the reward program and the organization.
- Consider the advantages in data collection, reporting, and analysis that points-based reward programs deliver. Again, remember that you can allow points to be converted into anything, including cash and gift cards.
- Consider offering higher-value gift cards, or those that are likely to cover the full cost of a recipient's purchase. When employees have to top-up their reward using their own cash, it may take away from their satisfaction with the reward.
- Consider using store-specific gift cards over open or other near cash-equivalent cards. Employees are less likely to use the latter on pleasure purchases, less likely to derive satisfaction from their use, and less likely to remember what they used their reward for.

Question & Answer with Patricia Norberg

1. Why do you think reward recipients are equally satisfied with cash as points-based rewards?

   My thought is that the format of the question may have biased responses by putting respondents into "rationale thinking" mode. Overall satisfaction is actually a combination of two sub-components: behavioral satisfaction and affect-based satisfaction, the latter associated with the "feeling" part of satisfaction. Though behaviorally (and cognitively), respondents may have been as equally satisfied with cash, affectively I suspect they differ. This goes along with my point in the article that one may be satisfied that they were able to pay a bill with their incentive, but that probably doesn't make them feel treated (see page 384). Paying a bill may eliminate a negative emotion associated with debt but doesn't necessarily trigger positive emotion.

2. What type of gift card do you think might overcome low satisfaction? (i.e., higher value gift cards that are restricted to hedonic purchases?)

   Higher value gift cards may elevate satisfaction, as may those restricted to more hedonic purchases. The problem with the restricted use of gift cards is that the options for use need to be relevant to the employee. If the options that one has in redeeming the gift card are not relevant, they will find the card value-less. They may sell the card on a secondary market *for cash, to recognize at least some value, or give it away. The advantages of a treat are eliminated in either case. So, in a program with restricted use cards, there needs to be a variety of choices for the consumer (e.g. a variety of store cards – pick one), and the value has to be high enough to cover a purchase from the store chosen.*

3. If more survey respondents had received open-ended gift cards, do you think you would have seen similar percentages of them using those cards to pay bills?

    I don't believe the percentage of open-ended gift card users who pay bills would increase. Rather, I believe it is likely that more people would indicate squandering open-ended gift card value away…buy coffee, buy gas, etc. In other words, they may use them overtime for non-memorable, everyday purchases. Further, when individuals know they have drawn the card value down, but are unsure of what is left, they may not utilize the remaining balance (called breakage). The literature in gift cards speaks to the breakage issue. These types of cards also lend themselves to handing over to children to cover kids' expenses over cash.

More Questions?

Please forward any additional questions you may have to the author, Professor Patricia Norberg.

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Bio & Other Research

The Perceived Value of Money Depends on Irrelevant Uses

Citation: Stephen A. Spiller and Dan Ariely (2014)

Availability: This article is available for free download at UPenn, Wharton School of business

Introduction

Classical economics and logic suggest that the value of money – no matter the currency: cash, gift cards, points, etc. – lies in getting the most for it – the greatest utility. However, the authors find that people perceive the value of a currency differently. Among other things, it is affected by the range of alternative uses available – even the collective value of the set of goods available. This research, though less direct than those above, offers important clues about effective reward program design using gift cards.

Summary

When you buy something, you give up the opportunity to use that money for something else. When people are reminded of that, they tend to curtail their spending. Even where people would do better with a small raise in a time of low inflation, they still prefer a large raise in a time of high inflation. When using a foreign currency of lesser nominal value than their own, people feel like they are spending more – even though they aren't – this also curtails spending. Likewise, people spend more of a currency with a nominal value higher than their own. At restaurants, people estimate the calories in a cheeseburger dinner as more than the calories in a cheeseburger plus broccoli dinner.

Without doubt, people succumb to innumerable influences and do not always make the right, rational choices or judgments. The same is true when it comes to rewards. People value what money can buy but they also value the nominal amounts of money (the explicit face value of cash, points, gift cards, etc.). Logically, they should only be concerned with what it can buy. The authors explore how a range of purchase options and their value can impact people's perceived value of money. They propose that if, as it seems, people (irrationally) value the size, appeal and variety of choice in purchase items and not just the quality and price of the item they ultimately buy, then this should inform the design of gift card programs.

The Experiments

Four experiments were conducted. Only the first two are addressed in this summary because all four lead the authors to the same conclusions.

Study 1: In the first study, 300 participants (all aware that Barnes & Noble sells books and eBooks primarily, as well as music and movies secondarily) are asked their preference for a $25 gift card for one of Barnes & Noble, Apple, Banana Republic, Bed Bath & Beyond, Crate & Barrel, J.Crew, Macy's, Nordstrom, Pizza Hut, Sears, or Staples. They are also asked whether they prefer $20 cash, or a $25 Barnes & Noble gift card restricted to books and eBooks alone. Finally, they are asked to imagine having a $25 Barnes & Noble gift card and whether they would spend it on books and eBooks or movies and music.

Study 2: One hundred participants (each familiar with all of the merchants in the experiment) are asked to select what they would purchase among choices between various $10 gift cards (Sears, Kmart, Gap, Old Navy, Red Lobster, Olive Garden, Marshalls, and T.J. Maxx). The cost of the cards (all worth $10) ranges between $4 and $9. Participants can also choose not to purchase a card at all. Some of the choices are made highly salient by asking some participants to think about what goods they like best from the various merchants, while others are held constant.

Results

Study 1: Whether a person ultimately chooses books and eBooks or music and movies, the value they placed on the Barnes & Noble gift card is tied to the primary goods it is known for – books and eBooks. In the authors' words: "To summarize, even for consumers who are going to use a Barnes & Noble gift card on music and movies, their valuation of the gift card appears to be driven by book value."

Study 2: Participants value gift cards more when the things they like about the merchant are made more salient. In other words, they focus on the things they like rather than all the things the merchant sells.

Actionable Take-Aways

- Across each of the studies, participants value gift cards or other forms of money more based on the breadth, depth and value of the whole set of choices rather than just the item they ultimately prefer.
- Thus, as the authors suggest, *"limiting gift card uses to a subset of products may increase their value to the consumer [employee]."*
- Though obvious perhaps, these studies offer evidence that people who love tools will value a Sears Tools gift card more than a Sears Kitchen gift card. Gift card design might enhance perceived value by imprinting images of tools on tool gift cards, for example.
- Most importantly, gift card givers should give thought to what a recipient likes and match it to what a branded gift card merchant is best known for. A music and movie lover may be able to get the same music and movies at Barnes & Noble, for example, but they probably will value an iTunes gift card more.

Questions?

Please forward any questions you may have to the authors, Professors Spiller and Ariely.

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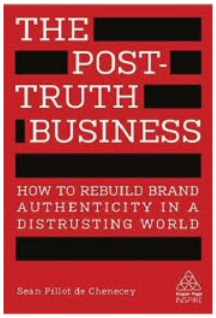
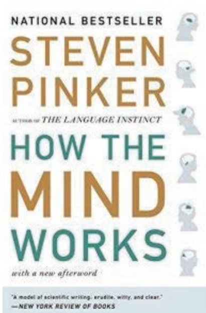
BOOKS REVIEWED & RECOMMENDED



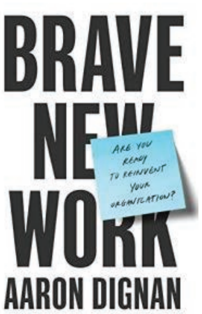
The Post-Truth Business

This broad-ranging manifesto speaks to issues of dishonest politics, data privacy, election interference, government surveillance, authenticity in corporate and national branding, and the related implications of emerging technologies. The common thread – the erosion of trust in the institutions of society and how to get it back – ties it all together. Author Sean Pillot de Chenecey appears to combine previously authored essays and articles into a single volume. Unfortunately, they read as essentially the same article presented a little differently in each chapter. For most readers, this will make an otherwise interesting read feel overly repetitive. Nevertheless, those interested in and new to issues of data privacy, fake news, demagoguery and truth in advertising will enjoy this book.



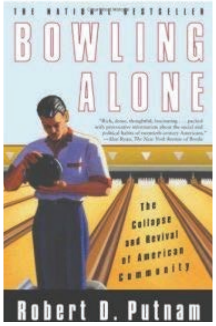
How the Mind Works

This complex, original work remains nearly as avant-garde today as when Steven Pinker wrote it more than two decades ago. Through humor and a mostly lucid writing style, Pinker explains difficult concepts and theories that careful readers will grasp. These include natural selection as it applies to the human brain, the computational theory of mind, differences between the sexes, universal human nature and free will. He even attempts an ambitious, if ultimately unsatisfying chapter on the meaning of life. Anyone interested in human behavior and evolutionary psychology will appreciate this book. For motivation and incentives professionals, it offers invaluable insight into human nature, including universal motivators.



Brave New Work

The 1999 blockbuster success of McKinsey's *The War for Talent* spawned a new genre of books imploring organizations to abandon 20th-century management practices in favor of more progressive, open and inclusive methods. Businessman and best-selling author Aaron Dignan speaks from the experience of a CEO who has seen this light. Dignan contributes fresh, engaging examples, anecdotes, analogies and facts, including the origins of bad management practices that began as clever enemy sabotage in World War II. The transformations he recommends will intrigue and inform those interested in modern workforce engagement and performance, including motivation and incentives professionals looking to match their programs to new management practices.



Bowling Alone

Published nearly two decades ago, *Bowling Alone* is one of academia's and the media's most referenced works. Legendary professor Robert Putnam dissects the profound shift away from collective and individual social participation – a shift that began in the United States in the 1970s. He explains why it happened, the consequences, and how to reverse this destructive tide. Though dated in some measure, this classic remains foundational in its analysis of how social participation affects prosperity, safety, health, and happiness. For motivation and incentives professionals, the book is especially relevant in terms of collaboration, peer recognition, and social recognition. Putnam's website provides more recent thoughts on the web's social impact.