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Incentive Research Foundation Signature Study:

Voice of the Market, Part 1: The Use of Non-Cash Rewards & Recognition

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The Use of Non-Cash Rewards & Recognition

Background

Over the past several decades, the use of non-cash rewards by U.S. companies has exploded. In the 1990's, about one-quarter of US firms were estimated to use non-cash rewards. Today's estimates place market penetration over 80%. [Source: Incentives Marketplace Estimate - 2016, Incentive Federation] This proliferation likely has many causes: increased emphasis on employee engagement, competitive job markets, the growth in intangible asset valuation, the availability of technology that allows managers to learn about and procure non-cash rewards, and the inexorable rise of gift cards.

There has been a corresponding expansion of research on the non-cash reward and recognition market. Numerous studies are published each year explicating the use and effectiveness of non-cash rewards. These studies provide critical statistics that help providers and program owners understand the marketplace. But something has been missing. There has been no means for end-users or program owners to share their experiences and perspectives – in their own voice. To address this gap, the Incentive Research Foundation commissioned a qualitative study of end-users, the results of which have been so compelling that the research has been designated as a 'Signature Study' to be published by the IRF annually.

The objective of this study was simple – listen to end-users. From May 2017 to February 2018, the research team interviewed fifty end-users representing a wide range of non-cash rewards programs. These end-users spent anywhere from $25,000 to millions of dollars annually on programs that included one or more of the following types of rewards: travel, award points, merchandise, gift cards, and branded items. There was a broad range of program complexity, industry awareness, vendor reliance, and experience managing incentives. During each hour-long interview, researchers invited end-users to discuss various topics of interest – what they're doing, why, how they're measuring the results, use of vendors, and resources for expertise. Simultaneously, researchers evaluated the natural language, emphasis, emotion, interest level, and topical sophistication of the end-user. The goal was to understand the program manager's perspective: what buyers consider to be relevant and compelling to the topic.

General Sentiment Regarding Non-Cash Rewards:
Complementary vs. Competitive

The incentives industry invests considerable time and energy presenting the advantages of using non-cash incentives. Much of this effort is based on an industry-wide assumption that cash is widely preferred over non-cash and program owners are pressed to protect and defend their programs. However, the end-users interviewed for this research are strong believers in the merits of non-cash rewards and report that sentiment is broadly shared among their executive teams. Program owners are not feeling pressure to shift spend to cash or reduce spend overall (rare exceptions involve company-wide cost-savings initiatives and are not directed specifically at the rewards and recognition programs).

From the smallest, newest programs to multi-million-dollar programs that have run for years, investments in non-cash rewards are seen as *complementary to any cash-based rewards*, and often serve a completely different purpose for the organization. Cash is very firmly viewed as compensation, the baseline component of an ongoing business arrangement between the firm and the employee. As the foundation of the employment agreement, cash is a tablestake and is the epitome of a business transaction. Conversely, non-cash rewards are viewed as *vehicles of celebration* – these rewards are fun, memorable, and more easily discussed socially than cash. They generate an enthusiasm cash can't deliver – among employees, executives, and depending on the reward, the employees' families. This social aspect has a direct impact on culture – visible celebration

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and rewards impact the sense of friendly competition, team pride, and community within a firm. In the eyes of program owners, celebrating your teammate earning a weekend getaway is a vastly different experience than a teammate earning a $500 cash bonus. This is broadly understood by reward and recognition program managers – even those with limited experience designing programs and no exposure to the broader incentives marketplace.

Program and Budget Oversight: Decentralized and Distributed

One surprising discovery from this research is the degree to which spend is distributed and decentralized, in companies of all sizes. It seems the rule rather than the exception that companies have distinct 'pockets' of spend at a local, business unit, or location level. Some examples include:

- At a production/manufacturing firm with ten facilities across the U.S., HR executives within each facility manage all reward and recognition for their plant. Budgets at a facility level may be $100,000 or more. There is no cross-facility coordination, sharing of best practices, or corporate guidelines to maximize the effectiveness of what may be upwards of a million-dollar annual investment.
- Multiple national retailers were found to have brand-level reward and recognition programs, complete with technology and rewards platforms. Depending on store-level goals and performance, store managers and local HR teams have considerable discretionary budget available to them on a monthly basis. These local budgets are often completely independent of the corporate platform, and store managers or their assistants visit other local retailers to purchase gift cards or merchandise rewards for their teams. Budgets range from $1000 per month to over $10,000 – multiplied across a vast U.S. store footprint this spend becomes considerable. There is no coordination, sharing of best practices, and only limited corporate guidelines to inform this activity.
- Multiple large white-collar firms with national presence were found to have corporate 'umbrella' programs for reward and recognition, with additional (and considerable) activity and spend at the business-unit level.

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Recognition Is Fundamental

When describing their non-cash rewards and recognition programs, program managers often begin by discussing recognition activities. Discussion of spend includes a detailed listing of team-building picnics, pizza or ice cream days, and free lunch vouchers, as well as recognition banquets and events. These activities are very important to the program manager and their executive teams, and they are seen as absolutely critical to a cohesive, high-performing organizational culture. As such, fully 50% of the overall spend may be directed to these activities, and an even higher proportion of administrative support labor. This type of activity is seen as a primary driver of overall people and team goals.

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Among employee recognition program owners, non-cash rewards are viewed as an important tool, but very much a supporting mechanism. Executives responsible for performance-related programs, such as sales incentives or employee productivity do place a stronger emphasis on the rewards aspect of their programs than their recognition-focused counterparts, but still view recognition activities as key to building high-performing teams.

Rewards: Social, Flexible, Emotional, and Interchangeable

Gift Cards: The prevalence and accessibility of gift cards has created an easy point of entry for program managers seeking to add non-cash rewards to their recognition programs. Program managers appreciate gift cards as easy to source and administer while offering the participant some semblance of choice (without the complete liquidity of cash). While some program managers do include open gift cards in their rewards mix, they note that these cards offer maximum choice but may not deliver a comparable level of excitement and enthusiasm compared to a branded gift card of similar value. Restaurant cards are popular for employees with families, and offer the social aspect in the reward experience that is so important to program owners. Grocery and gas cards were mentioned by program managers who are responsible for minimum wage workforce, such as retail and call center employees. There is a significant emphasis placed on offering gift cards that are meaningful and relevant to their employee audience; if a $25 gas card is something that makes a real difference to employees, program owners won't hesitate to include those in the selection.

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Award Points: Programs that offer the opportunity to earn and redeem award points introduce more administrative complexity but offer more design flexibility. Use of award points is not limited to the largest programs – step-up rewards are used for even moderately-sized programs. These smaller programs are often manually operated, with a rewards 'closet' managed under lock and key by a program administrator. Larger programs are most often administered via a technology platform designed for that purpose. This platform may be an application developed in-house by 'free' resources or technology licensed from a vendor in the non-cash incentives marketplace.

Incentive Travel: Incentive travel is a popular option across the spectrum of organizations and programs. Travel is often used as a top performer reward, and program managers have deep

appreciation for the enthusiasm generated by these trips. Individual travel may be organized as a voucher with a travel agent or a pre-packaged trip. Program owners enjoy planning these rewards, and may choose to do all of the work organizing a pre-packaged trip (with flexible dates). These are often arranged to accommodate families, especially in cases where the participant base travels frequently for work. Individual travel is highly appreciated by the family, employees, and executives for the attention and energy generated from offering the reward.

Group incentive travel has a higher threshold for entry than many of the other rewards available to program owners, but has an extremely high payout in terms of memorability and enthusiasm. By design, these rewards are social and celebratory, satisfying the cultural recognition demands as well as the benefits

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of a tangible reward. For larger firms, group incentive travel may be the initial foray into non-cash sales incentives. For these firms, other non-cash vehicles such as merchandise and gift cards are added later to address the motivation gap of a pure top-performer program.

Program Administration: Variable and Specialized

Another surprising finding is the degree to which program owners report they enjoy fulfilling the rewards for their programs. While incentives industry providers offer to relieve program owners of the administrative burden of managing rewards issuance, administering the rewards is very often the highlight of the program manager's job. Considering what rewards will be exciting and fun for participants is a break from the day-to-day grind – for many, this is the most fun they have at the office. One executive described the sourcing of merchandise rewards for their division as a group event – a team of managers would make a day of driving around town, purchasing suites of

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appliances, flat screen TVs, and other "exciting" merchandise. The executive team looks forward to the day and views it as one of the best aspects of their job. Among program owners who are completely self-administering their programs, only those buying gift cards in bulk viewed it as a laborious task they would value help with. Even laborious tasks, such as arranging an incentive travel package is viewed as an enjoyable experience.

Gift Cards: Sourcing strategies for gift cards span the full range of approaches. Several program managers send a staffer to Walgreens or some comparable retailer to purchase an assortment of gift cards as needed. None of the executives using this approach were aware that specific purchase avenues for corporate buyers are available – either directly from brands or from gift card resellers. This revelation was met with excitement that there was a 'better way' to deal with this activity – some even began searching online during the interview. Other program owners had independently learned that purchasing in bulk directly from brands nets a discount for corporate buyers; these executives are satisfied with their current approach. A few of the program owners for larger programs were able to leverage corporate-level purchase agreements with incentives industry providers. This was either a benefit (due to ease) or a constraint (corporate approvals and

loss of control over speed of service, etc.) to the program owner.

Award Points: Many larger firms facilitate tracking and redemption of awards points via an online rewards platform. Despite the plethora of rewards platforms available in the market, several executives indicated their own systems had been built in-house. Internal technology resources work with communications teams, HR, and program owners to create fully customized applications designed to specifically address the needs, priorities, and particularities of the firm. Procurement or purchasing teams arrange for rewards sourcing, and the systems are generally regarded very favorably by program owners. Additionally, these platforms are perceived to have zero cost compared to contracting an outside firm – using teams already in place is not regarded equivalently to writing a check to an external partner.

Specific purchase avenues for corporate buyers are available – either directly from brands or from gift card resellers.

Obviously, many large firms do contract externally for "platforms" that facilitate the technological and fulfillment aspects of their programs. Even within these firms, however, there are many different operational models. Some use the platform only for the fulfillment of rewards – participants can access the website, enter their information, and select from the available reward options. Other firms look to their platform for additional components, which might include recognition (e-cards), point tracking, leaderboards, claims verification (for sales environments), and reporting dashboards.

One interesting finding is the difficulty of implementing a universally-utilized rewards platform throughout a corporation. Even in firms with a corporate-wide reward and recognition platform, there is often considerable activity and spend managed outside of these applications. Exceptions occur for a host of reasons:

- The platform is only designed or contracted for core recognition programs and cannot support the dozens of targeted rewards programs that are operating across the firm.
- The corporate platform is available/recommended to division or regional program owners, but the implementation time, responsiveness, flexibility, and charge-back cost to the local program owner are prohibitive to the ability to efficiently operate a successful program.
- There is a perceived separation between 'corporate' and the business unit, with clear demarcation between the brand-level activity and what happens in the business unit to drive local-level culture and performance.
- There is lack of awareness at the business unit level of the benefits of using the corporate platform – for example, the ability to configure and operate a one-off program, or the ability to bulk purchase rewards at a negotiated rate.
- The inability of the platform to fulfill on specific rewards used by the business unit (e.g. gift cards from the local grocer, holiday meal delivery, or a gift card to a favorite local restaurant).

To the extent that business unit executives can use a flexible centralized resource to achieve their reward and recognition goals effectively and efficiently, they are open to the opportunity to take advantage of corporate assets.

Incentive Travel: Rewards administration for incentive travel also takes many different forms throughout the market. For smaller firms or those new to using incentive travel, there is usually almost no awareness of suppliers and providers that provide these services. For smaller trips, the person responsible for designing and organizing the travel may work with a local travel agent or even directly with the hotel and airlines. Hoteliers can be excellent resources for these buyers – more experienced program managers frequently point to early hotel relationships that served as the introduction point to the incentive travel industry. A great hotel sales director will introduce clients to DMCs and other service providers – opening up a whole new world to an audience eager to learn.

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For firms operating larger group incentive travel events, partnerships run broader and deeper. The responsible party on the client side is often in a meeting planner role, working as an internal partner to the program owner. They are more specialized and have extensive knowledge, experience, and relationships in the incentive travel space. At this level, many program owners work with full-service incentive travel providers to design and operate their programs, allowing the buyer to engage at a higher level while ensuring their high-profile events are executed to exceed expectations. Others, however, choose to retain the central planning and execution role, partnering directly with industry suppliers – hotels, DMCs, travel directors, etc. The partnership model used by planners at this level is largely driven by preference – how they prefer to work and the extent of personal control they choose to retain over the day-to-day activities.

Program Design: Audience Knowledge and Benchmarking Key

Regardless of the program type or size, the central objective of non-cash reward and recognition programs is to fully engage the audience, inspiring a higher level of performance. It is the stake in the ground buyers and program owners return to when faced with design or execution decisions. It is also the core nature of the biggest challenge they face – how do they keep programs fresh and energized year over year over year? Happily, they are passionate and feel up to the challenge. They have an excellent understanding of their audiences and direct their own energy and enthusiasm toward designing the best programs they can. Whether their programs are intended to build a stronger sense of team and culture or deliver measurable performance against specific metrics, their designs begin and end with a focus on the people they're working to engage. Participant feedback and perceptions are a key consideration in program design and execution.

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Industry providers can be helpful to program owners in benchmarking against other programs and in offering ideas to keep programs fresh. Program owners, while confident in their own ability to design effective programs, are intensely curious about best practices and what can be learned from other firms. Even program owners who are skeptical about the ability of an external party to advise on engaging the audience program owner knows very well will pause and consider the input of someone with data and market-level insights to offer.

Paradoxically, the very specialization that makes seasoned group incentive travel planners so effective at their jobs contributes to their greatest frustrations. Particularly in large firms, these event planning experts with deep ties to the incentives industry struggle to build true partnerships with the owner of the incentive program. These buyers frequently discuss their efforts to engage earlier in the program design process to influence the rule structures and offer thoughts on how to make the program even more engaging. A common

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strategy is for the planner to collect benchmarking or best practice data from partners and other industry resources and use those insights to earn a 'seat at the table.'

Program Success: Definable and Defendable

With so much design emphasis placed on participant engagement, it is not surprising that participant feedback is a primary success metric for many program managers. Most utilize some type of survey, either leveraging broader employee engagement survey results or distributing a program-specific questionnaire. Some use focus groups or more informal mechanisms for listening to the 'voice of the participant.' For employee recognition in particular, these findings are usually sufficient evidence of program success and will be used to inform design edits for the next iteration of the program.

For goal-based programs such as sales incentives and productivity, safety, or quality programs, payouts are designed to correspond to performance achievements, meaning the program investments are expected to be recovered through increases in performance. Straightforward reporting of performance goals, achievements, and payouts are used to demonstrate success and determine funding and design parameters for the next wave of the program.

Dashboards showing participation as well as recognition and rewards activity are typically provided through the program platform or created by the program owner in Excel. If needed, additional analysis is done manually by the program owner or an analyst assigned

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to the team. Employee survey results are typically provided by a different department but used by the program team to posit contributions to high-level engagement.

Overall, program owners and their executive sponsors are highly satisfied with their programs. They feel decidedly equipped to tell a compelling story regarding the objectives and results their programs deliver. Many program owners are very satisfied with the analytical status quo and are not seeking external resources to augment their program measurement. Those who do perceive there to be gaps in the analysis see the limitations as related to data availability or line-of-sight measurement challenges, not a lack of internal competency or resources.

Coming Next Month:
Part 2: Engaging Program Owners in the Incentives Marketplace

Part 1 of our 'Voice of the Market' analysis shows owners and managers of non-cash reward and recognition programs are strong advocates for the work they do. They speak confidently and absolutely about what their organization needs, what's meaningful to their participants, and the overall impact of their programs. Their firms are committed to their investments in non-cash and understand the distinct impacts and applications of cash incentives vs. recognition and non-cash incentives. Next month, the Incentive Research Foundation will release Part 2 of this study, examining how new buyers learn about and engage with the incentives marketplace, and how the industry can more effectively engage and partner with program owners.