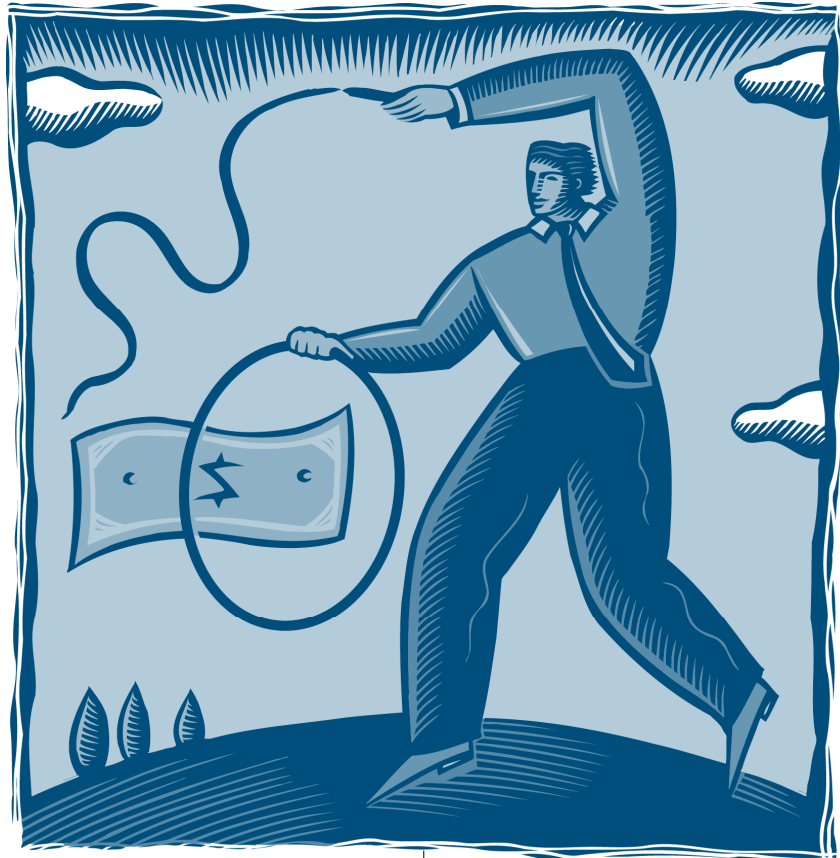


The Role of Gift Certificates and Gift Cards In Corporate Recognition and

INCENTIVE PROGRAMS



Executive Summary

Gift certificates are familiar to most American consumers as an easy, convenient way to give the gift of choice. But their usage reaches far beyond department store checks at holiday time. Businesses use gift certificates and cards to recruit, recognize, and motivate employees; reward workplace safety;

forge relationships with dealers and distributors; build trade show traffic; and spur consumers to buy their products.

Numerous studies point to the efficacy of gift certificates and cards in achieving business results. Gift certificates and cards have been shown to increase sales, improve employee performance and build loyalty, foster teamwork, and create new markets, among others.

Gift certificates and cards offer several advantages over monetary incentives:

They can be branded, personalized, and customized. And they offer administrative benefits such as usage tracking and a variety of redemption options.

The gift certificate and card industry continues to grow, both in consumer and business-to-business markets. Between \$42 billion and \$45 billion in gift certificates and cards will be issued in 2003, according to the Boston consulting firm Bain & Co. Use of cards and certificates to help build incremental sales in particular is expected to expand. According to the 2003 Incentive Federation Study of Merchandise and Travel Incentive Users, buyers of incentives say gift certificates and cards will be their number one choice for sales incentives in the future.

DEFINITIONS

Despite the simplicity of gift certificates and gift cards, the variety of options requires an understanding of a few basic terms.

- **Gift certificates:** These are vouchers with dollar or point values embossed on them. They can be personalized with the recipient's name and giver's logo and, depending on the vendor, can be replaced in case of loss or theft.

- **Gift checks:** Sometimes synonymous with gift certificates, gift checks usually refer to money orders issued by banks or credit card firms.

- **Gift cards:** These plastic cards come with a magnetic strip and/or bar code preloaded with a dollar or point amount. Some are reloadable (in which case they are sometimes called debit cards); others are not. They are generally available in two types: 1) those that carry a major credit card brand and are redeemable at any merchant accepting the brand; and 2) merchant-specific cards, such as those issued by well-known retailers. These are redeemable only at the issuing merchant.

- **Debit cards:** These are redeemable only at participating merchant outlets.

- **Virtual certificates:** Many gift certificates can be delivered via e-mail directly to the recipient's mailbox, saving time and the expenses of printing and delivery. The "virtual certificate" can contain a link to a Web site where recipients can select and claim their rewards.

APPLICATIONS

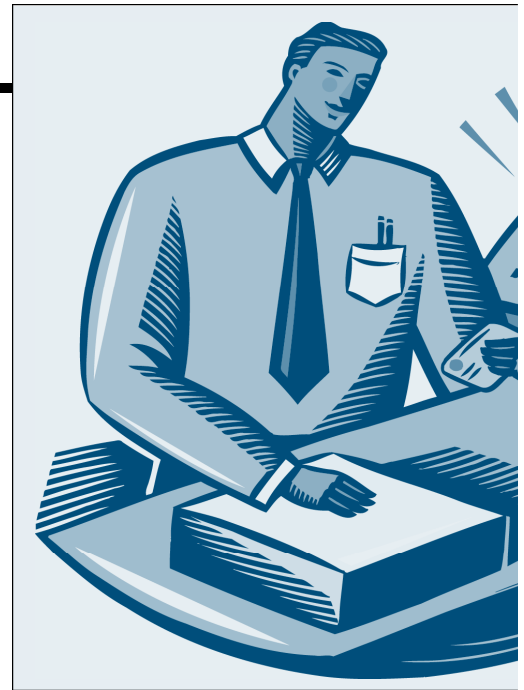
Gift certificates and cards play a wide variety of roles in many types of incentive programs:

■ **Recognition:** Gift certificates and cards have both “trophy” and “halo” value. They’re marks of accomplishment that can be given at an awards ceremony or included in a congratulatory note or e-mail. And they produce a halo effect: Employees are reminded of their accomplishments as they plan how to redeem the card or certificates, or when they receive and use the merchandise or travel. There is also opportunity to share the experience with family by having them partake in rewards such as restaurants and travel. Unlike cash, employees are unlikely to consider gift cer-

points or dollar value once they visit the sponsor’s booth.

■ **Consumer promotions:** Because consumer populations are so diverse, makers of goods from cereal to long-distance phone service have tapped the versatility of gift certificates and cards. They’re used to entice a consumer to try a product, switch from a competitor’s product, buy large quantities of a single product, or try related products sold by the same company or retailer. Certificates and cards are also popular in cross-promotions: A brokerage house can offer certificates or cards for a software store, or a popcorn manufacturer can tie in with a movie theater chain.

■ **Loyalty programs:** Gift certificates and cards are popular rewards for repeat



Certificates and cards are seen as a one-time reward for a job well done.

tificates and cards as compensation and thus do not begin to expect them.

■ **Safety:** Gift certificates and cards are used to recognize individual or team milestones: months without injury or accident, reduced days off for illness or injury, following and documenting safety procedures, or demonstrating knowledge of preventative practices and emergency preparedness.

■ **Sales:** Gift certificates and cards work especially well for sales incentives. They’re scalable—that is, available in many denominations—and thus flexible enough to reward for any volume of incremental sales. And unlike cash, which is a common and expected form of variable compensation in this field, certificates and cards are seen as a one-time reward for a job well done.

■ **Dealer incentives:** Monetary incentives such as discounts and rebates are common and expected in most distribution channels, but gift certificates and cards can make a motivation program more targeted and memorable without raising sensitive pricing issues. They can be used to spur channel partners to participate in new product training, increase overall sales/purchase volume, or to push a particular product or line.

■ **Trade show traffic-builder:** Branded cards can be sent to trade show attendees with the promise to load in

purchases. Retailers offer gift certificates or cards to consumers who spend minimum amounts, such as a \$10 certificate for every \$100 in purchases.

RESEARCH

■ **Overall usage:** The Incentive Federation Study of Merchandise and Travel Incentive Users found that gift certificates/cards have become the number one award for sales incentives.

■ **Target audiences:** The Incentive Federation Study also found that 78% of respondents offer incentives for salespeople, 57% for resellers, 77% for consumers, and 67% for employees.

■ **Need for motivation:** A Workforce 2000 study shows that in the 21st century, as the workforce ages, organizations will need extra stimuli to encourage productivity, flexibility, and the willingness to change and learn.

Research by Bain & Co. found that major companies lose, and have to replace, half their customers in five years, half their employees in four years, and half their investors in less than one year.

An article in the Fall 2000 issue of *Marketing Management* indicated that the degree of loyalty your customers have toward you typically mirrors the level of commitment and loyalty you have devel-

oped among your employees. The same study showed an average lag of six months between customer satisfaction and future financial performance in the hotel industry.

■ **Results of motivation:** Andersen Consulting’s survey of 500 executives revealed that programs to retain and reward sales, marketing, and customer service employees can give a \$40 million lift to a \$1 billion business’ bottom line. The biggest payback—\$13 million—came from efforts to motivate and reward employees. Programs to draw and retain talent added \$10 million.

“Incentives, Motivation, and Workplace Performance,” a 2002 study of incentive programs by the International Society of Performance Improvement, found that properly structured programs aimed at individuals improved performance 25%; those aimed at teams showed 45% improvement. An overwhelming majority of workers—92%—said they achieved their goals because of incentives.

■ **How they’re used:** According to the Incentive 2002 Gift Certificates FACTS Report, incentive planners use gift cards and certificates to fulfill the following:

Increase or maintain sales	19%
Recognize performance	18%
Build employee loyalty/trust	15%
Start or maintain relationships	13%
Build customer loyalty/trust	12%
Improve customer service	9%
Foster teamwork	9%
Create new markets	6%

■ **Consumer attitudes:** A 2003 survey of 1,200 adults by ValueLink, a



Denver-based gift card provider, showed that women are slightly more likely to buy gift cards than men; however, it found that men spend more per card: \$58, versus \$45 for women. Very young adults and older adults were less informed and less likely to buy the cards than those in the 25-to-54 age group, which accounted for 70% of purchases. Internet users are much more knowledgeable about gift cards (87% were aware of them) than non-Web users (67% were aware). Awareness and use of gift cards were relatively low among Hispanic consumers. However, they are more interested in reloadable cards than non-Hispanics, according to the study.

■ **Ubiquity:** A 2002 study by Taylor Nelson Sofres Intersearch shows that 37% of U.S. consumers have purchased or received a gift card in the past 12 months. The average value of purchased cards was \$50, up from \$44 the previous year. And 12% of respondents said they had purchased electronic cards for their own use in the past year. Of those who have purchased or received prepaid cards, 61% said they usually spent more than the initial value of the card.

CASE HISTORIES

■ **Dealer incentive:** For Flexcon Industries, a Randolph, MA, manufacturer of water pressure tanks, dealer relationships are critical. The plumbers and new-home builders who constitute the company's target market rely on the recommendations of a dealer's salespeople. It's the

job of Jerry Duggan, sales and marketing manager, to make sure Flexcon holds its own against competitive products.

Typically, Flexcon mounts two big incentive pushes: one early in the year, to encourage dealers to stock up for the coming spring rush; and the other in June or July to get them to replenish their shelves. In the past, Duggan offered branded apparel as incentives. But all those embroidered caps and jackets required a sizable outlay of upfront cash, and Duggan could only guess at the assortment of sizes to order.

In 2002, the company rolled out a reward program for Minnesota and Wisconsin dealers that featured gift certificates called "Lobster Grams." Offered by a Boston company of the same name, Lobster Grams come in various denominations and are redeemable for live lobsters (shipped overnight with frozen gel packs) or fresh steaks. Dealers accrued points based on the number and size of the tanks they purchased; points were redeemable for any of three steak and/or lobster packages.

Dealers latched on to the program because it offered an unusual item they weren't likely to buy themselves, says Duggan. Flexcon also offered certificates to new dealers in lieu of a discount. "A

discount might become expected every time a dealer ordered, but the gift certificates were viewed as a one-time special thank you," says Duggan.

In the two states in which the program ran, sales increased by 23% over the previous year. Duggan attributes most of the increase to new accounts, since the overall market is flat.

■ **Employee motivation:** Merging two companies, no matter how compatible, is never easy. Each organization has its own personnel and distinctive approach to everything from marketing to accounting to data processing to customer service. During the recent merger of pharmaceutical giants Pfizer and Pharmacia, a task force of a dozen people across different departments at Pfizer was charged with making the transition a smooth one. Members met virtually non-stop over six months, including nights and weekends, to plan how to blend the operations of the two companies.

Liz Shropshall, director of global compensation for Pfizer, wanted to reward the team for its sacrifices. She chose a fitting thank you: gift certificates that were, literally, the gift of time. Each member received a gift certificate from Service Master of Downers Grove, IL, good for any of a

ATTRIBUTES

The following chart helps put gift certificates and gift cards in the context of other award options.

Perceived value	Merchandise and/or travel	Gift certificates and cards	Cash
	Variable. Can be higher or lower than actual cost. If item is available at retail, the recipient can determine approximate cost.	Not variable if denomination is in dollars. Slightly variable if points-based, because recipients may be able to approximate the dollar equivalent.	Not variable.
Branding	Available but can be costly. Often not available on single items.	Available and relatively inexpensive.	Not available.
Time frame of recall	Long to medium. Recipients will remember accomplishment and reward each time they look at or use merchandise or recall a trip.	Long. Recipients recall accomplishment as they consider and choose reward. Once received, memory is reinforced.	Short. Once spent, recipient is unlikely to remember giver or occasion for award.
Versatility	Low. Generally cannot be converted or exchanged for other goods and services.	Medium. Can be converted to services or merchandise within issuer's selection.	High. Redeemable for any service or merchandise.

Gift cards offer the power of choice: Recipients can select the reward that's most meaningful.



dozen services including housecleaning, lawn care, carpet cleaning, and pest control. Says Shropshall: "We have other recognition programs in place within the organization, but this one seemed most appropriate. It was an opportunity to give people back the time they had dedicated to the project."

The fact that recipients could choose the type of service they wanted was a big plus, as was the trophy value of a personalized certificate. "The certificates were hand-delivered with a letter from the project leader, which meant a lot to them," says Shropshall. The merger was successfully completed in April 2003.

■ **Employee recruitment:** To combat a severe shortage of nurses, the University of Maryland Medical Systems (UMMS) began recruiting in the Philippines and other English-speaking countries. Part of the recruitment package was a relocation allowance to cover the first month's rent and the cost of basic items needed to set up an apartment.

"We really needed these nurses, so we worked hard to make their transition to the United States easier," says Ampy Camba, finance manager for UMMS. "Finances and getting started shouldn't be a worry."

UMMS decided to provide the allowance in the form of Visa Gift cards, for several reasons: They can be used at any of the 28 million worldwide locations where Visa is accepted, can be replaced if lost or stolen, and can be used to get cash at ATMs.

The recruitment program has been successful: Fifty nurses were recruited between April and December of 2001, and nearly 100 in the first quarter of 2002 alone.

FINDING A PROVIDER

Gift certificates and cards are available through numerous channels, including directly from the special markets department of the issuer, which can also provide promotional copy and logos. Other procurement channels include incentive

companies, sales promotion and advertising agencies, and promotional products distributors.

The Incentive Gift Certificate Council is an industry group whose goal is to educate the motivation industry and end users on the benefits of gift certificates. The group's Web site, www.usecertificates.com, offers a member directory.

CHOOSING A VENDOR

Here are the questions to ask when seeking a gift certificate or card provider.

■ **Redemption options:** How can cards or certificates be redeemed: online, by phone, by mail, in person? If redeemable only at a specific merchant, how close are retail locations to where recipients live? When do the certificates or value loaded in the card expire? Is the amount that recipients don't spend refundable? Is there an administrative charge levied even if the recipient doesn't redeem the certificate or card?

■ **Branding and customization:** Does the vendor offer branding with the company name and/or logo? Can the recipient's name be imprinted?

■ **Communications:** Can the vendor provide a personalized letter on my company's stationery? Is there a Web site or catalog where recipients can view and/or buy available merchandise? Does the vendor provide reports or a Web site on which participants can see how many dollars or points they've accrued and redeemed?

■ **Reporting on redemption:** How often can the program sponsor view data on activation and redemption? How often is data updated? Remember, gift certificates and gift cards can offer the unusual ability to track how people redeemed their awards, giving useful insight into the preferences of your target audience.

■ **Discounts and fees:** Is there a discount for buying in bulk, or for limited redemption options such as Web-only? Is

there a setup fee for issuing certificates or cards and tracking redemption?

■ **Individual fulfillment vs. bulk:**

Can the certificate or card be sent to each individual recipient, or are they sent in bulk to the person placing the order so he or she can disburse them?

■ **Administration:** Are cards or certificates shipped "live," or must they be validated on receipt? If cards are lost or stolen, can they be replaced?

■ **Escheat considerations:** Certain states require gift card issuers to return unredeemed funds to the recipient or the state. Ask your gift card issuer if there is a monthly fee for card holders with unredeemed balances and what happens to balances that aren't used.

SUMMARY

Gift certificates and cards are increasingly becoming a preferred motivator in both the consumer and business-to-business arena. They build on the strengths of non-cash incentives by offering rewards that are more memorable and can be redeemed for merchandise and travel that recipients wouldn't otherwise buy for themselves. And they offer the power of choice: Recipients can select the reward that's most meaningful.

Buoyed by these strengths, the industry is expected to grow. Particular areas of development to watch for include use of gift certificates as a sales incentive for dealers and direct sales people. In addition, expect more gift certificate programs to take place online. In the Incentive Federation study, only 15% of incentive buyers said they've run programs online, but usage of e-commerce, particularly for buying incentive rewards, is higher among buyers who run eight or more incentive programs per year.

In sum, gift certificates are a versatile, proven way to spur employees, customers, resellers, and revenues. The power of choice is potent indeed.

This Executive White Paper was commissioned by the Incentive Gift Certificate Council (IGCC) of the Incentive Marketing Association. For further information, go to www.usegiftcertificates.org. For additional copies you can download a pdf of this Executive White Paper by going to the Incentive Performance Center at www.incentivecentral.org and clicking on Practice Areas. For bulk reprints, please send an e-mail to info@incentivecentral.org.