Cold, Hard Cash

Should It Be Used As An Incentive Award?

By Bruce Tepper

We all agree: Cash is easy to give. And everyone always seems to want more of it. But is it the best choice for an incentive award?

You've probably already heard the arguments in its favor: "Let's make things easy." "Our employees (or distributors, or dealers...) are always asking for discounts (bonuses, rebates, etc.)" "Our accounting people want to keep things simple." The arguments generally end with: "If we give cash as an award, we've got it made. Who doesn't want more money?"

There's no question that these statements are true. Still, cash is rarely the best choice for an incentive award. What's wrong with cash? To begin with, one of its prime advantages is also one of its greatest disadvantages: It's simple to use. In a competitive environment, that means anyone can duplicate the award quickly. Cash spiffs offered to retail salespeople, for example, can be quickly countered by the competition. That might be great for the salesperson, but it doesn't do much for the sponsors paying the bill — all they get are eroding profit margins. The playing field levels out with a new pricing structure as the competition feels the need to meet or beat the original rebate or discount offered.

Memories Count

Ask who received a cash award more than six months ago what they did with the award: Odds are they won't remember. They might not even recall the amount. If it's your money paying for the award, the remembrance factor is very important.

A cash award often ends up going toward daily expenses. Many people don't have extra cash after paying their bills, so it's easy for a winner to mix the cash award with the money from his or her paycheck and use it to pay more bills. Do you want to be remembered (or more likely forgotten) for helping to make the rent or mortgage payment?

This is compounded by the fact that it's generally considered rude in our society to talk about income with fellow workers. Most people would consider it tacky to discuss the size of a cash bonus. Not allowing the winners to talk about their awards deprives them of the chance to brag about the award and take pride in sharing what they've accomplished.

There's also the promotion factor. How do you get people excited about money? Show pictures of dollar bills? Cash is difficult to promote. The intrinsic value of money rests in what it can buy — which, naturally, will be determined by the winner. Even if you do manage to create excitement about a cash award, it's difficult to maintain that energy because cash awards, unlike non-cash incentives, are generally not set up to accumulate over a period of time.

So, what are the alternatives? Most common are merchandise and travel. Merchandise selections include individually selected items, gift certificates and prizes chosen from catalogues. Travel awards range from deluxe group trips to individual (generally for two people) programs or travel certificates. Less common: perks on the job, company stock, and local entertainment such as a night out on the town.

Unlike cash, merchandise and travel awards create goalsetting behavior. With a point system, a specific level of performance is required, and program participants work toward reaching the goal. The credits add up, providing continuing motivation.

Most importantly, according to recent research conducted by the American Productivity and Quality Center in Houston, cash awards actually cost more than merchandise or travel to achieve the same impact. The center's 1987 study, "People, Performance, and Pay," indicates it's easier to identify the additional sales that result from non-cash incentives than those from cash incentives: 35 percent of sales and marketing managers could estimate increases from cash-incentive programs, compared to 47 percent for non-cash incentives. Only 19 percent could make an estimate of the incremental sales or revenue due to their traditional salary-with-commission compensation plan.

Look to the Airlines

Still not convinced cash isn't the ultimate award? Here's a little test you can try to prove it to yourself.

Some of the most successful consumer incentive programs in recent years have been the airline mileage plans. Since American Airlines launched its AAdvantage Program in 1982, every major U.S. airline (and a number of international ones) have made this kind of program a staple in their marketing efforts.

Because airline club members receive miles based on their travel habits, participants set goals and adjust their behavior accordingly. Here's one compelling example: In 1987, Delta Airlines acquired Western Airlines. Delta was eager to boost traffic through Western's new hub in Salt Lake City, so it offered a 1,000-mile bonus to all members of the Delta Frequent Flyer program who went to, or through, Salt Lake City. The offer, which ran for nine months, allowed Delta to shift its market by moving traffic to flights that were less full, and to increase customer loyalty by adding to the mileage program.

Had Delta offered a cash discount, however, the competition could have quickly and easily done the same thing through their hub cities – resulting in a new status quo, with lower prices for the customer but no gain for any one airline.

Virtually every traveler who is a member of a frequent-flyer program has altered plans to gain extra miles: taking connecting rather than non-stop flights, leaving earlier than necessary, making an extra stop in a place like Salt Lake City. After all, isn't it worth 1,000 miles? For many, of course, the answer is yes.

Now let's turn that into a cash equivalent. In 1987, it took 50,000 miles to earn two coach-class domestic tickets (no Hawaii or Alaska) in the Delta system. Because most people redeem mileage credit for pleasure travel, the offer was comparable to buying restricted tickets (e.g. advance purchase, Saturday night stay). To be very generous in our analogy, let's assume the tickets were worth $500 each; two tickets would make the retail value of the award $1,000. If that required 50,000 miles, then 1,000 miles (1/50th of 50,000) would be worth $20 (1/50th of 1,000). An attitude change for a $20 bill.

When I tested the concept of giving $20 per 1,000 miles to go through Salt Lake City, people gave answers such as "They could lose my luggage." "We could be snowed in." and, most common of all, "My time is worth more than $20." Clearly, as a travel or merchandise award that accumulates, it's worth the effort for most travelers to go out of their way. As a $20 bill, it's not worth it. There is no accumulation and no goal-setting; the money is spent and forgotten.

When To Use Cash

Although cash is generally not the best choice for your prime award, it does have a place in certain motivation programs. It's an excellent top prize for drawings or sweepstakes, in addition to merchandise or travel. The amount, though, must be significant enough to make an impact on the winner.

Cash also can be used as a bonus award with groups or individual travel. The program can award spending money for use on a trip. For example, selling 50 computer systems wins a trip to Hawaii, each additional system sold could earn a certain amount of spending money.

Another instance when cash is appropriate: if the potential winners are low-paid employees. If employees are truly struggling to pay daily living expenses, a non-cash incentive, such as a trophy or dinner at an expensive restaurant can induce resentment at the wasted cost. Such workers would probably be more motivated by money.

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