

Proof Positive That Cash Isn't King



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Recent studies by *Goodyear* have uncovered astonishing results when comparing cash incentives to merchandise awards. They show that cash incentives are **only half** as motivating as a merchandise award. This article is reprinted from *Incentive Magazine*.

Tom Gravalos, manager of special accounts marketing for *Goodyear Tire & Rubber Co.*, was constantly butting heads with upper management whenever he presented a proposal for an incentive program budget offering travel or merchandise. The bosses wanted cash and were pretty vocal about the reasons why: Everybody has to have money. Whenever you ask people what they want they always say cash. What could be more motivating than something that everyone already wants and needs?

In response, all Gravalos could offer were the usual arguments: cash is considered income; cash has no trophy value or lasting effect, and cash has poor perceived value.

Unfortunately, he had no facts to support these statements. All

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he had was anecdotal evidence in feedback derived from his program participants and affirmation from incentive houses, industry organizations and trade magazines. "I was amazed about how little real data there was out there," says Gravalos.

In fact, most available research supported the position that cash was a better motivator. In 1993, for instance, the New York-based *Society of Incentive Travel Executives* sponsored a survey of incentive preference on 534 employees of a nationally known insurance company and cash came in number one. Managers feel the same way. When polled, many incentive decision-makers believe money is the preferred reward. In 1995, bonuses and other incentive pay rose by 33% according to a survey by *Hewitt Associates*, a New York-based compensation consultancy.

"By 1994, after years of dancing around the issue in budget meetings, I had enough. I got tired of having to defend the decision to use incentives with anecdotal evidence," states Gravalos. "We run our company based on facts. We're quality-oriented and we test and analyze our products rigorously, yet in this particular part of the business, we were relying on very

sketchy facts to support a very expensive marketing strategy."

Gravalos was certain that **non-cash rewards were more motivating than cash**, so he decided to put it to the ultimate test. Gravalos ran a sales incentive program that rewarded half the participants with cash and the other with non-cash. Guess what? **Those rewarded with non-cash produced results that were almost 50% greater than those motivated by just cash.**

Gravalos documented the results in a research paper. It's part of a growing pool of hard evidence that suggests that **non-cash rewards actually motivate employees and consumers better than cash rewards.**

Gravalos put those non-cash incentives to the test in a program to increase sales of the company's *Aquatred*[®] tires. The program was aimed at sales associates and managers at 900 company-owned stores and service centers across the country. The outlets were ranked in numerical order from best to worst in sales, and then divided into two groups. The top selling outlet was placed in group A, the number two outlet was put in group B, number three in group A, number four in group B, and so on until the entire pool was divided. This assured that the test results would be free of impinging factors such as regional and created two groups nearly identical in performance. The groups were informed equally through promotional pieces and periodic newsletters. One group received monetary rewards for every increment of 12 tires sold. The second group received an equally priced selection of merchandise and travel rewards. The latter offer, called *Awardperqs*, was structured in plateaus, which made it impossible to assign a monetary value.

A problem with the point system is that participants often assign a monetary value to the points. A participant will see a radio in the award catalog that can be redeemed for three points. They shop around, find that the retail price of the product is \$30, and conclude that the points are worth \$10. **When points are translated, it is no longer a non-cash award.**

To combat this, the entire 200-page catalog used in the Goodyear program was divided into levels. None of the awards received point values and the cost spread between items in a given level was \$25 on the retail level. If a participant went to a department store and looked up the price of an item, it could be \$40, while another item in the same level could have a retail price of \$65. If any of the participants tried to figure out the precise value of the *Awardperqs*, they would end up with inconclusive information. The objective was to focus the

attention and energy of the second group on the available merchandise and travel opportunities without regard to the monetary value.

The results achieved in the program—which was designed to operate for six months—were compared with sales in the six-month period immediately preceding the program launch. In addition, results achieved by each group were compared with those of the other group. Measurement was based on units sold and the ratio, or mix of sales, of *Aquatred*® tires versus other lines.

The results of the program were startling even to someone as predisposed to non-cash awards as Gravalos, “I fully expected the non-cash group to perform better in the program than the cash group, but I was startled by how great the margin of difference turned out to be,” he says.

While the performance of both groups improved over the program period, the group motivated by the *Awardperqs* outperformed the group motivated by cash by a margin of 46%. The *Awardperqs* group also produced a 37% greater increase in product mix sold, as compared with the previous six-month period, than did the cash group, which also experienced a modest increase in this area. Most significant, the cash group generated a negative return on investment (roi) of -20%, while the *Awardperqs* group generated a +31% roi. In other words, for every \$1.00 invested, the company got back \$0.80 from the cash group and \$1.31 from the *Awardperqs* group.

The bottom line was that the non-cash program was able to show a significant profit with a program that distributed rewards for every increment of 12 tires sold while the cash program could not. The cash program would have needed higher, tougher goals, which could have been demotivating. Add to that the fact that the cash awards—competing with the retail value of non-cash items bought at cheaper, bulk prices—created a perception of higher value among the participants receiving non-cash items; although, Gravalos is quick to point out that this is speculation and can’t be proven.

Since this test, *Goodyear* has become firmly committed to incentive programs that offer non-cash rewards. “This test has given us the hard facts to comfortably make decisions on incentive marketing strategies in the future,” says Gravalos. As a result of this experiment he feels even stronger about non-cash incentives. “I would have been prepared to accept it if cash had won out, after all, cash is easier to deliver,” he says. “Anyone considering the use of non-cash incentives has to realize there’s a greater commitment required than just delivering cash, it’s more complicated, but you get better performance. If you had

asked me three years ago what works better, cash or non-cash incentives, I would have given you my opinion, but no facts to support it. Now I’ve got some hard facts.”

Why Non-Cash Works

Incentive participants say they prefer cash, but why did chaos ensue when companies offer only cash? Why did *Goodyear* salespeople perform better when motivated by non-cash rewards? Why do cleaning establishments and food service companies increase customer loyalty with ad specialties? And why does Herbert Lucke still get choked up over a tractor he won in a *Magnavox* program over 30 years ago?

According to Alice Kendrick, associate professor of advertising at *Southern Methodist University*, there’s a perceived value of non-cash items that makes them more motivation. “I did a study in 1986 that asked focus groups to assign a cash value to a number of promotional items and most assigned a higher value to the items than they actually had,” says Kendrick.

But why do non-cash rewards motivate better than cash?

When considering the probable cause, it’s important to understand how the participants in an incentive program perceive the reward offers. About three years ago, when looking into reasons why non-cash incentives motivate better than cash incentives, researchers discovered a host of studies from academic, government and medical sources

and pieced together a model for the effective use of contingency based rewards. (*An incentive is a contingency-based reward just the same as a sales commission is.*)

The research showed that how the brain processes information is responsible for non-cash rewards having a greater impact on people than cash awards. Offers of non-cash rewards, such as those offered in the *Goodyear* program, are visualized or imaged by the right hemisphere of the brain. Such images or mental pictures trigger emotional responses, which can be quite powerful.

Conversely, offers of strictly monetary rewards are processed by the left hemisphere, which lacks the ability to create images. When a monetary offer is received, the brain’s left hemisphere assesses the information and determines whether the offer is adequate relative to the time or effort required to earn it. **The emotional response is what drives behavior, not rational thought. With cash, it’s reduced to one issue: how much.**

Of course if you offer enough money you can move the needle in most situations, but there’s rarely enough money in a client’s budget to buy performance. **That’s why you need the emotional response that only a non-cash reward can provide** ↻

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