

# WHO'S SELLING WHAT TO YOUR EMPLOYEES?

White Paper. Helen Craik, Director of HR Policy & Strategy

## Sales channel or genuine benefit: employee discounts schemes can go either way.

Paraphrasing Sir Isaac, if everything in life has an equal and opposite reaction then every discount has a cost to someone. The crucial question for employers is 'who should bear that cost?' and the surprisingly popular answer is 'us'. Why are many employers apparently so keen to pay for a service which, on the face of it, they could have for free or at a very low cost? Maybe because what you see is not always what you get.

It is clear that while some employers do not want to pay a fee to external providers of employee benefits packages, or want the fee to be less than the cost of a take-away coffee per employee per year, many are prepared to pay a bit more to be certain their scheme is independent.

Employee Benefits magazine reported that:

*"Attitudes around the cost of offering a voluntary benefits scheme have also changed. Back in 2005, 54% of respondents said it was important that the voluntary benefits they offered didn't cost them anything. This year<sup>1</sup>, the figure has dropped to 39%<sup>2</sup>."*

It is very likely that this trend has accelerated since the research was commissioned. Perhaps among those that currently pay a couple of pounds or less, there is a lack of awareness of how low the fees for a truly independent scheme can be.

Some providers of employee discounts used to offer their product for free or at very low cost, making a return by pushing their own financial products to employees - although all of the big players with

a direct link between themselves and the products on offer have withdrawn from the market in the last three or four years. This leaves two distinct business models, and employers with a clear choice.

## Some context

Asperity's own model is based on independence from retailers, with employer fees covering the full cost of the discounts service, helpdesk, communications, offers, the lot. So that's the declaration of interest out of the way.

Schemes funded in whole or in part by retailers might be a different business model, but they do have a place. The argument is not that they should be banned or that they are the source of all that is evil in benefits, just that employees are often not aware of how their discounts scheme is constructed or funded; and responsible employers have a duty to consider that aspect.

In broad terms, employee discounts schemes will offer a mix of:

- Offers that manufacturers or suppliers prepare specifically for employee groups, often called EPPs (Employee Purchase Programmes). Nearly all major discounts providers will feature these. Many of the headlines savings rates are on RRP, which means that some products can be sourced more cheaply as a general consumer. That said, there are some excellent deals to be found in EPPs. But they are not the whole story.
- Discounted retail vouchers. The sting in the tail here might be charges for despatch or packing, or a minimum order amount. Employees might find the voucher they want at a nice sounding 10% discount, only to find they have to order at least £100 and

then pay £4.75 for postage. A well managed employer-funded scheme has no minimum order amounts and sends vouchers by free, insured delivery.

- Reloadable cards. Much the same as vouchers, a reloadable card is really handy (especially for regular shopping trips, e.g. the weekly groceries), saving £260 a year on a weekly shop of £100 with no need to wait for vouchers to arrive. The sting comes if there is a charge to the employee for each load which devalues the offer and the employer brand. Sometimes, the charge is to the employer, so that is employer funding by the back door.
- Discounts on goods and services. Quite simply, the user pays less at the point of purchase. However, if the discounts scheme provider needs to retain part of the discount to fund its own costs, then there will be less of a saving passed on to the employee.
- Cashback for online purchases. Savings are accrued post-purchase on everything from Hotels.com to Three mobile. Again, if the scheme provider needs to retain some of the Cashback, then there is less for the employee.

To make a really valuable employee discounts service which is a platform for reward as a whole as well as an excellent standalone benefit, employers need all of the above (without the stings). Employees feel the benefit most when they get the biggest savings.

## Fully employer-funded schemes which are independent of retailers

The main advantage of full supplier independence, from the scheme provider's viewpoint, is the ability (this time borrowing somewhat grandiosely from the judicial oath) to operate without fear or favour, affection or ill-will. More straightforwardly, if it is a good offer, an independent scheme will feature it.

Employees are individuals and all have different preferences of where to shop, so an independent scheme has the ability to arrange a discount at competing retailers, not just one for each category. Unless the provider is employer-funded and independent of retailers, the ability to feature multiple, competing retailers is severely restrained because in supplier-funded schemes suppliers can buy category exclusivity, blocking out their competition. This reduces choice for employees, devalues the scheme and leads to lower employee engagement.

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For employers who fund their scheme, there is no danger of being seen to promote a particular product or service provider, and there is complete control over what gets listed. Furthermore, employees get maximum choice and maximum savings, leading to high use and therefore high employer value.

## Supplier-funded schemes

Suppliers, understandably enough, expect something in return for paying a benefits provider for a slot on a discounts scheme. The payment might be split between the provider and the employee, impacting the amount of saving available to the employee, or it might be a fee for priority listing or exclusivity.

Where a scheme is supplier-funded, the provider is keen to get the supplier's advertising money, so there is a temptation to list low quality offers therefore damaging the scheme's (and the employer's) reputation. Some highly popular offers on employer-funded schemes have apparently low savings rates (e.g. 2% on eBay) but that is quite distinct from a low quality offer e.g. £15 off a scuba diving course in the Maldives. People use eBay all the time and sometimes for quite large transactions. That regular 2% adds up and is simply money they would not otherwise have. Most of us rarely take scuba diving courses and a £15 saving would not tip the balance.

Supplier-funded schemes need to retain commission from the retailer, generally reducing the discount to the employee. This makes it much more difficult to provide benefits that are better than a consumer can get in the normal course of things.

The client of these schemes is the retailer and not the employee. Providers operating a retailer funded model will position this to retailers along the lines of:

- lower cost of advertising
- targeting profitable consumers
- more predictable conversion rates

This leaves the interests of the employee very much a secondary consideration, if indeed it is a consideration at all.

Alternatively or in addition, supplier-funded schemes may charge a monthly listing fee to the retailer which can be thousands of pounds. Most suppliers therefore need to generate very large sales volumes to justify this cost and if they do not, they have to withdraw. This “offer drop out” can be very disappointing for employees.

### 3 choices

A little over a quarter of employers<sup>3</sup> in the UK offer voluntary benefits including employee discounts in one form or another, although this figure hides a wide variation in content and style of scheme. The market has taken a new shape in the last two or three years, and the most fundamental question employers need to address is ‘who pays?’ The choice?

1. With supplier-funded schemes, employers can be seen to be endorsing a particular product, allowing their employees to be used as a sales channel under the guise of ‘discounts’ rather than offering a genuine benefit. Transparency could be served by a statement on the site making clear that the retailers featured may have funded the provider to some extent.
2. Run a supplier funded scheme with no disclaimer.
3. Pay a few pounds a year per employee for an independent scheme.

### The Recommendation?

With the declaration of interest above, a recommendation for an employer-funded scheme is hardly surprising. The costs are relatively very small indeed and the benefits, not just the discounts, are significant.

<sup>1</sup> 2007  
<sup>2</sup> [http://www.employeebenefits.co.uk/item/3637/pg\\_dtl\\_art\\_news/297/pg\\_ftr\\_art](http://www.employeebenefits.co.uk/item/3637/pg_dtl_art_news/297/pg_ftr_art)  
<sup>3</sup> <http://www.cipd.co.uk/subjects/pay/empbnfts/volben.htm>



About Asperity | Asperity Employee Benefits provides integrated voluntary benefits to over 300 organisations in the public, private and not-for-profit sectors. With employee discounts as the core module, Asperity also provides childcare vouchers, cycle to work, employee-paid healthcare cashplans, total reward statements and reward and recognition programmes.

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