

WHY IT'S WORTH MAKING EMPLOYEE DISCOUNTS RELEVANT AGAIN

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

Are discounts a valuable employee benefit?

Employee discounts fall broadly into two categories – those on an employer's own products and services and those third party discounts an employer offers to its employees as part of the overall benefits package. Discounts on an employer's own product, while probably less available and relatively more expensive than used to be the case, will continue to be expected, particularly in some industries, and will be highly valued. Airline staff who have access to reduced or free tickets, for example, see this as a central part of their employment proposition, even though sophisticated load control on aircraft has tightened the actual availability of seats to the point where low-cost market fares look attractive by comparison. And massive over-capacity in the car industry has taken the relative shine off employee discounts for new vehicles but even so those who work in the car industry would not expect to pay full price for their firm's vehicles. In many cases, employees see a hugely discounted rate for their own employer's products as part of the psychological contract.

So what of third party discounts for employees? Many large employers traditionally had someone in-house, with a much smaller number using an external specialist provider,¹ who negotiated a raft of deals which were then promoted to employees. The discount supplier got access to customers who were pre-inclined to use them, employees got access to reduced rates and a perception of being an important and valued customer, and for the employer, employees associated getting a discount with the workplace – a win-win-win situation.

What has happened to these third party discounts as an employee benefit? Can they also be a valuable element of the psychological contract? If anyone actually says "I can get 10% off my holiday if I book it through work" any more, the response would probably be "but www.bestpriceforeverything.co.uk has got 15% off and you can take your granny for free".

“

The case-by-case, negotiated way of sourcing an employee benefit has therefore shifted to if not 'lose-lose-lose' then a tripartite 'disinterest-disinterest-disinterest' situation.”

The case-by-case, negotiated way of sourcing an employee benefit has therefore shifted to if not 'lose-lose-lose' then a tripartite 'disinterest-disinterest-disinterest' situation. Employees are not impressed with the offer so employers don't get the feelgood factor but do get the downside of staff moaning sotto voice about 'discounts' which turn out not to be worth anything and the suppliers don't get the anticipated increase in pre-disposed potential customers. It is at this point that the benefit falls into disuse and disrepute and may even be detrimental to the employer's reputation.

Competition in retailing in recent years – online or on high street – is such that the ability of an employer, even a very large employer, to negotiate a discount on a product or service for their employees has dwindled to the point where many such offerings have become irrelevant. 'Two for one', 'get 3 months' free', '20% off' are all standard currency for the individual purchaser. Few employers have someone to spare to negotiate the deals in the first place and then regularly review and update the offers. And if anything makes a company look outdated and slightly worn round the edges, it's curling posters, or pages on the intranet with out-of-date or lukewarm discount offers. In one of the few pieces of research on the subject of employee benefits, Employee Benefits magazine found that "employers may well have begun to recognise that it is increasingly difficult to beat ever-changing deals on the high street or over the internet."²

It used to be that the insurance offering available to civil servants, for example, would beat the rate available to the rest of us, partly due to the desire of insurance companies to get nice, safe, careful civil servants as customers and partly due to the size of the potential customer base an insurance supplier could hope to access by doing a favourable deal with the employing body. Now, with the commodity nature of insurance and many other products and services, and the sophisticated marketing tools used by supplying companies, that advantage has gone.

So over the last decade or so, the relevance of third party discount offers available as part of the employment package have become increasingly marginalised and irrelevant in practice, despite, confusingly, holding a high perceived value for employees. The challenge is on for employers to find a meaningful discount scheme that does not use up valuable HR or finance time to negotiate, set-up and administer.³

It is clear that while some employers don't want to pay a fee to external providers of employee benefits packages, many are prepared to do so,⁴ and perhaps among those that say they don't currently pay there is a lack of awareness of how low the fees can be. Some specialist providers of employee discounts used to offer their product for free, making a return by pushing their own financial products to employees, but increasingly providers have either moved to charging (e.g. LloydsTSB/Bringme) or withdrawn from the market completely (HBOS/Brinc). Employers are on the cusp of recognising the added value employee discount specialists bring to the benefit party.

Why bother?

The reasons for an employer to have a decent employee discount offer are not up there with the desirability of a non-contributory pension scheme, an extra week's holiday or private medical cover but neither can any of these, the top-regarded benefits, be bought for a few pounds per employee per year.⁵ Employee discounts are always going to be 'nice to have' not crucial retention or recruitment tools. They are more to do with the employer's internal branding to and relationship with its employees than with the fight for talent, but they do have a place.

”

...a decent employee discount scheme is cheap, practically effortless and employees will like it very much ”

The 3 most compelling reasons as to 'why bother' are that a decent employee discount scheme is cheap, practically effortless and employees will like it very much. It is a cost-effective, high-profile, not-taken-for-granted addition to the compensation and benefits package. A branded scheme with the company logo, good communication and a mix of well-known names and some offers local to the employer's key sites offers an instant, non-contentious (no discussion about performance, length of service, possible discriminatory factors, employee or worker status) tangible benefit for use by an employee (or agency or contract worker). Such schemes also raise no expectation so when they do produce a tangible benefit for the employee, it is all the more appreciated for not being expected.

A voluntary employee discount scheme also offers a halfway house for employers who, usually for reasons of finance, don't offer highly desirable benefits such as gym membership, childcare vouchers, private medical, dental or personal accident insurance. Funding the benefit directly may be a financial step too far but offering a decent choice of discounted schemes with a personal cashback element to employees is definitely better than nothing. In recent times, there has been an increased "willingness to blur the distinction between compartments labelled 'work' and 'life' and to appreciate how they interact".⁶ This may explain in part why the benefits most employers would like to see in a voluntary package are childcare vouchers, personal accident and dental insurance.⁷

Sometimes, in the field of employee relations, a little goes a long way. An internal survey for the Nationwide Building Society noted, to the surprise of the survey commissioners, a very high rating for the £50 gift given to employees at Christmas".⁸ A good employee discount scheme enables an employee to amass considerably in excess of that sum through the year. It also reaches out to the employee's family, perhaps particularly relevant for home-based workers but appreciated in most cases.

In addition to the positive reasons for having a discount benefit scheme cited above, there is also the danger that absence of such a scheme is noted and missed by employees even if, when the scheme is present, it has no motivational impact – a classic example of Herzberg's 'hygiene' factors. So, for the small costs involved, a prudent employer will have a good employee discount scheme because not to have one will have an adverse, albeit low-grade, impact.

None of the above really falls into the 'must-have, strategic imperative' category. But then only 35% of employers claim to have a reward strategy at all⁹ (although another 40% plan to create one). This leaves a substantial number making reward decisions without a reward strategy which makes a credible discounts benefit a low-risk, low-cost, high-value option. Never mind 'why bother' - it is really is a case of 'why not bother'?

What should it look like?

Once the decision is taken to have an employee discount scheme, the next question is what should it look like to make it relevant and give employees a bit of a lift when they use it. For large organisations, it needs to work with the employer's internal branding and for SMEs it needs to reflect a high-quality image. To the end-user (the employee) some online schemes are like having a loyalty card which garners 'points' from all eligible shopping in one place and pays out in cash. For the employer, it places the organisation at the leading edge of fringe benefits thinking.

■ ■ The crucial factors in making an employee discount scheme attractive are choice and value ■ ■

The crucial factors in making an employee discount scheme attractive are choice and value.¹⁰ It used to be enough for an employer to do a deal annually with one company in a field, let employees know about it and forget the employee discount scheme for another year. So there would be a travel company offering 10% off, but only one and it would be 10% off its standard price. And a chain of hotels offering one night free but only one chain and the proposition – the so-called benefit – would frequently be bettered by deals generally available. So employee discount schemes on third party products and services fell into a backwater.

Over the last couple of years, there has been renewed interest from employers and employees as employee benefits products have developed to overcome lacklustre third party arrangements. As you'd expect, online rather than paper-based employee discounts portals lead the new proposition and although the best of these are currently aimed at large companies with thousands of employees, it won't be long before a 'boxed' version is available for SMEs.

The new breed of online employee discounts providers – of which there are not yet many – have recognised the drawbacks in the old-style offering and set up virtual shop to overcome these. The 'one discount provider per product' has gone – employers need to look for a scheme which offers multiple choice of retailers to their employees whether it's for insurance or furniture. And the deals on a discount scheme have to be at least as good as the deals available to the general public and then offer something more on top. Think of the plethora of offers available for credit cards or mobiles and then imagine a traditional, employer-negotiated scheme trying to make a credible discount offer to compete with what is already out there. If it can be done at all, it won't last the week never mind the financial year.

The best online schemes offer a choice from thousands of suppliers, including the sites and names employees recognise and shop with anyway for their routine online purchases – groceries, books, travel, mobiles and the rest. The employee gets a login and accesses the retailers' own websites following instructions to obtain a discount or rebate payment based on what they buy. For every purchase made, a discount is earned and saved into an account to be drawn down when the minimum is reached. With the best schemes, because the route to purchase is the retailers' own site, the employee gets to use any retailer-specific loyalty cards or vouchers they might have in addition to the employee discount. It's not an either/or, it's both.

For employers, it's also necessary to understand "what extra administration burden will be placed on the business or HR function".¹¹ If there is such a burden, find another provider. Good scheme organisers make HR's life easier not more complicated. Some points to watch out for when choosing an employee discounts provider are the breadth of choice; the quality of retailers (is there a good – i.e. hundreds – selection of high street names); the size of the discount or reward offers; the design and ease-of-use of the site; the availability of a helpdesk; the refreshment of offers; the attention given to local offers; the communication package provided and the expertise of the providing organisation – "choose a provider that will constantly update and refresh the programme with new features and benefits".¹²

Reasons against?

It's hard to think of any disadvantages to employers or employees. Employee discounts are relevant again, attractive, cheap and easy. What's not to like?

About the Author

Helen Craik is an HR professional with over 20 years of experience at some of the UK's biggest companies. With an MBA and a period at Postgraduate level in Strategic Human Resource Management, Helen has advised many companies on benefits strategies.

Helen is now Director of HR Policy & Strategy at Asperity Employee Benefits, ensuring that we lead the field in delivering strategic value to UK employers.

About Asperity

Asperity Employee Benefits provides the UK's biggest and most generous voluntary employee benefits scheme, Reward Gateway, to staff at some of the UK's leading employers including the BBC and British Airways.

Reward Gateway is designed to be branded and fully tailored to fit in with an employers existing benefits package. The scheme can incorporate any existing offers that you have and the fully branded website can even include information on your core benefits, delivering a complete online benefits portal at a low cost.



Benefits Communication : "COMMUNICATE, SCHMOONICATE – SOUNDS EASY ENOUGH BUT MANY ORGANIZATIONS FIND IT DIFFICULT TO BE REALLY EFFECTIVE"

In this white paper, Helen Craik takes an in-depth look at benefits communications and how to engage with the widest employee audience possible. With up to 80% of employers claiming their employees value their overall benefits package less than they should, employee communications is a key issue for HR managers to tackle if they are to maximise value from their benefits package.

Download your copy now from www.asperity.co.uk/whitepapers

References

1. 44% of employers only deal with providers directly; 18% use a specialist voluntary benefits company; 35% use a combination of the two. Source: Employee Benefits Magazine Survey May 2005
2. Source: Employee Benefits Magazine Survey May 2005
3. 90% of employer respondents to Employee Benefits Magazine Survey May 2005 offer some form of voluntary benefits.
4. 40% either do or would be prepared to pay a fee for their voluntary benefits package.
5. Plus one-off set-up fee; example quoted from Asperity Employee Benefits Reward Gateway Scheme
6. Employee Benefits – a Potential Source of Value to the Business: Mills, Weinstein, Favato & Bohl, Henley Centre for Value Improvement August 2006
7. Source: Employee Benefits Magazine Survey May 2005
8. Survey conducted by Maritz; August 2006
9. CIPD Annual Reward Management Survey: February 2007
10. 62% of employer respondents say it is important that products are cheaper than on the high street
11. Employee Rewards and Benefits Magazine July 2006
12. Employee Rewards and Benefits Magazine July 2006