RECOGNITION: UNDERSTANDING THE FINANCIAL MODELS

With Alex Alaminos, CEO, Madison

madison

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THOUGHT LEADERSHIP

Recognition programs have become a gateway to employee productivity, loyalty, engagement and retention. In fact, according to Deloitte, organizations with employee recognition programs have 31 percent less voluntary turnover. As HR considers a first- or second-generation rewards programs, a main consideration for executives should be the financial structure. Here Alex Alaminos, CEO of Madison, explains the key differences between billing on issuance and billing on redemption and the considerations for approach depending on organizational goals.

Q As HR leaders consider implementing a recognition program, there are two models: billing on issuance (bills client at time of service) and billing on redemption (bills client when redeemed by employee). How do these models work?

A The traditional billing on redemption models allows for billing on rewards (points, gift cards, etc…) that are redeemed and only when they are redeemed. This model is very simple. A manager issues a reward to an employee, the employee receives that reward, and only when those points associated to that reward are redeemed is the client billed for that transaction.

Billing on issuance came to this industry about 10 years ago. Clients that are billing on issuance pay in advance for their points that they are using for employee rewards. For example, when an employee receives a reward from their manager and it is worth 100 points, and those 100 points equal 100 dollars, the recipient can redeem them on day one or a year later. But the organization will be billed in the same month the reward is given. The billing is not connected to when the points are redeemed for a gift card or experience.

Q What are the advantages of each model?

A The culture of Madison is very client centric so we offer the flexibility of either model. Both billing methods yield benefits to organizations.

The billing on redemption model provides a no-risk approach. Billing on redemption ensures a client is always protected and only pays for points that are redeemed. Organizations can still tax on issuance. One con is organizations are required to use a financial group to set up accruals. So for any points that have been issued and are not redeemed, organizations are running a liability on the balance sheet for potential points that can be redeemed.

Bill on issuance requires no financial accrual and organizations can still tax on issuance or redemption. The con to this, which we always want organizations to understand, is the financial risk. Although Madison is a financially stable company—we've been around for four decades—I can tell you, within the last 10 years, a list of organizations that no longer exist today that have impacted the industry because of their insolvency.

Q Can you provide an example?

A A client with an annual spend of $5 million chooses a billing on issuance model.. In year one, $5 million are issued and billed to a client, but only 70 percent of the points are redeemed. This means 3.5 million of those points are paid out in gift cards or merchandise, and the supplier is sitting with $1.5 million. Over a three-year contract, the supplier is sitting with well over $4.5 million on their balance sheet. This is the risk.

What we recommend is if an organization's annual funding is less than $3 million, they can consider billing on issuance. But if the annual spend is greater than $3 million, we recommend billing on redemption. We always recommend that organizations conduct due diligence to ensure they are selecting the right, financially stable organization. This is key and critical. Organizations need to:

- make sure they are accountable for any excess billing sitting in any supplier;
- know what's going on with points;
- understand how many employees have access to points;
- understand what happens to those points when employees are no longer with the organization; and
- know how they are accountable for the liabilities sitting on a balance sheet.