



Retail Incentive Programmes

Corruption Prevention Department

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RETAIL INCENTIVE PROGRAMMES

Introduction Common marketing strategies include offering special discounts to VIP clients and staff during sales promotion periods, issuing gift coupons or discount vouchers and giving out promotional gifts. Opportunities for abuse exist in the administration of these privileges, such as offering unauthorized discounts, pocketing discounts, non-recording of transactions using such privileges etc. Such abuse, which often involves collusion among staff and corruption, will bring upon the company serious losses, hurting both its profits and reputation.

This Best Practice Module aims to provide a checklist of good practices in the administration of incentive programmes commonly initiated in the retail industry, including discount allowances, privilege cards, discount vouchers, gift coupons, and promotional incentives and gifts. The measures recommended below are by no means exhaustive and should be tailored to meet the specific needs of individual companies.

Policy and Procedural Guidelines

The policy for incentive programmes and the procedures for the administration of these programmes should be laid down in written guidelines. These guidelines, which are important to ensure consistency in practices and prevent the exercise of undue discretion, should include:-

- well defined pricing and discount policy, eligibility criteria, stock management and control procedures as well as cash handling procedures;
- the levels of staff for authorization of privileges (e.g. discounts, coupons, etc.) and their financial limits; and
- a Code of Conduct covering ethical rules such as declaration of conflict of interest etc. for compliance by staff.

Discount Information

Premature disclosure of information regarding discounted sales and promotion to customers may affect normal sales turnover. It therefore makes commercial sense to disclose the information on reduced pricing and the period of special discounts only at the commencement of the sales promotion period unless business strategy determines otherwise. The information should be protected before its release and released to the one who needs to know.

Conversely, information on sales promotion or discount schemes (e.g. corporate discount rates, trade-in incentives or bulk purchase discounts) may be withheld from clients by unscrupulous staff who could pocket the discounts or benefits. The company should therefore publicize such schemes as openly as possible, e.g. by posting prominent notices at the office and placing advertisements.

To avoid errors in processing transactions covered by the promotion schemes, the discount rates for sales items should be input in the retail sales computer system by an authorized staff member. The manager should check the input for accuracy on a random basis.

Stock Control Procedures

A stock-taking exercise should be carried out before commencement of a sales promotion to check the accuracy of inventory records and identify any obsolete or missing stock. To avoid the stock for sale being mixed up with those of normal price, the responsible managerial staff should inspect the outlets and spot check the marked prices.

Gift or Sales Coupons

A coupon is a promissory note issued by the company undertaking to exchange the coupon for goods up to its face value. As coupons represent a contingent liability or a future financial commitment to be met by the company, the stock should be safeguarded against any theft, loss or unauthorized duplication.

Measures to control issuing and handling of coupons include:-

- coupons of high value should be printed with security features, such as a special imprint, logo or the signature of an authorized person, as far as practicable;
- each coupon should bear a pre-printed serial number to facilitate stock control and redemption checks;
- the stock of coupons should be securely kept under the centralized control of a designated staff member of the appropriate level;
- unused or obsolete coupons should be returned to the responsible staff member;
- the handover of stock of coupons including issue and disposal should be properly recorded for audit check; and
- tallying of coupons returned with the records of issue should be made so that fraudulent coupons could be detected.

Control on Coupon Stocks

If a company has a number of outlets, each outlet should only hold a limited quantity of coupons according to the estimated sales transactions based on current business turnover. The company should draw up guidelines on the replenishment level (i.e. the stock balance at which requests for replenishment should be made) and the maximum stock balance allowed at each outlet.

Requests for replenishment of coupons should be made by way of a formal requisition approved by the store or shop manager. The requisition should state the stock balance and the required quantity of coupons (and their denominations as applicable).

The staff member responsible for keeping the stock should submit the required coupons with the requisition form to the authorized signatory if he is not the issuing authority and enter the details into the master stock records.

Details of the issued coupons (e.g. the serial number, issue date, the requesting outlet, and the authorized signatory) should be recorded on the requisition form which should be copied to the accounts department. The company should adopt effective security measures to protect the coupons against possible loss or theft during handling and delivery to the outlets.

The outlet cashier should check the coupons and acknowledge receipt on the requisition form, a copy of which should be returned to the accounts department or issuing person. Any discrepancy between the quantity issued and received must be reported to the management immediately.

Unused coupons should be kept under lock by an authorized staff member (e.g. the cashier or the shop manager). There should be regular reconciliation of the coupon stock and coupon sales records, and any discrepancy should be reported to the management. The accounts department or a representative of the management should conduct surprise checks on the coupon stock.

Any loss of coupons should be properly investigated by independent staff members appointed by the company. The accounts department should compile regular summaries of lost coupons that have been written off for the information of the outlet concerned and the management. The company should establish procedures for the handling of lost coupons reported by customers.

Redemption of Coupons

Upon presentation of a coupon, the cashier should be required to verify the details such as the value, serial number, expiry date, validation signature, special imprint and/or logo before acceptance. Valid coupons should be cancelled after redemption (e.g. stamped “cancelled”) and placed in the cashier register for return to the accounts department.

Privilege Cards and Staff Discounts

To prevent abuse of VIP and staff discount privileges, staff handling the transactions should be required to verify the identity of a client claiming eligibility for such discounts. Presenting of a VIP/staff card with a unique user number showing the client's signature (sometimes bearing his photograph) may suffice. Identification process may be further improved if the VIP/staff card is identifiable by a Personal Identification Number (PIN) or other identifying information available in the 'smart card' technology.

If verification is by way of signature, the cardholder should be required to sign the sales memo and the signature should be verified against the one on the card. If there is any doubt, the sales staff should, within the constraints of the privacy ordinance, request further information to verify the cardholder's identity, such as comparing the name on the VIP/staff card with his credit card.

The company should clearly set out the terms and conditions for the use of privileged cards (such as restrictions on transfer of cards and the maximum quantity of discounted items a card holder can purchase). There should also be established procedures for dealing with lost cards. Such policies should be made known to cardholders at the time of card issue.

Reservation of Merchandise

Compromised sales staff may favour particular clients in many ways, such as preferential allocation of goods in high demand or short supply, or reserving merchandise without collecting deposits to wait until the start of the sales period.

To prevent manipulation, the company should have a policy for reservation of merchandise (such as the need for deposits, the maximum number of items on hold and an expiry date after which the deposit will be forfeited) and make it known to all clients. The policy should give particular guidelines on the reservation of goods for clients before the commencement of the sales period (e.g. whether holding beyond the sales period is permitted at all or requires special permission from the manager).

Reserved goods should be kept separately from normal stock and a register maintained to facilitate supervisory checks, showing the description of the reserved merchandise, date of reservation, name and contact telephone number of the client.

Incentive Gift Programmes

Manufacturers and distributors may sometimes have sales incentive schemes for the retail firms, according their employees gifts or prizes for outstanding performance. Some service providers or suppliers may also offer gifts or incentive programmes directly to the employees of their corporate clients who place orders for services or goods.

Under Section 9 of the Prevention of Bribery Ordinance, a person shall be guilty of an offence if he, without the lawful authority of his employer, accepts any “advantage” in relation to the latter’s affairs or business. The offerer is also guilty under the same section. Under the Ordinance, “advantage” includes any gift, reward, commission, loan and fee, etc.

Therefore, the companies offering such schemes and gifts should, as a precautionary measure, obtain confirmation from their clients as to whether their employees are permitted to accept incentive schemes, gifts, etc.

Control Over Stock of Gifts

The company should maintain proper control over the stock of gifts to prevent manipulation or theft by unscrupulous staff. An inventory record should be kept, particular in respect of expensive items, and the issue of gifts should be authorized and documented. To avoid double issue of gifts, a report listing the corporate clients participating in the incentive scheme and the dates of issuing gifts should be produced for management review. Surprise checks on the stock by supervisory staff should also be conducted to ensure the accuracy of the inventory record.

Management Reports

Discounted sales may have an impact on the profit of a company. The management should therefore be provided with analysis reports gauging such impact and showing any irregularities. To facilitate monitoring, the report should include:-

- an analysis of sales turnover including the discount rates and profits of different merchandise;
- types and amount of discounts granted (e.g. VIP discounts, staff discounts, discounts for promotional items, etc.);
- a list of discounts granted to major VIP customer and staff;
- a list of sales transactions and discounts granted;
- an analysis of the value of staff purchase and discounts; and
- any irregularities.

Advisory Services Group

In addition to the series of Best Practice Modules, the ICAC maintains an **Advisory Services Group** to provide free and confidential corruption prevention advice to private organizations covering various aspects of their activities such as staff administration, stores management and administration of contracts. For further information, please contact the Advisory Services Group at telephone no. 2526 6363 or fax no. 2522 0505 or email address asg@cpd.icac.org.hk.



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