

HYTCH REWARDS: INCENTIVIZING SUSTAINABLE BEHAVIOR

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Mark Cleveland, Co-founder and CEO of Hytch Rewards, was facing a dilemma. His technology-based startup, Hytch Rewards, was at a critical juncture in the company launch. The company had just recorded its best quarter in company history, but the pandemic had placed the company's future in jeopardy. Mark pulled together his team of advisors and investors and asked the question, *"Should we pause, pivot, or continue to pursue the launch of the company?"*

The team came back equally divided among the three options. *"Some of our group said we should stop development work and place the company on hold until we saw how the pandemic would play out while others said the pandemic presented an opportunity to pivot and make some changes to the value proposition. Others said we had proven the concept and should push on to be prepared to scale when the pandemic ends,"* Mark commented.

There was no clear consensus for the path forward. Mark would have to decide how to proceed - the path forward was challenging and full of uncertainty.

Hytch Rewards' Origin

Hytch was originally proposed in 2014 by Mark Cleveland's entrepreneur friend and co-founder, Robert Hartline. The original Hytch startup concept was intended to create a "Tinder for carpooling." Mark described the idea this way:

"So, I am hanging out with Robert, and he has this concept of creating an innovative knockoff of the Tinder app to match people for carpooling.... Basically, it was swipe right if you want to carpool with me, or swipe left if you don't" (M. Cleveland, personal communication August 7, 2021).

Mark felt the original Hytch idea was addressing the wrong problem, so he brought in his data-centric perspective and invested a 70% stake in the startup concept. He commented:

"I felt the data did not support the Hytch value proposition. I loved the brand concept but did not agree with the business model. Robert believed people didn't carpool because they did not know anyone to ride with, but I came at the problem from a data-centric, behavioral economics perspective, and I believed that people did not carpool because they lacked any real incentive to do so" (M. Cleveland, personal communication August 7, 2021).

Mark insisted that the data backed his hypothesis, and the company soon pivoted to become Hytch Rewards, a consumer mobility app but with a new focus on rewarding the desired behavior of sharing rides.

"Every major city in the United States that has a congestion problem has fallen into the trap of thinking that people will carpool if only they had the opportunity. That hypothesis has repeatedly failed. Cities invested significant amounts of money into creating carpooling opportunities, and we still don't do it. We don't do it because it is not convenient, or because we have our identify tied up in our vehicle, or our independence, etc." Mark commented (M. Cleveland, personal communication, July 8, 2021).

He added,

"Everyone has their six or seven reasons why we don't carpool on our routine route from where we live to where we work...and then everyone complains about traffic or the environment. But it really comes down to a lack of incentive to change our behavior" (M. Cleveland, personal communication, July 8, 2021).

Existing research has found several other reasons that people were reluctant to carpooling, including safety, inflexibility, and loss of privacy (Ciasullo *et al.* 2018).

To verify his hypothesis, Mark ran an experiment in 2017 with 4,000 drivers using doing the “Tinder” model for 3 months in Middle Tennessee, spending \$35,000 of a \$100,000 grant from the Tennessee Department of Transportation (TDOT). He found that his assumptions about carpooling behavior were correct. Mark suspended the experiment after 3 months and returned to TDOT with a proposition. *“I said, ‘Let me put this project on the backburner. I want to develop another system, one that rewards the behaviors we want to see’. And they looked at me and said, ‘Nobody has ever said stop giving me the money,’ but that is exactly what we did”* (M. Cleveland, personal communication, July 8, 2021). From that point on Hytch became Hytch Rewards. (See Exhibit 1 Company Logo)

Exhibit 1. Hytch Rewards Logo

Source: www.hytch.me



The new platform focused on paying users to participate in tracking their mobility choices and rewarded them for making good choices. The Hytch Rewards app worked from two key principles: first, to manage anything you must measure performance, and second, to change behaviors you must incentivize. Mark explained the Hytch Rewards business model this way:

“Hytch Rewards is a highly customizable mobility incentive platform. We are a financial transaction processing platform that is primarily app driven.... Our model is highly validated, using time-tested commercial fleet management techniques applied to every day personal commuting and mobility. We pay people to do the right thing” (M. Cleveland, personal communication, September 30, 2021).

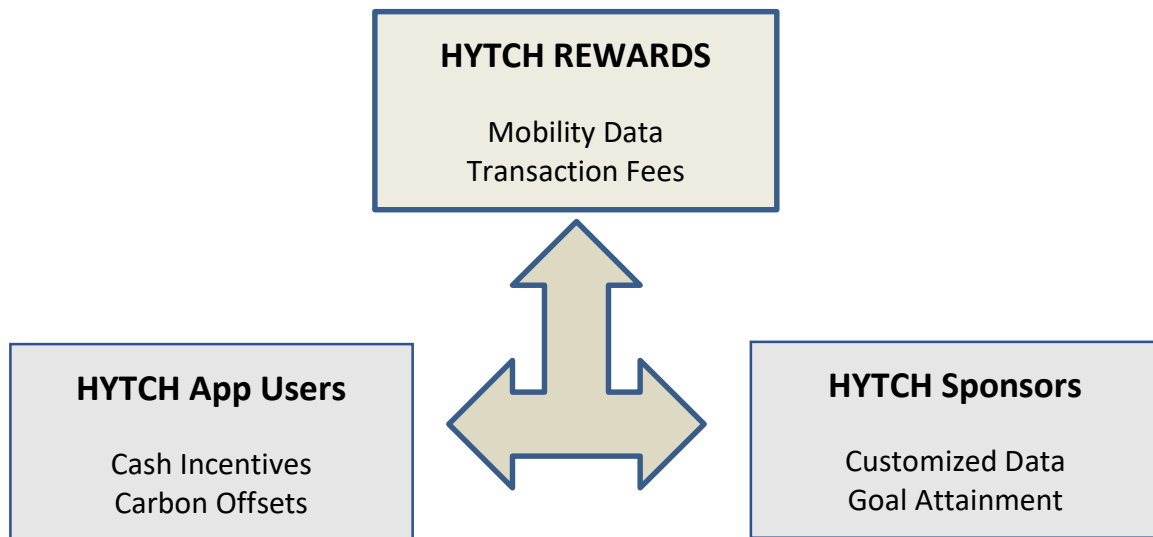
Mark added,

“I can deploy Hytch in a day with any customizable set of rules to drive behaviors across any geographic or distributed locations of any employer or government agency. We can place rewards on any behavior such as sharing a ride, walking, taking the bus, choosing a different corridor for your drive. Whatever behavior the reward provider would like to incentivize” (M. Cleveland, personal communication, September 30, 2021).

Overall, the Hytch Rewards business model was a marketplace where Hytch collected a success fee through a transactional process. Sponsors funded their ESG goals, received customized employee data, and motivated desired behavioral solutions to societal problems such as congestion and air pollution through increased education and incentives. The Hytch Rewards app allowed sponsors to communicate messages tailored to specific mobility outcomes. Hytch app users received sponsored rewards and had their carbon footprint offset by the company’s tree planting program. Exhibit 2 demonstrates the exchange of value in the Hytch Rewards business model.

Exhibit 2. Exchange of Value in the Hytch Rewards Business Model

Source: Author’s Notes



Transportation Challenges and Trends in the United States

The challenges facing the U.S. transportation system were well documented and projected to worsen in coming years. Traffic congestion in the United States costed each American approximately 100 hours per year and \$1,400 dollars in lost economic activity (Pishue 2021). Aggregate lost economic productivity was approximately \$90 billion per year while an estimated 1.9 billion gallons of gasoline were wasted due to traffic congestion; these numbers were significantly higher per capita in major U.S. cities (UDOT 2021). As current trends of urbanization were projected to continue, the problems of traffic congestion were expected to worsen over the next decade. In addition, the U.S. transportation sector accounted for 29% of all domestic greenhouse emissions, making it the largest single source of carbon pollution (EPA 2018). The average American vehicle emitted 4.6 cubic tons of carbon dioxide per year. Despite improved efficiencies in auto emissions per vehicle, the aggregate carbon output continued to grow faster than current strategies to offset carbon emissions (UDOT 2021). Both congestion and emissions presented long-term challenges for the U.S. transportation system.

Mark Cleveland's Story

Mark Cleveland had a proven track record as an entrepreneur.

"Most people in Nashville know me as the founder of Swiftwick Socks, but I actually had a 19-year career in information systems for the transportation industry before that, an experience which informs much of my thinking at Hytch," Mark commented (M. Cleveland, personal communication, July 8, 2021).

He added,

"I was president of this company that handled all the business processes for America's largest trucking fleets. We wrote digital workflow systems software that fleets used to organize and present the billing, expense reimbursements, and compliance documents.... In that environment I had all their data, and I could see everything happening in transportation. We sold the company to Xerox, and I ran it for 2 more years, but I knew I didn't want to be a Fortune 500 guy" (M. Cleveland, personal communication, July 8, 2021).

Those experiences of working daily with major data trends in transportation and learning to create and manage agile software were the key skillsets that Mark believed had made him the right person to lead Hytch.

Between his time in transportation and the creation of Hytch, Mark also became a serial entrepreneur.

“I decided to start a sock company, and I also decided to buy a consumer electronic hobby airplane company, which produced and sold radio-controlled airplanes” (M. Cleveland, personal communication, July 8, 2021).

“The transportation company had brought me to Nashville, and I didn’t want to leave, and I felt I was best suited to run my own businesses,” Mark added (M. Cleveland, personal communication, July 8, 2021).

The radio-controlled airplane business was, ironically, called Hobby Lobby International, and Mark quickly negotiated the sale of that name to the Hobby Lobby retail company while rebranding his business Hobby Express. Mark bought this business in 2009 and sold it 2018. Mark’s other venture, Swiftwick Socks, was co-founded in 2008; he retired as CEO in 2014 but has remained a major investor in the company. Swiftwick was known for producing high-quality performance athletic socks. These entrepreneurial experiences - coupled with Mark’s previous corporate managerial roles - formed a strong basis for Mark’s leadership at Hytch Rewards.

After retiring from Swiftwick and selling Hobby Express, Mark found himself with some free time on his hands, so he used the opportunity to engage in some leadership training, a discovery process that led to an understanding of the local community problems in Middle Tennessee. *“So, I was talking to different folks about what the big problems were, and I kept hearing ‘traffic’ is an unsolvable problem in our community,”* Mark said (M. Cleveland, personal communication, July 8, 2021). Mark understood the frustrations of people experiencing problems with traffic flow and lost commuting time, but it was his concern about the environment that motivated him to start Hytch.

“I was thinking about the traffic problems, and the related economic losses of what our leaders were calling an economic anchor for our region, but I was really focused on the egregious decisions we make regarding transportation and our environment, the way we just jump in our cars and go downtown with no forethought or trip planning or regard for the effect of these auto emissions on our environment,” Mark added (M. Cleveland, personal communication, July 8, 2021).

For Mark, the mission of Hytch to motivate behavioral change in transportation was both a business objective and a social objective that came from a deeply personal passion.

“I believe if we don’t do something now about our transportation choices, we are going to destroy the environment we leave for our children. Hytch is my attempt to address that problem,” Mark concluded (M. Cleveland, personal communication, September 30, 2021).

To hear Mark Cleveland discuss the Hytch Rewards business model and company vision watch the following video link: <https://youtu.be/2QeOXRfrbxg>

Launch Challenges at Hytch Rewards

When the pandemic hit, with his advisors divided on the path forward, Mark chose to continue moving forward with the Hytch Rewards launch. But launching Hytch and selling the concept had proven challenging for the startup.

“This is a new way of thinking about a complex problem. So naturally, it will take time for people to understand the marriage of technology and mobility to produce a behavioral incentive tool,” Mark commented (M. Cleveland, personal communication, September 30, 2021).

“We knew it would take time to get our message and product out into users’ daily consciousness,” he added (M. Cleveland, personal communication, September 30, 2021).

The new incentive-based version of Hytch was relaunched in a pilot test in Middle Tennessee in January 2018 and captured 13 million miles of shared ride data before the pandemic hit in March 2020. The data from the pilot test in Middle Tennessee revealed that micro incentives

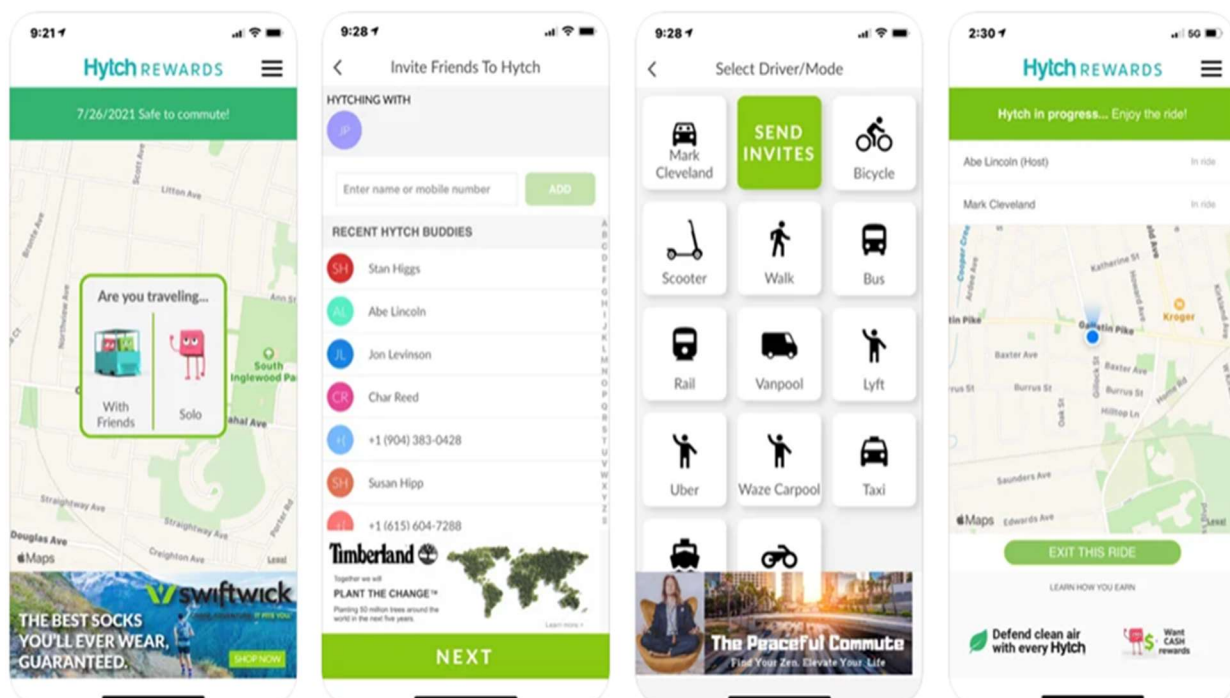
worked (U.S. Department of Transportation, 2021). To see a short promotional video explaining how Hytch worked, watch the following video link: https://youtu.be/yhqMMO_IUZo

Moving forward during the pandemic, the company was able to acquire Paycheck Protection Program (PPP) loan funds to continue the ongoing development work of the app and its features. *“We were fortunate that the PPP loans allowed us to have the resources to keep all of our people employed,”* Mark commented (M. Cleveland, personal communication, August 7, 2021). Mark and other company leaders believed the slowdown during the pandemic was used productively to refine the app and the business model. Exhibit 3 illustrates some of the appearance and functions of the latest version of the Hytch Rewards app which was available from the Apple app store or Google Play.

Exhibit 3. Screen Shot of Hytch Rewards App

Source: www.hytch.me

iPhone Screenshots



As the startup progressed, it became apparent to Mark that the business model would rely on public-private partnerships.

“This business model works best as a public-private partnership. The problem is too big for one sponsor to absorb, but working within the same framework the investments can multiply. Ideally, we need the government entities, state and local, to make the first contribution to the reward system. It is by far more cost effective than the typical wasteful government programs used to address congestion and traffic problems,” Mark commented (M. Cleveland, personal communication, September 30, 2021).

“After the government contributes, then individual employers and corporate sponsors can add their incentives, and the rewards stack on top of each other,” Mark added (M. Cleveland, personal communication, September 30, 2021).

As an example of how the business model worked, imagine a Nissan employee in Middle Tennessee receiving \$.15 per mile to carpool from the Tennessee Department of Transportation (TDOT) and another \$.25 per mile from Nissan. Then assume Bank of America or Nike, companies who had no direct relation to the employee or any specific workforce in the area, could contribute another \$.10 per mile as corporate sponsors in order to achieve their corporate social responsibility (CSR) goals related to carbon emissions. The cumulative effect of the incentives multiplied as more sponsors participated, leading to changed mobility decisions by the app user. In addition, both Hytch and contributing sponsors could use the app to communicate with, and educate app users about mobility and environmental issues.

Under the Hytch Rewards model, the aggregate number of incentives a Hytch user could receive was a function of the marketplace. All Hytch users received a carbon offset in the form of a tree planted for every 50 miles of captured mobility data regardless of the form of transportation. ForestPlanet had been the organization Hytch Rewards had used to execute the tree planting reward. All other mobility awards were in the form of cash incentives offered by sponsors including employers, corporate donors, or public funding sources. Since the inception of Hytch Rewards, Mark Cleveland has insisted that rewards be cash and not coupons or other non-cash incentives.

Although the Hytch business model was designed to work best when leveraging a private-public partnership, Mark was quick to point out that the app could be viable without public support.

“We have a sponsor in Arkansas, a poultry plant in a rural location, that has utilized our app to incentivize mobility behaviors and, in the process, have greatly reduced their absenteeism and turnover,” Mark said (M. Cleveland, personal communication, September 30, 2021).

Dozens of other corporations had used the app to reward their employees for desired mobility choices. In addition, several thousand app users with no employer sponsored affiliation used the app to have their carbon footprint offset by Hytch’s tree planting initiative.

“We plant a tree for every 50 miles of mobility tracked usage regardless of whether the user is making good mobility decisions. We still can capture their data and communicate our message to those users about our mission. So, for us it is worth the cost of planting a tree on their behalf. That is our mission to reduce carbon emissions,” Mark explained (M. Cleveland, personal communication, July 8, 2021).

To grow and scale the business, Hytch needed to reach and acquire three distinct target markets: the app user, government sponsors, and corporate sponsors. Of the three, the most challenging has been the government sector.

“Government moves differently than business and that has been the hardest part. The bureaucracy is amazingly resilient. Even when you have proven that your results exceeded the agency’s goals, there is still a slowness to act,” Mark lamented (M. Cleveland, personal communication, September 30, 2021).

The company had been involved in several bidding processes for government contracts to assist with congestion and help state and local governments address mobility solutions, and Hytch had exceeded goals in every contract received. However, Hytch failed to acquire several contracts because the company’s approach has been seen as too innovative for the government agency to accept (Hytch Rewards, 2021).

“I think government has a hard time believing that a transportation management system based on behavioral incentives can work. Even when we have shown that it works. What we do is deceptively simple and astonishingly inexpensive and that is hard for some people to believe,” Mark commented (M. Cleveland, personal communication, September 30, 2021).

While Hytch Rewards had created a unique and differentiated business model, the company had to deal with indirect competition in the mobility application space. First, both Lyft Shared Rides and Uber Pool offered opportunities for riders to carpool and split the cost of a shared ride. These features incentivized carpooling through the two popular shared ride apps. The differing factor in these applications was that they only applied to shared ride service, while Hytch applied to all forms of transportation. Hytch's biggest competitors were the loyalty programs offered by major public transportation systems. These loyalty programs often used an app-based service to reduce the cost of transportation for frequent public transit users and most also offered redeemable points for high usage. The redeemable points could typically be used to pay for purchases at local restaurants or retail shops. Hytch Rewards differed from these models in that it could be used anywhere with any form of transportation and paid only cash incentives.

During this startup stage, Mark worked diligently to attract both angel and institutional investors into the Hytch fold. James Kuffner, robotics expert and Chief Digital Officer of Toyota Motor Company was one major angel investor in Hytch. Others included Jim Phillips of XMI Capital and environmentalist David de Rothschild. Some of the institutional investors in Hytch included Launch Tennessee and Eden Crowd Capital. Investors had been carefully vetted for commitment to the mission, and their expertise and social capital as much as their financial resources.

"We needed the capital to help begin the process of scaling the business, but we really needed the networks, expertise, and influence of the investors we have activated more than their money. We plan to deliver a spectacular ROI to our investors, but we really want investors committed to our social mission" Mark clarified (M. Cleveland, personal communication, July 8, 2021).

Throughout the early stage launch process, Hytch has continued to find new value propositions for different stakeholders. One unexpected opportunity was to incentivize newer employees and long-term employees to ride to work together in order to develop higher levels of teamwork and to bolster organization culture. *"We have had several companies come to us and want to use the app to incentivize employee onboarding through shared rides,"* Mark

explained (M. Cleveland, personal communication, September 30, 2021). In addition, during the pandemic, some companies used the app to assist in COVID-19 contact tracing and managing employee health and safety (Blais 2020; Guzman 2020). Mark acknowledged that these types of secondary uses and value propositions were not something they had foreseen, but he contended that the agile and flexible nature of the Hytch system made it possible to incentivize anything quickly.

Hytch employers also had the advantage of learning more about their own employees' transportation requirements. Mark expanded on this theme:

"You have two employees, and one drives 5 miles to work while the other drives 25 miles to work. The two employees may be of equal value, but the mobility requirement of the second employee to work for your company is much higher. We believe that in the near future mobility options and incentives will become as important to the employer value proposition as health benefits" (M. Cleveland, personal communication, September 30, 2021).

All individual data collected by Hytch remained confidential as the company served as the conduit between the incentive sponsor and the app user while protecting individual privacy. To read more about Hytch's privacy policy see the following link: <https://hytch.me/privacy/>.

Conclusion

After several years of testing and undergoing iterations to refine the Hytch Rewards app and value proposition, and with the pandemic likely nearing an end, Mark realized he needed to shift his focus to growing public awareness and user acceptance in order for Hytch Rewards to scale. Despite significant success in key pilot locations, Hytch Rewards had only reached the level of twelve thousand active daily users. It was time to focus on customer acquisition.

Defining and implementing the go-to-market strategy for increased customer acquisition was critical for the next phase of Hytch Rewards. The company had proven the concept, created a strong footprint in Middle Tennessee and other locations, and identified new opportunities to

pursue public-private partnerships in other states while continuing to attract individual companies, sponsors, and users.

Yet the path forward remained uncertain. Mark had continued to stay positive and confident that the company would achieve long-term success, but even if Hytch were to fail, he believed that the social impact achieved to date was worth all the efforts exerted and resources expended. Mark concluded,

“We have delivered on our piece of this public-private partnership. We have proven the concept. We have shown incentives can change behavior and achieve sustainability goals. We have successfully taken on every challenge put before us. Now it is time to scale” (M. Cleveland, personal communication, July 8, 2021).

The question for Hytch Rewards is what is the best strategy to take the company to the next level?



Jeff Cohu is an experienced management consultant, entrepreneur, and educator. In addition to his ongoing consulting practice, he currently serves as an associate professor of management and executive director of the Center for Entrepreneurship and Innovation at Lipscomb University in Nashville, TN. He is also a part-time graduate school professor of management in the Broad College of Business at Michigan State University. Prior to entering academics, Cohu served in numerous senior corporate leadership roles in strategic, financial, and human resource management.



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