



IRF 2017 Outlook Study

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Introduction

For almost ten years, the Incentive Research Foundation has tracked the vitality and variability in the incentive, rewards, and recognition market. The annual capstone is the IRF's Outlook Study, which provides a detailed look at important industry metrics. Executed in the fall of 2016, nearly 250 industry representatives, including suppliers, corporate end users, and incentive house representatives, gave their feedback on the outlook for incentive travel and reward programs in 2017.

Launch of the Net Optimism Score

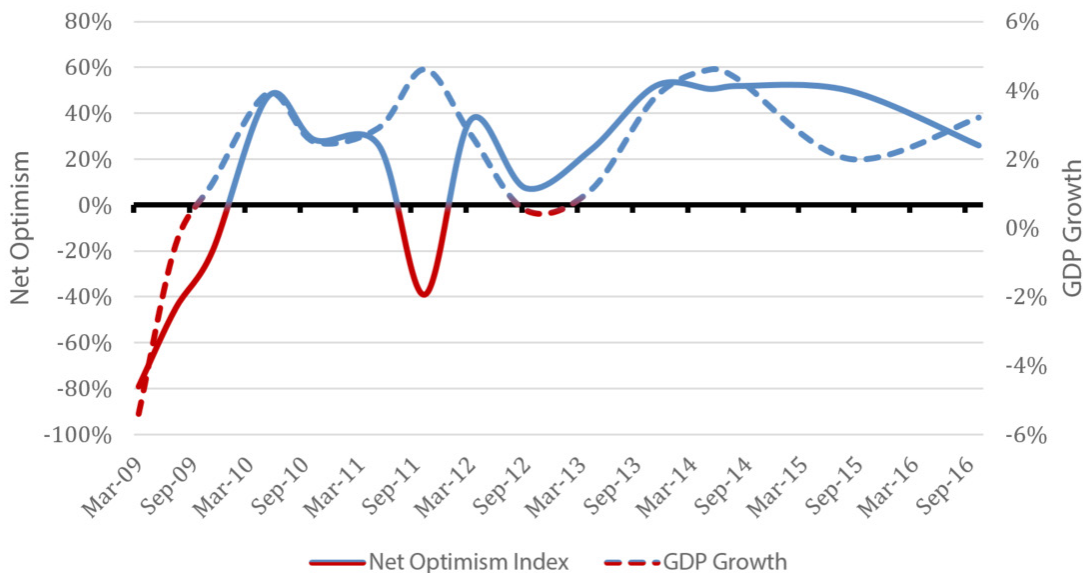
To assist with tracking the state of the industry, the IRF has created a new simplified metric to track the economic outlook for the incentives industry: the Net Optimism Score. Similar to the well-known Net Promoter Score, the Net Optimism Score is the percentage of respondents providing a positive rating to an industry question minus the percent giving a negative rating. A higher Net Optimism Score indicates greater optimism in the industry.

Overall in 2017, internal factors, such as financial forecasts and the opinion of internal stakeholders, continue to be much stronger considerations for program managers than external factors, such as public perception and competitive activity. Leading the pack by far were 87% of respondents who said their company's financial forecast influences the design of their programs. Additionally, almost 60% of industry respondents said government regulations are making it more difficult to design reporting recognition programs.

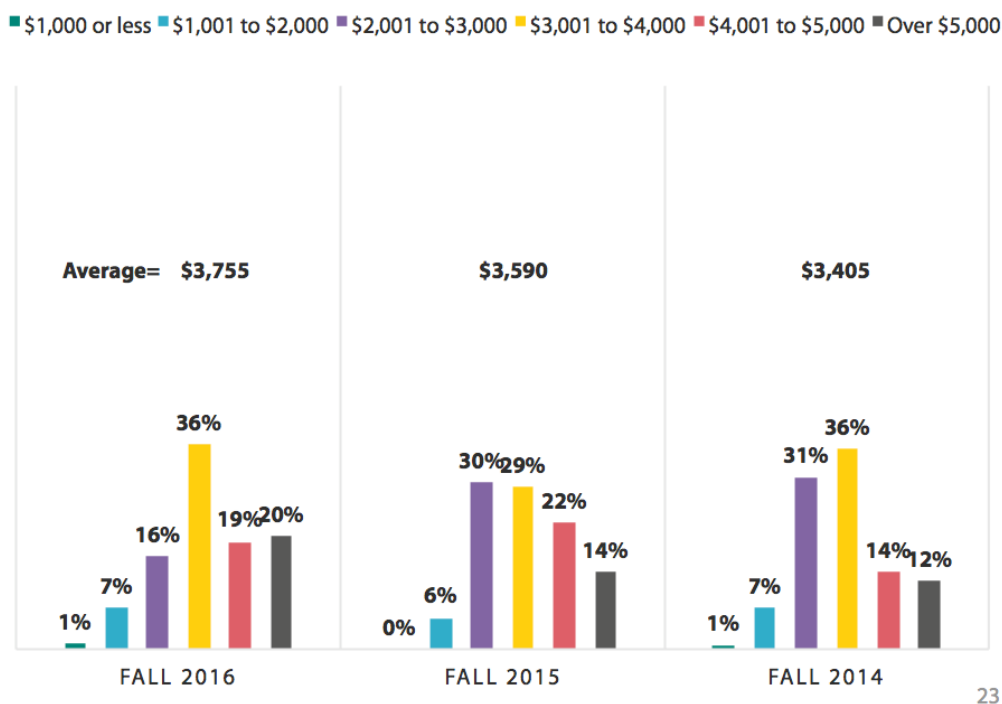
Key Findings for Incentive Travel

After seven years of positive growth, the incentive travel industry has been largely stable, except for a dip in fall 2011. Although still positive overall, the industry assessment in fall 2016 shows a bit more negativity than in the past several years. Overall, the economic Net Optimism Score for incentive travel in the fall 2016 was 26%, meaning the incentive travel industry is still moderately optimistic about the economy and its impact on the industry. This is down from a recent high trend surpassing 50%50's that began fall 2013, but still considerably higher than the extreme dips seen in 2009 and 2011. Suppliers tend to be more optimistic than incentive houses, who in turn are more optimistic than corporate end users.

Analysis shows that the economic Net Optimism Score for incentive travel tracks closely with overall U.S. economic performance, often acting as a leading indicator. For example, in late 2011, the economic incentive travel Net Optimism Score showed a dramatic dip—perhaps in anticipation of the economic decline that began shortly after. The dip in the industry's Net Optimism Score in 2016, while still remaining a positive number, would mean we anticipate growth, but at a slower rate.



There is a strong positive outlook for budget increases in incentive travel programs—overall and for F&B (food and beverage) and rooms. Although stakeholders expect an increase in the number of rooms required for trips (but not nights) and the number of participants earning a trip, 56% of respondents also agree that costs are increasing more than budgets—placing all stakeholders in a difficult position. As of fall 2016, per-person incentive travel budgets are most commonly between \$3,000 and \$4,000, although about 40% of the industry spends more than that. Average per-person spend has increased by 5% annually since fall 2014. The current average spend is \$3,755.

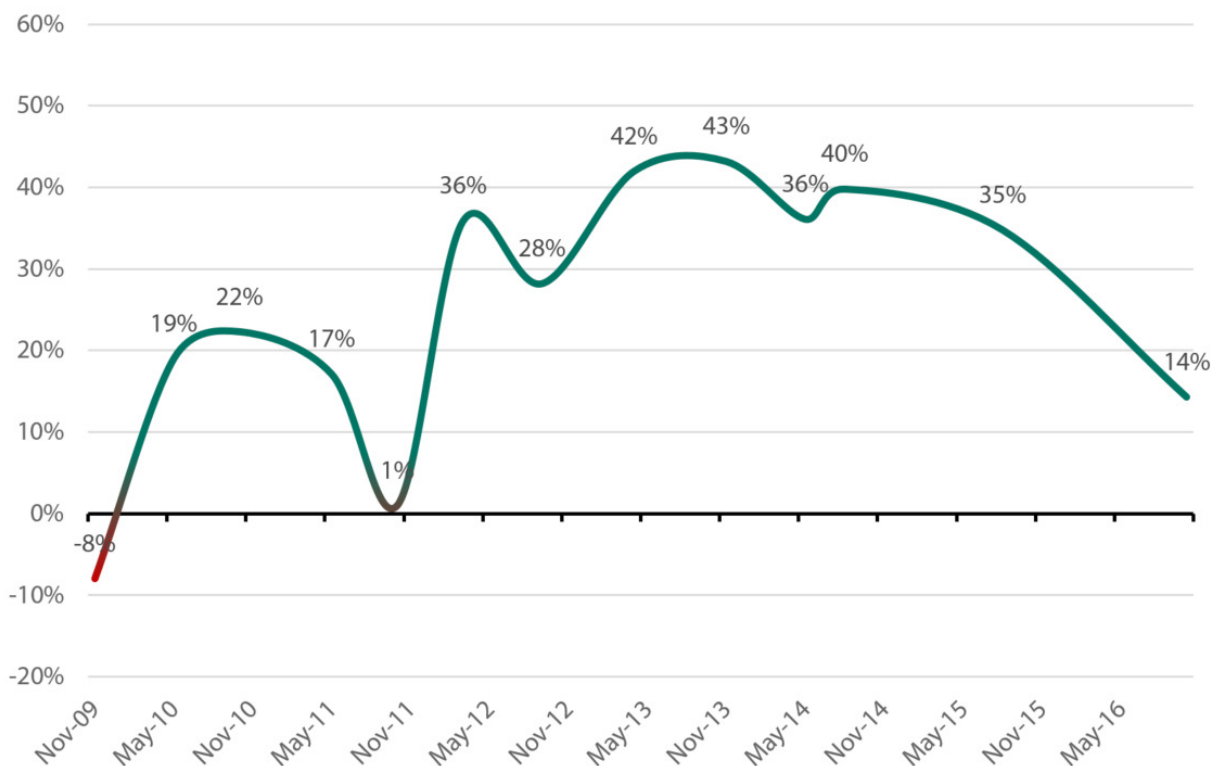


The most commonly selected destinations for incentive group travel are now the USA, Caribbean, Mexico, and Europe, showing a return to long-haul destinations. Canada is also popular, with about 50% of third-party service providers operating at least one program there.

Wellness and all-inclusive pricing are commonly used in incentive travel according to respondents, and the industry also expects much more involvement from procurement moving forward.

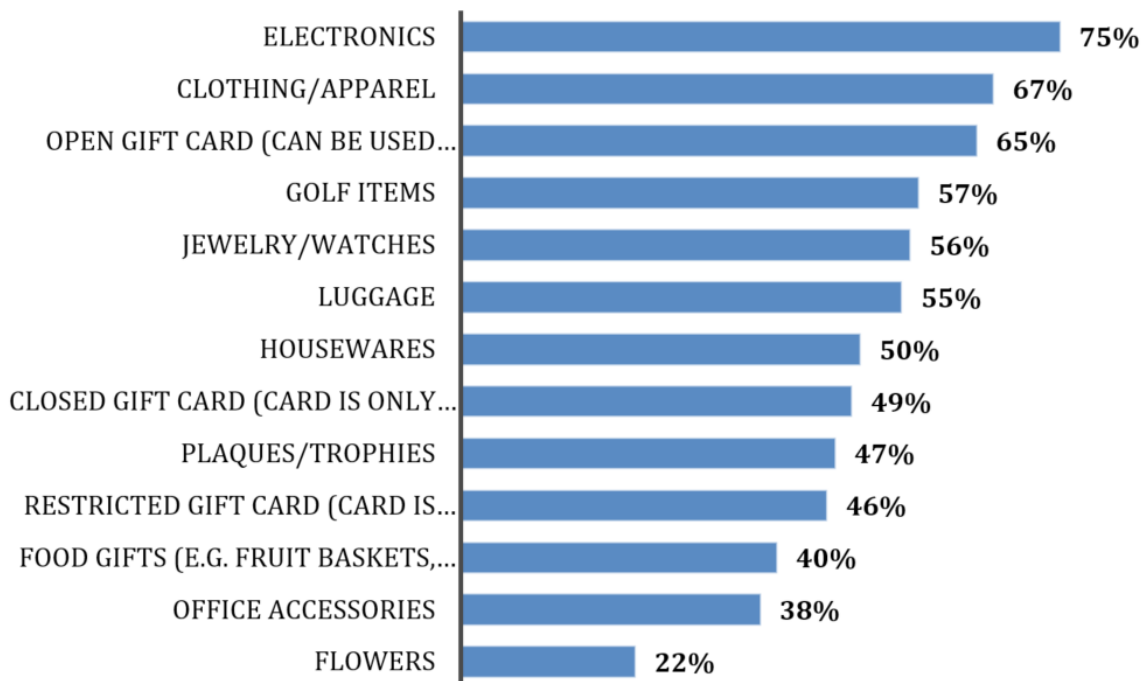
Merchandise and Gift Card Programs

Incentive merchandise and gift card programs are expected to continue enjoying positive benefits from the economy, but the degree of optimism has diminished considerably over the past year. Although still positive, the Net Optimism Score for the merchandise and gift side of the market was 14% in the fall of 2016, down 21 percentage points from the fall of 2015.



There is a strong positive outlook for budget increases in the coming year, with the increases distributed across program technology, awards, communications, and to a lesser extent, administration. The industry also expects the number of participants earning rewards to increase. Almost half of the incentives industry has an average per-person non-cash reward spend of \$250 or less.

Electronics are the most prevalent rewards with third-party service providers, while clothing/apparel is most common for the corporate audience.



Three-quarters of U.S.-based merchandise and gift card programs include international participants in the non-cash rewards programs they operate. On the corporate side, more than half of program managers have an international audience. Canada and Mexico are the most common regions on the corporate side, with Europe and Asia also prevalent on the provider side.