



Industry Outlook for 2021: *Merchandise and Gift Cards*

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Some Glimpses of Hope on the Horizon

Despite the often devastating impact the pandemic had on the incentives industry in 2020, the IRF's *Industry Outlook for 2021* reports the continued importance of incentive programs to employers. While there is a realism about economic conditions, the outlook for 2021 seems more optimistic than might be expected under current circumstances.

The industry was impacted, in some areas significantly, throughout 2020. The good news is the value of incentives has been established within organizations leading to budgets holding steady in many cases. Gift card activity has risen, merchandise activity has held steady, and incentive travel budgets have not been cut as deeply as they might have been. Per person spend on reward and recognition programs is unchanged, and the rate of program cancellations is no higher than the previous year.

The Study

Three hundred twenty-two (322) participants were recruited for the survey, which was approximately ten minutes in length. Respondents were recruited from various incentive communities such as the IRF, IESP/IMA, and Maui Jim. All respondents voluntarily took the online survey and received no compensation for their time.

Of the 322 participants, 39% represented corporate buyers, 24% represented direct gift card and merchandise suppliers, and 38% were third parties, such as incentive companies and consultants. This proportional sample composition was comparable to the previous year, which allows for direct year-to-year comparisons.

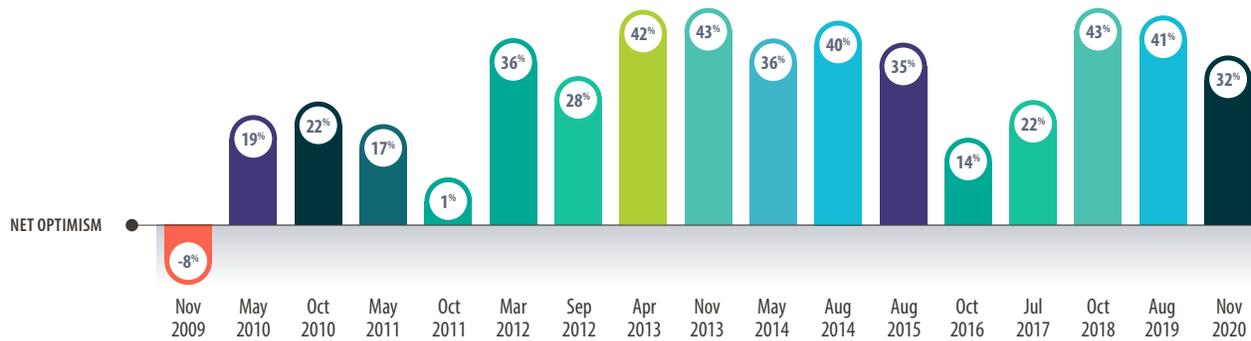
Overall Outlook

When the previous study was last conducted in 2019, 85% expected their companies to have a strong financial performance in 2020, with 68% believing the U.S. economic outlook was strong for the coming year.

This study ran for the month of November 2020, with news of the vaccine coming near the end of the month. Given the devastating impact of the pandemic on many businesses, 64% still believe their companies will have a strong financial performance in 2021 and half (50%) see the U.S. economic outlook as strong. While these percentages are lower than the 2020 outlook, they can still be considered reasonably optimistic, given that widespread distribution of the COVID-19 vaccines are expected in late spring, or early summer of 2021.

Program cancellations began to rise last year, going up from 18% to 28%. While this was concerning at the time, the positive news is the rate of program cancellation in 2020 is virtually unchanged (29%). Corporate program cancellations were nearly identical to 2019, with a 17% cancellation rate in 2019, and an 18% cancellation rate in 2020.

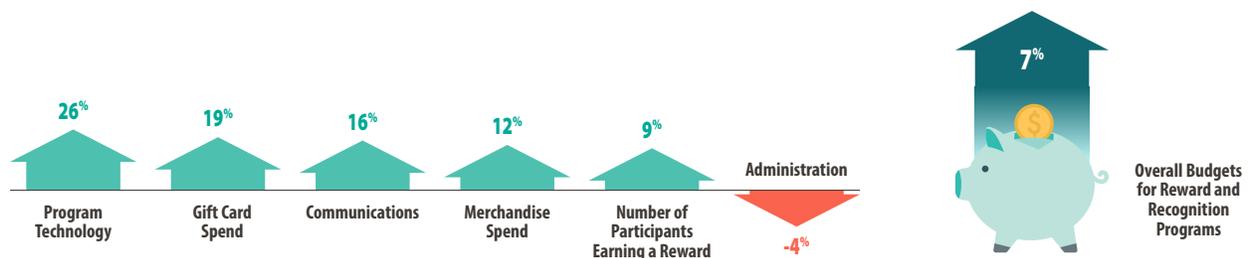
While net optimism regarding the impact of the economy declined from last year (32% down from 41%) current optimism about the economy is still above the average of the 16 previous measurements (27%).



Net optimism regarding the regulatory environment went down only slightly (10% vs. 14% in 2019)

While it was reported in the pre-pandemic 2019 study that budgets were expected to increase significantly across the board this year, 2021 budgets are expected to show more modest increases, and in a few instances, show small net contractions. Overall client budgets for reward and recognition programs, particularly merchandise spend, are expected to decrease slightly, although the main area where budgets are expected to decrease is in the administration area. Gift card spend is expected to show a good net increase as are program technology budgets.

Expected Net Change in Budgets



How the Reward Mix Will Change

The study shows an overall predicted net increase for gift cards and merchandise, but a sharp decrease in experiential rewards. While people still have an appetite for experiential rewards, it is likely that employers are being cautious given the continuing pandemic. As vaccine distribution and adoption progresses, this may change for the second part of the year.

Expected Net Change in Reward Types by Audience



Outlook for Partners

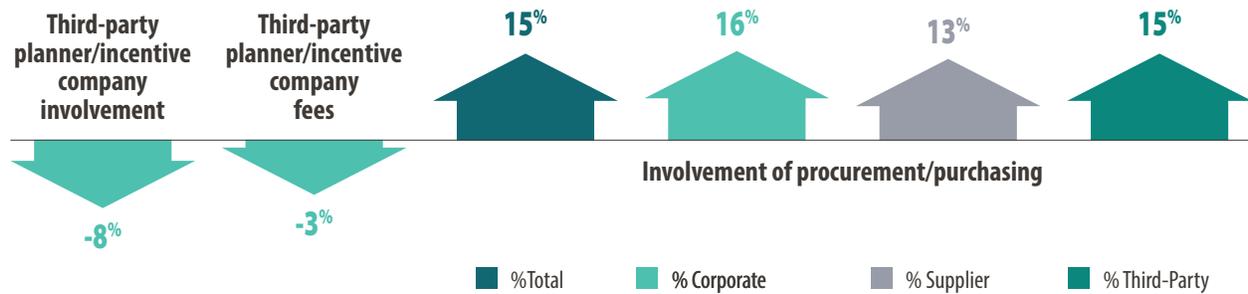
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Use of Partners



Moving forward, however, the role for third party partners looks to contract next year. Procurement and purchasing, however, will play a larger role.

Expected Net Change in the Use of Rewards Partners



Average Per-Person Spend

The current average per-person spend for non-cash reward and recognition programs is consistent with previous surveys, as any year-over-year changes in spending are within the margin of sampling differences. Average per-person spend was \$764, which is comparable to spending estimates in the previous two survey waves. It is encouraging to see that the non-cash rewards and recognition spending did not see any noticeable changes from the pre-pandemic year.

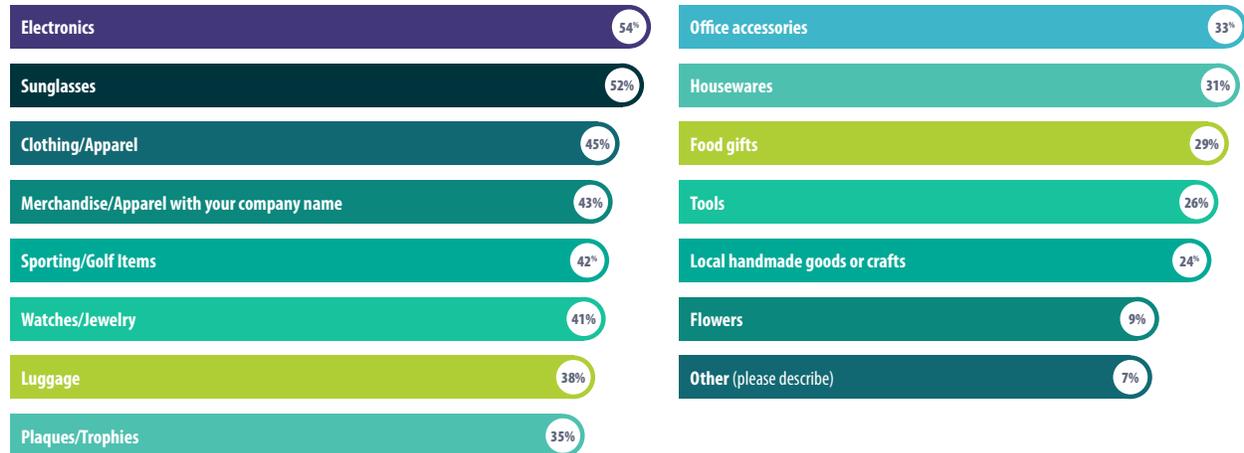
Per Person Spend for Non-Cash Reward and Recognition Programs



Merchandise Purchasing

For the third straight year, the reported average value of the merchandise reward was \$160. Electronics and sunglasses remained the most popular merchandise items overall.

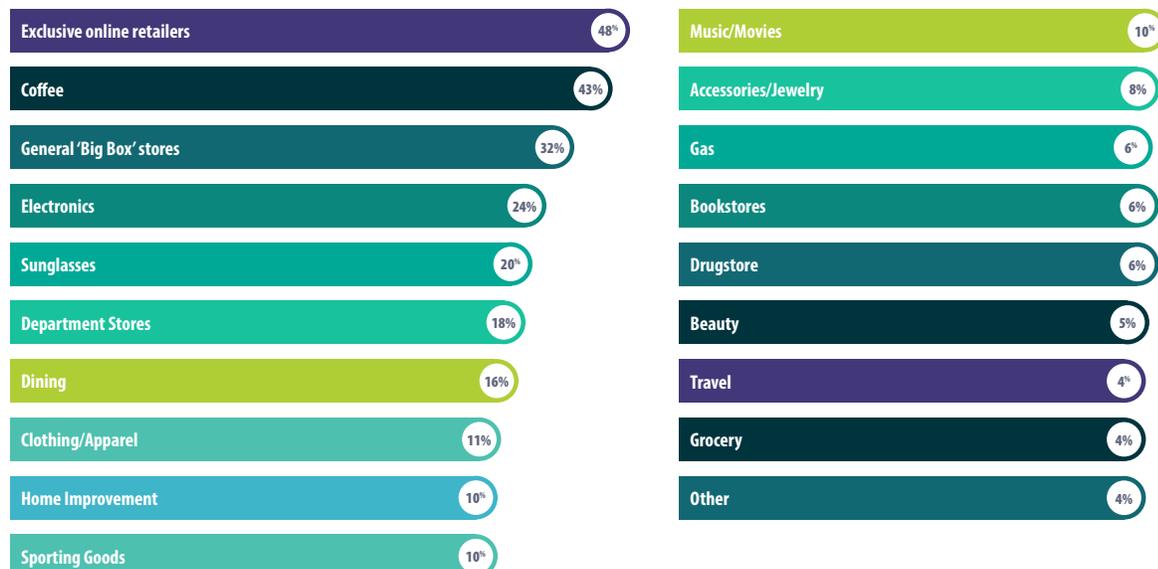
Merchandise Prevalence



Gift Card Purchasing

The most common denominations for gift card rewards remain \$25, \$50, and \$100. 79% use gift cards of \$100 or less, which is up from last year, (67%) but identical to 2018. The average value of a gift card was determined to be \$120 compared to \$129 in 2019. While gift cards do not usually come in these denominations, the data show that gift card values have not changed significantly since the pandemic began. The most common gift cards remain online retailers (e.g., Amazon) and coffee gift cards (e.g., Starbucks).

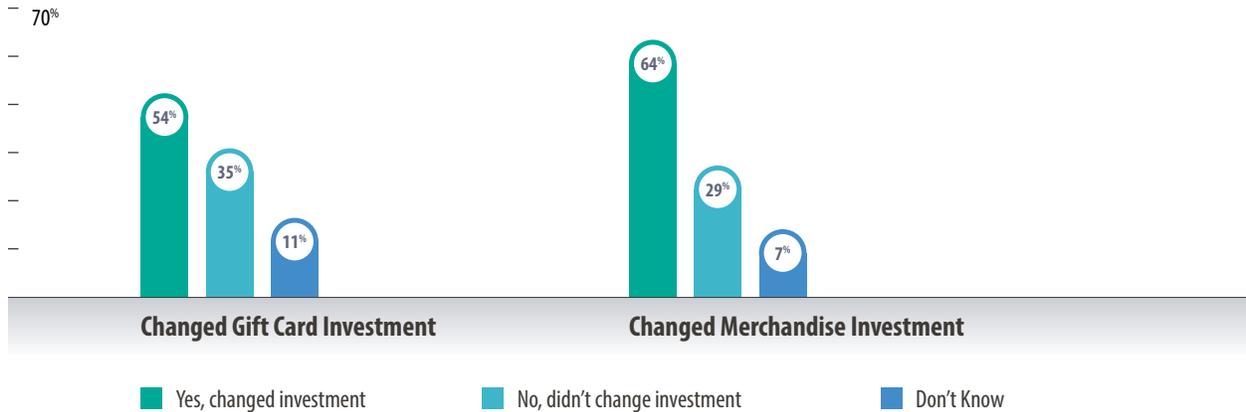
Gift Card Prevalence



Before and After the Pandemic

While comparisons to the 2019 study give us an idea of how things have, or have not, changed in the non-cash reward and recognition world since the onset of the pandemic, the 2020 study asked a series of questions specific to changes resulting from the onset of COVID-19. The data show high percentages shifting their investments in gift cards and merchandise.

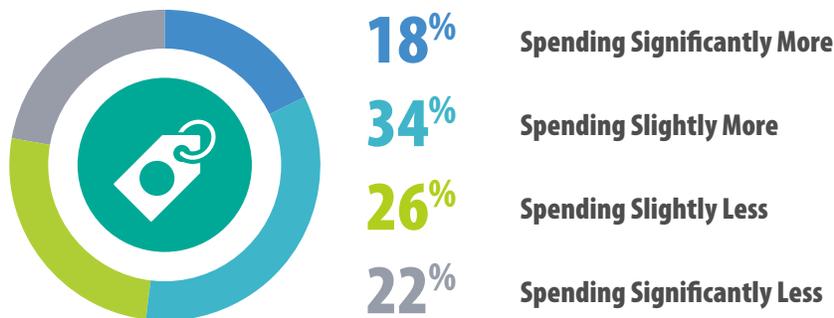
Percent Changing/Not Changing Incentive Investments



Two-thirds (64%) of respondents changed their investment in merchandise, while over half (54%) changed their investment in gift cards. However, the net result for the two incentive types is quite different.

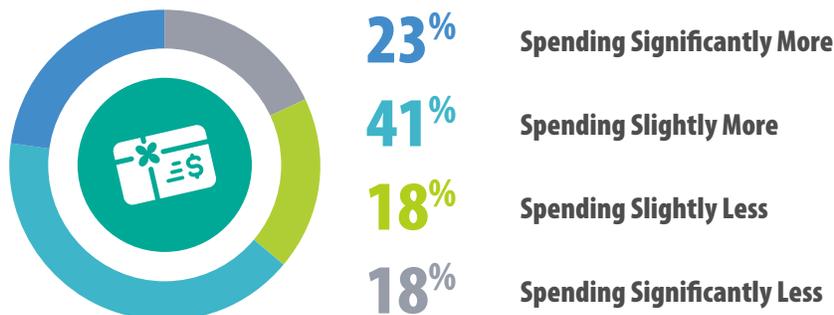
Among the 64% who changed their investment in merchandise during the pandemic, 52% increased their spend, while 48% spent less. Within the overall population, this means 33% increased their merchandise spend overall, with 31% spending less, and the rest spending about the same on merchandise. Given that there was a slightly higher percentage (22%) who said they spent significantly less compared to those who indicated they spent significantly more (18%), merchandise spending comes out to about the same this year vs. last year.

Percent Spending More/Less on Merchandise



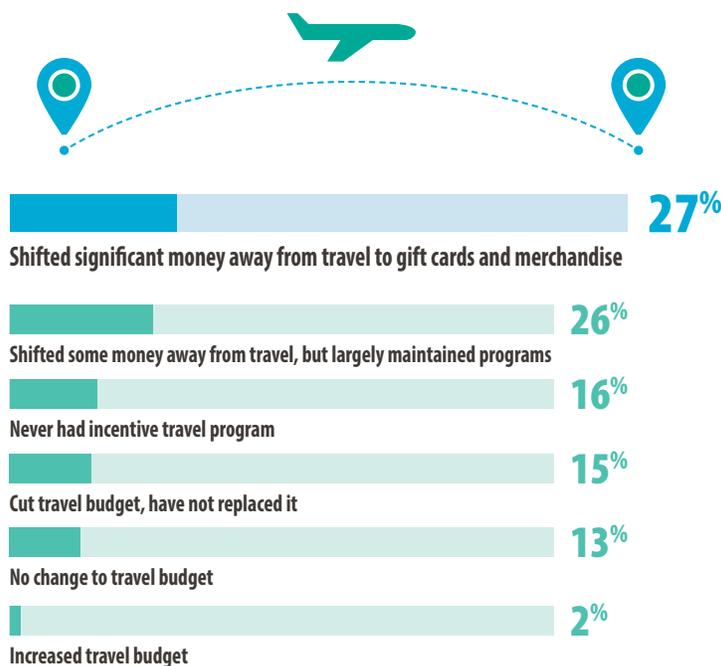
With gift cards, it was a different story. While 54% indicated they had a change in gift card spending, 64% increased their spend during the pandemic, while 36% spent less. Within the overall population, this means 35% increased their gift card spend overall, 19% spent less, with the rest spending about the same on gift cards. In other words, gift card spending showed a substantial net increase.

Percent Spending More/Less on Gift Cards



Another interesting finding was related to incentive travel spend. While incentive travel was dealt a crippling blow by the pandemic, it is noteworthy that only about half (51%) dramatically reduced or cut their incentive budgets. Within the sample, eighty-three percent (83%) had an incentive travel program prior to the pandemic. Among those who had an existing incentive travel program, half (51%) either eliminated their program or shifted significant money away from travel programs. However, almost the same number (49%) largely or fully maintained their travel programs.

Changes in Incentive Travel Spend Since the Pandemic



The encouraging news regarding vaccine development and distribution has the potential to favorably impact the incentive market. Nearly seven-in-ten (69%) said their incentive strategy would change either 'slightly' or 'greatly' if an effective vaccine for COVID-19 is developed within the next six months. Over half (52%) said they would increase their incentive activity if a vaccine is distributed over the next six months. The fact the vaccines seem to be moving forward suggests the outlook for the second half of the year might be much more promising than the first, especially if the economic recovery looks strong overall.

Final Thoughts

Year over year, the *IRF Outlook* has reported that program owners have done a great job of establishing value of non-cash rewards overall. In a year where budgets were heavily scrutinized, this value continued to be recognized and thus budgets were not as impacted as anticipated. Many incentive programs looked very different in 2020. The pandemic resulted in many organizations using merchandise or gift cards to keep teams motivated while incentive travel was on hold.

Merchandise and gift cards also proved to be effective motivators to broader audiences during the pandemic. Looking ahead, the use of smaller spends on merchandise and gift cards can help "move the middle" and broaden the reach of incentive programs. Tiered incentive programs can include merchandise and gift cards in the second or third tiers rather than travel.

Even as we look toward recovery, it has become apparent that some people may prefer merchandise and gift cards as rewards rather than incentive travel, especially if they are reluctant to travel.

As program owners plan for 2021, many will be using a broad portfolio of rewards to motivate increasingly more employees to help accelerate recovery. The effectiveness of merchandise and gift cards as motivators will continue to be a key to the growth and success of many incentive programs.

Thank You

The IRF thanks the following organizations for supporting this report by distributing the survey:

- ***Incentive & Engagement Solution Partners
(Incentive Marketing Association SIG)***
- ***Maui Jim***

Thank you to our Research Advocacy Partner

