



# The Impact of Incentive Travel

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## Why Incentive Travel?

As our economy and our society begins to emerge from the effects of COVID-19, the demand for both individual and incentive group travel should be significant as people re-establish connections with others and escape the home-bound environment of the past year. Large incentive group travel may lag the recovery, as the planning cycle tends to span 6-12 months prior to actual travel. However, individual or small group travel as an incentive can help to bridge the gap to more traditional incentive travel activities and meet the pent-up demand for travel and experiences.

By definition, incentive programs focus behavior on attainment of a specific set of objectives, both financial and non-financial, over a fixed period of time. This need for incentive programs has not changed in the past year, and the need may even be greater now to help sustain positive momentum as economic activity rebounds.

Incentive travel programs are not recommended as a tool to cover the full gamut of activity that sellers perform on behalf of a company but are highly recommended to focus on turbo-charging incremental sales and sales-related activities.

Both captive sellers (a company's direct sales force) and sellers who are members of a company's distribution channel respond well to incentive travel. However, companies have fewer levers to influence *independent* selling channels and distribution networks. Often, independent sellers already have opportunities for increased cash compensation and commission for increased sales. Research consistently indicates that cash does not laser focus sellers on company goals as effectively as non-cash rewards like incentive travel.

The promotability of travel and the prestige of guilt-free spending and "luxury experiences" with brag-appeal stimulate improved sales performance more effectively than cash alone. Sellers can always earn additional cash in any traditional sales comp plan. If cash were enough to motivate individuals, sellers would already be raising the bar without non-cash incentives. However, evidence continues to illustrate that focused non-cash travel programs stimulate additional effort and tremendous results.

Research from the IRF<sup>1</sup> has demonstrated the higher value and impact of non-cash incentives. Historical studies such as *People, Performance and Pay* (1987)<sup>2</sup> and Reagan's White House Report on Productivity as well as more recent studies from Scott Jeffrey, Towers Watson and more demonstrate that non-cash rewards generate more performance lift than cash for the same investment. Non-cash rewards have the flexibility to be turned on and off or to shift focus from one set of core products and services to another, whereas cash is less flexible. Once cash is offered as an incentive reward,

it quickly becomes associated with compensation. A top complaint from salespeople is frequent changes to compensation plans; once compensation plans are established, they are very difficult to alter, stop or dislodge!

The discussion below on the effectiveness of non-cash rewards, specifically incentive travel, will focus on three areas: :

- Corporate impact: Incentive travel has ability to foster alignment of individual and corporate goals and culture
- Participant impact: Incentive travel creates experiences and rewards that are clearly differentiated from regular compensation and that are beyond what individuals would or could obtain on their own
- Economic impact: Non-cash incentives, specifically incentive travel, yield higher effectiveness and return on investment than cash alone

## Corporate Impact

Incentive travel is effective at fueling top-performer sales growth and brand advocacy.

Trends in top performer and sales incentive trips catalogued by the Incentive Research Foundation reinforce the continued importance of incentive travel to corporate goals:

- More companies overall are offering incentive travel. The percentage of top performing companies that offer incentive trips more than doubled, increasing from 22% in 2019 report to 45% in the most recent report (issued pre-Covid). (*IRF Top Performer Study*, February 2020<sup>3</sup>)
- From the 2019 *Incentive Travel Industry Index*, a stronger focus on “soft power” (i.e. non-financial metrics and behaviors) is boosting the role of incentive travel as a builder of corporate culture and engagement<sup>4</sup>

Incentive travel is typically offered as an incentive/recognition opportunity for top producers overall or by volume group. Specific goals are almost always tied to an increase in sales or purchases. Contributions to retention, culture and brand connection are primary benefits, though are not often easily measurable. Properly structured up front, incentive travel can create measurable sales growth and positive ROI so that the program can be demonstrated to be truly “self-funding.” There are many experts in the industry that can help companies ensure a self-funding rules structure as well as a program design to engage the greatest number of participants.

Attributing incremental sales growth to a program and calculating program ROI requires a good baseline of current sales activity and a clear set of goals that represent “stretch” performance over expected or organic market growth. Knowing the market and industry is key, however; in declining industries, maintaining market share and flat growth may be worth rewarding. An experienced partner can help a company think through the macro design implications for best participant engagement and results.

Incentive travel has the ability to stand out from regular compensation and create a special focus on a campaign. Interestingly, most sales incentive trip winners could afford the monetary value of their travel award on their own. However, a unique experience where they enjoy traveling with their peers and have access to company leaders helps to create special focus that is more effective than the cash to travel on their own. For example, beer distributors clamor to improve sales over the previous year so they are certain to join their peers on a trip that they likely could take on their own. Peer competition, brag-appeal, camaraderie, joy in face to face experiences all play a role in perceived value of incentive travel. And the same holds true for any salesperson. They are wired for competition and enjoy celebrating together in a club of champions... which cannot be done with cash.

Sales incentive programs have a primary objective to align corporate objectives with individual objectives. The ability to translate corporate objectives into individual objectives, and to align brand advocacy with the seller’s individual preferences and values, can create a deeper bond than the incentive travel experience alone. Emerging research indicates that emotional connection with the brand may be more powerful than extrinsic motivators alone at driving sales efforts.<sup>5</sup>

## Participant Impact

Incentive travel represents the ultimate reward in terms of motivation. Recent research indicates the following:

- Travel rewards are consistently rated highest in the list of potential rewards for two primary reasons: ability to make connections with others in the organization and the unique ability of group travel to create an experience that cannot be bought
- Even in the absence of travel, the need to recognize and reward outstanding performers is still strong. Program owners who postponed incentive travel programs expressed a strong need to continue recognizing and rewarding outstanding employees (*2020 Disruption Study* from the IRF)<sup>6</sup>

Incentive travel creates participant impact with multiple reward elements that a cash payout alone cannot deliver:

1. Unique, once in a lifetime **memorable experiences** that money can't buy. Jim Gilmore writes in *The Experience Economy* that in a world of largely undifferentiated goods and services, creating meaningful experiences is the way to create competitive advantage.<sup>7</sup>
2. The **opportunity for connections** between individuals. The groundbreaking behavior science work of Paul Lawrence and Nitin Nohria from Harvard Business School suggests that people are motivated by four equal biological drives: the drives to acquire, to defend, to bond and to create.<sup>8</sup> This four-drive model has become an important element of incentive theory and justification. The drive to bond is an important element of incentive travel experiences. In survey after survey, incentive participants repeatedly cite the importance of connecting with peers and sharing experiences.
3. **Positive emotional connections** with a brand. Brand identification and brand connection can be more powerful than incentive programs alone at creating long-term loyalty to a brand. Special experiences create significant goodwill and positive associations with a brand. Shared experiences stimulate bonding, community and relationships that are associated with the incentive travel sponsor, something that is difficult or impossible to achieve through any other type of performance reward.
4. **Status.** The drive to acquire is as much about earning status as it is about having material goods, prizes and other tangible rewards for success. Status facilitates self-esteem, one of the highest tiers in Maslow's hierarchy of human needs that still activates incentive thinking today, and that is reinforced by Harvard's four-drive model. And once status is earned, participants will go to great lengths to defend and keep it. Drinking from the cup of victory has never kept the previous year's Stanley Cup winner from wanting to hoist the Cup again the following year.

## Economic Impact

The importance of travel in a rebounding economy has been closely reviewed by the IRF.

- Recent IRF research indicated that the global travel industry (airlines, hotels, and cruise lines) were expected to lose \$3 trillion and furlough 100 million workers as of April 2020. Travel will be a major stimulant to reviving the world economy as face-to-face meetings encourage collaboration and social connections
- *The Disruption in the Incentive Travel, Meetings and Events* white paper found that People are beginning to crave travel, with focus on new experiences at safe destinations.<sup>9</sup>

The economic impact of the decline of incentive travel on the larger economy has been devastating as hotels, airlines, cruise operators and local destination management firms all suffer from the economic effects of the pandemic. There is much pent-up demand to travel! Once incentive travel again feels like a safe option, there will be a new focus on measuring the economic impact on the firm, and on the ability to demonstrate the positive return on investment of incentive travel and other incentive rewards.

## Return on Investment of Travel and Other Non-Cash Rewards Over Cash Rewards

Research has repeatedly demonstrated that non-cash rewards such as incentive travel are more effective at improving performance than cash. Specifically, experiments have shown that to generate the same behavior and performance lift requires as much as 3x more cash than non-cash rewards.

The behavioral science appeal of tangible non-monetary rewards vs. cash has been demonstrated frequently, most recently by the work of Dr. Jeffrey, University of Waterloo. This work outlines the key psychological and behavioral science principles that explain the greater impact of tangible non-monetary vs. cash rewards. These behavior science principles include:

- **Justifiability:** One feature of many tangible, non-monetary incentives is that they are things the recipients see as luxuries that employees could not normally justify buying for themselves, even if they had sufficient funds. The predicted utility of earning a non-monetary incentive will increase with the difficulty the employee would have in justifying the purchase of the item on his or her own.
- **Separability:** Since it is earned as part of the job, it is likely that a cash award will be mentally combined with the rest of the employee's employment income. The implication for incentive design is that the award should be crafted so that it cannot be confused with cash. The predicted utility of a non-monetary incentive will increase with the likelihood that it will be evaluated in isolation or as part of a smaller set of items. Because tangible rewards are distinct from cash earnings, they are more likely to be 'recorded' in a mental account separate from cash earnings (Helion and Gilovich 2014; Presslee et al. 2013).
- **Evaluability:** The predicted utility of a non-monetary incentive will be enhanced by the likelihood that the award will be evaluated in an effective rather than cognitive manner. The incentive will be evaluated based upon the affective reaction to the award rather than in its cash value, even if that could be determined

- **Social Reinforcement:** In most situations, employees would not feel comfortable bragging about cash, but would feel free to talk about the golf clubs or vacation they received from the firm. The predicted utility of earning a non-monetary incentive will increase with the social utility of the award. The social utility of the award will increase with the ease with which that award can be discussed with others.<sup>10</sup>

Return on investment can be enhanced with “move the middle” awards that have the ability to create incremental lift from sellers who may not qualify for a top performer award, but who have significant growth potential. Moving the middle can move the performance bell curve and lift performance across a large segment of sellers, not just top performers. In many cases, companies have “moved the middle” by opening the incentive travel opportunity to everyone who increases performance above a fixed level by volume group in addition to a top performer “sure to go” opportunity. More often, a second tier of rewards, such as individual travel or points for rewards merchandise, is an option for all performers who do not earn the Incentive Travel award, but who measurably improve against their own baseline. An experienced partner can help companies structure programs to move the entire bell curve of performers to new heights and ensure maximum return-on-investment.

Nothing can replace the power of face-to-face interactions when it comes to business. In the economic climate created by COVID-19, companies have been forced to conduct on-line meetings and events and have canceled incentive travel operations. The advantages of in-person events and interactions as part of both incentive travel and meetings was first presented in 2010 in a paper from Cornell University and still holds true today. Face-to-face is most likely to be the best approach in the following three business situations:

1. To capture attention, particularly when you want to initiate something new or different;
2. To inspire a positive emotional climate, as a way to catalyze collaboration, innovation, and performance; and
3. To build human networks and relationships, realizing that information can increasingly be shared virtually whereas the greater value is in people networks and relationships.

Cornell is currently undertaking updated research post-COVID that will offer new insights on the importance of face-to-face interactions in our current environment.

## What Next?

Navigating the landscape of your company to sell, launch, operate and measure the impact of an incentive travel program can be a daunting task for a program owner. Research from the IRF indicates that one of the leading indicators of designing for success in incentive programs is a willingness to look outside and engage a professional partner to help with the design and operation of their incentive program.<sup>11</sup> Calling upon a professional firm for assistance provides program owners with three key benefits:

1. **Buying power:** Most incentive travel companies have deep industry relationships and buying power that can help secure preferred venues and experiences at more attractive pricing than can an individual firm buying a la carte for a travel operation.
2. **Risk mitigation:** When events like a pandemic or an unexpected business shift force a cancellation of incentive travel, either before the event or during the program, an incentive travel partner can be invaluable in helping accommodate changing business plans and negotiating penalty accommodations.
3. **Up-front program design:** A partner can help you think through a strategy to maximize and measure the economic effects and return on investment for your business. As previously discussed, the right partner can think through multiple program design implications and help companies structure programs to move the bell curve and maximize performance across a broad spectrum of the sales audience.

As we begin to see glimmers of hope that the effects of the pandemic on travel and hospitality businesses are easing, there will be a tremendous surge in demand for both group incentive and individual travel. Companies should begin to position themselves now to create maximum financial benefit and brand connection benefits from their incentive travel rewards. The time is right to begin planning and designing the right incentive program that precedes the incentive travel reward. The following section will include some valuable insights on design, but don't overlook the expertise that a third-party provider can bring to ensure both the most effective design and a smooth operation of an incentive travel reward.



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