Incentive Research Foundation

IRF 2018 Trends Study

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1. Building a Brand-Asset Culture Becomes a Business Imperative

Perhaps the single biggest indicator of the profound change of business in the 21st century is how companies are valued. In the 1970s when the world's most valuable companies manufactured items or extracted resources, the vast majority of their valuation was tied to something tangible: equipment, land, factories, products, etc. Today, over 80% of businesses' value is in their intangibles[1] – brand value, algorithms, customer data, ideas, relationships, and leadership quality, to name a few. [2] Additionally, the historically low cost of financial capital over the past few years has led Harvard Business Review to assert that adept financial allocation is no longer the primary source for sustained competitive advantage – this award now goes to human capital management.[3]

For decades there have been examples of how a strong organizational culture can increase overall employee commitment, enhance organizationally-aligned decision-making, and ultimately amplify the customer experience.[4] Couple this with the market's fundamental shift on asset valuation, and new technology-enabled viewing points, which allow outside customers to pinpoint discrepancies between internal culture and external brand. Now, there emerges a single new-economy truth: a company's culture can be its greatest asset. According to TrendWatching, the "radical transparency" of modern businesses now means your brand is no longer a set of stories, images and words you display carefully on the outside of your opaque business box, but rather your brand is what customers view when they stare carefully into your organizational glass walls and see your internal culture. What they see may be your most powerful asset in the decades to come.[5] Perhaps this is why a whopping 92% of CEOs agree it is important to maintain a strong corporate purpose reflected in their values, culture, and behaviors.[6]

A strong culture also provides the guardrails for how innovation and adaptive performance occur. Businesses today understand that a culture that supports and rewards not only tactical performance (i.e., where employees do exactly what they're told to do and how they've been told to do it) but also adaptive performance (allowing employees to make calculated decisions and process improvements in real time[7]) stand a better chance of innovating and of deepening employees' organizational commitment. Innovation and human capital are the #1 and #2 areas CEOs want to strengthen in order to capitalize on new opportunities, far outstripping technology and customer experience investments.[8] CEOs also acknowledge that while problem solving, adaptability, leadership, and innovation are the most important skills for which they recruit to build a brand-asset culture, they are also the hardest to find.

In this environment, it is not surprising to see that the use of non-cash awards has grown over 200%. Why? Because modern compensation systems were set up to reward employees for doing

1 http://www.oceantomo.com/intangible-asset-market-value-study/
2 https://www.wsj.com/articles/accountings-21st-century-challenge-how-to-value-intangible-assets-1458605126
3 https://hbr.org/2017/03/strategy-in-the-age-of-superabundant-capital
4 Culture Eats Strategy for Lunch by Curt Coffman and Kathie Sorenson
5 http://trendwatching.com/quarterly/2017-09/glass-box-brands/
6 https://www.pwc.com/gx/en/ceo-survey/2017/pwc-ceo-20th-survey-report-2017.pdf
7 https://hbr.org/2017/10/there-are-two-types-of-performance-but-most-organizations-only-focus-on-one
8 https://www.pwc.com/gx/en/ceo-survey/2017/pwc-ceo-20th-survey-report-2017.pdf

their core job. But to differentiate themselves today, companies rely on people going *beyond* their core job – innovating, training new recruits, adapting their performance to new challenges, expanding their skillsets – jobs for which modern compensation systems were not created to handle. The variable nature of these non-core job expectations and their existence outside of any specific set of job skills, make them ill-suited for compensation. This is where IRF researchers found non-cash awards work better for non-core job behaviors.[9] We expect non-cash awards to grow as the focus on brand, culture, and innovation becomes increasingly central to business success. Organizations with non-cash award programs of any kind should ensure their programs are rewarding, at some level, innovation, adaptability, and brand-centric behaviors.

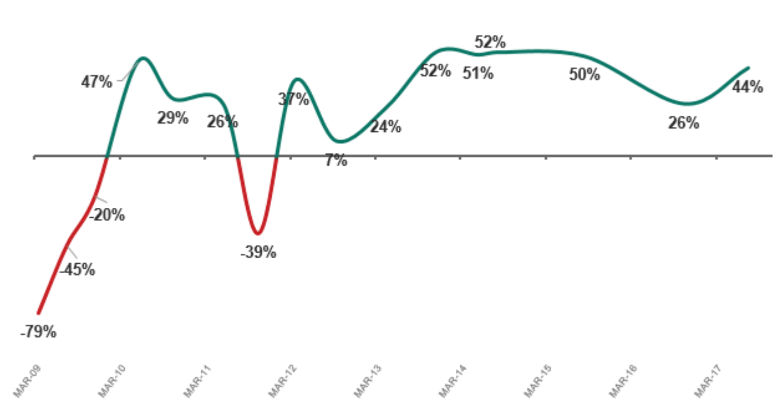
2. Market Optimism Leads to Budget Growth and Continued Consolidation

According to PriceWaterhouseCoopers, global economic growth is currently on track to accelerate at the greatest pace since 2011.[10] All IRF indicators show the vast majority of the incentives and rewards market, with a few notable exceptions, share this optimistic view.

The Net Optimism Score for the incentive travel industry is up almost 20 points year over year. Although not as strong, the merchandise/gift card program industry's Net Optimism Score was up as well in 2017. This optimism is reflected in increases to incentive travel budgets up to an average annual per-person spend of $3,915, an increase of 4% year over year. The largest number of net increases in incentive travel were as follows: inclusion of wellness/well-being components (38%), all-inclusive pricing options (35%), budget for F&B (25%), and budget for rooms (25%).[11]

Likewise, for gift card and merchandise programs, respondents reporting an average per-person spend budget from $1–$250 dropped to 43% while those with budgets from $251–$5,000 per person rose to 57%. Almost a third of respondents said the number of participants earning a reward would be increasing.

Important to watch, however, is corporate program owners' views. While net optimism has remained positive for incentive houses and third parties over that last three years, corporate end users have been more pessimistic with a net positivity decline from 0% in 2016 to –21% in 2017.



This market optimism, coupled with the continued relative low cost of capital, means the volume and rate of mergers and acquisitions will again be a key part of 2018. Whether hotelier-based (e.g. Marriott Starwood), technology-based (e.g. Cvent), or incentive house-based (e.g. CA Short), expect to see more movement in 2018.

9 http://theirf.org/research/engaged-in-what-part-5---cleveland-clinic-case-study/1315/
10 https://www.pwc.com/gx/en/issues/economy/global-economy-watch/economic-predictions-2018.html
11 http://theirf.org/research/the-2018-irf-outlook-study-white-paper/2275/

Over the next year, markets and budgets will continue to grow, although at a slowing pace potentially, given four on-going constraints: end users concerns, cost pressures, regulatory restraints, and risk mitigation. Mergers and acquisitions will continue, and the issues of trust and customer care during the transition will become paramount.

3. Regulatory Pressure Drives Changes

80% of CEOs agree that over-regulation is a major threat to market growth.[12] The same can be said for incentives, rewards, and recognition programs. Over 60% of respondents in our *2018 Outlook Study* said it is difficult to stay informed about all the federal, state, and industry regulations that impact their programs.[13] IRF's deeper dive showed that while program owners feel *very aware* of regulatory changes, they feel only *somewhat knowledgeable* about these changes. This has not stopped more than half of U.S. firms, however, from having explicit policies to guide their programs, and conducting regular compliance, legal, or audit team program reviews, all of whom share the ultimate responsibility for a program's legal compliance in over one-third of U.S. firms.

Additionally, with almost 90% of firms saying their company has taken a proactive approach to addressing regulatory compliance in their non-cash rewards programs before the government enacts the regulations, it is not surprising that many have also altered their programs in response to such legalities. Over half of U.S. firms who reported increased accounting and program scrutiny are changing the products included in their sales or distributor channel/incentive programs, and 45% have reworked the entire program's underlying business purpose.

These regulations are only exacerbated on a worldwide scale as regulations such as the European Union's General Data Protection Regulation (GDPR)[14] go in to effect in 2018. These new regulations require all organizations based inside or outside the EU to adhere to strict gathering, retention, and processing rules for any data collected on EU citizens.

Moreover, these regulations are driving significant changes to programs. Over 70% of respondents to the IRF's *Regulations Study* said they had made changes to their programs' design, communications, rewards, and/or reporting in response to regulations. As program owners continue their concern and focus over, regulatory changes, their implications will continue to demand additional time and budget resources into the foreseeable future.

4. Cost and Time Tensions Continue

Although incentive travel budgets were up again in 2017, 60% of respondents said costs are rising faster than budgets.[15] This is evident in the percentage of respondents saying their newly increased budgets will go to F&B and hotel costs. Supply and demand issues on the hotelier side contribute significantly to these cost increases. According to STR, since 2011 the growth in demand for incentive-grade hotel rooms has far outstripped the growth in supply. Mid-year 2017 was the first time since 2011 the demand change for incentive-grade hotels was equal to supply. Upscale, upper upscale, and luxury hotels saw the highest occupancies, with most operating at 73% or higher on average.

12 https://www.pwc.com/gx/en/ceo-survey/2017/pwc-ceo-20th-survey-report-2017.pdf
13 http://theirf.org/research/the-2018-irf-outlook-study-white-paper/2275/
14 See: https://www.eugdpr.org
15 http://theirf.org/research/the-2018-irf-outlook-study-white-paper/2275/

Continuous increases in the demand for transient rooms and higher average daily rates, coupled with sporadic demand increases and lower average daily rates for group business, mean hotels are eyeing transient business with greater interest than ever before. This supply/demand issue and transient market growth has exacerbated the need for earlier and earlier bookings. Corporate America, however, has not always adapted to this fundamental shift from the downturn, sometimes still expecting to make last minute changes with the number and types of rooms with little to no penalty, leaving third parties and hoteliers in a difficult position.

On the program owner side, over 30% of respondents to the IRF's survey again expect a rise in the role of procurement, ensuring a desire for higher value quotient on each dollar sourced. In the meantime, hoteliers continue to expand the role of revenue management, giving even greater weight to their ability to maximize occupancy and revenue for rooms and function space. As cost and time tensions continue to mount, trusted partnerships along the intermediated incentives and rewards chain will become ever more valuable. For both incentive houses and end users, this will require strong national sales representative alliances, along with strong DMC partnerships worldwide. For corporate program owners who use third parties, it will require greater levels of trust and dialogue to help the organization feel they are receiving the greatest value and consultation.

5. Increased Focus on Managing Risk and Ensuring Safety

With 2017 seeing one of the most active hurricane seasons on record and one of the worst massacres in U.S. history, safety, security, and risk again take center stage in incentives and reward programs. As the IRF's *Disruption Study* reported last year, almost 60% of planners had encountered some form of disruption to their event in the previous twelve months, not only negatively impacting their brand, but also costing on average $10,000 – $100,000.

Not surprising then, are the rise in tools used to mitigate risk, including not only stronger force majeure clauses (e.g., "travel to *or along the way*"), indemnification clauses, and liability waivers, but increased investments into alternative approaches including extra staff onsite, backup services for Wi-Fi, etc., and outsourced risk management and consulting from organizations such as iJEt and SafeturePro. Central to this concern will be the ongoing discussion between hotels and planners regarding who owns the many, varied, and distinct elements of potential risk points during an event.

But risk and security concerns are not only a concern for incentive travel programs. All non-cash programs face concerns over data risk and security. Starting with PCI compliance in the U.S. and expanding now to include concerns over the EU's GDPR, ensuring program participant data is secure and appropriately used is a central concern for all types of non-cash award programs. These concerns are at natural odds, however, with participants' desire for frictionless and easy experiences. Case in point: most event attendees crave free and easy Wi-Fi, even though it can present one of the weakest data security points.

The largest implication of these concerns is simple: increased investment by all parties in managing risk and ensuring security. Whether it be providers investing in bolstering their internal safety and risk capabilities or program owners investing more time and resources into supporting risk mitigation, look for resources to flow in this direction and higher standards required throughout the change. Additionally, look to industry associations and foundations to assist with creating ongoing resources to support all partners in the process.

6. Expanding Capability with Increasingly Predictive and Intelligent Technology

Predictive analytics, AI, and augmented reality capabilities will be a fundamental requirement for the effective incentive, rewards, and events business partner of the future.

Predictive Technology: With the petabytes of data that organizations generate daily (think employee engagement data, survey data, network analysis, external data from Glassdoor, employee text data, and "ambient data" in employee emails, peer-to-peer platforms, sensor data, swipe card data, etc.), businesses now maintain an ability to potentially harness unparalleled insights into their workforce's productivity, information flow, innovation, collaboration, and engagement.

For example, Google's "People Analytics" group (a full third of its HR staff), provides analytic-driven insights into Google's workforce and has translated its efforts into programs credited with significant increases in engagement, productivity, innovation, and new, billion-dollar revenue streams. Although this is not a reality for *most* organizations, Google is far from alone. IBM, GE, eBay, Whole Foods, MasterCard, and other less-known firms now employ data scientists and analysts in their HR departments. Deloitte found that the number of HR departments which now feel "capable of developing predictive models" has doubled. HR data analysts examine data from core HR systems to address a wide range of challenges including analyzing flight risk, predicting absenteeism, selecting high-performing job applicants, identifying characteristics of high-performing sales and service teams, predicting compliance risks, predicting potential leaders, and analyzing engagement and culture.

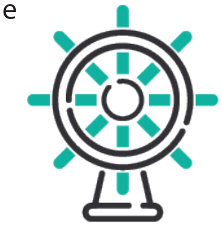
On the meetings side, the collection of data across multiple events means planners also hold a valuable key to discovering how attendee data augments existing internal business data and how it predicts wider people business patterns, (e.g., does engagement in our sales meeting predict top performer departure?). On the gifting side, providers such as alyce.com are increasingly using human and computer-enabled predictive analytics to narrow the millions of potential merchandise gifts to better, more relevant 1:1 gifting campaigns.

Artificial Intelligence: There is no industry and few professions that AI and machine learning have not impacted and will not impact significantly in future. Broadly defined, the term artificial intelligence (AI) is applied to machines and algorithms that mimic the cognitive functions of human beings, including sight, touch, speech recognition, and problem solving.

Though they are often invisible, machines, robots, and AI are now ubiquitous. They work behind the scenes, in warehouses and factories, and in computers that aid everyone from radiologists to analysts. They assist "knowledge workers" in almost every office, hospital, and construction site. Already, AI-equipped machines operate entire restaurants and stores without people, and they drive cars and create works of art by themselves.

At some point in the future, according to many scientists and developers, artificial intelligence may surpass human intelligence by a factor of thousands or even millions. Ray Kurzweil of Google explained, "Artificial intelligence will reach human levels by around 2029. Follow that out further to, say, 2045, we will have multiplied the intelligence, the human biological machine intelligence of our civilization a billion-fold."

7. Wellness Hits a Tipping Point: Expectations for Comfort & Healthy Options



The largest number of net increases reported by IRF trend respondents was the inclusion of wellness/well-being components (38%) in their program.[16] But what form will this take? Several key themes emerge.

As a backlash to the exhausting and relentless nonstop business environment created by e-mail and social media, participants are not only welcoming but expecting more fitness-focused items and experiences in their programs. This could be everything from luxury fitness retreats as a portion of the incentive travel event, "workout" tours in the host cities, or the promotion of apps like RunGo. Likewise, Boomers and GenXers continue to drive the Athleisure concept's meteoric rise as reflected in everything from apparel (yoga work pants), to cosmetics (specialty cosmetics for the gym), to amenity trends (wellness gifts). Although Millennials have less buying power than more mature generations, their influence in this trend is strong as well. With fewer resources to invest, they instead focused on "Wellth" – or creating an array of Instgrammable life experiences that showcase their investment in physical well-being.

This extends to food trends as well, where alchemy-driven and wellness-focused cocktails derived from modern and ancient medicinal recipes are gaining ground. Additionally, hotels continue to expand their organic and gluten-free options. While this does drive up cost, it also shifts the focus from quantity to quality. For example, snack breaks that are less volume focused (i.e., mountains of cookies) and rather quality focused (three options of locally sourced, organic products).

Across the board, the reduction of anxiety and a feeling of comfort will reign in 2018. This goes from hotels focusing on creating a more "frictionless" experience (shorter lines, on-demand services), to anxiety reduction products (fidget spinners), to on-site stress reduction practices (ancient tai chi meridian tapping). Likewise, the Danish concept of *hygge* (pronounced hue-guh), or cozy comfort gathers steam with fluffy, yarn-ridden products everywhere and more comfortable seating with warm, friendly environments seeing a growth in events.

8. Unique Destinations Gaining Popularity

Whether driven by safety and security concerns, or simply by a more travel-seasoned population, unique and offbeat destinations continue to gather popularity by respondents both in the U.S. and abroad. The top five destinations for U.S. planners remained the continental United States, Hawaii, the Caribbean, and Mexico, but are now closely followed by Europe.

Across the board, planners are interested in and more willing to consider new and different sub-destinations. Whereas Rome, Italy, or Lisbon, Portugal, may have been the primary consideration in the past, locations like Puglia, Italy, or Cascais, Portugal, are now in the

16 http://theirf.org/research/the-2018-irf-outlook-study-white-paper/2275/

consideration set. These areas are seen as having similar brag power and equal wow factor to their bigger, greater known counterparts. And while the security measures in these destinations may be lower, their risk is seen as lower as well. Smaller communities are seen as somewhat safer and less targeted because they are off the beaten path. These locations, by default, are often less populated, as well aligning with the key trends for more comfort, less stress, and greater personal space.

While it would seem natural that this was confined to destinations outside the U.S., Carlson Wagonlit Travel reports otherwise, where "unique venues – including arenas like Richmond, Virginia's Richmond Raceway – are playing host to events, especially when such a venue reflects the company's brand." American Express agrees, finding that demand for non-traditional meetings facilities is expected to increase by 3.8% in 2018. On the downside, unique destinations and locations can potentially create longer planning time and higher cost which must be balanced.

9. Merchandise Awards Move Toward the Meaningful

Merchandise continues its journey to more meaningful experiences. According to the most recent *IRF Pulse Study*, incentive house/agency respondents chose electronics, sunglasses, clothing/apparel, and luggage most often for their programs. Clothing, sunglasses, and plaques were the most frequently selected items by corporate end users. Equally important, however,_almost a third of respondents indicated an increase in individual travel packages (31%) and experiential rewards (37%).

This is the fifth straight year the market has noted a 20–30% growth in experience-related rewards. This push toward experiences highlights a key trend for merchandise and purchasing overall: there is a strong desire in 2018 not for more choice, but for more meaning.

Amazon sells over 100,000 types of toothbrushes. Alibaba can provide you with a thousand ceramic Hawaiian tiki mugs in less than a week. The field of behavioral economics has long told that when our options, including merchandise products, become so varied, so abundant, and so accessible, the process of choosing will in turn become overwhelming, stress-inducing, and anxiety-ridden.[17] This is of course, completely counter to the desired emotions from a gifting experience, and why large online retailers, as well as most third parties, have begun to move to intricately curated catalogs[18].

This trend also leaves those procuring awards to desire a better reason and a deeper meaning for selecting a product. Today that manifests itself in everything from products having local sourcing, to organic roots, to being easily personalized and customizable.[19] It is also why the gifting experience becomes paramount in 2018. For rewards to matter in a world where all things are varied, abundant, and accessible, the reward must, more than ever, have a personal meaning and a personalized delivery associated with it.

17 See; the Paradox of Choice: https://www.amazon.com/Paradox-Choice-Why-More-Less/dp/149151423X
18 See: Curated Catalogs from Amazon: https://techcrunch.com/2014/11/26/canopy-brings-a-curated-amazon-shopping-experience-to-the-iphone
19 See Amazon Custom Products: https://www.amazon.com/Amazon-Custom/b?ie=UTF8&node=11032013011

10. Gift Cards Gain Momentum

Gift cards continue to gain momentum as a key reward option in both rate and spend. The vast majority (almost 70%) of organizations with revenue over $100 million are purchasing more than $10,000 in rewards cards annually for their sales, channel, employee, and customer programs. Over 60% of firms over $1 billion are purchasing more than $10,000 in rewards cards annually. Employee reward programs are by far the biggest audience for these programs. Within firms purchasing gift cards, over 90% are purchasing cards for employees, over 80% are purchasing cards for their internal sales force, over 50% are purchasing cards for customers, and about half are purchasing gift cards for their channel partners.[20]

Average spend is significant as well. Mid-size firms on average spend almost half a million dollars annually on gift cards across all programs, while the largest firms each spend over $1 million annually. And this spend is only increasing. The majority of mid-size firms and more than half of large firms indicated their 2017 spending on B2B gift cards increased year over year, with the majority increasing spend between 1–9%.

All types of gift cards have a play in incentives and recognition programs as well. Open- and closed-loop cards are by far the most prevalent, with three-quarters of firms using each. However, restricted cards and vouchers still have strong usage considering their general niche nature. E-gift cards are gaining significant traction in the market as well 50-60% of midsize and large firms using them. Department stores, dining/coffee, and exclusively online retailers are the most heavily-purchased closed-loop card categories, with electronics and music/movies used moderately.

The ease of sourcing gift cards has no doubt contributed to their use in non-cash award programs. Both mid and large-size firms mostly commonly source their gift cards directly from retail or by working directly with top brands. They also execute a considerable amount of this spending online. Two-thirds of the spending firms do with gift card suppliers is done online, and only slightly less than that for agencies and brands. Even with such significant trends, there is work to do on industry awareness. Within large firms with considerable gift card spending, one-third of the market has limited awareness that there is an industry designed to supply a variety of gift cards for reward and recognition buyers.

20 See upcoming study on Gift Cards to be released by the IRF in March 2018.