Incentive Research Foundation

The IRF 2019 Trends Study

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1. The Economy and Merger & Acquisition Activity

The end of 2018 saw a great deal of market volatility with some of the largest U.S stock market swings to date. Such volatility prompts many discussions around the economic outlook and its impact on incentives, rewards, and recognition.

On the incentive travel side of the market, things were somewhat neutral, with net optimism at just 3%. The 2018 *Incentive Travel Industry Index powered by SITE Index, IRF Outlook and FICP* showed that internationally almost a third of planners (32%) said the national economy was having a positive impact on programs, while 29% saw it as having a negative impact. North America was notably more positive in comparison to the rest of the world (35% vs. 28%). The Incentive Research Foundation (IRF) has found optimism on the travel side of the market to be more continuously volatile in response to economic conditions than the gift card or merchandise side of the market. Things were much more positive on the gift card and merchandise side of the market, with net optimism at 43%, reflecting that there were 43% more planners who were positive about the economy's impact than ones who were negative.

There seem to be opposing forces at work in the economy, with concerns over U.S. market volatility and a tightening U.S. housing market balanced by four consecutive quarters of GDP growth and long-term interest rates that still outstrip short term rates. Incentive Federation and IRF studies show there is still room for growth in the market with 84% of businesses now using non-cash rewards and past studies showing close to 60% of merchandise and gift card rewards are still sourced through retail versus specialized agencies or providers.

The strength of the market overall has and will continue to lead to ongoing mergers and acquisitions on all fronts. Starwood's acquisition of Marriott in 2016 was a high-profile example on the hospitality side of the market, but this was in no way the final story. In 2018, Wyndham Worldwide bought La Quinta and Hyatt purchased Two Roads Hospitality. Likewise, many businesses from other related markets and submarkets are securing new business acquisitions to expand their services, blurring lines between many types of service offerings. From late 2017 to 2018, the destination management company PRA acquired destination services companies Briggs and Destination Nashville, then also acquired One Smooth Stone, an event and communication agency. Aventri (formerly eTouches, a registration and event management software company) made three acquisitions: ITN International (event technology company), TapCrowd (mobile app provider), and Zentila (events RFP management solution). Expansive acquisitions were also active in the incentive house market. Creative Group acquired TPG; ITA Group acquired Hartmann Studios, an experiential design and production agency; BI acquired Bunchball; and after numerous acquisitions, Blackhawk Network was itself acquired by Silverlake Group.

With the vast majority of businesses now using non-cash awards as part of their human capital or marketing strategy, and many of them beginning to search for outside help in execution, the market and demand for services will continue to grow. Coupled with a still-strong U.S. economy, the low cost of capital, increasing interest in this market from private equity firms, and the ever-increasing need to differentiate and provide multiple forms of value, businesses acquisitions in the incentive, rewards, and recognition space will not be far behind.

2. Physical and Data Security Are Still Paramount – With More Resources Coming

Both physical and data security remain a top concern for buyers and sellers involved in planning not just incentive travel and motivational meetings, but also gift card, merchandise, and points programs. Maslow's hierarchy of needs taught that beyond the physiological needs for food, warmth, and shelter, humans require safety and security before they can aspire to higher levels of existence including belongingness, self-esteem, and self-actualization. As the travel, events, and motivation industry strives to motivate individuals up toward ever-higher levels of this pyramid, it is no surprise—given the modern day 24-hour news cycle—that a basic block and tackle approach to focus on safety and security has remained a central part of the conversation for the last few years. What is new, however, are the many varied ways safety and security present themselves—on a continuum from fully physical to fully digital.

According to the IRF's *2016 Event Disruption Study*, more than half of planners reported having experienced some sort of disruption to their event, and the largest occurrences were related to weather or natural disasters. The 2018 *Incentive Travel Industry Index powered by SITE Index, IRF Outlook and FICP* again found that the majority of buyers (68%) and sellers (62%) noted the threat of terrorism as one of the main issues impacting their programs. The industry has taken this concern very seriously, with a host of organizations stepping forward to create resources to assist with planning and ensuring "duty of care" requirements are met for planners. Risk management and security plans have long been a part of the Event Industry Council's CMP certification and training. MPI (Meeting Professionals International) launched its certificate in Meeting and Event Safety and Security in 2017 and in June of 2018 launched *The Essential Guide to Safety and Security: Best Practices for Meeting and Event Planning 2018*.

But safety is not limited to physical security—as became highly evident in Marriott's data breach of 327 million customers. In many instances, participants in programs are much more at risk for getting their data stolen than they are for experiencing a terrorist event. The reality, however, is that many organizations are as vulnerable as Marriott (if not more), which will increasingly prompt governments, policy makers, and procurement representatives to ensure their constituencies are well versed in the mechanics of data security. In fact, data security is an area of concern for all corners of the market and anywhere data is collected, including points programs. The European Union's 2018 implementation of the General Data Protection Regulation (GDPR) and California's Data Privacy Law (set to go into effect in January 2020) are mostly likely precursors to sweeping changes in data security, which will become paramount in the next five years.

3. C-Suite is Creating a "Talent Culture"

The Incentive Marketplace Estimate Research Study reported that more employers than ever are offering non-cash rewards aimed directly at building relationships, encouraging inclusion and knowledge-sharing, and promoting engagement. The 2018 *Incentive Travel Industry Index powered by SITE Index, IRF Outlook and FICP* saw a three-level leap in how organizations rank the importance of incentive travel in building relationships with employees; it is now the second most important reason for using such rewards. Survey respondents reported that these rewards bolster company culture, create stronger bonds "between vendors and employers, executives, and employees," and generate a "sense of purpose."

Executives are often confounded by culture because much of it is anchored in unspoken behaviors, mindsets, and social patterns. But when properly managed, culture can help leaders achieve change and build organizations that thrive, even in the most uncertain, disruptive, and complicated conditions. Empirical research findings are making it more apparent than ever that when organizations connect work to a larger purpose and mission, emphasizing intrinsic motivation over pay, they outperform their competitors. The IRF's research, and a growing body of academic research covered in *The IRF Quarterly Academic Review*, offer additional evidence that when executives combine economic incentives with recognition and well-designed non-cash rewards, they promote "corporate citizenship" behaviors. These behaviors and attitudes create the sorts of work environments and culture that attract and retain top talent.

4. Predictive Analytics and Artificial Intelligence

Even in the short time since IRF published *The Impact and Potential of Artificial Intelligence in Incentives, Rewards, and Recognition*, a great deal has changed. Artificial Intelligence (AI) is developing at a blistering pace. New, self-improving AI learns with minimal input from humans. The potential for AI to learn so fast and so much that we can no longer comprehend it, is real.

AI has already changed aspects of human capital management profoundly, particularly in the arenas of sourcing and hiring. In the incentives field, predictive analytics and machine learning are helping program designers understand who is drawn to which types of rewards, and how those rewards should be shaped and presented to produce the best outcomes on an individual basis. Organizations are using analytics and AI to see patterns in peer-to-peer recognition, so they can encourage greater participation. Some are using it to personalize learning. In the near future, algorithms will spot patterns and correlations between past rewards and incentives and the desired behaviors and outcomes that define a high performer. These sorts of advances will propel organizations that understand and leverage AI early, to new heights.

Reward program designers should focus on how they can leverage AI and machine learning in their work as soon as possible. In the longer term, they should imagine the various ways these technologies will disrupt the industry, and even notions of workforce productivity in general.

5. Incentive Travel on the Rise: Contributing Factors

The forecast is a sunny one for incentive travel—with growth supported by expanding budgets, increased participant eligibility, and improved internal and public perceptions of incentive travel programs, according to the 2018 *Incentive Travel Industry Index.*

Buyers' average spend on travel programs has increased significantly in 2017 and 2018, as compared to previous years. In fact, about one in two buyers report that their overall incentive travel budget has increased, and more than half of all buyers plan to increase the number of people who are eligible for travel rewards. Per person median spend was reported at $4,000, while per person average spend for corporate buyers was $8,151 and $5,193 for agencies. This wide range and notable difference between the median and the average spend on incentives is the result of a growing number of outliers who are spending as much as $50,000 per person.

One factor contributing to the rise of incentive travel is the C-suite's growing realization that profitable businesses employ strategic use of rewards and recognition. Increased executive buyin—and growing public awareness of the proven effectiveness of incentives—is reflected in the fact that the majority of buyers and sellers (58%) report a more positive perception of incentive travel than ten years ago.

Many planners stick close to home, but long haul is still growing. North America leads the way as the top incentive travel destination for U.S. program owners and providers, with the Caribbean, Western Europe, and Australia/Pacific (including Hawaii) following close behind.

6. Merchandise Spending Projected to Increase

As reported in the *Industry Outlook Study 2019: Merchandise, Gift Card, and Event Gifting*, the market optimism in the non-cash reward and recognition market continued its climb in 2018, with the IRF's proprietary Net Optimism Score reaching a peak 43%—a score only previously seen in 2013. Buyers and providers alike are very optimistic regarding the U.S. economy and the effect it will have on the programs they run. Program owners expect more participants to earn rewards next year, and a net 33% of corporate program owners expect overall merchandise spending to increase next year as a result. Overall use of merchandise rewards is also expected to increase, particularly among corporate audiences, with a net increase of 33% compared to a net 20% of suppliers and third-party providers.

The use of logo'd brand-name merchandise is common, with 75% of corporate programs using these items as rewards. Other popular rewards are electronics (63%) and clothing/apparel (59%). There is considerable usage across a large range of merchandise categories, with 11 of 13 categories used by at least 20% of the corporate audience. This confirms findings from previous IRF studies regarding the emphasis placed on offering a range and selection of rewards that are exciting and compelling to program audiences.

The IRF *Industry Outlook Study* found the average merchandise reward value to be $160, a number somewhat influenced by a small proportion of the market that spends more per reward than is typical. Nearly a quarter of respondents indicate their average merchandise reward is $100, and one half of respondents reporting average merchandise reward values falling between $1 and $100. However, some program owners use significantly higher-value merchandise rewards—more than 10% of respondents indicate their average merchandise reward is $300 or more.

Event gifting continues to grow as well, with *a net* of over 33% of corporate buyers saying they were increasing their budgets here. As the IRF's *Industry Outlook Study 2019: Merchandise, Gift Card, and Event Gifting* reported, while suppliers see event gifting across a broad range of meeting types, corporate audiences are most likely to be using gifts for incentive trips, internal meetings, and customer events. Branded merchandise with national recognition is the most common gift used by corporate audiences, and these gifts are most often delivered at the registration desk or to the attendee's hotel room. Median spend ranges from $100 to $200 depending on the recipient type, and interestingly, 60% of corporate buyers said the cost of gifts is offset by sponsors.

7. Positive Outlook for Gift Cards

Gift cards continue to be a popular option within reward and recognition programs, according to the *Industry Outlook Study 2019: Merchandise, Gift Card, and Event Gifting*. Consistent with other market surveys, the *Industry Outlook Study* found that open loop cards (that can be used anywhere) and brand-specific cards both enjoy high utilization within non-cash reward and recognition programs. Interestingly, recent studies have indicated that restricted use cards (multi-merchant, but not quite "open") and vouchers (redeemed for a brand-specific card) are both climbing in popularity, likely driven by both awareness and availability to buyers. Likewise, e-gift cards continue to gain momentum in the market, with the IRF finding in 2018 that half of large enterprises and 58% of medium enterprises use them.

Whether on the client or provider side, gift card utilization and spending are expected to increase in 2019—consistent with the overall positive outlook for the incentives and rewards market. Within brand-specific cards, the most prevalent merchant category, by far, is coffee, with 74% of respondents including those merchants in their card selection. Dining and online retailers are also very popular, with more than half of respondents using each. Similar to merchandise rewards, there is considerable utilization across a wide range of merchant categories, indicating that program owners are attempting to tailor rewards to be relevant and compelling at the individual participant level. The average gift card value is $100, with $25 and $50 denominations also popular in the market.

There still remains a significant opportunity for providers to raise awareness of specialized sourcing channels available to corporate buyers. A key theme for the reward and recognition market to address heading into 2019 is the prevalence of local retail sourcing (local, convenient Starbucks, Dunkin' Donuts, Target, etc., locations) —particularly for gift cards. While prior studies have identified this dynamic, the IRF *Industry Outlook Study* was able to estimate that 69% of companies do at least some of their gift card sourcing at the local retail level.

8. Countercurrents to Incentive Travel, Merchandise, and Gift Card Growth

While the overall outlook for travel and gift programs is a positive one and incentive budgets are growing, eight in ten incentive travel program owners are still seeking to decrease costs, according to the *Incentive Travel Industry Index.* A few elements have been identified in research by the IRF and partner organizations as detracting from the growth of incentive travel and merchandise gifting.

The number of buyers taking steps to reduce costs has been increasing every year, moving from 73% in 2015 to 78% in 2016, 80% in 2017, and 82% in 2018. With rising fuel prices, keeping costs of air transportation down continues to be a top priority when budgeting for travel incentive programs. The top challenges cited by planners as hindering the ability to craft ideal incentive travel programs are airline costs, national political situations, and the threat of terrorist attacks. This trend has been positive for all-inclusive destinations, as 41% of buyers list all-inclusives as a top way to optimize guest experiences when cost-cutting is mandated.

Concerns over domestic terrorism have made event planners and corporate end users more cautious when determining event elements such as size and location and have challenged planners to be strategic and painstakingly thorough when planning staffing, on-site communication channels, emergency procedures, legal protections such as insurance, contingency plans, and other disruption mitigation strategies, according to the IRF's *2016 Event Disruption Study*. Political and social issues such as government shutdowns, strikes, and border security regulations have also gained attention from planners and program owners alike as aspects to focus on while developing and executing incentive travel programs.

Politics has implications for incentive merchandise as well. The regulatory environment contributes to a cautious outlook for the marketplace, particularly among gift suppliers, as described in the *Industry Outlook Study 2019: Merchandise, Gift Card, and Event Gifting*. Due to the impact of trade restrictions upon the supply chain, some international sourcing options may become more limited than in the past. In these instances, merchandise suppliers should be prepared to reevaluate longstanding relationships and business arrangements and may need to invest time and resources into researching and establishing relationships with new vendors.

When faced with cost containment, there is overwhelming opportunity for buyers/program owners to appeal to the business acumen of decisions makers and other key stakeholders by showcasing the positive financial ramifications of rewards and supporting proposed program budgets with more detailed analytics. Currently, less than 30% of corporate buyers track return on investment (ROI) or return on objective (ROO) for incentive travel programs, and 53% of corporate buyers for merchandise and gift card programs say they use no reporting or analysis for their program. Other cost containment strategies that buyers use include the following: choosing less expensive destinations, shortening programs, trimming down on corporate social responsibility (CSR), and relying more heavily on destinations with established infrastructures. Hoteliers and planners should continue to capitalize on added value, as the market is experiencing downward budgetary pressure, with increased actual spend and length of stay.

9. Transformational Experiences

In 2019, transformational travel will continue to push and extend the experience economy even further. Transformational travel proposes offering highly memorable, authentic experiences while connecting people with a deeper meaning that leads to personal growth and/or self-actualization. The concept of transformational travel connects and incorporates concepts of wellness, sustainability, community, and personal fulfillment.

The Global Wellness Summit's 2018 Trends Report marked its second trend "A New Era of Transformative Travel," noting it is "travel that challenges people on a deeply personal level, creating emotion through the powerful medium of storytelling." This trend cuts across demographics and increases in urgency as the age and experience level of the audience increases.

The push will begin to move from basic mindfulness to using travel to foster a deep emotional connection or realization that extends far past the trip's end date. These transformative experiences can come in highly designed formats such as Austin Adventures "solo walks" incorporating gratitude and thankfulness or NoshTrekker's Singaporean family meal dining where the hosts not only curate a menu, but tie each part of the menu to their family history and story. Some experts, however, such as Ralf Potts, author of *Vagabonding Travel*, note that transformative travel takes time and openness to happenstance, which can't be easily penciled in to a busy schedule.

This trend is only gathering steam with the establishment of the Transformational Travel Council and *Skift's Transformative Travel* report. For high-end travelers and attendees, this drive for connection, fulfillment, and self-improvement may begin to trump other areas of experience.

10. Agility, Experiences, and the Design Imperative

It will become increasingly imperative for incentive travel and program managers to apply design thinking to their process. The "standard three- or five-day" schedule will no longer meet client and rewardee needs. Incentive travel managers and program owners will need to continuously test new and different ways to engage attendees in transformational experiences.

Incentive travel now needs to entice an evermore traveled and experience-hungry generation. According to a Hipmunk survey, 72% of millennials said they traveled more in 2016 than in years prior. While 35% of Gen Xers planned to check off a bucket list destination, 60% of millennials had these ambitious plans. Mixing business with pleasure, 55% of millennials extend some leisure time to their business travel, versus only 28% for members of Generation X.

As the growing middle class has doubled globally over the last 20 years, individuals now seek to collect experiences, not just things. A mix of experiential elements, such as wellness (yoga), local excursions (curated tours, hikes), and gifting suites that involve selection and interaction with other participants are increasingly expected in incentive travel design. Traditional amenities for events have expanded to include gifting experiences, with 70% of respondents to a recent IRF survey saying their incentive travel program has a gifting experience. On average, respondents were spending $210 per person, as reported in the IRF's *Industry Outlook Study 2019: Merchandise, Gift Card, and Event Gifting.*

Designing for these increasingly savvy travelers will press the bounds of regular program planning, calling on program designers to continuously test new ideas and incorporate changes quickly. Agile and interactive development techniques have long been in the technology and product development realms. These concepts have since extended to human resources elements as well, with *Harvard Business Review* announcing that "the new era of talent management is agile." As incentive travel planners adapt and develop programs in an agile environment, they will need to adopt a design thinking mentality with continuous changes and the overlapping of ideas from many different domains.

Additionally, as all generations in the workforce continue to be exposed to and incorporate new and different technologies at blistering speeds, non-travel programs will be pressed to incorporate design thinking into their websites, communications, and modes of reward delivery as well. Learning to quickly triangulate new reward delivery options (e.g., mobile payments) with ever-changing technology and content expectations (e.g., video chat, augmented reality, predictive content display) will challenge all program designers to adopt the test-often, fail-fast, customer-centric nature of design thinking.