Incentive Research Foundation

THE IRF 2023 TRENDS REPORT

As we enter 2023, COVID concerns have subsided, while workforce issues take on increased urgency. The workforce continues to be impacted by the Great Resignation, remote work, and labor shortages. Given one of the most challenging labor markets in history, incentives are an increasingly critical business strategy to help organizations attract, retain, and build culture across in-office and remote workers, as well as strengthen channel partnerships.

These high expectations are accompanied by several significant challenges this year. Inflation, uncertainty, recession fears, supply chain issues, service levels, and limited inventory are some of the major barriers to successful implementation of incentive programs. As one incentive professional put it, “the rising cost of everything” is at odds with the ability to deliver the desired experience and outcomes within budget.

Expanded Role of Incentives Professionals

Incentive, recognition, and reward programs will be expected to have broader reach and deeper impact. The new decentralized workforce comes with new expectations, new drivers of performance, and new considerations for the structure and delivery of engagement programs to inspire employee performance and loyalty. A third-party provider commented, “More stakeholders are also jumping in to ensure incentives are not just driving sales but are a retention tool as well. HR is playing a bigger role in decisions.”

The IRF’s *The Role of Incentives In Today’s Decentralized Workforce* reported that culture is key. Incentives professionals play an important role in providing channels of communication, offering experiential, face-to-face rewards, and providing frequent manager and peer recognition. Their job now also encompasses helping companies demonstrate concern for employee well-being with time off rewards, access to wellness resources, and wellness merchandise rewards with the goal of helping address loneliness and burnout.

The growing role of incentives provides the opportunity for more measurement, analysis, and proof of success, including predicable and measurable ROI. A third-party provider said, “Many client organizations have reduced resources internally and are requiring more complex reporting.” Another third-party provider noted that the emphasis on ROI resulted in increased use of the data captured through incentive, recognition, and reward programs. Incentive professionals are using the data to make more informed decisions moving forward, for personalization, and to educate new stakeholders on the value of incentives.

Scaling Back...

While the demand for incentive travel continues to come back, economic and staffing issues are often forcing incentive program owners to scale back. Compression in hotel inventory, reduction in staff, and increased costs are common barriers to delivering an incentive trip on the same scale as 2019. During an August roundtable discussion featured in *Decision Drivers 2022*, many incentive professionals indicated these factors contributed to the reductions in the number of attendees on their programs. This seems to be a short-term trend, with incentive travel buyers indicating the number of people participating in incentive travel programs will increase by 48% in 2023 and 61% in 2024 compared to 2019 as reported in the 2022 *Incentive Travel Index*.

Limited hotel inventory continues to be a challenge. Even as some of the compression caused by displaced 2020 and 2021 programs eases, there is still high demand and reduced hotel inventory. While IRF's *Incentive Expectations and Reality In The Hospitality Industry*, conducted April – June 2022, suggested that Tier 2 destinations were a strong option, by December a panel of industry experts noted that Tier 2 destinations were also in short supply. When planners can find space, they are struggling to get pre- or post-program availability. Weekends are often not available, and planners are finding they need to be more flexible with date patterns. A program owner commented, "I have to book now further into the future and can't really rely on just having relationships to find availability."

Hotels and DMCs continue to struggle with staffing shortages and service levels, which also impacts the incentive experience. In *Incentive Expectations and Reality in the Hospitality Industry*, we reported that 54% of incentive travel planners cite the ability to maintain and deliver expected service levels as their primary concern. Many incentive program owners have found the need to utilize part-time contractors or bring their own additional staff onsite to anticipate shortfalls and maintain service levels. In the same study, hotel respondents showed confidence, with 84% reporting they offered daily housekeeping services, and 95% reporting having all food and beverage outlets available. During a December roundtable discussion, incentive professionals noted that staffing and service levels at high-end properties and resorts were typically back to expected levels.

Finally, inflation and cost increases are impacting the planning and execution of incentive travel programs across the board. The rising cost of air travel, combined with increases in delays, impacts the budget, options, and overall experience. DMCs are seeing price increases due to cost of talent, transportation / fuel surcharges, and venue rental costs. Suppliers struggle with hiring and retaining staff and managing cost increases resulting from inflation and the energy crisis abroad. Incentive program owners are faced with defending increased budgets to leadership.

...And Ramping Up

Incentive travel activity will be strong in 2023, with the *Incentive Travel Index* reporting that 56% of buyers increasing per person spending over 2019 levels. As incentive travel programs rebound to meet pent-up demand, expectations are higher than ever. With the added emphasis on employee retention and recruitment, the quality and impact of programs ties clearly to corporate goals. Incentive travel professionals are expected to “raise their game.” Incentive travel needs to be more exciting, more exclusive, more experiential, more authentic, and more memorable than ever.

Experience is considered “the new luxury” and is a top driver of destination choice among buyers today. There is a renewed emphasis on creating unique experiences that are memorable for all participants. Private access to normally crowded venues, exclusive guides and inside stories, meals in places that are unexpected, and more have higher perceived value now for program participants. A third-party provider noted the changing definition of luxury, commenting, “We are finding it doesn’t necessarily have to be a top-of-the-line property, but the experience needs to be custom, personalized, and unique.”

Corporate enthusiasm for the return to incentive travel can often create urgency. Lead times are decreasing, and the decision to move forward with an incentive program has been described by many as “last minute.” The challenge of quick turnaround time is compounded by the fact that hotels and DMCs are fielding high volumes of RFPs. Budgets continue to increase, often out of necessity.

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Inflation Increases Perceived Value of Non-Cash Rewards

While inflation has been a challenge for businesses and employees alike, incentive professionals are responding with program adjustments, especially with gift cards, merchandise, and points programs. The *IRF's Industry Outlook for 2023: Merchandise, Gift Cards and Event Gifting* reported that 50% of North American respondents believe high inflation increases the value of non-cash incentives. While gift cards may not buy as much as they used to, receiving a non-cash incentive may be a particularly welcome gesture when household incomes are stretched, and discretionary spending is more limited.

The IRF's Academic Research in Action series offers additional insights into how incentives professionals are adapting programs in response to inflation. The research shows that non-cash rewards provide a flexible means of increasing an employees' total rewards package without incurring fixed costs or creating long-term expectations and "entitlement effects." While inflation has increased the costs of reward merchandise, a points program can manage inflation by simply adjusting redemption levels.

> **Half of our North American survey respondents said they believe high inflation increases the value of non-cash incentives.**

Incentive travel is harder hit by inflation. The *Incentive Travel Index* reported that inflation is the top concern as incentive travel professionals look to the future. Inflation outranked "attracting and retaining talent" as the top challenge, with 85% of North American respondents and 73% from the rest of the world citing inflation and rising costs as the top concern.

Patience Has Run Out

The industry-wide attitude that "we're all in this together" during the COVID crisis is waning. Suppliers have noted that incentive clients who were once accepting of COVID related issues are increasingly losing their patience. They expect services to be delivered at pre-COVID levels, particularly where costs are higher than pre-pandemic. An incentive planner explained, "We can't lower the bar but increase costs, especially if we are selecting a luxury hotel. The COVID, supply chain, or staffing shortage excuses are not something we want to hear today if we are paying the same cost or higher as pre-COVID." A third-party provider added, "Long after operation, suppliers are not getting us program wrap up details, invoices, and reconciliation in the same quality or speed they once did."

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Incentive travel planners are pressured to put together programs on compressed schedules, so they expect suppliers to respond to RFPs within a few days. In *Incentive Expectations and Reality in The Hospitality Industry*, hotels reported their average response time as slightly faster than what planners expect, with 50% of hotels reporting they respond on average within a day or two. On average DMC response to RFP's is slightly slower than what planners expect with 53% of planners expecting responses within a few days, and 47% of DMCs reporting the ability to meet that expectation. Some planners have noted that response time continues to be longer when sourcing internationally.

While many feel like COVID and related issues are behind us, COVID protocols are still changing in some areas. CES 2023, one of 2023's first major events, had to update their COVID-19 testing policies when the United States government announced that as of January 5 all inbound passengers from China, Hong Kong, and Macau test negative for COVID before boarding a plane to the United States.

Destination Preferences Are Shifting

North American incentive travel buyers have been looking closer to home since 2020, showing a preference for US destinations, including Hawaii, as well as closer locations: Caribbean, Mexico, and Canada. Airfare remains an influencer as costs and route availability continue to be a challenge. While decreasing distance to travel, buyers are still looking for new destinations they have not used before. These preferences were attributed to COVID earlier in the year, but by the end of 2022, many programs stayed closer to home due to rising prices, limited flight options, and uncertainty.

> **Buyers are looking for new destinations they have not used before.**

Despite these challenges, incentive programs are returning to Western Europe at an increasing pace. Surveys conducted during March and April for *Incentive Travel Destination Preferences & Their Impact on Motivation* placed Western Europe as the furthest destination in the top ten destinations preferred by employees. Data collected in May – July for the *Incentive Travel Index* shows that Western Europe had a growing appeal, ranking as the fifth most popular location as North American planners looked ahead. Western Europe was the top choice for buyers from the rest of world. Several third-party providers noted that Europe is in increasingly high demand during interviews that took place in December. One program owner commented, “I have booked more international programs post-COVID than in my entire eight years prior.”

Downtime Is the Hot Activity

As incentive travel participants come back together, and many are now used to working from home, the need for downtime has emerged as a priority. Being given ample time to relax was ranked as most important quality of an incentive trip by participants, with 89% saying it was important in [Incentive Travel Destination Preferences & Their Impact on Motivation](). Attendees want more choices in their schedules, time between programs, and blocks of time to recharge or catch up with work. They want more flexibility in their activities, including shifting some group activities to individual experiences.

> **Given inflation and budget pressure, the attendees' desire for downtime should be a welcome trend for incentive travel program owners.**

When incentive professionals were asked a similar question for the *Incentive Travel Index*, 46% noted that free time was key to a successful program. Given inflation and budget pressure, the attendees' desire for downtime should be a welcome trend for incentive travel program owners. When hotels have appealing pools and onsite amenities, downtime can be a no-cost way for attendees to relax and have their needs met. Agendas need to be planned accordingly, and a well-thought-out communications strategy should be in place in order to have attendees return to more structured programming after downtime and optional activities.

After these breaks, attendees typically come back refreshed and ready to reap all the benefits of meeting face-to-face. The *Incentive Travel Index* reported that 72% of respondents indicated that relationship-building activities were important to a successful program.

Sustainability Concerns on the Rise

Almost 80% of respondents to an IRF survey report at least some pressure from clients to provide more sustainable options in meetings, events, incentive travel venues, and transport. Hotels and DMCs are often expected to be at the forefront of implementing sustainability practices. The IRF's *Social Responsibility & Sustainability* study revealed that sustainable practices are becoming more important to clients and more prevalent in RFPs.

According to the *Incentive Travel Index*, North America places less emphasis on sustainability than the rest of the world. Lowering the carbon footprint is increasing in importance by 48% of the rest of the world respondents, compared to 34% of North American. Environmental sustainability of travel to the destination was a consideration of 32% of North American respondents compared to 40% of the rest of the world.

Program owners are taking into consideration where incentive merchandise rewards are sourced, how they are packaged, and how they might be used. A third-party provider commented, "More and more, we are getting pushed from clients to add sustainable reward options... For our more sustainable-minded reward recipients, we are asked for rewards like t-shirts made from fully recyclable materials, for example. But there's a whole raft of rewards you can search on, and these things are super trendy. We are also seeing clients ask about the packaging."

Cost is the primary barrier to the sustainability movement. Even when sustainability is a stated concern, leadership and clients may reconsider if there is resulting increase cost or compromises in venues and reward choice. A third-party provider commented, "Reducing power use and food waste more than offsets the costs of doing right, but you must show the business value upfront to convince decision-makers to act."

Conclusion

The coming year presents a real opportunity for incentive program owners, planners, and participants to get back to some sense of "normal" following the pandemic. While it would be easy to revert back to pre-pandemic approaches, programming, and communications, it is important to keep in mind that our workforce has changed. Attendee preferences have shifted over the past two years, so take time in 2023 to talk with program participants and channel partners, then make changes to ensure the long-term health of your incentive programs.

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