

THE IRF 2024 TRENDS REPORT

The incentives industry continues to see strong performance even as post-pandemic volume pushes start to level out. The demands of a changing workforce are creating increasing demand for incentive professionals to boost engagement, build company culture, and motivate improved performance. As we enter 2024, incentive professionals are called to transform incentive programs with new rewards and experiences in a challenging economic environment.

Increasing Importance of Incentives to Motivate Today's Workforce



As we begin 2024, incentives and recognition continue to be important tools for organizations. Leadership sees their value, employees are motivated by them, and the industry is positioned for a successful year. According to the Incentive Federation, 84% of U.S. businesses spend \$176 billion annually on award points, gift cards, trips and travel, merchandise, and experiential rewards to reward sales staff, employees, channel partners and customers. The *2023 Incentive Travel Index* reported that 53% of senior leaders consider incentive travel a “need to have,” 48% call it an “essential strategic differentiator,” and only 13% considered it an area to trim or cut.

In today's competitive hiring environment, incentives are a strong differentiator in recruiting and retaining employees. Retaining talented employees was a primary reason behind incentive travel's strategic importance, according to 90% of respondents in the *2023 Incentive Travel Index*. Incentive and recognition programs are considered a key to culture building and are instrumental in bringing together a more dispersed workforce. The reach of these programs is also increasing, going beyond top performers to “move the middle” 60% of producers. However, in many cases program expansion may mean increasing pressure on budgets.

The *Industry Outlook for 2024* reports a net increase of 37% for budgets for merchandise, gift cards, and event gifting in North America. Growth is projected through 2025 for both number of people participating in incentive trips as well as per-person spend, according to the *2023 Incentive Travel Index*. However, these budget increases often do not keep pace with inflation.

Inflation Continues, and Budgets are Hit Hard



Inflation and economic pressure are a top concern across the industry. The *2023 Incentive Travel Index* reported that 76% of respondents indicated rising costs and inflation as a challenge. While incentive program budgets are increasing, prices are often rising at a faster pace. Budgets are often increased to maintain a program, and do not indicate incentive program growth.

Inflation concerns impact nearly every industry player in differing ways. Merchandise and gift card rewards are constrained by inflation and rising costs; the increase of only \$30 for per-person spend for rewards reported in the *Industry Outlook for 2024* does not allow for significant growth. And for travel incentives, rising costs for hotel, air, and food and beverage – which comprise 65% of the average incentive trip – will continue to squeeze out dollars allocated to inclusions, gifting, and DMC services.

Program owners are in a position to make difficult choices about program length, number of attendees, and other program inclusions to ensure a great experience for program participants, while still living within their budgets. Some incentive programs are shifting budgets and moving to a tiered approach, where a smaller number of top performers go to a five star luxury hotel in a prime destination and the next tier of winners enjoys a less elaborate trip, perhaps at closer location and a more moderately priced hotel.

The Workforce is Getting Younger and Priorities are Shifting



While most incentive programs have been designed to appeal to Baby Boomers and Generation X, the workforce is getting younger. According to the US Department of Labor, Baby Boomers, recently the most dominant cohort, will constitute less than one-third of the American workforce within two years. Together, Millennials and Generation Z (roughly aged 16-44 in 2025) are expected to account for about 60% of the workforce by 2025. Incentive and recognition programs are being fundamentally reimaged to motivate employees with values and preferences that are often much different from the previous generation.

While incentive programs are an important tool and retain employees at all career stages, this goal is particularly important for early career workers who tend to “job hop” more frequently. Competitive compensation tops the list of “must haves,” then rewards and incentives can increase engagement and build loyalty that boost retention. Younger workers place a high value on frequent, authentic recognition.

Incentive and recognition programs that utilize points, gift cards, and spiffs meet the need for frequent feedback and rewards. Technology platforms that increase the speed of feedback, amplify congratulatory messaging, and simplify delivery of rewards keep young workers engaged. And the industry is responding with 53% of third parties reporting they are increasing their spending on incentive program technology in 2024, according to the *Industry Outlook for 2024*.

Program owners are paying close attention to the rewards that motivate younger workers. According to *Generational Expectations of Incentives*, younger workers are drawn to merchandise (electronics, etc.) and experiences (concerts, etc.). Younger workers are more likely than others to prefer incentive group travel, and those who have experienced incentive group travel are significantly more likely to prefer it as a reward choice.

Tension Between Planners and Suppliers



Increased prices, reduced availability, staffing issues, and service levels continue to strain the buyer-supplier relationship. The *2023 Incentive Travel Index* reported that 41% of respondents said that buyer-supplier relationships were “challenging,” “difficult,” “uncertain” or “weakened” with another 25% saying they were “complex.” Buyers assert that price increases cannot be justified when service levels have declined. *Incentive Travel Programs – Expectations and Challenges* reported that 96% of incentive travel planners indicated that staffing and service levels are a top concern in destination selection.

When partnering with tourism bureaus, CVBs, and DMCs, the top concerns of planners are expense increases (85%), staffing (79%), and transportation (45%). Tourism bureaus, CVBs, and DMCs urge buyers to engage with them earlier in the planning process in order to secure preferred services and negotiate better deals on their client’s behalf.

Whether related to speed of RFP, availability responses, budget issues, or service-level challenges, the biggest gap is often with communication. The industry has experienced tremendous turnover, so many new partnerships are being established. Some industry veterans express frustration with inexperienced sales personnel, while others are seeking to build trust quickly. A remote and disbursed workforce has resulted in fewer opportunities for in-person meetings than before 2020, while making industry events even more important. Generational differences and comfort levels in communication also come into play, with disconnects among people who prefer a phone call versus a text or email.

Increased Desire for New Incentive Travel Destinations and Unique Experiences



Incentive travel is up, with 59% of end users and third parties surveyed for the *2023 Incentive Travel Index* indicating per-person spend in 2024 will be above 2022 levels. Incentive travel needs to be memorable, and planners are developing strategic and creative ways to design unique experiences at exciting, new destinations while living in the budget / inflation paradox.

There is a strong drive within organizations to utilize destinations that are new to their group, with 71% of respondents to the *2023 Incentive Travel Index* citing this as a priority. North American buyers reported that they have not used Oceania, Alaska, and South Asia, but that they are open to considering these new destinations. When working with new destinations and off-the-beaten path locations, planners have noted that incentive-level standards must be maintained, and using unique destinations cannot come at the expense of luxury.

The top destinations planners intend to use in 2024 are the Caribbean, Mexico, and Western Europe. For popular incentive destinations, planners are working with new properties to create fresh experiences for returning participants. The *2023 Incentive Travel Index* reported that cultural sightseeing experiences are the most appreciated activity in an incentive travel program. Including elements that incorporate local culture make a long-lasting impact on attendees that stay with them long after they return home. These authentic experiences create buzz and motivate performance across the company.

While there is a continued increase in demand for international programs, most notably in Western Europe and Asia, incentive travel planners often must proceed with caution. Since 2020, the industry has experienced one kind of instability after another. Entering 2024, planners have to contend with global instability and high costs for air and ground services. Travel restrictions and regulations continue to shift, although Europe's postponement of the launch of the European Travel Information and Authorisation System (ETIAS) until 2025 is welcome news.

Gift Cards Remain a Top Reward



The utilization of gift cards is on the rise, both in terms of volume and the variety of options available. Given their flexibility, broad appeal, boundless choice, and ease of distribution, gift cards will remain a top reward in 2024. According to the *Industry Outlook for 2024*, the use of gift cards in incentive and reward programs will see a net increase in 2024 spending of 42% in North America and 37% in Europe.

Gift cards for fun and enjoyable purchases (hedonic) and gift cards for everyday purchases like groceries (utilitarian) are both valued by employees. Employee preferences for gift cards demonstrate that cash is not king. The IRF's survey of 939 North American workers revealed that gift cards (hedonic and utilitarian) were even more preferred than cash rewards.

Gift cards allow the recipient a variety of rewards, with brand-specific gift card use showing the most growth in 2023. The most frequently used gift card types offer broad choice for shopping (big box retailers, Amazon) and experiences and food (coffee, dining). Program designers can offer a wide range of options or customize rewards to appeal to employee preferences. Many program designers are focusing on hedonic gift cards that provide trophy value and feel like a true reward. This also contributes to closed-loop, brand-specific gift cards outpacing open-loop gift cards, such as Visa and MasterCard.

Shifts in Use of Merchandise Rewards



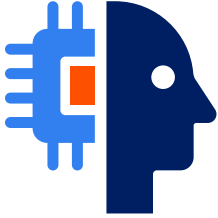
North American and European stakeholders alike expect continued increases in merchandise rewards in 2024. But we'll see more event gifting than gift baskets delivered to employee's front doors. While programs pivoted to merchandise rewards during the pandemic, the return of incentive travel and meetings has impacted how merchandise is used as an incentive and reward.

According to the *Industry Outlook for 2024*, the use of merchandise in reward and recognition programs will see a modest net increase in spending in 2024 of 31% in North America and 25% in Europe. More significant increases in merchandise spend will go toward event gifting, with 2024 net increases of 47% in North America and 51% in Europe.

Tangible rewards make a lasting impact, and program owners are using merchandise to accomplish many of their goals. Logo'd company swag can increase engagement and pride in working for the company, specifically quality brand-name merchandise. Luxury gifts, electronics, and other "splurges" generate lasting memories. Event gifting is an opportunity to extend the impact of the incentive trip or meeting.

Data-driven program owners are using employee preferences and participant data to deliver merchandise that motivates and inspires. One size does not fit all, so the keys to success are *curation*, *customization*, *individualization*, and *presentation*. With an eye on making the recipient feel truly rewarded, program owners are focusing on customized and personalized merchandise rewards.

Artificial Intelligence is Increasing Efficiency and Impact



With transformative potential, ChatGPT and other generative AI is emerging as a game-changer across business, including incentives, recognition, and rewards. By 2030, activities that account for up to 30 percent of hours currently worked across the US economy could be automated—a trend accelerated by generative AI, according to the McKinsey Global Institute. That is welcome news considering the workforce is shrinking and will continue to shrink over the next 10-15 years.

While incentive professionals discuss the powerful potential of AI at industry events and at staff meetings, there is a gap between awareness and adoption. The *2023 Incentive Travel Index* reports that only 31% of respondents believed that ChatGPT and other artificial intelligence will significantly disrupt incentive travel marketing and communications.

While marketing and communications is a good entry point for ChatGPT, we explored many potential uses in the June 2023 issue of *Academic Research in Action*. AI can be used to enable greater personalization in rewards and shift towards true individualization, tailoring travel experiences and merchandise rewards to specific employees. Employee performance can be monitored and analyzed in real-time, enabling the frequent feedback and rewards critical to motivating younger workers. Incentive professionals can use AI to tap into deep data pools to identify patterns, trends, and correlations, enabling organizations to make informed decisions on reward programs and policies. AI can even help reduce potential biases in reward and recognition systems by analyzing employee performance data objectively, ensuring fair and equitable distribution of rewards.

Given the amount of personal data collected to support and inform incentive programs, many incentive professionals have expressed concerns about data security when using AI. CPRA and GDPR compliance remains a priority, ransomware is a threat, and new data challenges continue to present themselves as new technologies are introduced. Increased knowledge and training, strong IT partnerships, and implementation of the proper controls are being employed to reduce the risks of using AI tools.

AI and the resulting automation of certain tasks can also be seen as a threat to jobs rather than a tool to improve efficiency. Incentive professionals are now considering the balance of existing expertise among third parties and program owners versus using AI to bring new ideas and new approaches to the table. While this sense of ideation and possibility is interesting, execution clearly sits with humans... as well as the personal touch that makes incentives and rewards so powerful.



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