Incentive Research Foundation

IRF 2017 Trends Study

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INTRODUCTION

At a time when the pace of economic change continues to accelerate, the IRF is making strides to capture important trends impacting the incentive and recognition industry's trajectory. This paper was developed through collaboration by the IRF's Board of Trustees and advisors, pulling information from the IRF's extensive internal pool of data and client experience, and from outside research. This collaboration yielded 10 important trends for incentive travel, reward, and recognition programs in 2017.

1. The Increasing Demand for Non-Cash Rewards and Recognition

According to the Incentive Federation, over the last 20 years there has been a dramatic jump in the number of U.S. businesses using non-cash rewards, rising from just 26% of all U.S. businesses in 1996 to 84% of all U.S. businesses in 2016. The considerable shift to 77% of U.S. jobs now being service-focused[i] and the positive correlation of employee engagement measurements to stock price increases[ii] have supported this shift. Simultaneously, the International Standards Organization has begun to provide top-down pressure on business as the organization develops worldwide standards for human capital metrics reporting.

CEOs' views on labor have shifted dramatically in the last century as well; in July of 2015 Harvard Business Review advocated that it was time to "blow up HR," not because its function was no longer needed, but precisely the opposite: the authors proposed a shift to a triumvirate where CEO, CFO, and CHRO work seamlessly to deliver on business growth[iii]. As CEOs' recession mindset wanes, many consultancies such as PWC[iv] and the Conference Board[v] see CEOs returning to a long view with a focus on both talent and innovation as part of their core considerations. When coupled with estimates that 80% of the S&P 500's value is currently held in intangible assets—such as customer lists, brand strength, and key talent—the 17% growth in non-cash rewards spend in just two years appears reasonable.

The shift of U.S. businesses toward greater use of non-cash rewards and recognition can also be understood in relation to internal pressures and changes. As the IRF's "Engaged in What?" study found[vi], traditional compensation systems have not kept up with organizations' need to reward and recognize employees for the shifting and increasingly valuable, non-core job roles they are asked to engage in on a daily basis (e.g., trainer, innovator, brand advocate, wellness advocate, etc.). Additionally, HR continues to become more strategic. With 70% of organizations now having HR representation on their company's Board of Directors[vii], they will no doubt continue to support recognition-friendly strategies such as eliminating the annual review process[viii] in favor of assessment data that is more timely and more peer-based.

Implications: External top-down and bottom-up pressures as well as internal pressures and changes will continue to support the growth of non-cash rewards and recognition programs. Businesses will be challenged to deepen their expertise in these areas and continuously justify their use of these program types.

2. Mastering the Changing and Challenging Regulatory Environment

One of the biggest challenges facing the incentive and recognition industry today is the rapid succession of changes in government regulations that pertain to incentive program design and execution. Almost 60% of respondents in the latest IRF Pulse Study said they agree or strongly agree that government regulations are making it more difficult to design reward and recognition programs. This frustration is not surprising given changes like the Department of Labor's 2016 Conflict of Interest rule, which redefined a financial advisor's fiduciary responsibility in reporting the incentives tied to the sale of annuities. Additionally, new proposed non-exempt overtime regulations could make incentive gross-up calculations more prevalent and difficult. Although each business must individually decide how to move forward, these are just a sample of the many changing regulations that will potentially have significant impact on the design of incentives in 2017.

These increasing constraints also have two strong counter currents. While organizations still call for quick decisions and fast results, the trend towards greater regulation restricts organizations' ability to quickly craft and launch incentive or recognition interventions that produce results. Additionally, at a time when increased regulations potentially impede new programs, a greater push toward human capital management standards encourages the implementation of new programs. Both the IRF and the Enterprise Engagement Alliance are now part of the International Standards Organization's efforts to create global human capital reporting standards with an emphasis on employee engagement metrics.

Implications: Organizations such as the Incentive Federation, MPI, SITE, IMA, PPAI, the IRF, and a host of others will be paramount in helping industry professionals weigh the implications of these changes and establish best practices to address them.

3. Incentive Travel Market: Growth and Challenges

The U.S. market for incentive travel continues to expand. The Incentive Federation estimates that almost 40% of U.S. businesses now use incentive travel in some manner to reward and recognize their top performing employees, salespeople, and channel partners[ix]. The United States remains a primary location for U.S. planners, with 82% of planners choosing U.S. destinations for programs in 2017. Additionally, inbound incentive travel to the United States continues to grow as the country continues to be seen as an interesting and safe destination. Mexico and the Caribbean also remain top destinations for U.S. planners' outbound programs, with roughly 70% or more of planners sending groups to those regions. The strong dollar and larger budgets are also contributing to an increase in European programs, with 64% of planners headed to European destinations in 2017—a large jump from 40% last year[x].

Budgets continue to grow as well with over one-third of planners now having per-person budgets from $3,000 to $4,000 and almost 40% of planners now having per-person budgets of $4,000 or more. Additionally, the net increase of planners increasing versus decreasing budgets in 2017 is 30%. Not only are these increases sometimes allocated to long-haul flights, the most recent study saw a net 29% of planners increasing their food & beverage (F&B) budget and a net 25% increasing their room budget. Rising costs, however, have become a paramount concern. Over 50% of planners in the most recent Pulse survey said costs are rising faster than their budgets[xi]. Particularly in the United States, the supply of both new luxury hotels and new properties with ample meeting space continue to lag behind growing demand[xii]. Likewise, hotel banquet department costs now reflect the sharp rise in the consumer price index for food witnessed during the economic recovery[xiii]. These increases are driven by a number of factors including droughts in California[xiv].

The growing hotel demand and availability concerns are reflected in planners pushing out their booking, with over half of planners now booking *more than* a year out[xv]. Although Airbnb announced extended corporate travel integration in mid-2016, it still remains to be seen if this will impact incentive travel demands, which, by definition, require the planning organization to have a greater control over the ultimate experience than corporate travel departments do[xvi]. Finally, the cruise market continues to see sustained growth for the second year in a row, with more programs moving from land to cruises than vice versa. This growth is supported not only by new ocean-going vessels, but also by new destinations for river cruising including Myanmar, Zambezi, and rivers in Europe.

Implications: Barring any unforeseen catastrophes, incentive travel budgets will continue to grow in 2017 with the majority of those increases allocated to cover higher room and F&B costs. While a good number of planners are increasing their number of room nights, others will be backing away from their programs given legal and regulation changes. These forces combined lead to flat or relatively small growth in the market overall in 2017.

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4. Merchandise and Gift Card Expansion

Merchandise and gift card programs continue to expand in the United States with 60% and 70%, respectively, of all U.S. businesses using these reward types in some manner. Annually, U.S. businesses now spend almost $23 billion on name-brand and logoed merchandise for reward programs and over $24 billion annually on gift cards. The growth in these reward types is taking place primarily in sales programs and employee programs and surprisingly has also been strong in middle market businesses[xvii]. Budgets for gift card and merchandise programs continue to trend upward—a net 35% of respondents said budgets will increase heading into 2017. The growth in these programs is targeted at various investments: a net 41% of respondents anticipate an increase in the number of participants earning a reward and a net of 37% reported program technology investments will increase in 2017.

Not surprisingly, relative to the year prior, more program owners reported using every category of merchandise and gift card IRF measures. Electronics and apparel lead the way with 75% and 67%, respectively, of respondents saying they seem them being included in incentive programs. This is an interesting finding given the typically strong showing of electronics in times of economic expansion and apparel's typically strong showing during the recession. Office accessories and flowers are lowest on the list with 38% and 22% of respondents including them in their portfolio of reward offerings. Both open and closed gift cards continue to have a strong place in non-cash rewards programs, with 67% and 50% of program owners saying in the latest Pulse Study they use these cards as part of their programs.

Implications: Gift card and merchandise programs continue to grow, supported by strong demand as well as new suppliers making it easier for small businesses to launch programs. Given gift card and merchandise programs traditionally less-responsive reaction to economic fluctuations, these programs should continue to grow noticeably in 2017 and beyond.

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5. Shifts in Safety Perceptions and More Frequent Disruptions

Zika. Terrorism. Hurricanes. The list of potential event disruptions seems to be expanding endlessly by both disruption type and frequency. According to research by the IRF and the University of South Carolina[xviii] to be released in June of 2017, almost 60**%** of planners have experienced some form of disruption in their events, estimating that almost a quarter of their events have been affected in some way. Almost 50% of planners said they experienced a disruption costing their organization $10,000–$99,000.

These disruptions are not always tied to newsworthy events. The two most frequently occurring disruptions reported by planners were weather-related events (38%) followed by vendor failures (28%). Partnership has emerged as a key risk control tactic. For example, the study found 47% of respondents said hotels were responsible for handling their most recent disruption, and that hotels were the most helpful in resolving. In general, of the business partners, airlines present the most frequent cause of disruptions through cancellations, delays, and overbooking (61%). Among the partners, hotels were best prepared to handle crises or disruptions, followed by destination management companies, and airlines. Corporations have learned to deal with the new reality of ensuring their associates are safe and secure when traveling on company business. Corporations will continue to travel the world with both eyes wide open to the realities of government coups, terrorist events, and TSA security lines. Even with a strong dollar and expanded budgets, planners continue to explore new venues, locations, and opportunities with ever-heightened scrutiny and ever-increasing safety requirements.

Implications: While planners enact strategies ranging from guidelines to contingency plans to contractual liability challenges, the amount of time required to manage these disruptions continues to grow. Expect increases in both the time spent managing risk and in the variety and complexity of techniques used to curb it.

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6. The Emerging "Next Level" of Experience: Individualized Experiences and the Importance of Emotion

As the IRF's upcoming paper on behavioral economics discusses, tapping emotional engagement through a strategic choice of rewards and incentives is a powerful way for businesses to motivate their stakeholders. One of the primary ways to tap emotion is through experiences[xix]. Almost 20 years ago, Pine and Gilmore released a book chronicling the U.S. shift to the "experience economy[xx]." In essence, it showed how the foundation of economic value has shifted over time from extracting commodities, to making goods, to offering services, to creating memorable experiences. This has held true for all types of reward and recognition programs.

The push toward individual experiences has continued to grow on a number of fronts, especially individual travel experiences and merchandise experiences. According to the Incentive Federation, larger organizations now tend to split their budgets equally between individual and group travel; smaller organizations tend to have a higher reliance on individual travel as a reward[xxi]. According the most recent

IRF Pulse Study, 25% of program owners are increasing individual travel in their programs in 2017, with 12% saying they are adding budget to do so. Likewise, 42% of program owners are increasing the number of "experiential rewards" in their portfolio (e.g. spa days, concert tickets, expensive dinners, sporting events, etc.). The focus for travel is now not only on the destination and venue, but equally important are the authentic, unique, individualized experiences delivered throughout the agenda. This has led to the productizing of mini-experiences: from various types of tastings to personalized training sessions to behind-the-scenes introductions to chefs. But travel is not the only opportunity for experiences, as many merchandise providers have learned. By crafting individual experiences around their core products, brands of all types, from sunglasses to tennis shoes to steaks and sausages have found a way to enhance travel experiences through individually customized experiences during events.

Implications: The focus on tapping emotions and creating experiences, whether through travel or merchandise, will continue to grow in the next few years. As new suppliers enter the market and program designers gain comfort and expertise with novel approaches, participants will be treated to a host of innovative and memorable experiences. With at least three distinct generations served by incentive programs (baby boomers, generations X and Y, and perhaps even incoming generation Z), it is more important than ever that programs are personalized for participants.

7. Technology: Responsive, Predictive, Transparent

Technology continues to be a key game changer for all aspects of the incentives and recognition industry. Almost 90% of large businesses report having some sort of technology in place to support their incentives and reward programs. The integration of mobile devices into programs is now a standard expectation. According to the most recent IRF Pulse Study, 60% of respondents are incorporating mobile apps into their programs. The intense integration of multiple platforms (web-based, mobile, etc.), is pushing all organizations to create their site in 100% responsive design so the content is viewable across multiple devices.

Society's burgeoning acceptance of devices in all settings and situations is also leading to more organizations allowing employees to "BYOD"—bring their own device. In return, employees and channel partners have increased expectations for data transparency and accountability[xxii]. While technology has long been an enabler of experiences for all types of reward and recognition programs, there are several major trends driving end user interest. Although hundreds of examples of each of these trends currently exist, the crux of these trends is fourfold. In sum, technology is becoming more social, wearable, predictive, and view altering.

· **Social:** Over 60% of respondents to the most recent IRF Pulse Study said they use social media to communicate before, during, or after their program. Coupling this with Facebook's recent entry into both the meetings space[xxiii] and the organizational networking space[xxiv] it's easy to see why Velvet Chainsaw consulting predicts the next wave after the "experience economy" will be the "social economy." In this economy, program planners will crowdsource the location for events, livestream them while they occur, and not consider them "real" until they are posted and tagged on social media. In essence, we move from "experience" as the product to "sharing and connecting" as the product[xxv].

· **Wearable:** Are your meeting app notifications compatible with Apple Watch? Do presenters advance their presentation with gesture-controlled wearable armbands? Does your event offer ways throughout its duration to get points on all the various fitness trackers and health monitors? If not, they will very soon. Whether integrated into incentive travel experiences, offered as high-end room gifts, or included in reward catalogs, wearable technologies are, by far, one of the hottest trends of 2017.

· **Predictive:** The main challenge of now having gigabytes of data right at one's fingertips is determining what it all means to the future of our programs and our business. This is the key role of predictive analytics moving forward. Predictive analytics uses classification and regression models to determine how changes in one area of data will impact another. Inputs from employee, attendee, and business data can all be analyzed to help solve real problems such as detecting fraud in programs, enhancing the reach and impact of communications, or predicting how various changes in a program will impact the bottom line.

· **View-Altering:** As humans, we are driven to experience the world in exciting new ways. Want to see your event from above? Engage a drone specialist. Want to capture your attendees' real-time view of their surfing experience? Give them GoPros. Want to showcase your destination without bringing people there? Invest in virtual reality. Want to have attendees discover hidden surprises strategically placed throughout the event? Use augmented reality. All of these help both participants and program owners to see their world in a new way and should be considered for both incentive travel programs and reward catalogs alike.

Implications: Technology continues to accelerate change in businesses across all industries. Incentive travel planners and reward and recognition program owners should evaluate their current technology portfolios to determine how they incorporate mobile, social, wearable, predictive, and view-altering technologies to enhance the outcomes of their programs.

8. The Evolving Design of Reward and Recognition Programs

As the need for and use of non-cash reward and recognition programs continue to grow, program design continues to evolve. Less than two decades ago, non-cash rewards were used to primarily drive four outcomes: safety, service, sales, and quality. This has expanded to where the Incentive Federation measures over 12 different reasons organizations are running employee reward and recognition programs and 9 different objectives for sales programs[xxvi]. Additionally, although not even tracked on studies two decades ago, award points now command the largest portion of the spend on non-cash incentives, with U.S. businesses now investing over $28 billion annually in points programs[xxvii]. As the field continues to mature, so do the tools and techniques used to motivate. Below are six shifting program design patterns the IRF is currently tracking:

· **More than One Award**: 81% of businesses now use more than one type of non-cash reward to recognize their employees, sales people, channel partners, and customers[xxviii].

· **Social Recognition:** Almost 40% of programs are now using social recognition[xxix]. Employee engagement sponsors are asking for social recognition benefits/value to be factored into business case discussions.

· **Integration:** Programs' power increases when they are integrated with other platforms. 34% of program owners said they are now integrating their programs with their sales force system[xxx].

· **Personalization:** Engaging three different workforce generation demographics, each with a different perspective, means personalizing each experience as much as possible. Whether it is ensuring blast e-mails have personal names, online reward catalogs have customized views, travel has individualized experiences, or merchandise has specialized fittings and personalization, a key determinant of success moving forward will be how well programs incorporate personal tastes and desires into the delivered product.

· **Sharing Economy/Paying it Forward:** Employees and attendees today want the option to share their success, wealth, and gifts with their families and those in need—whether it is gifting award points to one's favorite charity, allowing a spouse or child to choose the reward , selecting a merchandise item where a portion of the profits go to solve social issues, or engaging in a corporate social responsibility (CSR) event during an incentive travel program.

· **Top Performer Tracking:** To date, best practices in the reward and recognition space have been the result of industry averaging. However, with preliminary data from the IRF showing that top performing businesses think about and implement their programs differently, there is room to advance our knowledge of successful design patterns. As the industry continues to mature, so will its understanding not just of the percent of businesses using different practices, but which of those practices is most valuable.

Implications: Research on program design patterns and best practices become more necessary for all segments of the industry as it continues to advance. Additionally, incentive houses shift from being viewed simply as product providers to trusted advisors.

9. Industry Consolidation

The global recession saw the weakening of many businesses in the incentives industry. The unfortunate result for some was the desire to merge or consolidate with other organizations. As the world economy has continued to rebound, this practice has become more prevalent. Most widely publicized are the recent mergers and acquisitions in the hotel space, with Starwood and Marriott as the shining example. This merger alone consolidated over 1 million rooms worldwide under a single entity. Cvent has continued to acquire multiple competitors while itself being acquired in mid-2016. Likewise, Expedia.com has made 15 acquisitions over the last 15 years with 7 of those in the last few years alone[xxxi]. But this trend is not confined to the travel space. Over half of the largest incentive houses listed by Corporate Meetings & Incentives in the acclaimed "CMI 25" have been a part of a merger or acquisition in the last few years.

Implications: Some or many of these consolidations will result in lengthy anti-trust hearings, prolonging the mergers. In areas of extensive consolidation, fears of rising costs will prevail as will concerns over rewarding long-term loyal customers of the company being acquired. Seamless transitions during these acquisitions will be paramount to the industry, as will an ultimate show of increased value to the end-customer when the merger is complete.

10. Globalization

As business in general continues to expand internationally, the same is true for incentive travel reward and recognition programs. Once thought of as only affecting the incentive travel side of the market, globalization now influences all types of reward and recognition programs—merchandise and gift cards included. Over three-quarters of incentive travel program owners will run at least one program outside U.S. borders in 2017. Furthermore, three-quarters of the incentives industry includes international participants in their non-cash rewards programs. For corporate end users, more than half have international participants. Canada and Mexico are common places for international participants for both corporate end users and incentive houses; 62% of third parties also have program participants in Europe. Incentives and recognition make up a global industry; politics therefore influences the way it operates. In 2017 there will be major elections in several key countries in Europe: France, Germany the Netherlands to name a few. Additionally, the governments in Southern European countries like Italy, Spain, and Greece ebb and flow in their stability. Also, given Brexit and the influence of Russia in Eastern European countries, the Euro's trajectory is difficult to predict.

Implications: Regardless of program type, be it incentive travel, gift card, or merchandise-focused, the biggest challenge for global programs will be how to reflect and connect to the local culture. Whether it is incentive travel experiences highlighting local food and artisans, gift card programs needing to account for local payment legislature, or merchandise programs reflecting cultural norms in their items, the true challenge will not be globalization, but localization.

ENDNOTES

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