



The Incentive Research Foundation®

PULSE SURVEY



**Effects of a Down Economy on
The Incentive Industry**

September 2008

Background and Survey Purpose

2

It has been suggested that the current economic downturn has had undesirable effects on the incentive industry. The Summer 2008 Pulse Survey is designed to determine in a more precise way the existence and character of these effects.

Given that the Incentive Research Foundation (IRF) is charged with advancing the science of incentives, it surveyed industry professionals to obtain their opinion of the down economy's effects, if any, on the industry.

To this end, the IRF asked these professionals questions on the following topics...

- The effects of a down economy on the incentive industry, in terms of incentive travel programs, merchandise non-cash programs and on program ROI/budget considerations; and
- Any activities or remedies which may have been taken in response to these effects.

In addition to the current topic on the economic downturn, the IRF tracks core issues of continuing interest to the industry:

- The extent to which company financial forecasts influence incentive programs;
- The effect of competitor reactions on company incentive programs; and
- Sensitivity to others' perceptions of company incentive programs.

Research Methods

3

Invitations to participate in this online survey were sent to 618 incentive providers, suppliers to the industry and corporate incentive travel buyers.

The 80 survey participants can be categorized as follows...

- Incentive travel provider (56%)
- Corporate incentive travel buyer (25%)
- Supplier, e.g., hotelier (11%)
- Other (8%)
- ...and represents, after undeliverable emails and out of office adjustments are made, a response rate of 16.7%

Data collection was conducted July 16 – August 14, 2008.

Highlights

4

The down economy is considered by most respondents (81%) as having a negative impact on their ability to plan *travel incentive programs*.
Changes/responses to the down economy with regard to travel incentive programs:

- To enhance the air transportation component, included in programs are...
 - Round trip air transfers, and
 - All costs for air transportation.
- There has been a shift from international to domestic destinations.
- Further, there has been a reduction in the number of days/nights, the number of rooms and a decrease in on-site inclusions per participant.

Highlights (Continued)

5

The down economy is viewed by less than a majority (48%) as having a negative impact on the ability to plan and implement a *merchandise non-cash incentive* program. While nearly half the respondents (49%) report no award selection changes, others report the following changes:

- Increased use of debit/gift cards.
- Included in the program is individual travel as an option.
- Merchandise award value has been decreased.

Highlights (Continued)

6

The down economy is viewed by a significant majority (73%) as having caused a permanent change in how the *success/ROI of future incentive programs will be measured*. Further, the down economy has resulted in significant incentive program budget cuts (61%). The most frequently mentioned cuts were:

- The number of total qualifiers.
- The awards budget.
- Incentive program on-site gifts.
- Communications budget.

Highlights: Core Issues

7

Respondents are in relative agreement on one core issue, but are noticeably divided on the remaining two:

- The company financial forecast influences the design and implementation of incentive programs..
 - Agree 84%.
- Competitors' reactions to programs impact the products and services included in company incentive programs...
 - Agree 47%.
- Sensitive to perceptions of program extravagance to the extent that it would impact the type of company program awards and inclusions...
 - Agree 45%.

Current Topic

The Down Economy

8

Incentive Travel Programs
Merchandise Non-Cash Programs
ROI – Budget Considerations

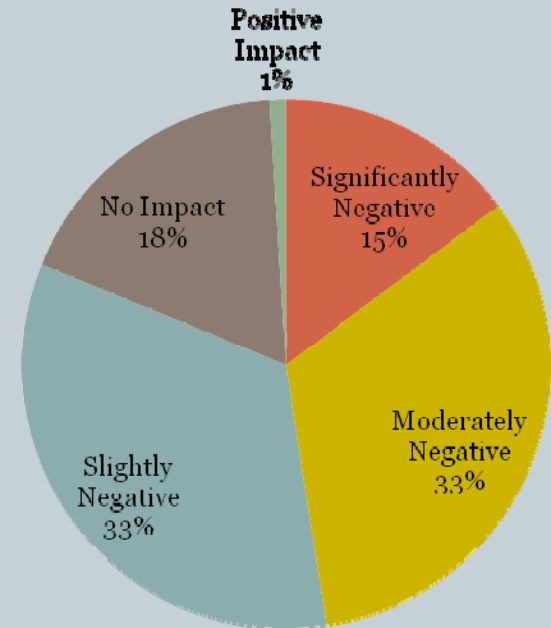
Perceived Impact of a Down Economy on Ability to Plan Incentive Travel Programs

9

Respondents overwhelmingly—more than eight of ten—consider the down economy as having a negative impact on their ability to plan incentive travel programs.

- Negative impact 81%
- No impact 18%
- Positive impact 1%

Overall, how has the economic downturn impacted your ability to plan an incentive travel program? (Base=80)



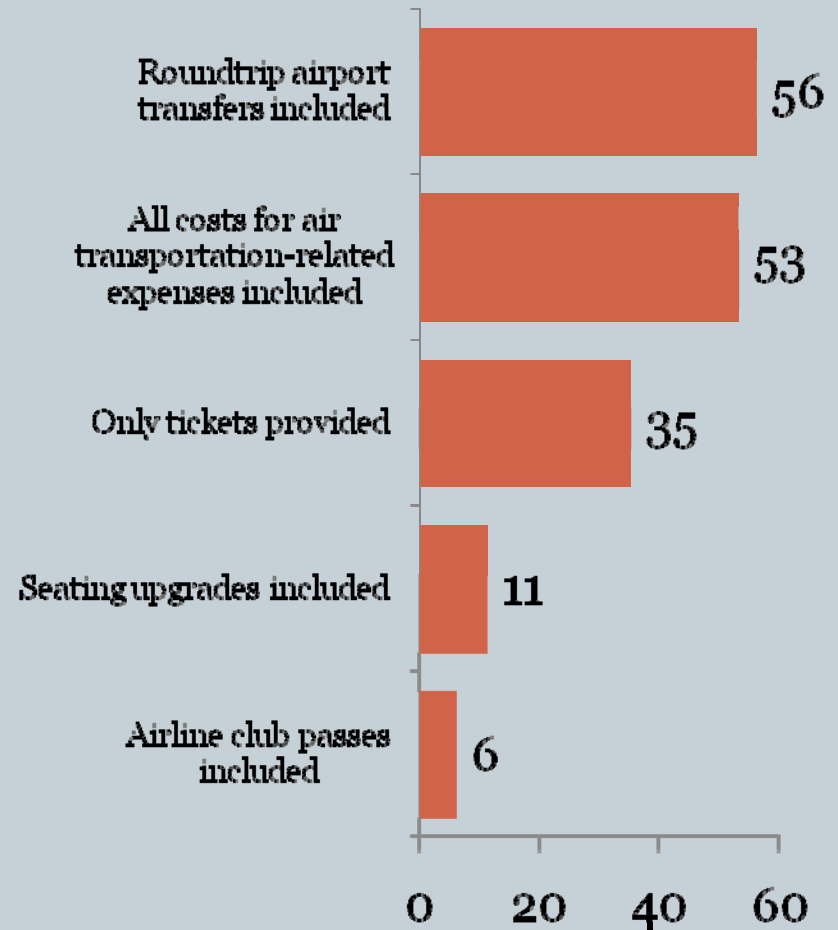
Techniques Used to Enhance Air Transportation Component of Incentive Travel Program

10

A majority of respondents use the following two techniques to enhance the air transportation component of their incentive travel program:

- Roundtrip airport transfers are included 56%
- All costs for air transportation-related expenses are included 53%

With regard to the air transportation portion of your incentive travel program, what techniques, if any, have you used to enhance this component of your incentive travel program? (Base=80; percentages may sum to more than 100% due to multiple responses allowed)



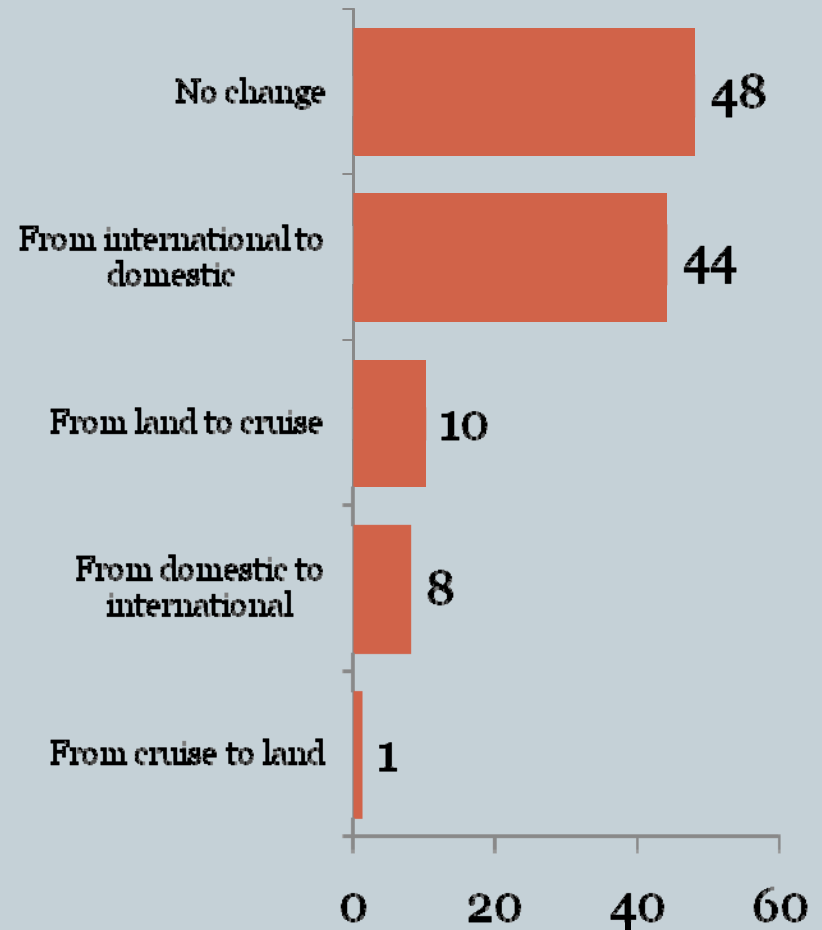
Destination Changes Made to the Incentive Travel Program

11

While nearly half the respondents report no destination changes have been made, a significant percentage report shifting away from international to domestic destinations. It is noteworthy that there has been a small shift from land to cruise destinations.

- No change in incentive travel destinations 48%
- Change from international to domestic locations 44%

With regard to the destination for your incentive travel program, what change, if any, have you made? (Base=80; percentages may sum to more than 100% due to multiple responses allowed)



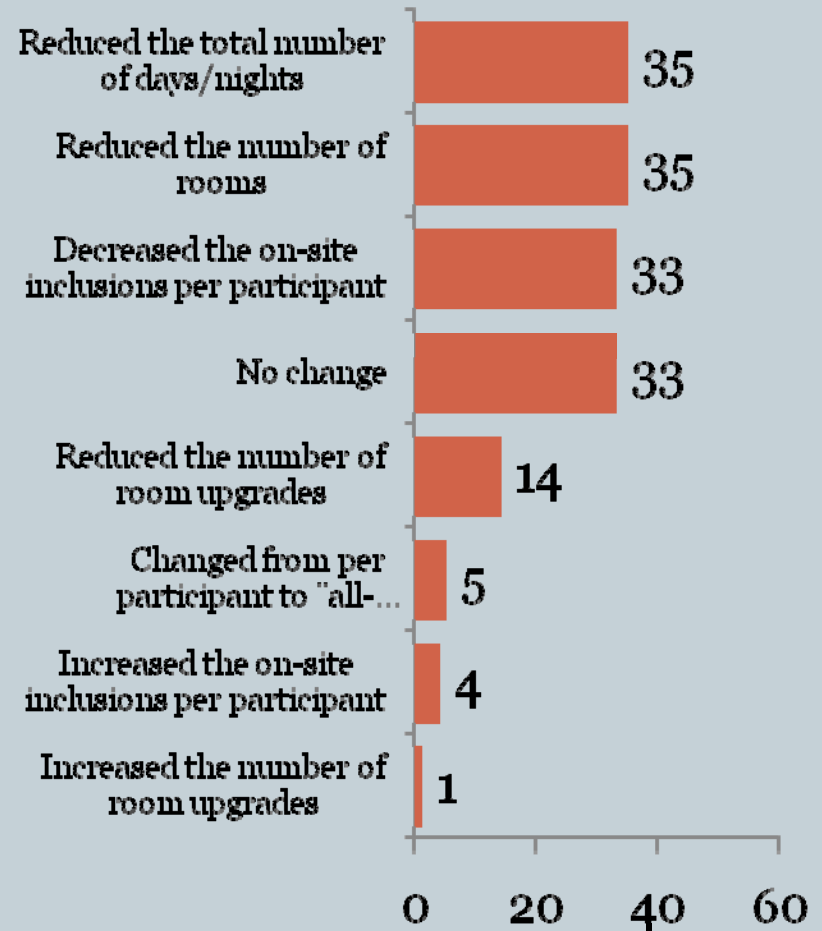
Accommodation Changes Made to the Incentive Travel Program

12

One in three respondents reported no change in accommodations made to their travel incentive program. However, an approximately equal number made the following changes in accommodations:

- Reduced the total number of days/nights 35%
- Reduced the number of rooms 35%
- Decreased the on-site inclusions per participant 33%

With regard to accommodations for your incentive travel program, what changes, if any, have you made? (Base=80; percentages may sum to more than 100% due to multiple responses allowed)



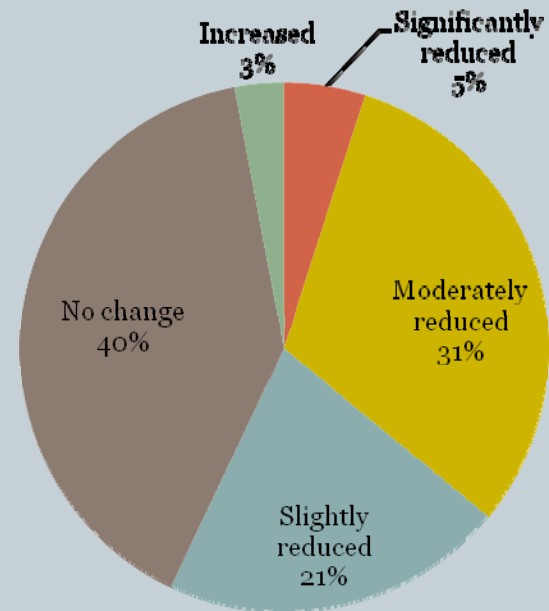
Changes to Sponsored Non-Meal Related Components of Incentive Travel Programs

13

More than half the respondents indicated that they have made a reduction in non-meal related components of their incentive travel programs.

- Reduced non-meal related components 57%
- No change 40%
- Increased 3%

With regard to the sponsored (paid by your company) non-meal related components for your incentive travel program what changes, if any, have you made? (Base=80)



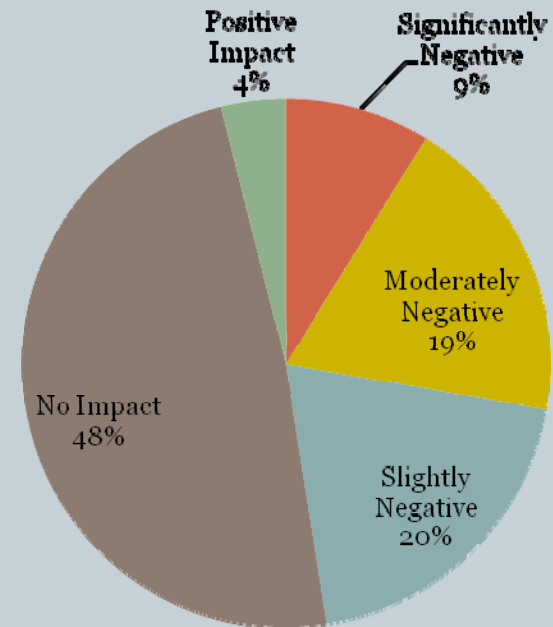
Perceived Impact of a Down Economy on Ability to Plan and Implement a Merchandise Non-Cash Incentive Program

14

Although respondents are less negative about the impacts of the down economy on their ability to plan and implement a merchandise non-cash incentive program than they are about incentive travel programs, nearly half considered the downturn as having a negative impact.

- Negative impact 48%
- No impact 48%
- Positive impact 4%

Overall, how has the economic downturn impacted your ability to plan and implement a merchandise non-cash incentive program? (Base=80)



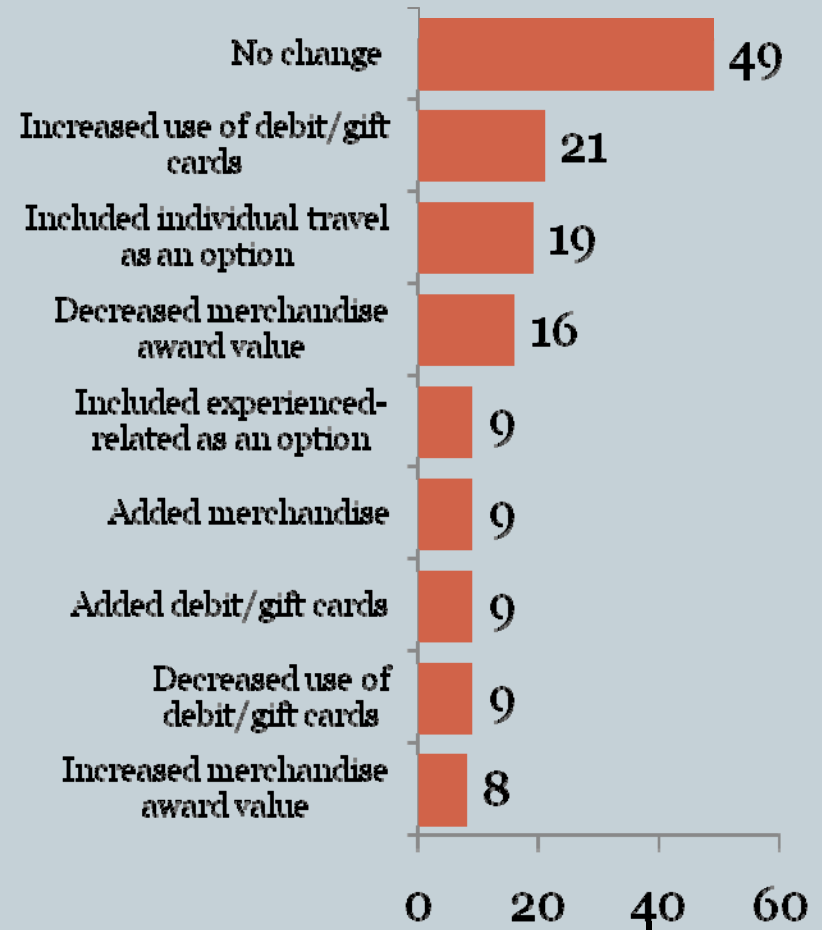
Award Selection Changes with Regard to Merchandise Non-Cash Incentive Programs

15

The most frequently mentioned changes in award selection were...

- Increase the use of debit/gift cards 21%
- Include individual travel as an option 19%
- Decrease merchandise award value 16%

With regard to your merchandise non-cash incentive program, what changes, if any, have you made with your award selection? (Base=80; percentages may sum to more than 100% due to multiple responses allowed)

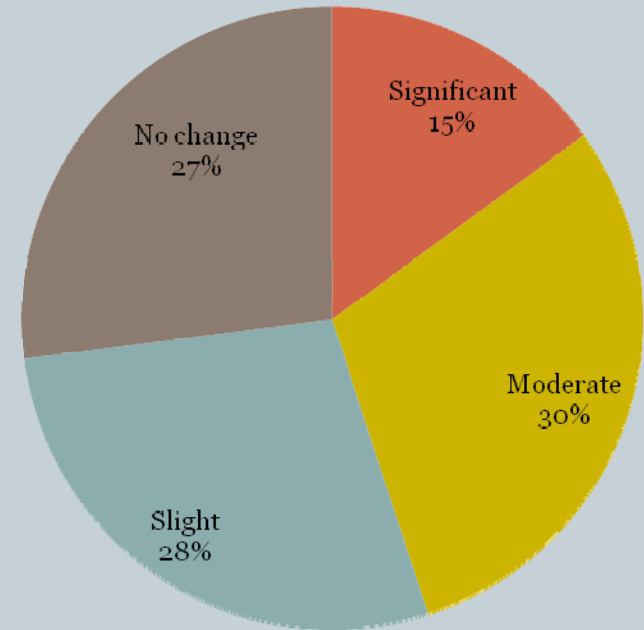


Extent That the Down Economy Has Resulted in Permanent Change in How Success/ROI of Future Programs Will be Measured

16

A majority of respondents reports that the down economy has resulted in a permanent change in how incentive program success/ROI will be measured...

- Different measures 73%
- No change 27%



To what extent has the down economy caused you to create different or more precise measures of success or ROI that has created a permanent change in how your future programs will be measured? Has the extent been... (Base=80)

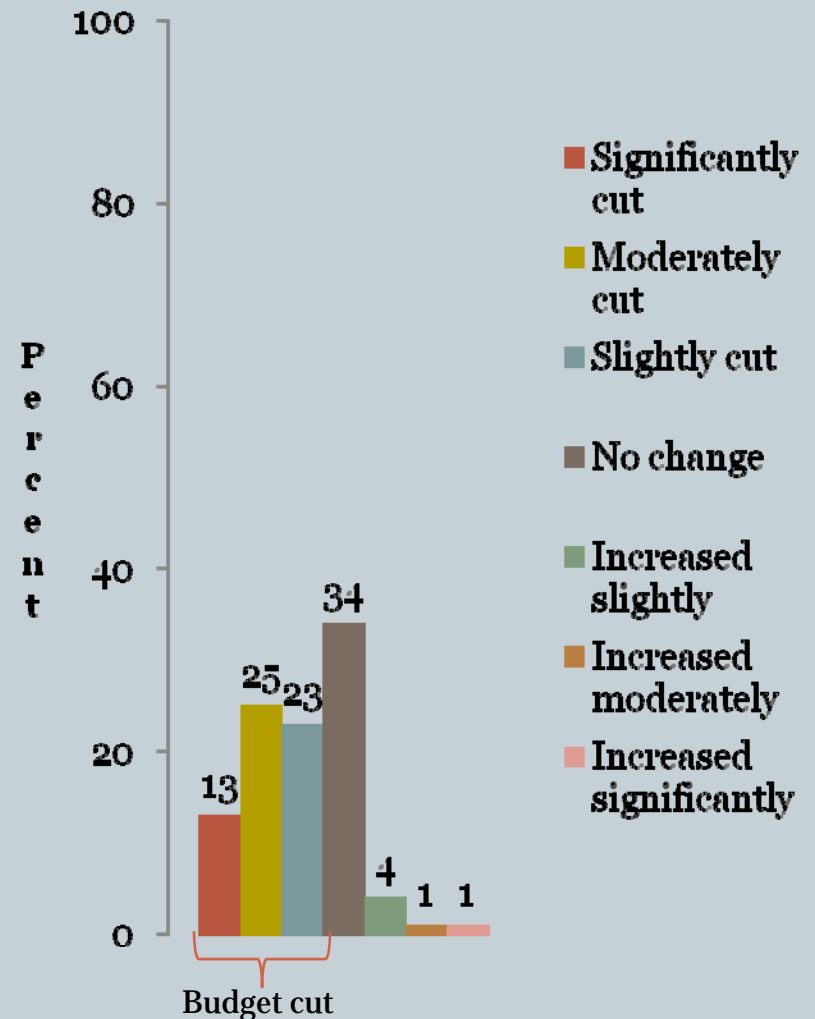
Effects of the Down Economy on Incentive Program Budget

17

Similarly, a majority of respondents reports that the down economy has resulted in incentive program budget cuts.

- Yes, budget cut 61%
- No change 34%
- No, budget increased 6%

Has your incentive program budget been cut due to the down economy? (Base=80)



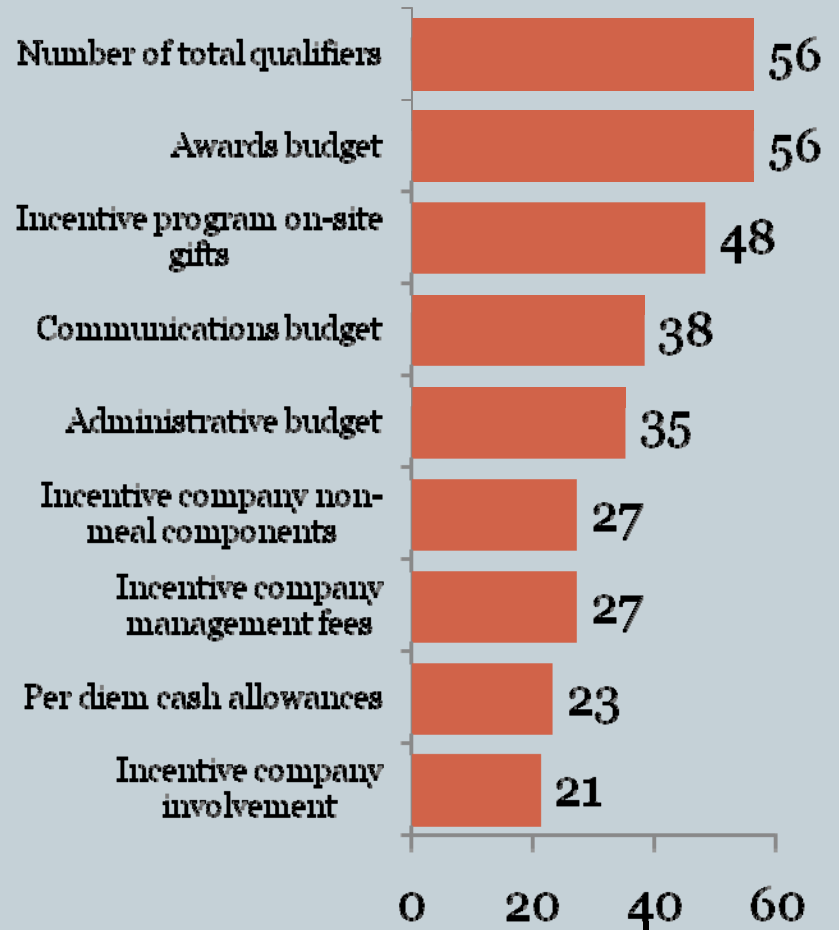
Specific Program Budget Cuts

18

The most frequently mentioned budget cuts were...

- Number of total qualifiers 56%
- Awards budget 56%
- Incentive program on-site gifts 48%
- Communications 38%

If your program budget has been cut due to the down economy, which of the following were cut? (Base=48; percentages may sum to more than 100% due to multiple responses allowed)



Core Issues Of Continuing Interest to the Industry

19

**Influence of Company Financial Forecast
Competitor Reactions
Sensitivity to Perceptions About Incentive Programs**

Note: Future IRF pulse surveys will track changes in perceptions of these issues over time. The data included in this survey is considered a benchmark.

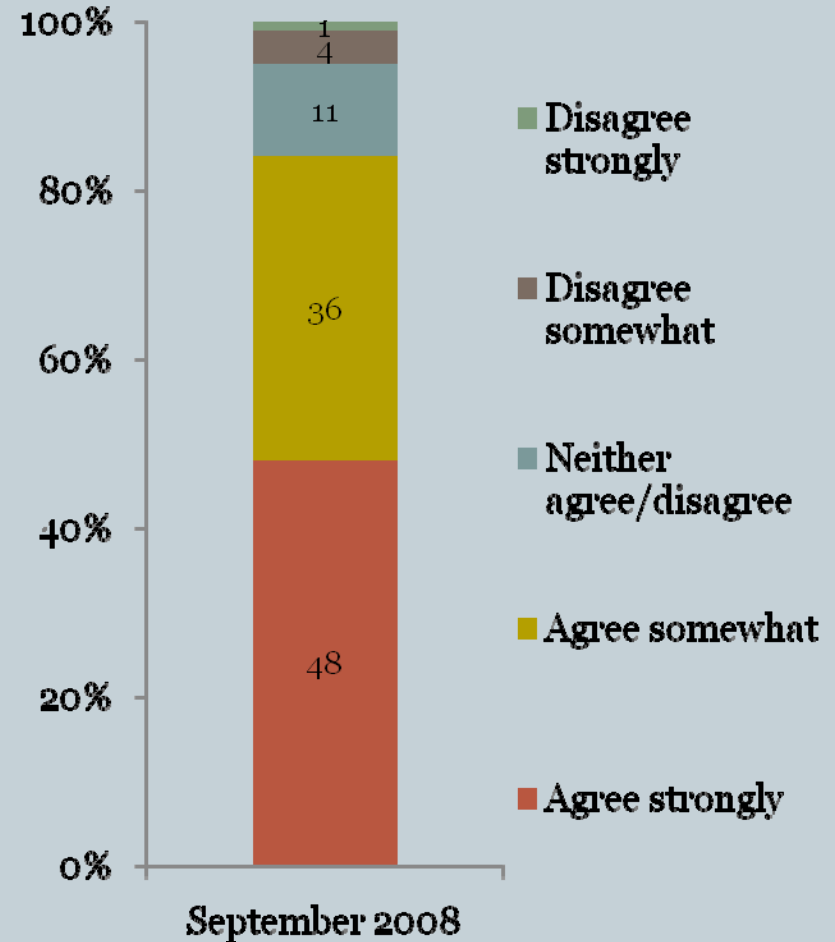
Influence of Financial Forecast on Design and Implementation of Incentive Program

20

Respondents overwhelmingly agree that their company's financial forecast influences the design and implementation of incentive programs.

- Agree, influences 84%
- Neither agree nor disagree 11%
- Disagree, does not influence 5%

How much do you agree or disagree that "My company's financial forecast influences the design and implementation of incentive program"? (Base=80)



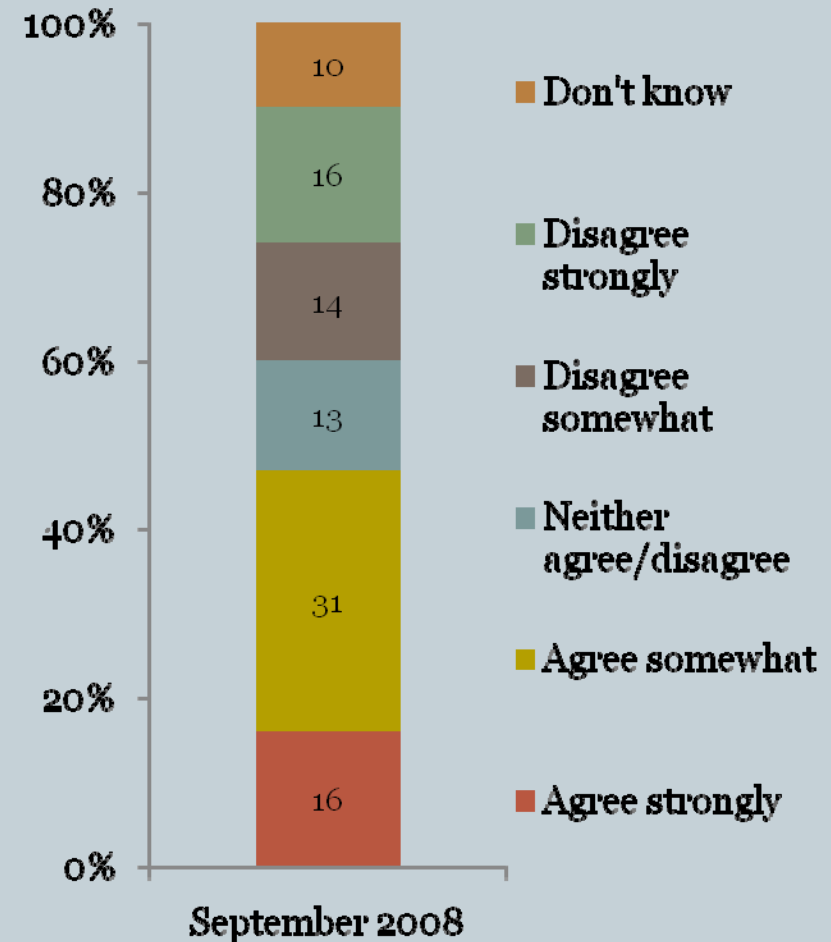
Impact of Competitor Reactions to Products and Services Included in Company Incentive Programs

21

Respondents are divided in their agreement that competitor reactions impact the products and services included in their company incentive programs.

- Agree, competitor reactions have an impact 47%
- Neither agree nor disagree 13%
- Disagree, does not impact 30%

How much do you agree or disagree that “Reactions to our incentive program by our competitors directly impact the products/services that are included in our incentive program and the point values assigned to each product/service”?
(Base=80)



Sensitivity to Non-Incentive Audience Perceptions of Program “Extravagance”

22

Respondents are also divided in their level of agreement that their company is sensitive to perceptions of program extravagance to the extent that the type of awards and program inclusions are changed...

- Agree, perceptions of program extravagance causes changes in awards/program inclusions 45%
- Neither agree nor disagree 15%
- Disagree, does not impact 34%

How much do you agree or disagree that “The visibility by both internal and external non-incentive audiences prevent us from offering awards that are considered extravagant and as such we have significantly changed the type of awards and program inclusions for our incentive program”? (Base=80)

