



White Paper

Incentive Travel: How It Has Evolved and Why It Remains a Wise Investment

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Current Business Environment

Three years after the economy hit bottom economists and strategists are still uncertain what will happen in the near future. Are we in the beginning stage of a strong recovery or will we see another contraction? Will business get back to what was once considered normal or has a new normal evolved? Regardless of what the future holds, navigating today's business environment is more than just perfecting survival skills, it also requires a creative dose of problem-solving acumen.

So what does a business owner do in these less-than-certain times? At the onset of the recession, cutting costs was the primary concern for most companies. Efforts were made to eliminate all but necessary spending, increase efficiency and make the painful decision to reduce staff levels – none of which is easy. While cost-cutting measures may go a long way to ride out a difficult storm, simply functioning in a cost-cutting mode doesn't produce revenue. Increasing revenue is a critical element to survival, yet often proves to be the most difficult to achieve.

With staff levels reduced, the remaining employees end up carrying a greater percentage of the work load, working longer hours – all while being concerned about their own job security. According to an August 2011 Associated Press survey of leading economists, the unemployment rate will end this year at 9 percent and 2012 at 8.5 percent.¹ This means that once the economy starts to turn around, these overworked employees will start looking for better opportunities, if not already doing so. Recent reports by the Bureau of Labor Statistics indicate that the job exodus is taking place, citing that the number of workers quitting their jobs in recent months surpasses the number being laid off or fired.

While the departure of under-achieving performers may be welcomed, replacing a top-performer is expensive. Will the top-producing salespeople decide to leave? Recent data seems to indicate that when the economy returns, one in four will leave their employer within a year.² According to the American Management Association, the direct and indirect costs to replace an employee can be anywhere from 25 - 250 percent of their annual compensation depending on the job and industry.³ This expense alone is reason enough to create a strategy for retaining key employees – not only through the recovery, but beyond it.

Despite these uncertain times, keeping expenses low, retaining top-performers and generating revenue are key factors to survival. The economic crisis and its aftermath are the perfect opportunity for companies to re-think and re-engineer their overall marketing initiatives.

Businesses looking for effective ways to do this should take a serious look at an incentive program – one that generates sales and rewards top-performers.

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How Incentives Can Reward Performance and Drive Revenue Growth

The industry is large. Surveys suggest that incentive sales could total as much as \$46 billion.⁴ Industry survey's also show that more than half of America's largest companies use motivation programs as part of their business strategies.

Many mistakenly define incentives as an award, when in fact incentives are an integrated set of strategies involving research, communication, training and measurement. Incentives are not about what is being offered (i.e. luxurious travel or merchandise) but are in fact about psychology and attempting to change behaviors of their intended audience. In other words, making them feel connected to your company, your culture, and your values.

Because of the recession-driven layoffs, productivity is at unsustainable levels and employee morale within many corporations appears to be low. Not surprisingly, incentive budgets have also been reduced, and in many cases there may be fewer qualifiers. For most corporations program budgets have been in decline since the fall of 2008. **But in contrast, those companies that maintained programs say they gained a competitive advantage.** This was particularly clear in sales programs, where nearly two-thirds of the respondents who kept their incentives going say they stole a march on competitors who did not.⁶

Sales incentives are perhaps the biggest, most logical bottom-line boosters, not least because the results are often as measurable as the sales figures themselves. A corporate sales force, whether external or internal, is also your closest link to the customer and often does the most to affect a purchase. Incentives are generally looked at as a means of generating business you wouldn't have had otherwise. The idea is that the incentive program is funded out of sales you wouldn't have had without the incentive.

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Employee Engagement Fast Facts

- Disengaged workers cost the U.S. economy \$300 billion or more annually.
- Organizations with higher than average employee engagement realize:
 - 27% higher profits
 - 50% higher sales
 - 50% higher customer loyalty
 - 38% above average productivity
- The S&P 500 averaged a 45.6 percent cumulative stock return (1998-2006) while Fortune's "100 Best Companies to Work For" had a 200.6 percent return.⁵

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In the recent past, these programs may have been perceived as a discretionary expense, rather than an **investment** opportunity. Yet according to most industry analysis, incentives programs will generate more revenue at less risk than any other thing a business can do. When designed correctly **an incentive program generally provides four-to-five times better results than any other business investment.**

Travel Incentives Continue to Rank High

According to the Society of Incentive Travel Executives (SITE) the definition of incentive travel is "an exceptional travel experience used to motivate and/or recognize participants for increased levels of performance in support of organizational tools."⁷



In terms of incentive program options-travel incentives continue to rank highest among all other forms of incentive awards – including cash, merchandise, and gift cards – as judged by corporate decision makers, responsible for managing their company's incentive programs. Travel incentives tend to be more motivating as they are more memorable. They are also more flexible in comparison with cash rewards which can become expected over time. And not surprisingly, executives and business travelers alike give high marks to incentive travel – according to a September 2009 study by *Oxford Economics USA*.

According to responses, nearly 80 percent of executives indicate that incentive travel has a significant impact on employee morale and job satisfaction. 85 percent of management view incentive travel as an investment. More than 70 percent believe that incentive travel has a real impact on employee performance. Those receiving these trips as part of their compensation agree, with approximately 80 percent affirming significant impacts on morale, job satisfaction, and job performance.⁸ This is particularly important as many working families have been unable to enjoy leisure travel on-their-own, due to economic stress. Therefore, the corporate-sponsored trip provides the participant something they may not otherwise be able to provide on their own. **Thus, a far greater impact on motivation.**

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How To Implement a Targeted Incentive Program with a Limited Budget and Limited Resources

For companies who have had past travel incentive programs and may wish to start back up again, many will have to re-think the “reward”, especially with smaller budgets and less staff to plan group travel events. There’s also the consideration of past participant surveys indicating that they wish to see: more experiential programs, perhaps closer to home, and less of a structured program with more leisure and (or) family time.

One force driving these changes is the generational dynamic with the shift from boomer-oriented programs to those that appeal to Gen X and younger. One key industry in which this is most evident is the Financial Services/ Insurance Industry where the average age of boomer work-force is fifty-two (52).⁹ In 10 years, the average insurance/ financial services adviser will be in his or her thirties (30s) and is cut from a different cloth than the traditional adviser. These younger advisers are driven by a variety of dynamic and more individual rewards.

To overcome some of these factors, companies should consider an *“individual-travel”* program rather than relying on the more traditional “group” travel program. Individual incentive travel has grown increasingly popular at companies for a number of reasons, chief among those are:

Simplified budgeting with all cost-elements accounted for in advance, elimination of attrition or cancellation costs associated with traditional group programs and increased “buy-in” of participants to company goals through allowing winners to travel independently.

Another key cost-saving element to consider is that individual travel programs are less expensive to administer because they don’t require in-house staff to plan the group event or paying a third party to plan and manage the event.

According to a recent industry survey incentive planners,¹⁰ when asked *“To what extent, if any, are you using individual incentive travel programs instead of group travel programs”* close to 45 percent of respondents said they will be including individual travel as an option in future programs. Of those, close to 50 percent of respondents stated that this is mainly based on cost concerns or the cancellation of group programs, due to the economic situation over last few years.

Choosing the Right Type of Program Budget

Open or closed? When it comes to program type, there are advantages and disadvantages of both open and closed programs. Check out the following to help decide which type of program is right for your group.

Open-Ended Program

An open-ended program awards all participants who achieve a predetermined level of performance. The benefit of this type of strategy is that it produces better results as it targets the 60 percent of people who generally function at the average level. As a point of caution, budgeting may be more difficult since there is no way to pinpoint the final outcome.

Closed-Ended Program

A closed-ended program limits the number of qualifiers to only top qualifiers. While easier to budget, this strategy can alienate sales executives who make quota but still aren't at the top of the heap. Also, repeat winners may dominate the program, leaving the low performers unmotivated to participate.

Programs don't have to be strictly locked into an "open" or "closed" format. Multi-level programs give participants the opportunity to win increasing levels of rewards based on their performance, with higher tiers tying into higher performance. Often in such programs, there might be a predetermined number of winners at the top tier, while the lower tiers are open to anyone who meets their goals.

Conclusion

In good times and bad, reward and recognition programs help excite and engage these major constituents who are responsible for achieving organizational performance. Organizational goals haven't changed. Educating, communicating and motivating through incentive programs are proven strategies that drive behaviors resulting in better business performance.

Bellwether Individual Travel Rewards

Bellwether Rewards provides "air-inclusive" incentive travel packages designed for individual use in sales contests. As a leader in the emerging individual travel incentive market, we have provided sales incentive solutions for many Fortune 500 companies including: 3M, Medtronic, Blue Cross & Blue Shield, Siemens ICN, PepsiCo-Frito Lay, and Anadarko Petroleum, to name a few.

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¹ Associated Press Survey of Leading Economists: Paul Wiseman- AP Economics Writer-August 2011

² *Is Your Talent Pipeline at Risk?* Human Capital Institute-March 2011

³ American Management Association- 2008

⁴ Incentive Marketing Association- Website

⁵ Gallup; *Incentives, Motivation, and Workplace Performance: Research and Best Practices*, 2002
Incentive Research Foundation; Russell Investment Group analysis, 2006

⁶ *Incentive's Magazine*- 2010 Reader Forecast- February 2010

⁷ The importance of Incentives in Times of Economic downturn- SITE-Lynda Obront, CITE-March 2009

⁸ September 2009 study by *Oxford Economics USA*

⁹ *Individual Incentives: Take Your Pick*- Corporate Meetings & Incentives Magazine-January 2010

¹⁰ Incentive Magazine's-Travel IQ report- Oct. 2011



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