

Uncertain Times for Incentives

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Highlights

How is the current economy affecting 2009 incentives? Experts from the CMI 25 weigh in.



In October, amid negative press regarding a possible acquisition by Wells Fargo, Wachovia canceled a cruise incentive for its top brokers to the Greek Isles. The reason, according to a Wachovia spokesperson: uncertainty in the markets.

What does this mean for incentive travel across other industries? And just how vulnerable are incentives in this economy? We spoke with senior executives from the CMI 25 — our magazine's list of the 25 largest and most influential incentive companies in the country — to learn how the economy is affecting their clients' incentive programs for 2009 and beyond.

“The financial and insurance sector has taken a big hit, but all industries are being affected,” reports Caren Bigelow, director of travel planning and vendor relations for Atlanta-based USMotivation. “We have had a number of clients ask us to come back in and re-evaluate their programs. We are going over the cancellation and attrition clauses in their contracts with them to determine the penalties for canceling a program.” So far, no one has canceled anything, she says — but time will tell.

“One thing that surprised us was that we have yet to see any broad-scale cancellations,” says Bob Miller, president and CEO of Dayton, Ohio-based Excellence in Motivation. “We're seeing an increased amount of attrition overall, however.” It's part of the normal ebb and flow, he says. In a down economy, sales struggle, resulting in fewer people qualifying for the trip.

Minneapolis-based Carlson Marketing has seen a few cancellations in the automotive industry, where it does a large portion of its business, reports Fay Beauchine, executive vice president, global engagement and events. However, she notes, “we haven't had any companies cancel incentive programs due to image or perception, like in AIG's case.”

Her experience is widespread. Negative perceptions of incentives have not resulted in canceled programs thus far at any of the companies we spoke with.

“These programs are still important to many companies,” says Beauchine. “You have to spend to keep and retain employees and to keep or grow new customers.”

Eye on the Bottom Line

While perception might not be the issue, budget certainly has affected those 2009 programs that are going forward. In fact, according to a recent study by the Incentive Research Foundation on the impact of the down economy on the incentive industry, 61 percent of respondents reported that their incentive program budget had been cut as a result of economic uncertainty.

It's a fine line to walk, Tracy Norum, CMP, vice president and general manager, Fox Premier Meetings and Incentives, Oshkosh, Wis., says about making budget cuts to an incentive program. “We have to be very careful to protect the integrity of the program so that any cuts are undetectable to the attendees.”

Fully 57 percent of respondents to the IRF study reported that their companies had made a reduction in non-meal-related components of their programs. The most frequently mentioned budget cuts were number of total qualifiers (56 percent), awards budget (56 percent), and on-site gifts (48 percent).

Companies that opt to keep the room gifts coming are cutting the number. “We have a client that is combining four room gifts into two — one each on the first and last night of the program,” says Norum. “The cost is less, but the perceived value of the two amenities is greater.”

Another cost-cutting option is offering attendees a per diem or a stipend once they're on site instead of giving them unlimited access to on-site activities. Or increasing the amount of free time in the agenda in place of scheduling a costly, hosted activity.

It's about really getting creative, says Chris Lund, executive vice president and partner at Advantage Performance Network, Savage, Minn. For example, APN has been able to help clients save on merchandise awards and room gifts by purchasing close-out merchandise from The Sharper Image and passing the savings along to its clients.

Up in the Air

It's not the 2009 trips, the majority of which have already been booked, but the 2010 trips that will be most affected by the economic crunch. Not only are higher fares (including surcharges and fees) consuming a larger portion of fixed budgets, but reduced capacity is forcing companies to re-evaluate the destinations they use.

“This affects every single customer we have,” says Carlson's Beauchine. “Airfare to international destinations has increased by an average of 19 percent, and domestic is up between 8 percent and 12 percent. The airlines don't seem to be dropping their fares anytime soon, and the increasing pressure in airfare has put a downward pressure on budgets.”

As a result, many companies are shifting locations. “Mexico and the Caribbean are winning out [over international destinations],” says Brad Langley, president and COO of Creative Group, Appleton, Wis. “Mexico especially offers a great value right now, and it hasn't seen the cutbacks in air service that some Caribbean destinations have. Canada also has the potential to increase in popularity because of its proximity [to the U.S.] and the wide variety of destinations available within the country.”

There is also more competition among domestic destinations, says Langley. “Hawaii has been affected by less lift and higher fares, so that narrows the scope of viable destinations that fit the budget.”

The challenges with airfare are causing a fundamental shift in the way decisions are made, says

USMotivation's Bigelow. "We have started looking at airlift and capacity first, during the RFP stage," she says. "As soon as we get the RFP, we are brainstorming the destination and then checking capacity based on the size of the group and the budget of the program to see if we can get them into and out of a particular destination."

European cruises are also a viable option for companies looking to maximize an already squeezed incentive budget. "They're all-inclusive," explains Beauchine. "There are no hidden costs, and the prices are quoted in U.S. dollars, so you avoid the hassle of the Euro bouncing around and complicating the budget."

And if you think cruising on a giant ship among 2,000 other random passengers doesn't sound high-end enough, it's probably time to rethink your notion of cruises, says Beauchine. "There are now many cruise lines out there that are incentive-quality. You can even charter a small ship and design customized itineraries. And you get the exclusivity of having the ship and its staff all to yourself and your group."

Silver Linings

One budgetary bright spot may be the hotel industry, which is beginning to take a turn toward a buyer's market. "We're seeing hotels change their marketing plans and offer better values," says APN's Lund. But it depends on the timeframe your group is traveling and the demand in that particular location.

"There are deals to be had," adds Langley. Many hotels have "spot deals," where they are willing to be very aggressive in negotiations if the group fits into a particular window of time. Deals can range from food-and-beverage credits and value-added amenities, to room upgrades or even extra commissions or rebates to your program. In the past, it would be like winning the lotto to hit one of those windows for an incentive, but now they are much broader in scope — and he has seen some work out for his customers.

Another bright spot is that more companies are incorporating educational sessions or business meetings in incentive trips — which many in the industry consider a positive trend and hope will continue going forward. Says Langley, "There's a great benefit to including a half-day business meeting into the trip. You have all your top performers in one room learning from each other and informing senior management on what's happening in the marketplace."

However companies are shifting their programs, they all have one thing in common right now: the realization that they need to keep their incentive programs going, even if the incentives morph into something different than they were a few years back.

"Everyone is pausing and taking a deep breath right now," says Bigelow, "but I think for the companies that recognize the value of a travel incentive, it will come back — it always does."

What to Cut

If you are holding your 2009 group incentives as planned, how do you anticipate the recent economic crisis will affect them (or those of your clients)?

We will cut the number of on-site awards
52.9%

We will have fewer management attend
35.3%

We will have fewer qualifiers attend
29.4%

We will sponsor fewer on-site tours and activities

29.4%

Source: Online survey of 55 *Corporate Meetings & Incentives* readers, November 2008

Sidebar: Get Creative!

Five ideas for keeping program quality up when incentive budgets are down

1. **Amend Amenities:** Take a look at the quality and quantity of your room gifts. If you usually give a pillow gift to attendees and spouses on each night of the program, consider limiting that to just program qualifiers or doing pillow drops only on the first and last nights of the program. Focus on keeping the perceived value of the gifts high. "An inexpensive room gift can have equal impact if you choose carefully," says Fay Beauchine, executive vice president, global engagement and events, Carlson Marketing. "Think about gifts that are indigenous to the location and manufactured locally."
2. **Free Time Is Free:** Caren Bigelow, director of travel planning and vendor relations for Atlanta-based USMotivation, is seeing a trend toward more free time in the agenda. Giving attendees more time on their own translates into fewer charges on the master bill. It cuts down on the amount of hosted activities and helps keep costs down. "Gen-Yers may actually appreciate that extra free time more than a structured activity," adds Beauchine. But different things will resonate with different groups so be sure to consider your audience.
3. **Negotiate F&B:** Hotels are more willing to add amenities into your program in a tough economy because they want the group business. See if you can get the hotel to pick up the tab for an on-site dinner one evening, or reduce the food and beverage minimums for your group.
4. **Rethink Activities:** Consider low-cost options for hosted activities, such as a scavenger hunt, photo contest, a museum tour and lecture, or any activity that gets the group out into the destination, advises Beauchine. "These are the kinds of things people will often have more fun doing. But it's a philosophical shift. Do I have a luxurious spa treatment, or do I go on a scavenger hunt? These are the kinds of choices groups are making."
5. **Consider Taxes:** City tax is an important factor that many companies fail to consider when selecting an incentive destination. Taxes on meals, hotels, and even rental cars can vary greatly from city to city, and depending on the size of your group, can make a significant impact on the budget. "Looking at the city's taxes upfront during the decision-making process is a good idea if you want to maximize the budget," says Beauchine. She notes that the difference in taxes from one city to another can be as much as \$20 per person, per day. For an incentive group of 1,000, that amounts to \$80,000 over a four-day trip. "For that kind of money, you can have a pretty nice cocktail party."

The National Business Travel Association recently released a study that shows taxes for travelers in the top 50 U.S. cities. To access the July 2008 report, go to <http://www.nbta.org/Research/Surveys>.

61.9%

of respondents said they will rethink destinations for future incentive programs because of airfare costs.

Source: Online survey of 55 *Corporate Meetings & Incentives* readers, November 2008