



PULSE SURVEY

The Incentive Industry Trends Outlook for 2009

March 2009

Background and Survey Purpose

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In August 2008 it was decided that an appropriate topic for the final 2008 Pulse Survey would be an incentive industry trends outlook for 2009, and with the continued economic downturn, also an appropriate topic for the first 2009 Pulse Survey.

Given that the Incentive Research Foundation (IRF) is charged with advancing the science of incentives, it surveyed industry professionals to obtain their opinions about the more salient trends affecting the industry during 2009.

To this end, the IRF asked these professionals questions on trends with regard to incentive travel programs, merchandise non-cash programs, and budget changes forecast for 2009.

In addition to the current topic on industry trends, 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

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

The 102 survey participants can be categorized as follows...

- Incentive travel provider (47%)
- Corporate incentive travel buyer (35%)
- Supplier, e.g., hotelier (13%)
- Other (5%)
- ...and represents, after undeliverable emails and out of office adjustments are made, a response rate of 19.0%

Data collection was conducted January 26th through February 20th, 2009.

Highlights

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In March 2009, respondents are more likely than in 2008 to agree (86%) that the economy will have a negative impact on *incentive travel programs*, and that these programs' budgets will suffer decreases in 2009. With regard to travel incentive programs...

- To enhance the air transportation component, included in programs continue to be...
 - All costs for air transportation, and
 - Round trip air transfers.
 - Only tickets provided.
- There will continue to be a shift from international to domestic destinations.
- There will be a reduction in the number of days/nights, the number of rooms and a decrease in on-site inclusions per participant.
- Involvement of procurement and purchasing will continue to increase in 2009.
- Reduced non-meal related components will be a more popular change in incentive travel programs.

Highlights (Continued)

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More than one-third (36%) of the respondents believe that the economy in 2009 will have a negative impact on the ability to plan and implement *merchandise non-cash incentive programs*. Most (54%) anticipate a decrease in budgets (average decrease of 28%) for these programs as well. With regard to merchandise non-cash incentive programs in 2009...

- A plurality in March 2009 continue to believe there will be no change in award selections, although some foresee included individual travel as an option.
- The involvement of procurement and purchasing in planning for merchandise non-cash incentive programs will increase in 2009.

Highlights (Continued)

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More than in 2008, respondents in March agree that there will be budget cuts in incentive program elements. Largest decreases will be in...

- Incentive company management fees.
- Communications budgets.
- Number of total qualifiers.

Only one incentive program element which is anticipated to remain unchanged is...

- Per diem cash allowances.

The most frequently mentioned recommendation for positioning the incentive industry for maximum effect after the downturn is “educate/explain the value of incentive programs,” especially to...

- The media and press.
- Governmental entities.

Highlights: Core Issues

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Findings regarding agreement with core issues are presented on the right...

- The company financial forecast influences the design and implementation of incentive programs..
 - Agree Sept 2008: 84%
 - Agree Oct 2008: 86%
 - Agree Mar 2009: 75%
- Competitors' reactions to programs impact the products and services included in company incentive programs...
 - Agree Sept 2008: 47%
 - Agree Oct 2008: 64%
 - Agree Mar 2009: 31%
- Sensitive to perceptions of program extravagance to the extent that it would impact the type of company program awards and inclusions...
 - Agree Sept 2008: 45%
 - Agree Oct 2008: 75%
 - Agree Mar 2009: 63%

Current Topic

Industry Trends for 2009

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

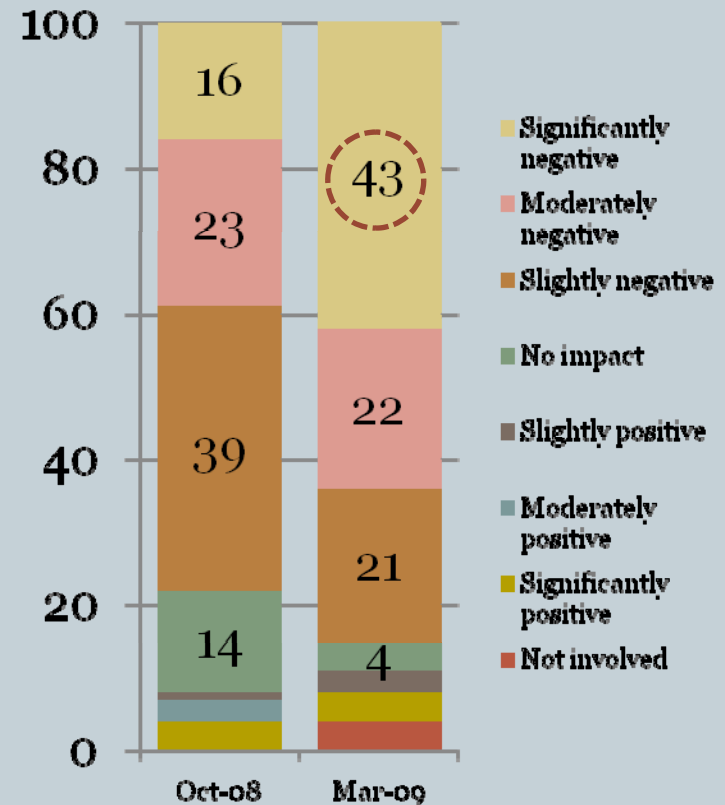
Perceived Impact of the Economy on Ability to Plan and Implement Incentive Travel Programs

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Respondents in the current survey (March 2009) are far more likely to consider the economy as having a “significantly” negative impact on their ability to plan and implement incentive travel programs.

- **Significantly negative 43% March 2009 vs 16% October 2008**

In your opinion in 2009, what impact will the economy have on your ability to plan and implement travel incentive programs?
(October Base=79; March Base=102)



Techniques To Be Used to Enhance Air Transportation Component of Incentive Travel Program

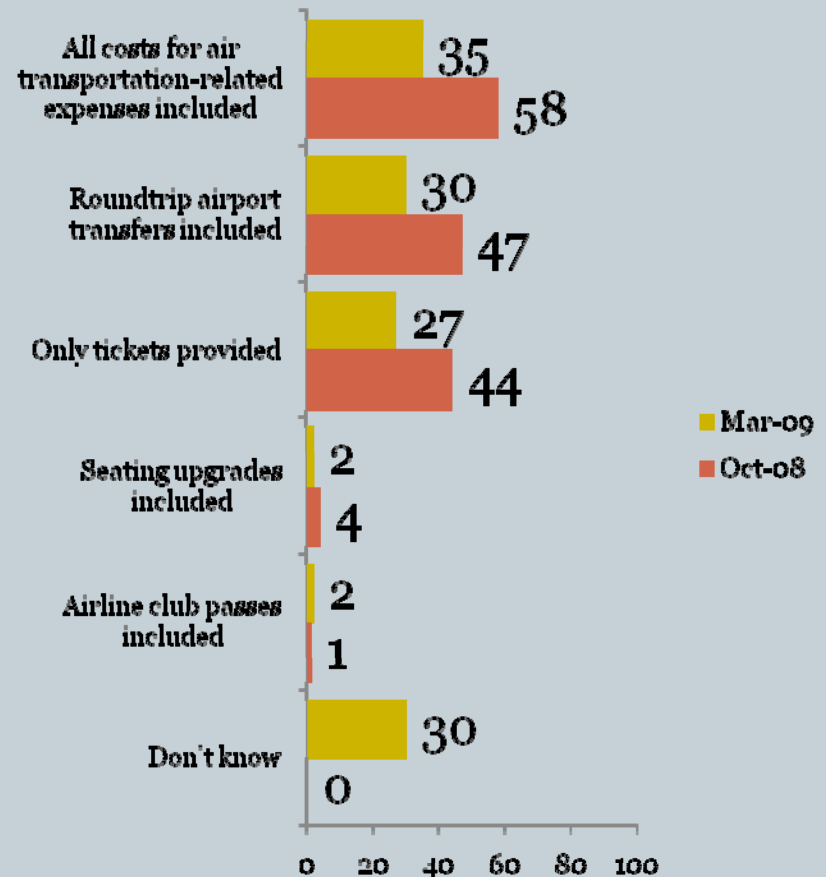
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The three most frequently mentioned techniques that will be used to enhance the air transportation component continue in 2009 to be:

- All costs for air transportation-related expenses are included 35%
- Roundtrip airport transfers included 30%
- Only tickets provided 27%

..the same relative percentage as in October 2008.

With regard to the air transportation portion of incentive travel programs, what techniques will be used in 2009 to enhance this component? (October Base=79; March Base=102; percentages may sum to more than 100% due to multiple responses allowed)



Note: 2008 vs 2009 percentages not comparable because "don't know" response category added in 2009 survey.

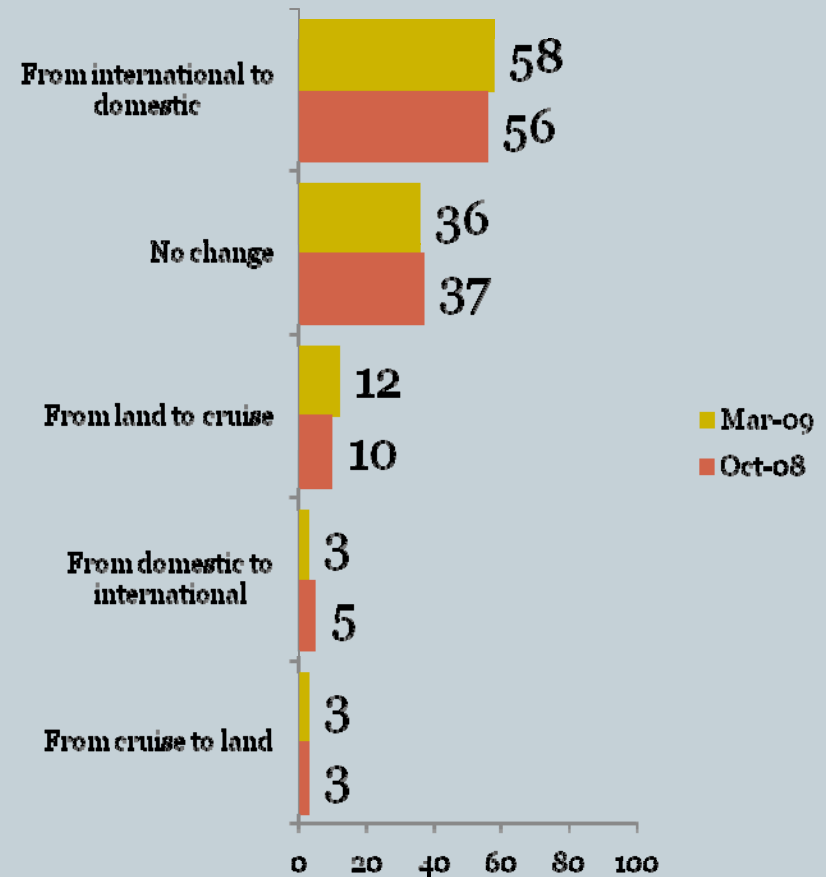
Destination Changes To Incentive Travel Programs

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Nearly six of ten respondents anticipate in 2009 changes from international to domestic destinations, with about one in three anticipating no change in destinations. There are no changes in this measure from October 2008 to March 2009.

- Change from international to domestic locations 58% in March
- No change in incentive travel destinations 36%

In 2009, do you anticipate any of the following changes will be made with regard to incentive travel program destinations? (October Base=79; March Base=9percentages may sum to more than 100% due to multiple responses allowed)



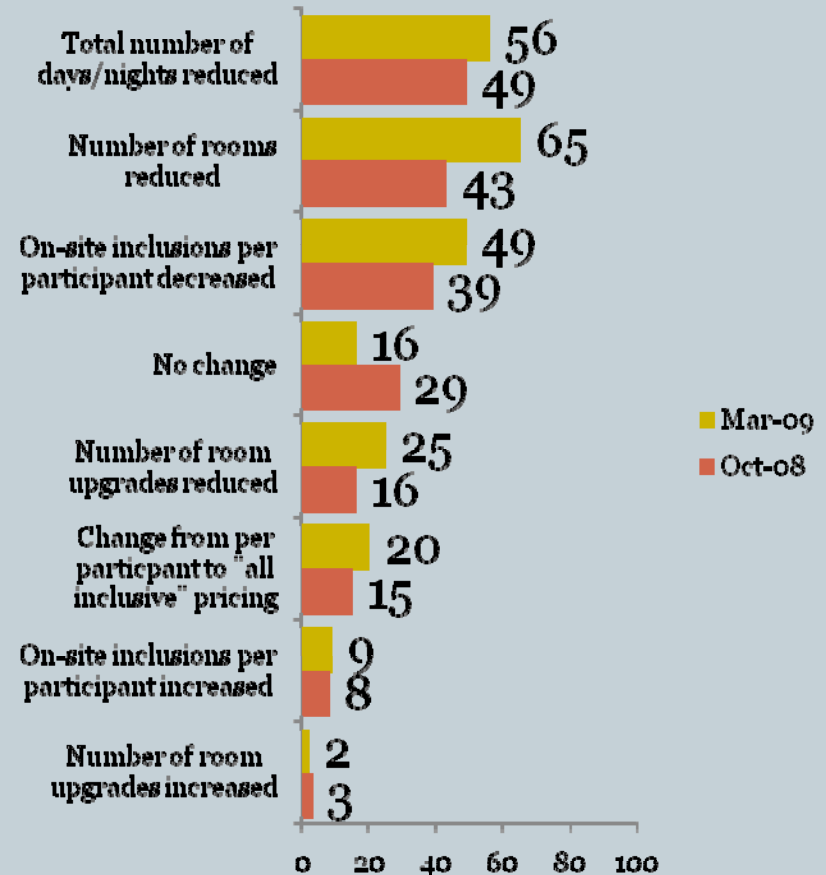
Accommodation Changes To Incentive Travel Programs

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In March 2009, respondents are more likely to anticipate “change” in accommodations than they were in 2008. Principal changes include...

- Number of rooms reduced; 65% in March vs 43% in 2008
- On-site inclusions per participant decreased; 49% vs 39%
- Number of room upgrades reduced; 25% vs 16%
- Total number of days/nights reduced; 56% vs 49%

With regard to accommodations for incentive travel programs in 2009, what changes, if any, will be made? (October Base=79; March Base=97; percentages may sum to more than 100% due to multiple responses allowed)



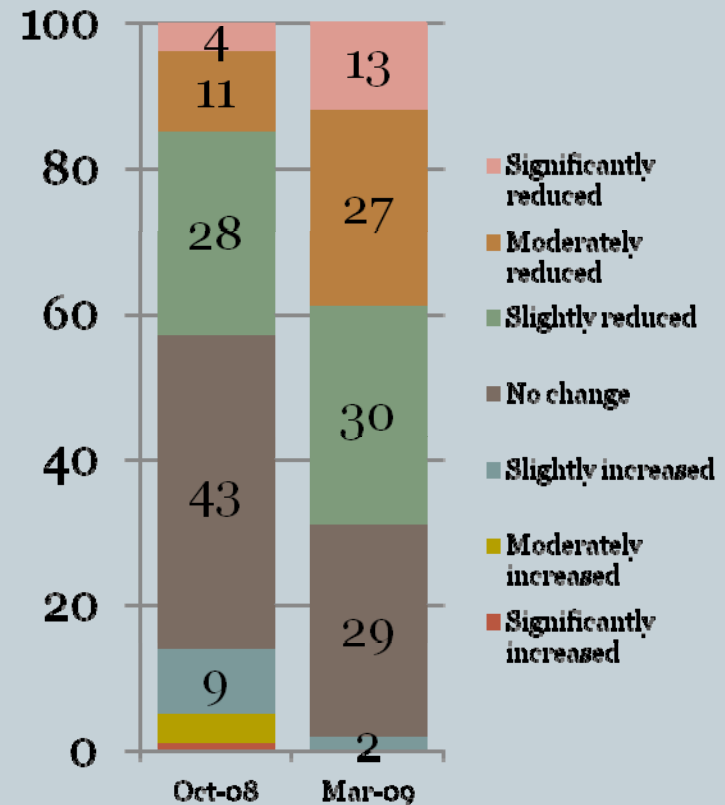
Anticipated Changes to Sponsored Non-Meal Related Components of Incentive Travel Programs

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Currently, far more respondents anticipate reduced non-meal related components of travel programs. In March 2009, very few foresee increased non-meal related components.

- Reduced non-meal related components 70% March vs 43%

With regard to the sponsored (paid by your company) non-meal related components for incentive travel programs what changes in 2009, if any, will be made? (October Base=79; March Base=98.)



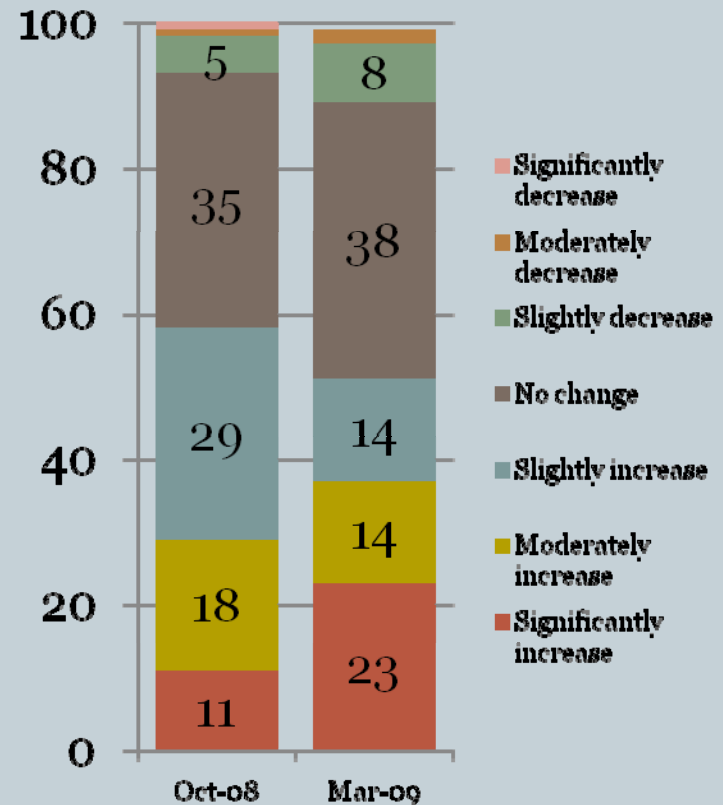
Anticipated Changes in 2009 in the Involvement of Procurement and Purchasing in Planning and Implementing Incentive Travel Programs

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Respondents continue to believe that procurement and purchasing will be more involved in planning and implementing incentive travel programs in 2009.

- Involvement will increase 51% in March vs 58% in 2008
- Remain unchanged 38% vs 35%
- Involvement will decrease 10% vs 7%

With regard to planning and implementing incentive travel programs, do you anticipate the involvement of procurement and purchasing in 2009 to... (October Base=79; March Base=98)



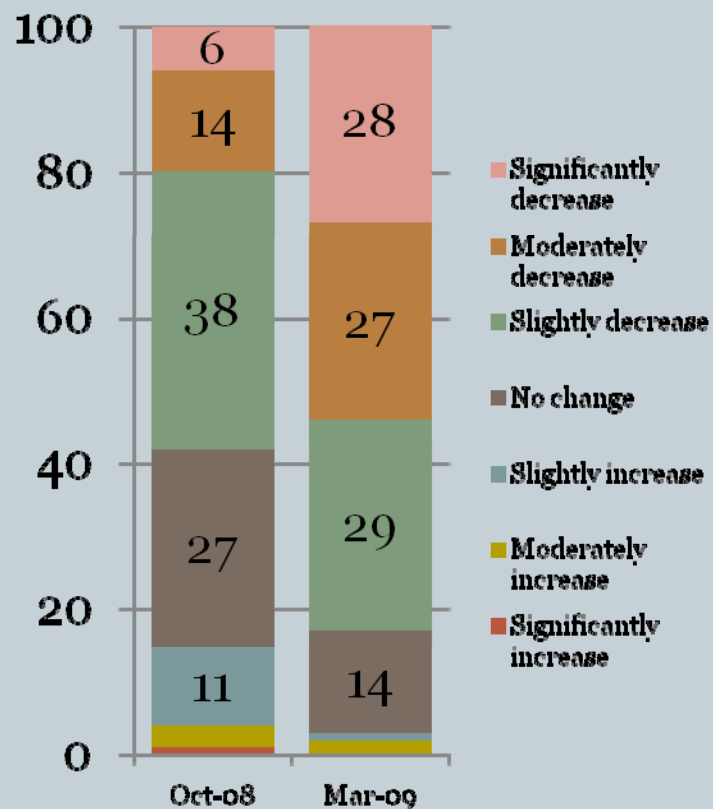
Anticipated Changes in 2009 Budgets for Incentive Travel Programs

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In March 2008, virtually no respondents anticipate a budget increase for incentive travel programs. In fact, an overwhelming majority (84%) feel that budgets will decrease.

- Budgets will decrease; 84% March vs 58%
- Remain unchanged 14% vs 27%
- Budgets will increase 3% vs 15%

Those who anticipate a budget decrease in 2009, estimate that budgets will decrease an average of 29%.



In 2009, do you anticipate that budgets for incentive travel programs in general to... (October Base=79; March Base=98)
 If "increase," what percentage increase do you envision? (March Base=35)

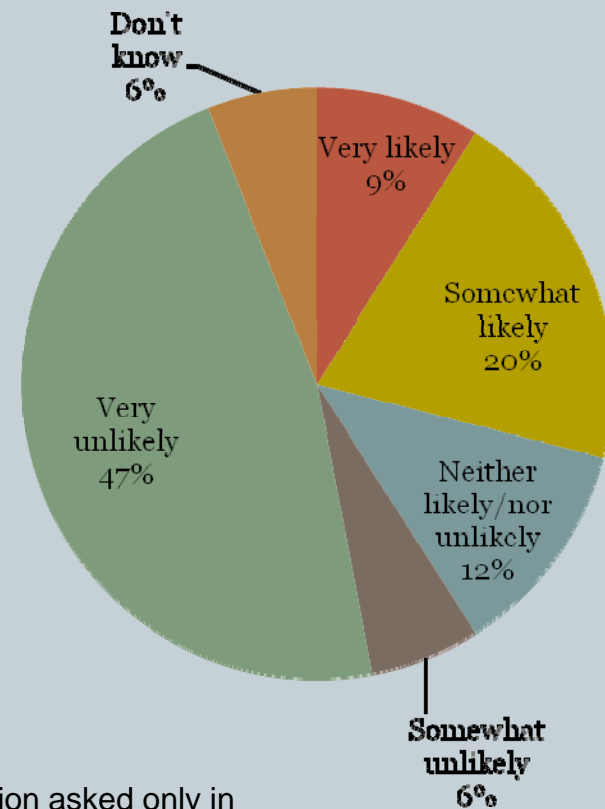
Likelihood to Switch from Travel Incentives to Something Else (As a result of economic downturn)

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More than half the respondents are unlikely to recommend a change from a travel incentive as a result of the economic downturn, most of these reporting “very unlikely.”

- Very unlikely 47%
- Somewhat unlikely 6%
- Neither likely/unlikely 12%
- Very or somewhat likely 29%

As a result of the current economic outlook, how likely would you be to recommend switching from travel incentives to something else, such as merchandise, debit cards or cash?
(March Base=98)



Question asked only in March 2009.

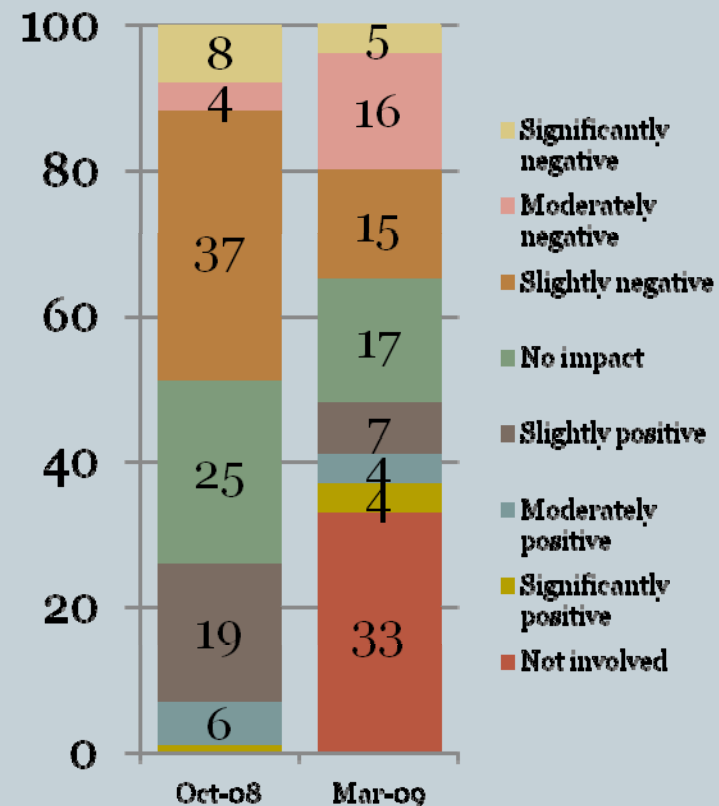
Perceived Impact of the Economy on Ability to Plan and Implement Merchandise Non-Cash Incentive Programs

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In March 2009, more respondents anticipate the economic downturn to have a negative rather than positive effect on their ability to plan and implement merchandise non-cash incentive programs.

- Negative impact 36% in March
- No impact 17%
- Positive impact 15%

In your opinion in 2009, what impact will the economy have on the ability to plan and implement a merchandise non-cash incentive programs? (October Base=79; March Base=101)



Note: 2008 vs 2009 percentages not comparable because "not involved" response category added in 2009 survey.

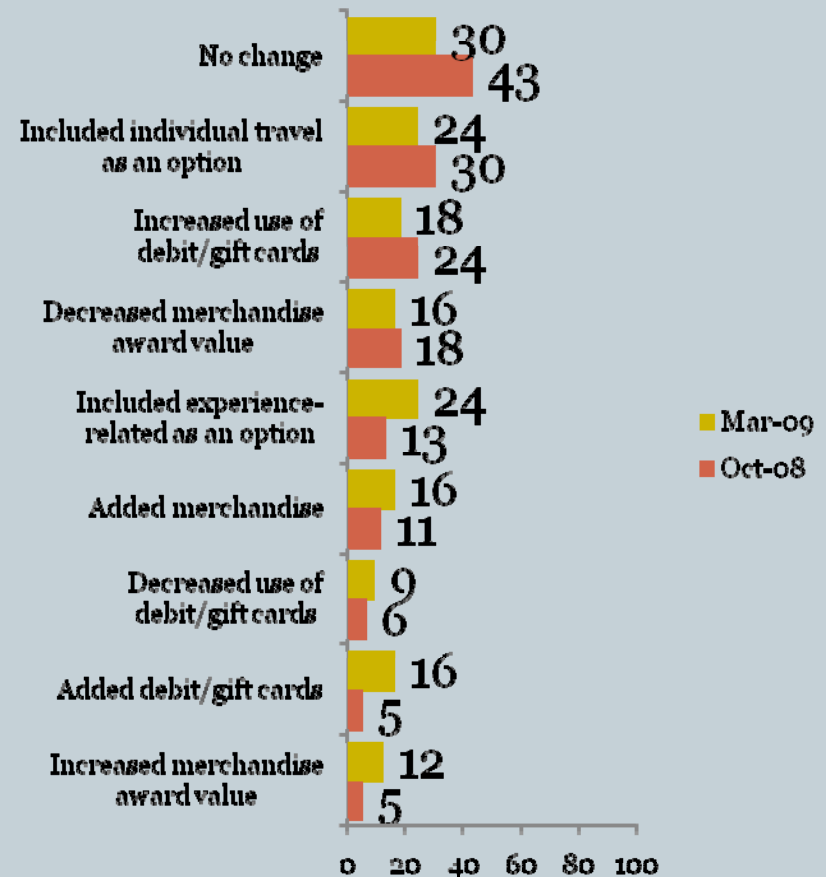
Anticipated Changes in 2009 to Award Selections For Merchandise Non-Cash Incentive Programs

18

A small plurality (30%) of respondents continues to foresee no change in award selection. However, in March 2009, they may be more likely than earlier to see the following changes...

- Included experience-related as an option; 24% in March vs 13%
- Added debit/gift cards; 16% vs 5%
- Increased merchandise award value 12% vs 5%

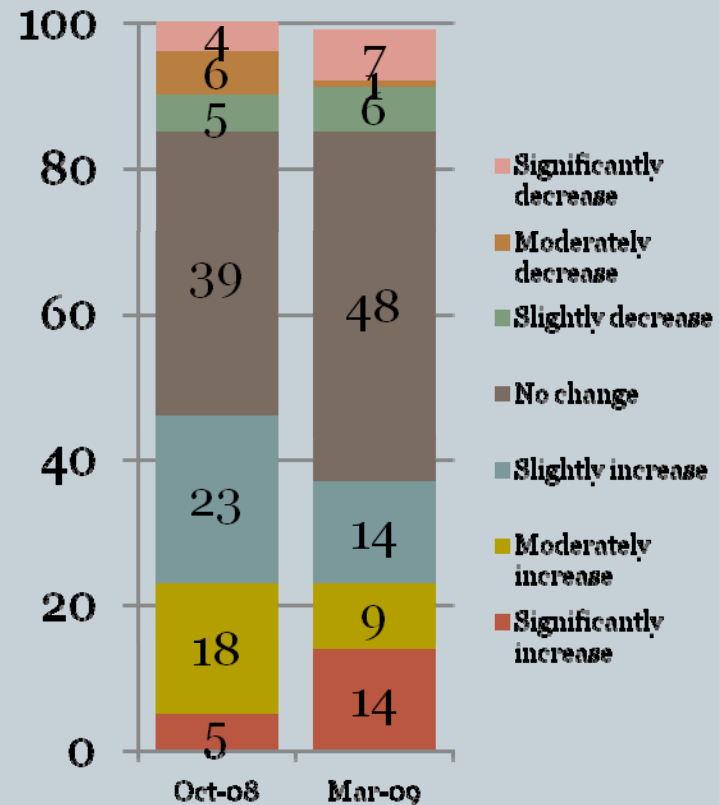
With regard to merchandise non-cash incentive programs, what changes, if any, will be made in 2009 with award selections? (October Base=79; March Base=67. Percentages may sum to more than 100% due to multiple responses allowed)



Anticipated Changes in 2009 in the Involvement of Procurement and Purchasing in Planning and Implementing Merchandise Non-Cash Incentive Programs

The plurality of respondents who believes that procurement and purchasing will be more involved in planning and implementing merchandise non-cash incentive programs decreased slightly in March 2009.

- Increased 37% in March vs 46%
- Remain unchanged 48% vs 39%



With regard to planning and implementing merchandise non-cash incentive programs, do you anticipate the involvement of procurement and purchasing in 2009 to... (October Base=79; March Base=69)

Anticipated Changes in 2009 Budgets for Merchandise Non-Cash Incentive Programs

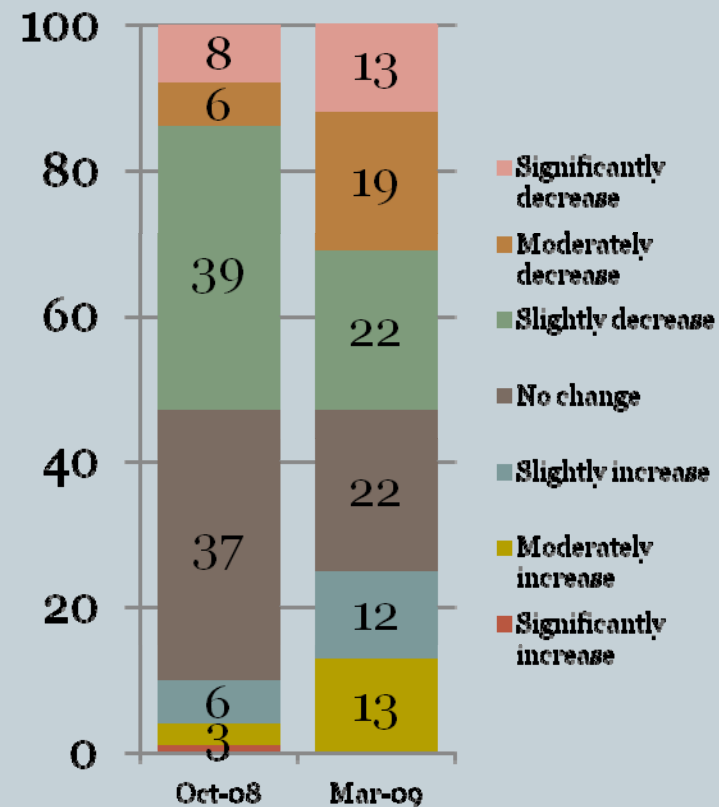
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While a slight majority of respondents continues to believe that 2009 budgets for merchandise non-cash incentive programs will decrease (no change period to period), the percentage who anticipates an increase is up slightly.

- Budgets will decrease 54% in March vs 53%
- Remain unchanged 22% vs 37%
- Budgets will increase 25% vs 10%

Those anticipating budget increases envision an average of 11%, while those feeling the budget will decrease see an average of 28%.

In 2009, do you anticipate that budgets for merchandise non-cash incentive programs in general to... (October Base=79; March Base=69) How much will it increase/decrease?



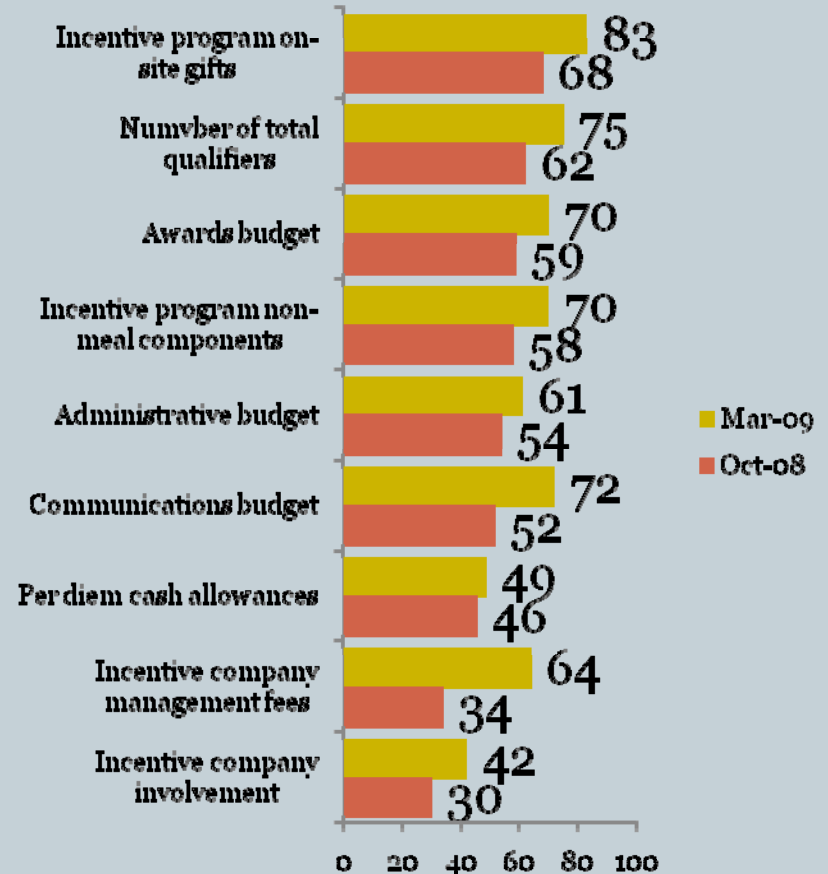
Specific Program Budget Decreases Anticipated in 2009

21

With the exception of “per diem cash allowances,” all incentive program elements measured were anticipated to suffer deeper budget cuts in March than in 2008. Deepest change in cuts is thought to be...

- Incentive company management fees
64% in March vs 34%

In 2009, do you anticipate budgets for the following incentive program element[s] to increase, decrease or remain the same? (October Base=79; March Base=69)



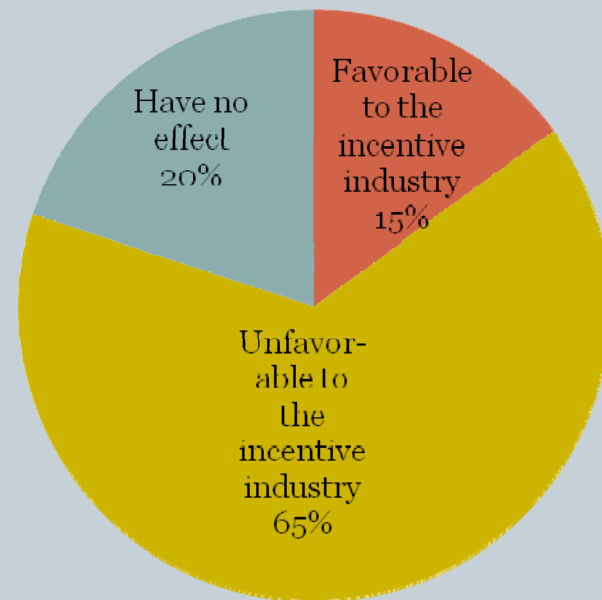
Incoming Political Climate

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More than half the respondents consider the incoming political climate to be “unfavorable” to the incentive industry.

- Unfavorable 65%
- Favorable 15%
- Have no effect 20%

In your opinion, will the incoming political climate [be]...
(March base=102)



Question asked only in
March 2009.

Specific Actions That Could Properly Position the Value of Industry Offerings

23

- Explain/educate the value/ROI of incentive programs (37%)
- Lobby government/educate government on program value/ROI (35%)
- Lobby/educate press and media about benefits of incentive programs (30%)
- Develop/provide “best practices” for incentive industry (9%)
- Cancel/decrease or downscale focus on incentive programs (7%)
- Expose waste in government (2%)
- Promote domestic destinations (2%)
- Focus on non-cash awards (2%)
- Other (5%)

In your opinion, what specific actions should be taken by the incentive industry to properly position the value of incentive industry offerings as we emerge from the current economic downturn? (Base=43)

Core Issues Of Continuing Interest to the Industry

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

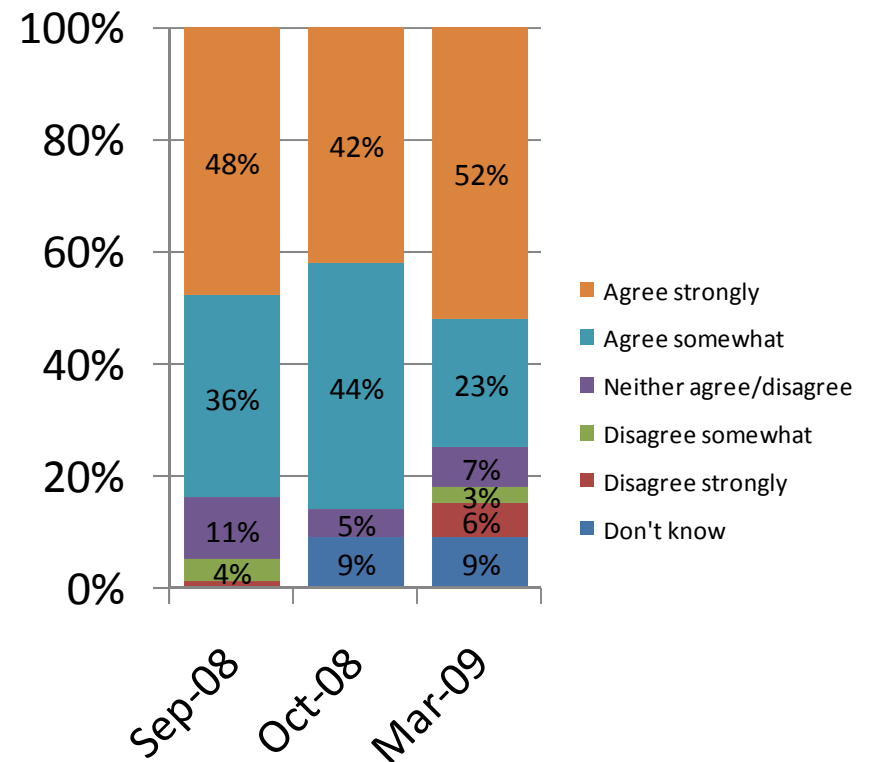
Influence of Financial Forecast on Design and Implementation of Incentive Program

25

A majority of respondents in March continue to agree that their company's financial forecast influences the design and implementation of incentive programs. However, "disagreement" with the statement is up slightly...

- Agree, influences 75% in March vs 86%
- Neither agree nor disagree 7% vs 5%
- Disagree, does not influence 9% vs 0%

How much do you agree or disagree that "My company's financial forecast influences the design and implementation of incentive program"? (September Base=80; October Base=79; March Base=102)



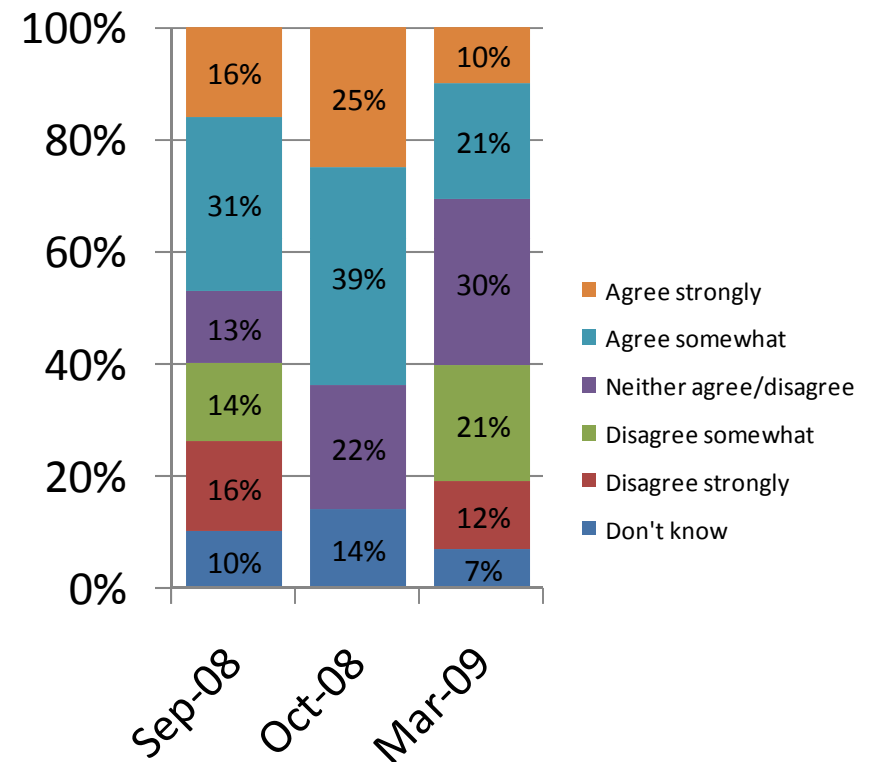
Impact of Competitor Reactions to Products and Services Included in Company Incentive Programs

26

Respondents in March are much less likely than in 2008 to agree that competitor reactions impact the products and services included in their company incentive programs.

- Agree, competitor reactions have an impact 31% in March vs 64% in October

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”?
(September Base=80; October Base=79; March Base=102)



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

27

Respondents are, overall, somewhat less likely to agree in March than in October that their company is sensitive to perceptions of program extravagance to the extent that the type of awards and program inclusions would be changed.

- Agree, perceptions of program extravagance causes changes in awards/program inclusions 63% in March vs 75% in October 2008

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”? (September Base=80; October Base=79; March Base=102)

