



Incentive Market Study

October 2013



**A Study Conducted among Current Users of
Merchandise, Gift Card and Travel Items
for**

Recognition, Motivation, and Incentive Programs

**Has been supported by the members of The Incentive Federation and the
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Background

The Incentive Federation, in partnership with Aspect Market Intelligence, collected data from a national sample of business executives to estimate the size of the non-cash incentives marketplace.

Executive Summary

A study of a cross-section of US businesses confirms that incentive travel, merchandise, and gift cards are popular tools for firms seeking to reward and recognize their employees, sales teams, channel, and customers. Key findings from the study include:

- 74% of U.S. businesses use non-cash rewards to recognize and reward key audiences in the form of incentive travel, merchandise, or gift cards
- U.S. businesses spend \$76.9 billion per year on incentive travel, merchandise, and gift cards
- 98% of businesses running non-cash programs include merchandise or gift cards as a reward, spending \$54.4 billion each year
- 46% of businesses running non-cash programs include incentive travel as an award, spending \$22.5 billion per year
- Smaller firms account for half of the market based on the sheer number of these companies

Methodology

To ensure sufficient sample, multiple sources were used. Random sample was purchased from Hoovers and OneSource, and supplemented with in-house lists from Incentive Solutions, PreVUE, Incentive Magazine, RPI, SITE, IMA, Sales & Marketing Magazine, and the Research Now B2B panel. A fifteen-minute survey was distributed via email invitation. Data collection took place between July and September 2013.

A total of 1,952 business people responded to the survey. Of those, 526 are responsible for managing an incentive or non-cash rewards program and provided budget information. This sample size provides a 95% confidence level and 4.27% margin of error. This means if the study was replicated, 95 times out of 100 the results would be within 4.27% of the results presented in this paper – a very high degree of reliability.

See the appendix for notes regarding efforts to control estimation error.

Weighted Calculations

Because the study objective is to project findings to the population of U.S. businesses, measures of incidence and market size are statistically weighted to reflect the highly-skewed distribution of firms; for every firm over \$1 billion in revenues, there are 472 firms between \$1 and \$10 million in annual revenues.

Company Revenue	Number of US Companies	Percent of All Companies Over \$1Million in Revenue
\$1 to \$10 million	1,244,164	86%
\$10 to \$100 million	176,850	12%
\$100 million to \$1 billion	17,974	1%
Over \$1 billion	2,631	0.2%
Totals	1,441,619	

Findings

Incidence of Non-cash Incentives

A total of 74% of US businesses use some type of non-cash award program. Incidence of non-cash programs increases with company size, as shown below.

Company Revenue	Non-cash Reward Incidence*
\$1 to \$10 million	73%
\$10 to \$100 million	80%
\$100 million to \$1 billion	85%
Over \$1 billion	89%
Weighted Incidence	74%

**To avoid bias, incidence calculations exclude respondents from industry lists such as Incentive Magazine.*

Type of Program

Respondents were asked whether their firm uses non-cash rewards in five categories: Sales, Channel, Employee, Customer Loyalty, and Corporate Gifts. Programs were defined as follows and presented in this order:

- Reward and/or motivate desired behaviors and achievements among your company's **salespeople**?
- Reward and/or motivate desired behaviors among your company's **channel or dealer partners**?
- Reward and/or motivate desired behaviors and achievements among your company's **employees**?
- Reward and/or motivate your company's **customers** as part of a loyalty program?
- Show appreciation to/thank **clients, prospective clients, or partners** for their business?

Non-cash Employee programs are the most prevalent, followed closely by Corporate Gifts. Non-cash Sales programs are present in almost one-half of U.S. businesses, and non-cash Customer Loyalty programs are present in one-third. Non-cash Channel programs are the least prevalent, with one-quarter of U.S. firms reporting the presence of these programs. The incidence of all program types increases with firm size.

	Weighted Total Incidence*
Sales Non-cash Rewards	46%**
Channel Non-cash Rewards	26%
Employee Non-cash Rewards	56%
Customer Non-cash Rewards	32%
Corporate Gifts	53%

**To avoid bias, incidence calculations exclude respondents from industry lists such as Incentive Magazine.*

***Calculations are based to all U.S. businesses, not just those offering non-cash awards.*

Respondents were asked what types of non-cash awards were used in their various programs. Award types were defined in two categories: incentive travel and merchandise/card. The categories were specifically defined for respondents as below:

Incentive trips – travel experiences to motivate and/or recognize participants for superior performance in support of organizational goals. With these programs, incentive travel is the key award. Participants may win a spot on a group travel program, or they may be able to select from among various travel packages – either group or individual. Related expenses including room and other gifts are included.

Points-based or merchandise awards - these are merchandise or other awards used as part of an incentive or recognition program. Rewards may be a variety of products of different values, gift certificates/gift cards, experiences, or individual travel. These programs may allow participants to redeem points for awards of their choice, or earn different awards based on level of achievement.

Not surprisingly, the use of incentive travel and merchandise/gift card differs across program types. The incidence of incentive travel is highest within Sales programs and lowest within Customer Loyalty. Merchandise/card use is highest in Channel and Customer Loyalty programs.

	Program Incidence*	Use Incentive Travel**	Use Incentive Merchandise/Card**
Sales	46%	53%	60%
Channel	26%	33%	75%
Employee	56%	43%	60%
Customer	32%	27%	74%
Corporate Gifts	53%		53%

**Calculations are based to all U.S. businesses, not just those offering non-cash awards.*

*** Travel and merchandise/card incidence is within companies using non-cash incentives for that audience. For example, within companies offering non-cash Sales incentives, 53% of companies use incentive travel as an award, and 60% offer merchandise/card awards.*

Market Size

Program Budgets

Respondents were asked to provide annual spend for incentives. Categories ranging from “Less than \$1,000 per year” to “Over \$1 Million per year” were offered. As expected, the data indicates larger firms have higher budgets, with a large proportion of firms in the \$1,000 to \$10,000 category, with many firms also in the “Between \$10,000 and \$100,000” category.

For the Incentive Travel category of spend, average budgets are as follows. While the budgets may look significant, incidence of incentive travel rewards are lower than merchandise/card for Employee and Customer programs – these budgets are within firms that use those types of awards.

Group	Sales Incentive Travel Spend	Channel Incentive Travel Spend	Employee Incentive Travel Spend	Customer Incentive Travel Spend
\$1 to \$10 million	\$ 18,547	\$ 8,800	\$ 16,995	\$ 12,513
\$10 to \$100 million	\$ 36,488	\$ 47,875	\$ 60,508	\$ 34,853
\$100 to \$1B	\$ 106,978	\$ 86,578	\$ 74,095	\$ 75,264
\$1B plus	\$ 475,105	\$ 372,868	\$ 354,935	\$ 310,475

For Merchandise/Gift Card spending, budgets follow a similar pattern.

Group	Sales Merchandise & Card	Channel Merchandise & Card	Employee Merchandise & Card	Customer Loyalty Merchandise & Card	Corporate Gifts Merchandise & Card
\$1 to \$10 million	\$ 20,118	\$ 10,600	\$ 10,331	\$ 21,191	\$ 24,209
\$10 to \$100 million	\$ 73,546	\$ 33,883	\$ 68,081	\$ 149,341	\$ 112,903
\$100 to \$1B	\$ 128,640	\$ 99,100	\$ 68,755	\$ 178,893	\$ 113,458
\$1B plus	\$ 352,930	\$ 362,526	\$ 325,315	\$ 407,868	\$ 292,895

Total market size is calculated by extrapolating the average incentives spend within firm size to the population of U.S. businesses of that size using non-cash awards. As shown in the table below, the total size of the non-cash incentives market is \$76.9 billion; non-cash Sales rewards is the largest category of spend.

	Total Market	Percent of Market
Sales Non-cash Rewards	\$21,452,080,306	28%
Channel Non-cash Rewards	\$6,656,838,829	9%
Employee Non-cash Rewards	\$18,134,743,466	24%
Customer Non-cash Rewards	\$15,178,452,035	20%
Corporate Gifts	\$15,510,046,909	20%
Total	\$76,932,161,544	

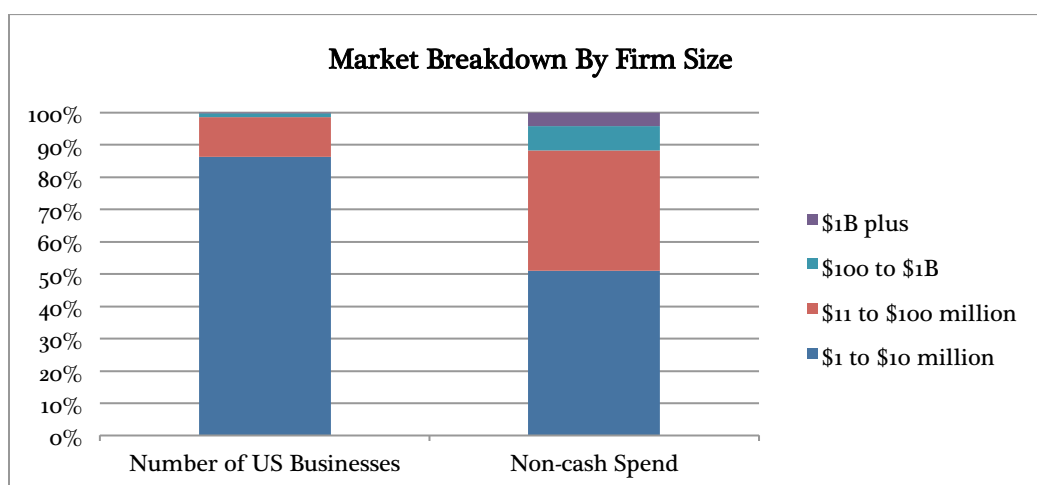
Partially driven by the finding that more U.S. firms use these types of programs, the total market spending for incentive travel is dominated by Sales and Employee programs. On the merchandise side, Corporate Gift spending is highest, followed by nearly-equal spending in Sales and Customer Loyalty programs.

	Incentive Travel	Incentive Merchandise/Card	Total Spend
Sales Non-cash Rewards	\$ 8,887,138,807	\$ 12,564,941,499	\$ 21,452,080,306
Channel Non-cash Rewards	\$ 2,419,830,036	\$ 4,237,008,793	\$ 6,656,838,829
Employee Non-cash Rewards	\$ 8,809,417,779	\$ 9,325,325,687	\$ 18,134,743,466
Customer Non-cash Rewards	\$ 2,469,318,250	\$ 12,709,133,785	\$ 15,178,452,035
Corporate Gifts		\$ 15,510,046,909	\$ 15,510,046,909
Total	\$ 22,585,704,871	\$ 54,346,456,673	\$76,932,161,544

It is also informative to evaluate the breakdown of the \$76.9 billion market by size of firm. As shown in the table below, because of the sheer number of firms in the smaller business category, more than half the market is accounted for by firms between \$1 million and \$10 million in annual revenue.

Group	Total Market Spend	Percent of Market Spend
\$1 to \$10 million	\$39,330,173,430	51%
\$10 to \$100 million	\$28,571,534,479	37%
\$100 million to \$1 billion	\$5,751,519,589	7%
Over \$1 billion	\$3,278,934,045	4%
Total	\$76,932,161,544	

Although the size of the market is largely driven by the large population of smaller firms, the higher incidence and larger budgets deployed by mid-sized and large firms result in a shift in proportions – while small firms account for 86% of U.S. firms, they account for only 51% of the non-cash incentive spending.



Spending Breakdown for Incentive Travel

For incentive travel, in which travel is the key award, participants generally report their spending is divided equally between individual and group trips. The two exceptions are in the Employee and Customer categories, where firms spend relatively less on group travel.

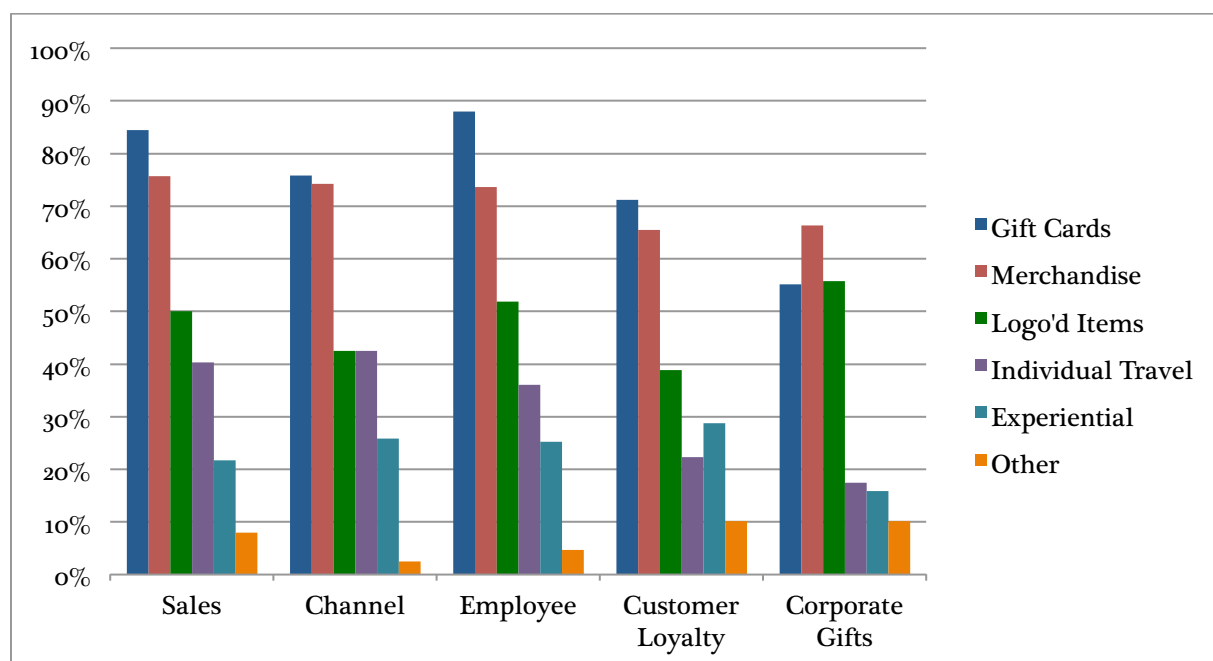
	Group Travel	Individual Travel
Sales Programs	48%	48%
Channel Programs	49%	47%
Employee Programs	41%	54%
Customer Loyalty Programs	41%	50%

Award Breakdown for Merchandise/Card

Of the 74% of U.S. firms using non-cash incentives to motivate or appreciate their stakeholders, 98% are using merchandise awards and 46% are using incentive travel.

For incentive travel, participants generally report their spending is divided equally between individual and group trips. The two exceptions are in the Employee and Customer categories, where spending skews more toward individual travel.

Among firms using incentive merchandise, the breakdown of awards varies by program type. Gift cards are much more frequently used for Employee programs (88%) than for Corporate Gifts (55%), while merchandise is used relatively evenly across program types.



Conclusions

The findings confirm that the incentives market is very large and thriving – the 74% of US businesses using incentive travel, merchandise, and gift cards spend \$76.9 billion annually in this category. The market is largely driven by smaller businesses (those between \$1 and \$10 million in annual revenue), whose budgets are considerably smaller, but the huge number of these businesses creates a \$39 billion market. Non-cash Sales incentives are the largest category, with \$21.4 billion in spending annually.

Special Thanks

The Incentive Federation would like to recognize the following organizations for their support.



Appendix

Efforts to Control Estimation Error

Aside from the issue of sampling, a B2B study such as this will include inherent bias that will affect the accuracy of market projections. This error has been deemed tolerable by the sponsors because any error of projection will likely make the estimates conservative – underestimating the market, not overstating it.

1. False negatives: It is likely that the true incidence of gift card programs is higher in the marketplace than reported here. The likelihood of a respondent being unaware of a program is higher than the likelihood of a respondent believing there is a program where one is not. This is particularly true in larger companies, where a respondent typically will not be aware of the activities of various divisions, subsidiaries, and locations.
2. Multiple decision-makers: As firm size increases, so too does the number of divisions and locations. The Fortune 500 are complex microcosms unto themselves, with subsidiaries, branches, divisions, operating units, etc. It is unlikely a respondent will have perfect information within a company with revenue above \$100 million, and firms over \$1 billion are highly complex. Interviewing a stakeholder in marketing, for example, may give some information about the activity of that department, but is unlikely to yield accurate data for sales, HR, operations, and other departments.
3. Discretionary spend: In many large companies, department managers will use some small part of their budget, or perhaps their own money, to buy “thank you gifts” for their teams. The amount a single manager spends may be small, but in a firm with thousands of managers, the impact on the market is worth noting. These funds may not be captured in the “official” program budgets of the firm.

All of this to say, the findings of this study are far more likely to understate the size of the non-cash incentives market than overstate it.