GIFT CARD AND VOUCHER SALES ANALYSIS AND OUTLOOK UK

2023 H2

Gift Card & Voucher Association

KPMG

GCVA DATA ANALYSIS 2023 H2

Gift cards perform strongly despite a subdued wider market, although the experience across Retail segments was mixed.

Executive Summary

Despite a continuing, low-growth economic environment, data from the gift card and voucher data submitting membership showed a resilient and positive performance in H2 2023, with like-for-like sales growth of 7.43% compared to H2 2022 and a rolling year increase of 7.76%. As has been the case now for five successive periods, growth was strongest in Leisure when compared to Retail, where sales rose by 13.7% on a like-for-like basis – although Retail also performed strongly with an uplift of 7.05%. The experience in Retail was mixed between its different segments, with Grocers leading the way and contributing significantly to the overall rise. Some Retail members experienced a contraction amidst signs of a continuing squeeze on discretionary spend amongst consumers given the continuing cost of living crisis. This consumer squeeze is evidenced when we compare B2C and B2B figures: it was the B2B market that took up the lion's share of growth – recording a 10.04% increase on a like-for-like basis and 10.6% rolling year – while B2C performed more modestly at 3.95% and 3.24% respectively. Meanwhile, in common with previous periods, it was Digital Gift Cards that saw the fastest growth, up 15.88% across the rolling year. However, sales of Physical Gift Cards always rise around the Christmas period given their convenience and suitability as a gift – and this year there was a 2.1% increase during H2 in this product type. Physical formats still account for over half of the market.

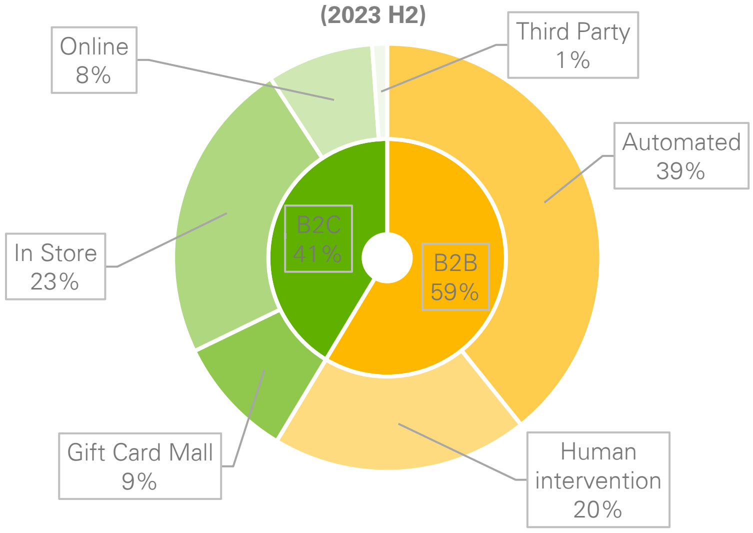
7.4%
Like-for-like period growth

£2.09bn
Total 2023 H2 sales

7.8%
Rolling Year growth

27
Contributors

Market share by sales channel (2023 H2)



Top takeaways

01 Strong rolling year growth of 7.8% against a retail market growing 3.6%[1].

02 H2 Like-for-like sales grew 7.4% following on from a robust H1 of 8.3%.

03 B2B retains the largest share with 58.6% of the market, registering growth of 10.0%.

04 Within B2C 16.6% growth in Gift Card Malls offset a minor decline In Store of -0.9%.

1. https://brc.org.uk/news/corporate-affairs/weak-sales-growth-to-end-2023/

Top takeaways

05 Digital Gift Cards made up 42.7% of sales in 2023 H2, up from 18.7% in 2019 H2.

06 Digital Gift Cards were preferred in B2B, with 17.6% growth compared to 9.1% in B2C.

07 The Leisure sector grew by 13.7%, with a 36.0% rise in Digital Gift Card sales.

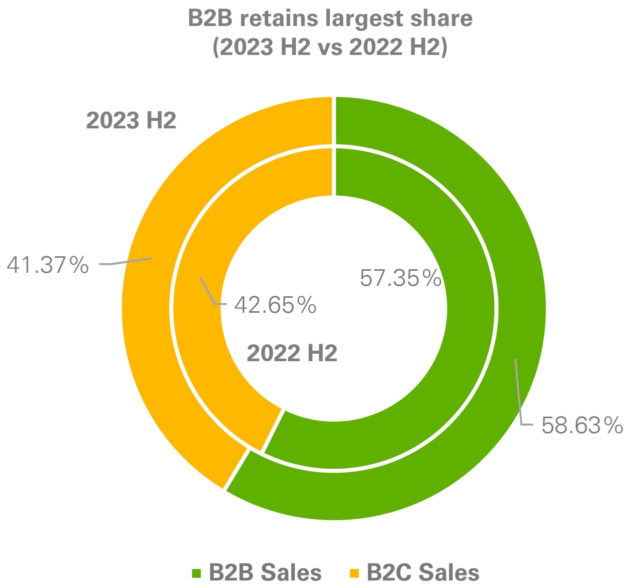
08 All Retail Sub-sectors grew in 2023 H2, with Grocers growing a major 20.5%.

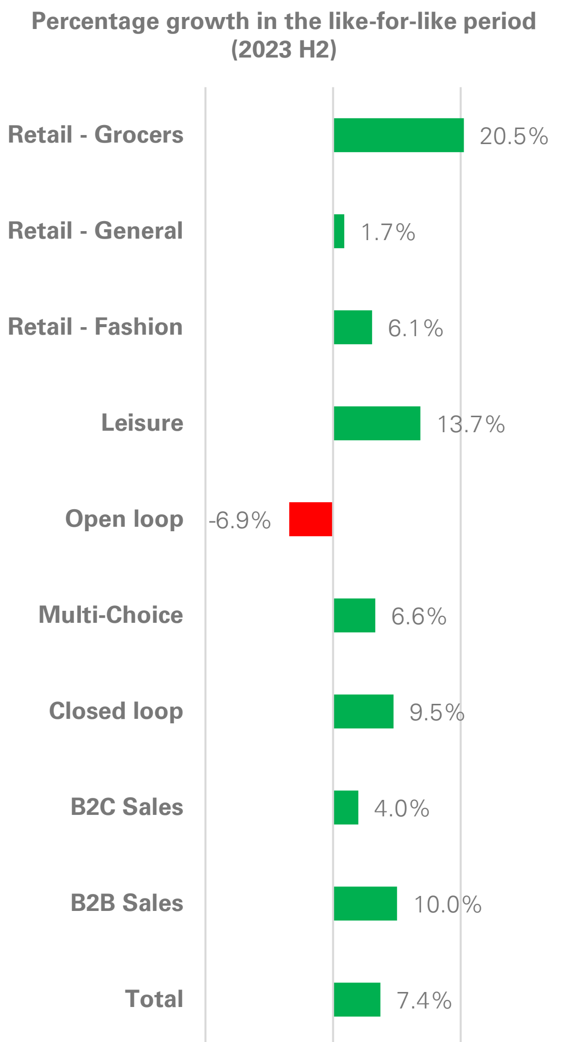
Overview

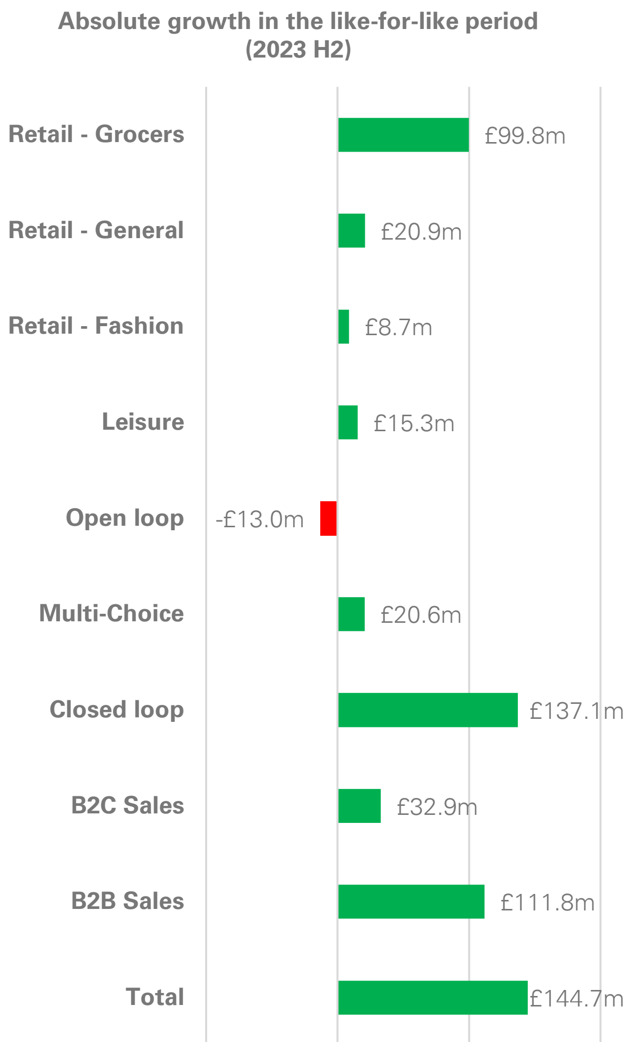
2023 was a difficult year for the UK economy, with growth a precious commodity – and so it is very encouraging that the gift card and voucher industry has recorded a year firmly in the black. H1 saw sales in positive territory, and this was backed up by a strong showing in H2 that has given rolling year growth across both the Retail and Leisure sectors. A year ago in H2 2022, sales were down overall on both a like-for-like and rolling year basis – so this turnaround is especially impressive.

Leisure once again saw the highest growth, although this is easier to achieve given that it represents around 6% of the overall gift card and voucher market. We are also beginning to see something of a levelling out in performance – a sign that the post-Covid 'bounce' is now behind us. In challenging trading conditions, Retail booked a commendable rate of sales growth and the gap to Leisure's performance is narrowing: we are returning to greater equilibrium between the growth rates in the two sectors.

Another feature of recent periods, again influenced by the pandemic, has been the powerful performance of the B2B market compared to B2C. This is also becoming somewhat less marked.







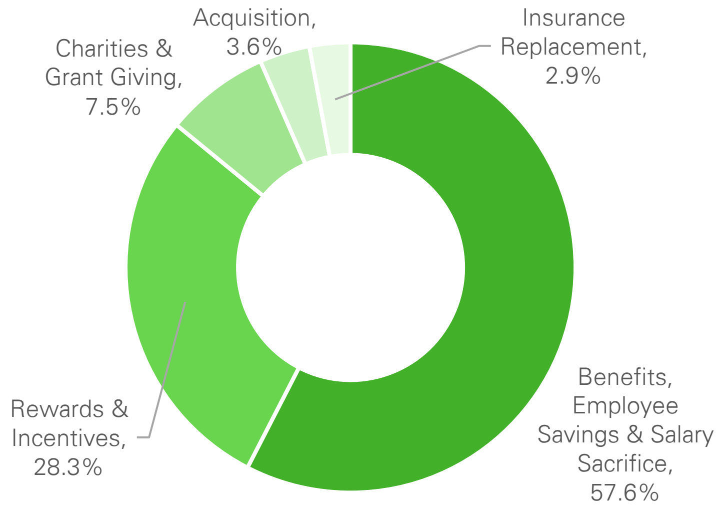
B2B Overview

Benefits, Employee Savings & Salary Sacrifice retained the largest share of the B2B market with 57.6% of all sales and also registered the largest growth at 15.6%. This continues to demonstrate the increasing use of gift cards to offset the cost of living squeeze.

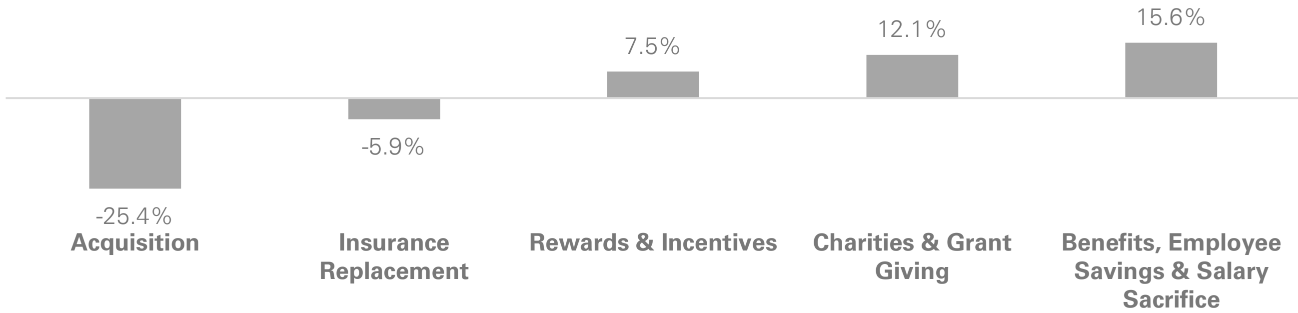
The two smallest markets, Acquisition and Insurance Replacement, both saw declines, of -25.4% and -5.9% respectively.

In terms of channels, the biggest growth within B2B was sales through Human Intervention (i.e. speaking directly to a gift card provider to arrange the purchase of gift cards for staff) at 14.55% while Automated Sales (which nevertheless account for the majority of sales) rose by a more modest 7.93%.

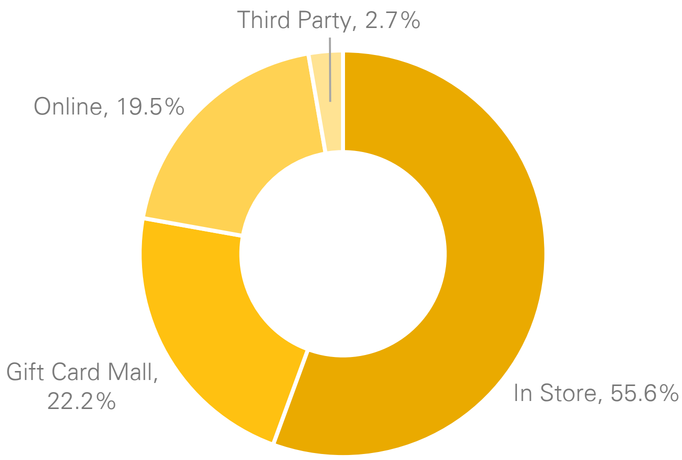
Market share of B2B components (2023 H2)



B2B sub-market LFL growth (2023 H2)



Market share of B2C channels (2023 H2)



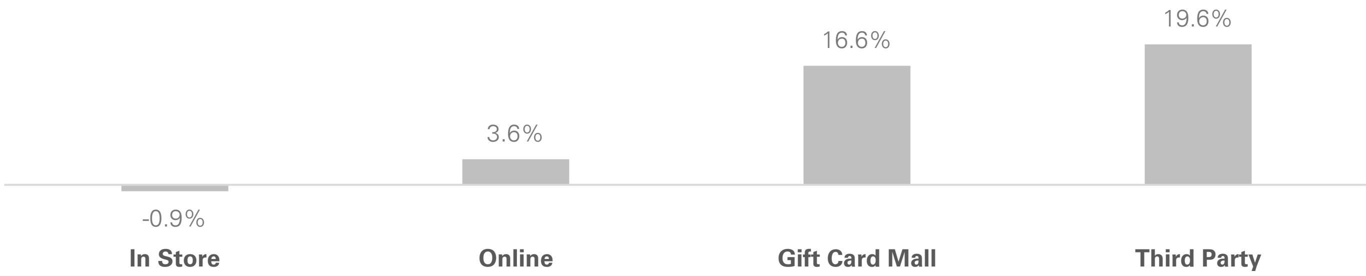
B2C Overview

In the B2C market, it was Gift Card Malls that gained traction with consumers, registering growth of 16.61% - a sign that the convenience of having a choice of gift cards physically in front of the consumer still acts as an effective purchasing influencer. Here, multi-choice formats grew while closed loop declined.

In Store sales retained the largest share of the market with 55.6% of sales, although this represented a decline of -0.9%. Online sales grew modestly by 3.6%, but remain a much smaller channel in the market.

Meanwhile, Third Party sales registered the largest like-for-like growth of 19.6%, but continues to the smallest channel by a considerable distance.

Like-for-like growth of B2C channels (2023 H2)



Sector Focus

Retail

At a time when retailers are experiencing challenging market conditions with low sales growth, the rise in gift card and voucher trade will have come as a welcome relief. The sales uplift in H2 of 7.05% on a like-for-like basis gave rise to an increase of 7.37% across the rolling year.

Digital formats grew strongly but physical sales also proved a valuable source of business, led by Gift Card Malls. B2B sales were also a strong contributor.

Retail Sub-Sectors

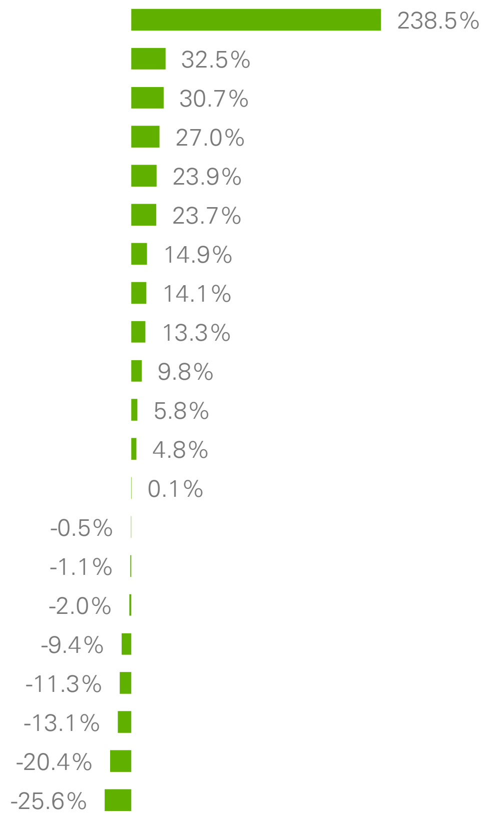
Looking at the Retail market in more detail across the three sub-sectors of General, Fashion and Grocers, we see a number of interesting divergences and trends.

Retail General – There was mixed performance across general retail, with only modest growth as a result of 1.74%. Discretionary spend struggled against tight economic conditions, with many consumers consciously seeking to reduce their outlays.

Retail Fashion – A stronger headline outturn here (growth of 6.11%) was driven by one large individual member that recorded impressive sales values. The other data submitting members in this category all in fact recorded declines – a sign of the challenging and varied conditions in which businesses continue to operate.

Retail Grocers – Food was the engine for growth in Retail, with grocers achieving an eye-catching uplift of 20.47%. All data submitting members in this sub-sector recorded growth. As in previous periods, the signs are that employers have embraced savings schemes with food retailers as a way of helping their staff combat the cost of living, while consumers have used food-related gift cards to support loved ones.

Retail Membership: Percentage like-for-like growth for period (2022 H2 - 2023 H2)



Retail sales by Sub-Sector (2023 H2)

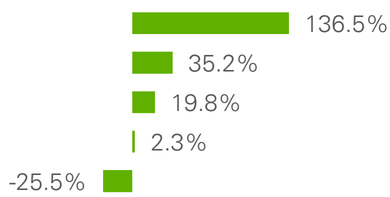
Leisure

The Leisure Sector has continued to prove resilient against fears that the cost of living squeeze could curtail spending in the 'experience economy'. Growth of 13.7% on a like-for-like basis in H2 2023 helped the sector towards a 14.53% jump across the rolling year.

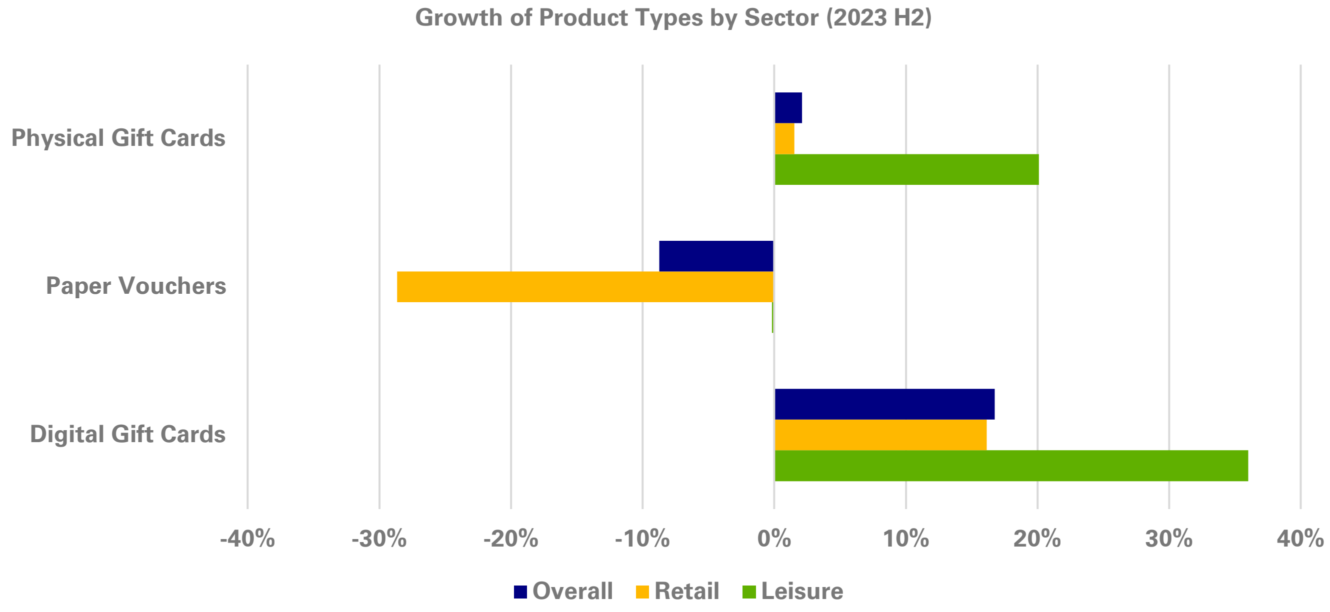
All but one data submitting member in the Leisure Sector saw growth, with some recording significant increases. This was across the majority of sales streams. Of particular note for Leisure was a strong rise in Multi-Choice formats (36.0%).

Nevertheless, as we have already touched on, the uplifts of previous periods appear to be moderating somewhat as conditions settle back post-pandemic – meaning that Leisure operators may need to be prepared for more modest gains moving forwards.

Leisure Membership: Percentage like-for-like growth for period (2022 H2 - 2023 H2)



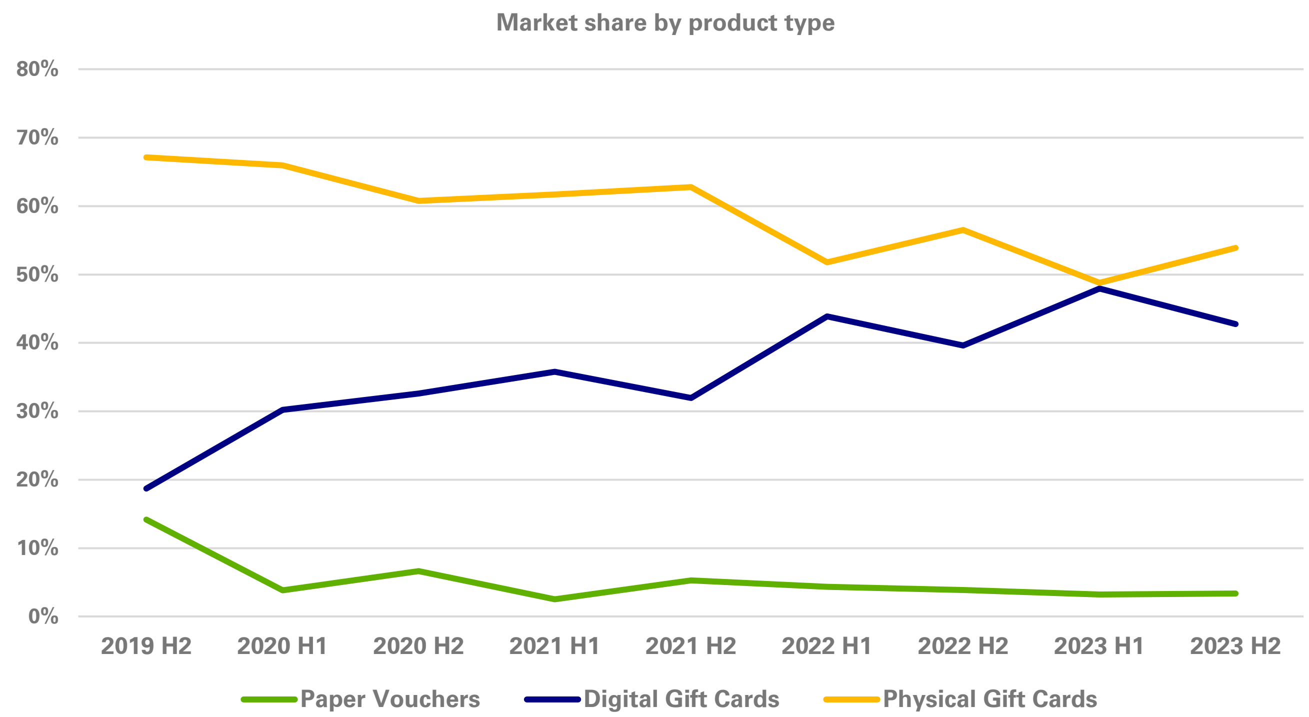
Product and Redemption Type Focus



Although Physical Gift Cards still represent over half of sales (53.9% in H2 2023), the picture has changed dramatically over the last few years – and digital sales may well soon catch up. Looking back to H2 2019, physical sales stood at 67.1% while Digital Gift Card sales equated to just 18.7%. Four years on, Digital Gift Cards account for 42.7%. Paper vouchers, meanwhile, are all but dying out (3.3% share).

In terms of Redemption types, closed loop sales are still the dominant format and achieved the highest sales increase – at 9.47% on a like-for-like basis and 10.57% across the rolling year. Multi-choice also grew, by 6.64% like-for-like and 3.78% rolling year. Meanwhile, Open Loop fell back, seeing a -6.86% drop like-for-like and down -7.15% across the rolling year.

Within the B2B market, it is Benefits, Employee Savings & Salary Sacrifice that is the most prevalent use case (57.58% of sales), followed by Rewards & Incentives (28.34%). Charities & Grant Giving accounts for a much smaller share at 7.52% - although on a like-for-like basis we see fairly significant sales growth here of 12.11%.



ECONOMIC AND RETAIL OVERVIEW

A challenging economy will continue to pose questions – but gift card operators are passing the test.

2023 was a high of heightened geopolitical tensions, the highest rates of inflation seen for many decades, rising interest rates and a continuing cost of living squeeze. The UK economy has been stuck in low-growth mode, making trading conditions for businesses challenging and hard to navigate.

Nevertheless, the environment improved moderately in the second half of the year as inflation at last began to fall and interest rates stopped increasing. The risk of recession has largely receded and economists are cautiously hoping that a little more growth will creep into the economy in the year ahead.

But despite this relative easing, the market has remained a tough one for retail and leisure businesses. With consumers still feeling pressured, their purse strings have been tightly drawn, with price and value key watchwords. As a result, the all-important Christmas period was largely disappointing. Figures from the BRC-KPMG Retail Sales Monitor[2] found that festive sales "failed to make amends for a challenging year of sluggish retail sales growth", according to BRC Chief Executive Helen Dickinson. Sales rose by just 1.7% compared to the same period in 2022, when they recorded a 6.9% uplift. This flat performance was despite promotions that lasted longer and were deeper than the year before, the BRC noted. Overall, it capped a disappointing conclusion to a forgettable year.

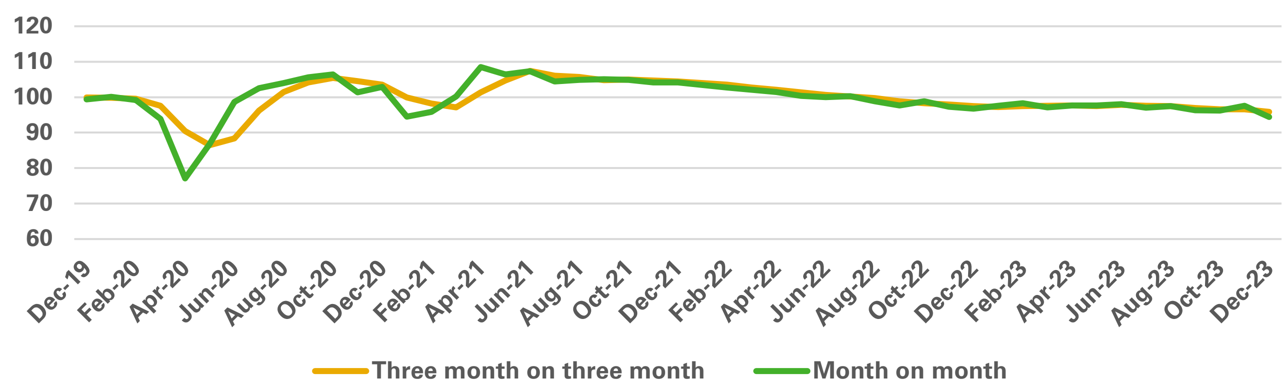
Turning to figures from the Office for National Statistics (ONS)[3], the picture may be gloomier still. According to the ONS, sales fell in December, down -3.2% from a rise of 1.4% in November. This is the sharpest monthly fall since January 2021 when the UK was in Covid lockdown. The ONS suggested that many consumers had done much of their spending early, taking advantage of the discounts on offer in the Black Friday sales. Across the last quarter of the year, sales fell by 0.9% to December 2023 when compared with the previous three months: hardly the 'golden quarter' that retailers and leisure businesses put so much effort and investment behind.

The question now is: what of 2024? If we turn to the view of the KPMG/RetailNext Retail Think Tank (RTT)[4] there are only limited grounds for cheer. The RTT foresees "another lacklustre year, one of retailers getting by, particularly in the first half." The think tank predicts that there will be continuing significant downward pressures on demand, cost and margin for the foreseeable future, with a potential low-point being reached in May 2024.

However, there are some positives to look to. Inflation has fallen significantly from where it was, standing at 4% in December. If inflation remains under control, there are hopes that the Bank of England may begin to cut interest rates during the year. The mortgage market has stabilised in recent months with rates trending down. Consumers may gradually begin to feel less constrained, stimulating more spend.

Moreover, as we have noted in Section One of this report, sales volumes of gift cards and vouchers held up remarkably well. GCVA research with GlobalData[5] finds that over a third (36.3%) of consumers purchased physical gifts, gift cards or made self-use gift card purchases in November 2023. Gift card operators will be hoping to continue this run during the year ahead.

Retail sales volumes fell over the month[3]
December 2019 Index = 100



2. https://brc.org.uk/insight/content/retail-sales/retail-sales-monitor/reports/202312_uk_rsm/
3. https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/december2023
4. https://www.retailthinktank.co.uk/whitepaper/retail-outlook-for-2024-what-are-the-opportunities-for-retailers-in-a-year-of-stagnation/
5. https://www.gcva.co.uk/knowledge-hub/gcva-consumer-report-december-2023

Economy in 2024

The economic outlook remains prey to much uncertainty, not least due to an array of geopolitical factors. The war in Ukraine has been with us since early 2022 – but to this can be added the conflict in the Middle East which began in October 2023. Regional ripple effects from this could destabilise conditions and be a significant threat to growth – as we have already seen with disruptions to shipping and supply chains through the Red Sea.

In its January comparison of economic forecasts[6] for the UK, HM Treasury found that the average expectation for GDP in 2024 is slim growth of 0.4%. This would put 2024 on a par with 2023, where economists are, on average, expecting the final growth figure to be the same. However, there is some variation, with the most hawkish forecaster predicting a slump of -0.2% in 2024, and most bullish anticipating growth of 1.9%.

The latest economic forecast from KPMG[7] is very nearly in line with the average expectation, predicting GDP growth of 0.5% during 2024. KPMG expects this to rise to 1.0% in 2025. The firm is also expecting a drop in inflation, to an average of 2.8% in 2024, down from 7.5% in 2023. KPMG is expecting this to fall further in 2025, to 2.1%. This is broadly in line with the Office for Budget Responsibility's Economic and Fiscal Outlook[8] in November 2023 that inflation would not fall to its 2% target until the first half of 2025.

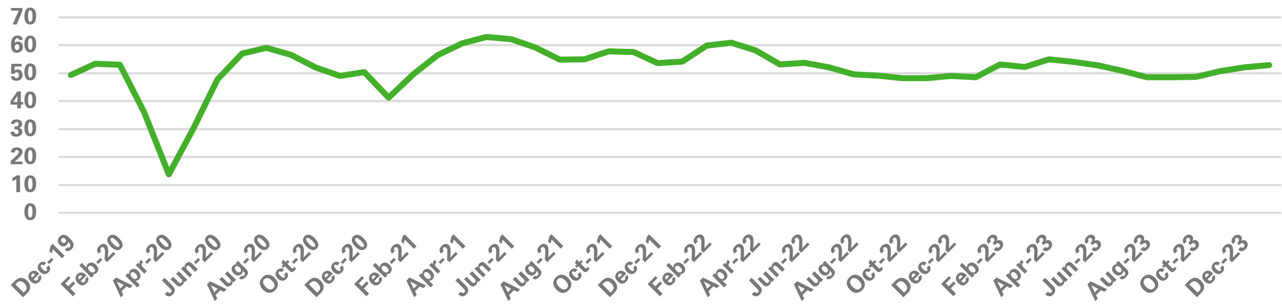
While these figures describe a positive direction of travel, KPMG finds little reason for undue cheer. Indeed, a memorable phrase in KPMG's report is that the UK is "limping with a sprained ankle". 2024, like 2023, looks set to be hard going. KPMG also cautions against any expectation of imminent interest rate reductions, saying that risks remain skewed to the downside and that the Bank of England is only likely to normalise interest rates when it is confident that inflation is firmly on target in the medium term, which is unlikely to happen until the latter part of the year.

However, looking at indicators from the private sector, there are some signs of encouragement. The S&P Global Flash UK PMI[9] published in late January 2024 shows that a recovery in private sector output is gaining momentum, with a rebound across the service economy. The index has picked up each month since hitting an eight-month low last September. However, input costs are rising, with freight costs increasing in the wake of the Red Sea crisis.

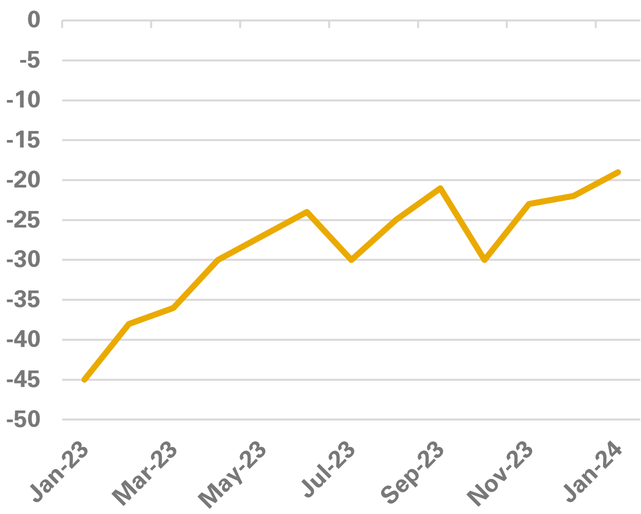
There are also some more positive indicators coming from consumers. The GfK Consumer Confidence Index reached its best headline score in two years in January 2024. In particular, consumers' view on their personal financial situation gained two points to reach zero. This ends 24 months of negative scores.

With service output and consumer sentiment improving a little, perhaps retail and leisure businesses can dare to hope that there will be enough to play for in 2024.

Purchasing Managers Index – rebounding[9]



GfK Consumer Confidence Index Score[10]



What does this mean for retail?

There is little doubt that this year will not be an easy one for retail and leisure businesses. Alongside slow economic growth and weak consumer demand, business costs are also set to rise: the National Minimum Wage will rise in April/May, while business rates are set to increase by 6.7% in April.

In response, businesses will need to pull a range of levers to drive profitable volumes, build customer loyalty and realise efficiency gains. This may include embracing hybrid models that seamlessly connect retail touchpoints, prioritising technology innovation including AI, and using AI to increase customer personalisation and relevance. It will also be important to maximise profitable activity by focusing on in-demand categories, as well as embracing opportunities for purpose-driven retail i.e. tapping into the growing (if still nascent) consumer demand in products and services that support the ESG and sustainability agenda.

6. https://assets.publishing.service.gov.uk/media/65a66b20640602000d3cb724/January_2024_forecomp.pdf
7. https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/12/global-economic-outlook.pdf
8. https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/
9. https://www.pmi.spglobal.com/Public/Home/PressRelease/e3e8cad8cfac4eae977e798cc71d907b
10. https://www.gfk.com/press/consumer-confidence-up-three-points-to-19-in-january

SECTOR OUTLOOK

Delivering an excellent customer experience and harnessing AI could be the levers for sales success.

Building the Six Pillars of Customer Experience Excellence

In the difficult environment businesses are facing into, it becomes more important than ever to drive an excellent customer experience (CX). This increases customers' propensity to buy, enhances loyalty and repeat business, and makes customers more likely to advocate for a brand to others.

KPMG has recently published its latest Customer Experience Excellence report[11] which sets out and explores the Six Pillars that drive outstanding CX. These are illustrated below.

KPMG's CX research, conducted now for 14 years, shows that organisations who master these Six Pillars have significantly better commercial outcomes – driving revenue and EBIT up, and costs down.

This year's research places a number of retail and leisure businesses in the UK's Top 10 performing businesses for customer experience excellence: Lush, John Lewis, Hilton Hotels, Specsavers and Vision Express. Many more feature in the wider Top 100 list.

The Six Pillars of Customer Experience Excellence[11]

Integrity	Resolution	Expectations	Time & Effort	Personalisation	Empathy
Being trustworthy and engendering trust	Turning a poor experience into a great one	Managing, meeting and exceeding customer expectations	Minimising customer effort and creating frictionless processes	Using individualised attention to drive an emotional connection	Achieving an understanding of the customer's circumstances to drive deep rapport

The AI Dimension

This year's report also recognises the key role that AI has to play in customer experience excellence, with many examples of how businesses are embedding it to create and deliver better outcomes.

Two of the pillars where AI has particular resonance for retail and leisure businesses are Personalisation and Time & Effort.

Personalisation

AI can significantly improve personalisation by leveraging customer data and behaviour patterns to create tailored experiences.

By analysing customer data, AI can segment the customer base and make it possible to deliver personalised content, product recommendations and marketing messages. AI-powered recommender systems can suggest products, services or content based on a customer's past behaviour and display these on websites, mobile apps or in marketing communications, increasing the likelihood of customer engagement and conversion.

Marketing campaigns can be optimised by tailoring content, subject lines and sending times to individual customer preferences. In the gift card context, which generates large amounts of data, there is clear potential to use AI to generate insights and create powerful, tailored campaigns built around customer profiles and spending history.

11. https://kpmg.com/uk/en/home/services/consulting/customer-consulting/customer-experience-excellence.html

The AI Dimension (cont.)

Time & Effort – AI can significantly reduce the time and effort customers spend when dealing with organisations by streamlining processes, automating tasks and providing personalised assistance.

Because AI is able to index and analyse vast amounts of information, it becomes easier for customers to find specific details or solutions quickly. This reduces the time spent searching through websites or documents to find relevant information. AI can handle order processing, tracking and delivery updates automatically. Customers don't have to wait for manual processing or contact customer support to enquire about their orders.

In the gift card context, operators need to make it as easy and seamless as possible for customers to buy and download digital cards (preferably connected to their digital wallet), and/or buy and send it to the intended recipient if it is a gift for someone else, with a smooth and intuitive process for storing credit remaining after a purchase for future use. The easier it is to use a gift card, the more likely a customer is to buy another one at a later date.

The AI Adoption Index – Assessment Criteria[10]

- **AI budget and investment**
- **AI talent and skills**
- **AI projects and use cases**
- **Data collection & management**
- **AI partnerships & collaborations**
- **AI ethics and governance**

AI Adoption Index

A further feature of KPMG's report is an 'AI Adoption Index' that assesses how far and how successfully AI has been implemented in different sectors. Financial Services tops the list, but Travel & Hotels follows narrowly behind. Non-Grocery Retail sits around the middle, a little ahead of Entertainment & Leisure.

Across most sectors, a rise in the use of virtual assistants and chatbots is noted. Amongst Hotels & Travel companies, the report observes that increasing numbers of businesses are using AI-enabled energy, water and waste monitoring tools – as well as creating AI-powered 'smart rooms' that allow guests to control features such as temperature, lighting and TV using their smartphone or voice commands.

In Retail, the report reflects that some organisations are using AI to give customers a better store experience, by recommending products and boosting ease of selection through aided conversation, based on customers' preferences. In Grocery, the report notes the use of AI to improve forecasting accuracy and reduce food wastage, along with embedding AI technology to optimise deliveries.

Are you looking to the future?

Clearly, the AI revolution has strong relevance for retail and leisure businesses – and can help drive higher gift card sales and performance too. Along with an unwavering focus on the pillars of customer experience excellence, these may be factors that can give businesses an edge over their rivals and turn relatively gloomy trading conditions into something brighter and more promising instead.

GLOSSARY

Statistics	**Like-for-like (LFL) Growth**	Growth of this period vs the same period 12 months ago i.e. H2 2023 vs. H2 2022.
	Rolling Year Growth	Growth of the most recent 12 months vs the previous 12 months i.e. H1 2023 + H2 2023 vs. H1 2022 + H2 2022.
Markets	**B2B**	Business-to-business. Sales made to other businesses or organisations.
	B2C	Business to consumer. Consumer vouchers and cards sold to consumers or individuals for personal use or gifting.
Sectors	**Retail**	Products sold that allow consumers to primarily redeem against retail products, e.g. clothing or electrical goods.
	Leisure	Products sold that allow consumers to primarily redeem against leisure services, e.g. experiences, hospitality, travel, and entertainment.
Redemption Types	**Closed Loop**	Gift cards that are issued and redeemed by the same company. Closed loop cards are usually facilitated using the issuers till systems and do not require the use of a network such as a Visa or MasterCard. This redemption type does not include category cards such as Book Tokens.
	Multi-Choice	Gift cards that are accepted at a select range of retailers. Usually requires the use of a network such as Visa or MasterCard or a link between participating members' systems. This redemption type includes category cards such as Book Tokens and Restaurant Choice cards.
	Open Loop	Gift cards that require the use of a network such as Visa or MasterCard and are accepted at any outlet displaying the network logo.
Products	**Paper Vouchers**	Traditional paper gift vouchers transacted via a bar code or serial number.
	Physical Gift Cards	Card vouchers transacted via a bar code or serial number.
	Digital and e-Vouchers	Virtual or digital vouchers used for online purchases and redemptions only. There is no physical card or voucher given to a customer as the e-voucher is sent via an email. This excludes all promotional codes.
B2C Channels	**Direct Sales**	Sales made direct to a consumer from within a store or over the counter.
	Online	Sales made via the member's own online purchasing facility or through an online affiliate.
	Gift Card Mall	Sales made via another retailer's gift card mall. All sales via gift card malls should be recorded as consumer sales. This is your gift card sales only, if you host a gift card mall do not include the sales of other gift cards, these will be reported by the issuer of the gift card.
	Third Party Sales	Sales made via any other retailer or channel direct to the consumer. These are physical sales and not online sales. E.g. if you have an agreement with another retailer.
B2B Channels	**Human Intervention**	Sales made to B2B Customers that require human intervention to place the order e.g. via a call centre or account manager.
	Automated	Sales made to B2B Customers that did not require human intervention to place the order e.g. via a web portal or API.

GLOSSARY

B2B Sub Markets	**Benefits, Employee Savings & Salary Sacrifice**	Sales made to B2B Customers for the purposes of providing that business's employees with benefits, savings or salary sacrifice benefits.
	Rewards & Incentives	Sales to B2B Customers for the purposes of providing that business's stakeholders (suppliers, customers, vendors) with rewards and incentives for doing business with them.
	Acquisition	Sales to B2B Customers for the purposes of that business acquiring new customers.
	Insurance Replacement	Sales to B2B Customers for the purposes of that business providing insurance replacements to their customers.
	Charities & Grant Giving	Sales to B2B Customers for the purposes of charitable donations or grant giving to volunteers.
Redemption	**In store**	Gift-card/vouchers redeemed via a physical point of sale in-store. (This excludes 'Click and Collect' & 'Online Food Ordering' where redemption is via an online channel).
	On Line	Gift-card/vouchers redeemed via an online channel. This includes 'Click and Collect' & 'Online Food Ordering' where redemption is via an online channel, though the physical collection/consumption of the good may happen in-store.
Mobile Wallets	**Provisioning**	Digital gift-cards/vouchers issued then subsequently provisioned into either a digital wallet (e.g. Apple Pay, Google Pay), generic voucher App, or brand specific Apps that allows credit to be added - e.g. like the Starbucks App. (For completeness, this excludes emails/SMS containing e-codes/barcodes/QR codes, etc).

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Gift Card & Voucher Association

KPMG