GIFT CARD AND VOUCHER SALES ANALYSIS AND OUTLOOK UK

H1 2020

Gift Card & Voucher Association

KPMG

GCVA DATA ANALYSIS H1 2020

The gift card and voucher sector sees its first contraction in like-for-like volumes for years, as the entire economy is rocked by the impact of the Covid-19 pandemic.

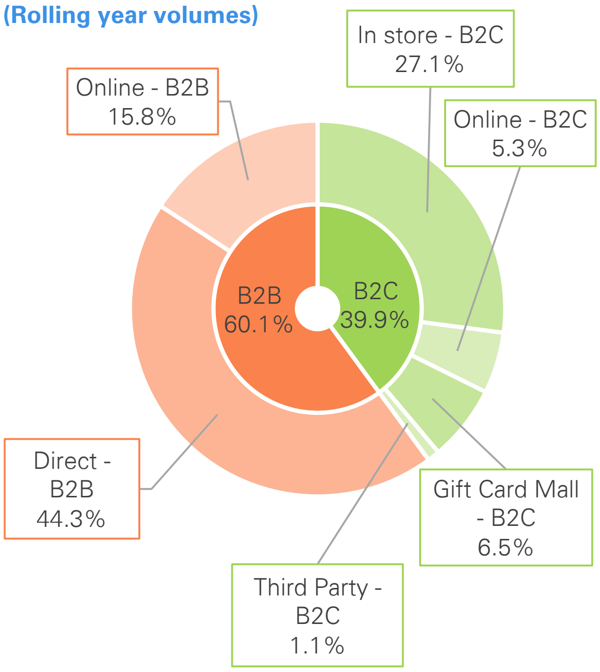
Executive Summary

In a half year dominated by the effects of Covid-19, the gift card and voucher association data submitting membership felt the effects. H1 2020 saw a drop in like-for-like volumes across all sectors, products and channel types – the first time since analysis began that this has happened.

According to a survey of members[1], every respondent was in agreement that Covid-19 had been the key driver impacting sales performance. Leisure was hit harder than Retail as lockdown effectively brought business to a halt, while most retailers were able to carry on trading through online channels.

The existing trend towards online sales continued and indeed was accelerated by Covid-19, with significant growth in digital and eVouchers.

Market share by sales channel (Rolling year volumes)



29
Contributors

£907.8m
Total H1 2020 sales

5.4%
Like-for-like period contraction

8.2% B2B
Like-for-like period growth

B2C 32.2%
Like-for-like period contraction

1. As part of the data-collection process we conducted a survey of the GCVA membership (including non-data submitting members) to help add context to the data insights. Thank you to all members who took the time to complete the survey and provide valuable responses.

TOP 10 TAKEAWAYS

01

Overall contraction of 5.4% in like-for-like volumes for the half year across all sectors, channels and product types; the first reduction since analysis began.

02

Leisure sector hit significantly harder by the COVID-19 crisis than Retail, with like-for-like volume reductions of 30.6% and 4.2% respectively.

03

The shift of sales from B2C to B2B channels continues with growth of -32.2% and 8.2% respectively. In H1 2020, B2B market share up to 75.8% from 66.3% in H1 2019.

04

49.7% rolling year growth in Digital & eVouchers as the COVID-19 crisis accelerates the shift away from physical gift cards.

05

Market share for Digital products has increased to 30.2% compared with 17.7% in H1 2019.

TOP 10 TAKEAWAYS

06

Retail consumer sales shift from in store (-43.7% growth) to online (51.2% growth) as consumers avoid physical stores during the COVID-19 crisis.

07

Retail Online B2B is the big winner in H1 2020 with like-for-like growth of 386% and rolling year growth of 156%.

08

Open Loop continues to gain in popularity with like-for-like growth of 14.6%, partially driven by consumer fears of individual providers being unable to weather the COVID-19 crisis.

09

Leisure sector growth in H2 2019 reversed in this half-year, now accounting for 4.8% of the total rolling year volume compared with 11.5% only 6 months ago.

10

Large variance in results for Retail membership – highest performer saw growth of 185% while lowest performer experienced contraction of 58%.

Overview

Percentage vs. absolute growth in the like-for-like period H1 2019 – H1 2020

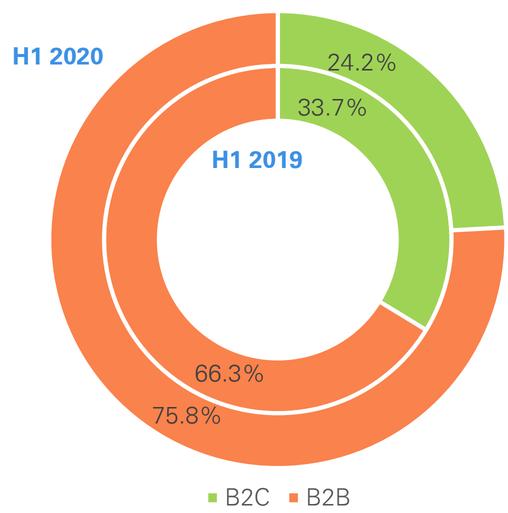
Three quarters of Retail members and all Leisure members reported a contraction in like-for-like volumes. However, the reduction in Retail volumes was, under the circumstances, reasonably mild at -4.2%. It was Leisure that really felt the hit, with sales down by -30.6%.

With sales to consumers dropping, the proportion of B2B sales grew – accounting for over three quarters of volumes in H1. It is worth remembering, however, that H2 is traditionally the strongest period for B2C sales.

As in previous periods, the market remains dominated by direct sales. This is particularly the case for B2B, although even in B2C, in-store sales remained the dominant pattern despite Covid-19 and lockdown. Nevertheless, there are growing signs of change. Online channels continue to increase in importance and the pandemic has doubtless accelerated this. Online B2B sales rocketed by 380% from H1 2019 to H1 2020.

Our survey of members showed strong agreement that growth in digital and eVoucher sales, and the shift from in-store to online, will continue in the second half of this year. For most operators, it will be important to offer gift cards and vouchers through a variety of channels in order to maximise sales potential – particularly in the crucial run-up to Christmas.

B2B increases market share vs B2C (H1 2020 v H1 2019)



KEY WORD RE-DEFINITION

In order to continuously improve the reporting, the decision was made in this period to re-define some key words:

Sectors: Previously members were defined as being Agent, Leisure or Retail. Now we have moved to look at the type of products issued, rather than a member level setting.

Retail - Products sold that allow consumers to primarily redeem against retail products.

Leisure - Products sold that allow consumers to primarily redeem against leisure services.

Redemption Types: The categorisation of closed loop and multi-choice has been redefined as follows:

Closed Loop - Gift cards that are issued and redeemed by the same company; usually facilitated using the issuers till systems.

Multi-Choice - Gift cards that are accepted at a selected range of outlets; usually requires the use of a network such as Visa or MasterCard or a link between participating members' systems.

All other definitions remain unchanged from previous analysis reports. Historic data has been recalculated under the new definitions in order to make meaningful comparisons.

Sector Focus

Retail

A challenging period for Retail saw B2C volumes drop as consumers came to terms with Covid-19 and lockdown. In-store sales plummeted by 43.7%. On the bright side, online sales mushroomed by 51.2%. This rise may not have been enough in itself to rescue the half-year, but nevertheless it is a shift that sets a marker for the future and underlines the growing importance of digital gift card and voucher offerings.

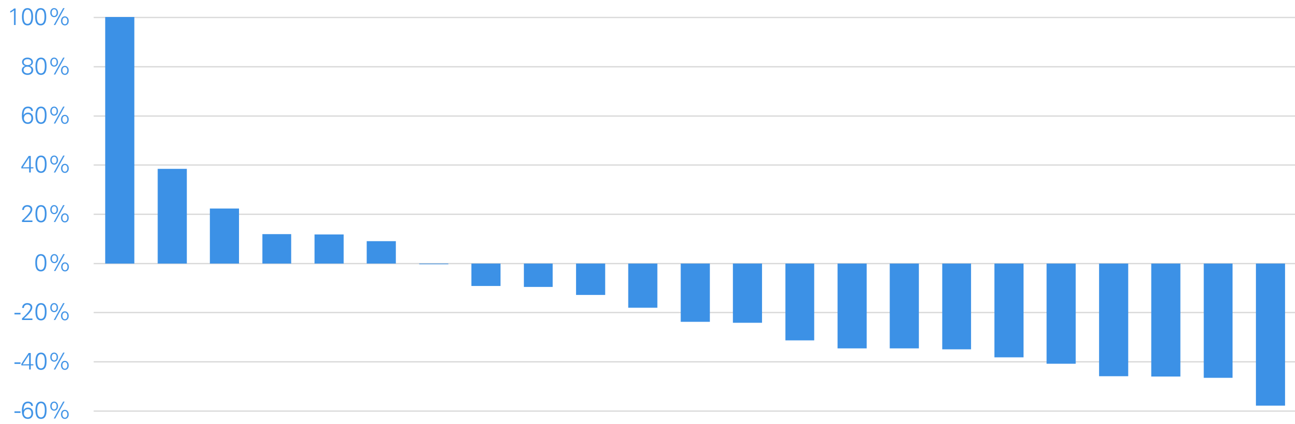
The B2C drop was also offset somewhat by significant growth in B2B sales, especially through online channels. Respondents to our survey highlighted the Government school voucher scheme as contributing to this growth alongside the main factor of Covid-19.

Leisure

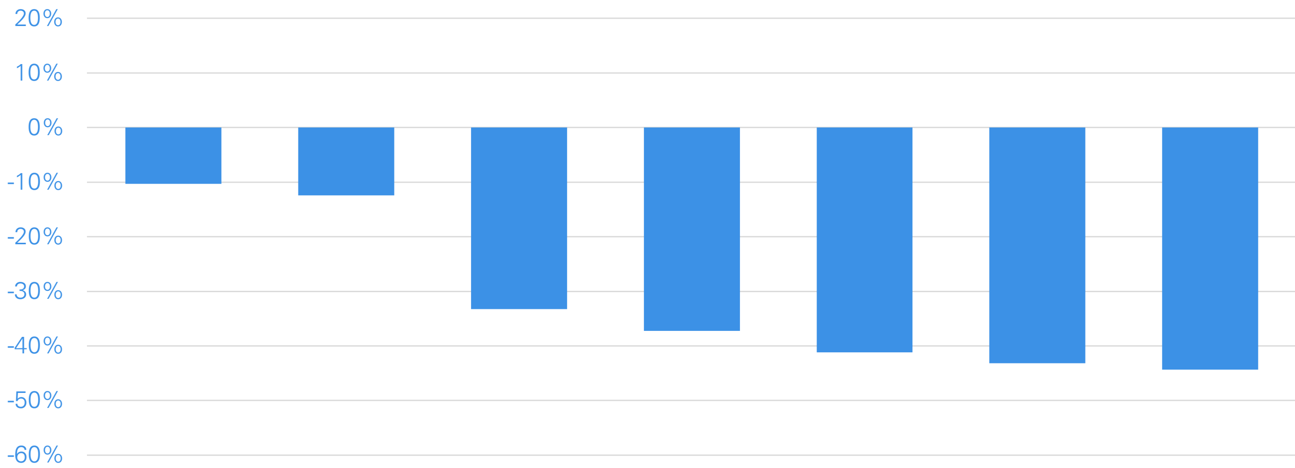
Leisure was hit significantly harder than Retail as lockdown prevented the ability to redeem gift cards and vouchers. Not only were B2C sales heavily impacted, but the B2B growth seen in H2 2019 was also reversed during the first half of this year.

The adverse effect of Covid-19 is undeniable – leading one survey respondent to remark that all other factors during the half year were 'immaterial' in comparison. Now, it must be hoped that the end of national lockdown will see a return to growth again, as leisure businesses are able to welcome customers once more.

Percentage like-for-like growth for Retail membership (capped at 100%)

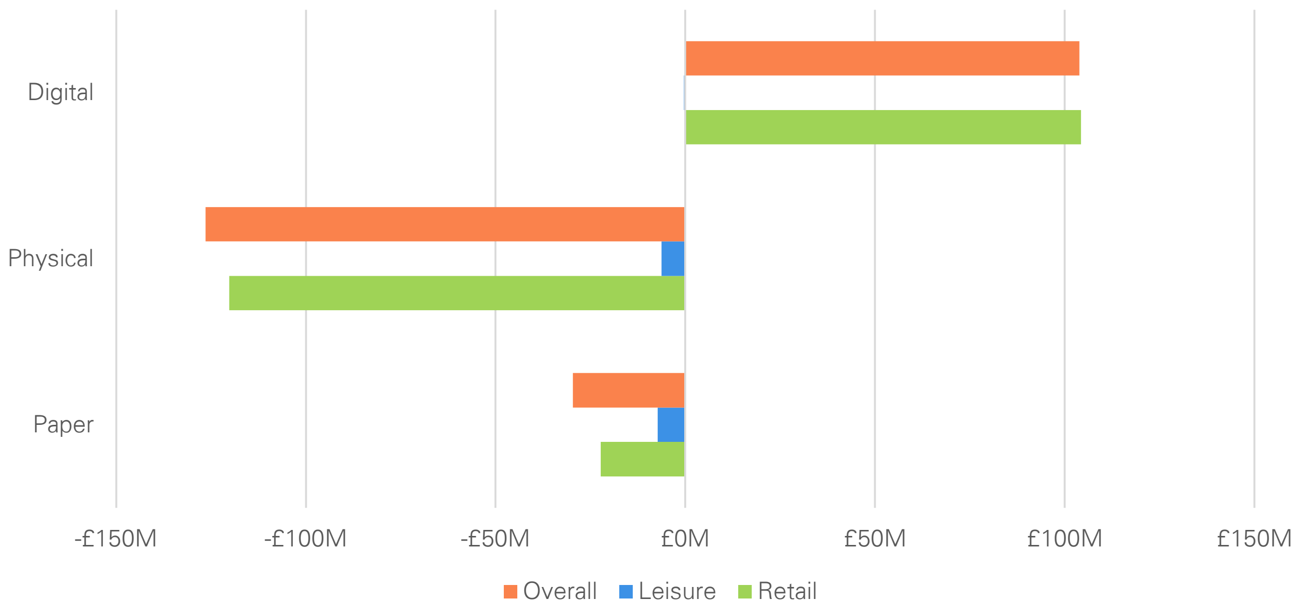


Percentage like-for-like growth for Leisure membership



Product Focus

H1 2020 Growth of Product Types by Sector

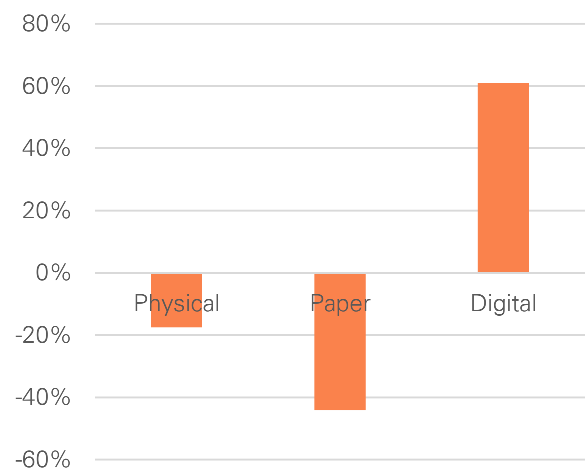


There has been a long-term downward trend of paper gift cards and vouchers. However, the interesting action during the first half of this year revolved around what has been replacing them. Physical options are now also in decline as digital offerings have begun to really take off. Digital's market share almost doubled between H2 2019 and H1 2020, reaching 30% during the half-year. This is a trend that looks set to continue, particularly in Retail.

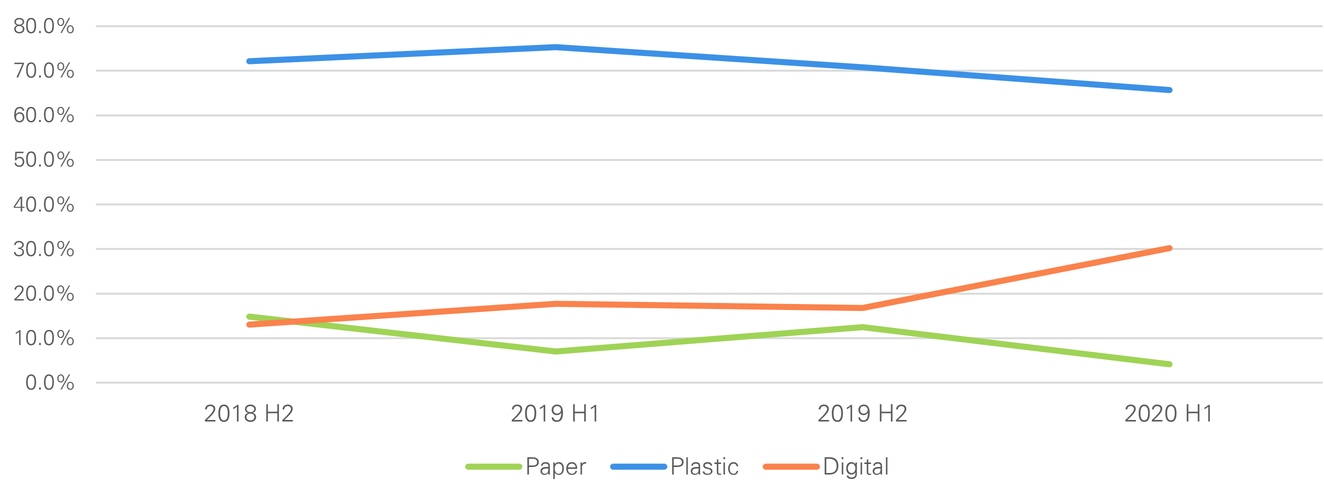
As well as the pandemic, respondents to our survey believe that the trend to digital is being driven by a number of other factors, including: convenience; range of options; improved digital user experience; and environmental considerations.

Meanwhile, the growth of open loop options has been notable. With a tough economic climate ahead, this can be expected to continue as consumers (and B2B purchasers on their employees' behalf) seek to maximise their options and avoid the prospect of holding vouchers that cannot be redeemed.

Digital gift cards outperform other products (like-for-like growth)



Market share by product type



ECONOMIC AND RETAIL OVERVIEW

2020 has been a torrid year for retail, as it has for businesses across all sectors that have been impacted by the Covid-19 pandemic.

Lockdown

The effects of lockdown in March were stark and very rapid. The BRC-KPMG Retail Sales Monitor covering March found that sales grew by 12% on a total basis up to the beginning of lockdown – and then dropped by 27% in the last two weeks of the period.[1] The divide between Food and Non-Food sales, and between physical and online sales, became severe.

The pandemic has inevitably taken a toll on the Retail sector, despite the government support schemes available including the Job Retention Scheme. A host of retailers have announced redundancies or store closures, including some of the biggest names of British retailing such as John Lewis, Debenhams, Harrods, Burberry, WH Smith and Laura Ashley. Many restaurant businesses have also added their names to the list. Meanwhile, retailers such as Benson for Beds, TM Lewin, Harveys Furniture and DW Sports have gone into administration.

The landscape could become more challenging still when the Job Retention Scheme ends in October, and finance support packages such as Bounce Back Loans and the Coronavirus Business Interruption Loan Scheme (CBILS) are closed.

Resilience

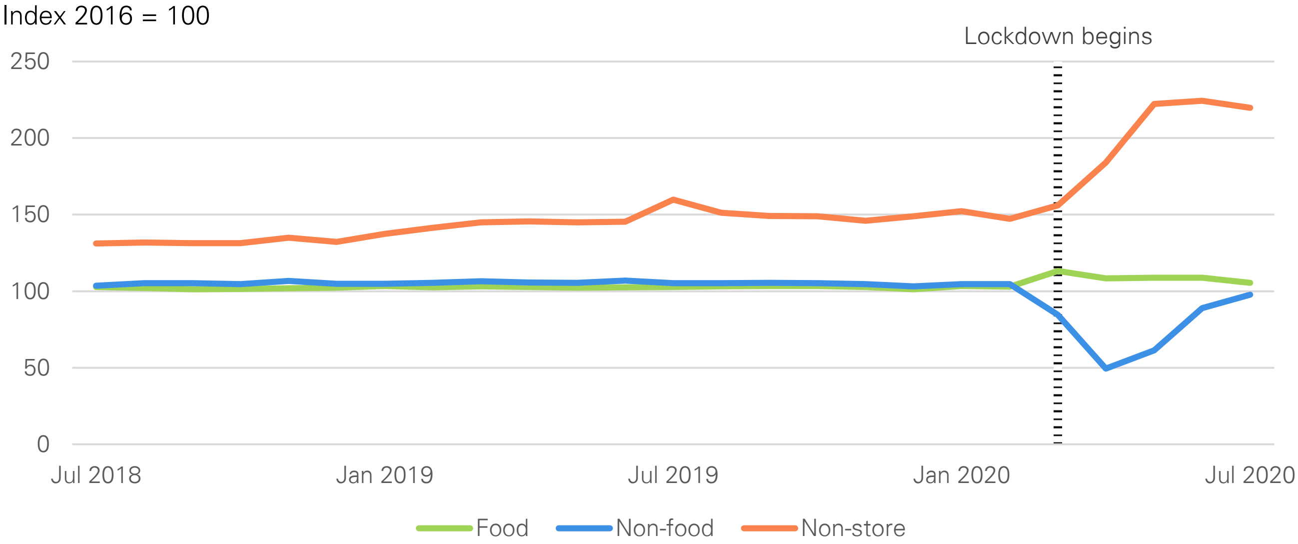
Nevertheless, the retail sector has shown its resilience with sales beginning to rise again as a sense of recovery has tentatively gathered. July's Retail Sales Monitor shows that total retail sales have grown for two consecutive months (June and July). Online purchases have continued to boom, representing 40% of sales in July.[2] Food sales have continued to perform strongly, but other categories have also fared well – such as furniture and homeware as consumers increasingly invest in their time at home.

Challenge

But the situation remains very fragile. Footfall remains down and consumers are reining back on impulse and luxury purchases such as fashion, jewellery and beauty. Spending could tighten much further if recession deepens and job losses escalate.

There are many challenges ahead, including the ongoing vexed question of rent payments. It will take all of retailers' ingenuity, determination and innovation to survive and thrive.

UK Retail volume sales seasonally adjusted[3]
Index 2016 = 100



1. BRC-KPMG Retail Sales Monitor March 2020: https://home.kpmg/uk/en/home/media/press-releases/2020/04/brc-kpmg-retail-sales-monitor-match-2020.html
2. BRC-KPMG Retail Sales Monitor July 2020: https://home.kpmg/uk/en/home/media/press-releases/2020/08/brc-kpmg-retail-sales-monitor-july-2020.html
3. Office for National Statistics, Retail Sales: https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/july2020

Economy in H2 2020 and 2021

As the year dawned, there was cautious optimism for the economic prospects in 2020. The pandemic changed all that. ONS figures show that the UK's GDP fell by 20.4% in the second quarter – pushing the UK officially into recession.[4]

However, with lockdown now being progressively eased, there are hopes for a relative recovery in the second half of the year and on into 2021. But much hinges on non-economic factors: when will a vaccine or effective treatments for the virus be available?

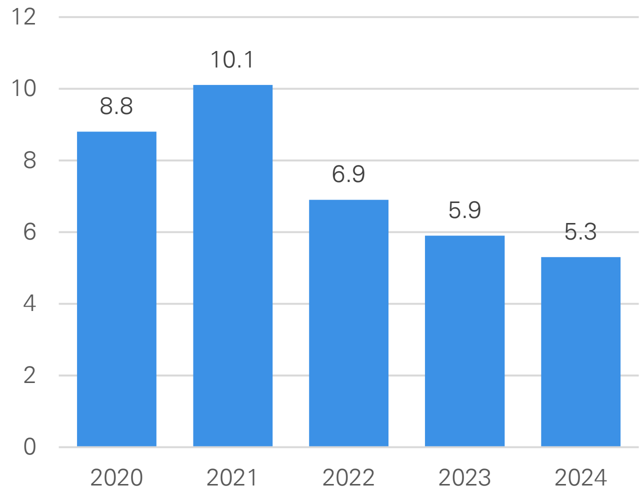
Economic forecasts, therefore, are highly dependent on these factors, with most economists offering a range of different scenarios accordingly. In its July comparison of independent economic forecasts, HM Treasury found that the average forecast for 2020 is a fall in GDP of 9.1% (ranging from -12% to -6.6%), while the average expectation for 2021 is growth of 6.6% (ranging from 1.5% to 10.3%).[5]

In its June economic forecast, KPMG based its main scenario around a vaccine being available by July 2021 – and predicted a GDP decline of 7.2% for 2020 as a whole, followed by growth of 2.8% in 2021. Concerningly for retail, it predicts a 9.5% drop in consumer spending across this year, with a mild uplift of 1.3% next year. But other – better or worse – outcomes are also possible.[6]

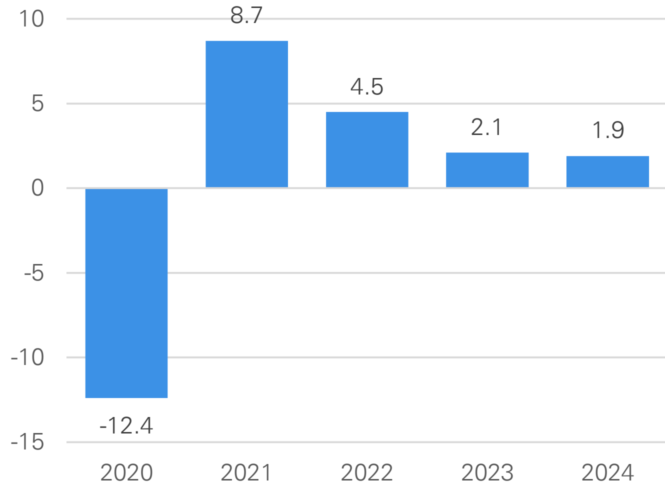
Turning to GDP for the Euro area as a whole, the European Commission predicts a broadly similar picture, with a fall of 8.7% this year and a rise of 6.1% in 2021.[7]

On the ground, there are some signs that confidence is returning. The Purchasing Managers Indices (PMI) published by IHS Markit towards the end of July found that sentiment had improved from 47.7 in June to 57.1, the first time it had been above the 50 threshold since lockdown began and, in fact, its highest level since June 2015.[8] Services also expanded sharply in July, with optimism improving.[9] In terms of consumer confidence, the long-running GfK Consumer Confidence Index reported a steady picture in July, with confidence slowly building back over the past few months from the trough recorded in April.[10]

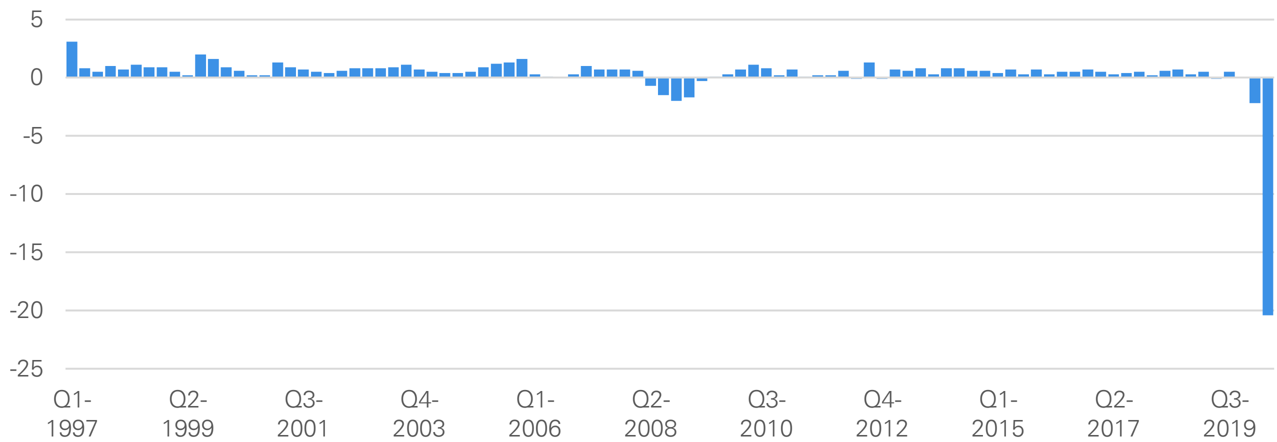
OBR central forecast:[11]
Unemployment rate (annual average %)



OBR central forecast:[11]
GDP year-on-year change %



UK GDP quarter-on-quarter growth seasonally adjusted[12]



4. Office for National Statistics: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/apriltojune2020
5. HM Treasury, economic forecasts: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900759/Forecomp_July_2020.pdf
6. KPMG, June economic outlook: https://assets.kpmg/content/dam/kpmg/uk/pdf/2020/06/uk-economic-outlook-june.pdf
7. European Commission, GDP forecasts: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/euro-area_en
8. Purchasing Managers Indices: https://www.markiteconomics.com/Public/Home/PressRelease/6ab94fc6bd594c46b3192f42059fb866
9. Purchasing Managers Indices: https://www.markiteconomics.com/Public/Home/PressRelease/550751d74c114f5b93f43c043ead05b5
10. Gfk Consumer Confidence Index: https://www.gfk.com/en-gb/press/UK-Consumer-Confidence-holds-steady-for-July?hsLang=en-gb
11. HM Treasury, economic forecasts: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/910534/Forecomp_August_2020_new.pdf
12. Office for National Statistics: https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/june2020

SECTOR OUTLOOK: BEYOND COVID-19

The immediate impact of Covid-19 cannot be overstated and in the long term is likely to change the face of retailing in the UK for many years to come.

The speed and size of the retail sector's recovery will be dictated greatly by how shoppers behave as restrictions and social distancing are eased. Government schemes like 'Eat out to help out' have been very successful in encouraging consumers out, benefiting not only restaurants and cafes but the high streets and retail spaces around them, but this is only a short-term measure.

The autumn period will be critically important. Will the recession deepen? What scale of unemployment will we see? Will there be a second wave of the virus and new lockdown(s)? Consumer spending is already on a firm downward trend and retailers will be desperately hoping that this is not accentuated by new deteriorations in external conditions.

As retailers assess the future and build towards operating in a New Reality, four key themes are likely to dominate:

- **Business Models and Digitisation**
- **Purpose at the forefront**
- **Cost of doing business**
- **New customer behaviours emerging**

Business Models and Digitisation

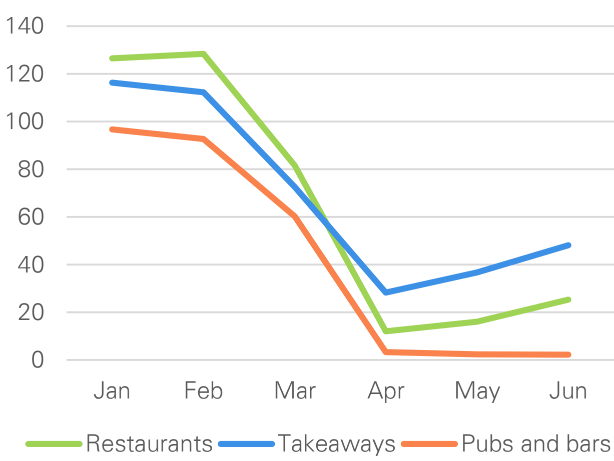
Purpose at the Forefront

Cost of Doing Business

New Customer Behaviours Emerging

UK Non-food stores volume sales seasonally adjusted[13]
Index Feb 2020 = 100

UK Food and beverage activities seasonally adjusted[14]
Index 2016 = 100



13. Office for National Statistics: https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/july2020
14. Office for National Statistics: https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/june2020

Business Models and Digitisation

Even before this crisis, it was becoming increasingly clear that store-based retailing had passed its zenith. While many physical stores will certainly return to growth in a post-Covid world, retailers with poor online channels will struggle to survive in the future.

Companies now need to be good at not just buying and selling products, but also at online fulfilment, home delivery, data analytics, AI, machine learning and process automation.

Retailers should be looking to invest in technologies aimed at making the shopping experience easier, safer and more efficient. They need to be able to analyse and act upon customer data to offer highly bespoke, personalised and seamless interactions. And they need strong customer loyalty programs that reward shoppers and deliver relevant offers and discounts digitally, such as through a mobile wallet.

KPMG research (KPMG Covid-19 Global Tracker) finds that 58% of consumers have changed their channel of interaction with businesses through the pandemic and become more multi-modal – and 80% intend to stay with those channels.

Purpose at the forefront

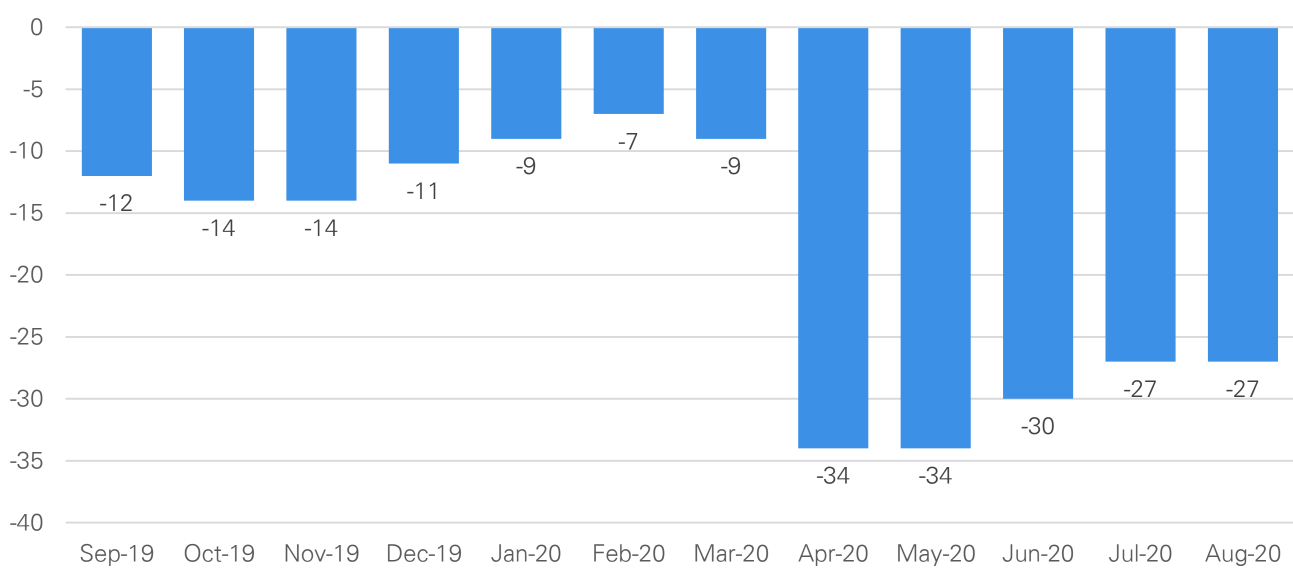
Purpose, ethics, sustainability, values – these have been high on the agenda for a number of years. But post Covid, they will matter even more to consumers. Increasingly, retailers that don't measure up will be ruled out.

The ethics, sustainability and provenance of products – and the retailers that sell them – will come under greater scrutiny. Indeed, KPMG research has found that nine in ten customers are willing to pay more for ethical retailers (Source: KPMG Me, My Life, My Wallet 2020). We could also see a growth in the emphasis on localism to boost a sense of community and place, benefiting tertiary high streets. Over four in ten consumers want to see greater support from retailers for local communities (KPMG Covid-19 Global Tracker).

Customers will also remember how retailers behaved during the Covid-19 crisis. Those who were perceived to put people before profits, protecting their staff and supporting communities, will have built a positive dividend that will last. Those that were seen to have profiteered their way through the crisis could suffer the repercussions in the coming years.

With sustainability issues likely to remain high on the agenda, this should serve as a spur to retailers and leisure operators to open up digital channels and offerings where possible – including their gift card and voucher propositions – and increase the prominence of these within their overall channel mix.

Gfk Consumer Confidence Index



15. Gfk Consumer Confidence Index: https://tradingeconomics.com/united-kingdom/consumer-confidence

Cost of doing business

Cutting costs will inevitably be high on the agenda. The KPMG Ipsos Retail Think Tank suggests that operating cost savings of around 30% may be needed.[16] It is inevitable that efficiencies will have to be found in the workforce. It also seems a foregone conclusion that the overall size of retailers' store portfolios will have to be reduced.

Savings will also need to be made on the cost of goods, and we will likely see a drastic reduction in the number of ranges on offer.

New customer behaviours emerging

One of the effects of the Covid-19 crisis will be to massively accelerate consumer trends that were already forming – speeding up the emergence of a 'New Customer'.

This New Customer will have moved online, reduced their physical purchase occasions and gravitated towards touchless shopping and contactless payment. Self-service will prevail. For many, there will have been a shift from discretionary spend to essentials. Value and price will now be at least as important as other aspects of the experience. The New Customer is more purpose-driven and demands integrity. They are also concerned about the privacy of their data and the integrity with which businesses process, safeguard and use it. A company's environmental and social credentials will become an increasingly important factor in purchase decisions.

In conclusion, a tough future beckons. However, for many retailers this is nothing new: they have been through crises before and survived. It is also likely that the new forces impacting the sector will create an increasing polarisation between winners and losers. For those that successfully shape their propositions for the future, retailing can continue to be a profitable and rewarding business.

FOUR PHASES OF RESPONSE

React
(first 4 weeks)
Responding to immediate challenges

Resilience
(months 2-4)
Managing through uncertainty

Recover
(months 2-12)
Resetting and identifying opportunities

New Reality
(months 2-24)
Adapting to a new world

16. KPMG Ipsos Retail Think Tank: http://www.retailthinktank.co.uk/whitepaper/life-after-covid-19-the-immediate-fallout-and-the-long-term-implications/

GLOSSARY

Statistics	**Like-for-like growth**	Growth of this period vs the same period 12 months ago i.e. H1 2020 vs. H1 2019
	Rolling Year Growth	Growth of the most recent 12 months vs the previous 12 months i.e. H2 2019 + H1 2020 vs. H2 2018 + H1 2019.
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. a holiday or restaurant meal.
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	**Direct Sales**	Sales made to businesses or organisations through any sales channel except an online sales channel. This could include telephone sales or sales made to corporate via their purchase order systems. This does not include sales made to internal departments.
	Online Sales	Made to a business or organisation via online sales portals or online affiliates.

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