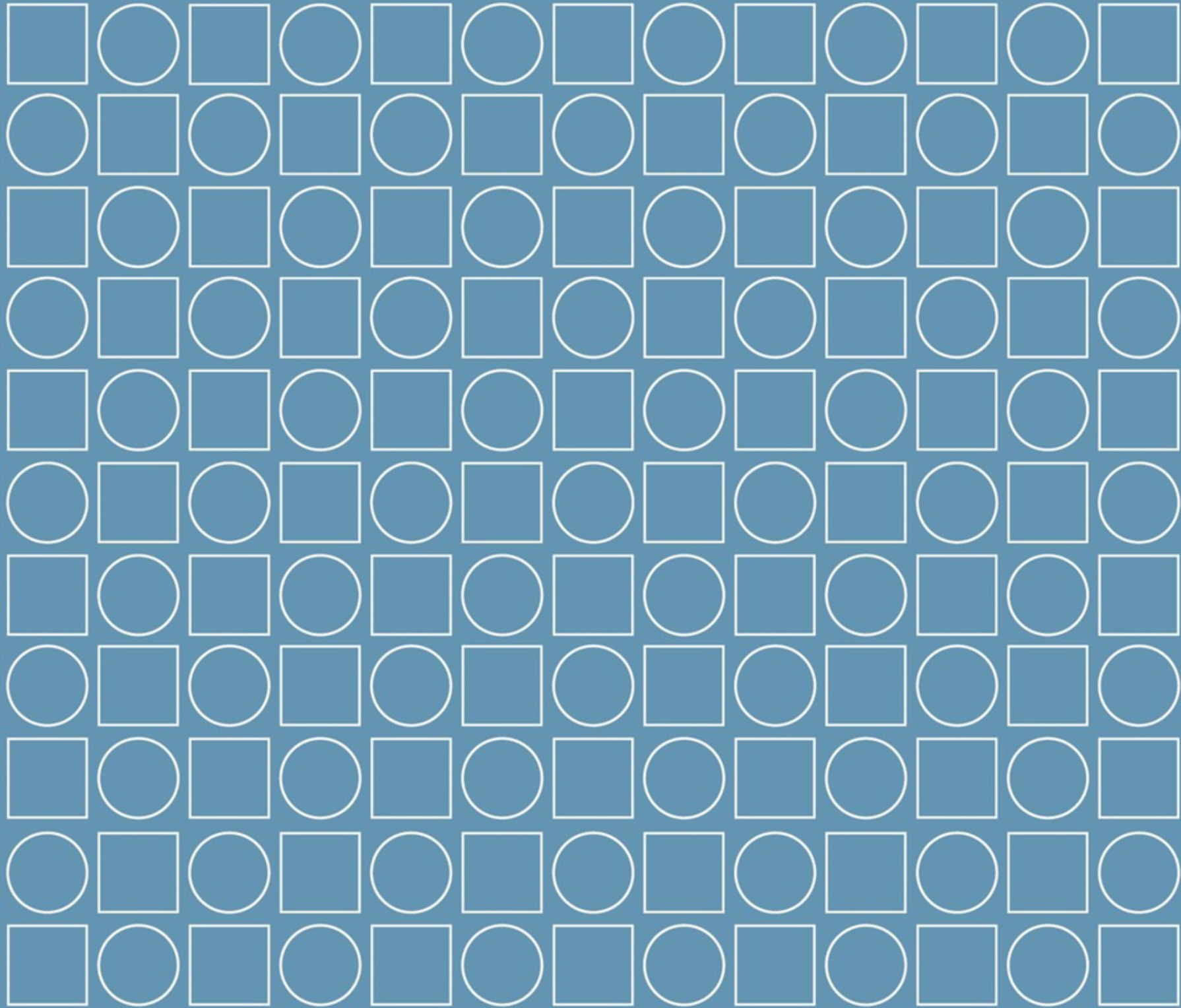


Gift Cards, the Jewel in the Loyalty Crown

Report from GCVA
November 2023



Introduction

This report, produced by the Gift Card and Voucher Association (GCVA), looks into opportunities for the gift card sector within the fast-growing market for loyalty programmes. It serves both as a strategic guide for members seeking to enhance their loyalty offering, as well as food for thought on how loyalty programmes can best leverage the unique capabilities of gift cards.

The UK's loyalty market is on an impressive growth trajectory, set to reach £6.8 billion in 2023*. With a recorded annual growth rate of 9.6% and projections estimating a market size of over £10.4 billion by 2027, the potential for the gift card industry is substantial. In these financially challenging times, consumers are increasingly attracted to the tangible value offered by loyalty programmes, presenting a significant opportunity for GCVA members.

This report draws on a comprehensive survey of over 1,000 UK consumers (carried out in October 2023) as well as insights from 36 GCVA member organisations. We have examined current consumer attitudes and motivations within this market. Also, what factors determine whether loyalty programmes are able to thrive.

* source: PayNXT360



The UK's Passion for Loyalty

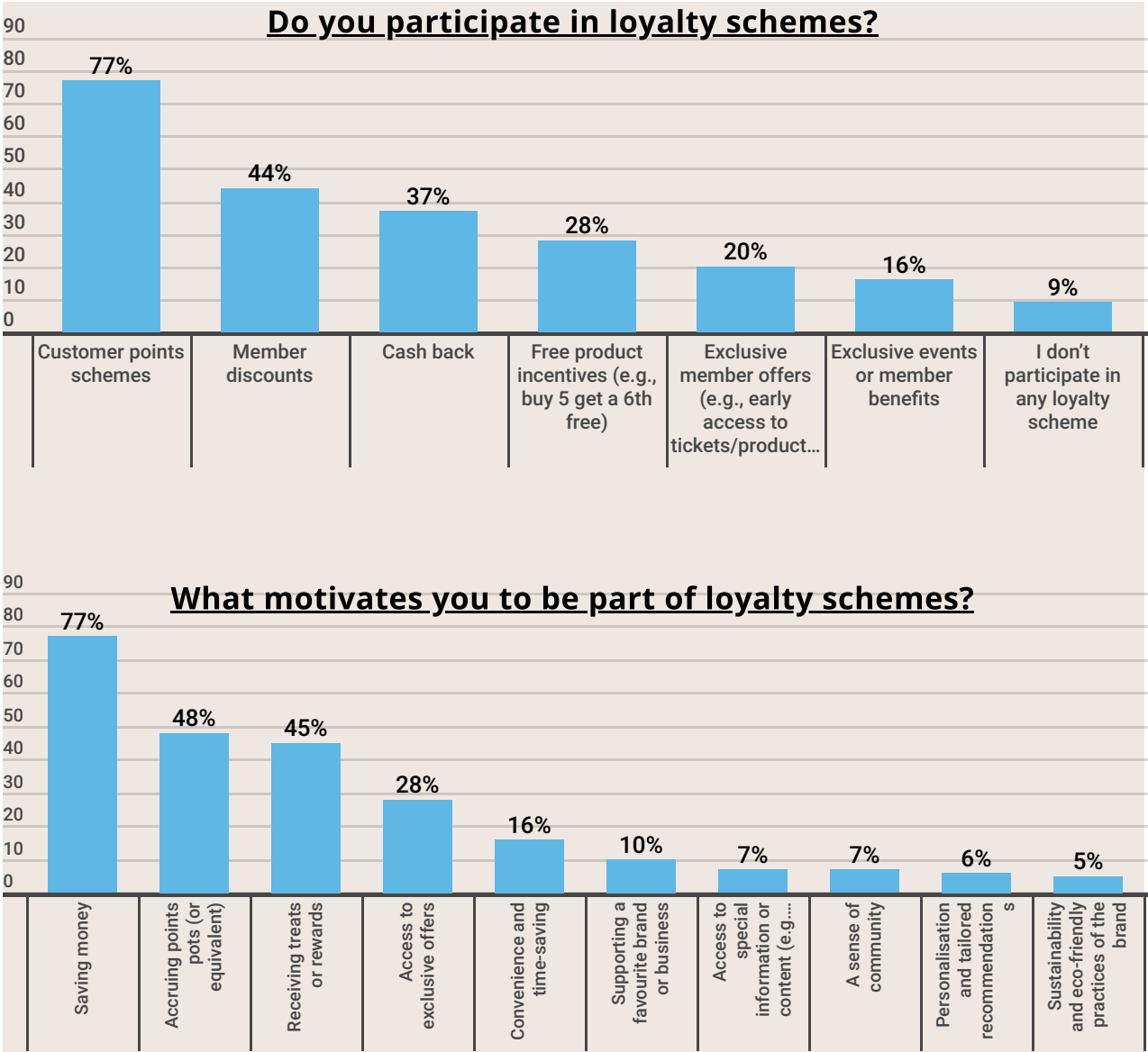
The UK's passion for loyalty transcends both age and income.

An overwhelming majority of the UK public (91%) are involved with loyalty schemes. Whilst this interest is particularly strong among older age groups (with a 94% participation rate for those aged 66 and over) this pattern holds strong across all ages (with 81% of young adults between 18 and 25 also engaged).

Income levels don't significantly alter participation rates. In fact, among those with a household income above £75,000, the involvement is nearly universal at 96%.

When it comes to the type of loyalty schemes, point collection programs come out on top with 77% participation. Discounts for members are also a strong draw, bringing in 44%, while cashback options attract 37%, and free product incentives engage 28% of loyalty scheme users.

The motivations behind joining these programs are clear: 75% are looking to save money, nearly half are collecting points towards future purchases or savings, and 45% are in it for the treats and rewards.



Engagement Across Sectors: UK's Loyalty Scheme Landscape

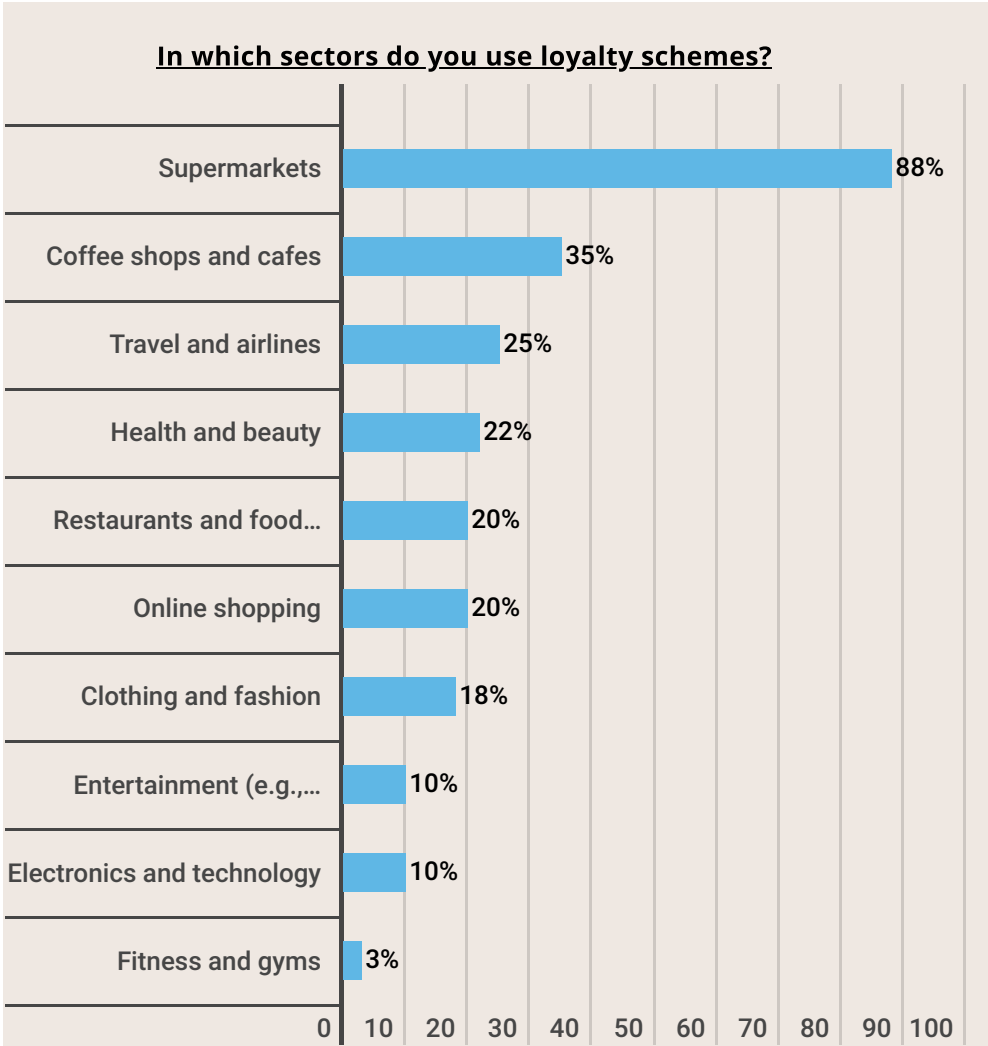
The UK's engagement with loyalty schemes is diverse, encompassing a range of sectors. Supermarkets lead the way, with 88% of consumers using loyalty schemes to shop for essentials. Coffee shops and cafes also see substantial engagement, with 35% of loyalty scheme users picking up rewards along with their regular brew.

Travel and airlines come next at 25%, indicating a significant number of consumers keen on accruing benefits while on the move. Health and beauty is another sector where loyalty programs have a noticeable impact, accounting for 22% participation.

Eating out is nearly as rewarding as dining in, with restaurants and food delivery services catching the attention of 20% of loyalty users, matched by those who prefer the convenience of online shopping.

Fashion retailers have not been left behind, with 18% of consumers taking advantage of loyalty benefits in clothing and fashion. When it comes to entertainment and electronics, each sector captures 10% of loyalty scheme enthusiasts, highlighting opportunities for growth in these areas.

Finally, a smaller yet dedicated 3% of loyalty participants are found in fitness and gyms, pointing towards niche markets with room for expansion in loyalty program offerings.



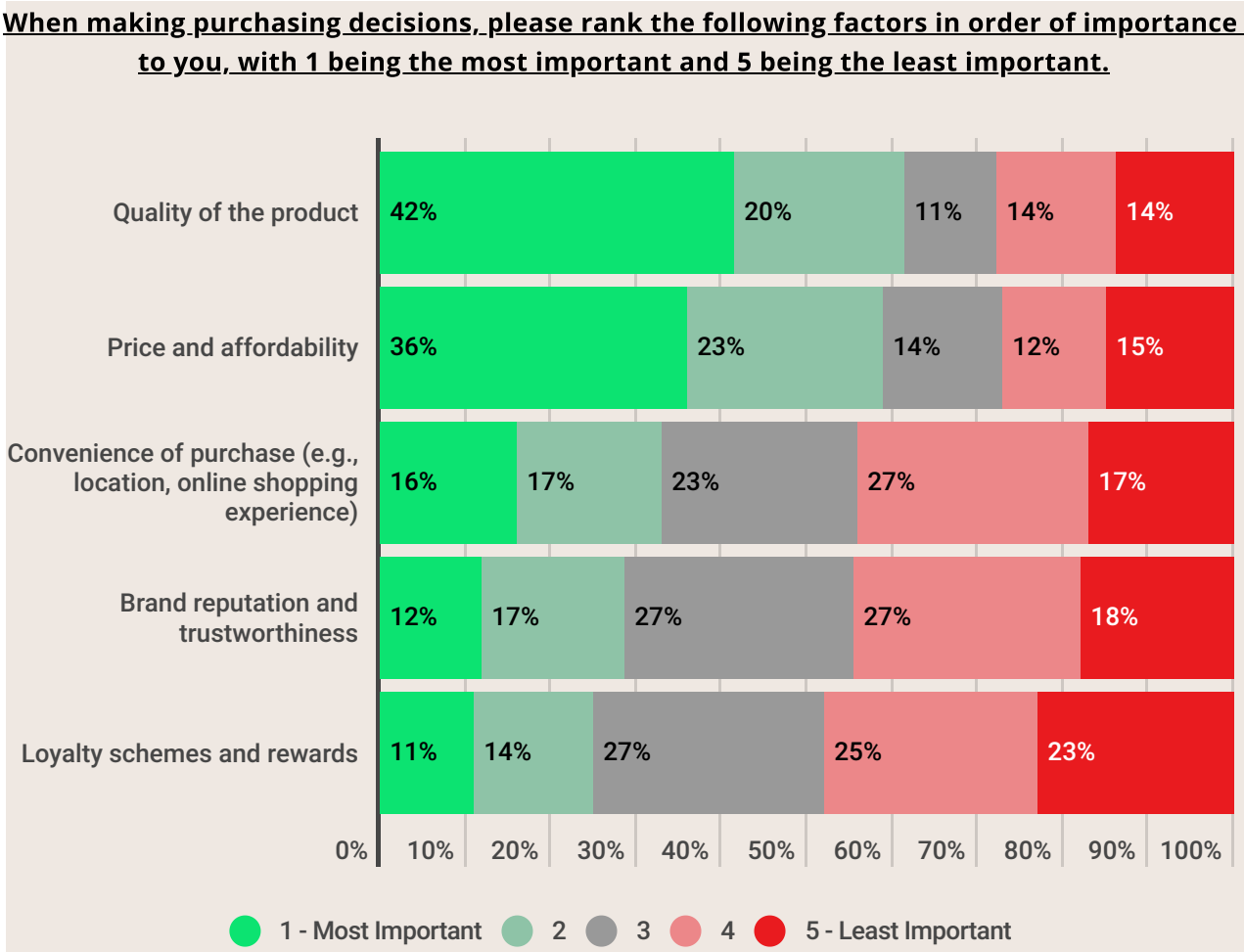
Effectiveness of Loyalty Schemes in Consumer Decision-Making

When it comes to making purchasing decisions, the role of loyalty schemes shouldn't be overlooked.

For a notable segment of consumers, loyalty schemes do play a persuasive part in where they choose to spend their money. A quarter of consumers acknowledge that loyalty schemes are a motivator, with 11% considering them a significant influence.

However, the importance of loyalty schemes as a 'recruitment tool' must be measured against other critical considerations. The top priority for consumers remains the quality of the product, with 42% ranking it as their number one concern. Price and affordability follow closely, with 36% placing it at the top of their list.

This highlights how loyalty schemes and rewards might be most effective in supporting retention rather than recruitment.



Diving deeper into the effectiveness of these schemes, the data reveals that the lure of rewards does not require a hefty price tag to be compelling.

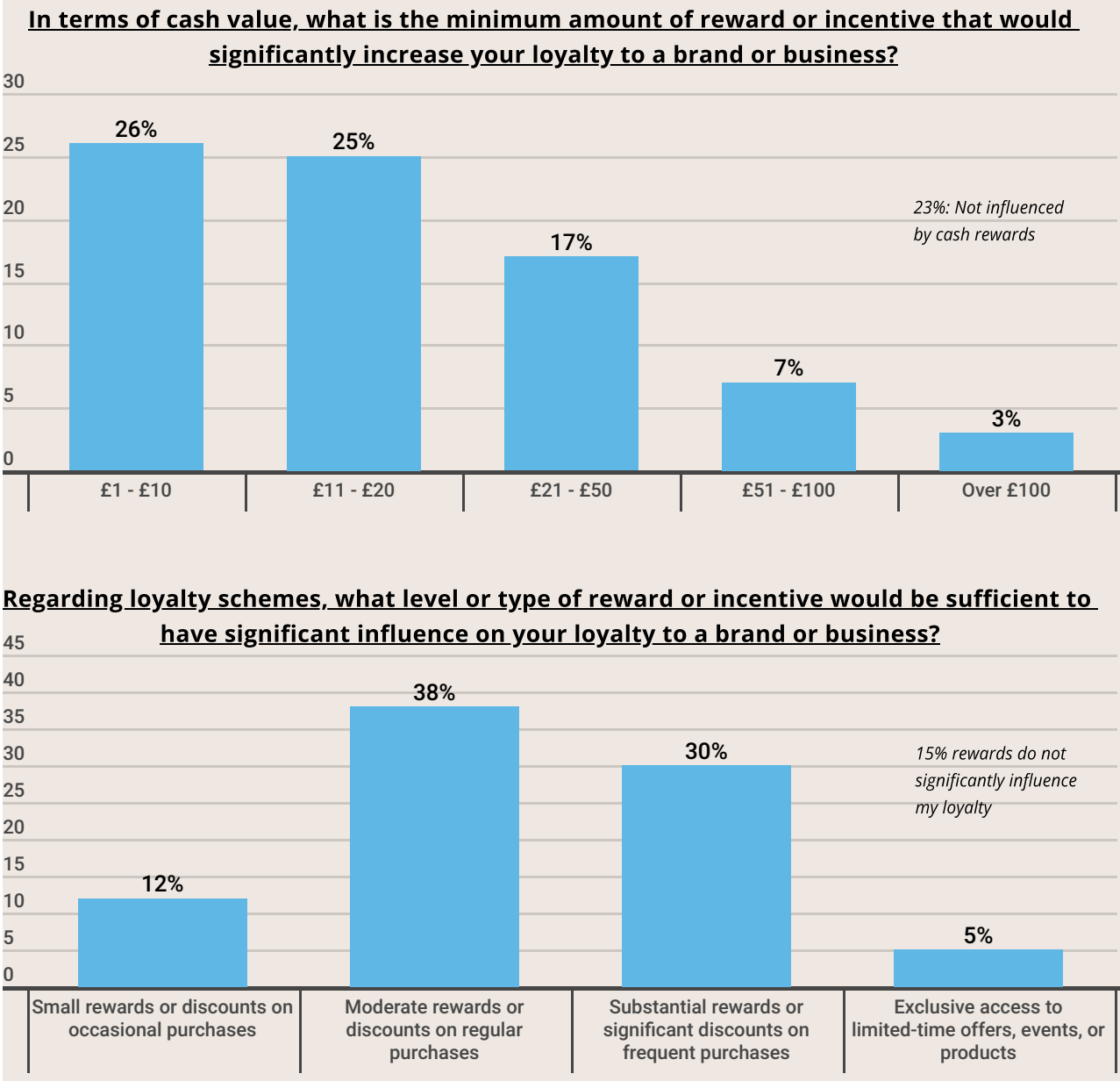
A striking 26% of consumers are significantly swayed by rewards valued at £10 or less. When we expand the bracket to £20, over half of the respondents (51%) admit to being influenced, signalling that modest rewards can indeed cement loyalty to a brand.

Exploring further, the frequency of rewards offered are also instrumental in shaping consumer loyalty. Whilst 12% are swayed by small, sporadic rewards, there is greater impact (38% of consumers) with regular, moderate discounts.

Notably, nearly a third (30%) seek substantial rewards for their regular custom, underscoring the varied expectations consumers have from loyalty schemes.

A niche 5% are captivated by the allure of exclusivity, such as access to limited-time offers or events.

Therefore, while not the sole driver, loyalty schemes do offer a meaningful advantage in winning consumer favour, particularly when the rewards are attainable and perceived as adding genuine value.



Expanding the Role and Desirability of Gift Cards in Loyalty Schemes

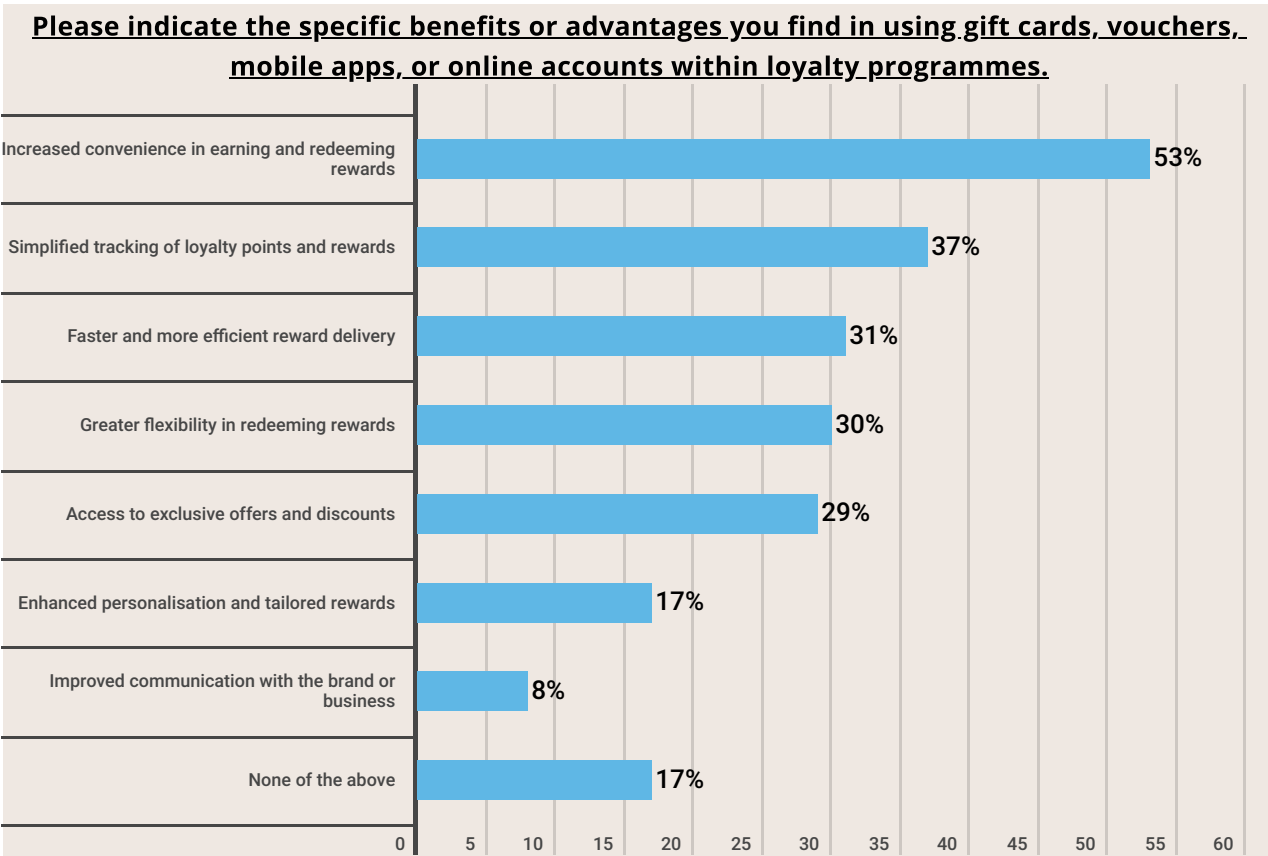
Gift cards are a powerful tool in the arsenal of loyalty schemes, with their utility and flexibility significantly enhancing the attractiveness of these programmes. The inherent features of gift cards bring a multifaceted appeal to the consumer, driving the desirability of loyalty schemes.

Ease of Use:

- The ease with which gift cards can be used is a standout feature that bolsters the appeal of loyalty schemes. They often eliminate the need for carrying multiple coupons or remembering codes, by centralising the rewards into a single, simple-to-use card or digital equivalent.
- This simplification is a substantial draw for consumers, with 29% specifically citing the appeal of consolidating various loyalty benefits into one accessible format. By making the process as frictionless as possible, gift cards encourage repeat engagement with the loyalty programme.

Convenience:

- Gift cards offer unmatched convenience, a feature that 53% of consumers highlight as a key benefit. They facilitate a seamless transaction experience, whether it's redeeming points for products or services, or checking the balance of accrued rewards.
- This convenience extends to both physical and digital realms. For example, digital gift cards can be used for online purchases or in-store via a mobile device, providing a level of adaptability that is highly valued in today's fast-paced world.

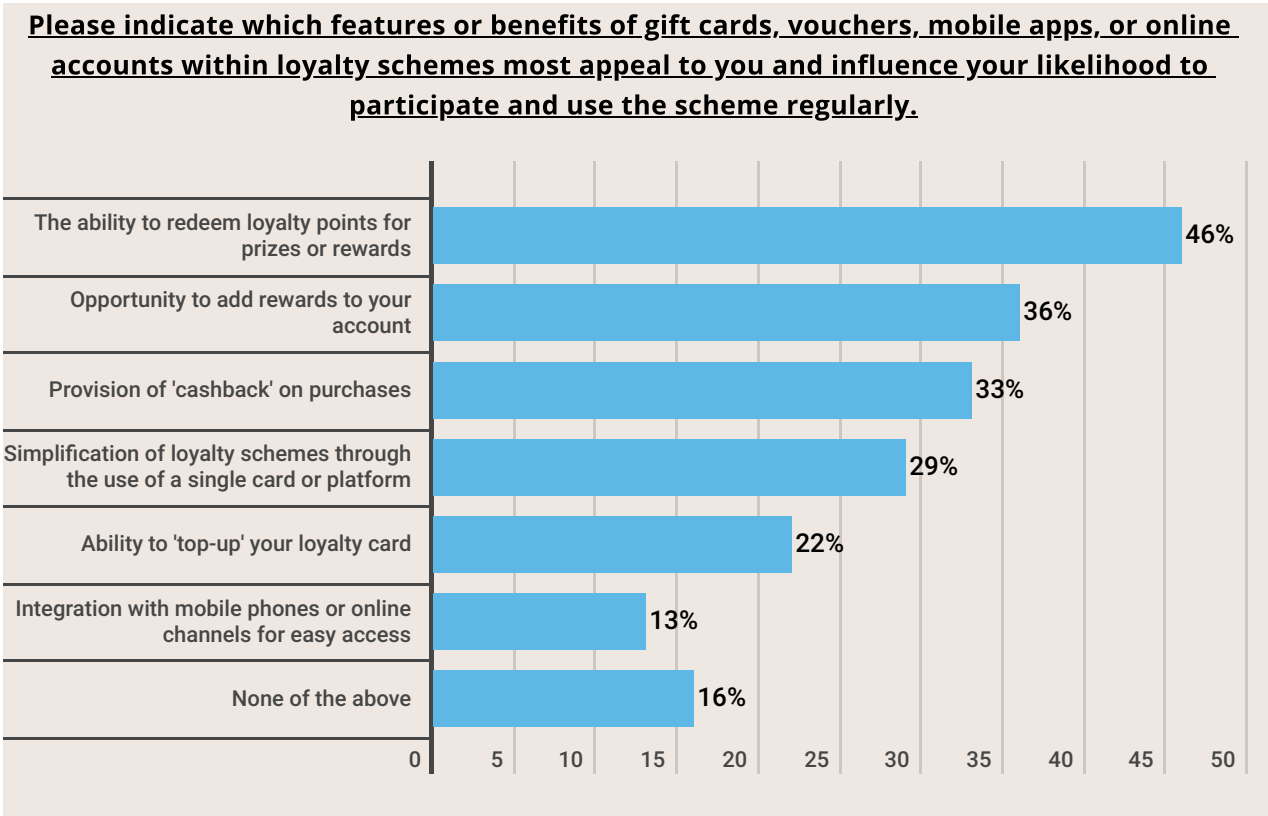


Reliability:

- Reliability is another cornerstone of the gift card's appeal. Consumers trust that the value stored on their gift cards is secure and ready to use whenever they choose.
- This dependability encourages consumers to return to businesses where they feel their loyalty is rewarded consistently and fairly. Moreover, the stability of gift cards as a form of stored value ensures that consumers can plan their purchases and rewards redemption with confidence.

Benefits That Boost Desirability:

- The specific features of gift cards that consumers find appealing have the potential to boost the desirability of a loyalty scheme significantly.
- For instance, the ability to convert points quickly and easily into tangible rewards delivers the instant gratification (with 46% of participants favouring this feature). The opportunity for cashback (identified by 33% of consumers) also presents an immediate and tangible financial benefit.



The gift card industry has scope to capitalise on these features, highlighting its role in enhancing customer loyalty and satisfaction. The industry can leverage the ease, convenience, and reliability of gift cards to position itself as a strategic partner in developing effective loyalty schemes.

By emphasising how gift cards can streamline the rewards process, offer a secure form of value, and deliver flexibility in redemption, the gift card industry can appeal to a broad segment of the market looking for practical and rewarding loyalty solutions.

Consumer Commentary on Loyalty Schemes: Insights and Implications for the Gift Card Sector

The survey also gathered direct consumer feedback on their feelings towards loyalty schemes. This delivers valuable insights into the dynamics of loyalty scheme appreciation and their perceived drawbacks. Here's a breakdown:

Themes in Favour of Loyalty Schemes:

- **Monetary Savings:** Consumers highly value direct financial benefits. The gift card industry can accentuate this by creating easy-to-understand cashback or discount structures on gift cards, ensuring customers perceive immediate value.
- **Flexibility and Variety:** The preference for versatility suggests that multi-store gift cards could be particularly attractive. Gift card programs that partner with a range of vendors increase the perceived value by offering broader choice and convenience.
- **Incentivisation:** This highlights the importance of reward structures for continuous engagement. Gift cards can be tailored to offer escalating rewards for repeated purchases, encouraging ongoing brand patronage.
- **Seasonal or Event-based Benefits:** Capitalising on this, gift card campaigns can be timed around holidays or special events, offering bonus points or extra value to amplify the festive spending.
- **Fun and Engagement:** The aspect of entertainment can be leveraged by the gift card sector through gamification. For instance, offering digital scratch cards or mystery rewards can make the act of using a gift card more enjoyable.
- **Extra Perks:** Offering exclusive or early access to sales and bonus point events via gift cards can create a sense of exclusivity and urgency, enhancing engagement.

Themes Against Loyalty Schemes:

Homogeneity: To combat the sense of uniformity, gift cards can offer unique experiences or personalised rewards, helping a brand stand out in a sea of similar schemes.

Complexity or Hassle: The gift card sector can address this by ensuring a straightforward point-to-reward conversion and by simplifying the redemption process.

Scepticism about Value: Transparency in how rewards are earned and redeemed can help mitigate this scepticism. Clear communication about the tangible benefits of using gift cards can underscore their value proposition.

Data Privacy: While the gift card industry does collect data, it can position itself as a less intrusive alternative, where possible, by not requiring extensive personal details for registration or use.

Decline in Value: To tackle perceptions of diminishing value, gift card schemes could introduce periodic boosts to point values or offer special redemption rates to maintain excitement and perceived value.

Tech Barriers: Recognising the preference for physical over digital, the gift card industry should offer options catering to both digital natives and those who prefer tangible cards, ensuring inclusivity in access and use.

Sample Direct Quotes Positive & Negative

“ "Any savings is worth making, so I take part in reward schemes even if the returns are tiny."
"Asda I use it on my shopping and get money back to spend at Asda it helps."
"I like Nectar as I can collect and spend points with multiple companies."
"Anything where you get rewarded for consistently buying their products and continuing support of their company."
"Helps to save up points for big events like Christmas."
"I love my rewards as it feels like a bit of a game which makes it fun."
"H&M members, you get discounts, vouchers and early access to sales helping to save money."
"Boots as it pays high rewards, has good promotions."

”

“ "I have only 1 loyalty card and it does not influence where I shop. I feel it takes far too long to build up any significant benefits."
"I have to have a Tesco Clubcard to get the 'better price', otherwise I don't use loyalty cards. More rubbish email and hassle."
"I do not like Asda's reward scheme as I have to have it on my phone. I prefer to have a physical card."
"Bit of a waste of time, why not just reduce the item in the first place."
"I like them although the company gets a lot of information about me."
"I have cards for Superdrug and Sainsbury. Had them for a very long time. Points are not worth as much nowadays as they did when I got them."

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Implementation by the Gift Card Sector:

Based on these consumer comments, the gift card sector can best serve its partners in the loyalty space by crafting offerings that align with the positive themes identified by consumers while also addressing the frustrations. This could involve:

- Developing versatile gift card products for loyalty schemes that are accepted at multiple retailers or within a network of partners.
- Creating engaging, gamified experiences with gift cards to make saving and redeeming points a more enjoyable process.
- Offering special edition gift cards during festive seasons or events to capitalise on the desire for seasonal benefits.
- Ensuring the value of rewards remains attractive and pertinent to contemporary consumer expectations.
- Simplifying the reward structure and redemption process to reduce perceived complexity.
- Maintaining a focus on data privacy and offering physical cards to appeal to those wary of digital solutions.

GCVA Member Involvement in the Loyalty Sector

The survey completed by 36 GCVA member organisations provides a snapshot of the current landscape of loyalty schemes and their integration with gift card programmes.

Loyalty Programme Operation and Support:

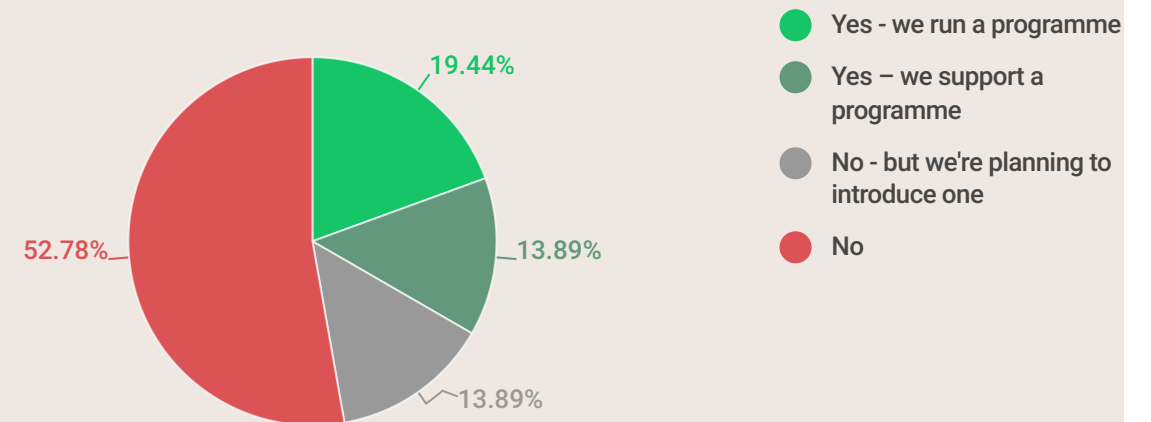
A fifth of the surveyed members run their own loyalty programmes, while nearly 14% support external programmes. An equal percentage are in the planning stages of introducing one, indicating a potential growth area.

Integration of Gift Cards in Loyalty Schemes:

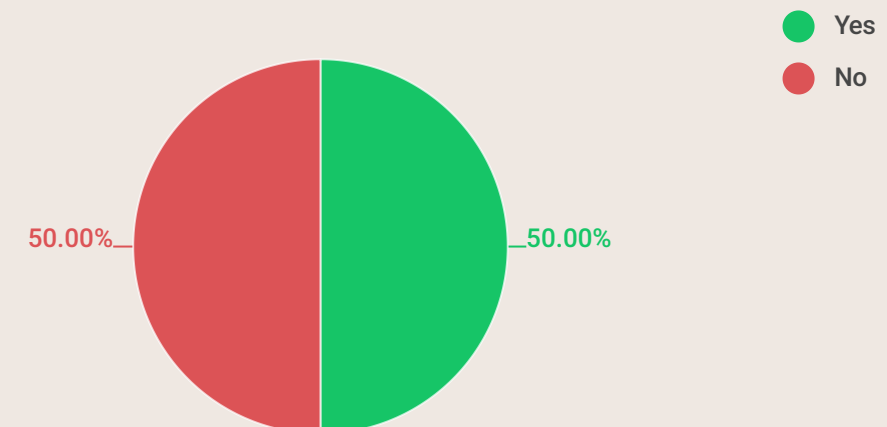
Half of the loyalty programmes among members incorporate gift cards as part of their rewards or incentives, suggesting a balanced split in the adoption of gift cards as a loyalty tool.

When it comes to operational integration, 50% of members manage their gift card element jointly with other loyalty aspects, which could imply a strategic approach to coherence in customer experience. A third handle it separately, and a minority are considering alignment, which may reflect varying levels of maturity in programme integration.

Does your company operate or support a loyalty programme?



Does your loyalty programme include gift cards as part of the rewards or incentives?



Loyalty Programme Features:

The most common feature of loyalty programmes is member discounts, highlighted by 75% of the participants, followed by customer points schemes at approximately 67%. Other elements like free product incentives, cash back, and exclusive offers or events are less frequently mentioned. This prioritisation indicates a strong preference for direct value offers to loyalty scheme members.

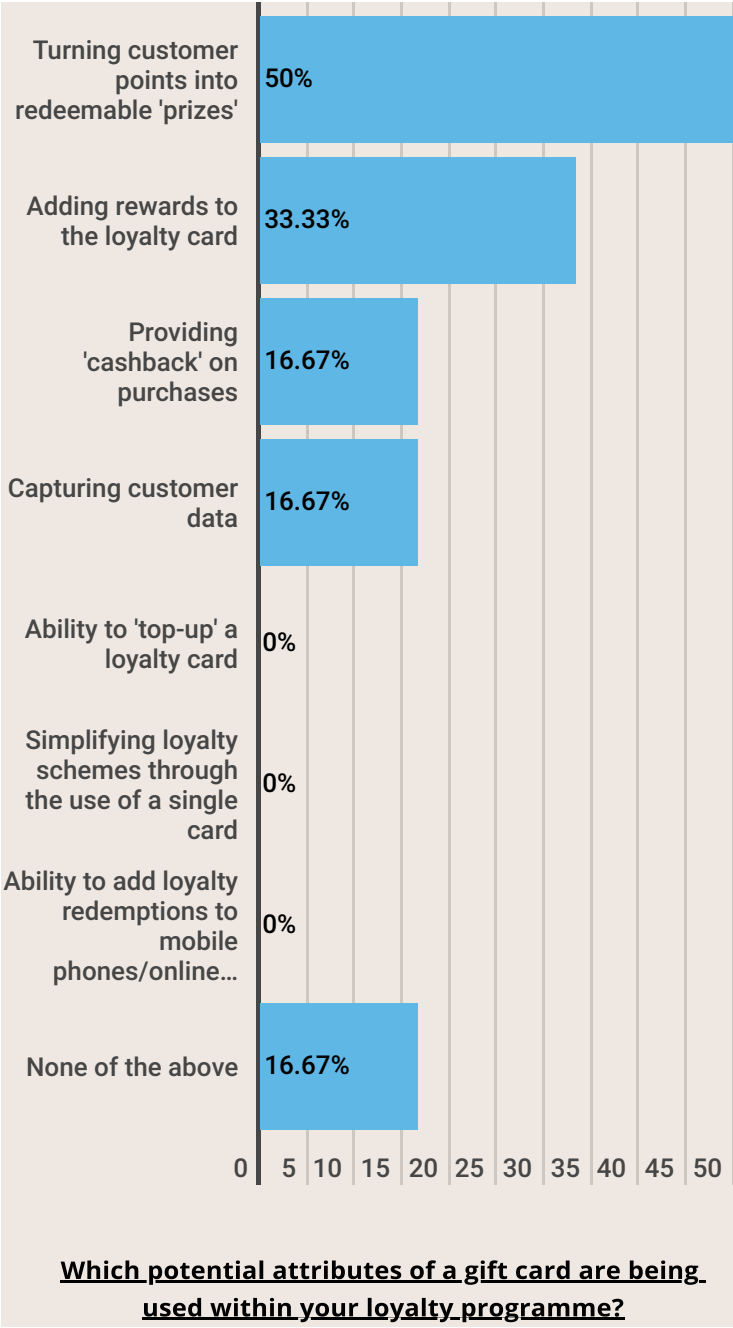
Attributes of Gift Cards in Loyalty Programmes:

Interestingly, none of the organisations are using the 'top-up' feature for loyalty cards, which could suggest a missed opportunity for repeat engagement. The most prevalent use of gift cards within loyalty programmes is converting points into redeemable prizes (50%), with a third adding rewards to loyalty cards. Other attributes such as providing cash back and capturing customer data via gift cards are less common.

Key Drivers and Priority:

The primary driver for customer loyalty programmes is overwhelmingly customer retention (75%), with other factors such as customer acquisition and the frequency of visits being less of a focus. This underscores the emphasis on maintaining existing customer relationships over attracting new ones.

When ranking the need for a loyalty scheme within their organisation, the majority of members rate it as a high priority, which is mirrored in the prioritisation within their gift card programmes, though there's a notable spread across the priority spectrum.



Implications for GCVA Members

These findings suggest that while there is a strong recognition of the value of loyalty programmes, there's significant room for growth and deeper integration, especially in terms of incorporating gift cards.

The data highlights an opportunity for GCVA members to further leverage gift cards to enhance customer loyalty strategies, potentially by exploring underutilised attributes like mobile redemption and card top-ups, and by aligning separate operations to create more cohesive loyalty experiences.

The emphasis on retention over acquisition also signals a possible area for developing innovative loyalty solutions that help maintain and deepen existing customer relationships.



Gift Cards Involvement in Loyalty Programmes: Members' Thoughts

In the quest to refine and elevate loyalty programmes, members have voiced a number of suggestions.

Full Alignment: Members have emphasised the need for loyalty programmes to fully integrate with business strategies to optimise benefits for both the company and the consumer. The aim is to create a seamless experience where loyalty rewards are an extension of the brand promise.

Enhancement through Gift Vouchers: There is a strong advocacy for gift cards and vouchers to enhance current loyalty offerings. The idea of integrating gift cards and vouchers has been tabled for discussion at the directorial level, underscoring its perceived importance as a strategic addition to loyalty programmes.

Role of Gift Cards in Loyalty: It has been suggested that there needs to be a clearer demonstration of how gift cards can play a pivotal role in loyalty programmes. There's potential for gift cards to become a cornerstone of loyalty strategies, serving as both a physical and digital token of the brand's commitment to its customers.

Speed of Adoption: The quick acquisition of new cardholders through in-store card pick-ups has been highlighted. The caveat is the need for incentives that encourage these customers to complete their details online, tying in with the larger objective of leveraging open banking data to make strategic decisions.

Incorporating Gift Cards: Members see room for creativity in the incorporation of gift cards into loyalty programmes. Suggestions include personalised offers, 'earn and burn' strategies, surprise gifts, and exclusive promotions for loyalty members. There's also a call for technology that allows for a more fluid integration of gift cards into existing loyalty infrastructures.

Strategic Positioning: Some members have identified a need for more cohesive strategic direction, where gift cards are positioned under the same strategic umbrella as other elements of the loyalty programme. This unified approach can ensure consistency and clarity in customer engagement.

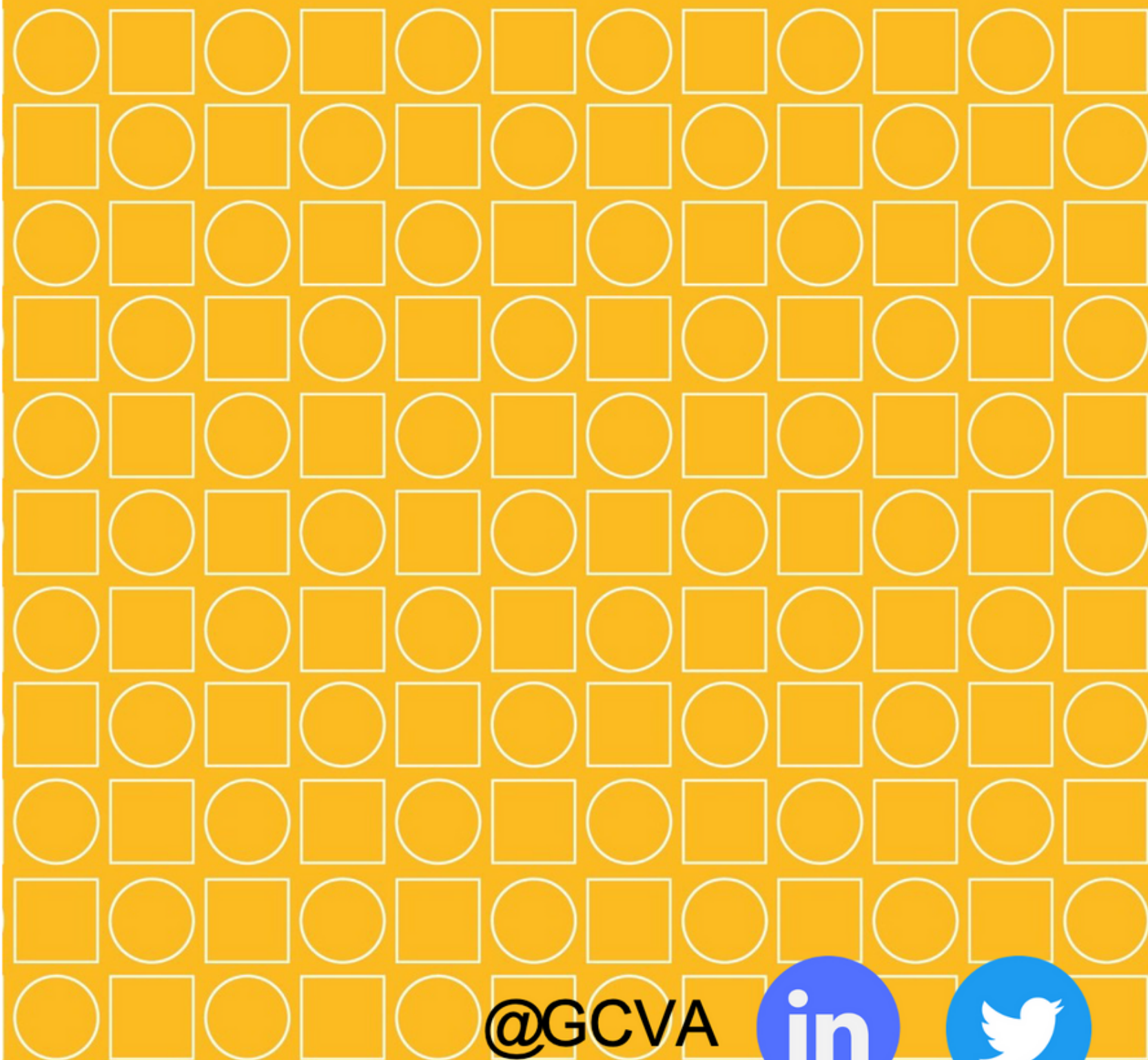
Redemption and Incentives: Redeeming points for gift cards instead of direct discounts at the point of sale was another key suggestion. Alongside this, providing small discounts or special loyalty pricing on gift cards can be a compelling draw for customers.

Ubiquity of Gift Cards: A recurring sentiment is that gift cards should be a staple feature across all tiers and types of loyalty programmes, signifying their universal appeal and value.

Summary

The data and insights gathered offer a robust foundation for GCVA members to strategically expand within the loyalty market. This strategic positioning can pave the way for GCVA members to fortify their stance in the loyalty sector, driving growth and fostering enduring customer relationships.

- It's crucial for GCVA members to communicate the versatility of gift cards to the loyalty sector, demonstrating how they can be customised to meet consumer desires for monetary savings, flexibility, and exclusive experiences.
- By showcasing successful case studies and flexible platforms, GCVA members can illustrate how gift cards enhance customer retention strategies, meeting organisational objectives while satisfying customer expectations for value and reward.
- GCVA members should articulate how gift cards within loyalty schemes can serve multiple organisational goals, from customer acquisition to capturing valuable shopping behaviour data.
- Gift cards present an opportunity for loyalty programmes to offer a tangible and immediate reward, aligning with consumer feedback that indicates a preference for simple and instant benefits.
- GCVA members should highlight the security measures and customer-centric control of personal information, ensuring that trust and transparency remain at the heart of loyalty programmes. Helping ease consumer concerns about use of their data.



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