
State of the Nation '17

UK Gift Card &

Voucher Association

UK **gift card**
& voucher association

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State of the Nation

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The buying environment is changing at a rate of knots and it is important that the gift card and voucher industry keeps up and maximises innovation and the opportunity this offers. This whitepaper poses the question: 'Is the gift card industry ready for the modern consumer?'

To answer this question, we have undertaken a comprehensive research project to gain a complete overview of the UK gift card industry – not only to gauge consumers' wants, needs and expectations, but also to better understand how, and where, gift cards impact the wider business strategy within UK retailers. To this end, we have invited responses from UK consumers, gift card managers & C-suite executives

on a number of key issues. The results have provided a data-driven analysis of the relationship between these three groups and have helped to identify what retailers must prioritise going forward, including technological innovation, customer loyalty and B2B rewards.

This is just the first step, however. We are now keen to work with our members and the wider industry to agree the main areas to focus on and to invite senior executives to take a deeper look at the positive role that gift cards can play in the future of their businesses. I would like to thank SVS for sponsoring this important research.

About UK Gift Card & Voucher Association

The UKGCVA brings together the industry for networking, learning and sharing best practice. It was established as a trade body in 1991 to represent the key players in what is now a c£5.6 billion market. Today, it provides an information and reference point for gift card suppliers and customers, and is at the forefront of the issues affecting the industry. Its main objective is to raise the profile and use of vouchers and gift cards within the UK, as well as promoting the industry to consumers, businesses, government and other interested parties.



SVS is delighted to be sponsoring this piece of important research, as the results present important opportunities for our industry to grow our programmes in line with customer expectation and to elevate the position of gift cards within the retail environment.

State of the Nation

Executive Summary

New research from the UKGCVA confirms that not only are gift cards and vouchers a gift of choice for UK consumers, but also a valuable – and growing – source of income for retailers and other businesses.

Our survey of 2,000 consumers shows that 73% have purchased a gift card at some point, and that seven out of 10 have received one from friends or family in the past three years. The findings also highlight their popularity among younger consumers, suggesting a bright future: 44% of 18-34 year olds buy a gift card at least once every two months.

“
73% have purchased a gift card
”

Gift cards provide a valuable boost to businesses' income. Almost all those buying cards for friends or family spend at least as much as they do when buying a traditional gift, and more than a third (36%) spend more. When redeeming their own cards, meanwhile, 72% of consumers spend more than the value on the card – making up the difference with their own money. That adds an average of £14 extra: 55% on top of the average value of the card itself.

And gift cards don't just boost spending for businesses; they broaden it, expanding the customer base. Six out of 10 consumers say they've been introduced to a new brand through a gift card, and 17% (rising to a quarter of

those under 45) have become regular customers as a result.

The way in which consumers obtain gift cards is changing too, with more and more people receiving gift cards through businesses and other organisations. Clearly, the B2B gift card market is already well established, with 80% of consumers stating they had received a gift card from their employer or another business, including through incentive programmes, within the last three years.

“
Millennials are set to be the self-gifting generation
”

However, this channel is likely to grow even further in the coming years, especially amongst younger consumers, as Millennials have expressed a keen appetite for receiving gift cards as incentives and rewards. Millennials are also set to be 'the self-gifting generation', as 17.5% admit to self-gifting, suggesting an additional revenue stream and marketing consideration that gift card strategies should consider. On any metric, gift

cards are therefore an important contributor to business profitability.

The C-Suite may be missing a trick

Almost all gift card managers – questioned in a separate survey – are confident that gift cards can grow even further. Many are already working hard to meet customer priorities for this to happen, by making cards redeemable online (71%) in some cases, or by combining gift card and loyalty programmes (76%).

These managers face a number of barriers, however. For a start, two thirds have responsibilities above and beyond managing gift cards – and it's not always clear they have the support they need.

For example, a third of managers say their gift card strategy doesn't influence the company's wider marketing or sales strategies, which suggests that senior management is failing to maximise the benefits and potential of gift cards in many cases. Only one in five businesses have details of their gift card programmes reported to the board, and only about half of board members (53%) say gift cards are a growth area – compared to 95% of gift card managers.

Clearly, there is a lack of insight at the top: our research revealed that seven out of ten senior executives simply don't know the value of gift cards to their business – including, one assumes, a good number of the chief executives, chief financial officers or, most commonly, chief marketing officers

that 62% of gift card managers say they report to. Of course, the interests of the board are wide reaching and essential to the success of a company, but the very nature of a successful gift card programme requires interdepartmental cohesion, led from the top. Overall, more than half in the C-Suite (58%)

admit they're not very well informed of the opportunities in the gift card and voucher industry. For the industry to fulfil its potential and make the contribution it can to UK businesses, that needs to change. We hope that this research can go some way towards helping with that process.

Top 10 Takeaways

1 73.2% of consumers have purchased a gift card in the past three years

2 44.2% of 18-34 year olds buy a gift card at least once every two months

3 Almost all those buying cards for friends or family spend at least much as they do when buying a traditional gift, and spend more 36.3%

4 98.5% of consumers redeem gift cards within 12 months

5 Redeeming cards 72.1% of consumers spend more than the value on the card, adding 55% on top of the average value of the card itself

6 60% of consumers say they've been introduced to a new brand through a gift card, and 17.7% have become regular customers as a result

7 76% are looking to combine gift card and loyalty programmes

8 Gift card managers are spending more of their time on B2B gift card programmes than B2C, with a 57.6% v 42.4% split in favour of B2B

9 20% of businesses have details of their gift card programmes reported to the board, and only 52.2% of board members say gift cards are a growth area – compared to gift card managers

10 70% of senior executives simply don't know the value of gift cards to their business

State of the Nation Consumer Demand

A significant revenue stream

Gift cards are both ubiquitous and growing. About three quarters (73%) of consumers have purchased a gift card at some point, and their popularity is even stronger among younger consumers; 85% of Millennials aged 18-34-year-olds have bought one and 44% of this generation buys a gift card at least once every two months.

And it's not just retail gift cards that are popular: one in five respondents (20%) in the last three years have purchased vouchers for leisure activities such as travel, theatre tickets or restaurants; for online games or app purchases; and for music downloads and subscriptions. For Millennials, the proportion rises to a quarter for leisure gifts, 29% for music and a striking 38% for gaming.

- The average spent on gift cards is £26.21
- Baby boomers spend £27.91 on a gift card
- Londoners spend almost £30 on a gift card
- 51.7% of Millennials spend slightly or a lot more on gift cards than they would on a physical gift

Consumers in Wales could be a lucrative market for gift card sales:

- £28.29 is the average spent on a card
- 81.3% spend more on a gift card than they would on a physical gift
- 38.2% spend extra cash when redeeming a gift card

Considering more general consumer behaviour, when asked to reflect on the type of gift cards purchased, retail gift cards were ranked by individuals as only marginally more common (3.2 out of seven options) compared to experiences such as sky-diving and flying lessons (4 out of seven options) and leisure activities (3.9 out of seven options). This preference is reversed however amongst Millennials, suggesting the interest in experience gifts over simple retailer cards is set to continue.

Gift cards not only cross sectors and generations, but also provide significant commercial opportunities. The average spent on gift cards given as a present by consumers is more than £26, with

significant consistency across the generations. Not surprisingly, older buyers tend to spend more, with the over 65s spending an average of £29, but even those aged 16 to 24 spend an average of £24.

Gift cards add undeniable value for businesses in other ways as well. When asked if they are likely to spend less or more on a gift card than they would on a traditional gift, more than a third of consumers (36%) spend either slightly, or a lot, more. Almost all of the remainder (59%) say there's little difference in what they spend on a gift card to their spending on traditional gifts.

Of course, retailers also benefit when the gift card is used. When redeeming gift cards they have received, nearly three out of four consumers (72%) spend more than the value on the card, making up the difference in cash or debit/credit card. On average, those surveyed spent another £14: an extra 55% on top of the average value of the card itself.

As a result, an average gift card purchase where there is an overspend will bring in £41 for the retailer.

98.5%
95.4%

of gift cards are redeemed within a year

of consumers are aware of expiry dates

A 365 day proposition with peaks all year round

Gift cards are assumed to peak around Christmas time, but this research suggests that newer sales events and promotional periods are hot on its festive tail. Whilst cards are still most commonly redeemed around Christmas (45% of consumers spend them over the festive period), many of these gift cards have been given by an employer and are used to pay for Christmas necessities. January and summer sales attract 35.1% of consumers to redeem cards, Black Friday and Cyber Monday drive 17.5%, and additional sales periods draw in 37%. However, more than a quarter of consumers (26%) are not concerned

with sales and simply wait to find something they like, regardless of the time of year.

Among the population as a whole, 30% of consumers buy gift cards at least once a month, and more than two thirds (68%) at least twice a year. As well as 44% of Millennials, 29% of those aged 35-54 (Generation X) say they buy a card at least once every two months. While almost all recipients (98.5%) redeem gift cards within a year, and 80% within three months, there's still a range of shopping habits within these time frames.

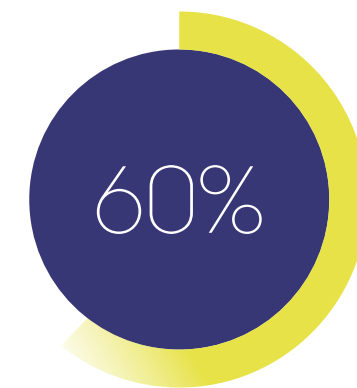
As a result, even where redemptions are focussed on December and January, the sale of cards – and the direct income they bring – is dispersed throughout the year. So, far from being a Christmas novelty, gift cards and vouchers represent an important year-round sales opportunity for retailers.

Ties that bind: building brand and income

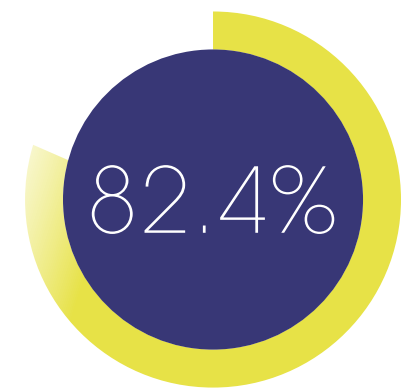
It is also interesting to note that 60% of respondents have been introduced to a new brand or organisation through a gift card, and more than one in six (17%) have become regular customers as a result. This figure rises to a quarter (24%) among those under 45. Gift cards are therefore acting as strong brand ambassadors, helping to grow a strong and loyal customer base.

The benefits to brand loyalty are also seen in the fact that the majority of gift cards are also bought for individual retailers. Of those purchasing a card in the last three years, 88% say they've bought a retail brand card, whilst only 38% have bought a multi-store card.

An undercover brand ambassador?



60% have been introduced to a new brand or organisation through a gift card



82.4% of Millennials have been introduced to a new brand through a gift card, 24.1% of which have become regular customers

State of the Nation

Opportunities for expanding the gift card market

Significant opportunities remain to build on the popularity of gift cards and the contribution they make to businesses, but retailers must innovate to reap the rewards.

In many ways, the UK gift card market remains under-developed, as a quick international comparison shows. The US market is, of course, substantially bigger than the UK market overall, but it is also vastly ahead of the UK market even after taking the difference in population into account. US spending on gift cards is estimated at \$70 billion a year (1) or just under \$225 (£180) per person, on current population estimates. (2) The equivalent figures in the UK, meanwhile, are c.£5.6 billion (3) and just over £86 per person. (4)

The digital revolution

There are a number of areas where the scope for UK growth looks significant. For instance, the majority of buyers (58%) usually purchase gift cards in a retailer's store. Just a quarter (26%) say they are most likely to buy online through a retailer's

website, suggesting a significant lack of awareness of online buying opportunities, despite businesses' promotion of cards being heavily slanted toward online channels (as we will see, below).

Those buying gift cards also highly value the ability to redeem online – a capability that, incredibly, many cards still don't offer. Almost six out of ten (59%) say this is

the feature most likely to influence their decision to buy a card – more even than those who want to make sure their cards are redeemable in-store (56%).

Personalisation, with an image (21%) or picture of the gift recipient (13%), is much less likely to sway buyers. Close to a third (31%) do look for the option to include personal messages, though.

(1) <http://www.prnewswire.com/news-releases/americans-spent-28-billion-on-gift-cards-for-others-11-billion-on-gift-cards-for-themselves-300386736.html> (2) Assuming a population of 324.4 million: <http://www.census.gov/popclock> (3) UKGCV A estimate (4) Assuming a population of 65.1 million: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates>

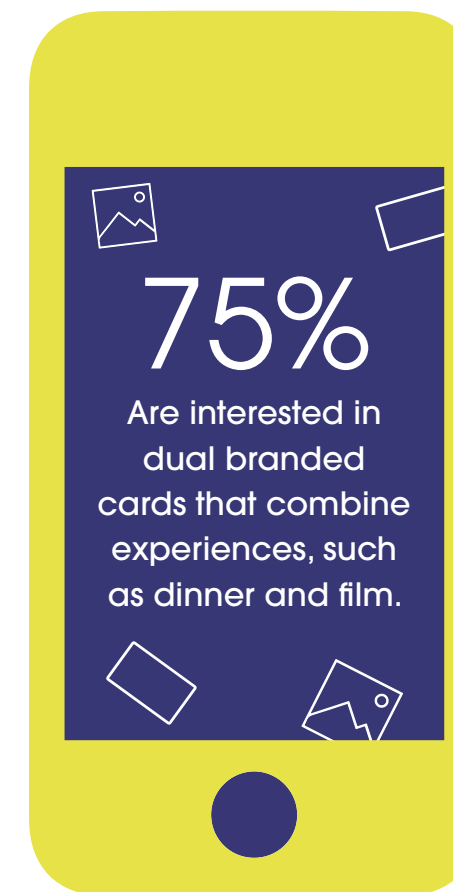
Consumer demand for true innovation

Whilst retailers have been updating their online/offline offering, consumer demand has evolved to include innovative add-ons and features that could boost gift card sales considerably, if done well. For example, three quarters (75%) of those questioned say they would be interested in dual branded cards that combine experiences, such as dinner and film. The ability to completely personalise the product with a photo upload, video content or bespoke packaging appeals to 63%, and a service that alerts users to deals, offers and discounts accessible with the gift card is of interest to 74%.

The most popular option, though, was a loyalty programme that gives points or cash back against future purchases (82%). This would ensure that the card provides a long-term benefit to the business, as well as the consumer, as it would remain in people's wallets well after the initial value of the gift had been redeemed. Between one in five and one in 10 consumers (12-22%)

say they'd even be willing to pay a small fee for these options. Again, the market looks ripe for development here. Innovative or even not so innovative features, such as simply making cards

more easily available and redeemable online – could substantially boost sales, with all the associated benefits to the business.



The ability to completely personalise the product with a photo upload, video content or bespoke packaging appeals to

63%

Offers and discounts accessible with the gift card is of interest to

74%

Taking responsibility

The opportunity to exploit this potential is largely down to gift card managers, who enjoy a large degree of autonomy. Our survey of managers found the vast majority were responsible for strategy (91%), budgets, sales channels, innovation and business development (81% for each). Most were also responsible for operations and the customer's journey (both 71%), as well as marketing and research (67%) and design (also 67%). These managers are trying hard to meet customer expectations and maximise the opportunity that gift cards

present. As such, the developments they are looking to pursue for their businesses display a keen sense of consumers' priorities.

“ Looking to combine gift card and loyalty programmes ”

Asked what features they are likely to include in their card propositions in future, for example, 71% say they are

working to make them redeemable online – the key requirement of gift card buyers. Three quarters (76%), meanwhile, say they are looking to combine gift card and loyalty programmes – again, the most popular choice when purchasers are asked about the additional features they'd like to see.

Managers are also working on reducing the reliance on retail stores for sales of gift cards; 62% are looking to ensure they can be purchased online. Almost all (95%) see gift cards as a growth channel, and eight out of ten (81%) say they have evidence and data to present a business case for investment in gift cards.

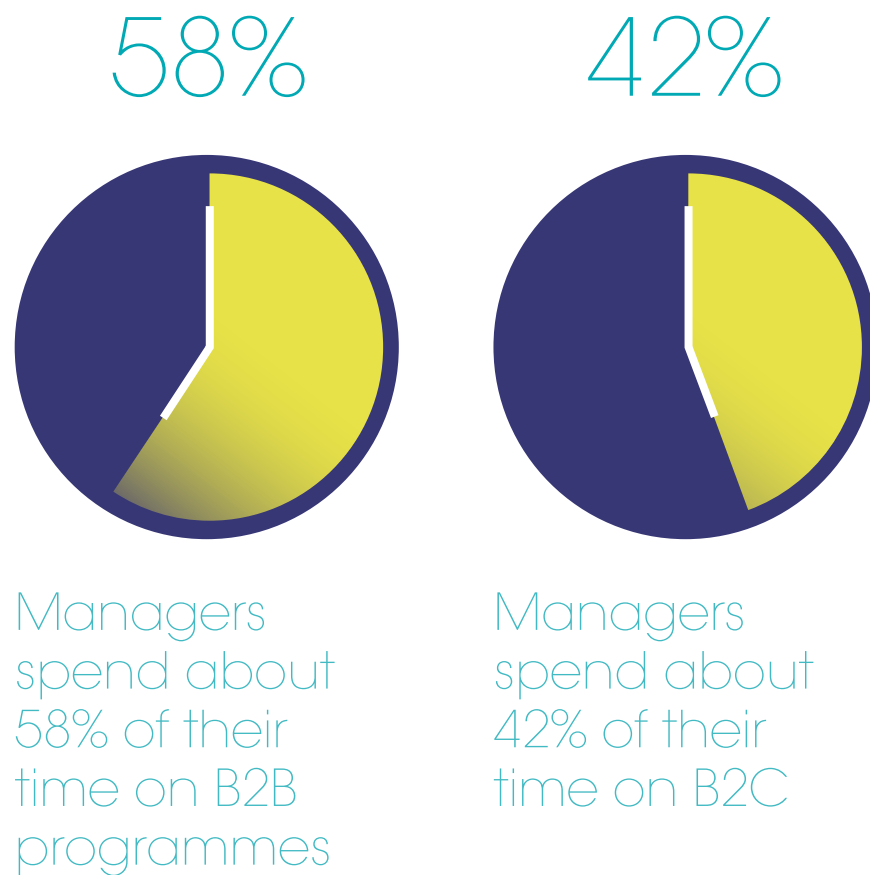
State of the Nation

Barriers to growth

The first is their own resources. First, they are split between consumer sales and B2B programmes. Every organisation interviewed had both programmes. In a small majority of cases (52%) the B2B programme was considered the biggest growth channel. For 43%, however, both were equally important.

On average, managers spend about 58% of their time on B2B programmes and the remainder on B2C - despite the obvious importance of this channel, as shown above. Our research shows that consumers are still much more likely to have received a card as a gift in the last three years (70%) than in any other way. Only 21% have received one through a work reward programme, 44% as an incentive for completing market research, 16% as part of a customer loyalty programme, and 13% as compensation or a refund.

However, the balance between consumer and B2B business will be one to watch. Millennials are more likely to have received a gift card through a work programme (31%) than average. But they are also more likely than average (77%) to have received one as a gift from family and friends, and more likely to have bought one for themselves (18%, against an average of 14%). At the very least, these trends suggest consumer sales will remain important.



“ Likely to have received a card as a gift in the last three years (70%)

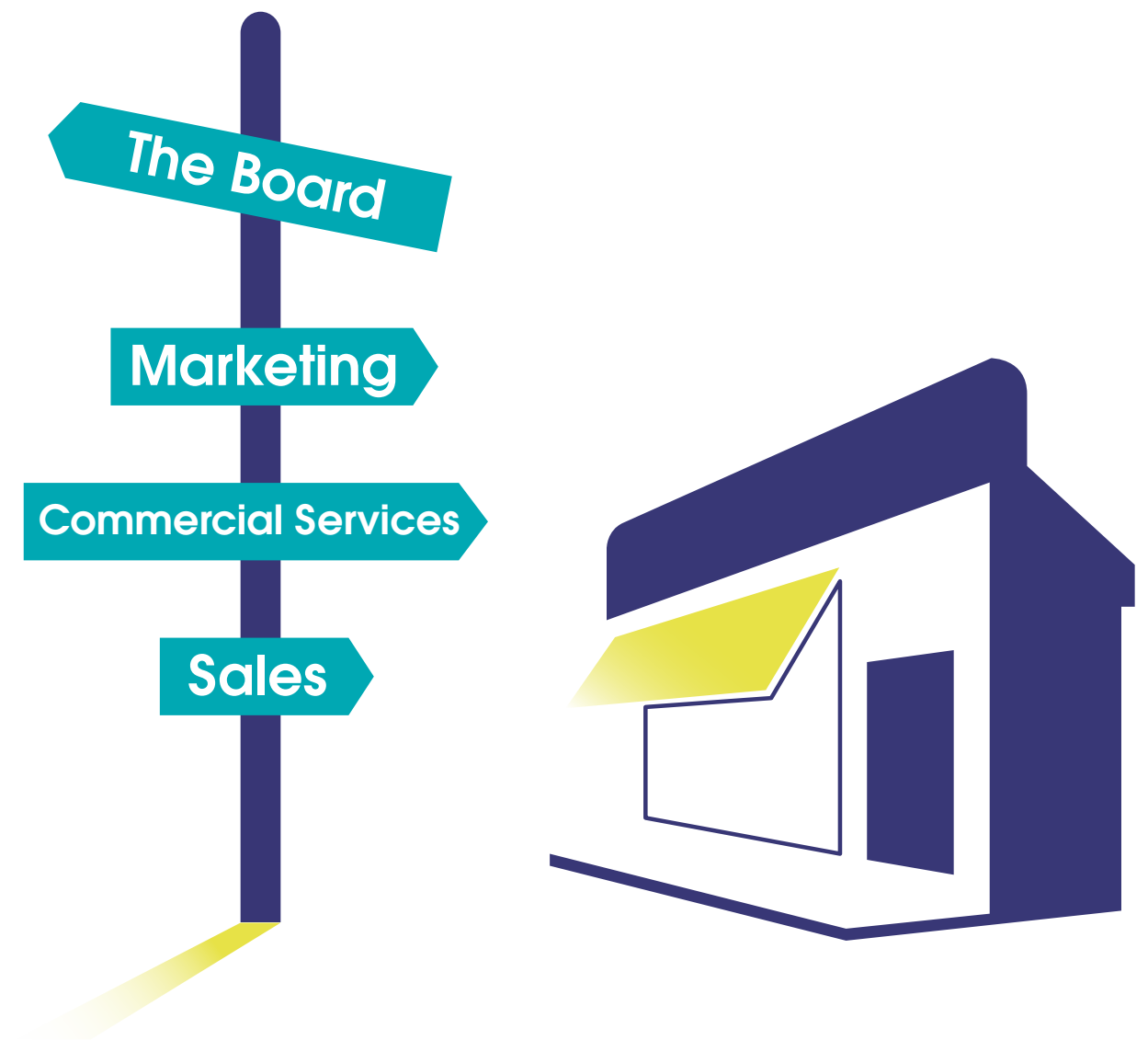
” Most managers responsible for gift card programmes also have other jobs. Only a third (33%) said gift cards were their sole responsibility, with cards making up a significant amount of the role in

38% of cases. For 29%, it is only a small part of their role. Moreover, the larger the organisation, the less likely it is that the manager will be dedicated solely to gift cards. In half of medium sized businesses (with 50-249 employees) gift cards are just a small part of their role, and in 72% of large businesses (250+ employees) they have other roles.

Most do have support, though. More than half (52%) of gift card managers have two or three employees on the team, and a third have four or more on the team. Just 14% of respondents say they work alone, but the findings did not specify if these respondents

are using outsourced support. As such, it's unclear whether programme managers have the time to fully explore the opportunities gift cards present - particularly outside small businesses.

Perhaps unsurprisingly, a majority (57%) of gift card managers say they worry about how secure their gift card programme is with third parties, while 38% have concerns about security online. This reflects the general increase in awareness and understanding of cybersecurity in recent years, and the risk this could pose to both the business and the consumer.



Status anxiety

Perhaps the more important barrier, however, is the status of the gift card proposition within the business. Our research has not only revealed a notable disconnection with the C-suite – but also the significant value that this group’s engagement can bring.

According to our research, all managers say a board member is at least aware of the gift card strategy – but they are only directly accountable for the strategy in a quarter (24%) of cases; a board level executive works closely with the manager in just 14% of cases.

There is also little consistency in where the gift card function sits within organisations. The most common role for the gift card manager to report to is the chief marketing officer (43%), but almost as many (38%) report elsewhere, not counting the minority that report to either the chief executive (10%) or chief financial officer (also 10%). The most common departments for the gift card function to sit in other than marketing were B2B, sales and commercial service.

Asked about the importance of the gift card strategy to their organisation’s marketing, sales or commercial strategy, 62% say they are considered as part of the marketing strategy and a further 20% say they either influence the sales strategy or have a heavy influence on marketing (10% in each case).

“ More than half of gift card functions sit outside the marketing department ”

However, a third (respondents could choose more than one answer) say the gift card strategy is not influential to the wider marketing or sales strategies. So even though managers may claim to have evidence to support a business case for investment, this is clearly not always being heard by the board.

These findings reflect the fact that more than half of gift card functions sit outside the marketing department, which is likely to limit their influence. This could be remedied with greater board-level support, but as we’ve seen, this seems to be largely lacking.

“ In-store sales continue to significantly outweigh online sales ”

This disconnect has concrete consequences that will limit the potential of this channel. Only a third of gift card managers say gift cards are promoted throughout the entire shopping experience, for example. In some cases, cards are promoted as part of the purchasing process (29%) or as an additional purchase option, like warranties or loyalty card points (24%).

In most cases, they are promoted via the website (76%) or social media (62%) – despite the fact that our research shows in-store sales continue to significantly outweigh online sales – by more than two-to-one. Investment in more expensive channels such as press and media (38%) or even CRM programmes (33%) is much less common. Again, this suggests a lack of top-level commitment.

At the moment, gift cards typically make up either less than 2% or between 2% and 5% of total sales across the organisation. In a quarter of cases they make up more than this,

however, and in 15% of cases more than a tenth of the company’s total sales. For many businesses, this level of sales would already seem to warrant greater commitment to gift cards from senior executives. For others, it seems likely that with such commitment, cards would make up a much higher proportion of sales.

Starting at the top

The need for greater support from the top in some organisations is even clearer in the responses from C-suite executives to our survey.

For most, gift card programmes are not a board-level issue. Only 20% say results and delivery of the programme are reported to the board. More often, they are either reported at senior managers’ meetings (28%), or just among the gift card team (10%). The most popular response from executives, however, was they didn’t know where it was reported (43%) – betraying a significant lack of engagement.

This lack of awareness is less common among large businesses with over 250 employees (17%), who were also most likely to report to the board (25%). Even in these organisations, though, a majority (58%) don’t know the value of the contribution that gift cards make to the business. Among all businesses, 70% don’t know.

This is despite the fact that in close to half of all cases, the gift card is either its best-selling product (3%), among its best-sellers (20%) or at least mid-ranked in terms of sales (25%). Only in about a third of cases (35%) do executives say gift cards do not sell well. Again, though, 18% don’t know either way.

However, this lack of insight may simply reflect the fact that the C-suite is mainly focussing on areas such as purchasing, manufacturing and/or delivery of their core products and services, as well as operations and human resources, which are more likely to be their main priority.

“ Gift cards could increase consumer spending in-store; and increase customer loyalty ”

Despite this lack of engagement, however, most executives say they see the potential for gift cards in their organisation, although they arguably underestimate this. Half say cards could increase consumer spending in-store; a similar proportion (48%) agree that

gift cards increase customer loyalty, and 30% see an opportunity to capture customer data.

On the other hand, half don’t recognise the potential to boost consumer spending or build customer loyalty, even though the consumer data makes a strong case for both. More than a quarter (28%) didn’t think gift cards brought any of these benefits.

Indeed, when it comes to gift cards, the C-suite is considerably less bullish than the gift card managers themselves. Only a little over half (53%) say it is a growth area. The remainder say not. They are also far less likely than managers to identify B2B as a growth channel; just 10% say it is, while 40% say the consumer business is the biggest growth channel. Once again, though, 30% confess that they simply don’t know, perhaps

reflecting the wider commercial outlook of board level individuals and their business priorities.

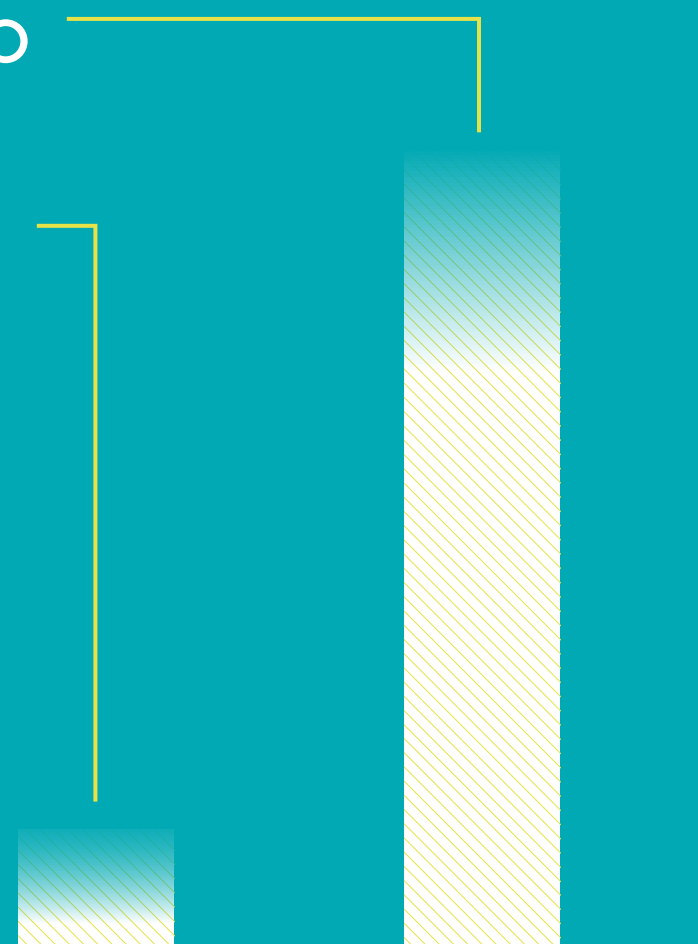
Overall, the evidence that managers say they have to support investment in gift cards clearly isn’t getting through to the board. Indeed, more than a quarter (28%) of senior executives don’t even know who is responsible for the gift card strategy in their business.

Perhaps most tellingly, asked how well informed they are of the opportunities in the gift card and voucher industry, six out of ten say they are only a little informed (15%), not very informed (23%) or not informed at all (20%). It is difficult to argue with this assessment.

Gift cards as a growth area: 52.5%

Is B2B seen as a growth channel? 10%

58.3% of C-suite retailers think expiry dates pose a challenge to the business, but 98.5% of consumers redeem gift cards within 12 months of purchase



State of the Nation Conclusion

Gift cards are an important, growing and yet still under-developed revenue stream for businesses. Based on estimated gift card and voucher sales of £5.6 billion, and allowing another £2.2 billion ⁽⁵⁾ from those consumers who spend more than the value of their cards when they redeem them, cards already bring in £7.8 billion to UK businesses every year.

Gift cards are an important, growing and yet still under-developed revenue stream for businesses. Based on estimated gift card and voucher sales of £5.6 billion, and allowing another £2.2 billion from those consumers who spend more than the value of their cards when they redeem them, cards already bring in £7.8 billion to UK businesses every year.

Evidence from abroad and from managers themselves suggest there's scope for even further growth. Increasing the number of channels through which they're sold and redeemed, along with

the addition of innovative features, could see gift cards' position as a gift - or employee benefit - of choice further strengthened.

Most gift card managers are working hard to keep pace with and benefit from changing consumer and social patterns; the strong support that gift cards enjoy among younger consumers suggests they are doing so with significant success.

If that is to continue, however, growth must be maintained and opportunities for increased sales need to be exploited

- and gift card managers cannot do that alone. Success will come from bringing every facet of an organisation together, from marketing to online and from mobile to in-store. Gift card managers need the support of senior managers at the very top of organisations to accomplish this. Unfortunately, at the moment, many don't seem to have it.

That will only change if business leaders take the time to examine the evidence and see the significant benefits that gift cards can bring. We hope this report can help as part of that process.

⁽⁵⁾ Based on 72% of consumers (and an assumed 72% of total gift card sales) spending an extra 55% on top of the value of their card



75%

Want gift cards that combine experiences e.g. dinner and a film



63%

Want total personalisation including photo uploads, video content or packaging



74%

Want an alert service, notifying them of deals, offers or discounts accessible through a gift card



Harmony between online and offline; gift cards must be purchasable and redeemable through both channels. Millennials are savvy shoppers who spend all year round

55.8%

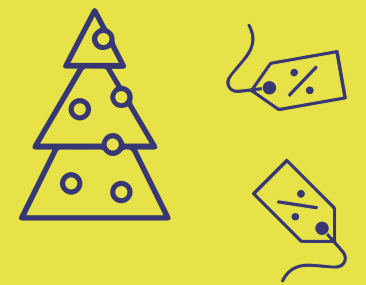
Redeem cards at Christmas

45.5%

During summer or other seasonal sales

35.6%

Wait for other sales events



29.4%

Make the most of Black Friday and Cyber Monday

Gift cards and loyalty programmes must join forces



31.2%

B2B will boom Millennials have the greatest appetite and exposure for receiving gift cards through employers



82%

Of consumers want gift cards that give loyalty points or cash back on future purchases



88.8%

This is particularly popular with Millennials

20.2%

Customer loyalty programmes

The self-gifting trend is one that has a notable skew towards Millennials

17.5%

Of gift card buying Millennials have self-gifted a gift card, a sign of things to come



Do gift card managers have an infrastructure to cope?

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