UKGCVA DATA ANALYSIS

2H 2017

ukgiftcard & voucher association

30 CONTRIBUTORS AS LAST YEAR

TOTAL H2 SALES OF £1,518,555,326

MARKET GROWTH OF **8.51%**

YEAR ON YEAR GROWTH OF **6.66%**

EXECUTIVE SUMMARY

The gift card and voucher market has remained strong with the members recording overall growth of 6.66% in 2017 with a growth in H2 2017 of 8.51%. With figures being stagnant in H1 2017, the retail sector has shown growth of 7.1% with the agent sector showing similar growth at 7.31% but it is the leisure operator sector which has shown strongest growth with 33.68%. There continue to be some interesting trends in the results however it must be remembered that the membership numbers only provide a snap shot of the entire UK gift card market.

Online sales have shown most growth

In both the consumer and B2B markets, online sales have successfully shown a strong performance with an increase of 41.28% and 228.76% respectively. For the year the increase is 30.25% and 211.88%. In comparison direct sales has shown only marginal growth of less than 2% in both markets.

Category specific remains strong

The trend seen in H1 2017 has continued with category specific sales again showing most growth with some growth in the redeem anywhere market but a further retraction in the multi-choice vouchers. After a surge in the flexible option vouchers in 2016, category specific has retained its position as the most popular format by far.

Digital remains fastest growing

Digital and e-vouchers have shown a growth rate of 72.21% and now enjoys a 9.49% share of the entire market in H2 2017. The decline in paper vouchers has lessened with only a 4.24% drop in growth, compared to 23.51% in the prior period. However their market share compared to H2 2016 has actually fallen in most areas.

DIGITAL AND E-VOUCHERS HAVE SHOWN A GROWTH RATE OF 72.21%

TOP TAKEAWAYS

01

RETAILERS HAVE SHOWN GROWTH OF **4.43%** FOR THE YEAR

02

PAPER VOUCHER SALES HAVE SEEN AN INCREASE IN THEIR MARKET SHARE IN THE PERIOD H2 2017 BUT STILL SHOW A DECLINE ON THIS TIME LAST YEAR

03

AGENTS HAVE SHOWN GROWTH OF **7.31%** IN H2 2017

04

LEISURE OPERATORS **IS ONCE AGAIN** THE MOST SUCCESSFUL SECTOR INCREASING THEIR GROWTH TO **25.87%** IN H2 2017

05

CATEGORY SPECIFIC PRODUCTS GREW BY **13.86%** AND REDEEM ANYWHERE BY **5.75%** IN H2 2017

06

B2B IN THE RETAIL SECTOR EXPERIENCED GROWTH OF **18.11%**

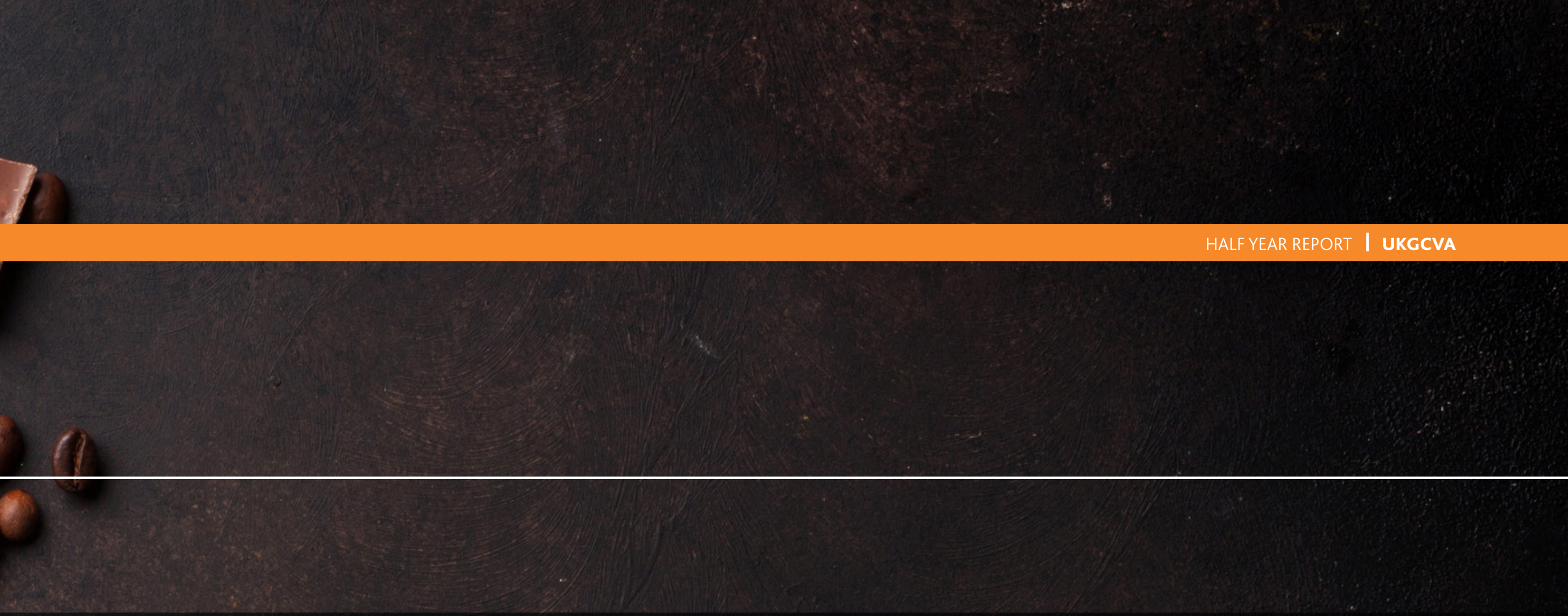
07

B2B REPRESENTS **46.35%** OF THE WHOLE MARKET IN H2 2017

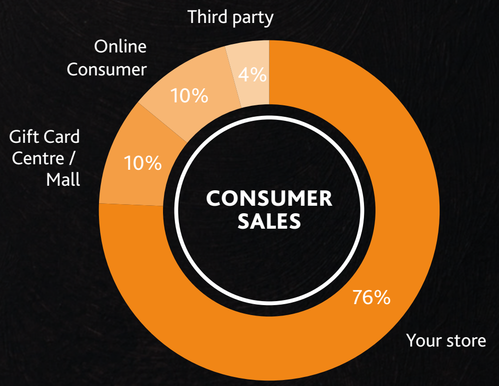
08

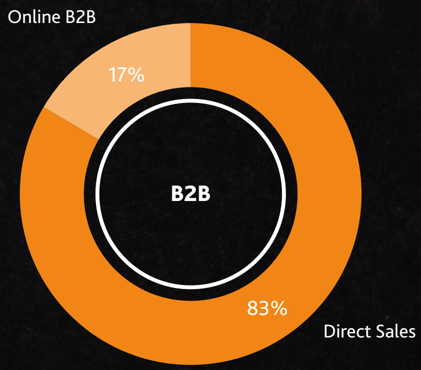
GROWTH SEEN BY GIFT CARD MALLS IN THE YEAR IS **HIGHER** THAN SEEN IN RETAILERS OWN STORES

OVERALL GROWTH OF 6.66% HAS BEEN ACHIEVED IN 2017



Sales allocation





UKGCVA Data Analysis Full year

Overall growth of 6.66% has been achieved in 2017 in comparison to growth of 5.06% in 2016. This is still slightly down on the growth of 7.7% seen in 2015 but growth in the gift card market is still well above the increase in GDP of just 0.4%.

All three sectors have continued to show growth with once again Leisure operators seeing the biggest increase of 25.87% with most growth in H2 2017. Despite difficult times on the High Street, the retail sector has shown growth of 4.43% up on last years growth of 3.05%. Agents have also increased their growth from the prior with H2 2017 showing growth of 7.22%.

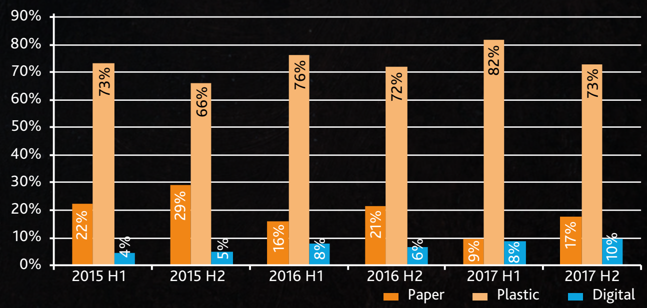
Consumer sales continue to expand with growth increasing to 4.06% in comparison to 2.06% in 2016. B2B remains the biggest driver with growth of 9.34% in 2017 increasing from 8.1% in 2016.

Within consumer sales, Gift card malls retain their increase in growth and have increased their market share for the year to 10.63% from 8.01% in 2016.

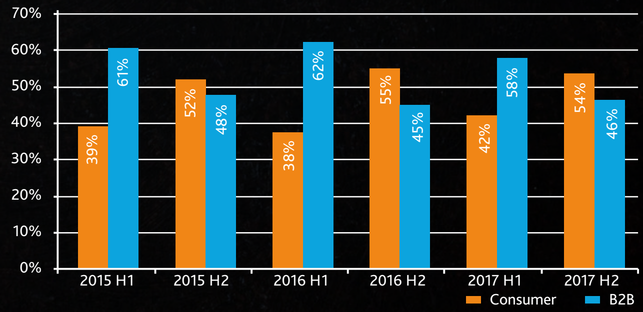
The results for category types show some differences from 2016. In 2017 it is the category specific that has shown strongest growth whereas in 2016 it was the flexible options which grew the most. Multi-choice options while showing quite significant growth in 2016 have seen a small retraction overall in 2017.

Performance between the redemption types (i.e. paper, have also seen some fluctuations for the year. The rate of decline in the sale of paper vouchers has slowed showing with reasonable results in H2 2017. Digital continues to make small increases of its market share for the year increasing to 9.12% in 2017 from 7.16% in 2016.

Paper vs Plastic vs Digital



Consumer vs B2B



UKGCVA DATA ANALYSIS H2 2017

The UK gift card and voucher market performed impressively well in the second half (H2) of 2017, showing its largest growth for a number of periods at 8.51%. This is in comparison to 3.38% in H1 2017 and 1.63% growth in H2 2016. This is also above the UK economy growth of 1.6% forecast by the treasury's group of independent forecasters as detailed in the "Economic and retail overview".

The membership has seen growth across both B2B and consumer sales. However after consumer sales unusually out-growing B2B sales in H1 2017, the trend has now reversed to the more usual pattern with B2B sales having a growth of 14.46% in comparison to the more marginal growth of 3.85% seen by consumer sales. As in previous years, the results show that consumer sales enjoy their highest sales in the second half of the year.

Consumer Sales

The consumer sales result for H2 2017 is 3.85% which while down on the growth of 4.6% seen in H1 2017 is still pleasing in the light of issues in the wider economy. Online consumers show the biggest growth of all distribution channels with a 41.28% increase. Gift card centres also show growth at 8.7% but direct sales are relatively stagnant and third party sales actually show a retraction after growth of 12.37% in the prior period.

Despite only marginal growth in previous periods, the dominant distribution channel remains direct store sales and with changes in the other distribution channels has actually increased its market share to 75.66% in H2 2017 up from 68.26% of total consumer sales in H1 2017, indicating their importance to sellers across all markets.

Online sales showed the largest growth at 41.28% and accounted for 19.55% of all consumer volume growth. However, their overall share of the market still only stands at 9.82%. New entrants into this market have shown growth but the proportion of online sales remains low reflecting the number of submitters compared to the overall market.

After a move to higher sales of flexible products in H2 2016, the trend moved back towards category specific options in H1 2017. However in H2 2017 it is the redeem anywhere products which show highest growth.

Category specific gift cards share of the market has fallen from 88.66% in H1 2017 to 66.66%, with multi-choice gift cards taking their share from 9.47% in H1 2017 to 30.38%. However, comparing year on year with H2 2016, the category specific cards have seen only negligible growth, still dominating with two thirds of the market.

Digital & eVouchers have seen the most significnat growth both in this period and the year as a whole. Their overall share of the market has increased only marginally though increasing from 8.53% to 8.92%.

Paper voucher sales have again seen a fall in growth but in comparison to the other mediums in this category have seen a lesser fall in growth so leading paper vouchers to show an increase in their market share from 5.72% to 19.52% in this period. Comparing this to their market share in H2 2016 however, the share of 25.12% still shows that paper vouchers are on a slight decline.

B2B Sales

As seen in previous periods, the first half of the year showed B2B sales outweighing customer sales. Following previous patterns, the second half then shows consumer sales now overshadowing B2B sales.

Another return to previous form showed the growth in overall B2B sales being higher than consumer sales. B2B sales showed growth of just 2.53% in H1 2017, increasing to 14.46% in H2 2017.

Once again in the B2B channels of direct and online, it is the online sales that have enjoyed triple figure growth. This has lead to their market share increasing from 6.45% to 16.5%. The ongoing growth of digital has been boosted by a number of members commencing use of this medium as well as growth of the existing market.

As reported in consumer sales, paper vouchers have slightly increased their market share from 11.93% in H1 2017 to 15.46% in H2 2017. But again as shown in consumer sales, year on year comparison with H2 2016 their market share is still down. Digital has increased its market share to 18.0% in this period – in comparison to 13.52% in H2 2016. Although gift cards remain by far the largest product type their market share has shown a slight decrease from H2 2016.

Again following the consumer sector, the category specific vouchers remain consistently strong steadily increasing their market share over the last two periods from 49.55% in H2 2016 to 52.75% in H1 2017 to 55.71% in H2 2017. It is the multi choice gift and redeem anywhere products that show the largest swing in market share between periods with multi-choice vouchers taking the larger share in the second periods of the year swinging to redeem anywhere in the first period.

Retailers

The retailer sector comprises 56.13% of membership based on sales in H2 2017, and is made up by half of this periods submitting members.

As detailed in the "UK Retail Overview", a British Retail Consortium special survey showed that inflation squeezed shoppers cut back on everything other than food with overall spending rising by a sluggish 1.1% in the last three months of 2017 and an increase of 1.7% in the year as a whole.

With this backdrop, the retail sector of the membership has seen a healthy increase in growth of 7.1%. This is seen to be particularly good after modest growth of 0.04% seen in H1 2017 and 2.58% in H2 2016.

However although there has been overall growth, the underlying data shows consumer sales to be flat and an increase in B2B sales of 18.11%, reversing the trend in previous periods and reflecting the wider economic picture.

Of the consumer channels, it is the direct sales and third party sales, which have both seen a retraction in growth following the trend highlighted in the BRC survey which noted a decline of shoppers visiting stores.

In contrast online sales grew by 15.26% a trend supported by the comments made by the BRC CEO Helen Dickinson indicating many last minute gifts are moving online. The underlying data shows consumer sales to be flat and an increase in B2B sales of 18.11%.

Following the trend seen in consumer sales, B2B sales have shown the most significant growth in the online sales market with a marginal fall in growth in direct sales of 1.12%. Their share of the overall B2B sales has also fallen to 20.92% from 40.36% in H1 2017. This fall has allowed the online B2B sales to have a larger place in the market at 9.12% of overall retail sales.

For the whole retail market, once again category specific gift cards, and category specific E-vouchers reported the strongest growth and between them now occupy 94.66% of this market.

Leisure Operators

Leisure operators have once again enjoyed considerable growth in this last period with an impressive rate of growth of 33.68%. It remains the fastest growing of the three sectors in the membership.

The overall increase in growth follows significant growth in both consumer and B2B sales with consumer sales growing 26.94% and B2B showing highly significant growth of 56.32% in comparison to growth of 12.51% and 19.00% respectively for the previous period. This is mainly due to the continued rise of category specific digital vouchers with a number of agents seemingly now to offer this product.

In this period, consumer sales have moved to dominate the market after a very even split in H1 2017.

UKGCVA DATA ANALYSIS H1 2017

There have been mixed results in the consumer channels with once again online sales showing the largest increase in volume. Direct sales and gift card centre sales have both shown retractions in sales with third party sales showing some growth.

In contrast, online sales in the B2B sector have actually fallen with direct sales showing a significant increase. Online sales for the whole year do however show a reasonable increase.

As with other sectors, paper sales have again seen a fall in growth but as seen in previous years, their market share increases in the second period of the year, increasing from 5.28% in H1 2017 to 38.07% in H2 2017. However in comparing to H2 2016 where their market share was 58.75% it can be seen that they continue to decline year on year. The digital market share has seen higher growth with it now occupying 21.58% of the market rising from 14.05% in the prior period. Once again it is the gift card market seeing their market share being squeezed despite remaining the dominant medium.

Agents

The growth in this sector has seen a very marginal increase from the prior period - now showing growth of 7.31% in comparison to a rate of 7.04% in H1 2017.

Again as seen in other sectors, despite a small fall in growth, the paper sales enjoy a slightly stronger share of the market in this period.

As in previous periods, the dominance shown by B2B sales over consumer sales in the first half of the year is reduced to a more equal market share of 53.66% falling from 88.06% of total sales in H1 2017. Both B2B and consumer sales have continued to show growth with consumer sales rising by 6.46% in comparison to 8.05% for B2B.

With the introduction of category specific sales for the first time in H1 2017, the second half of the year has again shown some considerable growth. As this is obviously still early days in this particular sector it is hard to draw any particular conclusions however sales of these products fell from 5.4% of the agent market in H1 2017 to 4.72% in H2 2017 due to strong growth in the multi-choice market.

B2B online sales in line with the other sectors have seen significant growth in the agent category at 144.52%.

Digital & E-vouchers

The rise in digital sales continues with growth rising to 72.21% in H2 2017 in comparison to 19.11% in H1 2017. This growth has led an increase in the overall market share of the membership to 9.49% - up from 8.53% in the previous period.

In consumer sales it is the retailers who still see the highest volume of digital sales, however the leisure operators have once again seen significant growth in this period maintaining triple figure growth. Similarly, B2B remains dominated by online sales.

Average Load Values (ALV)

In the current period the contributors were asked questions regarding the average load values for particular product types. No comment will be made on the data provided at this point, but we hope in the future to be able to provide insight into these areas from the next period as we build up the historical information required.

ECONOMIC AND RETAIL OVERVIEW

UK ECONOMIC OUTLOOK

Economic performance 2017

The Office for National Statistics (ONS) released their official estimate on 28 January 2018: "UK gross domestic product (GDP) was estimated to have increased by +0.5% in Quarter 4 (Oct to Dec) 2017, compared with +0.4% in Quarter 3 (July to Sept) 2017".

However, in January 2018 the National Institute of Economic and Social Research (NIESR) predicted the UK's Gross Domestic Product (GDP) will have grown by +0.6% in 4Q 2017, up from +0.4% in 3Q 2017 and above the latest City estimates.

Amit Kara, NIESR's head of UK macroeconomic forecasting, said activity had picked up 2H 2017, following a weak start to the year in which GDP increased by +0.3% in the first two quarters.

Kara said: "The recovery has been driven by both the manufacturing and service sectors, supported by the weaker pound and a buoyant global economy, while construction output continues to lag."

Data from the Office for National Statistics (ONS) showed UK factories grew their output for an eighth consecutive month in November 2017, a feat last seen in May 1994, with manufacturers helped by a broadly based upswing in the global economy. **Manufacturing** output was +1.4% higher in the three months to the end of November than in the preceding quarter.

The increase in factory output helped drive growth in overall **industrial** production, which includes output from mines, quarries, the oil and gas industry, and energy plants. Among manufacturers, the fabrication of machinery and equipment provided the largest contribution to growth, with an upturn in renewable energy projects and other big-ticket work.

The improving outlook for industrial production, which accounts for about 14% of GDP, has helped compensate for stuttering growth in consumer spending, which has been affected by an increase in the cost of imported goods caused by the depreciation of sterling since the Brexit vote.

The **construction** industry had its toughest period for more than five years, contracting by -2% in the three months to November 2017, marking the sixth successive period of decline. Despite the decrease over the quarter, there was a small upturn in November of +0.4%, compared with the previous month.

The stronger global economy is helping the UK export more goods and services to the rest of the world. Although the UK continues to import more than it exports, as has been the case for several years, the ONS said the deficit narrowed by £2.1bn in the three months to November. Ole Black, a senior ONS statistician said: "The trade deficit narrowed in the past three months, due mainly to increased exports of services, and shipments of works of art and cars. Over the past year, exports of goods, particularly cars, machinery and crude oil, have continued to increase, and at a faster rate than imports."

Others less upbeat than NIESR

Some consultancies warned that 4Q 2017 growth would be lower than NIESR +0.6% estimate. PwC estimates UK GDP grew by +0.4% in 4Q 2017, meaning growth of +1.8% for the whole of 2017.

PwC explained the UK economy has slowed over the past 12 months due to the increase in inflation stemming from the drop in sterling in the wake of the 2016 Brexit vote, which has squeezed household disposable incomes.

Other than PwC and NIESR, the average estimate of independent forecasters, collected by the Treasury in December 2017, was that full year growth in 2017 would be just +1.6%, although revisions and new hard data since then are likely to have prompted many to have made upward changes.

Uk economic forecast

According to the Guardian (Dec-17), despite the political to-and-fro of the past year, the UK economy enters 2018 in better health than many would have given it credit for. The post-referendum recession never materialised. Consumers have kept calm and carried on spending against the odds, and global growth and a resurgent Eurozone are helping to buoy British manufacturers.

Threats to this stability range from a collapse in Brexit talks and a slowdown in job creation, while political uncertainty will force businesses to delay much-needed investments to boost productivity. Industry leaders say the end of March is the deadline for a deal on the terms of transition to exit the EU. If that deadline is missed, they would be forced to make decisions that could have negative consequences for jobs and investment.

The Guardian outlined three reasons to at least be a little bit cheerful about the UK economy in 2018.

1) Growth won't slow as much as feared

The Guardian explains that in December 2016 the view was that growth would slow to just +1% for 2017 but growth is now expected to be around +1.5% for 2017. It could have been closer to +2% without Brexit, according to some economists, but it is far from the recession some envisaged.

Consultancy Capital Economics reckons growth could be as robust as +2.2% in 2018, seeing few reasons why resilience among consumers to keep on spending should come to an end. Manufacturers stand to benefit from selling their goods abroad, helped by the pound's weakness since the Brexit vote making British goods more competitive.

There may be trouble ahead, however, because businesses could put their investment plans on ice if concerns about the UK's future trading rules with the EU linger. Households are also still facing higher inflation and sluggish pay increases, which could hold growth back.

2) The worst of the earnings squeeze will fade

According to the Guardian, British households have had a torrid 2017, seeing prices in the shops rise at rapid rates. This is because of the weak pound, which has pushed up the cost of importing goods to the UK. Wages have risen nowhere near as much.

The impact from sterling's rapid devaluation is gradually being washed out of the system though, and the Bank of England reckons inflation probably peaked just above 3% in the final months of 2017 and is on track to fall in the coming months. This view was confirmed in January 2018, when the ONS confirmed that the official rate of inflation in December 2017 fell back to +3% and down from November 2017's rate of +3.1%.

There are some indications of wage growth coming through, albeit slowly, as workers' bargaining power to demand higher pay is lifted by the lowest levels of unemployment since the 1970s, and falling net immigration to the UK reduces the number of people in the workforce.

The UK is set to have the worst wage growth of any wealthy nation in 2018, however, ranking behind Italy, Greece and Hungary at the bottom of 32 OECD countries, as real earnings lag inflation. Think tank Resolution Foundation said the situation will improve toward the end of 2018, although it expects pay will remain flat over the course of the year once inflation is taken into account.

There are also worrying signs that the UK's long jobs boom appears to be over. Official data is now showing a drop. The number of people in work across the UK fell by 56,000 during the three months to October 2017 to stand at just over 32 million and the Office for Budget Responsibility expects the unemployment rate to rise over the next five years.

3) Interest rates will stay low

According to the Guardian given the uncertainties facing the UK economy as Brexit talks intensify, the Bank of England (BoE) looks set to sit on its hands in 2018. At most, interest rates may be nudged higher from 0.50% to 0.75%.

Assuming the Brexit talks do not lead to any major fall in the pound, the impact from sterling's devaluation after the Brexit vote on inflation will gradually decline over the course of 2018. The BoE has a target of +2% for the consumer price index, and rates are set to fall back gradually in this direction from a peak of +3.1% in November 2017.

Should there be a move higher, it will only be limited and gradual, according to the BoE's governor, Mark Carney, and it should be manageable for most.

ICAEW forecast

ICAEW (Dec-17) believes the squeeze on household finances will persist into 2018, with the Bank of England's recent base rate increasing debt servicing costs for some households. With business investment remaining constrained (see next below) but support predicted to come from better trade performance, ICAEW forecasts GDP growth of +1.6% in 2018.

According to ICAEW official data on business investment is notoriously volatile and prone to revision in future statistical releases. The pattern of the last three quarters does suggest, however, businesses are slowing the pace of capital expenditure and CAEW forecasts business investment growth of +2.1% for 2017 as a whole - the second weakest year since the global financial crisis.

Looking ahead, ICAEW forecasts is for business investment growth of just +1.5% in 2018, as companies continue to "wait and see" what kind of post-Brexit settlement the UK will achieve. With corporate cash balances still very high and interest rates near all-time lows, businesses are clearly able to invest given the right economic and political outlook. So, if the government were to deliver greater clarity over future trading opportunities, businesses could well be convinced to accelerate their spending.

CONSULTANCY CAPITAL ECONOMICS RECKONS GROWTH COULD BE AS ROBUST AS +2.2% IN 2018

ECONOMIC AND RETAIL OVERVIEW

IMF forecast

On 22 January 2018 the International Monetary Fund (IMF) downgraded its outlook for UK growth for 2019, the year of Brexit, while much of the rest of the G7 have been upgraded on the back of a strengthening global economy.

Amid Brexit uncertainty, in its latest forecast, the IMF pencilled a small (0.1%) downgrade for the UK in 2019, predicting growth of +1.5%.

Brexit impact

According to former Treasury minister and Goldman Sachs economist Lord O'Neill, the damage to the UK economy from Brexit could be 'dwarfed' by the positive impact of other developments in the global economy.

The IMF projects the global economy will to grow by +3.7% in 2018, which would be the strongest expansion in seven years. The world's two dominant advanced economic blocs, the Eurozone and the US, are both simultaneously growing strongly for the first time since the global financial crisis, helping UK exports.

Lord O'Neill was also optimistic about regional rebalancing: "I certainly wouldn't have thought the UK economy would be as robust as it currently seems [a few years ago]. That is because some parts of the country, led by the North West, are actually doing way better than people seem to realise or appreciate. As well as this crucial fact, the rest of the world is also doing way better than many people would have thought a year ago, so it makes it easier for the UK."

EUROZONE ECONOMIC OVERVIEW AND OUTLOOK

3Q 2017 Economic performance

In November 2017 Reuters reported the Eurozone's annual economic growth rate outstripped that of the US in 3Q 2017 setting up 2017 as the best year for the currency area since financial markets crashed a decade ago. Germany was a major factor but even some of the bloc's laggards, such as Italy, showed signs of revival.

Eurostat, the EU's statistics office, confirmed a preliminary estimate that Eurozone GDP grew by +0.6% q-o-q between July to September and on a y-o-y basis was +2.5% higher.

This was higher than the +2.3% y-o-y rate for the US, which had been growing faster than the Eurozone.

ING economist Bert Colijn said: "A robust labour market recovery, growing export markets, an accommodative monetary stance, improving lending conditions and modest inflation are but a few of the tailwinds that the Eurozone economy is experiencing."

THE IMF LIFTED ITS 2018 OUTLOOK FOR THE EUROZONE TO 2.2% GROWTH

4Q 2017 Economic performance

According to IHS Markit (Jan-18), the Eurozone economy ended 2017 with its strongest growth in almost seven years helped by a steep increase in service sector activity and a near-record expansion of manufacturing production.

IHS Markit's Composite Purchasing Managers' Index (PMI) rose to 58.1 in December 2017 throughout the 19 countries that use the euro, from a reading of 57.5 the previous month to mark its highest level since February 2011. Anything above 50 signals expansion.

Chris Williamson, chief business economist at IHS Markit, described December as a "stellar end to 2017 for the Eurozone" and said the numbers continued to "confound widely-held fears that rising political uncertainty would curb economic growth".

He added: "Manufacturing is enjoying its best growth spell since data was first collected over two decades ago, while the service sector closed off its best year since 2007."

Williamson also said the figures suggest that Eurozone GDP expanded by +0.8% during 4Q 2017, adding there was "no sign of momentum being lost as we move into 2018."

2018 Forecast

On 22 January 2018 the IMF raised its forecast for world expansion to +3.9% in 2018 and 2019. That would be the fastest rate since 2011, when the world was bouncing back from the financial crisis.

The IMF said sweeping US tax cuts were likely to boost investment in the world's largest economy and help its main trading partners.

The IMF lifted its 2018 outlook for the Eurozone to +2.2% growth, up 0.3 points from October 2017. It revised up its growth forecasts for Germany, Italy and The Netherlands "reflecting the stronger momentum in domestic demand and higher external demand." However, it cut its forecast for Spain's growth for 2018 by 0.1 percentage point, saying political uncertainty linked to the Catalonia region's independence push was expected to impact business confidence and demand. The IMF's UK forecast for 2018 was unchanged at +1.5%.

ECONOMIC AND RETAIL OVERVIEW

UK RETAIL OVERVIEW

A look back at 2017

BDO

Figures from BDO's High Street Sales Tracker (HSST) showed UK shops suffered a fall in underlying sales in December 2017 for the fifth straight year, adding to evidence consumers are tightening their belts. Britons are being squeezed by slow wage growth and a jump in inflation that followed the 2016 Brexit vote. BDO's HSST figures showed a -2.3% fall in like-for-like sales in December 2017.

BDO said data reinforced reports of a last minute Christmas buying spree. It said all categories recorded y-o-y growth in the week to 24 December, after negative like-for-like sales in the first three weeks of December.

"With discretionary spend under pressure, shoppers have been forced to think twice before making purchases and have shown a preference to prioritise spend on food and drink, home comforts and trips out to restaurants and bars this festive season," Sophie Michael, BDO's head of retail and wholesale, said.

British Retail Consortium

A separate survey from the British Retail Consortium (BRC) (Jan-18), showed inflation-squeezed shoppers cut back on almost everything other than food in the last three months of 2017, leading to the biggest fall in non-grocery spending since 2009.

The BRC, which represents large chains, said overall spending in the last three months of 2017 rose by a sluggish +1.1%, compared with an average annual growth rate of +1.7% for 2017 as a whole.

BRC CEO Helen Dickinson said: "Growth in spending was in line with the average for the year. However, the divergence between growth in sales of food and non-food has never been so stark." Non-food sales fell by -1.4% y-o-y in 4Q 2017 - the biggest drop since March 2009 - while food sales grew by +4.2%, the biggest jump since June.

A BRC survey (Jan-18) showed that the number of people visiting stores in December 2017 showed its biggest decline for five years, illustrating how retail is being transformed by online shopping. Year-on-year footfall fell by -3.5% in the five weeks to 30 December - the biggest decline since March 2013 when it dropped by -5.2%. The December figure was significantly below the 12-month rolling average of a 0.7% decline.

All regions showed a drop in footfall in December 2017, with the sharpest falls in Scotland (down -4.7%), the South West (down -5.2%) and Greater London (down -3.7%).

BRC CEO Helen Dickinson said said: "Improved delivery options by both purely digital retailers and those with stores and an online offer mean many purchases of last minute gifts are moving online."

Online sales slowed in 2017

The rate of retail sales growth is pointing to a "maturing market" figures from the IMRG Capgemini e-Retail Sales Index suggested (Jan-18). Online retail sales in the UK increased by +12.1% on average y-o-y in 2017, which was lower than the IMRG's forecast of +14%. This figures also falls short of 2016's y-o-y average of +15.9%.

Index performance in 2016 was largely driven by strong sales growth through smartphones but this slowed in 2017. Sales growth through smartphones averaged +77% each month from July to December 2016. In the same period in 2017 it fell to +50%. Growth through tablets has also stalled (up +0.7% in 2017) and 2018 growth is expected to slow down further for all devices.

Justin Opie, managing director, IMRG said: "A decline in the rate of online sales growth in 2017 was forecast, though it turned out to be sharper than expected. The macro economic factors, rising inflation, low wage growth, rise in the interest rate, are likely to have been influential. That said, 2018 does look set to be a transformational year for retail – with an increasing use of AI services anticipated plus the rise of 'browserless commerce' (through devices such as voice assistants). It may be that we see shopper behaviour shift significantly over the coming period."

VISA

Data from Visa (Jan-18) revealed December 2017 rounded off the worst year for consumer spending across the UK since 2012. Visa said household spend declined by -1% on an annual basis in December 2017, following a -0.9% slide in November. That meant that annual consumer spending fell by -0.3% during the whole of 2017 - the first annual decline in half a decade. E-commerce spend grew +2% in December 2017 but that was offset by a -2.7% fall in brick-and-mortar stores.

Mark Antipof, chief commercial officer at Visa said: "Despite some large retailers signalling a strong Christmas, it is clear that the high street has suffered recently." He added that face-to-face spending had now outstripped e-commerce during 11 of the past 12 months.

By sector, Visa said that five of the eight broad categories registered lower expenditure on an annual basis in December. Spending on transport & communication fell by -4.4%, while spending on household goods slipped -3.4%. Clothing and footwear expenditure was down -2.4%.

According to Visa, food and drink retailers enjoyed their first increase in expenditure since September 2017. But even that rise was only +0.4%. Convincing growth was only recorded in the hotels, restaurants and bars category, where spending rose by +4.7%.

Consumers have been squeezed by a cocktail of stagnant wage growth and a jump in inflation Visa explained.

Looking ahead though, Annabel Fiddes, an economist at IHS Markit which compiled Visa's the data, said inflationary pressure could subside somewhat in the coming months as a result of the pound stabilising. She went on add: "This could help to lead to a relative improvement in the spend figures, but given the overall picture it seems unlikely that expenditure will bounce back to the levels of growth seen in 2016 anytime soon."

Challenger brands turn on the heat

According to the Telegraph (Jan-18), 2017 was a tough year for fashion retailers as spending online accelerated. Young brands such as Missguided, Boohoo, Quiz and Asos hovered up shoppers.

New Look's ghastly run of fortunes, which culminated in chief executive Anders Kristiansen falling on his sword in September 2017, will only show signs of improvement in the middle of next year. Next boss Simon Wolfson is also under pressure after a year of stalling growth that spooked investors primarily because it had been considered a safe bet for so long.

WORST YEAR FOR CONSUMER SPENDING ACROSS THE UK SINCE 2012. (VISA)

Outlook

Shake-up time

According to the Telegraph (Jan-18), the combination of rising wage bills, business rates and the structural challenges the sector faces as online shopping makes bricks and mortar stores less profitable will ultimately lead to a shake-up.

In 2017, Toys R Us announced plans to shut a quarter of stores, wholesaler Palmer & Harvey collapsed, furniture retailers Multiyork and Feather & Black both called in administrators, while Store Twenty One closed its doors for the final time.

"The squeeze is on and I think that it will tighten progressively to become a year of retail distress" said retail expert Richard Hyman.

The number of shops across the UK is expected to fall by -22% from 281,930 to 220,000 in 2018, according to forecasts by the Centre for Retail Research. It also predicts that a further 164 major or medium-sized companies will fall into administration, involving the loss of 22,600 stores and 140,000 jobs. Last year 42 retailers failed.

SECTOR BREAKDOWN DEFINITIONS

Businesses

Retailers - Members where the majority of their business is conducted in a physical shop and/or online. eg M&S / John Lewis.

Agents - Members who usually purchase gift cards from issuers/retailers acting on behalf of their clients. These are members who act on behalf of clients providing advice and running incentive programmes as well as those members who offer savings schemes. Members include Grassroots and Love2 Shop.

Leisure - Members where the majority of their business is considered to be a leisure pursuit such as a gift experience or a meal in a restaurant. Members include Mitchells & Butlers and Red Letter Days.

Customer types

Consumer - Vouchers and cards sold to consumers or individuals for personal use.

Business - Sales made to businesses or organisations

Distribution channels

Direct Sales - Sales made direct to a consumer from within a store or over the counter.

Online - Sales made via the members own online purchasing facility or through an online affiliate.

Gift Card Centre/Mall - Sales made via another retailer's gift card centre or store.

Third Party Sales - Sales made via any other channel who sells/issues direct to the consumer.

Product types

Paper Vouchers - Traditional paper gift vouchers sometimes transacted via a bar code or serial number. Also commonly issued with no electronic reference codes.

E-Vouchers - Virtual or digital vouchers sold online and distributed electronically to the recipient. Can typically be used for online and in store redemptions. 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

Closed loop - Gift cards that are issued and redeemed by the same legal entity. Closed loop cards are usually facilitated using a private link between the issuers till systems and the processing system. They do not require the use of a payment acceptance network such as a Visa or MasterCard

Multi-choice - Usually (but not always) requires the use of a payment acceptance network such as Visa or MasterCard or a bespoke private link between participating retailer's systems and the issuer's processing system. Cards are accepted at a restricted range of retailers.

Redeem anywhere - Redeem anywhere with no restriction on redemption location or retailer. Requires the use of a payment acceptance network such as Visa or MasterCard.

Category specific – Typically refers to physical or digital cards sold by a specific retailer or leisure operator only for redemption within their business.

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All data submitted is the responsibility of the contributing members. In the current period there were 30 contributing members.

The member population for the multi-choice and redeem anywhere products is however far smaller than that of the category specific products, and thus will be subject to additional inherent fluctuations that may not reflect the wider market.