GIFT CARD AND VOUCHER SALES ANALYSIS AND OUTLOOK UK

H1 2023

Gift Card & Voucher Association

KPMG

GCVA DATA ANALYSIS H1 2023

8.4% Like-for-like period growth

1.3% Rolling year growth

£1.35bn Total H1 2023 sales

28 Contributors

Gift cards switch up a gear amidst a cost of living crisis, pointing to an important role in helping people access discounts and manage their money.

Executive Summary

Despite an ongoing cost of living crisis, double digit inflation and rapidly rising interest rates, data from the gift card and voucher data submitting membership showed a robust increase in sales in the first half of 2023, up 8.4% on a like-for-like basis from the first half of 2022, while rolling year figures also grew by 1.3%.

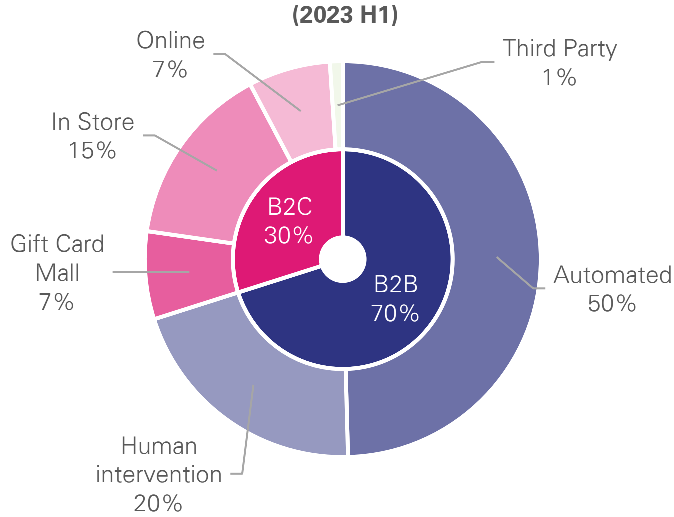
This commendable performance was most marked in Leisure (experiences, hospitality, travel and entertainment), which recorded a like-for-like uplift of 16.1%, while Retail recorded lower – but still impressive – growth of 8.0%. This is now the fourth period running that Leisure has led the way, although it represents only a small portion of total sales (5.2%). The figures also underline once again how much bigger the second half of a year is in gift card sales terms – largely due to the Christmas period – with £1.35bn in sales in H1 2023 compared to just under £2bn in H2 2022. Nevertheless, the performance in the first half of the year should give heart to retail and leisure operators, given the tough prevailing conditions in which it was achieved.

In the second half of 2022, B2C sales increased across every channel – but in this period it was B2B that shone, recording 11.7% like-for-like growth while B2C sales only notched up fractionally at 1.4%. In Retail, B2B accounted for 72.4% of total sales, compared to 28.5% of sales in Leisure. Closed loop retained the greatest share across both B2B and B2C, although the growth in B2C was driven by Multi-Choice products. Across both markets, digital again continued its march – now accounting for 48% of sales, just 1 percentage point behind physical gift cards. It would be no surprise if, in our next report covering H2 2023, digital has become the predominant sales format.

11.7% B2B Like-for-like period growth

B2C 1.4% Like-for-like period growth

Market share by sales channel (2023 H1)



TOP TAKEAWAYS

01

Overall growth of 8.4% in like-for-like sales for the half year across all sectors, channels and product types

02

Leisure (experiences, hospitality, travel and entertainment) rises 16.1% like-for-like

03

Within Retail, Grocers experienced the highest growth as a sub-sector, increasing 25.7%

04

B2C sales remain strong - with In-Store sales contributing 50.1% of B2C sales in H1

TOP TAKEAWAYS

05

B2B remains a vital area for sales, making up 70.1% of the market

06

Digital Gift Cards continue to grow and now represent 48% of the market, just 1% behind Physical Gift Cards

07

Growth of 16.1% within Gift Card Malls is the most important driver of B2C in H1

08

Employee Benefits remains the top sub-category of B2B sales, but Rewards & Incentives is increasingly important

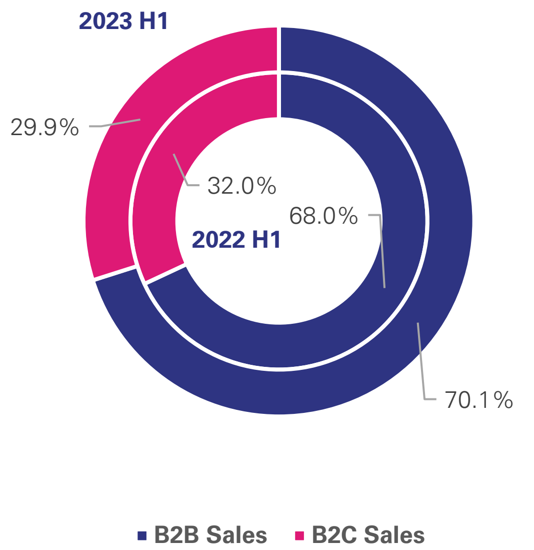
Overview

Gift card and voucher sales in the Retail and Leisure sectors have recovered strongly after a subdued performance in the second half of 2022. While sales fell in H2 2022 on both a like-for-like and rolling year basis, in H1 2023 we see positive indicators across every significant measure. Like-for-like and rolling year sales rose in both Retail and Leisure; there was an uplift in both B2B and B2C sales; and we continued to see the increased adoption of digital sales formats that are more in tune with contemporary consumer habits as well as having a zero carbon footprint.

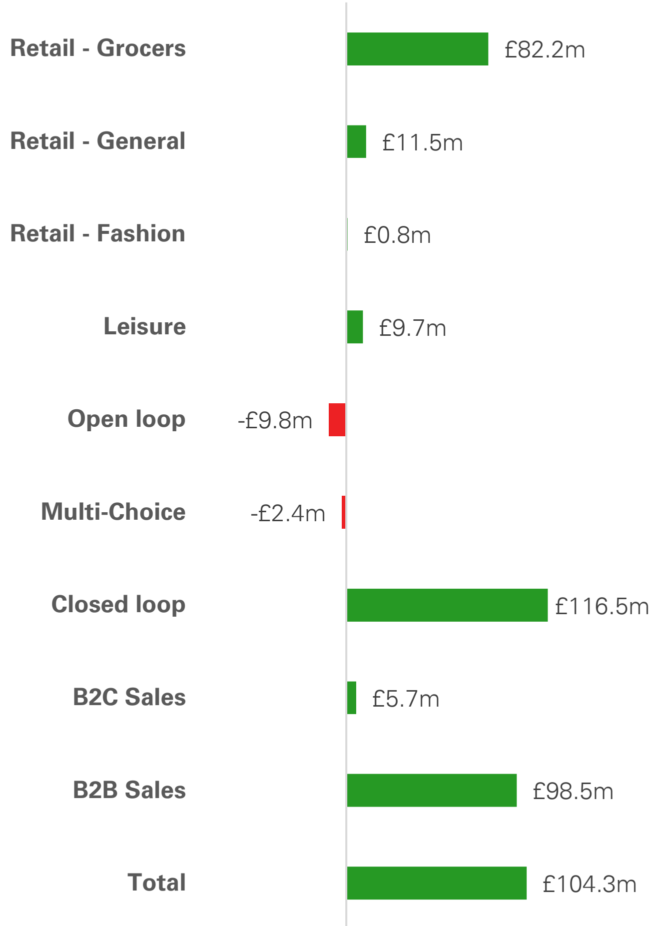
Given the challenging economic conditions that have continued through the first half of the year, this robust outturn may come as a pleasant surprise. It surely underlines the enduring appeal of gift cards, both as a way of gifting to friends and loved ones and, in the B2B sphere, as a way of enabling staff to access attractive discounts and offers – all the more important when household finances are under pressure.

Some trends have continued. Leisure has once again recorded higher growth than Retail, albeit it has a much smaller base to achieve this against. Consumers clearly still value their leisure experiences and perhaps there is a still a small element of post-pandemic catch-up at play. On the other hand, Retail still represents the lion's share of the market, and within this the B2B segment is critically important, now representing nearly three quarters of sales. The continuing rise of gift card schemes as a B2B employee value proposition has been a welcome boost for the sector.

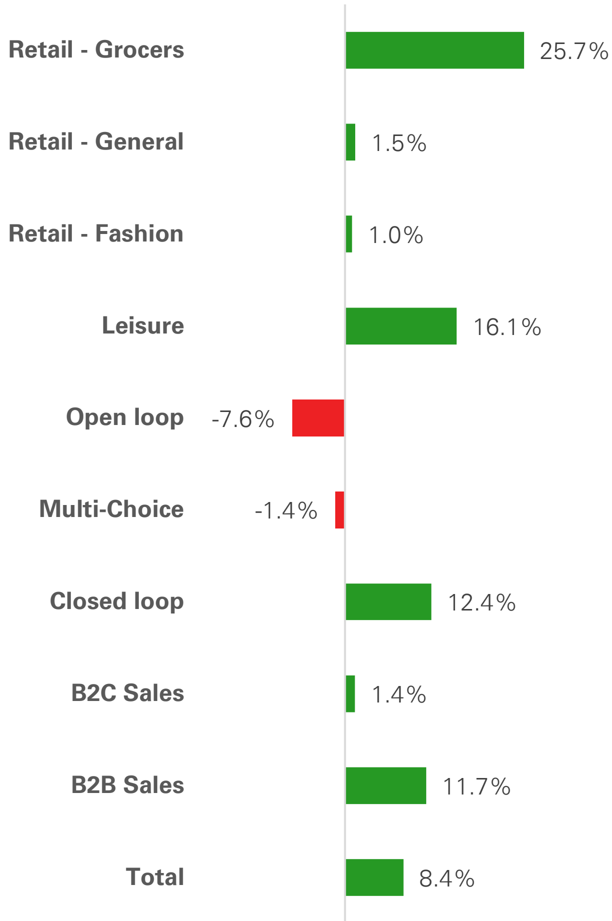
B2B retains largest share (H1 2022 vs H1 2023)



Absolute growth in the like-for-like period - H1 2023



Percentage growth in the like-for-like period - H1 2023



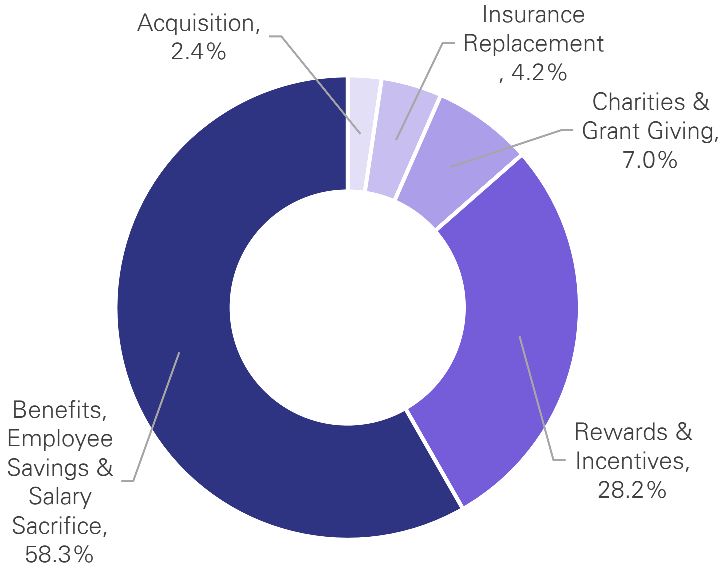
B2B Market Overview

In H1 2023, growth was seen across all components of the B2B market, leading to an overall rise of 11.7%. As B2B represents 70.1% of the gift card market as whole, this has been a key driver for the overall like-for-like growth observed.

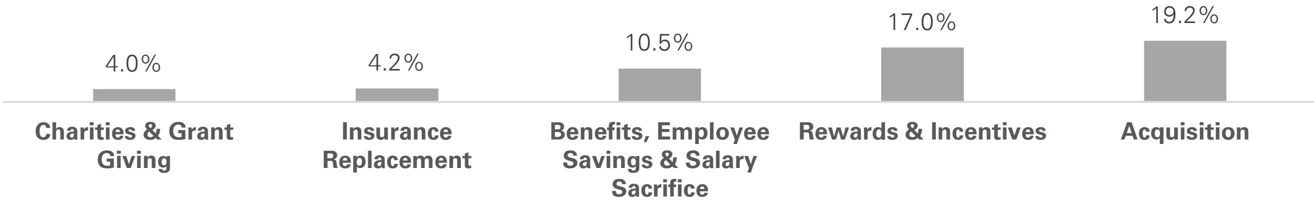
The major components remain ‘Benefits, Employee Savings & Salary Sacrifice’ and ‘Rewards & Incentives’, representing 58.3% and 28.2% of the market respectively. The combined influence of these components demonstrates the important role gift cards play in allowing organisations to support and incentivise their staff. Use of gift cards has become commonplace for staff looking to battle the ongoing cost of living crisis.

Acquisition represents the smallest component of the B2B market with 2.4%. However, it recorded the highest like-for-like growth of 19.2% as businesses look to increase their customer base. Strong growth has been seen in the major components noted above, with lower levels of growth across Charities & Grant Giving and Insurance Replacement components.

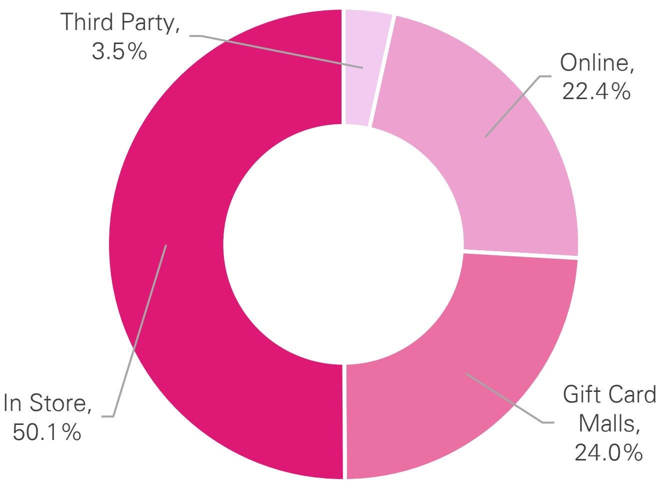
Market Share of B2B Components (H1 2023)



Like-for-like growth of B2B components (H1 2023)



Market share of B2C channels (H1 2023)



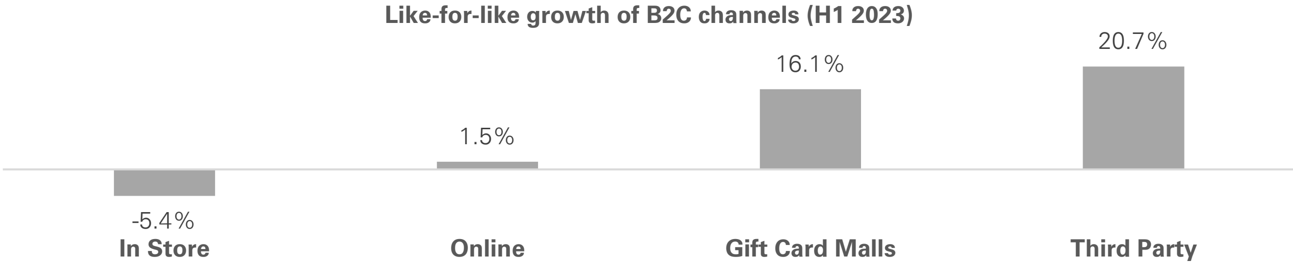
B2C Market Overview

Both Gift Card Malls and Third Party sales have seen strong like-for-like growth this period, of 16.1% and 20.7% respectively, with a minor level of growth noted for Online sales.

The growth within Gift Card Malls demonstrates the increased desire for choice amongst consumers, whilst also demonstrating the importance of convenience. A share of 24.0% of the market also makes Gift Cards Malls the second largest channel in B2C, above Online.

In Store growth on the other hand has seen a decline of -5.4%, which is particularly noteworthy given it comprises 50.1% of the B2C market.

Like-for-like growth of B2C channels (H1 2023)



Sector Focus

Retail

The Retail sector enjoyed a positive six month period, notching up sales growth of 8.0% on a like-for-like basis – even if the bottom line impact of this uplift will be reduced by the rate of inflation experienced during the period. As we have noted, sales growth was driven by B2B which represented 72.4% of sales – a total increase of 11.0% compared to the previous like-for-like period.

Rises in digital formats, Gift Card Malls and Third Party sales helped overcome a decline in in-store shopping. The growth in Gift Card Malls has been notable, increasing by 14.9% on a like-for-like basis – a sign that consumers value the convenience of being able to buy a gift card of their choice when carrying out their regular shop at a frequently visited venue like a supermarket.

Retail Sub-Sectors

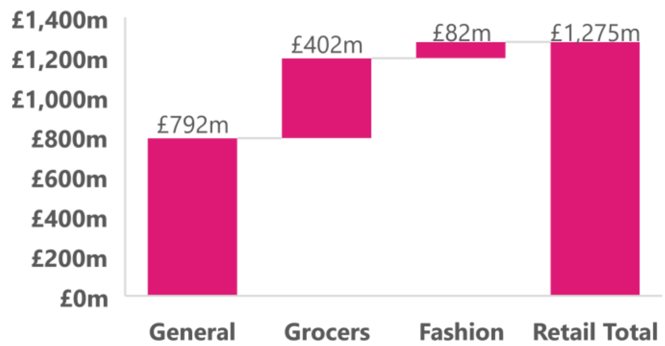
Looking at the Retail market in more detail across the three categories of General, Fashion and Grocers, we see a number of interesting divergences and trends.

Retail General – This sub-sector delivered only modest growth of 1.5%, due to a mixed set of results for reporting members, with some observing major declines and some with very strong increases. Unlike other sub-sectors, growth was primarily in the B2C market due to one retailer reporting a major uplift.

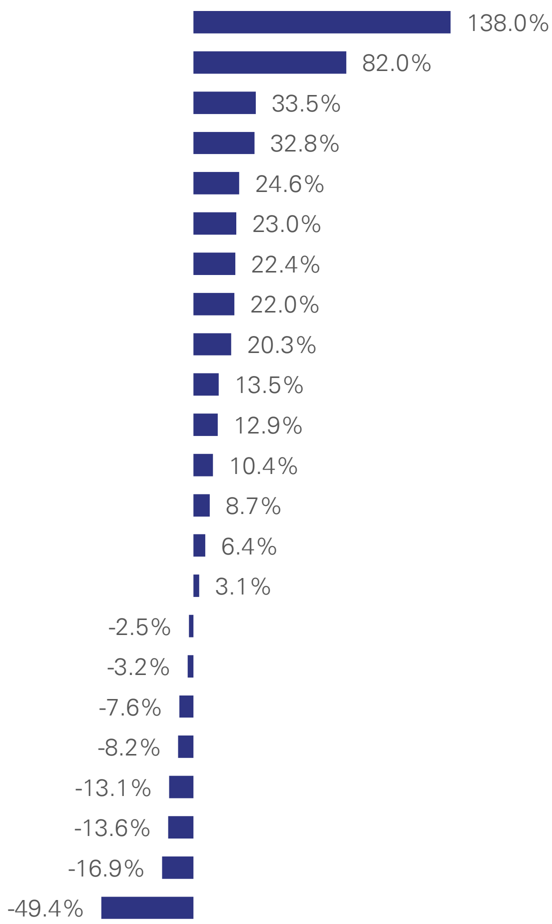
Retail Fashion – Attracting discretionary spending, such as within fashion, in a tough cost of living climate is incredibly challenging. Overall growth for this sub-sector came in at 1.0%. Decline was observed amongst most members in this sector, although one member reported significant growth.

Retail Grocers – This sub-sector enjoyed a strong trading period, with all reporting members recording growth and an overall increase across the group of 25.7%. The signs are that employees have been keen to take advantage of savings schemes through the B2B market to combat the cost of living crisis, while consumers have used gift cards to offer support to loved ones.

Retail sub-sector sales breakdown for H1 2023



Retail Membership: Percentage like-for-like growth for period (2022 H1 - 2023 H1)



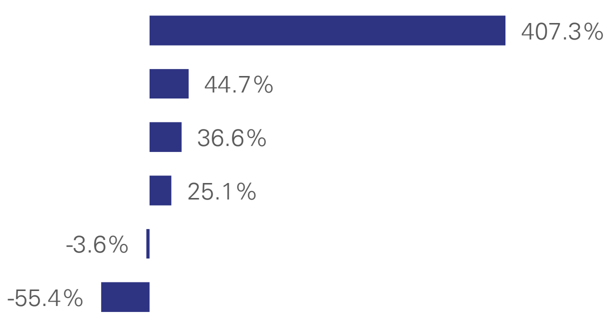
Leisure

Despite concerns that the post-pandemic recovery in Leisure gift card spending could be vulnerable to the cost of living crisis, the market has remained buoyant in H1 2023.

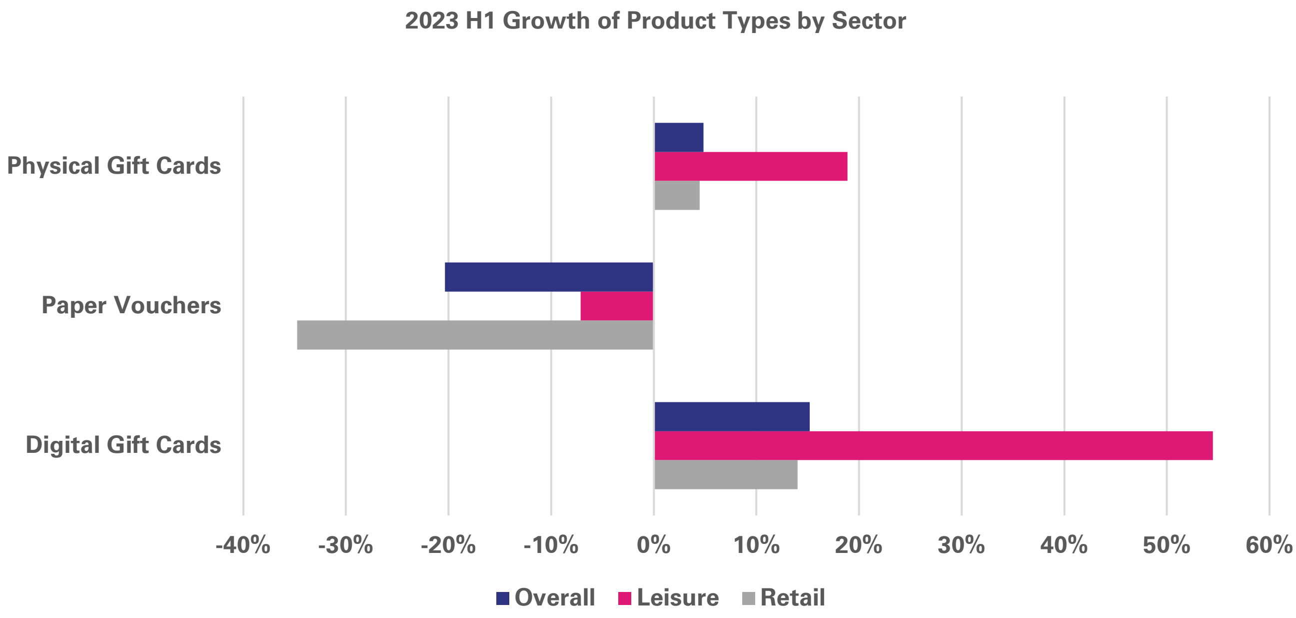
Growth has spiked in the B2B sector, seeing a 58.8% increase. But consumers have also continued to take advantage of gift card opportunities, with sales rising by 4.8% as people looked to benefit from the travel and entertainment offerings available.

Although individuals' spending has in many cases been reined back or become more discerning due to economic conditions, nevertheless the data suggests a determination to find room for pleasurable leisure experiences or to gift that opportunity to others.

Leisure Membership: Percentage like-for-like growth for period (2022 H1 - 2023 H1)



Product and Redemption Type Focus

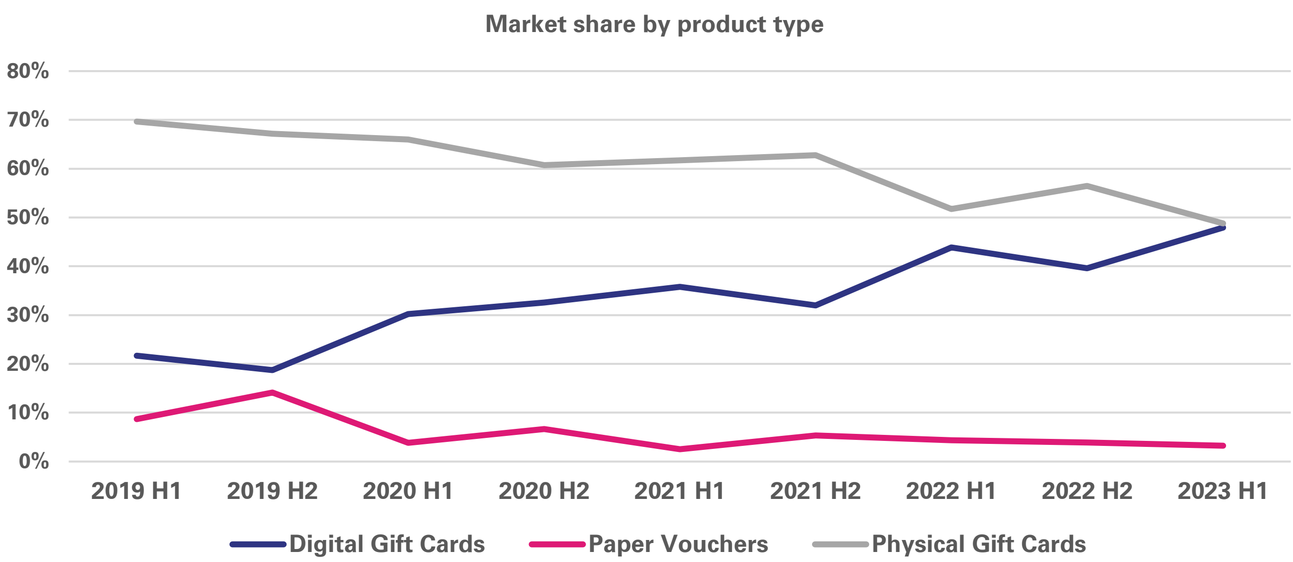


Digital products continue to grow strongly – up 15.1% this period. This has been fuelled in particular by B2B sales which in the great majority of cases are through online portals and marketplaces. Indeed, 76.5% of the overall growth in like-for-like B2B sales can be attributed to an increase in digital sales.

In terms of redemption types, we see some interesting developments. Closed loop has been the dominant format, growing by 12.4% to represent 78.5% of total sales in the period. Meanwhile, multi choice and open loop have both dropped, by -1.4% and -7.6% respectively. Although multi choice grew within the B2C market, the decline in the B2B market has offset this due to its significantly larger monetary value.

These trends may seem surprising. However, the driver behind the growth of closed loop sales is that they are the format of choice in the B2B market as organisations bring their staff offers from specific, trusted brands. Multi choice remains popular in the B2C domain, where consumers like to have (and give) the convenience of choice. It may also be a discreet way of supporting those in need, providing support through gifting that the recipient can then use to buy whatever they need most.

Within the B2B market, it is once again Benefits, Employee Savings & Salary Sacrifice that is the dominant use case (58.3% of sales), with Rewards & Incentives a clear second (28.2%). Charities & Grant Giving is the third most common use, but is much further back at only 7.0%.



ECONOMIC AND RETAIL OVERVIEW

Increasing prices widen the gap between retail sales and volumes – how will Retail and the gift card market respond?

The UK economy, along with most other regions of the world, has been facing challenges for an extended period of time – but fears of a recession have so far failed to materialise. Hopes have risen that it may escape one altogether.

Going back to August 2022, the Bank of England sent shockwaves through the financial community with its warning[1] that the UK economy would enter recession from the last quarter of 2022, with negative growth expected in every quarter of 2023. Whilst any downturn was expected to be mild, it nevertheless seemed that the outlook for businesses, including the retail and leisure sectors, was challenging.

The resilience of the economy in H1 2023 has therefore been encouraging. Despite a pronounced cost of living squeeze on families and individuals, and cost pressures for businesses compounded by historically high inflation as well as steadily rising interest rates, the economy has managed to avoid negative territory. With predictions that inflation may at last begin to meaningfully moderate through H2, conditions could begin to improve for consumers and businesses alike.

For retail, the first six months of this year have largely been a picture of modest success. As Paul Martin, Head of Retail at KPMG notes in July's BRC Retail Sales Monitor[2]: "Apart from a blip in May, retail sales growth has remained steady at around 5% every month in the first half of this year."

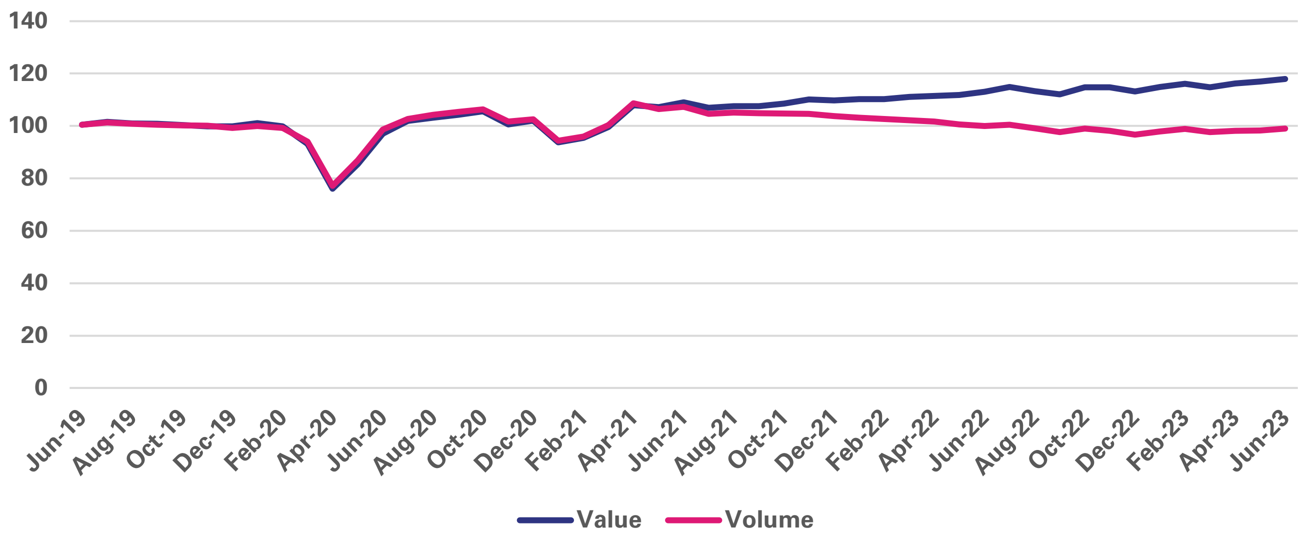
Needless to say, this headline growth has been undermined by inflation at or near double digits through the period. This, along with continued discounting and promotions to drive business, has resulted in reduced margins and profitability. But given fears of a wholesale recession, to bank sales growth in every month bar one through the year to date so far must be regarded as a better than expected outcome.

It's a picture of resilience that, as we have seen, has fed over into strong gift card sales for both Leisure and Retail operators. They will now be hoping that a fall in inflation does indeed come to pass in the second half of the year.

In particular, a drop in food price inflation would be a welcome relief. Food prices have remained high (and rising), bringing food retailers and producers under increasing scrutiny and pressure.

Figures in July suggested that the rate of food inflation has now passed its peak: food prices are still rising, but more slowly. If this begins to turn into an actual reduction in prices, it would benefit everyone – because high food prices impact on consumers' ability to spend on non-essential items, therefore having a knock-on impact across the retail and leisure sectors.

ONS Divergence between retail sales volumes and values[3]



1. Bank of England Monetary Policy: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/august-2022
2. BRC Retail Sales Monitor – June 2023: https://brc.org.uk/insight/content/retail-sales/retail-sales-monitor/reports/202306_uk_rsm/
3. ONS Retail Sales June 2023: https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/june2023

Economy in H1 2023

Although many analysts believe the UK will avoid a technical recession, this nevertheless remains a finely balanced question with some indicators in late July/August giving cause for concern. Whatever happens, conditions are expected to be subdued with very limited growth. Businesses should be under no illusion, therefore, that trading is likely to remain tough.

The July independent forecasts for the economy compiled by HM Treasury[4], for example, yielded an average forecast of just 0.2% GDP growth in 2023. Inflation, meanwhile, is expected to fall to around 5.0% in Q4 (standing at 7.9% in June) – still high by historical standards and far in excess of the Bank of England's prior target of 2.0%.

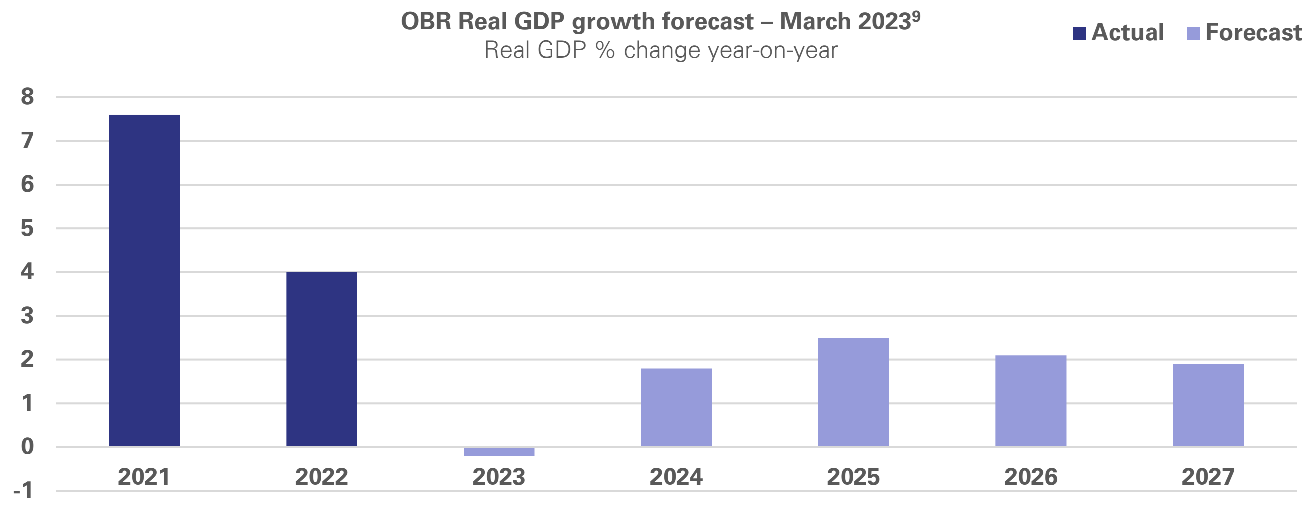
KPMG's latest forecasts for 2023 are broadly similar. In its UK Economic Update[5], published in June, the firm states that the UK will "likely escape recession" and predicts GDP growth of 0.3%. However, the update is far from upbeat, with a clear warning that conditions will continue to be challenging:

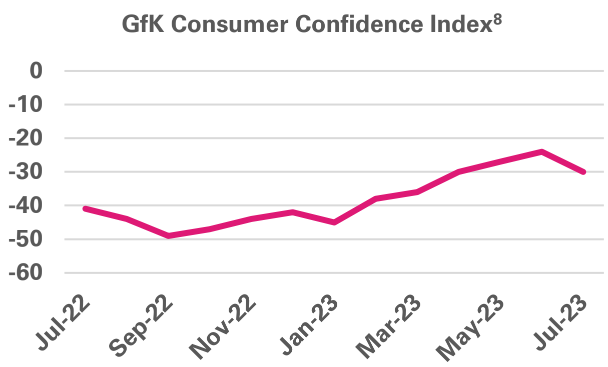
"We expect growth to remain weak by historical standards, and risks are skewed to the downside. Inflation will continue to fall from its peak, but at a slower pace than implied by movements in energy prices. Elevated core inflation, services price inflation, and pay growth all point to more persistent price pressure."

KPMG also predicts that consumer spending will rise by just 0.2% in the year – markedly down from 5.3% in 2022 and 6.3% in 2021.

Looking at signs from industry itself, the S&P Global/CIPS UK manufacturing purchasing managers index[6] published on the first day of August made for sobering reading, with a downturn in manufacturing reaching a seven-month low. Rates of contraction in output, new orders and employment all accelerated. This followed on from composite data for July[7] that showed a "considerable slowdown in business activity growth across the UK private sector economy." S&P Global Market Intelligence's Chief Economist, Chris Williamson, commented that, combined with gloomy forward-looking indicators, the July data could even "reignite recession worries."

On the consumer side, sentiment is also weighted to the downside. While consumer confidence went on a steady upward path in the first six months of 2023, climbing from -45 in January to -24 in June, according to the GfK Consumer Confidence Index[8], it slumped unexpectedly in July to stand at -30. Joe Staton, Client Strategy Director at GfK commented that the recent fall in headline inflation will do little to improve the financial mood, adding: "Consumers need to see falling prices and interest rates before that happens."





What does this mean for retail?

Clearly, trading conditions are tight and look set to remain so for the foreseeable future. Even if the economy stays out of recession, any sales growth will be hard won. Retail and leisure businesses will need to continue to pull out all the stops, and exercise all their commercial ingenuity and imagination, to entice consumers to spend and achieve profitable margin.

4. HM Treasury Economic Forecasts: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1171885/forecomp_Jul.pdf
5. KPMG UK Economic Outlook: https://kpmg.com/uk/en/home/insights/2018/09/uk-economic-outlook.html
6. S&P Global/CIPS UK Purchasing Managers Index: https://www.pmi.spglobal.com/Public/Home/PressRelease/0338488de25e41c593452efcdc4d5f94
7. S&P Global/CIPS UK Purchasing Managers Index: https://www.pmi.spglobal.com/Public/Home/PressRelease/f9e645838d8641c3ac6501070f2dec98
8. GfK Consumer Confidence Index: https://www.gfk.com/press/uk-consumer-confidence-drops-six-points-in-july
9. OBR Economic and Fiscal Outlook, March 2023: https://obr.uk/docs/dlm_uploads/OBR-EFO-March-2023_Web_Accessible.pdf

SECTOR OUTLOOK

Understanding customers, optimising journeys and getting pricing right gives retailers a fighting chance of winning the battle against the impact of rising living costs.

Maximising customer lifetime value

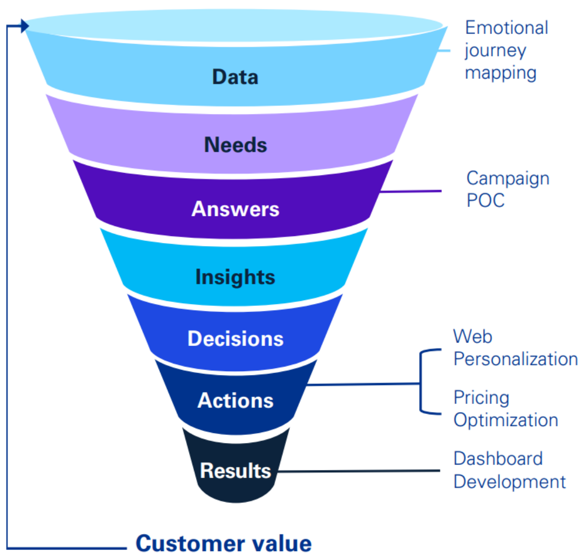
One way in which businesses can set about this is by really understanding their customer base and identifying the trends that will lead to increased repeat business over the life of a relationship. The notion of customer lifetime value (CLTV) is well-established in the industry already – and maximising CLTV becomes more important than ever when conditions are tough.

Retailers and leisure businesses with strong CLTV are better positioned to resell, upsell and cross-sell to their existing customers, leading to better margins, lower acquisition costs and reduced competition. They are better able to identify why certain customers are not converting and, therefore, how to engage them. They are more focused on expanding their customer base with segments that deliver longer-term CLTV.

To achieve this, data is key. A recent report[10] from KPMG explored this area, with a particular focus on how businesses in China are leading the way in using data science and technology to maximise CLTV. They are leveraging the widespread adoption of ecommerce and digital behaviours to capture key data points such as demographics and purchase history which are already in their systems. A range of data and analytics tools can then be used to mix and cluster the data into models that can identify those segments with the greatest and least CLTV potential.

Once target segments are identified, it becomes much easier to create the optimal customer personalisation, experiences and interactions to drive long-term value – including the role that gift cards and vouchers can play within that. This requires a collaborative effort across the business, however. It can not be done in a silo in marketing or sales, but rather needs input and joint working across management, the data team, marketing team, design, IT and others.

A data to results value chain[10]



Seamless customer journeys across multiple channels

Another key aspect is quite simply to make it easy for customers to engage with and buy from the business, creating a seamless shopping experience.

We have already noted the central importance of digital channels and in the gift card context this is where growth is really arising. We see this, for example, in the increase in automated gift card sales in the B2B market, with 16.6% like-for-like growth between H1 2023 and H1 2022.

However, this does not mean that all efforts should be focused on digital. Indeed, there is evidence that physical outlets are enjoying something of a renaissance. The Retail Think Tank published a paper[11] at the end of May that explored this concept with the headline "The store strikes back." In it, the RTT argued that the high street is making a comeback, driven by the cost of living crisis and a post-Covid appetite for real-life experiences. While it would be easy to imagine that the cost of living is driving consumers ever deeper online in search of bargains and discounts, the RTT posited that in fact physical stores are more appealing to many cost-conscious shoppers because they can directly see, compare and evaluate products before making their purchasing decisions.

10. How China's Consumer Goods Brands are using their existing technology to drive Customer Lifetime Value: https://kpmg.com/xx/en/home/insights/2023/06/using-technology-to-increase-cltv.html
11. The Store Strikes Back, Retail Think Tank: https://www.retailthinktank.co.uk/whitepaper/1215/

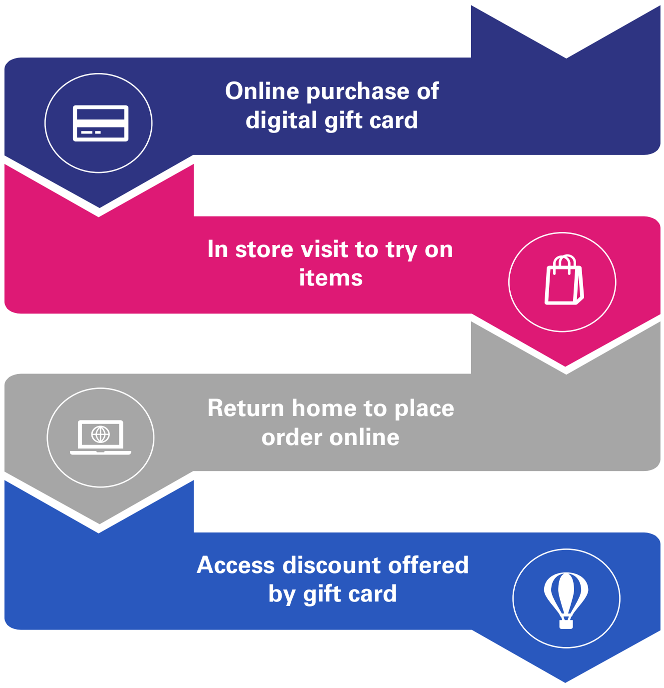
In addition, the RTT said that many retailers with a strong physical presence – and in particular the discounters – are in a good position because they do not have to subsidise what for many operators are unprofitable online channels. Online-only retailers are facing challenges of their own: growing warehousing costs, a rise in business rates, competition from ecommerce giants and, arguably, waning enthusiasm amongst some consumers who have tired of non-stop digitisation.

As the RTT observed, the extent to which operators invest in different channels will depend on their model. There is undoubtedly still room for online-only retailers, especially niche ones, but equally the market has seen the physical store-based discounters taking big market share – some of whom have also avoided, or removed, home delivery.

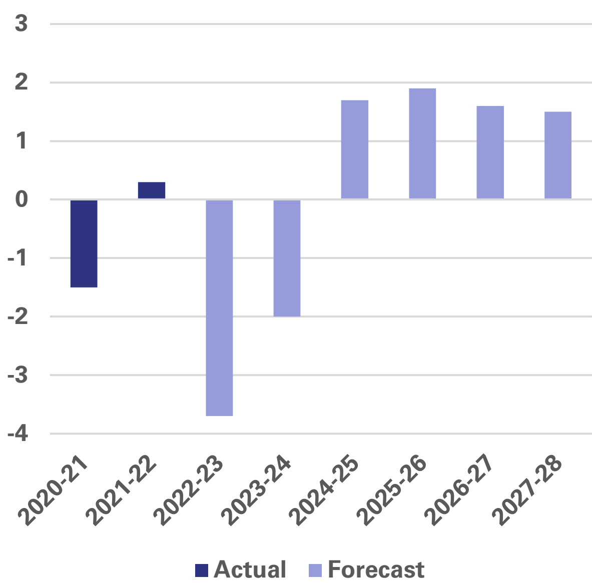
The RTT concluded: "Most retailers will tread a middle ground with an omni-channel offer, using technology to drive behaviours in-store rather than pushing people to make purchases online."

The lesson is clear: know your customers and give them the appropriate mix of channel choices accordingly. For most, this means balancing physical with digital options – and this applies just as much to gift cards as it does to any other product.

An illustration of the hybrid customer journey



Real household disposable income per person[12]
% change year-on-year



Pricing and promotions

Despite resilient consumer behaviour in H1, the outlook remains uncertain. Even if inflation moderates as expected, rising interest (and mortgage) rates, which usually have a time lag before their full impact is felt, could prompt a further tightening of belts across H2.

Pricing and discount strategy has already been crucial, but we may continue to see even more consumers acting as 'smart shoppers', becoming ever more calculated in their habits and aware of what they are getting for their money.

For retailers and leisure businesses, this may mean needing to do more with less – doing everything they can to absorb costs and keep prices low, and driving promotions that stimulate sales without sacrificing too much margin.

Gift cards have the advantage of being a fixed price option for consumers. They are one item where the ticket price never rises, regardless of inflation or interest rates. A gift card may buy less than before – but equally it may buy more if used judiciously. This is why gift cards retain a key position in the product and portfolio mix, whatever the prevailing conditions and pricing dynamics.

12. OBR Economic and Fiscal Outlook, March 2023: https://obr.uk/docs/dlm_uploads/OBR-EFO-March-2023_Web_Accessible.pdf

GLOSSARY

Statistics	**Like-for-like growth**	Growth of this period vs the same period 12 months ago i.e. H1 2023 vs. H1 2022
	Rolling Year Growth	Growth of the most recent 12 months vs the previous 12 months i.e. H1 2023 + H2 2022 vs. H1 2022 + H2 2021.
Markets	**B2B**	Business-to-business. Sales made to other businesses or organisations.
	B2C	Business to consumer. Consumer vouchers and cards sold to consumers or individuals for personal use or gifting.
Sectors	**Retail**	Products sold that allow consumers to primarily redeem against retail products, e.g. clothing or electrical goods.
	Leisure	Products sold that allow consumers to primarily redeem against leisure services, e.g. a holiday or restaurant meal.
Redemption Types	**Closed Loop**	Gift cards that are issued and redeemed by the same company. Closed loop cards are usually facilitated using the issuers till systems and do not require the use of a network such as a Visa or MasterCard. This redemption type does not include category cards such as Book Tokens.
	Multi-Choice	Gift cards that are accepted at a select range of retailers. Usually requires the use of a network such as Visa or MasterCard or a link between participating members' systems. This redemption type includes category cards such as Book Tokens and Restaurant Choice cards.
	Open Loop	Gift cards that require the use of a network such as Visa or MasterCard and are accepted at any outlet displaying the network logo.
Products	**Paper Vouchers**	Traditional paper gift vouchers transacted via a bar code or serial number.
	Physical Gift Cards	Card vouchers transacted via a bar code or serial number.
	Digital and e-Vouchers	Virtual or digital vouchers used for online purchases and redemptions only. There is no physical card or voucher given to a customer as the e-voucher is sent via an email. This excludes all promotional codes.
B2C Channels	**Direct Sales**	Sales made direct to a consumer from within a store or over the counter.
	Online	Sales made via the member's own online purchasing facility or through an online affiliate.
	Gift Card Mall	Sales made via another retailer's gift card mall. All sales via gift card malls should be recorded as consumer sales. This is your gift card sales only, if you host a gift card mall do not include the sales of other gift cards, these will be reported by the issuer of the gift card.
	Third Party Sales	Sales made via any other retailer or channel direct to the consumer. These are physical sales and not online sales. E.g. if you have an agreement with another retailer.

GLOSSARY

B2B Channels	**Human Intervention**	Sales made to B2B Customers that require human intervention to place the order e.g. via a call centre or account manager.
	Automated	Sales made to B2B Customers that did not require human intervention to place the order e.g. via a web portal or API.
B2B Sub Markets	**Benefits, Employee Savings & Salary Sacrifice**	Sales made to B2B Customers for the purposes of providing that business's employees with benefits, savings or salary sacrifice benefits.
	Rewards & Incentives	Sales to B2B Customers for the purposes of providing that business's stakeholders (suppliers, customers, vendors) with rewards and incentives for doing business with them.
	Acquisition	Sales to B2B Customers for the purposes of that business acquiring new customers.
	Insurance Replacement	Sales to B2B Customers for the purposes of that business providing insurance replacements to their customers.
	Charities & Grant Giving	Sales to B2B Customers for the purposes of charitable donations or grant giving to volunteers.
Redemption	**In store**	Gift-card/vouchers redeemed via a physical point of sale in-store. (This excludes 'Click and Collect' & 'Online Food Ordering' where redemption is via an online channel).
	On Line	Gift-card/vouchers redeemed via an online channel. This includes 'Click and Collect' & 'Online Food Ordering' where redemption is via an online channel, though the physical collection/consumption of the good may happen in-store.
Mobile Wallets	**Provisioning**	Digital gift-cards/vouchers issued then subsequently provisioned into either a digital wallet (e.g. Apple Pay, Google Pay), generic voucher App, or brand specific Apps that allows credit to be added - e.g. like the Starbucks App. (For completeness, this excludes emails/SMS containing e-codes/barcodes/QR codes, etc).

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Gift Card & Voucher Association

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