

UK GCVA Q4 2009 Commentary

Slower, more modest growth in voucher sales in Q4 09 – broadly in line with retail sector performance

- Overall more moderate like-for-like¹ sales growth of 3.7% over Q4 2008, showing a pronounced Christmas gifting peak and underpinned by strong consumer sales
- This more restrained growth over the period is due to a slow down in business-to-business sales in Q4 09. The business-to-business market grew by a modest 2.8% year-on-year compared to the double-digit, year-on-year increase of the previous quarter.
- Like-for-like consumer sales of vouchers increased by 4.1% year-on-year, just beating wider retail market growth of 3.3%.
- 'Leisure' delivered the strongest category growth this period, with sales up by a remarkable 15.7%, in a wider leisure market that is showing little sign of recovery.
- Open Loop² gift cards continue to make impressive gains – like-for-like sales grew by 70% during the Christmas peak, for the second consecutive quarter.

Reported GCVA voucher sales on a like-for-like basis have shown slower growth of 3.7% in Q4 09 to £865.31m. As expected, figures show a pronounced Christmas gifting peak, with sales jumping 130% on Q3 09, slightly less than the Q4 08 jump of 151% over Q3 08. Despite slower growth, the voucher market has still out-performed most of its wider retail markets, just beating better than expected, like-for-like retail sales growth of 3.3% year-on-year between October and December 2009, according to the BRC.

It's worth noting that overall growth in Q4 09 is significantly less than the double-digit, year-on-year increase seen to Q3 09. Business-to-business sales were up by just 2.8% year-on-year to £332m, and took a smaller 38% of the market compared to around 50% throughout 2009. It's clear that this depressed picture has had an impact on the performance of the wider voucher market – Q4 growth in consumer sales being in line with previous year-on-year rises. It may be a sign that the corporate sector took a more cautious approach to Christmas festivities in light of the still fragile economic outlook for 2010.

¹ Like-for-like sales are based on existing GCVA members who have submitted data for Q4 2009 and were members in Q4 2008

² 'Open Loop' gift cards require the use of networks such as Visa or Mastercard and are accepted at any outlet displaying the network logo

In contrast, consumer sales of vouchers held up well, underpinning overall growth in the voucher market. Sales of vouchers linked to consumer spending have grown by 4.1% to £533m, and although this is slightly down on the previous quarter, it represents a solid performance in light of the weak consumer economy.

Q4 Highlights

By category – Growth driven by Agents and a star performance from Leisure, whilst Retailer voucher sales remained flat

- A dip in business-to-business Retailer voucher sales held back overall growth in the Retailer category in Q4 09. Business-to-business sales fell by 8.8% year-on-year to £216m, cancelling out a 6.3% gain in Retailer sales to consumers. The sector as a whole levelled off at £586m, still taking the lions share of voucher sales by category.
- A closer look at Retailer voucher sales by sector shows that sales through 'other stores' (predominantly entertainment, health and beauty and other non-food specialists) showed a dramatic seasonal peak. Sales leapt by £573% on Q3, against an increase of 27% for 'other stores' channel as a whole.
- Sales of vouchers through Supermarkets delivered impressive gains. Year-on-year sales were up by 67.5% with a quarterly increase of 39% - striking compared to the modest upward trend of supermarket sales as a whole. Sales of vouchers through department stores also outperformed this channel as a whole.
- These sharp increases go some way to show that this quarter it was consumers' willingness to buy vouchers as Christmas presents that held up the voucher market in Q4 09. Sales through Agents also played their part, however, showing an 11.4% increase – a gain that is exclusively down to the corporate sector.
- Sales of vouchers in the Leisure category made impressive leaps this quarter – actually growing by 15.7% on Q4 08 at a time of year when leisure sales often take a dip and in an overall leisure market which is showing few signs of recovery. Growth has come exclusively from consumer sales – all the more impressive in a market that has suffered as consumer's continue to rein in their most discretionary purchases.

By voucher type – Gift cards continue to drive growth.

- Gift cards continue to make gains, albeit at a slower pace in Q4 09. Closed Loop gift cards remain the most popular and established form of gift card, growing by

5.5% on Q4 08. Consumer sales take the lion's share here, accounting for 78% of sales.

- Although still only a small part of the market, both Open Loop and Restricted Loop gift cards showed strong growth year on year, exclusively driven by the business-to-business sector. Sales of Open Loop gift cards increased by a sharp 70% over the period. This shows that businesses have been willing to invest in new, innovative voucher schemes.

By Channel – online, gift card centres and ‘direct’ business-to-business sales all saw healthy year-on-year gains in Q4 09

- Consumer ‘direct sales’ - sales of vouchers via physical stores – grew modestly by 5.8% year-on-year in Q4, but are still the most popular place for people to buy vouchers. Bigger gains are to be seen elsewhere. Sales of vouchers bought by consumers online were up 27% as people increasingly shop via the Internet. Sales via Gift Card Centres doubled compared to Q4 08, for the second consecutive quarter, to reach £8m.
- Other notable areas of activity are corporate ‘direct sales’ up by a solid 15% to £306m, seemingly at the expense of internal sales, which more than halved – surprising as sales through this channel doubled year-on-year to Q3 09.

Outlook – return to pre-Christmas growth in 2010 dependent on pace of economic recovery?

Perhaps surprisingly, this quarter we've seen relatively buoyant consumer sales and a more depressed B2B performance than expected. The outlook for both remains uncertain. The Ernst & Young ITEM Club predicts a lacklustre economic recovery, with GDP growth struggling to reach 1% in 2010. Inflation will rise rapidly, pushed along by the VAT increase and disposable income will be hit by inevitable tax rises as well as the end, for many households, of exceptionally low tracker mortgage rates.

Against this climate both consumers and corporates will act cautiously. Voucher sales performed exceptionally well in 2009, despite the weak consumer economy. Whether this can be sustained in what is likely to be a slow economic recovery is open for question. Provided that the slow down in growth of the business-to-business voucher market proves to be nothing more than a seasonal dip, corporate voucher sales should start to gain momentum once more. The dynamism and relative youth of some parts of the voucher market should translate into continued growth, but how fast remains to be seen.