

# UK GIFT CARD AND VOUCHER SALES ANALYSIS AND OUTLOOK

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H2 2019

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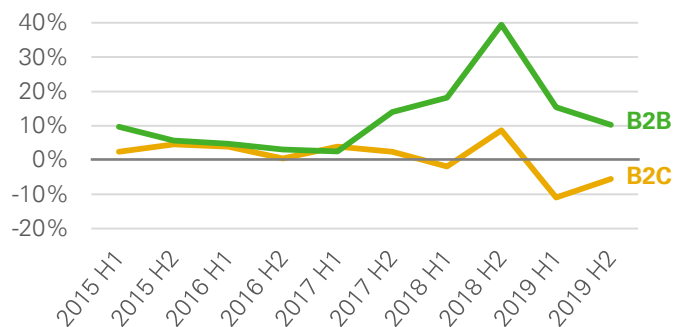
# UKGCVA DATA ANALYSIS H2 2019

The gift card and voucher sector has shown resilience by maintaining growth in a year which saw the first overall retail sales decline since 1995<sup>1</sup>.

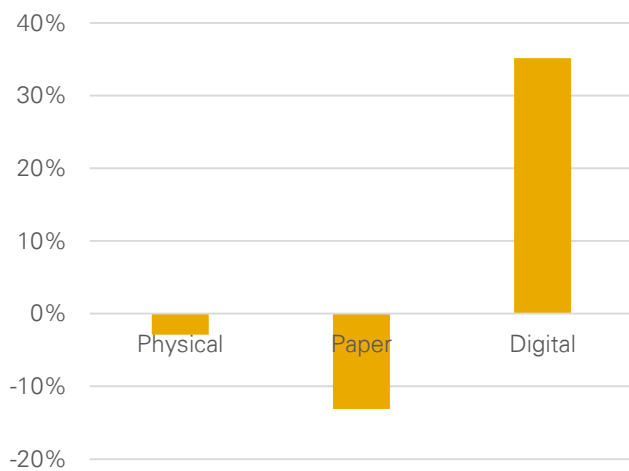
## Executive Summary

The gift card and voucher association data submitting membership has demonstrated growth for another year in a contracting sales environment. Business to business sales, open loop and digital offerings continue to be the rising stars in a sector still dominated by closed loop, physical gift cards. Leisure offerings continue to gain market share and challenge the dominance of traditional retail, reflecting the swing in consumer behaviour among Millennials and Generation Z<sup>2</sup>. This is also true of online sales, though only 1 in every 10 gift cards or voucher sales occur online vs. 2 in every 10 overall retail sales suggesting that there is room for significant further growth.

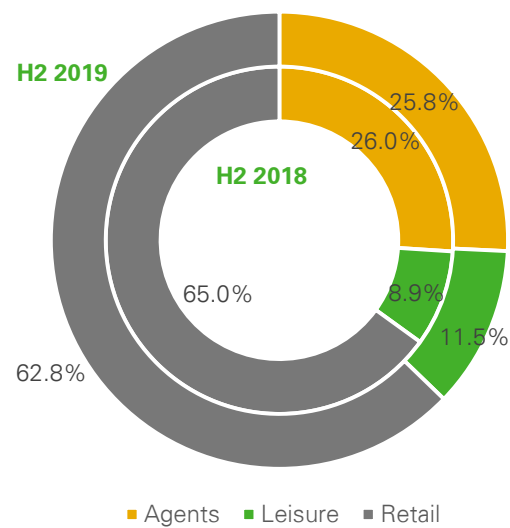
### B2B Growth remains strong (like-for-like)



### Digital gift cards outperform other products (like-for-like growth)



### Leisure sector challenges market share from retail

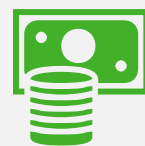


0.9%

Like-for-like period growth



1.7% Rolling Year growth



£1,612.4m

Total H2 2019 sales

31 Contributors



1. Source: BRC-KPMG Retail Sales Monitor, released 9 January 2019  
2. Source: Me, my life, my wallet, KPMG Global 2018

## TOP TAKEAWAYS

# 01



**1.7%** growth in the rolling year across all sectors, channels and product types, set against an overall contraction of 0.1% across retail according to the 2019 BRC sales monitor

# 02



**24%** Rolling year growth within the **Leisure** sector which now accounts for 11.5% of the market compared with less than 9% just 12 months ago

# 03



**-1.5%** Rolling year growth. The **retail** sector continues to experience contraction, but this is characterised by **polarised** results. A number of Members have experienced double digit growth, whilst a small number have contracted significantly, skewing the overall results

# 04



**12.7%** B2B market rolling year growth, continuing the **strong performance** in this market over the last three years

## TOP TAKEAWAYS

# 05



**13.7%** Like-for-like growth in **Online Consumer sales** driven by an increase in the Leisure sector, possibly allied to the growth in this sector and channel more generally because of the changing preferences of younger generations

# 06



**B2C → B2B**  
The shift of sales from B2C to B2B channels continues with like-for-like growth of -5.5% and 10.3% respectively

# 07



**Open Loop** options gain in popularity (market share up from 3.6% in H2 2018 to 5.3% in H2 2019), taking market share from multi-choice options as greater flexibility becomes more important to the consumer

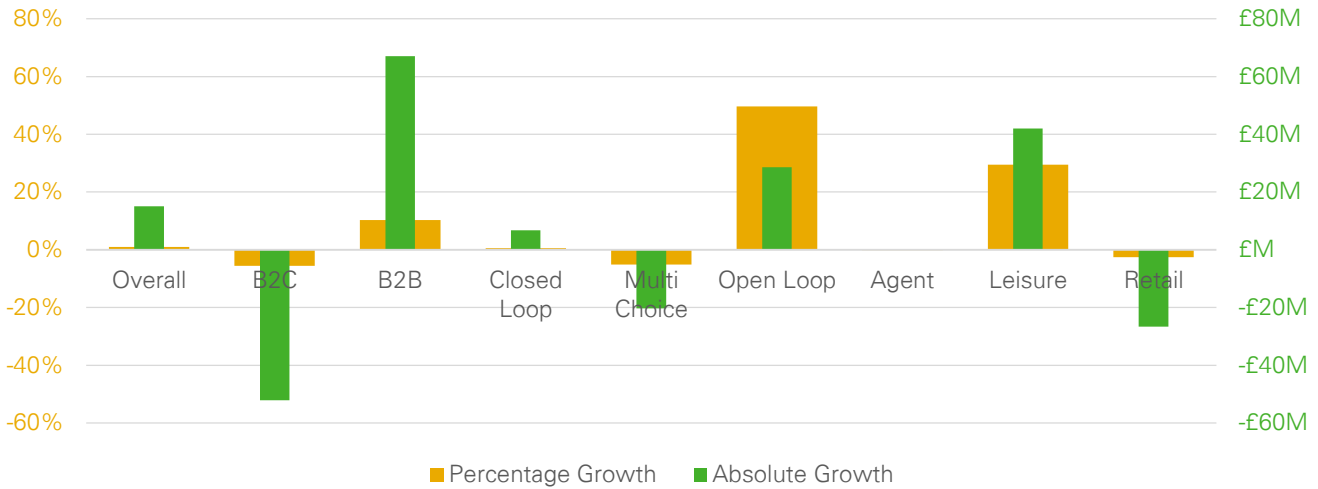
# 08



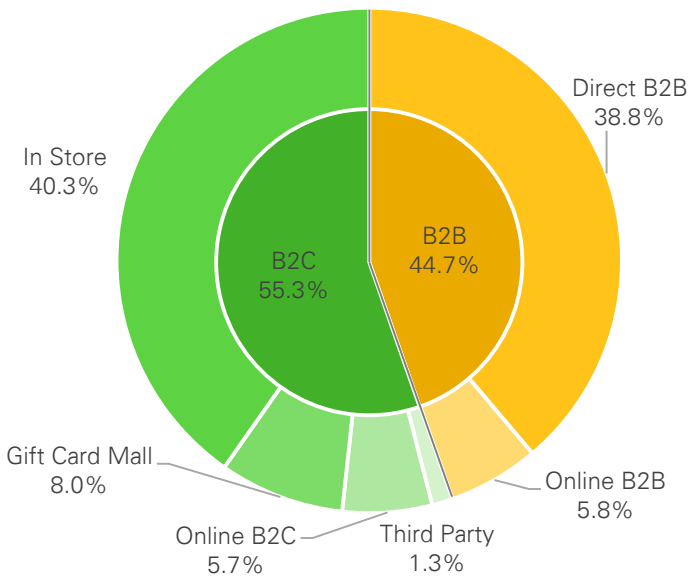
**Digital** products on the rise taking **5% of the market share** from other products as the industry continues its drive towards greater efficiency and sustainability, and consumers switch to more convenient and environmentally friendly options

# Overview

Percentage vs. absolute growth in the like-for-like period H2 2018 – H2 2019



Market share by sales channel

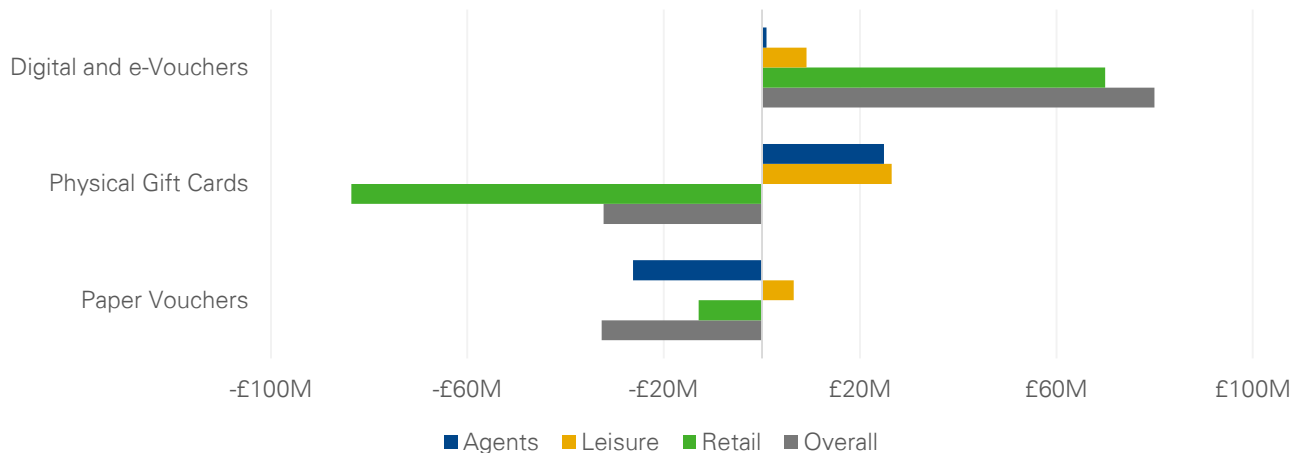


Significant growth in the Leisure sector has driven muted overall growth across the industry. However, it should be noted that Leisure only represents 11.5% of the overall market share. Contrary to the Retail and Agent sectors, Leisure experienced growth in both the B2B and B2C markets, perhaps due to a shift in consumer behaviour.

The B2B market has grown across all sectors and, with the exception of the Retail sector, open loop options have also grown.

The market remains dominated by direct sales, whether in store to a consumer or via a direct sale to a business. However, online channels are growing in importance across both of these markets and have again taken market share from the more traditional channels. Gift card malls have also taken market share. This shift in purchasing behaviour to favour more convenient purchasing options shows how important it is to offer gift cards and vouchers through a variety of channels. This will enable businesses to capture the full potential of their target markets.

H2 2019 Growth of Product Types by Sector



## Sector Focus

### Retail

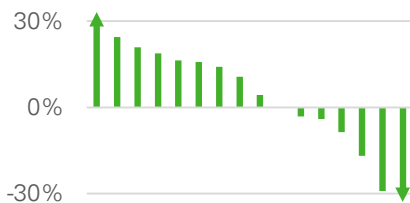
With like-for-like contraction of 2.6%, it has been a tough H2 for retailers. But this story of contraction is not the experience of most retailers within this sector. The results this period are characterised by significant variability and polarisation, with a few poor performers skewing the overall results.

One area that has contracted more consistently is within retailers' own stores where, with a few exceptions, sales have fallen across the board.

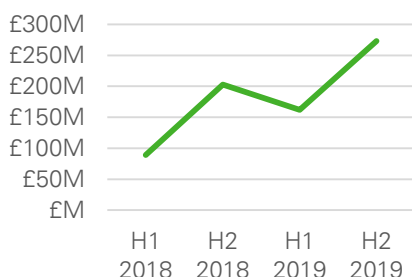
On the flip side, B2B digital sales appear to be a bastion of growth for retailers, rising significantly for the majority of businesses that offer this product via this channel.



Life-for-like growth rates of Members within the retail sector show polarised results



Digital products on the rise

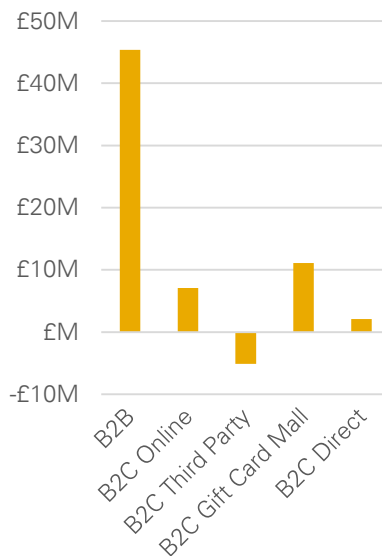


### Leisure

The Leisure sector has performed strongly over 2019, bucking a trend of contraction and recording growth across almost every sales category. Notable exceptions to this rule are sales via third party channels, and sales of multi-choice redemption products which have both seen reductions in the year (though these categories account for only 5% and 4.1% of sales in this sector respectively).



Leisure sales growth over 12 months via different channels

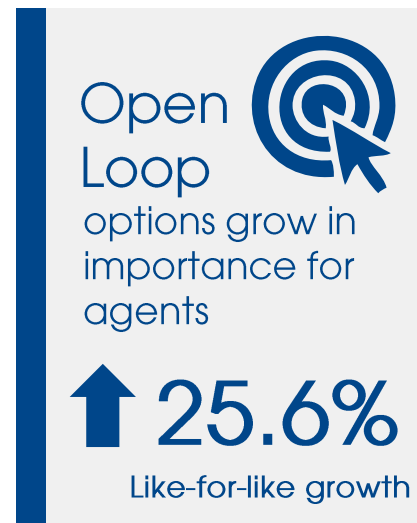


### Agents

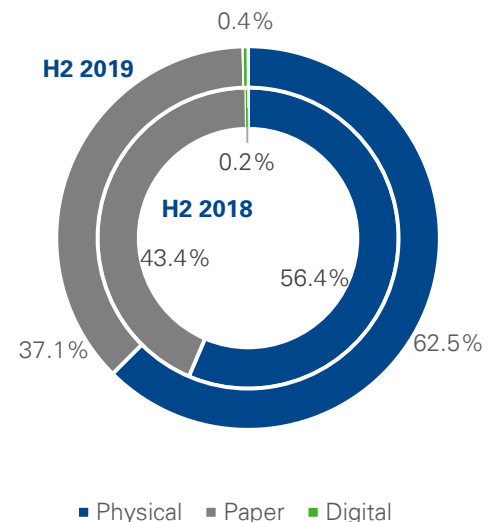
Like-for-like period growth has remained fairly stable for agents, dropping by 0.1%, but taking performance over the last 12 months, this sector has grown by 0.9%.

Open Loop products now represent over 12% of the market share for Agents, growing from 9.7% in H2 2018. Digital products however appear to be largely untouched by this sector highlighting a potential area of growth and a risk to the sector as more and more consumers go digital, further highlighted by the 14.7% decline in rolling year paper voucher sales in this sector.

Online is also growing in importance, growing like-for-like by 16.7%.

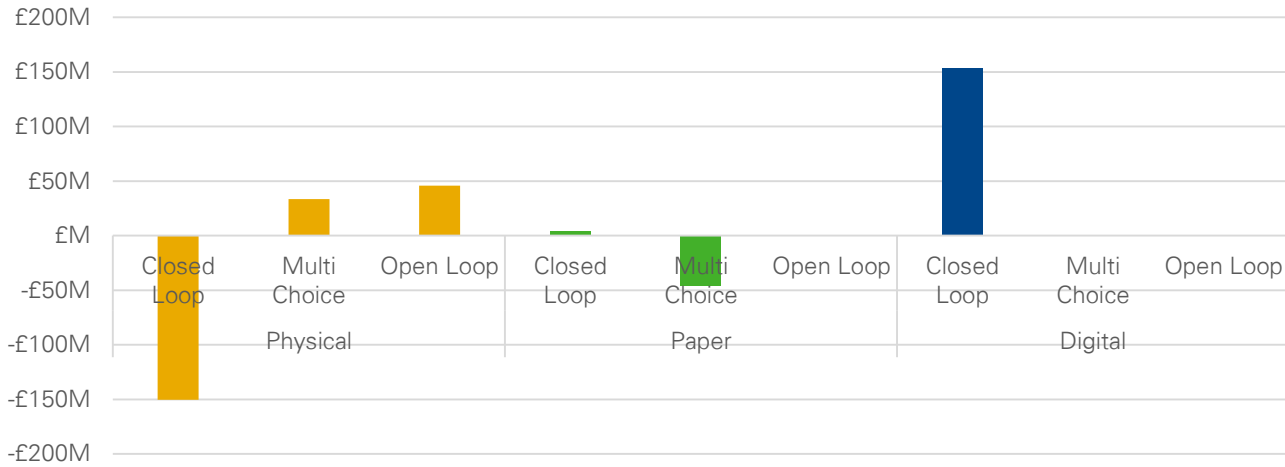


Physical options dominate the Agent sector

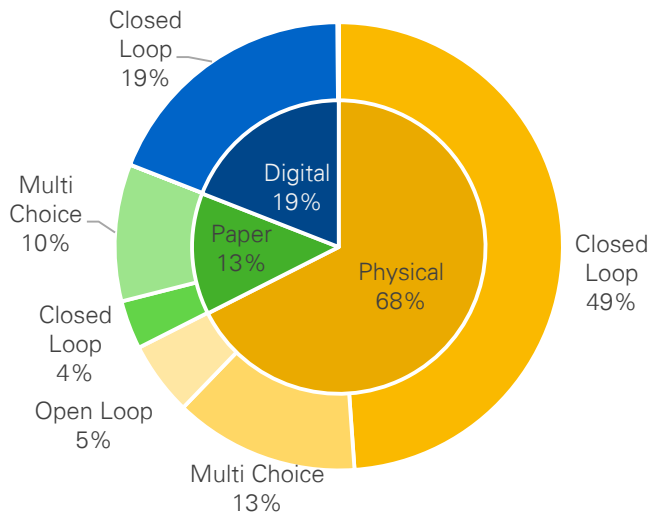


## Products and Redemption Types

**Closed Loop Digital options take over from Physical, Multi-choice options move off of Paper and Open Loop options grow in popularity (rolling year absolute growth)**



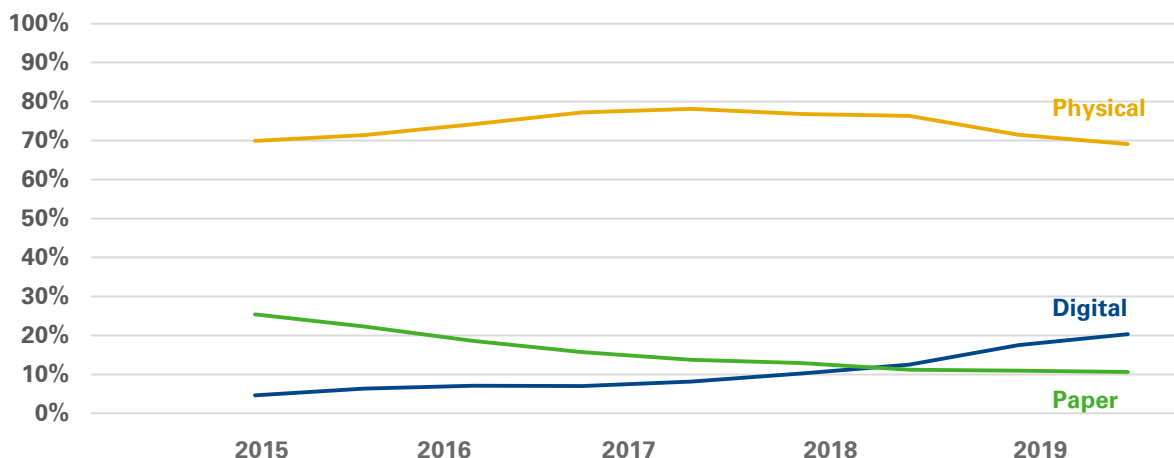
**Market Share of Products and Redemption Types in H2 2019**



The product and redemption mix is undergoing a major shift within the gift card and voucher industry. This period's results suggest that physical closed loop options are being shifted to digital offerings, whilst multi-choice paper options are moving onto more resilient physical media. In addition, physical open loop options are making an impact. Interestingly, digital multi-choice and open loop options do not yet appear to be making an impact on the overall market with tiny market shares. Though this is perhaps because this product and redemption mix is not yet being routinely offered with only two members reporting digital multi-choice sales and only 1 reporting a digital open loop offering.

As consumers continue to favour convenience and choice, we can expect to see the demand grow for digital options of all redemption types and it appears that there is still an opportunity to gain an early mover advantage by offering these products.

**Digital takes market share as paper continues its decline (seasonally adjusted)**



# ECONOMIC AND RETAIL OVERVIEW

While a handful of retailers continue to buck the trend, the landscape remains challenging for most. In fact, the latest BRC-KPMG Retail Sales Monitor described 2019 as “the worst year on record for retail”.<sup>3</sup>

2019 saw a continuation of 2018’s stream of well-known names entering administration or restructuring: first half casualties included Debenhams, Jamie Oliver and Monsoon, followed in the second six months of the year by the likes of Mothercare, Mamas and Papas, Clintons and Karen Millen.

Early signs are that the Christmas period brought only limited relief. Some retailers such as Next and Lidl enjoyed strong growth<sup>4</sup> but for most the picture was one of flat or reduced sales. Already this year, department store chain Beales has gone into administration.

Sales from late November to late December 2019 declined by 0.9% compared to 2018. Over the three months to December, total in-store non-food sales declined by 3.8% on a like-for-like basis while food sales were flat. Online non-food sales increased by a modest 2.6% across November and December.<sup>3</sup>

This downbeat end to the year is particularly disappointing given that it is a time when retailers look to pile on the profits in advance of leaner months ahead.

As a whole, 2019 was the first year to show an overall decline in retail sales since 1995.

## Economy in 2020

The second half of 2019 saw some significant developments – the delaying of Brexit from its scheduled 31 October date and a General Election convincingly won by the Conservative Party leading to a new, firm Brexit date of 31 January.

This greater certainty has reflected positively in the ICAEW’s latest Business Confidence Monitor<sup>5</sup> which has entered positive territory for the first time since Q2 2018. The hope is that certainty creates a platform for a more robust economy and greater consumer spending. However, consumers are likely to be significantly influenced by their confidence in Britain’s trade negotiations with the EU. Retailers will be hoping that negotiations progress harmoniously and that the mood music is positive: much depends on it.

In general, economists expect that 2020 will be a year of muted growth both for the Eurozone and for the UK specifically. The European Commission predicts growth of 1.2% for the Eurozone, fractionally up on its forecast for 2019 (1.1%).<sup>6</sup>

UK economic growth is expected to be similarly unspectacular – the Economist Intelligence Unit estimates growth of 1.1% with real personal disposable income edging up by 0.5%<sup>7</sup> while Bloomberg predicts a 1.5% uptick in the economy.<sup>8</sup>

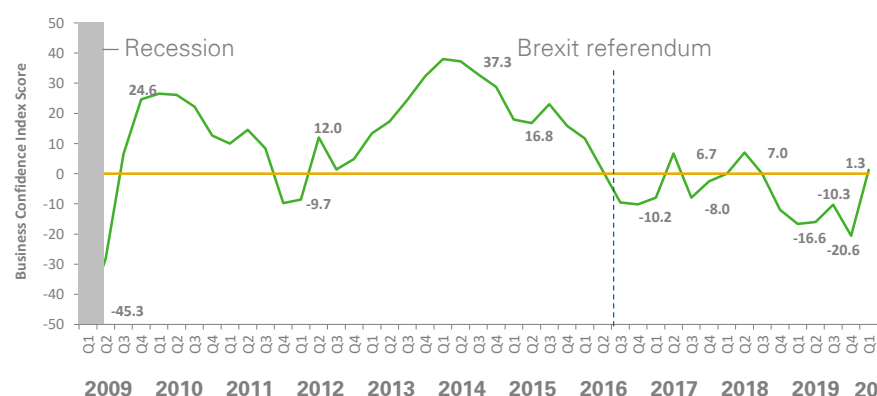
There are signs that consumer confidence is increasing too, with a score of -14 in January 2019 to -9 in January 2020, the GFK Consumer Confidence Index shows a positive jump in how consumers view the wider economy in the year ahead, and shows further positive signs with the Personal Financial Situation Index moving into positive territory at +1 and forecast to rise to +6 over the next 12 months.<sup>9</sup>

## What does this mean for retail?

In its Outlook for 2020, the Retail Think Tank predicts that retail sales volumes will grow by at least 1% during the year, despite weaker food sales. The greater political stability that now exists should translate into slightly improved sales, the think tank says – although a plethora of unknowns remain such as around tariffs and trade deals as a result of Brexit.<sup>10</sup>

Overall there are grounds for cautious optimism about 2020. But it is likely to be another year of transition in which the ongoing structural evolution the retail sector is experiencing will continue, with a further rash of administrations and restructurings likely. Those businesses that go beyond the 3 traditional drivers of value, convenience and experience, and start to embrace choice, purpose and privacy will prepare themselves for a prosperous future.

ICAEW Business Confidence Monitor – Q1 2020



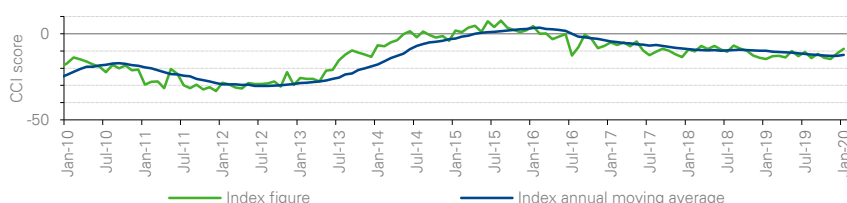
3. Source: BRC-KPMG Retail Sales Monitor, released 9 January 2019  
 4. Source: Publicly available press releases, Retail Week, as at 7 January 2020  
 5. Source: ICAEW Q1 2020 UK Business Confidence Monitor  
 6. Source: [https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/euro-area\\_en](https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/euro-area_en)  
 7. Source: EIU, figures accessed 16 January 2020  
 8. Source: Bloomberg, figures accessed 16 January 2020  
 9. Source: GFK Consumer Confidence Index, January 2020  
 10. Source: KPMG/IPSSOS Retail Think Tank Outlook for 2020.



# SECTOR OUTLOOK: 2020 AND BEYOND

The challenge is to adopt 'omni-platform' models for consumers to interact and buy from, win the battle for customer loyalty and drive market share whilst embracing the sustainability agenda and reducing carbon footprints, packaging and waste.

**GfK Consumer Confidence Index<sup>11</sup>**



If 2020 holds out the prospect of a somewhat more secure economic environment for retailers, they will need to compete hard to take advantage of it.

## The omni-platform challenge

It remains key to embrace a multi-channel strategy that successfully merges offline and online and that enables seamless transition between the physical and digital. A multitude of different platforms have emerged over recent years and are increasing in power and influence. Each are vying for a piece of the market by allowing networks of consumers to interact with each other, engage with brands, and then buy products or services – a paradigm shift that provides consumers with ultimate convenience, and drives more sales.

As the competition between retailers intensifies, the brands which are yet to master omni-platform strategies risk trailing far behind. To survive and thrive in retail, businesses must act. There are four main types of platform: product marketplace (Amazon, Alibaba etc), social networking and communication (Instagram, Facebook etc), service marketplace (Airbnb, Uber), and payments (Apple Pay, Google Wallet).

Retailers and brands need to take a proactive and structured approach to determine which of these platforms will help them achieve greater relevance, increased profit, and how.

## Making loyalty schemes work

Retaining customer loyalty and repeat purchasing has long been recognised as a key issue in today's digitally-driven environment.

When operating via a platform retailers lose their autonomy and ability to attract loyalty, throwing a contradictory challenge: how do you embrace an omni-platform model whilst retaining customer loyalty? With more choice than ever, and with just a few clicks, customers can find alternative sellers. Retailers are also no longer in charge of the customer experience and therefore lose access to many of the levers that drive loyalty. Many customers may not even be aware of the specific retailer they have chosen within e.g. the Amazon Marketplace.

Loyalty schemes with points and rewards are a well-established feature in a retailer's armoury to drive engagement with the brand and keep customers coming back. But only 37% of customers identify points and rewards as one of the most effective ways to secure their brand loyalty.<sup>12</sup>

The chief drivers of loyalty are in fact product quality (74%), value for money (66%) and customer service (56%).<sup>12</sup>

Alternative means of rewarding loyalty may provide an answer. According to research, over 6 in 10 Millennials would prefer to donate their loyalty points to a good cause than redeem them personally.<sup>12</sup> This helps create emotional connections with customers.

Along with greater personalisation and customisation of loyalty rewards, creating this emotional connection with customers should be a critical objective for retailers today.

## The sustainability imperative

We commented in our H1 2019 report on the rising importance of sustainability and ethical issues. This has only continued to gather pace. Last year saw a remarkable resurgence of attention on climate related issues in particular, with the likes of Extinction Rebellion and activists such as Greta Thunberg generating huge focus on protecting our planet.

Any retail organisation that does not demonstrate an active programme to lower its carbon footprint, reduce packaging and waste, and develop sustainable and ethical supply chains faces the potential for significant brand damage and customer loss.

These issues will come into focus even more tangibly when the Government brings forward its Environment Bill that was outlined in December's Queen's Speech which the Government says "will build on the success of the carrier bag charge and incentivise consumers to choose more sustainable alternatives."

We expect to see a continuation of the trend for gift card and voucher schemes to move away from plastic or become completely digital.

What role can gift cards and vouchers play in promoting brand awareness and loyalty in an omni-platform world?

11. Source: GfK Consumer Confidence Index, January 2020

12. Source: The truth about customer loyalty, KPMG International, 2019.

# GLOSSARY

<b>Statistics</b>	<b>Like-for-like growth</b>	Growth of this period vs the same period 12 months ago i.e. H2 2018 vs. H2 2019
	<b>Rolling Year Growth</b>	Growth of the most recent 12 months vs the previous 12 months i.e. H1 2018 + H2 2018 vs. H1 2019 + H2 2019
<b>Markets</b>	<b>B2B</b>	Business-to-business. Sales made to other businesses or organisations.
	<b>B2C</b>	Business to consumer. Consumer vouchers and cards sold to consumers or individuals for personal use or gifting.
<b>Sectors</b>	<b>Retail</b>	Members where the majority of their business is conducted in a physical shop or online.
	<b>Agents</b>	Members who act as an intermediary, purchasing gift cards from an issuer and selling on, acting as either a buy-seller or an agency.
	<b>Leisure Operators</b>	Members where the majority of their business is considered to be a leisure pursuit such as a gift experience, holiday or a meal in a restaurant.
<b>Redemption Types</b>	<b>Closed Loop</b>	Gift cards that are issued and redeemed by the same company or within the same category of companies. 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.
	<b>Multi-Choice</b>	Usually requires the use of a network such as Visa or MasterCard or a link between participating retailers systems. Cards are accepted at a restricted range of retailers.
	<b>Open Loop</b>	Require the use of a network such as Visa or MasterCard and are accepted at any outlet displaying the network logo.
<b>Products</b>	<b>Paper Vouchers</b>	Traditional paper gift vouchers transacted via a bar code or serial number.
	<b>Physical Gift Cards</b>	Card vouchers transacted via a bar code or serial number.
	<b>Digital and e-Vouchers</b>	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.
<b>B2C Channels</b>	<b>Direct Sales</b>	Sales made direct to a consumer from within a store or over the counter.
	<b>Online Sales</b>	Sales made via the member's own online purchasing facility or through an online affiliate.
	<b>Gift Card Mall</b>	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.
	<b>Third Party Sales</b>	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.
<b>B2B Channels</b>	<b>Direct Sales</b>	Sales made to businesses or organisations through any sales channel except an online sales channel. This could include telephone sales or sales made to corporate via their purchase order systems. This does not include sales made to internal departments.
	<b>Online Sales</b>	Sales made to a business or organisation via online sales portals or online affiliates.

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