

UK Gift Card &
Voucher Association

Special Edition
Newsletter



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Featuring digital research:
The industry's response to
the digital revolution

Intro from Gail Cohen

Director General, UKGCVA

Research is essential to help us understand the market we operate within, especially increased comprehension of our customers and their buying habits, ensuring we as an industry are developing the products and services they want. It is also important that we understand how and what our members are doing to respond to market changes and audience needs, as well as sharing best practice and innovation. Research is a key part of the new UKGCVA strategy, starting with digital engagement and accompanied by the first UKGCVA special edition newsletter.

Our aim is to carry out three pieces of research a year. The next one being a large State of the Nation study, helping develop a complete 360 understanding of our universe, including: gift card managers, consumers and the boardroom. The findings will be presented at the UKGCVA Conference 2017 on March 1.

We will continue to ensure that we are focusing on the topics and areas of special interest to our members, helping position the industry as a vital component in the B2C & B2B gifting environment.

Letter from Eoin Whyte

Chair, UKGCVA

Begin with the end in mind is the first principle of the superb book 'The 7 Habits of Highly Effective People' from author Stephen Covey. Almost immediately after launching, the plastic gift card created a material improvement in the end user experience of the traditional voucher.

They are far superior to the previously preferred paper voucher, they look terrific, they are easily stored and retrieved, they generate anticipation of enjoyment, and they are easy as pie to use at point of purchase. The dots may not all have been connected at the time but there's no doubt the physical gift card transformed what was previously a substandard paper experience for all parties

and the result has been significant industry growth worldwide.

Can digital raise the bar again? This new UKGCVA research shows that the buyer and recipient resistance level to plastic and digital gift cards has never been lower and new innovations in digital propositions must have every chance of succeeding. But, the Millennial generation will be merciless with sub-standard products as the digital bar has been set so high by the cream of the crop in Amazon, Uber, Starbucks, et al. As we plan out our product and platform initiatives for 2017 – let's remember that end user experience at all times.

Welcome to the digital gift revolution

Researched & written by Nicci Talbot, UKGCVA

UKGCVA members represent a large part of the gift card and voucher industry and in line with the findings of our new digital research, the majority recognise that mobile technology is here to stay and are focused on the online landscape. Here's what they are doing to respond to the increased demand for digital shopping, and to reach new audiences.

The majority of retailers have a digital solution in place, are seeing the benefits and want to do more to reach new customers. Marketing strategies appear to be focused more on digital and less on conventional marketing, which will engage new audiences in itself. For some, it's too early to assess the benefits in full but they can already see the savings linked to postage, the purchase of physical stock and fulfilment costs. Digital is also enabling them to carry a wider range of designs to support specific occasions.

"We launched a B2C eGift product on www.diy.com in November 2014, and we have recently seen this product overtake sales of physical gift cards on a few occasions for the first time. With B2B partners we are currently establishing APIs to increase sales and provide a real-time customer experience." Tony Stacey, Gift Card Manager, B&Q

Many retailers that haven't yet launched digitally have it on their list of priorities for 2017, as they see it as an exciting and essential market to be in and recognise the importance of being a part of it. Some of the larger outfits have physical and practical barriers to overcome to enable online redemption e.g. more till points and systems, which require research and investment. So, while keen to move into digital gifting, they can't progress as fast as they'd like to. Once the infrastructure is in place, they can start looking at new digital products. H1 2017 is a key time for these brands once the peak shopping season is over. Members see digital as an opportunity to extend their product portfolio,

get access to new markets and customers and a new reach for B2B. It is a platform that offers ease of purchase options for customers, commercial growth, cost savings and increased insight. There appears to be a large appetite for digital shopping on the corporate side with partners, as it's a cost effective solution so key for brands that have a large B2B side. Overall, members are keen to support the digital drive and be part of a wider cultural shift as the UK sees growth in its gifting market.

New digital innovators

Service providers like Savvy, Blackhawk Network, CPI, Reward Cloud and Giftcloud are embracing new opportunities and innovation and suggest that retailers who have not yet built a digital gift card solution into their strategy, could be missing a big opportunity. As a key part of their overall strategy, the aim has been to open up the gift card and voucher industry and give companies more choice as to how they operate within the market in terms of technology and infrastructure.

Reward Cloud is solely focused on digital and championing the use of digital cards in the B2B sector. It is trying to open up the infrastructure that allows third party businesses to access and utilise a variety of digital content from the main retailers, focusing on API, Real Time, and Open Value digital codes. Similarly, Giftcloud was set up to provide a virtual card presence for both consumer gifting and corporate opportunities. It has a loyalty platform and a virtual gift card mall, which it can white label for any business partner. Savvy sees its role as a facilitator and part of the 'sales enhancement business'. It is connected to nearly 100 third party platforms to enable customers to increase their issuance capability, their redemption capability or both. The expansion of digital issuance has opened up multiple commercial opportunities for merchants who already have the

infrastructure ready to capitalise, which is something it can support. Digital is also a key part of CPI's overall strategy and after extensive focus group activity it is planning to launch new products in 2017. Part of Blackhawk Network's strategy has been to acquire companies that help it to provide services to retailers to sell their own gift card or website through its white label solutions if those companies don't have the resources or technology to create their own. Blackhawk has just launched the first digital platform in the UK for digital codes and is launching a new product soon, a portal for SME's to order digital codes, physical card or open loop, prepaid product. Businesses will be able to upload their own images and logos into its software to be printed on to open loop / pre-paid products. Digital codes are saved to Android, DigiPay and Apple Wallet to ensure the journey is seamless.

Online redemption – a key trend

Online redemption has been adopted by several UK retailers including Debenhams, Dixons Carphone, House of Fraser and PC World. Dixons Carphone launched it in August 2015 across retail and e-tail and say attach rates/uplift tends to be lower online but that it varies by programme. B&Q has seen its digital gift card at www.diy.com take off since starting online redemption earlier this year and will see the first wave of statistics just after Christmas. Halfords is looking to introduce it next year as is Boots, as phase two of a project to update its website.

Overcoming technological and psychological barriers

The main barriers retailers are experiencing include legacy IT and till infrastructure, the pace of adoption internally rather than externally, and not having enough market data to formulate a confident internal rate of return (IRR). Building a new IT system and getting the right security is expensive and time consuming. Penetrating

the consumer market is another issue – digital codes are new and it's difficult to explain them to consumers. This is in part driven by retailers who haven't been ready to install digital codes but who are now investing in them as they can see their value with the growth of mobile technology. Fraud is another problem for retailers. It is manageable in physical products, but there needs to be stricter policies around how to deal with it in the digital environment.

“Historically, gaining access to the retailer's processing platform is one of the largest barriers, as often they are expensive and time consuming. As is obtaining the necessary credit facility to drive sales for retailers, as we're dealing in digital cash. This is one of the barriers that Reward Cloud is trying to remove”. Gareth Gillatt, CEO & Co-founder, Reward Cloud

Building consumer trust is also vital. Physical cards must be packaged, and posted to the recipient taking manual effort, time and cost but it is overall an extremely reliable method of ensuring the card reaches the correct person and that both sender and receiver are satisfied. There is a high level of trust in the delivery protocol, and in the end user experience which has been underestimated when you look at the digital products and platforms that have emerged to try and replace this physical gifting journey.

A powerful financial tool for business

Digital is a large part of market growth for members and growth is forecast over the next three years. Giftcloud and Reward Cloud are 100% founded on digital strategy and see it as an extremely powerful financial tool for business, which can help drive sales and engagement. Laithwaite's is 30% digital and very much growing.

Wyevale Garden Centres has a positive outlook for digital but is expecting a slightly slower uptake due to its customer demographic.

For B&Q, next year's focus will be on getting its B2B market fully immersed in eGifting, therefore it will be giving 50/50 prominence for both eGifting and physical gift cards. Dixons doesn't forecast in the same way but expects eGift cards to account for 60%+ of its B2B sales but less than 10% consumer channel.

B2B is a growing market so what are the challenges and opportunities, and is there a difference between B2B and B2C engagement? A key difference says CPI is that the 'buyer' has different objectives/requirements and therefore engagement has to differ in order to be relevant to the audience. Plus, the digital product itself may need to differ, or preferentially differ, dependent on the channel. Savvy says an important difference is that a significant chunk of B2B is self-purchase and thus the far more complex dynamics of person to person gifting disappear. It becomes more about the secure and authenticated delivery of digital content in high volume in a controlled fashion.

"The Millennials are your future customers. If you don't adapt to shopping habits and invest in the technology, you'll lose them. They are loyal but impatient. It's crucial to look at how we are shopping and much has changed over the past two years. You should be able to redeem gift cards on your mobile phone." Sebastien Riccardelli, Director, Digital Services, Blackhawk Network

Wyevale Garden Centres sees B2B as a good starting point for digital as it offers the proof of concept for a wider roll out programme and a great way to further cement long-term commercial relationships with its B2B channel partners. Digital can drive product specific e-cards, experience based e-cards and channel partner exclusive e-gifts, as well as time-limited B2B offers. For Giftcloud, the downsides are that the social media opportunities offered with B2C aren't available when bulk buying and bulk sending via a corporate scheme and that the commercials are also different.

A change in buying habits

As a result of Millennials gifting digitally, Generation X and Baby Boomers are utilising more online channels, a trend which is set to continue. Online shopping has cross-generational appeal as it's instant and suits our busy lifestyles. We are cash rich and time poor, which has opened up a new culture of self-gifting and self-care. The UK may be two years behind the US in the 'digital mall market', but things are changing.

"Digital has taken some time to pick up momentum in the UK, unlike the US we are now seeing appetites increase as retailers are opening up more opportunities for consumers to purchase online and corporate clients use the digital experience because of the economics and gifting/reward in real time". Stuart Lawrence, CEO, Fusion Business Development

Overall, the outlook for digital is positive and something members are keen to be part of. Some service providers think we still have a way to go however to get gift cards to the point of household recognition – brands like Netflix and Amazon, who consumers access by default. Products available in the B2B and B2C markets today fare poorly when benchmarked against the digital consumer experience in other sectors. They would encourage retailers to have a digital product and make it available to as many partners as possible, by moving towards better redemption methods in store and online to give the best possible customer experience.

"The in-store and online retail environments need to complement each other, so retailers need to invest in relevant infrastructure to support the technical advances within the sector".

CPI Card Group

With thanks to: CPI Card Group, Reward Cloud, Dixons Carphone, Savvy, Fusion Business Development, Blackhawk Network, B&Q, Laithwaite's Wine, Boots, Wyevale Garden Centres, Halfords.

UKGCVA Digital Research:

Summary prepared by Rostrum

In a world where Millennials have grown up with digital affecting all aspects of life, it is unsurprising that this would have a knock-on effect on their purchasing, spending and gifting habits. But is the retail sector, and the UK gift card and voucher industry in particular, adapting to the needs of these digital natives? To better understand the Millennial mindset and what consumers want from gifting programmes, the UK Gift Card & Voucher Association (UKGCVA) commissioned a piece of research with retail research specialist, Verdict Retail. 1,300 UK consumers were asked about their digital gifting habits via an anonymous online survey. The sample was split into Millennials (16-34), Generation X (35-54) and Baby Boomers (55+ year olds) in order to assess whether both retailers and service providers are tailoring their strategies and products to meet consumer demand from all age groups. The findings show that whilst digital gift cards and vouchers, like their physical counterparts, remain to be a largely considered purchase and are certainly popular across the board, there are certain elements to digital gifting which Millennials are demanding over other age groups:

95%

of Millennials would buy a digital gift card or voucher

34%

of Millennials would buy themselves a digital gift card or voucher

42%

of Millennials have used a digital gift card or voucher as a last minute gift

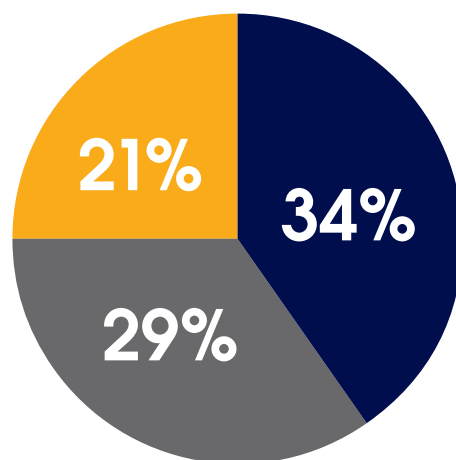
The change in buying patterns

Across each of the groups, the pattern between the purchase and redeeming of digital gift cards and vouchers is certainly interesting. Whilst Millennials are undoubtedly the ones purchasing these items, Generation X and Baby Boomers are far more likely to redeem gift cards and

vouchers online, perhaps due to being gifted them by Millennial children or grandchildren. The research discovered that Millennials actually prefer to be gifted physical, plastic gift cards over any other gifting product, with 42% wanting a plastic gift card compared to a digital one (37%). This contradicts the generally accepted philosophy that Millennials are the ones shopping online. According to the research findings, over a quarter of Baby Boomers (28%) redeem gift cards or vouchers online at least six times per year, compared to 21% of Millennials.

There is undoubtedly a call to action for retailers here. Retailers should not only be tailoring their gifting strategies to meet the demands of all age groups, but also considering their digital gifting options full stop. The research showed that almost a third (28%) of consumers have not redeemed a gift card or voucher online, which is an unexpectedly high figure. Given the number of retailers with solely e-commerce offerings, it is clear that there are still barriers being created by bricks and mortar stores when it comes to online redemption.

The self-gifting phenomenon



● 34% would buy for themselves ● 29% would buy for a family member ● 21% would buy for a friend

Seasonal gifting

The gift card and voucher market has always seen seasonal gifting, particularly in Q4, as the 'prime time' for sales in the run-up to Christmas. Whilst this has not markedly changed for UK consumers, the purchase of gift cards and vouchers for other occasions such as birthdays, other gifting occasions such as Mother's and Father's Day and even as a thank you gift, has increased.

While over two thirds (68%) of consumers would typically buy a digital gift card or voucher for Christmas, a slightly larger number are purchasing for birthdays, with more than seven in 10 consumers (71%) seeing them as a considered choice for a birthday gift. Millennial buyers are the demographic that is evening out the scale from a purely festive gift into other gifting occasions, with one in five (21%) giving digital gift cards and vouchers for Mother's Day or Father's Day, and over a quarter (29%) utilising them for thank you purposes.

This research aims to present digital gifting as 'the shop that is always open'. It demonstrates that Millennials are certainly leading the move away from purely festive gifting when it comes to digital gift card and vouchers. With Millennials as the primary purchasers of these products year round, it is clear that retailers and other issuers must do more to appeal to this key demographic and focus attentions on consistent gifting strategies throughout the year.

Many issuers of physical gift card and vouchers still do not have the functionality in place for online redemption, let alone a digital offering that allows an online purchase. Without implementing these digital products and understanding the consumer demand for them, retailers and other issuers risk alienating this group of consumers and therefore must consider the opportunities that digital can offer.

Who gifts digital gift cards and vouchers, and when?

Christmas



Generation X

Birthdays



Baby Boomers

Valentine's Day



Millennials

Mothers & Father Day



Millennials

Surprise Gift



Generation X

Thank You Gift



Baby Boomers & Millennials

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