

GIFT CARD AND VOUCHER SALES ANALYSIS AND OUTLOOK UK

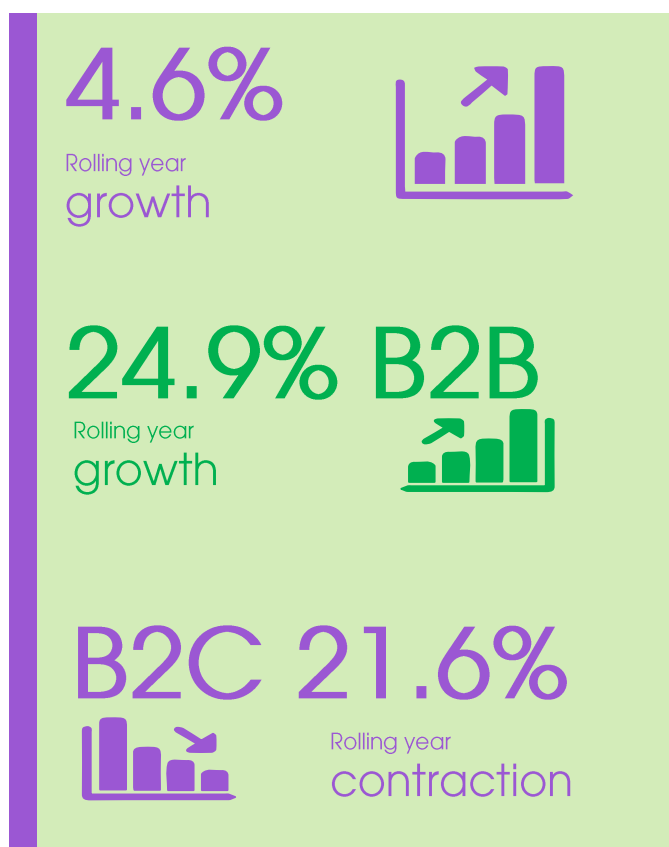
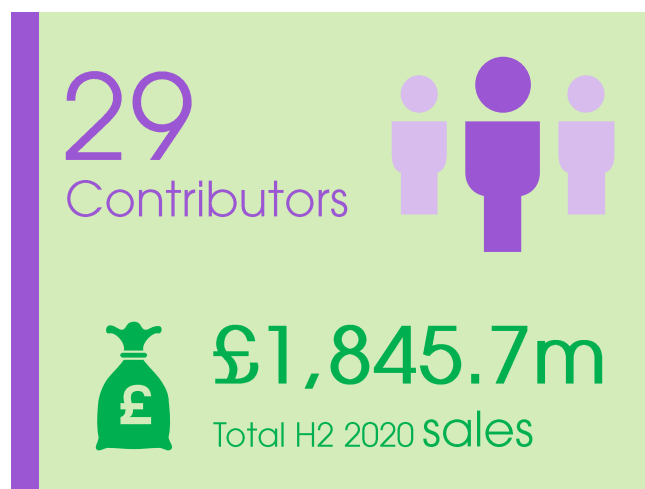
H2 2020

GCVA DATA ANALYSIS H2 2020

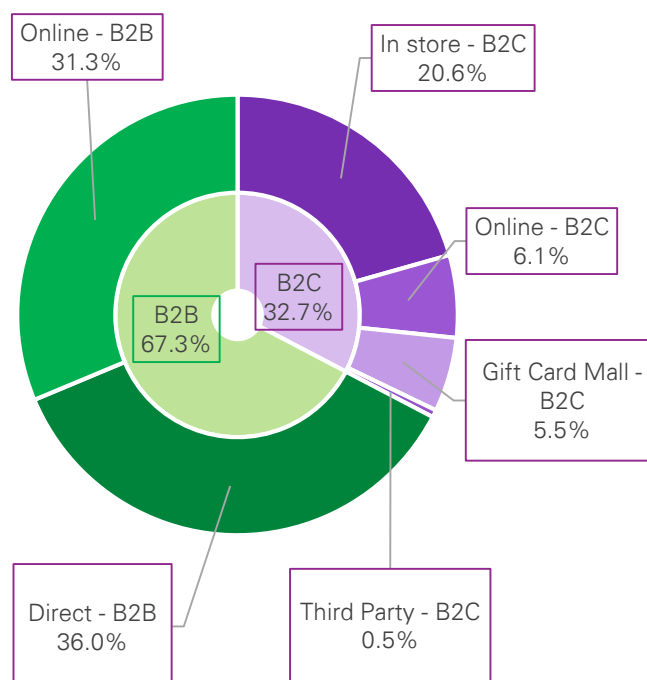
The gift card and voucher sector is resilient with overall rolling year growth of 4.6%, despite the ongoing impacts of the Covid-19 pandemic.

Executive Summary

Despite the Covid-19 pandemic continuing to exert its grip on the UK through the second half of 2020, the Gift Card & Voucher Association data submitting membership collectively reported a resilient performance with volumes rising by 4.6% for the year as a whole, and by 10.8% on a like-for-like basis in H2 - a commendable achievement. With the pandemic affecting Retailers and Leisure businesses differently, the gap between the two continued to widen – Retailers registering a rise in volumes while Leisure sales fell significantly. As might be expected at a time when physical outlets were closed for extended periods, it was digital sales that led the way while physical and paper declined. A significant rise in B2B sales bolstered volumes and offset a drop in sales to consumers. As per H1, member submissions exclude Free School Meals



Market share by sales channel (Rolling year volumes)



TOP 10 TAKEAWAYS

01



Overall **growth of 4.6%** in rolling year volumes across all sectors, channels and product types, indicating resilience to the ongoing COVID crisis.

02



Explosive growth in Digital and eVoucher products. Rolling year **growth 96.2%** Like-for-like growth **117%** continuing the shift away from physical gift cards.

03



Market share for **Digital products** has increased to **32.5%**, almost double that of H2 2019 (16.6%)

04



Retailer - B2B – via the **Online** channel is again the clear winner in H2 2020 with rolling year growth of **248%** and like-for-like growth of **298%**.

05

Retail widens the gap with **Leisure**. Continued Leisure closures, coupled with an increase in Retail spend have led to rolling year **Retail increase of 7.4%** and **Leisure decrease 44.2%** respectively.



TOP 10 TAKEAWAYS

06



B2B experienced the **second highest like-for-like growth rate on record at 36.3%**. B2C has reduced the decline, but still has the **second largest contraction rate on record at -16.2%**

07



Whilst improving since H1 2020, B2C sees the shift continue from **in-store falling 23.9%** to **online rising 33.6%** as consumers continue to avoid physical stores.

08



Closed Loop sales dominate the B2B figures with like-for-like **growth at 58.3%**. However, **Consumer Closed Loop sales** have **fallen 21.3%**

09



H2 2020 **Employee benefits** accounts for more than **2/3rds** the B2B gift card sales. **Rewards and Incentives** have **1/5th** market share. (Acquisition, Charities and Insurance Replacements were marginal).

10

Only one **Leisure member** experienced like-for-like **growth in H2 2020**. The **remainder** all had sales contractions between **-35% to -90%**



Overview

Lockdown measures have clearly affected Retailers and Leisure operators in very different ways. This has led to a Retail rolling year rise of 7.4% compared to a drop for Leisure of -44.2%.

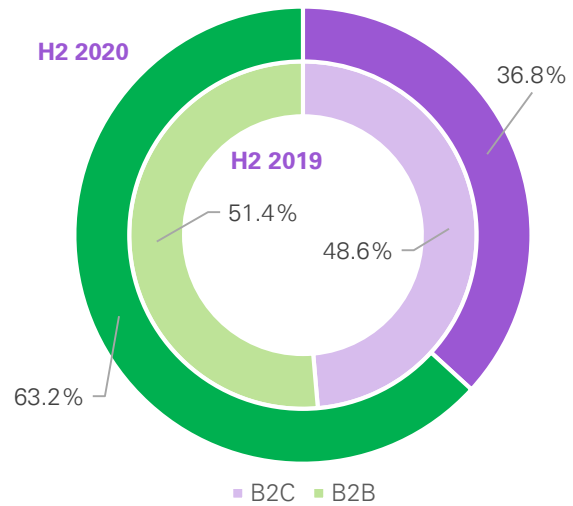
Online sales have been a key differentiator here: while many Retailers have been able to sustain sales through online channels, Leisure operators, faced with limited ability to redeem vouchers are naturally more dependent on their physical sites and facilities. Overall, online B2C sales grew by 34% year on year, while online B2B rocketed 292%.

All other channels are in decline, highlighting the switch to online shopping during the pandemic. Direct sales fell significantly for both Retail and Leisure. However, Leisure operators took the biggest hit, with H2 like-for-like B2B declining by -74%, while Retailers suffered a smaller B2B drop of -14%.

Perhaps as a result of the pandemic and lockdown restrictions, sales to consumers fell on a rolling year basis by -21.6% (£246m). However, this was offset by a significant rise in B2B sales which grew 24.9% (£366m). With B2B sales accounting for nearly two thirds of sales overall, this rise played an important role in protecting overall volumes.

With online channels so significant, it is no surprise to see a continuation of the trend of the growth in digital and eVoucher sales. Indeed, the overall growth in digital has been explosive, recording a rolling year rise of 96.2%, contrasting with overall reductions in physical (-9.8%) and paper (-43.3%). The future is very much digital.

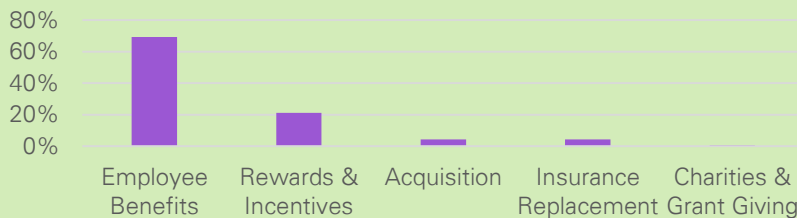
B2B increases market share vs B2C (H2 2020 vs H2 2019)



Make up of the B2B Market

Since starting to collate sub-market B2B data in H1 2020, some interesting trends are beginning to emerge. 'Employee Benefits' has by far the largest market share. 'Rewards and Incentives' are next with less than a third as much. The remaining components of B2B 'Acquisition', 'Charities & Grant Giving' and 'Insurance Replacements' have less than 5% market share each.

Market Share of B2B Components - H2 2020



Within the lower values, the notable movements since H1; Insurance sales were nearly three times their H1 level, while sales of Rewards, Charities and Acquisition all nearly doubled. These are trends to watch as reasons for B2B purchase shift and evolve.

Percentage vs. absolute growth in the like-for-like period H2 2019 – H2 2020



Sector Focus

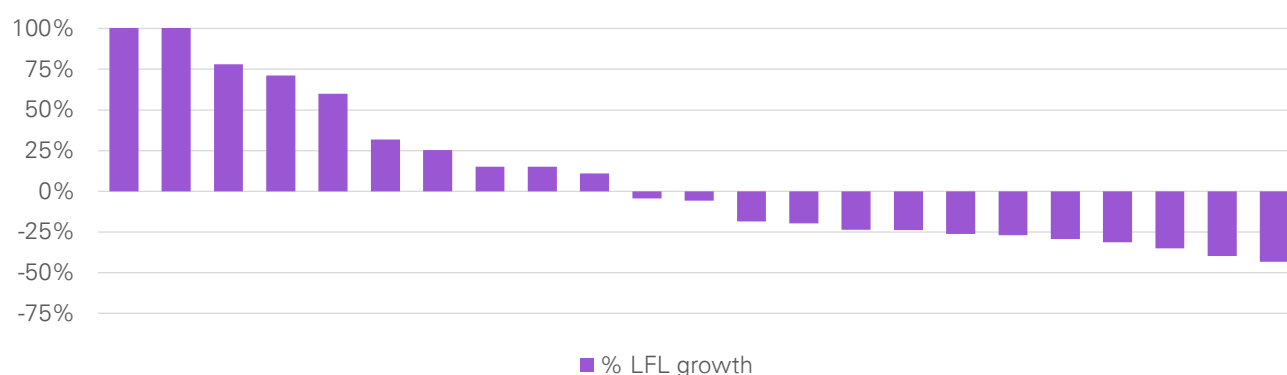
Retail

Although trading circumstances remained highly challenging and uncertain across the year, Retailers have displayed particular resilience and achieved a like-for-like increase of 14.4% in H2 2020, with just under half of the Retail membership reporting growth. A rolling year fall in sales to consumers of -19.3% was more than offset by strong growth in like-for-like B2B sales (38.3%), the second highest period growth rate since this data series began – and underlining the growing importance of corporate business in the gift card and voucher market.

Driven by the customer migration to online channels during the pandemic, the trend towards digital sales has accelerated further compared to 2019, now representing 32.9% market share.

With Retail sales growing and Leisure sales contracting, we have seen a strengthening of the dominance of Retail in the gift card market - now accounting for 97.3% of sales, whereas the Leisure sector represents only 2.7% amongst data submitting members.

Percentage like-for-like growth for anonymised Retail membership
(capped at 100%)



Leisure

Leisure continues to be hit harder than Retail through the pandemic, with the gap widening during the second half of the year. While Retailers saw a 14.4% like-for-like increase in H2 2020, Leisure businesses suffered a drop of 47.8%.

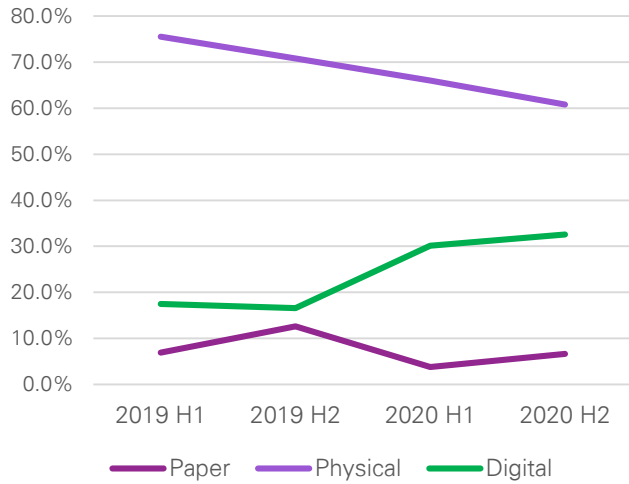
The continued inability to redeem gift cards has seen a big reduction of 63.1% like-for-like in all-important B2B spend. All but one Leisure member saw their like-for-like figures reduce by more than a third.

Percentage like-for-like growth for anonymised Leisure membership



Product Focus

Market share by product type

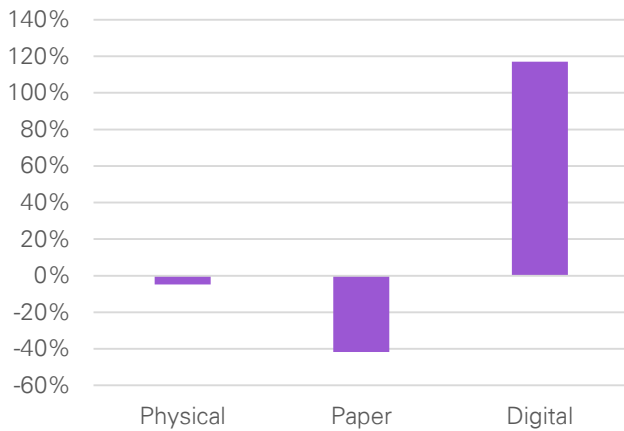


Digital sales nearly doubled across 2020 as a whole, and growth was particularly strong in H2, rising almost 120% on a like-for-like basis. If the current trends continue, it could be that digital sales exceed physical within the next few years.

Store specific gift cards have increased in popularity, now taking a 60.4% market share of sales. These Closed Loop sales are the most popular by pound value (£1,048m) growing by 15.1% on a like-for-like basis during H2, with growth of 6.2% across the year as a whole.

Nevertheless, we observed in our last report that the growth of Open Loop sales had been notable – and this has continued, with this redemption type recording the largest like-for-like growth in H2 (19.4%). Open Loop also saw the biggest rolling year increase, up 17.2%.

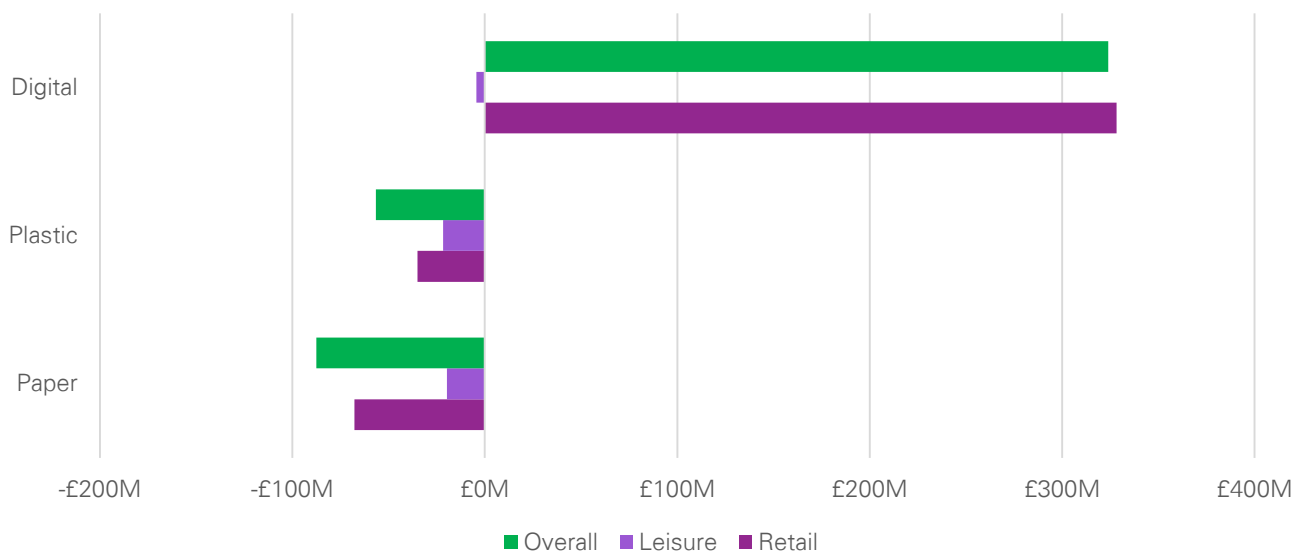
Digital/eVouchers considerably outperform other products (like-for-like growth)



Across the rolling year, Open Loop was also the only category to rise in both B2B (16.6%) and B2C markets (26.5%). Closed Loop saw significant growth in B2B (41.7%) but fell by 26.7% in B2C. This is perhaps an indication that personal spend is happening via employer portals, via employee benefit schemes, due to potential discounts/tax benefits on offer.

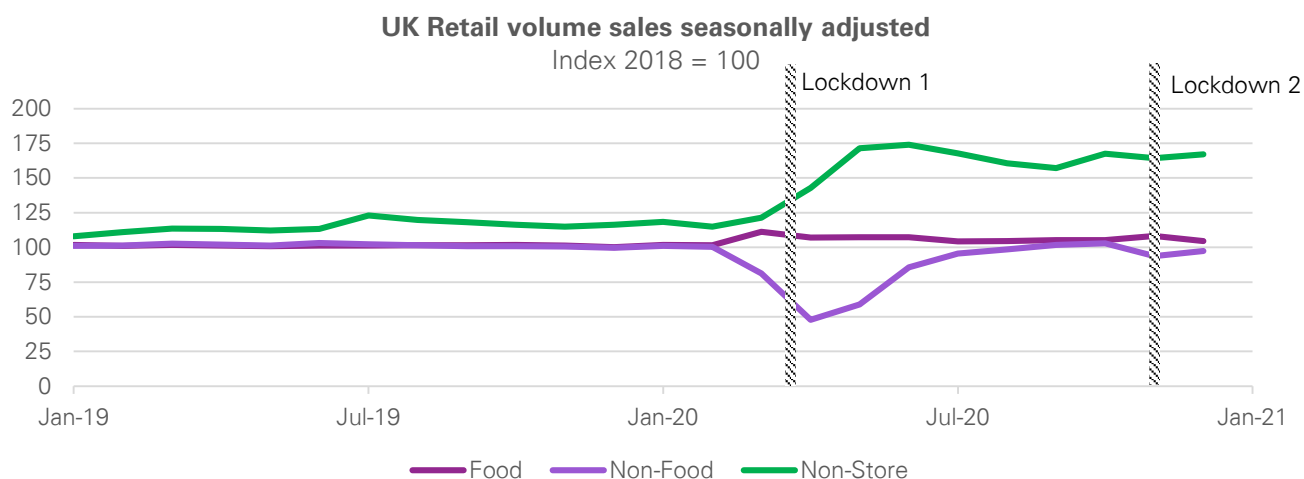
Multi choice, meanwhile, fell by more than 10% on a rolling year basis in both B2B (-11.1%) and B2C (-13.6%) markets as sales in both markets appear to have shifted to the full flexibility of Open Loop.

H2 2020 Growth of Product Types by Sector



ECONOMIC AND RETAIL OVERVIEW

2020 has been a torrid year for retail, as it has for businesses across all sectors that have been impacted by the Covid-19 pandemic.



Retailers and leisure businesses endured one of the toughest years on record in 2020, as the Covid-19 pandemic took a heavy toll on normal life and trading. Continual uncertainty, national lockdowns and regional restrictions hampered any sense of continuity and depressed consumer confidence.

As a result, 2020 was the worst year recorded for retail sales growth, with the BRC-KPMG Retail Sales Monitor¹ showing that physical non-food stores saw sales drop by a quarter compared with 2019. Overall, total sales in 2020 declined by -0.3%. This figure masks a very different experience for Food compared to Non-Food – the former achieving 5.4% growth while the latter experienced a decline of 5.0%.

The second half of the year initially saw a partial rebound in optimism as the first wave of the virus receded and there were hopes that the worst was over. The government's Eat Out to Help Out scheme in August provided a boost to the hospitality sector and positive knock-on effects for High Street activity, with businesses claiming £849m for more than 160 million meals². However, it soon became apparent that the pandemic was by no means over, and the autumn saw a new programme of regional tiered restrictions and a second lockdown in November.

Ongoing restrictions during December meant that retailers enjoyed limited respite in the crucial Christmas season. Retail sales rose 1.8% on a total basis in the month and 4.8% like-for-like from December 2019 – a modest boost, but certainly not a year-saving bonanza. Nevertheless, there was at least some positive growth due to the ongoing shift of expenditure from other categories such as travel and leisure. Household related and food items were top of the purchasing list, in contrast to fashion, accessories and beauty products which experienced double-digit declines. The dramatic consumer shift to digital channels continued, with nearly half of all non-food purchases being made online.

Looking ahead, there is some optimism that conditions will improve through 2021. While the lockdown from January has been a further blow to retail and particularly leisure operators, the rollout of the mass vaccination programme is continuing apace and should stimulate greater consumer confidence and activity when restrictions begin to be lifted. Although the first half of 2021 looks as challenging for many as 2020 was, there are hopes that a strong H2 will result in retail growth of 1-3% for the year.

Businesses have come this far – it is now a question of continuing to see it out, drawing on the resources of resilience already shown and maximising the effectiveness of digital channels to keep engaging with consumers.

1. <https://home.kpmg/uk/en/home/media/press-releases/2021/01/brc-kpmg-retail-sales-monitor-december.html>
2. <https://news.sky.com/story/eat-out-to-help-out-businesses-claimed-849m-through-scheme-for-160-million-meals-12141769>

Economy in 2021

Forecasting the economic patterns ahead remains highly challenging given the number of uncertainties and variables that abound. Much depends on the continuing effectiveness and speed of the vaccination programme, and the hope that new variants won't prove destructive wild cards that give the pandemic new vigour.

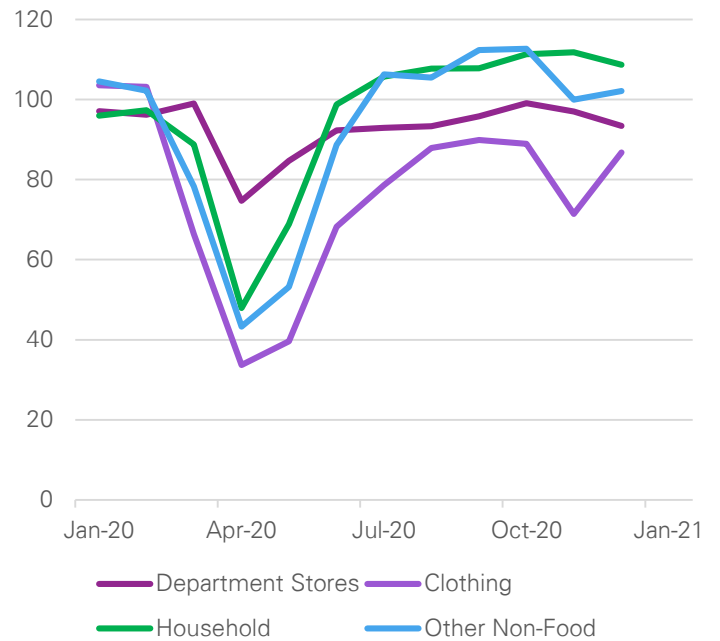
KPMG expects the contraction in Q1 this year caused by the national lockdown to be significantly milder than at the start of the pandemic. In its main scenario, based on vaccines reaching all vulnerable groups by April and a gradual easing of restrictions with a return to normal by autumn, KPMG predicts GDP growth of 4.2% in 2021. Its upside scenario envisages growth of 5.6%, while its downside 'worst case' scenario puts it at 2.2%. In any event, all of these compare favourably with the circa -9.7% contraction seen in 2020³.

In its January comparison of economic forecasts⁴, HM Treasury found that the average forecast for UK GDP in 2021 is growth of 4.4%, ranging from 6.1% at the top end down to -3.0% in the gloomiest prediction. The average estimate for 2020⁵ was a fall of -10.6%.

Turning to GDP for the Euro area as a whole, the European Commission predicts a broadly similar picture, with growth of 4.2% this year following on from a -7.8% contraction in 2020⁶.

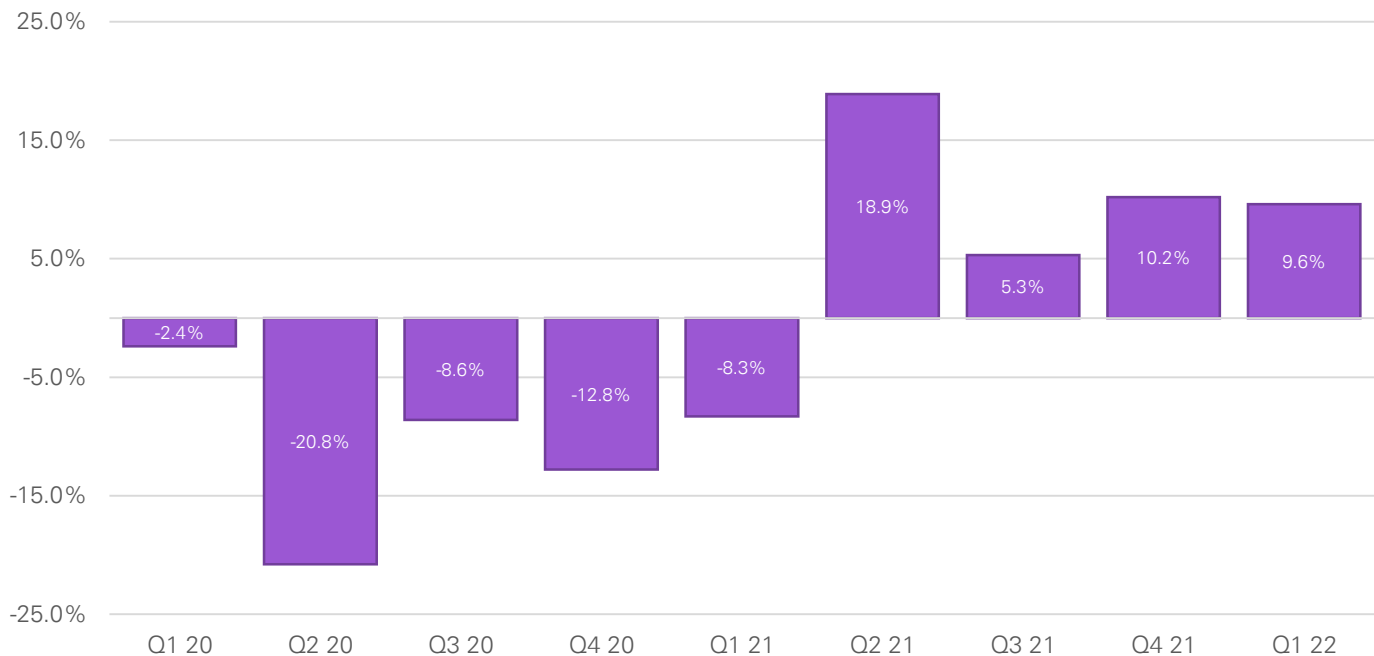
UK Non-food stores volume sales seasonally adjusted

Index 2018 = 100



Bloomberg Actuals/Forecast GDP

GDP year-on-year change %



3. KPMG UK Economic Outlook, January 2021
 4. HM Treasury, Forecasts for the UK economy, January 2021
 5. Average taken across 20 independent estimates:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/953800/Forecomp_January_2021.pdf
 6. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/euro-area_en

SECTOR OUTLOOK: KEY INFLUENCES

KPMG see the retail industry being shaped and influenced by the 4 P's – Pandemic, Processes after Brexit , Patterns of Consumer Behaviour, and Policy.



Pandemic

Pandemic

We have already discussed the ongoing effects of the pandemic, and the fact that we do not anticipate renewed retail growth until the second half of 2021. For the UK economy as a whole, it may not be until the end of 2022 that we regain pre-pandemic levels.



Patterns

Patterns of Consumer Behaviour

Consumer behaviour has already shifted radically to digital during the pandemic, accelerating a trend that was already growing. Retailers must adapt and leverage this, adjusting their business models and creating compelling online propositions founded on personalisation, relevance and value. For leisure businesses, the shift is harder to absorb. For example, even in a post-pandemic world, business travel may be reduced and this will have a significant impact on profitability and the business models of airlines, hotels and the associated hospitality industry. Other shifts will be significant too – while as a group, bars, cafes and restaurants could recover to within 14% of their performance in 2020, much of this demand will be in different locations, away from city centres. The business model will therefore need urgent reappraisal.



Processes

Processes after Brexit

Already causing early issues, processes after Brexit will need renewed focus. Despite the deal agreed, friction at the borders makes trade less smooth. The costs of new customs processes will put varying degrees of pressure on businesses across different sectors. We have already seen disruption to the flow of some goods, and some retailers (mainly smaller businesses) have ceased marketing their products to European customers – shutting off a source of trade they can ill afford to lose. It remains to be seen how much the issues to date are 'teething problems' and to what extent there will be continued, long-term effects that make life harder for retailers.



Policy

Policy

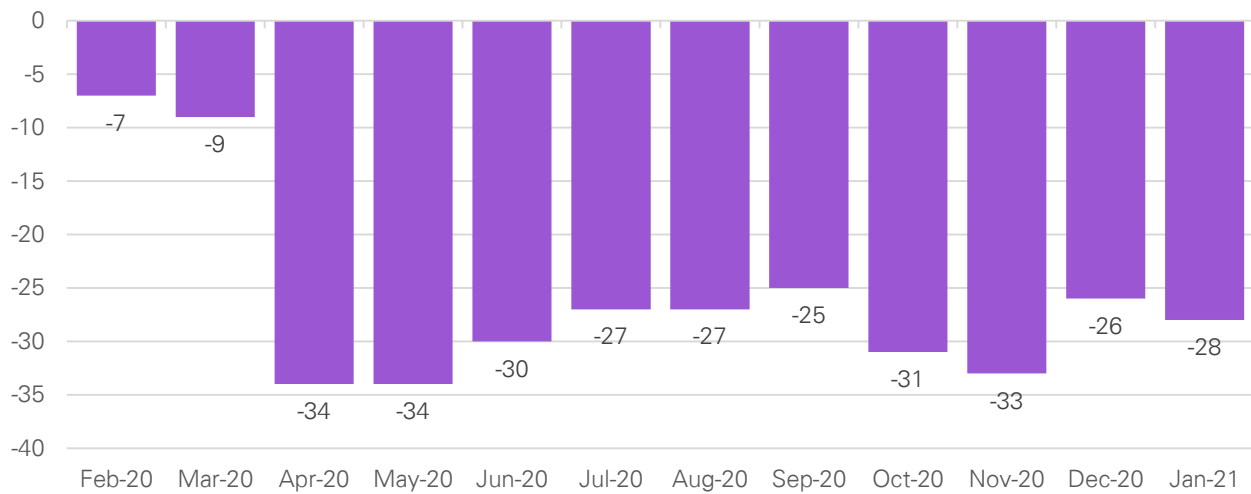
Of critical importance is Policy. Unwinding government support could bring new challenges in 2021. When the Job Retention Scheme finally closes, unemployment may rise and hit high single figures (although, in KPMG's main rather than worst-case scenario for 2021, unemployment is expected to peak at 6.3%). The consequent drag on consumer confidence and spending will present a further challenge to retailers already fighting to attract the customer pound.

SENTIMENT

Consumer Confidence

The near-term challenge was underlined by purchasing manager and services data from IHS Markit, with January flash PMI data showing a sharp drop from 50.4 in December to 40.6 in January, its lowest since May of last year⁷. Services also showed a significant decline in activity in January. However, fuelled by the vaccination rollout, optimism for the future is rising – at its highest levels since May 2014⁸. In terms of consumer confidence, the long-running GfK Consumer Confidence Index⁹ reported that the vaccination programme had not yet delivered a ‘jolt in the arm’ for consumers, with the overall consumer positivity score dropping from December to January and confidence about the general economic situation for the coming 12 months significantly down. Clearly, consumer confidence has become fragile and this is something that may be a concern for retail and leisure as they seek to rebuild activity in 2021.

Gfk Consumer Confidence Index



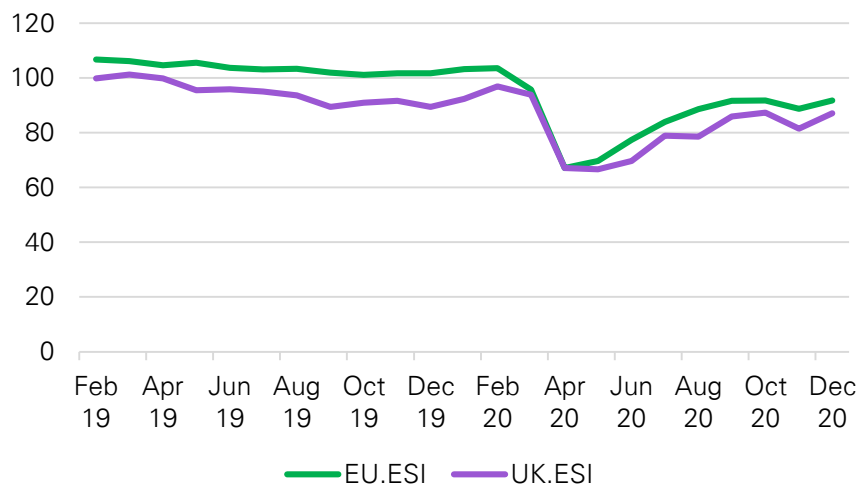
European Sentiment

The European Commission conducts regular harmonised surveys for different sectors of EU member states’ economies measured over industry, services, consumer, retail and construction.

Between November and December 2020, the overall UK sentiment index rose by 5.6 points to 87.1, a similar level to in October.

The wider EU though still leads the UK by 4.7 points at 91.8 indicating EU states have higher confidence levels than ours.

European Sentiment Indicator (ESI)¹⁰



7. <https://ihsmarkit.com/research-analysis/uk-economy-faces-doubledip-recession-as-lockdown-measures-bite-Jan21.html>

8. <https://www.markiteconomics.com/Public/Home/PressRelease/514aa66dc87149979bbe8bf5edf5b36b>

9. <https://www.gfk.com/en-gb/press/Vaccination-not-yet-jolt-in-arm-for-UK-confidence?hsLang=en-gb>

10. https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys/download-business-and-consumer-survey-data/time-series_en

THE ROAD TO RECOVERY

The future of towns and cities

Post COVID, we expect consumers will continue to embrace their new online shopping habits in product categories where they can get better pricing and variety. This key shift means, now more than ever, that members' online offerings need to be seamless and fully integrated into the customer experience.

According to KPMG analysis, high streets could lose between 20-40% of their retail offerings as a result of the accelerated shift to online commerce¹¹. This will be exacerbated by a drop in commuter footfall as a significant proportion of those able to work from home continue to do so for at least part of the week – further hitting levels of trade. This will see an increasing move to redemption online coupled with home delivery, so prior levels of in-store uplift are likely to reduce.

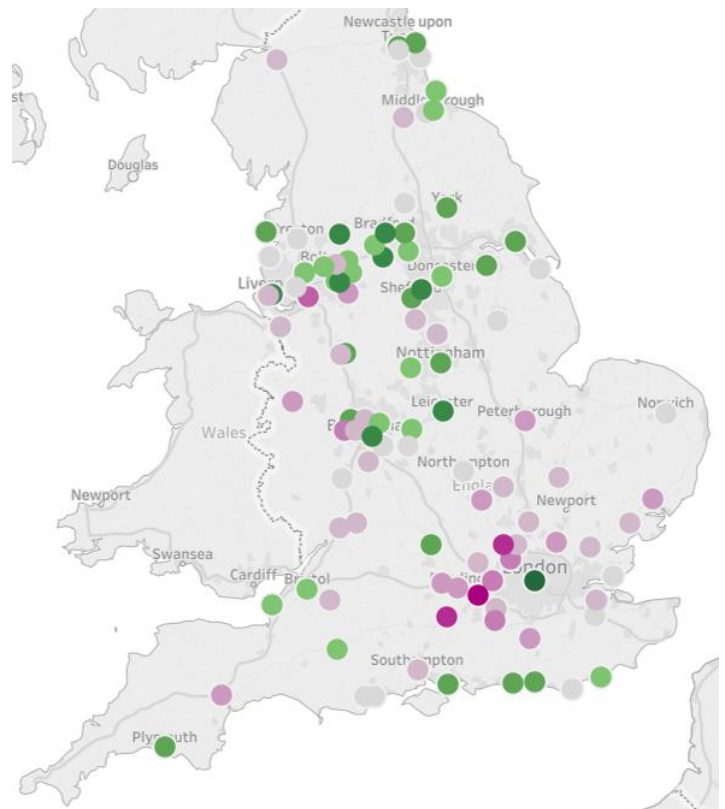
As a result, it is unlikely that retail will ever again represent the same size in terms of space on the high street. High streets must therefore become multi-purpose locations with a wider variety of use cases, such as residential, education, healthcare, cultural, technology, community and purpose-focused retail and hospitality. This could offer potential cross sell/partnership opportunities for members looking to get ahead of the curve.

Towns and cities across the UK will need help and space to rethink the purpose of their centres. High streets will need to be reimagined as cultural and recreational hubs that will act as magnets for businesses and jobs. Retail, leisure and other businesses, together with trade associations and membership bodies, need to step up their discussions and thinking with government and local authorities to expedite planning for a model to safeguard the future of high streets.

The changes set by COVID will pull town and city centres in different directions. The adjacent map shows KPMG's Post COVID Vulnerability Index calculated for towns and cities in England. This combines the impact of home working and loss of retail outlets with the strength of current cultural assets.

England Post COVID Vulnerability Index

Purple – Most Vulnerable, Green – Least Vulnerable



The above map indicates Northern England is generally the most resilient, with Western London areas most at risk. Members may wish to consider the impacts of vulnerability to assess the likely increased level of online gift cards sales and redemption affecting their logistics modelling as events unfold over the next year.

The continuing rise of Environmental, Social and Governance (ESG)

Just as the movement to digital was a pre-existing trend accelerated by Covid-19, the same is true of the ESG agenda. The pandemic has focused minds on community, the value of 'local', sustainability and trust. Over six in ten consumers, for example, now want to see real business commitment to the environment¹². Across multiple facets – carbon footprint, sustainable packaging, single-use plastics, waste management, ethical supply chains, ethical business and labour practices – retailers are likely to be increasingly scrutinised by customers, stakeholders and regulators. Gift card manufacturers may wish to take note of this trend and move to more renewable/low-impact methods of production and the physical cards issued. In addition, clear and transparent reporting around these issues will be key.

All retailers need to give due weight to ESG considerations as an integral part of the strategic mix. They should ensure they understand the ESG landscape and align internally on their objectives; conduct a maturity and risk assessment to identify gaps relative to key issues; agree prioritised opportunities to embed ESG into the organisation; and understand relevant reporting frameworks, identifying potential KPIs for reporting purposes.

Those retailers that develop strong, coherent ESG propositions could create greater traction with swathes of consumers looking to both purchase and redeem gift cards, and also enhance the way they are perceived by investors – significant upsides in the challenging conditions that the whole industry faces for some time to come.

11. KPMG Future of towns and cities report, January 2021
12. KPMG Customer Connections report, July 2020

GLOSSARY

Statistics	Like-for-like growth	Growth of this period vs the same period 12 months ago i.e. H2 2020 vs. H2 2019
	Rolling Year Growth	Growth of the most recent 12 months vs the previous 12 months i.e. H2 2020 + H1 2020 vs. H2 2019 + H1 2019.
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.
B2B Channels	Human Intervention	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.
	Automated	Made to a business or organisation via online sales portals or online affiliates.

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info@gcva.co.uk

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