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gift cards in the UK

Research Study
by Giftex Prepay for
The Voucher Association

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Chairman's Introduction

Andrew Sellers, Chairman, Voucher Association Executive

Welcome to this, the first in-depth consumer research report from the Voucher Association (VA), the trade association representing gift vouchers, cards and stored value solutions.

The VA aims to provide members with help and guidance that will assist them in promoting and protecting their interests. While our industry enjoys continued growth, members are also experiencing rapid change. In times like this, it is even more important than normal to obtain some real intelligence about matters that affect our businesses. Nothing is more important than understanding how and why consumers use gift vouchers, cards and stored value solutions, what they feel about their experience, and what they intend to do in future.

We are delighted that Giftex Prepay, the VA's official research partner, has carried out some in-depth research and written up the findings in this report. Used alongside our YouGov research, we hope our members, and others interested in how and why consumers are adopting our products and services in increasing numbers, can use this report to make them even more effective.

While this research points out that there is significant work to be done, the reader with a stake in our industry will be reassured by the overall finding: that those people who have experience of our products and services are significantly more likely to buy and use them again. As new innovations in channels and marketing continue to attract new users, the size of the cake, and the prosperity of our members, will continue grow.

Best wishes

Andrew

Publisher's introduction

Tony Craddock, CEO, Giftex Prepay Ltd

As we have gone about our work, providing independent intelligence in prepay around the world, we have quietly admired and actively supported the VA. We see the organisation as more than a trade association. It is a community. A source of innovation. A place to know and be known.

This culture makes the collaboration that produced this report possible. The VA wants to provide its members with fresh, in-depth and relevant insight about the UK market. Giftex Prepay wants to share the insights we publish with the VA's members. So we offered to carry out this research and produce this report. The VA invited us to be their official research partner. As such, we are delighted to offer its members a 20% discount on subscriptions to our Journal, Global Prepay Intelligence, described in the back of this report.

We look forward to working with the VA and its members in the years ahead.

Tony

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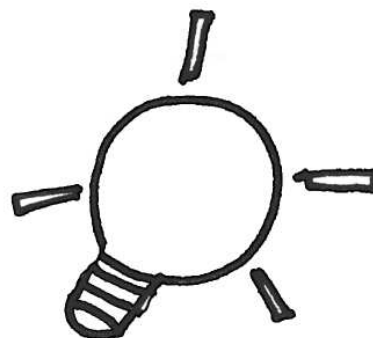
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disclaimers

Study of Gift Cards in the UK



Purpose of the Report

In the 10 years that gift cards have been available in the US, sales have increased dramatically. Average increases in total market sales volume have been over 20% for each of the last 6 years. It is estimated that sales will top \$80 billion in 2007. The BRC's American counterpart, the National Retail Federation, reports that over \$30 billion will be spent on gift cards during the Christmas period alone.

Because of some shared cultural aspects, the UK market has often been considered "the next big thing." To this end, the UK is seen as a place where gift cards will not only take off with consumers, but also where some retailers will show significant increases in gift cards both as a percentage of overall sales, and in terms of significant growth patterns. Given the challenges

in the overall UK retail market, significant growth in any one category, such as gift cards, would be especially attractive to management.

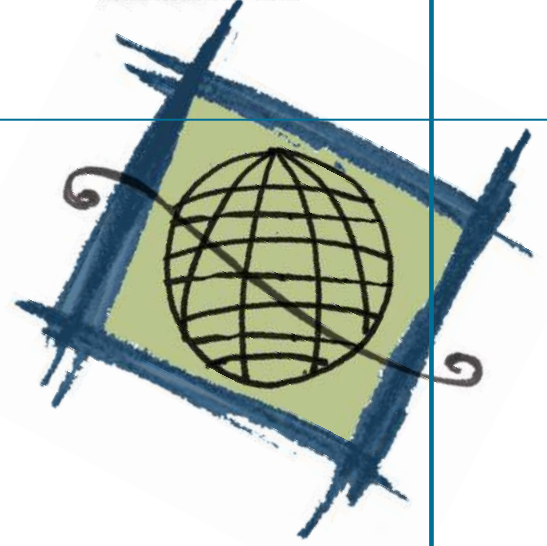
The purpose of the current work is to establish baselines in current behaviour for UK consumers. What are their current gift card habits? What are their forecasts for future purchases? In addition, the study measures the attitudes toward these products and examines differences across gender, age, income, and experience, which might impact how retailers and suppliers create and offer products as well as how they might increase overall satisfaction with the products. The report concludes with recommendations to maintain and increase the existent positive growth in this market.

Acknowledgements

This report could not have been completed without the efforts of a hard working team of researchers including my research associates, Patti Norberg, Ph.D. and Linda Hartley, Ph.D. and my research assistant Kelly McGreevy. The project has also had useful input from the team at Giftex Prepay, Tony Craddock, Tory Batten, and Casey McGrath. And certainly the work could not have been completed



without the support of Andrew Johnson and the board of the VA. A subset of the data contained herein has been published simultaneously in the Giftex Prepay Intelligence.



Study

The data collected for this project is derived from 301 telephone interviews conducted with UK residents in late October of this year. There was proportional representation from England, Scotland, Wales and Northern Ireland. While a representative sample was drawn, there are always caveats concerning the subject pool. The gender split was appropriate. However, post-hoc analysis indicated that the number of middle income respondents is slightly underrepresented while the number of lower and upper income subjects is slightly above that found in the country as a whole.

In addition, this is an adult survey, and as such, the age distribution is skewed upward. For instance, 26% of the sample was 65 years or older and the number under 21 was only 6.2%. This would not drastically affect data because the vast majority of gift card purchases are made by those over 21. However, we should view recipient data with a little more caution, as those under 21 are frequent targets of gift card giving.

On occasion and where appropriate, this report draws comparisons to two other markets, the US and Canada, that have been the subject of separate 2007 studies conducted by Giftex Prepay. While the US market is quite mature, the Canadian market still appears to be in a growth stage. It is thought that the contrast of these two markets, at different stages of development, might prove occasionally insightful when examining the results from the UK.

Gift Card Buyers

Overall, prior purchase of gift cards by UK residents is still quite low relative to North American markets. 29.6% of respondents reported having purchased a gift card. This contrasts sharply with the 76.6% rate of purchase in the US and a 56.8% rate of purchase in Canada. The distribution of number of cards purchased by those who made purchases is shown in Figure 1.

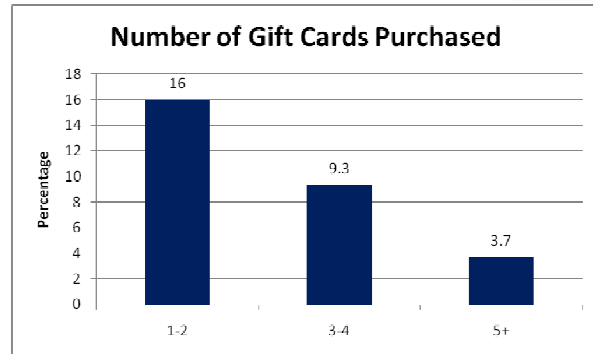


Figure 1

Note that with non-purchasers included, the average number of gift cards purchased was .79. However, the average number purchased by those who made purchases was 2.74.

In the UK, gender differences were relatively small, but were nonetheless significant. Figure 2 below shows how men and women differ in purchase experience. This difference is not unexpected, given that the preponderance of gifts are purchased by women. In fact, the difference between the two groups would have been assumed to be higher.

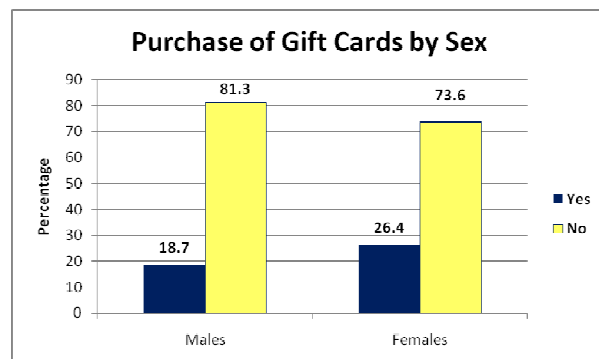
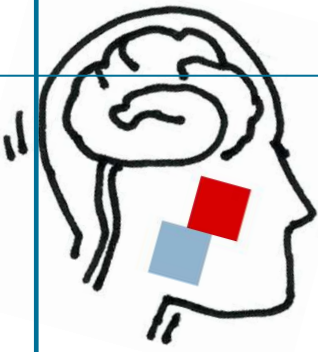


Figure 2



Purchasers were also examined across income levels. In other markets, higher income consumers are significantly more likely to purchase gift cards. As shown below, while this general pattern is evident, the effect is not as pronounced as would be expected.

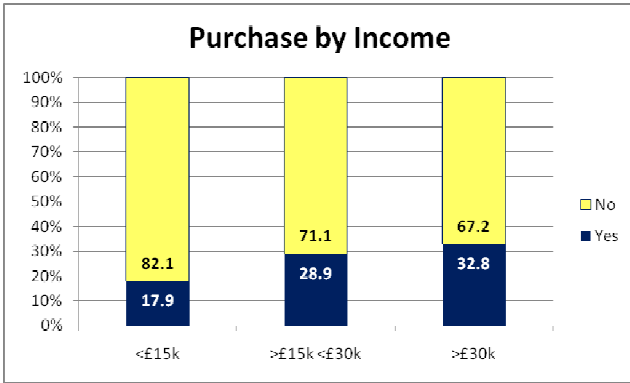


Figure 3

Examining prior purchase behaviour by age, the expectation is that younger and middle age customers will be more enthusiastic buyers. This certainly held true as the US market developed, although now, older consumers are one of the most substantial target groups. Figure 3 shows that the pattern of older consumers buying fewer cards is evident. However, the differences shown are not statistically significant.

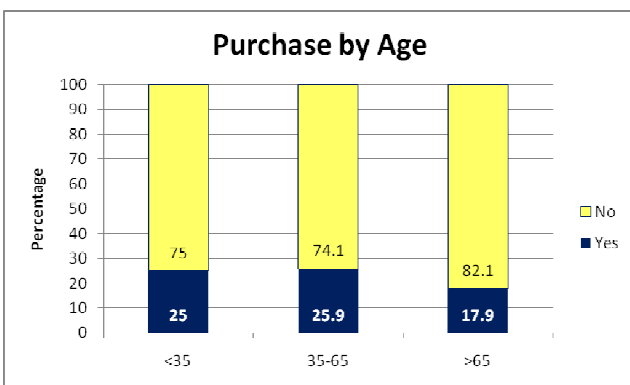


Figure 4

Denominations of Cards Purchased

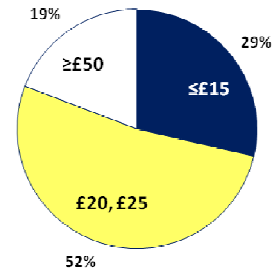


Figure 5

Figure 5 shows the distribution of denomination of the gift cards most frequently purchased. This data is consistent with a mean original gift card load of approximately £25 per card. This appears to be consistent with the average loads in Canada and the US which are in the high and low \$40 range respectively.

Prior Experience

One of the driving factors for purchase is positive experience. Our contention has always been that post-purchase satisfaction drives repurchase, and the diffusion of the product to new customers, who then have positive experiences as recipients, will generate purchases. Subjects were asked whether their prior experiences were positive and the results are shown below.

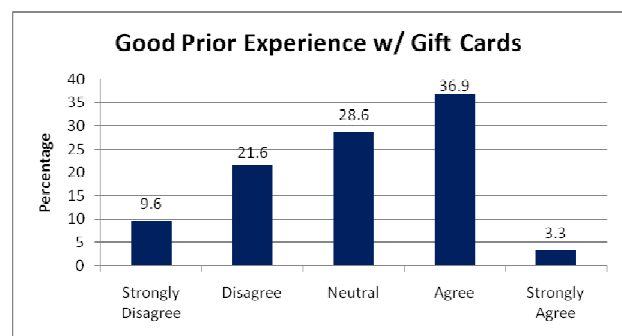


Figure 6

With the current data it would be difficult to establish a cause and effect relationships. However the data does provide evidence that a strong relationship exists between positive experience and purchase behaviour. The figure below dramatically shows the experiences of the different groups.

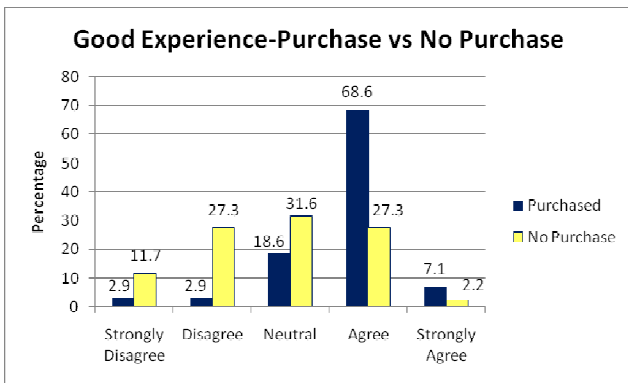


Figure 7

In a related sense, if the "virtuous cycle" referred to above is to be present, we would expect to see a similar pattern for those who had received gift cards versus those who had not. This is evident as shown below.

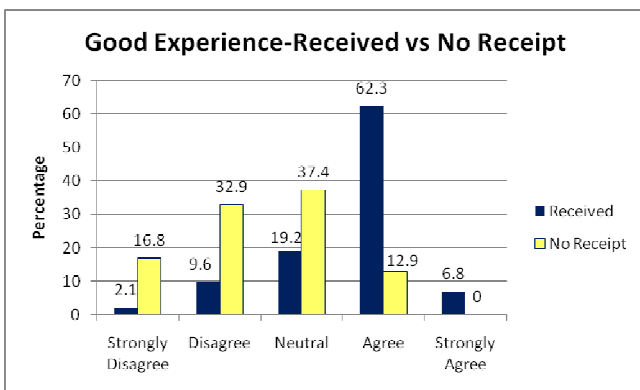
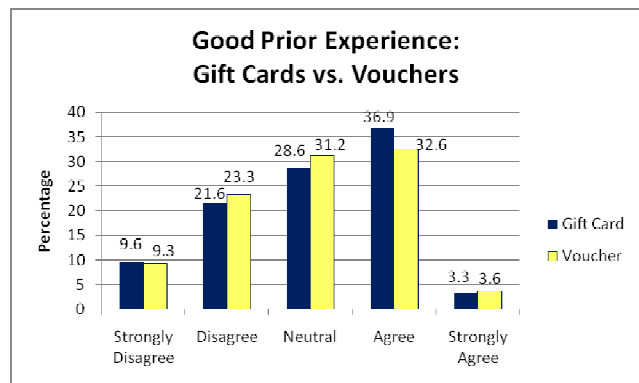


Figure 8

Put together, Figures 7 and 8 paint an interesting picture. One possible explanation for these observed relationships is that there is a *perception* of gift cards as being a problem. This perception inhibits purchase of the product. Those who have *actual* experience, however, are clearly more positively disposed. The communications to the market about gift cards in the UK has largely been along the lines of "they exist," rather than "they are appropriate gifts because they offer a specific set of benefits to both the giver and the recipient." If this is more clearly communicated, it may help to change uninformed perceptions.

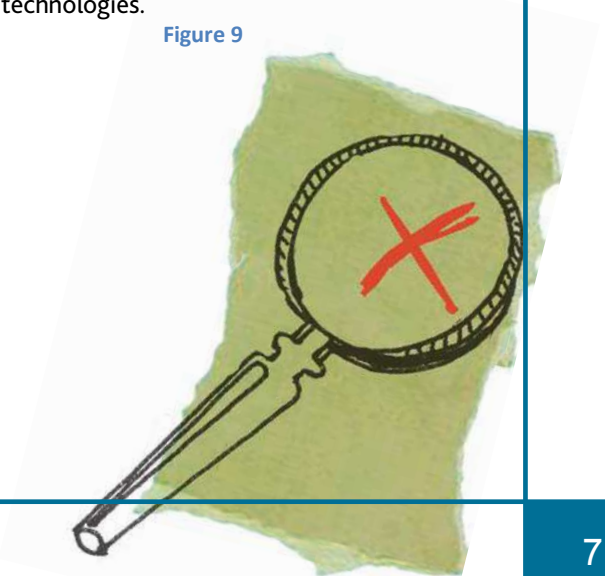
Prior Experience: Gift Card vs. Voucher

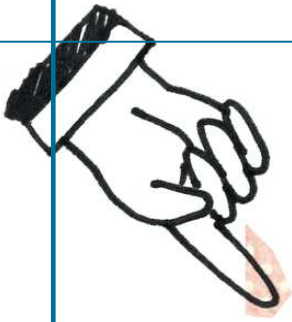
As the UK moves away from paper-based product and towards gift cards, we sought to compare prior experiences



with both technologies.

Figure 9





The results indicate a slightly more positive result for cards than for vouchers, though the difference is so small that it cannot be determined to be statistically significant. However, when looking at this data across prior gift card experience, a much more distinct picture is evident, as seen below.

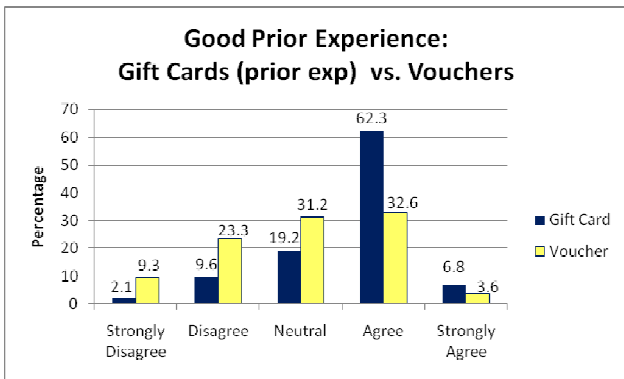


Figure 10

While over a quarter of the subjects express a preference for cards, the high number of those responding neutrally suggests that, at this point, they are indifferent. This will likely change over time as people become more used to the plastic cards and experience the advantages associated with their use. The distribution, based upon prior experience, is shown below.

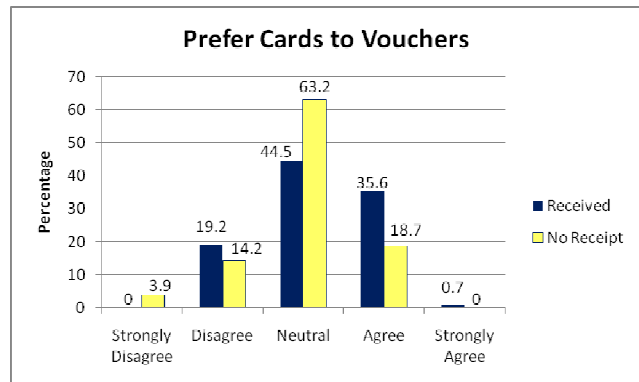


Figure 12

Paper or Plastic

Though the debate is largely over in North America, there is always a concern, especially in B2B markets where legacy systems may inhibit movement, about the stated preference of paper gift certificates over gift cards, or vice versa. The figure below presents the results.

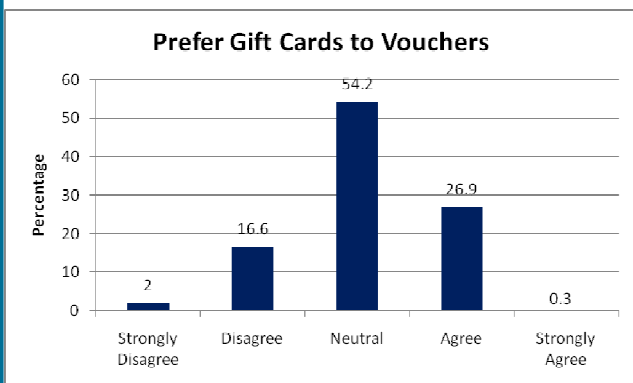


Figure 11

Further, the data shows a surprising relation between age and preference for cards. Both those under 35 years of age, AND those 65 years and older, more strongly prefer cards compared to those in the 35-64 age group. The result for younger consumers is as expected and mirrors recent findings in Canada. However, that older consumers showed a statistically significant difference calls into question the idea that changing to plastic cards will alienate older consumers.

Purchase Occasions

Gift card purchases have long been associated with the Christmas season. Despite efforts to reduce the seasonality of these products, approximately 1/2 of all cards are still purchased in November and December. Reduction in seasonality and continued strong growth of gift cards will be dependent upon increasing sales throughout the year. The study sought to assess the consumer's feeling of the appropriateness (likelihood of purchase) for several gift giving occasions. The results are presented in Figure 13.

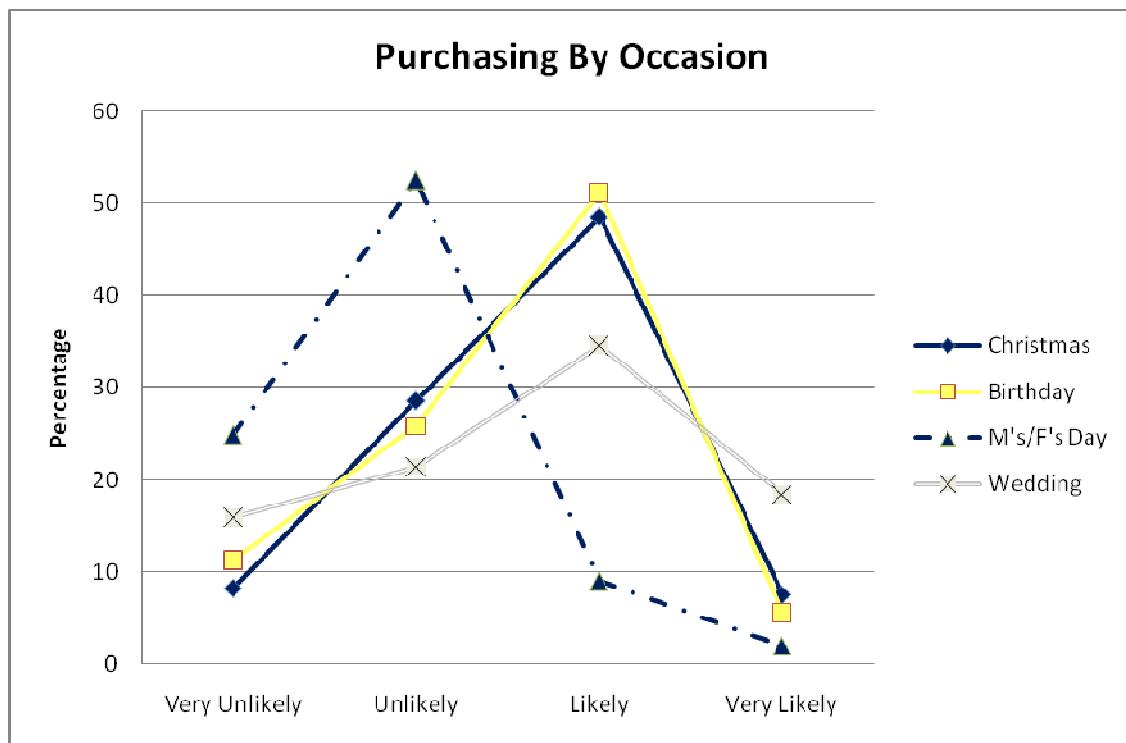


Figure 13

As is clearly indicated above, birthdays and Christmas are nearly identical in their perceived suitability as occasions to give gift cards. 56% of respondents said they were likely or very likely to give gift cards on these occasions. A slightly different pattern was exhibited for gift cards as a wedding gift, although 52.3% viewed them as likely or very likely potential purchases. Mother's Day and Father's Day do not fare as well with only around 10% likely to purchase cards. Valentine's Day follows an identical pattern though it is slightly lower in terms of likelihood of purchase.

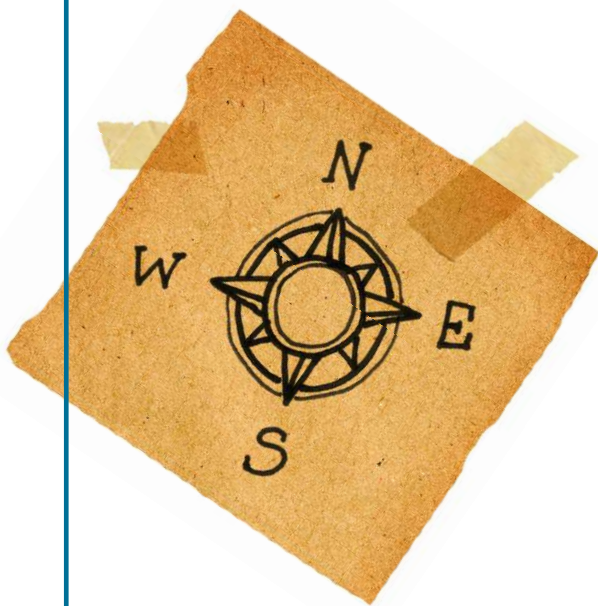
The driving force behind this result is the diversity of Christmas and birthday gift recipients, and the lower level of knowledge one is likely to have of their needs and wants. Mother's Day, Father's Day and for most, Valentine's Day, all have specific target recipients.

Christmas and birthday giving encompasses a wide network of people who are acknowledged with a gift. It is easy to think of some relative or friend with whom you are in a gift giving relationship, but for whom you have little knowledge of their needs and wants. This aspect is less

likely to be involved when the subject is an individual like a parent or significant other, where familiarity more likely entails a greater awareness of their individual tastes.

Although wedding gifts are given to specific individuals they are on the fringes of the gifting circle, and may only receive gifts for this specific occasion rather than on an ongoing basis.

This does not mean that attempting to sell gift cards on other occasions is futile, rather that the communication has to match up to a more specific benefit. For example, in the US, Father's Day purchases for experiential gifts (such as restaurants) have seen tremendous growth over the past few years as marketers have communicated better the message that fathers appreciate and enjoy an actual experience (maybe shared with the giver) more than shopping for goods. Thus, a restaurant gift card can be positioned as thoughtful. Similarly, Valentine's Day sales of gift cards are very strong for the Spa category where the concept of pampering the recipient is consistent with beliefs about an appropriate present to mark this occasion.



Place of Purchase

The question of where a gift card is purchased is also important in understanding how consumers actually behave in the market. Over the last few years the number of points of purchase has risen dramatically with 3rd party distribution and the Internet accounting for an increased share of sales. Figures 14 and 15 reflect responses to the question of how likely it is that subjects would purchase cards from a given location. Recall the responses here include both purchasers and non-purchasers so that the pattern of responses is more important than the absolute levels.

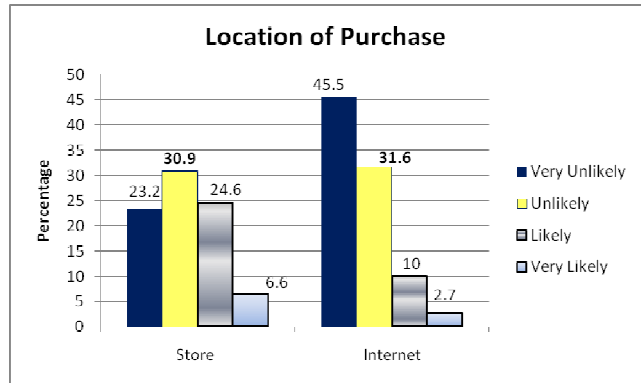


Figure 14

The data shows that the Internet has not yet developed into a major distribution outlet for cards. In part, this is due to the timing in fulfilment. When a card is needed, it is often needed immediately, and the delay in delivery may hinder these types of purchase, as might additional fees.

3rd party gift card distribution was also addressed, as shown in the figure below.

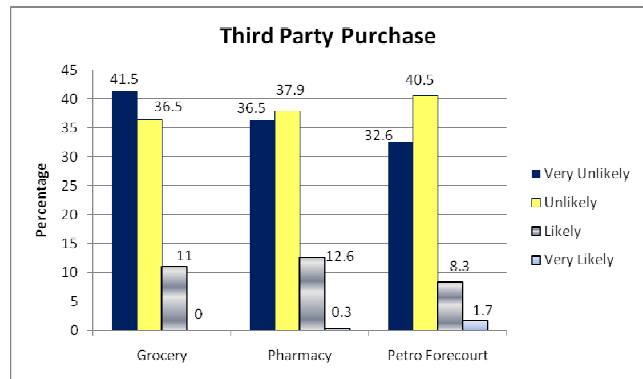


Figure 15

While the likelihoods reported are quite modest overall, this result could be expected given the relative newness of the channel and the subjects' inability to picture how this would work. It is likely that in parts of the UK, there is absolutely no exposure to 3rd party distribution systems.

Use of packaging

For gift card sellers the question of whether or not the giver uses the packaging that comes with the cards, or whether they create their own packaging, is germane if the sales strategy involves being a one-stop-shop for gifting needs. Subjects were asked about the use of the packaging that came with the gift cards they purchased. Of those who purchased gift cards, nearly 60% agreed that they use the packaging provided.

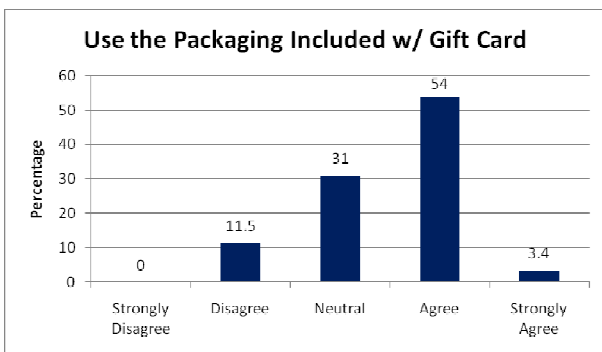


Figure 16

This suggests that the packaging is important and that the quality of that packaging will be an attribute of consideration when selecting gift cards. Interestingly, women are slightly more likely to agree that they use the included packaging than are men.

Previous research by Giftex Prepay has found that men view gift cards as more impersonal than women (a similar result within this data is presented later in the report). Men may feel guilty about using the packaging and feel the need to create more personalisation through the purchase of, for instance, a greeting card in which to place the gift card. Alternatively, some consumers may find the included packaging materials substandard and prefer to create their own in order to give the presentation the desired effect.

Purchase of Open-loop Products

One of the most important changes in the gift card landscape is the rapid ascent of the so called "open-loop" cards which may be redeemed in any establishment that accepts whichever brand (AMEX, Visa, MasterCard, or Discover) is on the card. The current data shows 16.3% of the UK respondents reported having purchased this type of card.

With this as a base, some additional data collected suggests that there will be significant growth with these products. For example, subjects were asked about their preferences for open-loop cards over cards from stores. The results are displayed in Figure 17.

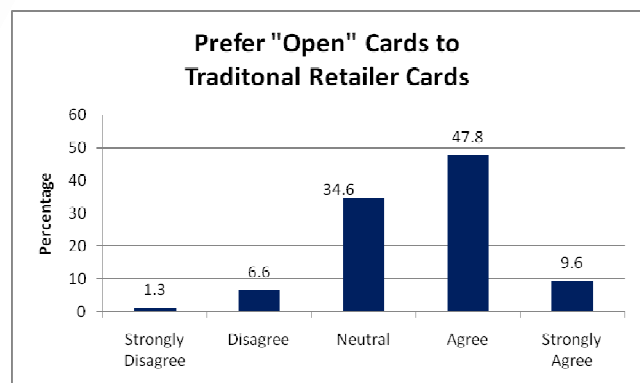


Figure 17



Over half of the respondents agree with the statement that they prefer open-loop cards. This is a strong harbinger for the potential of these products. Focus groups and other Giftex Prepay research have shown that greater choice is indeed a highly sought attribute in gift cards, and open-loop cards offer substantially increased choice. Conversely, open-loop cards offer less control (another highly sought attribute) and may be perceived as more impersonal.



Receiving Gift Cards

The importance of the recipient to the success of gift card programs is often unacknowledged. Yet the recipient experience is likely to determine whether givers are going to continue to purchase at current or even increasing rates. As such, this study looked at both characteristics and attitudes involving the receipt of gift cards.

Receiving gift cards is more prevalent than purchasing in the UK as evident in this study where 48.5% of this overall sample reported having received a card at some point. As shown below, gift card receipt varies according to gender, age and household income.

Women are more likely to have received gift cards than men (the difference is statistically significant). This is consistent with the idea that gift cards are most appropriately given to people who like to shop. The idea of recreational shopping is more positively viewed by women.

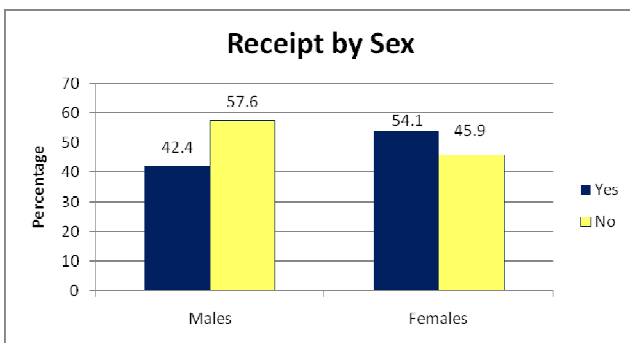


Figure 18

Receipt of gift cards is also impacted by the age of the recipient, with younger consumers more likely to have received cards than those who are older.

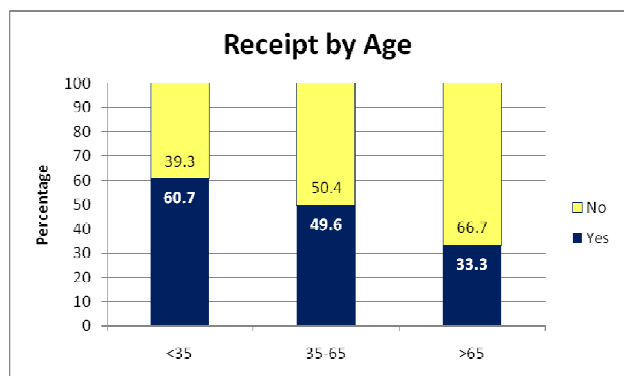


Figure 19

As a picture begins to emerge of the two distinct customers who are involved with gifts cards, i.e., the purchaser and the recipient, it is clear that younger recipients are the predominant targets of these gifts. Younger consumers may be distanced from givers, both geographically, and more importantly, in attitudes and preferences. Additionally, younger consumers are more likely to lack resources, and thus are especially appreciative of the opportunity to enter the marketplace with money to spend.

In contrast to the lack of clear differences with respect to income and purchase of gift cards, income does have a statistically significant impact on whether a gift card has ever been received. Figure 20 below shows how those with higher household income are more likely to have received a gift card in the past.

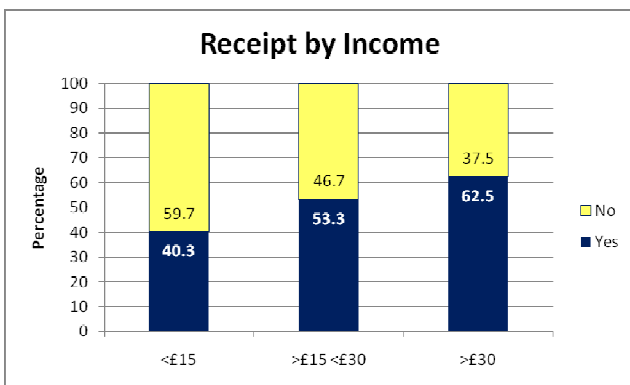


Figure 20

Freedom to Choose

At the heart of the matter is whether the gift recipient really values choice. The study tried to assess this by asking if recipients would rather choose a gift for themselves using a gift card versus having someone else choose the gift for them. Results to this query are exhibited in Figure 21.

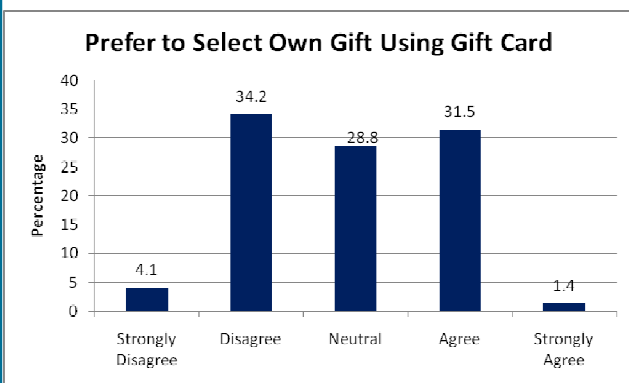


Figure 21

More than half the subjects report the desire to choose their own gifts. This concept is critical to increasing gift card sales because recipient satisfaction is a key driving factor in givers choosing gift cards as presents. For purposes of comparison, it should be noted that the pattern of agreement and disagreement was identical to that found in the Canadian study, though slightly less (10%) in agree range than responses from the US.

Incremental Spend

One of the crucial metrics for retailers is the amount of money spent over the face value of the card. Previous studies and information released by processors indicate that this averages about 40% above the original amount on the card. While this depends heavily on two other factors, i.e., the original card value and category of merchant offering the card, the 140% overall industry average has been validated over time. In the current study, respondents were asked directly about incremental spending. This is not as accurate certainly as transactional data, but does serve to highlight the prevalence of this type of behaviour. Figure 22 below is illustrative of this.

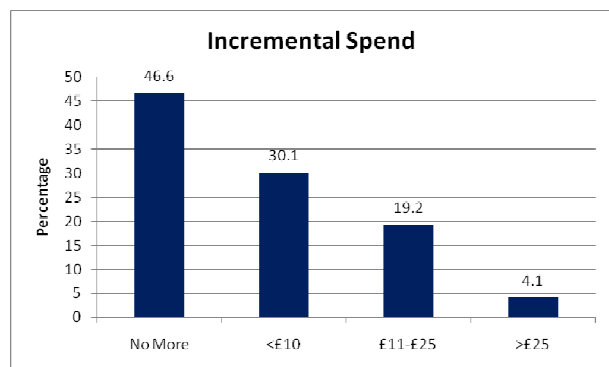


Figure 22

The majority of the subjects reported some incremental spending. However, the proportion not reporting additional spending is worrisome. In Canada,



instance, nearly 75% spend over the value of the card and over 10% double the value of the gift card. This is consistent with the notion that recipients buy something "special" with their gift cards. They, in essence, see the gift card as a significant sale price on something that they might not ordinarily purchase.

One element that is supportive of this idea is something that has come up in numerous focus group interviews over the years. Consumers described looking at the gift card and immediately beginning to imagine how they will use it. With this in mind, the current survey asked whether consumers imagine what they will buy when they receive a gift card.

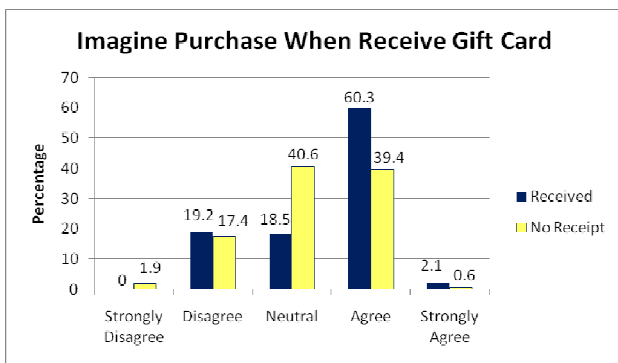


Figure 23

Apparently, experience is important here as well. Those with previous receiving experience do not see the gift card as simply a piece of plastic. They immediately begin to think of the possible outcomes associated with using the card. This suggests that visual appeal is less important to recipients, and further suggests that the current delivery mechanism (the plastic card) is not as important as the benefit delivered. Those without experience are much more likely to be neutral, indicating that the benefit proposition is not as well understood.

Gift Cards and Intimate Gift Giving

One line of investigation is into whether gift cards are more appropriate for gift giving within certain relationships than others. It has been suggested that due to its less personal nature, the gift card is a better choice when the gift is of a less personal nature. The subjects were asked to evaluate two situations, a £50 gift card to a department store from an employer and from a romantic partner.

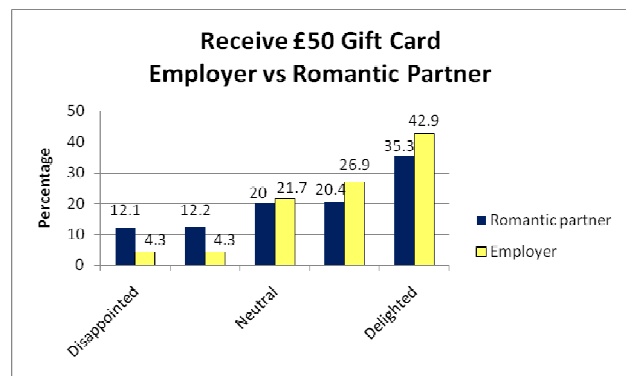


Figure 24

While there is a significant difference, it is certainly less substantial than might have been previously thought. It is also interesting to note that gender-based differences are significant for the romantic partner but not for gifts from the employer.

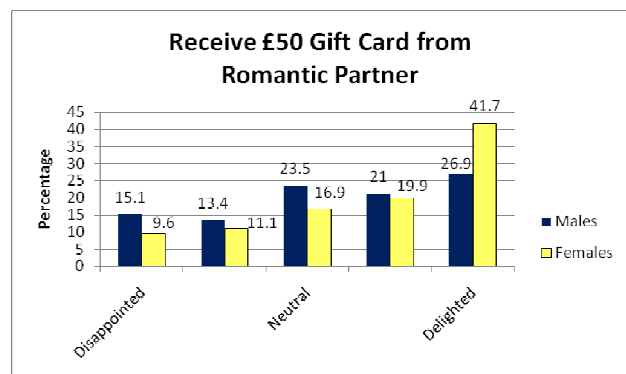
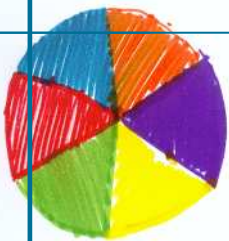


Figure 25



Because of distinct gender roles in gift giving there should be no surprise that differences are present. However, this data is interesting because it shows some of the misperceptions that exist with respect to gift cards. In several recent studies by Giftex Prepay, men have thought gift cards to be more impersonal. Our assumption is that they feel they have not put enough time or effort into the gift search and therefore it *appears* to be less worthy as a gift. It also could be that men genuinely want to demonstrate that they know what to purchase to please a loved one. In any event, they seem to be missing the point. Two possible explanations come to mind. First, as mentioned several times previously, the benefits of recreational shopping are more greatly desired by women and so a gift card that gives them "a ticket to shop," provides utility above and beyond a traditional gift. Second, men may be both less experienced in shopping and less skilled at picking out traditional goods that are appropriate. As such, the women recipients may feel a certain amount of relief in receiving a gift card, which does not have to be returned, and which may be turned into something truly desired.

Attitudes toward receiving gift cards

The study included several attitude measures that sought to assess how people felt about different aspects of receiving gift cards. One question asked if gift cards are better to receive than cash, the expectation being that respondents would recognise that if freedom and flexibility are the most important attributes, then cash should be the hands down favorite. The purchase of a gift card was described by Dilbert in his cartoon strip as "trading perfectly good money for something that does the same thing, only not as well." While retailers, suppliers and givers understand that there are many reasons why the purchase of a gift card has advantages over cash, it is less obvious why receipt of one should be preferred. Yet the results shown in Figure 26 show a surprising picture.

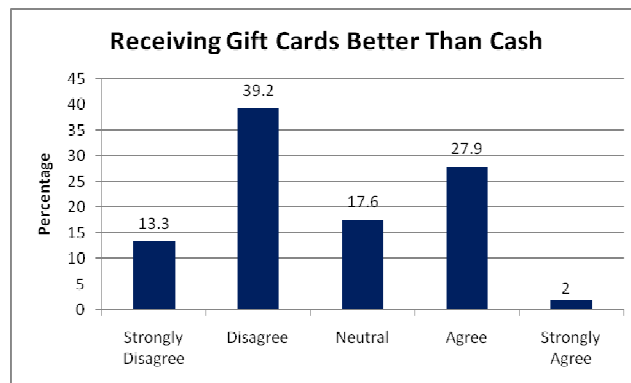


Figure 26

As the graphic above demonstrates, many consumers seem to reject the Dilbert/economist's view that cards are simply a restricted form of cash. Gift cards have other attributes, from the message communicated by the giver, to the ability to justify a trip into the retail environment, to actually indulging in a present for the self versus putting the money into the household fund to be spent on petrol or groceries. These attributes make the cards more valuable in the recipient's eyes.

Yet again, experience makes a difference. Compared to Canada and the US, overall disagreement is higher and agreement is lower. However, if we consider only consumers who have previously received a gift card, the picture changes dramatically and UK attitudes are nearly identical to those expressed in Canada and the US, as shown below.

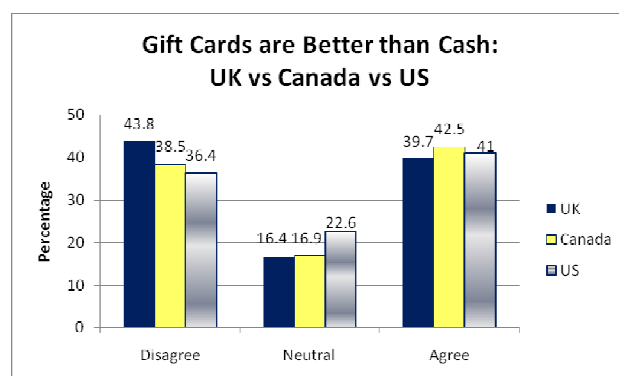
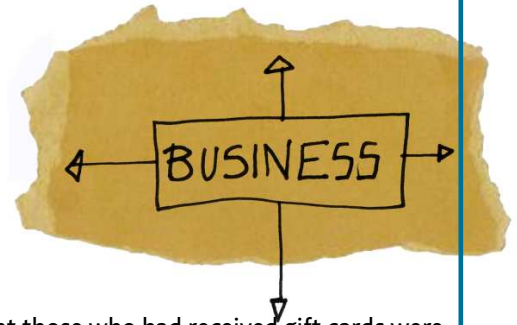


Figure 27



Behaviours Associated with Receiving Gift Cards

One measure utilised in the study, dealt with future store patronage associated with the receipt of a gift card. In past studies, we have looked at how gift cards might drive people to a retailer not previously visited. The 2007 Giftex Prepay data from the US showed this at just over 5%. Equally important is the behaviour after the card is received and used. Does this spur continued loyalty?

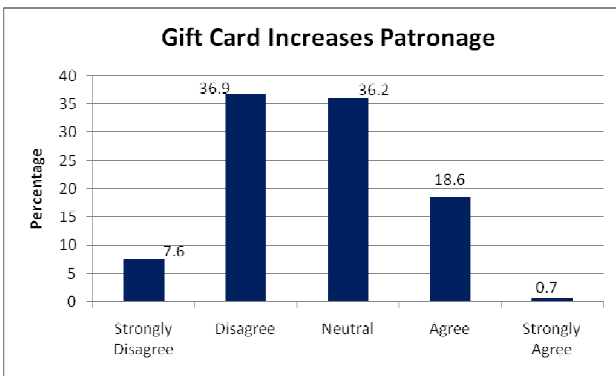


Figure 28

While overall agreement is less than 20%, this figure again masks the underlying impact of experience. The figure below contrasts those who had previously received a gift card with those who had not.

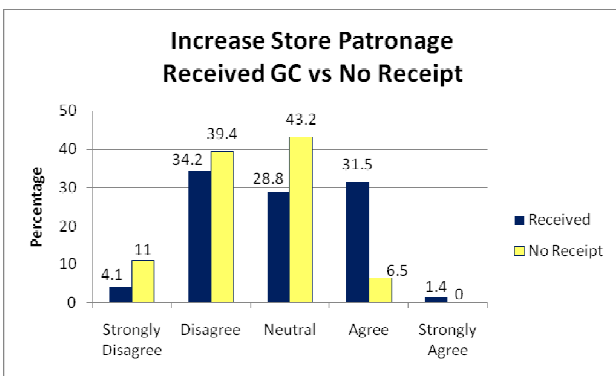


Figure 29

Here we find that those who had received gift cards were in agreement nearly as much as in disagreement, while for those with no prior history, disagreement was nearly 8 times more prevalent than agreement. Certainly, efforts aimed at initiating trial of gift cards appear to be warranted.

One final attitude measure for recipients examined the idea of "topping up" a gift card. This is a desired behaviour because it moves the gift card from a one or two time payment device toward a transaction facilitator and loyalty scheme. To date however, with the exception of certain types of restaurants (e.g., Starbucks), there is very little evidence to suggest that this is something that is appealing to consumers.

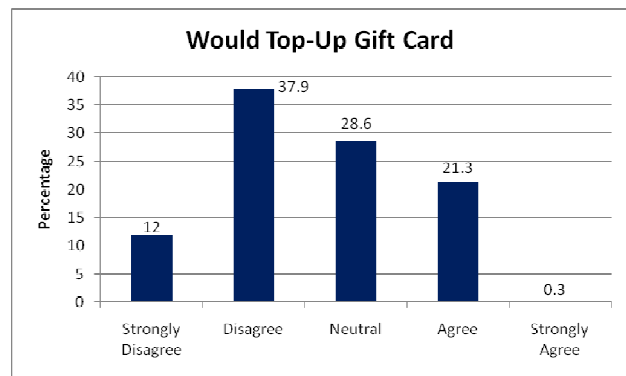


Figure 30

As the data shows, there is not a tremendous groundswell of support for this feature. However, when we consider that the incidence of "topping up" a card is still far below 1%, even with cards where this feature is available, a fifth of the subjects reporting that they would do it is quite substantial. Clearly this needs further research to help explain the discrepancy between attitudes and actual behaviour.



General Attitude Questions

Several questions were asked of consumers to gauge their overall attitude toward gift cards and the benefits or concerns associated therewith. Note that these questions did not specifically address either giving or receiving, but were more general.

To begin, a broad overview question was posed to the respondents with the goal of assessing how they felt about gift cards vis-à-vis traditional gifts. If gift cards are acceptable, or even better than cash, we might presume that this involves gift giving where cash is considered suitable, such as in an inter-generational transfer (e.g. grandparent to grandchild or aunt to niece or nephew). Cash gifts, however, are not the only generic competition for gift cards. As shown below gift cards do extremely well with nearly a third of respondents replying that cards are superior while another third are neutral on the matter.

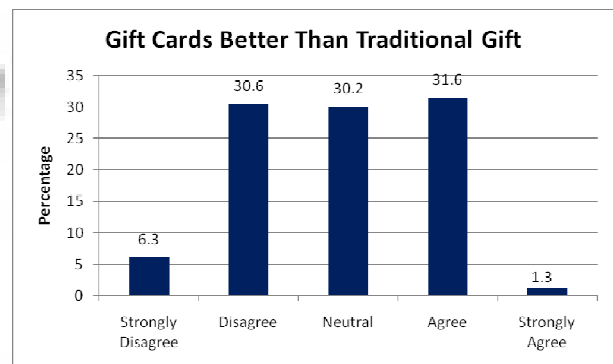
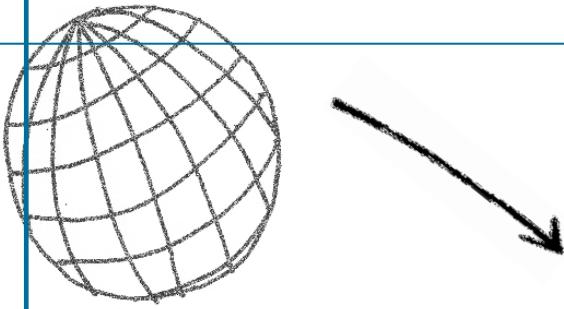


Figure 31



For comparison, Figure 32 shows results from an identical question asked of Canadian and US consumers. The general levels of agreement and disagreement are surprising similar.

In fact, a statistically significant difference was shown between those who had previously purchased cards and those who had not. This is seen in the figure below.

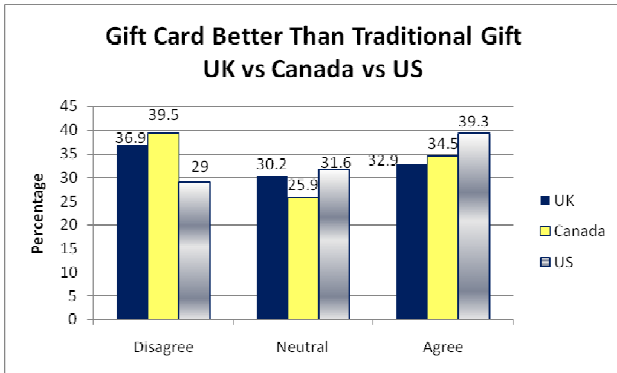


Figure 32

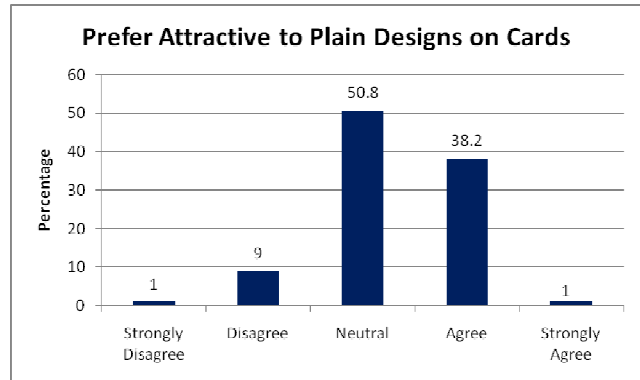


Figure 33

Card Design

The study also sought to examine how consumers felt about card designs. Because much money goes into both the design and production of cards, it was felt that this information would be important when making investment decisions.

Recipients, who, as discussed previously, are busy imagining how they will use the card, do not care about the look of the card as much as what it can be redeemed for. Their relative indifference however, does not mean sellers should ignore this attribute as it is clearly important to those who are actually paying for the goods.

This is somewhat surprising because it is always assumed that a more attractive design is very important to consumers. The finding that the majority of people either are overtly negative or non-committal clearly warrants note.

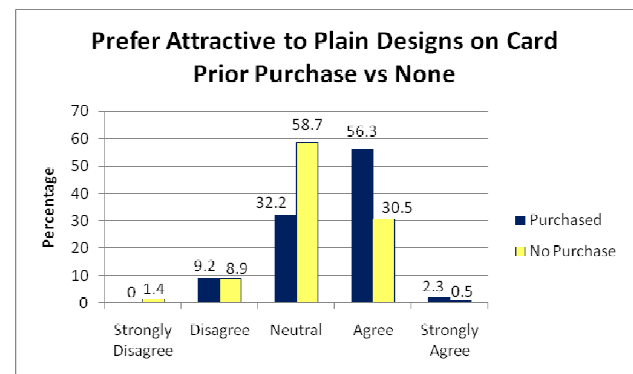


Figure 34

One major caveat is in order, however, before too much is read into the findings shown. It is likely that there are significant differences between givers and recipients when it comes to desire and expectations for attractive or novel card designs. Givers, who wish to present an "attractive package" because of their feeling that the gift reflects on them personally, may be more concerned about the appearance of the card.

Are Gift Cards Impersonal?

One factor that might lead to some recurrent negative attitudes is consumers' beliefs that gift cards themselves are impersonal. As we saw above, many recipients think that gift cards are better than traditional gifts, but the responses were far from unanimous. Past Giftex Prepay research in the US and in the UK has shown that about 20%-25% of the population thinks cards are impersonal. These people tend to perceive cards as last minute "cop-outs," which save the buyer from the genuine effort that "should" be put into gift selection. The results from this study are substantially more negative than previous findings.

That over 50% of respondents express agreement with this statement is problematic for retailers and suppliers who wish to grow this market, especially given the lack of strong support from those who disagree. In contrast, the most recently available US data (which did see a slight increase in negative perceptions), shows those disagreeing with this statement outnumbering those in agreement by over 2 to 1.

Two factors are relevant for consideration. First, the US data indicates that, for the majority, gift cards have become thoughtful gifts that allow the recipient

recreational shopping and freedom of choice. This is a message that has been well communicated, and should be continually emphasised by retailers trying to position gift cards in the market. Second, coinciding with market maturation is the realisation that thoughtful and personal are different dimensions. For example, a thoughtful gift to someone on the fringes of the gift giving circle (a delivery person, for instance) might never need to be personal because of the lack of an actual personal relationship.

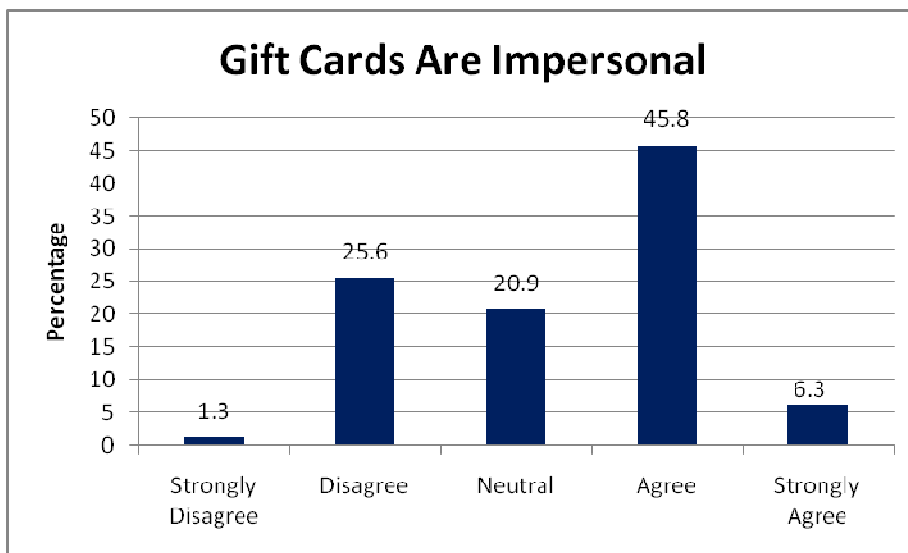
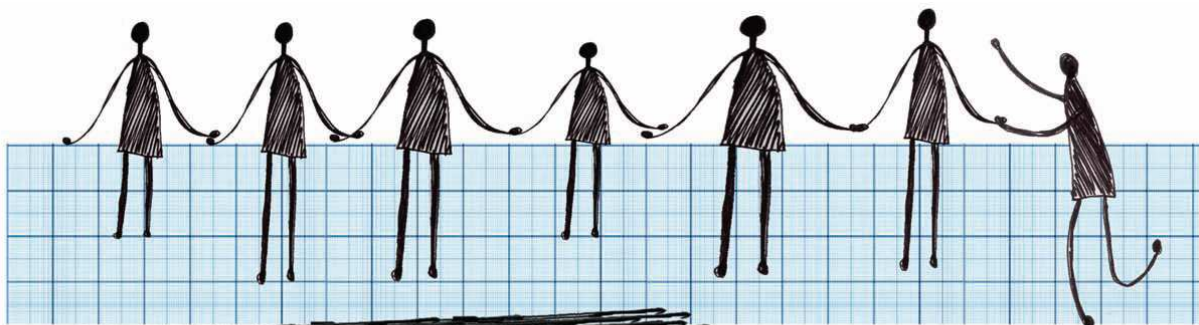


Figure 35



Consumer Forecast

Although forecasting future behaviour for consumers is difficult, this study sought to establish a baseline both to gauge consumer acceptance, especially for this upcoming holiday season, and to provide the basis for comparison across markets and in the future.

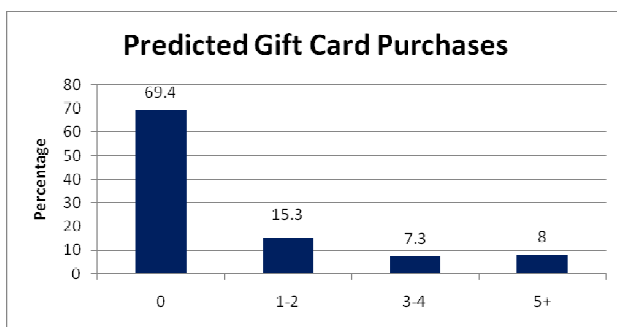


Figure 36

The mean number of gift cards purchased in the last year was .79. The number predicted to be purchased in the next year is 1.00. This represents just over a 25% increase.

For comparison, US consumers predict they will be purchasing about 4 gift cards for the Christmas holiday season alone. Their annual sales prediction would be somewhat higher. Canadian projections are just over 3 cards for the year.

In general, it is appropriate to discount some part of consumers' predictions for future behaviour as intentions are often sidetracked by the realities at the time. However, in the case of the UK, it is quite possible that the consumer prediction is understated.

The main reason for our optimism is the dramatic increase in gift card availability and visibility. Two factors are driving this. First, Marks and Spencer, a heavyweight in the voucher space, recently introduced a gift card. The popularity of the voucher is likely to at least partially enhance awareness in the market. While,

relying on "it is just a more modern voucher" is less than ideal for long term growth, the existence of that sentiment will at least get the product into many new hands. If satisfaction runs high, return business is assured.

The second factor is that third party distribution is making the cards so much more ubiquitous. Grocers, news shops, and even petrol forecourts are now including displays for the sale of a variety of gift cards. If nothing else the increased messaging helps plant the seed that gift cards are an alternative for holiday giving.

Age helped explain the findings shown, as those under 65 predicted substantially higher levels of purchase than older consumers. Household income also was positively and significantly correlated with the number of gift cards predicted to be purchased. Further, women predict that they will buy more gift cards, but that is hardly surprising given that they are more involved in gift selection. There was also a significant age by gender interaction. Older men are the least likely to buy any cards, with just one in six predicting purchase. Half of middle-aged women, on the other hand, are predicting the purchase of at least one card.

However, the most influential factor driving this year's prediction is whether or not the subject purchased a gift card last year. Those who had purchased gift cards in the last year predicted they will purchase an average of 2.74 gift cards, whereas those who had not purchased cards last year predicted the purchase of .48 cards. What is more, the amount predicted for those who purchased previously shows a 35% increase from the previous year's purchase. The implication is very clear, those who have experience are very pleased, and thus repurchase. The key is therefore stimulating first purchase.





Conclusions

The overall conclusion of this research is that gift cards will continue to grow in the UK. Consumers, especially those who have experience with the product, are very well disposed toward them.

Unfortunately, the current research does not allow us to untangle the causality of the findings shown. Do people not buy gift cards because they have negative attitudes toward the product category? Or conversely, do people have negative attitudes toward gift cards because they have no experience with them and therefore are not in a good position to judge the relative merits of the product? If, as suspected, the latter is the case, then efforts to dramatically increase the size of the market are dependent upon more effective communication of the benefits of the product, thereby initiating trial of the cards.

The Reports

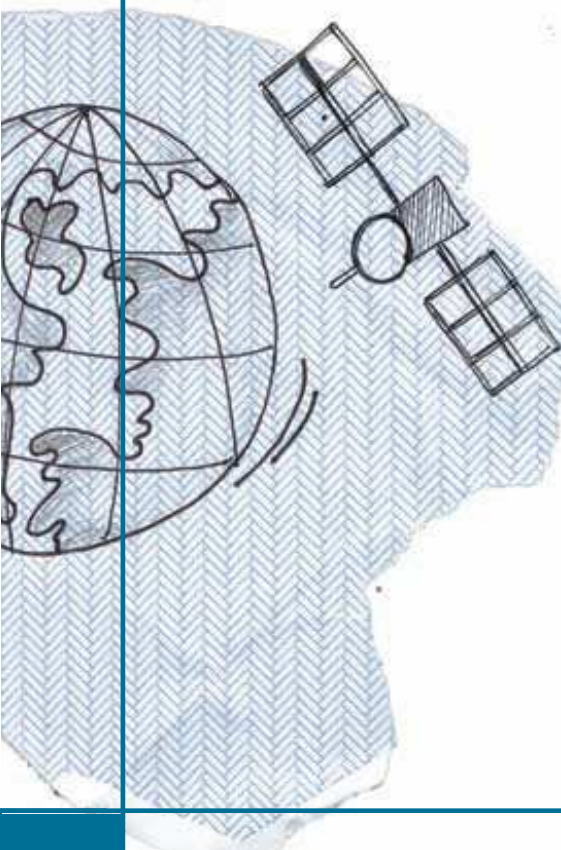
The data presented above is sample from a larger study commissioned, in part, by the VA. That study, is also part of Giftex Prepay's undertaking to study consumer behavior as it relates to gift cards and other payment mechanisms.

About the Author

Known as the *Gift Card Guru*, **Dan Horne** is the world's leading expert on consumer purchase and use of gift cards, an area he has studied since 1992. **Horne** is an Associate Professor in the Department of Marketing at Providence College in Rhode Island, USA, where he teaches Consumer Behavior. Horne holds an AB in International Economics and a Ph.D. in Marketing from the University of Michigan, and an MBA from Saginaw Valley State University. His doctoral dissertation on consumers' choice processes in the selection of gifts was published in 1993.

Following his doctoral work, he began a series of large-scale research projects investigating the consumer purchase and usage of gift certificates and cards as well as the role these products play as rewards, incentives, and promotions. His work has been published in both academic and practitioner journals including the *Journal of Consumer Affairs*, the *Journal of Consumer Marketing*, *Advances in Consumer Research*, and *Psychology & Marketing*. In 2005 he co-authored with Tony Craddock, the *European Guide to Gift and Stored Value*. In addition, his industry research reports are published 8 times annually in Giftex Prepay's *Global Prepay Intelligence*. His latest research project, *Giftex Prepay Guide to Consumer Behaviour in Gift Cards*, is scheduled to be published in early 2008.

For the last fourteen years he has worked as a researcher, analyst and advisor on gift certificates/cards for retailers, financial services companies and suppliers in North America, Europe and Australasia. He provides expert commentary on retailer performance to the financial markets, and to the print and electronic media. He has served as an advisor to governmental authorities in the US and Canada on issues surrounding the sale and purchase of gift cards. He is a member of the Board of Directors of IncentOne and a Non-Executive Director of Giftex PrepayLtd.



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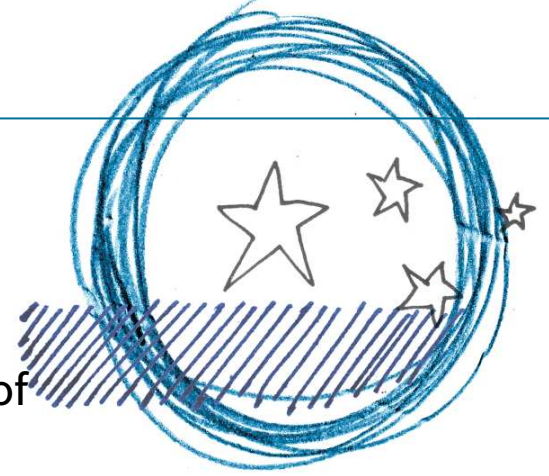
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