GIFT CARD AND VOUCHER SALES ANALYSIS AND OUTLOOK UK

H2 2021

Gift Card & Voucher Association

KPMG

GCVA DATA ANALYSIS H2 2021

The Leisure sector reports its best ever growth on record, while Retail grows more modestly in 2021, and recovers the ground lost due to COVID-19.

Executive Summary

With only light Covid restrictions in place during the second half of 2021 – apart from increased caution in the last month of the year as the Omicron variant emerged – the data from the Gift Card & Voucher Association data submitting membership reveals a resilient performance, leading to overall rolling year growth of 8.2%. Like-for-like growth comparing H2 2021 to H2 2020 was more modest, however, at just 0.2% - but the industry now sits at a very positive 13.6% above 2019 levels, demonstrating the strength of its recovery.

A notable feature of the period is the 'flip' we have seen between the relative fortunes of Retail and Leisure. With fewer restrictions impacting the Leisure industry (experiences, hospitality, travel, and entertainment), gift card operators experienced an explosive 110.8% like-for sales boost as the nation returned to experiences and entertainment. This has seen Leisure recover from its decline in 2020 and pushed it just above 2019 levels. Retail, meanwhile, saw something of a falling back – from 25.1% like-for-like growth in H1 to a dip of -2.5% in H2. Nevertheless, it recorded a positive 6.4% rise over the rolling year. Continuing the trend seen in previous years, online sales drove performance – up 15.2% - although they unsurprisingly fell back slightly compared to their stellar performance in 2020 when lockdowns dominated. B2B once again represented the majority of sales (59.4%), although volumes fell by -7.6% in the period leaving its share down from an H1 2021 peak of 76.3%.

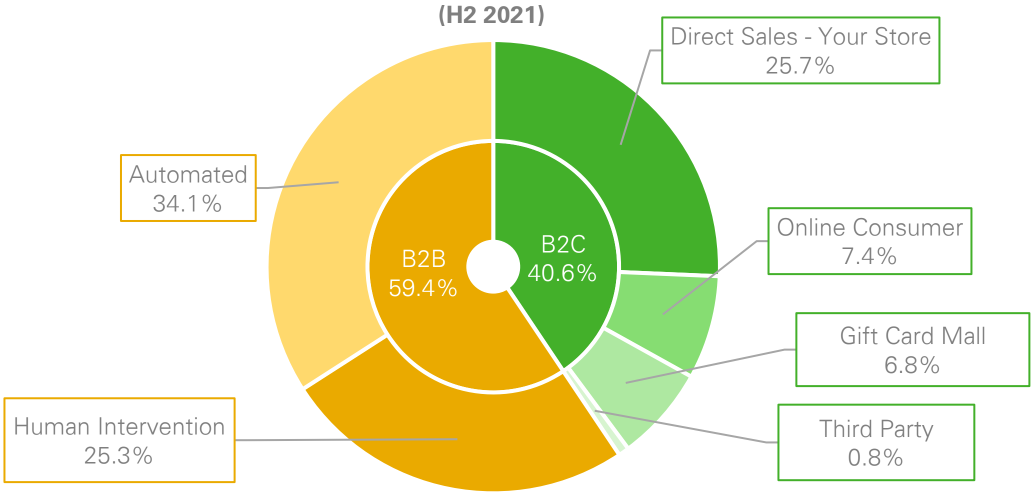
0.2% Like-for-like period growth

£2.04bn Total H2 2021 sales

8.2% Rolling Year growth

29 Contributors

Market share by sales channel (H2 2021)



Top takeaways

01 Overall increase of 10.0% from H2 2019 to H2 2021 showing the strength of recovery

02 Rolling year rise of 8.2% in 2021, with a marginal like-for-like rise of 0.2%

03 In a complete turnaround from H1, Leisure has seen explosive growth of 110.8%

04 Retail has declined 2.5% like-for-like, but due to the strength of H1, saw a rolling year rise of 6.4%

Top takeaways

05 Sales of Digital gift cards fall 1.1% like-for like, but rolling year growth stands at 15.2%

06 B2B's market share falls to 59.4% from 64.4% in 2020

07 Closed Loop sales show strong growth of 22.2% for B2C

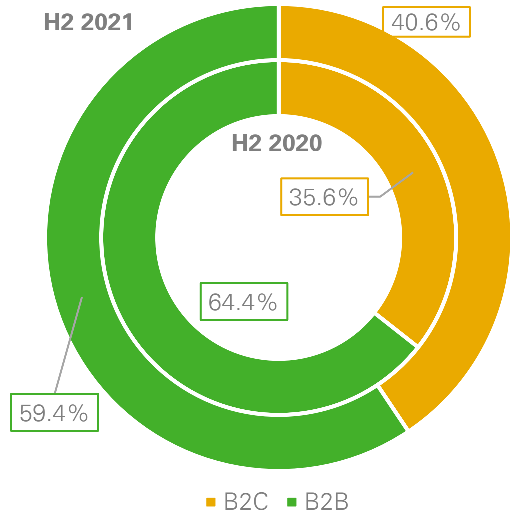
08 In-store redemptions rose to 51% market share, up from 36% in H1 2021

Overview

With UK lockdown measures being relaxed and the Leisure industry returning, this has clearly made the nation want to get back and once again enjoy all the things they "used to" love. Leisure gifting has therefore also made an outstanding comeback. Leisure operators experienced a huge uplift in gift card sales, up 74.7% on a rolling year basis. These new opportunities may have diverted sales away from Retailers who, whilst still recording 6.4% rolling year growth, have seen a H2 small like-for-like dip of -2.5%.

B2B still accounts for the lion's share of sales – but shows signs of contracting compared to the growth of consumer sales. Over the rolling year, B2B grew 4.8%, while B2C lifted at over three times that rate, at 15.4%. Compare that B2C performance with the rolling year picture in H2 2020, when we reported that sales were down by -21.6%. The contrast in performance between business and consumer sales was quite marked during H2 2021, with B2B declining by -7.6% on a like-for-like basis while B2C grew by 14.3%. This is of course against the backdrop of 2020 where lockdown restrictions meant the consumer market was highly constrained, while B2B grew considerably.

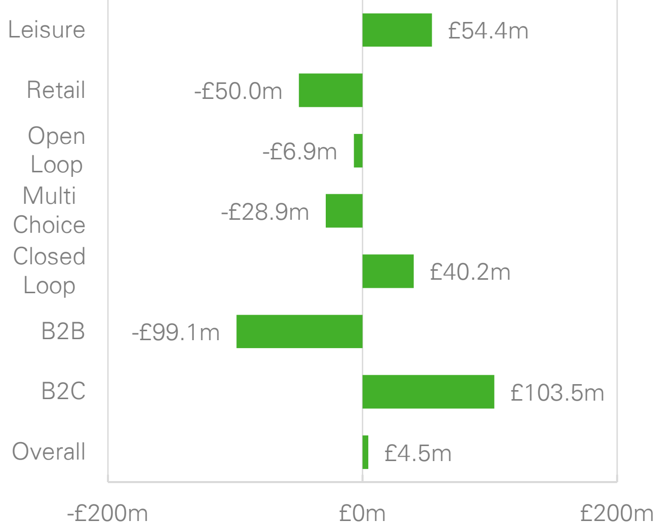
B2B loses share but still leads (H2 2020 vs H2 2021)



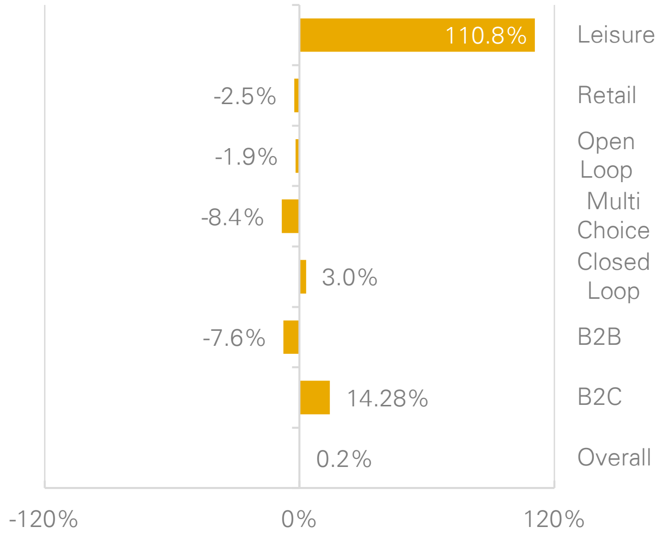
Meanwhile, the overall growth of digital sales has continued, although at a slower rate. On a rolling year basis, digital and eVoucher sales jumped by 15.2% - outstripping modest physical growth of 5.8% and a (continuing) fall in paper, which was down 6.6%.

Overall, with growth now returning by most metrics across the gift card market, and lockdown restrictions now hopefully a thing of the past, gift card operators can look to the future with more confidence and have realistic hopes that the an uplift in sales will continue.

Absolute growth in the like-for-like period (H2 2020 – H2 2021)



Percentage growth in the like-for-like period (H2 2020 – H2 2021)

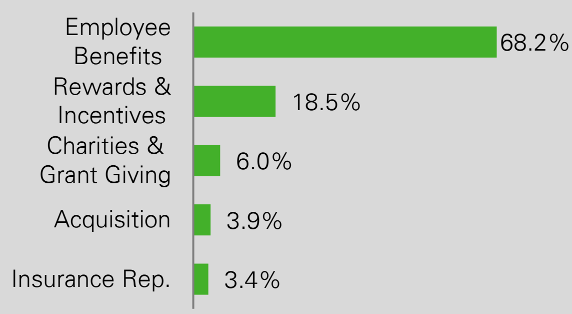


Make up of the B2B Market

Within B2B, 'Employee Benefits' continues to take the top spot, however it's lost share since H2 2020, dropping to 68.2% from 72.1%, perhaps due to changing habits as the worst restrictions on retail and leisure recede.

'Charities & Grant Giving' has been the only B2B sub-category to grow like-for-like, leaping from last to 3rd position, with growth of 613.2%. While still only a small portion, this could be the sub-category to watch for future growth.

Market share of B2B components (H2 2021)



Sector Focus

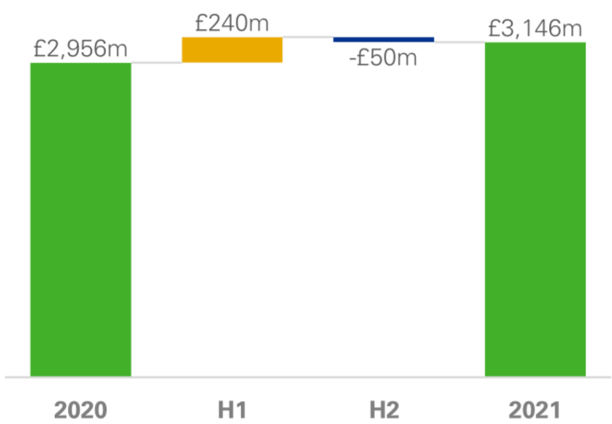
Retail

Retailers have seen a slight dip of -2.5% on a like-for-like basis which could be due to an unwinding of the shock of the first lockdown on the sales mix in 2020 where gift card sales were artificially shifted towards the second half of the year. Consumers may also have wanted to make up for lost time with the Leisure sector, with fewer restrictions than in the same period of 2020.

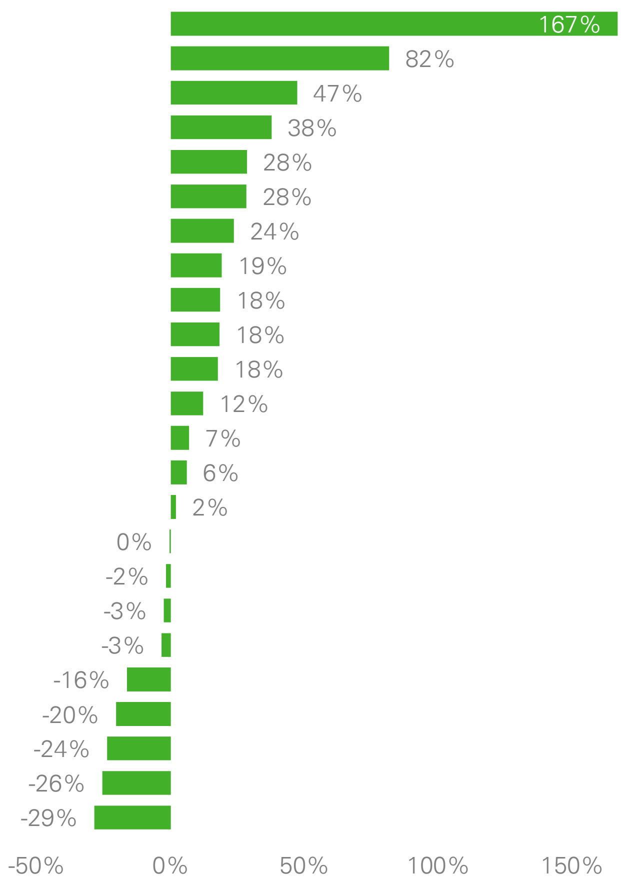
Nevertheless, Retail is up on a rolling year basis by 6.4% and is 14.3% higher than its position in 2019. Individually, a majority of retail members reported positive like-for-like growth. The underlying picture is positive.

Digital cards and eVouchers continued to increase their market share in the retail environment, taking a 34.2% share in 2021, up from 31.8% in 2020, and significantly above their penetration in 2019 of 26.9%.

Retail growth in 2020 and 2021 by half-year



Retail membership: Percentage growth in the like-for-like period (H2 2020 – H2 2021)



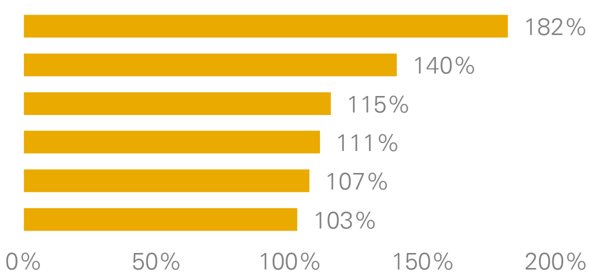
Leisure

The second half of 2021 was a much-needed tonic for Leisure gift card operators. Astronomical growth of 110.8% during H2 – with strong rises in both B2B and B2C sales – saw the sector recover the ground lost in the annus horribilis of 2020, taking it to 1.8% above 2019 levels.

Sales growth was mainly driven by online B2C (59.1% of the Leisure market) – but there was a huge rise in mall sales too, which rose 136.9% like-for-like.

All reporting Leisure members saw triple digit like-for-like growth. This came despite the run-up to Christmas being subject to greater advisory warnings in light of the Omicron variant and, at that time, uncertainty over how bad things would become. As the Omicron wave now seems to be receding, it will be a great relief to Leisure players, with hopes that we have now returned to more normal conditions.

Leisure membership: Percentage growth in the like-for-like period (H2 2020 – H2 2021)



Product Focus

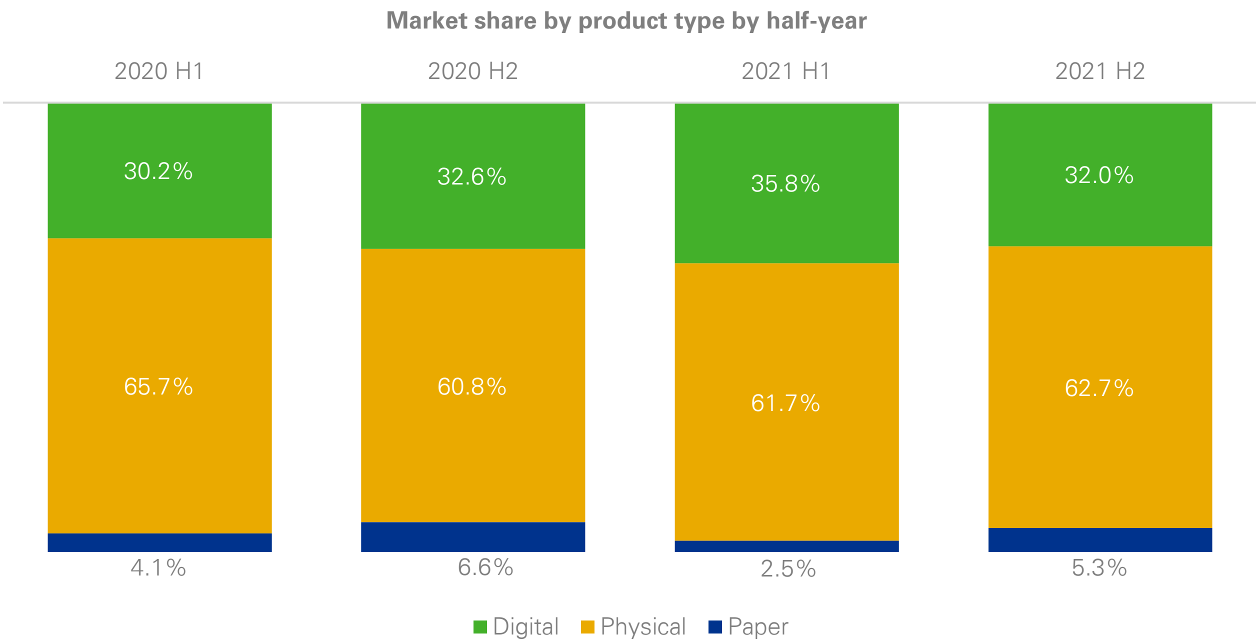
Although digital cards have seen dramatic expansion over the last two years, they showed their slight first fall in market share on a like-for-like basis for a long time during H2 2021, dipping by -1.1%. There was perhaps an inevitability to this as high streets and shopping centres got back to more normal business during the period and physical sales rebounded.

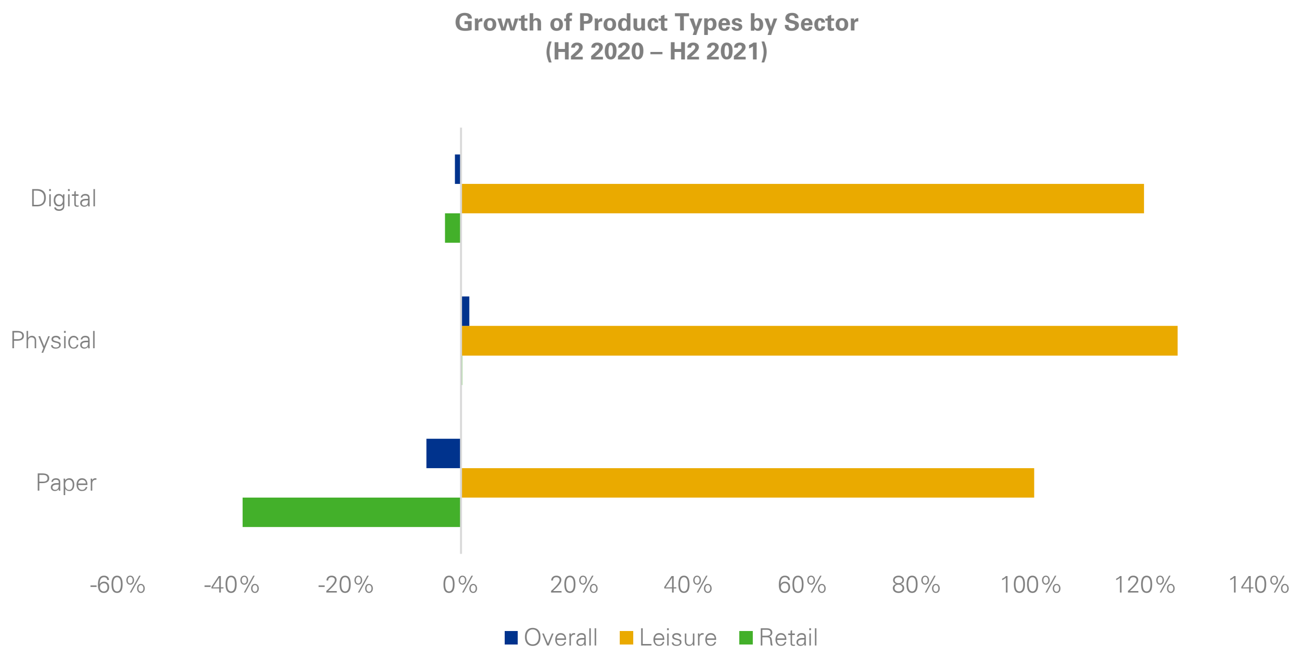
Physical cards remain the dominant form, up 1.5% in market share on a like-for-like basis during H2, and accounting for 62.7% of all sales. Digital sales stand at 32.0% with gains mostly taken by paper vouchers due to the resurgence of the leisure sector.

In terms of redemption types, closed loop sales were strong for B2C – up 22.2% like-for-like – while open loop grew almost as much (18.5%). Multi choice, however, fell by -5.4%. This points to stronger brand loyalty, possibly driven by the reopening of retail stores.

It was a falling picture across the board in H2 for B2B, as per the overall B2B trend, with open loop down -4.6%, closed loop down -7.8% and multi choice declining the most (-12.7%).

Overall, in-store redemptions rose to 51% market share in H2 2021, a significant increase from H1 at 36%. Like-for-like growth in in-store redemptions stood at 90% for the period – a clear indicator of the 'return to the high street' witnessed last year and borne out by online redemption market share growing by only 3% like-for-like.





ECONOMIC AND RETAIL OVERVIEW

H2 2021 saw restrictions at their most relaxed in two years, but wider economic events are knocking consumer confidence

With trading conditions much nearer to normal in the second half of 2021, the retail and leisure sector was able to continue its recovery from the slumps of lockdown-stricken 2020. A buoyant Q2 after lockdown ended in April 2020 was followed by resilient trading through H2, even if supply chain challenges and the pressure of rising costs intensified.

Figures from the BRC-KPMG Retail Sales Monitor[1] show that, across the year as a whole, total sales increased 9.9% in 2021 compared to 2020. Food growth was 3.1% and Non-Food an impressive 15.6%. Despite the emergence of the Omicron variant, the all-important Christmas period was a qualified success with retail sales up 0.6% on a like-for-like basis compared to December 2020, when they had increased by 4.8%.

Over the three months to December, Non-Food sales increased 4.8% on a total basis and 1.4% like-for-like. The figures for in-store purchasing were particularly eye-catching, up 36.0% on a total basis and 26.8% like-for-like, underlining the extent to which shoppers took advantage of their ability to return to a more-or-less normal High Street.

Nevertheless, 2021 saw a double-digit rise in Non-Food online sales – "a testament to retailers' huge investments in their online platforms", according to BRC chief executive Helen Dickinson.

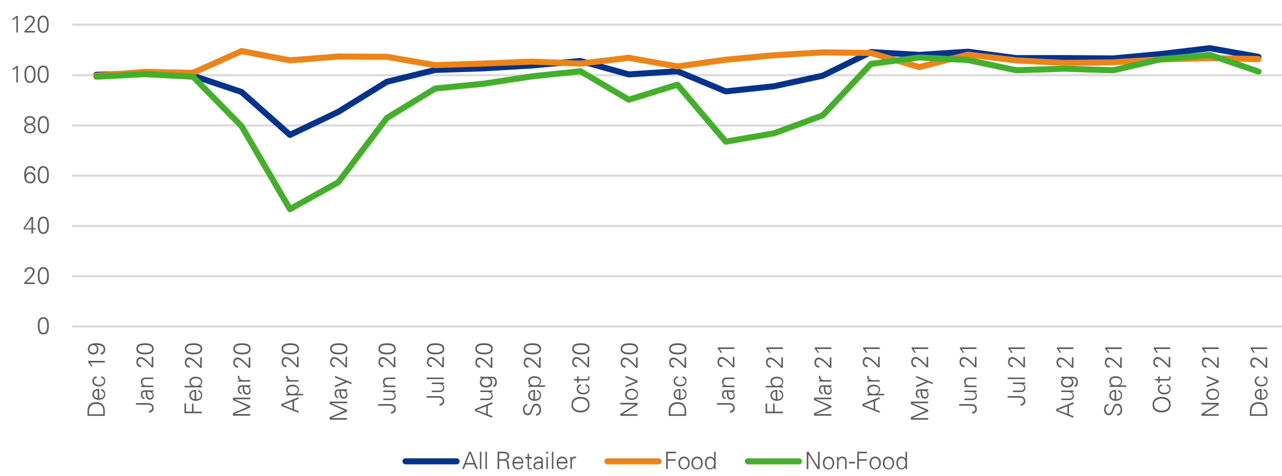
As we have noted in the first part of this report, the second half of the year saw some rebalancing in gift card terms between the growth in retail and leisure spending respectively. Leisure operators enjoyed a strong six months as consumers were able to return to some of the pleasures and experiences they had been denied during the worst of the pandemic – and to gift those experiences to others.

Looking ahead, while both retail and leisure operators may have more confidence about the future than they did this time a year ago, significant pressure points remain. A growing cost of living crisis could rein in consumer spending – and significantly reduce it amongst some sections of the customer base. The Retail Think Tank[2] has foreseen a "tough start" to 2022 for many businesses although despite this it says that most of its members are expecting it to be a "generally more positive year". The RTT is predicting retail growth of between 1% and 2% in 2022.

How this plays out will depend on a number of factors: how much will the cost of living crisis escalate, affecting consumer demand? How high will costs rise? Will supply chain issues continue to dog retail and leisure operators?

There's little doubt that 2022 will throw up many challenges – but overall, it is expected to be a more stable year compared to the extremes and vicissitudes of the previous two.

UK Retail volume sales seasonally adjusted
Index December 2019 = 100



1. BRC-KPMG Retail Sales Monitor, January 2022, https://home.kpmg/uk/en/home/media/press-releases/2022/01/festive-success-but-head-winds-for-2022.html
2. Retail Think Tank, Outlook for 2022, http://www.retailthinktank.co.uk/whitepaper/outlook-for-2022/

Economy in 2022

While the coming year may be more stable in relative terms due to hopes that the pandemic has subsided, nevertheless it is predicted to be a year of more subdued economic growth than 2021 because the rebound effects from coming out of the worst of lockdown have already been 'banked'.

In its January comparison of economic forecasts[3], HM Treasury found that the average expectation for final GDP growth in 2021 stands at 7.1% - but expectations for 2022 are significantly lower, at 4.4%.

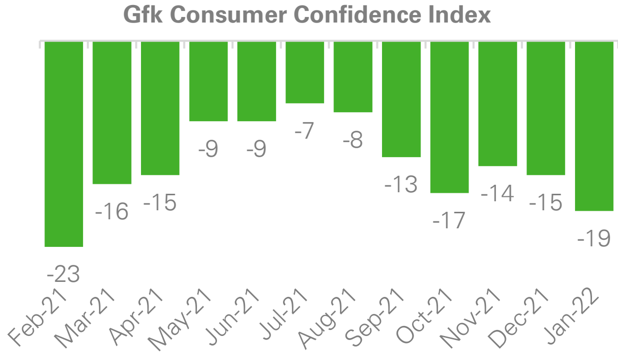
The latest economic forecast from KPMG[4] is a little more optimistic about economic performance in 2021 – predicting a final outturn of 7.3% growth – but a little less optimistic about 2022, expecting GDP to grow by 3.8%. With the economy now on the cusp of pre-Covid 19 levels, KPMG observes that growth momentum will no longer be able to rely on the rebound effect to propel it and expects growth to gradually slow as a result of pressures on both demand and supply. Rising taxes and borrowing costs, as well as elevated inflation, will squeeze households' purchasing power.

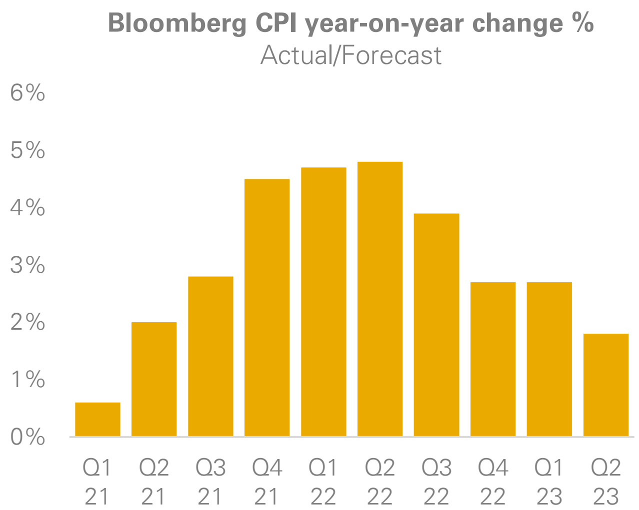
Indeed, with a major increase in energy costs coming in from April, the Bank of England has said that inflation could reach 7.25% – the kind of level not seen in the UK since the 1990s. In an effort to dampen the inflationary threat, the Bank of England has recently raised interest rates for the second time in quick succession, now standing at 0.5%. But while this will help contain inflation, interest rate rises will add to the sense of financial pressure in many households. A number of analysts expect further rises through the year – KPMG for example predicting two more, in August and November.

On the positive side, KPMG predicts that, as energy prices gradually stabilise and supply chains recover, inflation will moderate significantly by the end of the year and will approach the Bank of England's target of 2% by the start of Q2 2023.

Some of these tensions between growth and inflation can be seen in the most recent purchasing manager and services data from IHS Markit[5], where the recovery in UK service sector output increased during January – but the uplift in business activity was accompanied by the steepest rises in prices charged since the survey began in July 1996.

Meanwhile, the gathering financial headwinds are driving consumer confidence downwards. The GfK consumer confidence index for January[6] recorded a confidence score of -19, an 11-month low. Consumer confidence has in fact been on a generally downward trajectory since last summer, GfK's data shows. Now, worries about inflation, fuel bills and interest rate rises are sharpening – consumers are "bracing themselves" for the impact, according to GfK.





What does this mean for retail?

As retail and leisure operators look ahead through 2022, they are faced with something of a dichotomy which they will need to draw on their reserves of trading experience, flexibility and responsiveness to navigate.

On the one hand, 2022 promises to be a much more normal year now that – barring any surprises – the coronavirus has peaked and is in recession. There remains significant pent-up demand for purchases and consumer experiences, especially amongst higher earning groups who may be sitting on cash reserves built up through the pandemic.

But on the other hand, the spike in the cost of living looks set to be real and significant. Many consumers may curtail their spending and focus on essentials as they try to make ends meet. Low and mid-earners in particular can be expected to tighten their belts.

3. HM Treasury, Forecasts for the UK economy, January 2022
4. UK Economic Outlook, KPMG, January 2022
5. IHS Markit, February 2022 https://www.markiteconomics.com/Public/Home/PressRelease/540578deb06a4f2399fced0d6c8269aa
6. GfK Consumer Confidence Index, https://www.gfk.com/en-gb/press/uk-consumer-confidence-drops-four-points-january

SECTOR OUTLOOK

As we emerge from a world of COVID-19 restrictions, behaviours have changed for good and the drivers for transformation have accelerated. How do you remain relevant?

Value, discounts and targeted promotions

This means that for many retail and leisure businesses, it will be crucial to get the pricing strategy right, ensuring that value for money is high and discounts and promotions are effectively targeted to keep consumer activity up. Linking promotions to customer loyalty schemes is likely to be an important tactic. Research from payment services provider Adyen[7], for example, found that over half of UK customers (53%) said they plan to "stick with the businesses I used during the pandemic." So rewarding this loyalty with incentives and benefits could be a way to drive additional spend.

Clearly, there is an opportunity here to link this to gift cards – such as offering a bonus gift card balance for every £XX spent during a promotion.

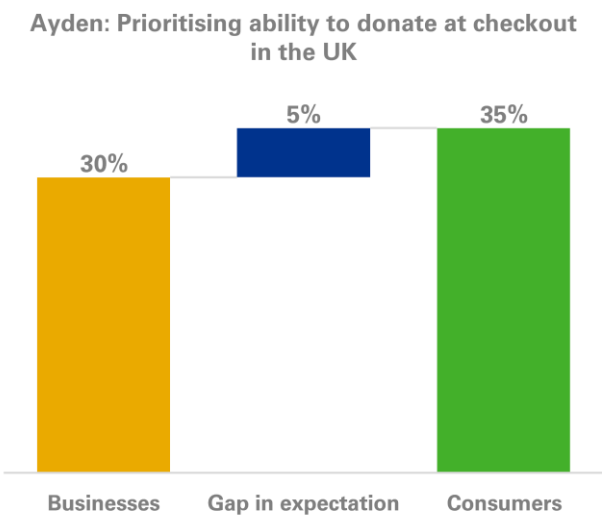
Another key route to market in the gift card context is likely to be the B2B sector. This already accounts for the majority of gift card spend as we have seen. Creating attractive offers for the staff of corporate client businesses, with special offers and discounts available for redemption, will be another way of maintaining momentum and growth.

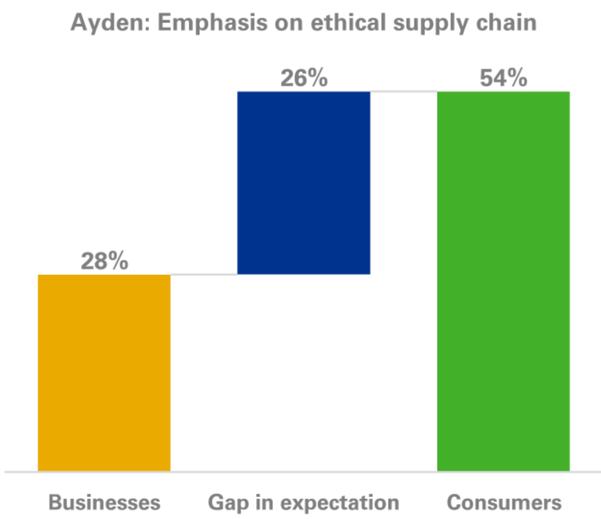
Aligning with the ESG agenda

Another big theme set to run throughout the year and beyond is ESG. Across climate and sustainability, social values and purpose, and ethical sourcing and human rights, growing numbers of consumers are paying more attention to who they shop with. The COP26 climate conference in Glasgow at the end of last year only heightened the focus on carbon footprint and sustainable practices.

KPMG research has found that a strong majority of consumers say they are environmentally conscious and around half are prepared to pay a premium for sustainable products. However, when ranking factors in order of importance to them (price, quality, service, etc), ESG considerations tend to come much further down the list.

This suggests something of an ESG disconnect between what consumers say matters to them and how they actually behave. And their ESG resolve may become even more tested if the cost of living crisis puts a squeeze on finances – price and value for money could dominate beyond environmental and social factors.





7. The Expectation Gap, Adyen, October 2021, https://www.adyen.com/en_GB/landing/online/uk/2021/expectation-gap

Aligning with the ESG agenda (cont.)

Nevertheless, retail and leisure businesses should be looking for ways to align ESG into their commercial strategies to find positive synergies. For example, offering certain bonuses or rewards (such as gift card balance) when a customer buys a green product or service.

In an age of increasing 'conscious consumerism', however, some customer segments may be looking simply to consume and spend less. Instead of seeing this as a threat, businesses have the opportunity to help them by providing advice and guidance on how goods can be recycled, repaired or reused to support a circular economy. Could there be an opportunity here too, to offer a gift card or points when a customer reuses or recycles a product?

There has also been an increasing trend for businesses to offer a charitable donation option at checkout, for example in the food delivery sector. In the gift card context, operators may ask themselves whether there is an equivalent here. An option to donate a small sum to a charitable cause when purchasing a gift card would reinforce the social values of the operator in the customer's perception.

The channel equation

Without doubt, the pandemic has increased the customer migration to digital channels including mobile and in-app. For some customers, the shift in emphasis may be permanent.

But a key consideration and area to watch during 2022 will be how far the pendulum swings back to in-store shopping and physical experiences again. We have already seen some rebalancing of this during H2 2021, as observed in Section One of this report.

Operators without a strong digital solution are encouraged to accelerate their investment into digital, including provisioning gift cards into mobile wallets. But at the same time, the physical channel will remain a huge part of the business of retail and leisure. When a customer comes in-store to spend a gift card, it is common for them to make an additional purchase(s) alongside, thereby spending more than the value of the card. For the online equivalent, operators should ensure their platform is upselling by suggesting complimentary and higher margin items. It simply underlines that those businesses who pursue a multi-channel strategy are most likely to be successful – including leveraging cross-over points between the digital and physical experience such as Click & Collect.

Adaptability will be key. Given the uncertainties of the year ahead, every member organisation will need a clear, data-driven, real-time view of the market so that it can adjust its strategy according to the levels of business across different channels, product lines and segments of the customer base.

Making data-driven decision using robust analysis and forecasts

- **Inclusive** - Your range of analysis should provide a holistic understanding of customers and markets at both macro and micro levels.
- **Realistic** - Analysis should not only identify areas for improvement (or even exit) but provide a clear rationale and action plan to deal with the situation.
- **Purposeful** - Past performance is no guarantee of future success – all decisions should be made based upon robust analysis appropriate to local market conditions.
- **Balanced** - Decision making should recognise and understand the importance of cash profits alongside sales and gross margin, and this should be understood at a category level.
- **Perceptive** - There is no 'one size fits all' in retail. Data should be used to understand the local marketplace, including both external and internal competition.
- **Comprehensive** - Any retail strategy should align your digital and physical footprints and consider both at the same time: COVID-19 has shown the importance of a robust omni-channel strategy.

GLOSSARY

Statistics	**Like-for-like growth**	Growth of this period vs the same period 12 months ago i.e. H1 2021 vs. H1 2020
	Rolling Year Growth	Growth of the most recent 12 months vs the previous 12 months i.e. H1 2021 + H2 2020 vs. H1 2020 + H2 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. experiences, hospitality, travel, and entertainment.
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 B2B Customers that require human intervention to place the order e.g. via a call centre or account manager.
	Automated	Sales made to B2B Customers that did not require human intervention to place the order e.g. via a web portal or API.

GLOSSARY

B2B Sub Markets	**Benefits, Employee Savings & Salary Sacrifice**	Sales made to B2B Customers for the purposes of providing that business's employees with benefits, savings or salary sacrifice benefits.
	Rewards & Incentives	Sales to B2B Customers for the purposes of providing that business's stakeholders (suppliers, customers, vendors) with rewards and incentives for doing business with them.
	Acquisition	Sales to B2B Customers for the purposes of that business acquiring new customers.
	Insurance Replacement	Sales to B2B Customers for the purposes of that business providing insurance replacements to their customers.
	Charities & Grant Giving	Sales to B2B Customers for the purposes of charitable donations or grant giving to volunteers.
Redemption	**In store**	Gift-card/vouchers redeemed via a physical point of sale in-store. (This excludes 'Click and Collect' & 'Online Food Ordering' where redemption is via an online channel).
	On Line	Gift-card/vouchers redeemed via an online channel. This includes 'Click and Collect' & 'Online Food Ordering' where redemption is via an online channel, though the physical collection/consumption of the good may happen in-store.
Mobile Wallets	**Provisioning**	Digital gift-cards/vouchers issued then subsequently provisioned into either a digital wallet (e.g. Apple Pay, Google Pay), generic voucher App, or brand specific Apps that allows credit to be added - e.g. like the Starbucks App. (For completeness, this excludes emails/SMS containing e-codes/barcodes/QR codes, etc).

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Gift Card & Voucher Association

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