

GIFT CARD AND VOUCHER SALES ANALYSIS AND OUTLOOK UK

H1 2021

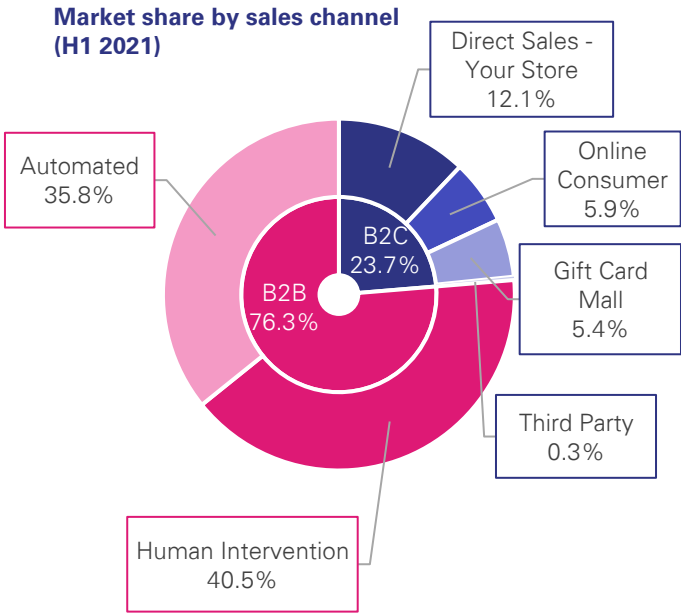
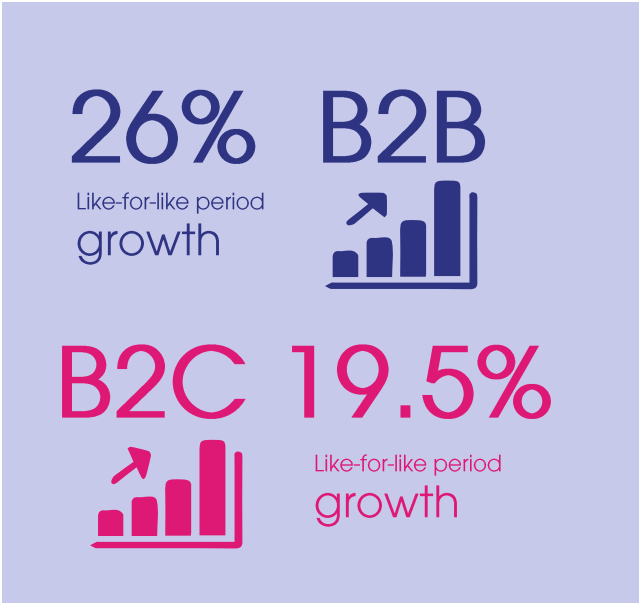
GCVA DATA ANALYSIS H1 2021



Strong like-for-like growth as the retail and leisure sectors recover well from a world still heavily impacted by COVID-19 restrictions.

Executive Summary

The UK was in lockdown for most of H1 2021 and at least partial restrictions were in force for the whole period – but this did not stop a resurgent performance from the Gift Card and Voucher Association data submitting membership, who reported 24.6% growth on a like-for-like basis. On a rolling year basis, sales were up by 17.1% - even more impressive when we consider that the comparison here includes nine months of pre-pandemic conditions (H2 2019 + H1 2020 vs H2 2020 + H1 2021). However, continuing the picture we saw in the last period, Retail and Leisure experienced very different fortunes: Retailers recorded significant like-for-like and rolling year growth, while Leisure volumes grew modestly like-for-like but fell significantly (-34.8%) on a rolling year basis. Also continuing the trends seen in the previous period, it was digital sales that powered the upward trend (up 90.7% on a rolling year basis) while physical gift cards were more muted and paper declined. B2B sales dominated once again, representing around 75% of the market, and growing strongly on both a like-for-like and rolling year basis.



TOP TAKEAWAYS

01

Significant overall growth of **25%** vs H1 2020.



02

Digital products are now over one third of the market with **Physical products** still growing strongly.



03

B2B continues its strong growth, now accounting for over **75%** of market share.



04

Consumer sales still impacted through the rolling year, but like for like comparisons are favourable, up nearly **20%**.



TOP TAKEAWAYS

05 **open loop** has now broken the **25% market share** barrier, whilst all redemption types show growth.



06 Great opportunity for **Mobile Wallets** with only 1% of gift card value provisioned at present.



07 **Leisure picks up** in 2021 vs 2020 with **8% growth** reflecting the changing COVID-19 restrictions.

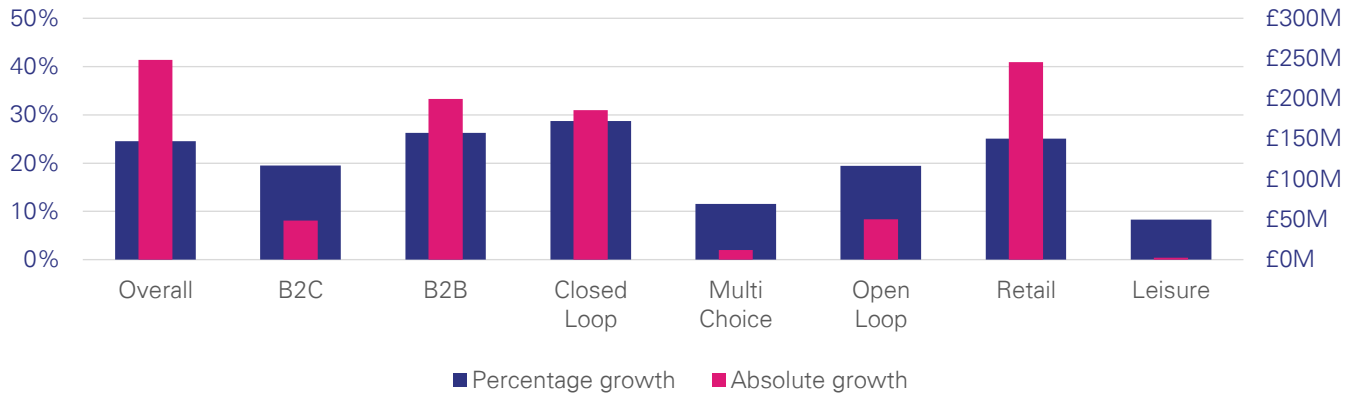


08 59% of gift card value was redeemed in store vs. 41% online.



Overview

Percentage vs. absolute growth in the like-for-like period H1 2020 – H1 2021



As we have seen through earlier stages of the pandemic, lockdown measures have affected retailers and leisure operators to very different degrees. This has led to a Retail rolling year rise of 19.7% compared to a -34.8% drop for Leisure – a stark contrast.

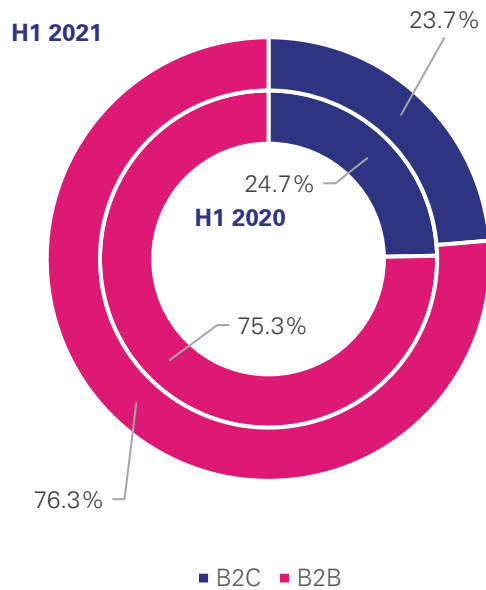
Digital and online sales have been the key here. For retailers, sales of gift cards online have been strong because customers have known it will be possible to redeem them digitally; while for leisure operators, the fact that gift cards need to be redeemed physically has dampened demand during a COVID-19 and lockdown dominated period. Overall, online B2B sales have rocketed by 99.5% on a rolling year basis and have also been the biggest driver of growth in the B2C space (up 50.3% during H1).

However, perhaps as a sign of the worst effects of the pandemic beginning to ease, other channels have seen some growth too. Whereas in the previous period direct sales fell in both the B2B and B2C markets, in H1 2021 both grew again, even if B2C was only marginal at 3.3%.

Encouragingly, sales to consumers appear to be recovering. Last period, we reported that B2C sales had fallen -21.6% on a rolling year basis – now, the rolling picture is still one of decline but at a much more modest -7.9% while on a like-for-like basis sales grew by 19.5%. As important as consumer sales are, it is B2B sales that represent the lion's share of today's market - and with sales there rising strongly on both measures, members will be feeling much more confident about the future.

Meanwhile, the progressive move towards online channels continues. Digital and e-Vouchers saw a heady 90.7% rolling year increase. Physical gift cards only just made it into positive territory (2.3% growth) while paper plummeted (from an already low base) by -36.7%. Nevertheless, Digital and e-Vouchers have much further to go – still only accounting for just over a third of the market while Physical gift cards constitute in excess of 60% of sales.

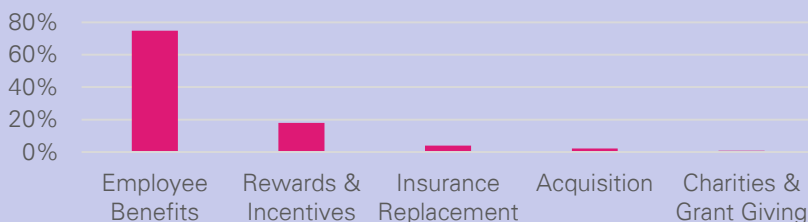
B2B market share remains dominant (H1 2020 vs H1 2021)



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. These two components make up 93% of the overall B2B market. The remaining components of B2B 'Acquisition', 'Charities & Grant Giving' and 'Insurance Replacements' have less than 5% market share each.

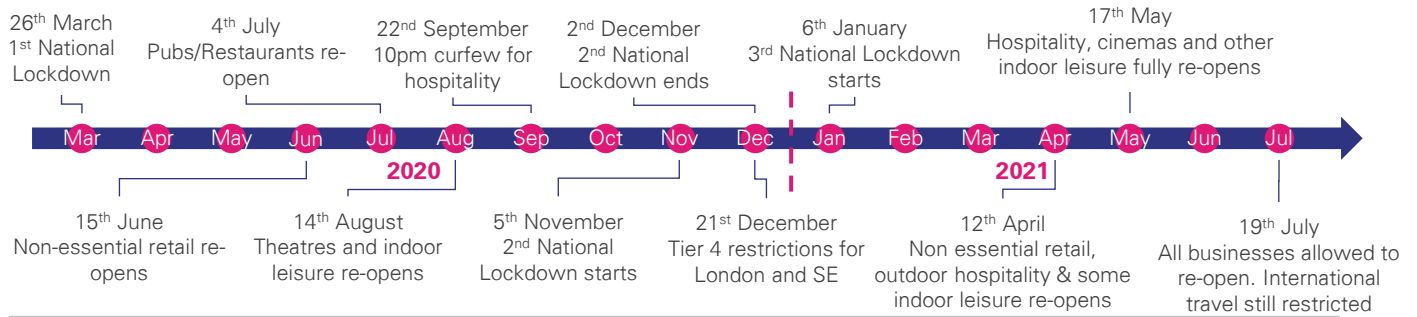
Market Share of B2B Components - H1 2021



Insurance sales moved into 3rd place this period, more than doubling since H1 2020 whilst the Acquisition component of the market was the only section to fall in value.

Sector Focus

Timeline of COVID-19 restrictions in England



Retail

Retailers once again had to battle challenging circumstances during H1 2021, with non-essential retail not allowed to open until 12 April. But investment in routes to market clearly paid off with like-for-like growth of 25.1%. B2B sales powered this success, with 26.7% like-for-like growth and a 35% uplift on a rolling year basis. Consumer sales were strong on a like-for-like basis, rising by 19.8%, but suffered a rolling year decline (-5.3%).

Digital sales have continued to edge up as a proportion of the market – accounting for 36.2% of sales compared to 29.8% in H1 2020.

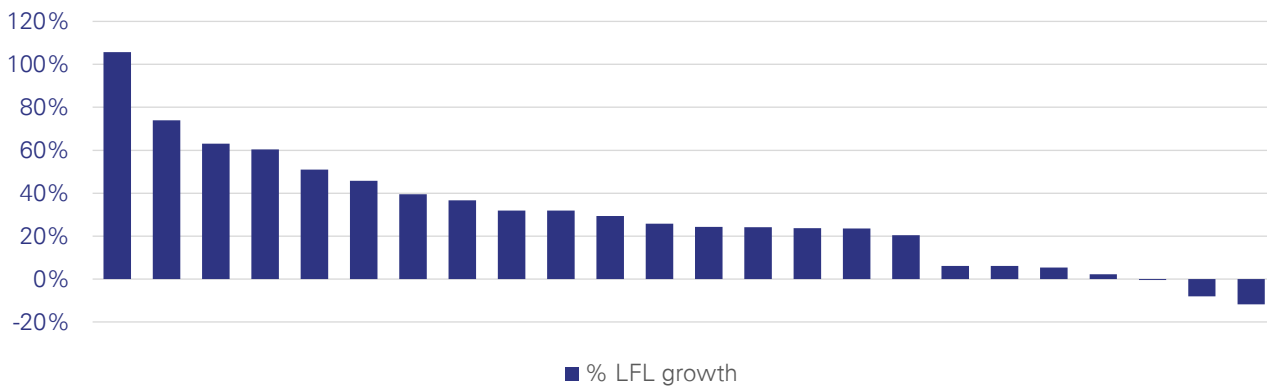
Once again, the figures demonstrate the extent to which Retail sales dominate the gift card and voucher market - accounting for 97.3% of sales, whereas the Leisure sector represents only 2.7%.

Leisure

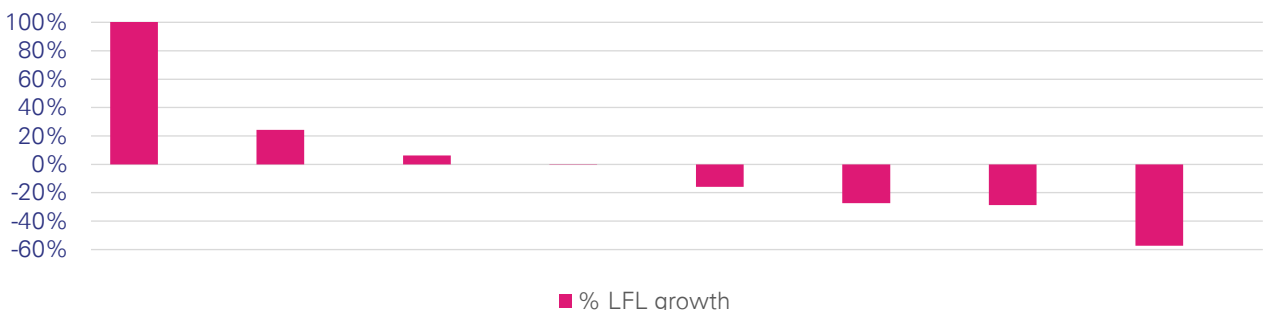
With most Leisure gift cards needing to be physically redeemed/experienced in order to be enjoyed, Leisure has continued to be hit harder than Retail through the pandemic. That said, the gradual re-opening of the UK through the second half of the period, and lifting of restrictions beyond, did at least enable leisure operators to record a like-for-like increase of 8.3% comparing H1 2021 with H1 2020, even if the rolling year picture remained negative at -34.8%.

In contrast to Retail, B2B sales in Leisure fell on both a like-for-like (-12.8%) and rolling year basis (-45.1%). But leisure operators will be cheered that like-for-like consumer sales grew by 16.5%, even if they fell by nearly a third on a rolling year basis. With consumer sales accounting for 77.3% of the market within Leisure, a positive performance here carries additional weight.

Percentage like-for-like growth for Retail membership [each bar is a member]

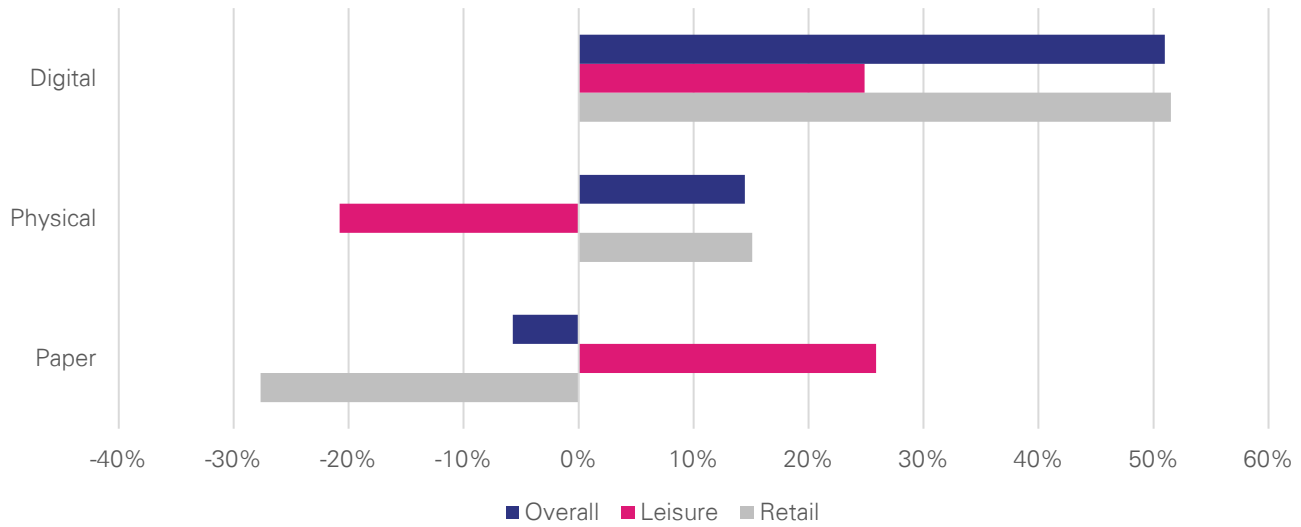


Percentage like-for-like growth for Leisure membership (Capped at 100% growth) [each bar is a member]



Product Focus

H1 2021 Growth of Product Types by Sector



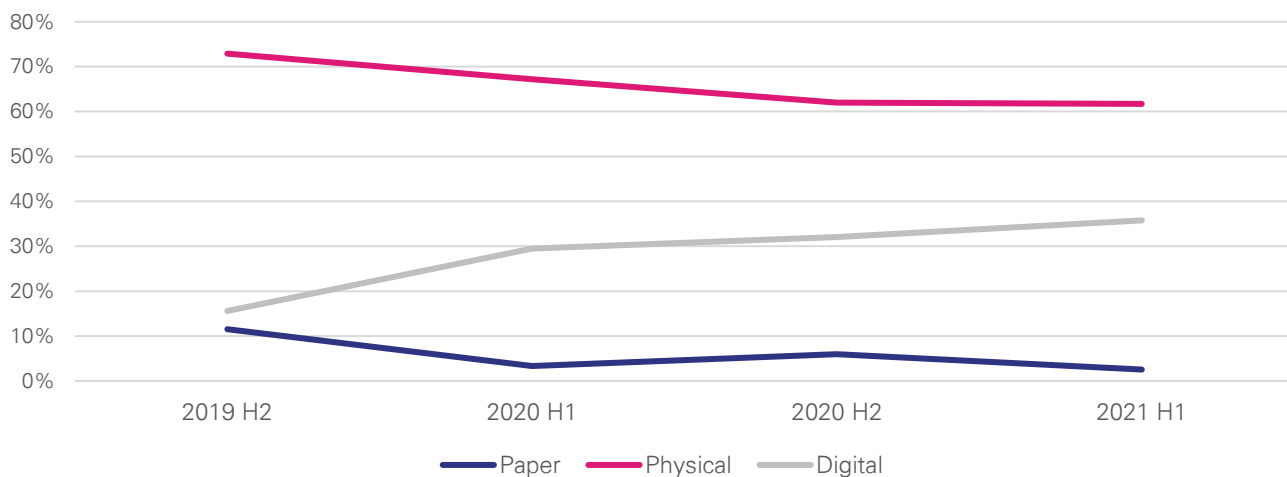
As we have observed, digital sales continue to grow rapidly, nearly doubling on a rolling year basis. Nevertheless, physical gift cards also recorded growth and still take a dominant 61.7% market share. The majority of gift cards are still being redeemed in store.

Over the coming years, there seems little doubt that digital formats will continue to grow and progressively erode the pre-eminence of physical cards. In a survey accompanying our request for sales figures from data submitting members, around 70% of respondents agreed that digital wallets and apps will become the most popular digital offering. However, for now they remain in the early stages of development: only 1% of the value of gift cards issued by members is being provisioned into mobile wallets at the moment and only a third of members currently have the ability to do so.

Closed Loop gift cards and Digital remain the most popular format, accounting for two thirds of the market (66.3%). These Closed Loop sales grew by 28.7% on a like-for-like basis, outstripping the growth of other formats. Nevertheless, Open Loop grew 19.4% - breaking the 25% market share barrier - while Multi Choice saw a rise of 11.6%.

There are signs that Open Loop options may continue to grow in popularity and become more widely offered. In our survey, the majority of respondents agreed that Open Loop will become more popular and nearly half agreed that a significant number of additional Open Loop products will be brought to market in the next two years.

Market share by product type



ECONOMIC AND RETAIL OVERVIEW

H1 2021 was yet again characterised by restrictions, but things are looking up as we move into H2 and beyond.

Lockdown

After the worst year on record in 2020 for retail sales growth, the sector staged a spirited recovery during the first half of 2021 – and the picture improved modestly for leisure businesses too. Despite the complete national lockdown that began in early January and lasted until April, the greater familiarity of the situation for both businesses and consumers meant that the effects were not as severe as those endured during earlier stages of the pandemic.

During the second half of the period, indeed, retail health recovered to pre-pandemic levels according to the KPMG/Ipsos Retail Think Tank (RTT)¹. A surge in sales during Q2 lifted the Retail Health Index (RHI) and put it back in territory seen before COVID-19 began. There was strong demand from consumers as they headed back to high streets once non-essential retail opened from 12 April and this, combined with continuing high levels of online and mobile purchasing, led to a buoyant quarter.

Figures from the BRC-KPMG Retail Sales Monitor² show that over the three months to June, non-food retail sales increased by 12.4% on a total basis and 45.2% on a like-for-like basis compared to the equivalent period in 2019. In the last month of the half-year, June sales rose 13.1% compared to a -1.3% decline two years earlier. Sales of items such as clothing and footwear have started to

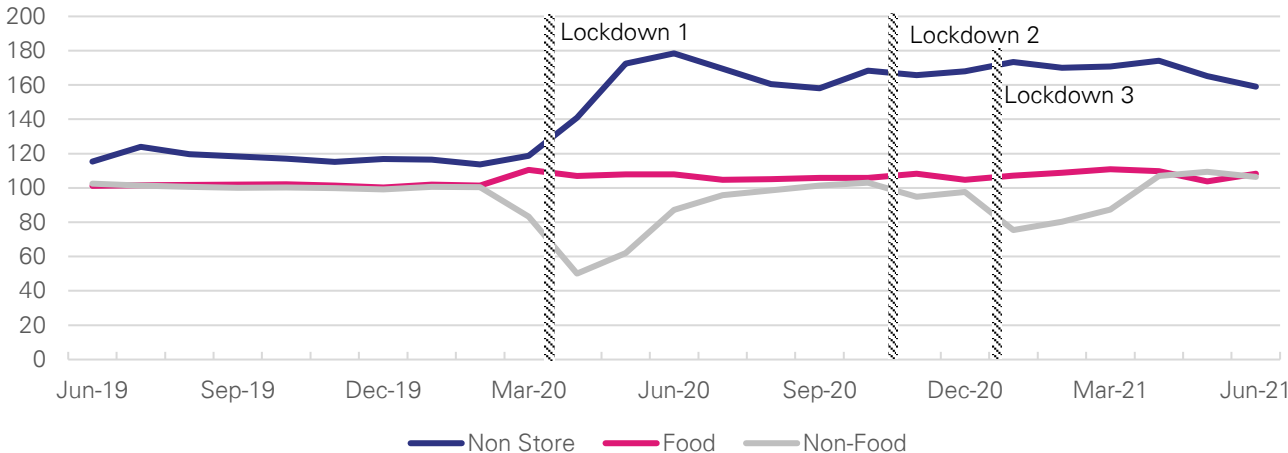
recover with double digit growth across all channels, but there were unsurprising declines across those categories which had seen a boom in lockdown, such as technology, home accessories and furnishings.

The BRC described the growth seen in Q2 as “exceptional” and certainly it bodes well for the ongoing recovery of the sector from the exceptionally challenging conditions the pandemic created. However, the RTT cautions that sales growth may slow in the second half of the year as a rise in inflation, an increase in supply chain costs and growing staffing pressures begin to make themselves felt. The RTT’s prediction is that the RHI will grow by 2 points during the third quarter, compared to 4 points in Q2.

Other pinch points remain. City centre retailers continue to see low footfall and spending, for example, as commuters and international tourist numbers stay low – something that may not significantly improve for the rest of the year.

In addition, retailers will see increasing competition for share of wallet as the economy opens up and the leisure, hospitality and travel sectors begin to return nearer to normal. The first half of the year continued to be highly challenging for leisure businesses, although they will hope that the worst is now firmly behind them and their recovery can well and truly begin.

UK Retail sales volumes seasonally adjusted³
Index 2018 = 100



1. KPMG/Ipsos Retail Think Tank: <https://home.kpmg/uk/en/home/media/press-releases/2021/07/retail-health-and-staffing-pressures.html>
 2. BRC-KPMG Retail Sales Monitor for June 2021: <https://home.kpmg/uk/en/home/media/press-releases/2021/07/brc-kpmg-retail-sales-monitor--june-2021.html>
 3. ONS Retail Sales, Great Britain June 2021: <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/june2021>

Economy in H1 2021

While much continues to depend on the ongoing rollout of the vaccination programme as well as efficacy against any emerging virus variants, there are grounds for reasonable optimism about the economic outlook.

KPMG predicts a “robust recovery ahead”, with GDP growth of 6.6% in 2021, followed by growth of 5.4% in 2022 (but with a potential deceleration thereafter). This compares to the near 10% contraction seen in 2020. KPMG expects the economy to regain its pre-COVID-19 level by the first quarter of next year (2022)⁴.

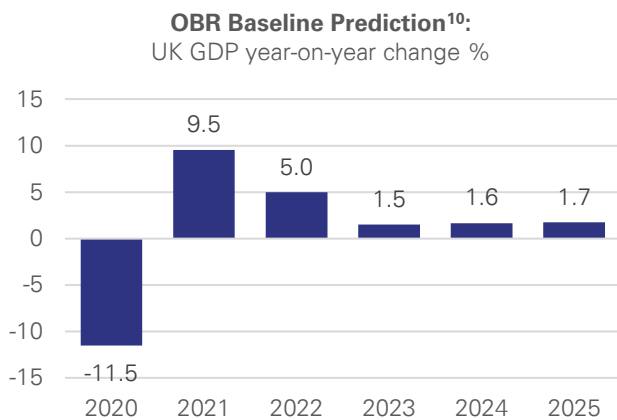
These predictions are broadly in line with the consensus expectations of other economists. In its July comparison of economic forecasts⁴, HM Treasury found that the average forecast growth for GDP during 2021 is 7.1%, ranging from 5.7% at the bottom end up to 8.1%. Expectations for 2022 average out at growth of 5.4%, with a range of 4.5% up to 8.2%.

Turning to GDP for the Euro area, the European Commission predicts slightly lower growth at 4.8% for 2021 and 4.5% the following year⁶.

For retail specifically, KPMG is projecting growth in output of 5.4% during 2021 (contrasting with the -2.2% contraction experienced in 2020), although this will then slow to only a marginal increase of 0.6% in 2022.

These generally encouraging outlooks are mirrored in positive ‘purchasing manager and services data’ from IHS Markit. The most recent UK purchasing manager index (PMI) reported that the manufacturing upturn remained solid in July with rates of expansion in output amongst the best in survey history⁷. Service providers, meanwhile, reported another steep increase in business activity during June and the fastest rate of job creation for seven years⁸.

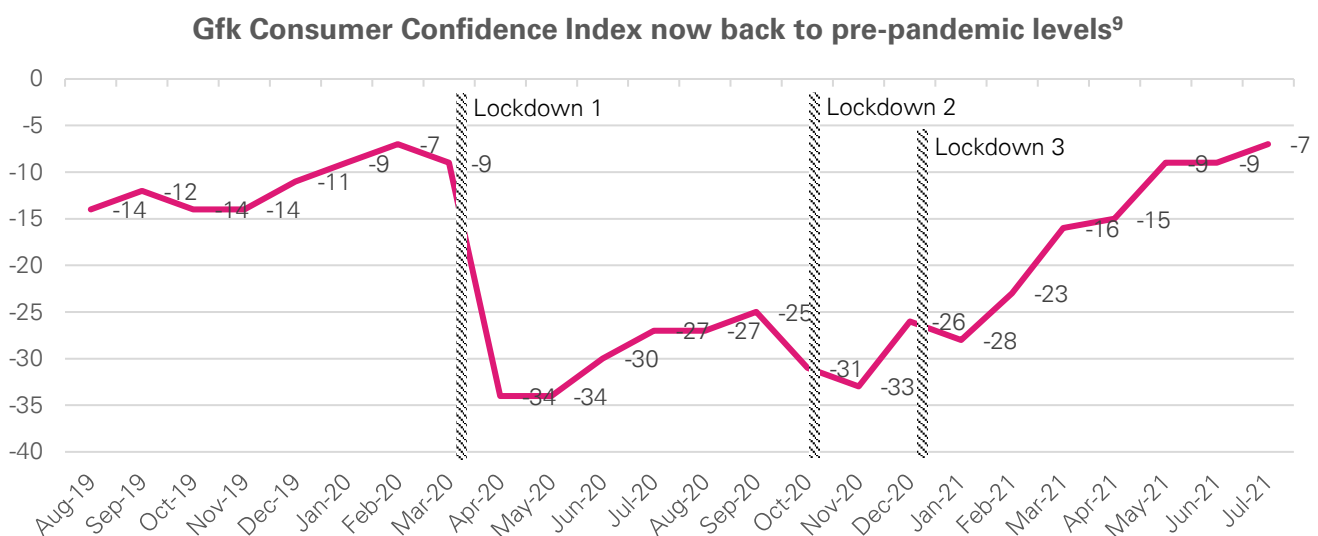
With respect to consumer confidence, the long-running GfK Consumer Confidence Index⁹ reports that the headline score has now held firm or improved for six months in a row, with consumer confidence in July 2021 ahead of pre-pandemic levels. There was also a “dramatic jump” in the number of shoppers agreeing that now is the ‘right time to buy’.



What does this mean for retail?

While the economic and trading outlook is becoming more encouraging, there is little doubt that the market will remain challenging for many. Competition for the customer pound is fierce; margins are thin; inflationary pressures are growing; supply chain costs are rising; and staffing availability remains an issue too.

Overlaid on all of this, technology continues to drive change at an unrelenting pace. Retailers that do not embrace digital and mobile app capabilities in addition to their physical footprint will increasingly struggle to compete.



- KPMG UK Economic Outlook: <https://assets.kpmg/content/dam/kpmg/uk/pdf/2021/06/kpmg-uk-economic-outlook-june-2021-report.pdf>
- Comparison of independent forecasts for the UK economy: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004540/Forecomp_July_2021.pdf
- Summer 2021 Economic Forecast for the Euro Area: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/euro-area_en
- IHS Markit / CIPS UK Manufacturing PMI: <https://www.markiteconomics.com/Public/Home/PressRelease/9b2d0c280db148d3a119eacd0bc4c3a5>
- IHS Markit / CIPS UK Services PMI: <https://www.markiteconomics.com/Public/Home/PressRelease/7620c56ff1274699a5b7411d97b57daf>
- GfK UK Consumer Confidence Index: <https://www.gfk.com/en-gb/press/uk-consumer-confidence-up-to-minus-7-in-july>
- OBR Long-term economic determinants - March 2021 Economic and fiscal outlook: <https://obr.uk/download/long-term-economic-determinants-march-2021-economic-and-fiscal-outlook/>

SECTOR OUTLOOK: BEYOND COVID-19

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?

The rise of platforms and partnerships

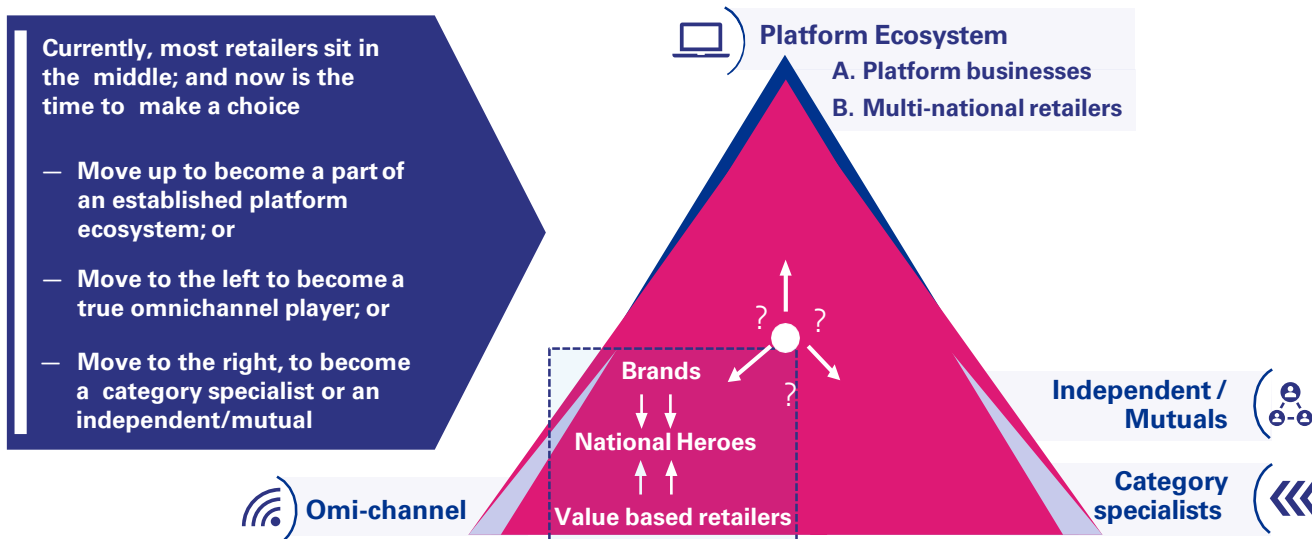
One ever more prevalent aspect of the new digital era is the growth of platforms – online marketplaces, aggregators and intermediaries.

Customer demands and their use of channels have been evolving rapidly over recent years, resulting in increased complexity for retailers to deliver with limited capabilities and capital. One response to this is to become part of the platform ecosystem, enabling the business to leverage greater digital reach without having to bear enormous development costs. This partnership approach requires a shift in the business model and the strategic mindset, but has the potential to bring

tangible rewards. Platform businesses are increasingly dominating go-to-market channels. They take a broader approach to the market and target both B2B and B2C offerings. In a gift card context where B2B represents three quarters of the market, this dual focus could prove particularly valuable.

KPMG believes that there are three main business model options facing retail businesses as we move into the future. Currently, most retailers sit somewhere in the middle of these three – but it will become increasingly important to fully align with one approach.

Which business model do you want to adopt?



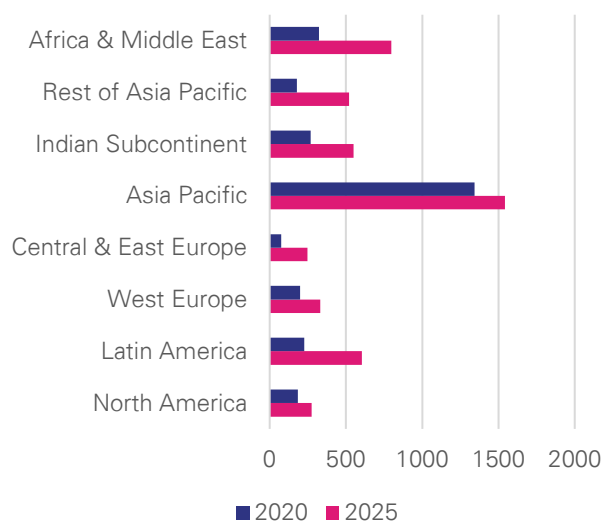


Going mobile...

Whatever model a retailer adopts, digital capabilities will be critical. The penetration of online and mobile shopping has significantly increased through the pandemic and set the bar for consumer expectations.

Shopping through mobile devices has certainly become more pronounced. Buying through apps rather than websites is becoming more common, while usage of mobile wallets for payment is increasing too. One report recently suggested that one in two people globally will use a mobile wallet by 2025, including three quarters of consumers in UK/Europe. But as we have seen earlier in this report, retailers are generally moving fairly slowly in terms of provisioning gift cards into mobile wallets – only a third of members currently have the ability to do so. This is an area where activity is likely to need to accelerate.

**Forecast Growth in Mobile Wallet Usage
(all figures in millions of users)¹¹**



Data-driven decision making

Across all channels, and across all sales categories (goods, services, gift cards etc), the use of data for smart decision making and analysis is essential.

For those retailers that have experienced growth through the pandemic, the key question is how to maintain market position and take full advantage of the changes in consumer behaviour. For those retailers that have struggled, the opportunity for growth in 2021 is very real but customers will not go back to their pre-COVID-19 habits quickly (if at all) so learning and adapting is vital for future success.

The retailers that thrive will be those that respond quickly to the changing face of the market, whether that's the continued growth of digital sales or the preference for local rather than city based retail centres. Retail experience and 'gut instinct' are no longer sufficient to navigate these changes. This is where promoting data-driven decisions comes to the fore.

Businesses with the right data strategies can use this to drive responsiveness across key areas:

- Holistic macro-level strategy for new and existing markets, built on data-driven evidence and analysis
- Economic forecast models that help businesses understand potential economic outcomes and their impact on sectors/segments
- Demand estimation and forecasting including the impact that different levers (price promotions, changes to product features) may have on sales and/or profitability
- Estate optimisation that gives a view of the right size and shape of the estate, taking into account new stores, store closures and digital growth

In short, successful retailers use data to gain a deep understanding of their markets and drive profitability.

As the market continues to reshape itself in the wake of COVID-19, this ability will become an increasingly critical differentiator of retail performance.

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 understanding 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.

11. Mobile Wallet Usage: <https://www.finextra.com/newsarticle/38421/over-half-the-worlds-population-will-use-mobile-wallets-by-2025-says-boku-study>

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. 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 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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