

A First Data White Paper

Consumer Insights into the U.S. Gift Card Market: 2011

By First Data and Market Strategies International

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Over the past decade, gift cards have become an increasingly popular gift option for birthdays, holidays and other occasions. Retailers across categories—from restaurants to specialty stores to discount retailers—offer “closed loop” cards, which can be used only at the specific retailer, often both online and at a physical location. These cards compete with “open loop” cards that can be used almost anywhere and are offered by credit card providers such as Visa and American Express.

Throughout the year, and especially during the holiday shopping season, retailers look to gift cards as a valuable source of revenue. Gift cards drive consumers to a store, dining establishment, entertainment venue or website to make a purchase, and many end up spending more than the value of the card. Retailers also benefit from brand exposure when consumers receive a gift card from an establishment where they have not previously shopped. In addition, the benefits of gift cards extend to the post holiday slump experienced by many retailers—when consumers visit a physical location or website to use their gift card, they often purchase additional merchandise.

Given the importance of gift cards, it’s crucial for merchants to stay on top of industry trends and understand how consumers perceive and use gift cards. On behalf of First Data, Market Strategies International recently conducted the “2011 U.S. Prepaid Consumer Insights Study” to delve into consumer behaviors and attitudes related to gift cards. Specifically, this study compares data from 2010 to 2011 and provides valuable insights into trends in the gift card industry, including the following:

- Usage of closed vs. open loop gift cards.
- The types of cards that consumers are buying this year.
- Factors motivating a gift card purchase.
- The role of gift card malls.
- How recipients perceive a gift card’s value.
- Reloading behaviors.
- Usage of e-gift cards.
- Projected use of gift cards during the 2011 holiday shopping season.

For the “2011 U.S. Prepaid Consumer Insights Study,” Market Strategies conducted a 20 minute, web-based survey using the Research Now online panel. The study’s 2,025 consumers were at least 18 years old and had purchased or received a gift card within the past 12 months. Data was collected between August 31, 2011, and September 13, 2011.

This is the first of two white papers focused on the gift card industry. The second white paper will explore consumer attitudes and behaviors for five distinct consumer segments.

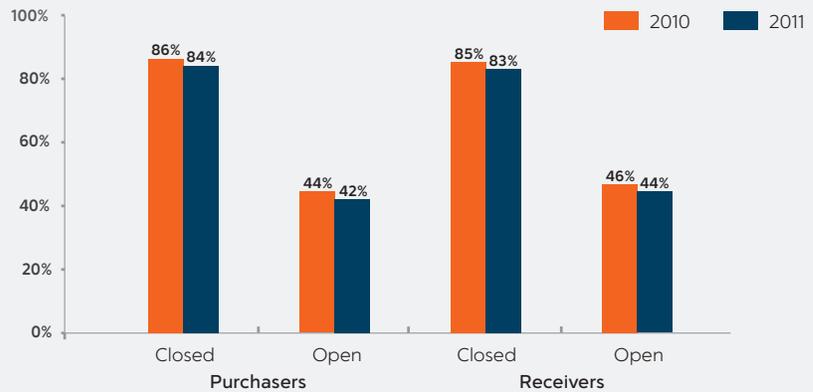
Consumers Still Prefer Closed Loop Cards

Unchanged from 2010, U.S. consumers bought an average of approximately five gift cards in 2011. Of those, closed loop cards remained more popular: 84 percent of consumers who purchased at least one gift card bought a merchant-specific card compared to 42 percent who purchased an open loop card. This may indicate that shoppers feel that purchasing a gift card for use at a specific establishment is a more personal gift than buying a “use anywhere” card.

Among purchasers of closed loop cards, 65 percent of consumers gave a gift card for a birthday, the most popular occasion for doing so. More than half of consumers bought at least one gift card for the holidays last year, something for retailers to keep in mind as the holiday shopping season approaches. The percentage of gift cards bought “for no special occasion” rose from 12 percent in 2010 to 19 percent in 2011.

Shoppers purchased the majority of gift cards for non-immediate family members and friends.

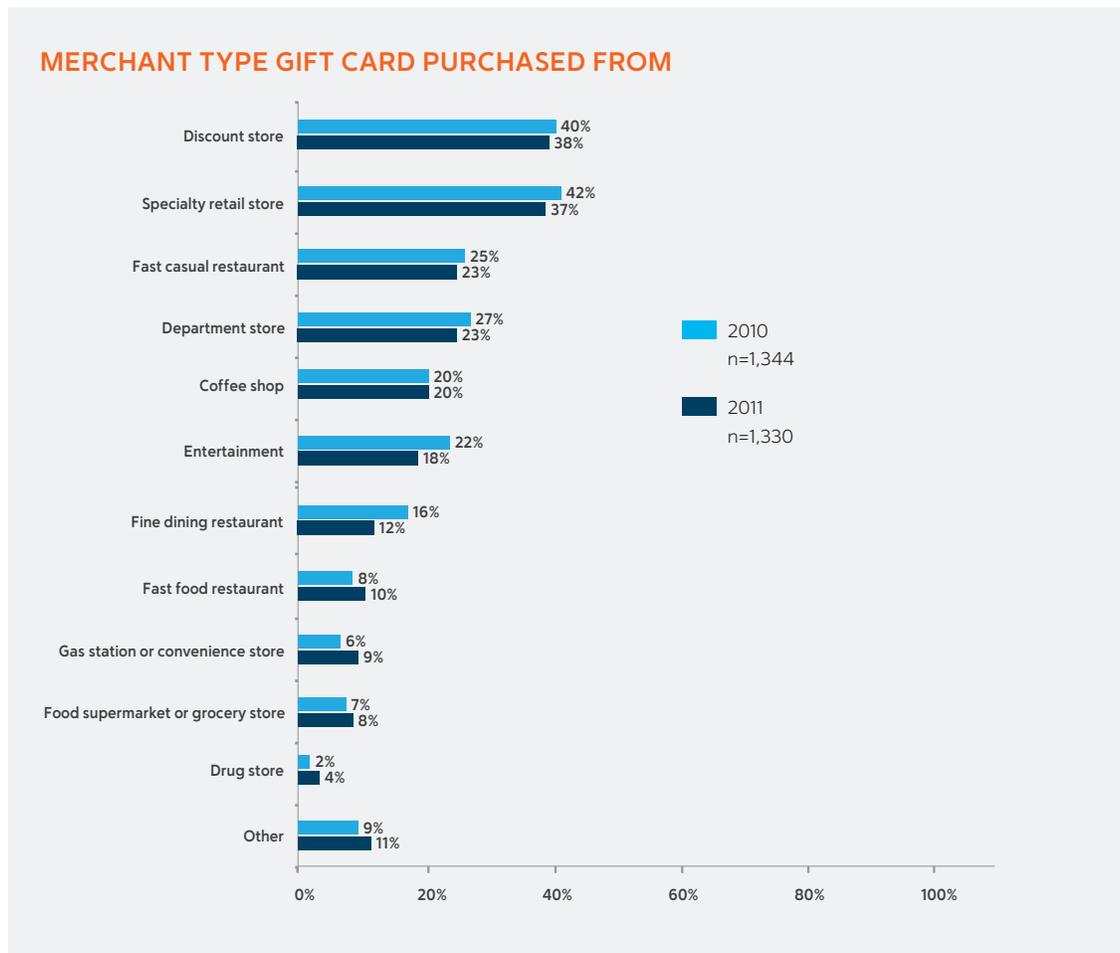
TYPES OF CARDS PURCHASED AND RECEIVED



Frequent Gift Purchasers Prefer Closed Loop

Twenty percent of consumers bought six to 10 merchant-specific gift cards in the past year. Fewer than 10 percent of consumers bought that many open loop cards.

As shown in the following chart, all purchases in the top four retail categories for closed loop cards decreased slightly from 2010. Due to a significant decline in purchases of specialty retail store cards, discount store cards became the most popular retail categories. Compared to last year, shoppers bought more gas station/convenience store, supermarket/grocery store and drug store gift cards this year. As the economy continues to struggle, gift givers might feel that their friends and family would appreciate cards of a more practical nature.

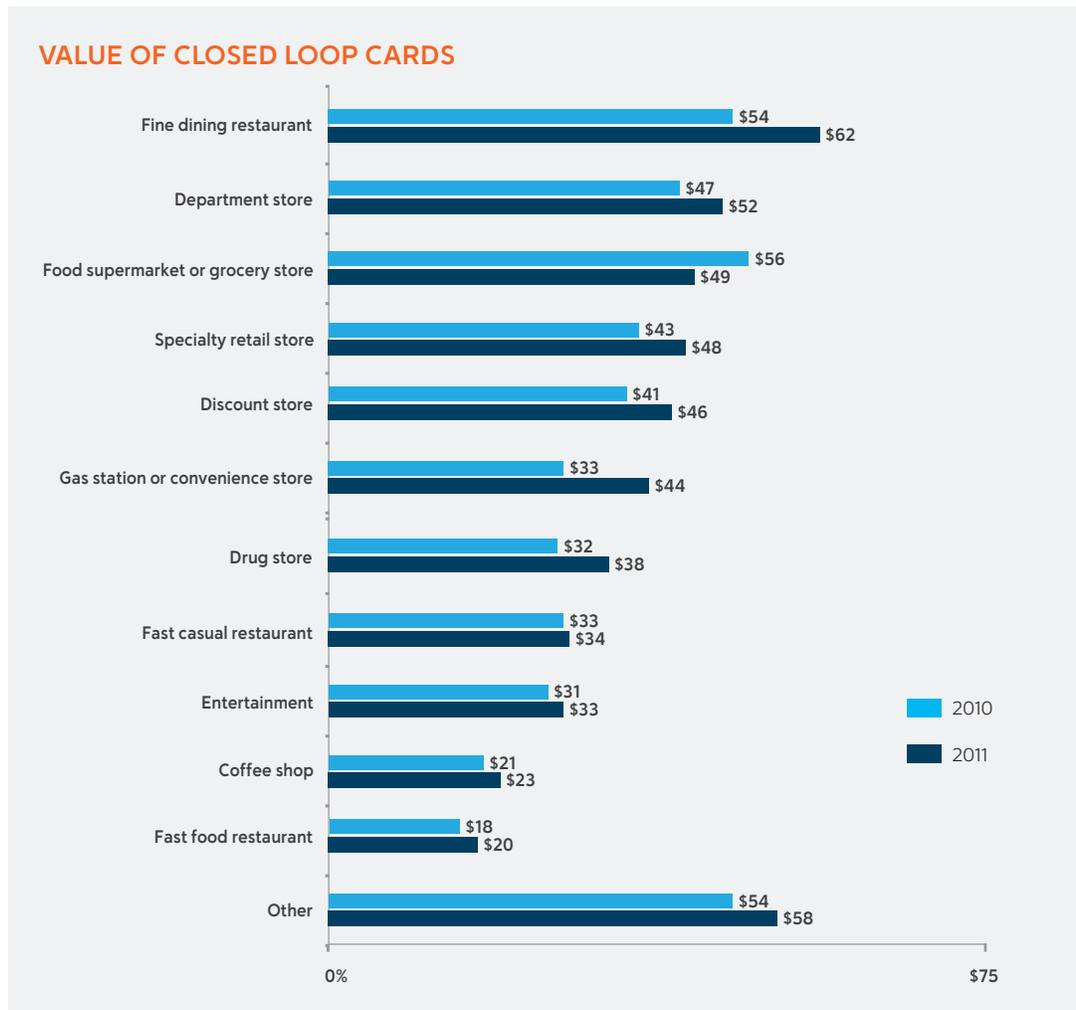


Average Value of Closed Loop Cards Rise Significantly

The average value of a closed loop card purchased in 2011 rose more than 23 percent year over year, from \$34 in 2010 to \$42 in 2011, while the average value of an open loop card saw a drop of 5 percent in 2011 compared to 2010. The average number of gift cards purchased, both closed loop and open loop, remained relatively flat year over year—however, due to the increase in the average value per closed loop card, the total value spent on these cards also saw a tremendous increase in 2011, from \$161 to \$211.

Average # of Gift Cards Purchased	2010	2011
TOTAL	5.1	5.4
Closed Loop	4.7	5.0
Open Loop	2.8	2.8
Average \$ per Card		
Closed Loop	\$34	\$42
Open Loop	\$77	\$73
Average Total \$ Spent		
Closed Loop	\$161	\$211
Open Loop	\$214	\$203

As shown in the following chart, the average value of closed loop gift cards rose in most merchant categories. The average value of gas station/convenience store gift cards jumped 33 percent, the most significant year-over-year increase, most likely reflective of increased gas prices. Fine dining restaurant gift card values rose 15 percent, which may be because consumers want to make sure that the value of their gift reflects increased menu prices.



Consumers Enjoy Convenience of Gift Cards

When asked why they choose to purchase gift cards rather than a gift, 83 percent of respondents said that gift cards make gift-giving easy, and more than half said they save shopping time. Almost three quarters of consumers liked the ease of mailing gift cards to recipients who live far away.

Many consumers set out to buy gift cards rather than purchasing an actual gift. However, some consumers purchased gift cards when the item they had in mind was out of stock. The percentage of consumers who said they were “likely” or “highly likely” to buy a gift card as an alternative to an unavailable item went up from 23 percent in 2010 to 31 percent in 2011. This is good news for retailers on several fronts. First, consumers who receive gift cards are likely to browse at a store or on a website, increasing their exposure to the retail environment. Second, the majority of gift card recipients (71 percent) spend more than the amount of the card.

Consumers Like to Shop at Gift Card Malls

The majority of shoppers went directly to the store, restaurant or entertainment location for their gift card purchases. But, almost half of consumers also liked the convenience of gift card malls—locations at drug stores, grocery stores or other retailers that sell gift cards from a wide variety of merchants.

About three-in-five consumers knew in advance the store or restaurant brand of gift card they intended to purchase from a gift card mall, while one-quarter preferred to browse before purchasing. This finding indicates that retailers may be missing out on a sales opportunity by not being part of gift card malls. A consumer who's already at a location with a gift card mall might not make the extra effort to visit the physical location or website of a specific retailer.

Another benefit to retailers having their gift cards available at gift card malls is that consumers tend to buy more gift cards from that channel, as shown below:



Gift Card Mall Purchases for Holidays

Sixty-nine percent of gift card mall purchasers bought a gift card for the holidays last year, with restaurant gift cards being the most popular.

Of cards purchased from gift card malls, more than half were bought at gift card malls located in supermarkets/grocery stores and 31 percent from discount retailers such as Walmart. Drug store gift card malls accounted for 22 percent of purchases. These findings show that consumers appreciate the convenience of being able to buy gift cards at a store they already visit.

Recipients Have High Perceived Value of Gift Cards

The study shows that gift card recipients perceive gift cards to be significantly more valuable than a traditional gift. When asked whether they would prefer a gift with a value ranging from \$20 to \$45 vs. a \$25 gift card, the vast majority preferred the gift card—even compared to a gift at a higher price point. As shown below, more than half of consumers would prefer to receive a \$25 gift card than a gift valued at \$45. This finding speaks to many consumers' preference for choosing their own gift. Sixty-five percent of gift card recipients said they enjoy receiving gift cards for that reason. It also indicates that many consumers perceive merchandise they select using a gift card to be more valuable than an item of equal or greater value selected by someone else that might not be what they want, the right size, etc.



Opportunity to Promote Reloading

The majority of consumers do not currently reload gift cards (loading additional value to the card) once they spend the original value. Just 9 percent of consumers reloaded a gift card they'd bought or received in the past year. As in the past, coffee shop gift cards were the most frequently reloaded (51 percent), followed by discount stores (27 percent).

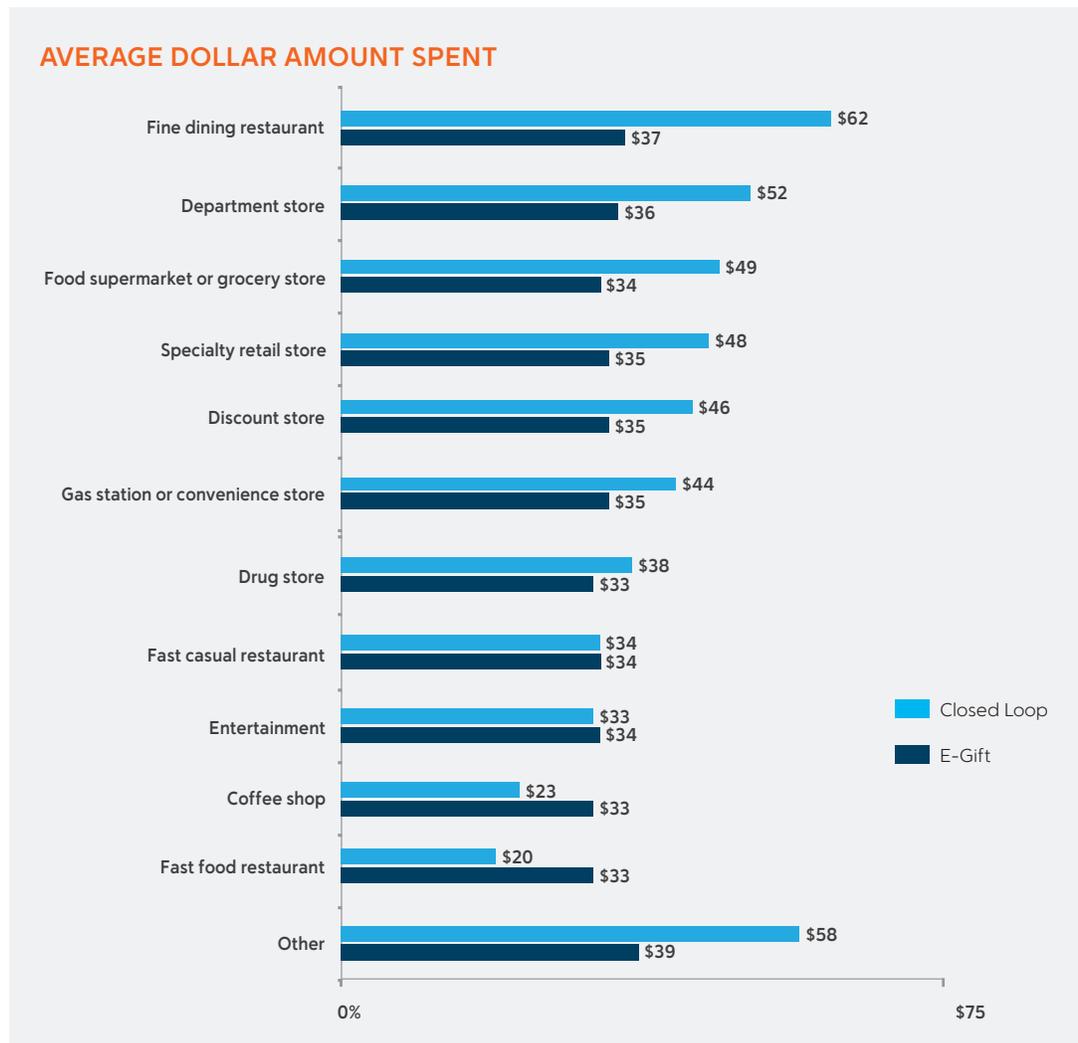
What can merchants do to convince more consumers to reload their gift card, thereby ensuring that the customer will keep coming back to the store or website? The study found that the most motivating reward would be bonus bucks, followed by a free item. Additionally, there is an emerging trend by some merchants to broaden their gift card marketing strategy to include an online reload option, thereby enabling an ongoing mechanism for consumers to load funds to a closed loop card. By doing this, merchants can, in essence, turn a gift card into a spending card where merchants can provide offerings such as wish lists, savings programs, budgeting programs and more.

The Evolution of Gift Cards

Like retail in general, the gift card industry has evolved to offer online options. Many retailers offer the option of an e-gift card, which can be purchased online and delivered to the recipient via email, a social networking site (e.g., Facebook) or directly to a mobile device. Depending on the type of e-gift card, the recipient can print it out and use it at a store or enter a serial number from the e-gift card to make a web purchase.

E-gift cards are a relatively new concept, and just one in five consumers has purchased one. However, an equal number of consumers are interested in sending an e-gift card instead of a traditional one, with speed and ease of delivery being the top benefits. Compared to consumers at large, those who buy e gift cards are more likely to be single, female college graduates.

The study showed a disconnect between how much consumers say they would spend on e-gift cards compared to traditional cards and how much they actually spend. The vast majority said they would spend the same amount on either option; however, as shown below, spending on standard closed loop gift cards was higher in most categories.



How do consumers feel about receiving e-gift cards? Nearly half (47%) of consumers are interested in receiving an e-gift. To increase acceptance of e-gift cards, merchants might consider offering mobile phone storage via a mobile wallet. This option increases the level of interest in e-gift cards for almost one-quarter of recipients.

While in its early stages, it's expected that e-gifting will continue to grow in popularity due to the proliferation of social networking sites, the convergence of mobile and internet technologies and the continued desire for consumer convenience and immediacy. E-gifting via social networks presents a tremendous opportunity for merchants to target younger consumers, especially people in the difficult to reach 18-to-25 year old demographic.

Implications of the Study

The "2011 U.S. Prepaid Consumer Insights Study" reveals a number of implications that could help shape how merchants position and market gift cards. Merchants should consider:

- **Marketing gift cards as an alternative to a specific item.** The study shows an increase in the number of consumers willing to purchase a gift card as an alternative to a specific item they had in mind. Therefore, retailers should consider adding a "purchase a gift card instead" option on their website when an item is out of stock. Likewise, sales clerks at stores and other establishments should be trained to offer gift cards when a specific item is not available.
- **Establishing a presence at gift card malls.** Findings indicate that consumers value the convenience of purchasing cards at a gift card mall and tend to purchase a higher number of gift cards there. Additionally, consumers often know which card they are looking for when they are at a gift card mall, so retailers who don't have a presence may lose business. While merchants recognize lower revenue from cards sold at gift card malls, they benefit from the increased exposure of having an additional sales channel.
- **Communicating that gift cards are highly valued by receivers.** Merchants may think that gift cards are perceived by consumers as more of a "gift of convenience" than a "gift of value," but the study debunks that perception. Consumers prefer a gift card over a gift item of a *higher* value, a consideration that retailers might want to incorporate into their marketing strategies.
- **Offering e-gift cards.** E-gift cards are not yet mainstream; retailers would be wise to market them to the subset of consumers who have an interest. This white paper and the follow-up paper on consumer segments provide a starting point to identify these consumers. Consumers who are willing to use e-gift cards appreciate mobile phone storage, so this option should be provided and promoted.



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About Market Strategies International

Market Strategies International is a market research consultancy with deep expertise in the communication, energy, financial services, healthcare and technology industries. We design and implement the most intelligent research and deliver meaningful results that help companies make business decisions with complete and total confidence. Market Strategies was founded in 1989 and consistently ranks as one of the 25 largest global market research firms, according to an annual report published in *Marketing News*.

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