

# First Data Advisors Analysis

Global Information and Analytics Solutions

## Executive Summary: 2011 Prepaid Midyear Gift Card Performance Update

The 2011 Prepaid Midyear Gift Card Performance Update looks at the growth of gift card activations through the first six months of 2011 for the major gift card categories of Total All Closed Loop, Casual Dining, Specialty Retail, and Quick Service Restaurants (QSRs). This update provides key insights into gift card trends observed in the first part of 2011, and is based on our proprietary SpendTrend® databases.

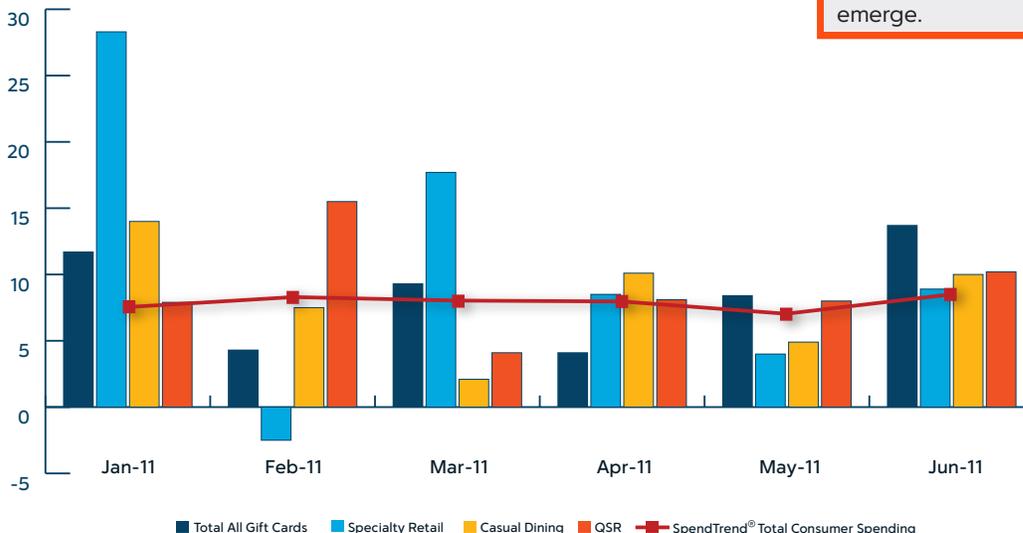
### Executive Highlights

→ **Macroeconomic Headwinds Are Impacting Consumer Use of Prepaid Gift Cards.** Through the first half of 2011, general U.S. consumer spending volume on credit, debit, and electronic benefits transfer cards increased 7.9% on a year-over-year (YoY) basis. Gift card activation dollar volumes increased at a higher rate of 8.8% for the same period. Higher prices for core consumer products such as fuel have driven the cost of goods purchased by the average consumer. As a result, U.S. consumer spending on a dollar volume basis was higher in Q2-2011 than in the previous quarter. Rising prices, in turn, have been one factor behind customers' increased utilization of credit products at the point of sale (POS). At the same time, consumers have demonstrated a willingness to increase the average amount of gift card values in most merchant categories, albeit slightly. We saw this same trend in the first half of 2010. If there are no significant changes to the current macroeconomic conditions through year-end 2011, First Data Advisors estimates that Q4-11 will still produce 45-46% of the annual amount of total prepaid card activation volume and transactions – easily the largest concentration of sales for the year.

**FIRST DATA INSIGHT**

Against a backdrop of continuing macroeconomic uncertainty, prepaid gift card performance in the first half of 2011 was resilient – growing at a higher rate than the general U.S. economy. The average per card amount activated continued to expand, which reversed the overall trend in the last half of 2010 when gift cards were being purchased for smaller amounts more often. Non-stop changes in digital technology, combined with a pattern of bifurcated consumer spending, present market-leading opportunities for virtual gift cards in the prepaid card marketplace as new distribution channels for these products emerge.

Figure 1. SpendTrend® Gift Card Activation Dollar Growth v SpendTrend Consumer Card Dollar Volume Growth (January – June 2011; YoY Percentage Change)



Source: SpendTrend®, Information & Analytics Services, First Data Corporation



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- **Electronics and Appliance Stores are Driving The Growth Within The Specialty Retail Segment, While Other Sub-Segments Underperform.** The 2011 Midyear Gift Card Performance Update, for the first time, provides greater visibility into four major sub-segments which generate a large proportion of Specialty Retail prepaid card activation volumes: Electronics and Appliance Stores; Clothing and Accessories Stores; Furniture and Home Furnishing Stores; and Sporting Goods, Hobby, Book, and Music Stores. Electronics and Appliance Stores are the highest performing subsegment, as evidenced by strong growth in gift card activations within this category during the first half of 2011. Effective use of employee and customer incentives within the Electronics and Appliance Store vertical may be boosting YoY activation volumes.
- **Overwhelming Preference for \$10 to \$25 Gift Card Denominations Across All Merchant Categories May Overshadow Nuances Within Each Major Merchant Vertical.** Across all merchant categories, there is an overwhelming preference for gift cards in the \$10 to \$25 dollar denomination range. From a general spending and gifting perspective, this range is not surprising. However, there are subtle nuances in each industry's use of marketing strategy and prepaid card technology that impact these results. For example, over 32% of QSR transactions were under \$10 in the first half of 2011. Successful retailers in this market vertical have effectively encouraged higher adoption rates of lower cost distribution channels in order to manage the expense of delivering gift card products to their customers.
- **The NEXT Distribution Channel Opportunity Already Exists and Its Potential is Foreshadowed by The Staggering eGift Success Story of 2011.** The stunning success of LivingSocial's flash sale of Amazon's eGift cards in January provided a telling glimpse into the potential of mobile, Internet and social networking technologies as tools to create market-leading opportunities. The success of the Amazon eGift offering was remarkable because it did not rely on traditional distribution channels. Gift card mall sales have been growing at a rate higher than the overall industry, yet their physical distribution channels do not support the emerging trend toward on-demand convenience that U.S. consumers value. More and more consumers are adopting this behavior and it's becoming increasingly evident that the transition from physical to virtual gift cards is happening now.

Armed with this in-depth analysis and actual industry data provided by the 2011 Prepaid Midyear Gift Card Performance Update, executives will have the necessary context and perspective to make better business decisions about their prepaid programs.



### The Global Leader in Electronic Commerce:

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.

**First Data Advisors** excels at leveraging our access to proprietary SpendTrend® data into customized performance benchmarking. If you're concerned with how your prepaid program compares to peers in your industry, our Prepaid Benchmarking Toolkit provides the key metrics you need. By utilizing insight and intellectual property from SpendTrend® coupled with our internal marketplace analytics capabilities, First Data Advisors can provide customized benchmarking reports based on your specific needs. This provides the tangible market intelligence needed for better decisions that achieve strategic goals. To schedule a discussion with a First Data Advisor on your analysis needs, call 1-800-430-0169.

First Data delivers a full breadth of information and analytics services — including monthly First Data SpendTrend® insights, payments strategy consulting services and benchmarking and reporting. Full access to this First Data Advisors analysis, 2011 Prepaid Midyear Gift Card Performance Update, may be purchased for \$1,650. For more information on how to order this analysis contact Customer Care at 1-800-430-0169 or visit [firstdata.com/infoanalytics](http://firstdata.com/infoanalytics).