

A First Data White Paper

Consumer Insights into the U.S. Gift Card Market: 2012

By First Data and Market Strategies International

MARKETSTRATEGIES
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Positive Trends within a Stable Industry

Prepaid gift cards remain an important part of the sales mix for U.S. merchants. During the 2012 holiday season, more than \$43 billion in gift cards is expected to exchange hands, providing retailers with a valuable source of revenue.¹ Gift cards benefit retailers beyond the initial cash flow: they often lead to sales of additional merchandise while providing valuable brand exposure.

In 2012, the volume of gift cards both purchased and received remains relatively consistent from the prior year. That's good news for merchants, especially as the retail industry continues to face challenges. Another positive trend is the growth of the e-gift card segment, especially among younger and more tech-savvy consumers. The pace of e-gift card sales is expected to rise as consumers become aware of this option and its benefits.

To help retailers understand industry trends and consumer perceptions related to gift cards, First Data once again partnered with Market Strategies International to conduct the "2012 U.S. Prepaid Consumer Insights Study." Findings from the study highlight the current state of the gift card industry and provide retailers with valuable insights into usage, perceptions and attitudes in these areas:

- Purchase behaviors
- Trends in use of open vs. closed loop cards
- Purchase locations and occasions
- Recipients' perception of card value
- Value of gift cards to retailers

This paper also contains a special report on the evolution of two key areas within the gift card industry: e-gift cards and mobile apps to access and store gift cards.

About the Study

Between September 14, 2012 and September 28, 2012, Market Strategies International conducted a web-based survey with members of Research Now's online panel. Each of the 2,071 respondents was a U.S. resident 18 years or older who had purchased or received at least one gift card in the past year.

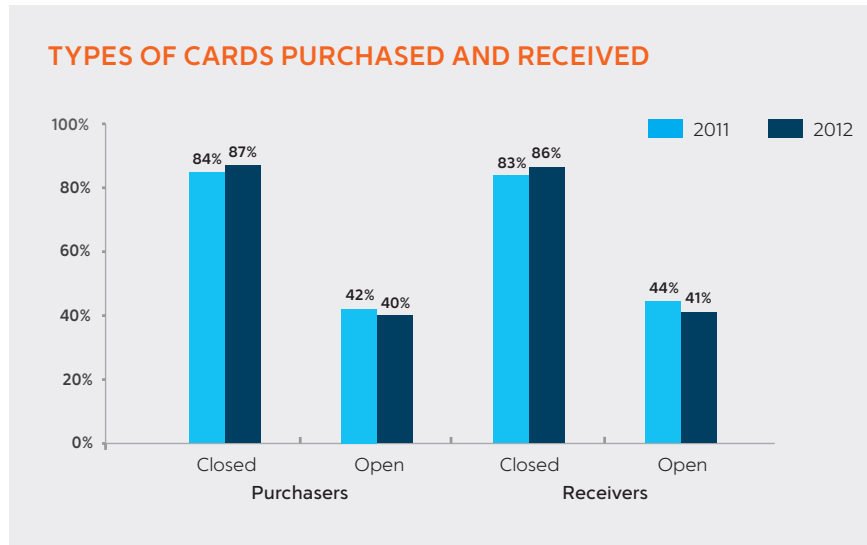
¹ Mercator Advisory Group, "There's No Place Like Plastic for the Holidays," November 2012.

Closed Loop Card Usage Remains Consistent

The volume of gift cards both purchased and received in 2012 is consistent with 2011 levels, indicating the overall stability of the industry. As in 2011, consumers bought an average of five gift cards throughout the year.

Continuing a trend that began in 2010, closed loop cards (those issued by a specific retailer) gained in popularity, while the industry saw a decline in the purchase and receipt of open loop cards (which are typically network-branded for usage anywhere.)

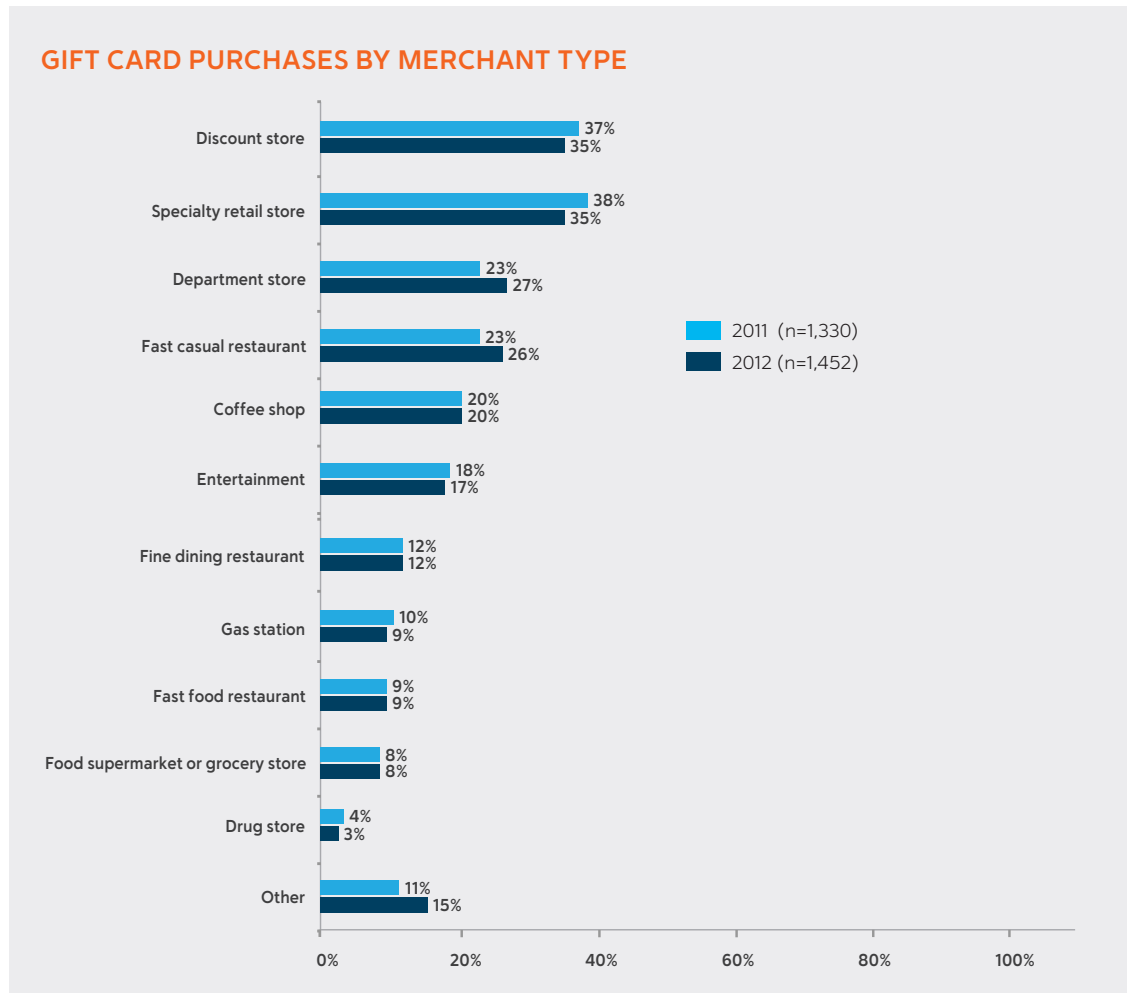
(See "Special Report: The Evolution of the Gift Card Industry" on page 10 for more information.)



Consumers bought an average of five closed loop cards in the past twelve months compared to three open loop cards.

Discount and Specialty Stores Top Gift Card Retailers

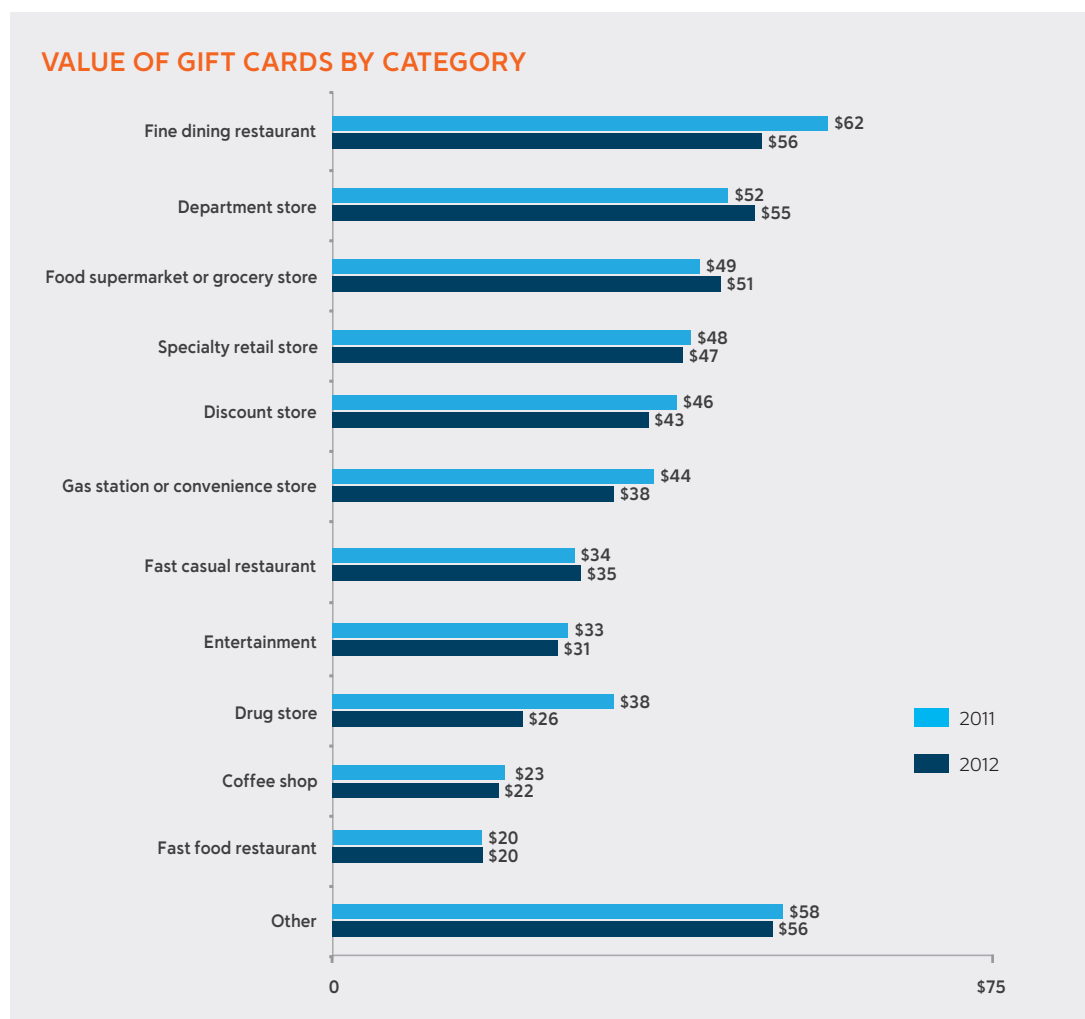
Discount and specialty retail stores remain the most popular type of retailers from which gift cards were purchased in 2012, as shown below. Card purchases from department stores and fast casual restaurants rose slightly from 2011 to 2012.



Gift Card Values Remain Steady

In 2012, consumers spent an average of \$73 on each open loop card, just one dollar less than in 2011. The average value of closed loop gift cards in 2012 was \$42, unchanged from 2011. Of course, the average value of closed loop cards varies widely by retail category, with consumers buying higher-priced cards in more expensive categories.

Department stores, supermarkets/grocery stores and fast casual restaurants were the only three categories to see an uptick in card values from last year, while the average gift card value in all other categories dropped in 2012. Since 77 percent of consumers say they spend the same amount when giving a gift card as they would on a traditional gift, this finding indicates that spending on gifts in many categories may also be down slightly this year.



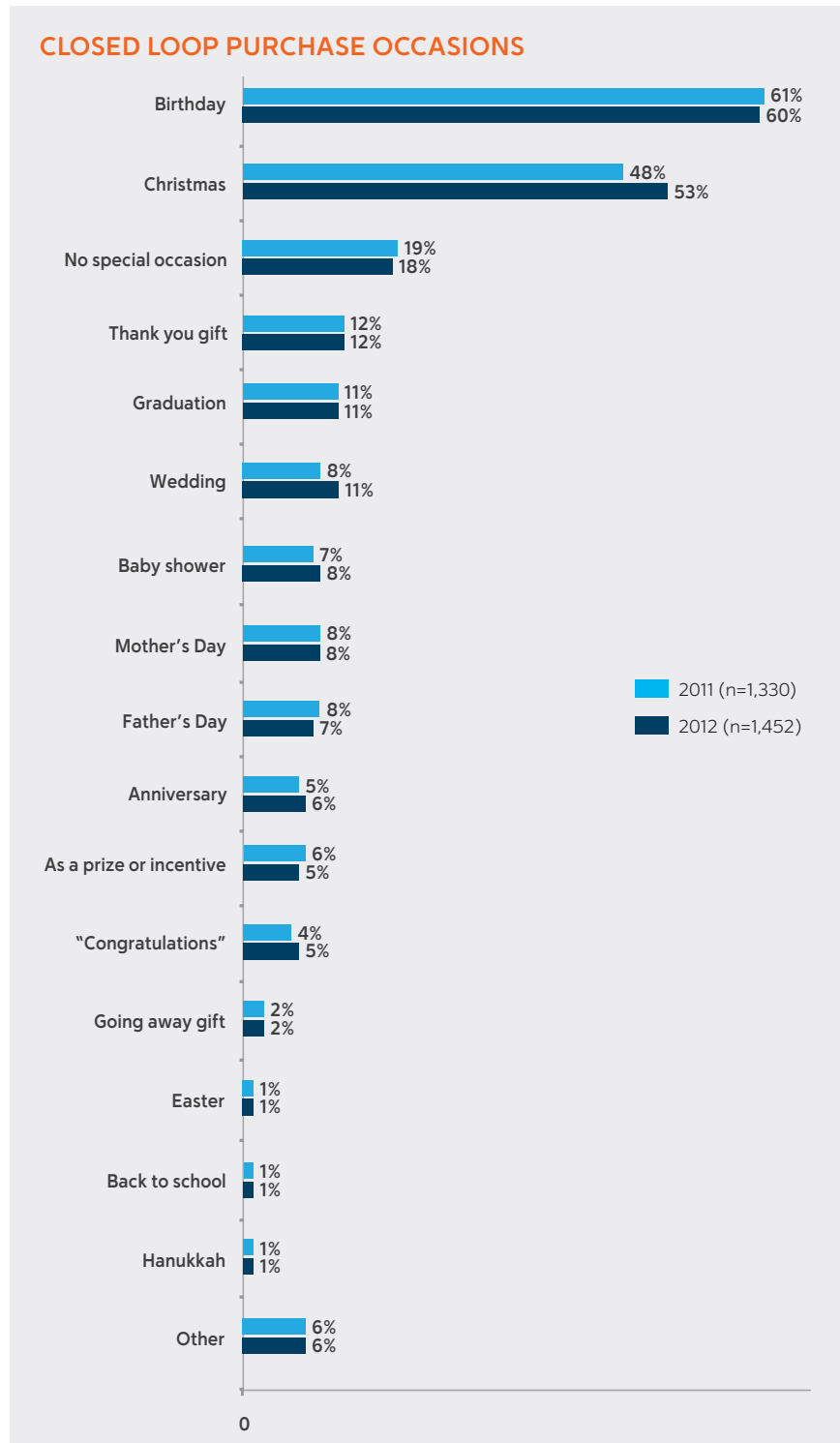
Specialty retail, discount stores and department stores comprise about half of the closed loop market based on the number of cards purchased and the average value of the cards.

Birthdays and Christmas Top Gift Card-Giving Occasions

Consistent with 2011, birthdays and Christmas topped the list of occasions for giving gift cards in 2012. As shown at right, the practice of giving gift cards as Christmas presents is on the rise, with more than half of gift card givers buying at least one closed loop gift card last holiday season. Likewise, of consumers who received one or more closed loop gift cards within the last 12 months, nearly half received at least one gift card last Christmas.

Consumers buying gift cards for specific occasions like Christmas prefer a design tied to the occasion and the availability of an envelope. However, their purchase decision is generally not influenced by premium packaging or special features such as a holder that also serves as a photo frame.

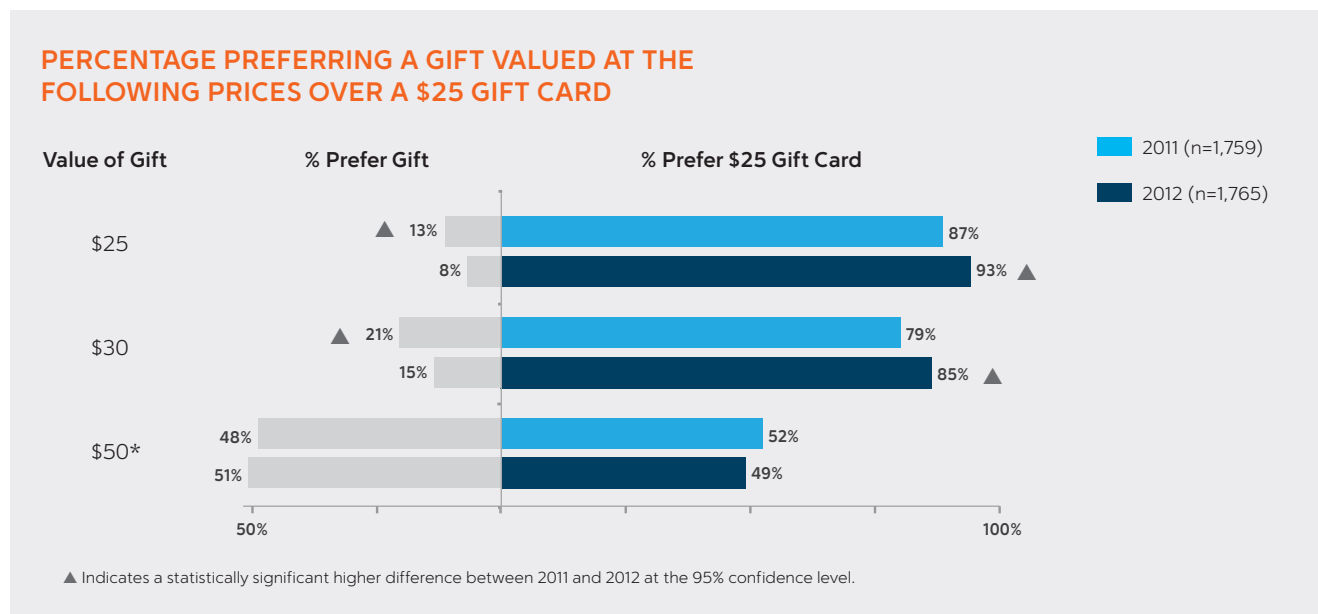
The most popular gift card recipients remain non-immediate family members, such as nieces, cousins and uncles. Compared to 2011, consumers stepped up purchase of gift cards for their children and siblings in 2012.



Gift Cards Are Highly Valued by Both Consumers and Merchants

Once again, consumers view gift cards as highly valuable, even more so than gifts of equal or greater value. Ninety-three percent of consumers would prefer a \$25 gift card to a gift valued at \$25, and 85 percent would prefer a \$30 gift card over a similarly-priced gift. The percentage of consumers preferring a \$25 gift card to a \$25 or \$30 gift rose from last year, reinforcing the value that recipients place on being able to pick out their own gift.

Gift cards have such high perceived value that nearly half of consumers would prefer a \$25 gift card to a present worth \$50.



To merchants, the value of gift cards extends beyond the high perceived value they provide to their customers. Two-thirds of consumers who received a gift card spent more than the card’s value, bringing in additional revenue for merchants. The average overspend in 2012 was \$20.79, comparable to last year. As might be expected, higher levels of overspend occur in higher-priced categories. For example, the average amount spent over the value of the gift card was \$33 for fine dining restaurants compared to \$5 in fast food restaurants.

Nearly one-quarter (22 percent) of consumers used a gift card to buy something they wouldn’t have bought on their own.

Harder to measure but advantageous to retailers are the additional dollars that gift card purchasers spend to purchase something for themselves while in the process of buying a closed loop card from a merchant’s store or website. Another important benefit to merchants is the exposure to the brand for gift card recipients who might not otherwise have shopped at a particular establishment.

Consumers Prefer to Buy Directly from the Retail Location

As shown below, three-in-five consumers purchased closed loop gift cards directly from a particular merchant, making this the most popular purchase location—as it was last year. In 2012, 45 percent of consumers visited a gift card mall to make a purchase, unchanged from 2011.

While a minority of consumers buy from gift card malls, those that do buy the most cards—an average of 4.2 in 2012. In 2012, the percentage of consumers who bought a gift card from an online equivalent of a gift card mall rose to 11 percent. Just a small fraction of consumers bought cards via a social networking site such as Facebook. However, perhaps influenced by the opinions of others in their social network, these consumers purchased slightly more cards on average than consumers buying from a retailer’s website.

Purchase Location	Percentage of Consumers Buying using this Method	Average Number of Cards Purchased
In person at specific store, restaurant or entertainment location	61%	3.4
Gift card mall	45%	4.2
By internet, using a website that sells gift cards for many different retail stores	11%	3
By internet, using the specific store’s website	11%	2.2
By internet, using a social networking site such as Facebook	1%	2.4
Via mail or phone from the store’s catalog	1%	1.6

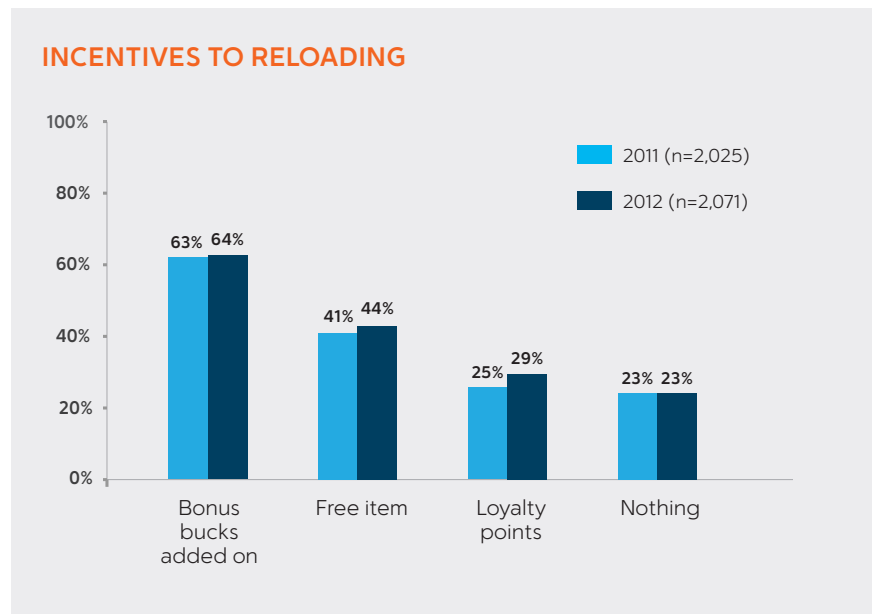
Twenty-nine percent of consumers aged 18-24 bought directly from a specific retailer’s website, compared to just 11 percent of the general population.

Few Customers Choose to Reload Gift Cards

Encouraging reloading is in a retailer’s best interests because it keeps customers engaged with the brand and almost guarantees that they will return to an establishment or website. However, just nine percent of consumers chose to reload in 2012, unchanged from 2011.

How can retailers encourage customers to use their gift cards again and again? As shown below, “bonus bucks” would motivate three-in-five consumers to reload their gift cards. Loyalty points were cited by 29 percent of respondents, up from 2011. However, merchants should note that 23 percent of consumers have no interest in reloading.

Gift cards from coffee shops, which many consumers visit as part of their regular routine, remain the most frequently reloaded type of card: 45 percent of reloaders have reloaded a gift card from a coffee shop. Rewards programs motivate 39 percent of these consumers to reload, while 41 percent claim they have “no need” to reload.



Special Report: The Evolution of the Gift Card Industry

Two interrelated trends are shaping the gift card industry:

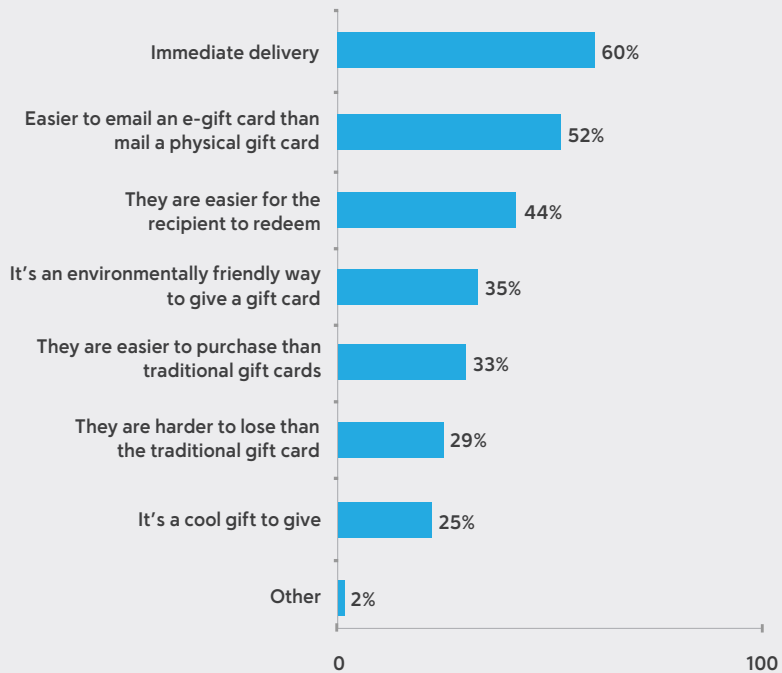
- E-gift cards as a replacement for physical cards
- Mobile storage: The ability to store the value of a gift card (e-gift or traditional card) using a smartphone app

E-Gift Cards: Usage Rising but Consumer Obstacles Remain

In 2012, 21 percent of consumers bought at least one e-gift card, up from 19 percent in 2011 and continuing a multi-year upward trend. Additionally, the average number of e-gift cards purchased by these consumers rose from 1.8 to 2.5 year-over-year. Further good news for merchants hoping to promote e-gift cards is that the average value consumers say they would spend on e-gift cards across retail categories rose from \$33 in 2011 to \$37 in 2012, while the maximum rose from \$51 to \$60.

Consumers that like e-gift cards cite a number of benefits such as immediate delivery, convenience for recipients and purchasers and their environmentally-friendly nature.

REASONS FOR GIFTING E-GIFT CARDS

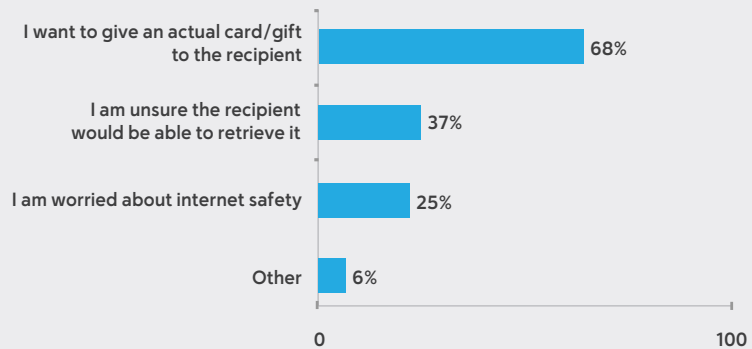


However, even as consumers increase the volume and value of their e-gift card purchases, many people have been slow to adopt them. Forty-three percent of consumers are either “unlikely” or “highly unlikely” to buy an e-gift card for their next gift card purchase, and 68 percent of consumers would prefer to receive a traditional gift card.

Why aren’t more consumers interested in e-gift cards? From a purchaser’s perspective, the main reason is that they would prefer to give an actual card or gift—this preference may be slow to change. However, merchants can immediately

address the other concerns of the combined 62 percent of consumers who are worried about internet safety or that their intended recipient wouldn’t be able to access the e-gift.

REASONS FOR NOT GIFTING E-GIFT CARDS



More than 40 percent of consumers would consider giving an e-gift card for Christmas.

Younger Consumers Are Early Adopters of Mobile Phone Storage

In the past, consumers were limited to redeeming their e-gift cards online or printing them out to spend in a store or other establishment. With mobile phone storage, consumers can store the value of the gift card on their smartphone and then access it when visiting a retail location. Since most consumers with smartphones never leave home without them, mobile phone storage ensures they can spend their gift card whenever it’s convenient.

Nearly half (46 percent) of consumers would be interested in mobile storage, up from 43 percent last year. However, one-third are simply not interested. When asked why, these consumers cited lack of retailer acceptance and security concerns as top reasons.

While many consumers are still wary of mobile phone storage, younger consumers have readily adopted the concept. Seventy-one percent of consumers ages 18 to 24 are interested in mobile phone storage. Adoption of mobile phone storage by the younger demographic bodes well for its future. As these consumers get older and have more disposable income, they will be likely to continue to participate in the evolution of mobile phone storage. At the same time, other consumer segments will become more willing to adopt the technology.

Implications of the Study

While the gift card industry is relatively mature, retailers that understand what consumers want and need have many opportunities to take advantage of the sales, marketing and brand-building potential of gift cards. Based on the findings of the “2012 Prepaid Consumer Insights Study,” merchants should consider:

- **Marketing the high perceived value of gift cards:** Gift cards are typically considered more of a gift of convenience than a high-value gift. However, the study indicates that consumers view gift cards as more valuable than traditional gifts, which is a marketing message worth mentioning, especially during the holiday season.
- **Maintaining a presence at physical and online gift card malls:** While usage of gift card malls appears to be leveling off, it is worthwhile for retailers to take advantage of this sales channel, especially because consumers tend to buy higher numbers of cards from gift card malls. As sales of gift cards via the internet become increasingly prevalent, merchants also need to be sure to have their cards available via the online equivalent of a gift card mall.
- **Addressing consumers’ concerns with mobile phone storage:** To increase adoption of mobile phone storage, merchants would be wise to communicate that retailer acceptance of this payment option is widespread and growing. Additionally, merchants should communicate the steps they take to keep data safe in order to proactively address this area of concern.
- **Promoting the benefits of e-gift cards more heavily:** Especially during the hectic holiday shopping season, the key benefits of e-gift cards—immediate delivery and ease of sending—should resonate with shoppers. Late in the holiday season (when shoppers run out of time) is the perfect opportunity for merchants to promote how quick and easy it is to buy and receive an e-gift card. Likewise, retailers should think about promoting e-gift cards throughout the year as the perfect belated birthday gift. Targeted promotions to consumer segments that value the “green” and “cool” aspects of e-gift cards might also be effective in increasing sales.



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About Market Strategies International

Market Strategies International is a market research consultancy with deep expertise in communications, consumer goods, energy, financial services, healthcare and technology. 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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