

GiftCardPartners^{INC.}

National Research Presented by GiftCard Partners Reveals Emerging Trends in Gift Card Behavior and Usage

Key Findings

- More than 40% of consumers acquire gift cards through various B2B sources.
 - 36% of redeemers would have shopped elsewhere without the gift card which clearly indicates that without the card, there is a lost opportunity of a store visit.
 - 8% of redeemers never shopped the store previously indicating the power of gift cards in acquiring new customers.
 - 32% of all redeemers would not have made a purchase if they didn't have the gift card.
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This white paper features results from two national studies on gift card usage. GiftCard Partners (GCP) conducted a survey of direct buyers who purchase gift cards for their employee base and GCP commissioned SHAPIRO (Leo J. Shapiro & Associates), a research firm that has over 50 years of experience at the forefront of conducting behavior and opinion research, for the second survey which was aimed at understanding consumer gift card behavior.

Overview

Study 1: Consumer Gift Card Receipt and Redemption

The first study was aimed at understanding consumer gift card behavior. 500 consumers from across the United States (U.S.) were surveyed, using both online (350) and telephone (150) methods and respondents divided equally between male and female participants. The data in this study is statistically weighted and representative of the U.S. as a whole.

The objectives of the Gift Card Receipt and Redemption study were to:

1. To understand the role gift cards play in driving awareness, new customers, incremental visits and new business.
2. Specifically examine B2B gift card usage and behavior.
3. Understand the incidence and frequency of gift card receipt and redemption.
4. Explore retail gift card behavior.

Study 2: Direct Buyers Gift Card Needs

The second study was focused on companies who purchased gift cards for their employee base; these companies purchase gift cards in bulk for their employees, members or other constituents. These Direct Buyers purchase gift cards as incentives and rewards for employee recognition programs, motivation, health and wellness programs, etc. 75 companies across the United States (U.S.) (small, mid-sized and large) were surveyed online in order to obtain this Business to Business (B2B) customer segment research.

The objectives of the Direct Buyers Gift Card Needs study were to:

1. Understand gift card purchasing habits of GiftCard Partners' direct customers (B2B vs. consumer).
2. Uncover which are the most popular incentive programs within the surveyed organizations.
3. Understand preferred gift card categories.
4. Ascertain purchase intent and when they're most likely to purchase gift cards.
5. Gain insight into their gift card budgets.

Gift Card Receipt and Redemption Study

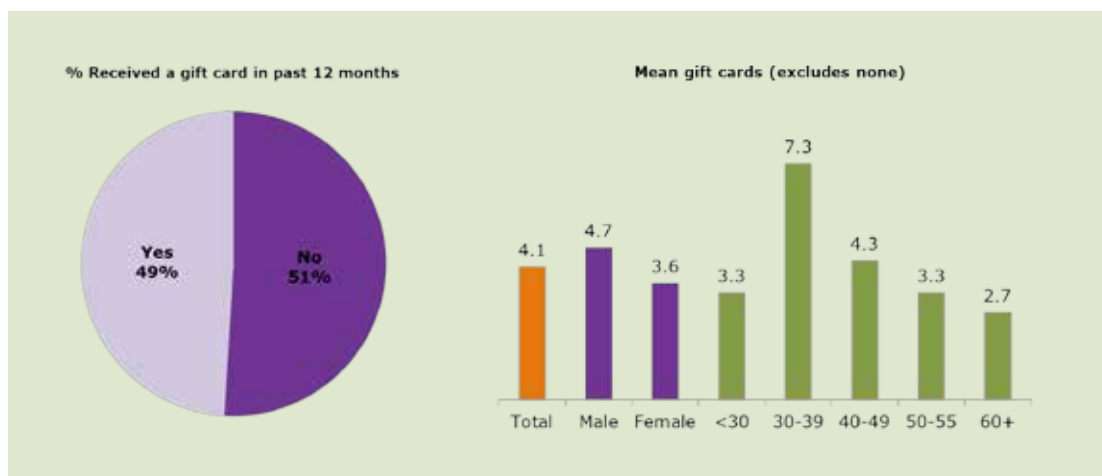
Gift Card Receipt

This part of the study looked at how many gift cards consumers received in the past year. These are consumers that received them as a gift from friends, family, as a prize, or from their workplace – anywhere they would receive a gift card for free, excluding those who purchased gift cards themselves.

About ½ of households reported receiving a gift card in the past year.

Among them:

- They received an average of 4 cards
- Males received more gift cards than females
- Respondents between the ages of 30-39 received more than 7 gift cards annually



Q. In the past 12 months, how many gift cards have you received for free or as a gift, whether from friends and family, at work, a prize, etc.?

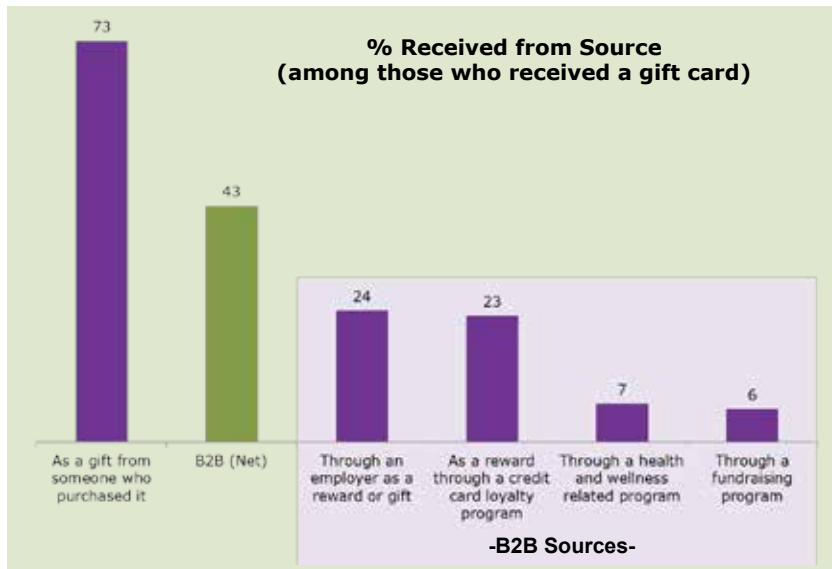
Source of Gift Card Receipt

This section looks at where the gift cards came from. Overall 79% received them as a gift from someone who purchased them, however, the intriguing part for retailers who offer their gift cards in the B2B sales channel, is that 43% of the respondents received them from a B2B source.

Of the 43% of B2B recipients, almost 25% received them from their employer as motivation, a reward or gift, and another 23% obtained them from credit card loyalty programs. Health and wellness program participation accounted for 7% and that is expected to increase as the Affordable Care Act provides more assistance to companies who offer such programs to employees. 6% of this population received their cards through a fundraising program; the most prevalent of these being Scrip programs.

This data reinforces the viewpoint that B2B channels are a widespread and prevalent source of how and where consumers obtain their gift cards.

Here is a look at the chart breakouts for various B2B sources:

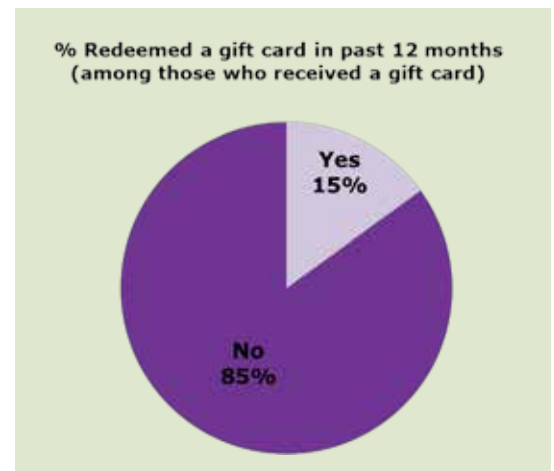


Q. Specifically, have you received any of these gift cards?

Gift Card Redemption

For retailers and merchants, the concept of “breakage” has evolved quite a bit. In its most simple form, gift card breakage is a term that refers to the value on the gift cards that have been sold but never redeemed by the cardholder. Breakage was once considered a “win” for retailers, however, more often; they now consider a gift card holder who doesn’t redeem their gift card, a lost customer and lost future sales opportunity.

Gift card recipients reported redeeming 85% of the gift cards they received over the past 12 months.

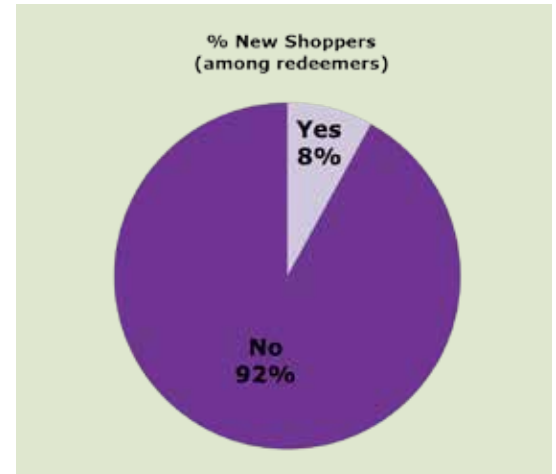


Q. How many of the gift cards that you received as a gift in the past 12 months have you used or redeemed in anyway, whether in full or partially?

Incremental Business

The result for this part of the study allows you to look at the degree to which gift cards drive new customers and added store visits. This pie chart depicts that overall, 8% of gift card redeemers to this question had **never** been to that particular store, until they received that gift card.

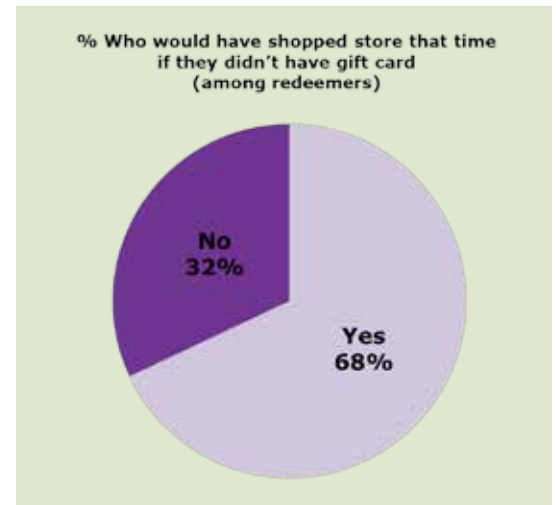
This % varies by type of store, but considering that gift cards drive in close to 10% of new shoppers, that's pretty sizable.



Q. Was that the first time you had ever shopped at <STORE>?

To further look at incremental business, about one third of the respondents said *they would NOT have shopped that store that time if they didn't have the gift card.*

This is evidence that gift cards do, in fact, motivate store visits for a substantial portion of the population.

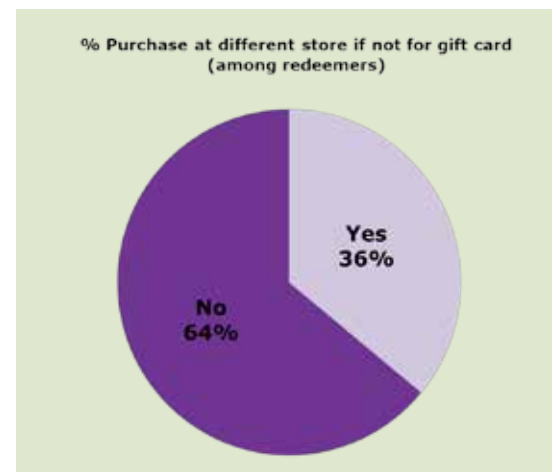


Q. Would you have shopped at <STORE> that time if you didn't have that gift card?

Redemption Spend

Looking at gift card spending, respondents were asked whether they would have purchased the item they wanted to buy at a different store if they didn't have the gift card. **Over 36% said that they indeed would have gone to a different store if not for the gift card they received.**

This truly suggests that without a gift card, there's a lost visit. This reinforces the knowledge that consumers have many choices, but getting the gift card in the consumers' hands, helps secure visits.

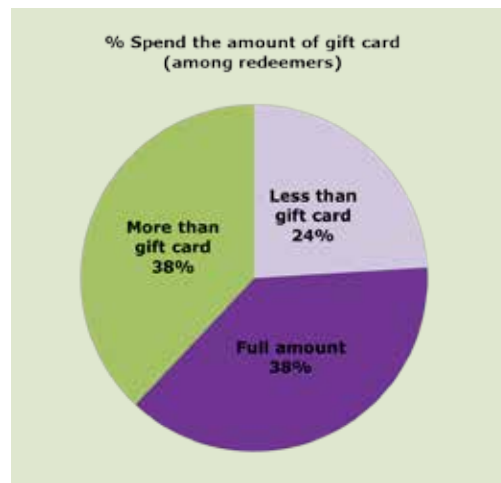


Q. Would you have purchased <ITEM> at a different store if you didn't have that gift card?

“Lift or Overspend”

When redeeming their gift cards, consumers are likely to spend at a minimum the full amount on the gift card – 76% of responders noted this. Overall, 38% said they spent the full amount on the card.

Another 38% spent MORE than the gift card amount and just under a quarter spend less than the face value (although it’s very likely that when they return at some other point to redeem the balance they spend beyond that amount).



Q. Did you spend just the amount on the gift card or more?

Retail Gift Cards

Retail Gift Card Awareness & Purchase

The survey examined retail gift cards, which are those gift cards that are purchased at a retail store, OTHER than a retailer’s own stores. These are the gift cards sold on the racks in grocery, drugstores, convenience stores, etc., known as Gift Card Malls.

Awareness of Gift Card Malls is pretty wide-spread. Over 75% of households were aware of Gift Card Malls and more than one third of those aware, have actually purchased a gift card from those racks.



Q. Have you ever seen stores selling gift cards that can only be used at other stores?

Impact of Gift Card Malls

How important is the gift card mall channel to gift card sales? Nearly one half of retail gift card purchasers said if the gift card was not available at the retail outlet where they purchased, they would not have made the effort to go to the original retailer to purchase the card.

Gift Card Malls are making a big impact on buying decisions due to their convenience.



Q. If you couldn’t have purchased the <STORE WHERE COULD BE USED> gift card at <STORE WHERE PURCHASED>, would you have gone to <STORE WHERE CARD COULD BE USED> instead to purchase one of their gift cards?

What Direct Customers Want

The second study focused on another B2B channel for gift card sales, which is less known by retailers. They are direct customers; companies that purchase gift cards in bulk for their employees, partners, customers, members, and other constituents.

This was an online study among 75 companies across the country and the group represents small, mid-sized and large organizations.

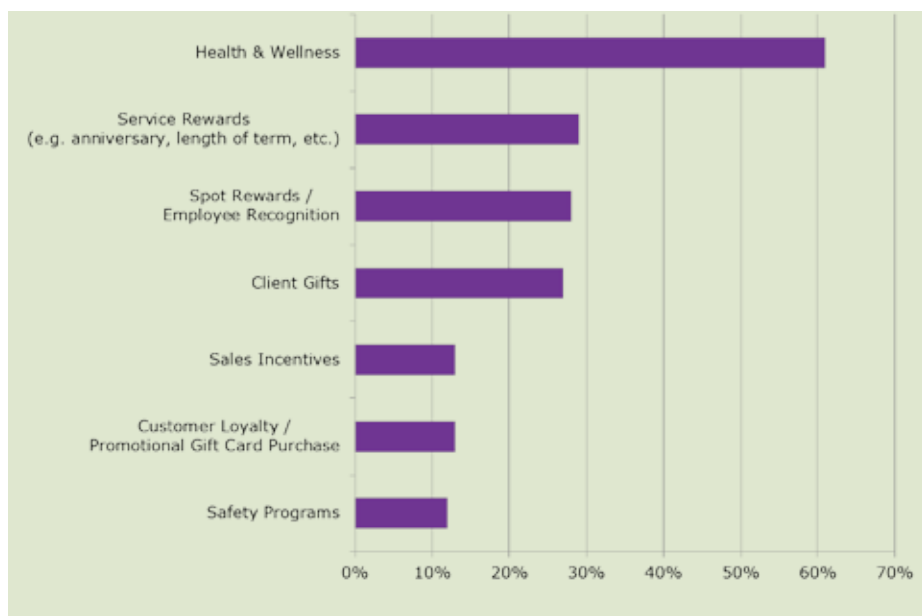
The key objectives were to understand the purchasing habits and preferences of B2B customers and gain insight into how, when, and for what programs they purchase gift cards. Listening and learning from customers is the best way to ensure you offer the right brands for this channel of B2B gift cards.

Also uncovered:

- The most popular incentive programs within organizations
- Preferred gift card categories
- Purchase intent and most likely timeframes for bulk gift card purchases
- Insight into company gift card budgets

Most Popular Incentive Programs

So, how are companies and businesses of all sizes utilizing gift cards internally, within their organization and externally? The Affordable Care Act has had a significant impact on companies' ability or willingness to offer health and wellness programs, so it's not much of a surprise to see 60% of companies purchasing gift cards for incentives and rewards for the increased wellness of their staff. Other kinds of programs are charted below by their percentage of implementation; retailers should find it quite interesting that their gift cards are or can be utilized as tools in these corporate programs.

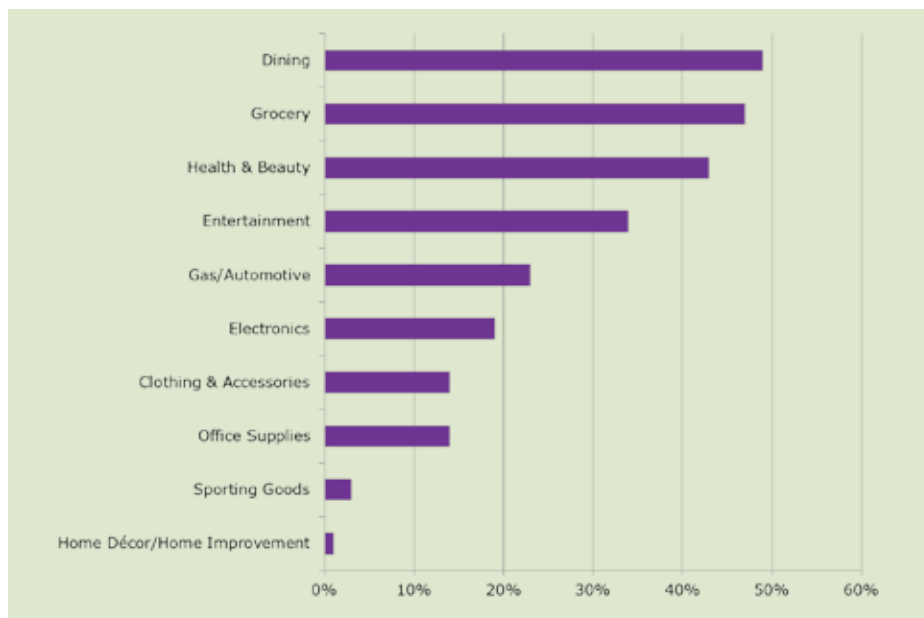


Q. What type(s) of incentive programs does your company use? (Select all that apply)



Most Wanted Gift Card Categories

Everyday spend categories are leading the preferred categories for direct customers. The top 3 categories include dining, grocery and health & beauty.

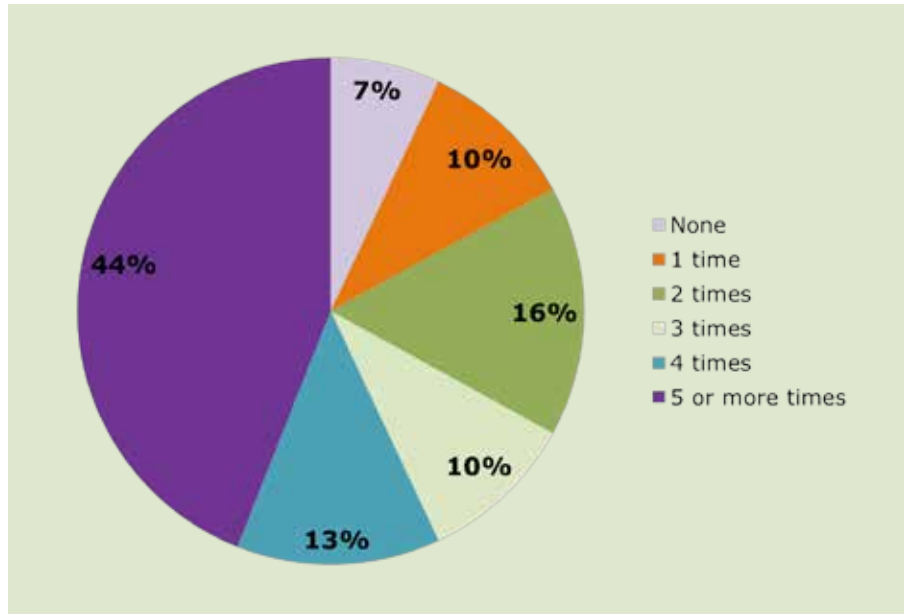


Q. What are the most preferred categories of gift cards for your company?

Gift Card Purchase, Frequency & Timing

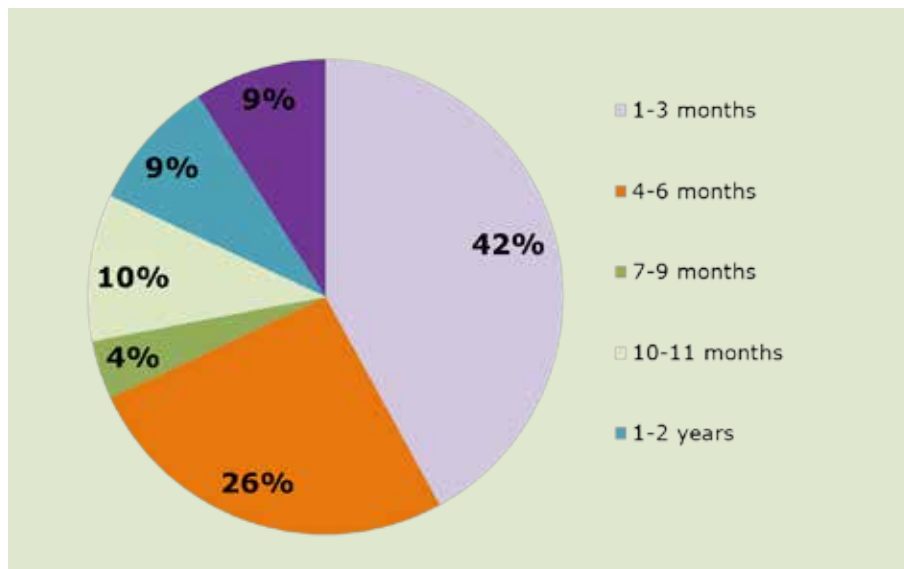
Companies are not ordering on the scale or frequency of Gift Card Malls or other B2B sales channels, but there are thousands, potentially tens of thousands of companies that could offer gift cards as incentives and rewards.

This study uncovered that customers and prospects are purchasing four or more times per year, with 44% of them ordering 5 or more times per year. Retailers with a strong brand, along with other key attributes, are capitalizing on this emerging sales channel for gift cards.



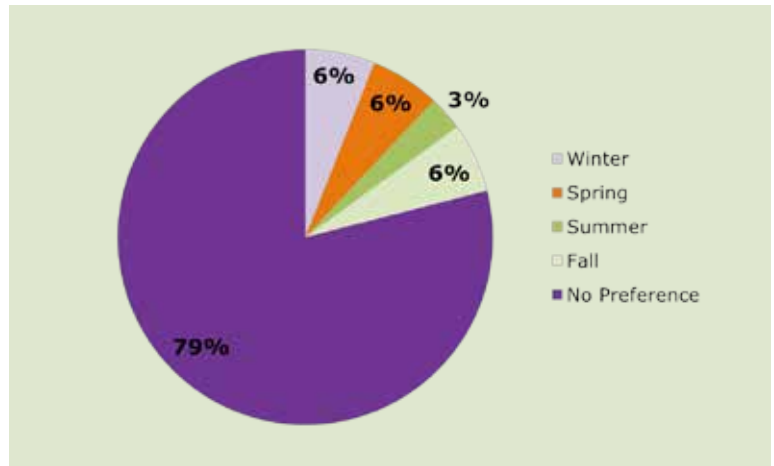
Q. How many times has your company ordered gift cards in the past year?

Almost 70% of respondents are ready to buy bulk gift cards in the next 6 months. This isn't just good news for those who are selling gift cards, it is great news for retailers and merchants!



Q. Is your company planning to purchase gift cards in the next...?

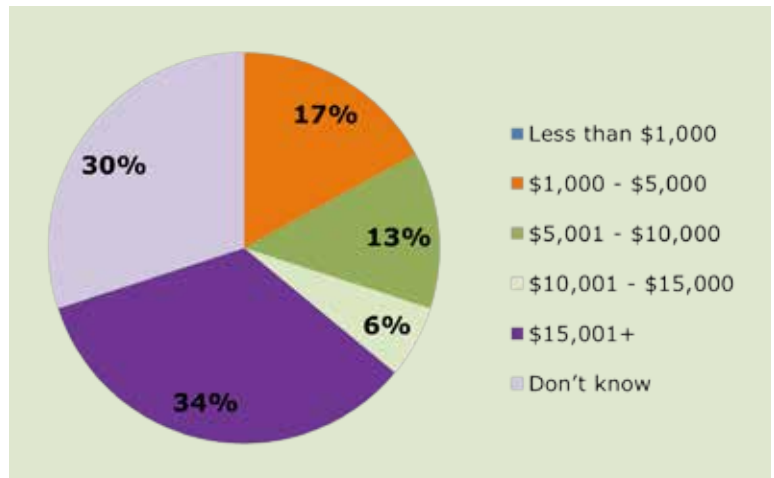
This study indicates that buyers instincts towards purchase timing preference (holidays), isn't a buyers intention.



Is there a Seasonal Buying Preference?

2014 Incentive Budget

Turning now to dollars and cents and looking ahead at 2014, what do companies' incentive budgets look like? A resounding 40% of companies plan to spend **over \$10,000** in incentives next year. Multiply that by all the direct companies out there and that's a successful gift card sales channel!



Q. What do you anticipate your company's annual budget for all incentive/recognition/reward programs to be for 2014?

Retailers and Merchants Are Missing Out On Opportunities

- Results of these studies provide a clear picture of gift card usage and behavior.
- B2B gift cards drive both **new** and **incremental** business.
- There are opportunities to engage the direct customer for B2B gift card sales.
- Retailers and merchants may want to conduct a research study in order to ascertain if it makes sense for their organization to participate in a B2B gift card program.