

SELF-USE GIFT CARDS: IMPACT ON CONSUMER BEHAVIOR

March, 2018



Your
Fantastic
Plastic

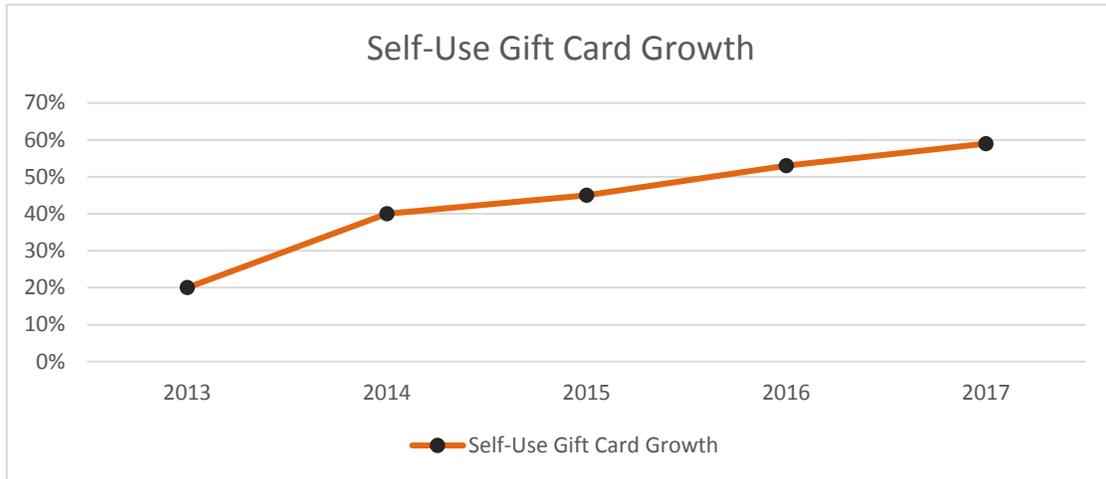
EXECUTIVE SUMMARY

Utilizing gift cards for self-spend is a relatively new phenomenon that has increased significantly over the past five years—so much so, that it now can be identified as a *trend*. The growth of this category far outpaces the growth of any other gift card sales channel. Data around the demographic characteristics of participants has been documented in prior industry research. This report sets out to address what’s unclear: what are consumers’ motivations for using self-use gift cards, how important is a discount and what types of purchases are occurring as a result. It is based on the results of a 2017 consumer survey, conducted by Your Fantastic Plastic—a gift card consultancy, which sought input on these specific topics.

WHAT WE ALREADY KNOW ABOUT SELF-USE GIFT CARDS

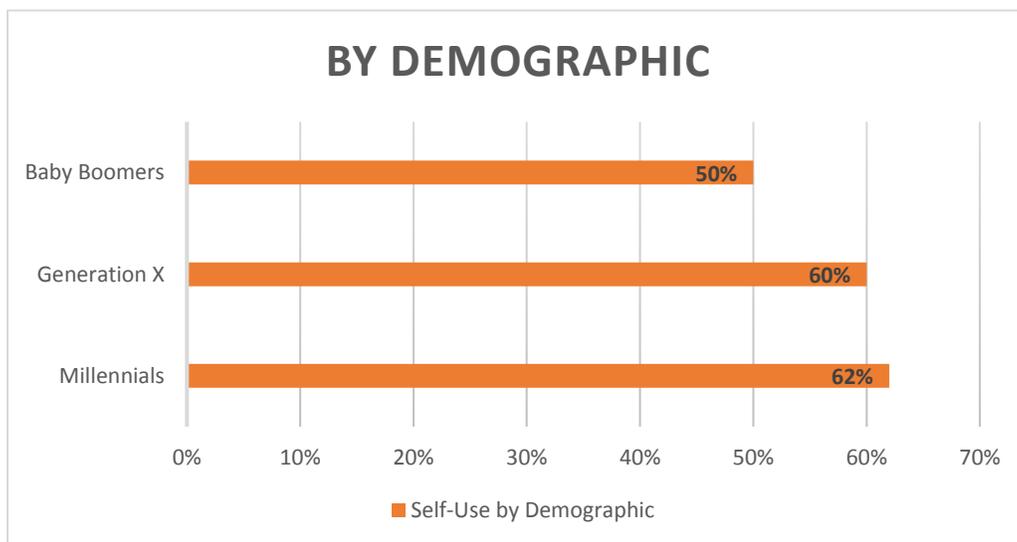
Thanks to research from First Data, Mercator Advisory Group and others, data exists on the overall growth of self-use gift cards and their incidence of use by demographic.

First Data has issued an annual Prepaid Consumer Insights report for 16 consecutive years. In 2013, they published their first statistics on the utilization of self-use gift cards which has subsequently been updated each year since. Self-use growth has nearly tripled in this timeframe—rising from participation by 20 percent of the population to nearly 60 percent in this timeframe.



Source: First Data

In 2017, First Data enhanced their findings by reporting the split of self-use by generation. Half or more of each demographic segment now use gift cards to support personal spending.



Source: First Data

The organic growth of gift cards utilized for self-use is being aided by more significant digital issuance. Mercator Advisory Group points out that more people are buying e-gift cards for self-use (35 percent) than for gifting (27 percent.) First Data adds that 24 percent of the population are using gift cards more for self-spend than for giving to others, and Incomm discovered that 55 percent of the 18-to-35 year-old consumers they queried wanted to purchase digital gift cards to store and spend on their smartphone for personal needs.

Mercator Advisory Group concludes that this self-use trend is the driving force for the increase in gift card sales overall. Self-use purchases grew 19 percent between 2013 and 2016, whereas gifting purchases rose only one percent. Mercator cites the “perfect confluence” of circumstances helping to drive this growth—where all constituents are benefitting. For shoppers, the impetus has been influenced by gift cards’ ability to serve as a personal budgeting tool, a rewards mechanism and a way to shop online without a credit or debit card—whereas, merchants gain from integrated loyalty where gift cards power payments thereby saving on credit processing fees and providing a path for deeper customer engagement.

Let’s move on to the results of the survey.

METHODOLOGY

200 online interviews were conducted nationally with American consumers through Survey Monkey on April 13 – May 5, 2017.

Respondents were randomly identified and qualified as to if they purchased gift cards for self-use during 2016.

The sample was targeted to match overall U.S. demographic patterns including age, gender, ethnicity and household income.

Though the study observed a relatively small group of consumers, the findings provide insight into strategies retailers can use to market gift cards for self-use.

We set out to enhance what is already known about the self-use gift card trend by addressing these questions.

1. *How critical is a discount to the motivation of a purchase of a self-use gift card?*
2. *What categories of purchases and consumer behaviors are being driven by self-use gift cards?*

In 2017, Your Fantastic Plastic, a gift card and prepaid consultancy, commissioned a survey through Survey Monkey to better understand the gift card self-use experience. It surveyed 200 American consumers to explore the drivers of self-use behavior. Specifically, the results identify:

- Where consumers source gift cards used for personal purchases.
- Is a discount the motivation to acquire a gift card for self-use.
- What consumers purchase with these gift cards and, therefore, what behaviors are influenced.
- Total self-use gift card spend.
- Feedback on motivating more purchases of these gift cards.
- Whether consumers digitize and store gift cards in a mobile wallet/app and what wallets and apps they use.
- General demographic data.

What follows is the summary of findings.

WHAT THE RESEARCH REVEALS ABOUT SELF-USE GIFT CARDS

The big question as to how critical a discount is to the acquisition of gift cards that consumers use for personal spend, the results show that 57 percent of respondents seek a discount for half or more of their self-use gift cards.

We weren't sure what to expect when asking this question—but, we are confident people like to save money. Diving more deeply into the research gives us more insight. A significant number of consumers (35 percent and 20 percent, respectively) acquire “personal spend” gift cards when they trade loyalty points from credit card or travel rewards programs or as a result of employee incentives programs—so discounts aren't applicable to these instances where monetary exchange isn't applicable. Furthermore, many consumers only nominally invest in self-use gift cards—perhaps for online music and game purchases or to give kids a way to pay for things—where discounts are not the chief motivator.

On the flip side however, it's very clear that the way to drive more sales of self-use gift cards is through discounts or incentives. Fifty-one percent of respondents said that deeper discounts or the availability of discounts for more stores would be a primary motivator. Others asked for cashback rewards, loyalty points, bonus value and mobile notifications to remind them about the availability of a discounted gift card based on geolocation targeting while they are shopping.

Traditionally, gift cards are purchased as a gift for a specific merchant because it is a favorite of the recipient. Within the self-use space, consumers are open to a broader range of retailers depending on whether or not a card is available to them at a discount or as a reward option. Overwhelming, consumers use these gift cards to decide where to eat: 64 percent of respondents supported this claim. The availability of “self-use” gift cards also influence 42 percent of apparel and accessories purchases, 29 percent of grocery and gasoline purchases, 29 percent of movie theater decisions, 23 percent of electronics purchases, 17 percent of housewares and furniture shopping and 15 percent of travel purchases. Other spending is also influenced, such as where to buy cosmetics or office supplies and equipment but to a lesser degree.

The conclusion can be drawn that retailers who market their gift cards within distribution channels and programs known for producing a high degree of self-use acquisition can reap the benefits of greater market share, brand awareness and loyalty by getting consumers to load value on their branded currency before they decide to spend elsewhere.

Other insightful highlights emerged from this study. The strongest acquisition channel for these gift cards are retail stores where purchases are made at face value. This correlates to the high percentage of respondents who invest only nominally in self-use gift cards. Thereafter, consumers cite credit card and travel loyalty programs, merchant promotions, employee rewards, online websites or mobile apps and gift card marketplaces and exchanges as other primary sources of acquisition.

Numerous respondents replied that they are not familiar with digital gift cards and don't know where to buy them. Furthermore, they added if they were aware of reputable resources for discounted e-gift cards—they would certainly be more inclined to buy them for personal spending. This could drive greater spend in this category—where 56% of respondents say they spend less than \$100 annually on self-use gift cards now.

Focusing on the Holy Grail of mobile usage, 24 percent of respondents report digitizing a plastic card in a digital wallet and/or storing e-gift cards in a mobile app. While still a minority fraction of the overall number of respondents, it exceeds the 13 percent of the general population who report utilizing mobile payments at a retail point-of-sale, according to a TSYS study.

Here's a demographic summary for the respondents of this survey:

- 60 percent female.
- 41 – 55 median age range.
- two-person median household size.
- \$75K median annual income.

What follows are the detailed survey results.

CONSUMERS ARE AS MOTIVATED BY DISCOUNTS A BIT MORE THAN HALF OF THE TIME

Twenty-eight percent of respondents said they never seek a discount when acquiring self-use gift cards. This correlates closely to the percentage of respondents (32 percent) who spend less than \$50 annually on these gift cards (see detail below.) This could lead to an assumption that these consumers are supporting nominal allowances, budgeting and online purchases, such as for music and games—or that many of them are acquiring cards through loyalty programs or as employee rewards.

On the other hand, a discount is critical for 29 percent of respondents—who always or nearly always—seek a discount. This correlates closely to the percentage of respondents (26 percent) who spend \$250 or more annually on gift cards to support personal spend. Another 18 percent of respondents seek a discount about half the time. Combined, 57 percent of consumers seek discounts for most of their self-use gift card purchases.

APPROXIMATELY HOW OFTEN IS A DISCOUNT OR INCENTIVE THE MOTIVATION FOR BUYING A GIFT CARD FOR SELF-USE?

Always	22%
90%	7%
75%	10%
50%	18%
25%	6%
10%	9%
Never	28%

SELF-USE GIFT CARDS ARE DRIVING PURCHASE DECISIONS

Gift cards acquired for personal spend are driving decisions on where consumers make purchases, particularly for dining, apparel, movies, electronics and 'everyday spend' categories. A whopping 64 percent of dining decisions are driven by which restaurants offer discounted or promotional gift cards whereas another 42 percent of clothing and accessories purchases are influenced similarly. For retailers who contemplate that customers are buying from them anyway and, therefore, a discount or commission is unnecessary—another issue is raised about loss of market share to competitors as a result of not participating in the space at all.

FOR WHAT OCCASIONS HAVE GIFT CARDS YOU ACQUIRED FOR SELF-USE HELPED YOU DETERMINE WHERE YOU MAKE PURCHASES?

(Check all that apply.)

Where to eat.	64%
Where to shop for clothing/accessories.	42%
Where to buy groceries and gasoline.	29%
Where to go to the movies.	28%
Where to buy electronics.	23%
Where to shop for housewares/furniture.	17%
Where and how to travel.	15%

HALF OF CONSUMERS ACQUIRE SELF-USE GIFT CARDS AT RETAIL STORES—AT FULL PRICE

In line with the prior observation that respondents are purchasing nominal value self-use gift cards where discounts are not a motivation—one-half (50 percent) are sourcing these cards from retail stores at full price. The next most popular sources of self-use gift cards are through loyalty programs, from retail stores at a discount and as rewards from employers. Thirteen percent of respondents purchase self-use gift cards through mobile apps and another nine percent utilize gift card marketplaces or exchanges. Note, there is overlap where respondents are acquiring these cards from multiple sources.

Due to the high degree of sourcing through retail stores, it is assumed that plastic is still king. What we don't understand is the chasm in use or knowledge about e-gift cards cited above—except to presume that more education is needed about the availability or introduction of digital gift cards. Also, many consumers are not familiar with promotional gift cards and secondary availability. This could equate to an opportunity to promote digital gift cards for self-purchase to an unaware market segment and to use a discount, promotions and incentives as motivation to pre-claim spend.

WHERE DO YOU SOURCE/BUY CARDS YOU USE PERSONALLY?

(Check all that apply.)

Purchased at retail store at full price.	50%
Acquired through bank, airline or hotel loyalty program.	35%
Purchased at retail store during a promotion.	25%
Given to me by my employer.	20%
Purchased online or through a mobile app, such as Gyft or giftcards.com.	13%
Purchased through gift card marketplace or exchange, like Raise or Cardpool.	9%

MOST CONSUMERS SPEND LESS THAN \$100 ANNUALLY ON GIFT CARDS FOR PERSONAL USE

Fifty-six percent of respondents spend less than \$100 each year on gift cards for self-spend. Twenty-one percent spend between \$101 and \$500 annually on self-use gift cards and the remaining 13 percent spend \$500 or more. According to the U.S. Bureau of Labor Statistics, the average American household spends \$36,800 annually on consumer goods—meaning there is tremendous opportunity to shift more of this spend to self-purchase gift cards where there is an opportunity to pre-commit spend.

**WHAT IS THE TOTAL FACE VALUE OF GIFT CARDS
YOU PURCHASED FOR SELF-USE IN 2016?**

Up to \$50.	32%
\$51 to \$100.	24%
\$101 to \$250.	18%
\$251 to \$500.	13%
\$501 to \$1,000.	10%
\$1,000+.	3%

GIFT CARD WALLET AND APP USAGE IS LIMITED, BUT EXCEEDS MOBILE PAYMENTS

About one-fourth of respondents have digitized a plastic gift card or use a mobile wallet or app to store e-gift cards. While this statistic may disappoint some, it exceeds overall mobile payment usage statistics. According to TSYS’ 2016 Consumer Payments Study, only 13 percent of U.S. consumers have used mobile payments at a retail location in the past year.

**HAVE YOU EVER DIGITIZED A PLASTIC GIFT CARD AND/OR
DO YOU STORE E-GIFT CARDS IN A MOBILE APP OR WALLET?
(If so, which wallets or apps do you use?)**

Yes.	24%
No.	76%

Named Wallets and Apps: Amazon (3%); Starbucks (3%); Apple Pay (3%); Raise (2%);
Gyft (2%); Samsung Pay; Google Wallet; Slide; iTunes; PayPal; Chick fil A.

DISCOUNTS WILL MOTIVATE CONSUMERS TO BUY MORE SELF-USE GIFT CARDS

When asked the open-ended question as to what will motivate more self-use purchases, 54 percent of respondents replied discounts, with some wanting deeper discounts and discounts for more stores. By a much smaller margin, other answers suggested cashback offers, purchase or loyalty points, discounts on purchases made with these gift cards, push notifications when shopping and gift card bonus value as other attractive incentives.

**WHAT COULD RETAILERS OR GIFT CARD WEBSITES DO TO ENCOURAGE YOU
TO PURCHASE MORE GIFT CARDS FOR PERSONAL USE?
(Open-ended question.)**

Discounts.	54%
Purchase/Loyalty Points or Cashback Offers.	7%
Discounts on Items Purchased With Gift Cards.	5%
Gift Card Bonus Value.	5%
Push Notifications When Shopping.	5%
Free Shipping.	1%
Sustainable Manufacturing.	1%
Guaranteed No Expiration.	1%
Risk-Free Security.	1%

HOUSEHOLD SIZE

1	13%
2	42%
3-4	35%
5+	10%

HOUSEHOLD INCOME

Less than \$25,000	11%
\$25,000 - \$50,000	21%
\$50,000 - \$75,000	18%
\$75,000 - \$100,000	18%
\$100,000 - \$200,000	26%
\$200,000+	6%

AGE

18 - 24	13%
25 - 40	33%
41 - 55	22%
55+	32%

GENDER

Female.	60%
Male.	40%

DEVICE

iOS Phone or Tablet	11%
Android Phone or Tablet	13%
Desktop or Laptop	69%
macOS	5%

Sources:

First Data: Prepaid Consumer Insights Study, 2017.

Mercator Advisory Group: Gift Card Self-Use Means Opportunities for Shoppers, Retailers and Third Parties, 2017.

InComm: Digital Gift Cards Evolving for Self-Use, 2015.

U.S. Bureau of Labor Statistics, 2014.

TSYS U.S. Consumer Payment Study, 2016.

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