

B2B Gift Card Market Study

Incentive Gift Card Council and Incentive Research Foundation

June 2014



Background

The Incentive Gift Card Council, in partnership with the Incentive Research Foundation and Aspect Market Intelligence, collected data from a national sample of business executives to understand the buying dynamics of the B2B gift card marketplace.

Executive Summary

A study of a cross-section of US businesses offers insights into the gift card buying behaviors of incentive program managers. Key findings from the study include:

- Confirming earlier studies, approximately half of US businesses use gift cards to reward or recognize employees, partners, and customers
- The most common application is employee recognition programs, followed by sales and customer recognition programs. Channel partner programs are the least prevalent.
- Average gift card award is highest for sales programs (~\$150) and lowest for customer programs (~\$50)
- Open loop continue its reign as the most prevalent type of gift card, followed by closed loop. Restricted cards have the lowest incidence, and are more likely to be used by large businesses.
- For closed loop cards, dining is by far the most popular merchant category, with department stores in second place.
- A business might use multiple sources for gift cards. Purchases from a local retailer are the most common across all company sizes. However, large companies are more likely to also purchase from the corporate sales group of a retail brand or from a gift card reseller.
- Of those ordering online from a retail corporate sales group or a reseller, 86% are highly satisfied with the online ordering experience.

Methodology

Sample was source from the Research Now B2B panel. A fifteen-minute survey was distributed via email invitation. Data collection took place in April 2014.

A total of 1,123 business people responded to the survey. Of those, 222 are responsible for managing a gift card rewards program and were able to provide detailed information regarding the purchase and application of gift cards in their organization. This sample size provides a 95% confidence level and 6.58% margin of error. This means if the study was replicated, 95 times out of 100 the results would be within 6.58% of the results presented in this paper – a very high degree of reliability.

See the appendix for notes regarding efforts to control estimation error.

Weighted Calculations

Because the study objective is to project findings to the population of U.S. businesses, measures of incidence and market size are statistically weighted to reflect the highly-skewed distribution of firms; for every firm over \$1 billion in revenues, there are 472 firms between \$1 and \$10 million in annual revenues.

Company Revenue	Number of US Companies	Percent of All Companies Over \$1Million in Revenue
\$1 to \$10 million	1,244,164	86%
\$10 to \$100 million	176,850	12%
Over \$100 million	20,605	1%
Totals	1,441,619	

Findings

Incidence of Gift Cards as a Reward

This study confirms prior studies regarding the incidence of gift card use among US businesses. Within the statistical margin of error, approximately half of US businesses are using gift cards to reward and recognize employees, partners, and customers. Use of gift cards increases in larger companies.

Company Revenue	Gift Card Incidence
\$1 to \$10 million	44%
\$10 to \$100 million	51%
Over \$100 million	56%
Weighted Incidence	45%

Type of Program

Respondents were asked whether their firm uses gift cards as rewards or incentives in four categories: Sales, Channel Partner, Employee, and Customer. Use of gift cards for Employee rewards is the most prevalent application.

	Weighted Total Incidence*
Employee Rewards	67%
Sales Incentives	38%
Channel Incentives	8%
Customer Rewards	30%

Breaking the data down by firm size, we see that the incidence of all types of programs generally increases with firm size.

	Employee Rewards	Sales Incentives	Channel Incentives	Customer Rewards
Between \$1 Million and \$9 Million	66%	38%	8%	30%
Between \$10 Million and \$99 Million	74%	34%	5%	31%
Over \$100 Million	79%	45%	16%	35%
Weighted Total	67%	38%	8%	30%

For each type of program, respondents were asked to estimate the average value of a gift card award and the number of gift cards that are awarded annually. The face value of the gift card does not increase with company size.

	Average Dollar Value of Gift Cards			
	Employee Rewards	Sales Incentives	Channel Incentives	Customer Rewards
Between \$1 Million and \$9 Million	\$ 69	\$ 140	\$ 88	\$ 56
Between \$10 Million and \$99 Million	\$ 77	\$ 226	\$ 54	\$ 62
Over \$100 Million	\$ 57	\$ 123	\$ 188	\$ 58
Weighted Total	\$ 70	\$ 149	\$ 84	\$ 56

As we might expect, the number of gift cards awarded annually does increase with firm size. This increase is particularly notable for Employee, Channel, and Customer programs.

	Average Number of Gift Cards Awarded Annually			
	Employee Rewards	Sales Incentives	Channel Incentives	Customer Rewards
Between \$1 Million and \$9 Million	50	83	92	58
Between \$10 Million and \$99 Million	99	67	22	282
Over \$100 Million	1,104	323	1,441	4,519
Weighted Total	66	82	96	129

Respondents were also asked to estimate the percent of their program budgets that were allocated for various spend categories: Gift Cards, Other Awards, and Program Administration. Interestingly, 25% of respondents indicated these categories were not exhaustive; therefore responses will sum to less than 100%.

	Percent of Total Program Budget that goes to:		
	Gift Cards	Other Awards (merchandise, travel, etc.)	Program Administration
Employee Rewards	41%	36%	6%
Sales Incentives	45%	34%	9%
Channel Incentives	40%	21%	21%
Customer Rewards	37%	35%	6%

Budget Breakdown by Program Types:

In larger firms, Gift Cards account for a smaller percent of the overall rewards budget across all program types except for Customer Rewards. It's likely that recognition events and other non-tangible types of awards and activities account for some of the Employee, Sales, and Channel program budgets in these larger companies.

	Percent of Total Employee Program Budget that goes to:		
	Gift Cards	Other Awards (merchandise, travel, etc.)	Program Administration
Between \$1 Million and \$9 Million	41%	37%	5%
Between \$10 Million and \$99 Million	48%	32%	9%
Over \$100 Million	29%	37%	7%
Weighted Total	41%	36%	6%

	Percent of Total Sales Program Budget that goes to:		
	Gift Cards	Other Awards (merchandise, travel, etc.)	Program Administration
Between \$1 Million and \$9 Million	47%	34%	9%
Between \$10 Million and \$99 Million	39%	30%	13%
Over \$100 Million	22%	47%	8%
Weighted Total	45%	34%	9%

	Percent of Total Channel Program Budget that goes to:		
	Gift Cards	Other Awards (merchandise, travel, etc.)	Program Administration
Between \$1 Million and \$9 Million	42%	21%	23%
Between \$10 Million and \$99 Million	25%	23%	9%
Over \$100 Million	31%	33%	15%
Weighted Total	40%	21%	21%

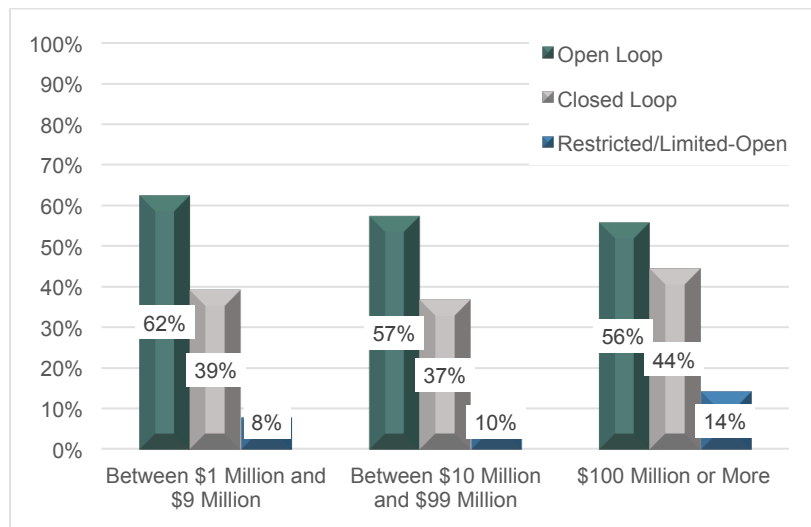
Budgets do not seem to vary by firm size for Customer Rewards programs – the bulk of the spending is split between gift cards and other awards, with only a small portion of the budget going to program administration.

	Percent of Total Customer Program Budget that goes to:		
	Gift Cards	Other Awards (merchandise, travel, etc.)	Program Administration
Between \$1 Million and \$9 Million	38%	34%	6%
Between \$10 Million and \$99 Million	37%	40%	9%
Over \$100 Million	35%	35%	11%
Weighted Total	37%	35%	6%

Gift Cards Used

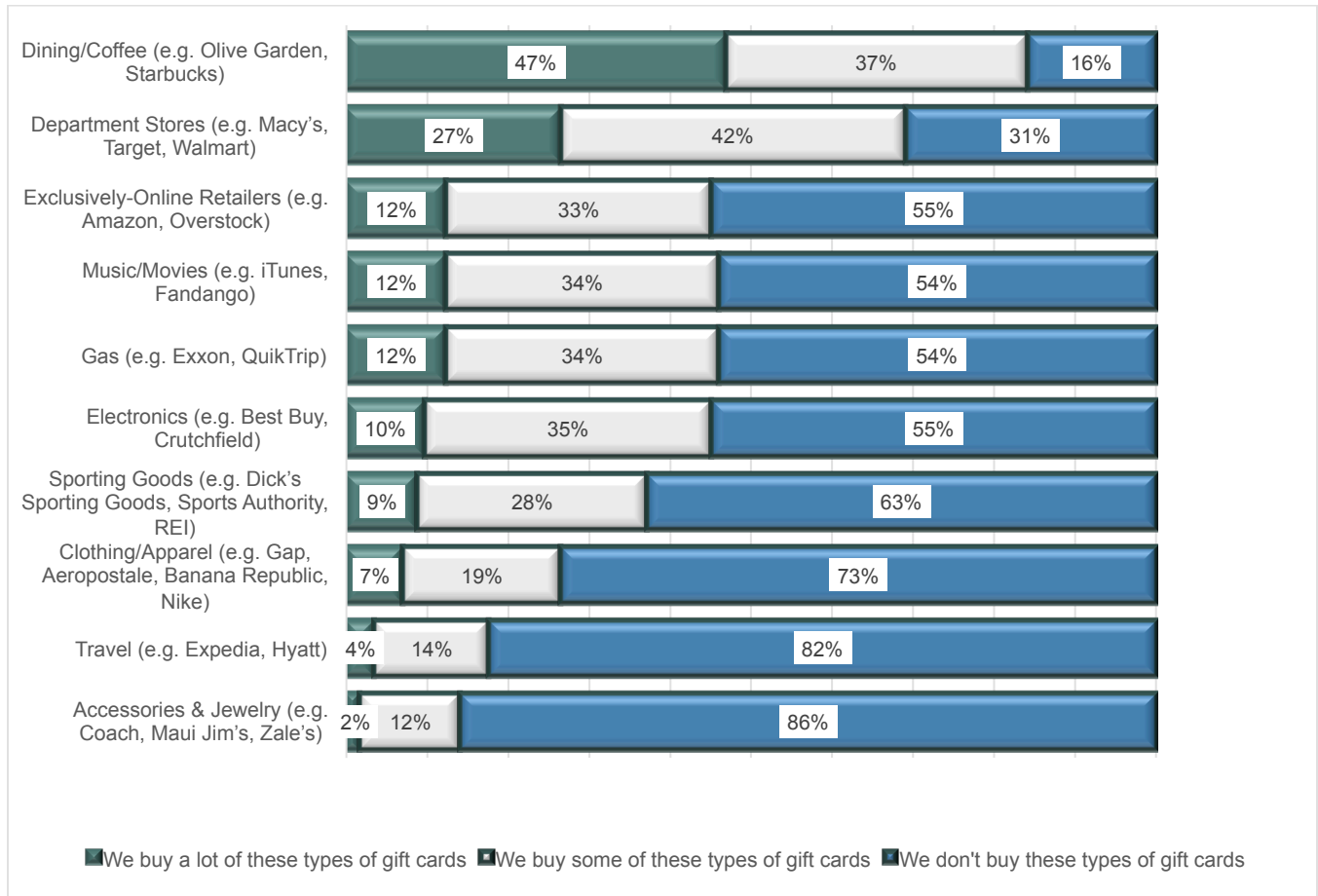
The type of Gift Card used varies slightly by firm size. Larger firms are more likely to incorporate Closed Loop and Limited-Open cards, while small businesses rely more heavily on Open Loop cards.

Which Types Of Gift Cards Does Your Company Use In Its Programs?



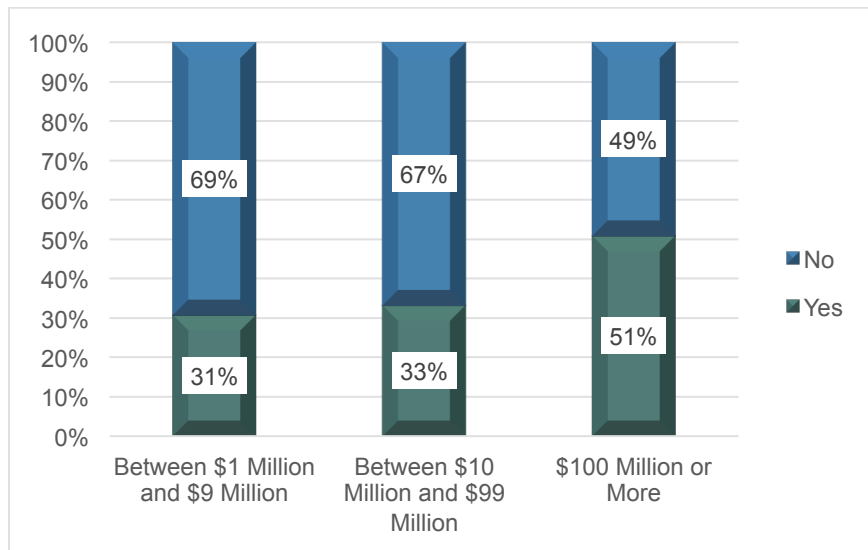
For the Closed-Loop card category, respondents were asked to indicate their relative use of various merchant categories, such as Dining, Retail, Electronics, etc. Dining cards are by far the most prevalent, and Department Stores are the second most-popular category. Moderately-used categories include Music/Movies, Gas, and Electronics. Travel and Accessories/Jewelry are the least-offered categories.

Which Type of Closed-Loop Cards Does Your Company Buy?



Firms using Closed Loop cards were asked whether participants are offered a choice in the brand of card they receive. Larger firms are much more likely than smaller firms to offer participants this choice.

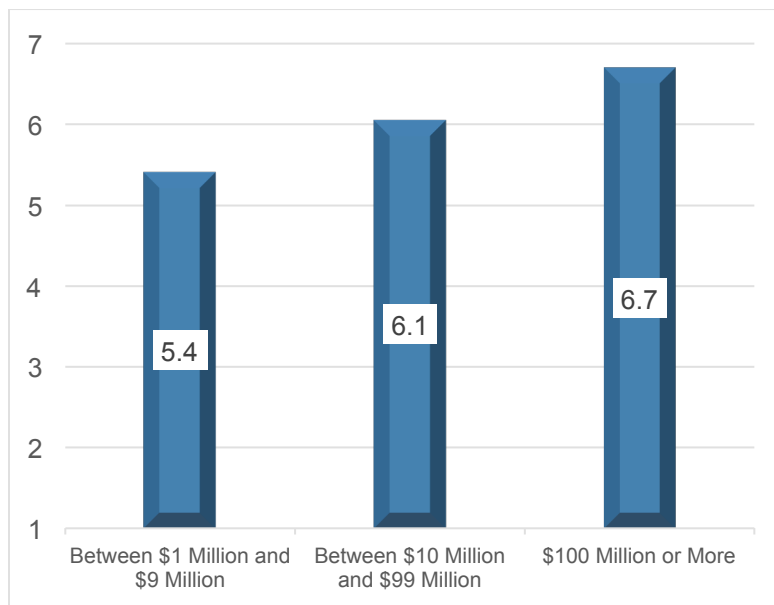
Are Participants Able To Select The Brand Of Card?



Gift Card Sourcing

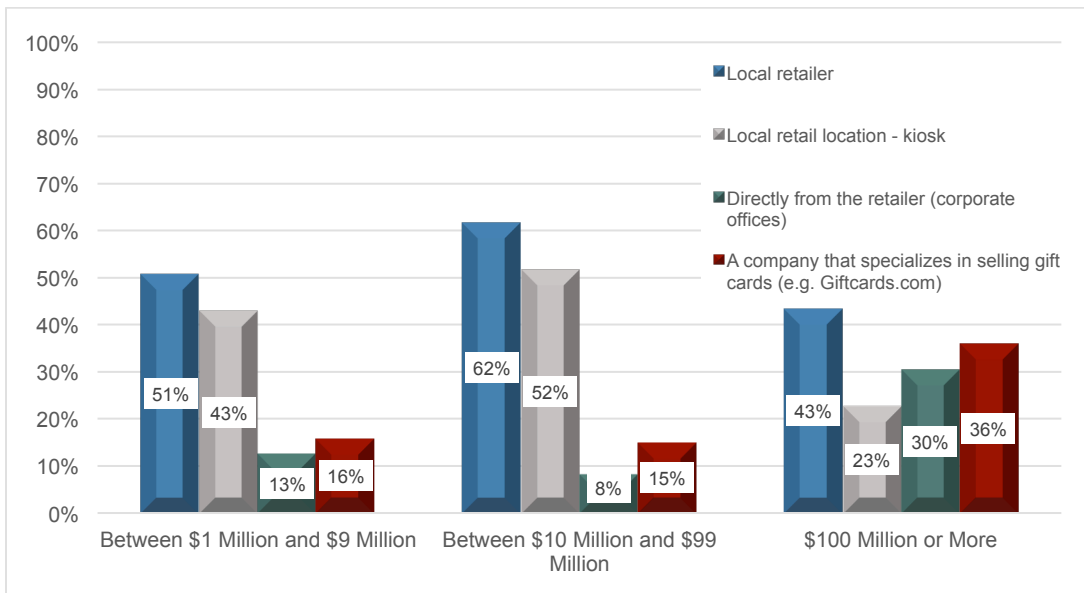
For all types of cards (Open, Closed, and Limited), respondents were asked how many times per year they ordered or purchased cards. On average, large firms purchase more frequently than smaller firms.

How Many Times Per Year Do You Purchase/Order Gift Cards?



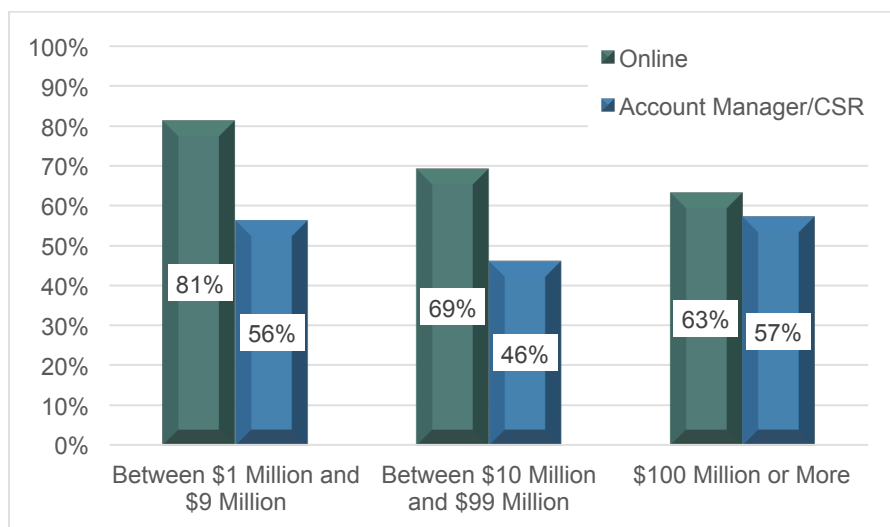
Larger firms are more likely than smaller firms to be sourcing their cards directly from the retailer (working with corporate B2B sales) or working with a reseller to procure their gift cards. Smaller firms rely on local retailers for their gift cards, and often leverage gift card kiosks, such as those found at supermarkets and drug stores.

From Which Source Do You Get These Gift Cards?



Companies relying on resellers and retailer corporate sales were asked the channel used to order gift cards. Smaller companies are much more likely to be using online ordering for their gift cards.

How Do You Get The Gift Cards For Your Program?



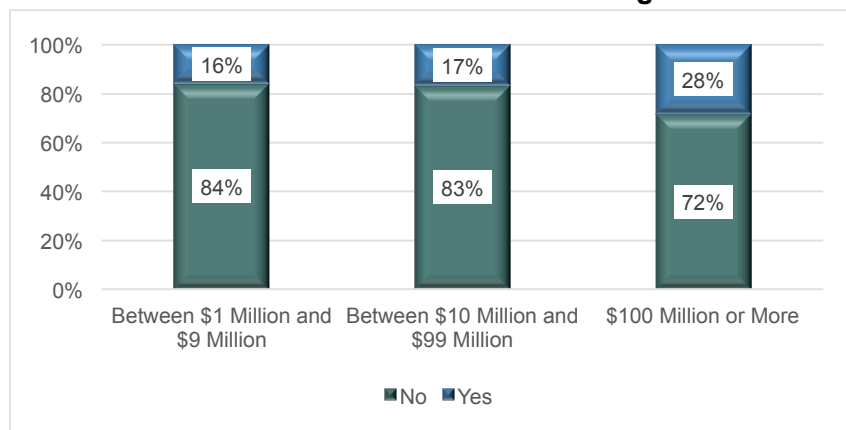
Buyers who order gift cards online were asked to rate their overall experience with online ordering. Responses were overwhelmingly positive, with an 86% top 2 box rating. (Top 2 box is the percent of people who rated their experience either a 6 or a 7 on a scale where “7” is “Excellent.”)

Companies relying on resellers and retailer corporate sales were asked to rate the importance of a variety of card-provider characteristics. Ease of ordering is by far the most important characteristic of a card provider, followed by offering online ordering and competitive discounts on cards. Of least importance are allowing for merchant logos and offering consultation around gift card programs and purchasing.



Respondents were asked whether they use e-gift cards (aka virtual cards) in their programs. While still lagging behind physical gift cards, firms are incorporating e-gift cards into their programs. Most notably, 28% of the largest firms use e-gift cards.

Do You Use E-Gift Cards In Your Programs?

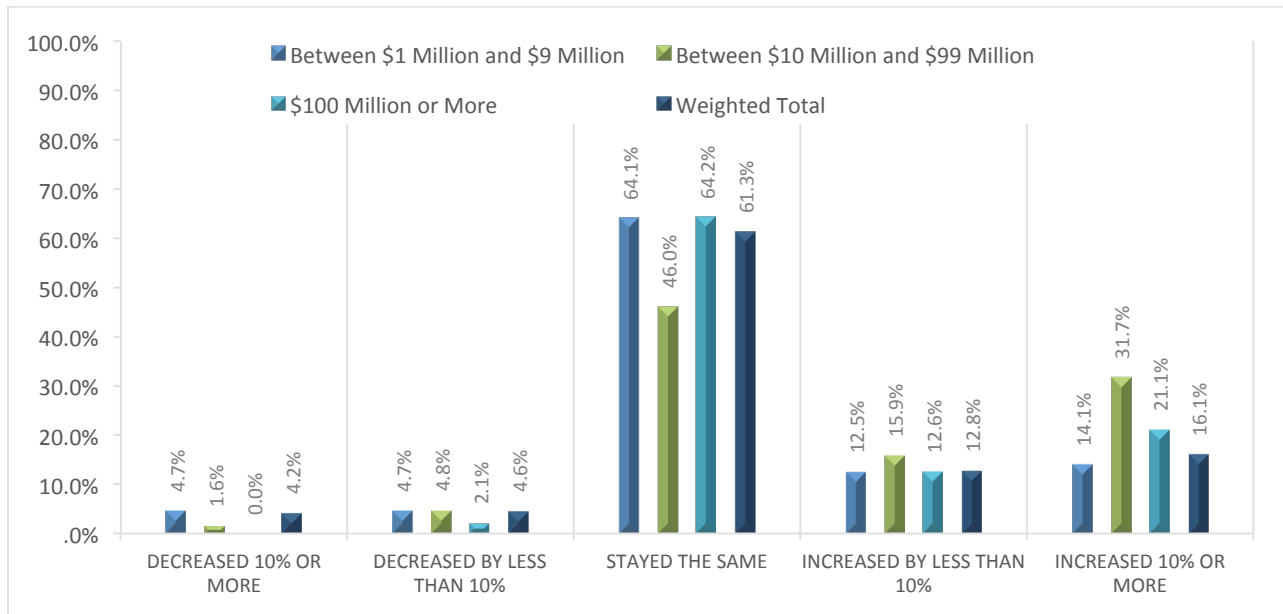


Gift Cards Budget Changes

Compared to 2013, the majority of businesses report their 2014 budget for gift cards remained the same. However, it is worth noting the 32% of firms with revenues between \$10 and \$99 million reported their budgets

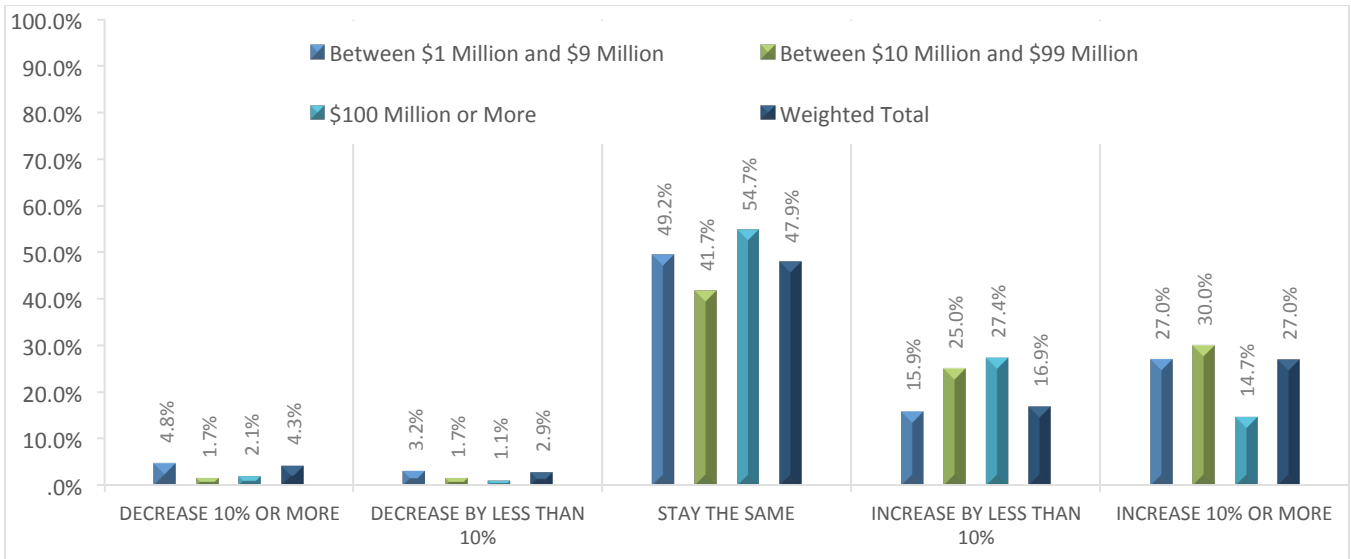
How Did Your Budget Change From Last Year?

increased by 10% or more.



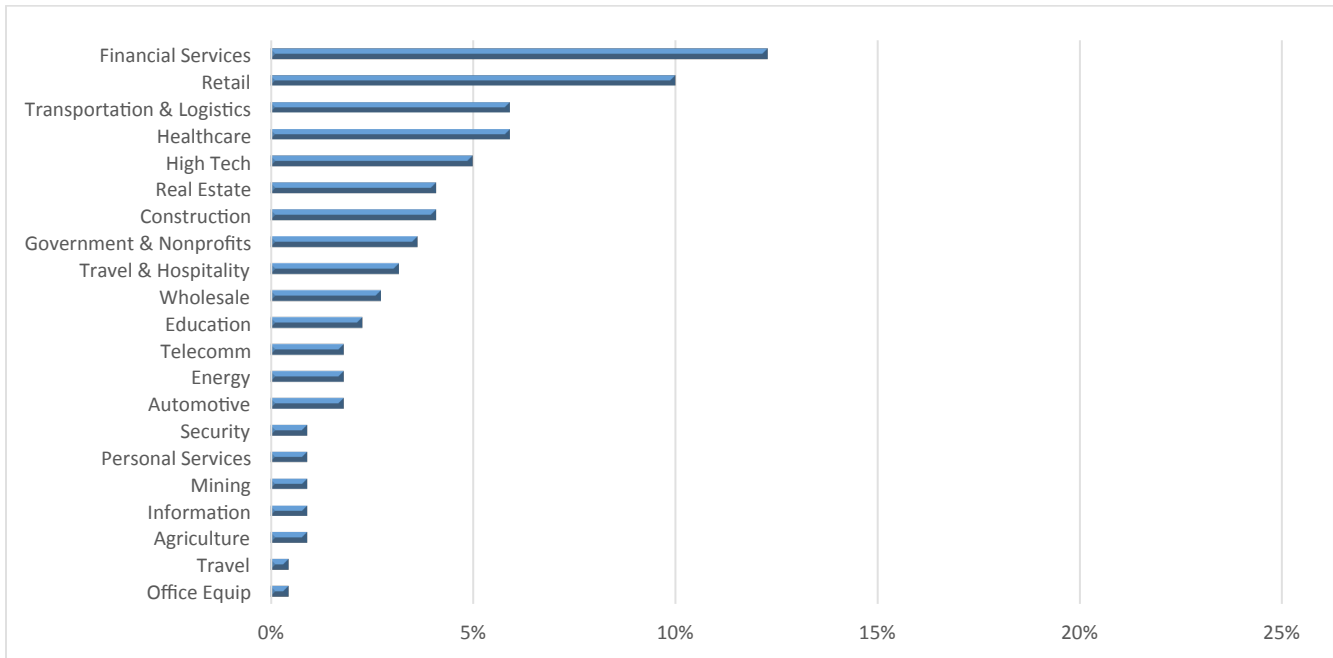
Looking forward to 2015, buyers are anticipating an increase in their spending – good news for the industry.

How Will Your Budget Change Next Year?

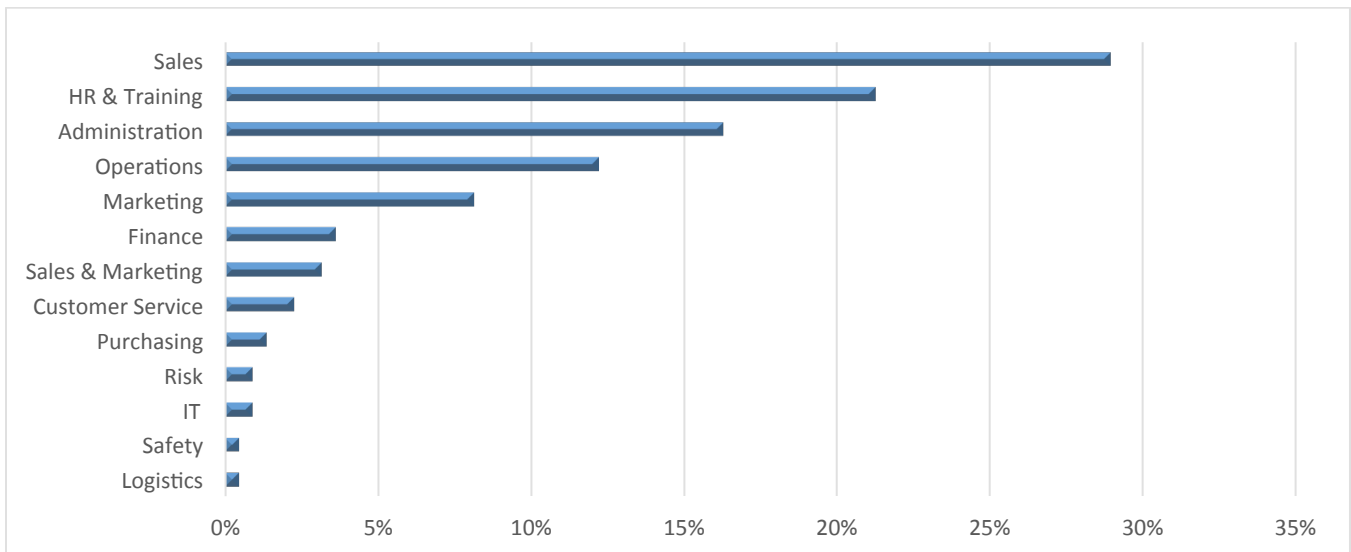


Respondent Profiles

Respondents were from a wide range of industries, with solid representation from Financial Services and Retail.



Additionally, a good range of functions were represented, including Sales, HR, Administration, Operations, and Marketing.



Appendix

Efforts to Control Estimation Error

Aside from the issue of sampling, a B2B study such as this will include inherent bias that will affect the accuracy of market projections. This error has been deemed tolerable by the sponsors because any error of projection will likely make the estimates conservative – underestimating the market, not overstating it.

1. False negatives: It is likely that the true incidence of gift card programs is higher in the marketplace than reported here. The likelihood of a respondent being unaware of a program is higher than the likelihood of a respondent believing there is a program where one is not. This is particularly true in larger companies, where a respondent typically will not be aware of the activities of various divisions, subsidiaries, and locations.
2. Multiple decision-makers: As firm size increases, so too does the number of divisions and locations. The Fortune 500 are complex microcosms unto themselves, with subsidiaries, branches, divisions, operating units, etc. It is unlikely a respondent will have perfect information within a company with revenue above \$100 million, and firms over \$1 billion are highly complex. Interviewing a stakeholder in marketing, for example, may give some information about the activity of that department, but is unlikely to yield accurate data for sales, HR, operations, and other departments.
3. Discretionary spend: In many large companies, department managers will use some small part of their budget, or perhaps their own money, to buy “thank you gifts” for their teams. The amount a single manager spends may be small, but in a firm with thousands of managers, the impact on the market is worth noting. These funds may not be captured in the “official” program budgets of the firm.

All of this to say, the findings of this study are far more likely to understate the size of the B2B gift card market than overstate it.