

B2B Gift Card Market Study

Incentive Research Foundation and Incentive Gift Card Council

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Background

Within the incentive industry, numerous studies have demonstrated the popularity and growth of gift cards as an award. There are, however, no reliable studies that provide an estimate of the size of the incentive gift card market. The Incentive Research Foundation, in partnership with the Incentive Gift Card Council and Aspect Market Intelligence, collected data from a national sample of business executives to estimate the size and spread of the marketplace.

Executive Summary

A study of a cross-section of US businesses confirms that gift cards are a popular option for firms seeking to reward and recognize their employees, sales teams, channel, and customers. Key findings from the study include:

- 52% of US businesses use gift cards for incentive or recognition purposes
- 87% of businesses running non-cash programs include gift cards as a reward
- US businesses spend \$22.7 billion per year on gift cards
- Smaller firms account for half of the market based on the sheer number of these companies
- Open-loop cards are the most popular type of cards, with 68% of firms using gift cards opting for this type. Closed-loop cards follow at 54%
- The propensity to go direct to retail for gift cards is high among smaller businesses and decreases as businesses get larger. Likewise, the propensity for using a prepaid card vendor grows as the size of the business increases.

Methodology

To ensure sufficient sample, multiple sources were used. Random sample was purchased from Hoovers and OneSource, and supplemented with in-house lists from the IRF, the Motivation Show, Premium Incentive Products magazine, and the Research Now B2B panel. The total number of emails in the final list was 74,000, evenly split between random and in-house sample. (These two groups were compared in their responses to ensure accuracy and representation – no significant differences were found. Therefore these groups are not separated in the analysis.)

Basic parameters were used to identify executives to include in the random sample. The random sample was evenly distributed across three revenue groups: \$1 to \$10 Million, \$11 to \$100 Million, and Over \$100 Million. Minimum quotas of 98 were set for each of these groups to ensure a 95% confidence level and 10% margin of error. Additionally, respondents were identified based on job function and position, focusing on Manager-level and higher within Marketing, Sales, HR, Operations, Retail Management, Channel Management, and Purchasing.

A ten-minute survey was distributed via email invitation. Respondents were offered an incentive to participate. Data collection took place between August 21, 2012 and September 22, 2012. A total of 1,769 business-people responded to the survey.

Survey Respondents

One objective of the study was to measure incidence of incentive programs that include gift cards; the survey was structured such that respondent profile data was collected from all respondents, but only

those who had some responsibility for managing a program were asked for details about those programs. A total of 1,769 people responded to the survey. Of those, 369 were responsible for managing a program and completed the bulk of the questionnaire. This sample size provides the 95% confidence level and 10% margin of error within the revenue categories noted above.

Estimation

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” gift cards 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.

Weighted Calculations

Because the study objective is to project findings to the population of US businesses, measures of incidence and market size are weighted to reflect the highly skewed distribution of firms. Of the 1.44 million US firms with revenue of \$1 million or more, 86% have between \$1 million and \$10 million in annual revenue.

Company Revenue	Number of US Companies
\$1 to \$10 million	1,244,164
\$11 to \$100 million	176,850
Over \$100 million	20,605
Totals	1,441,619

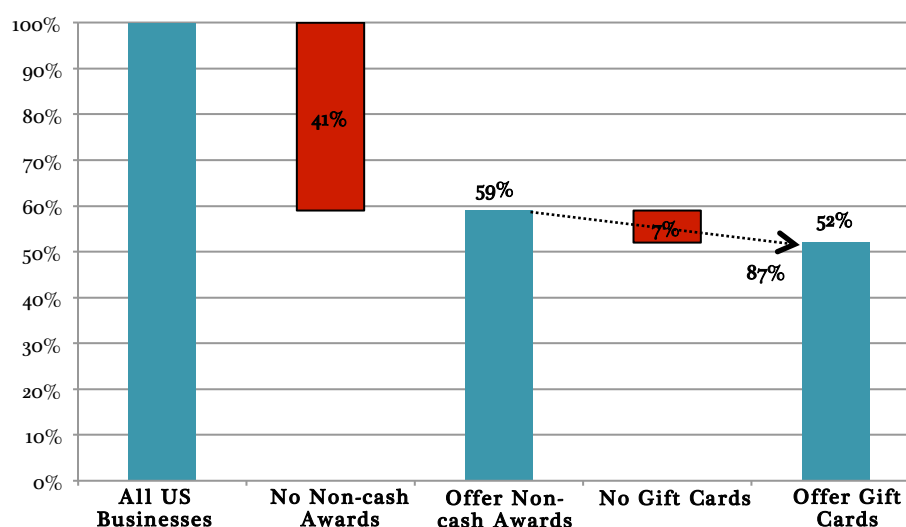
Findings

Incidence of Gift Card Use

A total of 59% of US businesses use some type of non-cash award program. Further, 52% of US businesses use gift cards or pre-paid cards to reward employees, sales people, channel partners, or customers. This means fully 87% of companies offering non-cash awards use gift or pre-paid cards as part of the program. Incidence of gift card programs increases with the size of the company, as shown below.

Company Revenue	Gift Card Program Incidence
\$1 to \$10 million	51%
\$11 to \$100 million	59%
Over \$100 million	62%
Weighted Total	52%

The graphic below illustrates the breakdown of the market.



When translating these percentages into real numbers of businesses, approximately three-quarters of a million businesses use gift cards. The vast majority of these are smaller firms.

	Number of US Businesses	Offer Non-Cash Awards	Offer Gift Cards
Between \$1 and \$10 Million	1,244,164	719,324	628,303
Between \$10 and \$100 Million	176,850	119,545	105,049
Over \$100 Million	20,605	15,621	12,754
Total	1,441,619	854,489	746,106

Gift Card Programs

Respondents were asked whether their firm ran programs in four categories: Employee, Sales, Channel, and Customer. The incidence of these program types varies by firm size. Generally, larger firms will have a higher incidence rate than lower, with one exception. For customer gift card programs, incidence decreases as firm size increases.

	Employee Gift Cards	Sales Gift Cards	Channel Gift Cards	Customer Gift Cards
\$1 to \$10 million	61.9%	29.4%	2.3%	36.1%
\$11 to \$100 million	69.5%	37.5%	10.0%	32.8%
Over \$100 million	74.8%	44.8%	13.9%	27.8%
Weighted Total	63.0%	30.6%	3.4%	35.6%

Budget for Gift Cards

Respondents were asked for budget information in several different ways to allow for accuracy checks during analysis. Using multiple estimates of budgets allows for “triangulation” of overall market size and lowers the concern of a skewed and inaccurate measure.

Respondents’ Budget

Respondents were asked to provide the budget for gift cards for the programs they manage. As one would expect, budgets increase significantly as firm size increases. The weighted average of respondents’ budgets is very low compared to the budgets seen in large firms – this is due to the immense size of the \$1 to \$10 million revenue group.

Company Revenue	Respondent Budget
\$1 to \$10 million	\$17,840
\$11 to \$100 million	\$21,163
Over \$100 million	\$150,898
Weighted Average	\$20,149

Total Budget

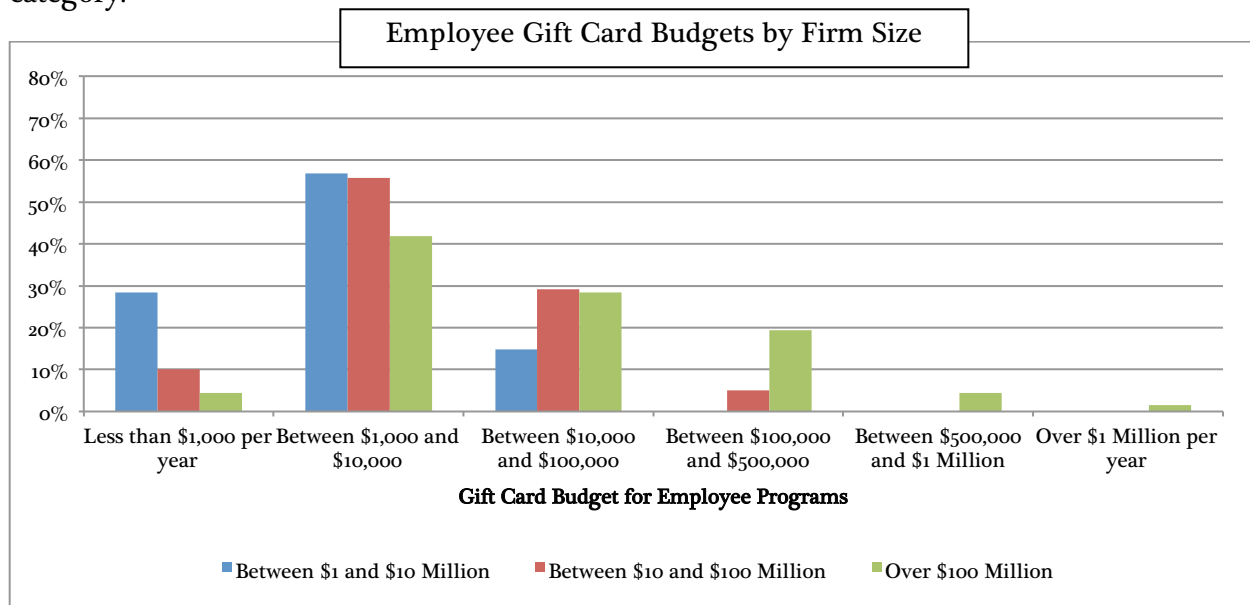
Respondents were also asked to estimate the total spend on gift cards, across all programs, within their company. Within the \$1 to \$10 million group, the budget numbers remain close, separated by less than \$3,000. In the larger firms, however, the budget estimates go up by about \$150,000.

Company Revenue	Total Gift Card Spend
\$1 to \$10 million	\$20,557
\$11 to \$100 million	\$183,991
Over \$100 million	\$300,600
Weighted Average	\$44,609

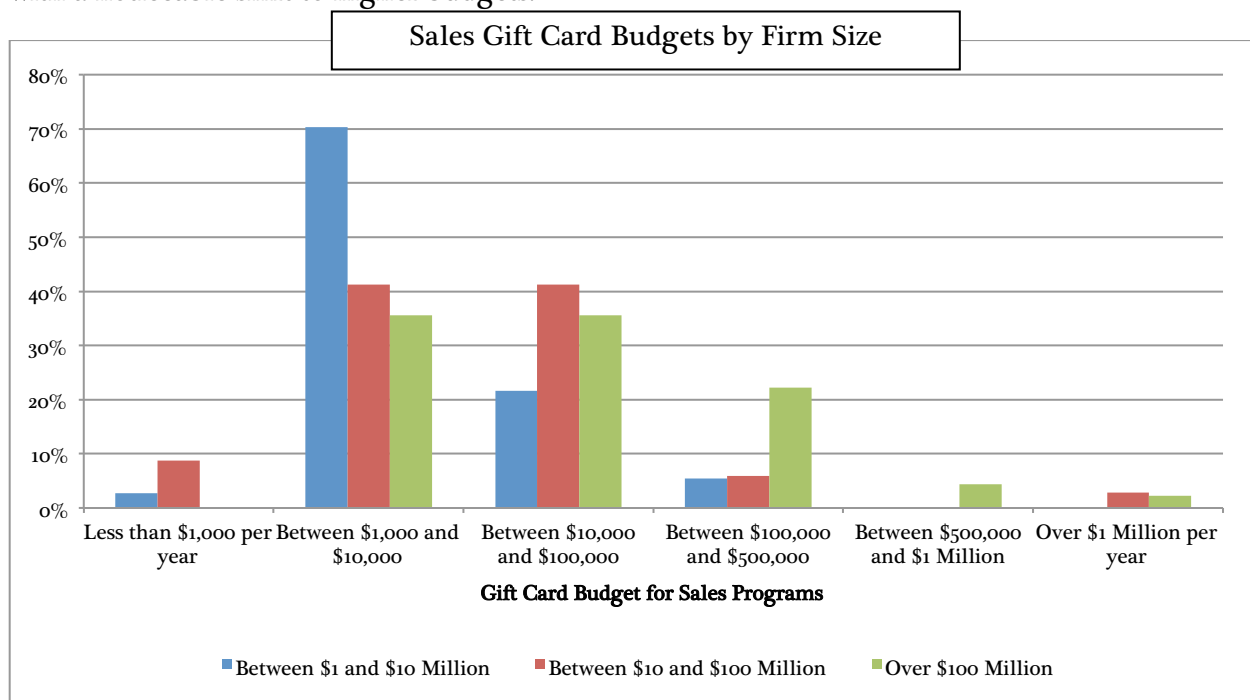
Program Budgets

For the types of programs present within their company, respondents were asked to provide annual budget for gift cards. Categories ranging from “Less than \$1,000 per year” to “Over \$1 Million per year” were offered. As expected, the data indicates larger firms have higher budgets, with a large proportion

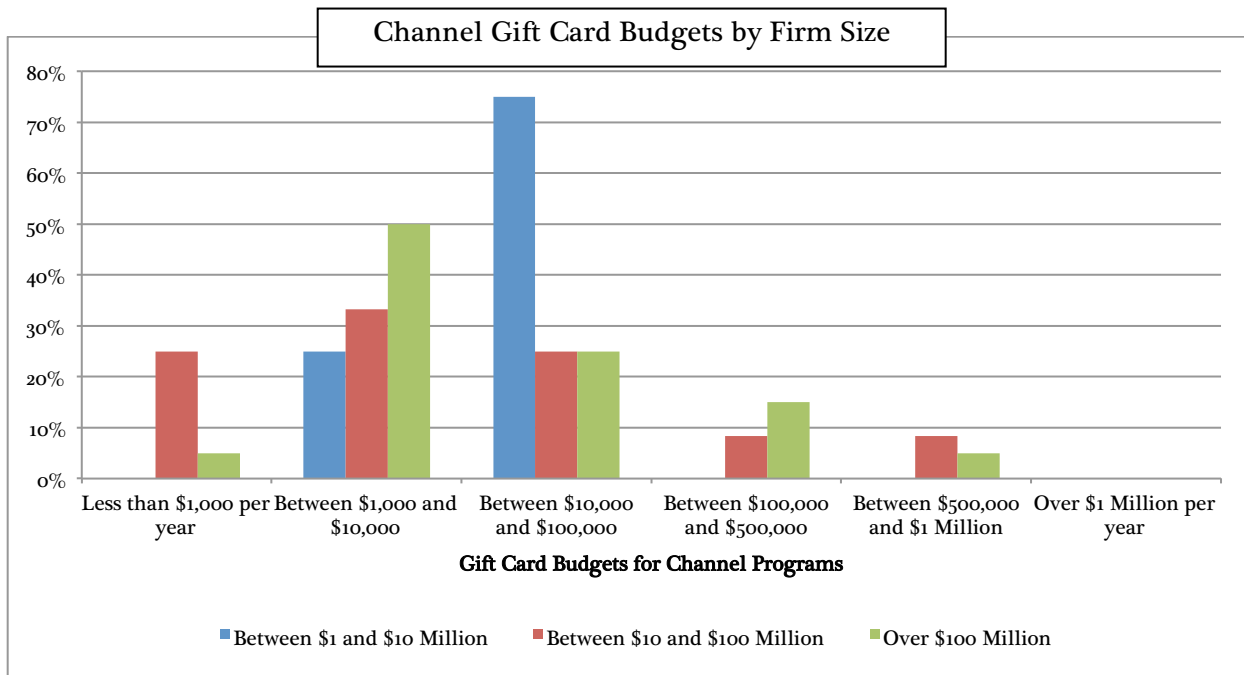
of firms in the \$1,000 to \$10,000 category, with many firms also in the “Between \$10,000 and \$100,000” category.



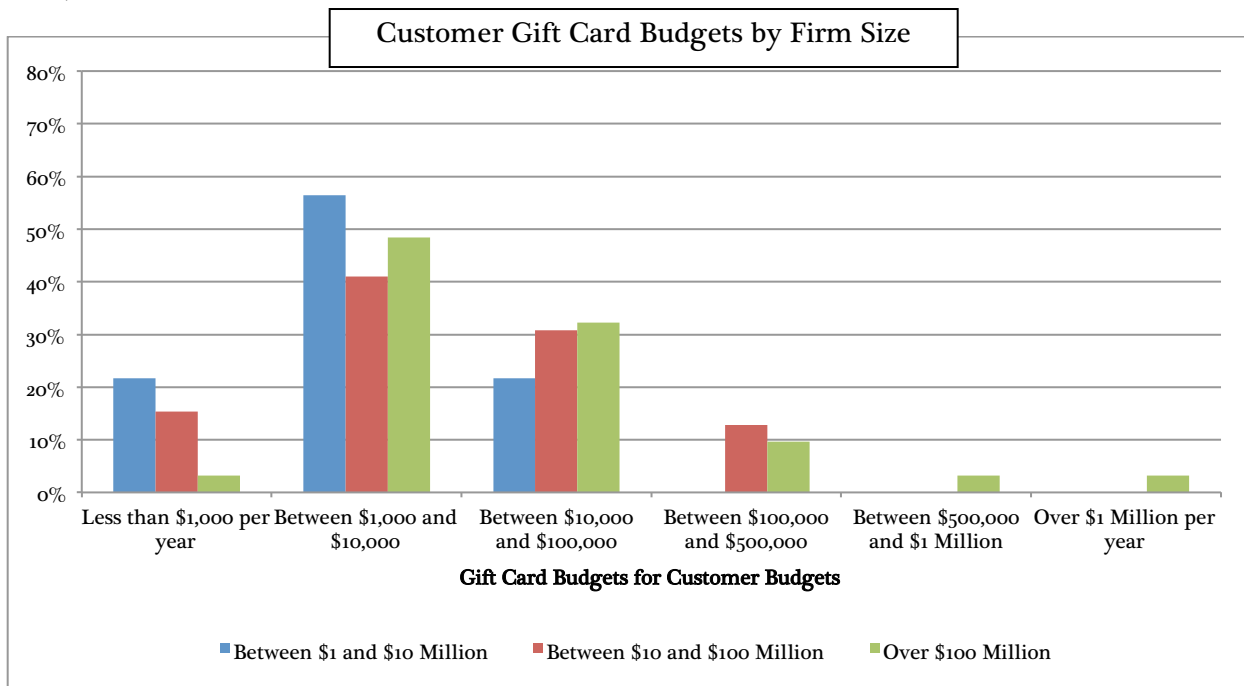
The budget distribution for sales programs looks similar in nature to that of employee programs, but with a noticeable shift to higher budgets.



Like sales programs, channel programs show higher budgets than employee programs, with budgets still clustering below \$100,000.



Finally, the gift card budgets for customer programs show a similar pattern, with most respondents indicating budgets lower than \$100,000. A small percentage of larger firms report budgets over \$100,000.



Budget by Program Type

Program budgets can be calculated using the frequency distributions shown above. The table below shows budget by program type and firm size. There are significant increases to budget as firm size increase. Sales and channel programs generally have higher budgets than employee and customer programs do. (It is important to note that there are a number of immense customer loyalty programs

among the Fortune 500, particularly within financial services, airlines, and hospitality sectors. These programs have millions of members and budgets to match. These decision makers are difficult to sample, meaning those programs are underrepresented in this study. While the same argument could be made for any of the largest incentive programs within the Fortune 500, customer programs would skew the largest based simply on the number of participants.)

Company Revenue	Employee Program Budget	Sales Program Budget	Channel Program Budget	Customer Program Budget
\$1 to \$10 million	\$10,382	\$27,829	\$38,750	\$13,784
\$11 to \$100 million	\$30,136	\$66,454	\$97,290	\$49,527
Over \$100 million	\$113,563	\$130,080	\$90,025	\$98,836
Weighted Average	\$14,280	\$34,028	\$46,664	\$19,384

Size of Gift Card Market

With so much data available, there were several choices in terms of which data to use in calculating total market size. Using the estimates of total gift card budget would be the most liberal, as it's based on the respondent's best guess of total company spend. Using the respondents' budgets would be the most conservative, as it would assume (erroneously) that the respondents were the only people within their firms with gift card programs. For the smallest companies, this might be a legitimate assumption, but for the largest, it is categorically not valid.

Ultimately it was determined that using the incidence and budget for program type would provide a reliable and moderate estimate of the market. For each program type, total market spend can be calculated, as shown in the table below.

Group	Number of US Businesses	Incidence of Gift Card Programs	Employee Program Incidence	Employee Program Budget	Total Employee Gift Card Spend
\$1 to \$10 million	1,244,164	51%	61.9%	\$10,382	\$4,039,497,172
\$11 to \$100 million	176,850	59%	69.5%	\$30,136	\$2,200,101,169
Over \$100 million	20,605	62%	74.8%	\$113,563	\$1,083,768,197
Totals	1,441,619				\$7,323,366,537

The total market for gift cards in sales programs is moderately larger than that for employee programs.

Group	Number of US Businesses	Incidence of Gift Card Programs	Sales Program Incidence	Sales Program Budget	Total Sales Gift Card Spend
\$1 to \$10 million	1,244,164	51%	29.40%	\$27,829	\$5,140,509,158
\$11 to \$100 million	176,850	59%	37.50%	\$66,454	\$2,617,844,850
Over \$100 million	20,605	62%	44.80%	\$130,080	\$743,278,910
Totals	1,441,619				\$8,501,632,918

The estimate for channel gift card spend is much lower, primarily due to the much lower incidence of these type of programs.

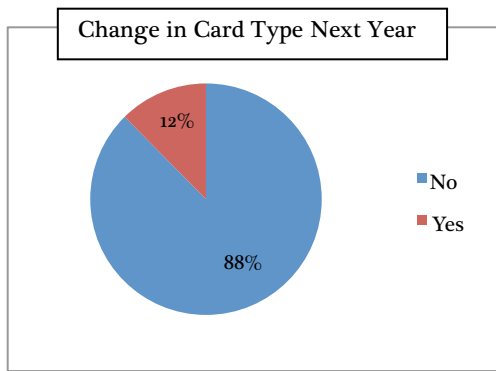
Group	Number of US Businesses	Incidence of Gift Card Programs	Channel Program Incidence	Channel Program Budget	Total Channel Gift Card Spend
\$1 to \$10 million	1,244,164	51%	2.3%	\$38,750	\$558,411,337
\$11 to \$100 million	176,850	59%	10.0%	\$97,290	\$1,025,966,774
Over \$100 million	20,605	62%	13.9%	\$90,025	\$159,776,371
Totals	1,441,619				\$1,744,154,482

The amount of money spent for customer gift card programs is lower than the sales and employee estimates, but higher than the estimate for channel.

Group	Number of US Businesses	Incidence of Gift Card Programs	Customer Program Incidence	Customer Program Budget	Total Customer Gift Card Spend
\$1 to \$10 million	1,244,164	51%	36.1%	\$13,784	\$3,124,003,386
\$11 to \$100 million	176,850	59%	32.8%	\$49,527	\$1,707,468,471
Over \$100 million	20,605	62%	27.8%	\$98,836	\$350,828,268
Totals	1,441,619				\$5,182,300,125

And the calculation of market size is simply the combination of the spend for the four program types.

	Total Market
Employee Gift Cards	\$7,323,366,537
Sales Gift Cards	\$8,501,632,918
Channel Gift Cards	\$1,744,154,482
Customer Gift Cards	\$5,182,300,125
Total	\$22,751,454,062

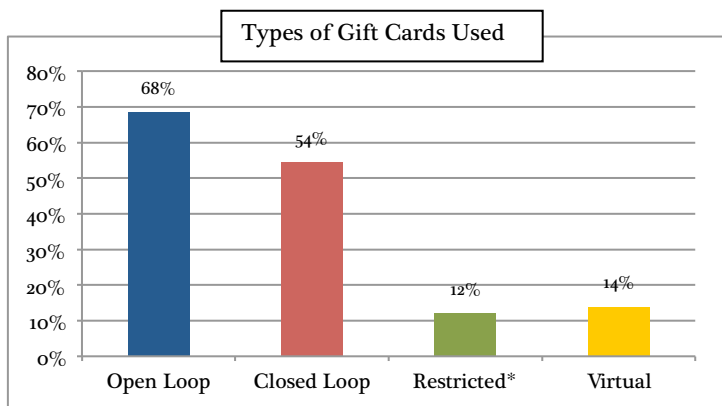
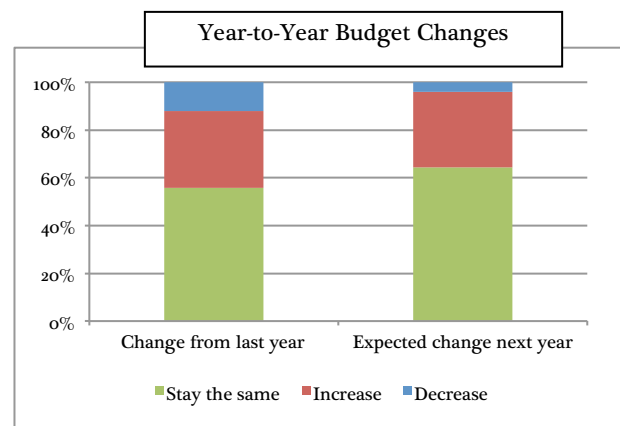


It is also informative to evaluate the breakdown of the \$22.7 billion market by size of firm. As shown in the table below, because of the sheer number of firms in the smaller business category, more than half the market spend is accounted for by firms between \$1 million and \$10 million in annual revenue.

Group	Gift Card Spend
\$1 to \$10 million	\$ 12,862,421,052
\$11 to \$100 million	\$ 7,551,381,264
Over \$100 million	\$ 2,337,651,746
Totals	\$ 22,751,454,062

Year-to-year Budget Change

When asked how their budgets had changed from 2011, 88% of respondents indicated their budgets had stayed the same or **increased**. Looking forward to 2013, only 4% of respondents expect their budgets to decrease, while 32% are actually expecting their gift card budgets to increase.



Types of Cards Offered

There are several types of gift cards businesses can use to motivate and reward their audiences. For the purposes of this study, the following definitions were used:

- Open prepaid cards can be used virtually anywhere. They are normally issued under a major credit card and are redeemable wherever that card is accepted.
- Closed-loop cards are accepted by one vendor only — for example, at a particular restaurant or restaurant chain.

- Restricted cards fall in the middle; they might be eligible for use at an entire venue—for example, any store in a specific shopping mall or for any merchandise or service at a specific resort.
- Virtual gift cards - gift cards that are purchased online, awarded online and redeemed online

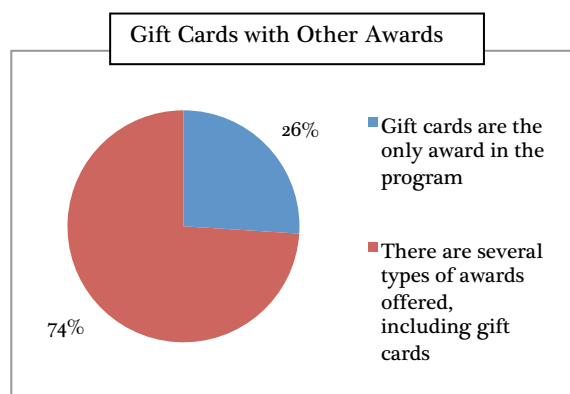
Respondents were asked which cards they use for their programs. Open and closed-loop cards are used by far more businesses than restricted and virtual cards are. Over two-thirds of the market uses open-loop cards, and over half use closed-loop. Approximately 12% use restricted cards – a lower incidence than virtual cards, which 14% of businesses are now using.

Respondents were asked whether the types of cards they choose are likely to change next year. Only 12% expect to change their card mix in 2013.

Most businesses (73%) use mainly a single type of card (e.g. only open cards), while 27% use more than one type of card. When firms are using multiple cards, they generally are splitting their budgets 50/50 between open and closed-loop cards. The breakdown of market size by card type is provided in the table below. Open cards account for just over half of total market, followed closely by closed cards. Restricted cards have comparably low budgets to open and closed-loop cards.

Group	Gift Card Spend	Open	Closed	Restricted
\$1 to \$10 million	\$ 12,862,421,052	\$ 6,401,436,403	\$ 5,514,167,544	\$ 946,817,105
\$11 to \$100 million	\$ 7,551,381,264	\$ 3,982,141,239	\$ 3,292,125,116	\$ 277,114,909
Over \$100 million	\$ 2,337,651,746	\$ 1,341,431,554	\$ 886,133,104	\$ 110,087,088
Totals	\$ 22,751,454,062	\$ 11,883,042,063	\$ 9,434,081,200	\$ 1,434,330,800

Respondents using closed-loop cards were asked what merchant categories they used for their cards. Dining and retail cards are the most popular choices, followed by gas and entertainment closed-loop cards. Travel cards are the least frequent choice, with only 12% of businesses using them.



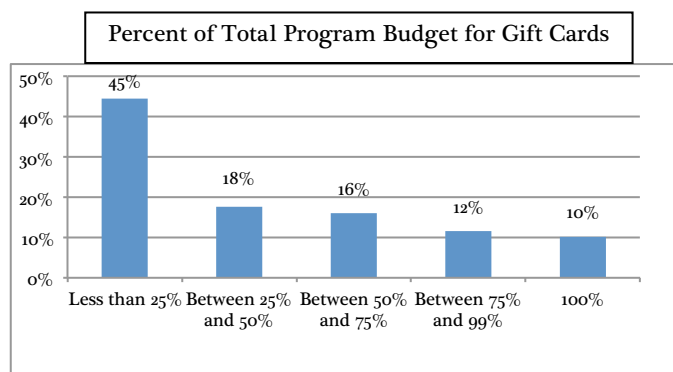
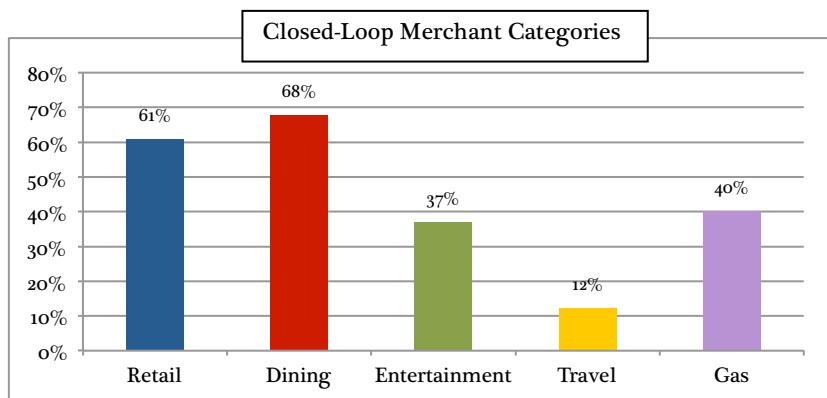
awards offered. A large majority of respondents, 74%, report that gift cards are only one type of award offered in their program.

There are many budget items associated with these programs beyond the cost of the gift cards themselves, including other non-cash awards, communications, and program management costs. Respondents were asked what percent of their total program budget is accounted for by gift cards. The data very clearly demonstrates that while the spend on gift cards is significant, it is typically still just a moderate portion of the total spend for the non-cash program.

Explaining Card Type Preferences

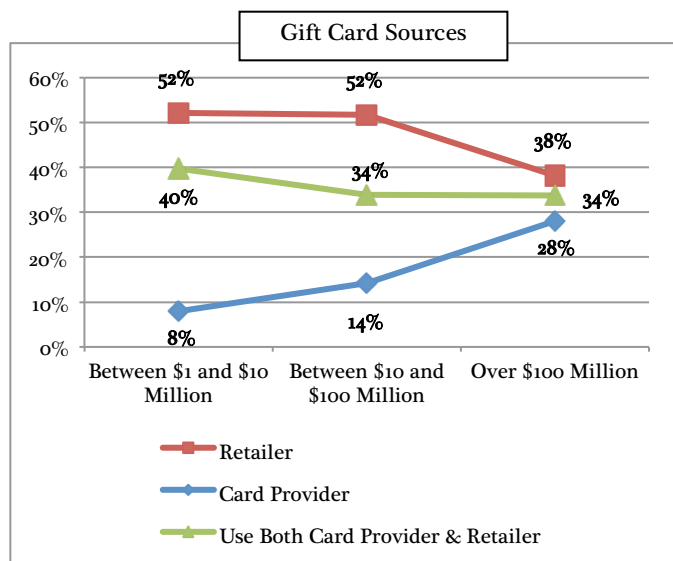
Gift Cards Among Other Awards

Gift cards fall within the broader category of non-cash awards. Respondents were asked whether gift cards are the only award offered in their program, or if there are other



Respondents were asked why their business uses the types of cards they do. This question was an essay-type question, allowing respondents to identify the reasons for their preferences in their own words and without prompting. Those using open-loop cards appreciate the flexibility and convenience, the ability to buy in bulk, and the universality of cards – particularly for geographically dispersed audiences. Fans of closed-loop cards value the flexibility and convenience, the ability to tailor the reward to the individual employee while still offering them some discretion in the specifics of redemption, and the fact that closed-loop cards are not subject to taxation the way open-loop cards are. There were not sufficient responses for restricted cards for analysis.

Respondents were also given an opportunity to explain how and why their card type preference might change in the future. Those who felt their card type preference would not change (88%) were generally either very pleased with the effectiveness and outcome of their program, or were satisfied that the status quo was satisfactory and therefore changes would not be worth the time and convenience cost associated. Those who felt their card type might change going forward were predominantly expecting their firm to migrate from closed to open cards, increasing the flexibility for the recipient.



Gift Card Sources

There are differences in how companies of various sizes source the gift cards for their programs. Large businesses are more likely to use a card provider that can deliver many different types of cards, while smaller businesses are more likely to go directly to retailers for their cards. Approximately one-third of US businesses use both card providers and retailers, regardless of the size of the business.

Conclusions

The findings confirm that the incentive gift card market is very large – the 52% of US businesses using gift cards spend \$22.7 billion annually in this category. The market is driven in large part by smaller businesses (those between \$1 and \$10 million in annual revenue), who don't spend huge sums individually, but the sheer number of these businesses creates a \$12.9 billion market. Employee gift card programs are the notable favorite – over 60% of firms using gift cards name employees as recipients. And most buyers report that their future spending will either remain the same, or increase, raising an expectation that this market category will continue to thrive and grow.

Looking forward, there are several topics that deserve further study. The distribution of programs, responsibility, and budgets across extremely large companies, such as the Fortune 500, is not well understood. This limits any effort to accurately estimate the size and substance of the market, as a single firm of this size may have immense budgets in aggregate.

Additionally, with many program managers feeling pressure to migrate from closed-loop cards to open-loop cards, and ultimately cash, it would be prudent to offer some empirical evidence comparing the effectiveness of the various types of cards. Tools such as these would provide program managers with

resources to design more effective programs, as well as material that would be useful to inform discussions with their internal stakeholders during program design.

Finally, while it's good news that 52% of US businesses are using gift cards to reward and motivate their audiences, it's worth noting that 48% of businesses are not using gift cards. It would be helpful to understand more deeply the reasons for non-use. Increasing market incidence will be a function of addressing those issues, from raising awareness of the utility of gift cards in a business setting, to overcoming perceptions that gift cards are expensive or cumbersome. Having a clear understanding of the obstacles is the best way to develop effective marketing strategies for this audience.