UK GCVA Q1 2010 Commentary

Voucher sales show steady growth for first quarter, still beating wider retail sector performance but by a reduced margin compared to 2009

- Solid like-for-like[1] sales growth of 4.7% over Q1 2009, underpinned by steady consumer sales and an early Easter.
- Overall gains in voucher market no longer driven predominantly by business-to-business sales:
    - Growth in B2B is down considerably compared to more buoyant first three quarters of 2009, increasing by 4% like-for-like to Q1 10.
    - Like-for-like consumer sales of vouchers increased by steady 5.4% year-on-year, beating like-for-like retail sales growth of 2.1% over the same period.
- Agents delivered the strongest category growth this quarter with sales up by a remarkable 34%, whilst sales in the Retailer category remained flat.
- All types of Gift Cards continue to make impressive gains. Closed Loop grew three times faster than the voucher market as a whole in the first quarter, and sales of Open Loop leapt by 123%.

Reported GCVA voucher sales on a like-for-like basis have shown steady growth of 4.7% in Q1 10 to £347.8m. The voucher market continues to outperform most of its wider retail markets, beating like-for-like retail sales growth of just 2.1% year-on-year between January and March 2010, according to the BRC. Despite a solid performance, the Voucher market is showing little sign of returning to the double-digit gains made in 2009 - voucher sales to Q1 09 grew by 10% on Q1 08, bucking the downward recessionary trend at the time.

The continued slowdown in business-to-business voucher sales has also certainly had an impact on market growth as a whole, despite recovering somewhat from depressed growth in Q4 09. B2B like-for-like sales increased by 4% to £190m to Q1 2010, compared to 2.8% growth to Q4 09. Evidence perhaps, of the way the recession - and

[1] Like-for-like sales are based on existing GCVA members who have submitted data for Q1 2010 and were members in Q1 2009

economic uncertainty caused by the looming general election - is hitting business-to-business spending.

Consumer sales have recovered slightly from more restrained growth in the previous quarter. Sales of vouchers linked to consumer spending have grown by 5% to £158m in Q1 10, a strong performance in light of the still weak consumer economy and poor weather conditions keeping shoppers away from the high street. Such resilient growth could in part be down to the timing of Easter - a key gifting season - falling as it did in the first quarter of the year. It also shows, however, that consumers continue to adopt the concept of buying vouchers as gifts.

Q1 Highlights

By category – Growth driven by Agents whilst Retailer voucher sales remain flat

- Like-for-like sales of vouchers by Agents continue to make impressive gains. Sales grew by 34% to reach £54m to Q1 10, with growth coming equally from both B2B and B2C sales. B2B still takes the lion's share of sales, but Agent consumer sales showed strong growth, increasing by 33% over the period. It shows that Agents are becoming an increasingly important category, as Retailer sales remain more or less flat, and Leisure – despite a recession-defying Christmas peak – is back to more steady, pre-seasonal levels of growth.

- A second, year-on-year dip in B2B Retailer voucher sales held back overall growth in the category, which remained flat at £267m. B2B sales fell by 3.7%, whilst consumer sales grew by a resilient 4.5% to reach £139m. Growth is down predominantly to the 'health & beauty, entertainment and other non-food specialists' category, where sales were up by 10.5% beating wider market growth of 6% over the period. Sales via supermarkets also played some part, however, increasing by 7.7%, against an overall market that grew by 4.7%.

- Sales of vouchers in the Leisure category made solid gains of 8% to Q1 10, with the market now worth £27m – a notable performance again, when considered against overall growth in the wider leisure market of 4%.

By voucher type – innovation drives growth in gift cards.

- Gift cards continue to show strong growth at the expense of paper vouchers, proving that they are now the most popular way for consumers to buy vouchers. Sales of the largest category by type, Closed Loop cards, increased by 14.6% in

Q1, nearly three times faster than the voucher market as a whole, and worth £180m.

- Growth of open loop and restricted loop gift cards is striking with sales up by 123% and 235% respectively in Q1 10, albeit from a small base. The majority of this growth is down to the corporate sector. It's an indication that some forward looking businesses are willing to invest in the systems needed to run more innovative vouchers schemes, despite recessionary pressure on costs. It's worth noting, however, that this type of card still only represents 12% of the market.

- The market for traditional paper vouchers declined sharply again, year-on-year – consumer sales fell the most, by 15.7% in line with the growing popularity of gift cards.

By Channel – online growing in popularity for consumers but stores still the most popular channel

- Sales of vouchers by channel are in line with trends in 2009. The store is still the most popular place for consumers to buy vouchers – with direct stores sales up by a healthy 9.5% year-on-year to reach £138m. Impressive when set against an overall retail sales growth of 2.1% for the same period.

- Online is growing in popularity with consumer sales of vouchers via this channel increasing by 23% - strong growth but to be expected in an immature market that's still only worth £10m. Gift Card Centres continue to grow as a channel, with sales increasing by 21% - slightly slower than the year-on-year increases to Q4 09.

- Corporate 'direct sales' are up by a steady 8.9% to £183m, seemingly at the expense of internal sales, which more than halved for the second time in a row – this channel is now worth just £5.2m.

Outlook – more modest growth expected in 2010 as market matures

Slower growth in gift voucher sales this quarter would appear to provide little hope of a return to the more buoyant growth witnessed in much of 2009. The restrained performance in the business-to-business sector, for the second consecutive quarter, could be evidence that we are looking at a prolonged slow down this year, rather than just a seasonal dip. The Ernst & Young ITEM Club forecast that business investment will fall back again this year, only reversing in 2011 when it predicts it will rise sharply by 10%.

ITEM forecast an economy ‘stuck in the doldrums’ in 2010 with growth of 1% or less. The consumer will remain under pressure. Disposable income will continue to be hit by rises in inflation – including rise in oil prices - the end of the scrappage scheme, the prospect of interest rate rises as well as the restoration of the old VAT rate.

Against this climate, and as the market for vouchers starts to mature, it is likely that voucher sales will grow more modestly in 2010 than in 2009. Some parts of the market, however, should provide exciting opportunities for more dynamic growth. Innovation in types of gift cards and advances in new ‘mobile’ technology are areas ripe for investment, but how ready businesses are to invest in these areas this year, is open to question. There is also the question of whether new product development such as this will actually grow the whole market - by reaching out to new consumers and encouraging additional gift purchasing - or be at the expense of existing schemes.