

UK GCVA Q2 2009 Commentary

Voucherⁱ market delivers double digit like-for-like sales growth in Q2 2009, but parts of the market are feeling the impact of the tough consumer climate

- Overall strong like-for-likeⁱⁱ sales growth of 10.5% compared to Q2 2008
- The increase in sales is driven by agents and retailer voucher schemes; the leisure category struggles as consumers rein in their most discretionary spending
- By product, highest gains are in ‘Open Loopⁱⁱⁱ’ gift cards; whilst paper vouchers continue to decline
- B2B ‘direct sales’ remains the largest single channel, with sales increasing by almost 10% year on year.
- Despite impressive year on year growth, however, voucher sales declined by 5.4% in Q2 2009 compared with Q1 2009

Reported GCVA voucher sales showed impressive growth of 10.5% in Q2 2009 to £316m, far outstripping total retail sales growth of 3.4%, as reported by the BRC. These strong gains suggest that the recent upturn in consumer confidence may have helped to buoy voucher sales. But such fast growth also underlines the relative infancy and dynamism of the voucher market.

As to be expected in a relatively nascent market, total voucher sales continue to outperform much of their wider markets. Importantly though, some voucher sub-sectors are beginning to suffer, notably leisure. This is consistent with the weak performance of the leisure sector as a whole, impacted by consumers reining in their most discretionary purchases. As Ernst & Young’s recent Discretionary Income study showed, although UK households are 25% better off in 2009 due to lower mortgage payments and household bills, consumers are choosing to use extra cash to repair savings balances and pay off debts, rather than fuel discretionary consumer spending. Leisure and big ticket retail purchases have borne the brunt of this trend.

It is also worth noting that despite the impressive year on year growth, overall voucher sales declined by 5.4% in Q2 2009 when compared with Q1 2009. This is the first quarterly decrease (ignoring the Q4 Christmas peak effect) since comparable data has been available (Q1 2008). It further suggests that the voucher market may be beginning to feel the impact of the tough economic climate.

OUTLOOK

Looking forward to the remainder of 2009, the performance of the voucher market will be largely dependent on the health of the wider economy. Although The Ernst & Young ITEM Club believes that the economy has stabilised, it maintains that hopes of recovery are now running ahead of reality. It forecasts a 4.4% decline in GDP for the whole of 2009. With unemployment set to reach almost 3 million and wage inflation remaining subdued, consumer spending will remain under enormous pressure, contracting by 3.2% in 2009. Likewise, business investment remains very vulnerable in this uncertain climate.

Against this tough backdrop, spending on vouchers by consumers and businesses is likely to be squeezed further, although it remains to be seen whether the 6% quarter on quarter decrease in Q2 is a dip in the market, or the start of something more significant. On the positive side, the roll-out of new products, the extension of open loop and continued growth of closed loop schemes will underpin the future development of the market.

About this data

All Issuer members of the UKGCVA submit sales data on a quarterly basis to the associations appointed partner, Ernst & Young. Collective presentation of sales figures and commentary is provided by Ernst & Young on behalf of the UKGCVA membership.

ⁱ Voucher refers to the whole gift card and voucher market; encompassing paper gift vouchers, closed loop, open loop and restricted loop gift cards

ⁱⁱ Like-for-Like sales are based on existing GCVA members who have submitted data for Q2 2009 and were members in Q2 2008.

ⁱⁱⁱ 'Open Loop' gift cards require the use of a network such as Visa or Mastercard and are accepted at any outlet displaying the network logo.