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Analysis in Brief

Gift Cards: A Win-Win Way to Give

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Gift Cards: A Win-Win Way to Give

Monica Weise
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Summary

You're in a book store to buy a birthday gift for a friend, and you have no idea where to start. So you opt for the easy way out. You buy a gift card[1].

While gift certificates have been around for some time, the more modern gift card is more attractive to both retailers and consumers.

More and more shoppers are doing it, and retailers appear happy to accommodate them. On the whole, it appears to be a win-win situation.

This eagerness was readily apparent in a recent survey of 80 of the nation's largest retailers, representing just over 11,000 stores selling food, clothing, home furnishings, electronics and sporting goods[2].

During the Christmas season of 2003, just over one-half (53%) of these stores offered gift cards. Only a year later, during the 2004 Christmas season, this proportion had jumped to two-thirds (68%).

1. A gift card, for the purposes of this paper, is a plastic card, similar to a credit card, with a magnetic strip on the back, which is loaded with the desired cash value when it is purchased. Not included are paper gift certificates of any kind, plastic phone cards or gift cards sold by shopping centres or credit card companies.

2. The group surveyed was the regular respondents to the Monthly Survey of Large Retailers (LMR), a panel of about 80 large retail enterprises. The group covers Canada's largest food, clothing, home furnishings, electronics, sporting goods, and general merchandise retailers (department stores are included). Together these retailers represent about 35% of total annual retail sales after excluding recreational and motor vehicle dealers.

Even supermarkets are offering gift cards

Department stores were among the first to embrace the gift card idea. All department stores offered them in both 2003 and 2004. Coming close behind were home electronics and appliance stores, furniture stores and other general merchandise stores. They were followed at a distance by supermarkets and clothing stores.

Who offered gift cards?

Trade Group	% of stores		Change in % points
	2003	2004	
Department Stores	100	100	0
Home Electronic & Appliance Stores	92	93	1
Furniture Stores	84	85	1
Other General Merchandise Stores	72	81	9
Other Stores	54	80	26
Supermarkets	57	71	14
Clothing Stores, including shoes and accessories	36	54	18
Total—Large retailers	**53**	**68**	**15**

Source: Statistics Canada, Supplement to the Monthly Retail Trade Survey.

Larger retailers more likely to offer gift cards

The concept of gift cards arrived first among retailers with a large infrastructure which supported their introduction. Such retailers generally have larger stores. Therefore, they account for a larger share of sales and more sales per store, even without considering the effect of gift cards.

On average, stores that introduced the cards had higher sales. For example, among those that introduced the cards in 2004, sales per store amounted to $9.4 million in 2003 and $10.0 million in 2004. (Sales per store for all retailers covered by the survey amounted to $8.3 million in 2004.)

In comparison, the group of stores that did not offer gift cards in either year had sales per store of only $3.3 million in 2004. For those that offered the cards in both years, sales per store amounted to $10.9 million in both years.

Gift cards likely were offered first by larger retailers with the resources to set up such programs on their own. It is only in the last year or so that third-party companies have appeared in Canada that will take on the management of such programs on behalf of a retailer, making it easier for smaller retailers to come on board.

Large retailers that offered the cards in both 2003 and 2004 accounted for 55% of the number of stores in 2004 and nearly 72% of their sales.

In contrast, the group of stores that did not offer gift cards in either year represented only 32% of stores in 2004, and accounted for less than 13% of sales.

Of course, there is a relationship between store size and the type of store or trade group to which a company belongs. Department stores tend to be larger, clothing stores tend to be smaller. As noted earlier, the data shows that department stores were all on board early while clothing stores have been slower to introduce gift cards.

However, even within a trade group, one can see the effect of size. Clothing stores in general had sales per store of $1.5 million in 2003 and $1.6 million in 2004. However, those who introduced gift cards in 2003 had sales per store of $1.9 million in 2003 and $1.8 million in 2004 while those stores which have yet to introduce gift cards had sales per store of only $1.0 million in both 2003 and 2004. Large clothing store chains with larger stores began to offer the cards first.

Gift cards shift sales from period to period

Gift cards have the impact of shifting retail sales from one period to another. At the time they are purchased by the consumer, retailers record the value in their accounting system.

However, this is the key: Retailers do not record any actual sales until some or all of the value is redeemed by the card recipient.

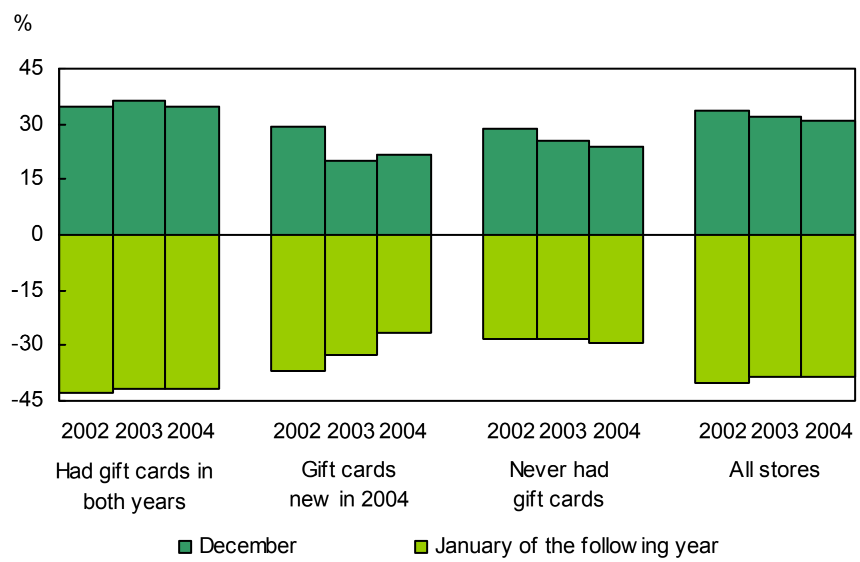
This impact may be especially important in the pre- and post-Christmas holiday shopping season. Gift cards are reportedly purchased in large numbers in November or December and given as gifts at Christmas. But many are not redeemed until January or later.

This may have contributed to a new phenomenon for retailers. The usual drop-off in sales from December to January has started to moderate. Average sales in January 2003 were 40.3% below the 2002 monthly average, rising to 38.3% below the 2003 monthly average in January 2004 and 38.5% in 2005. The strengthening in January may be partly a result of gift card redemptions during the month.

When we look at the particular groups studied in this paper, the effect of shifting sales can be seen to some extent in all groups.

It is most pronounced and consistent in the group that introduced gift cards in 2004, which showed the most important strengthening in their 2005 January sales, suggesting that this group had the largest one year impact from gift cards.

Gift cards contributing to shift in sales from December to January

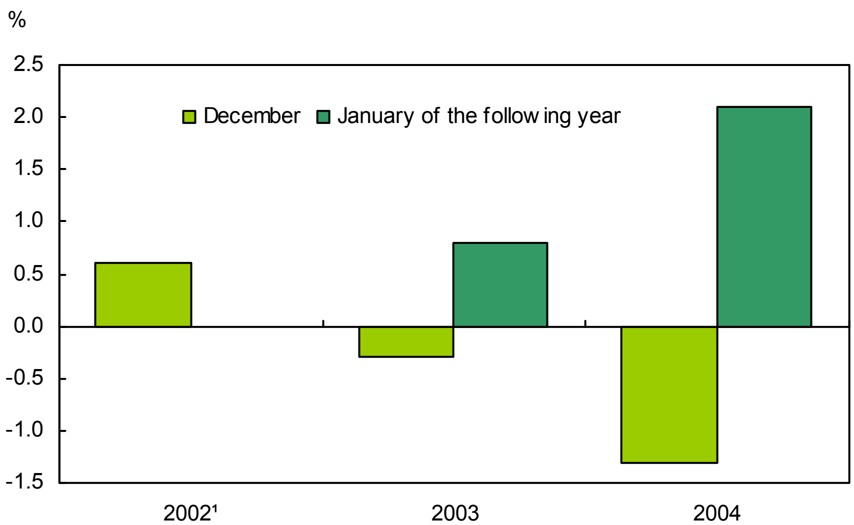


Source: Statistics Canada, Special supplement to Monthly Retail Trade Survey.

In recent years, month-to-month percentage change in sales for all retailers, seasonally adjusted, has been dropping off in December and rising in January. Sales in December 2002 were up 0.6% from November of 2002 but in December 2003, sales fell by 0.3% over November and in December 2004 sales fell even more, by 1.3% over November.

In contrast, while change in sales in January 2003, was flat (0.0%), from December 2002, sales in January 2004, were up 0.8% from December 2003 and sales in January 2005, were even stronger, at 2.1% over December 2004.

Sales dropping off in December, rising in January, for all retailers



1. The change from December 2002 to January 2003 was 0.0%.
Source: Statistics Canada, Monthly Retail Trade Survey.

However, there are other factors that warrant further study. These include the impact of better inventory management systems by many retailers, and shifting demographics. For example, there are increasing populations, particularly in some metropolitan areas, for whom the Christmas season has little or no importance. Therefore, the season has little impact on their purchases.

Why retailers like gift cards

Gift cards are attractive to retailers for a number of reasons. First and foremost, research shows[3] that a large percentage of consumers spend more than the original face value of their gift card. Many consumers spend nearly twice as much.

These cards often represent a nice little reservoir of funds to the gift recipient, allowing the consumer to purchase something nicer than they might otherwise have done.

Gift cards have no value until loaded at the cash desk. As a result, they can be prominently displayed throughout the store, rather than stored in a drawer for security reasons, like their predecessor, the gift certificate.

3. See Jason Praw, *Gift Cards are Here to Stay,* J.C. Williams Group, 2004.

For both consumers and retailers, gift cards are not the drab gift certificates of old. They are particularly attractive to younger recipients, due to their similarity in appearance to credit cards, and to older recipients who “have everything”.

They are also much harder to counterfeit. They are more flexible than gift certificates because they can be loaded for any amount the purchaser desires and many of them can be reloaded.

Many retailers are using the cards as a marketing tool, producing them in bright colours, with their logos and a variety of eye-catching designs. They can also build store-loyalty; drawing in recipients who might not have frequented a particular retailer in the past.

Because the cards are electronic, the retailer can better track their use, providing another source of data on their customers’ purchasing habits.

In addition, a further side-benefit to the retailer (or card management company) is that a certain percentage of gift cards are never redeemed, in full or in part. Even where cards are ultimately redeemed, a certain percentage remains outstanding at all times, giving the business a fund to invest in the meantime.

Gift cards give the recipient the freedom to choose a gift they really want, and they are an easy solution for those with limited time to struggle over determining and purchasing the right gift for the “hard to buy for” or other recipients.

Further, the use of gift cards can reduce the number of unwanted gifts that are returned, a plus for retailers and consumers alike.

Some gift cards have come with a plush toy or fanciful container, while others have had holograms or pictures of famous personalities, and some have doubled as Christmas tree ornaments. Apparently, the sky is the limit.

Note to Readers

This analysis represents the first of its kind, having been derived from a special supplement to the Monthly Retail Trade Survey (MRTS).

The MRTS collects sales and the number of retail locations by province and territory from a sample of about 7,500 retail businesses. The MRTS universe is based on the 2002 North American Industry Classification System (NAICS 2002).

The recently redesigned collection facility for MRTS has the flexibility to allow the addition of up to three supplementary questions in any month.

The questions can be of three types: yes/no; a dollar value or count; or free form text. There are limitations on the length of the text in the questions or in accompanying explanations and on the number of characters or digits possible in the response.

In the case of this supplement, the questions were very simple:

Following are two supplementary questions about your business' experience with gift cards.

Did your business offer gift cards for sale during the recent Christmas holiday season?

Yes ☐
No ☐

Did your business offer gift cards for sale during the 2003 Christmas holiday season?

Yes ☐
No ☐

Because the collection is done within the MRTS, one can use the results of the supplementary questions in concert with the regularly collected data, monthly sales, number of stores, geographical breakdowns, for the units selected.