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Gift Cards: The Gift of Choice

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Note of appreciation

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Gift Cards: The Gift of Choice

Daniel Bahta, Rhonda Tsang and Monica Weise,
Distributive Trades Division

Summary

Gift cards have become a more frequent gift of choice for lots of shoppers and retailers are responding.

When gift card offerings by large retailers were first studied in the 2003 Christmas holiday season, 53% of them were making the cards available.¹ Just two years later, 82% of stores owned by large retailers were offering them, a huge 29 percentage point increase.

Gift cards were most popular with home electronics and appliances stores where all large retailers offered gift cards by 2005. The great majority of general merchandise stores have also done so.

The trade groups with the lowest introduction rate in 2003 are catching up. For example, only 36% of clothing stores, which include shoes and accessories, were offering gift cards in 2003, the lowest rate. Two years later, this proportion had more than doubled to 79%.

The largest retailers tended to offer gift cards sooner. In fact, stores that introduced the gift cards in 2003 had sales that averaged \$11.8 million per store in 2005, more than twice the average of \$5.0 million among the group that has not offered gift cards to date.

Even within a trade group, size has an impact. For example, average annual sales of clothing stores that introduced gift cards in 2003 hit \$2.0 million per store in 2005. In contrast, sales among those not yet offering gift cards in 2005 averaged only \$1.0 million per store.

Looking at all retailers, not just the large ones, 55% of total December 2005 sales came from stores offering gift cards. Certain types of retailers were more likely to offer gift cards. Leading the pack were general merchandisers, where stores accounting for 94% of that group's sales had gift cards.

At the other end of the spectrum, gift cards were found to be largely absent from used and recreational vehicle dealers and new car dealers, with only about 4% of their sales being attributable to stores that offered gift cards.

This study examines the evolution of the offering of gift cards among large Canadian retailers from 2003 to 2005. It also gives a first glance at the results of a new special survey of the broader retail community.

1. See Monica Weise, "Gift Cards: A Win-Win Way to Give," *Analysis in Brief*, Statistics Canada Catalogue no. 11-621-MIE2005029, May 2005, <http://www.statcan.ca/english/research/11-621-MIE/11-621-MIE2005029.htm> (accessed November 2, 2006)

Definitions

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.

The group referred to as **large retailers** comprises 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.

Other stores refer to used and recreational motor vehicle and parts dealers, home furnishings stores, convenience and specialty food stores, beer wine and liquor stores, pharmacies and personal care stores, gasoline stations and sporting goods, hobby, music and book stores. These stores were not represented in large enough numbers in the LMR survey to discuss them separately in this paper.

Large retailers: 8 in 10 offering gift cards

When this retail phenomenon was first studied for large retailers in the 2003 Christmas holiday season, 53% of them were offering gift cards.² Two years later, 82% of stores owned by large retailers were offering gift cards, a huge 29 percentage point increase.

This big increase didn't come from the trade groups where gift cards were more popular. It came from the trade groups that had the lowest offering rates in 2003.

In the three years under study, gift cards were found to be quite popular among home electronic and appliance stores, general merchandise stores, and furniture stores. In 2003, their offering rates were already high, leaving less room for increase. Between 2003 and 2005, these stores increased their gift card offering by between one and eight percentage points.

By 2005, all large retailers of home electronic and appliances were offering gift cards in their stores, compared with 92% in 2003. The proportion among general merchandise stores rose from 87% to 90%. But in furniture stores, where the idea didn't spread as fast, the proportion rose by only one percentage point to 85%.

In contrast, gift card offering increased the most for trade groups that were slower to introduce gift cards. These consisted of clothing stores, which include shoes and accessories, supermarkets and other stores, such as pharmacies and book stores.

Among the six trade groups studied for large retailers, the proportion of clothing stores offering gift cards increased the most, more than doubling from 36% in 2003 to 79% in 2005. However, clothing stores were still far behind the home electronics and appliances stores, all of which offered gift cards in 2005.

The proportion of supermarkets that got on the bandwagon also increased, from 57% in 2003 to 70% in 2005. Clients of the "other stores" category could find gift cards in 79% of these stores in 2005, up from 54% in 2003.

2. Ibid.

Table 1 Percentage of stores offering gift cards, by trade group, 2003 to 2005

Trade group	% of stores			Change in % points
	2003	2004	2005	2003 to 2005
Home electronic and appliance stores	92	93	100	8
General merchandise stores	87	91	90	3
Furniture stores	84	85	85	1
Clothing stores, including shoes and accessories	36	54	79	43
Supermarkets	57	71	70	13
Other stores	54	81	79	25
Total — Large retailers	53	68	82	29

Source: Statistics Canada, special tabulation, Monthly Retail Trade Survey.

Larger stores tended to offer gift cards

Stores with higher sales were more likely to offer gift cards. Large retailers that offered gift cards consistently throughout 2003, 2004 and 2005 accounted for 53% of the number of stores of all large retailers in 2005, and 71% of their sales.

In contrast, the group of stores of large retailers that have not offered gift cards to date represented 18.5% of stores of all large retailers in 2005, and accounted for only 8.5% of sales.

The higher the sales, the bigger the impact. For example, among stores that introduced gift cards in 2003, sales per store averaged \$11.8 million in 2005. By comparison, the group of large stores that had not yet offered gift cards in 2005 reported sales per store of \$5.0 million.

There is also a relationship between sales and the type of trade group to which a store belongs. The majority of general merchandise stores and home electronic and appliance stores, which have larger sales per store, were on board early. Clothing stores, which have lower sales per store, have been slower to introduce gift cards.

Larger retailers may just be more likely to have the resources to support the introduction, promotion and administration of gift cards.

Size advantage, a factor even within a trade group

The size advantage in offering gift cards also existed for stores of the same trade group. In other words, stores offering gift cards tended to be larger within the same trade group.

Large clothing retailers that offered gift cards consistently between 2003 and 2005 had sales per store of \$1.9 million in 2003, which increased to \$2.0 million per store by 2005. Those that first offered gift cards in the 2005 holiday season had sales per store of only \$1.0 million in 2003. By 2005, this level had also grown to \$1.1 million.

Clothing retailers that had not yet introduced gift cards by the 2005 holiday season had sales per store of \$1.0 million in both 2003 and 2005.

Furniture retailers that offered gift cards consistently throughout 2003 to 2005 had sales per store of \$18.9 million in 2003. By 2005, this had grown to \$19.6 million per store. Those that had not yet

introduced gift cards by the 2005 holiday season had sales per store of \$15.5 million in 2003. By 2005, this level had risen to \$17.7 million.

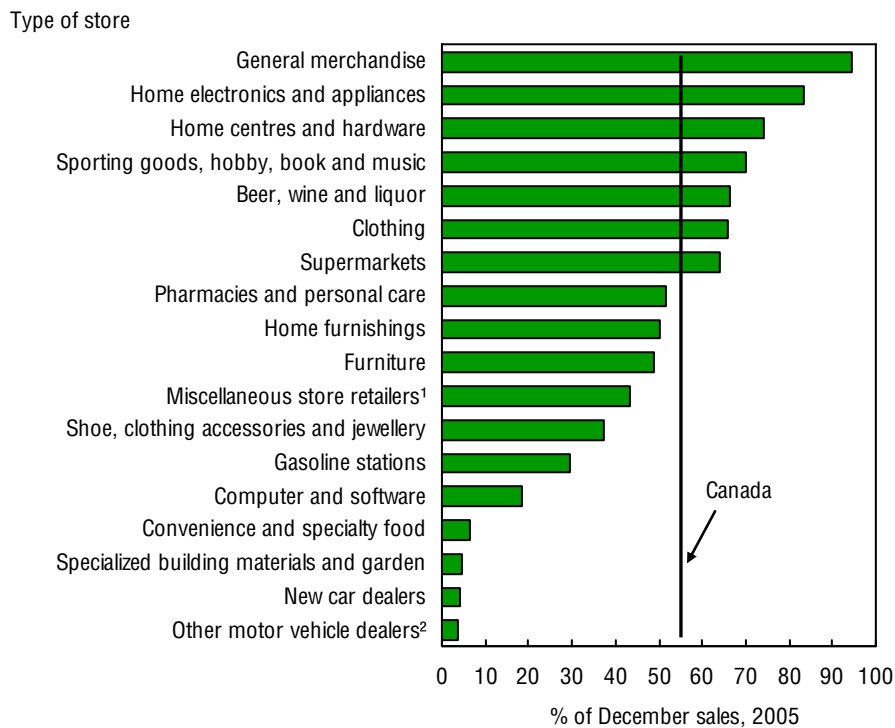
The picture was similar for supermarkets. Those that offered gift cards consistently throughout 2003 to 2005 had sales per store of \$26.3 million in 2003 and \$27.9 million by 2005. Those that had not yet introduced gift cards by the 2005 holiday season had sales per store of \$17.2 million in 2003 and \$18.1 by 2005.

First glance at the results of a new survey

Of the total December 2005 sales, 55% came from stores offering gift cards. Certain types of retailers were more likely to offer gift cards. Leading the pack were general merchandisers, where stores accounting for 94% of that group's sales had gift cards. Home electronics and appliance stores as well as home centres and hardware stores followed close behind, with 83% and 74%, respectively, of their sales being accounted for by gift card-carrying stores.

At the other end of the spectrum, gift cards were found to be largely absent from used and recreational vehicle dealers and new car dealers, with only about 4% of their sales being attributable to stores that offered gift cards.

Chart 1 General merchandisers showed the highest proportion of sales attributable to stores offering gift cards



1. Miscellaneous store retailers refers to florists, office supply and stationery stores, gift, novelty and souvenir stores, used merchandise stores, pet and pet supply stores, art dealers, mobile home dealers, beer and wine-making supplies stores, and all other stores not classified elsewhere.

2. Including used and recreational vehicles and parts.

Source: Statistics Canada, Distributive Trades Division.

The analysis in this section has been derived from a special supplement to the Monthly Retail Trade Survey (MRTS) conducted in early 2006. This special survey, done to produce this study, did not include very small retailers, who together represent only about 3% of sales, and no attempt was made to estimate their likely response relative to gift cards.

This analysis covers the weighted responses of not only the large retailers but also other respondents of the MRTS. Those who responded to the gift card questions represent approximately 79% of total 2005 December sales.

Gift cards attractive to both consumers and retailers

Gift cards are attractive to both consumers and retailers for a number of reasons. For consumers, their popularity is rising, perhaps because shoppers have limited time and can't make up their mind what to buy for someone whose tastes they aren't sure of. Gift cards don't need to be wrapped, and they are easily mailed. Recipients can use their cards to supplement their purchase to buy merchandise they might not otherwise have purchased, or purchase better quality merchandise.

For retailers, gift cards offer a number of benefits. The cards can create or build store loyalty, drawing in new consumers. Consumers tend to spend more than the face value of gift cards, by buying more expensive items than otherwise planned or by buying additional items, once in the store.

Retailers may also benefit when portions of gift card balances remain unredeemed, or when gift cards are never redeemed.

Retailers now offer cards year round, actively promoting them in advertising material and throughout their stores. As gift cards have no value until loaded by a cashier, they can be prominently displayed throughout the store without risk of theft. Many retailers have also accessorized their gift cards. Gift cards are now available with greeting cards and matching envelopes.

Many cards can also be reloaded, making them an attractive alternative to carrying cash or using credit cards. Supermarkets and general merchandise stores promote gift cards to parents as allowing them to provide funds that children can only spend in specific stores, thereby limiting the purchase of merchandise the parents choose not to promote or underwrite.

A number of retailers now offer gift cards as various purchase incentives. For example, some pharmacies display racks of gift cards for a variety of restaurants and other retailers. Other retailers offer gift cards to encourage return visits or repeat purchases, such as home renovation stores that offer gift cards for each \$100 spent or each can of paint purchased.

Gift cards have become increasingly accessible, as they can now be purchased without even going into a store. Telephone, mail and Internet options are available to consumers and gift cards can then be delivered directly to recipients.

This combination of accessibility, functionality, and diversity has meant that gift cards are now an established retail convenience for many Canadian consumers.

Data source and methods

This analysis has been derived from two special supplements to the Monthly Retail Trade Survey (MRTS).

The MRTS produces data on sales and the number of retail locations by province and territory from a sample of about 10,000 groups of retail establishments, representing about 215,000 stores when weighted. The MRTS universe is based on the 2002 North American Industry Classification System.

Very small retailers are not surveyed by the MRTS. Statistics Canada works hard to minimize survey burden on Canada's small business operators. The regular MRTS results are then adjusted to reflect the approximately 81,000 very small store locations not surveyed which together represent only about 3% of retail sales. This study did not include results about these very small retailers.

The 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.

The questions of the first supplement, held in 2005, were only asked of 80 large retailers:

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

Did your business offer gift cards for sale during the recent (2004) Christmas holiday season?

Yes

No

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

Yes

No

In the second supplement, held in 2006, all surveyed respondents in the MRTS sample were asked:

Did your business offer gift cards for sale during the recent (2005) Christmas holiday season?

Yes

No

The analysis in this paper is based on those who responded only. The responses received were from retailers representing 79% of total sales in December 2005.

Response rates of less than 60% were obtained, however, for the following trade groups: used and recreational motor vehicle and parts dealers; convenience and specialty food stores; gasoline stations; specialized building materials and garden stores; and computer and software stores. Results for these trade groups should therefore be used with caution.

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