



A Closer Look at Gift Cards: U.S. Spend, Support, Sourcing, and Services for Gift Card Programs in Corporate Organizations

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As the most prevalent award type across all incentive and recognition program audiences—employees, sales, customers, and channel partners—gift cards deserve special attention. Truly a booming business, U.S. businesses spent \$24 billion annually on B2B gift cards.

To understand their prevalence deeper, the Incentive Research Foundation researched how gift cards are sourced for incentive and recognition programs, how much money is budgeted toward them, what types are being purchased, and where opportunities lie for stakeholders.

A survey was administered to 300 industry professionals who run incentive or recognition programs for their companies. Importantly then, the research’s findings—particularly those regarding awareness of sourcing options, purchase habits, and service ratings—are framed from the perspective of those individuals running these programs day in and day out in corporate America.

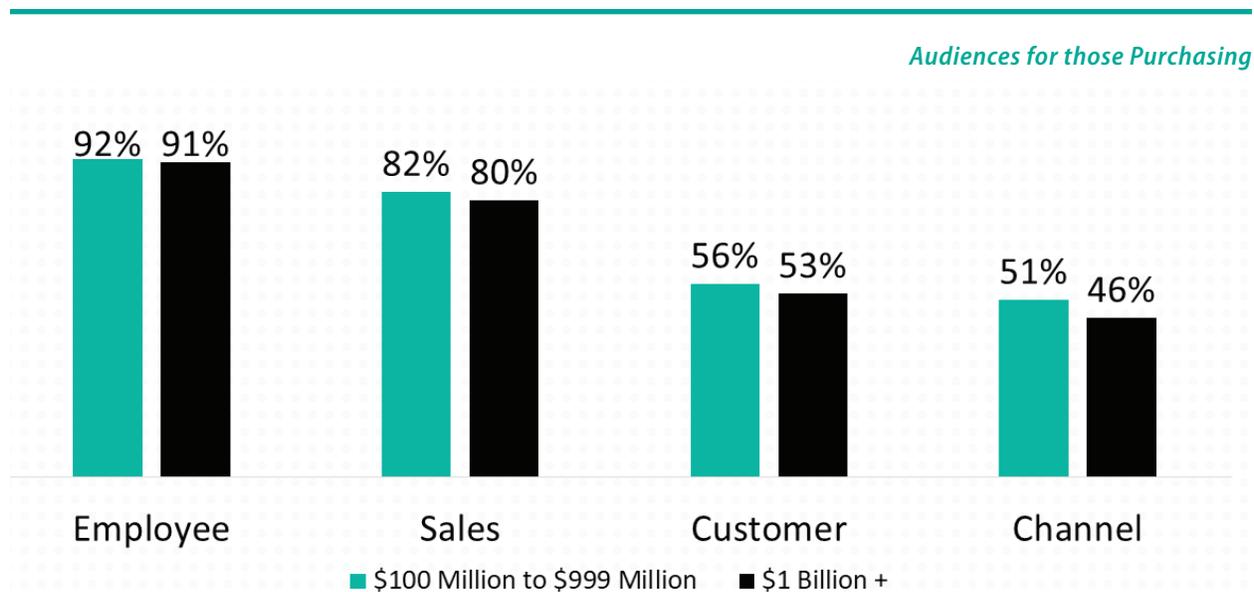
Respondents’ companies were classified as one of two business sizes:

Medium enterprises: Nearly half of the respondents (48%) run programs at companies with annual revenue between \$100 million and \$1 billion. There are nearly 18,000 businesses in the United States that fall in the medium enterprise revenue range.

Large enterprises: Conversely, just over half of the respondents (52%) indicated that their businesses have a revenue of more than \$1 billion annually. There are only a little more than 2,600 businesses in the United States with at least \$1 billion in revenue each year.

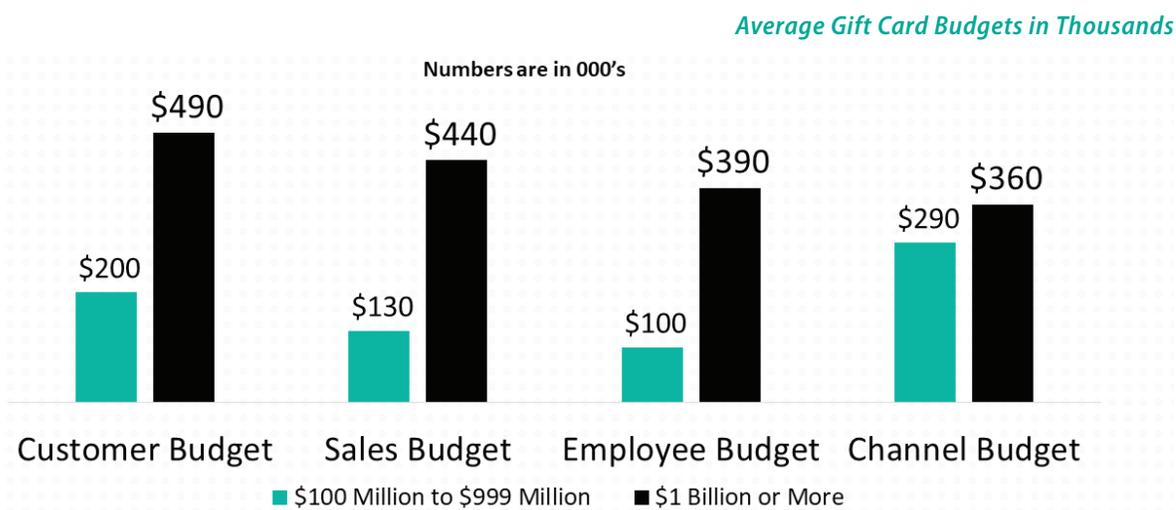
1. Budgets: Context and Spend

In 2016, 69% of medium-sized businesses purchased gift cards for rewards and recognition, while 61% of large firms purchased them. This is up from 2014, when 56% of business with revenue over \$100 million purchased gift cards for incentive programs. Medium-sized firms spend an annual range of \$290,000–\$610,000 and an average of \$450,000. Large firms ranged \$680,000–\$1,340,000 annually and spent \$1,010,000 on average.



Companies—both medium and large—purchase B2B gift cards for an average of 2.5 to 3 different audiences, with employees, followed by sales, being the most frequent audience types. Budget

allocation is a different story, though. For large enterprises, customer and sales audiences have the largest budgets for gift cards. Surprisingly, channel budgets are the largest for medium-sized businesses, followed by the budget for gift cards for customers.



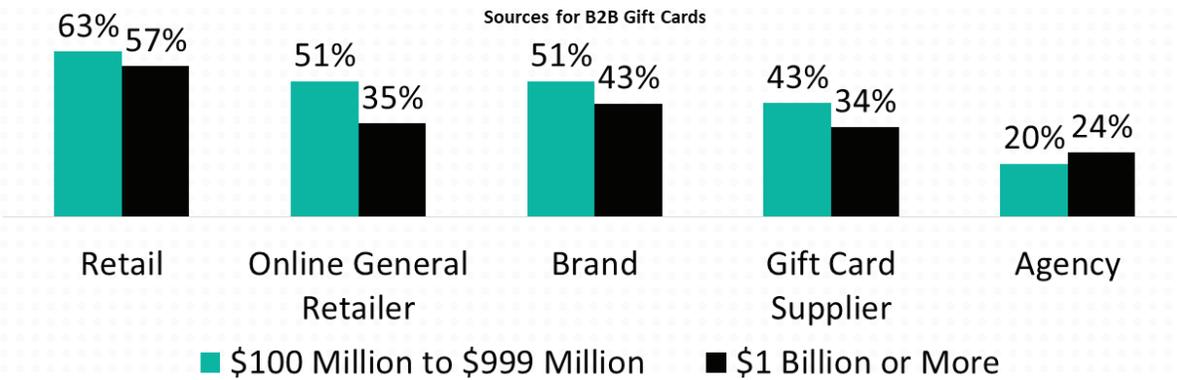
II. Start at the Source: Options, Awareness, Usage, and Satisfaction

Options: The survey identified five distinct sources for buying gift cards for incentive or rewards:

- **Retail:** Selecting cards from an array of local retail locations, such as a grocery store or pharmacy.
- **Online General Retailer:** Purchasing from an online marketplace such as Amazon or Zappos.
- **Brand:** Getting cards directly from a brands corporate office, e.g., working with Bed, Bath, & Beyond's or Gap's corporate office—not the local store—to buy gift cards.
- **Gift Card Supplier:** Getting gift cards from a company whose primary business is selling gift cards (e.g., Blackhawk Network, Giftcards.com).
- **Agency:** Getting cards from an incentive/promotional/marketing agency, who also helps design and run the program.

Usage: Importantly, most U.S. businesses do not source gift cards for awards from a single source. Both medium enterprise and large enterprise firms use an average of two sourcing channels for their gift cards.

Awareness vs. Satisfaction: One-third of reward and recognition buyers had limited to no awareness that there is an entire industry of gift card suppliers and agencies designed to supply a variety of gift cards to incentive programs. This presents significant growth opportunities for these sources. Additionally, agencies and gift card suppliers are the least commonly used channels for the purchase of gift cards as awards, while retail locations remain the most popular source. Alternatively, though, agencies, followed by gift card suppliers, have the highest buyer satisfaction rating, particularly when it comes to service offerings.



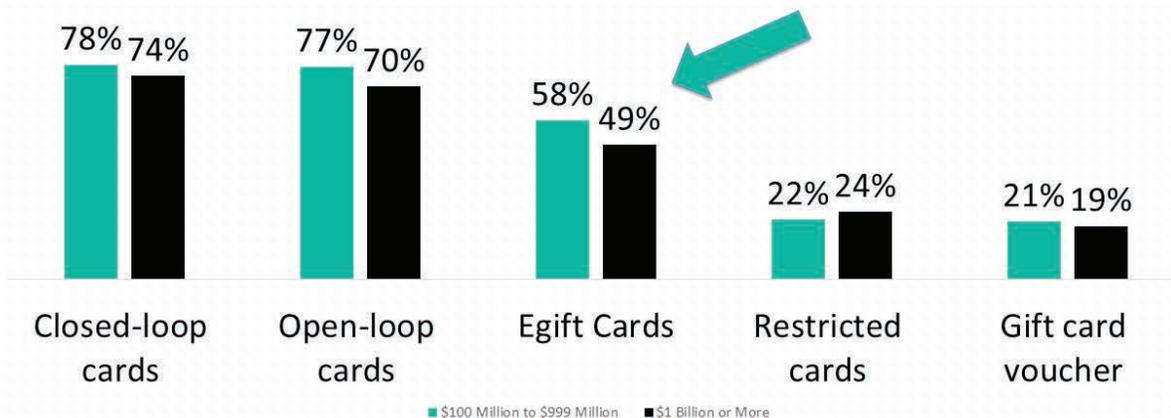
Support: Despite being generally satisfied with their chosen gift card purchase channels—whichever they may be—firms frequently support their gift card reward and recognition program services (e.g., communication, design, tracking, administration, etc.) internally. In medium-sized firms, the most commonly outsourced service to providers was issuance reporting (customer portals or other technology for tracking or reporting gift card issuances or distribution). In large firms, participant communications (including website, mobile app, etc.) were most commonly outsourced to gift card suppliers.

III. Types of Gift Cards: Options, Uses, and Prevalence

The survey identified five distinct types of gift cards, defined as follows:

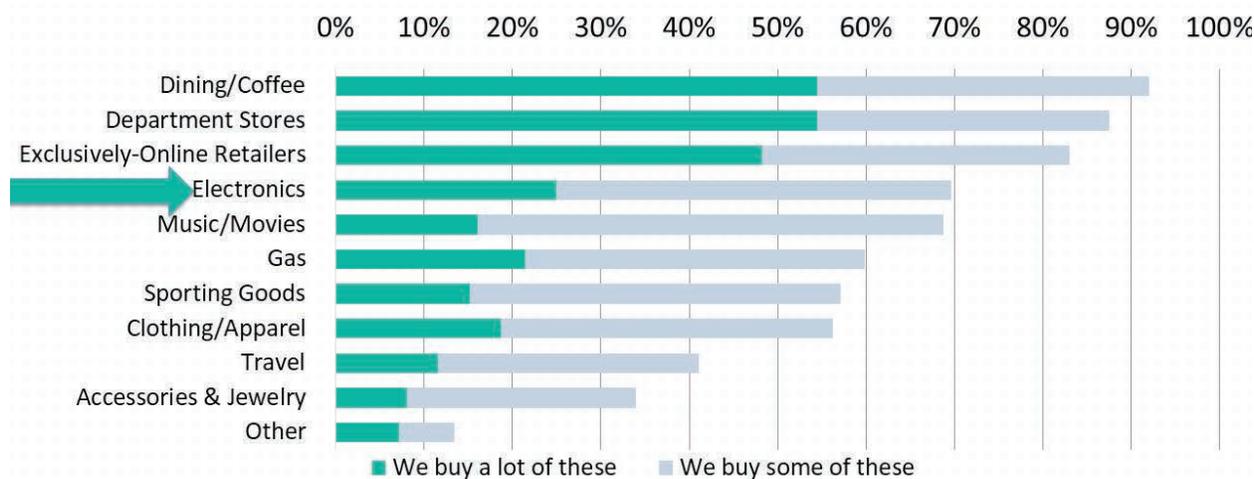
- **Open-Loop Cards:** Prepaid cards, usually issued under a major credit card, redeemable anywhere that credit card is accepted (e.g., VISA prepaid cards).
- **Closed-Loop Cards:** Gift cards accepted by one merchant only, for example at a specific chain (e.g., Starbucks, Target), or retailer (e.g., iTunes).
- **Restricted Cards:** These fall in between open- and closed-loop cards and can be used at a limited number of merchants (e.g., a wellness reward gift card good for healthy restaurants and grocers).
- **E-Gift Cards:** Certificates or cards issued to the recipient via email or other electronic means.
- **Gift Card Voucher:** Cards, tokens, or codes given to recipients allowing them to select what type of gift card they want (e.g., a voucher good for a \$50 gift card from one of 100 brands).

Types of Gift Cards Purchased

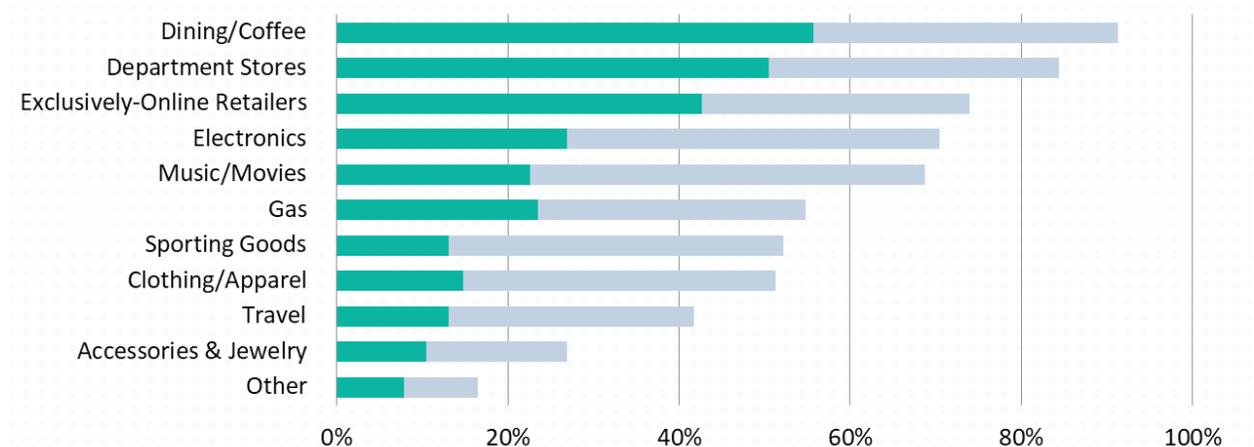


Closed-loop and open-loop are by far the most prevalent type of gift cards, with three-quarters of firms using each, though e-gift cards are gaining significant traction in the market, with half of large enterprises and 58% of medium enterprises utilizing them. The top closed-loop merchant categories are for dining/coffee, department stores, and exclusively online retailers, with electronics and music/movies used moderately.

Closed Loop Merchant Categories: \$100 Mil-\$999 Mil



Closed Loop Merchant Categories: \$1 Billion +



IV. The Future of Gift Cards?

Given the demand for, and choice and ease of gift cards, it is hardly surprising that they are the predominant non-cash reward in incentives programs. There are strong indications budgets for gift cards are expected to grow in the coming year. With that additional budgeting come opportunities for a variety of sources to play to their unique strengths and grow their gift card business.

Gift Card Spending Changes 2016 to 2017

