



Market Study:

B₂B Gift Cards

Incidence of Gift Card Use

A total of 59% of U.S. businesses use some type of non-cash award¹ program. Further, 52% of U.S. businesses use gift cards to recognize and reward their employees, sales people, channel partners, or customers. This means fully 87% of companies offering non-cash awards use gift cards as part of the program. Incidence of gift card programs increases with the size of the company, as shown below.

Company Revenue	Gift Card Program Incidence
\$1 to \$10 million	51%
\$11 to \$100 million	59%
Over \$100 million	62%
Weighted Total	52%

¹ Non-cash programs are reward and recognition programs that use alternatives to cash as rewards for their audiences. Reward categories might include points (redeemable for merchandise or services), gift cards, specific merchandise, or travel.

A JOINTLY FUNDED MARKET STUDY FROM THE INCENTIVE RESEARCH FOUNDATION AND INCENTIVE GIFT CARD COUNCIL

Background

Numerous studies have demonstrated the popularity and growth of gift cards as an award; however, reliable studies that provide an estimate of the size of the incentive gift card market are not available. The Incentive Research Foundation, in partnership with the Incentive Gift Card Council, conducted a joint study to collect and analyze data from a national sample of business executives with the goal of estimating the size and spread of the marketplace.

Summary of Findings

- 52% of U.S. Businesses use gift cards – to the tune of \$22.7 billion annually
- The greatest use of gift card programs is for rewarding and recognizing employees
- Open and closed type gift cards are used much more frequently than restricted or virtual cards
- Most buyers report that their future spending will either remain the same, or increase, raising an expectation that this market category will continue to thrive and grow.

See the Appendix for information about the methodology used for this study.

Gift Card Program Types

Respondents were asked whether their firm ran programs in four categories: Employee, Sales, Channel, and Customer. These categories were left to the respondent’s interpretation relative to their particular business – i.e., whomever they think of as their customers or their channel partners.

Employee gift card programs are by far the most prevalent, followed by Customer and Sales gift card programs. The incidence of these program types varies slightly by firm size, with larger firms having programs more frequently than smaller ones.

Program Type	Weighted Total Incidence
Employee Gift Card Programs	63%
Sales Gift Card Programs	31%
Channel Gift Card Programs	3%
Customer Gift Card Programs	36%

Program Type	Total Market
Employee Gift Cards	\$7,323,366,537
Sales Gift Cards	\$8,501,632,918
Channel Gift Cards	\$1,744,154,482
Customer Gift Cards	\$5,182,300,125
Total	\$22,751,454,062

It is also informative to evaluate the breakdown of the \$22.7 billion market by size of firm. As shown in the table below, because of the sheer number of firms in the smaller business category, firms between \$1 million and \$10 million in annual revenue account for more than half the market.

Group	Gift Card Spend
\$1 to \$10 million	\$12,862,421,052
\$11 to \$100 million	\$ 7,551,381,264
Over \$100 million	\$ 2,337,651,746
Totals	\$ 22,751,454,062

Gift Card Market Size

Budget estimates are calculated by extrapolating the average program budgets to the population of U.S. businesses running gift card programs. As shown in the following table, the total size of the B2B gift card market is \$22.7 billion, accounted for in large part by heavy spend on Employee and Sales gift card reward and recognition programs.

Types of Gift Cards Offered

There are several types of gift cards businesses use to motivate and reward their audiences. For the purposes of this study, the following definitions were used:

- **Open prepaid cards** can be used virtually anywhere. They are normally issued under a major credit card and are redeemable wherever that card is accepted.

- **Closed-loop cards** are accepted by one vendor only, such as a particular restaurant or restaurant chain.
- **Restricted cards** fall in the middle; they might be eligible for use at an entire venue—for example, any store in a specific shopping mall or for any merchandise or service at a specific resort.
- **Virtual gift cards** are purchased online, awarded online and redeemed online.

Respondents were asked which cards they use for their programs. Open and closed-loop cards are used by far more businesses than restricted and virtual cards are.

- Sixty-eight percent of the market uses open-loop cards, and 54% use closed-loop.
- Approximately 12% use restricted cards – a lower incidence than virtual cards, which 14% of businesses are now using.

Explaining Gift Card Type Preferences

Respondents were asked why their business uses the types of cards they do.

Open-loop card fans appreciate the flexibility and convenience, the ability to buy in bulk, and the universality of cards – particularly for geographically dispersed audiences.

Closed-loop card fans value the flexibility and convenience, the ability to tailor the reward to the individual employee while still offering them

some discretion in the specifics of redemption, and their perception that closed-loop cards are not subject to taxation the way open-loop cards are.

Preference Changes

Respondents were asked to explain how and why their card type preference might change in the future.

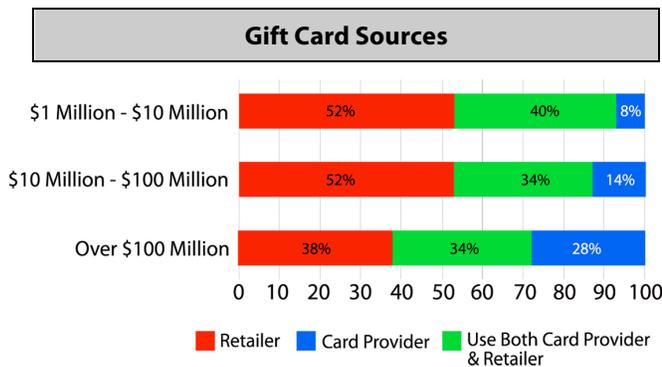
Those who felt their card type preference would not change (88%) were generally either very pleased with the effectiveness and outcome of their program, or were satisfied that the status quo was satisfactory and therefore changes would not be worth the time and associated conversion cost.

Those who felt their card type might change in the future predominantly expect their firms to migrate from closed to open cards, increasing the flexibility for the recipient.

Gift Card Sources

There are differences in how companies of various sizes source the gift cards used in their programs.

- Large businesses are more likely to use a card provider that can deliver many different types of cards.
- Smaller businesses are more likely to go directly to retailers for their cards.
- Approximately one-third of US businesses use both card providers and retailers, regardless of the size of the business.



Conclusions

The findings confirm that the incentive gift card market is very large:

- The 52% of U.S. businesses using gift cards spend \$22.7 billion annually in this category.
- The market is driven in large part by smaller businesses (those between \$1 and \$10 million in annual revenue), which don't spend huge sums individually, but the sheer

number of these businesses creates a \$12.9 billion market.

- Employee gift card programs are the notable favorite – over 60% of firms using gift cards name employees as recipients.
- Most buyers report that their future spending will either remain the same, or increase, raising an expectation that this market category will continue to thrive and grow.

For Additional Study

Looking forward, there are several topics that deserve further study.

First, the distribution of programs, responsibility, and budgets across extremely large companies (such as the Fortune 500) is not well understood. This limits accurately estimating the size and substance of the market – because a single firm of this size may have immense budgets in aggregate.

Secondly, while 52% of U.S. businesses are using gift cards to reward and motivate their audiences, 48% of businesses are not using them. It would therefore be helpful to better understand the reasons for non-use.

A clear understanding of the obstacles will be the best way to develop effective marketing strategies for this audience.

Appendix

Methodology

To ensure sufficient sample, multiple sources were used. A random sample was purchased from Hoovers and OneSource, and supplemented with in-house lists from the IRF, the Motivation Show, Premium Incentive Products magazine, and the Research Now B2B panel.

A ten-minute survey was distributed via email invitation, with respondents offered an incentive to participate.

Data collection took place between August 21, 2012 and September 22, 2012. A total of 1,769 business-people responded to the survey. Of these, 369 were responsible for managing a program and completed the bulk of the questionnaire. This sample size provides the 95% confidence level and 10% margin of error within the revenue categories noted above.

Standard descriptive and inferential statistical analysis was performed on the quantitative data.

For the open-ended questions, issues that rose to the forefront (as evidenced by a large proportion of mentions relative to the number of people asked that question) are captured and noted.

The information gleaned from verbatim responses is qualitative and should be used for context, not direction.

Weighted Calculations

Because the study objective is to project findings to the population of U.S. businesses, measures of incidence and market size are statistically weighted to reflect the highly skewed

distribution of firms. Of the 1.44 million U.S. firms with revenue of \$1 million or more, 86% have between \$1 million and \$10 million in annual revenue.

Company Revenue	Number of U.S. Companies
\$1 to \$10 million	1,244,164
\$11 to \$100 million	176,850
Over \$100 million	20,605
Totals	1,441,619

Comparisons To Other Studies

It is tempting to compare the findings of this study to those of other sources, particularly the often-referenced *Mercator* estimates. However, that comparison is not valid due to the drastic differences in methodologies for the two studies.

It is our understanding that *Mercator* estimates the market size by collecting data from issuers and resellers, while the estimate in this study is based on interviews with buyers -- the people who manage the gift card budget and how it is spent.

Because the segments and methodology are completely different, the estimates are not quantitatively comparable. They should be viewed as two qualitatively different data points that each offer perspective into the size of the B2B market.

Efforts to Control Estimation Error

Aside from the issue of sampling, a B2B study such as this will include inherent bias that will affect the accuracy of market projections. This error has been deemed tolerable by the sponsors because any error of projection will likely make the estimates conservative – underestimating the market, not overstating it.

1. **False negatives:** It is likely that the true incidence of gift card programs is higher in the marketplace than reported here. The likelihood of a respondent being unaware of a program is higher than the likelihood of a respondent believing there is a program where does not exist. This is particularly true in larger companies, where a respondent typically will not be aware of the activities of various divisions, subsidiaries, and locations.
2. **Multiple decision-makers:** As firm size increases, so too does the number of divisions and locations. The very largest companies are complex microcosms unto themselves, with subsidiaries, branches, divisions, operating units, etc. It is unlikely a respondent will have perfect information within a company with revenue above \$100 million, and firms over \$1 billion are highly complex. Interviewing a stakeholder in marketing, for example, may give some information about the activity of that department, but is unlikely to yield accurate data for sales, HR, operations, and other departments.

3. **Discretionary spend:** In many large companies, department managers will use some small part of their budget, or perhaps their own money, to buy “thank you” gift cards for their teams. The amount a single manager spends may be small, but in a firm with thousands of managers, the impact on the market is worth noting. These funds may not be captured in the “official” program budgets of the firm.

The findings of this study are far more likely to understate the size of the B2B gift card market than overstate it.



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