

PROFILING GIFT CARD

MALL SHOPPERS

REPORT BY - TAMMY DURSTON, SENIOR DIRECTOR OF RESEARCH, BLACKHAWK NETWORK



Gift Cards have grown from \$40B in 2003 to over \$100B in 2014

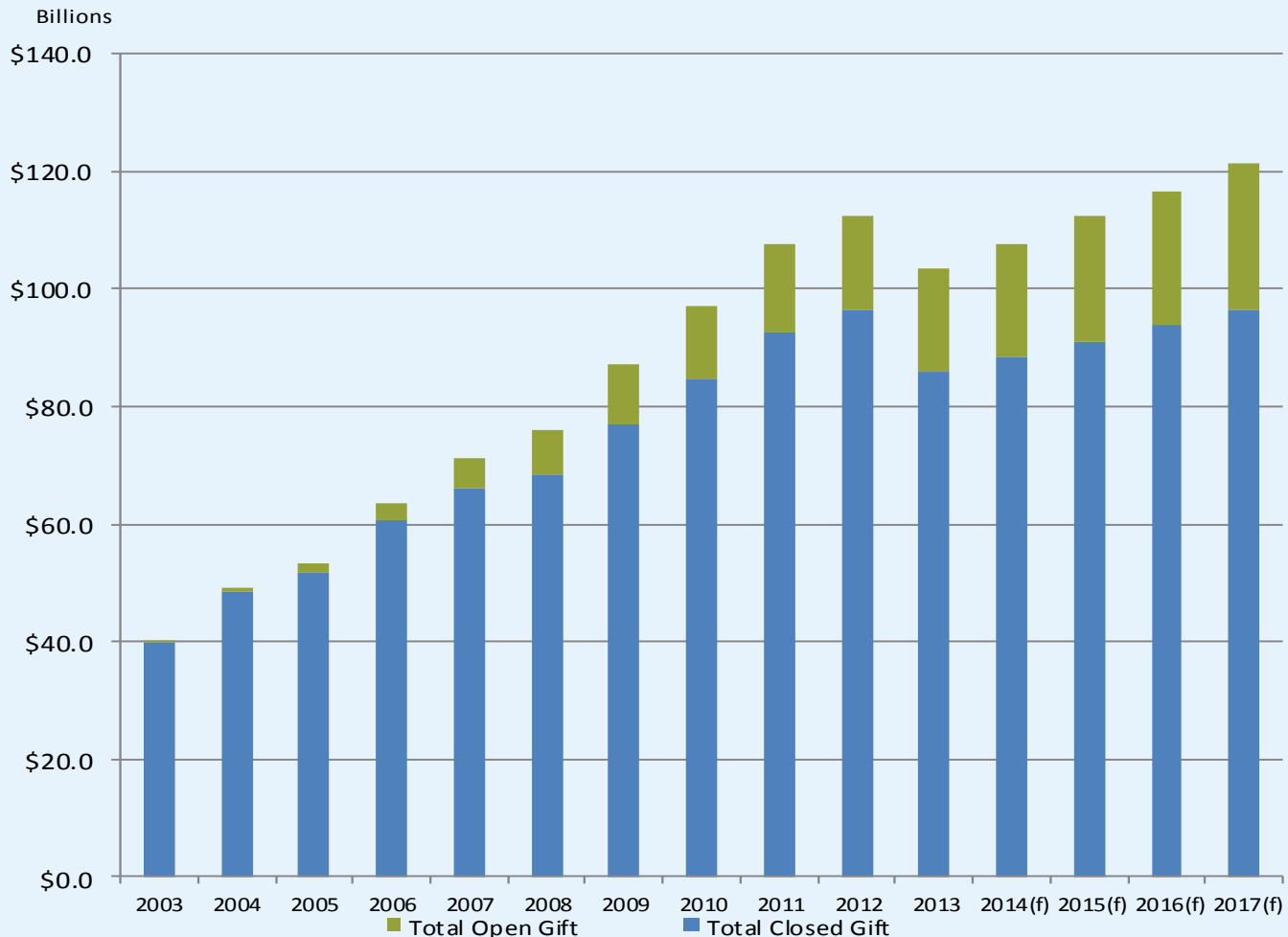
Mercator Advisory, 9- 11th Annual U.S. Prepaid Cards, Market Forecasts.

THE GROWTH OF GIFT CARDS

Gift cards originated in the 1990s and have continued to grow in popularity during the last decade. The National Retail Federation reports that gift cards have topped the list of most requested gifts for the last eight years. There are few products that have risen in popularity so quickly. There are two types of gift cards: open loop cards which are branded with a major payment system such as Visa, MasterCard or American Express and closed loop cards which are redeemable only at a specific store of chain.

Source: National Retail Federation, Monthly Consumer Survey, November 2014.

Figure: Gift Card Growth 2003 – 2017 (forecasted)



Source: Mercator Advisory, 9- 11th Annual U.S. Prepaid Cards, Market Forecasts.

Why have gift cards experienced such rapid growth? Why do consumers buy gift cards? Why do so many people want to receive gift cards? In order to answer these questions, the overall topic of gift giving first has to be examined.

A BRIEF HISTORY IN GIFT GIVING

Gift giving is an ancient custom present in all societies. It has evolved from simple economic exchange to a multi-dimensional activity. Russell Belk, in his 1979 study, identified four functions of gift giving: to mark important life events, to establish and maintain interpersonal relationships, to create a medium of economic exchange and to socialize children into the customs of society. Several studies have detailed these motivations as well as other aspects of gift giving such as obligation, symbolism and even anxiety. You can establish, define, solidify, repair or even ruin a relationship with a gift.

Source: Belk, Russell W. (1979.) "Gift Giving Behavior," Research in Marketing 2, Greenwich, CT. 95-126.

BUT WHY GIFT CARDS?

There are many studies which detail the number, type, occasion and purchase locations regarding gift cards. However, there is a lack of research detailing the psychological motivations leading to gift card purchases. Since gift cards are a gift, there are emotional components in regards to the purchase. In 2008, Blackhawk Network undertook a study investigating shoppers' motivations for gift card purchases. In that study, consumers were clustered into groups based on their psychological motivations towards gift cards. Since 2008, gift purchasing has changed with the advent of digital gift cards; therefore, Blackhawk Network updated the study to reflect these changes.

RESEARCH METHOD

To determine motivations for gift card shopping, Blackhawk surveyed 3050 gift card buyers in the U.S. All had purchased at least one gift card in the last year. Respondents were asked about their gift card buying habits as well as overall attitudes about shopping, online activity, and gift giving and gift cards. Of the 4832 potential respondents, 63% had indicated they had purchased a gift card in the last year. These respondents continued to complete the survey.

KEY FINDINGS:

- ✓ 63% of consumers purchased a gift card in the last year
- ✓ About 1/3 of all gifts purchased are gift cards.
- ✓ 94% stated they would be likely to purchase a gift card in the next year.
- ✓ Birthdays (70%) and winter holidays (64%) were the popular occasions.
- ✓ Most gift cards buyers (96%) had also received gift cards.
- ✓ On average, they received 4.2 gift cards in the past year.

FACTOR ANALYSIS

This research was designed to understand the factors that affect consumers when deciding purchases. Motivations are difficult topics to measure directly; therefore an indirect method was used. A series of thirty one constructs were developed from prior studies, previous gift card shopper research, shopping behavior and general societal attitudes. Factor analysis, a process of data reduction which identifies underlying variables, was employed. Then, the data set is reduced by grouping interrelated variables into "factors."

Since gift card mall customers were our target, those consumers who had purchased gift cards in a third party location (grocery, drug, convenience store, mass merchandiser, or a third party website such as GiftCardMall.com) were analyzed in order to profile gift card mall customers.

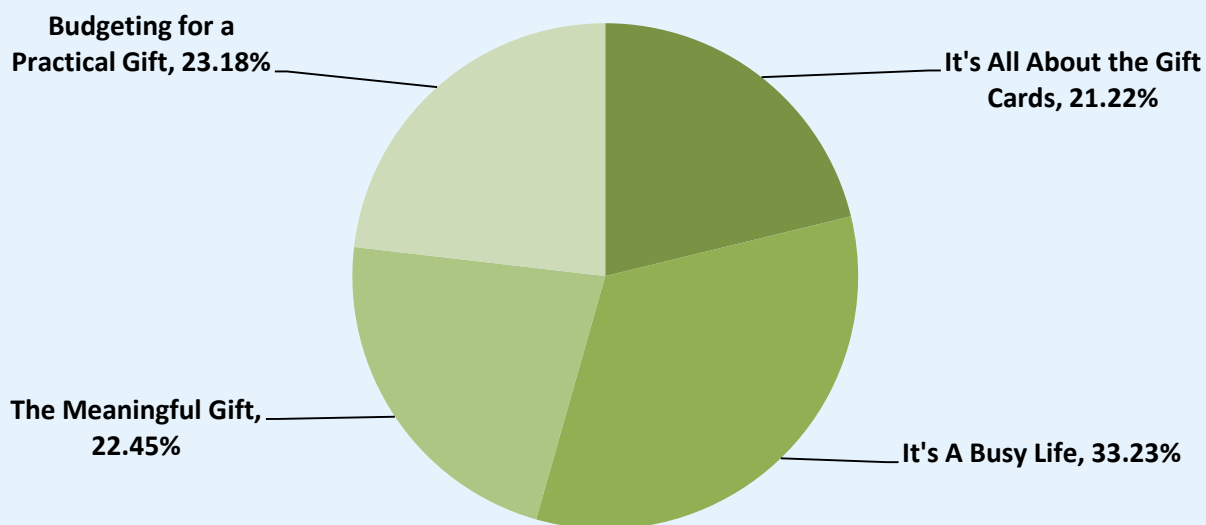
PROFILING GIFT CARD MALL CUSTOMERS BY THEIR MOTIVATIONS

Factor analysis of general gifting, shopping and gift card questions was conducted to reduce the data. The data was reduced to eight factors:

- ✓ Overall interest in buying and using gift cards
- ✓ Online presence
- ✓ Degree of shopping urgency
- ✓ Need for emotional component while gifting
- ✓ Affinity for shopping
- ✓ Level of gifting (high, low)
- ✓ Use of coupons
- ✓ Need for practicality with gifting

Data was clustered on these eight factors using K-means clustering. This method allowed the data to be partitioned into groups so in-group similarity and cross-group differences were maximized.

It was established that the four clusters solution was the best fit. The four clusters were fairly evenly distributed and named according to their overall theme of why they purchase gift cards. See Chart below.



CLUSTER 1: IT'S ALL ABOUT THE GIFT CARDS

BUYING GIFT CARDS = GIVING CHOICE

The main characteristic of this cluster is their strong affinity for gift cards. They love to both give and receive gift cards. They prefer to buy them because they value the element of choice. Not only are they giving a gift but they are giving their recipient the power to choose his/her own gift. Only a few (28%) say they buy gift cards when they can't think of anything else to buy. Almost all (90%) say they give gift cards because that is what people want to receive.

They strongly prefer gift cards as gifts and tend to give them for winter holidays and birthdays (main gifting occasions.) They also love to shop and buy gift cards while they are shopping. This cluster does not tend to minimize giving gifts—only 13% say they do. Although they give slightly less than the average amount of gift cards per year, they spend more on individual gift cards. These buyers purchase more restaurant, mass merchandiser, department store gift cards and open loop gift cards than other groups. They buy gift cards in more channels (than other groups) as they tend to buy gifts while doing other shopping. Eighty-nine percent are likely to buy gift cards in the upcoming year. When redeeming gift cards, most spend more than the value of the gift card.

This group is approximately 61% female and has a higher percentage of married people. They tend to be more middle aged.

CLUSTER 2: IT'S A BUSY LIFE

BUYING GIFT CARDS = SAVING TIME

The key differentiator in this group of gift card buyers is that they are ruled by time. They are in a hurry and shop at the last minute. They buy gift cards, not based on their affinity for gift cards, but rather on the convenience. Gift cards are their ideal solution. Overall, they tend to buy more than the average number of gift cards per year (8.7) and buy them more often for more occasions—for almost all occasions more than any other group. Worth noting is that this cluster tends to buy gift cards for more less popular occasions such as (anniversary, Valentine's Day, rewards, "thank you", etc.) When buying gift cards, *The Busy Life* cluster utilizes almost as many channels as the first cluster. The channels chosen reflect the need for convenience and less running around.

This group tends to buy egift cards (47%) prefer to shop online or on their phone or tablet. There is a higher percentage of males in this group. They tend to have higher income, be employed full time and the group is more ethnically diverse.

CLUSTER 3: THE MEANINGFUL GIFT

BUYING GIFT CARDS = MAKING PEOPLE HAPPY

The members of this cluster focus their gifting choices on gifts that have emotional meaning. Eighty-one percent want to give gifts that have an emotional meaning. In the past, gift cards tended to be viewed as impersonal or the lazy person's gift. However, this viewpoint has changed, mainly because of public opinion. People have begun to realize that people prefer them to physical gifts. Gift cards are the most requested gift and that people prefer them. Therefore, buying them a gift card pleases the recipient. Members of this cluster want to choose gifts that make their recipients happy.

This group tends to dislike shopping (only 32% said shopping for gifts is fun.) The members appreciate they can buy gift cards in grocery stores and other convenient locations. This group is least likely to make purchases from their smartphone or tablet. They are also least likely to purchase digital gift cards.

This cluster is about equal male and female, but has an older average age and a higher percentage of retired people. They appreciate that they can buy gift cards in grocery stores (for the convenience.)

CLUSTER 4: BUDGETING FOR THE PRACTICAL GIFT

BUYING GIFT CARDS = A PRACTICAL GIFT

This is a new cluster from 2008. Their focus is on saving money and they feel that buying gift cards help them budget their gift spending. This group is the most price conscious of all of the clusters. They tend to use coupons and look for promotions. Interestingly, this group uses gift cards as the highest percentage of all their gifts and they do that because they think gift cards are such practical gifts. They tend to give fewer gifts than the other groups and prefer to give a gift that is useful. They spend less on individual gift cards and tend to buy gift cards in mass merchandisers and in the grocery channel (already shopping there.) Of all the clusters, the consumers in this group buy the most for self-use. Birthdays and winter holidays are the most popular occasions for purchase. They tend to buy more restaurant and mass merchandiser gift cards.

This group enjoys receiving gift cards themselves and treat themselves when they receive a gift card. Only one-third prefers to buy online instead of in-store.

This cluster is about two-thirds female and contains more single moms. Overall they have a lower household income level and tend to have less education.

WHAT TO DO WITH ALL OF THIS INFORMATION?

- ✓ The marketing message is the key way to reach the psychographic segment. Clustering data can be used to construct or modify marketing messages for desired segments.
- ✓ Target promotions to specific groups
- ✓ Segmentation is excellent way define opportunities for new products
- ✓ Match segments to preferred shopping channels
- ✓ Use clustering for consumer centric merchandise planning as it reveals preferences.
- ✓ Identify the “universals” – something that appeals to everyone – *it makes life easier!*

REPORT BY

Tammy Durston

Senior Director of Research
Blackhawk Network

Tammy Durston is senior director of research at Blackhawk Network, a Pleasanton, California based provider of prepaid and financial payments products. Her research helps guide Blackhawk's strategy for its diverse product lines and geographies. She can be reached at tammy.durston@bhnetwork.com.

