Industry Trends to Watch in 2015

By Tammy Durston, Blackhawk Network

Macro trends, including increased access to mobile devices and the Internet as well as consumer appetite for deals, will continue to drive changes in shopping behavior and broaden the use of both prepaid and electronic payments in 2015. Below is a snapshot of trends—supported by our research—to watch in the New Year.

- **Omnichannel shopping.** Consumer shopping isn’t necessarily driven by a certain channel. As consumers become more comfortable with online and mobile shopping, they expect their favorite retailers to provide cross-channel experiences. They expect shopping, whether it’s in-store, online or via mobile, to be seamless. The same is true for gift card shopping—consumers want convenient, seamless experiences across all channels. Consumers not only continue to purchase gift cards at their favorite retailers, grocery stores and other third-party locations, but now they’re also buying physical and digital cards online or on their phones. Demand at physical stores is expected to remain strong, but we expect there will be new growth in prepaid through online and mobile channels, with emphasis on gifting for new occasions. For example, buying gift cards for an anniversary or housewarming doubled from 2013 to 2014.

- **Gift cards driving incremental spend and new customers.** With 41 percent of gift card recipients saying the receipt of a gift card prompted them to visit a store they wouldn’t have gone to otherwise, we can expect to see gift cards driving shoppers to new retailers. This is complemented by gift cards encouraging consumers to shop more at certain stores (59 percent of consumers said receiving a gift card prompted them to visit a store more often). Blackhawk Network’s data also show that one third of consumers, when redeeming a gift card, almost always spend more than the value of the gift card.

- **Digital gift card growth.** As smartphone usage increases, it is expected that the purchase rates of e-gift cards will increase too, especially considering consumers who receive digital gift cards are more likely to buy them for others. That said, digital gift cards also appeal more to higher income and online shoppers, who are traditionally more tech-savvy and buy fewer physical gift cards from stores. Therefore, we view e-gift cards as incremental purchases rather than channel shifting.

- **Increased use of gift card incentives, loyalty and rewards.** Gift cards have been an in-demand incentive for many years for employee engagement and consumer rewards. The usage of gift cards as incentives is expected to accelerate in 2015 both in physical and digital forms. The Incentive Research Foundation forecasts 44 percent of program owners increasing their incentive budgets in 2015 and two-thirds (66 percent) of program owners choose to use gift cards for their ease and flexibility. Digital gift cards are expected to rise in this category because they can be delivered to recipients immediately, providing a powerful tool for incentive providers. Digital cards also offer the ability to

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tailor rewards, modify reward programs quickly and therefore see more immediate results. In a recent study, 35 percent of digital shoppers said receiving a free gift card was the most valuable promotion, even more valuable than the popular “buy one, get one free.”

- Gift cards for promotions and special offers. Shoppers have become increasingly vigilant to gift card promotions and opportunities for savings. Gift card malls (within third-party retailers) are expected to continue offering loyalty or special offers at holidays, which make buying gift cards a great way to save money for consumers.

- General purpose reloadable card users are a varied group. According to Mercator Advisory Group, the open-loop/financial services segment is the fastest-growing segment in the prepaid market. Part of this growth is due to the growing acceptance of prepaid cards. The Federal Reserve Bank recently found that two-thirds of all non-cash payments made in the U.S. in 2012 were made by using a prepaid product. Not all prepaid card owners are the same, however, and we’ve learned that prepaid cards must be marketed differently to different user segments. Traditionally, those who didn’t use banking services used general purpose prepaid cards; however, now many others use the cards for their own reasons—budgeting, shopping online or security. During 2015, we expect to see increased usage of GPR cards. We’ve seen increased rates of GPR cards with younger consumers, tech-savvy shoppers and consumers who are not aligned with banks due to increased acceptance of prepaid cards. Acceptance drives usage.

- Prepaid telecom on the rise. In the last few years, mobile phone subscribers have become increasingly disillusioned with long-term contracts. Carriers have adjusted and have created various plans for their subscribers, including prepaid plans. In 2014, prepaid telecom rates jumped to 28 percent of all U.S. telecom subscribers. This number is expected to grow. As the number of prepaid subscribers’ increases, prepaid top-up solutions will be increasingly important and will need to adapt to consumer needs, such as offering phone top-up right at the register. Keeping these prepaid cards available in easy-to-shop and safe locations, such as grocery stores, assists consumers who increasingly will look to these channels for their prepaid mobile needs in 2015.

- Mobile payments will continue to increase. Although the adoption of mobile payments is still relatively low, it’s expected to increase by 40 percent in 2015. Key groups, such as younger consumers, are embracing mobile payments at higher rates. Twenty-seven percent of those ages 18-34 used a mobile app for a payment in 2014 and 9 percent tapped to pay with their phones. There is also clear interest in mobile wallets even though adoption rates are still nascent. Thirty-six percent of gift card buyers said they were interested in using an app on their phones to store gift card balances. Faster transactions and being able to pay for small transactions that usually require cash are key elements for greater adoption of mobile payments.

Conclusion
Prepaid trends evolve in line with developments in technology but also with consumer acceptance. Retailers need to ensure they offer the widest range of products and keep up with market trends to ensure they’re meeting consumers’ needs, which will, in turn, have a positive impact on their business.

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1 First Data, Five Key Trends Driving Gift Card Success, 2014.
2 ibid.
7 emarketer, U.S. Prepaid Mobile Connection Share, 2014.
9 ibid.