

Are Gift Cards Selling For You?

Gift card growth stats are compelling, but you won't achieve success without aggressive marketing.

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Gift and spending card vendor ValueLink (a First Data company) (Englewood, CA) recently released the findings of its fourth annual Consumer Insights Survey. While the statistics it published (for instance, 64% of respondents purchased or received a gift card in 2004, compared to 36% in 2001) help establish a fine case for implementing gift cards, experts say you won't have resounding success by just offering them. Effective marketing, they say, is the key to gift card sales.

This month we bring you perspectives from Karen Larsen, VP of product marketing and evolution with ValueLink, and Ed Kountz, senior analyst of emerging technologies for financial services research and consulting firm TowerGroup (Needham, MA).

Gift cards are hot sellers. Why?

Larsen: The bottom line is that the choice, flexibility, and convenience they offer have put gift cards into the wallets and purses of a majority of American consumers. Since their inception just a decade ago, gift cards have proven their ability to meet the needs of consumers and merchants alike. By offering multiple benefits to both purchasers and receivers, gift cards have struck a chord with people of all ages, and in turn they have created a very strong product life cycle, which we see continuing for years to come.

Kountz: Gift cards sell because they're convenient, portable, and flexible. They're easily purchased, affiliated with a specific brand (and therefore personalized between giver and recipient), and yet more tasteful and easily stored than cash, making them ideal to give as gifts. What's more, they can easily be used as an alternate payment mechanism for other occasions, such as habit-based or impulse store spending, adding brand or habit-specific flexibility that cash and checks don't always have.

What kinds of retailers are having the most success with them?

Larsen: The innovators, regardless of their size, continue to lead the charge. Gift and spending card programs have become a successful reality for merchants of all sizes. The keys to growing a program are to keep the product fresh and to keep evolving the product through innovative applications. The companies that understand the revenue opportunities and treat the marketing and promotion of gift cards as they would other revenue generating products are clearly having the most success. They tend to assign top teams to the product category, listen to their customers, and evolve the program to meet their needs and wants.

Kountz: Restaurants, retail stores that have a selection of high-value merchandise (such as electronics or home improvement stores), and those that have strong brand attachment from their customers (a la Starbucks) are having great success with gift cards

What's the disadvantage of offering paper-based gift certificates?

Larsen: Gift certificates are often just a means to a product while gift cards have themselves become the product. Gift cards have the ability to market themselves by being out in front of the consumer in multiple locations, creatively packaged, and easy to buy and use. From a merchant standpoint, gift cards offer greater sales opportunities, help reduce fraud and theft, provide tracking abilities, and keep consumer dollars in their stores.

Kountz: From the user's perspective, paper tends to be bulky, whereas cards are arguably more convenient and have a cool factor (associated with electronic payment) that certificates can't match. Overall, the big difference is with merchants. For them, cards are more secure because there's less potential for theft or misuse.

From an open network card perspective, there are gift cards that can be redeemed at multiple merchants, making it easier to pick a gift that's suited for a particular recipient and considered more tasteful and secure than an envelope full of cash.

The switch from paper was the early selling feature for gift cards - now that they're more prevalent, what's the hook?

Larsen: The convenience, flexibility, benefits, and choice surrounding the purchase and use of gift cards are what currently (and will continue to) drive the market. Gift cards are year-round hot sellers that offer consumers creativity in card design and packaging. Constantly evolving features and applications, reload ability, loyalty tie-ins, and technical achievements will help drive consumer interest and use in the coming years.

What should retailers be looking for in gift card solutions?

Larsen: Although the industry is still relatively young, merchants should look for a solution that is founded on industry experience, a proven platform for transactions and marketing, robust reporting systems, an understanding of the multiple retail/restaurant markets, and overall knowledge and ability to market gift cards to their consumers. By understanding what their consumers need, retailers can more effectively and efficiently develop a successful gift card product, as well as provide ongoing product development and expanded program applications. Overall, retailers should have an appreciation for the gift card product and provide the appropriate company-wide resources to ensure its continued development and success.

Kountz: Retailers should look for a provider that provides the scale and has the understanding necessary to support a successful product rollout. A dependable product platform and the ability to deliver a targeted or turnkey solution within time at a reasonable price are obviously important. Depending on the parties and deployment, breadth of reach and experience may be even more important, or the ability to partner with a smaller but nimbler organization may be a key factor.

How should retailers be promoting their gift card programs?

Larsen: Our four-year tracking of consumer behavior related to gift card purchase and use clearly indicates that gift cards, while an important holiday gift option, are a 365-day-a-year product. It's critical for merchants to continue to be creative in the promotion, marketing, packaging, and sale of gift cards as a mainstream product.

Kountz: Retailers should consider their gift card program an integral part of the brand experience and

one that is integrated into the marketing and image of the store. Gift cards should not be considered merely an alternative to cash. They should be branded with the merchant's name and embraced (in other words, not relegated to a dusty corner of the store). Retailers should also consider gift cards beyond the strict definition of gift, as habits can also change, turning a gift card into something else.

What mistakes do you see retailers making at the execution level of their gift card programs?

Larsen: In general, retailers have been quick to adapt to the overwhelming consumer acceptance of, and the long-term possibilities offered by, gift cards. However, many retailers are still somewhat surprised by the number of business objectives and sales goals they can achieve through the implementation of a strong gift card program. It's important for a company's leadership to understand, recognize, and respect the full potential of a gift card offering and maintain a strong vision for the program.

Kountz: Not embracing gift cards as part of their overall marketing strategy, but instead treating them as something of an afterthought, is a mistake. I also think fees need to be kept at levels that encourage usage, rather than encouraging user dissatisfaction and complaints. While fees themselves aren't in my opinion as broad a problem as publicity might seem to indicate, that publicity alone has an impact that all members of the gift card/prepaid value chain have a role in working to address.

What further enhancements can we expect from gift card vendors in the near future?

Larsen: One-card loyalty programs, auto-replenishment, more sophisticated inventory management, more flexible data warehousing, and reporting are all beginning to take shape in the industry. In addition, vendors will be pushing the creative envelope on marketing programs that are much more geared, focused, and packaged to specific consumer segments.

Kountz: I'd expect an increase in affinity branding of cards. For example, you'll see more marketing of music-related cards (such as the Usher card) at music shops, or teen celebrity cards marketed on teen-related Web sites or at stores frequented by teens. A related trend is the rollout of cards in marketing and purchasing channels where they have not traditionally been, leveraging the success of mobile prepaid cards now appearing in a variety of environments. One aspect of this will be a rise in co-branded cards, enabling usage in two or more related environments (both of high importance to the targeted end user).