

Capitalizing on eGifting: An Effective Way to Expand Customer Relationships through Social Networking

Social networking is enjoying persistent popularity, and businesses are learning how social networks can strengthen their customer relationships. Web-based, virtual gifting has proven to be a popular and profitable way for people to connect. Now it is possible to go beyond “imaginary” gift-giving and give the real thing. The emergence of eGifting presents a new opportunity for some businesses to redefine how they do Web-based marketing.

Social Networking and the Promise of eGifts

Internet-based social networks offered by sites like Facebook, MySpace, LinkedIn and Twitter represent one of the most vibrant, fastest growing segments of the Internet. They also present a tremendous opportunity for businesses, because social networks are places where consumers continue to actively congregate, especially people in the difficult-to-reach 18-to-25 year old demographic.

Many businesses already view social networking as a useful venue for marketing products and building brand loyalty. The sheer size and scope of the market potential is striking. For example, Facebook's Press Room page notes there are 500 million active users signed up, each with an average of 130 friends.¹ Fifty percent of these users log in on any given day, and a typical user has connections to more than 80 community pages, groups, and events. And a sizeable contingent of the user base—150 million members and growing, according to Facebook—accesses the site through a mobile computing device. Other social networking sites have similarly impressive levels of member activity and mobile usage.

The challenge for businesses, however, is profitably tapping into the interests of people who visit social networks.

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Millions of companies have already established pages on social networking sites. However, using a social network as part of an effective marketing strategy requires a unique marketing approach that considers how consumers actually behave in a virtual setting. For instance, users often make a social networking site the hub of their daily Web activities. They return several times during the day to chat with friends, get the latest news, and scan the surroundings. They link to pages and venues they like, exchange preferences and discoveries openly with friends, and share whatever they consider interesting and worthwhile among their circles of contacts. They often play games on social networks, and they sometimes exchange virtual gifts.

This paper will focus on a modern twist on the one of the oldest human activities of all: gift giving.

We all know the utility of gifts in acknowledging friendships and building relationships, among other things. It is also well-known that social networks have spawned an entirely new kind of gift giving: the virtual gift. A virtual gift is a digital representation of a gift—like an electronic greeting card, or picture of flowers, or an image of a food item.

What if it were possible to take virtual gift giving one step further? Instead of enabling consumers to give "imaginary" gifts, suppose it were possible for people to give real gifts just as easily as sending an electronic greeting card? Instead of sending a picture of a steaming cup of coffee to a friend who is working late, suppose it were possible to send a voucher that person could immediately redeem for a real cup of coffee?

This new form of Internet-based gift giving is called eGifting, and it has huge implications for businesses looking to more effectively leverage their presence within social networks.

What is an eGift?

An eGift, also known as an item-level gift, is a voucher for an item that an individual sends electronically to anyone else—a family member, a friend, or a colleague. The gift is sent through email or a message on a social networking site.

The recipient typically receives the eGift as a code or electronic voucher, and then redeems it in person at a retail location. An eGift might be a food item (a sandwich, an ice cream cone or a latte), an event (a movie or museum ticket), or something that exists in digital form (a song, mobile app, or an e-book). It can also be something more substantial, like a meal at a restaurant or an airline ticket.

Regardless of the type of item given, the gift-giving process is simple and straightforward. Consider this illustrative scenario:

- An IT Director's software team has had a rough week trying to make a critical deadline. She wishes she could do something to thank them for their efforts and let them know how much she appreciates their hard work. As she is getting ready to leave the office at midnight, she visits a social networking site and sees a recently added "eGift" hot button. The IT Director checks it out and finds she can send all kinds of gifts. She decides to send everyone on the team an ice cream sundae.
- Instantly, team members start receiving e-mail messages containing their ice cream gift vouchers. They all decide to go out together the next day to redeem their eGifts at a nearby ice cream franchise location.

In addition, the ice cream franchise owner experiences a significant increase in business since becoming a participant in the eGifting program.

Transcending the Virtual Gift

Virtual gift giving has become a profitable business, both within and outside of social networks. Internet users of all ages and backgrounds have demonstrated a passion for purchasing and exchanging virtual gifts in a variety of venues—from tricked-out motorcycles and intricate tattoos in Second Life to virtual floral bouquets and animated greeting cards on Facebook.

Social networking sites that offer screen-rendered versions of real-world objects—whether free or paid through purchased credits—have been thriving on sites all over the Internet for years. For example, Zynga, the creator of the farming simulation game FarmVille, generates approximately 1 million dollars each day in revenue by enabling gift exchanges.²

Fast Company magazine estimated that a year ago, Facebook's assortment of virtual gifts—382 in their gift shop at that time—generated 30 to 40 million dollars in annual revenue (Facebook has since discontinued virtual giving).³ The same article noted that China's largest Internet portal, Tencent, earned 88 percent of its \$1 billion revenue in 2008 from virtual goods. And in the largest gaming-related virtual goods economy, transactions among members of Second Life grew 65 percent in 2009 to reach USD 567 million.⁴

This thriving virtual gift giving market has proven that consumers like to give electronic gifts. It also shows that exchanging real gifts in the form of eGifts could potentially be implemented effectively within a social networking framework. And how can this benefit merchants?

There are three clear ways that merchants can benefit from eGifting:

- 1. Acquiring New Customers:** eGifting gives businesses a cost-effective way to reach new customers. When people give your products to others as gifts, some of those recipients will become new customers. They may never have purchased the product or come into the store if someone else had not given them the gift.
- 2. Sales uplift:** Studies have shown that gift card recipients (or in this case, eGift recipients) often spend significantly more than the original gift value when they redeem their cards. For example, the recipient of a soft drink eGift may also purchase a candy bar or a sandwich.
- 3. Building Brand Loyalty:** Gift recipients who are already customers will appreciate receiving your

products as gifts. This will strengthen their loyalty to your product. Also, when the gift giver discovers people like receiving your products as gifts, they will give more of them.

We will talk more about marketing strategies and opportunities related to eGifting later in the paper, but let's first take a closer look at how eGifting programs and transactions work from a merchant's perspective.

How an eGifting Program Works

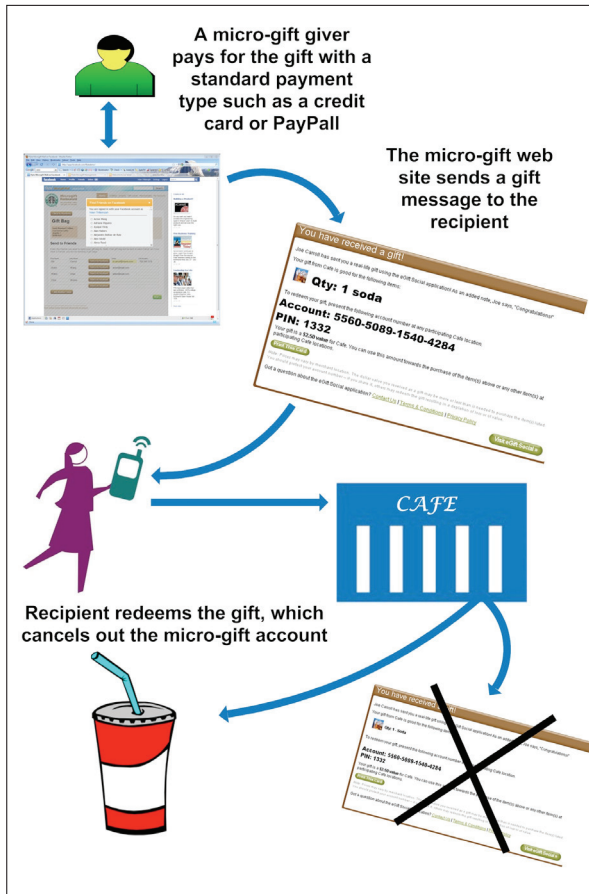
Today, most Internet-based eGifting programs follow one of two models:

→ **Gift Category model:** In this model, a participating merchant that wishes to enable eGifting of any of its products joins an eGifting site. The products the merchant wishes to make available for gifting are put into categories of similar gifts from other retailers.

If, for example, a merchant's primary product offering is coffee, and it seeks to enable consumers to give cups of its coffee as gifts, its product would appear on a page of available food and beverage gift items.

→ **Unique Vendor model:** In this model, participating vendors have their own dedicated eGifting pages. Additionally, the gift giving does not necessarily need to originate from a special gift-giving web site. Vendor gifts can be linked to from any site.

For instance, if your eGifting service provider makes your gift available to any group on Facebook, any Facebook group wishing to include your product as a gift would simply connect your eGifting brand identity (perhaps it is your logo) to the eGift hot button on the Facebook group page. Group members who want to give a gift would click on the eGift button and then select your logo. A page devoted to your gift would appear, enabling the gift giver to complete the gift.



The Unique Vendor model is a more recent development in eGifting that offers significantly greater flexibility and many more marketing opportunities for merchants. For this reason, the rest of this paper will focus on the Unique Vendor eGifting model.

Life Cycle of an eGift: How Payment and Redemption Work

The concept behind an eGift is very simple: the eGift token, code, or voucher works just like a merchant-specific (or closed-loop) gift card.

When someone gives an eGift worth \$5, they are actually giving an electronic voucher with an underlying \$5 value that the recipient can redeem at a merchant location for either a specific product or \$5 towards their total purchase (as determined by the merchant's program parameters). The "gift card" is delivered in the form of an "account number" or code sent via email or text message to the recipient. That code corresponds to an account administered by the eGift service provider.

When the recipient redeems the gift, the eGift "account" is reduced by the value of the item purchased plus any applicable sales taxes, and may be retired, just like a conventional gift card with no more value remaining on it. The eGift redemption is typically handled by the retailer in much the same way as a conventional gift card.

From the eGift giver's perspective, personalized gift giving is made easy. eGifts are often inexpensive, and provide a simple way to give something on impulse to a family member, friend, teammate, teacher, client or colleague. The gift is immediate and real.

If the eGift is essentially a gift card in the amount of the gift, is the person giving the gift actually giving a real gift, or are they simply giving the recipient an amount of money to spend at a merchant location?

The answer depends on choices merchants make when they set up their gifts.

From Gift Card to eGift: Merchant Gift Set-Up

When a merchant engages with an eGift service provider, the merchant has a number of choices to make about the items they intend to make available as gifts. Options vary depending on the eGift service provider a merchant chooses, but the following are some of the key decisions a merchant will need to make:

→ **Is the redemption restricted to a particular item, or can it be any item of equivalent value?** Some merchants set their gifts so that they can only be redeemed for specific items (a certain size or type of drink for instance, or a particular serving size of ice cream, or some other specific product). The price is fixed at the exact value of the item the person receives as a gift. When an eGift recipient comes to redeem his gift, he must select that particular item.

Other merchants may choose to be a little more flexible. They can specify a specific gift, but they also allow recipients to instead apply the value of the item toward anything they purchase.

For promotional purposes, some merchants will actually create a special gift product that is the same item, with the same price, at all their locations, and that item can only be "purchased" through gift redemptions. Merchants may even implement a dedicated button on their point-of-sale terminal equipment that the cashiers use to ring up eGift redemptions.

A more flexible gift definition may have greater appeal to gift recipients and provide enhanced opportunity for sales uplift. On the other hand, more specifically-defined gifts may offer some logistical advantages and lend themselves to targeted marketing campaigns.

→ **How much will the gift cost?** Merchants have the option to set the price of their gifts. Most merchants choose to set the price as the highest amount that the item sells for (including tax).

→ **Is the gift good for one redemption only, or can it be used to make multiple purchases?** Depending on other set-up options a merchant chooses, the gift amount may be applied to multiple items in multiple transactions, as long as there is residual value in the account. Or, the merchant may choose to limit a gift account to one redemption transaction.

→ **Is the gift "reloadable"?** Like reloadable gift cards, merchants can set up eGift accounts so users can add value to them.

- **Do the eGift offerings link to any other special promotional programs?** Merchants may want to tie gifts to promotional programs related to holidays, product launches, etc.
- **Do gifts have a time limit?** Merchants can set a time limit within which the gift must be redeemed, subject to applicable gift card laws.

In addition to specifying characteristics of the gifts themselves, merchants will have some strategic decisions to make. Again, the breadth of options varies considerably across eGift service providers, but it includes:

- **Making choices about sites on which you want to gain a presence:** Do you want to have eGifting functionality at your own corporate site? Do you intend to have eGifting functionality on Facebook fan pages devoted to your products? Do you want to deploy search engine advertising or place paid eGift ads within social network sites? Perhaps you want to work with partners or corporate customers to add your eGifting to their Web sites. Your eGifting program service provider should have the expertise to provide guidance or actual deployment of the apps and links needed to allow site visitors to purchase and redeem your eGifts.
- **Control over the look and feel of your eGift pages and links:** Building and maintaining brand identity is a key objective of administering a successful eGift program. A superior eGifting solution should provide you with a high degree of control over the look and feel of your gift offerings, and it should support your unique brand identity on the eGifting page that gift givers use to initiate a gift.

Merchants may want to tie gifts to promotional programs related to holidays, product launches, etc.

In addition, your solution provider should provide you with Web-based access to an administration interface that includes provisioning tools, management controls, a means to implement program details across a number of online storefronts, and techniques for handling special promotions. Dashboard reporting tools can provide real-time feedback on current eGifting offers, identify trends, and track eGifting activities at different locations.

Security: Protecting the Consumer and Merchant

Any type of transaction on the Internet in which personal information is exchanged poses potential security risks and should be handled accordingly. In respect to eGifting, two primary security considerations exist:

- Credit card transactions that take place when an eGift is purchased
- Potential fraudulent activity related to eGift redemptions

Securing the eGift Purchase

Like any other ecommerce transaction, eGift purchases need to be handled securely. Encrypted Internet exchanges are essential to ensuring consumer privacy when they sign up for an eGift program or any time they make an individual eGift purchase.

Merchants investigating options for deploying an eGift program should ensure that the transactions are handled by a transaction processor with extensive security credentials. This is especially true if consumers are offered the option to store their payment card information for convenience in repeated or ongoing gift-giving. Storing this kind of personal financial information places a burden on the merchant to be security-compliant according to industry standards. The right service provider—one who is fully Payment Card Industry (PCI) compliant, among other things—can act as the “merchant of record” in an eGifting program and potentially assume the cost and responsibility of PCI compliance.

Are eGift Redemptions Fraud Proof?

If eGifts are not absolutely fraud proof, they are as close as any gift card transaction can be. eGifts pose a very low risk for merchants. There are several reasons for this.

First of all, an eGift does not exist without the creation of a legitimate eGift account number, and sometimes an extended account number (EAN)—which is similar to a personal identification number (PIN). If the account number or EAN cannot be authenticated when the gift is redeemed at the point-of-sale, just like any other credit, debit, or gift card transaction, there will be no eGift transaction.

Second, provided you are working with a highly secure service provider, it is nearly possible to create an eGift account number without payment having been received from a properly authenticated credit card, debit card, or other payment type. This authentication happens in real time, just like any other electronic payment.

Third, once an eGift is redeemed, the eGift account number is instantly debited. This means that even if a gift recipient decides to send her eGift account number to her thousand closest friends across the country, only the first person to redeem that gift will be successful. Any subsequent redemption attempts will be rejected at the point-of-sale during the transaction authentication process. Again, this account management and authentication happens in real time, just like gift card and debit card transactions.

Finally, eGifts are often lower-value items. The limited value of most eGift accounts makes them relatively unattractive targets for the type of highly sophisticated (and expensive) fraud that would be needed to overcome their inherent security.

New Marketing Opportunities for Merchants

eGifting provides new ways for merchants to reach customers and strengthen their brands. But is it the right strategy for everyone?

Merchants will need to decide if an eGifting program is suitable for their business and their marketing strategy. The following characteristics suggest a business profile that would greatly benefit from an eGifting program:

- Merchants with many store locations that can support a large, geographically expansive gift-giving program
- Merchants with a strong following on Facebook or other social network sites
- Merchants who have or want to develop a strong social media strategy
- Merchants able to accept manual entry of an account number at the point of sale

What are some of the specific ways merchants can leverage an eGifting program? Let's take a look.

Strategies That Increase Sales

There are a number of ways eGifting can serve to increase sales. One key aspect of an eGift is that instead of bringing the customer into the store to make a sale, you are able to take a sale directly to the customer. This is an important concept, especially for difficult-to-reach demographics.

For instance, the 18-25 year old demographic is notoriously elusive. These consumers frequently move around, engage less frequently with traditional media, and are less likely to fall into longstanding behavior patterns. However, social networking is a relatively predictable part of the lifestyles of those in the 18-25 year old age range. A retailer's eGift program can reach these individuals if it provides gift options likely to attract attention and inspire spontaneous giving.

eGifting can also be an important part of a new product launch strategy. If a merchant is introducing a new drink or a

new flavor of ice cream, it can generate interest around the announcement by creating an eGift featuring that item.

If a retailer sets up standard product offerings as eGifts, it is very easy to roll out new gifts that are seasonally appropriate (cold things in summer, or hot things in winter), or create gifts that relate to current events and holidays.

Strategies That Strengthen Brand Recognition

eGifts can be a powerful driver in a strategy to build a large, thriving fan base on a social networking site. Facebook and other social networking sites have proven the popularity of giving paid “virtual gifts.” Tying that same giving impulse directly to your brand provides a new level of visibility among consumers. It also introduces your brand to others who may not be familiar with it.

There are many ways to connect an eGifting program to physical products. For instance, if a retailer offers a drink product as an eGift, it can arrange to have those redeemed gifts served in an official “eGift” cup that is a variation of the standard product package. In that way, people in the street become more aware of the eGift program, which in turn spawns more gift giving, creating enhanced brand awareness.

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Another form of brand marketing is tying product purchases to charitable giving. For instance, a merchant can elect to give 5 percent of the proceeds of a gift to charity. It might be a particular charitable cause, or a merchant could offer several different gift items, each of which generates revenue for a different charity (for instance, the American Red Cross or Habitat for Humanity).

Merchant Linking Strategies

For the broadest exposure, merchants can create customer-facing access points in a variety of online locations. The key social networking sites—Facebook, MySpace, Twitter, and LinkedIn—represent obvious choices for effective exposure, especially combined with customized audience targeting based on location, age and interests. Other possibilities include:

- eGift portals on the merchant’s own site
- A merchant’s eGift hot button placed on other business’ or organizations’ Web sites
- Merchant presence on a hosted, eGift site (that includes other merchants)
- Direct access to eGift selections through display ads posted conspicuously on complementary Web pages
- WAP and iPhone/Android applications that provide a streamlined process for selecting and delivering eGifts

Merchants can build visibility on social networking sites and increase their fan bases by embedding an eGift hot button in display ads. Merchants can run these ads on their own Web sites or at other Web-based advertising venues. In this way, eGifting becomes an extension of a merchant’s overall digital marketing activities.

A Glimpse into the Future of eGifting

Although it’s now possible to select, send, and receive eGifts on any computing device with Internet access (including mobile phones), there are new technical developments under way that will make this an even more powerful tool for merchants.

Currently recipients receive notification of their gift via an email or text message that contains the account number or EAN. This is the most universally accepted means of making an eGift redemption at a merchant location; most merchants have the ability to key in an account number at the point of sale.

However, as smartphones and phone-based eCommerce become more prevalent in the marketplace, additional payment options will emerge. These include:

- **Phone-based contactless payments:** Increasing numbers of retailers are equipping their point-of-sale terminals with contactless readers. This enables consumers equipped with contactless payment devices, such as credit cards with embedded contactless technology, or commerce-enabled mobile phones, to make payments by simply waving the device near the contactless terminal. This means that eGifts sent directly to a recipient's phone will enter as an account in the recipient's phone-based, electronic wallet—which opens new possibilities for how gift accounts can be managed and redeemed. It also provides additional ways to connect gift giving to loyalty programs. If the merchant already has a mobile commerce-based loyalty program that creates loyalty accounts in customers' phones, this facilitates a stronger connection between loyalty rewards and gift giving.
- **1D and 2D barcodes:** Some merchants are experimenting with 2D (or matrix) barcode readers at the point-of-sale. 2D barcodes can contain much more information than just an account and PIN number. They can contain product and gift tracking information that provides valuable marketing analytics. Some eGifting service providers are able to support transmission of eGifts as 2D barcodes. At check-out, the gift recipient brings up the bar code on his or her phone display, and the merchant uses their bar code scanner to complete the transaction. It is also possible to send gifts as 1D (or linear) barcodes, which are in use in many retail settings.
- **Other contactless opportunities:** Gift values transferred electronically offer a much more fluid process for merchants equipped with the necessary readers and, as this technology becomes more ubiquitous, contactless devices (smartcards, tokens, microSDs, and other electronic tags) will play an expanding role in simplifying the redemption process.

Mobile Commerce is Coming

Americans sent 1.5 trillion text messages in 2009, significantly surpassing voice messaging.⁶ Consumers have downloaded and purchased over 3 billion mobile applications for the Apple iPhone®, a device that did not even exist four years ago.⁷ Over 600 million mobile wallets (phone software that enables users to manage their accounts and payments) are expected to be in use by 2011 — rising to 1.4 billion by 2015.⁸

In short, mobile phones are positioned to reinvent every aspect of commerce, and the revolution has barely begun.

Summary

eGifting represents a natural extension of the Internet-based, virtual gift giving that has proven to be so popular and profitable for social networking sites. It also represents an important convergence of social networking, prepaid transactions and mobile commerce.

Now merchants can tap into consumers' natural gift-giving impulses on social networking sites (and beyond) by offering their own branded products as eGifts. Software tools and standard transaction processing make the process of giving, receiving, and redeeming eGifts simple and transparent for everyone, including merchants.

For merchants, eGifting represents a potentially lucrative new opportunity to extend product sales and brand marketing into the world of social networks. It also provides a way to link gifting and branding to other Web-based activities.

eGifting works in any situation where a gift can make a difference. Establishing an eGifting program as a part of your business model can enhance customer relations, attract new business, and generate positive buzz about your products.

For more information about the value of eGift programs and how you can implement an eGifting strategy, visit https://www.firstdata.com/en_us/products/merchants/mobile-commerce/first-data-egift-social-solution.

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