

## ■ LOYALTY REWARDS

### Just Because

Gift card purchases are moving beyond special occasions

by LAURI GIESEN

**R**etail gift card programs saw rapid customer acceptance and usage almost immediately after being launched in the mid 1990s. In recent years, however, card use has grown at a slower pace.

Now proponents of gift card programs are talking about them in a different light: Rather than a substitute for a gift certificate, entirely new applications are being considered. Some retailers are looking to tie gift cards to store loyalty and rewards programs; others are looking to move the product into digital, where gift cards reside on cell phones and the phone can be tapped or scanned at the point of sale for redemption.

“We’ve seen steady growth despite the recession,” says Bryan Wang, director of marketing for gift card company Givex. “Nearly every retailer realizes that gift cards are essential to their business, and customer loyalty is a big part of that.”

Gift card purchases are no longer tied to holidays and special occasions. A recent study by First Data, a payments processing company that also operates gift card programs for retailers,



found that nearly 20 percent of gift cards were purchased for no particular reason.

“More people are purchasing the card to say thank you to a friend ... [or] for themselves to use as spending cards,” says Mike Hursta, vice president of prepaid solutions for First Data.

One sign that more customers are purchasing gift cards for themselves is the fact that more cards are being reloaded after the original value runs out. In 2011,

customers put an average of \$211 on gift cards, compared with \$161 in 2010, according to First Data.

#### INCENTIVIZING

“Some stores and restaurants are telling their customers that they will give them an extra \$5 if they go online and register their cards,” Wang says. “Once they can track their purchasing behavior, they can notify the customers of specific promotions and offer

rewards that are likely to fit the customers' wants and needs."

First Data has also seen more interest in tying gift cards to rewards.

"Our research found that 71 percent of people who have a gift card spend more money in a store than the amount retained on their card," Hursta says. The desire to get customers into the store and have them buy has retailers looking to add value to their card programs. "Savvy retailers want to be able to create incentives to get customers to ... reload their cards," he adds.

Extending customer usage after the original card value has run out is usually accomplished by offering financial rewards, such as dollar bonuses or free products, or special events or information available only to cardholders.

Hursta says a recent study by his company found that two-thirds of consumers surveyed said they would reload value onto a gift card if there was some type of reward tied to the action.

#### ADDED BENEFIT

Smaller retail chains are also beginning to offer gift cards. Many previously believed their operations were too small to support a gift card program, but new offerings by gift card companies and payments processors have been geared specifically to smaller retailers.

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"There is a greater recognition now that it does not matter what size a retail operation is: It has to be prepared to offer gift cards because customers will ask for them," Wang says. "The newer programs for smaller retailers are less complicated to run."

First Data's Hursta says challenges remain for smaller retailers offering gift cards. Many card purchasers want to get their cards from national chains, so recipients can redeem the card if they live far away from the purchaser. And small retailers can have a more difficult time promoting their card program, often relying on word-of-mouth. That is another reason why offering rewards tied to gift card purchases can have an added benefit, Hursta says.

#### DIGITIZING CARDS

Another major development is digital gift cards, which customers receive via text message on

their mobile phone. When retailers are equipped with near field communications (NFC) technology, customers can simply tap their phones near the POS system to redeem the card value.

But the reality is that few retailers have such systems in place today. Some have scanners that can read a barcode displayed on a phone; in such cases, retailers can put barcodes on their digital gift cards. A clerk then scans the customer's phone to get the information required for redemption.

While digital gift cards hold a lot of benefits — especially among those consumers eager to find new uses for cell phones — there are some obstacles. "Digital gift cards are waiting for mobile payments to take off," Wang says. "Customers may want to transact via their mobile phones but the systems are not quite ready yet."

Complicating matters are multiple operating systems for mobile payments; retailers want to be sure one standard applies before they make the investment. "All the players need to get in line for mobile payment first," Wang says. "Once mobile payments take off, we expect everyone will want to jump into the market and offer digital gift cards." **STORES**

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