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Boost Your Direct Marketing Success with Prepaid Incentive Cards

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The Evolution of Direct Marketing

Much has changed in the nearly 140 years since Chicago entrepreneur Montgomery Ward sent out the first direct mail catalog in the United States. Ward's vision defined an industry, but he couldn't have imagined the challenges now faced by contemporary direct marketers.

Today, traditional direct mail campaigns often deliver anemic response rates of less than 1 percent, and direct mail campaigns sweetened with discounts don't fare much better. Add a coupon to the message, and the response rate typically only rises to 1 percent. Meanwhile, mailing and printing costs continue to escalate. Businesses must clearly find more effective ways to get consumers' attention.

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In the digital age, consumers expect to receive meaningful marketing messages that reflect their individual interests and needs. Businesses must comply with this new expectation or risk being ignored. The challenge is to deliver relevant messages enhanced with incentive offers that add the kind of urgency and value needed to prompt action.

In light of that challenge, it's clear that traditional direct mail marketing needs an update. Coupons and other discounts often fail to drive the consumer response that businesses need. Coupons expire in a matter of months—sometimes longer. There is no immediate need for consumers to redeem them, no call-to-action that drives an immediate purchase or response. In addition, coupon offers are often so generic that they lack relevance for today's consumer who is accustomed to receiving targeted marketing messages.

If you could design the perfect direct marketing campaign, what would it do for you? Perhaps it would:

- Allow you to segment your campaign by providing different incentives specifically designed for each of those segments;

- Provide a powerful call-to-action that encourages recipients of the incentive to act on it right away;
- Allow you to track how each individual consumer redeems his or her incentive;
- Yield a response rate many times higher than you would expect from a typical coupon-based campaign.

Fortunately, there is a new kind of direct marketing tool that allows you to achieve each of these things.

A New Kind of Promotion: Prepaid Incentive Cards

A prepaid incentive is a payment card with cash value on it, similar to a gift card. These incentive cards are set up to have a certain value, sent out as part of a direct marketing campaign, and activated when the recipient takes an action. For instance, a promotion may ask the recipient to fill out a brief online survey. As soon as he or she completes the survey, the card becomes active. Or, a card can become active when the recipient goes to a particular store and buys something.

Card activation happens in real time, so customers can spend the value on the cards immediately. It is also possible for the marketer to reload value onto the cards as part of an incentive to encourage repeat visits. For example, a quick service restaurant may send out a promotion that includes a prepaid card loaded with the value of a meal. After the customer uses the card initially, the value of an additional item, like a drink, could be automatically loaded onto the card in the next day, week or month, depending on the parameters of the program.

Prepaid incentive cards work well for traditional retailers that generally use coupon-based direct marketing campaigns. They also work for non-merchandising service providers. For instance, an insurance company could offer a prepaid incentive card redeemable at a participating merchant. The card becomes active when its recipient applies for an insurance quote.

Prepaid incentive cards can serve a variety of goals. They can help merchants drive sales and increase traffic at store locations. They can be useful to service providers who are not in a position to offer product-based incentives of their own. Incentive cards also leave a data trail. That means merchants can analyze how consumers spend their incentives—incredibly valuable information for future marketing efforts.

Why Incentive Cards Work Better than Traditional Direct Marketing Campaigns

There are a number of reasons why incentive cards are more effective in direct mail campaigns than traditional promotional offers or coupons. These include:

- **Significantly better response rates than traditional direct mail:** Direct marketing centered on prepaid incentive cards generates average response rates that are 4 to 7 times higher than traditional direct mail promotions. And, as you will see later in this paper, some campaigns can generate even higher response rates than that.

In a fairly representative example, a large convenience and petroleum retailer with 800 stores sought to drive trial visitation and purchases at a new location. A compelling prepaid incentive card offer was mailed to local households. The results:

- o 13.4 percent response rate
- o 86.6 percent repeat sales among responders

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The business attracted new customers and built awareness simultaneously. The solution is now a template for similar new store openings.

There are two principle reasons why incentive card campaigns generate higher response rates. One is that an incentive card is immediate, meaning a consumer can use it as soon as it is activated—no more shoving a coupon in a drawer awaiting the redeemable date, only to forget the offer completely. Second, incentive cards are like cash. They can be applied to anything a merchant has to offer, making them more appealing to consumers. Prepaid incentive cards are frequently viewed by recipients as free gift cards instead of simply paper discounts.

- **Flexibility and simplicity when designing and executing a direct marketing campaign:** Prepaid incentive cards offer flexibility when designing and administering direct marketing campaigns. A campaign's goal might be to acquire new customers, or it might be to build traffic and loyalty among existing customers. Incentive cards can be designed with any dollar amount. They can be set up to automatically reload for special incentives. They can be set to expire quickly or after a long period of time. In short, they can be tailored to fit any marketing objective, and adjusted with considerable flexibility and rapidity. Furthermore, sophisticated campaigns are much easier to administer with incentive cards. Traditional direct mail marketing campaigns often require coordination among multiple vendors, a time-consuming and often frustrating process. By contrast, a single, specialized vendor can conduct a prepaid incentive card campaign which allows a business to enjoy the simplicity of one point of contact. An additional administrative advantage is audience accuracy. A vendor specializing in prepaid incentive card direct marketing campaigns will use consumer modeling to identify and target specific audiences—including gauging who in the audience is most likely to respond to the offer. It also enables the merchant to vary an offer depending on audience segment behaviors. In this way, marketers can assure the highest possible response rates across the campaign.
- **Valuable customer data and insight into consumer behavior:** Incentive cards provide a record of who uses them, when and where they are redeemed. Some campaigns have the customer fill out a survey to activate the card, providing an opportunity to gather additional information. This data is all available for analysis to help design more effective and targeted campaigns in the future. It also enables sophisticated testing of offers, mailing lists, mail piece design, timing, etc.

In an uncertain economic environment, businesses are looking for effective, affordable ways to connect with consumers, and consumers are looking for value. With prepaid incentive card offers, everyone feels like they are getting good value. From 2008 to 2009, the prepaid incentive card market grew by 8 percent, to over \$22 billion.¹ This growth demonstrates the rising popularity of incentive cards as powerful marketing tools, even in times of economic austerity.

But what is the best way to use incentive cards? Prepaid incentive cards have proven to be of great value in a variety of campaigns.

Effective Direct Marketing Strategies that Use Incentive Cards

Campaigns employing prepaid incentive cards can be designed to achieve very specific marketing objectives such as:

- Driving consumer traffic at a particular location;
- Building repeat business and encouraging more frequent customer visits;
- Increasing average purchase amounts;
- Creating effective relationship marketing;
- Supplementing brand loyalty campaigns;
- Targeting highly specific audiences.

Let's consider several actual use cases.

Driving Customers to New Store Locations:

Incentive cards are especially effective when used in promotions that have a well-defined business goal. For instance, a large discount retailer recently sought to run a campaign specifically designed to lure customers to new stores and newly remodeled stores. It's not unusual for stores to suffer a decline in traffic when they undergo significant renovations or move to a new location.

A direct mail campaign was sent out to customers local to the renovated and new stores. The campaign included a prepaid incentive card that was activated simply by going to the new or renovated store and making a purchase.

The retailer's initial incentive card campaign produced a 35 percent response rate, far exceeding any previous marketing campaign.

This response rate is remarkable even by incentive card standards. Based on First Data's experience in tracking incentive card programs, typical response rates are 4 to 7 times higher than what merchants receive in traditional coupon-based campaigns. So if a retailer has experienced 2 percent response rates on campaigns targeted to their own customer list, they can expect, on average, an 8 percent to 14 percent response rate with an incentive card campaign.

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The actual response rate depends on several factors, such as:

- Retailer identity and brand
- Quality of the mailing list
- Timing of the offer
- Incentive amount
- Incentive card activation requirements (e.g., if a consumer is asked to go to a Web site and fill out a long survey to activate the card, this will reduce the response rate compared to a campaign that only requires the customer to appear at a store location)

For example, a high-end cooking supply retailer initiated a three-visit campaign to increase loyalty among its customers. In this case, it wanted to cultivate more return customers, specifically targeting consumers who

enjoy the cooking experience, and who are likely to need additional items after making a significant purchase. The retailer designed a direct mail campaign targeted to a precise customer demographic. The initial value of the incentive, the reload values, and the rules around when the incentive could be redeemed were designed to encourage customer loyalty. By designating two reloads, the program encouraged three separate visits to the store.

Not only does this kind of program produce a higher response rate than traditional coupon-based programs, it makes it possible to do a multi-visit campaign with only one mailing. To do the same thing with other direct mail campaigns would usually require three separate mailings.

There is a great deal of flexibility around how the reloads can be allocated. For instance, a merchant can require that the reload be spent within the next 7 or 14 days, or several months, or any time period that makes sense for the type of store and merchandise. Also, the value on the card can vary depending on the demographics of consumers being targeted and the type of merchandise.

Increasing the Frequency of Loyal Customers:

Another strategy that works well with incentive cards is influencing the shopping patterns of loyal customers. A luxury men's shoe retailer found that some of its loyal customers would buy a new pair of expensive shoes every couple of years. The retailer's goal was to attract those customers into the store at least every 12 months. It therefore targeted a specific audience of loyal customers with a campaign that included a high-value incentive card.

Another benefit of incentive cards is the "lift" the cards provide when they are redeemed. If a customer receives a five, ten, or twenty-five dollar incentive card in a direct mail piece, that customer will likely spend more than the value of the card when they redeem it. The customer looks at it as an opportunity to buy the item they've been wanting at a lower cost.

Researchers have found that 69 percent of consumers report spending more than the face value of a merchant-branded prepaid card when making a purchase.ⁱⁱ First Data has discovered that purchasing patterns around incentive cards are similar to gift cards, and gift card transactions typically provide a 39 percent lift over the value of the card.

Driving Time-Sensitive Sales:

Because incentive cards are so flexible in the value that can be loaded onto them and the rules for when they can be redeemed, they are particularly effective in seasonal campaigns. For example, merchants may want to run a back-to-school campaign designed to bring customers with school-aged children into the stores in August. The campaign can be set to expire in mid-September, by which time most kids are back to school. Incentive cards also work well for similar campaigns around Mother's Day, Christmas and other holidays.

Service Providers Without Retail Outlets:

Retailers are not the only ones taking advantage of direct marketing with incentive cards. Many retailers are interested in participating in marketing campaigns run by non-merchandising service providers.

A large natural gas company ran a campaign to reconnect with past customers. The campaign included an incentive card and a survey that would activate it. This campaign was precisely segmented for optimum success: the incentive cards bore different values and were redeemable at different kinds of stores depending on the demographics of the recipients. In this way, the gas company was able to maximize the campaign's response rate by making the offer as relevant as possible.

Of course, merchants liked this campaign, as well, because the gas company paid for the incentive cards and the mailing. Participating merchants benefited from having a mail piece distributed with their information on it, and they gained from having consumers come into their stores to spend the incentive cards. This type of joint campaign generally does not cost the merchants anything.

Creating the Right Prepaid Incentive Card Program

The characteristics of a successful prepaid incentive marketing campaign begin with identifying a particular market segment, and then tailoring messages and incentive offers directly to the interests of that segment. Studies have found that personalization and individualized packaging further increase the sales lift of prepaid incentive cards.ⁱⁱⁱ The fact is that when a consumer receives a direct mail piece with a relevant prepaid incentive marketing card, he or she is more likely to respond.

A single-vendor, turnkey solution is typically the most cost-effective and efficient way to implement a prepaid incentive marketing campaign. The right partner will have the ability to integrate the development of the campaign, the printing and mailing of offers, the activation of cards, and the collection and retrieval of consumer data. The business and its solution provider should work together to map out a successful incentives-based direct mail marketing campaign. Key considerations include:

- **Defining the campaign objectives.** What is the business goal? Is the aim to acquire new customers? Drive store traffic? Collect customer profile data for other marketing programs? Or increase sales and build loyalty?
- **Identifying the target audience.** Campaign effectiveness is rooted in understanding the desired audience. Knowing who is being targeted is essential to purchasing the appropriate mailing lists and choosing the right incentive partners. What is the target age and gender? What is the desired household makeup: Is there a spouse? Are there children? Are the targeted consumers existing customers or do they shop with a competitor? Using pre-campaign analytics to define the audience is critical to the success of the program.
- **Determining the desired consumer behavior.** Is the campaign designed to drive consumer behavior such as purchasing a product, sharing information, or getting a service quote? Clearly define what consumer action is desired and the specifics of what will be required to activate the incentive card.
- **Choosing the incentive(s).** Understanding the target audience will inform what offer will best motivate the recipients. In some cases, the choice of incentive may be intuitive, while in other cases it may be necessary to use database-scoring methodologies to identify offer types, values and merchant partners (if applicable). In addition, evaluate the value of the incentive to ensure it appropriately induces the desired behavior and complies with the economic parameters of the program. It often makes sense to test different incentive offers and then compare their relative effectiveness and cost.
- **Scaling the program.** Is the goal to reach a million households or 50,000? Will the effort complement other direct marketing activities? An understanding of how large the program is and its role in broader initiatives will help determine how much time and money should be dedicated to the effort.
- **Establishing a reasonable timeline.** Have an accurate understanding of the time required for the full implementation of the program lifecycle (which usually is a series of dependencies that build upon each other). For example, a Web activation site cannot be built until incentive merchants are defined and committed to the program. Consider how long the promotion should last; how long the incentive cards should remain valid; and how the promotion relates to overall marketing timelines and goals.

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Conclusion

As the cost of traditional direct mail marketing continues to rise while its effectiveness remains limited, businesses must find new ways to capture consumers' attention.

A promising new marketing tactic employs prepaid incentive cards to enhance traditional direct mail activities. Businesses that use prepaid incentive cards typically experience consumer response rates that are several times higher than traditional coupon-based campaigns. And depending on merchant brand recognition and the quality of the target list, response rates can even be much higher, reaching over 35 percent in some campaigns. This is a tremendous performance advantage over traditional direct mail campaigns that typically produce just a 1 percent response rate.

A direct mail campaign built around a prepaid incentive card is innovative, data-driven, and metrics-based. It offers greater relevance, rewards, and immediacy to customers while providing businesses with enhanced data and greater insight into consumer behaviors. Prepaid incentive cards combine the motivational power of gift cards with the precision and measurability of direct mail marketing.

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To execute a campaign effectively, the business should partner with an experienced turnkey provider. Better results can be achieved faster and less expensively by relying on experts that can develop start-to-finish direct marketing campaigns centered on prepaid incentive cards.

For more information on First Data's Incentive-to-Action (ITA) Program, please visit firstdata.com.

i Mercator Advisory Group, Closed Loop Prepaid Market Assessment , August 2010

ii Mercator Advisory Group, License to Spend, Research Note, September 2010

iii Mercator Advisory Group, Closed Loop Prepaid Market Assessment, August 2010

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