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Gift card programs

What every business should know to
capitalize on their growing popularity
and enjoy the benefits they offer

Overview

Gift card programs offer businesses unique and highly rewarding financial benefits, both in the short and long term. They can increase immediate revenue, providing cash flow that can be used to pay suppliers and meet payroll without requiring inventory reduction, attract new customers, lead to increased sales upon customer redemption, and raise brand awareness, to name a few advantages.

They are relatively easy to implement and when integrated with an ERP or accounting software effortless to monitor in order to provide excellent customer satisfaction.

This white paper provides information on what constitutes a gift card program, the benefits of and best practices to follow when implementing a program, and suggestions on ways to creatively market a gift card program to maximize profits and capitalize on the many rewards a successful gift card program can deliver.

What is a gift card program?

A gift card is essentially a company-branded prepaid credit card that, in most cases, contains a specific money limit. Historically purchased as a gift given in lieu of money or an actual present, the card receiver can redeem it for its full value at a later date.

Gift cards come in two forms: open-loop gift cards, which carry the brand of a major payment system like Visa, MasterCard, or American Express and can be used at any retailer that accepts credit cards and debit cards for the applicable network, and closed-loop cards, which are redeemable only at specific stores amongst a network of designated businesses. Gift cards can be purchased at preset amounts or, in the case of open-loop gift cards, be reloadable, allowing the card holder to add value to the card after initial activation and effectively use the gift card as a credit card with preset limits.



Gift card programs for small and medium businesses

What you should do to make yours work

Technology has played a large role in the overwhelming growth and popularity of gift cards today.

Once upon a time, businesses offered paper gift certificates that customers could purchase to use at a later date or give to friends as a nonmonetary gift. However, with the creation of color copier machines, it was easy for practically anyone to produce counterfeit gift certificates that were indistinguishable from the original.

As a result, in 1994, Blockbuster Entertainment became the first retailer to openly display and promote plastic gift cards with a magnetic stripe that could be redeemed for video rentals or purchases. First Niemen Marcus (which had been using, but not openly displaying gift cards before Blockbuster) and Mobil soon followed suit. It didn't take long for other businesses to join in. Today, although it might still be possible to find businesses that offer paper certificates, they may not do so for long. Retailers that switch from paper gift certificates to plastic gift cards typically see a 50–100% increase in sales.¹

Increase in popularity

The rise in popularity of gift cards has been nothing less than astounding. In 2015, nine out of ten American adults either purchased or received a gift card², and according to the National Retail Federation's Monthly Consumer Survey, gift cards have topped the list of most requested gifts for the last eight years.³

There are several reasons credited for the rapid growth of gift card giving. Among them:

- Fast and easy to purchase
- Allow recipient to select the actual gift
- Helps shoppers stick to gift budgets
- Recipients request cards over actual gifts
- No longer considered an indication of indifference or laziness on the part of the giver

Benefits of gift cards to SMBs

Regardless of the motivations driving shoppers to purchase gift cards, businesses that fail to offer their customers the option of buying gift cards are missing out on a tremendous potential for sales and customer satisfaction.

Increased sales

Gift card spending has grown from \$40 billion in 2003 to over \$100 billion in 2014.⁴ About one-third of all gifts purchased are gift cards.⁵ That represents a tremendous growth market for small businesses that currently do not offer gift cards and an increasing source of revenue for those that do.

Increased cash flow

One of the great advantages of selling gift cards is that the payment is made up front, with redemption at a later date, providing businesses with funds to allocate to marketing, inventory, and other operational expenses.

Increased traffic

Fifty-five percent of all gift card recipients need more than one trip to deplete the value of their card.⁶ More traffic means more opportunities to win customer loyalty and showcase products and services.

Customers spend more

The average gift card recipient spends 20% more than their card's initial value at the time of redemption.⁷ This is the equivalent of an upsell that creates increased returns on a single sale.

Full balances often not used

Forty percent of gift card recipients do not use the total value of the card.⁸ So not only do businesses get the benefit of increased cash flow when cards are purchased, they also realize increased profits when the cards are redeemed.

A greener holiday season

According to the National Retail Foundation's Gift Card Spending Survey, the average person buying gift cards will spend \$172.74, up from \$163.16 last year. Total spending is expected to reach \$31.74 billion.⁹ The holidays are often the "make or break" time of year for most retailers. Gift cards can help with the "make."

How to set up a gift card program

Setting up a gift card program can be extremely easy and immediately offer a business the ability to begin benefiting from established consumer preferences for gift cards at a relatively low cost. Here are a few factors to consider when deciding to begin selling gift cards.

- 1. Set up costs**—Compare and contrast the programs offered by the many gift card program providers in the industry today. Key considerations should be minimal setup fees and a proven track record of delivering quality customer service.
- 2. Ability to customize gift card design**—Gift cards are more than a form of payment. They are also an excellent way to increase brand recognition. Find a company that will work with you to get the look you want on your cards.
- 3. Integration of gift card payments into accounting software**—Find a gift card program provider that can also make sure gift card transactions are seamlessly integrated into general ledger or ERP software.
- 4. Integration of gift card payments into online shopping carts**—Offer clients the same form of payments in both physical and online stores. Look for a program that can be easily integrated within your online shopping cart or website.
- 5. Works across locations**—If a business has multiple locations or accepts payments at locations other than the traditional brick and mortar establish, it is important that the gift card be recognized no matter where the customer is redeeming it.
- 6. Find an industry leader**—Naturally, as gift card programs have grown in popularity, more companies have sprouted up to take advantage of the increased desire for small businesses to find the most affordable provider available. Although cost is always a concern, it is wise to turn to a provider that is established and has a track record of excellent products and customer support.



What you should do to successfully market a gift card program?

The first step for a successful gift card program is to create a basic marketing plan that clearly states the objectives of the program, for instance the number of cards sold per sales cycle or an estimation of the amount of income expected through card sales, and how the program will be incorporated into the existing sales and marketing efforts through promotional efforts, display placement, and involving sales staff in your plans. It should also identify key calendar events that create the potential for high sales volumes, such as the holidays, back-to-school and graduation periods, and other popular gift occasions.

The second step is to make a full commitment to the program. This means continually analyzing the progress of the program and improving the ways to refine your program and set it apart from your competition. Something that may seem as inconsequential as card design can make a dramatic impact. Twelve percent of consumers indicated that a card that is visually appealing is the most important feature in selecting a card.¹⁰



Most gift card programs offer detailed online reporting, which is easy to analyze.

The following are some suggestions about how to maximize gift card program marketing:

The following are some suggestions about how to maximize gift card program marketing:

- Use gift cards as components of other sales promotions and incentive programs, like loyalty gift cards programs. In a recent study, 35% of digital shoppers said receiving a free gift card was the most valuable promotion, even more appreciated than the traditional “buy one, get one free” incentive.¹¹
- Place your gift card displays in high traffic areas in addition to check out lines where they are sure to catch the customer’s eye. Make sure the display is neat and fully stocked and current to the season (i.e., holiday-themed in late fall and early winter).
- Engage your employees in gift card contests. The one selling the most gift cards within a timeframe receives a bonus or an employee incentive card.
- Involve local charities in your gift card program. Providing gift cards to charities to use as raffle prizes or donation level rewards is a great way to attract new customers. Forty-one percent of gift card recipients say the receipt of a gift card prompted them to visit a store they would not have shopped in otherwise.¹²
- Reward loyal customers with free gift cards in return for referrals.
- Partner with complementary businesses for cross-selling of gift cards, cobrand cards with supplier brands, or cobrand with other local businesses, such as movie theatres or online music sites where gift card recipients can receive discounts for presenting the card.
- Offer a gift card raffle for your consumers in exchange for information such as feedback for your business. Load a multitude of cards with a \$5 value and one with a \$100 value. Explain to consumers they can win a \$100 gift card within the raffle.
- Offer free gift cards in return for customer emails, especially for customers visiting the business website.
- Incentive employees to through gift card sales contests by offering bonuses or even store gift cards as rewards for highest sales over a specific timeframe or for exceeding personal past historic performance.
- Take advantage of customer registration pages, if your provider offers this feature. Persuade your customers to register their gift card on the registration page so you have access to their contact info and engage them for promotional purposes.
- Place refunds directly on gift cards to ensure customers spend them at your store instead of giving them cash back.

Conclusion

Over the past decade, customer preferences for both giving and receiving gift cards have dramatically increased a businesses's ability to generate immediate cash flow from card sales while merchandise or services are not, in fact, purchased until a later date. In addition, businesses gain further benefits due to the fact that many gift cardholders fail to redeem their cards, in essence providing free money to the business, or, when they do, making purchases in excess of gift card amounts and thus increasing sales. Gift card programs are relatively easy to set up, with the primary considerations being transaction rates charged by card processors, integration of card transactions with accounting or ERP software, and customer service and processor industry experience.

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- 1 <http://www.card9.com/giftcard-statistics.asp>
 - 2 <http://grifinancial.com/id154.html>
 - 3 National Retail Federation, Monthly Consumer Survey, November 2014
 - 4 Mercator Advisory, 9- 11th Annual U.S. Prepaid Cards, Market Forecasts
 - 5 Blackhawk-Network-Whitepaper-Profiling-Gift-Card-Mall-Shoppers.pdf
 - 6 <https://www.cardprinting.us/blog/2012/08/gift-card-infographic/>
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