



Prepaid State of Mind

What's new with gift cards as the holiday season approaches

by ED MCKINLEY

Sales of prepaid cards have rebounded strongly after a precipitous decline, thanks in part to retailers' renewed emphasis on the category.

"There was a turnaround because retailers are doing more to market the cards and emphasize using gift cards," says Ben Jackson, director of Mercator Advisory Group's prepaid advisory service.

That effort, largely in the form of loyalty programs, has nudged consumers toward a prepaid state of mind, prompting them to reload cards they use at places like Starbucks, Dunkin' Donuts and Subway while also convincing them to buy additional cards for gifts.

A Mercator report released this summer found that after a decline in 2013, sales of in-store gift cards rose 9 percent last year. New cards account for much of the recent gain, Jackson says; reloads account for slightly more than 10 percent of total volume.

Looking forward, he doesn't see much need for EMV chips in prepaid cards. The added cost can be prohibi-

tive and the enhanced security usually isn't as critical as with credit and debit cards. The investment in Europay MasterCard Visa can prove worthwhile, however, for franchise businesses: Such companies can use the chips to sidestep the need to interface extensively with franchisees' varied computer systems.

NEW OPPORTUNITIES

A reluctance to adopt EMV doesn't mean that big changes can't occur with prepaid gift cards. Some retailers are beginning to explore opportunities in an online gift card marketplace originally set up for consumers.

Raise allows consumers to sell unwanted prepaid gift cards at a discount to bargain-seeking buyers and

has put \$27 million into consumers' pockets this year, says Holly Glowaty, who heads retail development for Raise. That's the difference between the face value of the cards and the amount that visitors to the site paid for the cards.

"It's the 'raise' people have given themselves," says chief strategy officer Tyler Spalding. Sellers complete a digital form and indicate the discount amount, which typically ranges from 0.1 to 20 percent and varies based on the brand and number of cards available. Buyers can search by store name and immediately see what discounts are available; they can also shop by price, card type (physical or electronic) or store category.

Cards from more than 3,000 brands are available on the site; Spalding says retailers have taken an interest in Raise and are beginning to sell gift cards on the site, as well. Working with Raise helps retailers locate customers who are loyal to their brands. "You're locking in loyalty before a customer even sets foot in your store," he says. "That's a totally new way of looking at things."

During the holiday season, one chocolate retailer offers a prepaid loyalty card only valid in January to help store traffic during the lull between December and Valentine's Day.

Raise isn't alone in its foray into innovation. Clutch, which provides a prepaid platform for retailers, is tapping into the public's growing interest in virtual prepaid cards. Virtual cards account for \$7 of every \$10 in gift card value Clutch sells and are loaded with nearly twice the dollar amount of physical cards, says Joe Pino, director of client success.

Redemption rates are increasing, he says. In that context, Clutch is attempting to redefine customer relationship management and loyalty for its retail customers by tracking trends among gift card purchases and rewarding customers accordingly.

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UNIFYING CHANNELS

A gift card program can help unify retailers that are fragmented into corporate and franchise locations and an e-commerce site. Bringing all three elements into a single gift card program provides the omnichannel experience consumers expect.

While Clutch emphasizes loyalty and customer data, other retailers are using prepaid cards to fulfill warranties as well as to promote products, says Ben Kaplan, CEO of CashStar, a platform for digital gift cards and other forms of e-commerce.

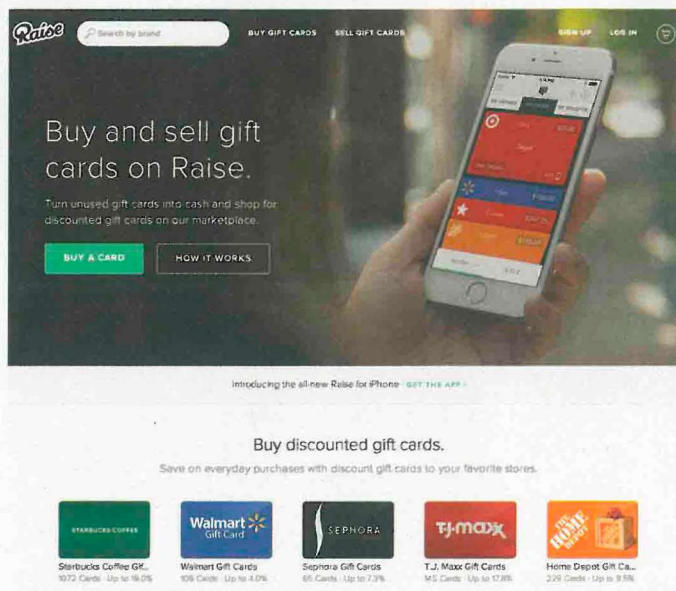
Merchants can, for instance, issue a prepaid card that their customers use for warranty work or other services. To the consumer it may seem like a gift card, but it's really merchant-branded currency.

Retailers also use promotional prepaid cards in lieu of discounts, coupons and rebates. Shoppers who buy

an Android phone from Walmart, for example, could receive a \$100 card for other purchases.

"You open yourself up to a range of use-cases that aren't all 'Merry Christmas' or 'Happy birthday, Mom,'" Kaplan says.

Merchants also benefit from the lower cost of digital relative to plastic cards and can use digital cards to keep up with the shift to mobile payments.



Just the same, CashStar also offers plastic cards: On Father's Day, a consumer might want to give her father a plastic gift card and her brother a digital gift card. Digital cards account for only a small portion of the U.S. market, Kaplan says, making plastic cards an essential part of the mix.

PAPER OR PLASTIC?

The market is changing, according to data collected by InComm Digital Solutions. Users of general-purpose reloadable cards are likely to earn \$79,000 a year or more; the Federal Reserve Bank of Philadelphia found that Millennials earning more than \$100,000 annually were most likely to have reloaded a prepaid card in the last month, so vendors like InComm focus on maximizing placement and awareness opportunities.

It's not just the clientele that's changing: A familiar question that usually pertains to grocery bags could become commonplace with cards.

Monadnock Paper Mills, which began operations in 1819 and claims the distinction of being the longest-operating paper mill in the United States, began researching paper gift cards in 2009 for a large retailing chain.

The mill drew upon its experience making durable horticultural tags that could withstand heat, cold and water for a time but still decompose eventually. Over a period of a year and through four incarnations, Monadnock developed a suitable card product.

"The engineering thresholds [the retailer] set for us were very, very high," says Jim O'Rourke, senior manager of strategic accounts. The paper card "had to perform like plastic, so it had to have the same dimensional stability in varied environments. It

had to lay flat. If it did get flexed, it had to go back to flat."

The company has pumped more than 2 billion paper cards into the gift card market under its Envi brand. A single company accounts for most of those cards, but other brands (including Nike) are beginning to use the paper gift cards.

Monadnock is now working with Hazen Paper Co. to offer paper cards with custom holograms. The company can also inexpensively build RFID antennas into the paper cards and apply printed mag stripes. Digital printing enables merchants to vary the look of the paper cards inexpensively; O'Rourke says one customer uses gift cards with 30,000 different looks. **STORES**

Ed McKinley is a Chicago-based writer and editor.