

Stored Value and its “Loyal” Following

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It's been a long time coming, and a recent announcement confirms that it has finally happened. Some time last year, payments made with plastic – credit, debit, gift cards, etc. – quietly outpaced cash and checks as the payment method of choice. Since 1995, the number of American consumers who make purchases in stores with plastic has increased 430 percent.* In fact, in 2003 consumers paid for purchases with plastic more often – at 53 percent of the time – than with paper – at 47 percent of the time.**

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And driven by a desire to increase the convenience factor and build customer loyalty, the petroleum industry – whether willingly or not – has been leading that trend for some time.

The evolution continues

While not a new concept, stored value cards are still in an evolutionary state – especially in the low-ticket/high-frequency c-store environment. And today the infrastructure is in place to leverage stored value cards like never before. Whether you call them stored value cards, prepaid cards or gift cards (they are all one in the same), these payment methods have become ubiquitous within major brands like Shell, which has made its card available in multiple locations, including Walgreen's and Safeway, and in turn has opened a world of cross-marketing and co-branding opportunities. The business case for making the cards so accessible to consumers is clear: merchants witness a distinct upsurge in transactions that coincides with increased marketing and distribution efforts.

If you are still not convinced that stored value is a viable option, here are some things to consider:

- 54 percent of consumers spend the initial value of their gift card within one month
- 61 percent of consumers spend the initial value of their gift card in their first visit
- 56 percent of consumers spend more than the initial value of their card***

Establishing a stored value program

Step one in adopting a stored value program is enabling customers to re-load the card, so it becomes an ongoing payment instrument, instead of a disposable item. Next, it's important to offer customers multiple ways of reloading, including in-person, via phone and on the web, if possible. Enabling this functionality requires integration between your POS system and the gift card provider's network, to prompt employees to load the card in the store. So from the outset it is important to know if adding a gift card program is a practical option.

Extending your marketing reach

Today, we are seeing retailers develop breakout, targeted marketing programs that are nothing short of genius – programs that would otherwise be very costly to implement by advertising or hiring a marketing firm. Beyond the scope of the traditional “gift card” as we've come to know it, stored value is being used as a promotional tool, for example, to encourage consumer spending on particular brands: buy five of this brand, and receive a \$5 gift card, etc. For example, the New Hampshire State Liquor Commission has elevated its stored value program by enlisting some of its wine vendors to subsidize the cost of a gift card when the consumer purchases a particular brand and mails in the proof of purchase.

Unique opportunities with stored value

While grocery stores and major chains like Subway and Barnes and Noble have been exploring loyalty programs for years, petroleum marketers are relative newcomers. Yet this industry has a unique opportunity to leverage stored value cards into customer loyalty programs, via points scored for promotional purchases, frequent buyer discounts, etc. The advantages of loyalty programs are multi-faceted: increased store traffic, established consumer behaviors and cross-marketing opportunities.

Adding a loyalty component can be very simple. For instance, many stores choose to offer customers a discount at the point of purchase. This will work well in the beginning, but over time, gift cards need to incorporate additional functionality, to keep customers coming back into the store, again and again. Some retailers opt to “enroll” customers, to track loyalty at an individual level. Others envision a more simplistic approach that maintains customer anonymity but builds repeat business through swipe-and-win contests, or instant giveaways.

Tracking is key

Establishing a loyalty program requires a comprehensive tracking system to tally purchasing “points” and keep track of the data that is needed to reward the customer for frequent store visits, specific brand purchases, etc. These translate to endless opportunities for cross-marketing, co-branding and up-selling. Think of all the brands you sell, and how easy it would be to offer customers a fifth bag of chips for free, or half-price on their next liter soft drink purchase, or a \$5 discount on their next gasoline refill. Consider also that you can partner with a supplier and ask them to shoulder all or part of the promotional costs – in-store posters, direct mail, etc.

Retailers can also reward customers for re-loading their cards, for example, by adding \$10 to a customer’s card when they re-load for \$100+, or offering an extra \$5 on the card if the customer visits seven times in five days. Enabling remote reloading via the Internet is also becoming a basic component of most programs.

Some things to keep in mind

When implementing a stored value program, make sure you know how gift card sales and redemptions will be tracked. A word of caution: For branded marketers working with unbranded locations that all sell the same gift card, reconciliation can be a nightmare. Store A sells the card. Consumer redeems the card at Store B. Store A gets the money, and Store B loses money. Be sure that the gift card provider offers a way to reconcile the books each day, to keep close tabs on customer buying trends.

Likewise, have a clear idea of any additional investments in software and reconciliation tools that may be required. For instance, Paymentech offers its stored value program to merchants for as little as \$500, and reporting tools include inter-store redemption and reconciliation (between branded and unbranded locations). Likewise, make sure that with a stored value program customers are able to obtain their card balance, or “points” left, via a website or an 800 number.

As with any business decision, adding a stored value program has pros and cons. For instance, some retailers have reported that more than half of their stored value cards are sold through third-party retail locations. However, third-party distributors take a discount off the retail amount of the card’s value, so consider carefully if the added sales volume would outweigh the revenue sacrificed to sell gift cards off-site.

Also keep in mind that while the merchant pays a per-transaction processing fee, stored value cards purchased with cash or a check do not carry interchange fees. Yet those purchased with a credit card do carry interchange, just as any other transaction would. Still another scenario, in which a third party sells the card, means that third party carries any applicable interchange fees.

Finally, avail yourself of information on the laws pertaining to stored value and loyalty based programs. Whether you operate in a single state or all across the country, you will need expert legal advice in order to safely navigate legal requirements regarding expiration dates, non-use fees, escheatment and other issues. You can work with your stored value provider to set these parameters.

Powerful marketing tools

While there are additional costs associated with establishing a stored value or loyalty-based program, the advantages of increased traffic by faithful customers, and of adding a new revenue source, may far outweigh the initial costs of setup.

*Fortune: Feb. 2004/Dove Consulting

** Baltimore Sun/Study of Consumer Payment Preferences

***First Data/Value Link study, 2003

CHART A

Payments Mix for In-Store Purchases

Source: 2003/2004 Study of Consumer Payment Preferences, American Bankers Association & Dove Consulting

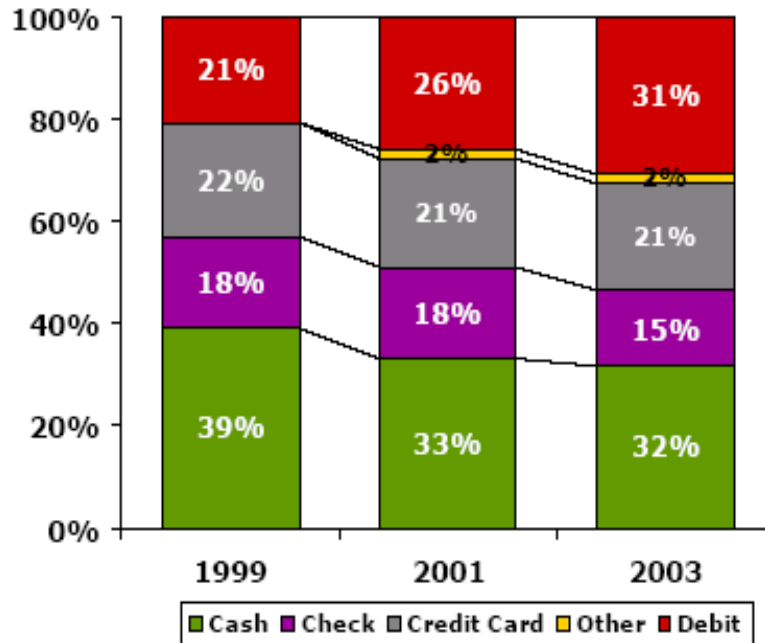


CHART B

Total in-store purchases by type

	1995	2003
Cash	60%	32%
Checks	30%	15%
Credit cards	8%	21%
Debit cards	2%	31%
Prepaid cards		1%

***** Chart A: American Bankers Association/Dove Consulting

***** Chart B: Fortune/Dove Consulting