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## Gift Card Sellers Compete for Holiday Spend

### Retailers Investing to Win this Winter

September 2009

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By Loraine DeBonis, Executive Editor

This holiday season retailers are gearing up for a big fight. Consumer spending is expected to be flat over last year at \$810 billion between November 2009 and January 2010, according to a new Deloitte study. With the majority of retailers already feeling the pinch from weak sales over the last 12 months, they will be competing fiercely for the dollars spent on holiday gifts.

What does that mean for gift cards? In many cases, it's meant smaller orders than usual in the months leading up to what has traditionally been the boom time for gift cards. But lower inventory doesn't mean that retailers are abandoning their gift cards, experts say. In fact, in many cases, retailers are investing more in designing the cards, promoting them and using them to entice consumers to shop in their stores.



"Retailers haven't taken their foot off the gas pedal when it comes to gift cards," says Render Dahiya, CEO of Arroweye Solutions, a company that specializes in online gift card design and fulfillment for merchants and, more recently, financial institutions ([Paybefore Sept. 16, 2009](#)). "We're seeing a heavy focus on the business because retailers know how important it is."



Jim Contardi

Jim Contardi, senior vice president and division manager for prepaid at processor First Data agrees. "Compared to last year, and perhaps even the year before, more energy [and money] is going into design," he tells Paybefore. "A few companies have done a particularly good job with design and now other merchants are saying, 'There may be some wisdom in spending more money.'"

Multilayer cards incorporating foil or unique textures are among the popular design trends Contardi is seeing across First Data's portfolio, which includes heavyweights like Starbucks. In addition, he says, clever packaging that doesn't add to the cost for the consumer also will be big this year. "Some merchants will continue to do gift boxes and tins, but I think we'll see more sophisticated [complementary] paper carriers that will, hopefully, move more cards by creating a more interesting gift."

### Smaller Orders Focused on Impact



Most experts say retailers aren't ordering as many cards from their suppliers as they have in years past. That doesn't mean they aren't investing in their gift card programs, particularly the big box retailers. "They aren't necessarily buying more cards, but they are spending more time and dollars to increase visibility from a merchandising standpoint," says Tony Haugen, senior vice president of sales and marketing for Chicago-based card provider, Jet.

Retailers are taking new angles to enhance existing techniques and make sure they have a variety of designs in stock to engage the consumers, he continues. "The designs retailers are choosing have to do with touch and feel, raised UV coatings and textures, foils, lenticular depth effects and unique shapes, such as a round card or a card with part of the design—maybe a flower or a bow—extending off the card." Haugen says.

### Beauty on a Budget

To help retailers make their cards stand out while maintaining a smaller budget, MT&L Card Products and Fulfillment Services has launched a new printing process called Holo-Sheen that imitates a holographic look without the expense of lenticular printing. Holo-Sheen is a rotary printing process, which MT&L has reengineered to be applicable to gift cards. A holographic varnish gives designs depth and is especially impactful when applied to logos or other strategic design elements, Dave Fehrman, MT&L's vice president of sales and marketing, tells Paybefore.

"It's crucial for your gift card to have eye appeal on the j-hook. Holo-Sheen enables our clients to get that appeal at a significant cost saving," Fehrman continues. The process costs at least 50 percent less than lenticular printing techniques and 10 to 12 percent less than a conventional laminated card, he says.

More than half of MT&L's retail and restaurant customers are using up inventory and being very cautious with the numbers of cards they're ordering. The reduced cost of the Holo-Sheen process and being able to apply it to existing designs for pizzazz is resonating with retailers, Fehrman explains. "In this environment, you need to do some things to keep the product looking good, and you need to advertise and promote a little more than you used to."

**Promotions, Promotions, Promotions**



Promotions are going to be an integral part of retail strategy this season, experts predict. And that's good news for gift cards. Since last fall, gift cards have become almost standard tools in promoting particular merchandise or even gift cards themselves. It's not uncommon to see a big-ticket item promoted with a \$20 gift card or multipacks of gift cards that include a small-dollar denomination "bonus" card for the buyer.

Teri Llach, group vice president of marketing for third-party distributor Blackhawk Network, says promotions using gift cards mean that consumers are going to come out ahead this holiday.

"Competition fosters added value and drives innovation," Llach tells Paybefore. "Q4 is going to be great for the consumer."



Teri Llach

Blackhawk, which supplies gift cards and other prepaid products to more than 80,000 retail locations in the United States and Canada, is having its busiest holiday season yet, according to Llach. "In third-party stores, we're seeing a lot more emphasis on the end of the year. Retailers are working on a lot of signage, a lot of promotions and a lot more advertising to promote their Gift Card Malls," she says. Although she couldn't reveal what some of the "compelling" promotions Blackhawk's retail partners would be unveiling, she says they are going to be good for the consumer's pocketbook and gift recipients.

But promotions do more than give consumers a bonus; they help retailers sell more cards. "Gift card promotional activity clearly accelerates sales," says Anne Gillman, vice president and general manager of the gift card division of InComm, a third-party distributor based in Atlanta. "Consumers who shop in our retail channels can expect to see a number of fresh and exciting concepts this holiday season."

#### What are the Volumes, Really?



Although the predictions for gift card sales going into last season were gloomy at best, actual numbers proved to be better than expected.

Mercator Advisory Group's recently released *6th Annual Closed-Loop Prepaid Market Assessment* found that gift cards—including in-store, distributed, digital media, petroleum, games and ringtones—reached \$78.14 billion in loads for 2008, an increase of nearly \$4 billion from the 2007. Not a huge jump by any stretch, but an increase where many were predicting as much as a 14 percent decrease. (For more on Mercator's report, [click here](#).)

"Despite the weak economy, InComm is experiencing strong year over year growth," Gillman says. "Our gift card partners' cards are distributed in the retail channels where consumers are shopping most; therefore, our

partners are able to take advantage of this growth trend."

For Jet, whose clients include many of the top retailers in the country, card volumes are up. "Our volumes are very consistent from last year," says Haugen. "As a matter of fact, they're up, and last year's were up from the year before."

But that doesn't necessarily translate to dollar value loaded onto cards, which experts say, is not seeing the same uptick.

"I don't think gift card sales are down as much as people think, but I expect that the dollar amount is down," says MT&L's Fehrman.

The story was similar heading into 2008's fourth quarter ([Paybefore October 2008](#)). At the time, transaction volume was up but consumers were buying cards in smaller denominations.

Blackhawk's Llach is optimistic about the 2009 holiday season and not just because Blackhawk's sales are up across the board. "Gift cards are the No. 1 requested gift. They are better than buying a sweater someone will never wear," she explains. "Our retailers are focused on their gift card programs because gift cards are favored by consumers."

Contardi agrees and thinks that low inventory of other merchandise may boost gift cards' appeal. "Our positive hope is that if merchants are a little lighter on merchandise, they will be doing less discounting and that will create an increase in the demand for gift cards."

Dahiya also is optimistic about online gift card sales. In addition to its online card fulfillment, Arroweye enables consumers to customize gift cards with their own photos and messages. This capability, Dahiya says, results in an average 20 percent lift in load value for his retail clients. While load values are down slightly overall, that average lift has remained constant throughout the year, he says.

"I think one of the messages from this economic climate is that gifts have to be more tangible," Dahiya continues. "No one wants to risk buying a gift that can't or won't be used."

Studies continually show that gift cards are seen as useful and preferred gifts. The challenge now is for retailers to make sure consumers choose their cards over the competition.

"With the economy the way it is, retailers will be fighting for their share of the market," adds Matt Smoczyński, vice president of marketing for card manufacturer Perfect Plastic Printing. "This year will be highly competitive. Look for different shapes, glitz and out-of-the-box construction. The winner will be the one that wows the consumer."

Stay tuned for Paybefore's look at network branded gift card holiday trends, coming soon.

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