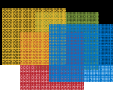




The real cost of gift card success

The strategic case for bringing gift card solutions in-house



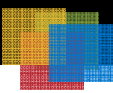
Executive summary

The continuing success of the UK gift card market has created a financial backlash for the UK's major retailers who have traditionally chosen to outsource their gift card business to third party processors and card issuers. As gift card popularity rockets, current 'click-through' pricing structures have resulted in escalating charges - creating a business model that carries high life-cycle costs.

As gift cards evolve into strategic marketing and loyalty-building tools, new requirements for creative configuration and deployment also call into question the flexibility of outsourced solutions. Consequently, retailers are now re-examining their options and exploring in-house gift card systems as a viable route to reduce volume costs, while creating more agile go-to-market propositions.

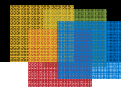
VeriFone believes its **PAYware GiftCard™** solution, part of the PAYware® software suite, offers a compelling and cost-effective way to take control back in-house; creating a faster, more efficient gifting service with a lower cost of ownership. Ensuring that retailers can continue to drive loyalty, footfall and differentiation through gift cards but without paying an excessively heavy price for their success.

In the UK, nearly 80% of retailers outsource their gift card program. Many of these retailers can see significant cost savings by bringing gift cards in-house.



Content

Gift cards: A retail success story	4
The real cost of success	5
Changing perspectives	7
A proven alternative	8
Conclusion	10



Gift cards: A retail success story

Magnetic stripe gift cards first appeared in the USA in the 1990's. It wasn't until this century, however, that their use began to take-off. In 2002, the US market was almost double that of 1999 - rising from \$19 billion to \$37 billion. It was around this time that they started to make their presence felt in the UK. Today, it is estimated that the UK prepaid market will be worth £18 billion by 2010 with gifting accounting for 45% of this.

For many retailers, gift cards' initial role was to replace existing paper-voucher based formats. It is easy to see why.

- They eliminate the paperwork associated with paper certificates and are over 30% cheaper to operate than traditional paper vouchers.
- They are valueless until activated, reducing shrinkage and lowering the potential for fraud.
- They offer a more effective way of handling returned merchandise; by ensuring sales margins and cash are retained within the outlet.
- They create uplift which is the amount of additional money customers spend using the gift card. Industry reports show that average uplift is 35%.

Gift cards undoubtedly contribute to sales. They now rank as the third most popular style of gift purchased by consumers; producing revenue returns that significantly outpace paper-based vouchers (*See Figure 1*).

Studies show that in the UK, adoption of gift cards is now catching up with the US, as more retailers seek to exploit sales growth and benefit from operational efficiencies (*See Figure 2*).

It makes sense that gift cards will eventually replace voucher systems and, by doing so, will continue to drive market sales by attracting more consumers through wider availability, visibility and strong personal appeal.

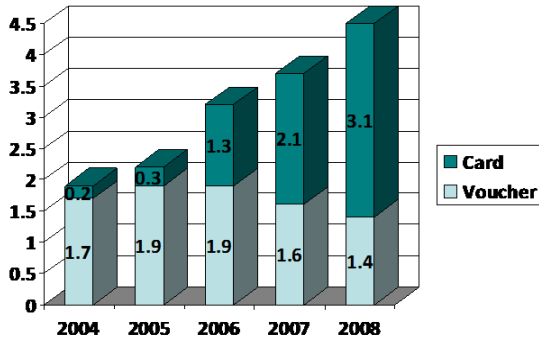
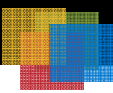


Figure 1: Gift Cards vs Voucher in the UK
Source: *The Voucher Association*

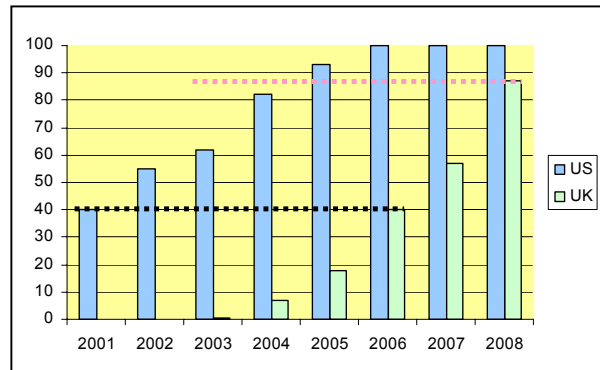


Figure 2: % of Top 100 Retailers with Gift Cards
Source: *Action Solutions*

Gift cards are proving as popular with the public as with retailers. The market indicates consumers are going back to basics - getting better control over their spend, and taking a short-term prudent view, wherever possible. In 2009, Christmas credit card spending on holiday presents was down as consumers increasingly bought gifts with cash, prepaid, or debit cards. While gifting money used to be considered impersonal, this view is changing rapidly as cash-strapped consumers try to avoid deeper credit card debt.

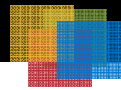
This trend is reflected in recent US figures from Deloitte. These confirm that, in 2009 gift cards held first place position with 64% of consumers buying them as presents; 42% preferring to receive gift cards than other merchandise and the average spending per card up from \$28 to \$35.

The real cost of success

In the UK, nearly 80% of retailers currently outsource their gift card programs to transaction processors. This is because when they were first introduced, less than a decade ago, retailers were uncertain how demand would evolve hence were reluctant to make any significant investment in IT systems to support the platform in-house.

Outsourcing appeared to offer a quick, low risk route to introduce basic gift card programs. Many retailers were also outsourcing their transaction processing so they just added this to the services being provided by their third party processors.

Current and anticipated market growth, however, has meant that the financial models that made outsourcing an attractive



proposition when gift cards were first introduced and volumes were low have changed. When working through a transaction processor, retailers often pay a per transaction fee. These fees become significant over time, particularly if the card program is successful.

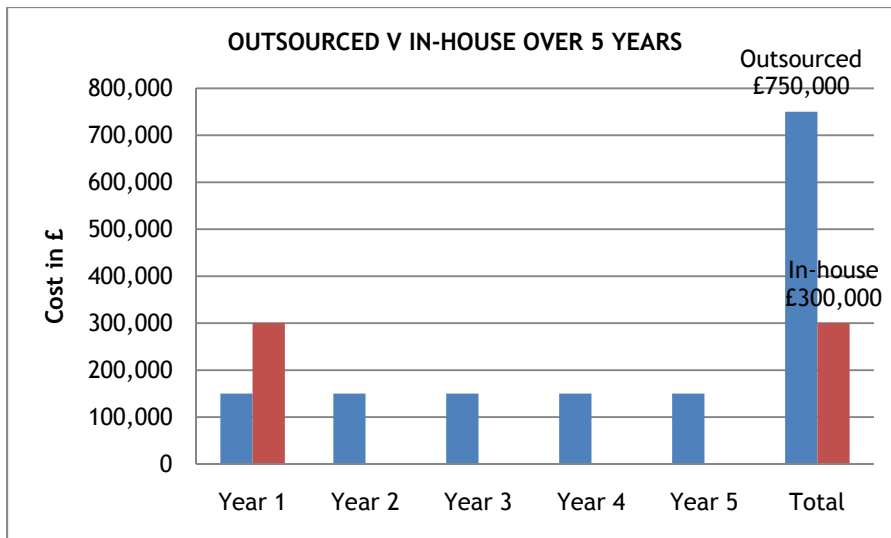
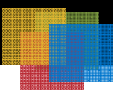
Today, those retailers paying a click through rate for their gift cards are seeing costs go through the roof as volumes shoot up. Instead of being penalised for success, VeriFone is urging retailers to build on it by converting their applications into a system that is managed in-house.

Some high volume retailers have taken back their gifting business in order to cut costs and improve the customer experience. They, like VeriFone, believe that in-house gift card platforms can offer a significantly better cost of ownership.

In-house systems offer a different business model - using existing IT infrastructure to run licensed gift card software which is supplied under a one-off fee that covers everything including maintenance and support. Although the fee may be banded, depending on anticipated usage levels, there is no subsequent add-on charge for volumes.

To help calculate and compare the comparative cumulative costs between an outsourced pay per transaction solution and an in-house system utilising licensed software, consider a retailer handling 1.5 million gift card transactions per year.

- **Cost to outsource:**
1,500,000 transactions x £0.10 transaction fee per card
= **£150,000 in processing fees - PER YEAR**
- **Cost in-house:**
Software license for a hosted system
= **between £150,000 and £300,000 - TOTAL**
depending on complexity
- **Cost over 5 year period:**
Outsourced system: £750,000
In-house system: Up to £300,000
= **savings: £450,000**



The total cost of an in-house system can be recovered in less than two years. The outsourced solution continues to incur annual charges for as long as the system is in use.

In addition, many retail IT departments have extensive card platform expertise gained from existing debit and credit card processing. It makes sense to utilise this resource to realise greater ROI from the gift card business.

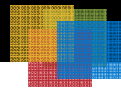
Changing perspectives - tactical to strategic

But it's not just about cost. Assessing the long-term viability of gift card solutions has to take into account its primary role. Is it tactical or is it strategic?

Many retailers were initially looking for a simple 'me-too' solution, where outsourcing provided adequate levels of functionality. Today, however many are turning to gift cards as a way to target and drive footfall at specific times. They are now thinking "what can I do with this platform?" Their perspective on gift cards is shifting from one of tactics to one of strategic performance.

The gift card has moved from a tool to replace vouchers to one that helps drive business. Gift cards have made it onto the board room agenda with finance, CEOs and business managers as well as marketers now playing an active role in their deployment. Gift cards are now seen as a mechanism to retain and attract customers, to get them to spend more, and to provide a key service differentiator.

If using an outsourced solution, retailers' ability to use gift cards strategically will always be reliant on the flexibility of their partner.



And, where the transaction partner is running shared systems, that flexibility is likely to be poor.

By taking the cards in-house, retailers can in effect do anything they want and within relatively short time frames. They can quickly and easily create dynamic seasonal and loyalty-based promotions; designing specific cards to suit short-term goals by putting specific parameters on when, where and how the card value is redeemed.

For example, a simple “*spend £50 before Christmas - get a £5 gift card to spend in store after Christmas*” offer is ideal for driving sales post-Christmas. And with a 35% anticipated uplift, most users will spend more than the value on the card. It is, basically, a clever way of discounting that drives additional, subsequent sales. Gift cards platforms offer the flexibility to provide a wide range of customer-focused marketing programs including:

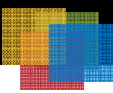
- Sales and promotion
- Refunds
- Price matching
- Time-based promotions
- Holiday saver cards
- Trade-in cards

Without doubt, in-house systems allow retailers to be more agile. They can respond instantly to market drivers and add value to other marketing and loyalty programs. Features and configuration such as how a card expires, type and range of goods that can be accessed, and timescales for use after activation, can be easily tweaked anytime they desire. In addition, in-house systems offer real-time reporting for access to data-rich intelligence enabling more informed retail decisions and more effective follow-up campaigns to help reduce customer churn and build brand loyalty.

As retail IT continues to evolve and new customer facing payment technologies - including mobile and contactless - come into play, the role and format of gift cards will also change. By keeping gift cards closely integrated within their in-house IT infrastructure, retailers can ensure that their gift platforms evolve seamlessly alongside. This may well provide them with new avenues to differentiate and add value in the not too distant future.

A proven alternative - control cost and destiny

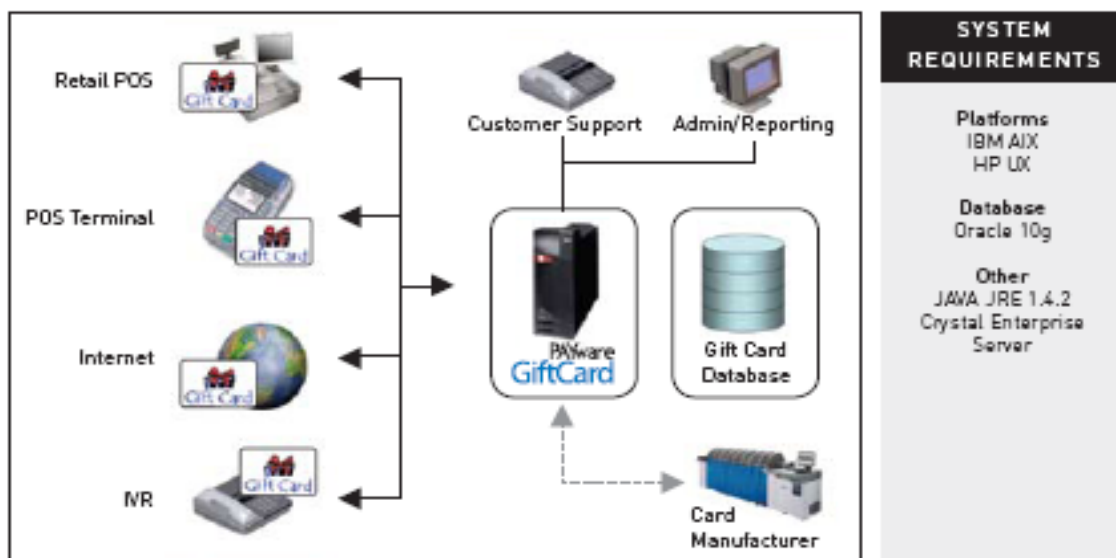
VeriFone offers the ideal solution for retailers seeking to manage in-house, end-to-end gift card and stored-value programs - **PAYware GiftCard**. This ultra-powerful, highly-functional software solution, is sophisticated yet easy to customise and operate. **PAYware**



GiftCard is field-proven and reliable in low or high-volume environments. It eliminates many of the fees associated with outsourced programs and delivers a lower cost of ownership.

Empowered by the virtually limitless freedom of an in-house solution, retailers can quickly and easily deliver a range of tailor-made, profit-building solutions with minimal effort via **PAYware GiftCard**'s intuitive Web-based user interface.

This includes a variety of gift card types and stored value offerings that can be used for promotions, rebates, refunds and more. With powerful, sophisticated intelligence gathering and reporting capabilities, it allows retailers to make more informed decisions with real-time information.



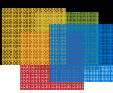
PAYware GiftCard allows retailers and service providers to manage operations and gather data from a single system.

PAYware GiftCard offers retailers cost related benefits:

- Lower cost of ownership in high volume card applications.
- Cost effective customised promotional programmes to attract customers and drive sales.
- Increased uplift and greater sales revenue than voucher systems.

To boost market agility **PAYware GiftCard** provides marketing departments with maximum promotional flexibility:

- Its powerful web-based, user-friendly interface helps retailers quickly implement seasonal gift card programs.
- It supports a wide array of stored value products including promotional cards, merchandise refund cards and virtual spending cards.



- Cards can be paper, plastic or virtual, re-loadable or disposable, and values can be pre-assigned or chosen by the retailer.
- It allows fees to be defined on card usage or inactivity, and conditional expiration dates can be tailored within the system.
- The solution easily initiates and manages ongoing operations such as reports, activations or new card production.
- It provides system generation of card numbers making it easy to switch card manufacturers to meet changing business needs.

For strategic applications, where reporting and performance is crucial, **PAYware GiftCard** offers powerful information storage and intelligent system architecture:

- In-depth statistical and reporting capabilities to track customer information and shopping patterns, providing detailed records of every purchase, refund and return.
- External XML interfaces make integration with existing systems such as IVR and Internet sites both faster and less expensive.

PAYware GiftCard also helps retailers to safeguard the customer experience; minimise risk; conform to legislative requirements; and achieve extensive business protection.

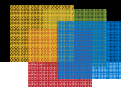
- Highly secure - all account numbers and PINs are encrypted in the database.
- Real-time transaction processing helps to eliminate fraud.
- Helps manage local and state escheatment legislation compliance.

Conclusion

Retail demands, changing attitudes and consumer response to economic pressures will continue to drive gift card revenue growth and increase transaction volumes. This in turn will present UK retailers with escalating per-transaction fee costs from traditional third party gift card processors.

As competition for custom intensifies, retailers will need to be able to respond with more aggressive promotional and loyalty programs designed to differentiate, retain custom and drive business goals. This will demand higher levels of configurability and reporting from gift card programs.

Gift card programs, managed in-house, using licensed software, provide a unique opportunity to lower cost and improve flexibility for large volume, strategic gifting applications. It supports a variety of card types and provides rapid integration with new formats such



as contactless. Retail marketing functions can become more nimble, with greater freedom to configure gift cards for short-term promotional campaigns or longer-term targeted activity.

Software such as VeriFone **PAYware GiftCard** is proven and reliable in high-volume environments across the world. It provides complete control and ownership of sensitive store and customer data as well as powerful business intelligence gathering; with reporting tools that track customer spending and program performance.

It is a dynamic, fully-functional customisable solution - not a standardised, third-party template. It doesn't 'reward' success by charging extra - unlike many outsourced models - and it provides the freedom to create and manage gift card programs anyway retailers want.

Given today's current market dynamics, it makes sense for retailers to keep gift cards close to their business. By utilising their existing IT platforms to take gift cards in-house, they can regain ownership of this valuable asset. By doing so, they can cut costs AND take charge of their gifting destiny while contributing to their long-term retail success.

For further information about **PAYware GiftCard** email nemea-info@verifone.com or log onto www.verifone.com/value-added--prepaid/payware-giftcard.aspx

Data sources

Action Solutions: www.actionsolutions.co.uk

The UK Gift Card and Voucher Association: www.ukgcva.co.uk

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