

Gift Card Malls

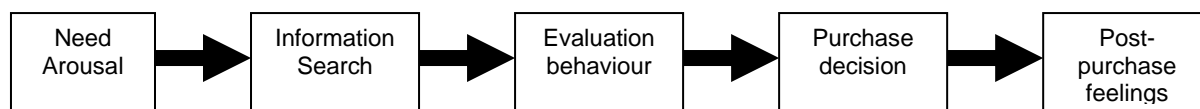
Can they live up to their expectations and what is their role in the development of prepaid



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The question on many people's minds is when prepaid will take off in the UK as it has in the US. It is pretty much unanimously recognised there are significant differences between the two markets, but the big question must be that if we are expecting a hockey stick growth curve for the UK, when will the UK start to see that really dramatic upswing?

Philip Kotler¹, a well known marketing guru, outlines a simple five-stage model of buyer behaviour that may help us understand where the UK market for prepaid cards is at:



I would argue we are very much still at the first stage for many UK consumers - their need has yet to be aroused. In other words, we need to bring about awareness that will drive the recognition or arousal of a need, leading to information searches and thus education and hopefully purchases.

There are a number of factors that I believe will lead to this awareness of prepaid cards and what they are. Certainly, if you ask the average consumer on the street today what prepaid is, pretty much the generic answer will be around a comment on mobile phones; a study in June 2006 by eFunds/ICM found that 76 percent of consumers were unfamiliar with the term prepaid cards. This challenge is further compounded by the fact that it takes not just a single advertisement, but on average seven⁷ impressions to create interest in prepaid cards. Even those selling cards are often not clear what they are selling - again random questioning of retailers will result in a wide variety of understandings being demonstrated.

One of the key factors in relation to consumer education is the recent launch of big brand generic prepaid cards, such as The Sun (from Tuxedo) and the Mirror (from PPT) cards. Further, we have seen Tuxedo take prepaid cards for the first time on to TV, and big outdoor advertising campaigns by 3V and Prime Card.

Finally, we have started to see the launch of big name closed-loop gift cards from major retailers, and only recently, the launch of the Barclaycard gift card, following on the heels of RBS who launched the Mint gift card. We are thus starting to see the major high street banks launching prepaid open-loop gift cards. However, the growth in UK gift cards is slower than in the US, where within three years of gift cards launching, they all but replaced paper vouchers and grabbed an 80 percent share of the market.

All of the above factors will start to raise awareness, but I would argue that a key driver will still be around 'touch and feel' - i.e. physically seeing and using prepaid cards for consumers. After all, PSE Consulting in their research have stated that prepaid gift cards will account for around 30 percent of all prepaid expenditure over the next five years. Therefore we would expect a lot of consumers to start experiencing gift cards if these figures are to be borne out.

To get consumers touching and feeling prepaid cards, the growth in prepaid card malls is likely to be very important. Prepaid gift malls, to use their American name, are in effect point of sale display points where a number of closed- and potentially open-loop gift cards are sold. These are usually displayed on J hooks, and a variety of mall formats can now be found in the UK.

There are currently three main multi-retailer aggregator gift card mall operators in the UK: Coinstar, Blackhawk and InComm. These companies take branded open- and closed-loop gift cards and aggregate them into a single point of sale distribution point. These companies are almost taking space as shops within shops as they manage:

- all relations and negotiations with the gift card providers
- merchandising, reloading and management of the display to optimise sales based on customer profiles, and POS unit location in a retail outlet.
- often provide retail staff training along with other marketing support

The gift mall operators charge gift card companies anywhere between 10 percent – 25 percent of the face value of the gift card as a commission on the sale. They then share a percentage of this with the retail operator. For the retailer, it potentially offers a highly lucrative income stream from a relatively low square meterage usage of shelf space with relatively few hassles.

However, what has been seen in the US is that as usage of gift cards increases, then retailers selling cards start to see traffic driven into their outlets specifically for the purchase of gift cards – currently in the US 8 out of 10² consumers plan in advance to purchase the gift card. Thus the gift cards themselves become the destination item in the shop, rather than the incidental/impulse purchase item. Obviously for this to happen, consumers must have an understanding of what gift cards are and how to use them.

If we look at where the UK is today, the table below shows that from Christmas 2006 to Christmas 2007, we have seen incredible growth of over 500%³ in the number of gift card malls installed in retailers. However, we need to recognise that that in absolute numbers this still only represents some 6,500 units, a relatively small number. With a total UK grocery retail base of 97,597⁴ outlets plus all other types of retailers, this represents 1 gift centre mall for every 7 million UK adults! We are hardly at saturation point for gift malls, especially when the overall size of the gift card/voucher market is around £3.2 billion⁵ in the UK.

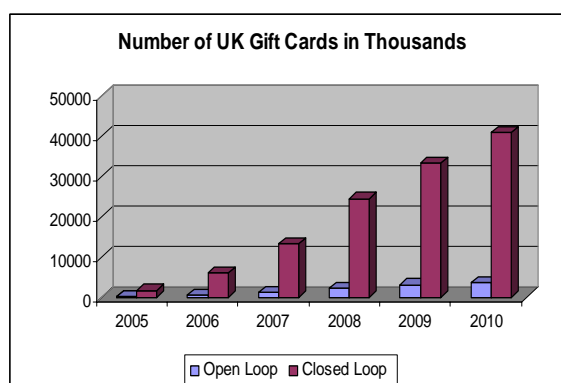
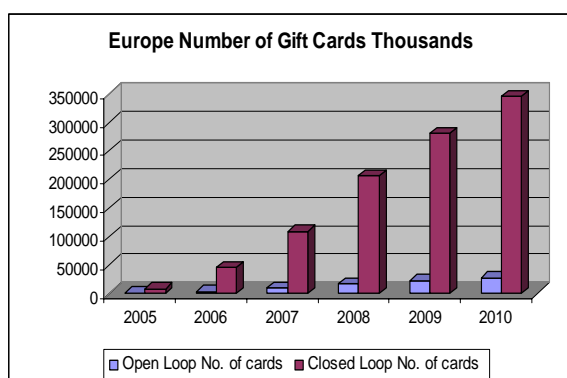
Number of UK Grocery Retail Stores³	
Convenience Retailing	50,329
Traditional Retail (eg Butchers, Bakers, Off Licenses, Greengrocers, etc)	40,723
Supermarkets & Superstores	6,545

Although a mass roll-out at Tesco (Morrisons accounts for the majority of the Blackhawk numbers) is missing from the list below, many of the other major grocery retailers have now jumped on board or are understood to have plans to do so in the coming year. These brands include: M&S, Boots, Superdrug and BP. Between them Asda, Sainsbury, Morrisons and Tesco account for over 70%⁶ of all groceries purchased in the UK, so penetration into these high footfall retailer outlets is key to driving awareness of prepaid gift cards and thus in the longer term prepaid cards in general. As Chris Burrett, Marketing director of InComm, commented: “Nobody really knows what a gift card centre is, or where they are available currently”.

UK Gift Card Malls ²			
Operator	Xmas 06	Xmas 07 (Estimate)	Xmas 08 (Forecast)
InComm			
Sainsburys	580	591	
Shell		558	
Asda		328	
Woolworths		821	
InComm Total	580	2,298	3,000
Coinstar			
WH Smith	540	744	
Clinton Cards		720	
Sommerfield		700	
Paypoint Partners (SPA, Nisa, Independents)		1000	
Coinstar Total	540	3,164	5,000
Blackhawk		400	600
Total Gift Malls	1,120	5,862	8,600
% Growth year on year		523%	147%

The vast majority of cards sold through gift malls are closed-loop. That is, the card is generally from the retailer brand and can only be used at that retailer e.g. Debenhams gift card. Part of the reason for this is obviously that in order to give the consumer a £10 gift card for £10 someone has to pay for the retailer and gift mall operator's commission. In a closed-loop programme the retailer (card brand) who is making a margin of normally around 200 – 250 percent on the goods purchased using a gift card has room to pay this out as almost a cost of sale/marketing cost. With open-loop cards, the purchaser must be charged a premium on top of the face value of the card, or in the case of the Payzone card the end user is charged a transaction fee of £2.50.

With only two or three open-loop cards being sold through gift malls in 2007, this number is only expected to increase slightly by 2008. This limited growth ties in with forecasts from PSE Consulting on the overall growth of open versus closed-loop gift cards in the UK and Europe.



If you review what is being purchased, Chris Grace, Sales and Marketing director of Coinstar, says: "Currently consumers buy brands they know. Once they feel safe, they may start to move away from just the big brands, but for the moment, as a gift card concept is new, consumers want security and the brands they know well."

“We have an issuer base that is continually growing, with companies either replacing or complementing existing paper based offerings,” he added. Thus the product offering to UK consumers looks likely to grow significantly over the next few years.

At the moment one area that may inhibit gift card growth in the UK is consumer attitudes. In the US where 95 percent² of the adult population have given/received gift cards, the most common reasons for giving a gift card are they “want the recipient to get what they want, can’t decide what else to get, or don’t want to worry about getting the right colour or size”⁵.

The concept of giving the end user choice is further borne out by the fact that open-loop gift cards i.e. Visa/MasterCard/American Express are now the third most popular card type, with 21%² of people receiving one up from 4%² only a year ago.

At the moment in the UK, giving someone a gift card may be perceived as lazy, with the giver considered to have an attitude of not being particularly bothered about gift selection. It will be interesting to see if recipient attitudes change to where it becomes more accepted for someone to give a gift card on the understanding they have made a conscious decision to give the receiver a positive choice. Chris Burrett of InComm said: “There needs to be a change in the mindset to one where gift cards are seen not as ‘I could not think of what to get you, but to I thought through and knew this would be something you would like’”.

In summary, UK gift card malls are important in my mind not only because by their nature they encourage an increasing number of prepaid cards, both open and closed-loop into the market, but they provide a crucial ‘awareness point’ to consumers. In effect, it is the same as having a poster site in grocery stores. Once consumers become aware, then as an industry we are at least on the first step to Kotler’s ‘need arousal’ stage in the buyer behaviour process. A process that for everyone in the industries sake we need to get a large number of consumers engaged into.

Sources:

- 1 Philip Kotler, Marketing Management, Analysis, Planning and Control, Prentice/Hall International, 1980
- 2 Comdata, October 2007 Gift Card Survey
- 3 Source data from InComm and Coinstar directly and industry understanding/estimates for Blackhawk.
- 4 IGD
- 5 VA Association website
- 6 Competition Commission
- 7 Transend presentation Prepaid Cards International Conference October 2007