

THE RACE FOR GIFT CARDS



by Mary Gerdt

It appears to be a race to the finish line to see how quickly major hotel brands can establish their own gift card program. Marriott was the first hotel company with a gift card program last year. As you race down the pre-paid track you will want to do so with great caution or you may just wind up in last place.

The first retail gift card was issued by Blockbuster in 1996 and gift cards have gained momentum ever since. Gift cards are a very complicated product. There are over 30 vendors today that offer some kind of gift card program. Unfortunately, the majority of all gift card programs have been built around the retail industry, not the hotel industry. In fact, the hotel industry has been targeted as one of the “hottest growth markets” by the pre-paid industry. So watch out, gift card providers are hot on your trail and they bring with them a plethora of confusing promises and misconceptions about how they think the hotel industry operates and what program is best for you.

Sorting through the gift card confusion is only half of the battle. At a high level there are basically two types of plastic gift cards and two types of gift card systems. Plastic gift cards can be disposable (single load) or re-loadable. Disposable gift cards are the most popular type of gift card used today and are generally issued in pre-designated amounts. A disposable gift card is one that does not have the guest's name embossed on the front of the card. The purchaser of the gift card and the recipient are usually unknown. From a marketing perspective you lose the opportunity to get any good marketing data unless the individual purchases the gift card online and you capture their data at that time. Another challenge with a disposable gift card is that it is like cash and if it is lost or stolen, it is difficult to track the card or provide a replacement.

A re-loadable card on the other hand is embossed with the guest's name. The dollar value loaded on this type of card is usually at the discretion of the purchaser. Studies have shown that when you give the consumer the option to choose the amount they wish to load, the average dollar amount increases. With re-loadable cards, you always know who the cardholder is and thus, what card number to cancel in the event it is lost or stolen and to whom to re-issue the gift card. The best use for a re-loadable card is to couple it with your frequent stay and rewards program and make it a multi-purpose card.

From a technical perspective there are basically two types of gift card systems: closed-loop and open-loop. A closed-loop gift card system is one that is supported by the gift card vendor's proprietary network. A piece of plastic is embossed with your logo by the gift card vendor. It

requires an interface from each of the point-of-sale (POS) systems and property management systems (PMS) to the vendor's proprietary network. To date, all of these systems have been built in a retail model and are not set up to support the intricacies of the hotel industry. Closed-loop providers would argue that they can limit acceptance of your gift card to your hotel brands only. That is true, but you can also mirror this functionality for most major hotel brands in an open-loop environment. The current state of the closed-loop systems are best used in a single location hotel without any need for brand affiliation.

An open-loop system is supported by the major credit card networks already in place today, for example Visa and MasterCard. A Visa/MasterCard issuing bank issues the gift card and a Visa/MasterCard acquirer and processor processes the gift card. A gift card that is issued on an open-loop system has either a Visa or MasterCard logo on the card and is basically a pre-paid offline debit card. As such, it is treated the exact same way as a credit card at the point of acceptance. A bank-issued gift card can be independently branded for your hotel or group of hotels and you can limit the use of your gift card specifically to your brand of hotels. The good news for you is that a bank-issued gift card can be accepted across all your brands, in all your hotels, at all your outlets, from day one of the program without writing any additional interfaces.

Banks began issuing gift cards in 2002. Bank-issued gift cards are on a fast-paced rise to the top. It is estimated that gift card volume will exceed \$90 billion by 2007 and banks will control more than 35 percent of the market. Additional advantages to bank-issued gift cards are their universal acceptance (including outside the United States) and the fact that they carry the same rights associated with bank-issued credit cards, including chargeback rights. Although bank gift cards expire, the accounts behind them do not and any value in those accounts remains the property of the account holder. When closed-loop system gift cards expire, the remaining unused value is at the merchant's discretion and more than likely will fall subject to escheatment laws (which vary from state to state).

Escheatment is one of several issues facing the gift card market. Expiration dates and dormancy charges for gift cards are a common consumer complaint. Many retailers charge dormancy fees to card holders for gift cards that are not used within a specified period of time. Consumer complaints regarding these fees have resulted in 68 pending bills in state legislatures across the United States. As a result, many retailers stopped charging these fees and lifted expiration dates, but standardized laws are needed for consistency and long-term success of the prod-

Gift Card Benefits

- Gift card dollars that are purchased at your hotel stay at your hotel
- Issue a gift card in lieu of any guest credits
- Generate repeat business
- An excellent way to build guest loyalty
- Guest buying and spending habits are trackable and auditable

uct. The newest proposed legislation from the FDIC states that pre-paid gift balances should be classified as a deposit under the Federal banking laws. The legal landscape for gift cards is uncertain and will continue to level out over the next couple of years.

However you choose to establish your program, make sure you perform your technical due diligence upfront. The network reliability is even more crucial in a gift card environment than in the credit card environment. In order to activate a gift card you have to request a live authorization because there is no value to the card until the card is activated. Also you cannot accept a gift card as a form of payment when the network is down. A word to the wise, do not underestimate the complexity of gift cards and the services required to implement a successful program. Gift cards can not be easily converted from one provider/system to another due to lingering gift cards issued to your guests with open balances. Make sure you clearly understand what you are getting into before you join the race and sign on that dotted line.

Whether it is marketing, sales, operations or IT that has you racing down the gift card track, make sure whatever solution you choose is one that will enhance, not hinder your guest's experience, otherwise your brand may be the one that is left in the dust.

Sources: TowerGroup Research, Nilson Report, Strategic Management Partners

Mary Gerdts is the president and CEO of POST Integrations, Inc. which provides electronic transaction processing services and solutions exclusively to the hotel industry. She can be reached via e-mail at mgerdts@postint.com.

Important Gift Card Considerations

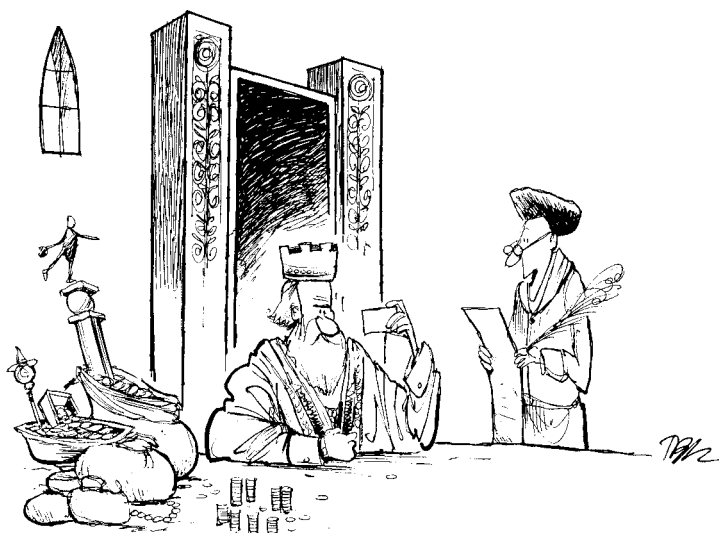
- 1** Do you want all your outlets, in all your hotels, across all your brands to be able to participate in your gift card program?
- 2** Should you issue re-loadable or disposable gift cards?
- 3** Will you only issue pre-designated gift card amounts or will you allow the purchaser to choose the amount dynamically?
- 4** How do you want to sell your gift cards, on the Internet, at your hotels or at the grocery store?
- 5** Who will generate, personalize, distribute and manage the plastic cards?
- 6** How will the gift card holder be able to perform balance inquiries, via telephone or via Web site? Who will provide the customer service?
- 7** Who will hold the pre-paid gift card funds? Should the account be centralized?
- 8** Who will reimburse each of your properties for their daily gift card acceptance?
- 9** How well can purchasing and redemption be tracked and reported throughout your hotel?
- 10** Does the reporting structure fit your business model?

GIFT CARD Demographics and Usage

- Approximately 70 percent of gift card buyers fall between the ages of 25 and 54, most are married with children and are full-time employees with some level of college education.
- Middle income families and high income professionals are primary gift card buyers accounting for 60 percent of gift card purchasers as a whole.
- Employed, college-educated women living in metro area households with at least three members continue to lead the demographic breakdown of gift card purchasers.
- 45 percent of the adult population in the United States purchased a gift card in the previous 12 months, which doubled from the previous year.
- Consumers increased the number of cards they purchased to an average of 5.6 gift cards per year; a one card increase over the previous year.
- 68 percent of adults shoppers have either purchased or received a gift card.
- 61 percent of consumers spend the initial value of their gift card in their first visit and 56 percent of consumers spend more than the initial value of their card.
- Two-thirds of gift card purchases are planned rather than impulse purchases.
- The primary reason for giving a gift card is as a birthday gift.
- The average gift card load is \$38.

THE POSSIBILITIES of Pre-Paid Cards

- Guest credits
- Frequency programs and rewards
- Corporate travel vouchers
- Replace existing paper gift certificates
- Employee rewards
- Sales bonuses



"...It's a gift card, sire. They're new..."