The Power of Prepaid Gift Cards

Driving In-Branch Traffic, Increasing Share of Wallet, Maximizing Revenue and Enhancing Brand Recognition

Prepaid gift cards are gaining market preference as the most convenient way for consumers and businesses to give gifts. As a result of this rising demand, prepaid gift cards offer financial institutions significant opportunity to maximize customer relationships. This paper identifies the market conditions, purchasing trends and program models that make gift cards a dynamic solution for today’s leading financial institutions.

Recognizing that it is now more important than ever for financial institutions to foster long-term relationships with customers, Deluxe provides the insights and opportunities – such as a prepaid gift card program – to help financial institutions engage customers and increase their lifetime value.

1. Executive Summary

Gift cards are increasingly the preferred gift-giving solution that people want to give to family, friends and business associates. Shoppers seek a convenient, reliable way to obtain the gift cards, and they prefer that the cards are network branded – meaning that they can be used anywhere Visa debit cards are accepted or another electronic payments network. Financial institutions have found that they can enhance customer satisfaction and retention, and increase revenue, by offering gift cards either in their branches or online through their Web sites. Financial institutions that do not offer gift cards risk losing customers and revenue.
2. MARKET THREATS & OPPORTUNITIES: THE GIFT-GIVING GAP

Gift cards have become one of the most popular answers to the age-old question of “What should I buy for ….” According to Consumer Reports, 62% of the gift-buying population intended to give a prepaid gift card in 2007. The opportunity to purchase network branded (also called open loop) cards has made gift cards more desirable than ever. These cards bear the Visa® or other network brand and can be used at any store that accepts that payment method. With the advent of network-branded cards (as opposed to cards that can only be used at one retailer), gift givers know that the recipients will have a wide range of places to purchase just what they want.

Consumers seek a trustworthy, convenient place to purchase their gift cards. Ideally, it’s a place they visit frequently because they will likely want to make repeat purchases throughout the year for each new gift-giving event.

The largest financial institutions have been successful at providing gift cards to their customers – and any other consumers they may draw in with their promotions. In the past, however, it has been difficult for smaller financial institutions to gain the economies of scale needed to make a prepaid gift card program feasible.

With the intense demand for gift cards – a demand that shows no sign of slowing – financial institutions that do not offer gift cards as part of their services risk losing significant share of wallet. What’s more, according to The Gallup Organization research, the more engaged customers are with a financial institution, the more they spend and the more frequently they return. Thus, financial institutions that do not offer gift cards also miss key opportunities to enhance customer engagement and risk exposure of their customer base to the products offered at other financial institutions that provide gift cards.

“Gift cards complement our other services — they are a smart addition to our offering.”

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SIGNIFICANT MARKET GROWTH

- Total prepaid card market growing to $88 billion by 2008
- Open loop gift card sales expected to grow from $1.3 to $5 billion (2005-2008)
- Gift cards rapidly growing in popularity and acceptance
- Businesses increasingly using gift cards for customer and employee incentives. Business gift card purchases expected to rise 72%, from 2005-2008, growing to $1.5 billion.

Source: Mercator Advisory Group
3. PROGRAM MODEL:
DELUXECARD® VISA® GIFT CARD

As an outgrowth of the research conducted to understand the potential gift cards have on the financial industry, Deluxe developed a program specifically intended to make it economically and strategically attractive for financial institutions of all sizes to offer open loop gift cards. Programs such as the DeluxeCard program provide a prepaid gift card solution that can be used anywhere Visa debit cards are accepted, with a fixed, non-reloadable face value as low as $20. (The Visa brand leads the gift card market in terms of customer preference and merchant acceptance.)

Financial institutions can offer these high-demand gift cards to create new revenue streams and also increase customer acquisition and retention.

The DeluxeCard program model features:

• A seamless addition to the financial institution's product portfolio (no internal development costs and no special equipment or resources required)
• Both in-branch and online sales
• Corporate and bulk card orders (for large-scale incentive programs)
• Simple ordering and inventory management
• Cards co-branded with the financial institution's logo (available through in-branch sales only)
• Free marketing tools, training and support

4. FINANCIAL INSTITUTION BENEFITS

One-third of financial institutions currently offer prepaid gift cards. Over half expect to offer gift cards by 2010.* Financial institutions report that prepaid gift cards help them meet their revenue, customer acquisition and retention goals.

SPECIFICALLY:

• Selling gift cards in their branches drives in-branch traffic, which in turn creates opportunities for greater exposure for other products and services.

• Web orders expose customers to other online offerings.

• Gift cards keep customers loyal to the financial institution, not down the street getting the gift cards from competitors and being exposed to their products.

• Gift cards are a simple, cost-effective way to extend a financial institution's product portfolio with a proven value-added service.

• Each financial institution sets the retail price and keeps the margin as increased revenue.

One additional benefit distinguishing the DeluxeCard program is that Deluxe gives participating financial institutions a 10% rebate on the purchase fee for online orders that are referred from the financial institution's Web site.

*Grant Thornton 2007 survey of bank executives

“The gift cards are a valuable customer service — a way to interact with more people.”
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5. Consumer & Business Account Benefits

People appreciate choices – that’s what makes open loop, prepaid gift cards so desirable: they enable the recipient to use the cards at retailers worldwide. Consumers have come to rely on the timesaving convenience of giving prepaid cards for the usual gift-giving occasions such as birthdays, holidays, weddings, graduations and anniversaries. However, gift cards are also gaining momentum in more useful ways:

• Travel spending – travelers use one card for all their purchases to keep track of expenses and control spending
• Student allowances – a portion or all of an allowance goes on the card to teach children how to spend responsibly
• Budgeting – a card becomes the tool to make discretionary purchases and keep within a family’s financial plan

Beyond consumer use, corporations large and small are using open loop prepaid gift cards for corporate incentives, employee recognition and petty cash.

“We get a lot of repeat customers. They know it’s easy to get the cards from us.”
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Top Five Reasons Businesses Gave Gift Cards to Employees in 2007

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<th>Reason</th>
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<td>Recognize Performance</td>
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<td>Boost Morale</td>
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<tr>
<td>Build Employee Loyalty and Trust</td>
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<tr>
<td>Increase or Maintain Sales</td>
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<td>Foster Teamwork</td>
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Businesses that rate gift card effectiveness at “3” or higher on 5-point scale:

99.2%
(49.6% rate as 4; 25.5% rate as 5)

Top Five Benefits of Offering Gift Cards

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<th>Benefit</th>
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<tr>
<td>Ease of Administration 74.5%</td>
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<tr>
<td>Redemption Options 57.3%</td>
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<tr>
<td>Broad Audience Appeal 54.4%</td>
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<tr>
<td>Perceived Value 48.5%</td>
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<td>Cost Effectiveness 41.4%</td>
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Source: Incentive magazine. August 2007
6. PROGRAM IMPLEMENTATION

The DeluxeCard® Visa® Gift Card program offers financial institutions two sales channels: The cards can either be ordered through a financial institution’s branch location, or they can be ordered online through a link from the financial institution’s Web site to the Deluxe Web-based ordering solution.

**IN-BRANCH SALES PROGRAM**

- Customers purchase gift cards from branch personnel. The gift card is loaded with desired value via a secure Web-based interface (no special equipment needed)
- Cards can be co-branded with the financial institution's logo
- Financial institutions use an in-branch Card Management System for card activation and inventory management
- Load values: $20-$750
- Choice of up to three card designs
- Free marketing tools, training and support
- Free card carriers with every card purchase
- 24/7 English and Spanish cardholder support

**WEB SALES PROGRAM**

- Consumers and corporate/bulk orders purchased through a link from financial institution’s Web site to www.mydeluxecard.com
- Key code tracking for identification of referred orders
- 10% Deluxe rebate to financial institution on purchase fee
- Consumer load values: $20-$750
- Corporate bulk load values: $20-$2,500
- Personalized cards (consumer orders only)
- Choice of multiple design and embossed messages
- Access to free marketing tools and support
- 24/7 English and Spanish cardholder support

In-branch sales enable financial institutions to cross-sell services at point of purchase. Web ordering draws customers more regularly to a financial institution’s site, encouraging use of online banking features.

Both ordering methods drive in-branch traffic, increase share of wallet, maximize revenue and enhance brand recognition.

“Having our logo on the cards really matters. It gets our name in front of so many people.”

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7. MEASUREMENT: SIGNS OF SUCCESS

Financial institutions gauge the effectiveness of their gift card programs through several metrics:

**QUANTITATIVE:**

- Increase in revenue attributable to gift card sales
- Increase in accounts opened linked to gift card sales
- Increase in hits on Web site, specifically hits on gift card offering page
- Overall lift in customer retention compared to prior years when gift cards were not offered

**QUALITATIVE:**

- Perceived increase in in-branch traffic
- Anecdotal customer comments expressing satisfaction at being able to purchase gift cards from the financial institution
- Volume usage of gift card promotional brochures and other free marketing materials (provided by Deluxe)
8. RESULTS: EXCEEDING EXPECTATIONS

Financial institutions participating in the DeluxeCard® Visa® Gift Card program have seen a measurable increase in Web activity and in-branch traffic attributable to offering the gift cards. They have also noted increased share of wallet as consumers and small business customers make repeat gift card purchases.

9. CONCLUSIONS

Programs like the DeluxeCard® Visa® Gift Card program enable any financial institution to tap into a growing opportunity to provide gift cards. Gift cards are in demand by consumers and small businesses. This demand is expected to continue. By offering gift cards, financial institutions can expect to drive in-branch traffic, increase share of wallet, maximize revenue and enhance brand recognition.

According to a 2007 consumer survey, 90% who used a prepaid card had a positive experience and found the cards useful. Overall awareness of prepaid cards was 75%.

Source: Network Branded Prepaid Card Association

“The cards have increased traffic in our branches and provided a gateway to getting customers more involved with our bank.”

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For more information on the DeluxeCard Visa Gift Card program, contact your Deluxe Account Manager, or visit www.deluxe.com/dcp program and click on “Contact Us.”