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WILD CARDS

THE GIFT CARD REVOLUTION ISN'T PLAYING OUT QUITE AS RETAILERS EXPECTED

By Jennifer Hopfinger

Even the most creative shoppers can run out of gift ideas. And even the most gracious recipients sometimes hate the gifts they receive. Thus, the popularity of the gift card. But a tough economy is changing the way consumers use this shopping option.



THEY MIGHT BE CALLED "GIFT CARDS," BUT CONSUMERS INCREASINGLY USE THEM TO BUY STAPLES.

PHOTO: GETTY IMAGES

In the 1990s gift cards with magnetic strips that enabled them to be used much like credit

or debit cards began replacing paper gift certificates and receipts. Gift cards now pervade the retailing industry: Bookstores, fast-food chains, mass merchandisers and practically any other type of retailer will offer them. Gift card sales reached an estimated \$97 billion last year, up 17 percent from 2006, according to research firm Tower Group.

About 74 percent of U.S. shoppers purchased gift cards during the 2007 holiday season, up from 30 percent five years ago, according to America's Research Group, a Charleston, S.C.-based consumer research and marketing firm. ARG surveys up to 15,000 consumers per week about their spending habits.

"Years ago gift cards weren't perceived as a thoughtful gift, but they've evolved from being something that you gave out of desperation to something that you give because it's exactly what they want," said ARG Chairman C. Britt Beemer. Last year only 6 percent of consumers ARG surveyed said a gift card was not a personal gift. Part of the reason is that retailers have done a better job of marketing them, Beemer says. "You walk into a store, and there might be 20 different styles of gift cards to buy, for different occasions or with other personal touches that reflect the recipient's interests or style. Stores sometimes also provide a nice box to put the gift card into."

Gift card givers, recipients and retailers alike have plenty of reason to like the cards. They provide givers a quick and easy purchase requiring little thought, but one that is still appreciated by recipients who would rather not have to return or exchange gifts they do not like. Retailers are no more inclined to want to deal with returns or exchanges.

Gift cards are a tremendous marketing opportunity for retailers. They bring two different customers into the store: the one who buys the card, and the one who redeems it. Thus it creates at least two chances

to generate additional sales. And in fact, a little over half of gift card recipients spend more than the value on the card when they redeem, according to market research publisher Packaged Facts.

Gift cards also help stimulate postholiday sales. A survey by management consulting firm Archstone Consulting found that some 56 percent of these cards are redeemed within the first month of purchase, and 85 percent are redeemed within three months. The firm also found that gift cards for luxury and music retailers tend to be redeemed sooner than cards for entertainment, food or mass merchandise retailers.

But sources say gift card recipients are holding their cards longer. Cash-strapped customers are redeeming later and later, Beemer says, sometimes months after. "This year could be a year when gift cards are held even longer," he said. "Holiday gift card redemptions could be spread out over the course of the year." Beemer also predicts that consumers might not overshoot the value of the card as often as they have in the past. "If a shopper has a \$100 grocery bill, they might put their \$25 gift card toward the purchase and use it like a coupon."

These trends may have contributed to weak sales for some retailers this past winter. The economy hurt overall holiday retail sales, and a big postholiday boost from gift card redemptions was not forthcoming. Wal-Mart reported just 0.5 percent growth in U.S. same-store sales in January and said card redemptions were below expectations for the month

Wal-Mart also said customers were using the cards more often for food and other consumables rather than for discretionary items. As consumers grapple with rising energy costs and a falling real estate market, it seems they regard gift cards differently. In the past they treated cards as fun money, for splurges on discretionary purchases (which tend to be high margin for retailers) they might not otherwise make. But as consumers tighten their belts, they treat the cards as they would their own cash, spending them on necessities they are struggling to afford.

But this shift could mean that more retailers will offer the cards, says Michael Berman, COO of New York City-based Outside Ventures, the parent company of Tribul Merchant Services, which provides credit card processing to merchants throughout the country. Though nearly all large retail chains offer gift cards, many smaller ones do not, he says. "Some retailers don't think gift cards are for them," Berman said. "They think gift cards are for restaurants and jewelers, but not for general merchandise. But what was once a discretionary product is now being used for staples. A gift card has become an easy way to give a gift of necessity without insulting the recipient."

The people who need gift cards most may be buying them least, however. Fewer lower-income shoppers purchased gift cards last holiday season than higher-income shoppers, according to WSL Strategic Retail, a New York City-based retail marketing consultant firm. In a survey of 1,500 shoppers nationwide, WSL found that 34 percent of those with annual household income under \$50,000 bought gift cards, versus 58 percent of those with annual income over \$100,000.

Retailers should remember that gift cards are economy-sensitive, says Candace Corlett, WSL's principal. "Gift cards are an extra gift, a stocking stuffer," she said. "And for many lower- and middle-income shoppers, they can't afford any extras right now." The WSL survey also found that 41 percent of respondents said they prefer cash to gift cards. Further, 74 percent said they always use the cards they get, while 39 percent said they had cards that went unused for months. A third of the cards bought during the holidays were given to teens, of whom nearly 60 percent said that they would rather have received cash.

"Everyone loves gift cards, but they come with some baggage," Corlett said. This is especially true with teens, she says, who do not typically have the cash to supplement a card purchase. "If you get a \$25 gift card to a clothing store," Corlett said, "what can you buy with that? Teen-agers might not be able to chip in enough to buy what they really want."

There are other drawbacks for both retailers and consumers. Retailers are unable to record a gift card sale until its redemption. For accounting purposes, the amount remains a liability in the meanwhile. Many recipients never spend the entire amount on the cards, if they even use them at all. And those unused balances can really add up. Tower Group estimates that about \$7.8 billion on gift cards went unspent last year. Unspent balances may account for about 10 percent of all gift card sales, sources say. Some states allow retailers to keep the unused money and record it as income after a certain time period has passed. Other states claim the money for themselves after a number of years. And so it behooves retailers to encourage holders of gift cards to use them as soon as possible.

When specialty retailer Sharper Image filed for bankruptcy in February and announced that it was temporarily suspending acceptance of gift cards (typical when companies reorganize under bankruptcy), it gave many gift card holders pause. This could be good or bad. Beemer says the prospect of such bankruptcies may cause some shoppers to buy them less. "The possibility of a retailer filing for bankruptcy is probably the biggest disadvantage to consumers," he said. "I think what happened with Sharper Image could put a chill on gift card sales, but on the other hand, it may cause gift card holders to hurry up and use them faster."