

# PRE-PAY A Cultural Revolution

By Brian Dunne

THE PRESENTATION OF PREPAID CARDS IS CAUSING CONSUMERS TO CATEGORISE THEM ALONGSIDE DEBIT AND CREDIT CARDS AND IS DILUTING THE OPPORTUNITY FOR RETAILERS AND CARD PROGRAMME PROVIDERS ALIKE TO CAPITALISE ON THE FASTEST GROWTH OPPORTUNITY WITHIN RETAILING TODAY.

→ “Pre-paid is retailing’s third channel,” says Brendan Dorrian, CEO of the Global Retail Network. “Pre-paid is a cultural phenomenon and yet – especially in the UK and the EU – they do little more than replace paper with plastic and take up secondary floor space,” he adds.

Believing that those within the pre-paid industry can learn from retailers, Dorrian says, “Their challenge is to connect emotionally, visually and provocatively; those who restrict their thinking to a plastic card measuring 85.6 mm x 53.9 mm will fail.” He adds the winners within prepaid will be those who align themselves successfully with retailers, view prepaid as an extension of the retail brand offer and are prepared to share risks and rewards alongside the retailer in accelerating growth within this lucrative channel.

## WHAT IS PREPAY?

Prepay is many things to many people, businesses and organisations. It can be a method of ensuring that your mobile phone has enough credit to call home. It can also be used to settle insurance claims, increase sales of products and reward loyal customers. Fundamentally, prepay is a



problem-solving alternative to cash payments.

## PREPAY AS A GIFT

The most obvious use of prepay today is its use as gift cards for retailers and leisure brands. Gift card malls (racks of gift cards sold in high street stores) are driving gift cards availability and awareness. Originally, gift vouchers and cards were seen as impersonal gifts, purchased as a last resort. However, attitudes have begun to shift, with the growth driver being that it allows the recipient to choose to receive something that meets their needs or desires.

For the customer, these cards are an easy solution to gifting problems. Gift cards bridge the gap between

the giver’s knowledge of the recipient and the recipient’s needs and desires. Gift cards are increasingly being purchased because of their flexibility and a general move in the UK gift market to all year round gifting (Christmas, birthdays, Valentine’s Day, Mother’s Day and Father’s Day). Likewise, as more gift cards are being purchased, more are being requested by consumers, showing that retailers have done well to combat the ‘impersonal feelings’ that accompanied giving prepay. Deloitte’s annual Christmas Retail Survey 2007 showed that gift cards and vouchers were rated number three in the nation’s ‘top 10 consumer gift wish list’. In 2008, gift cards and vouchers

were rated number two and are the most popular gift among women. The year 2009 showed further growth, with gift cards being the second most requested gift among men.

## KEY DYNAMICS OF PREPAY TO RETAILERS

So, what are the benefits of prepay to retailers? The first and most obvious benefit is the power of getting paid in advance – getting paid money ‘up front’, so to speak. By offering a prepaid card, retailers are gaining an element of control over the

recipient’s spend, ensuring they come back to them. For instance, take Whitbread, which manufactures and sells alcohol. As an added control, Whitbread has the advantage of owning retail outlets, such as Thresher, that sell alcohol, and more than 4,000 pubs under the company’s portfolio. Imagine the control that Whitbread had over people that received a ‘leisure voucher’. Effectively, with ‘leisure vouchers’, Whitbread has control over people’s ‘beer money’.

Financially, there are many, many benefits to retailers operating a gift card scheme. We help the retailers, with whom we work, to understand the benefits and profitability of prepay with a unique financial model, highlighting the key dynamics that make the scheme work.

To a retailer, recipients of any card or voucher are a captive audience. The consumer is led to visit their brand. Furthermore, the recipient is in gift/reward mode and as such would see the gift card as ‘free money’. In our research and experience, consumers will spend over the value of the gift card, with an average top up spend of 70 per cent of the card value. While the cards are seen as free

money, the consumer sees the product at face value, and if the recipient has a good experience, it is highly likely they will return, bringing the benefit of a new recruit. It is also important to remember that the gift card is essentially ‘branding in pocket’.

It is also important to point out that not all recipients get around to redeeming their gift card. The card could be misplaced or forgotten about. This isn’t a problem to the retailer, as they earn the breakage (residual balance left unused on cards) and have already been paid the funds, however, it is far more beneficial to the retailer that customers spend their gift cards. A prime example of this is when Adams Childrenswear went into administration. Rather than turning away consumers with gift cards and simply holding onto the funds they had been paid in advance, the administrators recognised the value of the incremental sale and encouraged gift card spend. In an ideal world, recipients of gift cards will redeem them just before expiry. Retailers can earn interest on the float of a gift card between issuance and redemption!

Operationally, gift cards have many advantages over their voucher and cash equivalents. Operating a gift card results in decreased fraud levels

and theft and a reduction in security costs as gift cards have no value until activated at the point of sale. The gift card also increases the speed of transaction at POS, resulting in better customer journey and well-trained staff.

## MERCHANDISING AND GIFT CARD MALLS

Gift cards allow retailers to maximise their exposure to customers, both in presentation of cards at the point of sale and with eye-catching promotional materials in the store. Many of the UK’s biggest high street retailers are already taking the opportunity to do this. Gift cards

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can also be clearly branded or have specific pictures to target a certain sector (for instance, wedding bells for a wedding-themed gift card – even though, the card can be used for anything in the store).

Gift card malls are contributing rapidly to the increased availability and visibility of gift cards. The first gift card mall appeared in the UK in November 2006, when Sainsbury's introduced them to their stores. This area has developed significantly since then and there are now three gift card mall operators in the UK. They are prominent in major retail chains, including supermarkets, which greatly increase the awareness and availability of gift cards.

A major high street chain is quoted as saying that third party sales are the biggest driver of new customers into their stores. Essentially, a gift card mall allows any brand to become a product on the high street in a number of strategically correct retailers, that is non-competitive, where previously, access would have been restrictive. While there is a cost implication for retailers selling on the malls (mall hosts take a commission from sales), Action Solutions has proven to clients the benefits of selling through the malls, showing that for every five sales while four represent 'cannibalised' sales from own stores



**GIFT CARDS ALLOW RETAILERS TO MAXIMISE THEIR EXPOSURE TO CUSTOMERS, BOTH IN PRESENTATION OF CARDS AT THE POINT OF SALE AND WITH EYE CATCHING PROMOTIONAL MATERIALS IN THE STORE.**

(where the customer sets out to intentionally purchase a certain gift card from a mall), the one sale that is a result of an impulse buy or time constraint is a purely incremental sale and represents pure profit retailer would not have seen had they not been part of the gift card mall.

**PREPAY AS A PROBLEM SOLVER**

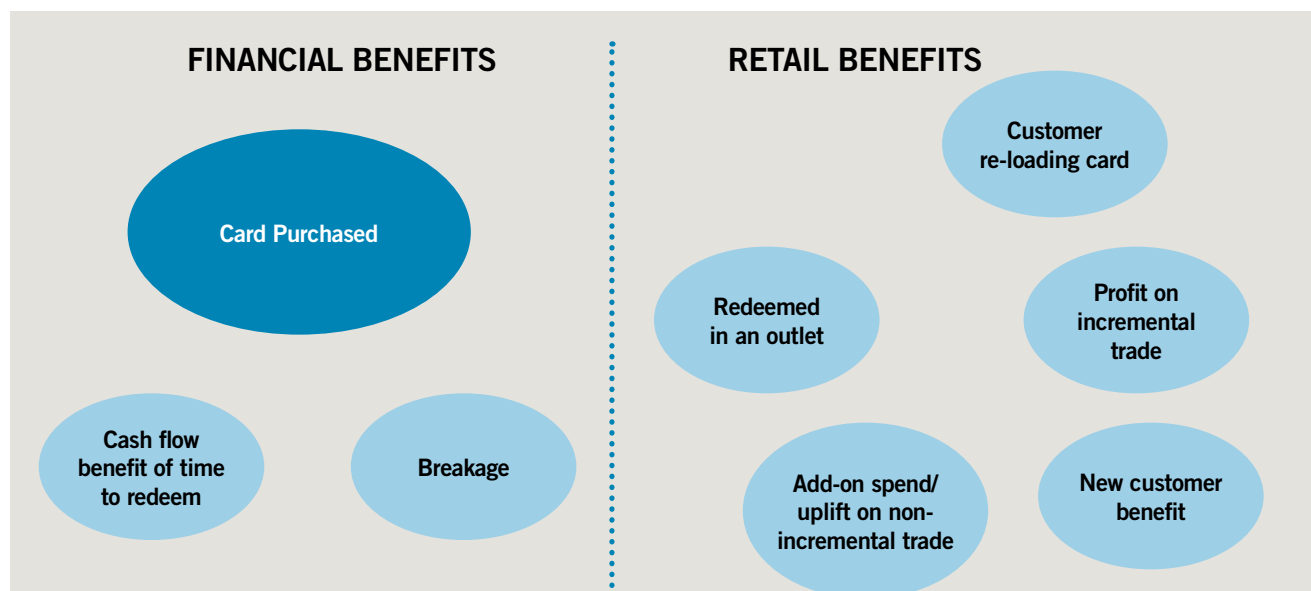
While consumer adoption and usage of gift cards is growing and continues to grow, gift card opens up a whole range of new sales opportunities to either brand the card for a specific purpose or to sell the card in specific channels, maximising the revenue generated. Of the total UK gift card and voucher sales in 2009, it is estimated that 38 per cent of all gift cards and vouchers are sold into the business-to-business (B2B) arena.

Sales of prepay into businesses

fundamentally help organisations find solutions to issues or exploit opportunities. Prepay is cost-effective, immediate and flexible. Sales of prepay into businesses are huge drivers of incremental business, as again it is forced sampling – the card owner will either use or forget about it. If the consumer forgets about the card, then there is a breakage benefit to the scheme operator. If they use the card, market data shows, they will spend upwards the value of the card. Supplying to businesses is heavily discount-driven.

Sales into incentive and reward channels outweigh other business usages of gift cards. Sales into this arena revolve around wanting to change behaviour and by rewarding desired behaviour, increasing the likelihood that the desired behaviour continues. The most common incentive is cash reward and while it is desired, it is soon lost among household budgets being used for bills, etc. While it eases the financial strain, it is also important to remember that cash reward has tax implications. There is also a danger that it becomes less appreciated and is seen as part of the 'compensation' package as will be expected every month.

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consumer is led to visit their store and redeem. Not only does this increase footfalls, but buyers are in a 'reward' mode and will purchase something they don't usually buy, meaning a considerable increase in basket value.

The gift card is also increasingly being used in loyalty and rewards promotions. Rewards programmes are great ways of letting customers know how much their business is appreciated. Using a gift voucher or card as a reward for loyalty or incentive to purchase adds to the



**IT IS CLEAR THAT PREPAY IS THE FUTURE OF PAYMENTS AND WHILE AN OPPORTUNITY EXISTS SELLING PREPAY DIRECT TO CONSUMERS, THERE IS A POTENTIALLY LUCRATIVE OPPORTUNITY FOR RETAILERS WITHIN THE B2B MARKET.**

visit the UK post office and have funds 'topped up' on their card. This scheme takes advantage of a restricted loop scheme (meaning the card works on either Mastercard or Visa) and can be redeemed in multiple retailers, while restricting usage to essentials (no alcohol and no cigarettes). These prepaid cards will replace an existing voucher system, administered through local councils and will significantly reduce costs.

The UK prepaid market has long been considered six years behind that of the US. However, it is clear that the UK retailers are learning lessons from their US counterparts who have 'been there' and 'done that' and are applying them here as part of their business strategy. Thus, the UK market is making incredible leaps and bounds. So much so, that the level of UK B2B sales is three times the level of US B2B sales!

#### CONCLUSION

It is clear that prepaid is the future of payments and while an opportunity exists in selling prepaid directly to consumers, there is also a potentially lucrative opportunity for retailers within the B2B market. To take advantage of these opportunities, careful consideration needs to be given to your prepaid business strategy. Action Solutions has been helping the UK, European and indeed international retailers to formulate a prepaid business strategy and identify and exploit opportunities within both B2C (business-to-consumer) and B2B markets for years, strategically guiding businesses from planning to realisation in gift card development and beyond. ✕

— With additional reporting by Brendan Dorrian, CEO, Global Retail Network.



customer experience and increases the chances of the customer going for repeat purchase. The Argos yearly promotion, where a free £5 or £10 gift cards are given on purchases of £50 and £100 respectively, is a great example of this and shows how Argos is driving customers back into its stores to spend the gift cards.

Insurance replacement is another channel that takes advantage of a captive audience. Using prepaid to settle insurance claims to replace damaged or stolen goods gives the insurer control, reducing fraud by eliminating cash from claims. Prepaid cards allow insurers to speed up the time between claim and closure of claim, cutting down on multiple steps

and administration and reducing cash handling. We estimate that 80-85 per cent of all household insurance claims are now paid out in prepaid. Again, consumers may wish to spend over the value of their voucher or card, another benefit to the retailer.

Another use of prepaid within the B2B market is sales of prepaid to the government. As an example, The Home Office uses prepaid cards to deliver cash to those who require a subsistence allowance, that is, asylum seekers. The UK Border Agency makes payments to failed asylum seekers awaiting deportation. These asylum seekers are unbanked (meaning they don't have access to a bank account) and a prepaid card allows them to



#### ABOUT THE AUTHOR

Brian Dunne is CEO of Action Solutions.