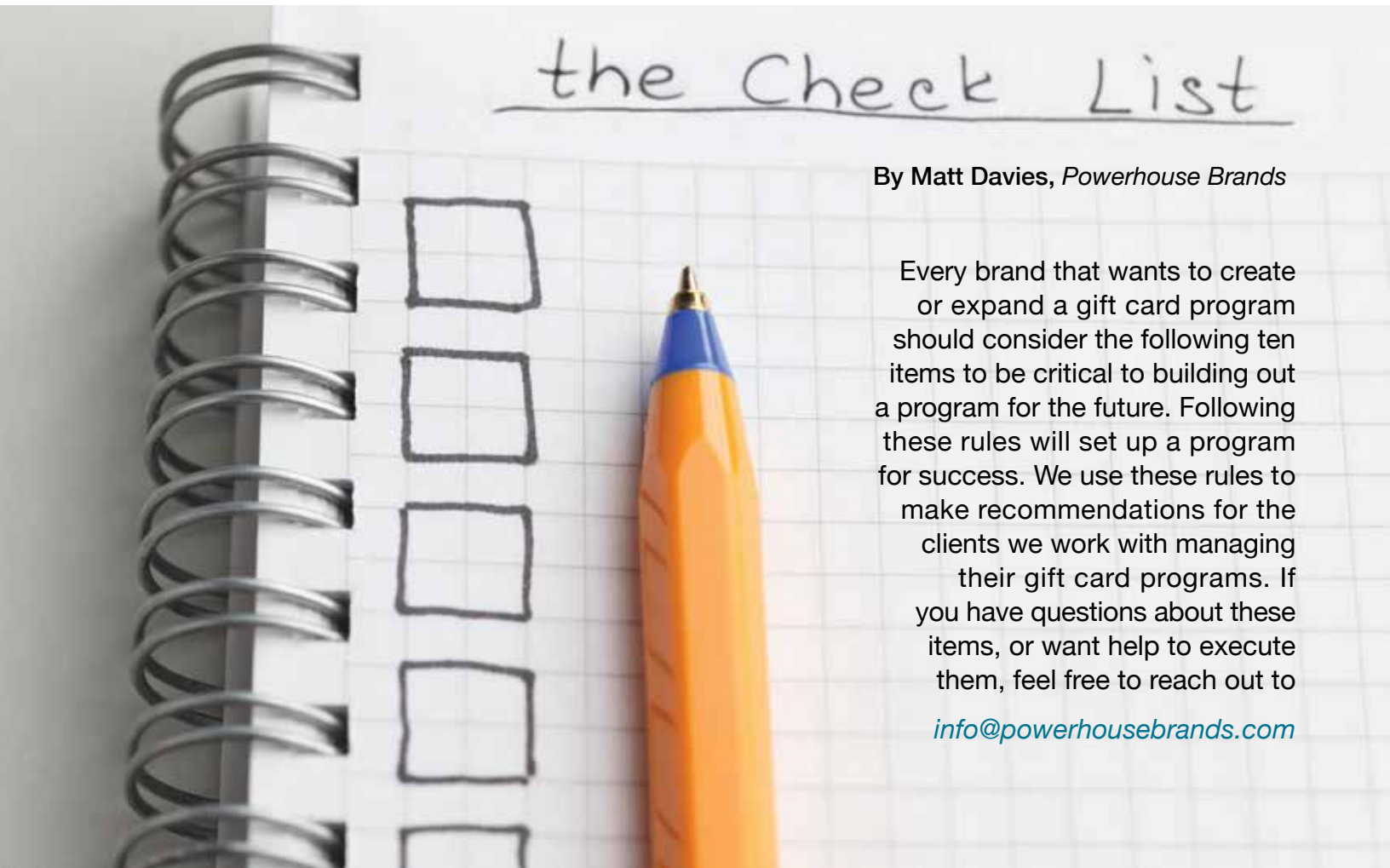


STARTING A MERCHANT GIFT CARD PROGRAM



By Matt Davies, *Powerhouse Brands*

Every brand that wants to create or expand a gift card program should consider the following ten items to be critical to building out a program for the future. Following these rules will set up a program for success. We use these rules to make recommendations for the clients we work with managing their gift card programs. If you have questions about these items, or want help to execute them, feel free to reach out to

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□ FIND A PROCESSOR

Processing may seem like an easy program for internal IT to run, but is filled with time-sucking pitfalls. The consensus is that IT resources are always at a premium, and other projects are always more important. Average time for a vendor to make a pretty major change is 8-10 weeks or so, unless they are in a holiday freeze. Internally, those timelines are moved around constantly based on company priorities, which these days always seem to have an IT component like mobile, ecommerce, or POS systems. These internal conversations last years, and usually each change needs a business case for the prioritization of resources. If you have a vendor, you just need budget approval. Also, processors have standardized reporting, and most importantly, guaranteed uptime. One of the critical benefits of having a processor is that it is now a requirement to expand into the majority of real-time activation partnerships (third party retail and B2B).

□ MEET PEOPLE IN THE INDUSTRY

It's new, and scary, with unknown people in an unknown place. Not for long! No one has been successful in this space while keeping completely isolated at their company. Go to industry events. Be on a panel or a board. Get involved in the community you want to do business with. More business gets done because you show your personality and face. Gift card programs with high internal support have more resources, and showing up is a marketing tool that you're serious. Plus, this industry is super friendly and positive (we produce and sell gifts) and are a super fun group of people. If you want to sell more gift cards, make an effort to show up. You just might meet a friendly vendor or potential client that you'd like to do business with.

□ BECOME AN EXPERT AT GIFT CARDS

and a Champion within your Company

You'll be the expert on gift cards, no matter what. Everyone else will be lost in all your gift card meetings. You'll have to simplify how stuff works for practically everyone in your company, and find ways to explain it that gets people excited. The more you know about how the industry works, the better you can explain it internally. Once the program gets some steam, you'll get all kinds of random emails from other employees asking why the company isn't in this or that opportunity. All this attention can be time consuming and sometimes distract the strategy of the gift card program, but it is symptomatic of human interest in gift cards as a product, and not understanding the complexities of how everything works. Company interest can turn into support very quickly if their question happens to match your strategy. Expect every internal meeting to turn into Giftcards Benefits 101 and stakeholders will walk out of the meeting ready to support the program.

□ HAVE A GROWTH AND INTERNAL COMMUNICATION STRATEGY

No one will care about gift cards (due to their lack of understanding) until the program gets significant. Usually when the program hits the \$10M-\$25M range (depending on size of company) is when executives start getting interested, and start asking questions about the strategy. Be prepared for this day, because as soon as that happens, your program will be in the spotlight. Having a strategy for growth and reliable metrics becomes really important at this point, and a list of stakeholders that want updates, and how frequently.

□ GET RELIABLE METRICS FROM THE BEGINNING

Another reason to use a processor. Reporting has historically been done by a few leading merchants. As the market continues to mature, and as programs hit the size that they start getting attention, metrics are the only language executives will understand. Usually reporting by store, by channel (groupings of stores into the typical gift card sales channels) and by type of transaction is common. Basically, all programs should have the ability to report on those items in order to expect support and budget for expanding sales channels.

□ DON'T SET UP PARTNER DISCOUNTS AS MARKETING EXPENSE

Set it up as a flexible discount expense instead, similar to discount coupons. We've seen marketing budgets limiting discount expense numerous times, and it cripples partnership sales channels, and it is also incredibly frustrating for distribution partners. Finance wants to keep a lid on expense, so they require that the gift card team project their discount/commissions. This turns sales expectations into a minefield, as there are very few opportunities that are cut and dried into a single, manageable expense. Plus, sales just do not work that way. If the finance team's expectations is that the team will not allow sales after they've hit their expense quota, that will be an issue, as it forces the gift card team to decline profitable relationships that help future growth. Forcing an expense line item forces a sales goal, which should be flexible instead of having a hard stop.

□ RESPECT AND COMMUNICATE ALL THE DIFFERENT WAYS GIFT CARDS HELP THE COMPANY

Well here they are in a nutshell.

- Marketing Exposure: More eyeballs on the brand
- Brand Gifting Enablement: Consumers can now gift the brand, and they definitely expect to
- Guaranteed Future Revenue: Every gift card sold is guaranteed to be spent in that store
- Free Cash Flow: Every dollar held in reserve is taken prior to the consumer walking into the store
- Traffic and Lift: Consumers are driven to the store to use the card, and always spend more than the value of the card
- Incremental Spend: Consumers on average tend to purchase more stuff when they have a gift card than when they do not (It's treated like free money)
- New Customers: Purchasers gift to recipients, who then must try out the store
- New Sales Channels: New eyeballs and revenue streams through B2B and third party channels
- Market Share: With most brands having an active gift card program, anyone who is not getting after one is missing out

□ HAVE REASONABLE EXPECTATIONS AND GOALS FOR THE PROGRAM

It's not going to happen overnight. Vendors must be picked and cards produced. Internal investment conversations about fixtures, packaging, and consumer experience need to take place. A program takes work, creativity, resources, and inspiration, just like any other business. The best programs are run by people who are entrepreneurial in their approach, taking advantage of every resource they have, and constantly thinking up new ways for gift cards to support their company's revenue streams. A successful gift card program supports retail goals beyond just gift cards, and how gift card supports those initiatives is discussed constantly

□ GIFT CARDS ARE CONFUSING

Easy to remember in the beginning, but increasingly difficult once you get some jargon under your belt, and have a couple of positive external relationships with gift card companies. Due to gift card's newness and consumer assumptions (just money moving around), you'll be explaining and justifying the program constantly, whenever a new person arrives to the scene. Be a good educator and start from the beginning every time. We live in a very technical and complex world that most other teams that focus on traditional products don't have to worry about.

