

Gift Card Types

An overview of the types of gift cards available for incentive programs.

Edited from the original article entitled "Paper or Plastic? In The Incentive Business – The Gift Certificate Question." The Incentive Marketing Association.

Advent Of Stored Value Plastic

In the world of leading brands, plastic is fast replacing paper certificates primarily because of the technology of real time automated issuing and tracking. The magnetic swipe is the lynchpin. Now, retailers have real time accounting. The value remains on the card until spent. Plastic is more in vogue, and a single swipe at the register is all it takes. Most branded merchant's cards are offered in various denominations and referred to as a "stored value card" possessing the attribute to be decremented electronically until the entire value is used up. Some merchants offer a reloadable feature.

Debit Cards

This is primarily a financial instrument under the banner of the major credit card companies such as Visa or MasterCard. The card is good for a set value, such as \$50 or \$100; plus, any merchant that accepts major credit cards accepts it. Debit Cards act the same as cash and can be used at the counter, via an 800 line or for online shopping. These cards were originally created for the consumer market, but quickly entered the corporate arena. In essence, they act as "disguised cash" but one can argue debit cards act as a separate and distinct form of incentive compensation as they are not part one's routine paycheck. Debit cards can be issued for a one time set amount, but are also available in reloadable fashion.

Filtered Cards

Logistically, these cards act the same way as a branded merchant's stored value card except they will only be honored by a limited network of merchants, usually partners established by the issuer. Patented technology allows for this type of vehicle to be marketed. Filtered cards are also sold at a set value or with a reloadable option.

The issuer makes prearrangements with select merchants, and the purchases are traced by the issuer or merchant, (sometimes both), with back end remuneration to the issuer, usually for just the card amount up to the total card value.

Virtual Redemptions

Virtual means online. Codes or numbers are sent via e-mail to the recipient who makes purchases at the merchant's Website. An initial email tells the recipient what the dollar amount is, eliminating the need for paper or plastic. This email acts as an almost instant gift card delivery. Some issuers also allow for the virtual documents to be printed and then redeemed in person. Many will also accept a virtual code in accordance with a major credit card for increased purchases, which is known as a "split-pay." Usually, branded merchants who have an online shopping feature offer an e-gift certificate in addition to a paper or plastic gift card.

Processors

So who keeps track of all paper, plastic and virtual transactions? It varies across the board just as it has in years passed. As an example, years ago, when paper prevailed, the issuing merchant accounted for certificates issued and redeemed; however, with the advent of technology and increasingly complicated gift card processes, many merchants outsourced their processing functions to third party processors.

Third party processors had devised effective systems and technologies to distribute the plastic to the store's operations, enabling the card to be loaded at the store's registers. Further, processors provided overall accounting by crediting and decrementing redemptions in real time. In addition, they kept track of the balances remaining on cards.

These were distinct value added services, which, due to the technical and highly specialized nature of their services, has resulted in only a few such processors who handle the processing needs of literally hundreds of merchant clients across the country. Although the primary business of processors is on the consumer side of their merchant's account business, processors have become more astute to the needs of their client's corporate customers as well, offering remote load access to large corporate users or gift certificate aggregators and gift card fundraising companies.

Full Service Product Offerings

In fact, it's become such a specialty today that some processors handle everything for the merchant—from card design, to counter displays at the point of purchase, direct marketing, as well as sourcing and shipping cards to store locations, and replenishing. Other processors only offer more limited processing functions.

The corporate sector of a merchant's gift card business generally tends to account for less business than the consumer sector, they build their systems with this in mind—the corporate world has conformed accordingly.

Rules and Regulations

Just as there are terms and conditions for the user of a gift certificate or gift card, the same applies for the issuing merchant. Various states view the sale of gift certificates and gift cards and the accounting procedures they use in various ways. Thus, each state regulates them slightly differently, with each merchant required to conform to the laws of the state in which they have incorporated their company or gift certificate division.

Escheat Laws Vary By State

Under the auspices of what is known as “escheats,” states monitor the books of merchants and their gift certificate/card sales, unredeemed certificates and so forth. This “law of escheats,” under the banner of “unclaimed property” in the state's treasury office, often represents significant income for the state. Some states are user-friendlier than others—so much so in fact that it is not unusual for a merchant to reincorporate its gift card division (or actually start another company) in a more user-friendly state in order to receive more favorable treatment.

In any event, all merchants must adhere to their given state's “law of escheats” and any other state laws pertaining to gift certificates and gift cards. This is not always an easy task for some merchants who cross state boundaries, and is especially difficult given certain rules concerning gift card expirations and service fees. For example, some states allow for expiration and some don't; some states allow a service fee to be decremented if the card is dormant for a certain time, while others don't. Other state rules include such nuances that mandate the participant be able to get cash back for the gift card.

Corporate Nuances

For the most part, the corporate sales side of a merchant's certificate division conforms to the consumer side and policies already established; however, there are certain specific corporate side nuances that allow merchants to bypass certain escheats laws due to market differences. That is to say, escheat laws were established for the consumer side of the industry and thus do not always take into account certain "business uses" of gift certificates and gift cards.

Future Trends & Technologies

When one reflects on the role technology has had on advancing the gift certificate business over the last five to seven years, one can only imagine what the future holds. Who would have thought as little as three years ago you could go into a supermarket or drug store and see a rack of branded gift cards for sale? No need to run out to a specific retailer anymore—just go into your local grocery store and buy a live gift card offered by your friend's or relative's favorite merchant.

Other new innovations are in process, from issuance to redemption. With the advent of WiFi, picture cell phones and handheld computer devices, numbers and codes can easily be transported. With chip technology and electronic purses becoming more mainstream, transporting "earmarked money" is now possible and cost effective. Someday, we'll be saying, "I remember when you used to have to buy a piece of plastic." Or, "I used to have all these cards and now I just place my finger on a scanner and it tells me how much I can spend at a certain store." Biotechnology will soon be embedded into the world of retailing.

Growth Will Continue

A handful of aggregators alone now account for over \$500M in gift certificates sales and serve hundreds of incentive clients across the country. The gift certificate segment of the IMA is one of the fastest growing in new member acquisition. The traditional incentive houses have had to find a way to blend "merch with certs" to keep their customers happy. Consumer loyalty programs used by credit card companies, travel service companies, communication companies, and a host of others, all somehow incorporate gift certificate to reward their customers.