

In rude health

Gift cards have emerged as a new category in retailing over the past 18 months. As Will Hadfield observes, they are so new that many major retailers have used different approaches to make them work



During Christmas 2006, those shoppers who went to Sainsbury's to buy gift vouchers left with gift cards: conveniently sized for wallets, durable, and harder for fraudsters to copy. The people who bought these gift cards were some of the first in the UK to purchase products from the retail sector's latest category.

Since then, sales have ballooned. According to NCR, the company that makes most of the tills used in the UK, customers spent some £1.4 billion on these cards in 2007. The Voucher Association (VA), the UK trade body representing gift vouchers and gift cards, estimates that around £3 billion will be splashed out in this area during 2008.

In 12 months, the number of the top 100 retailers with gift card schemes has increased from one (Sainsbury's) to 40. With such a new product, retailers had no template or common standards to inform them how best to introduce their schemes. Tesco and Asda, which went live soon after Sainsbury's, both decided to outsource the running of their schemes to a specialist supplier. Tesco chose Blackhawk Network, a subsidiary of Safeway, and Asda opted for InComm. Other retailers chose to include their gift cards in so-called 'gift malls' – an interface at the PoS that allows retailers to sell both their own cards and those of other retailers.

Avoiding major change

The majority of UK retailers have asked their technology suppliers to enable shop staff to sell, redeem and track gift cards without changing the PoS systems, says Brian Tagg, chief operations officer at InComm. "To affect a major change to a retailer's PoS system is a big undertaking and they do not really give us the opportunity of implementing a proper graphical user interface (GUI) for a gift card scheme," he says.

Many retailers last overhauled their PoS systems when the banks demanded that

All change at the checkout

How each supermarket approached gift cards...

Tesco – Outsourced its gift card scheme to US company, Blackhawk Network, which was established as a subsidiary of Safeway in 2001.

Asda – Outsourced its gift card scheme to InComm. This deal is part of a larger agreement between InComm and Asda's parent company, Wal-Mart, to operate gift cards across different countries.

Sainsbury's – Outsourced its gift card scheme to InComm in 2006. The scheme was running before Christmas 2006, making the retailer one of the first large adopters of gift cards in the UK.

Morrisons – Operated a gift card scheme for around 12 months. Declined to say whether the scheme was outsourced or managed internally.

Waitrose – Has no gift card scheme.

Marks & Spencer – Has no gift card scheme. Technology companies expect M&S to go out to tender for such a scheme in early 2008.

chip and PIN be introduced during 2006. They want to avoid anymore overhauls to the PoS because the work is expensive, time consuming and potentially disruptive

to existing business processes. "It's not uncommon for these retailers to pin down their PoS systems 18 months to three years ahead of time. They only do three or four major releases a year because, if something went wrong, they would take out something like 25,000 terminals," says Tagg.

When InComm set up gift card schemes for both Sainsbury's and the forecourts division of Shell, it used both retailers' existing card payment systems to enable employees to sell gift cards. Most retailers' PoS systems enable employees to top-up customers' mobile phones. The system recognises that the card being swiped is a gift card because the card number is registered to InComm. The transaction is confirmed with InComm's webserver. Everything that needs to be done to the gift card at the PoS takes place within the interfaces that the employees already use. "Although we would like to put a system in place, we cannot interfere with the normal workflow of the PoS. We decided we did not want to train everyone who works at the checkout," says Tagg.

The simplest approach for a retailer is to outsource the gift card scheme. Some UK retailers, however, have decided that outsourcing may be too expensive once gift cards become more popular because they have to pay the outsourcing company for every transaction that takes place. Mark McMurtrie, the marketing director at Postillion, says that his company has sold its software to one High Street

retailer that wanted to process its gift card transactions in-house. The retailer, which declined to be named, hosted the Postillion Card Management application in its own datacentre. It pays the software supplier under a licence agreement, but it has nothing to pay for transactions. "The economics of doing it in-house make sense with substantial volumes. The retailer recognised that transaction volumes, while small at the moment, would grow rapidly year on year so the management team decided to keep costs down. Although gift cards are at an early phase in the UK, every indication is that transaction volumes will grow rapidly," says McMurtrie.

The big retailers have yet to disclose how much revenue they are generating through gift cards. The category is new and, for the time being, it is small so there is little pressure to disclose how successful the first schemes have been. The spread of gift cards throughout the High Street, including general retailers as well as supermarkets, proves that retailers believe they will produce a new revenue stream for them.

The financial health of the companies setting up these schemes is probably the most reliable indicator of the success achieved thus far. The suppliers are optimistic. "We have done pretty well. I can't share figures, but there are not many companies that have grown from zero to the turnover we have achieved in some 18 months. It's fantastic being in at the birth of a new category," says InComm's Tagg.

