

Elsevier

FOOD INTERNATIONAL

The business magazine for executives in international grocery retailing Vol. 10, No.3, September 2007



Fishing from a sustainable pool

SPAR

'If Spar fails, we fail'

How is Whole Foods doing?

Barilla's mission

The global retail business is taking on a new shape – a three-inch by two-inch wallet-sized piece of plastic, the gift card – and a new generation of value-added cards that are transforming this once seasonal selling tool into a year-round marketing powerhouse.

A ticket to consume

Summary:

The gift card is rapidly expanding from the US into Europe with growth in the UK at the forefront. The advantages for retailers are great, not only does the scheme attract new customers who generally spend 40 per cent more than the face value of the card, at the same time the retailers are taking cash in advance of it being redeemed. There are cultural differences within Europe that create vastly different attitudes towards prepaid cards, but experts believe the European market in gift cards could reach 25 per cent of the worldwide market by 2010.

Major stores like Debenhams in the UK or electronics retailer Best Buy in the US are still doing the bulk of the card business. But this new style of merchandising that requires little investment for double-digit returns, is being embraced by every retailer from petrol stations and tattoo parlours to supermarkets. "There's always been a good market in paper vouchers," said Bruce Bower, senior vice president, international for Blackhawk, the gift card subsidiary of Safeway Stores, alluding to the nearly extinct paper-based gift certificates. "Pre-selling revenue is a good thing. You're taking cash in advance of it being redeemed and leveraging some new channels by having one person give another person revenue in your company. The difficulty was customer service. Vouchers were live and couldn't be merchandised out in the open as a customer concept. All that has changed," he said. Gaetano Gianetto, president of Epipoli, a Milan-based research and development firm, agreed. "This can be a very innovative service for retailers. It's not just about selling Coca-Cola or Pampers. It's about selling higher margin services like airline tickets or facial products without the upfront investment." These changes have been highly lucrative for both third-party suppliers of pre-paid cards and for retailers. The gift card market, once thought to be nearing maturity, is running between US\$70-US\$80 billion in the US and could reach

Len Lewis

about US\$90 billion in 2007, according to several observers, who noted that European gift card revenues could reach the same number over the next several years.

Fundamental shift In southern and central Europe the use of prepaid phone cards is very high. This could drive growth in gift cards in Europe, which could represent 25 per cent of the worldwide market by 2010, he said. Gift card numbers are hard to track due to reporting and accounting issues. "It doesn't show up as an individual line item and retailers are loathe to put out numbers because it might attract attention to legal questions surrounding unredeemed gift cards. However, US\$74 billion seems to be the best guess at this point," noted Dan Horne, associate professor, Providence College, who is also director of research and a member of the board of directors of Giftex, a UK-based card information and analysis firm. Technology such as value-added, content-rich cards are driving growth. "There are cards with DVDs that you can put on your computer. You could load it with content like instructional cooking videos from famous chefs. It doesn't add to the cost only the value. The big financial incentive for retailers is that people generally buy 140 per cent of the face value of the gift card purchased. "They also tend to buy higher margin goods because they are less price sensitive. It's a fundamental shift in how people