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New tricks in the gift card business

Gas stations, supermarkets, restaurants are getting into the \$45B business; will big stores suffer?

November 1, 2005: 10:02 AM EST

By [Parija Bhatnagar](#), CNN/Money staff writer

NEW YORK (CNN/Money) - Thinking of giving a Gap gift card? That is soooo last season.

For truckers who haul Santa's loot to stores all over the country, what better way to express your gratitude than with a 7-Eleven gift card, for an 18-pack of Bud Light, or maybe a Slurpee?

Or, if you need an excuse to make over your "shaggy" someone special, how about a gift card for a buzz from Regis salons.

Whether these gift ideas suit you or not, the growing demand for gifts cards has merchants of all sorts scrambling to get in. The result is a flood of new branded cards in the \$45 billion gift card business clamoring for your attention over the holidays.

Bob Skiba, executive vice president with Stored Value Systems (SVS), is forecasting an "explosion" of gift cards sold through outside parties the next two months, including cards from supermarkets, drug stores and yes, even gas stations.

The company is one of the biggest providers of gift cards and card programs to about 350 retailers, including the Gap, Limited Brand, J.C. Penney's, Costco and Exxon-Mobil.

"In five years we've gone from 1,500 locations to 75,000 locations outside of malls, department stores and specialty stores that also sell gift cards," Skiba said. "We're working with spas, restaurants and convenience stores. With this phenomenal growth,



Starbucks holiday gift card for 2005

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we're producing 25 percent more cards than we were for the same time last year."

In the food industry, he credits coffee chain [Starbucks \(Research\)](#) for popularizing the gift card as a legitimate stocking stuffer. Walgreen was one of the first to debut gift cards in the drugstore arena, Skiba said.

Starbucks holiday gift-card this year could be mistaken for a tree ornament. It comes in a cute bright red pouch with the word "wish" on it and a convenient loop to hang it on the tree.

Restaurant chains Arby's, Hardee's and Carl's Jr. will also debut holiday gift cards, Skiba said. "One of the more innovative cards is from Regis Hair Salon. You can actually put a picture of yourself on it," he said. Arby's, Hardee's, Carl's Jr. and Regis Hair Salon are all clients of SVS.

For budget-tight consumers, the expansion of gift cards into non-traditional channels offers the benefit of "one-stop" shopping.

How?

Stopping for gas on the way home, a harried holiday shopper can fill up, pick up a few groceries, and also grab a few gift cards, like a [7-Eleven \(Research\)](#) card, or an online shopping card from American Express. The cards can be used in lieu of cash.

"This is great for your non-typical holiday merchants because it will bring customers who maybe have never stepped into their stores," Skiba said

Industry analysts said the trend may hurt some specialty chains and department stores.

"Convenience stores and supermarkets could divert gift money away from the classic gift channels," said Candace Corlett, retail analyst with WSL Strategic Retail.

"Earlier, retail chains would've competed with each other or with the larger department stores for gift sales. Now they have to compete with anyone who sells gift cards."

According to a recent holiday spending survey from the National Retail Federation (NRF), gift cards ranked as the third most desirable category on consumers' wish list after CDs/DVDs and clothing.

Total gift-card sales reached about \$20 billion in 2004, accounting for just less than half of annual sales. The NRF had projected sales to come in at \$17.3 billion. Deloitte & Touche analyst Pat Conroy, who hasn't yet released his annual holiday spending forecast, said he anticipates total gift card sales to rise from last year.

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PERCENTAGE OF SHOPPERS PLANNING TO BUY GIFT CARDS

Gift cards as a pre-planned purchase up significantly from 2003



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An SVS telephone survey in July indicated that consumers plan to spend an average of \$248 on gift cards during the coming holiday season, up 11 percent from last year and 36 percent from 2003.

The survey was before Katrina slammed the Gulf Coast, causing a post-hurricane surge in prices at the pump. And while prices have been retreating in recent weeks, they remain well above year-ago levels.

Additionally, the percentage of purchasers for whom a gift card is a planned purchase jumped to 84 percent in 2005 from 69 percent the previous year. The survey has a margin of error of plus or minus 3 percent.

"It used to be insulting to give cash in an envelope but gift cards have taken the stigma out of it," said WSL's Corlett.

But as gift card consumption goes up, it will also shift dollars away from merchandise during the key November-December holiday shopping months. This is the two-month period that accounts for as much as 50 percent of retailers' sales and profits.

The only drawback for merchants is that they have to wait until the cards are actually redeemed before they log the transaction as revenue.

"There's higher anxiety for retailers if sales are pushed into January because they're hoping for gift cards to be redeemed," Corlett said.

Merchants, she said, will have to wait even longer before they bring out fresh inventory in hopes of clearing out old holiday merchandise.

On the horizon from SVS are CD gift cards, which the company expects to launch early next year. "These are content gift cards on which you can put your favorite music, recipes or anything else and play it on your computer or take it into stores and use them like regular gift cards," Skiba said. ■

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* - Time reflects local markets trading time.

† - Intraday data is at least 15-minutes delayed.

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