BLACK FRIDAY, CYBERMONDAY, AND NATIONAL GIFT CARD EVE

You’re in good company at the gift card mall

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By Steve Cocheo, executive editor

Ever visit the gift card rack at your local pharmacy, or even a local bank with a marketing bent, and found the store or brand of choice all gone? If you practice brinksmanship on your gift giving, you’ve got a lot of company.

We were recently discussing trends in closed-loop prepaid transaction cards with Mike Hursta, vice-president and general manager of closed-loop prepaid services at First Data Corp. Hursta’s firm publishes a specialized edition of its SpendTrend reports specifically dealing with closed-loop cards. Hursta pointed out a number of trends that First Data and other researchers have noted about the popular cards in recent years.

One is that, while birthdays are the biggest reason that people buy branded closed-loop cards, the two days when the most prepaid cards are sold are Dec. 23 and Dec. 24.

You know how it goes. Any of these scenarios sound familiar?

• “OK, I give up. Nothing we get her ever makes her happy.”

• “Well, he’s your nephew. What does he like?”

• “Jeez, I think they’re getting me a present. I can’t go there empty-handed!”

• “Dear, we still didn’t get anything for the babysitter.”

Not everyone buys the cards at the eleventh hour, Hursta says. But the two or three weeks before Christmas are a boom period.

Also contributing to this is a growing corporate use of prepaid cards, says Hursta. More and more companies buy them in bulk for yearend employee gifts and similar uses.

Cashing in our chips

Now, on the other side of the transaction—redemption--Hursta says the December-January period is notable for several trends. There’s a big bulge in December of card usage--perhaps people with gift cards in the top drawer decide to take advantage of holiday sales, squeezing more out of having received the card as a gift in the first place. There’s also a big bulge in January and into a piece of February, as everyone who received a card for the holidays hits the malls or the computer to turn the credit into something else. Most of February matches the average redemption seen over the rest of the year, and by March, redemption patterns are back to normal.

Hursta says that while closed-loop prepaid cards represent a single-digit share of most retailers’ typical revenue, volume grows several-fold in the holiday period.

Research indicates that people like getting prepaid cards better than they like getting cash. What’s the difference? It’s a matter of attitude, and, perhaps, guilt.

Hursta points out that giving someone a cash present frequently puts them in a fix. Should they really indulge and spend on themselves? Or should they be prudent and put the cash in the bank? Or pay off a bill?

But most closed-loop prepaid cards take away the decisionmaking. They can be redeemed solely at one chain, catalog, or supplier, typically.

“A gift card becomes your license to spend on yourself,” says Hursta.

And, aside from the fact that gift cards always fit, there’s another plus, for the giver.

“For the gift-giver, you have a much higher chance that the recipient will use and enjoy what you give them as a gift,” says Hursta. This overshadows concerns that a gift card isn’t “personal” enough.

Good year for closed-loop prepaid

These holiday-related trends come at a time when closed-loop prepaid cards are already enjoying a very good year.

First Data’s 2011 Prepaid Midyear Gift Card Performance Update noted that sales of the cards grew at a higher rate than the U.S. economy.

And the firm’s 2011 Prepaid Consumer Insight Study found that the average spend per gift card increased to $58

this year, from $34, and that the total amount of prepaid gift cards purchased by consumers in 2011 was just over 5.

And the latter study also found that, in spite of the poor economy, givers increased their generosity. The average closed-loop gift card value rose by over 70% compared to 2010.