

Valuable insight for both new and veteran merchant services salespeople.

Please enjoy these excerpts from Marc Beauchamp's indispensable publication *How to Survive and Thrive in the Merchant Services Industry II*.

Chapter Fourteen- "Gift Cards"

Chapter Fifteen- "Loyalty Cards"

Arm yourself with the knowledge to excel in the payments industry.

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www.BankCardBootcamp.com
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About the Author

Marc Beauchamp is a dynamic and engaging entrepreneur who has developed several successful companies. He has over 20 years' experience in sales, training, and marketing in various roles. In addition to merchant services, he has sold payroll systems, human resource management solutions, computer software, hardware, Website design services, and a variety of financial and insurance products.

Marc has served in multiple capacities, including Account Executive, National Account Manager, Sales Manager, Marketing Director, Vice President, and CEO.

He has worked in the merchant services industry for well over a decade. Marc has hired and trained several thousand merchant services professionals over the span of his career. At one point he managed a full-time outside sales force of 80 representatives, an inside sales force of 25, and an office staff of 8 with sales offices in most major markets in the United States.

Through his consulting company, Performance Training Systems (www.bankcard101.com), Marc has provided consulting and training services to literally thousands of ISOs and agents. He is uniquely aware of the challenges facing field sales representatives, sales managers, issuers, acquirers, and ISOs.

In 2009, in order to reach a wider audience and provide unbiased and affordable training, Marc founded the Bankcard Boot Camp (www.bankcardbootcamp.com). The Bankcard Boot Camp's mission is to provide industry-leading education, sales training, and resources to help merchant-level salespeople thrive in this competitive business.

► Chapter Fourteen ◀

Gift Cards

Contributing Writer Christian Murray

Excerpted from
How to Survive and Thrive in the Merchant Services Industry II
by Marc J. Beauchamp

Gift Card History

The concept of the gift card was originally introduced by retailers like McDonalds and JC Penney in the early 1970s and 1980s using paper and thin plastic cards.

Gift card programs began getting more exposure and recognition in 1995 with their introduction by a few larger retailers, such as Blockbuster and Kmart. These retailers adapted gift card systems to replace paper gift certificates and to help streamline tracking and reconciliation.

The systems continued to gain momentum and popularity after other large retailers began aggressively promoting the cards through the media and TV. Within a few short years, the gift card concept had proven its worth and overall necessity to retailers of all types. One of the reasons the gift card technology continued to grow and become mainstream with retailers of all types was ultimately because of the media and consumer awareness that other retailers helped build. It was also a product that solved issues that all businesses had with using manual paper certificate systems.

The gift card market has come a long way over the years, and today card sales represent an enormous market with volume exceeding \$97 billion in 2007.

Today there are many providers that offer these solutions but only a select few that specialize in supporting the ISO sales channels exclusively.

Gift Card Facts

Information relating to the growth and usage of gift cards can be obtained online from hundreds of sources. Below are key statistics you may find useful.

- Gift card sales totaled \$97 billion in 2007, up from \$83 billion in 2006, according to data from the Tower Group.
- According to a Comdata survey, consumers spent an average of \$203.00 on gift cards during the 2007 holiday season, up from the \$186 they expected to spend in 2006.
- Synergistics Research reports that 64% of surveyed households find a multi-purpose gift card to be valuable.
- According to a January 2007 National Retail Federation survey, 79.7% of consumers said that they plan on buying at least one gift card next holiday season.
- In November 2006, only an estimated 5.6% of consumers have completed more than two-thirds of their holiday shopping, and 68.5% have only completed 10% of their total holiday shopping. Most consumers use gift cards as a last-minute gift.

- The biggest change in 2007 gift card usage compared with 2006 is the large increase in consumer preference for cash cards. 39% of total gift card recipients prefer to receive cash cards.
- An estimated 10% to 15% of gift card recipients never cash in cards. Gift card recipients also bring new customers into stores that they might not have otherwise visited.
- While shoppers can easily purchase gift cards at a variety of locations, most consumers (76.7%) chose to buy gift cards from stores where the card will be redeemed.
- One in six adults had "re-gifted" a gift card they received.
- Consumers reported receiving an average of 3.8 gift cards in the 2007 holiday season.

Gift Card Purchasers Say

- 93% are likely to purchase additional gift cards in the next year.
- 56% prefer having the ability to reload or add value to a card once used.
- 69% prefer a card for which they choose the card value vs. a preset value and
- 78% decide to buy gift cards prior to entering a store, reflecting strong gift card awareness and satisfaction.

Over the years gift cards have become a staple value-added product that many ISOs and MLSS offer to their merchants. These solutions continue to serve as a very important retention tool within the payment industry. The programs continue to assist merchants with improved tracking, reduced fraud, streamlined operations, and increased cash flow.

So what is a Gift Card?

A gift card is made of PVC plastic and has a magnetic stripe on the back. The card is sold to the consumer at face value and money is then collected upfront by the merchant.

After payment is taken the card is swiped through a terminal or other point-of-sale system to add value or redeem balances. Cards are typically printed with the merchant's information or artwork on the front and additional disclosures or text on the back.

Standard cards are a CR-80 30 mil thickness and are offered in various types of materials like PVC plastic, Teslin laminated polyester, and Styrene (a pressed paper stock). The most widely used card stock is PVC.

Sample: Front and back of card



Type of Gift Card Systems

There are two types of gift card systems that are offered today. These systems are divided into “closed loop” and “open loop” programs.

Closed Loop Programs are able to be used within the locations that have an application or download inside of a terminal or POS system. Some software options for processing cards may include windows-based and virtual terminals. These cards can be used within a “closed loop” environment and are not able to be used outside of the merchant’s locations.

- Closed loop programs offer a wide variety of options for merchants of all sizes. The cards can only be used within the location(s) designated by the merchant. Closed loop programs are very easy to manage and give merchants the tools needed to track and reconcile sales and redemptions.
- Closed loop programs are a preferred option as they are affordable and easy to launch.
- Merchants can customize the cards with their logos or artwork.

Open Loop Programs are cards that have a Visa, MasterCard, American Express, or Discover logo. These programs allow merchants to become an issuer and add pre-paid value to the card. Cardholders are not limited to using the card within a specific merchant location; they can use it anywhere that accepts the card brand.

These programs are more complex and are targeted to merchants that typically are not concerned with keeping the money within their location(s).

Types of Gift Card Programs

Merchants can utilize plastic card programs in many ways other than standard gift cards.

Depending on the provider and the programs available, merchants can select the package and features that best fit their individual business. Adapting alternative ways of selling cards to merchants is always helpful and can differentiate a sales agent from the competition.

Below are examples of several unique forms as prepaid program can take:

Standard Electronic Gift Card

The standard electronic gift card replaces the traditional paper-based gift certificate. Cards are activated with a pre-paid balance and may be used multiple times until the original balance is depleted.

Retail Merchant Credit

Cards are issued in place of a cash refund or traditional credit certificate, to provide an in-store credit, or to provide an incentive for customers to visit the store.

- Allows merchants to keep money in the location without giving cash back on returned items. Separate tracking for merchants so they can report on returned items.

Merchant types: retail, storefront, or other tangible product that is purchased from a merchant location.

Corporate Voucher Card

Replaces paper voucher systems typically used by retailers for business-to-business transactions or "House Accounts."

- Can be used by any type of merchant that wants to offer a house account charge or extend credit to customers.

Merchant types: bars, restaurants, service-related, golf courses, "over-55" properties, corporations, fleet accounts, and more.

Single-Authorization Card

Normally used to provide a vehicle for a single purchase of a qualified product or amount against the card. Only one transaction will be authorized against the card regardless of the value of the purchase.

- Merchants utilize this type of program for donations or charity.
- Can also be used for marketing; for example, a merchant could activate a group of cards for \$5.00 and pass them out at an event to attract new customers.

Employee Incentive Card:

Incentive cards are mainly used to reward employees who meet specific criteria. Value may be added at any time for additional incentives. This program is very helpful to businesses that wish to track employee incentives.

So does the merchant benefit?

There are many benefits to merchants that implement these systems. Below is a list of benefits that merchants can take advantage of when launching a gift card program. Results may vary depending on a variety of factors and their local demographics.

Increased sales and cash flow

- The sale of a gift card itself immediately generates revenue for the merchant.
- Revenue generated can be as much as 60% depending on marketing and ongoing promotions.
- Allows upfront cash to be utilized by merchants to expand and grow business.

Breakage and unredeemed balances

- 10–20% breakage on average.
- In most states, breakage can be retained by the merchant.

Better tracking and reporting capabilities

- Less time reconciling sales vs. redemptions.
- The ability to capture cardholder information.
- Provides sales and card activity by location(s).
- Manage user privilege levels at locations.

Reduces fraud & duplicate usage

- Random non-sequential numbering helps prevent fraud and theft.
- Systems have additional security features to help control users and clerks.
- Eliminates the potential of duplicate cards from being issued.

Builds brand awareness

- The card itself acts as an advertisement in someone's purse or wallet, where it may be seen on a regular basis by the recipient.
- Attracts shoppers to choose merchants that offer card programs over others that do not.
- Great marketing tool in a local community.

No cash back to customers

- System helps manage returns and exchanges without giving cash back to be spent outside of the location (s).
- On average, merchants can enjoy a 3-month float on funds collected.
- Reduces cash refunds because card users are choosing the gift they desire instead of receiving a gift they might return.

Ease of use and faster transactions

- Helps speed up transactions at the point of sale.
- Processing gift cards is similar to a credit card transaction.
- Less steps at the point of sale increases sales and efficiencies

Eliminates manual bookkeeping

- Most online reporting systems can provide merchants with reconciliation reports and other data.
- Saves merchants lots of time with tracking and reporting total outstanding liability on cards.
- Point and click technology that can be used to track marketing or promotional efforts that a merchant has launched.

Low cost of entry

- Considering how the systems streamline operations and tracking, many merchants are able to save time and money using these solutions.
- Most providers offer affordable options like transaction-based and flat-rate monthly solutions.
- No interchange fees, membership dues, or assessments associated with gift cards.

Attract new customers

- Card programs promote businesses and help turn one-time buyers into lifetime customers.
- Cards that have been received as gifts typically draw in customers to the location that would have never otherwise visited or purchased from the merchant.

Higher ticket prices or purchases for merchants

- Average ticket prices on gift card transactions are 20% to 50% higher... research shows that people spend, on average, 61% more than the value of their card.

- Promotes higher-than-normal ticket sizes for merchants.

Promotes impulse purchases

- Cards are often bought as an impulse purchase that otherwise would not have occurred.
- Customers will tend to buy cards that are promoted at the point of sale.
- Offering cards solves last-minute gift ideas for customers that don't have the time to shop.
- Can be the "perfect gift" for loved ones who have no idea what to purchase.

Added control over activated cards

- Most systems offer the merchant real-time controls to block or cancel cards within their system.
- Merchants are able to block lost or stolen cards that have an active balance.
- They can issue new ones without having lost certificates picked up and used in addition to the replaced one. With paper certificates, the merchant would traditionally issue another certificate in the same amount to accommodate their customers.

Helps manage donations and charitable contributions

- Tracking cards separately from gift cards can help merchants with ongoing donations and charitable offerings.
- By issuing these cards, merchants can utilize the marketing efforts of local schools and charities in their communities.

ISOs and MLS Benefits:

For many within the payments processing business, gift cards greatly increase retention and profits. Merchants are less likely to cancel a bankcard account or leave a processor if they have outstanding gift cards in customer's hands. For some, gift cards are the glue that holds together long-term merchant relationships.

For many agents and MLS sales professionals, the gift card programs offer a doorway into accounts that normally would not be interested in their processors services.

- Helps increase sales and merchant retention for ISO.
- Promotes additional terminal upgrades and leases with merchants.
- Differentiates sales agents from the other agents who are solely selling on price.
- Offers merchants additional products other than standard credit card processing.
- Builds confidence and helps agents secure closer business relationships with merchants.
- Helps with setting appointments with and cold calling on merchants that otherwise would not book an appointment.
- Builds more intimate long-term relationships that can lead to additional sales and profits.
- Increases opportunities for selling agents to receive local referrals to other merchants that may want a gift card solution.

Gift Card Sales Tactics

Depending on your individual strategy, there are a multitude of sales scripts and presentations that can be used. Most agents will determine the best method for their sales efforts. For some, it can depend whether they are selling in person or over the phone.

Having a solid presentation and understanding the value you're adding to the merchant is paramount. Here are a few icebreakers that may help you get your foot in the door.

Hello... do you sell gift certificates?

If not, would you like to learn how to increase sales and tracking for your business?

Do you currently give cash back?

Would you like to learn how to keep that money in the store?

Do you have issues with tracking & reporting on gift certificates?

Would you like to know how much money is out there?

Do you offer incentives to your customers?

Did you know you could increase your average ticket size by as much as 100% using gift cards? By rewarding consumers for purchasing cards with higher balances, it's easy to double your average ticket.

Example: For purchases of \$100.00 or more on a gift card, receive an extra \$10.00 on the card. OR, if they add value to an existing card, you can offer an incentive.

Are you offering point-of-sale merchandise that your customers can buy?

By having a special offer or promoting the cards at the point of purchase, you have a much better chance of getting a sale. Can I show you how to use Gift Cards to get more impulse purchases and put more cash in your pocket immediately after launching a solution?

Do you have problems with fraud or duplicate usage on paper certificates?

We have solutions that greatly reduce the possibility of theft and that make clerks and servers accountable. This solution also prevents duplicate paper certificates from being used and altered by customers or staff.

Are you looking for new ways of attracting new customers?

Having gift cards and promoting within and outside of your location can reel in new customers who are looking for a gift idea for a family or friend.

"Let's spend some time today and review some marketing ideas that will help attract new customers to your business."

Have you heard of the many benefits that gift cards offers retailers?

Gift cards improve sales, tracking, reporting, and security, and they help save time and money spent reconciling paper-based certificates each year.

Would you be willing to learn about how to market your business using a shop local card program?

*Did you know merchants are teaming together to offer consumers a discount or rewards card that can be used all over towns across America? Would you like to learn more about how you can participate from increased traffic and **FREE** advertising?*

How much money are you spending on marketing? What is your return on investment?

Can I show you how a 500–1,000 gift card package can make you a large return on your initial investment and at the same time help transform how you currently sell paper certificates?

Are you looking for a more affordable means of marketing your business?

How much money have you spent on radio, direct mail, and newspaper advertising? Did you know launching a gift card program is the most effective way of generating immediate cash flow the same day you launch?

Have you experienced a drop in sales this season or over the past year?

I am sorry to hear about that... we have seen a spike in merchants who are looking for solutions to help them increase sales. We are having great success working with our merchants and helping them implement money-making solutions.

Here are a couple more alternative selling ideas:

School Lunch Cards

Allow a parent the ability to put funds on a student's card for meals or other items within the school.

College and University Card

Card can be replenished by parents for textbooks and meal purchases on campus. It prevents the money from being spent outside of the school. It ensures the student gets what the parents or family intended.

Dentist Card

Card can be used for reoccurring visits or cleanings. Dentist can offer a discount for prepayment.

In-house Debit Card

For any business that wants to extend credit to its customers. Works great and keeps track of spending and credit accounts. Easy to manage and implement.

Car Wash Card

Card can be sold at car wash for prepaid car care. Rewards or loyalty can be bundled on same card and reward customers for repeat business. Reward could be a FREE wash or detailing.

Membership Card

Merchant can sell levels of membership and the card can offer larger rewards based on level of membership. Merchants can earn revenues by merchandising the card and can also increase overall business and repeat visits.

Coupon Card

Cards can be printed with a pre-determined dollar amount or percentage discount off the customer's next visit. These cards can be given away FREE at local events or mailed to new home buyers after they move into town.

Golf Course Cards

Golf courses can use these programs to help manage their pro shop, snack bar, restaurant, and pre-paid golf memberships. Members can use a single card for everything on the property. Often, golf teachers are given accounts to use on site, and the card would be a great solution to track and manage balances.

Retirement Communities

Cards can be issued to people within the community and activated with a spending limit to be used anywhere on the property. Makes it easier for the elderly and also keeps track of spending and money available.

Shop Local Card

Consumers can purchase a special card that can be purchased or redeemed anywhere within a circle of participating merchant locations. Consumers will love the fact they can use the card at retailers and restaurants or service providers. The card program would help promote local business and would help generate spending in the local community.

Charity Cards

Cards can be merchandised and sold to merchants that benefit a local or national charity. A percentage of the card issuance proceeds can be sent to the charity after the purchase is made. These programs are a great way to sign new merchants up and contribute toward helping people.

As you can see, just selling gift card programs is not enough. The key is uncovering unique ways in which your merchants can benefit from this technology. Depending on the target merchant types that are being focused on, a selling agent or ISO needs to understand more about the type of business and in what ways the card can help improve efficiencies and generate cash flow.

Finding unique ways of marketing different types of card programs can greatly strengthen and diversify your portfolio.

Sources: Gift Card FACTS Report 2006, BIGresearch, American Greetings, Profit Point, American Bankers Association, ZDNet Research, Corporate Research International, Stored Value Systems, National Retail Federation. All material and studies listed are owned by their respective sources.

► Chapter Fifteen ◀

Loyalty Cards

Guest Writer Christian Murray

Excerpted from
How to Survive and Thrive in the Merchant Services Industry II
by Marc J. Beauchamp

According to a recent article by Colloquy Magazine, ***“A loyalty program is one that seeks to identify, maintain, and increase the yield from customers through long-term, interactive, value-added relationships.”***

In this competitive business climate, many merchants are looking for more, innovative, ways to increase customer loyalty. This is one of the hottest segments of the merchant services industry. There are thousands of loyalty programs in the marketplace. The loyalty industry is estimated at \$5 billion and rising.

That is why loyalty and rewards programs have taken center stage for many payment professionals. Merchants can truly benefit from day one that a loyalty and rewards program is launched. Loyalty- and rewards-based solutions are the ‘stickiness’ that is critical to helping merchants retain loyal business and increase visits and profits.

Companies everywhere are implementing and advertising customer loyalty programs. Loyalty programs are now available at your local carwash, auto repair, video store, retailer, and restaurant.

Companies realize that their most precious asset is their existing customer base. Merchants are acutely aware that it costs much more to acquire a new customer than to market to an existing customer.

So What is a Loyalty or Rewards Card?

Loyalty or rewards programs are launched using a card made of PVC plastic that has a magnetic stripe on the back. The card can be used to accumulate points, dollars, or rewards in a merchant's store or business. The card tracks visits, products purchased, or total dollars spent. The merchant can predetermine the levels of rewards or points available in the program.

Consumers would then visit the location(s) and present the card at the time of sale. The card is then swiped and the system calculates the reward or dollar-based credit to the card. After a predetermined level is reached or a particular product is purchased, the customer can be rewarded with a credit or with the cash value on the card.

Programs vary from merchant to merchant depending on the provider, equipment, and applications available.

Types of Loyalty/Reward Card Programs

Several types of programs are available and can be easily implemented into most the majority of business types. Some reward-based systems may also be combined with a gift card program. The “Combo Card” offers a pre-paid balance and accumulates ongoing points or dollar-based rewards. This allows merchants to provide rewards based on the number of times a consumer visits or how much a consumer spends. Here are some examples:

- **Frequency Reward Program:** The Frequency Reward Program offers a flexible way for customers to purchase a set number of items or receive a free or discounted item or service.
- **Dollar Reward Program:** The Dollar Reward Program offers customers a way to earn rewards based on their spending. The points can be converted to a dollar value, added back onto the card automatically, and used toward future store credit.
- **Rebate/Discount:** Allows merchants to reward consumers based on a percentage of the sale amount. Most systems will handle the conversion and calculations and add the percentage to the card after the purchase.
- **Frequency Program:** Frequency programs offer a customer a reward based on a set number of items purchased or visits. The merchant can choose the number of purchases required and the item/service that the reward balance can be redeemed for.

Building a successful program that will generate positive returns on investment for merchants requires some basic analysis of the surrounding demographics and local competitive landscape.

Not all merchants will use the systems the same, and many will require customized solutions to help match their marketing goals. For some, it's simply time and money that is required to manage a successful campaign. For others, creating enough value and marketing the programs effectively is what is needed.

Types of Marketing Strategies Using Cards

Loyalty is a useful predictor of how customers will respond to marketing offers. Moreover, customer loyalty is increasingly viewed as an important indicator of retailer performance. There are a variety of marketing strategies that a merchant may deploy. Finding the right fit depends on the type of business, type of service, or specific local demographics.

- **Relationship Card Marketing:** Usually focuses on developing a long-term relationship with customers. This program often helps merchants target what type of items or services each customer desires the most. This marketing tactic often results in much more word-of-mouth activity, long-term purchasing behavior, and a willingness to participate in surveys and other targeted marketing.
 - Example: Merchants may include a questionnaire that asks what the consumer's interests are and then utilize that data to send specialized product specials or offerings.
- **Transactional Card Marketing:** This strategy is most widely used in a retail environment and continues to be an effective way to reach larger amounts of customers with minimal effort. This approach creates passive, reactive, and short-term customer relationships and does not focus on long-term customer loyalty and customer retention, as relationship card marketing does. This is often used in formulating marketing campaigns that result in greater success in a shorter period of time.
 - Rewards can be instant or can be easily reached by customers. Program is designed to offer faster results and build a loyal customer base with minimal effort other than internal promotion and marketing.
- **Shop Local/Coalition Card Marketing:** Programs that can be used at multiple locations and benefit the customer by offering more value. Consumers can visit the participating locations within the closed-loop circle and earn rewards based on standard or custom program types. These solutions are becoming very popular with small- to medium-sized


businesses. Building more value and combining marketing efforts can greatly increase the success of the programs.

- Example: Use the card to go to dinner for Italian tonight and then use it the next day in a shoe store followed by a sub shop for lunch. Offering consumers a multitude of discounts or rewards on a single card creates substantial benefits to the cardholders in that community.
- **Frequency card marketing:** Can increase the number of visits, purchases, or items that customers buy in a location and rewards consumers based on their activity and purchasing behavior.
 - Example: A merchant may reward consumers on a card based on how many times they frequent a location or on how many advertised items they buy.
- **Enforced card marketing:** Would require a consumer to automatically register or participate in the program in order to become a valid member or to receive long-term services or perks from the merchant.
 - Example: requires a login online or in-store sign-up in order to begin utilizing services or benefits on a card.
- **One-to-one card marketing:** Provides direct customization for each user or customer. Not typical of card programs, but can benefit merchants by customizing the solution to offer in-person discounts or other promotions that may be chosen by the consumer.
 - Example: Offer specific reward levels based on options that can be offered to each consumer. Criteria can be length, account status, or dollar volume in purchases. Cards can be used to track and reward.
- **Punch Card Marketing:** One of the original marketing methods that has been in existence for many years. Most effective type of marketing to attract repeat business.
 - The majority of these solutions are managed on a paper card and holes are punched for each visit or purchase made.
 - Cards can replace this manual punch-hole system very easily. Card is swiped and processed vs. punching holes. Utilizing the cards would provide much better tracking and functionality for the merchant.

How Do Merchants Benefit by Utilizing a Loyalty and Rewards Program?

There are several major benefits that come with operating a loyalty or reward system. Some of the many benefits are the following:

- **Enhanced image/brand reinforcement.**
- **Promotes increased spending and repeat business.**
- **Ability to capture customer information and track purchase history.**
- **Tracking and reporting allows merchant to easily manage program.**
- **Creates a more personal relationship with customers.**
- **Distinguishes the merchant's business from the local competition.**
- **Card members are more likely to refer others to visit.**
- **Promotions or special events can also be launched using cards.**
- **Solutions are affordable yet offer robust functionality to manage programs.**
- **Better ROI than traditional marketing methods.**
- **Reduces labor cost and provides a streamlined process at the POS.**



Additional benefits can be realized by business owners if they truly get behind the program and promote it aggressively. You, as a merchant-focused salesperson, need to ensure they are taught how to use the program properly or it will not generate the desired results.

Keep in mind not all programs require the card to be printed with “loyalty card” or “rewards card”; each merchant should name its program based on how it plans to come to market.

Examples may include: **Preferred Guest Card, Savings Card, Discount Card, VIP Guest Card, Your “Club Card,”** or any other branded name that fits best.

There is a True Need within the Market

Successful loyalty or rewards systems are the ‘stickiness’ that merchants need in today’s competitive market. Finding the right “value added” solution for each merchant is not cookie-cutter and does require probing and needs analysis on the part of the selling agent.

The true power of card marketing is a valuable tool in the payment professional’s product suite.

Loyalty applications are another excellent way to get your foot in the door of a potential customer. Merchants are much more willing to talk to someone about an opportunity to increase their traffic, profit, and customer retention than they are about saving money on credit card processing.