

Dramatically Increase Profit with a “Gift Card with Purchase” Program

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Gift Card with Purchase Program Overview

Most merchants agree that a plastic gift card program will increase sales, especially during the holiday buying season. Many merchants institute a simple gift card program with the intention to sell cards like any other product in their store. This is the process of waiting for someone to visit the store and buy a gift card from the retailer. Some merchants promote gift cards within the store and on their web site, but they are still missing out on the most effective way to dramatically increase sales and customer loyalty throughout the entire year.

This white paper, produced by ProfitPoint Inc., explores the power and effectiveness of the “Gift Card with Purchase” program. This incentive-based program is a proactive, cost-effective way for merchants to increase sales volume, customer retention, average ticket, and overall profitability. This paper will provide multiple real life examples of retailers whose Gift Card with Purchase Program have made a dramatic impact on their business. It also explains what savvy businesses of different sizes and industries have known for years, that Gift Card with Purchase needs to be a core marketing tool, not a secondary promotion. This is why companies like Best Buy, Saks Fifth Avenue, L.L. Bean, and many others utilize this type of program to make a significant impact on their bottom line.

Gift cards are great promotional tools to drive certain consumer behavior. Merchants should use the Gift Card with Purchase program to drive consumers to spend more at the time of purchase. Consumers respond well to gift cards because they understand their value. If a merchant wants consumers to buy a certain item or spend a certain amount, then reward them with a gift card to do it. A promise of “15% off” is intangible to the consumer and has less meaning to them. Receiving a gift card at the time of purchase or through the mail after the purchase has a more powerful effect. It also dramatically increases the rate for which the consumer will return to the store and how much they spend.

Before we look at our two successful case studies, it is necessary to understand the structure of the program.

Program Guidelines

There are a few fundamental guidelines to creating a successful Gift Card with Purchase Program.

1. Merchant must have an electronic gift card program. This is usually done through a 3rd party provider like ProfitPoint, Inc. ProfitPoint provides the necessary tools needed by the merchant to be successful. ProfitPoint will track the card values, provide real-time reporting, marketing support, and customer service. This is something that the merchant usually can't do in-house because of equipment or cost limitations.
2. Merchant should design new gift cards to reflect the “Gift Card with Purchase” promotion.
3. It is highly recommended to put an expiration date on the cards. Merchants don't have to worry about adhering to state escheatment laws as Gift with Purchase gift cards are promotional cards.

Promotional monies are not subject to these laws, thereby not costing the merchant any additional loss of revenue. The most popular program for retail merchants is to set the expiration date 30 days after the promotion has ended. This promotes a quicker return visit from the customer.

- Example: Promotion runs from Aug 1st to Aug 15th. The issuing merchant will set the gift cards to expire Sept. 15th.
- 4. Use the program to incentivize the customer to reach certain spending levels.
 - If the average store ticket is \$75, then set the spending level at \$100. This will increase the merchant's average ticket while increasing their profit margin.
- 5. Once the customer hits the approved spending level (\$100), then the merchant will reward them with a \$25 gift card to be used on the next visit (within 30 days). Since the merchant's average ticket is \$75, the customer will spend a minimum of \$50 while redeeming the \$25 gift card. The net result is an extra \$75 in the pocket of the merchant and an extra visit from a customer, which builds loyalty.

Advantages of a Gift Card with Purchase Program

1. Cost-effective for merchants of any size. Low costs to start the program that only includes gift card printing and, in most cases, small transaction fee. Variable costs driven by performance of the program.
2. The Gift Card with Purchase Program regularly produces high returns. Merchants using ProfitPoint's GWP program are consistently seeing 30-40% returns.
3. GWP will increase the merchant's average ticket. This action is two-fold: 1) The consumer will spend more to attain the promotional gift card. 2) On the return visit, consumers will spend 30-40% more because they have a gift card.
4. Retain and Reactivate Customers. GWP is a great way to offer a program that provides a competitive advantage in the marketplace. Numerous studies show that the consumer values gift cards more than gift certificates or coupons. GWP offers a professional appeal that usually only the big box retailers can offer. It is a great way to collect important marketing information and spending habits about your customers.
5. This is a flexible program that can be used to promote certain products, seasonal events, etc. Plus, it can be implemented quickly and easily.
6. Provides the ability to target customers effectively in short term and long term.

Case Study 1 – A Sweet Return on Investment

A large candy distributor/retailer offers a multi-channel Gift Card with Purchase Program as part of their holiday and post-holiday marketing program. This merchant has an average ticket of \$25 that currently offers gift cards in their stores and on the company web site. The merchant had special cards created with \$10, \$25, \$40 denominations printed on the front. Depending on the dollar amount spent by the consumer, they would be immediately rewarded with one of the Gift with Purchase Program gift cards. The promotion is listed from mid-December to early February as part of a major push to increase holiday and post-holiday sales.

This retailer followed ProfitPoint's model for implementing and utilizing the GWP program to ensure maximum results. The retailer printed separate gift cards with expiration dates to ensure quick return visits from its customers. The program was clearly defined within the store and on the web site. The retailer also used multi-channel marketing to effectively reach its customer base. The retailer set the reward amount above its average sale to increase the average ticket at time of purchase. Also, the retailer collected important customer demographic information from each customer that qualified to more effectively track the program.

A quick look at the results shows how a company committed to this program can produce excellent returns. During the promotion period, the merchant issued a total of 211,873 Gift with Purchase Program gift cards. This means over 200,000 customers spent more than \$25 to qualify for the program. By offering this program, the merchant produced over 7 million dollars in net sales. 43% of the cards were redeemed within the promotion period. The retailer enjoyed a ticket uplift of 46% from the redeemed cards. Almost half of the consumers that qualified during the promotion returned to spend more than the value of the gift card.

GWP ROI Calculator

Number of Customers that Qualify X Average Ticket Increase = Amount of Ticket Uplift Revenue

211,873 X \$18 = \$3,178,095

Number of Redemption Sales X Average Ticket = Bounce-Back Revenue

91,105 X \$25 = \$2,277,625

Ticket Increase Revenue + Bounce-Back Revenue = Net Revenue of GWP Program

\$3,178,095 + \$2,277,625 = \$5,455,720

The ROI model above puts the results into perspective for our case study merchant. The large candy retailer enjoyed \$5.5 million (approx) in net revenue created by the program. Total cost is figured by the discount given on each particular card multiplied by the costs of the card printing, transaction fees, and promotional material. Total costs of the program equal \$2.5 million (approx). Total revenue generated by Gift Card with Purchase Program is \$3 million. This is a 45% return on investment for the retailer. Very few, if any, marketing programs offer such a large bang for the buck.

C Case Study 2 – Increase Retention & Build Loyalty

An upscale clothing retailer decides to reward its customers by fulfilling a gift card to customers that spend a certain dollar amount in one of its 22 stores. The retailer sets the reward level 30% above its average ticket to ensure an increase in the average sale amount. Once a customer reaches the pre-set reward level, the GWP gift card is mailed out to the consumer, not given at the register during the purchase. This is a slight variation on the GWP program and from case study #1. This allows for more personalization of the program, but also reactivates its customers to come for another visit.

In order to qualify for the \$50 gift card, a customer must spend \$300 in the merchant's location. The consumer has 30 days to redeem the gift card once they receive it through the mail. With a high average ticket, any extra return visits by the consumer prove to be very valuable to the retailer. Customer loyalty is essential to the survival of our case study retailer. The retailer is using customer information collected about buying habits and utilizing the Gift Card with Purchase Program to execute an effective marketing campaign. The goals of the program are to reactivate buyers while increasing customer retention, increase the retailer's average ticket, and provide a competitive advantage.

A look at the numbers shows a program that provides high returns against low startup costs. More importantly, the retailer is continuing to develop its relationship with the consumer. Over 3,000 of the 50,000 gift cards mailed were redeemed during the promotion period. This is a 6.5% return rate for a direct mail campaign, much higher than typical direct mailings. The customer must spend \$300 to qualify for the \$50 gift card which also created 30% ticket uplift on the return visit. Total net revenue is found by taking the amount of cards redeemed multiplied by the \$300 qualifier, along with adding in the 30% ticket uplift. Total net revenue generated by the program is \$1.2 million (approx). Total cost is figured by cost of cards, mailer, \$50 gift card discount, and transaction fees. Total costs of the program are \$230,000 (approx). Total Revenue generated by Gift Card with Purchase Program is \$1 million (approx).

Conclusion

The case studies provide two unique, but effective incentive program examples utilizing Gift Card with Purchase Program to increase sales and customer retention. Today's consumer market calls for greater customer satisfaction between the merchant and their customers. Consumers are less likely to respond to simple, traditional offers of "20% off" or "Buy One get One Free". Gift Card with Purchase Program provides a new approach to incentive marketing. It is taking the merchant's existing gift card program and using it as an effective, powerful sales tool. This increases buy-in from staff (already know how to use the gift card program) and reduces start-up costs of the particular campaign. Low investment and high returns is the blueprint for success in today's ultra-competitive marketplace. The Gift with Purchase Program provides retailers of all sizes that exact blueprint for success.

Gift Card with Purchase Program is a flexible program that is available to merchants of all sizes and industries. While the case studies are from two mid-size companies, smaller companies can enjoy the same dramatic returns by using this program. The difference is our two case study companies made a commitment to make the Gift Card with Purchase a priority in their business model. Any merchant with an electronic gift card program (usually through a third-party provider like ProfitPoint) can start using a Gift Card with Purchase Program immediately. No other incentive marketing program can compare with the flexibility, low cost, and high returns of the Gift Card with Purchase program.

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