

RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

The "softer" side of Gift Cards

Most of the coverage regarding gift cards is concentrated on the marketing and customer service aspects of the concept.

We thought that we would take a brief look at gift cards from the perspective of information systems, considering the efforts and challenges required making the programs successful.

IS managers in most retail segments need to be thinking and preparing for the Gift Card. One POS software developer to whom we spoke indicated that while only 10%-15% of their existing retail customers had a gift card program in place, gift card programs are one of the hottest areas for their retailer customers.

The Gift Card advantage

What do gift card programs provide over its predecessor, the paper gift certificate? As seen by store operations and finance executives, the implementation of a gift card provides a retail venture with the opportunity to streamline process as it eliminates a variety of heretofore less durable pieces of paper called gift certificates, and store credits, while it provides controls for validating and authenticating the medium.

Gift cards provide the customer with an easier-to-carry instrument (tender) that the customer can not only use her/himself, but also can give away as gifts. Instead of giving back hard cash for a store credit, the retailer can issue a new gift card or recharge the customer's existing gift card. The gift card also affords parents with a way to control the amount of non-cash they give to a child to spend, while ensuring that the child spends that money in stores of the parents' choice. Parents can add value to the card at their discretion.

Although we did not conduct a statistical survey to determine the percentage of retail companies with a gift card program currently in place or planned, we have spoken to retailers representative of the retail segment in which the gift card concept is more likely to be adopted. We learned, for example that Chico's a very popular and successful specialty apparel retailer does not yet have such a program but is planning to implement one. Other retailers to whom we spoke, such as J. Crew, and KB Toys, have such programs in place.

Who provides the services?

There are various companies that offer the gift card validation and transaction processing service. The better known providers are SVS (Stored Value Systems, Louisville, KY), Smart Clixx (Raleigh, NC) re-sells an application designed by well-know credit transaction router AJB Systems (Montréal, Canada), and Value Link (Greenwood Village, CO). The companies differ from one another in their pricing structure (per card issued vs. per transaction processed), the amount of reporting they provide the retailer, and the customer service (IVR technology) they provide to the consumer. Praxell (NY, and Israel) and Givex (Toronto, Canada) are two gift card administrators.

One POS software developer, Datavantage, will be offering the gift card validation and transaction processing themselves.

STS, which routes all credit transactions for its clients, passes the gift card transactions through also, to the proper gift card processor.

Systems considerations

From an information systems viewpoint, it appears pretty clear that, to derive the most benefit for marketing and customer service purposes, the implementation of a so-called

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“stored value” gift card program must encompass at least the following characteristics and satisfy the following needs.

- **Central** repository (database) of card information so that any card balance can be accessed in real time from any store or Internet location.
- Perform a real-time verification of the card as active and in good standing.
- Query balance on a card on a real-time basis, at any location.
- Make use of industry standards such as the magnetic stripe reader for purposes of communicating effectively and accurately with the POS device.
- Coordinate POS transactions with the gift card processor/administrator such that a customer can *purchase* additional value to the card, or the system can automatically add value to the card as a result of store credits, or voided transactions in which a card had been tendered.
- Completely secure transaction acknowledgement to prevent incomplete transactions from activating and placing value in cards (complete reversal).
- From a systems control perspective, the gift card processor must be able to generate a variety of reports designed to support the loss prevention function.

Some retailers are making these cards available for purchase through the Internet. When the cards are shipped, the issuer assigns a PIN to the card, which is required, if the card is used to make purchases on the Internet. The consumer must use this PIN when making purchases on-line. IS managers need to consider the dynamics and the possibilities if the retailer also operates a Web site, as additional interfaces will be required.

The validation of the gift card can take place at dial-up speed or at broadband speed. Clearly, the customer would prefer if it were conducted a broadband speed to shorten the waiting time and companies with high speed

networks already in place merely piggy back this transaction onto that network.

Among the infrastructure challenges that some retailers face is establishing the communications network from the stores that allows for real-time verification and validation. As the price of this technology comes down on a per-store basis, more of the smaller retailers will be able to implement gift card programs and validate transact the cards a high speed. At the very least, the gift card program and its potential marketing value is one more factor that retail IS executives can aggregate when trying to justify the cost of WANs (wide area networks).

One retailer to whom we spoke would like to be able to collect customer information while selling gift cards. While it is easy to collect the name and address of the “mail-to” *recipient* of the gift card, it may prove difficult to also obtain the name and address information of the *purchaser* of the gift card. In both cases, there are implications on the functionality of the POS software to be able to prompt for and collect customer information whenever a gift card is sold.

Another retailer places a dollar amount limit on each card. And the card is always rechargeable up to that limit.

Global retailers eventually may have to deal with the currency differences associated with international travel. Picture a US customer with a gift card in his/her wallet with \$23 USD value stored in the card. Now the customer travels to Spain where the retailer also has stores and the customer presents the gift card as a form of tender. The Spanish retail division must be able to recognize that the value stored in the card is in dollars, do the conversion of the sale from Pesetas to Dollars, and deduct the correct number of Dollars from the stored value (if more than enough). Not to mention that now we are talking about a *global* communications network and not just a domestic one.

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Make it better?

Interestingly, all the retailers to whom we spoke thought that what functionality they have in the gift card program, is as much as they could expect to have.

Future challenges for the IS departments include the ability for the consumer to scan the gift card number at a home PC and continue to manually enter a PIN to eliminate theft and fraud.

Another challenge for the industry will be to turn these gift cards of today into multi-purpose cards so that the wallets of today don't have to go on a card diet tomorrow. Ideally, one could combine a loyalty, an affinity and a gift card all in one physical card as long as all the different identifying data could be encoded in the magnetic stripe.

The gift card certainly has potential as a marketing and customer service tool. IS managers and software developers and standards developers have the responsibility and the challenge to make this new medium work quickly, effectively, securely and inexpensively

Bob Amster



Principal

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WHAT'S NEW

RS&S Planning Seminars

RTG member Retail Systems & Services (RS&S) have been busy proliferating their Merchandise Planning wisdom and expertise.

RS&S has developed a Merchandise Planning Seminar Program to be held as part of the Second Annual Global Retail Technology Forum to be held on April 9th at the Palais des Congres, Paris. Seminar participants will discuss the latest Merchandise Planning techniques including Space Planning, Forecasting, Store Planning and Assortment Planning. The seminar speakers include Terry Donofrio from RS&S; Frank Zarrello, Director of Planning and Allocation at Big M Inc; Jon Paton, Head of Supply Planning for World Duty Free Europe and David Beattie, Internal Consultant for World Duty Free Europe. For more information see www.retailsystems.com/GRTF.

RS&S has finalized the 7th Annual Merchandise Planning Symposium to be held as a pre-show on June 24th at Retail Systems 2002 in Chicago at McCormick Place. Several senior Planning executives from Hot Topic, Bombay Company, Clothestime and others will present their perspectives on Merchandise Planning and Allocation. Terry Donofrio will moderate the program and provide a review of Advanced Planning Techniques and Methods. Recent events have been very successful with over 200 attendees. For more information see retailsystems.com.

Recently RS&S began working with a major markdown optimization software vendor to define the various methods to integrate forecasting and modeling techniques into the

merchandise planning process. This project will consider how forecasting can be part of both pre-season and in-season planning as well as financial, store and assortment planning.

RS&S recently began working with a major Brand oriented softlines manufacturer to consider assortment planning methods and processes and the overall integration of the sales, merchandising and planning processes. Various process modifications and collaborative efforts will be considered as well as the integrated use of various automation tools.

RS&S and IT Resources are continuing their joint efforts to develop a general Assortment Planning Process and User Documentation to support the Buyers Workmate Assortment Planning System.

Working with Technology Training Corp, a leading CBT training company, RS&S is developing various internet based Merchandise Planning training seminars. These courses will be available to individuals and companies in a CBT environment for self-paced learning. A Merchandise Planning Basic Concepts seminar will be the first offering. For information contact Terry J. Donofrio at RS&S (www.rs-s.com)

STS

RTG is providing project management services to STS, Pointe Claire, Canada for its implementation of a number of modules at The Wiz, a regional consumer electronics chain based in Edison, NJ.

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