

# Digital Gift in North America & Europe



Data-driven insights  
that empower business

# The Gx Intelligence international team



Professor Dan Horne, Gx Chief Knowledge Officer, is Associate Professor of Marketing at Providence College, Rhode Island. With twenty years of experience in this sector, he's acknowledged as a world authority on Emerging Payments and the Rewards and Incentives industries.



Dubliner Neil Brennan, Gx Research Manager and self-proclaimed Guinness expert, has a decade of quantitative and qualitative research experience gained in the IT, telecoms and higher education sectors. He's responsible for the constant refreshment of the GX research portfolio.



Andrea Ferranti, Gx Analyst and fervent Lazio supporter, joined the team last year from a major Italian investment company. He has a MSc in Economics and Finance in which he majored on global macro-economic policy.

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*Digital Gift in North America & Europe 2013*



# Dan Horne's 30 second take on digital gift

"It's all about perception and mis...perception:

Digital gifting brings another dimension to the gift card arena: *immediacy*. But like mobile payments, the move to digital gifting has occurred at a slower pace - uncomfortably so for some - than has predicted by industry pundits. Build a better mousetrap and the world will beat a path to your door. Build a better *gift* and ... wait for a moderately engaged consumer to figure it out.

Not that progress hasn't been made: in all five countries where we collected consumer data, eGifts are being used and overwhelmingly liked. But our queries into what factors inhibit purchase highlight the need for better communication and reassurance on some perceived risks. And if consumers have misconceptions, it isn't the fault of the consumer: it's a challenge for the industry.

Four key factors emerged from our survey of over 4,800 consumers:

1. Both buyers and receivers report high levels of satisfaction, so there's real potential for user advocacy
2. Buyers trust the products *financially*, but
3. They're nervous about eGifts *technologically*
4. Computer-based products currently out-sell 'phone-based by 20:1

So like any emerging market, we still have a lot to learn from both industry experts and direct from consumers before we can realise the potential eGifting offers"



# The view from the front line:

## Digital gift overview from Neil and Andrea



“eGifting is in the early stage of adoption amongst both consumers and retailers”

### The big picture:

- eGift-ing is likely to grow but slowly over the next two to three years as availability of these products isn't yet widespread, particularly in Europe.
- The B2B market is most likely drive adoption of these products on a wider scale. There are significant advantages to corporates: immediate distribution of rewards to employees regardless of geography and huge savings in physical distribution.
- Retailers *could* capitalise on the ubiquity of mobile devices to deliver promotions and loyalty rewards to their customers, particularly as the technology exists to enhance the recipient's experience.

### Consumer Survey Results:

- Only a small percentage of consumers have experience of purchasing or receiving eGift products.
- But amongst those few, there are very **high satisfaction** levels with both the purchase and redemption processes.
- There's **trust** in the products as a financial instrument but non-purchasers do have concerns related to the technology – they're worried about the gifts not reaching the right recipient or being difficult to redeem.
- They're gifts, so **personalisation** is crucial to enhancing the experience and stimulating purchase and advocacy.
- There's a huge predominance (20:1) of **computer-based** over **mobile phone-based** delivery. Even those who claimed they received an eGift on their mobile phone might actually have been viewing an email.





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## Initial thoughts from three industry gurus



**Rob Coulstock**  
Director of Business Development  
Digital Solutions Europe



*'Fundamentally, those that have introduced eGift and have engaged it within the wider business have seen the upside both in terms of increased sales but also load value. When you look at some of the early adopters, they may also be benefitting from share shift within their particular market. Particularly if their competitors have not adopted a solution, as the speed and convenience of digital makes it an attractive proposition for the consumer and can in some cases be stronger than brand loyalty.'*



**Chris Houghton**  
CEO



*'Most retailers are aware of the benefits brought by the possibility to redeem their physical cards online. Those who currently do not have this capability feel like engaging consumers in the online channel is becoming an important factor to their business.'*



**Michael Hursta**  
VP, Prepaid Category Manager



*'At the retail level we have seen a quick rise of retail mobile apps while merchants' website definitely did a decent job in advertising eGift. However the idea of providing consumers with the possibility to purchase an eGift from their mobile phone when the moment strikes is becoming a larger force in North America than it has certainly been in the past.'*



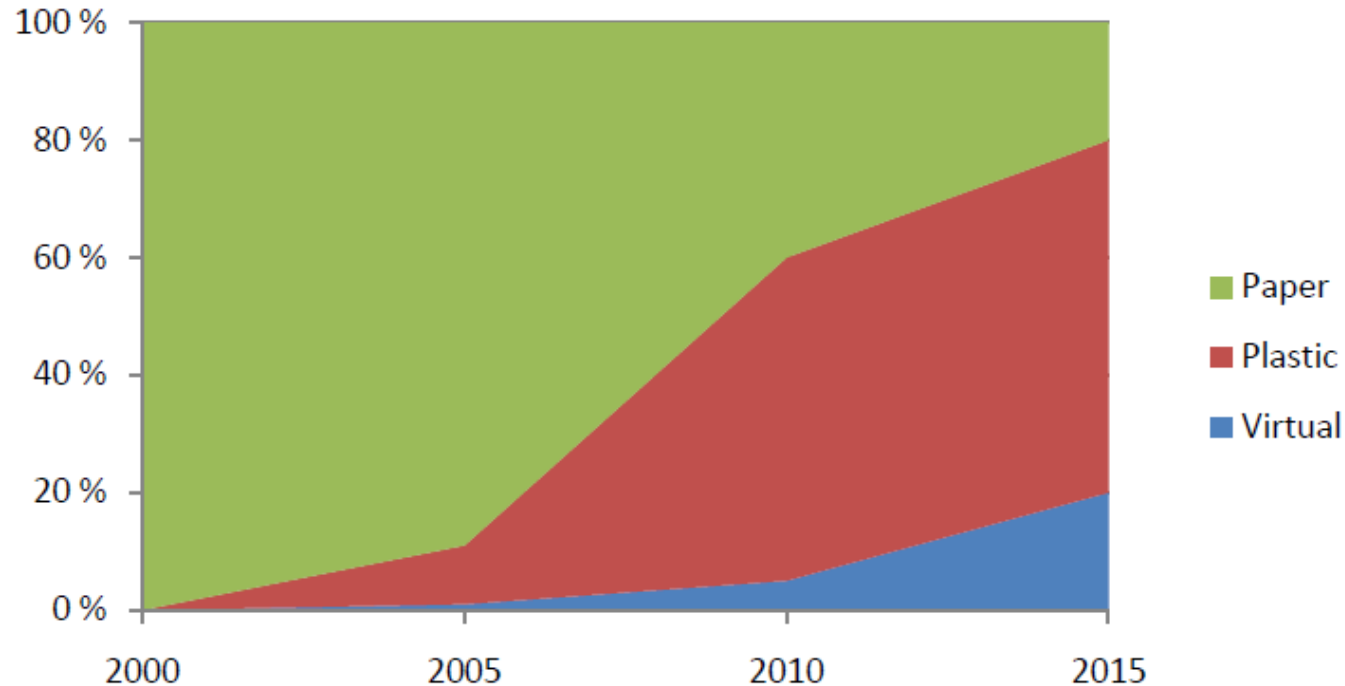
## Gift card & incentives: typical fee types

### Fees:

- Card purchase fee: Usually a flat fee paid upon buying the prepaid card product.
  - Reload fee: A flat fee, minimum fee or percentage fee of loading additional funds on the card.
  - POS fee: A fee on a transaction made at the Point of Sale with the card. The fees typically vary depending on whether the card is used for domestic or international transactions.
  - Cash withdrawal fee: A flat fee on a cash withdrawal at an ATM or over the counter with the card. The fees typically vary depending on whether the card is used for domestic or international withdrawals.
- 
- Note that closed loop products tend to have zero fees or a small card purchase or load fee. These cards can be either single load or reloadable, and they typically cannot be used to make cash advances.
  - For open loop products, a higher card purchase fee is common in addition to any combination of load, POS and cash withdrawal fees. Cash withdrawal fees tend to be quite high, but only when this feature is actually supported.



## From paper to plastic to digital in Europe



- Whilst predictions of virtual prepaid growth are 15% of the total form factor share by 2015, gift will almost certainly see a much smaller % that is delivered virtually.
- As of 2013, we predict that around 3% of gift and incentives are delivered virtually in Europe.
- In the US, this figure is closer to 6% of the total delivered virtually as of 2013.



## The form factor journey: key differences are...



**Arun Glendenning,**  
Head of Sales at Birdback

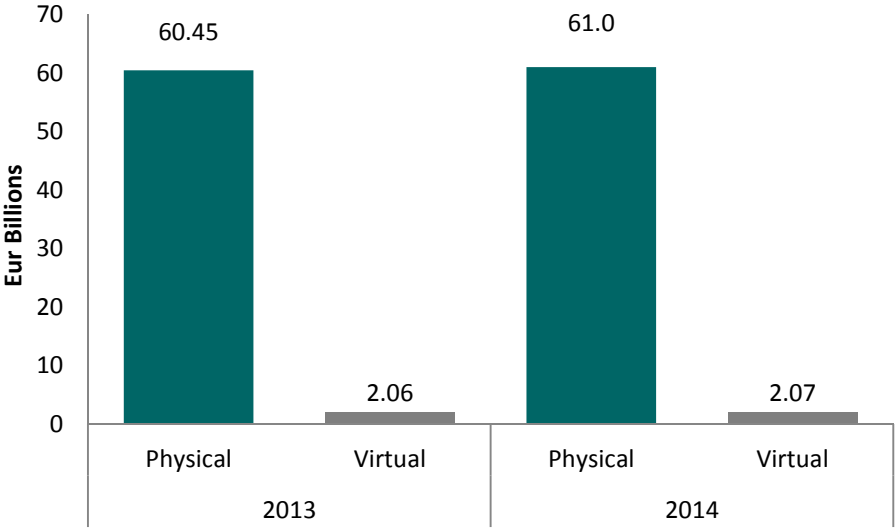


*'These are two complete different situations, in the '00s the entire retail and Gift Voucher industry was pushing for gift cards to happen for a variety of reasons and were driven forward by competitive pressures. In addition, the economic and financial opportunities under which these two phases developed are completely different. Aside from the fact that the retail industry in the '00s were enjoying significantly better times, In the case of the transaction from paper voucher to plastic card there were many tangible advantages such as greater visibility of non-redemption rates and in turn the ability to increase the percentage breakage taken to the bottom line. '*

*'Also there was a marked improvement of top-line sales due to greater product visibility given by the opportunity to display branded gift cards in store and new 3<sup>rd</sup> party channels such as supermarkets. These tangible benefits are developing for eGifting especially when implemented as a B2B solution but whilst previously we looked at 2012, then 2013 as the year for e-gifting to really take hold, realistically it now seems as though we are now looking at 2014. But if I was a retailer I would get on it now!'*

# Market opportunity: Europe 2013 and 2014

**European Market Opportunity: Physical v Virtual Gift & Incentives : 2013 & 2014**

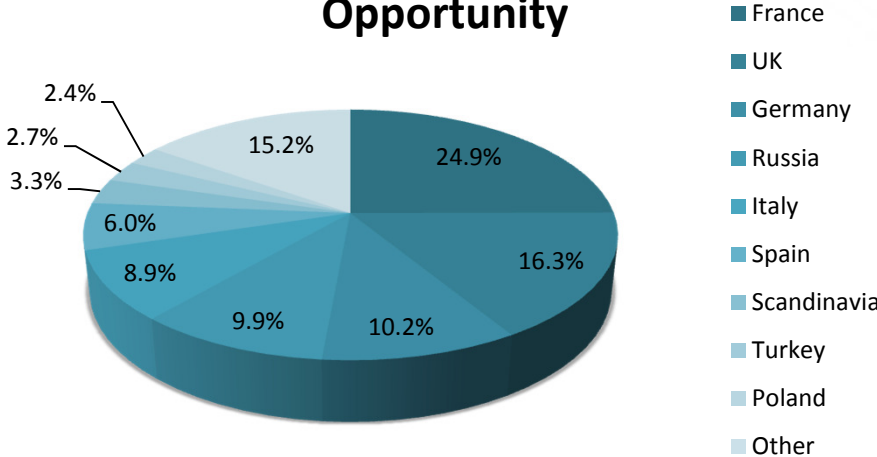


Source: Gx/Macaw Research

- France and the UK will see the greatest % share in 2013.
- Fuelled primarily by larger B2B markets where market opportunity is greater than in B2C.

- Digital market in Europe is still nascent.
- Growth will be slow over the next 18 months as retailers continue to size up potential markets for these products and tackle internal technology and policy issues.

**Share of 2013 Total Digital Opportunity**

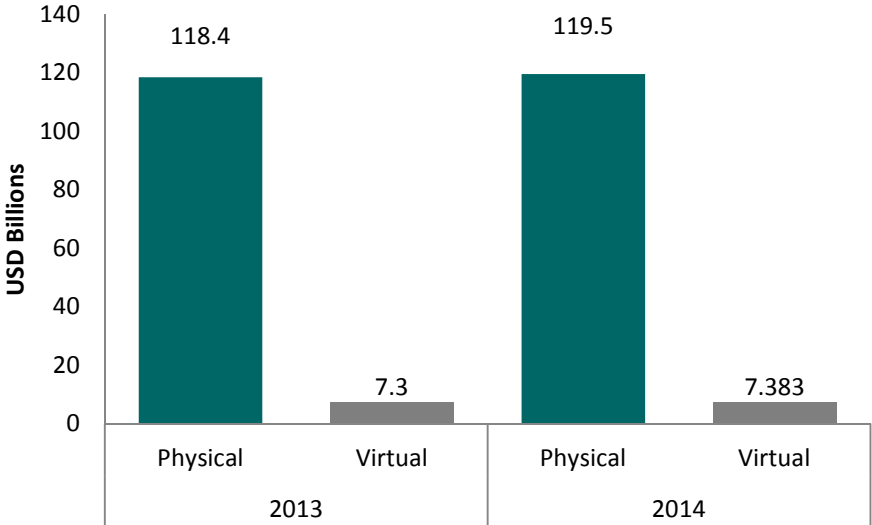


Source: Gx/Macaw Research



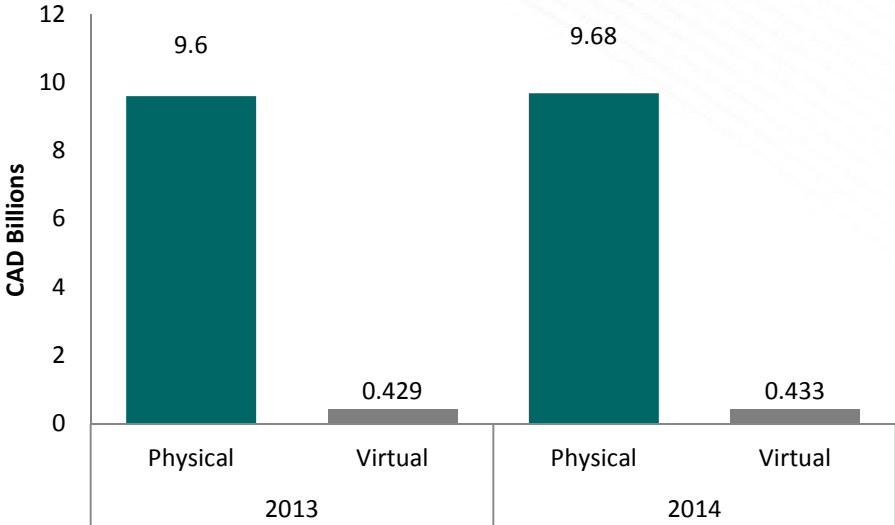
# Market opportunity: US & Canada 2013 and 2014

**US Market Opportunity: Physical v Virtual Gift: 2013 & 2014**



Source: Gx/Macaw Research

**Canada Market Opportunity: Physical v Virtual Gift: 2013 & 2014**



Source: Gx/Macaw Research



## The dominant B2B sector: US & UK views

*How has the digital delivery redemption of gifts and incentives for the B2B sector in the US and in the UK been evolving in the last couple of years?*



**Steve Bradbery**  
VP International Product Solutions



*'Instant rewarding is becoming more and more accepted and therefore digital gifting suits the corporate sector pretty well. We have seen in the UK that the B2B market has been leading the development of eGifting solutions as it allows the delivery of instant gratification while reducing costs of physical storage and management of plastic cards.'*



**Michael Cordy**  
Director, Partnership Development



*'Last year, in the US, we saw some of the major incentives house developing digital turnkey platforms for the digital delivery and management of rewards and incentives. By the end of this year we would expect to see more growth occurring. However, I have to say that this has not been driven from the demand side but purely by the industry as digital is seen as a cost effective solution to reduce cost by not having to fulfil live plastic inventory.'*



**Brian Dunne**  
Managing Director / Equity Partner SVM Europe

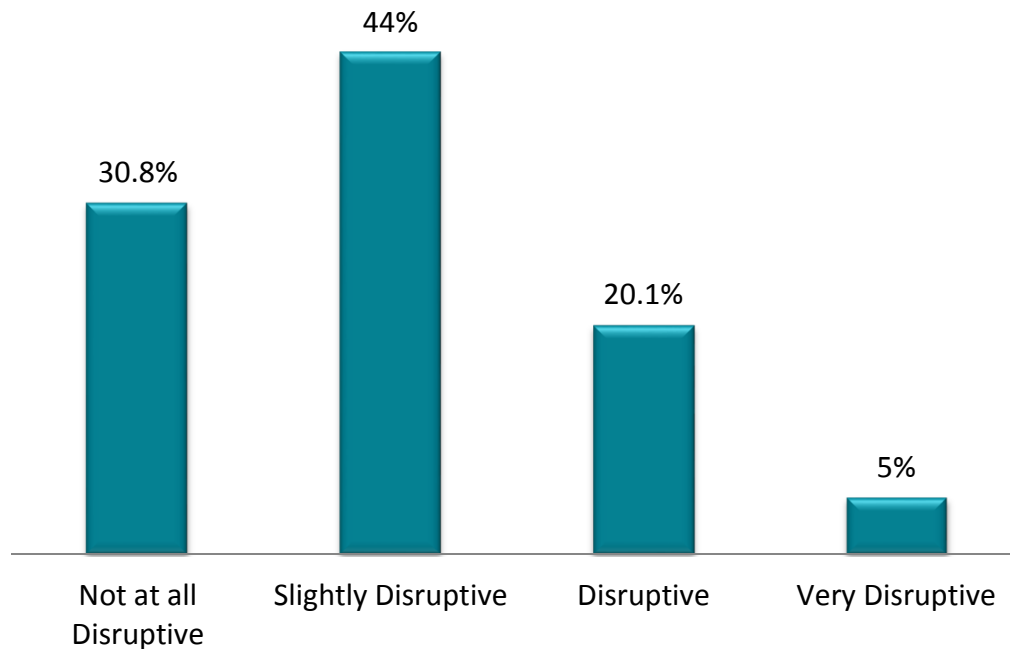


*'I believe for a start (that growth) will come from the B2B segment. Importantly we have to remember that the two markets are significantly different. In the US 18% of the market is B2B, while in the UK it is the other way around. In the UK SVM is primarily focused on the B2B market. The speed of transaction and delivery makes this more profitable for retailers and increases sales that otherwise would not happen. The beauty of an e-Code is that the latter can be redeemed instantly after the initial transaction has been made. Of course this is a key growth driving factor as it rewards employees instantly.'*



# Industry views: is digital gift disruptive to the payments industry?

Disruptive to Industry - Digital Gift



Source: Gx Industry Survey, Feb 2013

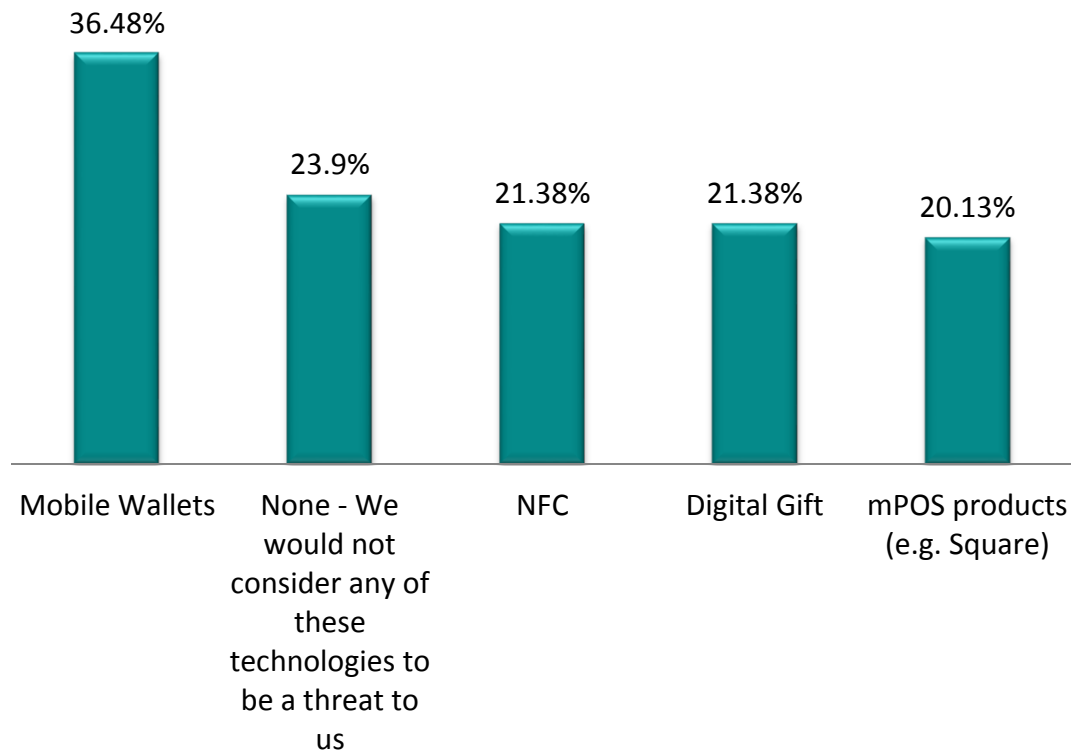
- Digital Gifting is seen by many to be simply an advance in the technology that allows enhanced channels for the consumer.
- That few see it as disruptive is not surprising, but it is not an indication of its potential for success.
- With InComm's purchase of GiftTango, it is expected that there will be movement toward Digital Gifting melding into the gifting mainstream.





# Industry views: is digital gift disruptive to organisations?

**Most disruptive applications for organisations - Top 5**



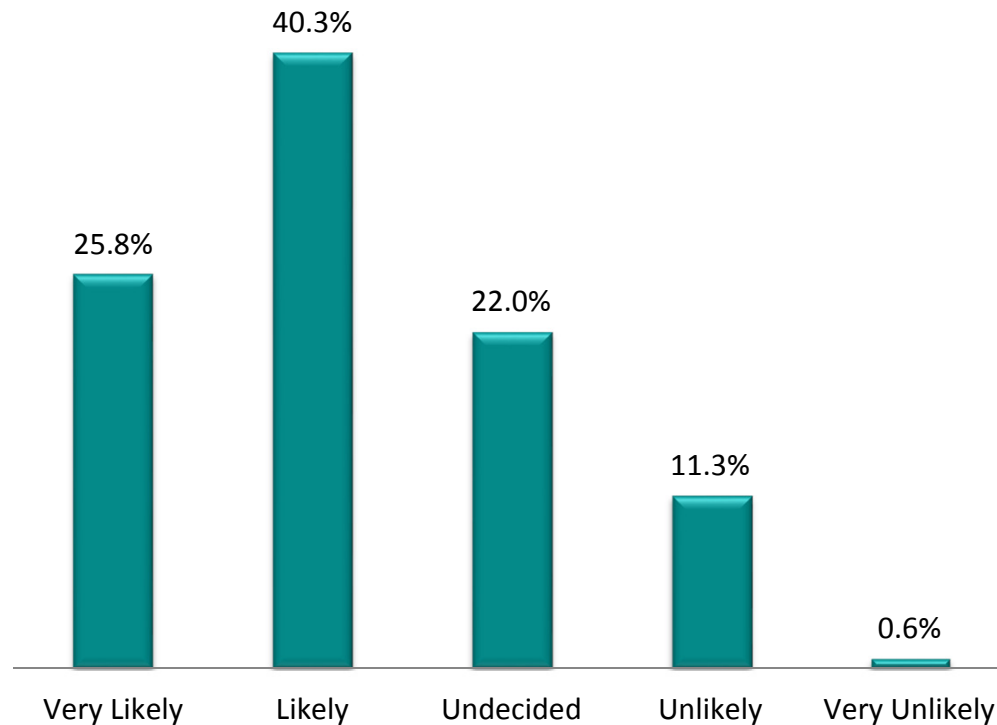
- Digital Gift were considered a threat by just over one-fifth of respondents.
- Respondents who were the most concerned here were issuers, retailers, processors and programme managers.
- Disruption can be positive as it can encourage organisations into re-engineering current products or processes to compete with new disruptive products.

Source: Gx Industry Survey, Feb 2013



# Industry believes that gift WILL be adopted by emerging payments technologies

**Adopted by Emerging Payments - Gift**



Source: Gx Industry Survey, Feb 2013

- Gift was another application that executive respondents felt was likely to be significantly adopted by emerging payments technologies.
- Given the increased popularity of digital gifting applications offered by retailers in the United States, and the increasing number of European retailers who are also looking at providing gift by digital means, it is probably not surprising.
- One of the more interesting digital gift applications that we have seen in the last year is provided by an organisation called Gyft. Gyft is a mobile gift card app that allows customers to buy, store, send, and redeem gift cards conveniently from their mobile device.



# Does digital gift drive retail growth?



**Arun Glendenning,**  
Head of Sales at Birdback



*'There were a couple of factors in this:*

*A. Gift cards gave retailers much better visibility of how the gift value cycled so could provide this data to the auditors in way which was much more difficult before, mainly because of the issue of voucher issued as change. For instance, have £20 gift voucher, spend £15, a new £5 voucher would be issued to you making it very hard to track non-redemption on the original £20 gift voucher. With a Gift Card, no change is issued and any residual balance remains on the gift card meaning you can make assumptions on whether or not it is going to be redeemed or not.*

*B. Gift Cards have a much more forceful expiration date which is a system cut off, of the liability. You can therefore choose to move expired funds to the P&L without the worry of stores continuing to accept them, as could be the case with paper vouchers.'*



**Derek Warburton**  
VP, Sales and Marketing



*'Analytics provided by our partners show a quite clear picture where the introduction of digital gift cards drives incremental sales. More importantly we have also seen that by doing so the volumes of transaction on physical gift cards increases as the digital channel helps driving more traffic to a merchant's website and brand awareness.*

*Those customers may buy digital or physical according to the recipient, it's all about giving more options to an ever demanding consumer category.'*

### **A leading UK Tier 1 retailer**

*'So far we have only sold eGift cards through our online function and through promotions within our club program. Our eGift cards now account for 25% of our gift cards sold online. We have moved all our promotional activity over to eGift cards. We are able to capture customer details to allow future marketing opportunities.'*



# The benefits of digital gift for retailers



**Michael Hursta**  
VP, Prepaid Category Manager



*'Digital gift is largely an incremental consumer spend because you get consumers who would not buy a gift card as they need it at that exact moment in time. If you consider that most transactions on eGift are seen on Christmas day or on the 24<sup>th</sup> of December, it is assumable that those consumers would not have bought a gift product if they had to wait for the actual physical card to be delivered to their recipient.'*

*'There is also a degree of cannibalisation as most of these plastic cards would be converted into digital gift cards or vouchers. Digital unlocks the possibility to carry out specific campaigns to those high value consumers and this would not happen with normal plastic cards. It is going to be a mix, it will open up to new sales opportunities while we will definitely see some cannibalisation occurring.'*



**Brian Dunne**  
Managing Director/Equity Partner



*'Last year a major retailer introduced an eGifting solution for its customers, and what we have seen is a significant increase in digital trade right on Christmas day as well as in the following couple of days. People who have gone visiting friends and families still had the opportunity to buy a late Christmas gift remotely from their computer. Without the eGifting capabilities those sales would have not happened.'*



# Italy: the outsider: lot's still to do...



**Gaetano Giannetto**  
CEO



*'The Italian market is still very much focused on plastic solutions. Most of the major Tier 1 retailers have a gift card program. If we look at the digital side of the market we are still in an embryonic stage. This is due to cultural barriers and some other factors: Consumers do not understand them, as a consequence retailers feel like it is difficult to reach the right volume to make these propositions cost productive; and finally, still many retailers need to understand the benefits of the plastic cards.'*

*The concept around gifts for Southern European is still much centred on feeling emotions and the physical delivery of a tangible present. However if, as industry, we manage to overcome those barrier I believe we would be able to witness quite interesting growth rate.'*



**Andrea Verri**  
CEO



*'Digital gifting in Italy is a growing trend. In 2007 Retail Italia launched into the Italian market Carteregalo .it, an e-commerce based business where it was also possible to purchase digital gift card. In those years we believed that the B2C sector would have driven our business, however the time has unveiled a complete different picture where the B2B is leading the race.'*

*Consumers do enjoy receiving a digital gift as a reward, promotion, and incentives. If we consider the classic occasions such as Christmas, birthdays, Easters, etc, we hit a strong cultural barrier where the average Italian consumer does not feel comfortable in giving an intangible present while showing the price of it. In the Italian culture it is considered out-of-touch making the recipient aware of the price of his/her present.'*



# Consumer Study: Methodology & Findings

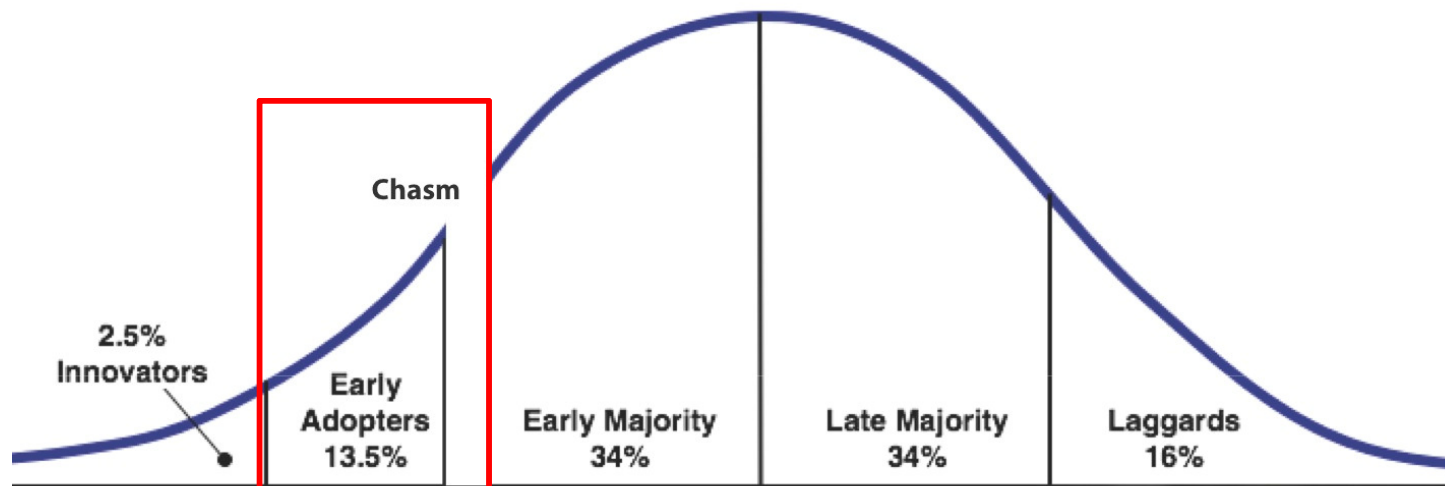
- Consumer surveys undertaken in September 2013:
  - United States
  - Canada
  - United Kingdom
  - France
  - Germany
- 4,800 respondents
- Low purchase levels of eGift in the UK, France & Germany
- Higher purchase rates in Canada and the US
  - 10%+ in each

## Overall Findings

- High levels of *satisfaction* for both buyers and receivers
- *Trust* in the product financially but...
- ...nervousness about eGifts *technologically*
- *Personalisation* is absolutely crucial to selling these products
- A huge predominance (20:1) of *computer-based* over mobile phone-based

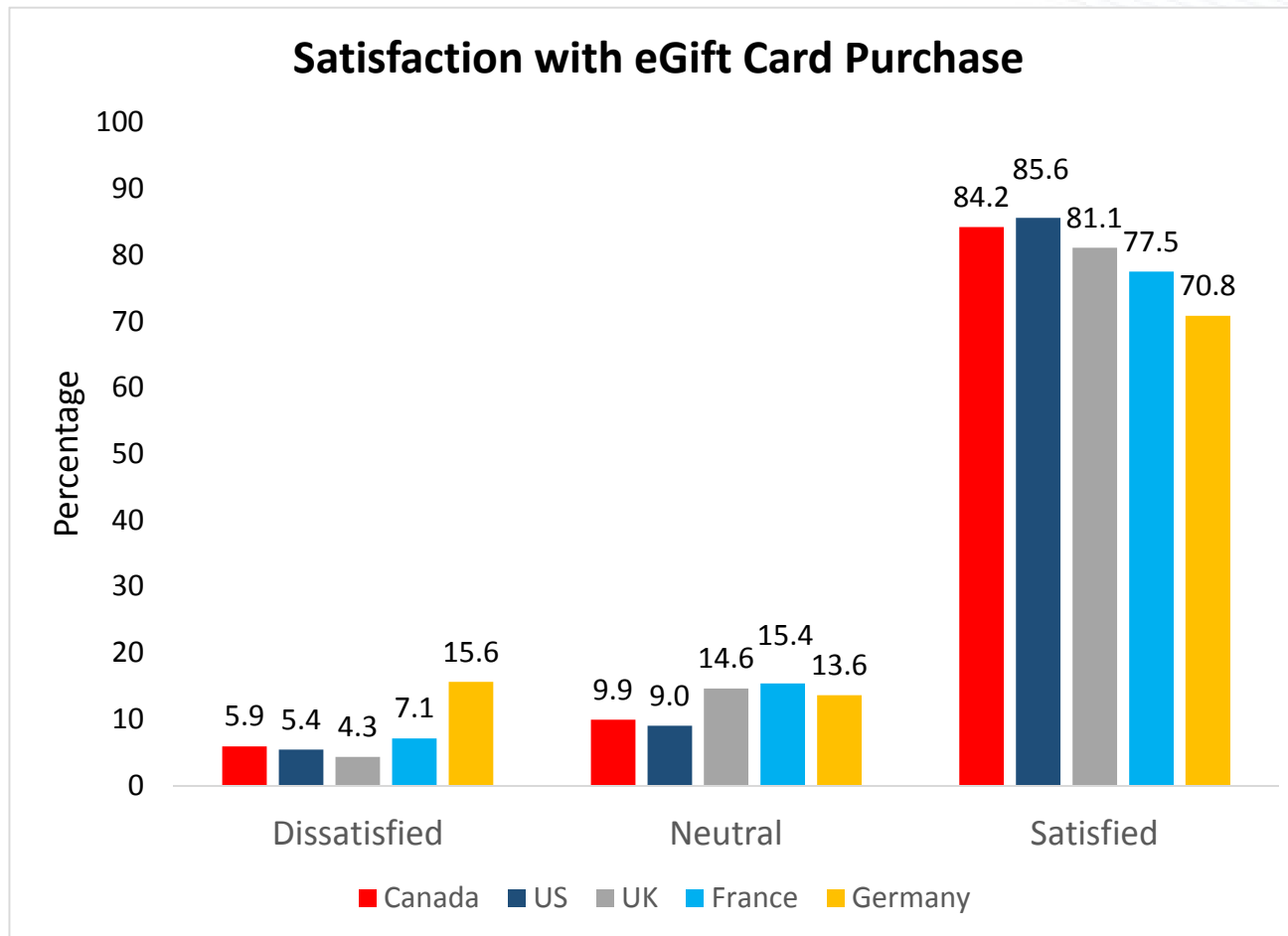
# eGift: where are consumers?

## Technology Adoption Life Cycle



- Applying the technology adoption life cycle model to eGift, we are at the 'early adopter' stage of the product life cycle. The next step will be to bridge the chasm from the early adopters through to the early majority phase.
- Addressing non-purchasing consumer concerns related trust in the technology aspect of delivery.

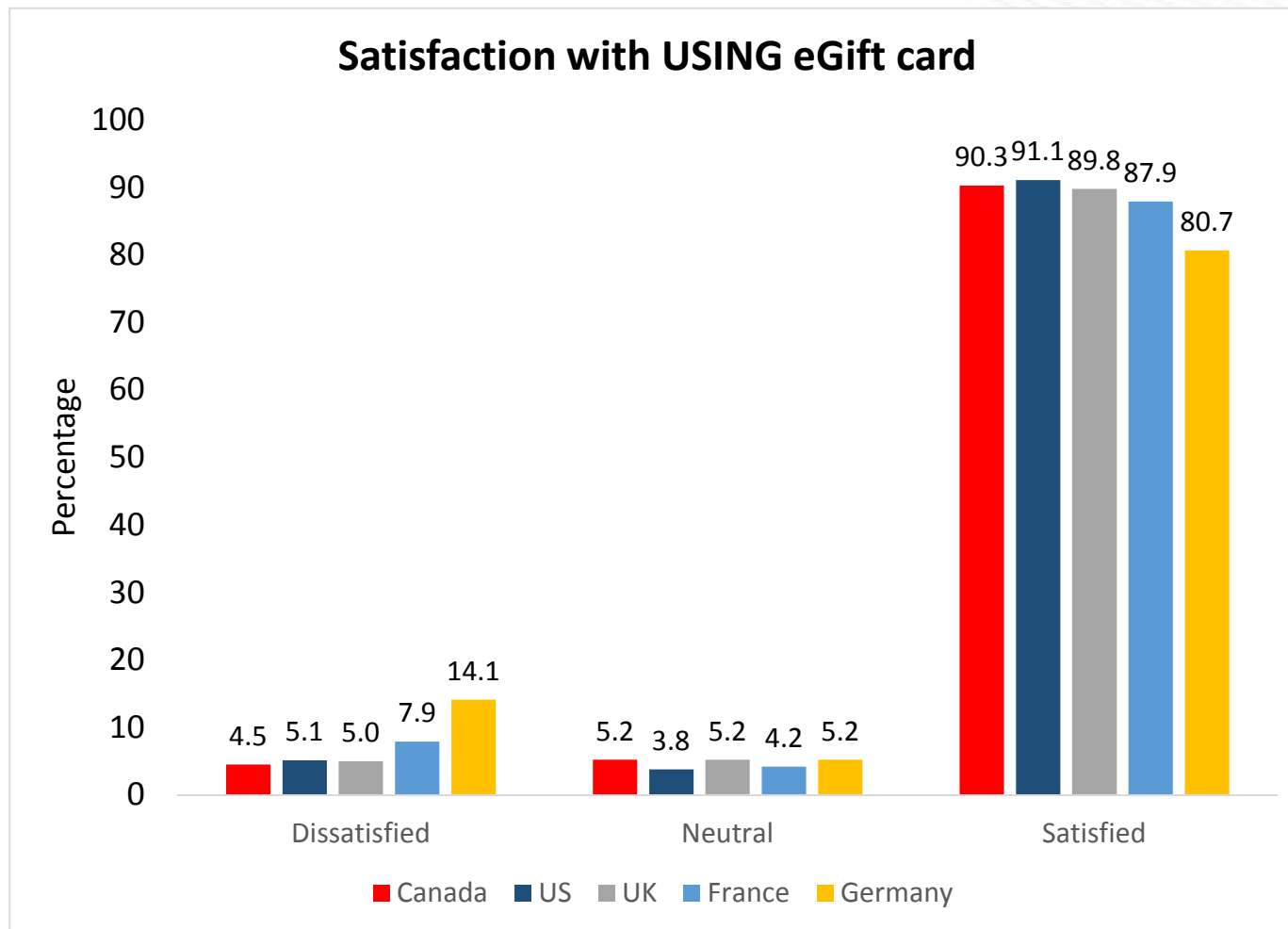
# Purchase satisfaction experience is very high



- High levels of satisfaction are evident, especially in North America which has an extra year or two of experience with digital gifting.
- Key factors that drive satisfaction here are the speed and the ease of purchase.
- Where dissatisfaction was found, especially in France and Germany, the difficulty of the purchase process along with the poor assortment of options were cited as reasons.



## Satisfaction with usage was also high



- While there were occasional voices of dissatisfaction with the purchase of eGifts, satisfaction levels with receiving them are extremely high.
- The word “easy” was used most frequently to describe the use of the gift.
- While the small percentage of dissatisfied tended to cite technical problems, for most, the technology works well.

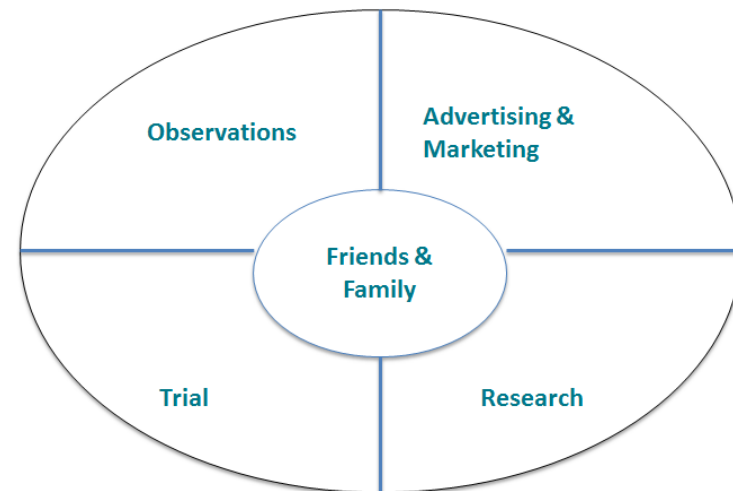


# The power of promoters: those who are satisfied with experiences



Due to the expense and the fragmented nature of traditional communications channels, +WOM is essential!

- *Consumers, influence each other - by talking to each other or observing.*
- *Closer relationships the more likely to talk about experience.*





## Retail eGift product example: France

# CAMAÏEU

Camaieu is a high end women's fashion retail chain whose products are mainly aimed towards women between the ages of 20 and 40. The company operates a chain of over 600 boutiques in France, Poland, Spain, Italy, Russia, the Czech Republic and Belgium.

The company offers an eGift card that is purchased on the website [www.camaieu.fr](http://www.camaieu.fr) and delivered via email to the recipient.



- The card is valid for 1 year from purchase and can only be used at [www.camaieu.fr](http://www.camaieu.fr).
- Delivered instantly via email to the recipient.
- The card can be loaded in denominations between €10 to €150.
- Balance can be checked online.
- Limited personalisation of look of cards – can purchase cards only in the template to the left.
- Message can be personalised.

# Retail eGift product example: Germany



**Ernsting's family**  
 Von fröhlichen Familien empfohlen.

Ernsting's family GmbH & Co. KG, with its headquarters in Coesfeld-Lette, is one of Germany's leading clothing chains. The company employs around 10,000 staff and operates some 1,600 stores in Germany and Austria. Ernsting's family sells clothes for the whole family with a focus on women's and children's wear. It generated sales of 737 million euro in the business year 2010/2011.

- Delivered instantly via email to the recipient.
- The card can be loaded in denominations between €10 to €100.
- The voucher can be redeemed throughout Germany for orders in the online shop or at all Ernsting's Family stores.



E-Mail-Gutschein [ändern](#)  
 Motiv: Herzen

Betrag (5-100€):

Für:

Von:

Grußtext:

Sie haben noch 300 Zeichen zur Verfügung.

Um den Gutschein direkt per E-Mail an den Empfänger zu senden geben Sie hierfür bitte den Namen und die E-Mail-Adresse des Wunschempfängers ein. Zusätzlich können Sie ein Wunschversanddatum auswählen.

E-Mail-Adresse Empfänger:

Wunschversanddatum:  
 sofort  am



## Retail eGift product example: UK



Boots UK Limited (formerly Boots the Chemist) is a pharmacy chain in the United Kingdom, with outlets in most high streets throughout the country and also in the Republic of Ireland.

- Electronic gift vouchers can only be used on Boots.com.
- Can be sent instantly
- You must be registered to Boots.com.
- It is not transferable or assignable
- eGift vouchers expire one year from the date of issue.
- Available in denominations of £10 to £100



## Retail eGift product example: Canada



The company was established in 1981 by Richard Stewart. Visions Electronics is a big electronics retail chain in Canada with a big store presence in throughout the all country. The retail offer a great variety of electronics goods and it is believed to be one of the biggest in the Canadian market.



- No option is given to buy the digital gift card online at the merchant's website. It is sold online by digital gift card solutions provides-Buyatab.
- Fairly simple customization options-Only the writings is changing the background picture stays the same.
- Delivered instantly via email to the recipient.
- The card can be loaded in denominations between \$10 to \$10.000.

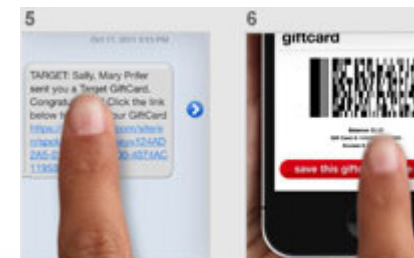
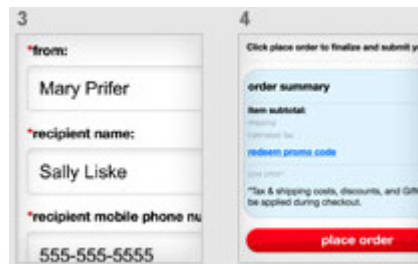
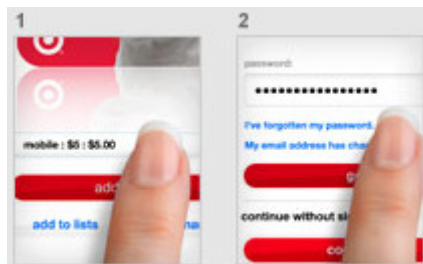


## Retail eGift product example: US



Target is an American retailing company whose product offer ranges from electronics, furnitures, toys, clothing to health products and entertainment.

- Mobile gift card redeemable through a mobile app
- available for purchase at Target stores in the U.S., Target.com or the Target mobile phone app.
- Possibility to combine different remaining balance for one purchase
- Can be sent instantly
- It does not have an expiration date
- Purchasable also as a social gift on Facebook via Give with Friends app





## Retail eGift product example: Italy

**TRONY**

Trony is a very famous electronic retail chain in Italy with more than 160 stores all over the national territory.

Snapshot of the PDF document sent by email where the digital code was displayed:

 Carteregalo



Ciao,  
questo è il fac-simile di una carta regalo da 50 euro che puoi acquistare su Carteregalo.it. Potrai stamparla e consegnarla di persona o inviarla via email al destinatario. Vai su Carteregalo.it: scopri tutti i tagli delle carte e come fare a regalarle.

Lo Staff di Carteregalo.it

- Codice: 0123456\*\*\*
- Validità: dal 01/01/2012 al 30/06/2013
- Importo: € 50,00
- Intestata a: Utente Test

- Not purchasable from Trony.it but consumers are redirected to Cartaregalo.it
- Digital gift cards can be spent online and at 160 stores.
- The **digital code** needs to be keyed in at the POS, as no other option is given
- Customisable with personalised message.
- The digital code is activated 48 hrs after purchase
- 6 months expiration window
- Sold in denominations from 10€ to 500€

## Retail eGift product example: Russia



This maternity wear retail chain «Mam To Be», was established in Russia in 2006. It is a part of the mother holding «BINCO Co.» which is been in the market since 1992.

- Sold in denominations from RUB 1000 to RUB 3000 (for this specific store chain/eCommerce)
- A range of occasion to choose from (see pictures below)
- The group have many different online commerce based businesses and each of these provides digital gift card with different loaded value ranges
- The digital gift card can be purchased both on the retailer's website and via gift card reseller partners (i.e. boomcard.ru)
- Nothing is mentioned about in-store redemption

*Happy Birthday*



*At the wedding*



*February 14*



## Retail corner: A UK Tier 1 retailer speaks...

**What were the key drivers for your business developing a digital gift product?**

*'Our Omni channel is a key component of our business's evolution, so we need to make gift cards part of this experience and drive incremental sales and additional aspects to our online products. Also to complement our online experience through our membership scheme our eGift cards had to be delivered digitally as the membership access is digitally accessed.'*

**How easy (or difficult) was it to integrate the platform with your existing gift and POS capabilities? What would you say the main teething problems were?**

*'The integration was as expected, as we process our gift cards via a bar code, and our scanners can read mobile devices, our capabilities were in place prior to the start of the project which made the process easy. The only teething problems were picture download, this did not work on I pads at launch so we had to make some fixes after launch. We have now entered into the B2B market following a successful trial in B2C.'*

**How have you seen consumers react to the products so far? How have their experiences been particularly at the POS?**

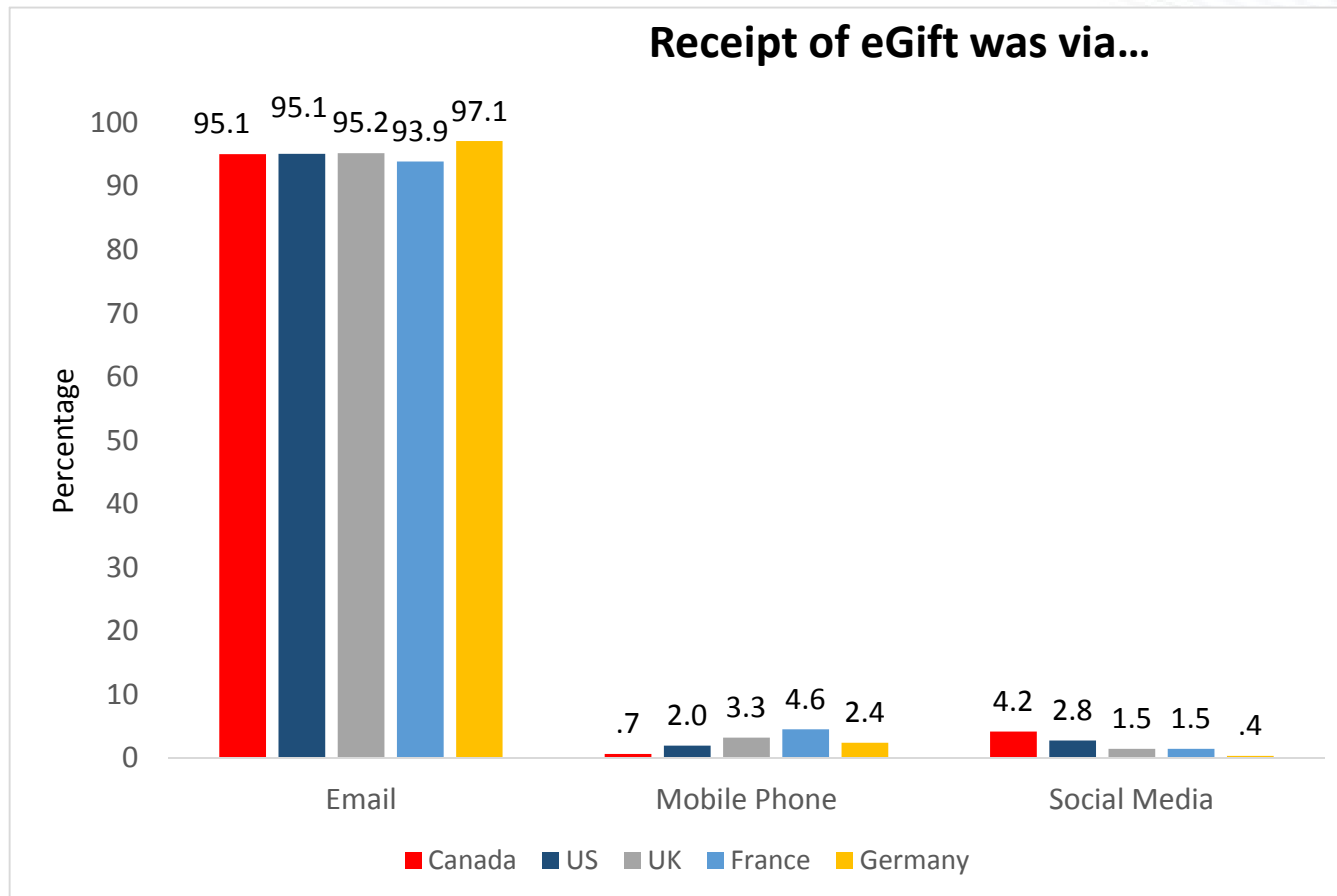
*'So far we have seen eGift cards drive incremental sales, the experience at POS has been without problems, our new scanners can read eGift cards from mobile devices as well as a pdf, our gift cards are redeemed via a bar code function, so we have been able to run additional promotions through our club scheme to the mass market at a fraction of the cost of sending out plastic gift cards.'*

**If you look at the UK Gift card market, do you think that it will be the B2C or B2B markets that drive growth in digital gift?**

*'Both – there is a place for eGift cards in both direct sales (online) and through the B2B channels, eGift cards allow the consumer to purchase last minute as the cards are loaded in real time, provided that the commercials with partners are reviewed I believe that eGift cards will evolve over the next 5 years to 50% of the gift card market.'*



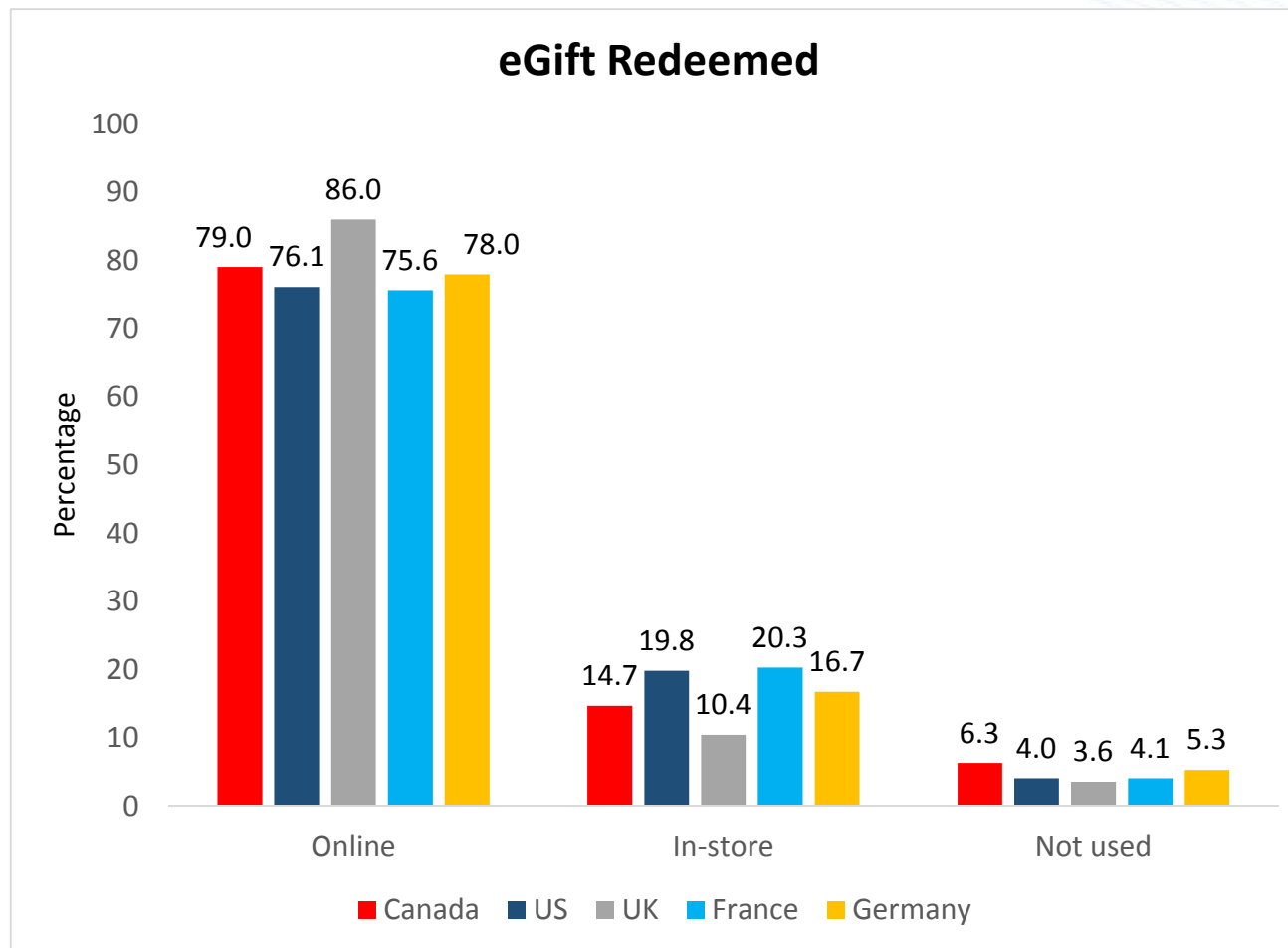
# Email is the dominant delivery mechanism



- While the lion’s share of attention is given to mobile and social media, the data do not support this in any way.
- eGifts are currently being delivered using email as familiarity is highest and the jump is to a new way to give is smallest.
- Whereas mobile receipt is likely to climb fairly quickly, social media requires are new mindset that is likely to take significant time to develop.



# Online redemption dominant



- As these gifts are fast to give they are also often fast to be redeemed. Most interesting are the low levels of non-redemption.
- At around 4%, these are surprising because the sample includes those who have received eGifts as promotions as well as P2P.
- Retailers might consider special online portals as a means of engaging with the attractive customers segment.



# What is inhibiting retail take-up?



**Claudio Simatovic**  
Director of Business Development



*'Beside the POS acceptance issue (which is quite crucial to fully benefit from an eGift program), we would say the ability of the marketing department to embrace this "new" opportunity to both communicate and deliver offers electronically. The marketers need to focus more on what to say in the right channel instead of pushing out the same message in all channels. And also understand the motivators behind the extra store visit.'*



**Jenny Parris**  
Global Marketing & Product Development Leader



*'I don't think retailers understand the various applications and why consumers are using digital. Their common belief is that consumers purchase to get over the hurdle of distance in a simple and effective way; I would argue with that – I actually think the reasons consumers like digital solutions is to give smaller and more immediate gifts which deliver instant gratification while carrying emotions with a personalized dynamic message.'*



**Rob Coulstock**  
Director of Business Development  
Digital Solutions Europe



*'I think that some retailers may be concerned about whether or not digital is what their customer base actually wants. Perhaps they feel that the demographic of their client base is not suited to digital but more suited to a plastic gift card or paper voucher. Very much the same arguments we heard when plastic gift cards first appeared in the UK 10 or so years ago.'*



## What is inhibiting retail take-up? (cont)



David Strebinger  
CEO



*'Getting merchants to take the time out of their busy day to learn about new marketing solutions is very difficult. The market is packed with various companies approaching merchants everyday with new marketing schemes and concepts. Merchants have become resistant to hearing new ideas or even taking meetings to learn about the benefits of new technologies or solutions. As such, the most difficult part of the selling to merchants is simply overcoming the resistance of getting the first meeting or having the correct audience that can make a decision.'*

*'We found that the easiest way to approach merchants is actually through their customers trying to "Pay With" their phones at the merchants location. When consumers come in to locations and show an interest in "Paying with their Phone" merchants are intrigued and interested in learning more about the solution. But when we cold call or go door to door to educate merchants on the PayWith system, often times there is no "Manager" or "Decision Maker" that we can reach to present to. Once the audience is the right audience (a key decision maker) the sale and education process normally moves very quickly.'*



## What is inhibiting retail take-up? (cont)



**Ulrike Gräbel**  
Head of Product and Partnership

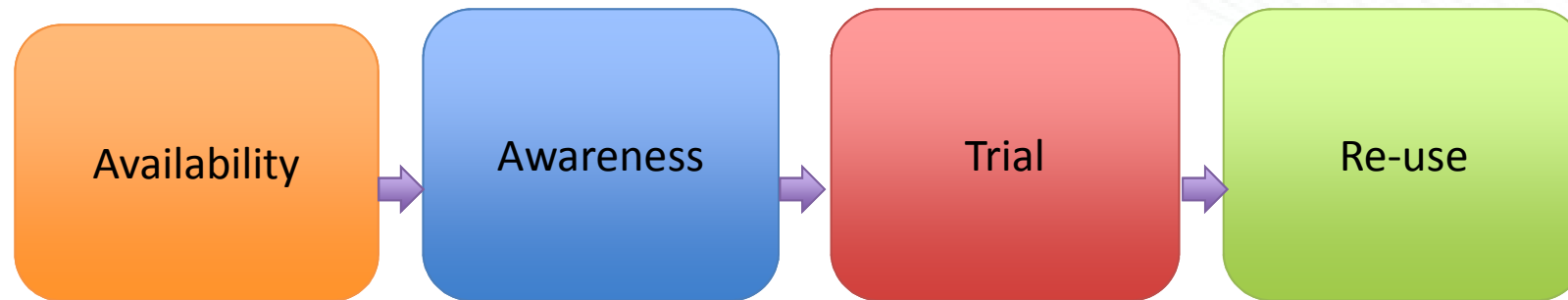
**BONAGO**  
Incentive Marketing Group

*'There are quite a few factors that are preventing digital gift adoption, but the most important ones regard technology, cultural barrier and regulation. In terms of technology integration we have about 50 processors for the top 100 retailers in Germany. This is due to the fact the most retailers have an in-house platform which make difficult technological advancement and the introduction of eGift. In addition, bar code scanners for those retailers who have one, are not capable to read bar codes on a screen of smartphone, so pure digital gift card cannot be redeemed at the POS.*

*If we historically look at the way retailers have been innovating in the German economy we see that compared to the UK economy our conservative approach has prevented us from keeping up with the developments in this market. Furthermore, it has to be said that gift cards do not belong to anyone's department; therefore, any investment related to this particular operating segment is always put at the bottom of the to-do list.'*

# Technology Adoption Model - Roadmap

How to get consumers to use new technology



*Where can I actually buy these products?*

*What are they and what do they actually do?*

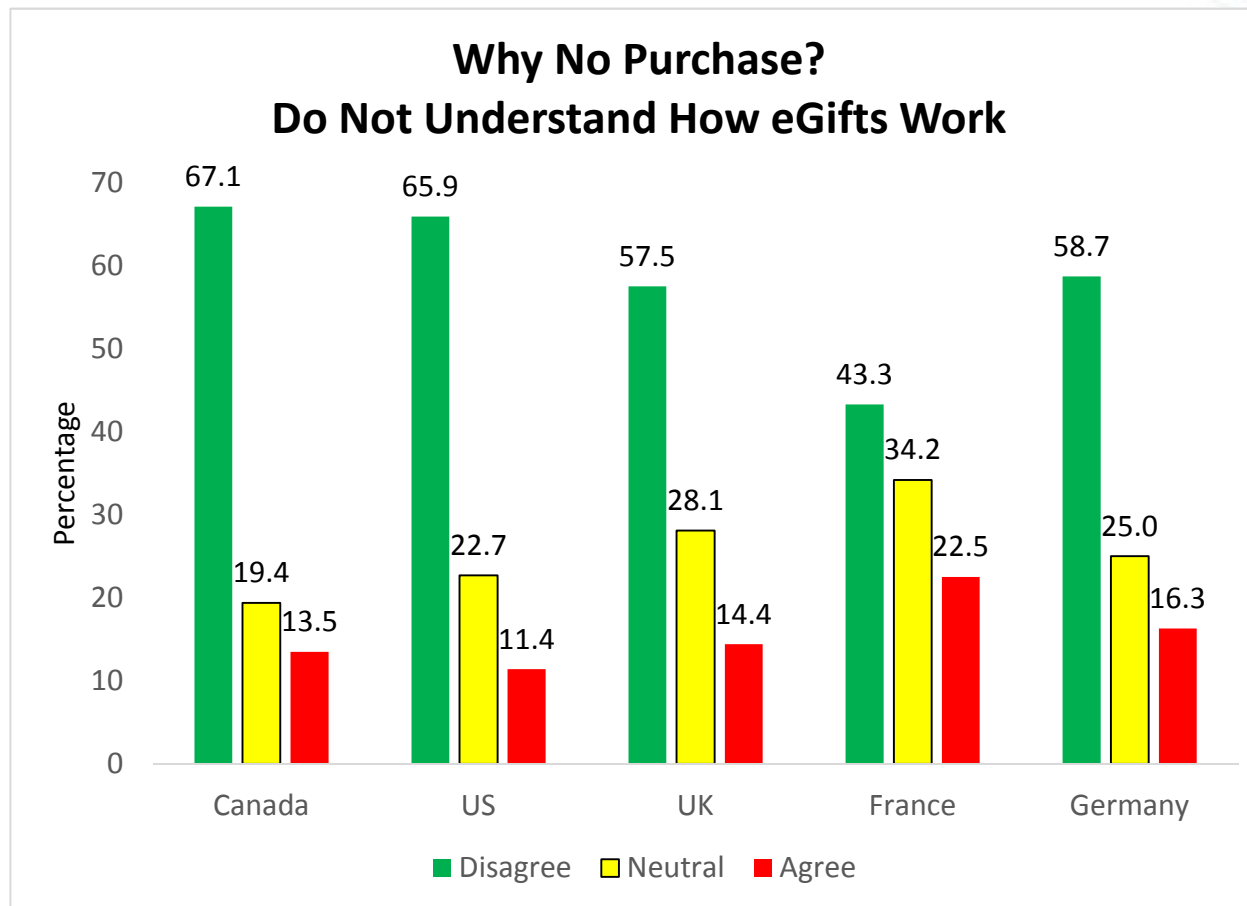
*Is it useful to me?*

*How easy is it for me to use?*

*Can I really trust it?*

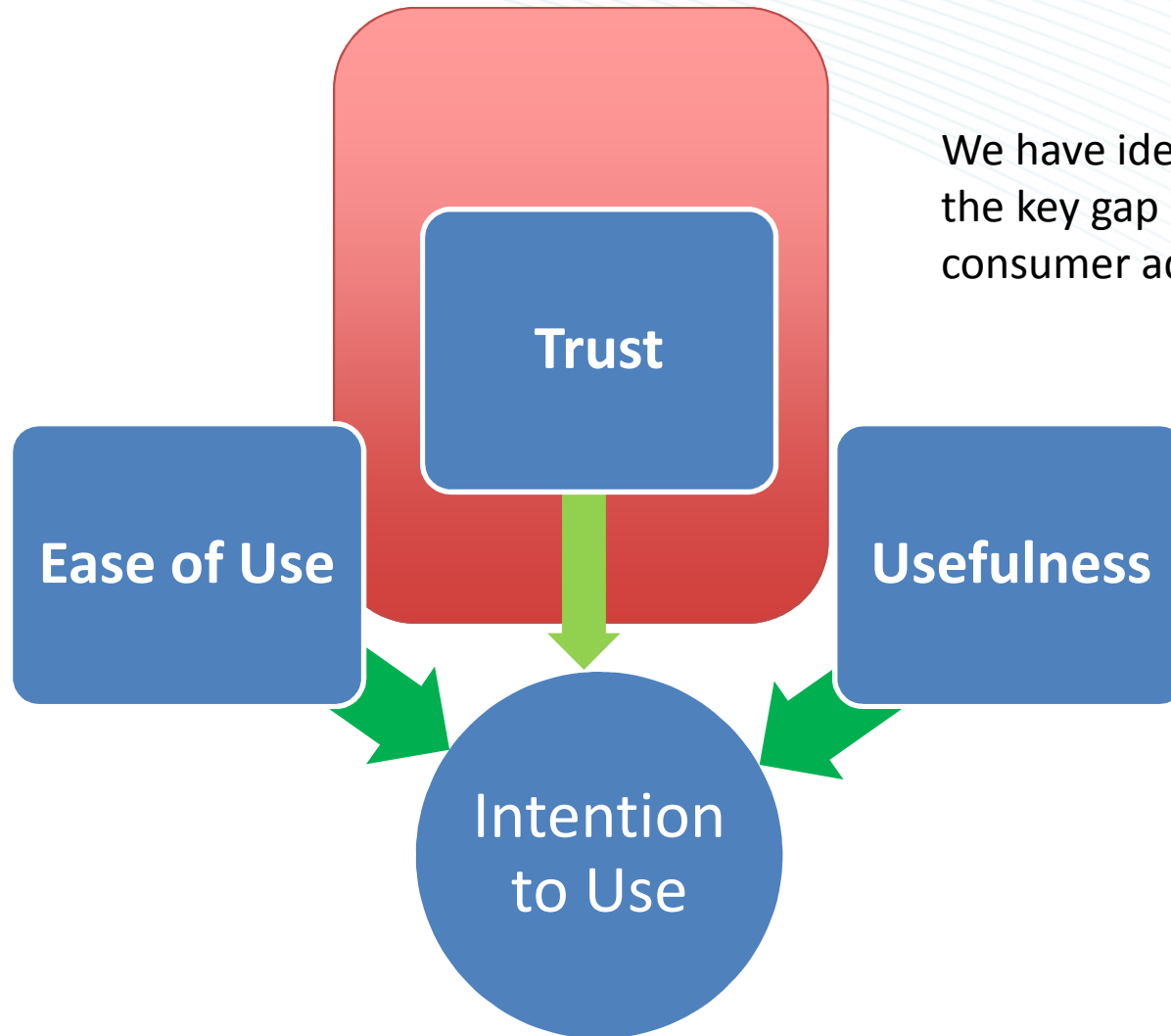
*It's so good I use it all the time. And I tell everybody. (who cares to listen)*

# Non-purchasers: Consumers are aware of how eGifts work



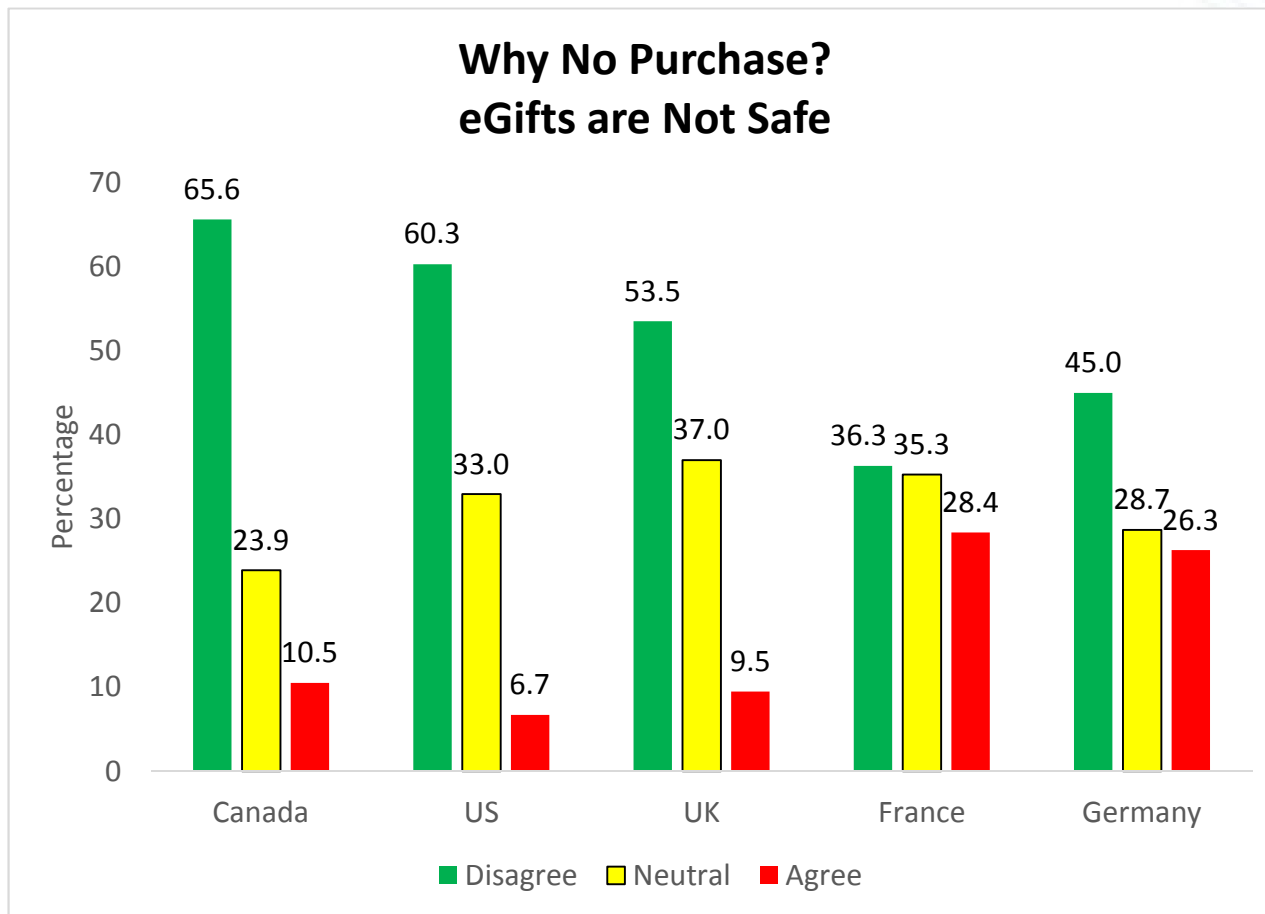
- The majority of respondents in all markets (except France which was close) feel they have a sufficient understanding of eGifts.
- Unfortunately, the perceptions held are, at times, erroneous as the mismatch between non-purchasers and current users indicated.
- Age was a distinct factor in English-speaking markets with older consumers more likely to respond that they did not understand the product.
- In the UK, women also expressed less understanding but gender was not related in other markets.

# The crucial step is Trial



We have identified trust as the key gap in terms of consumer adoption

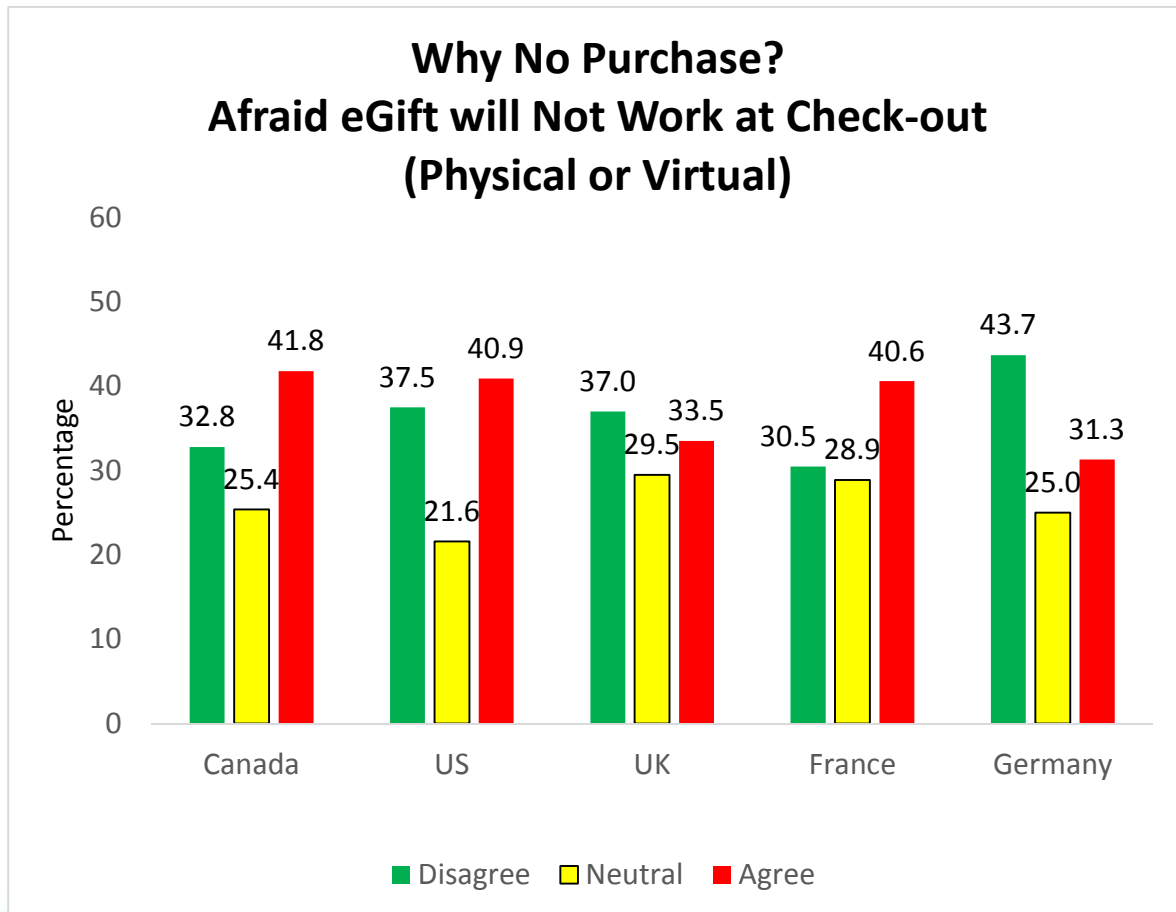
# Non-purchasers: Safety is an issue - more so in Europe



- Trust is always an important factor when we examine new product adoption, especially financial products.
- Without trust, consumers are not willing to accept the risk of trialing something new.
- As the chart clearly shows, respondents feel these products are safe. Men in the UK and the US were slightly more worried about safety than women.



# Non-Purchasers: What concerns people is technology

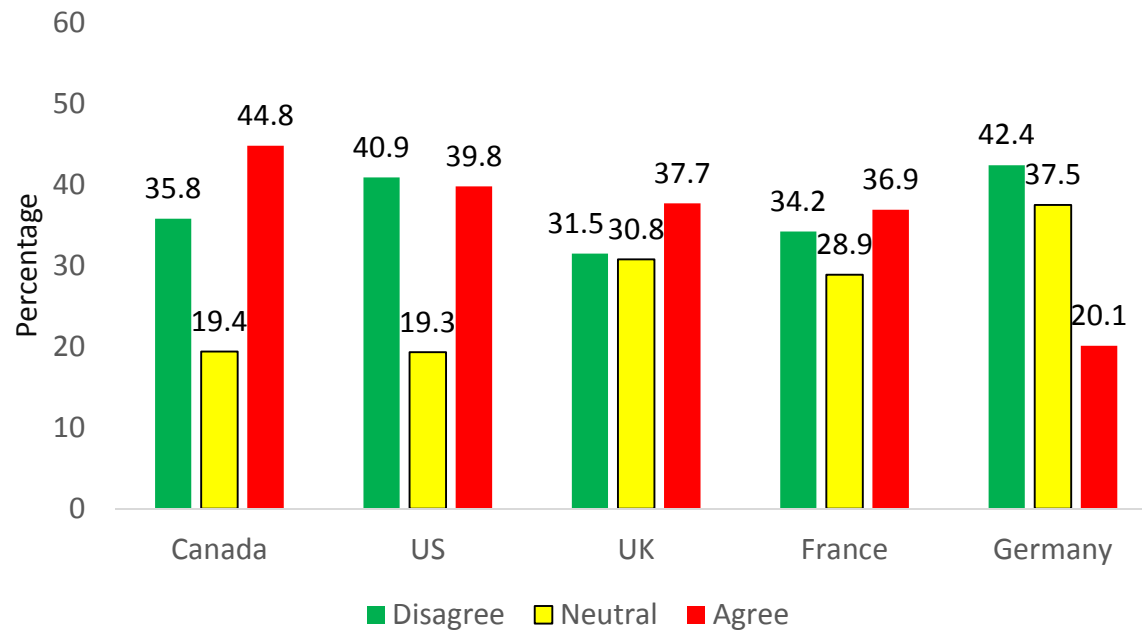


- While with new products it is interesting to know about the feelings of adopters, it is more important to understand the perceptions of potential but non-purchasers.
- One dominant theme is fear that the recipient's experience will not be a good one.
- This uncertainty is clearly seen in the closeness of the green (good) and red (bad) bars on the chart. In the US, Canada and France, the number feeling the product might not work is greater than those expressing confidence.
- Recall that amongst eGift recipients, there was sparse reporting of technical problems at redemption.



# Non-purchasers: Concern recipients would lose the eGift

**Why No Purchase?  
Afraid eGift will get Lost on Recient's Phone or Computer**



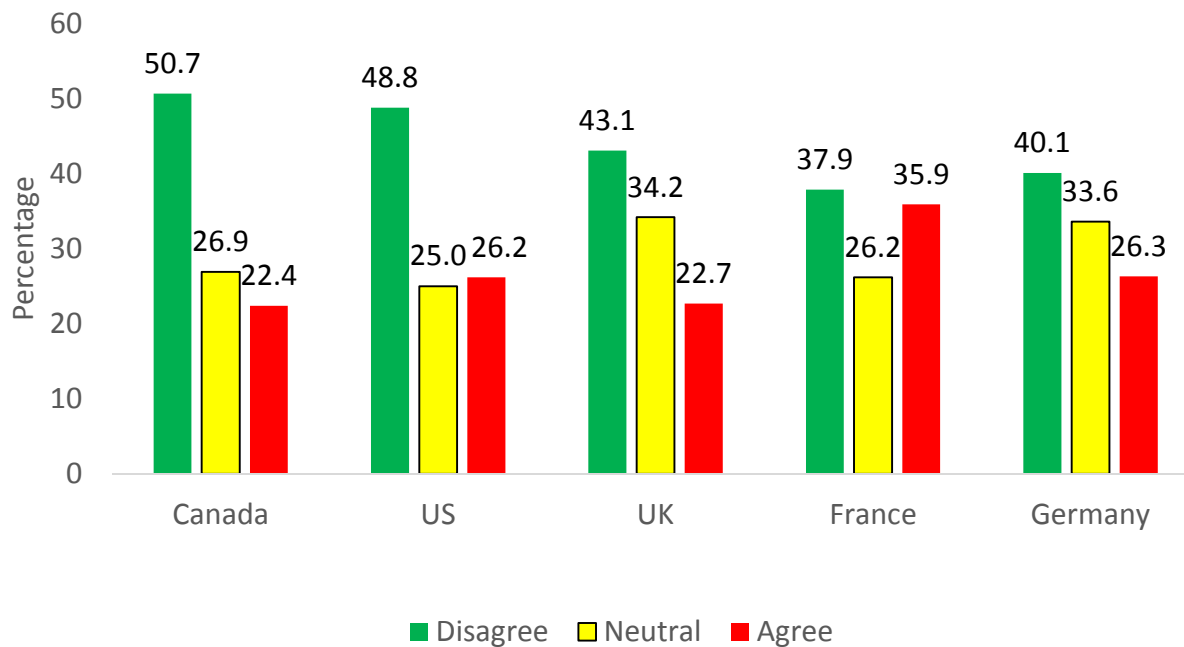
- With the exception of Germany, the respondents in the other markets were nervous that recipients' technology skills or the technology itself would not work properly.
- This projection of fear onto the recipient makes the card less appealing, especially to those who are perceived to be technically challenged, can be addressed most easily by suggesting the product is very appropriate for younger recipients. With time and usage this concern will recede.





# Non-purchasers: Concern that the gift would be delivered to the wrong person

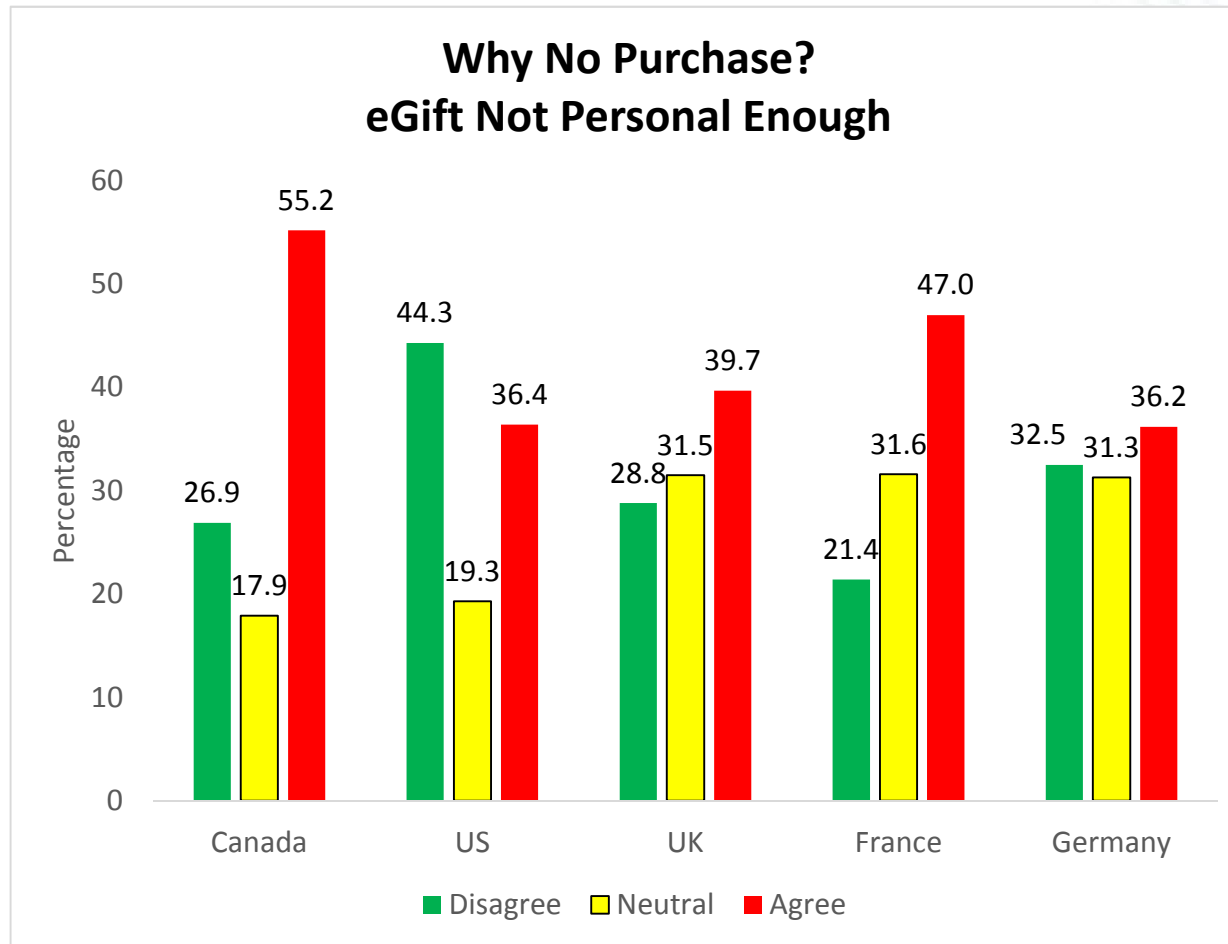
**Why No Purchase?  
Afraid eGift will be Delivered to Wrong Person**



- Another technological concern centered on delivery of the eGift to the right recipient.
- This fear was expressed by only a minority but it was a sizable group in every market studied. While suppliers would suggest that any mistake in delivery would be initiated by the giver.
- Women in the UK and Germany both worry more about this than men and in the US, older people share this concern.



# Non-purchasers: personalisation is another concern



- The crux of the matter for non-purchase appears to be the attitude that eGifts are too impersonal.
- This sentiment is expressed across genders and across age groups.
- eGift issuers can try to add personalisation to counter this. However, personalisation tends to be an add-on after a purchase decision has been made.
- It will have to become more prominent to those simply exploring the possibility of eGift purchase.



# eGift integration: Technology & Fraud



**Michael Hursta**  
VP, Prepaid Category Manager



**What would be the key technological issues that you would be facing at First Data when helping retailers developing these sorts of solutions?**

*'The technology available now is well known and nothing new needs to be introduced to make this happen; however the industry still needs to be alert about some of the key issues around fraud prevention. You need to have your fraud tools up and running properly, especially for this high card value consumers. Money laundering and fraud prevention technology is key to the success of these types of digital solutions, especially when it involves taking payments online. You need to make sure that you are taking legitimate payments from a legitimate source. This is still an area where the industry can make considerable improvements.'*

*In terms of distribution and CRM technology I believe that this is an area that is getting more attention now and would play an important role in the future for the different industries.'*



**Chris Houghton**  
CEO



**What are the major concerns around fraudulent activities associated to digital gift?**

*'The key challenge is being on top of the game in terms of security and stock control issues with the right technology. eGift is an intangible product and, as consequence, it is not delivered to a physical address but to a virtual location. This aspect incentives fraudulent activity. It's been a challenge to prevent fraud from happening but we have managed to get our head around it and I feel confident that the credit card fraud rate related to our digital products is negligible and very close to zero at this point in time. However, this has prompted us to slow down the development of these products in the B2C segment, therefore limiting to zero the risk for our products to be used as a financial instrument in fraud related activities.'*



## eGift and Loyalty example: UK



Tesco Clubcard rewards was one of the first reward mechanism to fuse with digital gifting in the UK. It works through the digital systems platform provided by Eagle eye. PizzaExpress was the first company to join this program in the late 2012. By June 2013 the program had seven partners.

### Some other partners includes:

- Tesco Clubcard point are accumulated and exchanged for digital gifts and experience vouchers
- Tesco tokens allow their consumers to also spend them in store with a further saving given by the 'Boost Effect'
- Magnifying effect up to 4 times (i.e. £5 in voucher up to £20 with Clubcard Boost) for purchases at its partnered companies
- Great consumers response: '96% of consumers opted to receive their offers digitally (within 6 months)' (source: Eagle Eye)



# eGift & loyalty - never the twain shall meet?



**Matias Marquez ,  
VP, and Chief Product Officer**



*'I believe eGift, loyalty and promotions do integrate really well and serve many different aspects from enhancing the customer experience, increasing the quality of the data collection and can also increase sales. Currently there are a few players in **Canada** who have been working in something similar to what just mentioned and I believe we will see interesting things in the next couple of years. This is an area of eGifting that is growing!!'*

*'With some larger merchants, the loyalty program and Gift Card program are managed in different departments. When we can get the various departments working in concert, we can help them design a program that better integrates to programs. A simple example is where Loyalty points can be redeemed for an eGift card, or where a marketing or promotional initiative rewards buyers of eGift Cards through the Loyalty program.'*



**Rob Coulstock  
Director of Business Development,  
Digital Solutions Europe**



*'I think there is starting to be a wider use. Not in the same type of model as Starbucks loyalty programme. Stored value is being used more and more as a beneficial way of delivering value and promotions rather than money-off or discounting in the retail space. Money-off is reaching a saturation point and retailers are realising this. The value of a low denomination prepaid or gift card has real value and is perceived that way by the recipient.'*

*'Some of our clients are starting to use digital gift as a mechanism of delivering effective cash-back on product purchase. It makes sense on numerous levels. It provides an easy, quick and low-cost distribution mechanism. The retailers love it because it is tying the consumer in to their business – they know the consumer is going to come back to the store with potentially considerable uplift. And the retailer does not have to offer discounts.'*



## Digital Promotions: M&S & Groupon



**GROUPON**

Marks & Spencer was able to introduce a short term deal e-voucher sold in the UK through the daily deal company Groupon. The size of the responsiveness effect of this promotion is dramatic made M&S terminate the offer earlier than scheduled:

- £500,000 (100,069 vouchers) of free Marks & Spencer's vouchers sold in 24 hours
- £10 M&S eGift voucher to users for a payment of just £5
- Promotion was initially scheduled to last two days but with only one day all the e-voucher were sold online
- £10 M&S eGift voucher to users for a payment of just £5

# Regulations: a melting pot of legislation

## Supranational

### VAT on gift cards & vouchers in the EU area

- The European Commission is looking to pass regulations to harmonise VAT rules on vouchers. To ensure uniform taxation of all types of vouchers used in all Member States.
- The newly proposed rules would clearly define the different categories of bills along with the application of VAT on these bills. This would allow for uniform taxation of services which include bills, throughout Europe. The proposal includes provisions on the definition of vouchers for VAT purposes and provisions that determine when the tax bills payable (ie the sale or pumping). It also contains rules relating to bills that pass through the distribution chain, and for general forms of payment.
- The new rules will enter into force on 1 January 2015.



## 2<sup>nd</sup> E-Money Directive

- The second Electronic Money Directive (2EMD), which aims to encourage the growth of the electronic money market, was implemented in the UK on 30 April 2011 through the Electronic Money Regulations 2011.
- Electronic money issuers are no longer allowed to set a time limit on the e-money holder's right to redeem (although a proportionate fee can be charged for redemption in certain circumstances). They are also not allowed to refuse to redeem e-money if it is worth less than €10.
- Electronic money issuers are not allowed to grant interest or other benefits related to the length of time e-money is held.
- EMIs can provide payment services that are unrelated to the issuing of e-money without additional authorisation/registration and engage in other business activities, subject to relevant EU and UK law.
- Businesses with average outstanding e-money not exceeding €5 million can apply to be registered as small EMIs. They will not be able to passport into other EEA states.
- The initial and minimum ongoing capital requirement for authorised EMIs has been reduced. There are initial and minimum ongoing capital requirements for some small EMIs.
- All EMIs must safeguard funds received from customers for e-money so that, if it becomes insolvent, the e-money issued will be protected from other creditors' claims and can be repaid to customers.

## Regulations in France: tax breaks for vouchers

- According to the regulation No. 96-94 of ACOSS 12/03/96, Gift vouchers are subject to an exemption of a maximum amount up to € 143 per year, per beneficiary.
- The amount allowed is 5% of the maximum monthly Social Security or € 152 per employee per year for the year 2012.
- Thus, if the total amount of vouchers awarded to an employee for the 2012 calendar year does not exceed € 152, while the amount is exempt contributions and social contributions.

- The following events allow a subsidy to be applied for gift vouchers and cheques:

Marriage, civil partnership, birth, retirement, Mother's Day, Father's Day, the feast of Saint Catherine, Saint-Nicolas, Adult Christmas, Christmas Child (under 16) back to school (up 19 years).

## Regulations in Germany: AML

- The regulatory environment for Gift Cards and Incentives has been thrown into flux with the passage of Anti-Money Laundering Laws. The German Bundestag has passed its anti-money laundering (AML) laws - which put a restriction prepaid business opportunities in Europe's largest economy.
- Under the regulation, any e-money product distributor will need to apply and comply with Know Your Customer (KYC) standards, for instance, seeing proof of identity.
- Although the strict legislation looks likely to curb money laundering, its provisions also mean that prepaid cards can be reloaded up to a maximum of €100 (\$133.82). For amounts above that, a full KYC procedure needs to take place every time the card is reloaded with credit above €100.
- The issuer then needs to archive that information for five years.

# Impact of regulations: the German view



Mark Gregg  
CEO

**BONAGO**  
Incentive Marketing Group

*'Regulation has played a crucial role in holding back Germany from catching up with other major economies in this sector. The regulation concerning gift card product and prepaid in general was implemented in Germany only in the 2000/01. Prior to this time, it was not possible to issue such prepaid instruments.*

*Therefore our economy is at least 4/5 years behind than the prepaid market in the UK. In terms of fiscal law on prepaid products, the latter dictated a percentage tax to be applied up to 70% for gifting and corporate incentives in the B2B segment.*

*In addition, fees and issuing tax on this products are higher than the European average, this has prompted some of the major companies to relocate some of their operational departments abroad. These series of factors has all played against the development of a digital gift market in Germany.'*

# Acknowledgments

We would like to thank the following expert contributors to this report

- David Strebinger, CEO, Paywith
- Jon Sederqvist Østmoe, Principal Payments Consultant, Macaw Research
- Michael Hursta, VP, Prepaid Category Manager, First Data
- Gaetano Giannetto, CEO, Epipoli
- Steve Bradbery, VP International Product Solutions, Ceridian Stored Value Solutions
- Jenny Parris, Global Marketing & Product Development Leader, Ceridian Stored Value Solutions
- Michael Cordy, Director, Partnership Development, Ceridian Stored Value Solutions
- Andrea Verri, CEO, Retail Italia
- Claudio Simatovic, Director of Business Development, Retain24
- Derek Warburton, VP, Sales and Marketing, Buyatab
- Matias Marquez, VP, and Chief Product Officer, Buyatab
- Mark Gregg, CEO, Bonago
- Ulrike Gräbel, Head of Product and Partnership, Bonago
- Rob Coulstock, Director of Business Development - Digital Solutions Europe, Incomm
- Chris Houghton, CEO, Park Group
- Brian Dunne, Managing Director/Equity Partner, SVM Europe
- Arun Glendinning, Head of Sales, Birdback



## About Gx

Since 2004, Gx has operated as the global exchange for prepaid and emerging payments. We are a pioneering subscription-based organisation that has acted as a catalyst for bringing companies together to achieve their collective and individual business objectives. And enable them to maximise their growth potential.

Our purpose is to empower businesses through insightful data-driven intelligence, informative and inspiring events and expert, consultative support.

*For more information on how make the most of Gx Intelligence please contact:*

**Neil Brennan**

**Research Manager & Senior Analyst**

**+44 20 7928 0040**

**+44 7500 684746**

[neil.brennan@yourgx.com](mailto:neil.brennan@yourgx.com)

