

A First Data White Paper

Secrets to Gift Card Success: Six Proven Program Management Approaches

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Introduction

There are many important factors that determine the success of a gift card program, but perhaps the most critical of all is management structure. Over the past 17 years, First Data has enabled tens of thousands of companies to establish and operate successful prepaid gift card programs. Our client companies range from small to mid-market retailers, restaurants and service providers to some of the world's largest merchants. Across all of these implementations, we observe how our clients organize the essential role of program management, including which individual or group "owns" the program; to whom this person or group reports; and the owner's relationships to the company's business units and functional areas.

From our processor's perspective, we have seen that structural nuances can mean the difference between a successful program and a very successful program. First Data understands this well because we are able to observe the measured impact of program management over time at each client. We recognize the importance of a formalized management structure to ensure visibility throughout the business units, timely decision making, fiscal responsibility, and most importantly, alignment to the company's strategic vision for the program.

Accordingly, we have identified six gift card management approaches that work well—as long as they correspond to what companies seek to achieve from their respective gift card programs. First Data knows from extensive observation that a mismatch of the management approach to the program objectives will yield disappointing results.

The purpose of this white paper is to share our knowledge about program management ownership and how it impacts the results of a gift card program. First Data's goal is to help every one of our clients to achieve the maximum potential based on the investment made in the program.

In the sections below, we highlight the six approaches to program management ownership, including discussions about when each one is most appropriate to use, and the typical results that can be expected.

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An honest assessment of the program objectives

First things first, however. Before a formalized management structure is put into place, the company should conduct an honest assessment of its strategic objectives for the gift card program. When we ask our clients how they view their program, more often than not they say the program is very much about marketing and meeting consumers’ needs, but then we see them structure the program management in a way that is counter-productive to that view. In cases like this, we believe there are other objectives that are actually more important to executive management—and that’s okay. Every component of the business doesn’t have to be about the customer.

In our experience, we have seen that there are other legitimate strategic objectives that aren’t necessarily directly related to consumer needs. Table 1 below lists the most common program objectives we encounter, and a pointer to the management structure approach that is most supportive of each objective.

Table 1: Common gift card program objectives and the management structures that work well

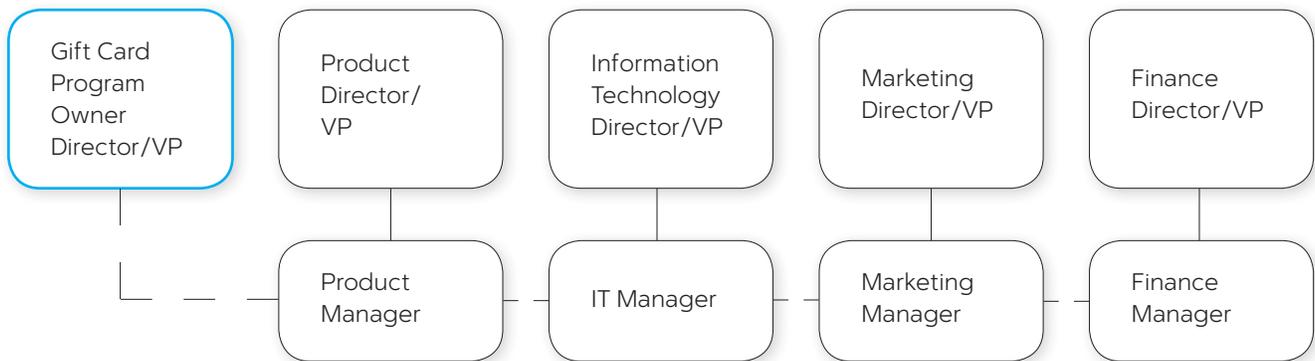
If the company’s objective for the gift card program is to ...	First Data recommends this approach to the program management structure ...
Understand and cater to customers’ needs and interests	Approach 3: Customer Centric
Offer a program that is convenient for customers while being fiscally conservative	Approach 2: Committee Centric or Approach 4: Cost Centric
Capture attention for being innovative and cool	Approach 5: Innovation Centric
Work well with franchise owners	Approach 6: Franchise Centric
Take the gift card program to its fullest revenue potential	Approach 1: Single Ownership or Approach 3: Customer Centric
Align fully to the company’s overall strategic vision	Approach 1: Single Ownership or Approach 2: Committee Centric
Do something that no one else has done before	Approach 5: Innovation Centric
Stay on par with what competitors are doing	Approach 1: Single Ownership or Approach 2: Committee ownership or Approach 4: Cost Centric

Of course, there’s no hard and fast rule of what approach to management structure works best for any particular company. First Data is providing our guidance based on what we have seen be successful in our many years of experience in working with our clients. This guidance is not simply subjective; it’s based on real measurements of actual financial results from the millions of transactions we process each year. As participants in the program operations, we see the effects of internal politics and power struggles that are common in most companies. The program management ownership approaches we detail below tend to yield predictable results. It’s up to each individual company to determine what its main objectives are for its prepaid gift card program, and align the management structure accordingly.

Approach 1: Single Ownership Program Structure

In this management structure, a single person is designated as the Gift Card Program Owner (GCPO). In the overall corporate management structure, the GCPO is at the same level as the executives who oversee the Product, Information Technology (IT), Marketing, and Finance departments. This equality in stature is important to ensure that the GCPO is impartial to the other departments' interests. Figure 1 shows a representation of the management structure.

Figure 1: Organization chart for the Single Ownership Program Structure



With regard to the gift card program, the GCPO makes the decisions. However, he or she should partner with and understand the interests of the internal groups that are impacted by the decisions made at the program level. This creates transparency and garners buy-in and support from the critical internal groups. This type of program management structure can be very successful if the single owner keeps the company's strategic objectives in mind.

Having a single owner promotes rapid decision making, which is important for being first to market with various aspects of the program. For example, if a new type of card or program feature becomes available, the GCPO can decide quickly to implement it and give his or her company a first-mover advantage in the market.

Since the GCPO is in a position equal to his or her business unit (BU) executive management peers, he or she should be neutral to their interests. However, this person's background can impact his or her outlook. If the GCPO is chosen from the ranks of the Finance department, his or her perspective may be biased toward cost. If the GCPO comes from Marketing, he or she could be partial to consumer demands, and so on. The results of the program rely on the neutrality of its leader, and an unshakable focus on company objectives and the overall strategic vision of future growth opportunities.

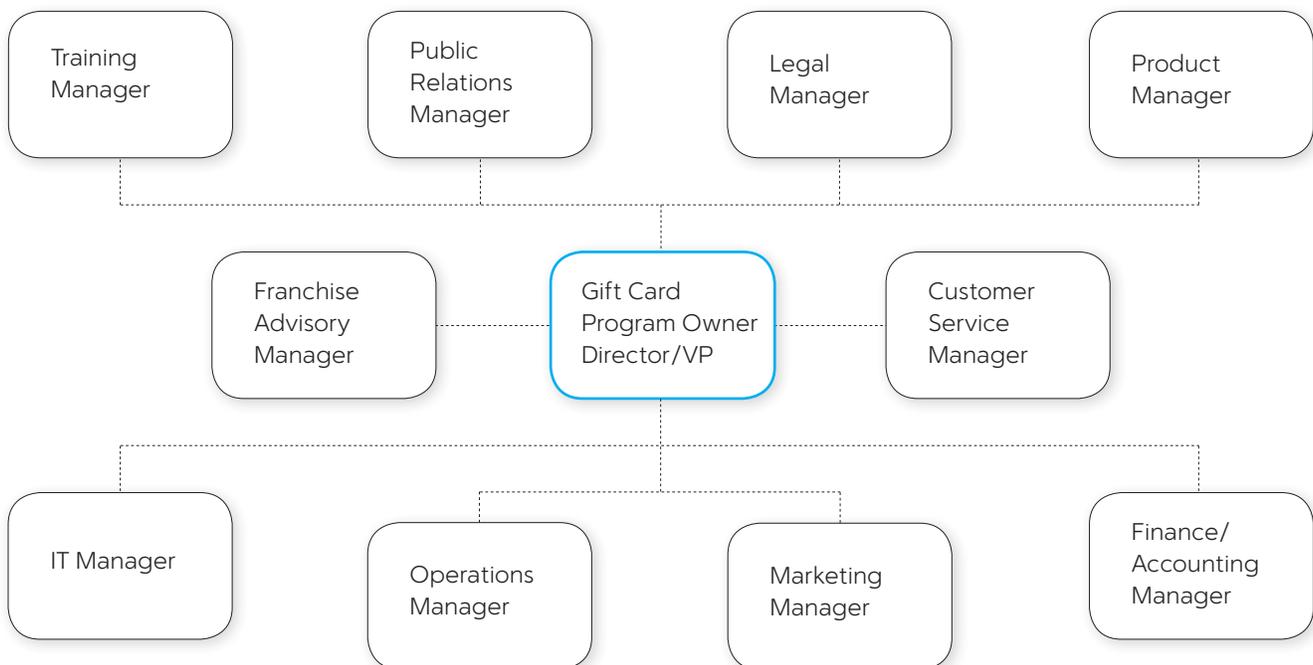
In First Data's experience, this particular management structure is the one that is most commonly used, especially with mid-market clients.

Results: This management structure can yield different results depending on the background of the Gift Card Program Owner. However, so long as the GCPO can remain impartial to specific business units, the overall outcome can be quite favorable due to greater visibility of the organizational landscape and full alignment with the company's overall strategic vision on future growth opportunities.

Approach 2: Committee Centric Program Structure

This approach is defined by advisory board ownership of the gift card program. Typically, there is a person designated as the Gift Card Program Owner, but he or she is much more responsible for executing the board’s decisions rather than making them individually. Each manager from the different business areas has direct input to the decision process. Figure 2 illustrates a typical committee reporting structure.

Figure 2: Organization chart for the Committee Centric Program Structure



There is a high level of transparency about the program due to the lower level of management participation. Each BU is able to evaluate decisions from an operational impact. This approach is much less likely to result in battles over funding and control; it effectively reduces squabbles over internal politics.

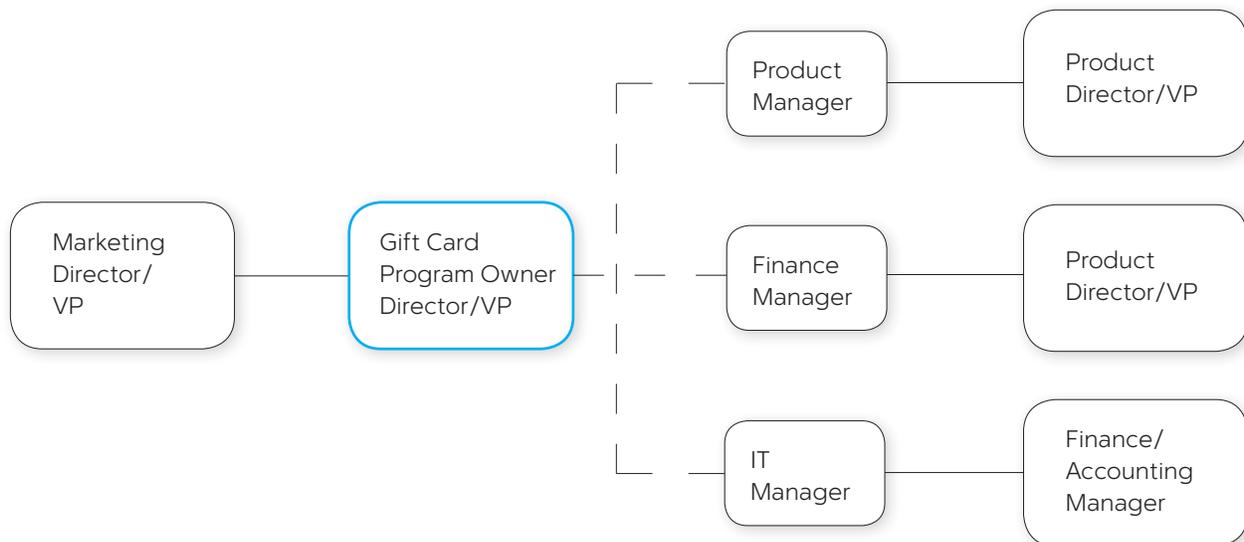
The Committee Centric Approach tends to be more cost-conservative than other approaches because, commonly, the committee evaluates every investment being made and performs return on investment (ROI) modeling. Of course, this often results in slow decision making and an inability to get to market quickly. Committees try to get buy-in from the whole organization, and often they don’t get consensus on what the program should focus on. When it comes to meeting consumer needs, this approach tends to impede rapid deployment, potentially enabling competitors to grab first-mover advantages.

Results: In an advisory board program management approach, the Gift Card Program Owner has the benefit of overall business transparency. In an optimum situation, this approach lends itself to improved decision making, but often at the cost of longer timelines from a "concept to in market delivery" perspective. If the manager is not empowered, however, this management structure can have the exact opposite effect with respect to overall product launch success.

Approach 3: Customer Centric Program Structure

This management structure is run by the Marketing department and focuses on the customer. The GCPO is typically a director or vice president who reports directly to the lead Marketing executive, but who also has a “dotted line” relationship to the Finance, IT and Product business units. Marketing must consider the interests of these other groups because the gift card program’s costs and operations will impact them. Figure 3 shows the reporting relationships of this approach.

Figure 3: Organization chart for Customer Centric Program Structure

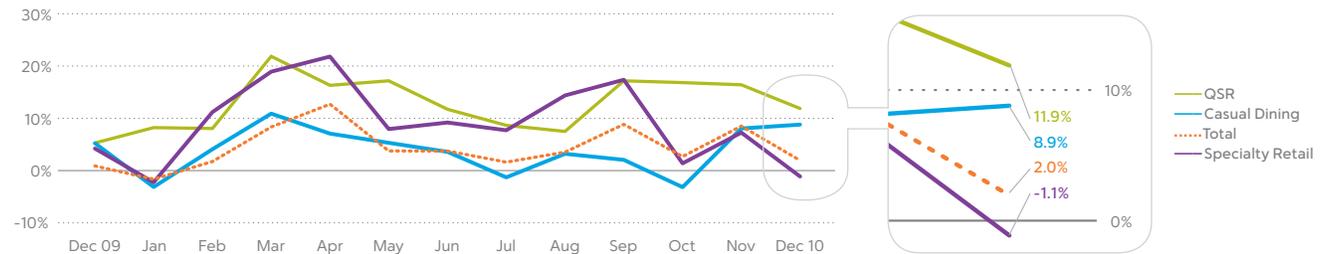


When Marketing owns the gift card program, it’s all about the customer. Typically the company will gather considerable market intelligence to understand what appeals to its customer base. For example, the company might choose to offer cards that come in a variety of eye-catching designs that help consumers celebrate special occasions like birthdays, weddings and specific holidays. A well-designed form factor might prompt the recipient to make an impulse purchase from a gift card mall, or to reload and reuse his or her card more frequently. Organizations employing the Customer Centric approach have also positioned their gift card programs as powerful marketing/advertising tools by incorporating other solutions such as Incentive-To-Action (direct/targeting marketing), eVouchers/mVouchers (electronic/mobile unique code offers), eGift Social (social media marketing) and alternative form factors (fobs, contactless stickers, mobile 2D barcodes, etc). This kind of program often costs more to operate, but it can be worth it due to the impact it has on the rest of the business. Marketing/customer centric driven gift card programs tend to outsell their competitors by 2:1, 3:1 or even an astounding 4:1 ratio.

For example, the Quick Serve Restaurant (QSR) vertical tends to be more customer centric, while the Casual Dining vertical tends to be more cost centric. The chart below demonstrates the relative card activation growth of these two methodologies:

Figure 4: Comparison of gift card activations by industry

Dollar Volume Growth in Gift Card Activations by Industry



Source: SpendTrend – Closed Loop Prepaid Cards, Edition: Full Month December 2010 by First Data 01/2011

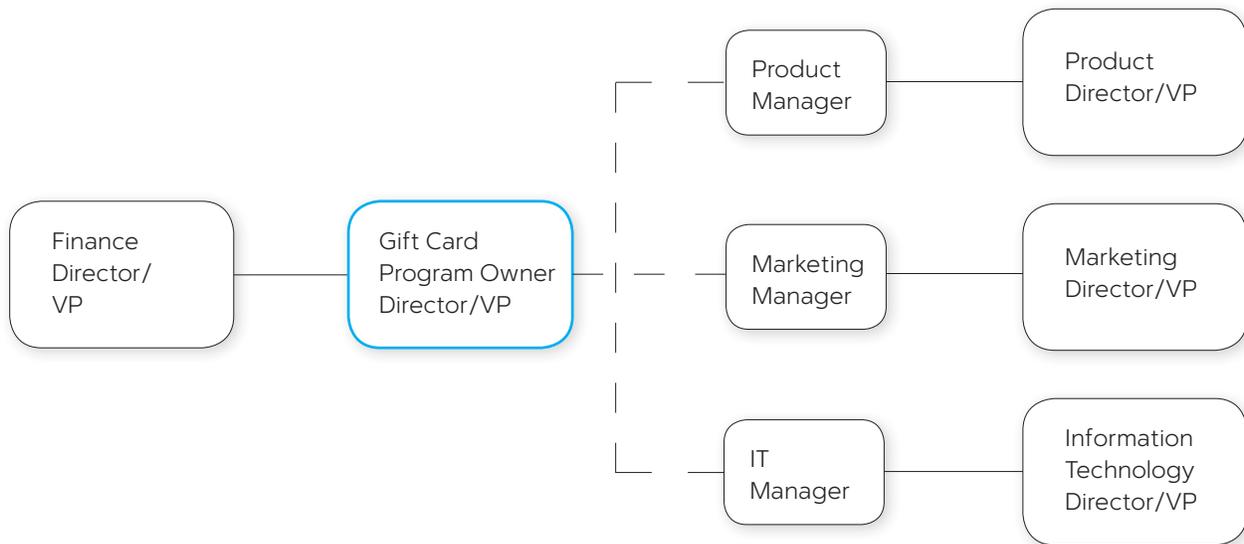
Consumers remember their first experience with a company’s gift card. How well this first experience goes will bring the customer back, or drive him to a competitor. More so than any other business unit, Marketing understands this and usually takes measures to ensure a favorable first experience for the consumer.

Results: A program management approach which operates under a marketing emphasis tends to deliver a very "customer centric" gift card program. These programs can be easily identified by market penetration, customer awareness, vertical visibility, and ultimately, overall program success. The gift card can become a very powerful marketing tool when properly managed. These types of programs typically outperform when compared within the same vertical due to their greater focus on the customer.

Approach 4: Cost Centric Program Structure

When a company is very sensitive to the cost of a gift card program, the Finance or Accounting business unit is usually given ownership. Figure 5 shows the reporting structure of such an approach.

Figure 5: Organization chart of the Cost Centric Program Structure



In this case, the program is managed as a commodity rather than as a strategic asset. This type of program can be successful but it often doesn't reach its full potential. For example, the gift cards may less success as impulse purchases because their design and placement reduces their consumer appeal at gift card malls.

There are various reasons why a company would choose to be so cost conscious about its gift card program. Here are just a few we have seen:

- The company is just getting its feet wet with a gift card program and wants to be conservative until it understands more about operations. Perhaps cards are replacing paper gift certificates for the first time.
- The company is fiscally conservative in all of its operations, typically passing savings along to its customers in the form of low prices.
- The company has customers that are loyal to its brand regardless of what kind of program is offered. Loyal customers will buy the card, even if it's plain and cheaply designed.
- The company feels like it has to have a gift card program because all its competitors have an offering. There's a sense of "keeping up with the Joneses."
- The general economic climate is not good, and the company needs to retrench to a more conservative position until the economy recovers. This was a common occurrence during the recent recession.

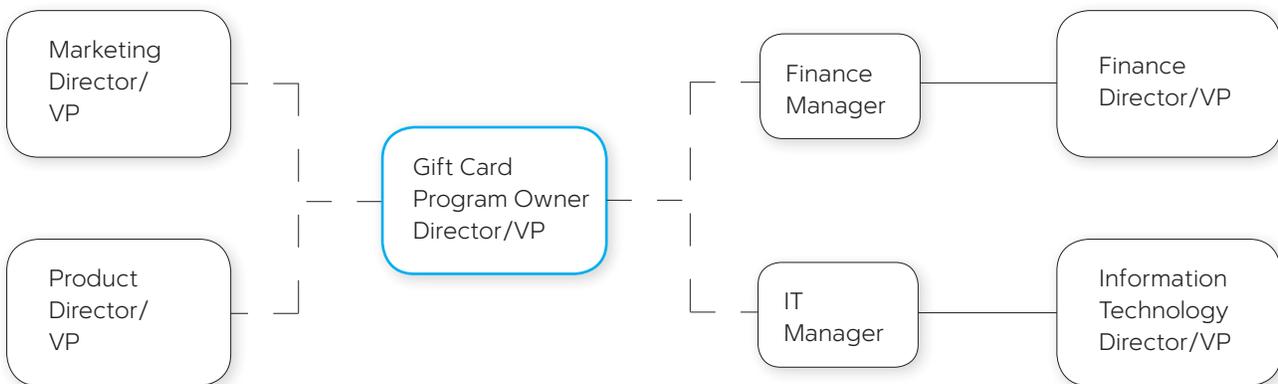
There's nothing particularly wrong with a Cost Centric Approach to managing the gift card program, as long as the company understands that the program will likely never achieve its maximum potential for revenue growth. First Data has metrics that show better financial results comparable merchants achieve with just a little higher investment in their programs.

Results: A program management approach that operates under a finance/accounting emphasis tends to yield a very cost centric gift card program. While management and operational cost efficiencies are gained, they are achieved at the expense of consumer card penetration and overall program success. Some programs managed under this philosophy can be successful, but ultimately they don't reach their potential.

Approach 5: Innovation Centric Program Structure

This management structure is used by companies that seek to be market-leading by offering innovative products. Joint program ownership is established between the Marketing and the Product business units. The GCPO typically reports to the director or vice president of each of these departments, and he or she consults with managers from the IT and Finance units. Figure 6 shows this management structure.

Figure 6: Organization chart of the Innovation Centric Program Structure



This type of organization has a “first-to-market” philosophy. From an industry perspective, this merchant drives changes and carves new paths where gift cards can be applied. It capitalizes on the “cool factor,” especially in youth-oriented markets. In many instances, offerings are driven through the latest social media avenues. Some examples of recent innovations include:

- Creating an application in Facebook that allows a fan (or follower) of the merchant to gift another Facebook user
- Allowing consumers to design their own plastics using personal images they upload to a website
- Using one card that contains multiple purses for a variety of purposes, such as meals, lodging or personal services that are offered through affiliated merchants
- Providing a mobile application that allows consumers to monitor transaction history and balance, add funds, and even purchase a card that can be sent electronically as a last-minute gift
- Creating unique offers only available to those who have registered. These offers utilize a unique one-time code to ensure that offers can only be redeemed once during the duration of the campaign, and either close out upon redemption or expire at the end of the campaign
- Deploying mobile web ad banners, location-based GPS promotions, and short-code opt-in campaigns to build a mobile advertising database—with or without tie-ins to a loyalty program

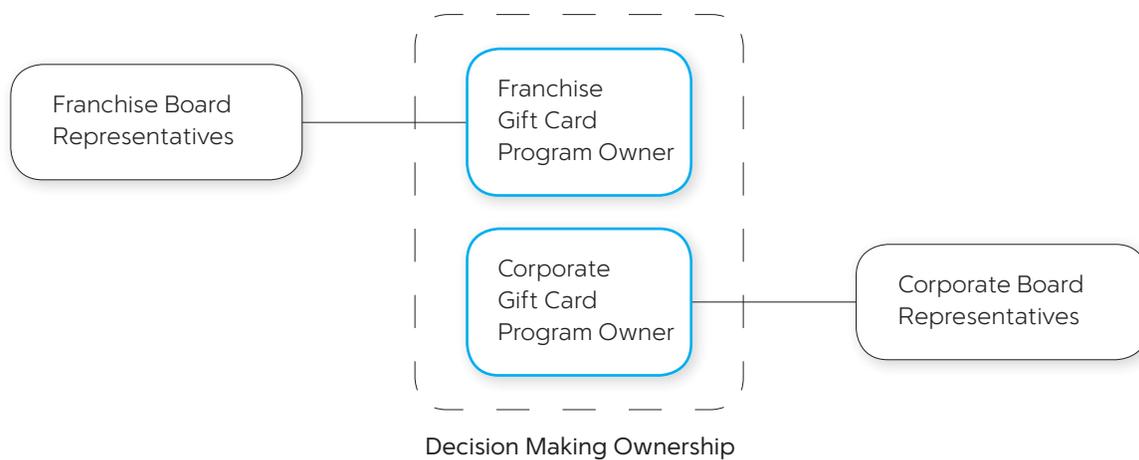
It takes a creative program owner with frequent new ideas to sustain the “buzz” of a truly innovative gift card program. What is considered highly innovative today will likely be considered a “must have” feature or product a year from now.

Results: A program management approach that operates under a combined product and marketing philosophy tends to be very innovation centric. These programs likely are to be considered market leading within their respective verticals. Programs managed with an innovation centric vision can often be identified by first-to-market complementary program enhancements. These programs are constantly connecting with consumers in ways that are most relevant to the consumer, and they benefit from constant market “buzz”—ultimately capitalizing on their investment. Innovation Centric programs consistently achieve overall program potential and success.

Approach 6: Franchise Centric Program Structure

This program management structure is highly recommended for companies with franchise owners. In this approach, there is joint ownership of the gift card program decision-making process between the Corporate Gift Card Program Owner and the Franchise Gift Card Program Owner. Figure 7 shows the organizational structure.

Figure 7: Organization chart of the Franchise Centric Program Structure



This management structure gives franchise owners the comfort that they are being represented within the corporate structure for gift card matters. It frequently serves to improve the franchisees' acceptance of and participation in the gift card program. With partial ownership of the program, franchisees see how they benefit from a program that Corporate wants to implement. The benefits may include increased sales, since the franchise owner is typically more engaged and can provide key input into program design. We've also seen increased engagement when the revenue from float and breakage (i.e., when cards are never redeemed) is shared with the franchise owner, which creates an additional financial incentive to sell more gift cards.

The decision making process can be drawn out, especially if the Franchise CGPO must consult with the Franchise Board Representatives for input. However, this structure usually yields a successful program—though it likely won't be particularly innovative, and it may not reach its maximum potential due to lack of consensus between Corporate and the Franchise Board.

Results: In a program management approach where program ownership is split between a corporate board and a franchise board, typically the outcome is a very steady and stable program. Innovation opportunities are carefully evaluated against cost and expected implementation effort, which leads to some overall program enhancements—but not to the level of an Innovation Centric program. However, in this approach, gains such as float and breakage are typically split between both groups, yielding a greater participation rate at the franchise level and further building a sense of partnership between the two groups. These types of programs can be considered successful, although they rarely reach maximum program potential due to the sometimes opposing interests of the two boards.

Program Structure Responsibilities

With the exception of organizations that must include franchise partners in the decision-making process, the typical responsibilities of the internal participants are basically the same in Approaches 1 through 5 described above. Table 2 outlines the major responsibilities of the business unit managers and the Gift Card Program Owner.

Table 2: Major responsibilities of the internal participants

Business Unit Manager Responsibilities	Gift Card Program Owner Responsibilities
<ul style="list-style-type: none"> • Understands the overall strategy from the BU Director/VP • Understands any BU specific restraints (technical, operational or financial) • Understands the overall role the manager must play to fully represent the BU specific objectives • Maintains open communication with BU Director/VP to understand and convey needs, opportunities and flexibility • Ability to represent the BU from a current and future growth perspective • Owns issue resolution in instances where the issue resides within the BU • Owns reporting and program/figure analysis specific to the BU • Understands program impact and support required • Dotted line accountability to the Gift Card Program Owner Director/VP 	<ul style="list-style-type: none"> • Impartial to business units • Primary focus is overall program success • Fully understands the company strategic vision • Holds BU accountable to timely issue resolution • Owns issue communication • Champions new gift card initiatives • Owns program performance • Sole point of contact into First Data

In the Franchise Centric Program Structure, the responsibilities are similar, although it includes participation from both the external Franchise Board Representative and the Franchise Gift Card Program Owner. Table 3 outlines the major responsibilities of the Franchise Board/Corporate Board Representatives and the two Gift Card Program Owners.

Table 3: Major responsibilities of the internal/external board participants

Franchise Board/Corporate Board Representative Responsibilities	Franchise/Corporate Gift Card Program Owner Responsibilities
<ul style="list-style-type: none"> • Understands the overall strategy from the group enlisted to represent on the respective board • Understands any BU/Franchise specific restraints (technical, operational or financial) • Maintains open communication with appropriate directs to understand and convey needs, opportunities and flexibility • Ability to represent respective group from a current and future growth perspective • Owns issue resolution in instances where the issue resides within their specific area of focus • Owns reporting and program/figure analysis specific to their respective group • Understands program impact and support required • Dotted line accountability to the respective Gift Card Program Owner 	<ul style="list-style-type: none"> • Primary focus is overall program success • Fully understands the company/franchise board strategic vision • Holds BU/locations accountable to timely issue resolution • Owns issue communication to appropriate group • Champions new gift card initiatives • Owns program performance • Point of contact into First Data

Conclusion

The observations and guidance described in this document are based on First Data's years of experience in working with thousands of companies to implement and support their gift card programs and process the transactions.

The level of success of a program is obviously dependent on many factors—external as well as internal—with the program management structure being just one of them. However, we have learned that the ownership of the program directly affects many of the criteria for success, such as level of investment, speed to market, customer appeal, fiscal responsibility, innovation, operational transparency, organizational support, and interactions with First Data as the processor. There is a direct correlation between how the program is managed and the results that can be expected at the end of the day.

While the examples outlined in this document were published in an effort to help prepaid merchants best align their gift card programs to their overall strategic goals, it's worth noting that regardless of how a program is managed today and how the program is intended to be managed tomorrow, the overall program management is and always should be adaptable to factors that may not be controllable, like organizational re-structuring, corporate strategy shifts, and of course, macroeconomic changes.

Whether a company's gift card program is new or has been operating for years, First Data encourages retailers to review their approach to the program management and ownership. This may help to illuminate opportunities to derive greater economic value from the program, while maintaining the same key goal for success: to maintain consistency and alignment with the overall company strategic vision.



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About the Author

Dania Ruiz-Paramo is a Solution Consultant at First Data, responsible for providing customer-facing product support for national and international merchants. Dania has been with First Data for 13 years which has included multiple roles across the Merchant and Financial Services organizations. Dania's most recent four years of experience within the First Data Prepaid division has included domestic and global processing, implementations, and solution consulting for Prepaid Closed Loop and Open Loop as well as Loyalty, Marketing and Data Analytics.

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