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Aug 27, 2007 12:00 PM, BY AMANDA BALTAZAR

Gift card sales are growing in supermarkets thanks to growing consumer acceptance and a greater variety of offerings

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Gift cards are becoming almost ubiquitous in supermarkets and it's because of what's possibly the single most important factor for shoppers today: convenience.

In recent years, supermarkets have been carrying an ever-expanding selection of cards from other retailers, or other retail channels, from the Gap to iTunes, and they've seen sales of these items explode as consumers pick them up while shopping.

"It's just all about convenience and one-stop shopping," said Nate Acheson, general merchandise/health and beauty care/candy buyer-merchandiser for Rosauers Supermarkets, Spokane, Wash. "For a lot of people, it's more convenient to buy other people a gift card as a gift, so you don't have to take the time to shop."

Gift cards are a good customer service, saving customers a trip to another store, according to Lanny Hoffmeyer, corporate director, hardlines, photo and lobby for Supervalu in Eden Prairie, Minn.

Sales of gift cards continue to rise by 15% to 20% per year, and are replacing actual product sales, according to Robert Passikoff, founder and president of Brand Keys, a research consultancy in New York. Based on reports from Mercator Advisory Group, Waltham, Mass., Blackhawk Network, a subsidiary of Safeway, established to handle its gift card business, projected gift card market sales will reach \$90 billion by 2010. (Mercator estimates 2007 business will reach \$73 billion.)

"Retailers see the growth of cards and do not see any declines in their own sales at the same time — they understand the gifting nature of the cards," said Teri Llach, vice president of marketing, Blackhawk. "They prefer to offer consumers products that they desire to increase consumer traffic and loyalty."

Supermarkets are a big part of this category's growth. Passikoff estimated that supermarkets' share of the gift card business is 10% to 15%, which would make it a \$7.3 billion to \$11 billion business in supermarkets this year, if applied to the Mercator data. However, statistics of how much the gift card business is worth in the food channel vary widely. Some numbers, based on scan data, come in well under \$1 billion. But citing data from the National Retail Federation, Washington, Passikoff noted that during the last holiday season, 17.3% of consumers purchased gift cards from retailers such as supermarkets and convenience stores.

All of this makes gift cards a very attractive category for supermarkets.

The category has been expanded greatly in the food channel by Safeway, which formed Blackhawk Network in 2003 to manage its gift card business, market it to other retailers and provide payment services. Both companies are based in Pleasanton, Calif.

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## STELLAR CATEGORY

At Safeway, gift cards have become a stellar category, with previously unimaginable sales increases, and Blackhawk is helping share that success, now working with 95% of the country's largest grocery chains, according to Llach.

"Gift cards are essentially found business and there's no cash investment or inventory because they have no value until you actually sell them and activate them," said Al Jones, senior vice president, procurement and merchandising with Imperial Distributors, Auburn, Mass.

"It may be about being a magnet for the additional sales," said Passikoff. "It's about offering access to categories with products and services [supermarkets] don't offer."

Just offering this service appears to be enough for grocery store retailers since the margins on gift cards are very slim. Passikoff estimated that retailers make 3% to 8% of the value of the card, but because of the volume, the high-dollar value of most cards, and the lack of inventory costs, this can add up to big numbers.

However, he pointed out, supermarkets are not required to make any investment to gain these dollars. "It's perceived as [offering] value and merchandise access," he said. "The cards are being so rapidly accepted, that if you don't carry them, someone else will and then consumers will go and buy their milk there."

Gift cards are a way for supermarkets to differentiate from other formats, said Jon Hauptman, a partner with consultant Willard Bishop, Barrington, Ill.

"There's really nothing to lose," he added. "It doesn't cost anything, it doesn't take up space, and it could enhance the image of a store as a destination for gifts and seasonal items."

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### IMPROVED IMAGE

It's not just that these cards make consumers' lives easier; their popularity is also boosted by the improvement of their image in recent years. Long gone are the maligned days of easy-to-lose, unattractive paper gift certificates. Gift cards are small enough to slot into anyone's wallet, they have cool and personalized designs, and they're simple to use. Kids also love them because they operate like a credit card, making them feel grown up.

Five years ago, gift cards were considered poor gifts, said a nonfood executive with a Northeast retailer. "Now, the trend has changed. A lot of people prefer to get a gift card because they can buy what they want instead of getting a gift that they know they're going to take back."

"It provides the gift giver a multitude of ways to satisfy the person that they care about, a way of showing the person that they care," said Gregory Hott, director of general merchandise with Sunbury, Pa.-based Weis Markets, which runs its gift card program with Blackhawk.

Despite this near-universal acceptance of gift cards and their ability to almost sell themselves, some retailers are taking the initiative with merchandising and aiming to boost sales further with products that enhance the personal presentation of gift cards.

For example, Rosauers Supermarkets is partnering with American Greetings, Cleveland, this fall. It will carry gift card holders on clip-strips, which it will merchandise at the front of stores.

This 21-store company runs its gift card program through Blackhawk. According to Acheson, the chain's gift card sales are about double what it expected, even though the retailer was initially unable to activate cards at the front end and customers had to go to the courtesy counter.

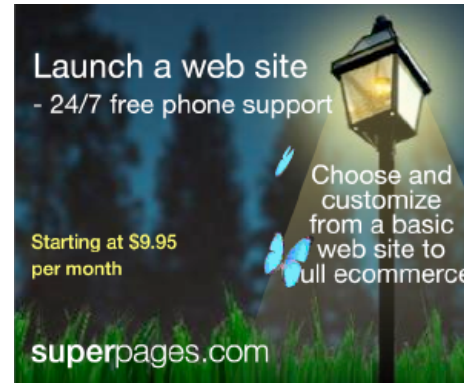
### MERCHANDISING FLEXIBILITY

Gift cards certainly don't need to be confined to the cashier stands any more. "Merchandising outposts near the greeting cards and gift wrap is a natural," said Hauptman, as well as displays in the seasonal aisle.

Displays on endcaps and at the grocery store entrance also make sense because they're high-traffic areas, said Neil Stern, senior partner with retail consulting firm McMillan Doolittle, Chicago.

While these merchandising displays boost sales year-round, they are particularly effective during the holidays. Last year during the holiday season, consumers spent \$27.8 billion on gift cards — much more than the \$24.8 billion that was predicted, according to the NRF.

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"I think to a degree, gift cards have changed the behavior going into holiday seasons, such as Christmas, where we're expecting to sell bows, wraps and all that good stuff," said Anthea Jones, vice president, non-foods and pharmacy, Bi-Lo, Greenville, S.C. "You don't sell the bows and the wraps you want sold because people are moving those purchases into gift cards. So that's an opportunity and you've got to figure it out."

"Fourth quarter is the biggest time for gift cards," said Nick Barainca, director of non-foods for Scolari's Food & Drug Co., Sparks, Nev. "That's when people are most giving but don't know what to give other people any more."

Overall seasonal sales are growing by 10% to 20% per year, said Hauptman. "In an environment where retailers are looking for growth anywhere, seasonal can be a cornerstone for growth, and gift cards are part of that."

And it's not just the December holidays. Even for Mother's Day, graduations, Easter and Valentine's Day, the growth in these cards is strong.

**Additional reporting: Dan Alaimo**

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### PLAYING THE CARDS RIGHT

The future's likely to be kind to the gift card business — at least for a while. “It’ll grow, then plateau until some new innovation is brought in,” said Neil Stern, senior partner with retail consulting firm McMillan Doolittle, Chicago.

Innovations so far have included retailers jazzing up the cards with different shapes, such as the well-recognized yellow tag from Best Buy and dinosaurs from Target. There have also been limited-edition cards for different gift-giving events throughout the year.

Some retailers have been including packaging such as boxes or stuffed animals to hold the cards, which creates a gift that can be wrapped, pointed out Phil Rist, vice president of strategy for BIGresearch, Worthington, Ohio. Next, they’ll be adding audio, which has already been seen in greeting cards, and maybe holograms, he guessed. “Anything to make it creative.”

Jon Hauptman, a partner with consultant Willard Bishop, Barrington, Ill., expects to see even greater variety in this category, with more retailers and retail channels represented in supermarkets, and more grocery stores offering them.

Currently, the gift card business seems to be a one-way street, with supermarkets carrying the cards of a number of retailers, but those retailers not carrying the cards of the supermarkets.

“Right now, we’re carrying the cards of other retailers, but they aren’t carrying ours,” said a nonfood executive with a Northeast chain. “In our market area, I think it needs to work both ways.”

Bill Mansfield, president and chief executive officer, VIP International consultancy in Garland, Texas, said that he has not seen a way for the transactions to go both ways. “Clearly, both sides benefit now, but the promotion all seems to be going from the supermarket channel back to those retailers or gift providers.”

Supermarkets could eventually see their gift cards in other retail channels, said Hauptman, but he expects the growth to be much slower.

— A.B. and D.A.

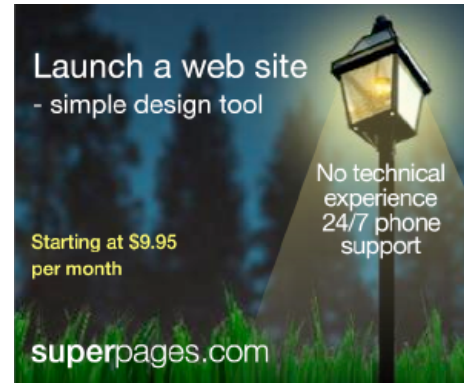
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