Patterns of Gift Card Non-Redemption

Daniel R. Horne, Providence College[1]

Introduction

As gift cards have become increasingly popular, concern has been raised about the number of cards which are not redeemed.The purpose of this exploratory study is to examine the pattern of gift card non-redemption and to explore the reason that consumers cite for not using these products. A survey of English-speaking Canadian consumers was conducted to explore attitudes and behaviors surrounding gift card receipt. Implications for card issuers and public policy makers areconsidered in the light of the findings presented.

Background

The morphing of gift certificates into gift cards during the last dozen years coincided with a tremendous increase in both the number of cards sold and the total dollar value represented. Cards provided a technological advance which improved internal security and allowed vastly increased distribution and merchandising. The development of Point of Sale Activation (POSA), which permitted a card to be "turned on" and loaded with value at a sales terminal, allowed retailers to sell their cards through other merchant locations. Currently every major supermarket chain, as well as many gas stations, convenience stores and pharmacies, offers gift cards from a large number of major, national merchants such as Home Depot, Macy's, Barnes and Noble, Amazon, Starbucks and hundreds more.

Increasing distribution and better merchandising have clearly worked, as the gift card industry in the US alone has developed from an estimated $4 billion in the early 90's to approximately $100 billion annually in 2011 (Ambrose, 2011). It has grown substantially in other developed markets as well, with Canada and Northern European countries seeing tremendous consumer acceptance of the products (Toronto Star, 2011).

The popularity of gift cards across many separate markets attests to their appeal with consumers. By shifting some of the search costs from the less knowledgeable giver to the more knowledgeable recipient, the cards benefit buyers who have gift obligations to fulfill by reducing both the uncertainty and the effort required to complete the task. Simultaneously, gift cards yield some benefit to the recipient in terms of providing choice (Tuten & Kiecker, 2008). Avoiding ill-chosen gifts that are un or under-utilized generates additional consumer welfare (Waldfogel, 1993). This is not to say that everyone is completely satisfied with the receipt of gift cards. The store which issues the gift card may not be liked, or the card value may not be worth the work involved in redemption, which might include always carrying the card and increased costs necessitated by separate shopping trips. By definition, moving the search costs from the giver to the recipients adds costs. So too, a number of cards are thrown out with the wrapping paper, lost in moves, and placed in the bottom of desk drawers and simply forgotten.

Further complicating this is the reality that the purchaser of the gift card generally has given the card, and all rights to claims based upon it, to the recipient. To the individual or collective receiving this claim, the value is "found money" (Horne, 2007a) and potentially treated as less valuable than if the recipients' own money were involved (Ackert, Charupat, Church, & Deaves, 2006). This might suggest that consumers are less aggressive at protecting their rights to the value (Arkes et al., 1994) – easy come easy go.

Nonetheless, the money lost on gift cards (termed "breakage" in the industry) (Kile, 2007) represents lost consumer value. The amount of lost value is in question. According to a report by national accounting firm Grant Thornton, breakage levels may be as high as 10-19% (Grant Thornton, 2011). Consumers Reports (2007) released a survey that claimed 27% of gift cards were not redeemed 10 months after receipt. This study, however, relies on an adult sample which potentially creates an upward bias. Younger recipients, who are the recipients of a large percentage of gift cards, tend to spend

[1]Associate Professor, Department of Marketing, School of Business, Providence College, Providence, RI 02918, USA. Phone: 401-865-2722. Email: dhorne@providence.edu.

quickly as they tend to lack other resources with which to purchase goods (Horne, Craddock, & Norberg, 2005).

These figures are much higher than those discussed by retailers and the independent firms that process the transactions, both of which have access to actual data and not estimates. But whether the number is 2% or 20%, this still represents a loss in consumer value. Further, the residual ownership of this value is in question, with the issuing retailers and governmental interests (such as the States, and Provincial and Federal authorities in Canada), arguing over whether unredeemed cards constitute "unclaimed property," which might be subject to escheatment laws by which the holder of the funds (generally the issuer) must forfeit all or some of the funds to a governmental authority. The principle is that unclaimed property belongs to all people, or more traditionally from English law, the crown (Prewitt, 1980).

Study

Data were collected in February 2012 as part of a larger study of Canadian consumers' attitudes and behaviors with respect to gift cards. Six hundred and three adult panel members took part in the study. While the panel purports to be representative, and gender, age, income and education levels appear proportional, the survey was in English and therefore Quebec (and likely all of French-speaking Canada) is under represented. Of respondents, 494 (82%) had received a gift card previously and so constituted the basis for analysis of recipient behavior.

Findings

Scope

When asked about the number of cards received within the last 12 months which were not fully redeemed, the modal response was zero. However, that represented only 39% of respondents. Nearly one in four (24%) had more than two cards that were not completely redeemed. ANOVA indicated that women reported significantly more unredeemed cards than men.

Because of the possibility of partial redemption, (e.g., buying goods priced at $20 using a $25 gift card), a more relevant piece of data would be the proportion of value that had not been redeemed. Table 1 below shows the distribution of responses of those that did have unredeemed cards to the question of what proportion of total value of the gift cards had not been used. As a caveat, it should be noted that while participants were asked about gift cards received over the previous 12 months, these data were collected in February, only eight weeks after the Christmas holiday season which accounts for approximately one half of total gift cards sales.

Table1

Card Value Unredeemed

Amount of original value remaining	0%-10%	10%-20%	20%-40%	40%-60%	60%-80%	80%-100%
Percentage of respondents	14	15.3	21.6	10.0	12.0	27.2

As Table 1 shows, partial redemption is common. However, also in evidence is the large proportion with significant amounts of value left unredeemed. One half of respondents had more than 40% of the original value still remaining on their cards. Consistent with the argument briefly presented above, there is a significant correlation between age and percentage of balance remaining. However, income, which is a better indicator of resources than age alone, did not show a similar pattern (r = .073, n.s.). Age, however, may be more closely related to overall shopping habits, needs inventories and indeed experience with receiving and using gift cards.

Reasons

Several reasons were explored for why people had not used the gift cards they had received. The caveat offered above about the timing of the study after Christmas seems to be relevant as two-thirds of those who had not redeemed their cards agreed that they were waiting to use the card at a later time to make a planned purchase. Conversely, only 16% disagreed with this sentiment.

Some responded that the store from which they received the card was not appropriate for them, indicating a mismatch between the givers' perceptions and the recipients' preferences. This misperception is common in gift giving in general (c.f. Waldfogel, 1993) but gift cards, by offering greater choice, should alleviate some of this issue. Still the choice offered is constrained by the types of goods available from a particular retailer. Eleven percent of respondents expressed agreement that the store choice was the reason for non-redemption. Men were significantly more likely to agree that the store did not offer the kinds of things they wanted.

Two other reasons investigated related to the idea that gift cards transfer search costs to the recipient. These involved examining whether non-redemption was the result of the value of the card being too low or that the redemption process was not worth the time. In both cases, only a small minority (11% for too low value, 16% for not worth the time) expressed agreement.

Remediation

Two types of remediation were investigated to see if consumers took other steps to try to remedy the situation if they received gift cards that they did not particularly want. The first option involves selling gift cards in a secondary market. A number of online businesses have been developed in the US and Canada that allow consumers to sell unwanted gift cards at a discount. The site then resells the card at a slight markup. Selling consumers may get between 60 and 85% of face value depending on the characteristics of the particular card. Consumers who visit the site can buy cards at 5-25% off retail prices. Some sites also allow exchanges of one store's gift card for that from a more preferred merchant. The second way to remediate the receipt of an unwanted gift card is to "regift" (Adams, Flynn, & Norton, 2012) the card to a more appropriate recipient.

Neither of these options appears to be common with respondents to this survey. Only 9% would consider reselling through an online, secondary market. This result might be related to the newness of these services and the likely low levels of general awareness that they exist. On the other hand, 26% find the idea of regifting a card acceptable. This creates value for the original recipients by allowing them to fulfill a gifting obligation at relatively low cost.

Discussion and Policy Concerns

Gift cards continue to grow in popularity and the research program cited here generally indicates high levels of satisfaction for both buyers and recipients. Is the problem of lost value to consumers like the tree falling in the forest with no one to hear it; if no one complains is it really a problem? The special circumstances of the gift giving dyad set up conditions where, because of incomplete information, both parties are likely to view the experience benignly at worst. Even though they fund the gift card, givers do not view the value as a loss because they divorce themselves from the value of the card at presentation. Recipients view the gift as a windfall which, depending on circumstances, they treat cavalierly (Horne, 2007a). This is in evidence in the data which indicates that a large majority of consumers who have unredeemed cards intend to use the card value at some point in the future.

Further, it might be argued that despite the loss of value to consumers, gift giving, in general, is fraught with lost value and that gift cards are an improvement over more traditional gifts especially where there is less knowledge about the want and needs of the recipient. Many bad gifts end up never used, given away or thrown out, while some are returned to the store with the attendant costs involved in the exchange (Sherry & McGrath, 1992). If one of 10 gifts is discarded or unused and one of the remaining nine provides only half its value in utility, there is a 15% loss over a consumer's own selection (cf. Waldfogel, 2009).

One policy change that accurately reflects consumer usage and sentiment is the 2009 Credit Card Act that mandated lengthy expiration dates (seven years in most cases). When first issued in the late 90's and until about 2005, many retailers had short (one to two year) expiry periods. By 2007, however, major retailers had removed expiration dates altogether in order to address customer concerns.

Indeed, retailers with sizable gift card sales often take steps to drive up gift card redemptions as the profitability of a used gift card exceeds the breakage of an unused one (Horne 2007b).

The situation has now been complicated by the growing use of "open-loop" gift cards, that is, those branded by American Express, Discover, MasterCard and Visa. These cards are widely distributed and valid anywhere that accepts the like-branded credit or debit cards. However, a variety of Federal banking laws and legislative carve-outs has made these cards distinct, both in terms of their usage and the rule which apply to them (Horne 2007a). Because of the different business model, these cards still rely on breakage fees although they too have, in the main, extended their expiration periods.

Other policies have been implemented or suggested at a local level. For instance, a recent New Jersey law requires issuers to capture additional identifying information at the point of sale so that it may claim unredeemed balances in the future. While this law is being challenged in the courts, the provision for data capture has been stayed temporarily. Retailers and other gift card sellers have threatened to stop selling in the state if required to comply with the new law. Needless to say, other states and provinces are watching these proceedings carefully.

Some local jurisdictions have also created policies that maybe seen as pro-consumer or pro-issuer. Seven US states allow cash redemption on cards that have low balances (generally $5 or less). This has created some interesting situations for cards issued by online retailers such as Amazon. With average initial loads of approximately $50, the findings of the current research, however, suggest that those with unredeemed balances are likely to exceed this *de minimus* value used in the laws.

Other states and provinces have specifically excluded gift cards from their unclaimed property statutes. This enables issuers to hold the unredeemed funds indefinitely. The Grant Thornton report (2011) implies that issuers might consider moving gift card operations to locations where these laws are in force to take advantage of this situation. Even without the worry of escheatment, moving these unclaimed cards from a liability on the balance sheet to revenue on the income statement is still the subject of some controversy (Kile, 2007) as the consumers retain the rights to the unredeemed value.

Conclusion

There are many issues with gift card redemption that are subject to public policy considerations. To date, there have been calls for regulation and actual promulgation of rules based on anecdotal evidence. As we begin to ask consumers how and why they use or don't use gift cards, we will get a better understanding of what policies will be effective and which will end up either having no impact or, worse, creating unforeseen damage. It is not appropriate to simply acquiesce by saying gift cards may be relatively better at preserving consumer value than traditional gifts. Instead the goal should be how best and most efficiently to insure consumers maximize the value from the gifts they receive.

References

Ackert, L. F., Charupat, N., Church, B., & Deaves, R. (2006). An experimental examination of the house money effect in a multi-period setting. *Experimental Economics, 9*(1), 5-16.

Adams, G. S., Flynn, F., & Norton, M. (2012). The gifts we keep on giving: Documenting and destigmatizing the regifting taboo. *Psychological Sciences, 22*(10), 1-7.

Ambrose, E. (2011, December 26). Consumers wasting millions. *The Montreal Gazette*, p. B11.

Arkes, H. R., Joyner, C., Pezzo, M., Nash, J., Siegel-Jacobs, K., & Stone, E. (1994). The psychology of windfall gains. *Organizational Behavior and Human Decision Processes*, *59*(Sept.), 331–347.

Consumer Reports. (2007). *Consumer reports takes on gift cards in second-annual public education campaign* [Press release]. Retrieved from http://www.prnewswire.com/news-releases/consumer-reports-takes-on-gift-cards-in-second-annual-public-education-campaign-59839757.html

Grant Thornton. (2011). *Gift cards: Opportunities and issues for retailers.* Retrieved from http://www.grantthornton.com/staticfiles/GTCom/CIP/Retail/Gift%20Cards%20-%20Opportunities%20and%20Issues%20for%20Retailers_FINAL.pdf

Horne, D. R. (2007a). Gift cards: Disclosure one step removed. *Journal of Consumer Affairs, 41*(2), 341-350.

Horne, D. R. (2007b). Unredeemed gift cards and the problem of not providing customers with value. *Journal of Consumer Marketing, 24*(4), 192-193.

Horne, D., Craddock, T., & Norberg, P. (2005). *The European Guide to Gift and Stored Value Cards*. London: Giftex.

Kile, C. (2007). Accounting for gift cards. *Journal of Accountancy, 204*(5), 38.

Prewitt, J. (1980). Unclaimed property-A potential source of non-tax revenue. *Missouri Law Review, 45*, 493.

Sherry, J. F., Jr., & McGrath, M. A. (1992). The disposition of the gift and many unhappy returns. *Journal of Retailing*, *68*(Spring), 40-65.

Toronto Star. (2011, January 13). Buyers lay down plastic, boost sales. p. B1.

Tuten, T. L., & Kiecker, P. (2009). The perfect gift card: An exploration of teenagers' gift card associations. *Psychology and Marketing, 26*(Mar), 67–90.

Waldfogel, J. (1993). The deadweight loss of Christmas. *American Economic Review, 32*(December), 1328-1336.

Waldfogel, J. (2009). *Scroogenomics: Why you shouldn't buy presents for the holidays*. Princeton: Princeton University Press.