



# CONCEPT DOCUMENT



**Team**

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## THE OPPORTUNITY

According to the National Retail Foundation, 8 in 10 shoppers planned to give gift cards last holiday season, with projected total gift card spending of nearly \$30 billion in last season alone.<sup>1</sup> But in an age of growing credit card debt and increasingly frugal households, why continue to encourage our loved ones to *buy, buy, buy*? It is clear gift cards are a gift of choice for nearly every occasion: birthdays, holidays, and thank yous are some of the most popular.

Combine that demand with the large portion of those cards that go unused and a lot of wasted funds are generated and paid for by consumers. NPR reports that \$41 billion in gift cards have gone unused since 2005.<sup>2</sup>

Not only are there many dollars going to waste in unused gift cards, but we're also seeing a decrease in people's abilities to save money. In the U.S., personal savings rates have declined decade after decade and rates that had soared into double digits now stand as low as 6%.<sup>3</sup> This interesting combination of two seemingly separate problems presents an opportunity for the right solution.

## THE SOLUTION

The **Smarter Gift Card** gives someone a way to save, not spend. Your gift (amount determined by you) helps start someone's savings and offers them an opportunity to prosper. While traditional gift cards encourage shopping and spending, the **Smarter Gift Card** does the opposite, giving the recipient a starter savings account at a credit union and access to financial services they can use for years to come.

## TARGET MARKET

Based on our primary research, the specific key audience with greatest interest for the **Smarter Gift Card** is: parents and grandparents giving gifts to children and young people.

Broader markets for the **Smarter Gift Card**:

1. Current CU members who want to give the gift of a CU to friends or family (reach this group primarily in-branch or through CU website)
2. General consumers who want to give the gift of savings and see a CU gift card as a credible avenue to do so (reach this group primarily at consumer retail locations; non-CU websites or gift card swap websites)

## CONSUMER BENEFITS

- There is demand for gift cards. As recently as two holiday seasons ago, gift cards were the *most requested* holiday gift for the third year in a row, with an estimated 55% of men and women asking for gift cards as presents.<sup>4</sup>
- According to our research, consumers seem to think they don't have enough money to create a savings fund but they also plan to buy gift cards (a misconception). This product gives them the chance to do both at the same time.

## CREDIT UNION BENEFITS

- Allows current members to advocate for the credit union
- Attracts new, younger members
- Reinforces reputation as an organization that strives to improve the financial well being of members
- Creates another avenue for generating deposits and increasing liquidity for the credit union
- Generates exposure as an innovator to disrupt the notion that gift cards are about spending

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## PILOT RESULTS

Primary research was conducted with three credit unions: a) online surveys were completed amongst Coast Capital Savings and Local Government FCU members; and b) intercept interviews were conducted at Connex Credit Union branches. Members were asked: a) about their current gift card usage; b) to provide feedback on the Smarter Gift Card; and c) whether they would purchase/use the Smarter Gift Card. Highlights from the research are below with more detailed results found on the Filene i3 Basecamp site.

- Birthdays/holidays are the most popular occasions for gift card giving to primarily family/friend segments.
- The most popular price range for gift cards is \$21 to \$50.
- Reactions were positive towards the **Smarter Gift Card** in its appeal for helping others save, particularly youth savings, and plan for the future. It resonated strongest amongst members who understood it's not about "immediate satisfaction." Avid credit union supporters saw the card as a great ambassador for the benefits of being a credit union member.
- Members who were less enthusiastic about the **Smarter Gift Card** were concerned that gifting the card to families or friends may be interpreted by recipients that they need help with their financial situation. Other members thought the card was an impersonal way to give (these same members were low purchasers of other type of gift cards) or took the fun away from giving.
- The likelihood to purchase the **Smarter Gift Card** ranged from 82% among Local Government FCU members (37% somewhat likely, 29% very likely and 16% extremely likely) to 47% among Coast Capital Savings customers (32% somewhat likely, 10% very likely and 5% extremely likely).
- Popular price points for the **Smarter Gift Card** were \$50 and \$100.
- Appeal to purchase the **Smarter Gift Card** was strongest among older members with children or grandchildren with recipients being those younger family members.
- Some members would substitute current gift cards purchased with the **Smarter Gift Card**, with substitution being greatest with prepaid Visas/MasterCards followed by clothing/accessories store gift cards. Other members saw it as another, stronger alternative to savings bonds.
- If given the **Smarter Gift Card**, over half of the members from both credit unions would use it.

## OPERATIONAL AND OTHER CONSIDERATIONS

### Internal/Operational Considerations

Buy-in, as with nearly all initiatives, is critical for success. Buy-in will occur only with a solid understanding of the product, so it is important to use, and strengthen, communication with project supporters and frontline staff to facilitate clear communication and understanding. As with all innovative approaches/solutions, prepare team members to be ready to change course and accept adjustments that may be necessary to meet market or regulatory demands. It's also important to make sure frontline personnel understand who the key target is for the new product: parents and grandparents of children and young adults.

### External Considerations

Messaging is critical. The familiarity of the gift-card concept may cause message recipients to immediately jump to conclusions and possibly tune out, tired of the mundane nature of the standard gift card. This card is designed to provide access to a credit union, thus offering depth of quality financial services to a broader range of people. Depending on an organization's field of membership, the opportunities can be small and focused, or very far-reaching and broadly framed. The product in its current form was not greatly desired across audience segments, but a distinct market exists in segments leaning toward the aging population.

### Regulatory Considerations

The concept falls into a very gray area between gift cards and deposit accounts. As presented in the pilot, the concept seems to avoid regulatory burdens, while enhancing it to function as a balance carrying, or value-intrinsic card will require the necessary compliance/risk management consideration and attention.

## Future Considerations

A current market scan and in-depth research will help determine if similar products have surfaced that meet this same need, or to determine new, different or stronger delivery channels. The introductions of mobile technology on this product, in both push and pull methods, may open up a much wider market segment for exposure and sale.

Another avenue for broader exposure would be to market the card through a common group, such as a state league or CUNA. Regional co-ops could also come together to offer a card collectively. These are simply ways in which the card could be used to reach a broader segment with exposure in larger markets or across sectors.

Other future considerations that surfaced during our pilot were:

- Card could have more functionality (i.e. through magnetic strip cards) to track and load amounts
- Card could potentially link to other credit union products and services (e.g. loans, investments)
- Create an online only version of the gift card (much like Groupon) that to purchase and give online.
- Linking a CU match to the card (for example, the CU matches the initial amount upon redemption)

## FINANCIAL PRO-FORMA

Assumptions:

- The **Smarter Gift Card** would allow recipients to open an existing type of savings account.
- The card value one can load is flexible, though considerations to place a minimum or maximum value would be at the discretion of the credit union. For the financial projection, an initial value of \$100 is used.
- A portion of the value in the card would be used towards membership shares (e.g. \$5).
- The financial projection is based on a distribution channel of the credit union branches/online and excludes the retail channel which would require different marketing and service delivery strategies.
- The Smarter gift card can be positioned as a new member acquisition product and associated customer profitability could be calculated. The profitability illustrated below looks at the **Smarter Gift Card** as a source of funds for the credit union.

### Projected Revenue and Expenses (Annualized)

A. Estimated Card Production and Marketing Expenses		
Card Production (\$5 per card; assume 1,000 cards produced)		\$5,000.00
Marketing (Collateral and Launch Support)		\$7,500.00
Subtotal (A)		\$12,500.00
B. Estimated Cost of Funds		
Number of Accounts		1,000
Deposit Balance (assume average balance of \$95)		\$95,000.00
Interest Rate (of a savings account)		1.20%
Subtotal (B)		\$13,680.00
C. Estimated Total Costs (A+B)		\$26,180.00
D. Estimated Revenue		
Average Interest Rate (5 year fixed rate mortgage)		3.39%
Interest Income on deposits from gift card		\$38,646.00
E. Profit		
Total (D - C)		\$12,466.00

## RESOURCES

1. [www.nrf.com/modules.php?name=News&op=viewlive&sp\\_id=1254](http://www.nrf.com/modules.php?name=News&op=viewlive&sp_id=1254)
2. [www.npr.org/blogs/thetwo-way/2011/12/27/144308234](http://www.npr.org/blogs/thetwo-way/2011/12/27/144308234)
3. [www.bea.gov/scb/pdf/2011/06%20June/0611\\_pce.pdf](http://www.bea.gov/scb/pdf/2011/06%20June/0611_pce.pdf)
4. [www.nrf.com/modules.php?name=Documents&op=viewlive&sp\\_id=4253](http://www.nrf.com/modules.php?name=Documents&op=viewlive&sp_id=4253)

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## GETTING STARTED

1. Define objective of card program (new members, families, etc.)
2. Determine functionality of card and investigate regulatory demands
3. Build message/marketing strategy
4. Implement program, monitor success, and refine or evolve card
5. Contact us if interested at [innovation@filene.org](mailto:innovation@filene.org)