E-GIFTING: GIVING THE RIGHT SIZE, COLOR, AND STYLE, INSTANTANEously

- The use of gift cards and e-gifting - sending a gift card electronically via e-mail – has increased dramatically this holiday season. Gift cards are expected to represent a $131 billion market in the US this year and predicted to grow at a 6.6% CAGR.

- Retailers, like Macy’s, are developing innovative methods for the redemption of its gift cards. At Macy’s, the gifter can send a gift without knowing the recipient’s size, favorite color, or even shipping address and the recipient can even choose another gift while the gifter gets a thank you, all electronically.

- The e-gifting market is still young, generating about $8 billion market this year, but is evolving rapidly and is expected to grow faster than 32% per year.

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EXECUTIVE SUMMARY

E-commerce has used the convenience and economics of rapid and free shipping effectively to lure consumers away from visiting brick-and-mortar establishments. This is particularly the case this holiday season, when retailers are offering the highest share of free shipping in three years, and following in the footsteps of Amazon, other e-retailers are offering free and low-cost expedited shipping in order to keep pace. As Amazon raised the bar, offering free two-day, even 1–2 hour shipping, retailers have followed suit, even partnering with startups for same-day shipping in some cases.

Another retail trend is the dramatic increase in the use of gift cards, which are expected to represent a $131 billion market in the US this year and expected to grow at a 6.6 CAGR, a couple of points faster than overall US retail. Gift cards enable the giver to show that he or she cares by selecting the retail outlet, while giving the recipient the flexibility to select the time of purchase and avoiding the trouble of having to make an exchange because of an undesired gift or the wrong size or color.

E-gifting, sending a gift card electronically via e-mail, represents the fusion of the convenience of gift cards with the near-instantaneous speed of transmission down the Internet. While it is nice to receive an envelope with a gift card inside, the card can easily be lost or forgotten, and ConsumerAffairs estimated that 10% of gift cards are never redeemed, amounting for $44 billion in value in 2014. Moreover, the recipient traditionally had to take the gift card down to the store to redeem it, with December 26 being the typical peak redemption day. While gift cards can now be redeemed online, the redemption of e-gifts for online shopping is even more straightforward.

Macy’s has developed extremely methods for the redemption of its gift cards. The giver can send a gift without knowing the recipient’s size, favorite color, or even shipping address—just an e-mail address will do—and the recipient can make these selections or choose another gift without embarrassment to the giver or the need to tramp down to the physical store. Once the gift has been accepted, the giver receives a thank-you note—also via e-mail.

E-gifting represents the next logical step in the acceleration of shopping and shipping initiated by e-commerce, offering near-instantaneous giving. While the market is still in its relative infancy—an $8 billion market this year—it is expected to grow faster than 32% per year and evolving rapidly. While one hand e-gifting seems like the latest convenience for unimaginative givers, it offers numerous conveniences in the recipient in a world in which we all receive imperfect gifts.
WHAT EXACTLY IS E-GIFTING?

An e-gift—or a virtual gift card—is typically a voucher for a specific product or service that can be sent electronically via email or a social-networking site. The e-gifting universe encompasses e-gift cards, e-gifts, social e-gifting, gift card malls and exchanges, and cash/electronic payment gifts.

Why do retailers and consumers want to use e-gifts?

• They save money—online gift cards carry no shipping cost.
• They save time—online shopping can save time and effort.
• They save trouble—gift cards drastically simplify the return and exchange processes, since recipients can select a new size or color or make a complete exchange before a gift is even shipped.

E-Gift Cards

E-gift cards work the same way as regular gift cards. However, they are purchased online and can be sent via email, text message or regular mail. The cards can take one of the following formats:

1. **Store gift cards.** These can be redeemed at traditional brick-and-mortar stores. Online gift-card mall Giftcard.com offers gift cards from 74 retailers, including clothing retailers, department stores, movie theatres, electronics retailers, restaurants, convenience stores, sporting goods stores, drugstores, catalog merchants and gas stations.

2. **E-gift cards.** These are traditional store gift cards that are e-mailed to the recipient to be redeemed at many of the same types of stores listed above, but are generally tied to a specific brand.

3. **Mobile gift cards.** These are simply e-gift cards that can be purchased and shared via mobile devices.

4. **Prepaid credit cards.** These are physical cards that can be ordered online. For example, consumers can order prepaid Visa, MasterCard, or American Express cards that are personalized with the recipient’s favorite hobby, interest, flag, flower, animal, sports team or corporate logo.

(It is important to note that the US Credit Card Accountability, Responsibility and Disclosure (CARD) Act, which went into effect in 2010, requires that gift cards remain active for five years after being loaded with money.)

E-Gifts

An e-gift is a personal gift that is sent electronically, typically via email.

Benefits for the sender include:

• Easy way to send a product as a personal gift.
• No need to know the recipient’s exact size or favorite color.
• No need to know the shipping address.
• Ideal for last-minute gifts.
• The price remains hidden from the recipient.
Benefits for the recipient include:

- Easy to adjust color and/or size.
- Easy to exchange for another item before shipping.
- Can enter shipping address.
- Sends a thank-you note when gift is accepted.

Macy’s is one retailer that offers e-gifts, and the company has dramatically expanded the value of them by offering the recipient the ability to change the size or color of a gift, or even exchange it for something completely different, before it is shipped. The company’s e-gifting functionality also provides the sender with an estimate of sales tax and shipping costs, and allows the recipient to receive a gift card for the balance if the item becomes unavailable or goes on sale. If the actual tax and shipping is more expensive than the original item, the sender has the option of paying the difference or choosing a different item.

**SOCIAL E-GIFTING**

Social media is hugely popular: Facebook reported that it had 1.55 billion daily active users in the third quarter of 2015, Instagram is visited by 75 million users each day and Twitter users send about 500 million tweets every day. Given the sheer size of these user groups, retailers are always looking for new and innovative ways to interact with social media audiences.

The challenge for many retailers is to profitably tap into the online movements and interests of these networks’ users. Linking the daily usage of social media platforms with gift buying may be an intricate process, but companies are becoming savvier about it.

Starbucks has been a leader in using social media and mobile devices for e-gifting. In 2011, the company rolled out an e-gifting service that allowed customers to send gift cards via email, Facebook, the Starbucks mobile app or physical mail. In 2013, the company introduced a beta test of @TweetACoffee, whereby users with linked accounts could send a $5 e-gift via Twitter. The program ran for three months, and 27,000 people signed up, generating sales of $180,000.

Last year, Chinese messaging app WeChat took a very modern approach to a traditional Chinese practice. The company used its social platform to allow its 600 million users to send and receive cash-filled virtual red envelopes to celebrate the Chinese New Year. Within two days of launch, 5 million users had taken part. And, by providing a relevant and useful service, WeChat’s owner, Tencent, achieved its goal of encouraging users to bind their bank card information with the platform.

Not all social e-gifting campaigns have succeeded. In 2013, Amazon launched Amazon Birthday Gift, which encouraged groups of Facebook friends to contribute money to an Amazon gift card that would be presented to the recipient via his timeline on his birthday. Due to a lower-than-predicted adoption rate, the service was removed in April of this year. Facebook maintained an e-gifting service called Facebook Gifts during the 2014 holiday season, but shut the service down in August 2014 in order to focus on its “Buy” button and e-commerce platform.
Nevertheless, consumers seem to be coming around to the idea of gifting in some form through social media channels. First Data reports that the percentage of all gift cards purchased through social media platforms increased from 8% in 2013 to 13% in 2014. And eGifter’s Trends in Digital Gifting 2014 Study found that:

- 19% of consumers said that receiving notifications from social media accounts that alert them of special occasions plays a role in their decision to give a gift.
- Of that 19%, over half reported that social media influences their decision to give a gift they were not originally planning to give.
- Social media reminders also account for 10% of “just because” purchases, which female consumers are more likely to make than male consumers: 79% compared with 53%.

By incorporating social media into a wider e-gifting strategy, retailers can provide a knowledge link for consumers who want to give a nice gift, but are not sure about a friend’s taste in clothing, music or restaurants. At the moment, most online gifting simply digitizes the process rather than making it smart and reactive, says Fortune. Social media channels can, however, provide gift givers with insight into recipients’ tastes, hobbies and interests, which the givers can then use to make more informed gifting decisions.

GIFT CARD MALLS AND EXCHANGES

There are several websites, known as gift card malls, that specialize in offering various types of gift cards. These include Giftcardlab.com, GiftCards.com, Gyft.com and Raise.com. Gyft.com also offers a loyalty program whereby users earn points on gift card purchases that can be exchanged for discounts (typically 2% of the purchase value) on future gift cards.

Moreover, several online gift card exchanges have emerged, where consumers can buy or sell e-cards, plastic gift cards, and electronic discount codes or credits (e-codes). When we visited the GiftCardGranny.com site recently, there were 57,480 gift cards from 1,035 stores and merchants on offer, all available online or via a mobile app. Below, we highlight selected metrics from a 2015 review of gift card exchanges.

**Figure 1. Gift Card Exchange Review: Selected Metrics**

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Score</th>
<th>Buy Electronic Cards</th>
<th>Sell Electronic Cards</th>
<th>Accepts Cash Payments</th>
<th>Accepts PayPal Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardpool</td>
<td>9.00</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Raise</td>
<td>8.70</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Card Hub</td>
<td>8.63</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Monster Gift Card</td>
<td>8.25</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>GiftCards.com</td>
<td>7.85</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>CardCash</td>
<td>7.82</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Junkcard.com</td>
<td>7.75</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>GiftCardBin</td>
<td>7.38</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Giftcard Zen</td>
<td>7.30</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>GiftCardSwapping.com</td>
<td>6.13</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: TopTenReviews.com
E-GIFTING TRENDS

According to digital-rewards-platform provider ifeelgoods.com, there are five main e-gifting trends that are worth watching:

- **Millennials already use, and will increasingly use, digital cards.** According to a survey conducted by InComm in December 2014, 85% of respondents in the 18–35 age bracket said they were likely to purchase at least one digital gift card in the holiday season.
- **Marketers are focusing on creating branded gifting opportunities online.** The shift to digital offers unique opportunities for marketers to create personalized, branded gifting opportunities.
- **Digital cards will reduce non-use.** According to a Bankrate survey, 40% of 18–29-year-olds surveyed admitted having lost a plastic gift card. E-gift cards are harder to lose, and they do not break.
- **Loyalty programs are leveraging e-gift cards.** E-gift cards are an ideal replacement for physical gifts in loyalty programs, and they can be distributed faster and more easily than physical goods can.
- **Gift cards will be bundled.** Marketers will invent creative promotions that combine e-gift cards and digital content.

E-GIFTING MARKET

Gift cards overall are expected to be a $131 billion market this year according to CEB TowerGroup, and to grow at a 6.6% CAGR, to $149 billion, by 2017. Interestingly, the Better Business Bureau estimates that more than $2 billion worth of gift cards go unused every year, representing about 1.6% of total gift-card value.

Steady growth of e-gift cards has been noted by CEB TowerGroup, which expects them to grow from a $3 billion market in 2012 to a $14 billion market in 2017, a 36% CAGR. The share of e-gifting of the US gift card market is also expected to rise to 3% of 9% during 2012–2017.

![Figure 2. E-Gifting Market (USD Bil.)](chart)

Source: CEB TowerGroup
Market drivers include:

- **Online shopping**: An increasing number of consumers are shopping online, and so are more likely to use an e-gift card.
- **Convenience**: E-gifting is convenient for both the sender and the receiver—particularly if they are unlikely to see each other in person.

CEB TowerGroup suggests that by 2017, e-gift cards will represent 14% of all gift card market growth, up from an expected 11% in 2016. And, according to a 2014 report by eGifter, a cultural shift toward year-round gifting will add to this growth. Currently, the two most popular gifting occasions are the end-of-the-year holidays and birthdays.

**Figure 3. Most Popular US Gift-Giving Occasions**

<table>
<thead>
<tr>
<th>Occasion</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easter</td>
<td>13%</td>
</tr>
<tr>
<td>Birthdays—</td>
<td>20%</td>
</tr>
<tr>
<td>Graduation</td>
<td>22%</td>
</tr>
<tr>
<td>Anniversary</td>
<td>31%</td>
</tr>
<tr>
<td>Weddings</td>
<td>33%</td>
</tr>
<tr>
<td>Father’s Day</td>
<td>37%</td>
</tr>
<tr>
<td>Valentine’s Day</td>
<td>39%</td>
</tr>
<tr>
<td>Birthdays—</td>
<td>45%</td>
</tr>
<tr>
<td>Mother’s Day</td>
<td>52%</td>
</tr>
<tr>
<td>Birthdays—</td>
<td>86%</td>
</tr>
<tr>
<td>Holiday season</td>
<td>96%</td>
</tr>
</tbody>
</table>

*Source: eGifter Trends in Digital Gifting 2014 Study*

While it is a separate market, the gift-card marker is illustrated below in order to show the market size that the e-gifting market could ultimately reach.

**Figure 4. US Gift Card Spending Forecast by Segment (USD Bil.)**

- **E-Gifting**
- **Retail Closed Loop**
- **Miscellaneous Open Loop**
- **Restaurant Closed Loop**
- **Universally Accepted Open Loop**

Open loop gift cards (such as Visa gift cards) can be used anywhere, whereas closed-loop gift cards are tied to a specific merchant.

*Source: CEB TowerGroup*
Research conducted by First Data in 2013 highlighted consumers’ willingness to adopt e gift cards, with 84% of those polled saying they intended to buy more e gift cards in 2014 than in 2013, while 81% said the same of physical gift cards. In fact, a follow-up survey by the same company in 2014 showed that 34% of shoppers actually did buy gift cards online in 2014, while only 26% did in 2013.

In response to consumers’ desire for more personal gift giving, digital gifting firms such as CashStar are focusing on personalization. The company provides e gift cards that can be edited and sent through various platforms, including tablets, smartphones and social media. Depending on the device used, senders can add text, images and videos to the card before sending. This process allows consumers to make gifts more special and relevant to the recipient, and the company has marquee clients that include Dell, Groupon and lululemon athletica.

**REVERSE E-GIFTING—SOLICITING GIFTS**

In 2012, Tiffany & Co. cleverly added a feature to its website that enables recipient wannabes to request a gift via a “Drop a Hint” button.

Source: Tiffany & Co.

**E-GIFTING 2.0**

Although sending and receiving e gift cards has grown in popularity, some behavioral economics studies have highlighted consumers’ conflicting feelings about the cards. Roy Erez, Co-Founder and CEO of Loop Commerce, notes that many consumers feel e-gifting is an impersonal form of giving that does not effectively communicate the thought and effort that went in to choosing a gift. In response, Loop created an alternative checkout technology that enables shoppers to e-gift an item (not just a card) from a retailer’s online product selection. It then allows the recipient to edit the color, size and shape of that item before confirming the purchase.

Diane von Furstenberg and Lancôme are two retailers currently incorporating this technology into their web stores. The experience is branded slightly differently for each company, although the Loop e-gifting button remains the same. Displayed next to the “Add to Cart” option is a
button that the customer simply clicks in order to write a personalized message, pay for the item and add the recipient’s email address.

The addressee is then sent an email informing her that she has been sent a gift. By clicking a link within the email, she is then taken to the retailer’s website, where she can view the gift. There, she can edit the color, size and style of the item before confirming the purchase.

Even after all this, if the physical gift arrives and it is not what the recipient was looking for, it can easily be returned in-store or online. And if a chosen item becomes unavailable or drops in price, the recipient will receive an e-gift card that can be used to purchase something else.

Many brands and industry professionals have discussed the advantages of adopting an integrated e-gifting approach:

• It helps attract new customers to the retailer, as about 50% of e-gift recipients have never shopped with that particular brand before.
• It enables retailers to have tighter control over stock, as they are alerted to orders before the system marks them as having shipped. The final status of “shipped” is applied only when the recipient has accepted the gift.
• It cuts down on returns because the recipient is able to edit the selection before it is sent.
• It increases the range of gift products by making traditionally tricky items, such as cosmetics and apparel, less daunting to purchase for someone else.
• It eliminates delivery time constraints, because the virtual gift is delivered instantly.
• It decreases the chance that consumers (often men) will opt to purchase a “safer” gift from another store. Cosmetic and apparel retailers that use this technology have reported an increase in the number of male customers buying gifts.

SELECTED E-GIFTING COMPANIES

Amazon received a patent for electronic gifting in 2012 that describes a system for selecting digital gifts such as movies, music and e-books; sending an electronic notification to a recipient; and allowing him or her to download the gift. The giver has the ability to delay payment until the recipient has accepted the digital gift or to cancel the order if the gift has not been accepted and downloaded within a certain period of time.

Blackhawk Network is a NASDAQ-traded company with a current market value of $2.26 billion. The company is a leading prepaid payment network that uses proprietary technology to offer a broad range of gift cards, other prepaid products and payment services in the US and 20 other countries. The company had $1.4 billion in revenue in its 2015 fiscal year ended January. Customers include grocery stores, specialty stores, convenience stores, large retailers and international outlets.

Macy’s has partnered with Loop Commerce on a customer-friendly e-gifting platform that enables the sender to send an (apparel) gift without knowing
the recipient’s size, color preference or even shipping address. The recipient, in turn, can specify his or her size and color preference, exchange the gift, provide shipping information, and send a thank-you note once the gift has been received. Macy’s uses LoopPay as its e-gifting partner.

**Diane von Furstenberg** and **Lancôme** offer a similar process through which a gift can be sent by email. The recipient can select the size and color of the item and provide a shipping address. Product displays include a “Gift This” or “E-Gift This” button to enable easy e-gifting.

**E-GIFTING STARTUPS**

Since e-gifting technology is still relatively new, many startups are looking to innovate quickly and develop solutions to expand the market.

**CashStar** is one of the most visible startups in this area. Although the company did not disclose revenues in 2014, it said they had reached a record level and reported a 700% increase in gross merchandise value over the past three years. The company works with more than 300 global brands.

Other startups developing e-gifting platforms are listed in the table below.

**Figure 5. Selected E-Gifting Startups**

<table>
<thead>
<tr>
<th>Description</th>
<th>Location</th>
<th>Total Funding (USD Mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CashStar</td>
<td>Mobile wallet for storing, managing and integrating e-gift cards</td>
<td>Portland, ME</td>
</tr>
<tr>
<td>CheerZ</td>
<td>Local gift-giving app</td>
<td>Israel</td>
</tr>
<tr>
<td>eGifter</td>
<td>Web and mobile social gifting app that enables users to send e-gift cards to friends, family or themselves</td>
<td>Huntington, NY</td>
</tr>
<tr>
<td>LoopPay</td>
<td>Mobile payments</td>
<td>Woburn, MA</td>
</tr>
<tr>
<td>GiftSMS</td>
<td>Platform that enables retailers, merchants and consumers to send, redeem and integrate mobile gifts</td>
<td>Brisbane, Australia</td>
</tr>
</tbody>
</table>

*Source: CrunchBase.com/Apple App Store/company websites*

**CONCLUSION**

Following on the heels of the huge gift-card market, e-gifting is growing rapidly and here to stay. For those consumers who want near-instantaneous and seamless gifting, e-gifting is able to satisfy their needs. E-gifting also offers several conveniences for the recipient, who is able to customize or exchange the gift little trouble or embarrassment, thus increasing the satisfaction of both the giver and the recipient.