

CONSUMER INCENTIVES

Cash Rewards Boost Prepaid Card Spending

By Karla L. Yeh

Merchants scrounging for value in the current unforgiving market may have found a "breath of life" in cash-back rewards on prepaid cards, according to a senior analyst at Waltham, Mass.-based Mercator Advisory Group Inc.

"I'm convinced, pretty much shouting from the rooftops, that this is the breath of life that prepaid needs for continued adoption by cardholders," says David Fish, Mercator senior analyst of credit and prepaid advisory services.

Benefits supplier Access Development Corp. last week introduced cash-back rewards for prepaid card issuers that would return up to 20% of an online purchase to the cardholder. Access Development's list of participating retailers includes Target, Sears, Barnes and Noble, Toys "R" Us and The Gap. In its program, the merchant funds the discount.

Access says it experimented with cashback rewards for merchant-funded prepaid cards for three years and decided to market the program to add value to prepaid cards for issuers and users.

But projected retail spending statistics for this year's holiday season might leave some consumers unconvinced.

The National Retail Federation reported Sept. 23 that November and December sales could rise just 2.2%, to \$470.4 billion compared with \$460.3 billion in November and December 2007, below the 10-year average of 4.4% and the lowest spending increase since 2002, when holiday sales rose 1.3%. The federation blamed the troubled housing market and minimal income gains for the weak projected increase.

Federation Chief Economist Rosalind Wells says in a statement the economy will "force" consumers to remain "very

conservative" and "less willing" to splurge.

Kelly Passey, Access Development executive vice president of incentives and loyalty, says merchant-funded cashback rewards on prepaid cards boost shopping. Besides, prepaid cardholders are not subject to redemption limits on the amount of cash they get back.

With the card rewards if a consumer buys a product for \$100 with 20% cash back, he pays \$80 and the \$20 goes into a rewards pool, just as it does with cash back credit cards. It qualifies as cash back because the consumer can redeem

► Rewards are "the breath of life that prepaid needs."

— David Fish, Senior Analyst, Mercator Advisory Group Inc.

the rewards whenever he wants. So the difference in money is not a discount on the initial purchase price because the money goes into a rewards pool and is not just left on the card as a discount. So \$100 is deducted from the card, the merchant puts \$20 in the rewards pool and does not get \$100 for the purchase.

Passey adds that the company launched the rewards program, amid stock-market fluctuations and a decline in spending because consumers are looking for "more value to offset costs."

"In the environment now, consumers are looking to save money," Passey says. "Consumers are looking to stretch the dollar. The time is right now for this type of program to get that extra

value for consumers to spend to save more money."

While consumers are willing to spend to save, merchants are willing to fund the discount because of value, Fish says. "It's a strategic way for customer acquisition," Mercator's Fish says. "Merchants like it because it's finding someone within the card portfolio who is going to view the offer as particularly relevant."

Rewards associated with bankcards, including miles and cash-back rebates, have been around for about 30 years. Credit card companies usually worked with banks to fund rewards and offer redeemable discounts with spending minimums.

Until recently, banks funded the rewards, and merchants provided the plastic. But with the merchant-funded cash-back rewards for prepaid cards, merchants incur lower costs because they take the discount only when the consumer makes a purchase, while banks get relief from liabilities of covering rewards costs, according to Passey.

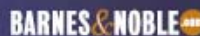
"It's pay-per-performance model," Passey says. "They don't pay anything unless the cardholder actually comes into the merchant's establishment and makes a transaction."

Consumers need confidence to make transactions. Cash-back rewards provide the value necessary to spark consumers to use prepaid cards in an unforgiving economy because the offer is "targeted," Fish says.

"They're going to think about their prepaid cards in a different way," he says. "Merchant-funded discounts are just starting to gain traction in the card space. Although they've been around for a while, at this point it's becoming the most compelling way for issuers to fund rewards." **{PT}**

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