2018 Merchant Gift Card E-Commerce Evaluation

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Table of Contents

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INTRODUCTION

High consumer demand for gift cards has made them a business priority for retailers. Consider that gift cards have been the most requested holiday gift for the last 12 years in a row, according to the National Retail Federation's (NRF) annual consumer holiday survey with Prosper Insights & Analytics[1]. With the NRF forecasting this year's total holiday sales spending to increase between 4.3 and 4.8 percent over 2017 for a total of $717.45 billion to $720.89 billion in sales[2], the financial benefit an optimized gift card program can't be overstated.

Consumers now expect to be able to buy gift cards — physical and digital — from merchants across multiple channels (in-store, online, mobile websites and apps). It's the retailers and brands that can provide the best customer experience in each of those channels that will be successful selling gift cards.

This is NAPCO Research's second annual Merchant Gift Card E-Commerce Evaluation, offering merchants the opportunity to compare results to last year's to see the progress (or lack thereof) made in e-commerce sales channels, as well as identify areas for potential growth. In addition, this research serves as a benchmark for retailers to see how their e-commerce gift card programs measure up against other brands, both within their own product categories as well as across the greater retail industry at large — to determine strengths, weaknesses, and potential areas for improvement and growth. The results are indicative of a larger industry trend toward valuing gift cards, both physical and digital, as a revenue-generating product.

ANALYSIS OF THE GIFT CARD PURCHASE AND RECIPIENT EXPERIENCE

To assess the merchant gift card e-commerce landscape, NAPCO Research undertook a comprehensive review of the state of merchant gift card e-commerce offerings. The cross-platform assessment evaluated brands on more than 100 unique criteria, including key components such as the online consumer purchase and recipient experience of both digital and physical cards (e.g., payment and delivery options, ease of discoverability); business-to-business (B-to-B) e-commerce offerings; personalization options; and the use of gift cards for marketing initiatives. In addition to these criteria, which were included in last year's evaluation, we introduced new criteria in the 2018 research, including scoring a brand's Americans with Disabilities Act (ADA) compliance on their gift card order page when using a desktop computer, as well as the ease of purchasing a gift card for self-use.

[1]Source: NRF 2018 Holiday Spending Survey, conducted by Proper Insights & Analytics, Oct. 1-11, 2018
 https://nrf.com/media/press-releases/consumers-will-spend-41-percent-more-last-year-during-winter-holidays-according
[2]Source: National Retail Federation, Oct. 3, 2018 https://nrf.com/media/press-releases/nrf-forecasts-holiday-sales-will-increase-during-2018-season

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METHODOLOGY

This assessment evaluates criteria that are impacted by a range of stakeholders across merchant organizations (e.g., gift card, e-commerce, marketing, finance/accounting, etc.), as well as gift card platform providers and fulfillment partners. It provides a holistic view into the merchant gift card e-commerce market and builds upon last year's research.

The assessment leveraged publicly accessible information about merchants' consumer and B-to-B gift card e-commerce offerings and the use of gift cards for marketing. Criteria were designed to identify expected and emerging capabilities for merchants' online digital and physical gift card offerings to consumers through desktop, mobile website and app, and through B-to-B channels. The study evaluated the recipient experience for both digital and physical cards, including redemption options. The research was conducted in July and August 2018. For gift card purchases, we took all steps possible to ensure purchases typified actual consumer gift card transactions (e.g., graduation gifts were purchased for real recipients with real email and physical addresses, using appropriate card designs and messages for the occasion to replicate the actual purchase experience and minimize the risk of transactions being declined as potentially fraudulent).

The gift card buying and recipient experiences were evaluated across multiple devices. We assessed how merchants promote the online sale of gift cards to both consumers and B-to-B buyers. Merchants were measured against more than 100 unique criteria, covering the specific elements of the purchase and recipient process. These are grouped into eight main categories listed below:

- Discoverability/Awareness

- Gift Card Offering Flexibility

- Checkout/Post-Purchase

- Recipient Experience

- B-to-B

- Promotions

- Credit Card Reward Programs

- Product E-Gifting

Please see Appendix C for more details regarding methodology.

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MERCHANTS WE EVALUATED

According to Mercator, gift card sales are projected to reach $171.5 billion in 2019, up from $166.7 billion in 2018[3]. When selecting this year's categories, we included as many giftable verticals as possible. One-hundred top merchants, determined by industry rankings, were chosen from the following categories (see Appendix A for the full list of retailers evaluated):

- Airlines

- Apparel

- Consumer Electronics

- Department Store

- Digital Entertainment

- General Merchandise

- Grocery/Pharmacy

- Health and Beauty

- Home Goods/Furnishings

- Home Improvement

- Hotels

- Restaurant - Casual

- Restaurant - Quick Serve

- Specialty Retail

- Sporting Goods/Outdoor

This year's assessment included grocery as a new category, a rapidly growing e-commerce industry.

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[3]Source: 15th Annual U.S. Open-Loop and Closed-Loop Prepaid Cards Market Forecasts, 2017 - 2021, Sept & Nov 2018

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FINDINGS AND RESULTS

For the second consecutive year, Amazon.com, Inc. topped the rankings for overall best score. The e-commerce leader received 79 percent of the total possible points across all criteria ahead of second-place finisher, Sephora (75 percent). Rounding out the top five were Williams-Sonoma (74 percent), Bed Bath & Beyond (69 percent), and Best Buy (67 percent). In addition to Amazon, which repeated its first-place ranking, both Sephora and Best Buy appear in the top five for the second straight year.

Consistency is what vaulted Amazon into the top spot for the second straight year. The online retailer finished in the top three in six individual criteria categories, and above the average score in seven of the eight criteria categories (product e-gifting being the exception). However, there's still room for improvement for Amazon. The company took sole possession of first place in just one of the eight criteria categories (gift card offering flexibility), and tied for first place with 18 other brands in another category (promotions). Amazon received the maximum score in only one category: promotions.

The good news for retailers outside the top 10 is that Amazon and the other brands at the top of this year's rankings have room for improvement in their gift card programs. However, as evidenced in the overall average score of 44 percent for the 100 retailers evaluated, there is a significant gap between the top scoring merchants and the rest of the field. While this is a slight improvement over last year's average of 42 percent, there are clearly many areas in which the brands' gift card programs can be improved.

The brands that showed the biggest improvements year-over-year include HSN, which posted a 30 percent increase in percentage of total points captured; Delta Air Lines (26 percent); Air Canada (21 percent); and iTunes and Gap (both 19 percent). And a positive trend overall is that more companies improved their score from last year (44 in total) vs. those that saw their score drop (35 in total) — six brands' scores stayed the same year-over-year, and 15 brands were new to this year's assessment. Brands are moving in the right direction, but their rate of progress leaves room for improvement.

Chart 1
Top 10 Overall

MERCHANT	SCORE
Amazon	79%
Sephora	75%
Williams-Sonoma	74%
Bed Bath & Beyond	69%
Best Buy	67%
Chipotle Mexican Grill	66%
Gap	66%
REI	66%
Texas Roadhouse	66%
Macy's	65%
Victoria's Secret	65%

See the Appendix for a full ranking, including top performers by vertical

Figure 1
Year-Over-Year Results

- ■ *Improved Brand Score* — 44
- ■ *Brand Score Dropped* — 35
- ■ *Stayed the Same* — 6
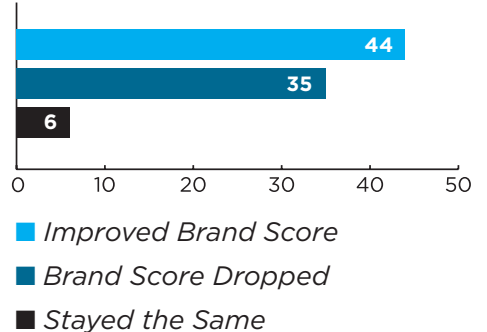
Note: 15 brands were new to this year's assessment

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TRADITIONAL RETAIL CATEGORIES FARE BEST

When analyzing the results by category, the overall leader may surprise you considering their recent well-documented struggles. Department stores had the highest average score (55 percent), followed by health and beauty (52 percent), home goods (52 percent) and apparel (51 percent). On the other end of the spectrum, the categories with the lowest average scores were digital entertainment (24 percent), grocery/pharmacy (28 percent) and hotels (31 percent).

What stands out here is the opportunity for grocery/pharmacy merchants to quickly improve their gift card programs. The category was a late adopter of e-commerce, but now is one of the fastest-growing online retail categories[4]. Consider that by 2025, it is forecast that 20 percent of grocery sales will be transacted online, up from just 2 percent to 4 percent in 2017[5]. Furthermore, travel categories such as hotels and airlines can capitalize on consumers' increasing penchant for buying experiences rather than things, particularly millennials, to promote the sale of their gift cards.

PRIMARY ONLINE CUSTOMER JOURNEY A STRENGTH FOR MERCHANTS

The primary online customer journey for purchasing gift cards has traditionally been desktop purchases of digital and physical gift cards, with digital cards then accessed by recipients via desktop or mobile. Getting that experience right is the starting point for any successful gift card program. So how are brands performing in this area?

The 100 brands evaluated received an average of 50 percent of the total points possible for this criteria, higher than the overall average score across all criteria (44 percent).

[4]Source: NPD Group, Categories Shifting Online, https://www.npd.com/wps/portal/npd/us/news/thought-leadership/2018/top-categories-shifting-online/
[5]Source: Forbes, Online Grocery Sales to Reach $100 Billion in 2025; Amazon is Current and Future Leader,
https://www.forbes.com/sites/pamdanziger/2018/01/18/online-grocery-sales-to-reach-100-billion-in-2025-amazon-set-to-be-market-share-leader/#44dacad362f3

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As for the individual brands with the best primary online customer journey, here's the top 10:

Chart 2

MERCHANT	SCORE
Sephora	82%
Williams-Sonoma	80%
Ulta Beauty	80%
The Cheesecake Factory	80%
The Home Depot	79%
Panera Bread	79%
Best Buy	78%
Bed Bath & Beyond	78%
lululemon	78%
Nordstrom	77%
QVC	77%
Victoria's Secret	77%

An interesting observation for the top 10 performers in this sub-set of criteria is that all of them are using gift card e-commerce solutions powered by third-party vendors.

THE YEAR OF MOBILE

One of the more positive trends to emerge from this year's evaluation is the marked improvement seen in brands' mobile web and mobile app purchase experiences. The average score for the brands' mobile web purchase experience was 46 percent, up 11 percentage points from last year. The improvement wasn't limited to brands' mobile websites. When evaluating the purchase experience for the brands with a mobile app, they received an average score of 28 percent vs. 21 percent last year (13 of the brands evaluated did not have a commerce-oriented mobile app, so they were not scored for this criteria. See Appendix C for more details on app scoring).

With 125 million U.S. consumers now owning a smartphone, and 62 percent of smartphone users having made a purchase online using their mobile device in the last six months[6], it's clear that brands need to be optimizing their gift card programs for mobile users just like they would any other product. The merchants currently doing the best job overall for the mobile website gift card purchasers include Amazon (92 percent), REI (74 percent), Lands' End (73 percent), Walmart (73 percent), Lowe's (71 percent), Target (69 percent), Barnes & Noble (67 percent), Macy's (66 percent), and Olive Garden, Victoria's Secret and Williams-Sonoma (all 63 percent).

[6]Source: OuterBox, Mobile eCommerce Stats in 2018 and the Future Trends of mCommerce, Oct. 26, 2018
https://www.outerboxdesign.com/web-design-articles/mobile-ecommerce-statistics

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When looking specifically at the mobile app purchase journey, the merchants to model your experience after are Amazon (97 percent), Macy's (70 percent), Sephora (64 percent), Williams-Sonoma (63 percent), Victoria's Secret (61 percent), Overstock.com (60 percent), Walmart and Domino's (tied at 59 percent), Texas Roadhouse (57 percent), and Olive Garden and Chipotle (both 56 percent).

However, despite the gains made in the mobile purchase experience, we still see a drop-off in scores compared to the average desktop purchase experience. Brands tallied an average score of 52 percent on desktop, a slight boost from last year's score of 49 percent. What is encouraging for merchants is that the gap between the average desktop purchase compared to the average mobile web experience has closed significantly, from 14 percentage points in 2017 to just 6 percentage points this year.

Where merchants are still coming up short is their mobile apps. Far too many brands that have a commerce-enabled mobile app are not making gift cards available for purchase within their app, a missed revenue opportunity. Consider that 28 brands with a commerce-enabled app received zero points for their mobile app purchase experience because they did not have gift cards available for purchase.

B-TO-B PROGRAMS

The sale of gift cards to businesses in bulk for their use in reward programs, employee recognition programs, sweepstakes, etc., represents an untapped revenue opportunity for many brands. Thirty-seven of the merchants analyzed had no mention of a B-to-B gift card program on their website (a slight improvement from last year's 41). Furthermore, only 38 of the merchants evaluated offered both physical and digital gift cards to B-to-B buyers, although this was an increase from last year's 29. Overall, merchants received, on average, 49 percent of the total B-to-B points available to them.

L.L.Bean is an example of a brand that's getting B-to-B sales of gift cards right (Figure 2). The company's website featured lots of information about discounts for B-to-B purchases, the order process, and reasons why gift cards are a good idea for a business to purchase, as well as suggestions about how they could be used by a business. Furthermore, L.L.Bean's B-to-B order form easily could be found on-site; offers the option to send gift cards to multiple addresses, with the ability to upload spreadsheets for physical or digital delivery; and provides additional options for ordering (phone and email). Lastly, on L.L.Bean's gift card landing page, there was a section specially designed for B-to-B purchases — Business Gifts & Incentives.

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Figure 2
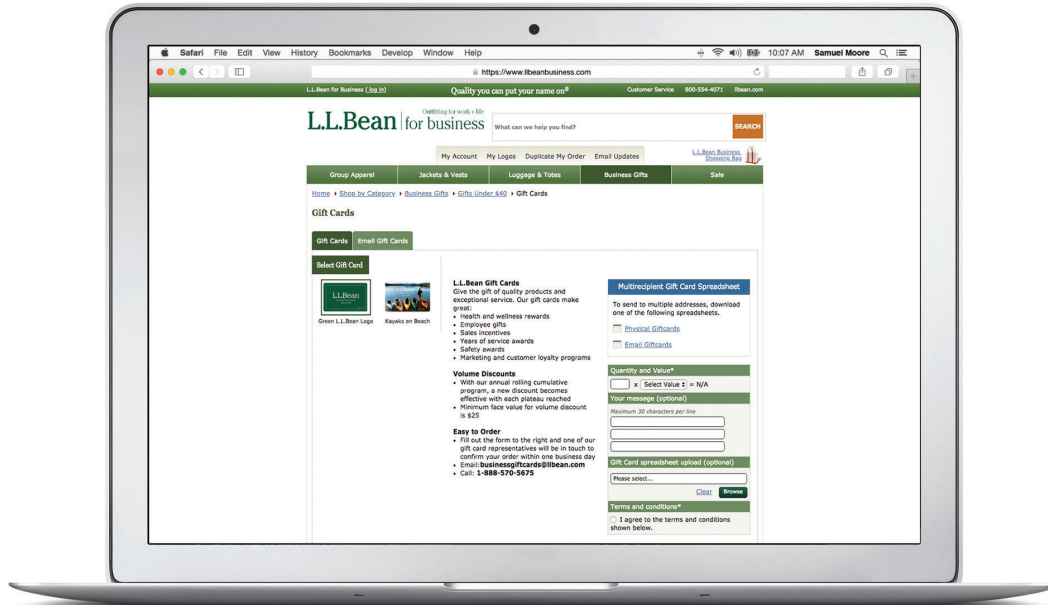
2018 GIFT CARD TRENDS

Here are some of the notable highlights (and lowlights) that emerged from this year's evaluations of 100 brands' e-commerce gift card programs:

OMNICHANNEL PROGRESS BEING MADE … BUT MORE WORK TO BE DONE

In a significant improvement from last year, 51 of the brands evaluated offered both digital and physical cards in all available channels — desktop, mobile web and, for some, mobile app. In our 2017 report, just 36 merchants could make that same claim. What remains a challenge for merchants is improving the mobile purchase and recipient experience so that it's comparable to desktop. Only eight of the 87 brands with a commerce app evaluated have mobile app purchase experiences that score equal to or better than their desktop experiences. The good news is that this is significantly better than last year, when that number was three. By comparison, for mobile websites, 32 of the brands evaluated had experiences that scored equal to or better than their desktop experiences.

Perhaps it isn't surprising that brands are struggling with selling gift cards across multiple channels, considering that omnichannel is a top challenge for retailers. According to a recent report from KPMG[7] , while a little over three-quarters (77 percent) of retailers cite omnichannel as a top or high priority, at least two-thirds say their omnichannel efforts haven't generated the ROI they need. The roadblocks to successful omnichannel selling — whether for gift cards or any other product — include security and compliance concerns; technology and data silos; strategy misalignment; people and process misalignment; and business teams' silos (e.g., online, offline).

[7]Source: Changing the paradigm on customer centricity, *https://assets.kpmg.com/content/dam/kpmg/jm/pdf/omni-channel-study-2016-retail.pdf*

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LACK OF PAYMENT OPTIONS

It makes sense that the more ways that you give a consumer to pay for an item, gift cards included, the more likely they are to make a purchase. Therefore, it's discouraging to see that many of the merchants evaluated have been slow to offer alternative payment methods into their checkout processes. This is particularly true for mobile, where it's even more critical to offer easy payment options such as PayPal and Apple Pay, which minimize the amount of data entry needed as well as make transactions more secure. By 2021, mobile e-commerce is forecast to account for nearly 54 percent of all e-commerce sales in the United States[8]. Merchants won't want to fail to provide this important sales channel and potentially miss out on the chance to cash in on this market opportunity.

In the following example from a leading quick-serve restaurant, you'll see gift card buyers are presented with a limited option of payment choices — major credit cards, or check or money order.

Figure 3
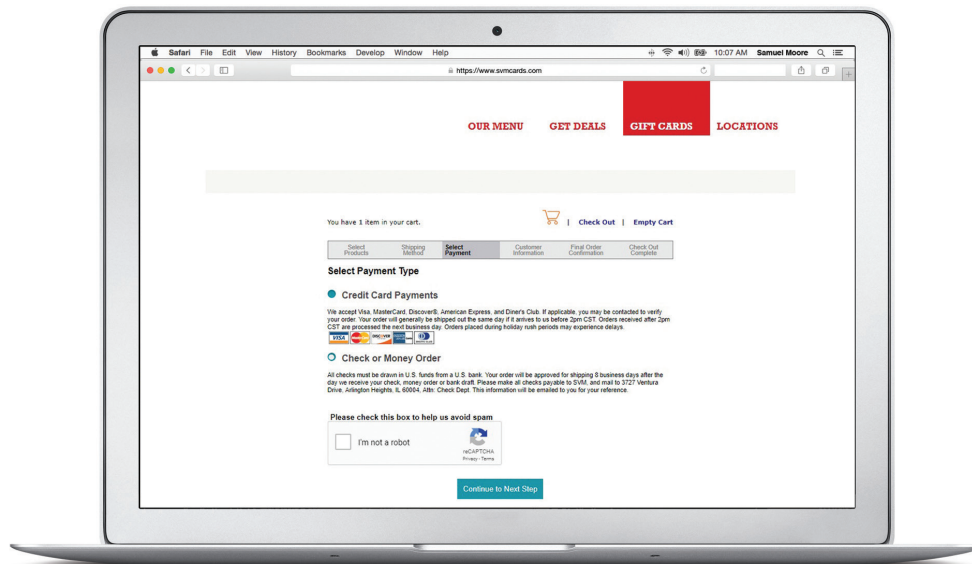
Beyond standard credit cards, PayPal was the most widely available payment option, with nearly half (43) of all merchants offering it. Twenty-two percent of merchants offered Visa Checkout and/or MasterPass as a payment option in at least one purchase channel compared to 10 percent last year.

[8]Source: Statista, Mobile commerce in the United States - Statistics & Facts, *https://www.statista.com/topics/1185/mobile-commerce/*

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In this example from Victoria's Secret's mobile website (Figure 4), the gift card buyer is given the option to pay via a multitude of credit cards as well as PayPal.

OPPORTUNITY FOR IMPROVING ADA COMPLIANCE

For the first time, we measured merchants' e-commerce gift card programs based on their level of compliance with the U.S. Department of Justice's Americans with Disabilities Act (ADA) Standards for Accessible Design. These standards state that all electronic and information technology must be accessible to people with disabilities. Failing to comply with the ADA risks potentially costly litigation, whether in the form of an individual claim or class-action lawsuit by consumers or an action by the government.

Moreover, it makes smart business sense to have a good customer experience for all site visitors, including those with disabilities. Beyond the ethical responsibility of providing each visitor with access and the ability to place an order, there are obviously financial implications as well.

So how did merchants' desktop websites stack up when measured on their e-commerce gift card programs compliance with the ADA Standards for Accessible Design? For the most part, they performed well. When looking at it on a holistic basis, 13 brands received a score of zero, while nine brands received the maximum score. Therefore, the vast majority of the brands evaluated fall somewhere in the middle, meeting some of the needs of visitors with disabilities, but at the same time not doing everything needed to maximize their score in this category. The nine brands that received the maximum score for this category were Ann Taylor, Food Lion, Buffalo Wild Wings, Applebee's (Figure 5), Outback Steakhouse, Red Lobster, Domino's, Adidas, and CVS Pharmacy.
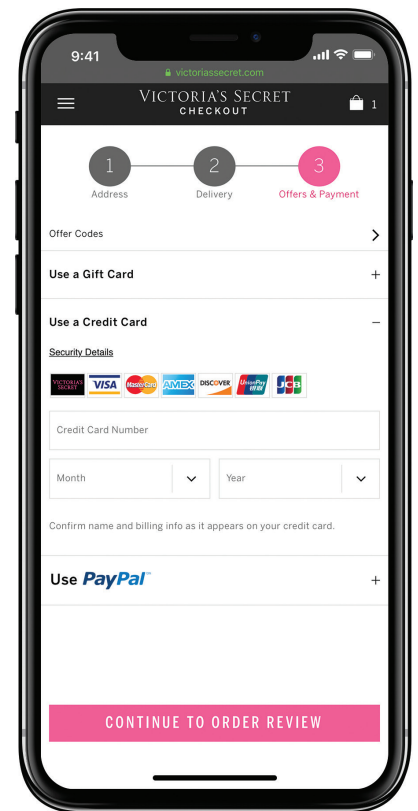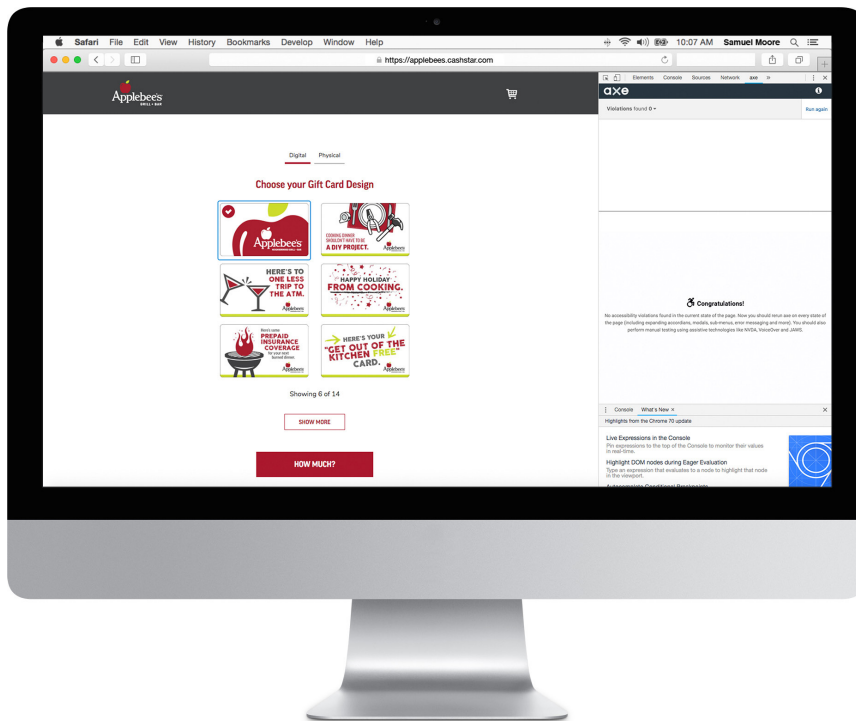
Figure 4

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Figure 5

SELF-USE PURCHASE EXPERIENCES REMAIN UNTAPPED

A recent study from Blackhawk Network* found that 69 percent of consumers have purchased a gift card for themselves[9]. There are myriad reasons why consumers are purchasing gift cards for themselves. According to a recent survey by Blackhawk and Leger, 51 percent of consumers said they purchase gift cards for themselves to shop online, the most popular reason given, followed by receiving a discount or taking advantage of a promotion (46 percent); collecting credit card points (42 percent); budgeting purposes (17 percent); and earning airline miles (14 percent)[10]. This high level of self-use should cause brands to re-examine their e-commerce gift card purchase experience. For example, can the customer opt to skip steps on the checkout page, such as adding recipient's information or personalized messaging, to make the purchase experience faster and easier? Take a look at the example from women's clothing retailer Ann Taylor (Figure 6), which shows how the brand's gift card program caters to self-use in addition to gifting.

Despite the consumer demand for self-use of gift cards, the brands we evaluated are not yet catering to this behavior. Nearly three-quarters of the merchants (74) received zero points for this category, while only 23 received the maximum score. What this tells us is that much like B-to-B, self-use presents an opportunity for merchants to accommodate buyers with a specific need.

*Note that CashStar Inc. is a wholly-owned subsidiary of Blackhawk Network, Inc.
[9]Source: Blackhawk Network, 2018 State of Consumer Gift Card Preferences, March 2018
[10]Source: 2018 US Spring Summit Research, Leger and Blackhawk Network, March 2018

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Figure 6
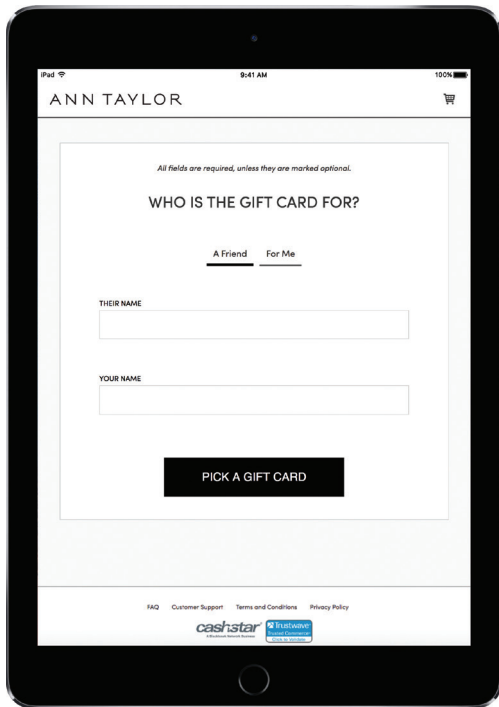
AGGRESSIVE FRAUD PROTECTION COSTING MERCHANTS SALES AND CUSTOMERS

A theme to emerge this year as we went through the buying process was that more orders were being declined as potentially fraudulent than in previous years. The buying process hadn't changed year-over-year, so why the uptick in declined orders? The simple answer would be that fraud continues to be an ongoing concern for online retailers. It's costing them money, and they're putting measures in place to try and prevent it. Consider that online fraud is costing retailers 5.4 percent of their annual revenue, and fraud losses increased by 7 percent in 2017, according to recent research by Signifyd[11]. When you apply that cost to the $461 billion in annual e-commerce spending in the United States, fraud is costing merchants nearly $25 billion each year. In addition, fraud rates for gift card e-commerce purchases are higher than other types of card-not-present (CNP) fraud[12].

So it's understandable that retailers would want to have systems and procedures in place to prevent instances of fraud. However, if valid transactions are being declined because of "false positives" on fraud screening, are they going too far in their efforts or perhaps not solving the underlying fraud problem in the right way, simply because they lack the expertise and resources to do so? Merchants can partner with third-party providers that have expertise in fraud protection to help address these challenges. That same Signifyd report found that false declines (i.e., rejecting legitimate orders) account for more than half of the cost of fraud, representing 2.9 percent of revenue. We saw signs of this trend in our own gift card buying experience this year (see Figure 7).

[11]Source: Signifyd, The True Cost of Online Fraud Might Surprise You, Sept. 5, 2018
[12]Source: Riskified, CNP Fraud in Gift Cards: A Special Report, March 2017

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Figure 7
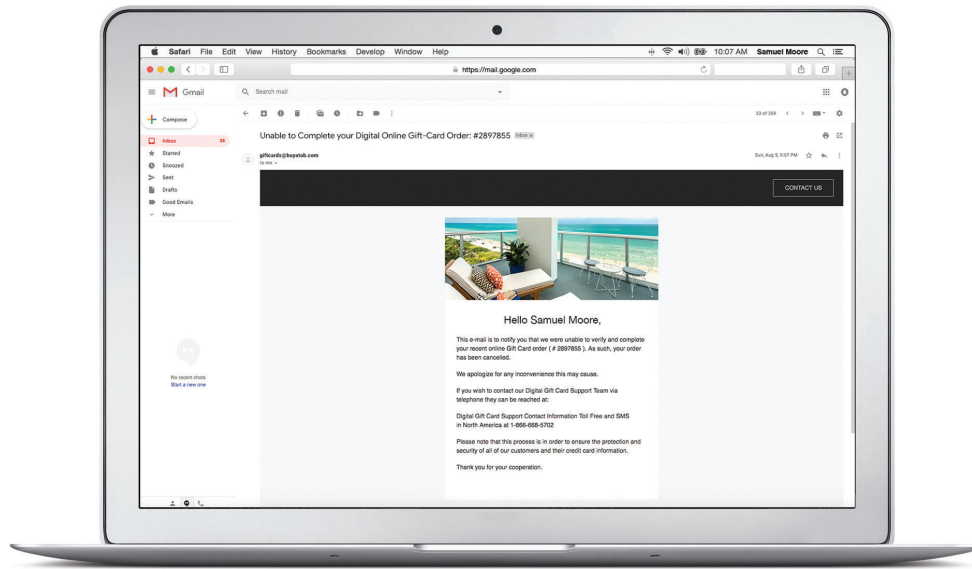
The impact of false declines on a merchant's business has multiple layers. First, and most obvious, the retailer isn't receiving the revenue from what should be an approved transaction. There's an immediate hit to the bottom line in the short term. Second, and perhaps more importantly, is the negative impact false declines have on customer lifetime value. If a legitimate customer trying to purchase a gift card from your site is declined, the chances that he or she will come back to try to buy again from that merchant are reduced dramatically. Furthermore, the chances of that consumer recommending your company to their friends, family, social followers, etc., is similarly shot. In fact one can imagine he or she is more likely to take to social media to vent about their negative experience with your brand, which has a potential negative ripple effect on your brand's reputation and goodwill.

With this in mind, what steps can merchants take to protect themselves from fraud while not denying legitimate orders (and the resulting poor customer experience) at the same time? Here are a couple of opportunities and best practices:

1. Constantly monitor and be aware of your data on fraud status in real time — i.e., the percentage of orders that are being flagged and denied as potentially fraudulent. Unexpected peaks should warrant further investigation.

2. Test your program by making a purchase yourself. For example, purchase a gift card for self-use with a different shipping address than the credit card address, and see if the transaction gets flagged and either delayed or denied.

3. Know what the experience is like for customers whose orders are cancelled. What is the customer service protocol for follow-up, explanation, re-engagement, etc.? What are service-level expectations for that type of scenario?

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BRANDS MAKING GIFT CARDS EASIER TO FIND

Considering the revenue gift cards can generate for a merchant's business, it would make sense that they would be easy to find and purchase on their websites (desktop and mobile) and apps. Merchants seem to be getting that message, as this year's evaluation saw improvements in gift card discoverability, particularly on brands' mobile apps.

The top performers on this criteria scored at 90-plus percent, with special recognition for Williams-Sonoma (Figure 8), which received the maximum available points.

Figure 8

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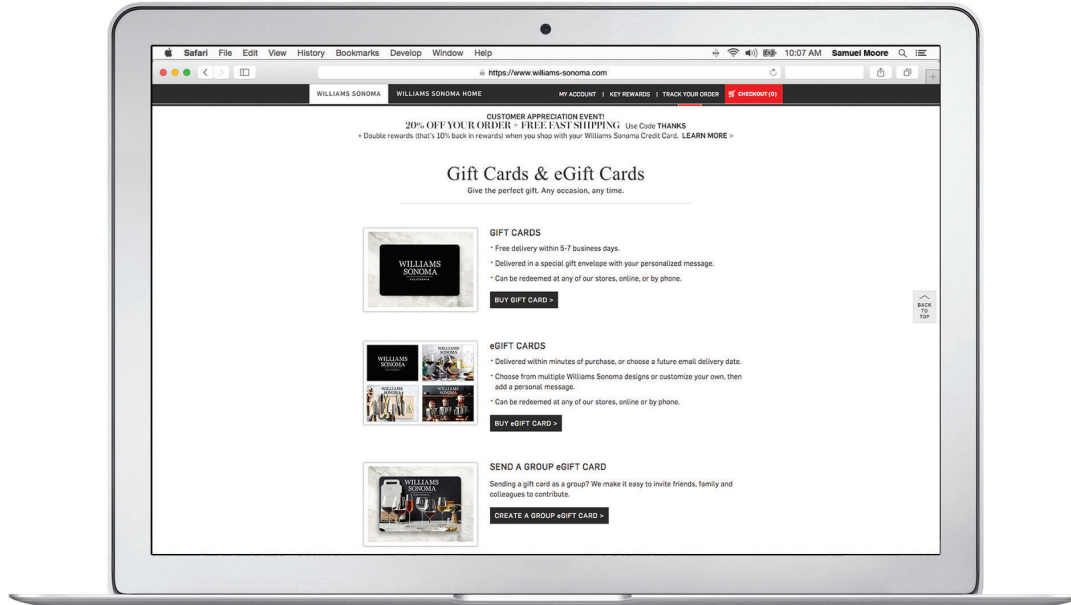
The average score for this criteria was 55 percent, the highest of the eight criteria categories.

Brands that scored the highest for this criteria have links to gift card purchasing pages in menus and gifting sections of their site (if appropriate). Their search results take consumers directly to a clean, informative and brand-appropriate landing page, enticing the purchaser to move forward with their gift card purchase. For example, Domino's features gift cards as a top-level menu option, and its landing page is easy to engage with, well-branded and informative (Figure 9).

Figure 9

A particular emphasis on improving the discoverability of gift cards within merchants' apps was seen in this year's evaluation. For example, QVC had a simple, clean and easy-to-find gift card section on its app, inviting users to either purchase a digital or physical card, with multiple delivery options offered (Figure 10).

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Figure 10
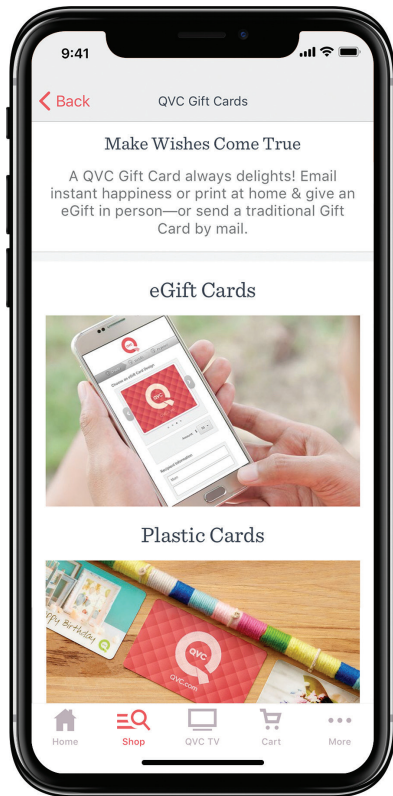
A problem area for discoverability was seen in site search results. Some brands did a poor job of prominently featuring gift cards on results pages, if they were included at all. In addition, several brands buried their gift card link in their website's footer, leading consumers to have to search the entire homepage to find it.

USE OF GIFT CARDS AS PROMOTIONAL TOOL REMAINS STATIC

A key way that merchants can optimize their gift card programs in addition to them being a sales channel is to find ways to use them as promotional tools. Last year, half of the merchants evaluated offered gift card promotions and/or used gift cards as incentives in e-commerce marketing programs. Our evaluation this year revealed that number hasn't changed. Fifty brands were credited this year with points for the use of gift cards as a promotional tool.

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With significant consumer demand for gift cards, it makes sense for brands to use them as an incentive to drive certain behaviors — e.g., registration for subscription services, boost loyalty program engagement, encourage the use of specific payment methods, etc. This is a growth opportunity for merchants, and they would be wise to take advantage of it.

The Honest Company, a household products CPG brand, is using gift cards as a tool to incentivize customers to refer their friends to the brand (see Figure 11 below).

Figure 11

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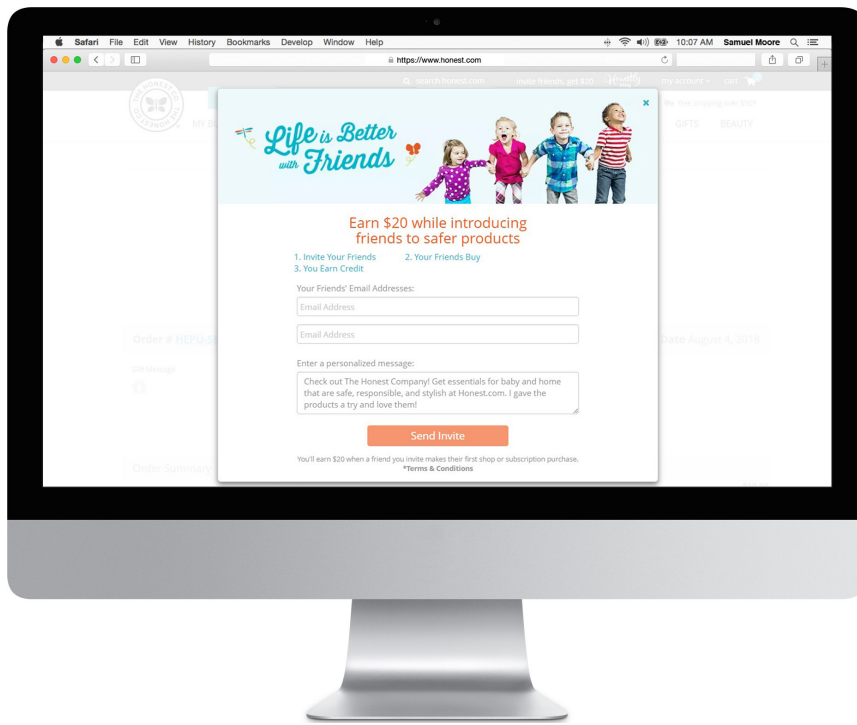
Bed Bath & Beyond (Figure 12) is using its gift card checkout page to promote a user-generated content initiative, asking customers to upload photos of their BB&B products in use to Facebook, Instagram, Twitter or the company's website and receive a gift card reward for participating.

Figure 12

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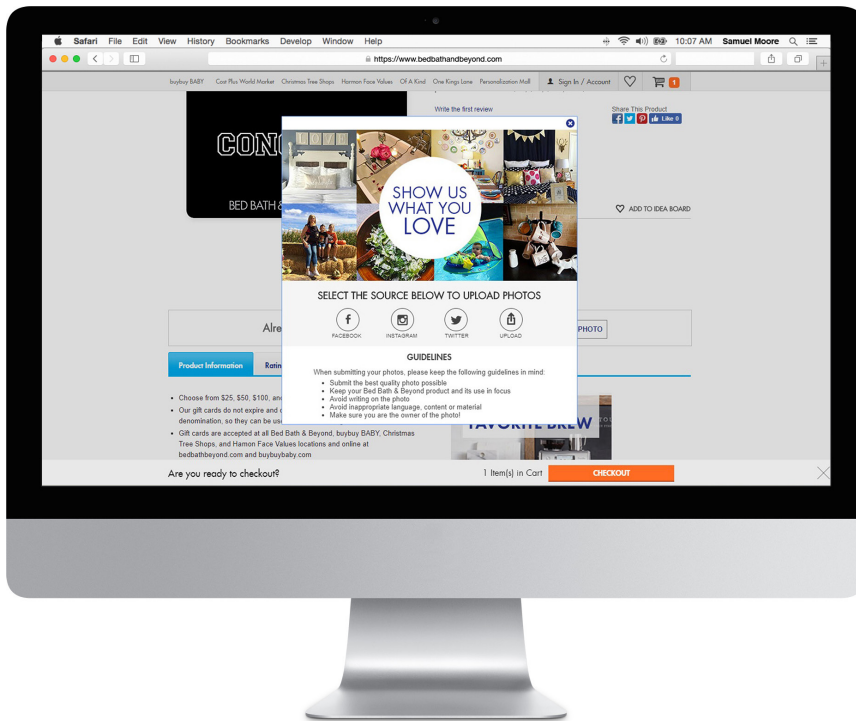
COMMON MISTAKES BEING MADE

With the 100 brands evaluated capturing less than half of the available points (44 percent), it's clear that missed opportunities are happening far too frequently. Brands need to address these problem areas to get the full potential from their gift card programs.

DISCOVERABILITY AND LACK OF PROGRAM INFORMATION

While merchants showed improvement this year in making gift cards easier to find on their websites, mobile websites and mobile apps, there's still room for growth. Merchants need to do a better job of making their gift cards easily accessible across each of their channels. This includes not only the homepage, but site search results as well. Not all consumers are going to arrive on your site via the same path, so site search should proactively account for "gift card" searches.

In Figure 13 below, you see an example of how a leading online grocery brand has not accounted for "gift card" site searches. This experience will likely lead visitors to abruptly leave the site.

Nearly half of the merchants (45) received 50 percent or less of the available points for discoverability.

In addition to making gift cards easy to find, brands need to do a better job of explaining to site visitors the process for buying and sending a gift card, as well as the benefits of doing so. Don't make the customer have to search far and wide for this information, and make it easy for a potential purchaser to understand — not like this example from a leading retailer (Figure 14).

Figure 13

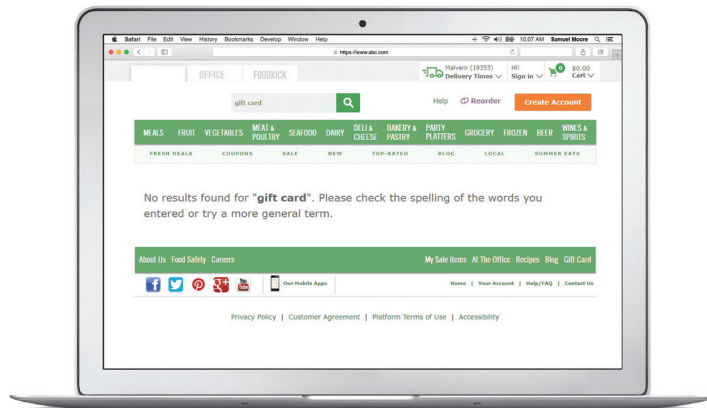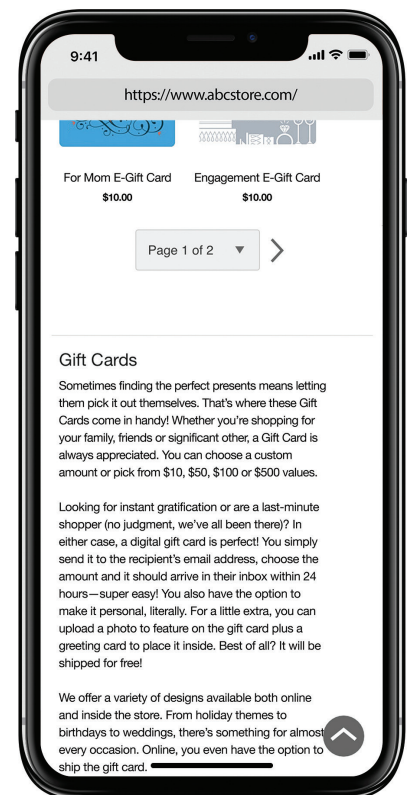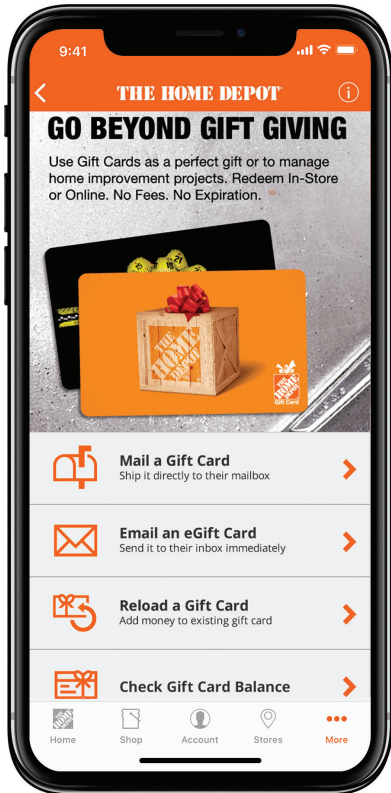Figure 14

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Consider the use of bullet points or other visual elements to clearly spell out the gift card buying process and the benefits of such a purchase. Here's a good example of this from The Home Depot's mobile app:

Figure 15

POST-PURCHASE EXPERIENCE DOESN'T MEASURE UP

The merchant's work isn't done when the customer clicks the "Buy" button. The customer experience extends beyond the purchase to order fulfillment and delivery, whether the gift card is being sent to the buyer or a recipient. In addition, customers expect a consistent brand experience throughout the entire process. Too often the merchants evaluated failed to deliver on those expectations. Order fulfillment and delivery is the final step in the process, and therefore will be the one that leaves the lasting impression on a merchant's customer if it falls short.

The average score for the merchants in this criteria was 57 percent, but nearly half (47) of the evaluated merchants failed to reach that average score. Brands that excelled in the post-purchase experience included Victoria's Secret, REI, Best Buy, and BackCountry.com. Take a look at how Victoria's Secret shipped its physical card in a branded container, and then opened up to a branded box which held the branded gift card (Figure 16).

Figure 16

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POOR CX

From broken links to the inability to buy gift cards to missing information to landing pages not optimized for mobile devices, there were a bevy of problems related to customer experience that could inhibit or prevent gift card sales. Merchants should treat gift cards as they would any other revenue-producing product and optimize the buying experience.

Poor customer experience not only puts current revenue at risk from the loss of immediate sales, but it also potentially negatively impacts future earnings as well from customers that may decide not to come back to your site again.

See examples of a merchant that was unable to process gift card orders (Figure 17), one that had connection issues with its app (Figure 18), and another whose gift card landing page wasn't optimized for the mobile device that it was being viewed on (Figure 19).
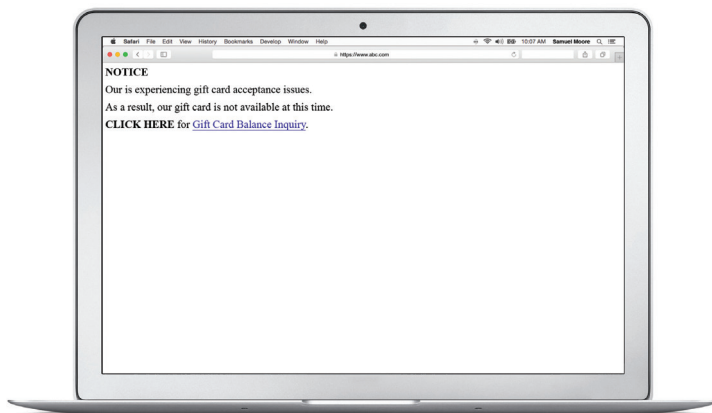
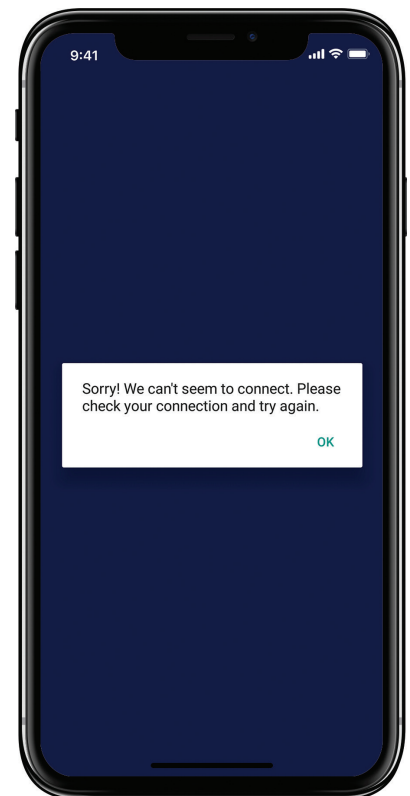### Figure 18

Figure 17

Figure 19

NAPCO RESEARCH
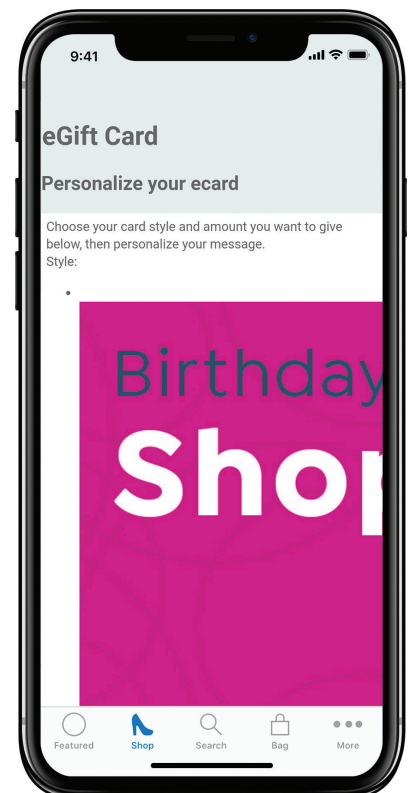
LAPSES IN DATA SECURITY

Considering the well-publicized data breaches and other cybersecurity issues that have impacted the retail industry, it was somewhat surprising to see the number of instances in which sensitive personal information and other valuable data wasn't handled with the utmost concern for security.

For example, merchants included sensitive information such as PIN codes in purchase confirmation emails (see Figure 20 to the right for an example), and didn't encrypt personal data in customer communications (see Figure 21 below for an example). There's no faster way to lose a customer than to lose their trust in you to securely manage and protect their data. Ensure you're taking every precaution necessary to guarantee the security of your customers' information.

Figure 20
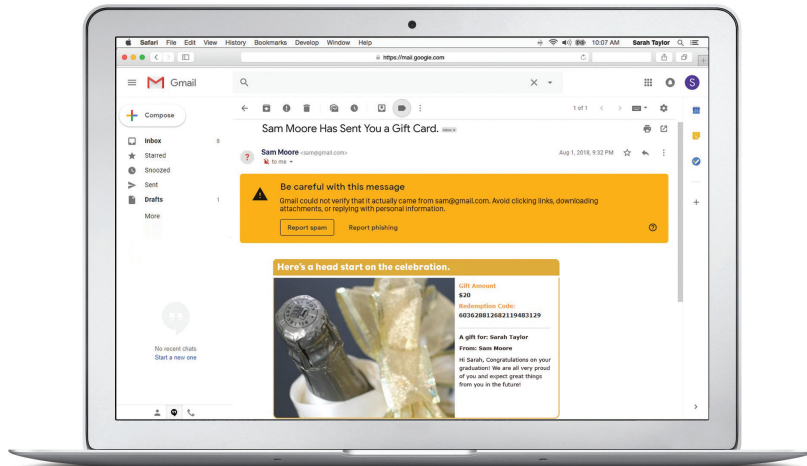
Figure 21
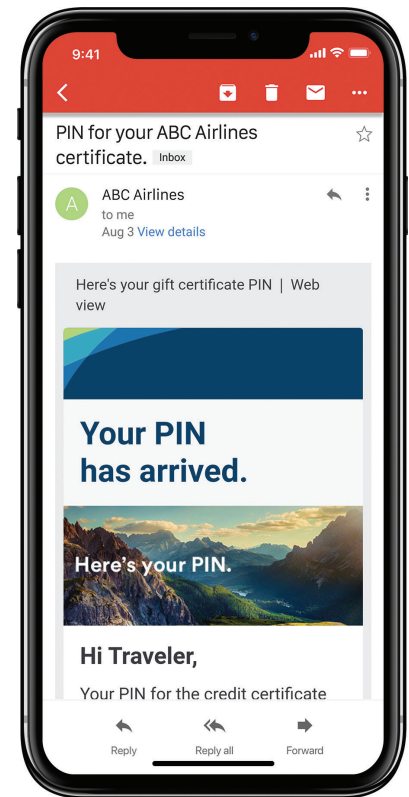
DECLINING LEGITIMATE ORDERS

We experienced an increase this year in the number of orders declined due to them being flagged as potentially fraudulent. False declines negatively impact a customer's experience, which has a direct correlation to sales.

Merchants are challenged to defend themselves against the very real threat of fraud, while at the same time not being too aggressive in flagging orders, potentially alienating legitimate buyers in the process. It's a balancing act that they don't seem to have mastered just yet.

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KEY TAKEWAYS FOR MERCHANTS

1. Place an emphasis on omnichannel. Consumers are increasingly shopping for all products, including gift cards, across multiple channels. Ensure your gift cards are available in all channels where you sell, and that the buying experience is seamless no matter the channel they choose to purchase in. Place a particular emphasis on upgrading the mobile experience (website and app), which to this point widely lags behind the desktop experience.

2. Cater to self-buyers. Studies have clearly demonstrated that consumers want to buy gift cards for themselves, not just to purchase them for other people. Make it quicker and easier for customers to purchase gift cards for themselves by enabling them to skip steps that are necessary only for gifting (e.g., adding recipient's information, personalized messaging). The self-use buying process should be as quick and easy as possible.

3. Make B-to-B a bigger part of your gift card program. Promoting the sale of gift cards in bulk to other businesses is not something all merchants are doing, and for those merchants, there's market share to gain here. Create a section on your gift card landing page specifically targeted to B-to-B buyers, and include examples of the different ways that businesses can use your brand's gift cards to help them to easily connect the dots — e.g., gifts to employees, gift to customers, employee bonuses, promotions, etc.

4. Consider the CX of all shoppers, including those with disabilities. Brands must be aware of the ADA Standards for Accessible Design when creating their sites and apps. The amount of visitors coming to your site that have a disability is likely meaningful, so there's both an ethical and financial responsibility to give these consumers the best experience possible. Furthermore, the easier it is for consumers to find your gift cards and understand the process for buying and sending them, the better your chances are of converting them into customers. This best practice extends across desktop, mobile website and mobile app channels.

5. Strike the right balance with fraud protection. Find a happy medium between having a stringent fraud protection service in place with a checkout experience that's not too onerous for customers. False declines can have a significant negative impact on both short- and long-term revenue and customer loyalty.

6. Use gift cards as a promotional tool. Capitalize on the tremendous consumer appeal gift cards have by making them more than just a sales channel. Run programs using gift cards within marketing campaigns as incentives to drive specific behaviors — e.g., email sign-ups, loyalty program engagement, customer referrals, product reviews, etc. Gift cards can have value beyond a revenue-generating product.

7. Test your own program. You can evaluate the effectiveness and ease of use of your e-commerce gift card program by testing it yourself. Go through the process and purchase cards (physical and digital) in multiple channels, using different types of payments and personalization options, then honestly grade your brand's performance and any issues you encountered along the way. There's no better way to gain insights into the strengths and weaknesses of your gift card program than becoming a customer and living the experience first-hand.

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8. Encourage innovation. Only 17 of the merchants we assessed received points for their innovative use of gift cards. By testing new and unique ways to sell and promote gift cards, you can differentiate your company's program from your competitors. Here are some examples of innovation that merchants have incorporated into their gift card programs:

- Wayfair's use of confidence builders on the checkout page — e.g., worry-free guarantee, PCI compliance icon, privacy protection guarantee, link to customer service — to help ease shoppers' concerns and boost conversions;

- Sephora's use of video on the product detail page to give visitors ideas on how they can spend their gift card (see Figure 22 below);

- Starbucks enabling users of its app to choose the gift card recipient from the list of contacts already in their phone, saving them from having to enter that information;

- Target offering Spanish language faceplate designs (see Figure 23);

- QVC adding an "unwrapping" video for its e-gift card recipients;

- Gap offering a side-by-side comparison of benefits between its physical gift cards and electronic gift cards; and

- Domino's incorporating its gift card program into both its wedding and baby registry.

Figure 22

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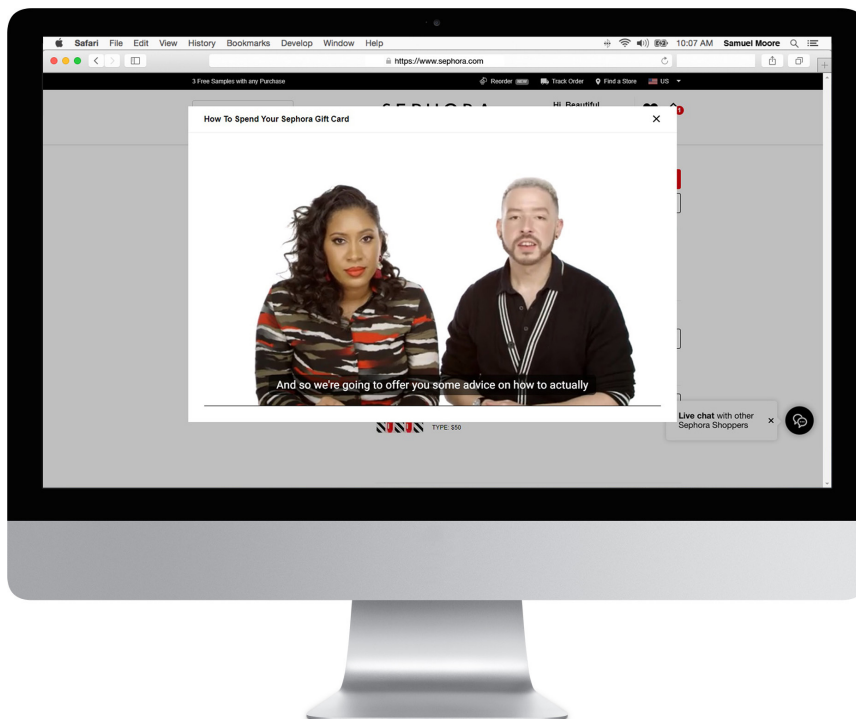
Outside of what was tracked in our evaluation, there's constant innovation from merchants in leveraging gift cards to connect with customers where they are. Contextual commerce is a growing area of opportunity to engage with customers, and Starbucks has great example of how to leverage it with its ability to send e-gift cards within iMessage (see Figure 24 below).

Figure 23

Figure 24
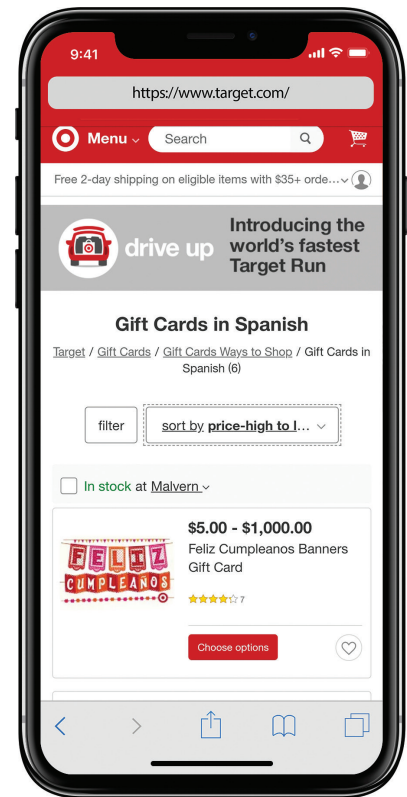
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CONCLUSION

For the second consecutive year, Amazon is No. 1 on NAPCO Research's Merchant Gift Card E-Commerce Evaluation. The retail giant received 79 percent of the total available points in this thorough, cross-platform assessment of the e-commerce gift card marketplace (up from last year's 71 percent for Amazon). While it can seem like Amazon is winning at everything right now, gift cards included, the silver lining for other merchants is that the gap between them and Amazon isn't insurmountable. The company took sole possession of first place in just one of the eight criteria categories (gift card offering flexibility), and tied for first place with 18 other brands in another category (promotions). Amazon received the maximum score in only one category: promotions.

Overall, even the merchants with the "best" gift card e-commerce programs have plenty of room for improvement. Consider that the overall average for the 100 brands evaluated was only 44 percent. By our calculations, merchants are missing on more than they're getting right. With the right adjustments to their gift card programs — see the takeaway tips earlier in this report — many merchants could challenge Amazon for the top spot in the rankings. Key areas to focus on include, but are not limited to, customer experience, data security, fraud protection, B-to-B programs, use of gift cards for promotional purposes, and ease of discoverability.

A bright spot for the merchants' e-commerce gift card programs in our evaluations is the primary customer journey — i.e., desktop purchase of digital and physical cards, with digital gift cards accessed by recipients via desktop or mobile. The top primary customer journey performers scored 80 percent or higher on a set of criteria that was designed to assess important capabilities, including personalization, payment options and recipient experience.

That said, the primary customer journey is continuing to shift to mobile purchases (if it hasn't done so already), and brands appear to be falling behind for this new reality. While improvement was seen from last year's mobile performance, both for mobile website and mobile app, we still see a significant gap here when compared to the average desktop purchase experience. What is encouraging for merchants is that this gap has closed significantly in the space of a year, from 14 percentage points in 2017 to just 6 percentage points this year. That gap will have to continue shrinking as the "primary" customer journey moves more and more to mobile.

Our research showed that merchants are moving in the right direction and making progress in optimizing their e-commerce gift card programs, but it's slow. In today's fast-paced retail environment, particularly online, merchants must be agile and able to quickly make changes to their gift card programs to keep up with the competition. Research such as this should serve as a resource to help your brand stay up-to-date on the latest trends in the gift card e-commerce landscape.

There are many opportunities for merchants to improve their gift card e-commerce offerings across channels. Start by holistically evaluating what you are doing well and what can be done better across all aspects of your online gift card program. Collaboration between a merchant's many internal teams that influence how a gift card offering comes to market, as well as external platform providers and fulfillment partners, is undoubtedly required. The right mix of technology, expertise and a merchant's own internally driven practices is the key to success in today's gift card market.

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APPENDIX A:
Ranking of Retailers by Overall Score

BRAND	SCORE	CATEGORY
Amazon	79%	General Merchandise
Sephora	75%	Health & Beauty
Williams-Sonoma	74%	Home Goods / Furnishings
Bed Bath & Beyond	69%	Home Goods / Furnishings
Best Buy	67%	Consumer Electronics
Chipotle Mexican Grill	66%	Restaurants - Quick Serve
Gap	66%	Apparel
REI	66%	Sporting Goods / Outdoors
Texas Roadhouse	66%	Restaurants - Casual
Macy's	65%	Department Stores
Victoria's Secret	65%	Apparel
Nordstrom	64%	Department Stores
Ulta Beauty	63%	Health & Beauty
The Home Depot	63%	Home Improvement
J.C. Penney	63%	Department Stores
Barnes & Noble	61%	Specialty Retail
Applebee's Neighborhood Grill & Bar	60%	Restaurants - Casual
The Cheesecake Factory	60%	Restaurants - Casual
Starbucks	60%	Restaurants - Quick Serve
Neiman Marcus	59%	Department Stores
Olive Garden	58%	Restaurants - Casual
Dunkin' Donuts	57%	Restaurants - Quick Serve
lululemon	57%	Sporting Goods / Outdoors
Ann Taylor	57%	Apparel
QVC	56%	General Merchandise
Delta Air Lines	56%	Airlines
Subway	55%	Restaurants - Quick Serve
Lands' End	55%	Apparel
IHOP	55%	Restaurants - Casual
Belk	55%	Department Stores
Under Armour	55%	Sporting Goods / Outdoors
Office Depot	54%	Specialty Retail
Panera Bread	54%	Restaurants - Quick Serve
Red Lobster	54%	Restaurants - Casual
DICK'S Sporting Goods	53%	Sporting Goods / Outdoors
Marriott	52%	Hotels

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BRAND	SCORE	CATEGORY
Target	52%	General Merchandise
Petco	51%	Specialty Retail
Walmart	51%	General Merchandise
Lowe's	51%	Home Improvement
The North Face	51%	Apparel
Groupon	51%	General Merchandise
Food Lion	51%	Grocery / Pharmacy
L.L.Bean	48%	Sporting Goods / Outdoors
Musician's Friend	47%	Specialty Retail
Wayfair	47%	Home Goods / Furnishings
Domino's	47%	Restaurants - Quick Serve
Staples	47%	Specialty Retail
Talbots	46%	Apparel
Cracker Barrel Old Country Store	46%	Restaurants - Casual
Outback Steakhouse	45%	Restaurants - Casual
J.Crew	45%	Apparel
Nike	45%	Sporting Goods / Outdoors
Burger King	44%	Restaurants - Quick Serve
Chili's Grill & Bar	44%	Restaurants - Casual
Kohl's	44%	Department Stores
Fandango	44%	Digital Entertainment
Overstock.com	44%	General Merchandise
iTunes	43%	Digital Entertainment
Dairy Queen	43%	Restaurants - Quick Serve
HSN.com	43%	General Merchandise
Backcountry.com	43%	Sporting Goods / Outdoors
Hyatt Hotels	42%	Hotels
Foot Locker	42%	Sporting Goods / Outdoors
Air Canada	41%	Airlines
IKEA Group USA	41%	Home Goods / Furnishings
Estée Lauder	40%	Health & Beauty
Omni Hotels & Resorts	37%	Hotels
adidas	36%	Sporting Goods / Outdoors
Hudson's Bay	36%	Department Stores
Buffalo Wild Wings	36%	Restaurants - Casual
Menards	35%	Home Improvement
Northern Tool & Equipment	35%	Home Improvement
American Airlines	33%	Airlines

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BRAND	SCORE	CATEGORY
Four Seasons Hotels & Resorts	32%	Hotels
Crutchfield	32%	Consumer Electronics
Urban Outfitters	32%	Apparel
Pizza Hut	31%	Restaurants - Quick Serve
Bass Pro Shops	31%	Sporting Goods / Outdoors
The Honest Company	30%	Health & Beauty
Restoration Hardware	29%	Home Goods / Furnishings
CVS Pharmacy	29%	Grocery / Pharmacy
Fanatics	28%	Apparel
GameStop	27%	Specialty Retail
Southwest Airlines	27%	Airlines
Kroger	26%	Grocery / Pharmacy
Xbox	26%	Digital Entertainment
Denny's	25%	Restaurants - Casual
Alaska Airlines	22%	Airlines
FreshDirect	21%	Grocery / Pharmacy
Arby's	18%	Restaurants - Quick Serve
Etsy.com	17%	Specialty Retail
Hilton	15%	Hotels
Costco	14%	General Merchandise
Newegg	12%	Consumer Electronics
Walgreens	11%	Grocery / Pharmacy
Spotify	8%	Digital Entertainment
Choice Hotels	7%	Hotels
Wendy's	3%	Restaurants - Quick Serve
Google Play	0%	Digital Entertainment

APPENDIX B:
Rankings by Retail Product Category

CATEGORY	BRAND	SCORE
Airlines	Delta Air Lines	56%
	Air Canada	41%
	American Airlines	33%
Apparel	Gap	66%
	Victoria's Secret	65%
	Ann Taylor	57%
Consumer Electronics	Best Buy	67%
	Crutchfield	32%
	Newegg	12%
Department Stores	Macy's	65%
	Nordstrom	64%
	J.C. Penney	63%
Digital Entertainment	Fandango	44%
	iTunes	43%
	XBox	26%
General Merchandise	Amazon	79%
	QVC	56%
	Target	52%
Grocery / Pharmacy	Food Lion	51%
	CVS Pharmacy	29%
	Kroger	26%
Health & Beauty	Sephora	75%
	Ulta Beauty	63%
	Estée Lauder	40%
Home Goods / Furnishings	Williams-Sonoma	74%
	Bed Bath & Beyond	69%
	Wayfair	47%
Home Improvement	The Home Depot	63%
	Lowe's	51%
	Menards	35%
Hotels	Marriott	52%
	Hyatt Hotels	42%
	Omni Hotels & Resorts	37%

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CATEGORY	BRAND	SCORE
Restaurants - Casual	Texas Roadhouse	66%
	Applebee's Neighborhood Grill & Bar	60%
	The Cheesecake Factory	60%
Restaurants - Quick Serve	Chipotle Mexican Grill	66%
	Starbucks	60%
	Dunkin' Donuts	57%
Specialty Retail	Barnes & Noble	61%
	Office Depot	54%
	Petco	51%
Sporting Goods / Outdoors	REI	66%
	lululemon	57%
	Under Armour	55%

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APPENDIX C:
Methodology Addendum

At the beginning of the report, we detailed the evaluation process used to develop this benchmark data. The overall research and buying process for both physical and digital gift cards on desktop, mobile web and mobile apps was explained. Below we provide further detail on the additional areas we evaluated, including how maximum scores differed for retailers with and without commerce-oriented mobile apps.

• MERCHANT LIST

The one constant in the retail world is change. Brands rise and fall, a process sped up by the disruption of e-commerce. This dynamic is reflected in the list of verticals and retailers that made our cut for the 2018 evaluation.

Merchants were selected by NAPCO Research from a variety of sources, including the Forbes 2000, Internet Retailer, and Nation's Restaurant News Top 100. We added a new vertical, Grocery/Pharmacy, to reflect the increasing strength of this category in the overall retail marketplace.

• CRITERIA DETAILS

101 Evaluation Criteria, 205 Max Points (166 w/out App)

DISCOVERABILITY/AWARENESS 36 POINTS (24 POINTS W/OUT APP)	CHECKOUT / POST PURCHASE 34 POINTS (30 W/OUT APP)	B-TO-B PROGRAM 8 POINTS
• Findability – homepage/menu • Findability – search • Landing page info/aesthetics • Availability of digital and physical cards	• Integrated cart • Loyalty program support • Payment options • Checkout and order completion • Post-purchase communication	• B-to-B program findability/details • B-to-B program registration • B-to-B available card types
		CREDIT CARD REWARDS 5 POINTS
		Card availability in top credit card loyalty programs
GIFT CARD OFFERING FLEXIBILITY 72 POINTS (49 W/OUT APP)	**RECIPIENT EXPERIENCE** 40 POINTS	**PROMOTIONS** 6 POINTS
• Faceplate options • Personal message • Advanced personalization • Denominations • Delivery time • Self purchase flow (desktop only) • ADA compliance (desktop only) • Physical card form factors / packaging options • Upsell	• Delivery • Brand experience • Redemption options • Mobile friendly (digital) • Security (digital) • Balance check • Reload • Regift	Promotions leveraging gift cards run in the last year
		PRODUCT E-GIFTING 4 POINTS
		Brand offers Product e-Gifting
		INNOVATION: BONUS POINTS ONLY
		Innovative concepts (extra credit)

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- **CRITERIA WEIGHTING**
  Varying number of points per criteria based on importance (ranging from 1 point to 6 points)

- **NEW CRITERIA**
  Last year's study used an impressive set of standards to evaluate the buying process. In 2018, we added new criteria to even more fully describe the shopping experience.

  On a scale of zero to two points, we measured how merchants complied with the Department of Justice's Americans with Disabilities Act (ADA) Standards for Accessible Design on their gift card order page as viewed on a desktop computer, using aXe, a tool for accessibility testing. A higher score shows a commitment to providing a better experience for shoppers with a disability.

  We also looked at the quality of the experience retailers create for consumers buying a gift card for themselves. Scoring on a range of zero to two points was based on how companies make the buying process easier to complete for a self-purchase, such as eliminating steps or fields normally needed when purchasing a gift card for others.

- **MOBILE APPS**
  Retailers with commerce-oriented mobile apps were evaluated with a different maximum score than those without mobile apps. Criteria that applied to mobile apps weren't assessed for those without one, and merchants without mobile apps weren't penalized. In the final calculation, merchants with mobile apps were assessed against a maximum score of 205 points; those without a mobile app were assessed against a maximum score of 166.

- **INNOVATION**
  Merchants received a bonus for innovative initiatives in the purchase, delivery or fulfillment of gift cards at the discretion of the researcher.

- **PURCHASE GIFT CARDS WITH CREDIT CARD POINTS**
  Merchants received points for enabling customers to exchange credit card loyalty points for gift cards. The top five credit card loyalty programs evaluated were American Express, Discover, Citibank, Chase, and Capital One.

- **PROMOTIONS**
  Merchants were evaluated based on their gift card promotional activity over the last 12 months.

- **B-TO-B**
  Merchants were evaluated based on whether they had a B-to-B gift card program (i.e., sell gift cards in bulk to corporate clients). Points were awarded based on the ease of finding the program on the merchant's website, ease of signing up, and whether the program was available for both digital and physical cards.

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WHO WE ARE

NAPCO RESEARCH
a service of NAPCOMEDIA

Led by a former Forrester Research analyst, the NAPCO Research team crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problem and create solutions that enable deeply informed decision making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

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WHO WE ARE

cashstar®
A Blackhawk Network Business

CashStar is a leading provider of merchant solutions for gift card ecommerce, supporting multiple touchpoints across the customer lifecycle. Its award-winning platform, CashStar Commerce, is a flexible and market-proven solution that enables merchants to directly market, sell and distribute digital and plastic gift cards across channels and devices. With security, scalability and reliability integral to the platform's foundation, CashStar clients can focus more on creating great customer experiences, growing gift card revenue and driving omni-channel engagement. CashStar clients include top brands like SEPHORA, Starbucks, The Home Depot, Uber and Walmart. CashStar is a Blackhawk Network Business. To learn more about CashStar's solutions, please visit www.cashstar.com, follow @CashStar or email info@cashstar.com.

About Blackhawk Network

Blackhawk Network Holdings, Inc. is a global financial technology company and a leader in connecting brands and people through branded value solutions. Blackhawk platforms and solutions enable the management of stored value products, promotions and rewards programs in retail, ecommerce, financial services and mobile wallets. Blackhawk's Hawk Commerce division offers technology solutions to businesses and direct to consumers. The Hawk Incentives division offers enterprise, SMB and reseller partners an array of platforms and branded value products to incent and reward consumers, employees and sales channels. Headquartered in Pleasanton, Calif., Blackhawk operates in 26 countries.

For more information, please visit BlackhawkNetwork.com, CashStar.com, HawkCommerce.com, HawkIncentives.com or our product websites GiftCards.com, GiftCardMall.com, Cardpool.com, GiftCardLab.com and OmniCard.com.