



Survey Finds Prepaid Motivates

New Research Reveals Cards Drive Increased Spending, Visits and Willingness to Support Social Marketing

By Rod Boyer and Andrew Gaffney

EXECUTIVE SUMMARY

Tools that can drive loyalty remain at a premium in the current business climate. As part of the ongoing quest to attract and retain customers and employees, prepaid incentive cards are growing and quickly becoming a viable and powerful alternative to cash rewards and merchandise offers.

New findings from a survey, conducted by trade publication Retail TouchPoints and online research firm Decision Tree Labs, found significant gains in awareness and usage of prepaid cards for incentives, customer rebates and loyalty offers. In addition, the survey pointed to growing opportunity for consumer brands to drive traffic and average transaction size via prepaid card incentive offers.

The survey, which was commissioned by TSYS Loyalty & Prepaid and released for the first time at the 2011 Prepaid Expo USA in Orlando, revealed a growing knowledge and acceptance of prepaid cards. Illustrating this increased recognition:

- Nearly 9 in 10 said they were now familiar with prepaid cards.
- 40 percent of the consumers polled said they had received a prepaid incentive card within the last 12 months.

However, perhaps the most significant findings from this new research were the **spending patterns** of those consumers that had received a prepaid card, as well as what action consumers would be willing to take to receive a prepaid incentive card.

A few snapshots of the positive impact prepaid cards have on spending include:

- 51 percent of consumers who had received a prepaid card for a rebate offer wound up **purchasing items that cost more than the value** of the card.

The momentum of prepaid cards is impossible to ignore. The Mercator Advisory Group forecasts that the entire prepaid market will total \$427.5 billion in 2011. With the findings of this new survey confirming prepaid cards are increasingly popular with consumers across age, gender and income lines, an incentive program incorporating prepaid cards is a powerful tool to support acquisition and retention initiatives.

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- For consumers who had received a card as part of a contest or drawing, 43 percent ended up **spending more than the value** of the card.
- 28 percent of consumers with incomes of \$100,000 or more said they would be willing to **make a purchase of three times the value** of a \$25 card.

Given the increased recognition and growing preference for prepaid cards, consumer brands now have a significant opportunity to take advantage of the other inherent advantages prepaid cards provide.

For several years, industry analysts have pointed out benefits such as reduced processing costs, greater operating efficiencies and the ability to collect valuable user data with paperless electronic transactions. Now, with the combination of a more sophisticated back-end infrastructure to support the use of these cards and increased recognition and usage from consumers, prepaid cards are a cost-effective and increasingly popular vehicle for influencing behavior and managing a variety of transactions.

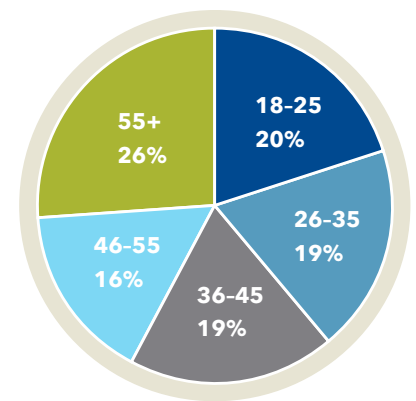
As activity with cards increases, the new research revealed that prepaid cards are proving to be effective at motivating customers and employees to **share positive feedback with their peers and social networks**, among other behaviors.

A Look at the Survey Sample

In January 2011, Retail TouchPoints and Decision Tree Labs conducted a random, national survey using a web-based consumer panel to gauge awareness, usage of and sentiments toward prepaid cards. In order to monitor usage across various geographic and demographic profiles, the panel reflected a wide range of income levels and consumer types.

For example, the age range of respondents was evenly distributed among the following breakdowns:

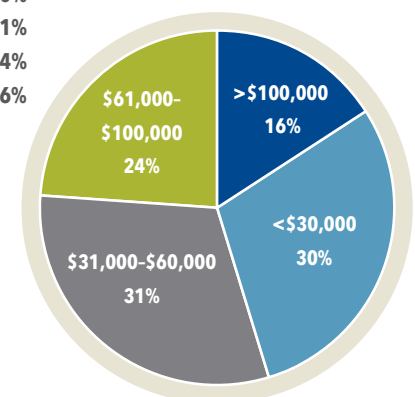
AGE	PERCENT OF SAMPLE
18-25	20%
26-35	19%
36-45	19%
46-55	16%
55+	26%



The sample was also equally representative in gender, with 52 percent female and 48 percent male respondents.

In terms of income level, the survey base was fairly consistent with national demographics. The survey uncovered different perceptions of prepaid incentives between income levels, as outlined later in this report.

INCOME	PERCENT OF RESPONDENTS
<\$30,000	30%
\$31,000-\$60,000	31%
\$61,000-\$100,000	24%
>\$100,000	16%



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A Deeper Dive into the Data: Pointing to Preferences

The survey found a growing knowledge and acceptance of prepaid cards, with 87 percent of respondents indicating they were familiar with prepaid cards, and 40 percent having received at least one in the last 12 months.

According to the survey, rebates have emerged as the most common type of prepaid incentive offer received, with 60 percent of recipients indicating their card came via a rebate, 46 percent via an employee incentive/bonus and 28 percent via a consumer incentive, such as a drawing or promotion.

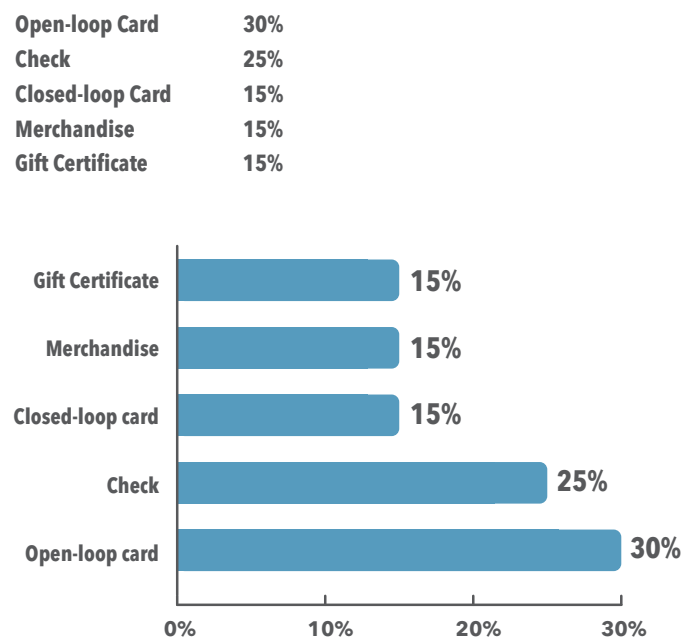
Validating that the card offers were successful in inciting further purchases beyond the value of the cards themselves, the survey found:

- 51 percent of consumers who received a prepaid card via **rebate** went on to purchase items costing more than the card's value.
- 41 percent of consumers who received a card as an **employee incentive** spent more than the value of the card.
- 43 percent of consumers who received the card via **consumer incentive** (i.e. drawing or promotion) also rang up more than the value of the card.

While only 33 percent of respondents indicated they preferred a prepaid card instead of a check when receiving a rebate, that number climbed to more than 40 percent among consumers who had already received and used a prepaid card as part of an incentive or rebate offer. Stated simply, the more cards consumers receive, the more they want, as there was a direct relationship between experience with prepaid and preference towards the cards.

As education and awareness of prepaid cards increases, the survey found consumers are already establishing preferences in the type of card they want to receive. Open-loop cards (redeemable through any channel that accepts network-branded cards such as Visa, MasterCard, American Express and Discover) were selected as the dominant choice of incentive.

Preferred Incentive Type (Respondents were asked to pick top two)



Open-loop cards were much preferred over closed-loop cards (issued and branded by retailers to be redeemed with those brands and select outlets). This is corroborated by other research. Key findings of TowerGroup's report, "Global Prepaid Commercial Cards Outlook: Do the Results Match the Hype?," state that "open-loop global prepaid commercial cards will grow at a compound annual growth rate of 22.4 percent from 2008 to 2013."

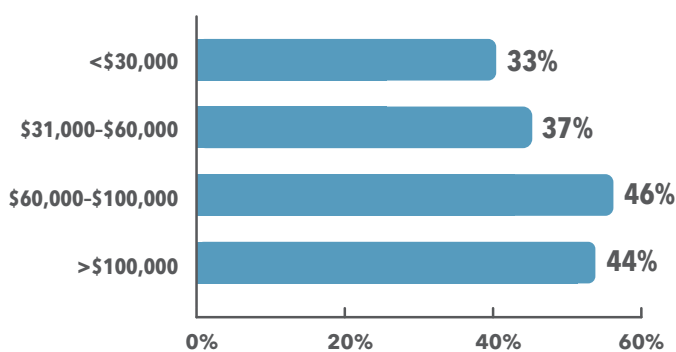
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This growing preference towards open-loop cards was consistent across age, income and gender. This is an encouraging finding that suggests robust growth prospects for prepaid products.

Activity Across Consumer Groups

While the survey sample was evenly distributed among different age, income and gender groups, the results did reveal some interesting patterns in activity and usage. For example, the survey showed that **the older edge of Generation Y** (those born between 1977 and 1994) were the most active age group. Nearly half (47 percent) of respondents ages 26-35 received at least one card, followed by Gen X (born between 1966 and 1976) with 45 percent of those in the 36-45 age group receiving prepaid incentive cards in the past 12 months.

The survey showed higher income levels to be more experienced with prepaid cards, as consumers making \$60,000 a year had significantly higher activity than lower income levels.



Interestingly, activity with prepaid cards was significantly higher among men (48 percent) than women (33 percent). This imbalance in activity could point to an opportunity for consumer-packaged goods, retail and hospitality brands

to tap into the power of prepaid to appeal to the female shopper.

Trends Among Consumer Incentive Offerings

Prepaid card programs are a powerful tool for consumer marketers, especially in light of the finding that many consumers end up spending more than the dollar value of the card.

The survey looked at a number of different types of prepaid card incentives (rebates, consumer promotions, employee bonuses). In addition, the survey also looked at the trends in terms of the value of the cards consumers have received.

Not surprisingly, the data showed cards of **\$25 and under** are most common. Broken down specifically by type of offer, 70 percent of the prepaid cards extended in consumer incentive offers were \$25 or less, followed by 68 percent of employee incentives and 58 percent of rebates.

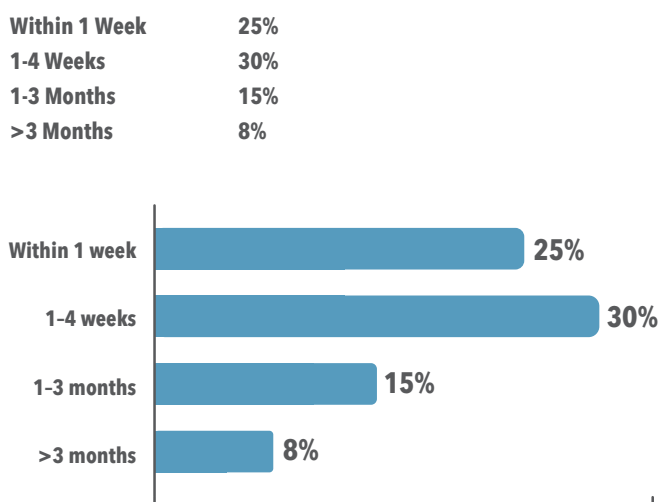
Drilling deeper into each type of incentive offer, other interesting patterns emerged. For example, looking specifically at the category of consumer incentives, older Gen Yers have already emerged as the dominant demographic with 18 percent of respondents ages 26-35 having received a consumer incentive offer, compared to only single digits for other age groups.

Activity for consumer incentive prepaid cards also showed variations by income level, with consumers making \$60,000 and above as much more likely to have received them.

Again, somewhat surprisingly, men (14 percent) showed significantly more activity with consumer incentive offers, compared to women (9 percent).

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Although some consumers may be receiving prepaid cards as an incentive for the first time, the survey showed that most are quick to cash in on the value of the card, as 7 in 10 used the card within three months. In looking at how quickly the incentive card was used, the survey showed:



Incenting Employee Performance With Prepaid Cards

Given the lingering uncertainty of the economy, employers are seeking more economical and gainful ways to reward and engage employees. Prepaid programs have proven an effective approach.

Corporations of all sizes, from small businesses to Fortune 500 companies, report bottom-line savings, streamlined processes and superior employee responses with the move from paper to plastic. Meanwhile, many employees like the “safer-than-cash” reputation of prepaid cards, while network branding is considered valuable and convenient.

The most active age groups in terms of receiving employee incentive cards were those in their early to mid-careers. Twenty-three percent of those ages 26-35 received a card; 26 percent of ages 36-45 did.

Men (23 percent) have been the primary target for employee incentive cards to this point, with the survey showing them to be nearly twice as likely to receive employee prepaid incentive cards than women (13 percent).

The average card value for employee incentives trended slightly higher than other categories, with 57 percent at a value of \$25 or less, 31 percent in the \$26 to \$100 range and 12 percent valued at more than \$100.

Prepaid Rebates: Try It. You’ll Like It!

While all offer types examined in the survey showed significant gains in activity and influence on spending, the most dramatic results were demonstrated in the category of rebate offers.

Because traditional rebate methods can be unwieldy and expensive for the issuer and complicated for the consumer, many companies have found prepaid cards to be more efficient while improving the customer experience.

In looking specifically at respondents that had received a card as part of a rebate offer, the data showed preferences toward cards over other forms climbed to 44 percent, compared to 33 percent of all survey respondents.

In addition, preference climbed significantly among those consumers who had received more than one prepaid rebate card, with 67 percent of respondents that had been issued three or more

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cards indicating they'd rather receive a prepaid card than a check.

While \$25 was still the most common value in the rebate category (57 percent), the data also showed higher dollar values create greater desire for rebate cards. For consumers who had received a rebate card of \$150 or more, 60 percent expressed a preference for cards over checks.

Prepaid: The Power to Change Behavior

The holy grail of consumer loyalty programs is the ability to influence Recency, Frequency and Monetization (RFM). The survey clearly showed that prepaid cards have the ability to positively influence consumer behavior and ultimately provide sales lift.

Moreover, consumers expressed a great eagerness to receive prepaid card incentives and showed a willingness to tap into their own contacts and social networks in order to receive these offers. For example, using the average prepaid card value that survey respondents had received in the last 12 months, consumers were willing to do the following for a \$25 prepaid card:

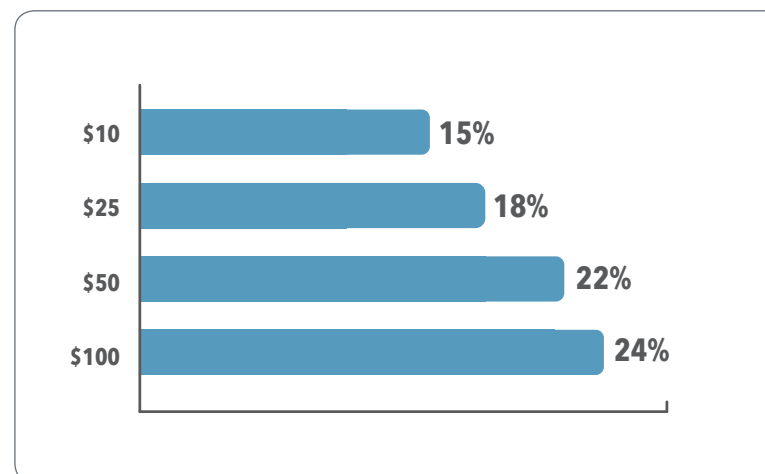
- 89 percent will answer an online survey
- 29 percent will post a favorable product review on a social network
- 14 percent will provide e-mail addresses of five friends

The Big Payoff: Driving Traffic and Incremental Spending

One of the most important findings of the survey was how prepaid cards impact sales beyond their face value.

With retailers and service providers allocating large budgets and staff time to create promotions and campaigns to drive incremental sales, prepaid cards performed well at supporting these goals.

According to the findings, nearly a quarter of recipients will **spend three times the preloaded value** in order to receive a \$100 card; 22 percent will spend three times the value of a \$50 card; 18 percent will spend three times the value of a \$25 card; and 15 percent will spend three times the preloaded value of a \$10 card.



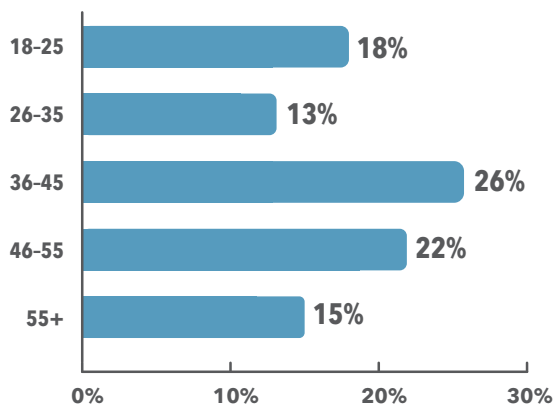
Income plays a role, with households making between \$30,000 and \$60,000 per year the most likely to spend more than the value of any card from \$10 to \$100. The pattern of card denomination is evident here, too, with higher card values driving more traffic than lower value cards.

The propensity of respondents to spend more than the preloaded value is also influenced by age. Again, using the average received value of a \$25 prepaid card:

- 26 percent of those 36 to 45 say they will spend three times the value of a \$10 card

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- 22 percent of those 46-55 say they will spend three times the value of a \$50 card



Conclusion

The momentum of prepaid cards is impossible to ignore. The Mercator Advisory Group forecasts that the entire prepaid market will total \$427.5 billion in 2011. With the findings of this new survey confirming prepaid cards are increasingly popular with consumers across age, gender and income lines, the platform is proving to be a powerful tool to support acquisition and retention initiatives.

Companies now have a prime opportunity to reduce mailing and printing costs of checks and paper certificates, while at the same time using the data prepaid generates to analyze spending patterns and create more targeted promotions.

The new research confirms that prepaid cards of various types are recognized, valued and even preferred by a substantial group of consumers.

ABOUT THE AUTHORS

Rod Boyer is president of TSYS Loyalty & Prepaid. A TSYS leader since 2000, he has more than 20 years of senior management and leadership experience with fast-growth, technology-focused companies. Previously, Boyer was chief operating officer for TSYS Acquiring Solutions in Tempe, Ariz., where he was responsible for all aspects of the firm's day-to-day operations. During his tenure at TSYS Acquiring Solutions, Boyer also served in other key leadership roles including senior vice president of Product and Marketing and senior vice president of Client Relations, and was responsible for TSYS Point-of-Sales Systems and Services.

Andrew Gaffney is the Editor of Retail TouchPoints, an online publishing network for retail executives, with content focused on optimizing the customer experience across all channels. During his 20+ year career in media Gaffney has served as an Editor for several different business magazines, including This Week In Consumer Electronics (TWICE), Sporting Goods Business, Hospitality Technology and Consumer Goods Technology. Within each of these markets, Gaffney has demonstrated a unique ability to identify emerging trends and he has helped create research for brands including IBM, Major League Baseball, Oracle, SAP and DuPont. In addition to publishing Retail TouchPoints, Gaffney is also the founder of Decision Tree Labs, a custom research provider for leading brands.

ABOUT TSYS LOYALTY & PREPAID

TSYS Loyalty & Prepaid is a business unit of global payments giant TSYS (NYSE: TSS). Its loyalty solution and expertise makes it uniquely qualified to help financial institutions extend loyalty beyond rewards programs, enhance cardholder engagement and optimize portfolio performance. A newly-launched suite of loyalty solutions delivers end-to-end support to enable dynamic segmentation, marketing engagement, comprehensive redemption delivery, plus analytics and strategic guidance, to drive lifetime customer value and strong ROI. In addition, an innovative platform newly created specifically for prepaid programs delivers the unparalleled reliability, scalability and security of a mainframe solution with the flexibility and speed of distributed, web-services architecture. We are strategic leaders in the loyalty and prepaid industries, and have been influential at helping to educate the marketplace about the power of loyalty and prepaid programs and to provide clients with guidance to optimize their programs.

CONTRIBUTORS

This report was prepared by Retail TouchPoints and commissioned by TSYS. Contributor to this paper under the guidance of Rod Boyer and Andrew Gaffney include: Marketing Director Kay Cavender.



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