

Emerging Trends in the Secondary Market



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I recently had a conversation about the “new” secondary market with Brenda Gilpatrick, of Your Fantastic Plastic, a consultancy who works with Raise, and how they dragged the gift card industry kicking and screaming into a new mode of operations and an advanced way of doing business. This new business model leverages discounts to targeted individuals, creating an exchange model contingent on brand loyalty and self-use.


Brenda happened to be preparing for a presentation around self-use for the upcoming [Flourish conference](#) and we were talking through the research she has done so far, as well as her experience with Raise and knowledge of the secondary market.

What the secondary market amounts to is the new trend of creating a group of consumers, outside of a brand’s own website, that are attracted and actively engaged in trading the assignment of their hard-earned dollars toward certain brands’ gift cards in exchange for small discounts on the face value of the card.

Brenda Gilpatrick agrees. “First Data issued a study where they said overwhelmingly, the majority of consumers want access to gift cards at a discount for their own personal spending. My research supports a similar theory,” she said. “Consumers are viewing it as “self-directed” loyalty.”

Merchants used to focus on the supply part of the equation—where are these cards coming from? As the marketing component kicks in, and companies like Raise are increasing their focus on fraud prevention and marketing to a younger, digitally savvy consumer, merchants are starting to see benefits they have not realized before. Undoubtedly there is value in marketing to new consumers, and in this market of heavy discounts to drive traffic and incremental sales, offering a small discount to a large, specific set of consumers is starting to make sense.

“The relationship with customers is changing,” said Brenda, “People are asking where they can buy gift cards at a discount, reliably and safely. >



Customers going to the secondary market are another type of consumer who is buying for self-use and invested in the idea of getting a deal.


There are numerous factors influencing the business case. It might be that online shoppers don't trust putting their credit card or bank card information online, nervous it might be stolen. That is certainly a concern I've seen in online consumer forums. It could be teens whose parents have not provided them with a credit card, and whose main source of funds is gifts from family. Gift cards allow them to purchase online and elsewhere without cash. We seem to have captured a new kind of audience that is specifically looking to purchase cards for self-use and put them into a mobile wallet for spending."

My thought is that merchants tend to be concerned with two specific components to the secondary market. The first is offering a discount on a branded card. Brenda stated, "I've worked with high-end retailers, and it is a major issue that plagues luxury brands. However, I still see these brands featuring promotional pricing on certain products on a regular basis to drive specific sales. I think it's about being smart on how they utilize the marketplace and support high-margin products that drive traffic and sales during certain time periods. The secondary market can be a useful tool for those willing to partner and include it in their strategy."

In addition, she mentioned a unique quality that the secondary player has: "The marketplace sees trends that retailers can't see. They know if someone is buying your card plus a competitor's card or, even, a completely unrelated brand. Those are opportunities to identify cross-promotional relationships and dynamic discounting," she stated.

I asked whether she felt the concern regarding merchants feeling like they are competing with their own online business was relevant. I've heard merchants complain that allowing a third party to offer a discount would cut into their own online, full-priced business.

"Certain consumers prefer buying gift cards on a retailer's website in a branded experience. Customers going to the secondary market are another type of consumer who is buying for self-use and invested in the idea of getting a deal."



For merchants worried about discounting too much to consumers, Brenda recommends managing the offer. "Distribute cards at a lower denomination based on your average order value or limit how many a consumer can buy in a certain time period. That way, a merchant can optimize lift and benefit from higher margins on the difference in the value of the gift card and the sale. Wouldn't you give a little to make shoppers more loyal by committing value on your branded currency?" >

"There's a huge payoff for wholesalers who use this channel," said Brenda. "Let's consider a sporting goods merchant who is involved in retail and ecommerce via a small bricks and mortar footprint and where a large percentage of their business is wholesale through other retailers. If they offer a nominal discount via a gift card that can be redeemed at their own stores and ecommerce site, they will be growing their highest margin sales channel."

Brenda feels that this market will continue to change and evolve. "We're moving to distributing promotional and rebate cards digitally which can be structured as a seasonal or evergreen proposition. Utilizing promo and rebate cards for redemption within a retailer's own doors is practically 100% self-use. It's about making customers more loyal and valuable. And, then, to communicate with them continually to prompt spend and greater shopping frequency."

I'd like to thank Brenda for her thoughts. Brenda founded Your Fantastic Plastic, and currently is a consultant for Raise.com, a company that is changing the face of the secondary market, and how retailers think about their gift card marketing strategy.

I'd like to say that our clients at Powerhouse Brands, typically very large, high-end brands, are looking at the secondary market in a whole new way, and some are jumping into taking advantage of the marketing and targeted sales benefits of the secondary market in a big way. ■

Questions?

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