Prepaid and Convenience: A Profitable Partnership
Introduction

According to Mercator Advisory Group, the total dollars loaded into the prepaid category will climb to a staggering $685 billion over the next three years (Mercator Advisory Group), with convenience stores being one of the fastest-growing channels. At InComm, the convenience channel experienced 21% year-over-year sales growth in 2013, providing further evidence that this channel is poised for continued growth and success. As consumer demand for prepaid products continues to rise, it is no surprise that retailers of all types are eager to expand their offerings and capitalize on the opportunity. According to IRI’s 2013 MarketPulse™ report, convenience is experiencing above-average growth, supported by a business model that is well-suited to consumers’ increasingly on-the-go lifestyles (Information Resources, Inc. (IRI)).

Consumer Trends

U.S. consumers loaded an estimated $522 billion onto prepaid cards in 2013. The number is expected to soar to $685 billion by 2016. A large part of this growth can be attributed to the fact that consumers are buying prepaid cards for self-use more than ever. Perhaps the most telling indicator of prepaid’s enormous potential in convenience is the evolution of consumer behavior, both in general and within key c-store shopper demographic categories. A look at the parallels between convenience store shoppers and the expanding prepaid consumer demographics makes this point very clear.

Young adults aged 18-35 are buying far more gift and GPR cards than their older counterparts. (Mercator)

6-in-10 convenience store shoppers are male (Information Resources, Inc. (IRI))

More than half of convenience store shoppers are under the age of 39
Although sales of all types of prepaid cards have been on the rise, the evolution of the GPR card and its consumer base has perhaps been the most significant. Consumers from all demographics are realizing the advantages GPR products carry. Concerns about privacy and data security are driving this shift in behavior, especially for consumers who make a lot of purchases online. New banking regulations have also been a factor in the widespread adoption of GPR. As stated by Karen Augustine, manager of Mercator’s CustomerMonitor Survey Series, “As new U.S. banking regulations force many banks to raise fees on checking accounts and debit card rules continue to be challenged, many in the banking and payments industry are looking to prepaid cards to gauge their use as a preferred payment tool. Prepaid buyers are more likely to be younger, mobile-enabled, and buy cards for their own use. Prepaid cards are becoming more of a primary payment method and not relegated only for gifts.” (Mercator Advisory Group)

A report from CardRatings.com showed that consumers who were fed up with bank fees were migrating to prepaid credit cards en masse (LaPonsie). A significant number of these consumers are unbanked or underbanked individuals – a group that comprises 28.3% of U.S. households, according to a survey conducted by the Federal Deposit Insurance Corporation (FDIC) and the U.S. Census Bureau – but the demand for prepaid products has extended to other consumers as well (Federal Deposit Insurance Corporation). The prepaid user group continues to expand into higher-income demographics. In fact, a report from Aite Group found that 49% percent of prepaid users earned more than $70,000 annually (Aite Group, LLC). The challenging economic climate has forced virtually all types of consumers to rethink their spending habits. More consumers are adding GPR cards into their daily routines; for example, people often load a prepaid card with a set amount to spend on a vacation or a shopping trip to keep spending under control. Industry experts believe that this behavioral trend will expand as GPR products grow in popularity.

As the prepaid consumer continues to evolve, it is imperative that retailers offer innovative and convenient solutions to meet their needs. In 2013, American Express Serve®, through a deal utilizing InComm’s Vanilla Reload platform, launched a new cash
load network that includes Family Dollar, 7-Eleven and CVS/pharmacy outlets. Direct deposit, bill pay, financial management tools and mobile check capture are some of the benefits offered by the new network. In a press release, Dan Schulman, group president, Enterprise Growth at American Express mentioned, “We are striving to provide the best value and convenience for the underserved market. We’ve added a slew of new features to American Express Serve in an effort to build one of the most comprehensive full-service reloadable prepaid offerings available today.” (CSP Daily News)

What sells? Gift cards, prepaid wireless, GPR & more

Open-loop gift cards, prepaid wireless and GPR products are among the fastest growing prepaid products. Convenience store operators have a distinct opportunity to generate additional revenue throughout the year with gift card, wireless and GPR sales. In a consumer survey released by the National Association of Convenience Stores (NACS), 23% of the respondents said that when it came to making purchases at convenience stores, they would be buying gift cards more often. In case of the 18-to-34 age group, the figure is even higher (38%). (Convenience Store Decisions)

While purchase of prepaid cards for self-use is on the rise, gift cards continue to gain popularity as a most-wanted gift, both during the holiday season and throughout the year. Conducted in 2013, the National Retail Federation’s Gift Card Spending Survey revealed that 81% of shoppers planned to purchase at least one gift card during the holiday season, spending an average of $163.16 on gift cards. 2013 was also the seventh consecutive year that gift cards topped holiday wish lists, with 59.4% of survey respondents claiming that they would most like to receive gift cards for the holidays. Coffee shop, restaurant, department store and gas station gift cards were rated as highly popular among holiday shoppers. (National Retail Federation)

More and more consumers are realizing the benefits of prepaid wireless programs, and many are adding cash to their prepaid wireless phone cards while at convenience retailers. For example, InComm and Ready Wireless™ have partnered to offer the Airfair Lifeline Reload card at participating 7-Eleven stores. Customers can pay cash to reload their Lifeline phones with additional minutes, texts or data by purchasing the Airfair card, activated at the POS terminal. Real-time replenishment solutions also provide added convenience to various types of wireless customers. At the check-out counter, customers can simply give their mobile number, carrier network and payment to top up their wireless account in real-time while paying for other purchases. Bring Your Own Device (BYOD) starter kits have popularized the idea of no-contract wireless plans where customers get to retain their phones and numbers. These kits contain a SIM card and an airtime plan along with activation instructions. BYOD provides a competitively
A priced option for consumers who are looking for non-contract wireless plan options. It is expected that the consumer demand for simplified prepaid wireless options will continue to grow in the coming years.

Many consumers are purchasing and accessing these products through their mobile phones and tablet devices. Smart retailers are responding to this trend by integrating new mobile-friendly technologies and solutions. In 2013, InComm launched a mobile-optimized shopping cart for retailers enabling customers to buy and send physical and digital gift cards using a mobile device, either from within the retailer’s mobile app or through the shopping cart on the retailer’s mobile-optimized site. Nevertheless, plastic is the dominant form factor when it comes to prepaid cards. A 2013 report from Mercator Advisory Group showed that 97% of loads were done on plastic cards, while virtual and mobile loads accounted for just 3%. (Mercator Advisory Group)

**CASHTIE**

Cashtie is an in-store solution provided by InComm that allows customers to make payments for rent, utilities, online purchases and other bills at a brick and mortar store using cash. This solution enables online cash payments at POS with little to no integration requirements while providing greater convenience and flexibility to cash-based c-store customers for paying bills.

**INFINITE AISLE**

Infinite Aisle is another POS-enabled solution that allows brick and mortar retailers to offer in-store customers instant access to an ever-expanding catalog of music, games and other digital goods. Customers locate the product they wish to buy on their mobile device and pay for it at the cash register. Infinite Aisle helps reduce inventory stocking costs and offers a safeguard against out-of-stock items.
**MOBILEWallets**

As smartphone usage increases, mobile wallets have become increasingly common as a mechanism for money management, organizing coupons and incentives, making payments and managing rewards and loyalty programs. Mobile wallets give marketers new opportunities to present customers with location-aware mobile coupons, rewards and redemption alerts. For a consumer, the convenience of a mobile coupon is unmatched since it is available any time, ready for use. In the payments arena, mobile wallets are proving to be highly useful since they can integrate seamlessly with prepaid cards and other virtual financial services.

National wireless carriers like Sprint allow their prepaid wireless customers to load cash on to their mobile devices and then use it for transfers, bill payment, wireless top up, etc. Mobile Virtual Network Operators (MVNOs) such as MetroPCS and Boost Mobile have launched mobile wallet applications that pair a card with a mobile application. These two companies have an established customer base made up of prepaid wireless users who are mostly underbanked and tend to prefer prepaid services in the payment sphere as well. For MetroPCS and Boost Mobile, the expansion into the mobile wallet industry has been a natural and straightforward one. Extensive distribution channels with hundreds of stores, numerous franchise locations and various third-party retailers have made it simpler for these two MVNOs to grow in the mobile wallet arena. (Mercator Advisory Group)

**LOYALTY PROGRAMS**

Retailers can also send single-use coupons to loyal customers that can be redeemed in-store via mobile or printed barcodes. These coupons can be transferred via email, web, text or a mobile website. Because they are redeemed in-store and are single-use only, coupon fraud is eliminated and foot traffic to physical store locations is improved. Customer loyalty can also be rewarded with special promotions and digital bonuses linked with prepaid cards sold in the store. Retailers can partner with each other to promote their individual prepaid card offerings. Buy One, Get One (BOGO) offers and selling gift cards on daily deal sites are also helpful in bringing new customers on-board and building loyalty.
LOOKING AHEAD
Prepaid products are poised to transform the landscape of the financial services industry in the coming years, and convenience retailers have an excellent opportunity to capitalize on this trend by meeting consumers with prepaid solutions in the stores they frequent most often. In the coming months and years, more retailers and businesses will begin to offer prepaid cards in larger numbers and make them the focal point of marketing and promotional campaigns. One can easily argue that convenience retailers, having limited brick and mortar space but consistently high levels of foot traffic, stand to gain the most from this emerging market. As such, convenience retailers that embrace these new innovations and promote prepaid as both a gifting and financial tool will be the most successful.

WORKS CITED


