

Viewpoint: Consumer Reports Continues to Get It Wrong, Using New York Times Ad to Attack Gift Cards

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Anil Aggarwal

Consumer Reports has taken yet another swipe at gift cards. And this year, it's dedicated some serious dollars to the effort with a full-page ad in The New York Times that ran on Tuesday, November 13, that attacks retailer-branded gift cards.

The ad, according to an article by CNNMoney.com, officially launches Consumer Reports' "public education campaign aimed at creating awareness of the pitfalls associated with gift cards." Yesterday, November 14, the campaign was covered in a variety of media, helping Consumer Reports spread its negative message by playing on the well-worn theme that everyone is out to dupe the consumer.

Readers of the ad are directed to the Consumer Reports Website, which includes a lengthy, cliché-filled article that expands the attack to network branded gift cards. The second paragraph of the article begins, "But a card is one gift that can keep on giving ... grief." It goes on to say, "That's especially true for bank-issued cards, which often saddle recipients with fees, expiration dates, and other gotchas." In another section, labeled "What to Do," Consumer Reports urges readers to "Think twice about bank [network branded] cards." Another section is called "Gift Card Gotchas." And yet another section solicits consumers' gift card stories.

It seems like Consumer Reports has dedicated a lot of time, effort and money to scare consumers away from gift cards, a product that scores a 93 percent satisfaction rating among purchasers of such cards with an American Express, Discover, MasterCard or Visa logo—according to recent research conducted by the Network Branded Prepaid Card Association (NBPCA).

\$8 Billion in Gift Card Breakage Represents 10 Percent of Gift Card Load in 2006

Consumer Reports' major, but not only, beef with gift cards is that \$8 billion loaded on gift cards "went unclaimed in 2006." For the record, that \$8 billion figure, which Consumer Reports touted in its last foray to squash consumer interest in gift cards, has been widely disputed by many in the industry. But, let's put that quibble aside and take a leap of faith that \$8 billion is a good estimate of unspent funds loaded on gift cards

during 2006 and that the \$80 billion estimate of gift card sales for 2006, mentioned in the article, also is close to the mark. Based on these numbers, unspent funds represent 10 percent of funds loaded on all types of gift cards.

Now, let's add some context to this breakage issue.

The average gift card load is between \$40-\$60. This means that, at 10 percent unspent funds, the average amount "unclaimed" on a gift card is between \$4-\$6. Certainly, consumers are entitled to and should spend the full value on their cards; no one disputes that. ([See the NBPCA's gift card tips.](#)) And, in late December 2006 and early January 2007, a number of major retailers ran a significant amount of TV advertising encouraging consumers to redeem their gift cards. But, the fact is, that—on average—the amount of funds left unspent on gift cards is about the cost of a sandwich.

And, let's add some additional context. Waste is inherent in gifting because gifting is a tough proposition. No matter how the gift giver tries, not every gift recipient will be delighted with what he or she receives. Who hasn't received an item that had to be returned or that we felt obliged to keep even though we never use? Let's recognize that there's a cost associated with both of those behaviors. Gift returns cost gift recipients time and, oftentimes, stress and aggravation. And, unwanted and unused gifts have zero value to the recipient.

On average, gift cards may have a "cost" to the consumer (the 10 percent that remains unspent), but compared to other options that cost is minimal, and—it needs to be noted—is completely under the control of the consumer to use his or her gift card in a way that avoids or minimizes fees.

93 Percent of Purchasers Are Satisfied with Gift Cards

Consumer Reports' negative spin on gift cards also suggests that it is out of step with what consumers are actually saying about their cards.

In an academically rigorous study conducted this October by the NBPCA, 93 percent of consumers who actually purchased a network branded gift card indicated that they were satisfied with their purchase. In terms of consumer satisfaction, this is an amazing number! It's so off-the-charts positive that it's hard to compare it to any other product or service. And, it's this high level of consumer satisfaction that goes a long way to explaining the 121 percent increase in network branded gift card loads from 2005 to 2006 as noted by the Mercator Advisory Group in its latest market-sizing study.

What's more, the NBPCA study told us that purchasers regard network branded gift cards as intelligent and thoughtful gifts that they choose—not for their own convenience—but to please their gift recipients.

Now, you may be able to fool some of the people some of the time. But, these satisfaction numbers are solid evidence that contravenes Consumer Reports' message that gift cards

take advantage of consumers. This is real data collected from a statistically valid sample with a margin of error of 3.3 percent or less. It is not anecdotal evidence solicited by an organization that appears to want to make its outcomes match its agenda.

It's All About Choice—Consumer Choice

The point that I'd like to make to Consumer Reports is that it doesn't have a lock on understanding what consumers want or need. How many times have we seen a consumer organization take a position based on self interested ideology that turns out to be unsupported by the facts of what consumers really want? And,

Consumer Reports' value judgment on gift cards includes—at least in my opinion—overtones of paternalism. Personally, I believe that consumers are a lot smarter than Consumer Reports gives them credit for being. And, consumers are choosing to purchase gift cards because they meet a need that isn't addressed adequately by other possible gifts including cash, checks and even merchandise.

I also believe that the gift card market is a tremendous example of how competitors operating in a free and open marketplace create products that offer consumers significant benefits. Consumers are selecting gift card products that are right for their particular situation—with the right pricing, right distribution channels and right features. Gift card products that don't respect the consumer will be squeezed out of the market, as they should be.

Gift cards, whether they are retail-branded or network branded, give consumers the benefit of choice. No consumer is ever forced to purchase a gift card. It's a matter of each individual making a personal decision about what's right for him or her and the intended gift recipient. It is the right of consumers to decide for themselves whether or not to purchase a gift card and, if they do, which gift card to buy. And, they will—whether or not Consumer Reports chooses to spend its money warning them of “pitfalls.”

Let's offer consumers solutions, not scares.

Anil D. Aggarwal is a recognized leader in the prepaid card industry. He is co-founder and CEO of Prepaid Media, a media and information services business that owns and operates the leading publication for the prepaid and stored value card industry. He is also founder and chairman of the Network Branded Prepaid Card Association (NBPCA), the leading non-profit, inter-industry trade organization for network branded prepaid cards. Now in its second membership year, the NBPCA has attracted more than 35 members including many of the foremost organizations in the industry. Previously, Aggarwal was one of the early pioneers in enabling technology for prepaid card processing. He is a lawyer and CPA and began his career as a serial entrepreneur by co-founding one of the largest farming operations in Kenya.