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by Joe Stevenson

Gift Cards: A Booming Niche in the Marketplace

When it comes to gift purchases these days, more and more people are paying with plastic – and not just the credit card variety. The National Retail Federation reports that consumers bought some \$25 billion worth of gift cards over the recent holiday season. Printers have been taking notice of this growing opportunity in the marketplace. At OnTime Mailings in Chelsea, MA, a specialist in card embossing, President Richard Connolly says, “In the year 2000, we did fewer than 10 million cards, but for 2006 we’ll do approximately 100 million.”

By any measure, gift cards are a booming business, one that could attract printers’ attention as a potential diversification path. “I don’t think it’s a huge stretch for many printers,” says Jeff Peters, Vice President and Managing Director at Datacard Ga-Vehren, an NPES member. He notes that a newcomer to the specialty would have to invest in high speed equipment to print and emboss the cards and encode data onto the magnetic strips. “For half a million dollars, you can be in this business,” he says. “These are not scary numbers for people accustomed to buying big presses.”

“Even commercial printers not interested in producing and personalizing the cards can find major sales opportunities in printing the hanging holders on which most gift cards are displayed, along with other point-of-purchase displays and card packaging,” Peters adds.

All of this is not to say that entering into this business is a simple matter. In fact, its complexities and “zero” margin for error may be more daunting entry barriers than capital investment. “There’s a lot more to gift cards than just printing,” says Jake Jacobs, Vice President at Arthur Blank Company in Boston, a leading supplier of card production and encoding systems and one of America’s largest producers of gift cards.

The printing aspect of gift card production starts with rendering the images on the front of the card, typically on a high speed sheetfed press. Arthur Blank Company operates Komori six- and four-color presses, and the cards are printed on white PVC, normally 72-up, Jacobs explains. The smooth and stiff substrate presents some specific challenges.

"For people accustomed to printing on paper, printing on plastic is another world," says Terry Hardy, Vice President at Plastilam in Salem, MA. "Inks do not dry quickly on a smooth surface. If you print with a metallic color, you have to sometimes rack them for a day or two, because the metallic is taking that long just to dry."

Hardy reports that digital presses are producing a growing volume of highly personalized gift cards — but metallic inks won't work with digital presses because of the potential for the powdered metal they contain to cause electrical problems in the press.

The printed gift cards are then laminated and die cut. All of these processes must result in a card whose dimensions comply with ISO standards, so that they will work reliably in any ATM or point-of-sale device. "The hardest part has to do with encoding the cards," Hardy says. The card producer must work closely with the ultimate customer's POS system provider and its MIS department to be sure each card is encoded so that it will be readable by the customer's cash registers. Every card must work, every time, and no two cards can be duplicates. "There's zero tolerance for mistakes," says Jacobs.

Magnetic stripes have a quality called coersivity, which reflects their ability to maintain their data integrity despite frequent or rough use. For the average gift card, which Jacobs says is swiped 2.5 times, low coersivity is fine. But for a card expected to go through a large number of transactions — or a critical application like security ID cards — "high co" is called for.

Security is another issue. Peters notes that retailers have become concerned about gift card fraud. Perpetrators were copying numbers off gift cards on display racks, then trying to use those numbers online by simply calling every day until a legitimate shopper activated that

card. The answer has been to add a PIN number to each card, hidden by a layer of scratch-off foil.

Jacobs comments that automation in the gift card industry still has room for improvement. "There's a fairly high level of handling of this material," he says. "We are constantly doing one task, then the sheets will wait before going to the next station. The operation is labor intensive."

Jacobs says vendors are responding. The new generation of Datacard systems combine card personalization and affixing to the carrier all in line, on one machine. This eliminates a step, reduces floor space and labor requirements.

For the foreseeable future, these execs expect the gift card business to continue to boom, and its tools to continue to gain sophistication. Given the constant technical innovations in the industry, however, the long-term outlook is less clear. "Gift cards will eventually be replaced with something else," says Hardy.