



## Rebate Cards Gain Traction

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By Prepaid Media

During the past year, delivering consumer rebates on network branded prepaid cards has begun to make significant inroads in the rebate fulfillment business. Converting the traditional paper rebate check to a more efficient card-based alternative seems like an obvious continuation of the ongoing trend to reduce paper in the payments system. Yet, early attempts to replace rebate checks with prepaid rebate cards met with limited success, and initial hopes of a quick shift did not materialize. Today, however, prepaid rebate cards are gaining traction and showing tremendous promise as companies prepare for the movement of prepaid cards into the rebate market mainstream.

The move to prepaid cards as a fulfillment option for rebate offers is driven by interest from both marketing and rebate fulfillment companies, as well as consumer packaged goods companies, subscription service providers, and retailers.

Dallas-Based **Parago**, Inc., which designs, develops and manages marketing programs, is taking a lead position in the conversion from paper to plastic rebate products.

"The reward settlement for our rebate clients includes mostly checks, with some direct deposits or ACH," says Juli Spottiswood, chief executive officer of **Parago**. "We are now getting into rewards settlements in the form of network branded prepaid cards and also retailer-specific gift cards."

Spottiswood estimates that about five percent of the rebates market is fulfilled with retailer-specific, closed-loop gift cards.

Although **Parago** was an early pioneer and began offering network branded prepaid card-based rebate programs about four years ago, interest has picked up only recently. "We're just starting to get a lot of interest in the marketplace," she says. "So, in terms of any significant volume, it really didn't begin until six months ago."

### Early Days with Significant Potential to Scale

While rebate cards have gained footing, Spottiswood cautions, "We are very, very early on in the product adoption cycle – less than 10 percent."

As with any product in the early stages of market adoption, the question remains whether prepaid rebate cards will emerge as a specialty product – one of many in a product line (as has historically been the case with prepaid cards in employee incentive programs) – or whether they have the potential to

dominate the category. With Spottiswood estimating the size of the rebate market at more than \$5 billion, the answer to this question will have an important impact on the prepaid card industry. Spottiswood is optimistic, seeing prepaid rebate cards as the upcoming wave and indicating that she anticipates a major portion of Parago's business moving to prepaid cards in the future.

"In the next three years," she comments, "I see prepaid as dominating the reward type for our rebate service line."

**Parago** began introducing prepaid rebate cards with smaller clients and smaller programs. "We really got our feet wet and learned a lot about the industry and how it works through smaller clients," Spottiswood adds. "Now we are starting to roll out the product to a larger client base, because we feel like we've got the product figured out."

Before launching, **Parago** conducted research, including an examination of the challenging regulatory and legal landscape applicable to prepaid cards, to acquire the requisite background knowledge to successfully deploy and manage rebates through prepaid cards. To accommodate product line expansion, **Parago** added two dedicated employees to manage card-based rebates and supplement its existing team.

### **Some Unanswered Questions**

Some questions about prepaid rebate cards remain unanswered. For example, do prepaid rebate cards increase customer service costs, resulting in lower overall margins? Spottiswood says it is too early to tell. "So far, we've seen a slight increase in customer service costs, but nothing notable. The majority of customer service inquiries are balance inquiries, handled through an IVR, which are not expensive."

Another unanswered question, according to Spottiswood, is how consumers who receive prepaid rebate cards perceive them. Spottiswood acknowledges that rebate fulfillment in general can be a source of frustration for consumers and adoption of a card-based rebate alternative may be slowed if consumers complain specifically about prepaid rebate cards.

"We've conducted surveys that tell us that prepaid rebate cards are a product that is welcome by consumers, but there is a segment of the consumer population that is resistant to any change," she explains. "There could be some negative perceptions at the consumer level at least in the beginning as companies convert from checks to cards." Managing consumer expectations with clear and appropriate communications and disclosures with regard to the delivery of the rebate in the form of a prepaid rebate card can go a long way in minimizing any complaints.

### **Drivers of Adoption**

Two major constituencies are the driving force behind the movement from paper to card-based rebate rewards delivery – consumers and corporates.

One of the main drivers of interest in card-based rebates is consumer preference. The value proposition of a rebate is straightforward – that a consumer will elect to make a purchase decision based upon the ability to receive some type of value, which functions to adjust down the purchase price. "We are starting to see consumers move away from checks and cash and move more towards plastic, so moving a rebate program from having a reward of a check to a prepaid card is a natural evolution of the industry."

According to Spottiswood, there are many reasons why companies in the rebates industry are now

embracing prepaid cards. "You replace a paper check, which has little opportunity for branding or marketing, with a prepaid card that's custom branded with the company's look and feel and is accompanied by a card carrier that offers a lot of space for direct marketing messages," she says.

But the benefits for companies offering rebates extend beyond simple forms of branding and marketing, opening the door to a greater understanding of consumer behavior.

"As well as learning about the spending behavior, retailer-spend reports provide more demographic information than they get today," Spottiswood continues.

One question frequently asked about network branded rebate cards, usable wherever the payment network brand is accepted, is whether consumers have a greater tendency to use them at the retailer whose brand is on the card.

According to Spottiswood, the answer is yes, and she says that this phenomenon is a key reason companies have shifted to prepaid rebate cards from checks. "There is an opportunity for retailers to recapture some of the dollars that are being spent on the rebate program," she says.

Although prepaid cards have been slower than expected to penetrate the rebates industry, they are clearly gaining acceptance by companies making reward fulfillment decisions. Although the market for prepaid rebate cards remains nascent, their promise is materializing. Many are recognizing their potential for improved consumer service, greater processing and cost efficiency, and enhanced information and return for rebate sponsors – factors that are leading to increased allocation of resources and identification of ways in which prepaid rebate cards can become part of the successful commercialization of the prepaid card market.

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