

# GIFT CARDS

THE WORLD'S LARGEST  
CRYPTOCURRENCY



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**CENTZ, Inc. The Gift Card Industry Whitepaper**

## **ABSTRACT**

Each and every gift card is, in essence, their own cryptocurrency, but unlike fiat currencies there are no official recognized exchange mechanisms or rates. Thus, these funds are locked into one inflexible closed looped cryptocurrency. This has led to a massive amount of funds being trapped and these trapped funds are never spent. Approximately two billion gift cards were purchased last year, which equals to 6 cards for every man, woman and child in the U.S. and it is projected that the market will grow by an average of 6% a year for the foreseeable future. In 2016 alone, \$160 BILLION dollars of gift cards will be sold and up to 20% of all gift cards sold will never be redeemed. It is estimated that worldwide the gift card market will top \$500 billion this year alone. It is recognized that in the USA there are \$80 billion dollars of unspent gift cards just sitting in people's junk drawers.

## **INTRODUCTION**

**CENTZ** - noun / pronunciation cents - the world's first gift card cryptocurrency exchange

- 1.) A revolutionary company that issues a unique cryptocurrency.  
Centz Gold Bucks a cryptocurrency tradable for gift cards
- 2.) NORTH AMERICAN informal  
A one-cent coin equal to one hundredth of a dollar
- 3.) used for emphasis to denote no money at all.  
"We didn't get paid a penny"

### **The gift card industry is ripe for disruption:**

- From a merchant's perspective the overspend dynamic that occurs when gift cards are used has become a boon to each and every retailer. If this dynamic could be replicated for each and every card it would dramatically increase the amount of revenue for every retailer.
- From a consumer's perspective, the limited flexibility of gift cards combined with poor customer service and the lack of security has led to massive amounts of gift cards going unused. The current system undermines the basic gift giving intent and inherent value of any gift card.

This paper contends that the implementation of a revolutionary business model can be leveraged to eradicate fraud and the breakage problems that undermine the potential of this industry. In turn, this will deliver a unique and rewarding shopping experience, while improving the value proposition to both consumers and merchants.

## ***THE BEGINNING***

The first gift card using a payments infrastructure was introduced by Blockbuster Entertainment in late 1994 in Fort Lauderdale, Florida. In the beginning, the Blockbuster gift card replaced gift certificates that were being counterfeited with recently introduced color copiers and color printers. Neiman Marcus was the first to sell the cards, but they didn't advertise and display them. It was Blockbuster who first displayed the gift card in its stores. The next big gift card seller was Starbucks, who in 2001, introduced cards that worked more than once. This was the beginning of the “great gift card industry boom”.

## ***THE ISSUES***

### ***Trapped funds***

The surge in gift card purchases has proved hugely profitable for the retailers that issue them. The Credit CARD Act did not do much to address what happens when the less-than face value of a gift card is used and then, the fractional balance sits in the junk drawer in perpetuity. The sale of a gift card represents an infinite obligation of the retailer under generally accepted accounting principles (GAAP). The SEC and IRS have issued guidelines for retailers to remove these liabilities, and break the “obligation” based on historical redemption rates. The amount and frequency that dormant gift card money is taken is determined solely by each retailer based on their own historical redemption rates. Retailers have recognized that it is increasingly to their benefit to sell more and more gift cards as up to 20% will never be redeemed and subsequently those unused funds can flow directly to the bottom line without having to deliver any goods or services.



\*\*Courtesy of Dana Dratch

## ***Breakage***

Breakage verb / pronunciation / break-age/ 'brākij/ noun: breakage; plural noun: breakages

1 the action of breaking something, or the fact of being broken.

: The act of breaking the implied contract when a gift card is sold so the remaining balance can be removed from the big box retailers balance sheet without delivering any goods or services.

Retailers have discovered that the amount of revenue from unused gift cards is significant to their bottom line. To assure that they can continue to take the unused gift card balances as breakage, retailers have domiciled their gift card programs in states that are gift card friendly. This eliminates the chance of escheatment by the state (laws defining the escrowing of property which is abandoned). The amount and frequency that dormant gift card money is taken is determined solely by each retailer based on their own historical redemption rates.

Bottom line. Perhaps the greatest benefit to retailers—and one that has distinct accounting implications—is that historical consumer behavior trends show that a portion of many gift card purchases will never be redeemed. The retail industry recognizes the tendency of consumers to leave gift card balances unused and refer to the unspent balance of a gift card as breakage. Even by conservative estimates, gift card breakage has the potential to significantly influence many companies' bottom lines and that is exactly why the retail community is fighting any requirement to change any aspect of the current system used to sell and redeem gift cards.

## ***Fraud & Security***

The simple reality is that the big box retailers are responsible for the problem of rampant gift card fraud.

There are many ways to commit fraud using gift cards and they are very alluring, for many reasons. First, and foremost, there's a low chance of being prosecuted. The dollar amounts on each individual transaction are relatively small and not enough to garner the attention of large law enforcement agencies that have the ability to catch the perpetrators. Second, it's very easy to commit fraud. Lastly, the big box retailers have ignored this issue so as not to disturb their ability to continue to take BILLIONS of dollars of unspent gift card balances every year.

No financial service company operates without sophisticated security and anti-fraud prevention systems. The only exception to the rule are the big box retailers

who sell gift cards. They have foisted off bar codes and pin numbers to create the illusion of providing a sophisticated method of security but in today's e-commerce world that technology is about as effective as driving a Model T Ford at the Indy 500, dangerous and worthless.

After all, gift cards are money, plain and simple. Imagine if American Express did not know the identity of who they issued credit cards to or Chase Bank not know the people who had checking accounts with them. We would think the institution insane and take our business elsewhere. Both fraud and security are two key issues that are intertwined and have plagued the sale and use of gift cards forever. With better security, incidents of fraud can be reduced to virtually nothing.

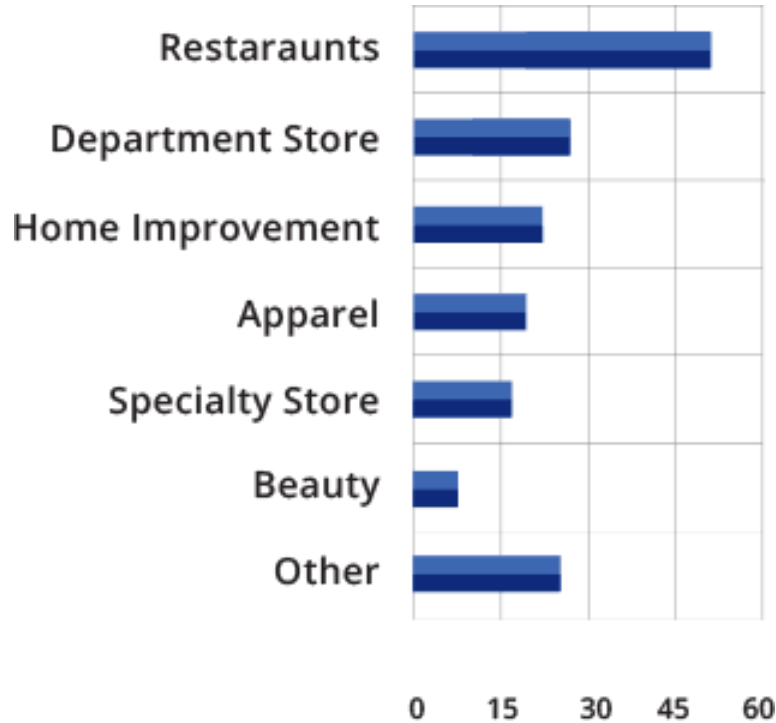


Understanding how one issue affects the other should drive all gift card issuers to study and implement advanced solutions that can protect our money equally as well as credit card or banking corporations.

## ***THE MARKET***

Gift cards are a go-to gift giving option and have been the most requested gift item nine years in a row according to the National Retail Federation, but sometimes people receive gift cards for a retailer that they don't frequent and the card goes unused. In fact, according to a Blackhawk Network survey, 53% of shoppers receive cards and forget about them and 26% of shoppers receive cards for a retailer, restaurant or other merchant that they don't frequent. 97% of those with unused gift cards had up to 10 unused gift cards.

# MOST POPULAR GIFT CARDS



The gift card market has moved beyond novelty and is now firmly in the mainstream. Retailers get substantial financial benefits from the sale of gift cards. They are no longer considered simply as payment vehicles. Most U.S. retailers now consider gift cards to be one of their products, and in many cases, the **SINGLE LARGEST SELLING PRODUCT** that they offer, accounting for 1.5% – 4% of sales. Sales of retailer branded/close looped gift cards topped \$150 billion in 2015.



## **FACTOID:**

Sixty-five percent of gift card recipients spend an average of 38 percent more than the face value of their cards.

Gift cards have become a tale of two different consumers, both equally profitable to the big box retailer. Consumers love shopping with gift cards. More than 85% of consumers report asking for a gift card over any other gift item.

In the rest of the world, gift cards are just starting to become as popular and as big as in the USA. This trend is being led by the big box US retailers who are aggressively pushing these programs in every country.

### ***THE CENTZ OPPORTUNITY***

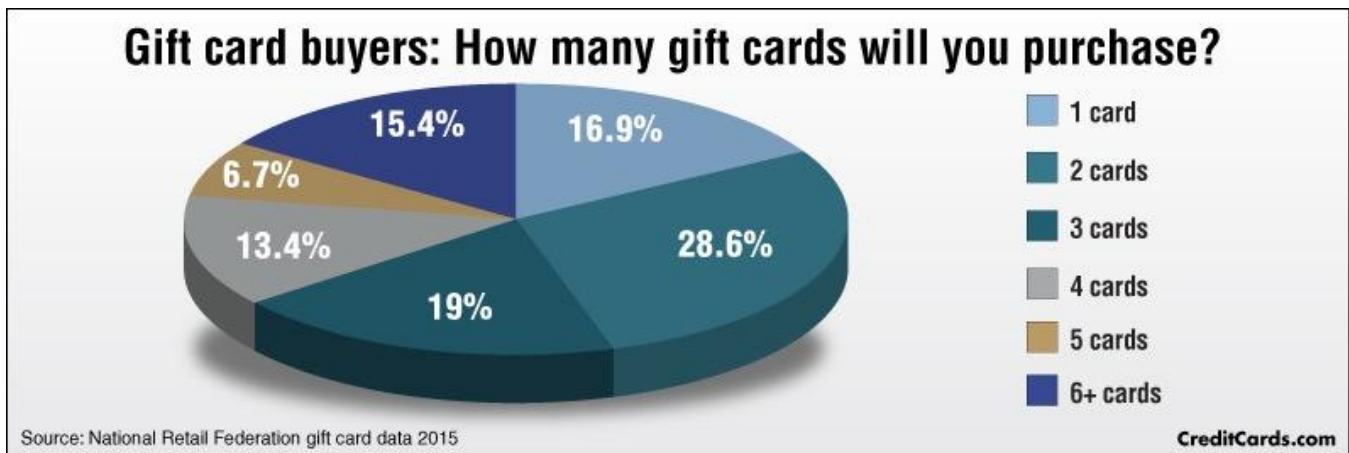
From inception, Centz has realized that the problem with gift cards is the massive amount that goes unspent and how the industry has restricted the use of gift cards for their exclusive financial gain. Despite major advances in mobile payments technology, the gift card industry has fought making gift cards more secure, fraud free and easier to fully use.

Centz is dedicated to helping maximize unused gift card balances. It is a problem that we've been focused on solving from the beginning. We understand that consumer preferences may not always match with the brand of gift cards they are given—a big reason for unused and underused gift cards. To solve these issues, we have developed a unique solution that bridges the gap between consumer desire and the reality of gift card usage.

Centz spends a lot of time thinking about how we can help anyone put the unused value of their gift cards back to use. Where we're different is figuring out how to reinvent the consumer experience and create an incredibly safe and secure method which will allow individuals to fully maximize the value on all stored value instruments.

Centz believes that gift cards have the potential to become more than just a single option for the redemption of stored value credits. We view the gift card as a payment method that is just scratching the surface of all its possibilities to shape and change the payment landscape worldwide.

**Have you ever grabbed a gift card as a last minute birthday or holiday treat? You aren't alone.**



This is the most requested gift for 8 years in a row

## **GIFT CARD STATISTICS - A SNAPSHOT**

### **The Gift Card Industry**

- Over \$160 Billion is spent on Gift Cards annually
- 93% of U.S. consumers purchase or receive a gift card annually
- Consumers spend an average of \$213/year on gift cards
- 83% of corporations use gift & prepaid cards for employee incentives

### **Where Consumers Buy Gift Cards**

- 31% – Gift card mall or kiosk (grocery/convenience stores)
- 27% – Websites that sell multiple gift cards
- 27% – In person at the retailer or restaurant
- 16% – On the retailer or restaurant's website

### **Gift Cards Online**

- Online gift card sales are growing by 29% per year
- 97% of the top retailers & restaurants sell their gift card online
- 92% of those top retailers offer multiple card designs
- Less than 3% of local businesses sell their gift card online

## **CONCLUSION**

The gift card industry is continuing to grow exponentially and with that growth comes more and more problems for the retailers. Some of these problems have become so severe that several merchants can no longer accept their own e-gift cards at their own stores. These types of problems have the potential to under-



mine the industry as it reduces one of the key benefits of a gift card, ease of use. Both the individual and the retailers issues are intertwined and present different problems for each, but they both grow out of the simple fact of the lack of security for each and every gift card issued. There is a huge opportunity to solve both sides of this problem and provide a unique and flexible customer experience. It will increase the revenue that each gift card generates by providing a safe, secure and flexible method for the giving and redemption of each and every gift card.