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In the Cards Prepaid, loyalty and gift cards keep retailers in the game.

By Karen L. Wagner

For a retailer, loyalty can mean everything. For a customer, it's all about convenience. Luckily for both, there are loyalty/gift cards. Relatively new, but increasingly popular, loyalty/gift programs offer an appealing way for customers to pay for their purchases and for retailers to gain loyal customers.



The cards are a convenience for coffeehouse customers because they can prepay their purchases and not have to worry about carrying cash. At the same time, retailers are almost guaranteed the loyal patronage of that customer who has already paid for future coffee drinks and/or food.

Sophisticated software programs found on many point-of-sale systems make implementing loyalty/gift programs pretty simple. From cards that have magnetic stripes to cards with computer chips, loyalty/gift card features work in various ways.

Retailers are also finding that the cards themselves have marketing value. Often designed with the retailer's logo, the cards have become mini advertising tools that customers carry in their purses and wallets.

Whatever type of POS system and loyalty/gift card program a retailer chooses, though, the objective should be the same—boosting business and the bottom line.

POS—"Promise of sale"

In an industry where the stakes just keep getting higher, a loyalty/gift card program offers a retailer a relatively easy way to attract customers and, perhaps more importantly, keep them coming back.

"It is a way to compete," says retailer Barb Hibbert, who owns Jo's Java and Ice Cream, Peoria, Ill., and also is a partner in a company that distributes a POS system. "It's kind of expected in the town where I am. All of the small coffeehouses offer it. If you don't have a card, you might lose business to someone else (who does)."



Mae Chambers, a supplier of the plastic cards, says her business has been experiencing increasingly robust sales since she began specializing in the specialty coffee industry in 2003.

"We get calls almost every day from mostly independent coffee shops that are saying that their customers are demanding that they get prepaid cards," says Chambers, president of the family-owned PlasticCard Plus, Hendersonville, Tenn. "My response is: 'What a problem to have. Your customers are begging to give you money.'"

The popularity of the cards in coffeehouses has been increasing more dramatically in the last year especially, says Ed Snyder, sales manager for SelbySoft, Inc., developer of the SP-1 POS

system. Snyder figures part of the reason is because loyalty programs have become prevalent in all kinds of industries.

“So many other companies do something similar. Airline frequent flier miles. Shoot, even the grocery stores have reward programs,” Snyder points out.

Added features, minus the fees

Up until just a few years ago, electronic loyalty/gift card programs were a relatively expensive undertaking for coffeehouse retailers. That’s because in order to process the transaction, many retailers use a credit card terminal to access a database that stores the customer information—and that requires a fee. So, every time a loyalty/gift card is swiped through the terminal, the retailer pays the credit card company anywhere from 10 cents to as much as 50 cents per transaction. On a tab that may only be \$2 or \$3, a 10- or 20-cent fee is significant.

But a few years ago, developers of POS systems began adding loyalty/gift card features to their products. While most of these systems offer such functions as inventory control, revenue tracking and employee time-clocking, many retailers are especially attracted to the loyalty/gift card capability.

“From our standpoint, it is one of the major reasons why people buy a POS system,” says Lee Alexander, vice president of sales and marketing for Redmond, Wash.-based Coffee Shop Manager, whose POS system is designed for coffeehouses.

Loyalty/gift cards essentially have two elements. Cards can be used to track purchases and offer promotions and to store value, which can be used by the customer or given away as a gift.

Many POS systems allow one card to fulfill both uses. The systems generally contain internal databases that collect and track the information in the gift/loyalty program, meaning there is no need for an external database and, therefore, no transaction fee.

Stripes, chips or waves—your choice

Depending on the POS system, the card processing works in various ways. Coffee Shop Manager uses a swipe card system. Much like a credit card, a magnetic stripe on the back of the card contains coded information, that when swiped, accesses a database and finds the information associated with that card.

PYP—Protect your POS



Ever wait more than a few moments for a credit card transaction to be approved? While the customer may begin to worry about his credit, the server typically attributes the problem to, “The computer system is sooooo slow today.”

“But as a matter of fact it is related to the power,” says Bahram Mechanic, president/CEO of Houston-based Smart Power Systems.

Mechanic develops, manufactures and markets power protection products for various kinds of computer systems, including point-of-sale systems. Mechanic’s products use patented technology that provides greater protection for computers than typical surge protectors.

When it comes to power problems, most people think of blackouts or lightning strikes, which are obviously major power disturbances and can cause serious damage to computer systems, not to mention a loss of business. But, Mechanic explains, the most common disturbances include small blips in power that often go unnoticed by the computer user. However, these blips can cause some serious problems for computers, which, Mechanic explains, are very sensitive to even small surges, such as just 4-volt sparks.

Smart System’s Smart Cord was designed

"We're keeping full purchase history," of the customer, says Alexander, "we've got this prepaid balance activity, and we've got his loyalty activity—where he stands on free coffee, free beans, or whatever else. All that information is contained in the database."

An advantage of Coffee Shop Manager, he continues, is the headquarters module feature, which enables the database of one store to be networked with the computer systems across a coffeehouse chain, so the card can be used at different locations.

"If you're planning on having multiple locations, you want your prepaid system to work internally, as well as all the loyalty (features)," to work at each location, Alexander points out.

In addition to the magnetic stripe-type card, which is the size of a credit card, many POS systems also can be used with bar code-type cards, which are smaller than the credit card-size cards and are generally attached to a key FOB. A bar code reader, however, is then required.

"The magnetic stripe reader is more stable, but the bar code kind you can make the card for the key chain," explains Carlos Basconcelo, owner of Computer Service Solutions, Seattle, a supplier of Linux and Windows-based POS systems, which include loyalty/gift card features. "In some states, we have experienced (that) the people are very used to the key chain."



Basconcelo adds that his Linux product is more secure and reliable than Windows-based systems. The Linux-based system, he says, also allows databases to be shared and changes to be made in real time, without the need to shut down the network. Likewise, one loyalty/gift card can be used at multiple locations of a coffeehouse, even around the country or world.

"A centralized database is very important when you grow in business," he says.

Other POS systems employ what's referred to as Smart Card technology, where the information is stored in a computer chip embedded in the card itself, rather than in a database.

The RedEye Point of Sale Software Suite employs such technology for its loyalty/gift card features. The advantage, says Barb Hibbert, vice president of RedEye Enterprise, Peoria, Ill., which developed the RedEye POS system, is that a coffeehouse with multiple locations doesn't need to have a networked computer system in order for the card to be used at the various locations.

"It's best if they are (networked), but it could work with the information just stored on the card itself," she says.

During the transaction, the eCard, which is what RedEye calls its plastic cards, is inserted into a reader/writer, a small piece of equipment, and the information is processed directly on the card.

"The advantage of the Smart Card, as well, is that it can hold a lot of information. With RedEye, we have it set up that this card can hold up to two different loyalty type programs,"

especially for POS systems in places where there isn't a whole lot of extra space for technical gadgets, like coffeehouse counters, for example.

"This Smart Cord is very, very small," Mechanic says, comparing it to the size of a pack of cigarettes. "So what it does, it makes the (computer) equipment run smoothly, without any error."

That means when there's a blip in power, the computer won't lock up, there will be no extra waiting for credit card approval, and no downtime, he says.

The unit plugs into the POS system at one end and the electrical outlet at the other. The Smart Cord can be used in any kind of POS system, and is available in various amp sizes, depending upon the capacity of the computer system. Some models also have a telephone line protector for credit card readers, as well.

The units run about \$100, Mechanic says.