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The Secondary Market For Gift Cards

Sites Spring Up That Let Recipients Trade Scrip; We Test the Different Options

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Gift cards were supposed to solve the problem of presents that miss the mark.

But as gift cards soar in popularity -- a record \$55 billion of them were sold in 2004, according to an estimate by the research firm TowerGroup -- a new cottage industry has emerged: Web sites that let people trade unwanted gift cards either for cash, or for another retailer's gift card.

Some services, such as cardavenue.com, run eBay-like auctions: You list your card and a price at which an auction for it should start. [Cardavenue.com](http://cardavenue.com) also lets users trade cards with one another, as does swapagift.com. In addition, [Swapagift](http://swapagift.com) buys some popular cards outright (for a discount of 30% below the card's face value). Meanwhile, certificateswap.com lets sellers name their own fixed price.

CHART

See how the Web sites we used to sell gift cards [stacked up](#)⁰.

Then there's eBay itself, which as of yesterday afternoon had no fewer than 7,720 "gift-certificate" listings of auctions or sales. (A few coupons slip into this category, too.) In recent days, the specialist sites together had several hundred more cards for sale. The upshot: With the

holidays now over, January is turning into the season for bottom-fishers to sniff around for discount cards online. Typically they sell for a discount off the face value ranging from 5% to 20%.

To measure how easy it is to turn gift cards back into money, we bought a handful of cards -- \$50 from **Home Depot Inc.**, \$100 from **Amazon.com Inc.**, \$100 from **Gap Inc.** -- then turned around and tried to sell them online. The goal: Recover as much of the face value as possible, with a minimum of hassle. We used several major services, as well as the craigslist.org classified listings, and ebay.com.

Within a week, we managed to find buyers willing to take four of our five cards, and we didn't have to give anyone more than a 20% discount off the face value. Most of the sites were easy to set up: In all cases but one -- certificateswap.com -- it didn't take more than 10 minutes or so to

list our card for sale. Despite our setup difficulties with certificateswap.com, once we got our \$50 Home Depot card listed there, it was sold within an hour.

For retailers, gift cards can be blessings and curses. Research shows that when recipients take the cards to stores and use them, they end up spending considerably more than the card's face value. A survey last year by ValueLink, a division of First Data Corp. that specializes in gift cards and other similar programs, reported that 55% of gift-card users spend more than the initial value of the card. A separate Deloitte & Touche study put that number at 21% but noted that customers spent an average of 89% more than the card's face value.



Three of the gift cards we tried to pawn on the Web

There is a danger for stores, however, because in many cases, gift-card sales don't actually count as revenue for the store until someone redeems them. That is because states can treat unredeemed cards as "abandoned" property and take control of the funds after a period of time.

As a result, gift cards have the potential to either ruin retailers' sales results -- or save them. Both these possibilities presented themselves in the recent holiday season. Earlier this month, **Wal-Mart Stores Inc.** credited post-Christmas gift-card redemptions with helping it hit the high end of its December sales forecast. But then last week, **Williams-Sonoma Inc.** blamed the disappointing sales numbers during the eight

weeks before Dec. 26 in part on a surge in gift-card sales, which didn't count in its revenue figures for that period.

One of the simplest sites we tried was craigslist.org's Chicago classified-ad site, where we attempted to sell a \$50 gift card from Potbelly Sandwich Works, a sub shop that is popular in Chicago. Because Craigslist listings are categorized by city, it may be a good option for cards issued by local or regional stores.

Within a couple of days, our post -- which read in part, "\$50 Potbelly's gift certificate for \$42.50. No catches" -- drew interest from a man who was willing to pay our asking price.

However, he quickly got cold feet and tried to back out of the deal, saying he didn't know whether he could trust us. It highlights the leap of faith that sometimes is necessary when using online marketplaces: One of the two parties may have to go first -- and he seemed unwilling to mail us the \$42.50, not knowing whether we would hold up our end of the bargain and mail back the card.

We closed the deal by taking on all the risk ourselves. We agreed to mail the card to him first, and let him pay us after he had it safely in hand.

At least he didn't haggle. While we were cutting the sandwich deal with him, another person wrote offering a paltry \$30 for our \$50 face-value card, pointing out that we said in our ad that we weren't going to use it ourselves anyway.

On cardavenue.com and eBay, we let the buyers haggle with each other, via an auction. Our \$100 amazon.com certificate sold for \$96.77 on eBay. That was much closer to face value than the \$40.05 we got for our \$50 **Starbucks Corp.** gift card on cardavenue.com.

Some of these differences may be related to the popularity of the retailers. Our \$100 Gap gift card

didn't sell after a week listed at \$85 on swapagift.com. Swapagift itself will pay 70% of a card's face value to people who don't want to bother selling their cards to the public. The site then turns around and resells them at a markup. Those cards, however, must come from a list of preferred merchants that includes **Abercrombie & Fitch Co.**, **Best Buy Co.** and **Target Corp.** Gap isn't on the list.

All of the sites we tested have fraud protections in place, though as with any online transaction between individuals, scammers will try to game the system occasionally. Cardavenue asks sellers to provide the unique number on the card or certificate, plus the personal identification number (if any), and an 800 number to call to verify that it hasn't expired. On eBay, all sellers need to provide a credit card to set up an account. Those hocking gift cards can sell only one per week, and the value can't exceed \$500. Starting today Swapagift will require sellers to list a phone number, too.

At certificateswap.com, where our \$50 Home Depot gift card sold for our set price of \$42.50 in about an hour, the site holds the money, in most cases, until the buyer sends in feedback on the transaction. Navigating its account-verification process during setup proved to be difficult, however, and when we clicked the "Contact Us" link, we got a message saying that the support desk was unavailable.

Annoyed, we Googled the owner, Peter Milosheff, and turned up his e-mail address at his day job. (It turns out that he works for an entirely unrelated company, and runs certificateswap.com in his spare time.) Within minutes, he called us back.

"I admire you for going the extra mile to contact me," said the unruffled Mr. Milosheff as he quickly gave us a hand. He promises the link will be fixed by today.

WEB SITE: Cardavenue.com, Auction or trade

ITS TAKE: Charges 6.25% of selling price, and 50-cent closing fee

EASE OF USE: It sent us e-mails each time a new bid was posted.

HOW WE DID: Our \$50 Starbucks card went for \$40.05 in a five-day auction.

THE RESULT: We set the \$40 opening bid ourselves, and it might have been too low.

WEB SITE: Certificateswap.com, Fixed price

IT'S TAKE: 7.5% of selling price

EASE OF USE: Its odd verification system doesn't work with MBNA credit cards.

HOW WE DID: We sold a \$50 Home Depot card for \$42.50 in about an hour, the fastest of the sites we tried.

THE RESULT: We had trouble getting set up, and the site's 'contact' button was broken -- so we Googled the CEO and asked him for help.

WEB SITE: Craigslist.org, Fixed price (or best offer, in some cases)

IT'S TAKE: No charge The site's design is unabashedly no-frills, but it's simple.

EASE OF USE: It took two days and two posts, but we sold our \$50 Potbelly's gift card for \$42.50.

A good choice for scrip from stores in specific areas.

WEB SITE: EBay.com, Auction or fixed price

IT'S TAKE: Fees vary; ours added up to \$5.69

EASE OF USE: It took 10 minutes to figure out how to get a detailed list of our fees.

HOW WE DID: \$100 Amazon certificate sold for \$96.77 in a fiveday auction.

THE RESULT: The sale price was almost 97 cents on the dollar, the best in our test.

WEB SITE: Swapagift.com, Fixed price or trade

IT'S TAKE: A single flat fee of \$3.99

EASE OF USE: The site itself will buy certain cards off you and scan listings for swaps.

HOW WE DID: A \$100 Gap gift card was up for a week, but drew no buyers or swappers.

THE RESULT: An impressive site, but not enough users like khakis and T-shirts, apparently.

• Write to cranky@wsj.com¹

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