

## PROFILE

# Corporate clients are a real gift

A direct marketing firm thought the market was ready for consumer gift cards, but it had to change tack to make it work. Damien Lynch reports.

The iGoDirect Group believed it was onto a winner when it launched its gift card subsidiary, Come True Cards, in July 2006. The concept of stored-value cards was already successful in the United States and Europe, and iGoDirect thought it would be just as popular here.

The stored-value card is used by merchants to give spending credit to customers. It is similar to a debit card. But debit cards are typically associated with banks and are linked to individual bank accounts, while stored value cards are usually anonymous pre-paid cards.

iGoDirect's stored-value cards can be used anywhere that Eftpos is accepted.

After discovering that 53 per cent of gift cards were unclaimed after Christmas, iGoDirect believed consumers would jump at the opportunity to buy a funky Eftpos gift card online, and have it sent to loved ones with a customised message.

As an added incentive, iGoDirect arranged for a contribution to be made to Australian children's charity OzChild for every card purchased.

The cards, which could have a value of between \$25 and \$250, cost \$9.95 each. Of this, \$1.10 went to Oz Child.

But response to the product, which was launched in the lead-up to Christmas 2006, was poor.

Only 40 consumer gift cards were purchased online over the Christmas period and director Andy Burnip admits the company ended up making a "huge loss" after investing between \$50,000 and \$100,000 on technology for that particular part of its business.

iGoDirect needed to sell thousands of cards to make a healthy profit because it couldn't

charge more for the cards, and the company didn't receive a commission when the cards were used in a retail store.

Burnip says the stored-value card concept was too new to Australian consumers and iGoDirect didn't have the money to get the message out.

"As a small to medium-sized business we were wondering how we were going to educate consumers," he says.

"There were probably 10 million consumers out there that we wanted to tell about this new type of product. We just didn't have the resources to do it.

"We thought they [consumers] would pick it up pretty quickly and thought word of mouth would help. But it didn't work out like that."

Burnip and co-director Pat Dalton went into the project thinking there might be an opportunity to sell 5 million cards a year.

"There was such an opportunity. But we probably would have had to spend \$10 million to get there," he says.

They decided to leave it to the nation's banks to spend money educating consumers on how the cards could work – through the concept of the Visa gift card – while they went back to the drawing board and shifted their market focus from consumers to corporations.

Earlier this year iGoDirect developed a corporate marketing brochure for the gift card and mailed it to marketing and sales managers. The company planned to follow up with the launch of a telemarketing campaign, but the response to the brochure was so strong that it ditched that idea.

According to Burnip, corporate clients jumped at the idea of using the gift cards to reward staff for hitting performance indicators and to reward consumers for their loyalty.

The result is that iGoDirect has doubled the number of corporate clients to about 50 in 12 months. The clients are a mix of small and medium-sized enterprises and large corporations.

Burnip says: "This makes us chuckle a little bit. We are now working with one of the top four



banks. We are actually providing them with what is effectively a financial product, rewarding people who take out vehicle insurance with \$200 cash back in the form of a reward card."

Corporate customers can have customised cards made up.

Because the cards business complements its other service offerings, iGoDirect has also been able to increase the cross-selling of services.

"For us, it [the gift card idea] has been a great success, but not for the reasons that we thought it would be."

Other services on offer from iGoDirect include the iGoSmart marketing tool and iGoLAMS, a local area marketing module designed to help clients tailor their product offerings, communications and spending to particular areas. It takes into account income levels,

iGoDirect's Andy Burnip, left, and Pat Dalton, had to shift their focus in order to succeed. Photo Tamara Voninski

ethnicity and other factors that make areas unique.

Many of the consumers who have received the gift cards from corporations have gone on to purchase more and the company has now sold thousands. Burnip says the consumer gift card part of the business is now profitable on a monthly basis while the cards subsidiary accounts for about 20 per cent of the \$3 million in annual total turnover.

"We are educating consumers through the corporates. And this time we are actually earning revenue while we do it, rather than spending money on marketing and waiting for people to understand what it's all about," Burnip says.

## Q+A

## To claim GST or not – the act is the answer

I'm buying a business. The price and terms have been agreed, but there's some uncertainty about the GST. I've assumed the purchase is "a going concern" for GST purposes, hence GST free. The contract is a standard one and indicates that the purchase price includes GST. I've been told there is an opportunity to claim the GST and reduce the purchase price by 1/11th, which equates to \$50,000. I don't want to miss out on the tax saving but is there a risk in just making the claim?

Everyone wants to minimise our tax exposure, but this is an area you need to be very careful with.

If the purchase of the business is a going concern for GST purposes, then the transaction is GST free. If it is not a going concern the sale will be a taxable supply and, as the purchaser, you will be entitled to claim the input tax credits.

Whether or not a supply is a going concern for GST purposes is a matter of fact. Subdivision 38J of the GST Act provides the rules. You need to test the facts of your purchase against these. Where there is any doubt about the position make sure you get some professional advice.

The worst thing you can do is to simply make the claim for input tax credits in your next business activity statement (BAS) and assume that the Tax Office will either pay your claim or sort it out for you if you are not entitled to the input tax credits. It's not that simple. Your BAS is a self-assessment document – the ATO relies on you being right. If you are not, you are liable to penalties.

In the past year a number of taxpayers unsure of their position went ahead and made their claim. They were penalised. It is not uncommon for these penalties to be assessed at 50 per cent of the GST involved. So instead of receiving \$50,000, you could find yourself liable for \$25,000. This is not a risk you want to take – you need to be sure that you are right. Also, have a tax invoice for your claim. The contract by itself is not enough.

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