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## Is success in the cards?

### Wisconsin Governor's Business Plan Contest finalist aims to turn unused gift cards into a profitable business — with an added benefit to charity

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*Posted: May 31, 2007*

Prospective entrepreneur George Holtz sees a chance to make money on all those unused gift cards sitting in people's wallets and drawers.

Holtz, who is the company manager for the Milwaukee Ballet, is a finalist in the Wisconsin Governor's Business Plan Contest. Winners will be named June 12 and 13 at the annual Wisconsin Entrepreneurs' Conference at the Hyatt Regency.

Holtz is attempting to start a business called Donate-A-Card, which would turn lots of unused gift cards with small balances into new cards that he would then sell on the Internet.

Charity groups would collect the unused cards and sell them to Donate-A-Card for a discounted price, perhaps 65% of the face value of the cards.

Holtz would aggregate the cards into batches. For example, 50 Best Buy cards with \$1 remaining on each would be turned into one card with a \$50 value. He would then sell the \$50 card on his Web site, at a price that is higher than what he paid the charity but less than \$50. He would discount the face value as an inducement to a prospective card buyer

Holtz, 35, has a bachelor's degree in administration of justice and training in information technology. Before joining the Milwaukee Ballet, he worked in IT for Spiegel catalog, doing data mining. Holtz has been working on the Donate-A-Card plan for three years.

"I had three Best Buy cards in my wallet," Holtz said. "I carried them for years."

He got the idea for his business by focusing on the enormous value of the cards rattling around in other people's wallets - about \$80 million last year, based on an estimate from TowerGroup, a Needham, Mass.,

research firm. TowerGroup estimated gift card sales in 2006 of \$80 billion, and experts say about 10% of the value of all gift cards goes unused.

Holtz's business plan is a way to tap into some of that value, he said.

## **Potential questioned**

As conceived, charities would benefit, and Holtz would make a profit.

But there are enough stumbling blocks to the plan that Michael Lutze, retail audit partner for Ernst & Young's Milwaukee office, doesn't think the business plan can succeed. Lutze doesn't believe that there is sufficient motivation for retailers to want to cooperate with Holtz.

To make his business work, Holtz needs to negotiate agreements with retailers that would allow him to check the balances on the gift cards he buys and issue new gift cards for the retailers.

"We want to become a third-party processor," Holtz said.

Holtz has talked with Menard, Best Buy, Kohl's Corp., Walgreens, Pier 1 and other chains about the possibility of doing this.

"So far, we've had good feedback all around," Holtz said.

He believes that retailers might want to deal with him because they want consumers to use their gift cards. Even though retailers have the money that people paid for the gift cards, they can't recognize the sales as income until the consumer spends the card on merchandise.

But after a period of time, retailers can recognize the unused gift card balances, known as breakage, and book the profits.

Last year, for example, Kohl's reported \$15 million in profits from gift card breakage in the third quarter.

"The retailers love the little piddly amounts that won't get used," Lutze said. "At some point, they'll declare it breakage and recognize the income."

Bill Michaels, regional managing director for Deloitte Consulting's consumer business industry in Milwaukee, thinks Holtz's concept is viable. But he sees a challenge in the middle step of the business plan, where retailers' cooperation is needed.

"He's going to find this a little more difficult," Michaels said. "Probably he'll have to concentrate his efforts on just a handful of card issuers."

## **'An uphill battle'**

Holtz points to efforts by lawmakers in some states to require retailers to turn over proceeds from unused gift cards to the states as unclaimed property. Such laws would give retailers more reason to want customers to use their cards. In addition, he said retailers typically are happy to link their businesses with charity efforts.

So far, Holtz has done one test collection of unused gift cards through BucketWorks, a business incubator where he has a small office. He needs to raise \$500,000 to \$700,000 from investors to work with retailers and pay for software for the card conversions.

"I'm at the 'whatever it takes' stage," Holtz said. "I know it's an uphill battle."

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From the June 1, 2007 editions of the Milwaukee Journal Sentinel  
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