

Welcome to financial possibility

moneyville

[Back to Roseman: How to swap gift cards safely](#)

Roseman: How to swap gift cards safely

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You have a bunch of gift cards you don't use from stores you don't visit. You want to sell them.

Others want to buy unused gift cards, but worry about losing money to fraud at online marketplaces such as Kijiji and Craigslist.

Gift card fraud is a real threat, as Mark Chow discovered when buying a \$500 Canadian Tire gift card from someone on Kijiji.

He'd gone to a Canadian Tire store to verify the gift card and also called the customer service number. Both times, he was told it was worth \$500.

But after paying \$375 in cash to the seller, he found the card had no value. Canadian Tire wouldn't reimburse him, but offered a \$50 gift card as a goodwill gesture.

Is there a way to connect gift card buyers and sellers without fear of fraud?

Frances Ho has a promising idea with Cardswap.ca, an online marketplace where she tries to keep out fraudulent cards.

She pays sellers with cheques sent in the mail, which forces them to have real addresses and bank accounts. She works with a retailer's fraud staff if she thinks a card is suspicious.

"We don't blindly take things. Fraudsters stay away from our site," she says. "And we don't accept gift cards with expiry dates, such as those issued by Visa and MasterCard."

Ho made a pitch on CBC's *Dragons' Den* on Sept. 21, asking for \$500,000 in return for a one-third share of her company.

With 100,000 registered users, \$1 million in sales and \$80,000 in profit, could she convince five wealthy entrepreneurs to back her?

She told the Dragons that 15 to 25 per cent of all gift cards are not redeemed. Cardswap is the biggest Canadian online player, while most U.S. card sites don't accept Canadian gift cards.

"We've only scratched the surface," she said, projecting potential sales of \$200 million a year.

She got the money she wanted from two Dragons: Bruce Croxon, former CEO of Lavalife, who has lots of experience in the online retailing world, and Boston Pizza owner Jim Treliving, keen to sell his own gift cards there.

They made a deal to pay \$500,000 for 50 per cent of the business, valuing it at \$1 million.

Kevin O'Leary was the only naysayer, predicting she'd be wiped out if larger players copied her idea.

"Kevin's opening line was: 'Your chances of success are zero.' I hadn't even said one word yet," she recalls about the taping of her episode last May.

Ho is 33 years old. She had a career in real estate before switching gears, based on her own experience.

"I had a wallet full of gift cards. I'd pull them out when I went to the mall and try to use them, but it never happened. I figured if I had this problem, maybe others had it too."

Grilled for 90 minutes by the Dragons, she made a good impression and walked off with a tentative deal. But the aftermath was more sobering.

"We met with Bruce and Jim several times, but the deal didn't go through. They thought we needed a lot more money," she said.

Luckily, she and her partners nabbed a first round of early-stage financing through private sources — and on better terms.

The demographics are appealing, since the site attracts people aged 35 to 55, mainly women, with household incomes of more than \$100,000 a year. Clothing and department store gift cards are the most popular.



Gifts cards are popular because they let the recipient decide how the money will be spent.

Supplied photo

Frances Ho hopes to be at the forefront of a big business helping people monetize unwanted gift cards. Guaranteeing transactions against fraud is an excellent first step.

Ellen Roseman writes about personal finance and consumer issues. You can reach her at eroseman@thestar.ca.