

FOUR BEST PRACTICES TO DIFFERENTIATE LOYALTY REWARD PROGRAMS

When the Apple Card went live this summer, consumers were once again impressed by the amazing user experience provided by the tech giant. Many current banking apps don't compare, and customers could quickly be drawn to the new card. But this doesn't mean that financial institutions can't compete.

After all, the perks that come with the Apple Card aren't groundbreaking. Apple gives card-owners three percent cash back for purchases at Apple stores, two percent cash back when they make a purchase using Apple Pay, or one percent cash back when they swipe the physical card.

Tech companies and issuers alike are throwing costly cash-back reward incentives at new originations. The same type of customer you can attract with such enticements is also likely to jump at the next tempting offer; creating a race to the bottom.

With the right strategic approach, financial institutions can use the trending towards digital payments to strengthen their brands and stay top of wallet. A paradigm shift is under way in the loyalty rewards market. Improving speed, ease and value over traditional cash-back, statement credit and gift card programs, loyalty points can now be redeemed at the point of sale (POS) and in-app, offering millions of locations and options to reward-savvy consumers. In this new loyalty economy, card issuers can begin to build new customer experiences around this new capability to increase engagement in their rewards programs, build brand loyalty, and enable issuers to leverage their loyalty programs for increased usage and growth.

Here are four best practices to help differentiate your rewards solution:

1. DESIGN A NEW, STREAMLINED REDEMPTION PROCESS

Point ubiquity – the ability to use reward points like currency anywhere, anytime—promises to eliminate the time-consuming and arduous processes of outdated rewards programs. Financial institutions have an opportunity to create redemption experiences that are both easy to use and that reliably trigger emotional attachment to the sponsor's brand.

This requires:

- Presenting a simple design
- Establishing straightforward policies to earn and use reward currency
- Delivering a fast, easy and frictionless redemption experience
- Doing away with old-style rewards such as cash and gift cards
- Creating opportunities for new surprise and delight experiences, relevant messaging and value-based offers and discounts to accompany point redemption
- Providing spontaneous options and instant gratification for redemptions
- Eliminating costs, processes and issues (i.e., paper statements, gift card shipping, lost and stolen cards).

2. INTEGRATE DIGITAL PAYMENTS INTO EXISTING REWARDS PROGRAMS



The promise of making payments anytime, anyplace, anywhere is easy to visualize, and consumers have come to expect it. However, most bank infrastructure remains a complex array of legacy systems that cannot deliver such service levels. While middleware solutions and payment hubs

can obscure the limitations of the most archaic back-office environments, banks ultimately will have to commit to a fully digital future.

The digital transformation of any financial institution, upgrading both core and supporting systems, and automating internal processes, is not merely a project for each line of business. It requires a complete change of mindsets about how to conduct business. Many institutions have made significant progress toward fully digital operations. For those who have not done so, the critical imperative now is to integrate digital and mobile technology into their rewards programs. The same factors that make these technologies – along with social media – powerful disrupters of the retail experience apply to loyalty programs. These factors include more comprehensive selection and choice, greater transparency, location-based services, and the integration of friends into the shopping and rewards experience. Think about the ability to send messages to the smartphones of high-value customers known to be nearby, about a limited-time offer they can share with up to four friends.

3. PROVIDE NEW PERSONALIZED EXPERIENCES AND VALUE-BASED OFFERS

Relevant and customized offers for redeeming points can shake things up and create unique experiences and value. Retailer Designer Shoe Warehouse (DSW), for example, needed a way to keep customers engaged with their program and remind them where they stood and what they could earn by spending more at DSW stores.

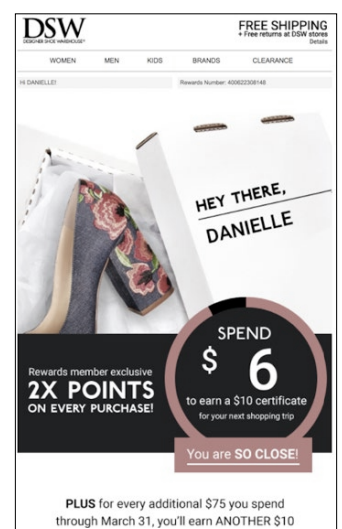
DSW launched marketing campaigns that sent personalized reminders to each loyalty customer. Reminders included how many points customers need to get their next \$10 off certificate, deals they're currently eligible (i.e. exclusive 2x points on every purchase), and a snapshot of their interactions with the brand, including how long they've been a loyalty member, how many points they've earned, and how much they've saved in the past two years¹.

What made the campaign so successful was the level of personalization. A loyalty program like DSW's gives the brand access to tons of customer data. DSW used that to their advantage to build hyper-personalized and relevant offers.

Data also gives financial institutions more ways to improve engagement. Capital One, for example, has been partnering with data and analytics

platform Foursquare to use location-based customer data to push offers to shoppers via mobile phone apps when the phones indicate that they are in partner stores. Capital One's Second Look program monitors customers' spending habits, using machine learning to analyze customer spending and create custom alerts (customers can specify the kind of alerts they want to receive)².

Using digital data, Capital One is creating positive relationships with its brand that's driving customers to use the app for digital payments, and there's stickiness with the other functionalities like loyalty. We believe this is going to be increasingly important as we move towards cashless stores.



1. <https://www.shopify.com/blog/loyalty-program>

2. <https://tearsheet.co/modern-banking-experience/capital-one-is-using-foursquare-to-push-offers-to-customers/>

4. CHANGING CONSUMER BEHAVIOR

While the adoption of mobile payments is accelerating, financial institutions still need to encourage usage and shape new consumer behaviors. Specifically, they need to find ways to get consumers to use their cards in their mobile wallets. So changing consumer behavior becomes more important than ever, whether the shift is from plastic (or titanium in Apple's case) to mobile, or your payment option as opposed to your competition. American Express, for example, has created offers tied to consumers' Uber activity in the hopes of becoming the default payment method for ride-hailing services³.

Financial marketers are facing a classic limited-time opportunity. The large

financial players are spending money today because changing consumer habits is easier now than in 12-18 months. Now is the time to catch and ride the wave of digital payment acceptance or your financial institution may not make into the mobile wallet.

To break old habits and create new ones, financial institutions should tailor customer communications to emphasize the benefits of digital payments vs. cards. FIs should not send a one-time, channel-specific communication – they should reinforce their messaging repeatedly across all channels. Early and often, FIs should remind customers of the simplicity, convenience and security.



When fast and intuitive redemption experiences are coupled with easy ways to earn more points, consumers will perceive loyalty rewards points as a valued form of currency and budget extender.

Frequent, fast and easy reward point redemptions using mobile wallets will make using the loyalty program sponsor's brand a daily habit and way of life, placing the brand at the top of wallet and building long-term customer loyalty.

To learn more, download our white paper **[The New Loyalty Economy: How to use digital wallet-linked rewards to reinvent loyalty programs and boost customer retention.](#)**

You can also reach out to us directly at **Bryce.VanDiver@capco.com** and **Daniela.Hawkins@capco.com** to discuss how we can help reinvent your loyalty program with digital wallet-linked rewards.

3. <https://www.paymentssource.com/list/7-inventive-mobile-wallet-incentives>

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