Adapting Loyalty Programs in a Shifting Customer Landscape

by Steve Brown

Summary: The $200B loyalty program market has long been shown to drive business for merchants and financial institutions. However, around $16B in loyalty points are unredeemed each year, suggesting this approach to retaining customers may need change. We suggest seven ways in which CFIs can adapt their loyalty programs to retain retail customers — as well as help boost merchant customer business.

Did you know that loyalty reward programs can be traced back to ancient Egyptian times? Citizens, workers and even slaves were awarded tokens in exchange for work, worship or loyalty. These early "loyalty tokens" consisted of pieces of wood, painted with a picture of either bread or beer — and could be exchanged for them. Members of higher levels of society typically received more tokens and were able to redeem their excess tokens for other goods and services, not just food and drink.

These days, reward and loyalty programs come in all shapes and sizes and are used by many types of businesses to add value, develop customer relationships and drive revenue. The loyalty market is valued at around $200B and offers a significant market opportunity for both community financial institutions (CFIs) and their merchant business customers. Indeed, some statistics suggest loyalty program members spend three times more than non-members.

However, according to Mastercard, around $16B in loyalty points are left unredeemed each year. What's more, American shoppers hold an average of just under 15 memberships — but less than half are used actively. This suggests that many programs are no longer meeting their customers' needs or adding value.

Opportunities to boost business

Loyalty programs generally need to be simple to understand, and customers need to be able to redeem rewards easily and quickly. But customers also want to be able to earn rewards where they spend the most money — and they want rewards to be relevant, appealing, and of a high perceived value. In addition, consumers are increasingly being driven not just by a brand's relevance to their immediate needs, but by their emotional connection with it. Loyalty programs increasingly need to go beyond offering tangible rewards, and provide customers with emotional value and engagement.

With 80% of customers regarding a rewards program as a key factor when choosing a financial institution, here are seven ways in which your institution can ensure your loyalty program continues to meet your retail customers' needs, while also helping to boost your merchant customers' business.

1. **Leverage the data.** According to Google research, "*72% of consumers are more likely to be loyal to a brand, if it offers a personalized experience with additional rewards and benefits.*" By analyzing your customer data, your institution can better understand what people want from loyalty programs, enabling you to tailor and personalize relevant products, offers and rewards for your customers, as well as identify appropriate businesses to partner with.

2. **Innovate reward offerings.** Similarly, it's important to keep up-to-date with what rewards customers value and regularly refresh offers and deals to keep customers engaged. For example, does the post-pandemic pent-up desire to travel mean that travel-related rewards will be more attractive? Or, will the increased interest in cryptocurrency mean customers view the ability to earn crypto as an appealing incentive? Customers are also increasingly seeking more intangible rewards, such as exclusive access and privileges. The right combination of rewards should help keep customers engaged for the longer term.

3. **Offer flexibility.** Offering a variety of different redemption options — including cashback, gift cards or the ability to use points to pay for everyday items — is also likely to appeal to customers. Fintechs have led the way in allowing customers to customize how and where they want to receive rewards and bonuses, for example in their top spend category, and your institution may want to consider a similar approach.

Meanwhile, merchants and FIs are increasingly partnering with platforms that allow rewards to be redeemed at point-of-sale terminals. One such collaboration resulted in an average 14% increase in card spend.

4. **Focus on impact.** With more and more consumers focusing on a brand's purpose as well as sustainability and the environment, your institution and your merchant businesses have an opportunity to use loyalty programs to showcase your commitment to these issues. For example, this could be by rewarding customers for sustainable purchasing choices.

In an effort to support their local communities, some CFIs have designed programs that specifically focus on delivering rewards that support local small businesses, initiatives and organizations. Some institutions have even introduced community reward sharing — allowing customers to pool earnings and share rewards — while others have designed ways in which rewards can be given charitably to those who need them most.

5. **Make the program omnichannel.** Customers increasingly want a seamless experience across channels, and this applies to loyalty programs too. Aside from ensuring customers can earn points and redeem rewards across a variety of channels, your institution could also consider how to engage and reward individuals outside the buying cycle — take for example the ways in which insurance companies have integrated health tracking apps and incentives. These additional touchpoints could potentially open up completely new revenue streams.

6. **Consider merchant funded e-commerce.** Your institution may also want to make use of merchant funded e-commerce rewards, whereby merchants pay you a percentage of each online sale referred. In exchange, your institution provides the merchant with brand visibility and marketing. This mutually beneficial relationship allows merchants to benefit from higher conversion rates and orders, while you increase revenues and help to create more positive interactions and experiences for your customers.

7. **Create a loyalty platform.** Finally, your institution is very likely well placed to collaborate with merchants to create loyalty schemes. Merchant businesses often struggle to implement effective loyalty schemes given the costs involved and need to demonstrate trust and value. But your institution can use your transactional data and existing customer relationships to develop a centralized loyalty program platform — merging payments and loyalty programs — that multiple merchants and their customers can use. This could be a win-win situation whereby merchants reduce the time and cost involved, customers can more easily earn and redeem offers and rewards, and your

institution can improve relationships and connect transactional data across multiple merchants to further improve your offerings.

In today's ultra-competitive marketplace, where customer expectations are at record levels, your institution must work harder than ever before to attract and retain customers and create new revenue streams, while also providing seamless and enjoyable user experiences. As part of this, it's imperative that you continuously evaluate whether your loyalty program is cultivating high brand affinity and adding value for both your retail and merchant business customers.

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ECONOMY & RATES

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Treasury	Yields	MTD Chg	YTD Chg
3M	1.73	0.57	1.67
6M	2.51	0.87	2.32
1Y	2.87	0.78	2.48
2Y	3.14	0.58	2.40
5Y	3.27	0.45	2.01
10Y	3.20	0.35	1.69
30Y	3.31	0.26	1.40

FF Market	FF Disc	IOER (Interest on Excess Reserves)
1.58	1.75	1.65

SOFR	Prime	OBFR (Overnight Bank Funding Rate)
1.46	4.75	1.57