WHITE PAPER

Loyalty Programs: Why the Transaction is the Moment of Truth

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What's broken with loyalty?

"If the last decade was about efficient customer acquisition, says today is about the power of loyalty" [1]

Customer loyalty is fundamental to B2C marketing strategy, and loyalty programs are commonplace - there are more loyalty memberships in the world than people.

However, loyalty models are broken. Many programs fail to engage customers and, despite massive investment by loyalty program operators, actually create negative customer sentiment.

The core of a loyalty program is influencing the consumer to make a desired spend transaction. The transaction, the moment of truth, lies at the heart of the problem.

Loyalty has evolved siloed from the world banking and transaction processing, which means loyalty programs have been unable to directly access personalised bank transaction data.

Unable to directly access personalised bank transaction data, loyalty professionals were forced to create their own methods to identify the customer and the transaction at the point of sale.

These methods are typically loyalty membership cards, offer codes and coupons.

The problem

The use of membership cards, codes and coupons, even when digitised, creates a two-step process for consumers and merchants – one to pay and another to scan the membership card or offer code.

This is a high cost, high friction, data-poor, engagement killing process.

Global pain points

Global issues are well documented and reflect a trend of declining consumer engagement.

KPMG concluded in 2019 that loyalty programs need re-inventing[2]. Some specifics from this and other studies are below:

- 75% of loyalty members would switch brand allegiance to a company with a better loyalty program[3].
- 61% of loyalty members feel joining programs and earning rewards is too difficult[4].
- Loyalty members in Asia give their main loyalty program a NPS score of NEGATIVE 5[5].
- Only 43% of loyalty members in Australia are active, down from 59% in 2015[6].

However, it is not all bad news. Most loyalty members are willing to share personal data in exchange for a better rewards experience – e.g. 53% in Australia[7] and 81% in USA[8].

Loyalty trends and structural change

Convergence of payments and loyalty [9]

Banks and payment networks are investing heavily to bring loyalty and payments together, creating a seamless, engaging, relevant and rewarding customer experience.

To capitalise on this, rapid change is required by loyalty program operators.

The challenge is that legacy loyalty technology can't be easily reconfigured to enable payment linking.

New tech build is required, plus time-consuming integration to payments schemes and PCI-DSS certification.

Data challenges

The planned removal of digital advertising cookies, based on 3rd party data and stricter data regulation, is challenging many digital advertising models.

Brands need to find alternative advertising channels for relevant audiences. Loyalty programs are a logical choice as they inherently deal in zero-party and first-party data [10].

Bank interchange reform

Banks have relied on interchange fees[11] to fund loyalty for their own programs as well as partner programs with airlines, hotels, retail, and others.

For over a decade, central banks have been regulating interchange down in line with their mandates to make payment systems more efficient.

So banks have less funding for loyalty which means customers are receiving less. Australia is a good example, where interchange has more than halved since 2013.

Loyalty Program Operators see merchant funded rewards as a way to maintain the value proposition for their members.

However, the technology has not been available to seamlessly integrate merchants into loyalty programs, and so merchant funded loyalty has remained underdeveloped but desired.

What about COVID-19?

If loyalty needed re-invention before COVID-19, the pandemic has done nothing to lessen this and, if anything, has added further impetus. COVID-19 has forced shopping behaviours to change:

Growth of online shopping
There has been an obvious shift from in-store to online shopping, although online remains a fraction of in-store commerce.

Customers are trying new brands
More specific to loyalty, COVID-19 is directly undermining brand allegiance and loyalty (programs) in some markets like the USA, where 73% of consumers tried new brands or stores in 2020, and 39% in 2021[12].

In other markets, this is less so, like Australia where 48% of consumers remain loyal to their loyalty programs in 2021, and 39% feel COVID-19 has not made a difference[13].

Budget constraints
More broadly, the pandemic has put pressure on marketing budgets, forcing B2C marketers to focus much more on loyalty and retention than acquisition - it costs five times as much to gain a new customer as it does to retain an existing one[14].

The new way: payment linked loyalty

Outdated loyalty solutions are being disruptively replaced by platform solutions that combine loyalty, digital marketing and payments into a single platform.

These are low cost and data-rich solutions, that can seamlessly bring the loyalty and payment experience together, for merchants and consumers.

There is a raft of fintech providers in the market that can facilitate the aggregation of products, services and experiences for a company's consumers or members, in both consumer-facing (B2C) and client-facing (B2B) environments.

However, the missing piece is linking these and the company's platforms - which are often legacy frankenstacks, or there is a lack of resources (financial or human) to build it, and most companies cannot afford to link with APIs to every single provider or aggregator.

OpenSparkz has re-imagined the world of loyalty, where there are no membership cards, codes or coupons, no complicated integrations and no expensive systems development.

OpenSparkz solves the pain points of legacy systems by eliminating unnecessary cost and friction, and by providing access to previously unavailable real-time payment data, which benefits all stakeholders:

Consumers

Link their preferred payment method to their preferred loyalty program, then pay and receive rewards automatically in real time. The friction associated with (physical or digital) membership cards, offer codes and coupons is eliminated.

Merchants

Provide offers without the hassle of POS integration, data capture or staff training. Transactions are processed as normal. A complex, high integration process becomes simple, with no integration.

Reward Program Operators

Get a low cost, speed-to-market solution that is data-rich, feature-rich and highly configurable. The OpenSparkz solution is connected to over 60 million merchants and 6 billion payment cards on issue globally through payment network integration.

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- 30+ years' experience in loyalty, rewards, payments and start-ups.
- Finalist, Entrepreneur of the Year, Cardlinx 2019.
- Winner, Red Herring Top 100 start-ups in Asia 2019.
- Cardlinx keynote speaker & Member, Cardlinx Asia Council.
- Former Co-CEO, Pinpoint, acquired by Mastercard in 2014.

About OpenSparkz

Drive consumer engagement, competitive differentiation and financial returns with OpenSparkz payment linked solutions. Our market-leading technology enables rewards program operators and merchants to increase consumer engagement and create new revenue streams.

Let's link!

Visit our website www.opensparkz.tech
and schedule your demo today.

OpenSparkz

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