Next generation loyalty programs: Transforming incentives to increase customer lifetime value

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More than 90 percent of companies have some flavor of loyalty program, yet, according to a Loyalty360 survey, 71 percent of consumers said “yes” when asked “Do you think there is a “Sea of Sameness” regarding these programs.

Already operating at slim margins, retailers may see increased erosion as buyers shift to lower margin essentials. The need to streamline business operations, add new revenue streams, increase customer retention, and add newer service offerings is crucial to long-term growth and sustainability for retailers.

The time has come to fully invest in developing improved digital business strategies that advance business adaptability to continue to meet the mass-market demand for better customer experiences. In a customer-first culture, now is the perfect time for retailers to explore embedded finance – the integration of financial solutions into a business's infrastructure – as a solution for holistic business growth.

Embedded financial services enable new revenue streams, enhance the breadth and discoverability of opportunities, and accelerate business growth on a global scale. Brands can cover the current gaps in existing products and services by weaving financial products into business operations to attract new and retain current customers.

“We think we can make [our] loyalty program more traffic driving, but less costly.”

- Kevin Hochman, Chili’s president (PYMNTS.com)

7 common challenges in loyalty programs

Loyalty leaders focused on cutting costs often miss what consumers are saying: Rewards programs are too rigid, too hard to understand, and not aligned to their preferences. Consumers need to know the effort is worth the reward. One example is dissatisfaction with a program's customer service, as "members of loyalty programs not only [experiencing] more service friction than other shoppers, but were more likely to struggle to have their issues resolved" (Harvard Business Review).

> **Loyalty programs today aren't designed to support the future needs of consumers or customer lifetime value (CLV) goals. This comes from short-sighted strategic decisions that include:**

- Devaluation - to combat rising inflation, supply chain issues, and other costs, many programs offer less now than when members first signed up.
- Cookie-cutter approaches - to deploy faster, brands often chose simple program structures, with limited features and a lack of personalization, leading to little differentiation between brands.
- Limited access - to simplify management and drive traffic to higher-margin products, brands limit their reward offerings to customers that sign up for other programs first, increasing barriers to sign-up.
- Little to no visibility into first-party customer spend data – traditional loyalty programs provide customer data for all purchases within the brand or retail ecosystem, but provide no visibility into customer spending habits outside the company.
- High friction to reward - lack of convenient ways to accumulate or redeem rewards, poor program promotion, and slow customer service result in minimal customer engagement.
- Unreliable funding - traditional loyalty programs count on net-new sales as the primary mechanism to fund rewards instead of generating revenue from program transactions to fund perks and rewards.
- User experience lock-in - brands that work with a point-solution loyalty program provider have little control over the look and feel of their rewards program, often looking similar to competitive offerings.

Related article: How to use customer spending data to drive innovation

How these challenges affect three common types of loyalty programs

Credit-only program run through a traditional bank	Not inclusive, as it's only available to existing credit card holders. High friction: Customers are wary of impacting their credit score with an additional credit account. Little to no access to real-time, first-party customer spend data. User experience resides within the credit card provider's ecosystem. Revenue generated goes back to the bank: As the credit card is owned by the traditional bank issuer, interchange fees, interest, and fees charged to the customer benefits the issuer, instead of the organization.
Rewards card, attached to keychain or phone number	High friction to reward: Customers are more likely to provide a phone number for in-store sales and less likely to engage via a mobile app, limiting interaction options. Minimal data: Little to no access to first-party customer spend data outside of the brand network. Unreliable funding: As there is no mechanism for generating new revenue directly from transactions, brands often fund rewards based on assumed loyalty and perception of increased spending rather than actual data. Limited access: Brands often have multiple rewards programs, with different prerequisites and registration requirements, causing confusion and loss of interest with the brand overall.
Discount-driven rewards	High friction to reward: Consumers only engage in the program to receive in-store discounts, but don't receive personalized offers or engage with the program in any other way. Devaluation: Discount rewards are often the first programs to devalue in attempts to boost the bottom line, leading to negative sentiment among consumers

Both sides of the industry are ready for something new. KPMG reports that 96 percent of millennial consumers want companies to find new ways to reward their loyalty, and Loyalty360 found that 78 percent of brands have an interest in redoing, enhancing, or updating their customer loyalty offering. Deeper, personalized, and truly differentiated experiences – powered by flexible, purpose-built platforms that don't trade revenue for value – herald the next generation of programs.

The principles behind next generation loyalty programs

Tomorrow's loyalty programs must find a balance between consumer value and enterprise revenue through a combination of flexibility and control built into the underlying framework. These next generation offerings bring program ownership in-house, with full control enabled by today's technology that better aligns business needs to consumer spending habits.

Next generation loyalty is driven by three principles:

- More control leading to better and differentiated customer experience.
- More visibility leading to improved personalization.
- Greater revenue/CLV from existing customers

These principles underlie every strategic decision and tactical implementation to deliver loyalty instruments that support brands in building the benefits they want.

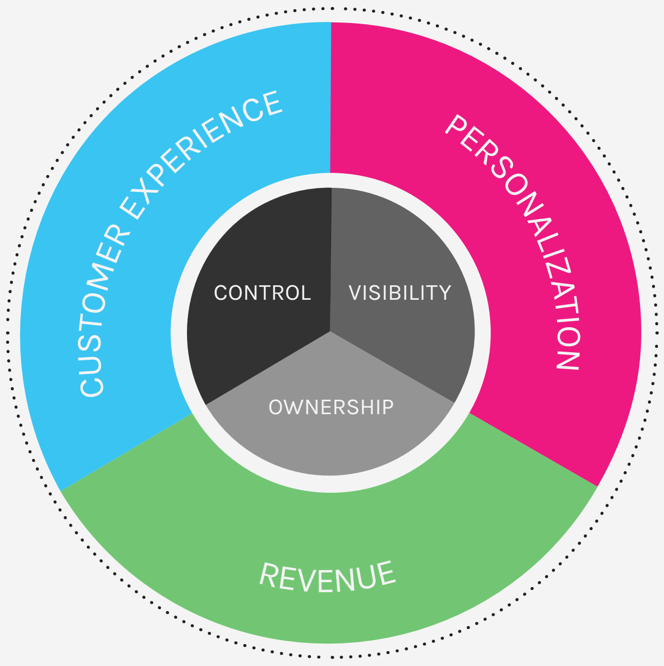


Figure 1: Principles of an effective loyalty program

Building a loyalty program from these principles

To build a loyalty program with these principles as the foundation, enterprises are turning to embedded finance solutions – products that place financial services within non-financial customer experiences – to underpin their loyalty programs.

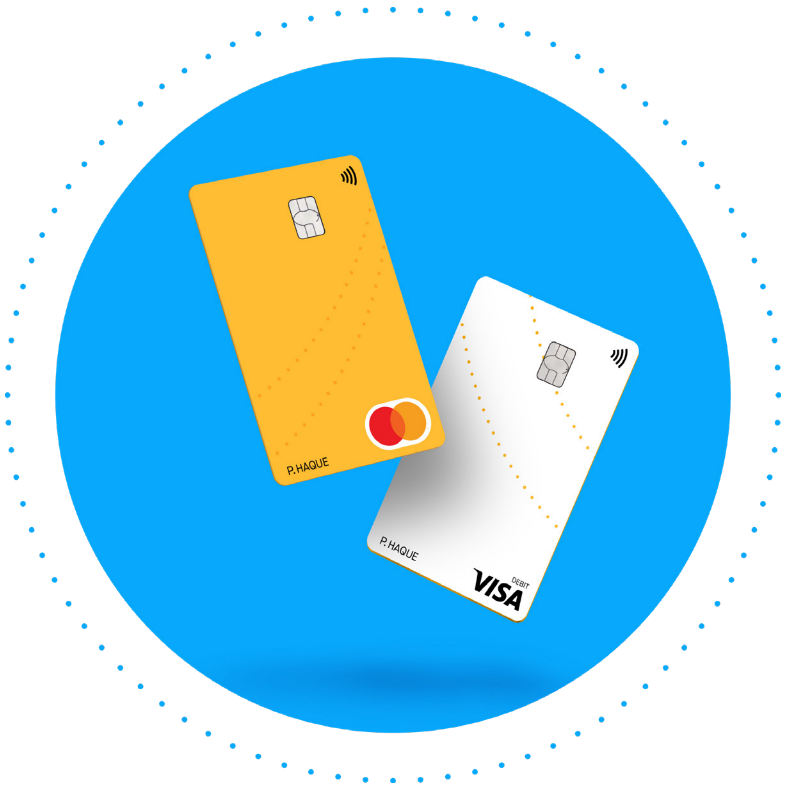
At the core of the next generation of loyalty programs is branded financial solutions, including cards, wallets, and accounts.

When an enterprise upgrades their loyalty program with branded-financial solutions like prepaid virtual cards and wallets, customers can load funds into their accounts. Embedded financial solutions create new opportunities for enterprises to fully customize the program and the supporting offers.

For example, one enterprise may decide to create a program comparable to the popular Starbucks loyalty program, creating a closed-loop card, allowing loyal customers to visit the app and load funds for their next purchase to earn points.

In another example, a home improvement brand with big-ticket items may allow users to create an account and set up auto-deposits, to help them easily save for their next big purchase ([Save Now, Buy Later]). That same home improvement company can also create an open-loop card, allowing customers to use its card for everyday purchases outside of the ecosystem to earn additional points and cash back — funded by the interchange revenue from card usage — to save even faster for a dream appliance.

With a platform like Alviere, enterprises own their loyalty programs and can tailor them to specific business and consumer needs. For example, companies can choose to deploy different types of their own branded debit cards:



Open-loop
allows consumers to use the card and earn points anywhere, increasing the likelihood of usage and providing the brand with deeper levels of insights into the spending habits of its customers (e.g., a customer stopping at the store across the street, creating a new opportunity to engage them with an offer that brings them back).

Closed-loop
cards are allowed only at a specific brand, usually within their own ecosystem.

Targeted merchants
similar to open-loop but limited to select options within and outside the brand's own ecosystem. This can also be part of a merchant-funded rewards program, where consumers get

Branded cards

A branded card is a credit, debit, gift or prepaid card issued by a company under their own logo through an embedded finance provider. Sometimes referred to as co-branded or de-coupled cards, these cards are offered solely by the company, leaving all features and benefits under the control of the issuer rather than the value going to the financial institution.

6 examples of next generation loyalty programs

A well-designed and thoughtfully implemented loyalty program is more than just another engagement tactic. It leads with customer intentions and follows through with distinctive perks, benefits, and services.

Here are examples of how loyalty programs can go beyond traditional points systems and co-branded cards.

Prepaid virtual cards

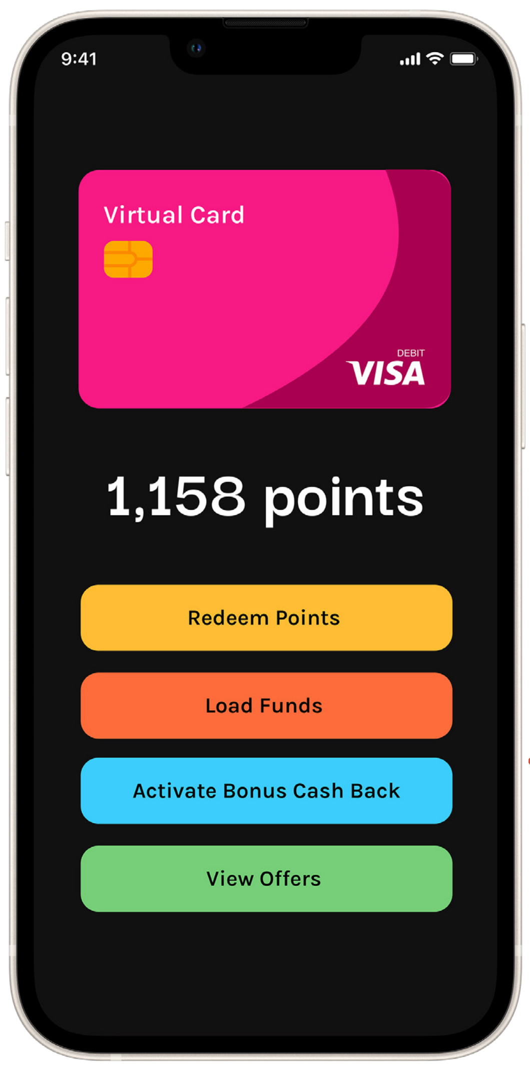
Rather than manage the distribution and waste of physical cards, these are virtual instruments that live in apps and in e-wallets. These cards may offer cash-back rewards when used.

Example: A national quick service restaurant (QSR) offers virtual cards for customers to prepay and earn points.

Benefits to the consumer:
- Members can easily connect their existing cards to their new loyalty account to preload funds and earn points for their next food purchase.

Advantages for the brand:
- Customers can load funds in advance, encouraging them to eat at the QSR more often.

- The QSR can leverage customer deposits by collecting interest from the accounts or using them as an alternative to traditional business loans. For example, Starbucks customers have more than $1 billion sitting on virtual cards, essentially creating an interest-free loan to Starbucks.



Philanthropic rewards

With brands making ESG claims achieving disproportionate growth over those who do not, shifting loyalty programs to reward a consumer's charity of choice fosters more spending and increases the likelihood of retention.

Example: Instead of issuing nominal, and often unused, cash back to their high-end customer, a luxury retail brand offers cash back to a non-profit.

Benefits to the consumer:

- Customers feel proud, and have increased affinity to the luxury retail brand, knowing that their purchases support a good cause.

Advantages for the brand:

- The luxury retailer sees an increase in purchases from consumers that prefer to shop with a brand that goes above and beyond in supporting charitable efforts.

- The brand can highlight their measurable impact to charitable groups.

- In the app, the brand showcases how much money the customer has "earned" for their favorite charity, increasing app engagement.

Cash-back rewards for category level spend

These programs give customers a percentage of money back from their purchases, incentivizing them to spend more with the brand.

Example: A major grocery chain offers accounts for customers to auto-deposit their budgeted food and grocery amounts for the month from their paychecks. These accounts come with an open-loop debit card that customers can use anywhere they shop, even beyond the grocery chain itself.

Benefits to the consumer:

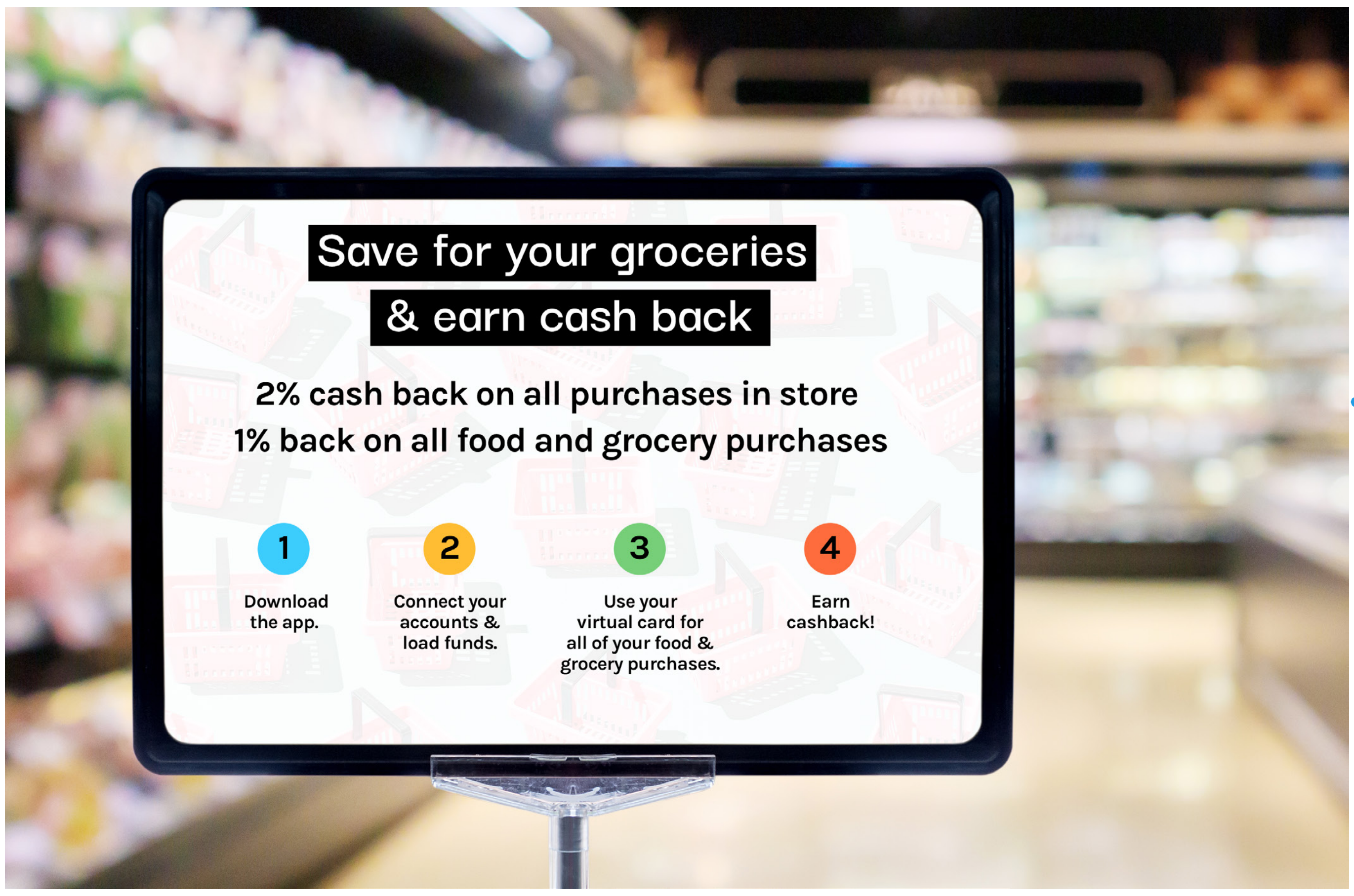
- Participants can easily save and budget for their monthly expenses, and earn points and cashback on all of their food and grocery purchases, regardless of where they shop.

Advantages for the brand:

- The grocery chain is in full control of their upgraded loyalty program, so they can decide how to structure rewards. For example, they can choose to give three percent cashback on all purchases within their store and one percent back on purchases outside of their store to drive purchases back to their company.

- As consumers are still able to use the debit card anywhere they shop, the grocery chain benefits from the interchange revenue generated outside their brand ecosystem.

- The grocery chain gains access to real-time, first-party customer spend data to better understand where their customers shop, how much they spend, and how often. This spend data can be used for personalized offers designed to minimize purchases at the competition and bring traffic back to the chain.



Save Now, Buy Later (SNBL) accounts

These accounts allow consumers to create lists of products they want and fund their purchases through the incremental loading of funds over time. Unlike a buy now, pay later (BNPL) model, these accounts give consumers more control over their risk, by avoiding the compulsion to spend beyond their means or take on more debt.

Example: A travel website offers accounts to their customers to easily save for their next vacation.

Benefits to the consumer:

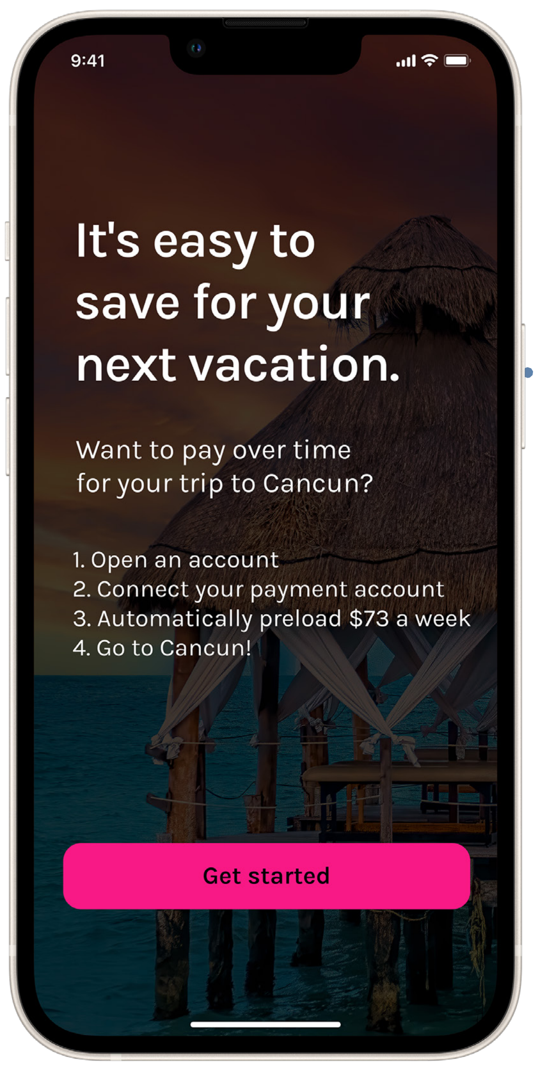
- For consumers who don't have money to spend on vacation and are reluctant to take on more debt, the travel website can allow them to open an account and auto-deposit a weekly or bi-weekly amount to save for their trip. With an open-loop debit card tied to the account, consumers can earn points and cash back towards their trip on everyday purchases, like food, gas, and entertainment.

Advantages for the brand:

- The travel website sees an increase in purchases, as they have made it easy for users to save for their next trip – especially those that may not want or qualify for a credit option.

- The travel site builds brand awareness and brand affinity, as cardholders brag to cashiers about how they're earning for their next vacation by simply buying groceries.

- This type of loyalty program incurs almost no risk, as trips cannot be purchased if consumers do not save enough funds, while fostering longevity as consumers can continue to save and take the vacation later.



Earn premium subscriptions

For providers with subscription models, this type of offer incentivizes consumers to engage more with a free subscription and opens up new revenue that is funded by the interchange fees generated from their purchases.

Example: A telecommunications provider offers a virtual card and account for everyday spend, allowing consumers to earn their monthly subscription for "free."

Benefits to the consumer:

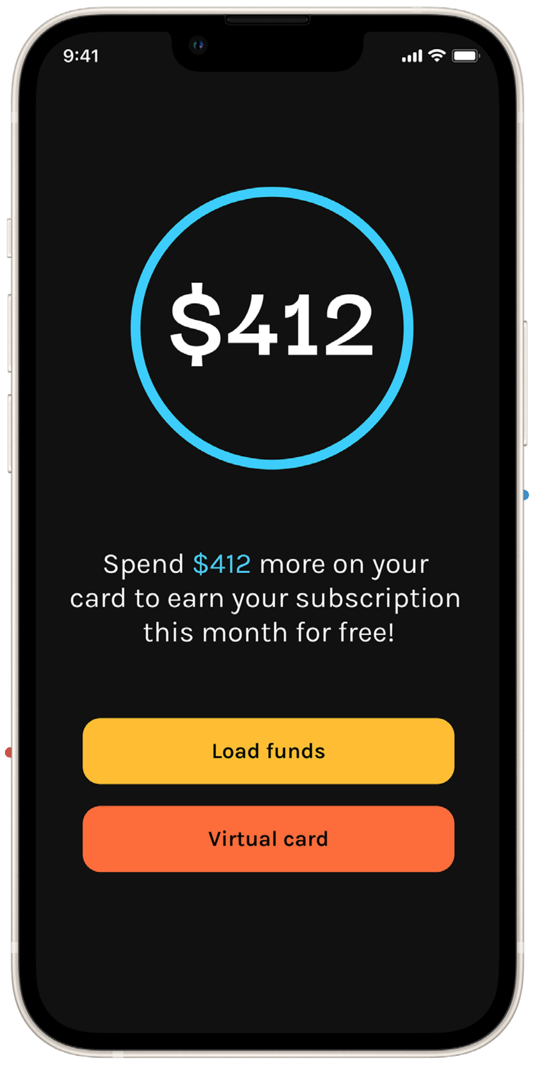
- Customers know that spending a certain amount each month on their card results in their subscription fee being covered – on everything they would have normally purchased.

Advantages for the brand:

- The telecommunications provider creates an engaging loyalty program that makes it easy for consumers to "pay" for their subscription cost, funded by the interchange revenue accumulated through card usage.

- Customers come back to the app regularly, to see if they've spent enough to cover their subscription cost, increasing app engagement.

Additionally, the telecommunications provider can leverage the first-party customer spend data to provide additional insights for their advertising partners, or even choose to allow advertisers to provide an additional incentive for customers who use their branded cards to make a purchase.



In-store check cashing and cash loading

Brands that provide check cashing and cash loading in-store offer more opportunities for consumers to engage. Combined with cashback rewards, these programs provide a full range of incentives to get more consumers into stores.

Example: A national chain of convenience stores offers in-store check cashing, with the option to load funds onto cards and accounts.

Benefits to the consumer:

- According to a 2019 report by the Federal Reserve, 22 percent of American adults (63 million) are either unbanked or underbanked. This population may not have easy access to a bank to cash checks, forcing them to wait in lines and pay check-cashing fees at competitors of the convenience store. With in-store check cashing tied to a loyalty program, customers can quickly and easily cash their check with minimal fees and have funds loaded onto a branded debit card if they choose.

- Customers earn extra points for using that card on purchases in-store and can spend those funds anywhere Visa or Mastercard is accepted.

Advantages for the brand:

- Stores see an increase in foot traffic and, by placing loaded cards immediately in the hands of customers in-store, see an increase in spending by in-store customers.

- The convenience store chain gains access to first-party customer spend data so they can create personalized offers to bring that customer back into the store more often.

Selecting a loyalty program technology partner

Selecting a technology partner is a vital part of a loyalty program, it's important to understand where they fit in and the risks they help your enterprise overcome. Emerging embedded finance products are the cornerstone of next generation loyalty programs, as they simplify the delivery of financial products within non-financial customer experiences.

Embedded finance is ideal for consumers as it places financial instruments within the digital experiences they already use, such as mobile apps and websites. For brands, embedded finance embodies the principles of an effective loyalty program: control, visibility, and ownership leading to improved customer experience, greater personalization, and new sources of revenue.

As such, there are a number of considerations for selecting an embedded finance partner.

Factors for selecting an embedded finance partner

- **Single-source vs. multi-source vendors** - Working with one vendor simplifies management and costs, while multiple vendors can increase the safety net if a supplier runs into difficulties. For companies new to embedded finance, it is preferable to work with a supplier that offers the best of both: a range of features and products that is supported through strategic, deployment, and support services.

- **Regulatory compliance** - Critical to all financial products, licensing and regulatory compliance must underpin any embedded finance program. This includes meeting all applicable state and national laws, money transmission licenses, supporting FDIC-insured bank accounts, and adhering to Know Your Customer (KYC) and Know Your Business (KYB) standards and processes.

- **Security** - Security and privacy are the foundation for protecting a brand's assets and customer information, without them, risks to the business and reputation run high. PCI SOC I & II compliance are a must, as are region-specific regulations, such as GDPR and CCPA.

- **Flexible features** – Technology should support the various and changing habits of consumers, by offering capabilities that are flexible and fully compliant with regulations and security standards. This helps minimize the costs and overhead of working with multiple vendors to achieve the same level of customer engagement.

- **Fraud and AML** - Detecting and reporting on unusual and suspicious transaction patterns helps fraud and anti-money laundering (AML) efforts, minimizing business and reputational risks.

- **Developer extensibility** - Platform extensibility allows brands to access and develop features beyond the standard, out-of-the-box set, enabling business and consumer use cases that are differentiated from the competition and personalized to the user.

- **Program support** - As most enterprises aren't financial services experts themselves, choosing a provider that supports all the strategy, onboarding, regulatory compliance work, and post-launch success helps focus on core business operations and growth.

Offering more customer value leads to increased CLV

Successfully transforming loyalty programs requires strategies and technology partners that bring control, visibility, and ownership back to the brand. Next generation programs align customer intentions with distinctive perks, benefits, and services to open up new revenue streams without leaving brands vulnerable to security and regulatory risks.

To better understand the business impact of shifting to next generation loyalty programs, talk to the experts. We'll take the time to understand your unique business priorities and operating environment. This customized model gives your enterprise a better understanding of the embedded finance options, potential revenue impact, and best path for regulatory compliance and risk management.

With Alviere, organizations can offer financial products to drive customer engagement, generate new revenue streams, and improve existing financial flows. The Alviere HIVE platform offers an extensive range of configurable, branded financial products, including accounts & wallets, card issuance, streamlined payments, and global money transfers. Alviere brings together technology and program support with the trust of a licensed financial institution to assure the safety, flexibility, and long-term viability of client programs. To find out how Alviere can enhance your loyalty programs, visit alviere.com.