

# FIVE OPPORTUNITIES TO CAPITALIZE ON IN THE NEW LOYALTY ECONOMY

The new model for the 'loyalty economy' is coming into focus. Customers expect to be able to use their rewards currencies at the point of purchase and apply rewards to any item, rather than being confined to choices in the issuer's rewards catalog. This **point ubiquity—the universal ability to make purchases with rewards currencies at the point of sale using digital wallets**— will trigger a huge change in consumer behavior, turning loyalty redemptions into a part of routine shopping and driving frequent an ongoing program engagement. Opt-in transaction data can also become part of data-driven, real-time marketing programs, releasing new sources of value, enabling new kinds of customer experiences, increasing engagement, deepening customer relationships and giving issuers new opportunities to secure 'top of wallet' status.

## HERE ARE FIVE OPPORTUNITIES TO CAPITALIZE ON IN THE NEW LOYALTY ECONOMY:

**1. New sources of value.** In this new loyalty paradigm, rewards currencies interact with merchants, apps, digital wallets and websites creating a new 'economy' of opportunities for partnership, messaging, offers, deals, transactions and data. Issuers and retail partners can collaborate on personalized offers based on how many reward points sit in a consumer's account. American Express, for example, might partner with Best Buy to give 10 percent off when their customers use their American Express points at Best Buy stores, driving new traffic and revenue sources to the chain.

Kroger Pay, a digital payment program recently launched by the giant grocery chain, illustrates some of the possibilities. It combines shopper payment information with loyalty cards and promotions, including digital coupons and personalized offers. Kroger has also introduced a new debit card under its rewards card program that offers discounts on private label products, bonus fuel points and more. The card, along with the Kroger Rewards credit, and prepaid debit cards, offers additional rewards when used through Kroger Pay. Altogether, Kroger Pay and its store rewards card program enhance loyalty, provide data about those loyal customers' purchases and responses to marketing, and they're a stream of revenue in their own right.<sup>1</sup>

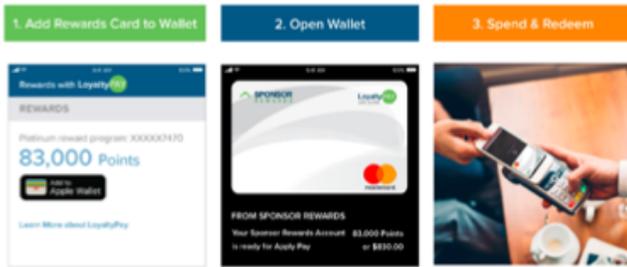
Loyalty programs leveraging digital wallet-linked rewards can create value for multiple stakeholders—issuers, consumers, retailers, etc. Consumers

can use their points wherever and whenever they want simply and easily, giving them a new everyday payment option and enabling them to stretch budgets and treat themselves to special purchases. Merchants can partner with program sponsors, enabling deeper micro-segmentation and targeting custom consumer offers at the point of sale.

**2. Stronger branding.** By offering a new kind of customer experience through digital wallet-linked rewards, card issuers will be able to strengthen brands in new ways and avoid the risk of brand disintermediation. With traditional rewards, the role of bank brands can easily be obscured when consumers redeem points for gift cards, statement credit or cash, for example. At the "golden moment of loyalty," the time these options are redeemed for memorable, tangible rewards such as TV's, iPads and hotels rooms, the reward program brand is nowhere to be seen.

When customers of loyalty programs redeem digital wallet-linked rewards in-store or in-app, they will see unique visual program branding, as well as personalized messaging and real-time views of account and reward balances. As shown below, when loyalty rewards members open their digital wallets, they can see the exact number of points earned and the exact dollar amount available to spend using their loyalty program sponsor's reward card creating exponential brand impressions over traditional loyalty programs today.

<sup>1</sup> <https://www.grocerydive.com/news/kroger-launches-mobile-payment-platform/548362/>



Digital wallet-linked reward loyalty programs offer a way for financial institutions to get the brand halo effect that comes with redemptions. The moment when customers redeem loyalty points is when they feel the greatest delight with a brand. According to an Elsevier study on reward redemptions, during the post-reward period, the redeemer has enhanced feelings of gratitude, importance, satisfaction or obliged reciprocity with the brand.<sup>2</sup>

### 3. Form lifetime relationships with the most valued customers.

Financial institutions that master the new loyalty model will be well positioned to attract millennials and other younger consumers, who represent future growth. Bank customers typically form strong and long-lasting relationships with products and brands when they are between 25 and 30.<sup>3</sup> This period is when consumers begin to advance professionally, form families, and start to amass wealth. If banks want to build lasting relationships with this new generation of customers, they need to match the digital customer experience they're accustomed to on their smartphones.

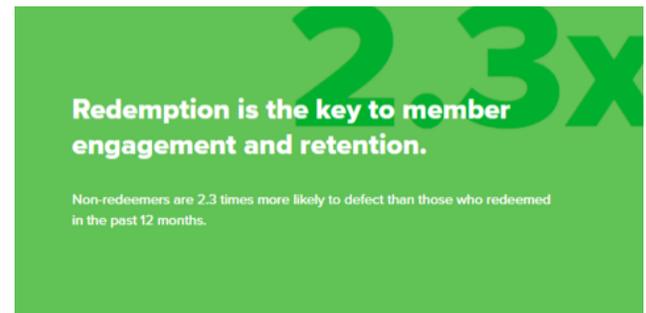
Millennials and the rising Gen Z cohort appreciate the convenience and ease of access to loyalty programs and rewards provided through mobile wallets. These consumers are early adopters of mobile payments and generally, like to interact with brands via digital touchpoints. The State of Mobile Wallet Marketing study found that 83 percent of millennials are more likely to use mobile payments if loyalty rewards and discounts are automatically applied.<sup>4</sup> By bundling payments and loyalty, banks can help convince millennials and other target consumers to form lifelong relationships with their institutions.

4. **Foster engagement beyond payments.** Consumers are looking for more ways to use their mobile wallets. Linking digital payments to loyalty programs is the top feature consumers say they want, but they also want to use their secure mobile wallets for storing IDs, boarding passes, tickets and personalized alerts. Financial institutions, retailers, and digital wallet providers can create even more value by offering such features to increase consumer engagement.

Another way to increase engagement is to use the mobile wallet to push customized offers, including geo-based promotions. For example, when a

retailer detects that a consumer is in the vicinity of one of its stores, it can look up any items the consumer has left in an online shopping cart. This can trigger an alert to the shopper that the item is in stock at the nearby store and perhaps a special offer to encourage the shopper to make the store visit. When the item (and anything else the consumer picks up) is paid for with a mobile wallet, loyalty rewards can automatically be added to the customer's account, making the entire shopping and earning process quick, convenient and seamless.

Mobile loyalty can be an entry point to grow banking relationships from basic transactions to complex products through a consistent focus on the digital customer experience and the right tools. The more comfortable members become using their mobile devices to execute everyday transactions using the bank's card, the easier it will be to upsell and cross-sell. Using the payment app itself or via other contacts, financial institutions can leverage the loyalty relationship to market mortgages, personal loans, brokerage services, wealth management advisory services, and other complex products.



5. **The Reward: Staying top of wallet.** As momentum builds for digital payments, more consumers are reaching for phones instead of physical wallets at checkout. This gives financial institutions a fresh opportunity to win the number one position in their mobile wallets — and get their cards to stay there. This is the pathway for card issuers to reap rewards from their investments in loyalty programs, by making their brands more relevant, more engaging, and omnipresent in lives of consumers.

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](mailto:Bryce.VanDiver@capco.com) and [Daniela.Hawkins@capco.com](mailto:Daniela.Hawkins@capco.com) to discuss how we can help reinvent your loyalty program with digital wallet-linked rewards.

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<sup>2</sup> <https://www.sciencedirect.com/science/article/abs/pii/S0167811614000457>

<sup>3</sup> <https://www.points.com/pdfs/points-state-of-mobile-wallet-loyalty2016.pdf>

<sup>4</sup> [http://grow.urbanairship.com/rs/313-QPJ-195/images/WP\\_State\\_of\\_Mobile\\_Wallet\\_Marketing.pdf](http://grow.urbanairship.com/rs/313-QPJ-195/images/WP_State_of_Mobile_Wallet_Marketing.pdf)