

The Four Pillars of a Successful Rewards Program



THE FOUR PILLARS OF A SUCCESSFUL REWARDS PROGRAM

According to the 2015 Colloquy Customer Loyalty Census¹, the average American household maintains memberships in 29 loyalty programs.

However, the average American household is active in only 12 of those 29 programs. Businesses managing those 17 inactive programs lose time and money to keep them running, but every program should be increasing customer loyalty and generating revenue. In fact, successful rewards programs can drive increased purchasing behavior, as current customers spend 33 percent more than new customers on average².

Banking rewards are no different. 88 percent of consumers deem rewards availability to be a top priority when choosing a financial institution³, and nearly two thirds of customers are willing to increase

“88% of consumers deem rewards availability to be a top priority...”

wallet share to participate in a banking rewards program⁴. At the same time, less than one in five customers report receiving rewards for their debit transactions⁵, and fewer than half of all financial institutions currently offer debit rewards programs⁶. As major financial institutions have curtailed their debit rewards offerings in recent years⁷, the time is ripe for community financial institutions (CFIs) to seize the opportunity by building a loyalty program that stands out.

More organizations are offering banking rewards than ever before, from fintech startups to core providers and everyone in between. But when selecting partners, CFI leaders need to evaluate solutions that align with their service-oriented traditions and bring value to customers and stakeholders throughout their communities.

CFIs can use this guide to ensure their loyalty programs remain profitable while rewarding their customers and the broader communities they serve.

CFI leaders hoping to build or implement a winning rewards or loyalty program should:

- Remember that the customer experience always comes first
- Offer rewards that customers actually want
- Make rewards easy to redeem (and encourage redemption)
- Use customized and consistent marketing to your advantage

Maximizing the Customer Experience

Despite new technology and non-traditional banks challenging existing banking models, CFIs have always held onto one unique advantage: superior customer service. Before implementing any rewards program, CFIs should evaluate and identify solutions that put the customer first. CFIs understand their customers and

“ CFIs should evaluate and identify solutions that put the customer first...”

communities more intimately than larger institutions, so their loyalty programs should match the personalized service and knowledge offered in-branch.

Today's consumers crave instant gratification, so friction-free experiences unencumbered by challenging or hidden requirements are essential. To reduce friction:

- Make it easy for consumers to access and track their rewards progress from any device
- Ensure points are accrued quickly or in real-time so users aren't waiting to receive and/or use rewards
- Eliminate fine print conditions, exclusions and exceptions that frustrate and confuse users

Without these features, consumers will abandon the program, and CFIs will find their program languishing.

Additionally, an effective loyalty program can become a trusted resource that offers more than just rewards points. The modern consumer has the power to consult a myriad of sources before making purchasing decisions, but they'd prefer their information and options to be consolidated whenever possible. Today, more than half of all consumers expect their financial institutions to locate discounts for them⁸, and consumers would rather receive discount notifications than financial advice from their financial institution⁹.

“...an effective loyalty program can become a trusted resource that offers more than just rewards points...”

To provide value beyond the typical loyalty offerings, rewards programs can proactively share information with users about additional ways to save. As rewards platforms track and analyze consumer purchases and behavior, the same platforms can leverage that data to deliver discounts or special offers at relevant merchant locations, leading to increased usage for CFIs and revenue for merchants.

Gamification can further enhance the customer experience. Beyond instantly gratifying customers, these consumer-centric game concepts can increase program adoption for CFIs. To generate valuable and enjoyable experiences, CFIs shouldn't send consumers down the proverbial rabbit hole: game odds should be in users' favor and success must be attainable.

Providing Rewards Consumers Crave

Discounts to big-box, chain retailers are commonplace. Rewards that aren't tailored by location, behavior or preference frequently fail to foster loyalty because they don't offer unique or meaningful value to customers.

In addition to tracking purchasing behavior, rewards platforms can help CFIs use that data to identify their most profitable customers and, in turn, suggest customized product or service rewards aligned with their interests. Leveraging this data enables CFIs to offer more targeted rewards, which lead to more loyal customer relationships.

Offering these custom, local rewards at community-run businesses makes it easy for consumers to support their local communities. CFIs are primed to capitalize on the “Bank local, buy local” movement, which consumers fully support: 78% of consumers believe it's important to bank locally¹⁰. Perhaps more importantly,

“ When consumers receive discounts for everyday banking behaviors, or new behaviors that support FIs, everyone wins...”

a rewards program that provides extra rewards for shopping locally can bolster both consumer and merchant involvement in a community, which CFIs can use to open dialogues with local merchants who could become business banking customers.

Non-monetary rewards can also satisfy customers while yielding significant benefits for CFIs. For instance, drawing on CFIs’ unique understanding of community values, CFIs can allow customers to convert rewards into charitable donations or other philanthropic endeavors.

Adding these personal touches empowers customers, builds goodwill within the community and boosts platform adoption and engagement.

CFIs can also institute rewards to encourage specific behaviors in support of different business units. Offering rewards for receiving e-statements can save CFIs resources, and increasing rewards for activating other FI products or services (like applying for an auto loan) can support and incentivize cross-sell efforts to engaged customers. When consumers receive discounts for everyday banking behaviors, or new behaviors that support FIs, everyone wins.

Making Your Rewards Accessible

The most successful rewards programs actively encourage more redemption.

To that effect, CFIs should make it easy to redeem rewards on their platform instantly. Consumers are gravitating toward brands that satisfy their needs as quickly as possible. Brands that provide digital notifications about redeemable rewards as soon as customers enter their locations have seen and will see greater success and engagement than those who offer customers delayed rewards redemption.

As a corollary, CFIs should avoid customer disqualifications, non-redemption and expiration dates that creep in the fine print and frustrate customers down the line. Airlines and travel organizations are some of the worst offenders in this regard, implementing blackout dates and requiring tens of thousands of points to purchase itineraries.

In the end, the value of the rewards available should align with the level of engagement and investment required to acquire them. CFIs can encourage redemption and reap rewards program benefits by selecting solutions that don’t rely on “breakage” to be profitable. Unfortunately, some programs bank on this breakage—where consumers accumulate but do not redeem rewards—to demonstrate profit. Such behavior cheats customers and risks tarnishing the brand by lowering customer service standards and creating a disappointing experience. In lieu of breakage-reliant options, CFIs should seek out rewards programs that take on the program’s point liability. Many next generation rewards solutions keep point liability on their on their books, creating a win-win situation in which CFIs can incentivize redemption and customers can benefit from the rewards they earn.

Marketing to Your Advantage

Customers want and expect to be contacted by their loyalty programs with relevant value-adds.

Among the top 10 rewards programs:

61% of consumers love receiving communications about their rewards programs.

67% of consumers always read communications they receive from their rewards programs.

62% of consumers said that their rewards program makes them feel valued.

The most successful rewards programs require real-time, customized omnichannel engagement marketing techniques to generate customer interest and activity. For instance, reward notifications activated by geographic or time-sensitive cues can remind and present customers with offers that they desire at the point of need, differentiating them from other traditional programs.

CFIs often face difficulty in allocating the resources necessary to support a dedicated marketing or customer engagement team capable of executing engaging strategies. Whether or not they rely on

an internal team or external solution provider for execution, CFIs implementing rewards programs need to fully support the program with integrated marketing and customer engagement strategies. In surveying other rewards solutions, 80% of highly effective loyalty programs maintain dedicated teams¹¹, so CFIs shouldn't cut corners or limit internal support to operate their programs. Without that support, the rewards program isn't worth the investment.

Making Rewards Work for You

With consumer demand for rewards on the rise, and banks and merchants themselves managing loyalty programs, CFIs can't afford to go without rewards offerings. Among other benefits, rewards programs increase customer transaction volume and give CFIs the power to leverage data to better understand and market to their existing customer base. Given that it's roughly five to ten times more expensive for businesses to acquire a new customer (when compared to selling to an existing one)¹², a well-designed rewards program that prioritizes the customer experience can be an essential part of any CFI business plan.

- 1 U.S. Customer Loyalty Program Memberships Top 3 Billion For First Time, 2015 COLLOQUY Census Shows. (2015, February 9). Retrieved April 19, 2016, from <https://www.colloquy.com/latest-news/2015-colloquy-loyalty-census/>
- 2 6 Rules for Building a Customer-First Company. (2015, March 25). Retrieved April 19, 2016, from <http://www.inc.com/young-entrepreneur-council/6-rules-for-buildin-g-a-customer-first-company.html>
- 3 Chaudhuri, S. (2014, August 8). Consumers Say More Rewards Is Their Top Demand from Banks. Retrieved April 19, 2016, from <http://www.wsj.com/articles/consumers-say-more-rewards-is-their-top-demand-from-banks-1407522160>
- 4 Global consumer banking survey 2014: Winning through customer experience. (n.d.). Retrieved April 19, 2016, from <http://www.ey.com/GL/en/Industries/Financial-Services/Banking---Capital-Markets/Global-consumer-banking-survey-2014>
- 5 Consumer payment preferences: Debit spotlight. (2013, February 1). Retrieved April 19, 2016, from https://www.pulsenetwork.com/pulse/documents/index/serveDoc.html?doc=Oliver_Wyman_Consumer_Payment_Preferences_V2_07-17-2013
- 6 Debit Cards Continue to Show Resilience after Turbulent Year. (2014, June 24). Retrieved April 19, 2016, from https://www.pulsenetwork.com/pulse/documents/index/serveDoc.html?doc=DIS_News_Release_FINAL_6-19-14
- 7 Orem, T. (2016, January 22). Credit Unions Revive Debit Rewards. Retrieved April 19, 2016, from <http://www.cutimes.com/2016/01/22/credit-unions-revive-debit-rewards?slreturn=1460739226>
- 8 North America Consumer Digital Banking Survey 2015. (n.d.). Retrieved April 19, 2016, from <https://www.accenture.com/us-en/insight-consumer-banking-survey.aspx>
- 9 IBID
- 10 Consumer Banking Research 2015. (n.d.). Retrieved April 19, 2016, from <https://www.kasasa.com/home/consumer-banking-research.html>
- 11 Successful Loyalty Through Analytics. (2015, August 1). Retrieved April 19, 2016, from http://www.sas.com/en_us/offers/14q3/next-generation-loyalty-programs.html
- 12 7 Customer Loyalty Programs That Actually Add Value. (2015, July 1). Retrieved April 19, 2016, from <http://blog.hubspot.com/blog/tabid/6307/bid/31990/7-Customer-Loyalty-Programs-That-Actually-Add-Value.aspx>