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Digitizing Retail Payments

Building a Successful Loyalty Model

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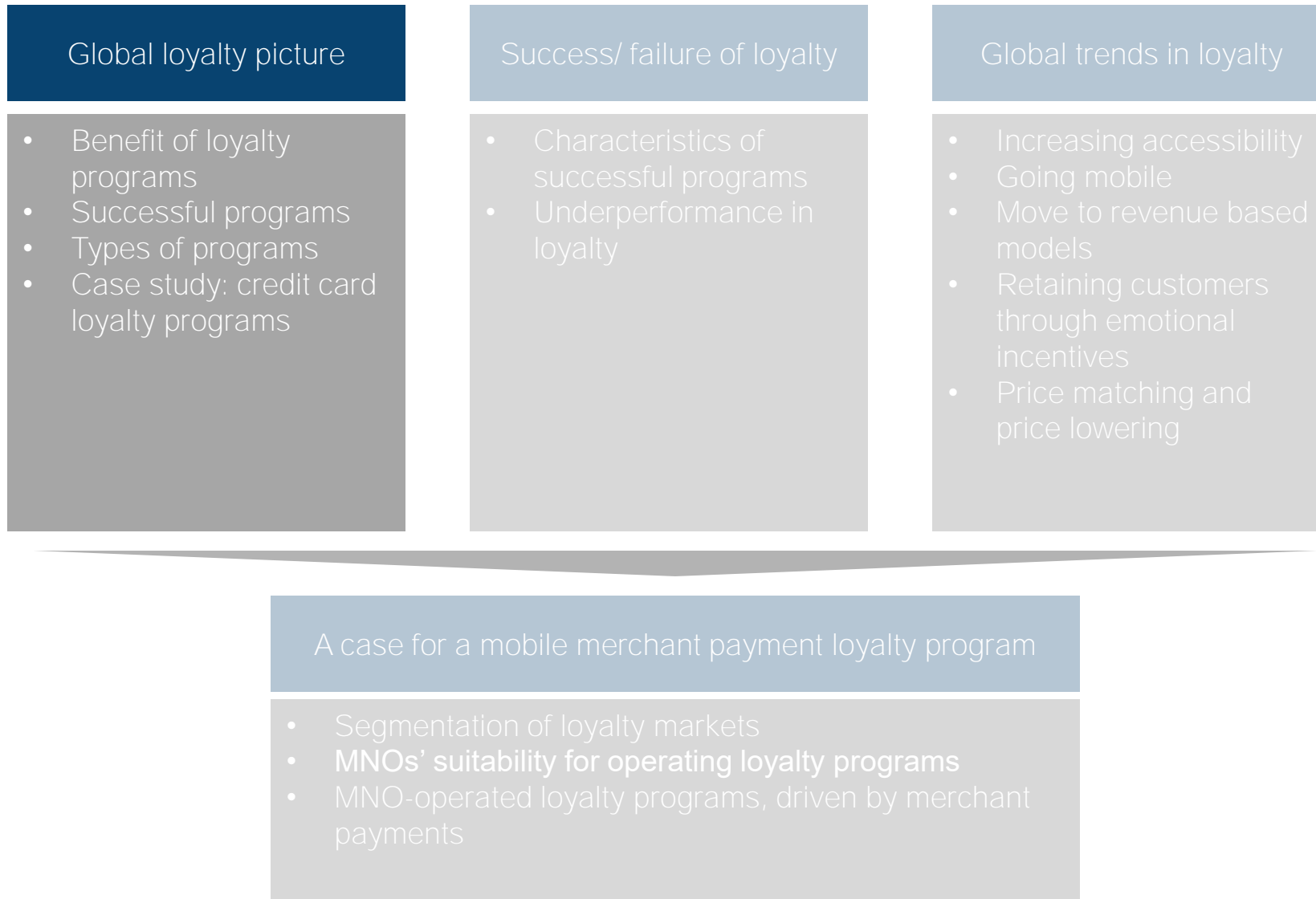
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Section 1: Global loyalty picture



Loyalty programs across the world can provide important lessons for incentivizing usage of merchant payment platforms

Loyalty programs

- These programs reward customers for specific behaviors, such as transactions, with the aim of promoting those behaviors directly
- The programs also allow the acquisition of data that can later be used to further promote the behaviors, through better **understanding of customers' behaviors and needs**
- Across various industries, loyalty programs carry some similarities in design and execution. By analyzing these programs, we can pull out important lessons that can be applied in designing a merchant payment loyalty program

Loyalty programs and incentives schemes may offer 'purely transactional' or loyalty-building benefits.

- **'Purely transactional' benefits** offer immediately redeemable financial incentives, such as a discount, and may not necessarily foster loyalty-building behaviors. As soon as another merchant offers a higher transactional reward, customers may quickly switch over. This document does not consider such schemes because they do not build loyalty
- **Loyalty-building rewards** require accumulation of rewards that are redeemable only under certain conditions, such as a minimum collection of points or redeemable for statement credit only at the end of a billing period. This incentivizes a **customer to continue engaging with the loyalty program in order to fulfill redemption criteria, effectively 'locking them in' the ecosystem and thereby cultivating loyalty.** This document will mostly consider such loyalty programs. ***Transactional rewards may be loyalty-building if they fit this description***

This document focuses on taking lessons from loyalty programs across the world and drawing key insights that can be translated to the design of (and build a case for) a merchant payment loyalty program

In general, loyalty programs are attractive to users, helping to attract new customers and keep existing ones loyal

Benefit	Description	Examples
New customer acquisition	<ul style="list-style-type: none">A loyalty program can attract new customers to the business. How effectively will depend on how exciting and how valuable the rewards seem to be to the target audience	<ul style="list-style-type: none">Upon launching its loyalty program, Waitrose recorded a 670,000 rise in weekly customer transactions with customer numbers up by over 6%; the store claimed to be UK's second-largest coffee provider¹
Referrals / word-of-mouth marketing	<ul style="list-style-type: none">Successful loyalty programs can also activate word-of-mouth marketing within social networks	<ul style="list-style-type: none">According to the 2016 Bond Loyalty Report, 73% of members are more likely to recommend brands with good loyalty programsUber rewards users for referrals: drivers receive cash for referring new drivers while riders receive free rides for referring new riders
Direct customer retention through loyalty	<ul style="list-style-type: none">It provides a practical, hard reason for the customer to continue buying (the accumulation of points toward a reward, or higher levels of service)Operators often report that once a customer starts redeeming rewards, enthusiasm rises	<ul style="list-style-type: none">According to a survey done by Econsultancy, 70% of companies say it is cheaper to retain a customer than acquire a new one

Loyalty programs also enable companies to increase sales, improve internal business operations and perform targeted marketing

Benefit	Description	Examples
Increase in sales	<ul style="list-style-type: none">Consumers report that they modify spending amounts in order to maximize points. Thus, program members are likely to spend more during each visit	<ul style="list-style-type: none">Upon implementing the program in 2001, Starbucks saw a record-setting quarter. According to Executives, increased participation in program helped increase revenue by \$2.65 billion¹
Data on customer profiles and spending habits	<ul style="list-style-type: none">Given reliable data and algorithms, predictive analytics can identify trends that businesses can use to supply the right products or services in the right amounts. In retail, such analytics can be used to determine the amount of product to stock	<ul style="list-style-type: none">Clubcard holders were spending 28% more than they did before at Tesco, and 16% less at Sainsbury's (Tesco's main competitor) a year after Tesco tailored its services based on collected data²
More targeted marketing	<ul style="list-style-type: none">The data from loyalty programs allow for targeted marketing to different demographics of current customers, and by extension, the use of similar techniques to market to similar demographics of prospective customers	<ul style="list-style-type: none">Brick-and-mortar retailers, such as Walmart, Macy's and Target analyze their customer spending habits via their loyalty programs and send relevant targeted advertisements and promotions to their email addresses

Sources: ¹<https://www.sweettoothrewards.com/blog/loyalty-case-study-starbucks-rewards/>; ²Fung Business Intelligent Center, *Retail Loyalty Programs: A Global View*, 2015;

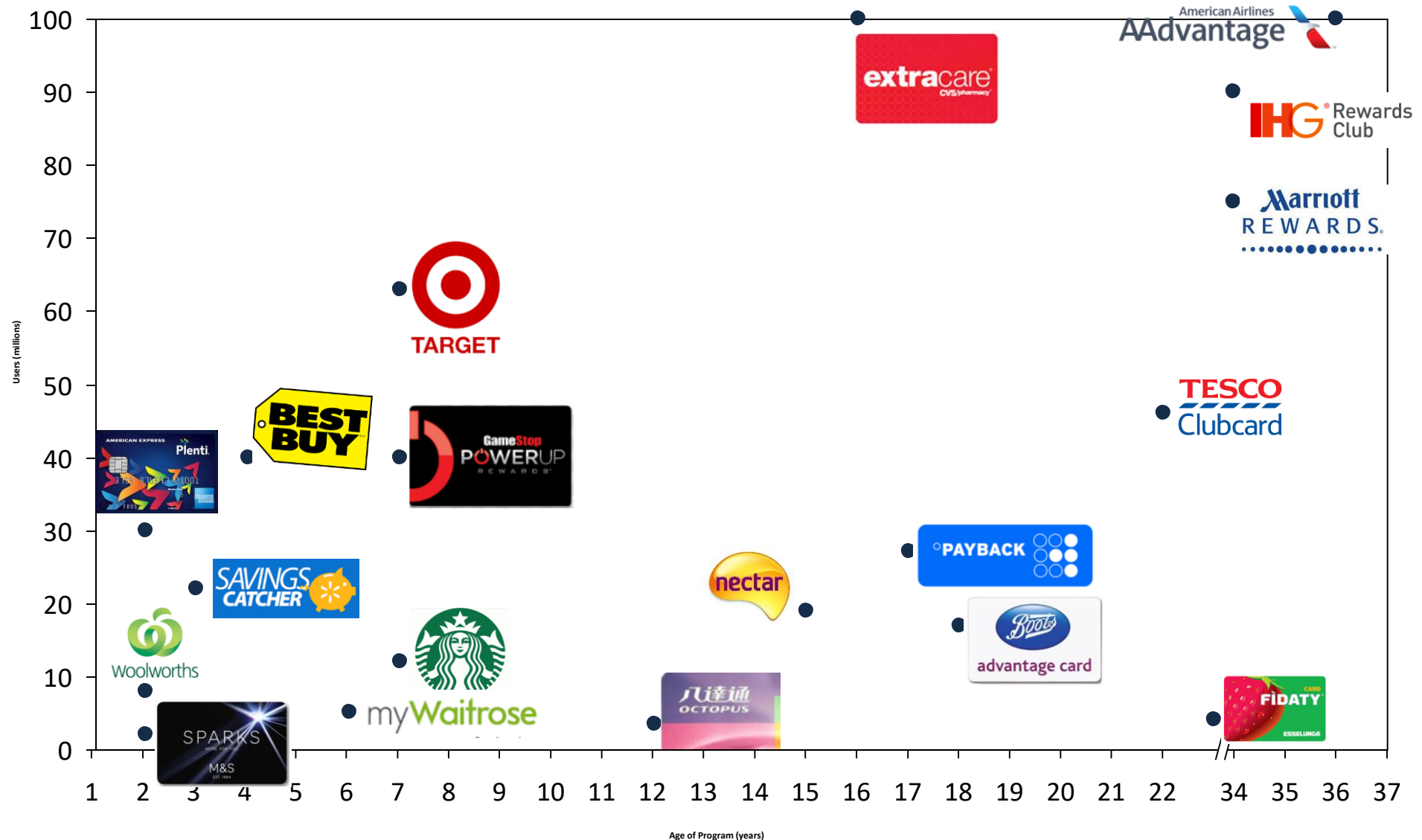
³<https://luthresearch.com/retailers-are-you-tracking-the-right-data-for-your-brand/>; Dalberg analysis from analyzing multiple loyalty programs globally

Loyalty programs exist across the world, targeting both businesses and customers

		B2C	B2B
Retail	Retail – Supermarkets/ drugstores	   	
	Retail – consumer electronics	  	 
Service	Financial Services	    	
	Logistics		  
	Telecom	 	
Hospitality	HoReCa*	  	
	Transportation	 	 
Other	Oil and Gas		

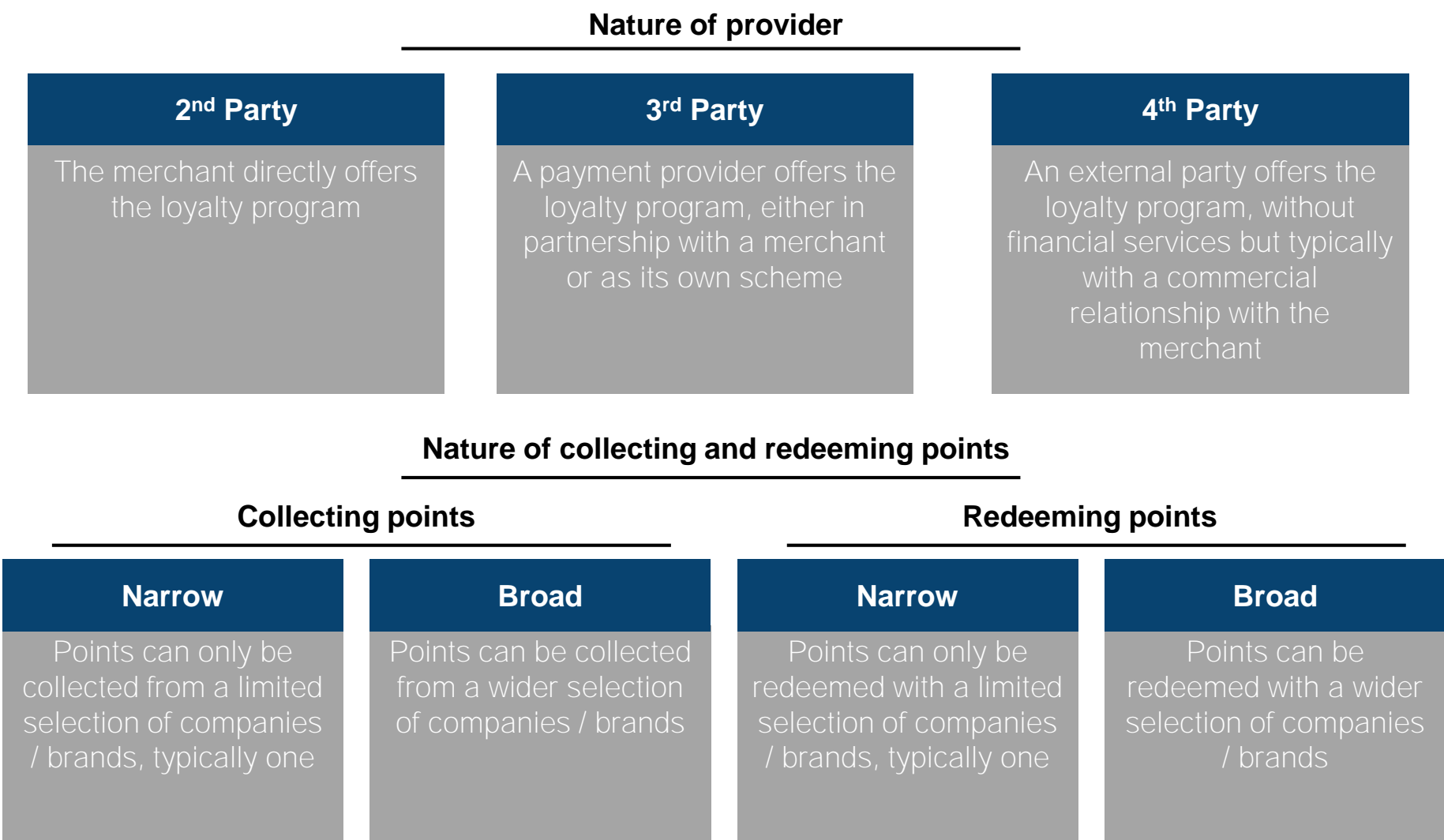
*Hotels, Restaurants and Cafes; Note: This is only a small set of successful loyalty programs, defined as programs that have a large use base and have demonstrated a success for a number of years. Sources: Dalberg analysis from analyzing multiple loyalty programs globally; respective company websites

Some of the most successful loyalty programs in the world have millions of users and have been established for decades; many are retailer-focused



Note: This is only a small set of successful loyalty programs, defined as programs that have a large user base and have demonstrated a success for multiple years. Statistics acquired from company websites and from Fung Business Intelligent Center, *Retail Loyalty Programs: A Global View*, 2015

Loyalty programs can be categorized by the nature of the provider and the mechanism of collecting and redeeming loyalty points



Source: Dalberg analysis from analyzing multiple loyalty programs globally

Multiple loyalty programs exist across the spectrum of providers and collection-redemption mechanisms

		Nature of Provider		
Nature of Collection - Redemption		Second Party	Third Party	Fourth Party
	Narrow collect – Narrow redeem	<ul style="list-style-type: none"> • MyWaitrose • MS Sparks • Walmart Savings Catcher • CVS extra care • MyBestBuy • Starbucks Rewards • Target REDPerks 	<ul style="list-style-type: none"> • Store credit cards, e.g., Macy's Card, Target RedCard, Victoria's Secret Card 	<ul style="list-style-type: none"> • No significant player
	Narrow collect – Broad redeem	<ul style="list-style-type: none"> • Tesco Clubcard • Woolworths rewards • Grameenphone Star 	<ul style="list-style-type: none"> • No significant player 	<ul style="list-style-type: none"> • No significant player
	Broad collect – Narrow redeem	<ul style="list-style-type: none"> • Asia Miles 	<ul style="list-style-type: none"> • Fuel Rewards • Co-branded* credit cards, e.g., Apple, Amazon, BestBuy 	<ul style="list-style-type: none"> • Air Miles
	Broad collect – Broad redeem	<ul style="list-style-type: none"> • Air Asia • Mobily Neqaty 	<ul style="list-style-type: none"> • Rewards credit cards, e.g. Barclaycard Arrival, Chase Sapphire 	<ul style="list-style-type: none"> • Nectar • Plenti • Octopus rewards • Payback • ReMe

Whereas second-party providers tend to use store cards that limit point collection and redemption, fourth-party providers offer greater flexibility in collecting and redeeming points

*Bears branding of both the financial institution (the issuer) and the merchant; points are collected on all spending using the payment method

Note: This is only a small set of successful loyalty programs, defined as programs that have a large user base and have demonstrated success for a number of years

Merchants can operate loyalty programs themselves as a 2nd party, through a 3rd party payment provider or through a 4th party loyalty program operator

	Second Party	Third Party	Fourth Party
Brand control	Tight brand control of customer's end-to-end experience	Moderate control over brand in the cases of merchant-branded cards	Control of the loyalty program brand is given up to the fourth party provider
Cost	All borne individually – setup, operating, and rewarding	Some of the cost is covered by the 3rd party, e.g. card manufacturing	Shared across merchants
Risk	Source of risk largely internal	Minimal reputational risk from attachment with other companies	Higher reputational risk since loyalty program is run by the loyalty company
Data	Full control of data but of limited depth	Higher depth of data available but ownership is with the 3 rd party	Ownership of data is with the 4 th party. However, data can be considerably richer
Admin burden	Born by merchant	Partially outsourced	Fully outsourced
Additional services to merchant (2nd party)		Financial services – payments, credit	Marketing and advertising, cross-selling

Merchants choose how to operate their loyalty schemes mainly based on their financial capabilities, the scheme's benefits, and/or the risk profile of each category

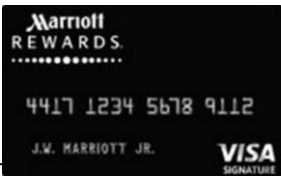





Merchants choose the collection-redemption mechanism of their loyalty programs based on financial capabilities, desired brand control and affiliations

		Points collection	
		Narrow	Broad
Points redemption	Narrow	<ul style="list-style-type: none"> Merchants that want to tightly control their brand Merchants with limited financial capabilities or leverage to pull in other partners <p>These programs are typically 2nd party, giving merchants the most control over data and brand</p>	<ul style="list-style-type: none"> Company-credit card branding partnerships Large companies with an aspirational loyalty product (e.g. airlines) looking to drive activity Merchants wishing for a stepping stone to the broad-broad category <p>The loyalty program tends to be 3rd party based but tied to a particular retailer for redemption</p>
	Broad	<ul style="list-style-type: none"> Merchants with broad footprint to make earning worthwhile, and size to attract redemption partners to increase attractiveness of scheme Redemption partners benefit from 'referred' customers <p>These programs are also typically 2nd party – suggesting keeping control of data may involve a trade-off with breadth of collection opportunities</p>	<ul style="list-style-type: none"> Merchants that want to pool the costs of the loyalty scheme with partners, including by outsourcing it entirely to other parties – enjoying loyalty benefits without admin costs (Also 3rd party loyalty programs unaffiliated with a retailer, to maximize attractiveness) <p>These programs are typically 4th party, making managing multiple partners easier; or 3rd party but run in a similar manner</p>

For an MNO, broad-broad loyalty seems the most beneficial approach to take, considering the large customer base and ability to affiliate with different merchants e.g., Mobily's Neqaty (KSA) and Roshan Afghanistan





Case study: Credit card loyalty schemes increase brand visibility and accessibility through external affiliations and multiple card offerings

Credit card loyalty schemes are arguably the most similar type of scheme for MNOs pursuing a merchant payments loyalty program. Credit cards and mobile merchant payments platforms both operate as third-party payments providers. Understanding credit card loyalty programs can hence provide insights on the design and execution of a merchant payments loyalty program

Co-branded cards	Affinity cards	Unaffiliated cards
<ul style="list-style-type: none"> These are jointly sponsored by the issuing financial institution and a retail company, often a large merchant (e.g., Apple with Barclaycard) or a merchant in the travel sector (e.g., United Airlines with Chase) with a sizeable customer base, and which receives financial benefits from card usage (e.g., profit or revenue share) Many cards simply offer discounts or cashback, with higher earning rates at the merchant (e.g. Sam's Club). Some cards integrate with the merchant's own rewards scheme (e.g. earning Marriott Reward points from everyday spending) 	<ul style="list-style-type: none"> Affinity cards are similar to co-brands in that another entity is visually represented on the card. However, the focus is not on a direct financial arrangement between the issuer and the entity – rather, the entity will usually get a small proportion of the issuer's fee for each transaction Affinity cards are most common with sports teams, non-profits and colleges. Affiliated entities benefit from increased loyalty to their brand, and/or automatic giving (e.g. "0.08% of total spend donated to WWF"); they may offer small promotions (e.g. discounts at stadiums) 	<ul style="list-style-type: none"> Many credit cards do not have affiliations with external brands. However, many card issuers have a range of rewards credit cards that target different segments, thereby increasing their brand presence and accessibility For example, American Express itself has an entry-level 'EveryDay Credit Card' with no annual fee and fewer benefits than its higher end cards, but still access to its Membership Awards scheme; Chase Bank offers a selection of credit cards offering cash back, or points in its own "Chase Unlimited Rewards" program
 	 	 

Case study: Credit cards often run promotions to acquire prospective customers



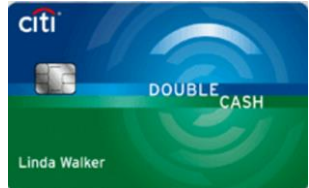

Such promotions, often time-limited, serve as strong pull factors for new customers

Rewards	Description	Examples
Signup bonus	Many cards offer bonus points/miles/cashback when a certain spending threshold is met within the first few months of account opening. This creates initial additional value to the card, especially if it charges an annual fee	 <ul style="list-style-type: none">• Earn \$150 bonus after spending \$500 within the first 3 months of account opening
Fee waiver	Many credit cards charge an annual fee in order to offer better rewards and account for high-risk customers. To incentivize prospective customers to apply, it is common to waive such fees in the first year	 <ul style="list-style-type: none">• \$59 annual fee is waived the first year
Promotional APRs	Low-risk customers may be offered promotional Annual Percentage Rates (APRs) where the APRs are reduced for a specific time period pending continued good credit behavior. This encourages sign-ups and more card usage	 <ul style="list-style-type: none">• 0% APR on balance transfers and purchases for the first 21 months
Non-card promotions	Promotions that are not directly tied to spending on the credit card. They are often associated with travel and entertainment, e.g., 2 free lounge access passes per year, 24/7 concierge services, free credit score reporting or deals with specific merchants	 <ul style="list-style-type: none">• \$15 worth of Uber rides per month• Complementary airport lounge access

Sources: CGAP, Lessons from Card Space for Mobile Money Merchant Payments, Digital Disruptions; October 2016; Dalberg analysis. Examples and the logos were obtained from the institutions' websites in May 2017

Case study: Credit card loyalty programs offer transactional and experiential rewards that can be earned and redeemed in multiple ways

Most programs allow broad collection of 'points'. However, redemption can either be narrow or broad (including as cash)

Rewards	Description	Examples
Miles	Cardholders earn miles for every dollar spent (typically more miles for travel-related expenses). Redemption tends to be closely tied to an airline rewards scheme or merchants in the travel industry. Typically broad collection – narrow redemption	 <ul style="list-style-type: none">• Earn 2 miles/\$1• Redeem for travel credit or products (best value), cashback or merchandise
Points	Cardholders earn points for every dollar spent; earning may be designed to drive certain transaction behaviors, e.g., 2 points for \$1 spend on dining while 1 point for \$1 spent on everything else. Typically broad collection – narrow/broad redemption	 <ul style="list-style-type: none">• Earn 2 points/\$1 for travel / dining and 1 point/\$1 on everything else
Cash back	Cardholders earn a percent of their spending back as cash, normally redeemable as statement credit. Like with points, earning may be designed to drive certain transaction behaviors. Typically broad collection – broad (cash) redemption	 <ul style="list-style-type: none">• 1% cash back on purchases, additional 1% cash back on repayment
Experiential rewards	On top of financial rewards mentioned above, cardholders may receive experiential rewards such as complementary access to lounges and events, priority airline boarding, complementary concierge, discounts at merchants, etc.	 <ul style="list-style-type: none">• Earn miles per dollar spent• Free checked bag, complementary lounge access, in-flight purchase discounts

Section 2: Successes and failures in loyalty



Successful loyalty programs are simple, evolve with time, reward loyalty appropriately, and use customer data strategically

Based on our assessment of multiple successful programs and reports on loyalty programs, successful loyalty programs have these major traits in common:

Categories	Description	Examples
Simple	<ul style="list-style-type: none">A loyalty program should be simple and easily understandable, where the user can collect or redeem rewards effortlessly	<ul style="list-style-type: none">7eleven's loyalty program enables customers to get every seventh beverage freeMany credit cards offer a flat rate 1% cash-back (or point/mile equivalent) for every dollar spent
Evolves	<ul style="list-style-type: none">Constant change and adaptation is necessary in order to ensure the loyalty program stays current and relatable to user needs and trends	<ul style="list-style-type: none">Starbucks changed its program to revenue-based to prevent people gaming the system and introduced a mobile app to make the program more accessible and relevant to millennials
Tangible / relevant rewards	<ul style="list-style-type: none">Tangible and relevant rewards are attractive to users because are easy to see (substantial enough) and they support their lifestyles	<ul style="list-style-type: none">myWaitrose program offers a free hot beverage with purchase of any item at the bakery; ReMe rewards users for social engagement; many credit cards offer cash-back for every purchase
Uses data to target customers	<ul style="list-style-type: none">A successful loyalty programs leverages its data to target customers through better services and marketing	<ul style="list-style-type: none">Tesco ClubCard holders were spending 28% more at Tesco and 16% less at Tesco's main competitor a year after Tesco tailored its services based on data collected¹

Sources: ¹Fung Business Intelligent Center, *Retail Loyalty Programs: A Global View*, 2015; respective program websites; Dalberg analysis from analyzing multiple loyalty programs globally

Loyalty programs can underperform if they are poorly designed, leading to bad user experience and low customer appeal (1/2)

Categories	Examples	
Difficult entry	<ul style="list-style-type: none">• WestJet targeted a guest segment believed to be most interested and most likely to benefit, with an annual \$1,500 qualifying spending requirement. However, this limit proved too high for many prospective members¹	<ul style="list-style-type: none">• WestJet removed the minimum spending requirement and members can now earn from their first WestJet flight and vacation package purchased
Relevance of rewards	<ul style="list-style-type: none">• Woolworths (Australia)² dropped their 'points on everything' model in favor of rewards on orange ticket items. The limited selection of orange ticket items decreased the popularity of the program• Fitness First³: Newer members were offered third-party rewards that they were not interested in, such as 10 per cent off or two-for-one vouchers at participating retailers	<ul style="list-style-type: none">• Woolworths re-introduced points on everything• Fitness First changed its loyalty program to one that has more personalized rewards based on customer data
Difficult to collect/Redeem	<ul style="list-style-type: none">• Sofitel Hotel A Club⁴ had a dense list of terms and conditions, that in some cases resulted in points only being usable in one country	<ul style="list-style-type: none">• The program has now changed to Le Club Accorhotels with points collectable and redeemable at approximately 2,430 participating hotels

Sources: ¹<http://www.businessreviewcanada.ca/leadership/113/WestJet-Expands-Loyalty-Rewards-Program>; ²<http://www.cmo.com.au/article/605469/woolworths-brings-back-points-customer-loyalty-program/>; ³http://www.cmo.com.au/article/551995/why_fitness_first_dropping_its_customer_loyalty_program_turning_data_/; ⁴<https://www.thestreet.com/story/10788796/11/5-best-5-worst-customer-loyalty-programs.html>; Dalberg analysis

Loyalty programs can underperform if they are poorly designed, leading to bad user experience and low customer appeal (2/2)

Categories

Examples

Poor communication and management

- **Air Miles¹** communicated program changes poorly and had been relatively silent on how they intended to make amends with frustrated customers. Customers needed to specifically request expiry information in order to see where their points lie, with additional information on these instructions buried in the Air Miles' FAQ section

- Air Miles has retracted their decision to have rewards points expire in response to the customer issues

Complexity

- **Walgreens register rewards** gives a member a coupon when they check out, if they have bought a certain product from the weekly catalog. Some of the complex rules include that two of the same item will not earn double rewards, and register rewards will not be awarded when paying with register rewards

- A new program called Balance Rewards allows members to ring up 2 identical items for double the points. Payment with Balance Rewards earns register rewards

Loyalty programs can underperform when they do not fit with broader company strategy or fail to drive desired behavior from customers

Categories	Examples	
Fraud/gaming the system	<ul style="list-style-type: none">• Subway's Sub Club¹ stamps were easy to counterfeit• Starbucks² customers were splitting orders in order to game the system into thinking they had a higher number of visits• Waitrose gave free coffee to all who visited their store. The program attracted even non-spenders³	<ul style="list-style-type: none">• Subway adopted a magnetic reward card system• Starbucks moved to a revenue-spent model• Waitrose started giving coffee only with a purchase
High benefit for low spending	<ul style="list-style-type: none">• Hyatt and American Airlines were giving customers of different spending classes the same amount of points based on either the number of stays or the number of miles flown respectively⁴	<ul style="list-style-type: none">• Both Hyatt and AA moved to a revenue-based loyalty system

Sources: ¹<https://www.wired.com/2005/09/fraud-sinks-subways-sub-club/>; ²<http://fortune.com/2016/07/21/starbucks-loyalty-program-frapps/>; ³Fung Business Intelligent Center, *Retail Loyalty Programs: A Global View*, 2015; ⁴<https://thepointsguy.com/2016/10/changes-coming-to-hyatt-gold-passport/>; Dalberg analysis from analyzing multiple loyalty programs globally

Section 3: Trends in loyalty



Recent global trends in loyalty programs can inform the design of future programs

- **Increasing accessibility**

There is an increase in consolidators (e.g. Keyring and Stocard), 3rd and 4th party loyalty programs (e.g., Barclaycard and Nectar respectively), and integration of loyalty programs with personal profile information like email, phone number or payment method (e.g. Fuel Rewards). This is due to consumers' limited ability or desire to carry multiple cards, and track and redeem points.

- **Going mobile**

Loyalty programs are going mobile, through the introduction of mobile apps, NFC technology, and mobile payments. This results in cost reductions on a per customer basis, and allows greater personalization of loyalty programs. Loyalty program with apps include Apple Pay, Target's REDPerks, Starbucks Rewards, and ReMe.

- **Moving to revenue-based models**

Loyalty programs are moving towards revenue-based rewards across multiple industries to lower costs and better reward high spenders, as well as reduce the potential for "gaming" the loyalty program (gaining benefits for low spending). Recent examples include Starbucks and Hyatt hotels.

- **Retaining customers through emotional incentives**

Whereas customers join loyalty programs for transactional benefits, they often stay members due to emotional reasons. Social engagement incentives can serve both transactional and emotional purposes and work to bring and retain new customers. For example, Lancôme's Elite Rewards rewards its users for posting photos and liking pages on social networking sites.

- **Towards price-matching and price lowering**

As the loyalty industry gets more competitive, merchants are moving towards price matching and universal price lowering for the mass market e.g., Walmart in the US and Tesco in the UK, as an alternative to loyalty programs and/or to attract those fatigued by loyalty program saturation.

As consumers are increasingly overwhelmed by the volume of loyalty programs, the loyalty industry is adapting by increasing accessibility

Current situation

From the 2015 Bond Loyalty Report,



22% increase in program enrolment

Average North American is member of 13.3 loyalty programs (up from 10.9 in 2014)



14% decrease in programs used

However, she is active in only 6.7 of them (down from 7.8 in 2014)

Despite enrolment increases, customers have limited capacity for active engagement with programs.

20%

of loyalty program members have never redeemed points...

2.3X

...and they are 2.3X more likely to defect than recent redeemers

2.5X

Recent redeemers have 2.5X higher level of satisfaction than non-redeemers

Innovative solutions

The decrease in individual customer activity in loyalty programs and customers' limited ability to track and redeem points has given rise to platforms and schemes that increase convenience and accessibility

Consolidators

- *Just One Club Card* and *KeyRing Thing* store 8 barcodes on a physical card
- *KeyRing*, *Cardstar* and *Stocard* are apps that store cards and offer location-based deals
- *Points* and *AwardWallet* track and exchange miles/points between programs

3rd and 4th party loyalty programs

- **3rd party:** rewards credit cards that offer broad collection and redemption of points, e.g., *Barclaycard Arrival*, *Chase Ink* cards
- **4th party:** broad collection and redemption loyalty programs, e.g., *Loc Card*, *Nectar*, *ReMe*, *Payback*, *ShopYourWay Rewards*, *Plenti Rewards*

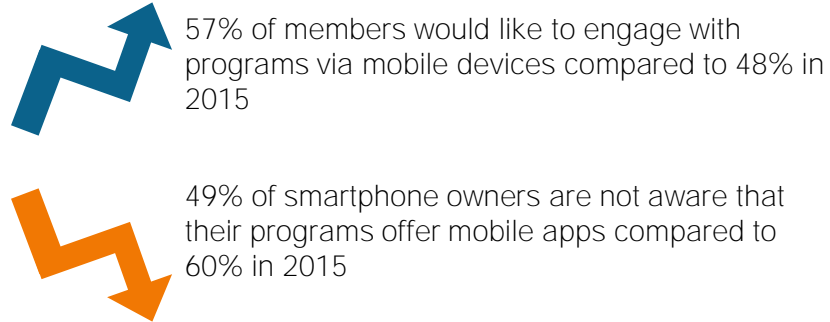
Integration with personal profiles

- Loyalty programs are increasingly going card-less by linking a customer's payment mechanism with the loyalty program, e.g., *Fuel Rewards (Shell)*
- Most programs allow earning using a linked phone number or email address, reducing the need to carry multiple loyalty cards in a wallet

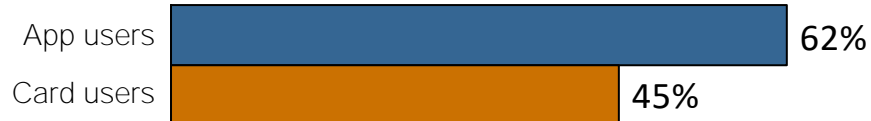
To increase accessibility and appeal to the younger generation, loyalty programs are increasingly going mobile

Trends in the US

From the 2016 Bond Loyalty Report¹ on US consumers



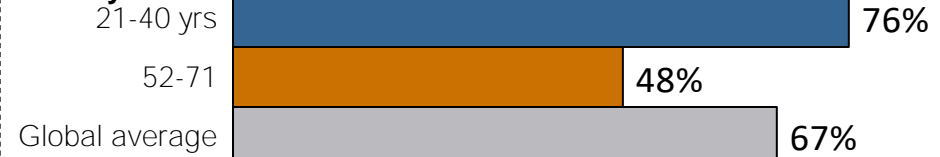
Program satisfaction among mobile app and card users



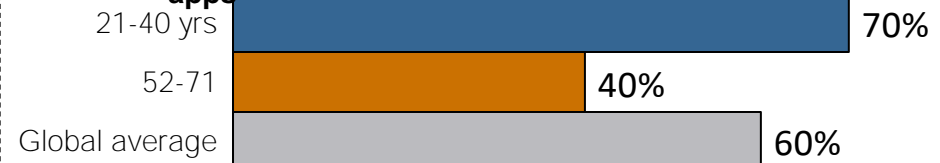
Global trends

From the 2016 Nielsen² global report on loyalty

Attracted by program integration with mobile payments systems












Attracted by store-specific loyalty program mobile apps



- Loyalty programs are going mobile through mobile apps, NFC technology, and mobile payments e.g., apple pay, Target's REDPerks, Starbucks Rewards app, ReMe
- Going mobile results in cost reduction per customer
- Mobile allows personalization of loyalty programs
- Mobile allows for real-time interaction with loyalty programs and enables location-based promotions for collection and redemption, adding relevance to a loyalty program
- Mobile not only improves accessibility and customer experience, but also improves the brand experience and this ultimately leads brand loyalty

Across multiple industries, loyalty programs are moving towards revenue-based rewards to lower costs and better reward high spenders

Sector	Old models	Current models
 Airline	 American, Delta, and United Airlines loyalty programs rewarded members for miles flown	 These airlines, along with many others, reward members per dollar spent
 Hotel	 Hyatt rewarded members for number of nights stayed	 Hyatt has moved to reward members per dollar spent
 Cafes	 Starbucks rewarded members free coffee after a certain number of visits/transactions	 Starbucks now rewards free coffee after spending a minimum amount

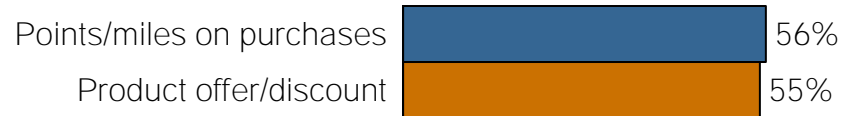


While loyalty programs in many sectors are shifting towards revenue-based rewards, **debit/credit card loyalty programs have always been revenue-based**, earning cardholders rewards proportional to their spending

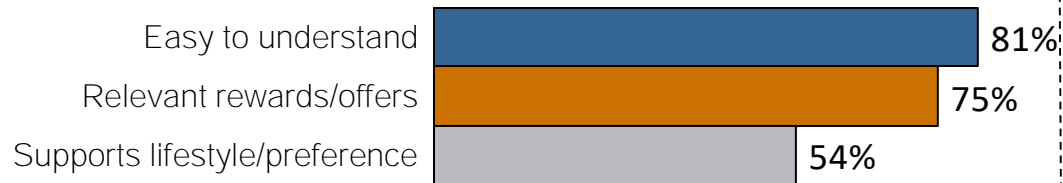
Whereas customers join loyalty programs for transactional benefits, they stay members due to emotional reasons

Acquisition and retention trends¹

Reasons that motivated customer to join a loyalty program



Reasons for continued participation in the program



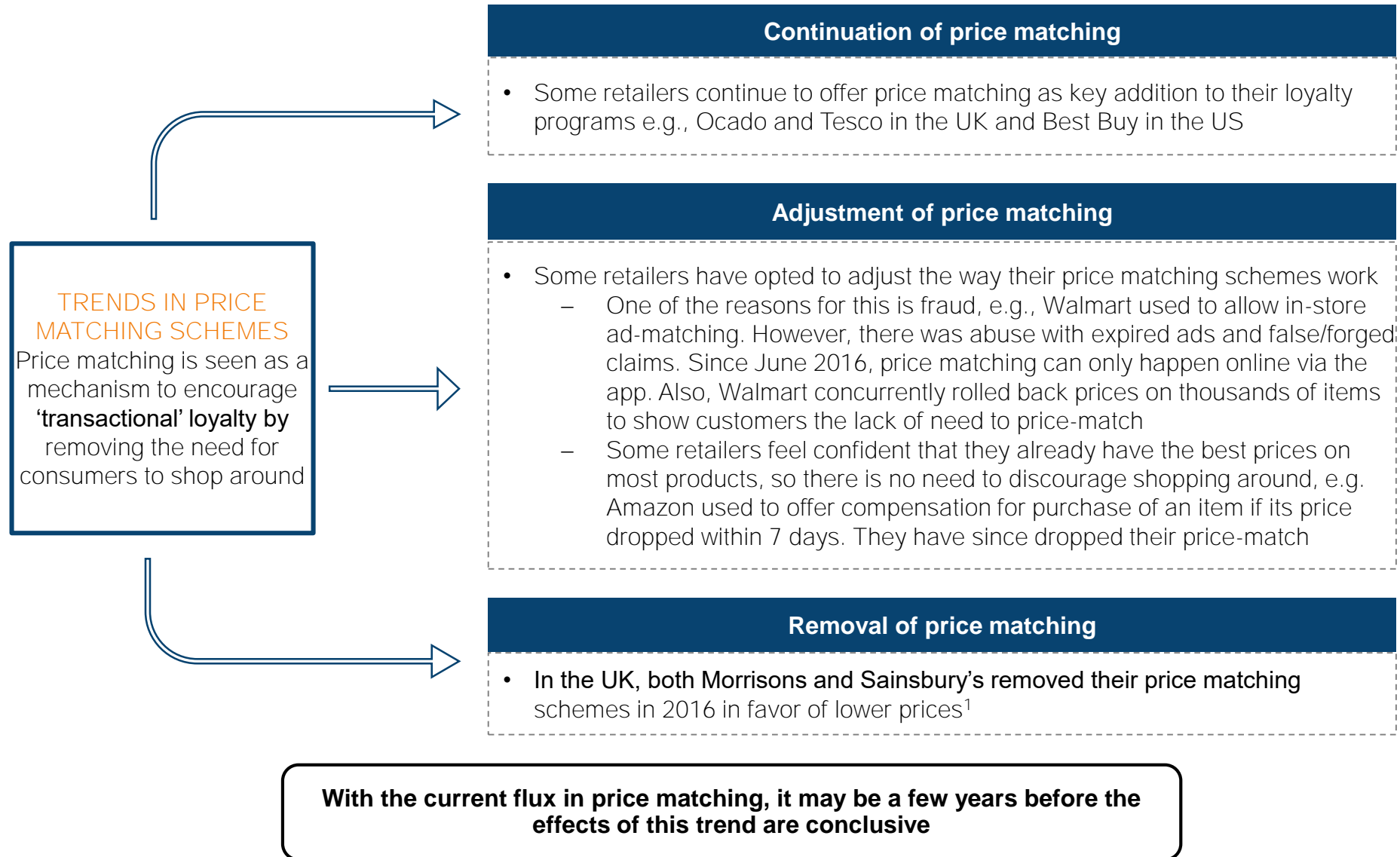
While most respondents are initially drawn to loyalty program membership in by the transactional benefits, they appear to stick with the program for emotional reasons

Use of social media for acquisition and retention

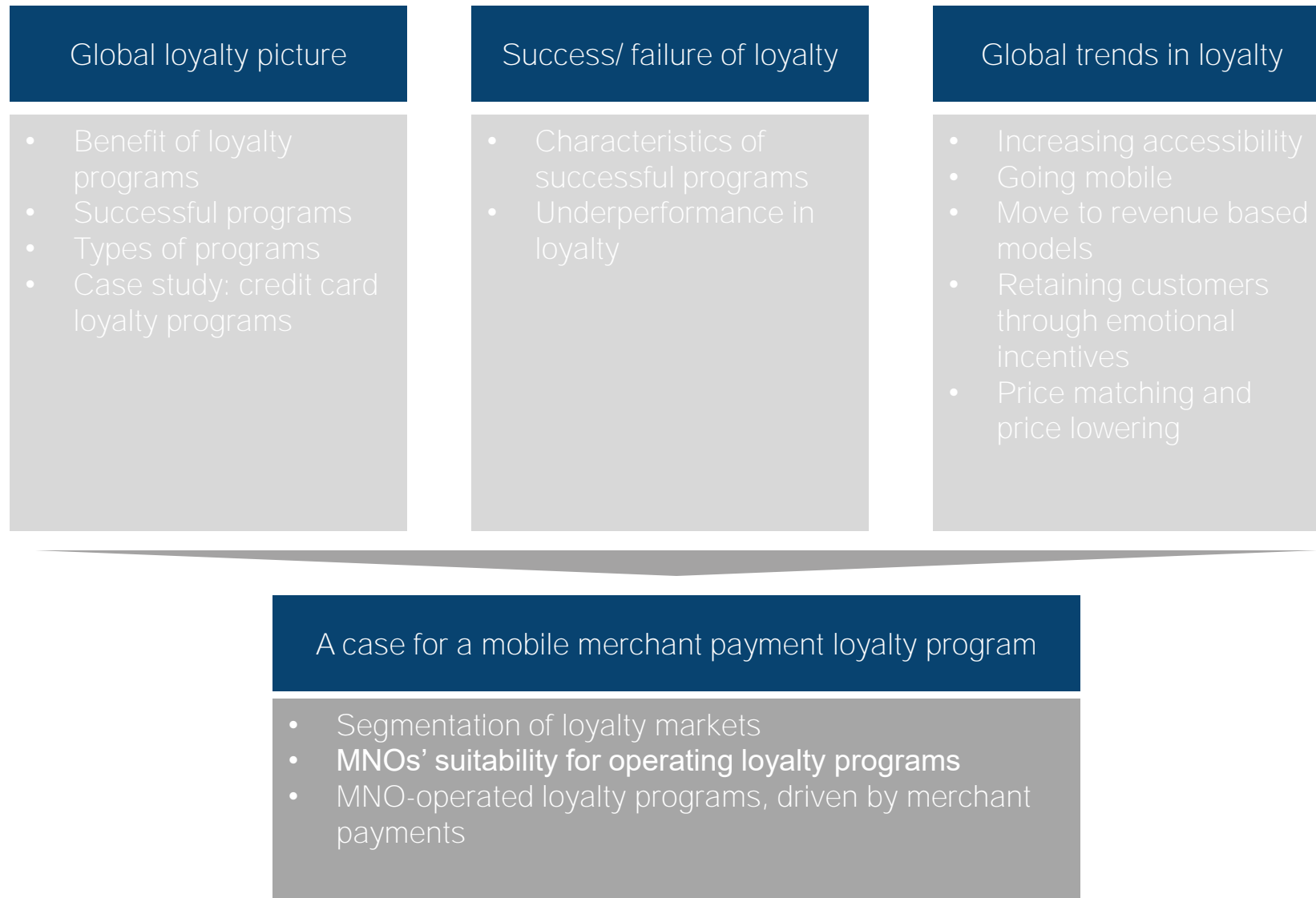
- Social engagement incentives can serve both transactional and emotional purposes and work to bring and retain new customers
- 62% of respondents were attracted to earning points or rewards for sharing products and pages on social networks²
- Lancôme Elite Rewards rewards customers for activity on social media, e.g., posting photos, reading tutorials, and liking pages. Lancôme believes that social engagement incentives can turn their best customers to their best advocates and ultimately provide insights on their customer journey
- ReMe rewards its members for downloading apps, liking social media pages, etc.

Loyalty program providers need to think beyond transactional benefits; experiential benefits and those that invoke strong emotions are increasingly important to maintain existing customers

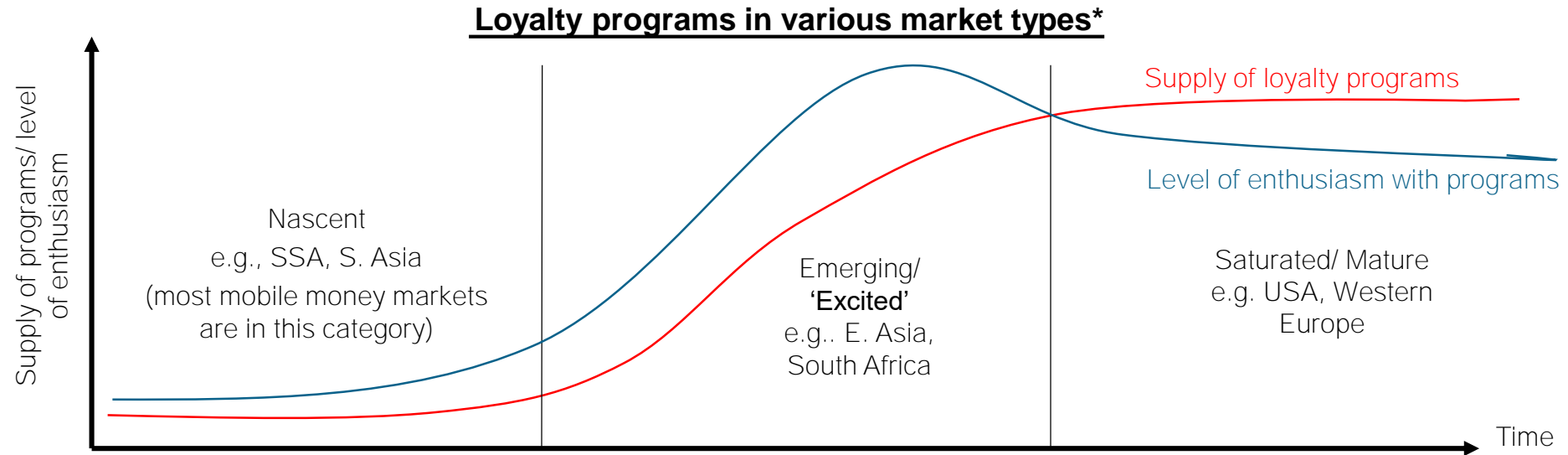
As the loyalty industry gets more competitive, the role of 'transactional' loyalty through price matching is becoming less clear



Section 4: A case for a mobile merchant payment loyalty program



Loyalty markets can loosely be divided into segments depending on the level of maturity. Enthusiasm with programs peaks out as markets mature



Nascent loyalty markets	Emerging loyalty markets	Mature loyalty markets
<ul style="list-style-type: none"> • Few large national chains that can afford managing a loyalty program • Customers are highly price sensitive and respond to pecuniary rewards • Small middle class consumer base • Limited infrastructure – few PoS devices, low usage of computers in businesses, low smartphone penetration – to operate loyalty programs • Few highly competitive sectors (e.g., MNO) that may be interested in loyalty 	<ul style="list-style-type: none"> • Adequate amount of national brands and 3rd/4th party providers that can operate loyalty programs • Customers excited with programs, room for further engagement exists • Rapidly growing middle class consumer base • Adequate infrastructure • Increasing sectoral competition increases loyalty programs 	<ul style="list-style-type: none"> • Many large national brands and advanced 3rd/4th party players that operate loyalty programs • Customers fatigued, diminishing engagement with loyalty programs • A strong middle class that is highly selective • Robust infrastructure • Highly competitive markets across sectors, necessitating cultivation of loyalty

*This categorization and the graphs are illustrative and preliminary, based on Dalberg's analysis of various loyalty programs across the world
Source: Dalberg analysis

In nascent loyalty markets, there are only a handful of candidates that can operate a large-scale loyalty program

Archetype of a loyalty program operator

3rd/4th party
To cover multiple user segments

Large user base
*For wide-scale/
national adoption*

High user activity
*For frequent use and
popularity of the
program*

Engages everyone
*Including multiple
businesses and
consumers*

Financial capacity
*To operate a large-
scale loyalty program*

Potential candidates



Bank

- Banks can operate a 3rd party loyalty program as a payments solutions provider. They can also operate an independent 4th party program
- They are financially capable to run loyalty programs and can promote them across multiple businesses
- Although they are national and have a moderate user base, they have weak rural reach and low user activity in certain segments (e.g., low income earners)



MNO

- MNOs can operate 3rd or 4th party loyalty programs that can be promoted across its diverse set of users – consumers, agents and merchants. They have deep nationwide reach and financial means to operate such programs
- They uniquely bring in a payment platform that is ubiquitous even in nascent markets, unlike bank payment options.



Consumer Brand

- National consumer brands, such as food and beverage brands (e.g., Coke) have enough popularity, financial capacity, and nation-wide coverage to operate national loyalty programs
- However, they lack a payments platform that can allow them to cut across the entire population

MNOs in nascent loyalty markets are strategically positioned to run scalable loyalty schemes that promote their businesses and drive brand loyalty

MNOs' Strategic Positioning for Operating Loyalty Programs

- **Customer data:** MNOs already have KYC and phone-related data (transactions, location, savings, credit, etc.). In advanced mobile money markets, MNOs can have customer savings and credit data as well
- **Competitive edge:** MNOs tend to have the largest customer base in any given country. They have high credibility and can automatically enroll their entire customer base on a loyalty program, if desired
- **Payments solution:** MNOs can promote mobile merchant payments to obtain customer purchase behavior data
- **Differentiation:** In highly competitive markets, loyalty can serve to differentiate MNOs and retain users
- **Future-proof:** MNOs' innovations are naturally aligned with the global trend of going mobile
- **Distribution channels:** MNOs can deploy a loyalty program through their robust distribution channels, i.e., agents and merchants

MNO-Specific Benefits of Loyalty Programs

- **Churn:** Help MNOs lower churn amidst competition
- **ARPU:** Increases ARPU though maintaining high-value customers for longer periods
- **Cost savings:** Improves retention – it is cheaper to retain a customer than to acquire a new one
- **Marketing:** Provides built-in marketing and reduces advertising costs through better-targeted marketing
- **Revenue:** Offers additional revenue from program fees and from selling better targeted VAS
- **Brand:** Builds the MNO brand and improves brand appeal and perception
- **First mover advantage:** For the first MNO, may define the future direction of the market (e.g. in mobile merchant payments, if loyalty is targeted there)

Note: a narrow-narrow loyalty program may not be of interest to MNOs given the amount of customer data they already possess. A broad-broad scheme provides the most opportunity for additional data and benefits

MNOs can target a loyalty program towards their customers, agents and/or merchants in order to build loyalty, reduce churn and increase engagement



Customer

- Customers have a **high level of engagement with MNOs**
- However, there is high customer churn in very competitive markets – through switching networks or varying SIM activity for customers owning multiple SIMs
- MNO-customer loyalty programs have shown success in multiple markets globally
- Many MNOs without formal loyalty programs operate strong loyalty-driving initiatives



Agent

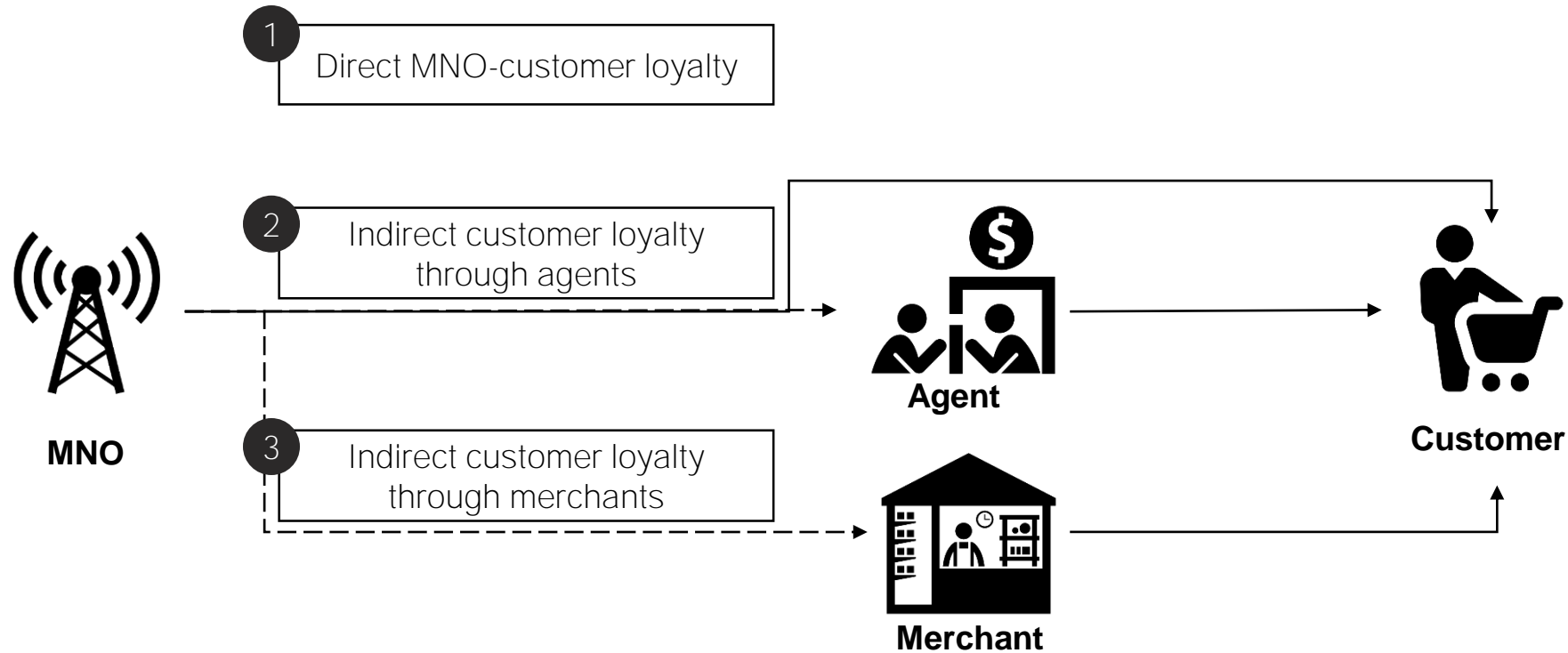
- Agents have **high level of engagement with MNOs** and their customers
- MNOs incentivize agents through direct financial incentives and indirect incentives that work to assist their businesses
- However, these incentives are not necessarily loyalty building
- A loyalty program may assist in building agent loyalty to MNOs, especially where agent exclusivity is not allowed



Merchant

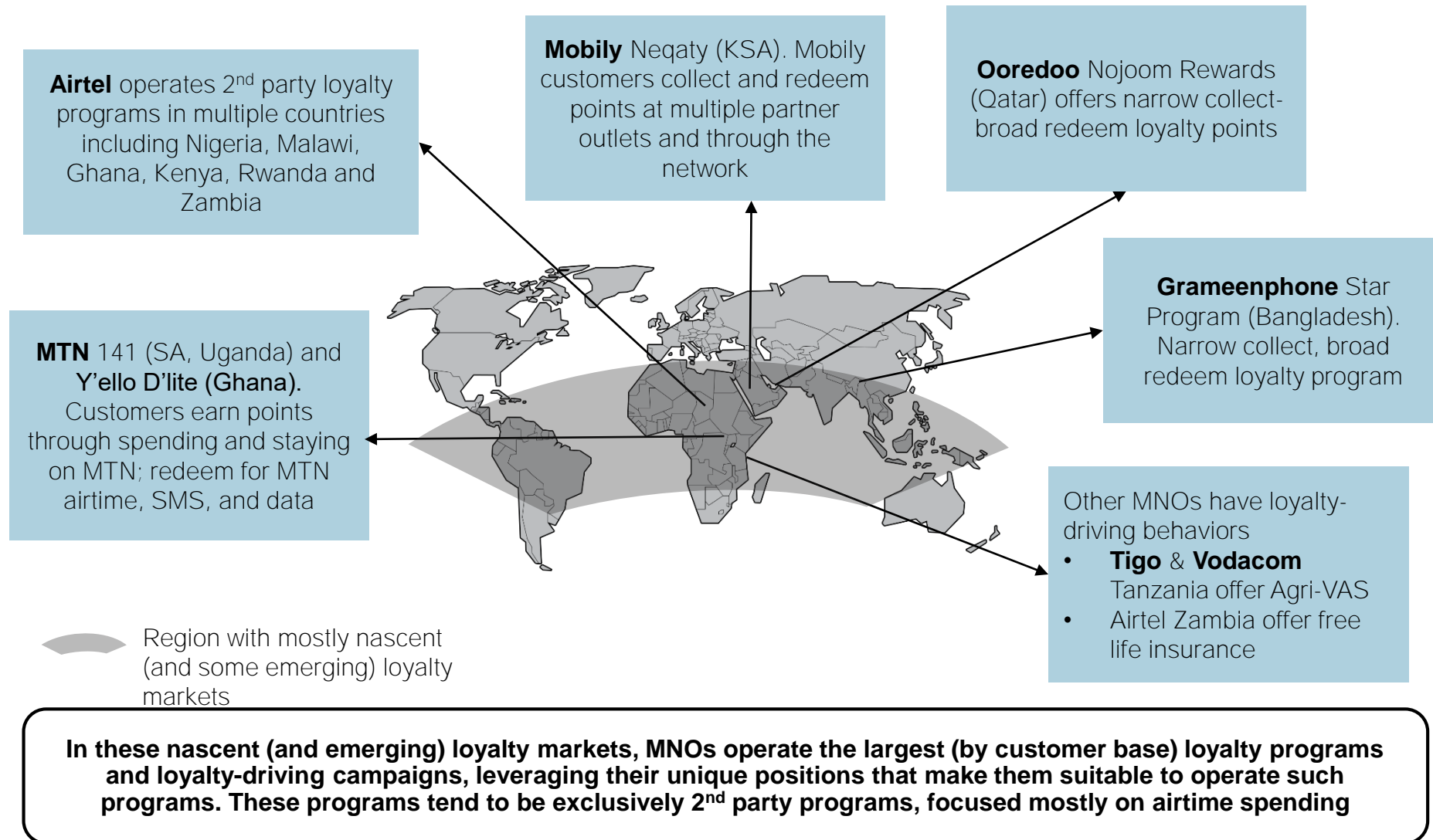
- Merchants have **low levels of engagement with MNOs**, with notable exceptions in a few markets, e.g., Kenya (Safaricom) and Somaliland (ZAAD)
- MNOs in advanced mobile money markets are leveraging the frequent merchant-customer interactions to offer merchant payment platforms
- A merchant loyalty program, although uncommon, may assist in accelerating adoption of these payment platforms

For customers, MNOs can offer loyalty programs directly or indirectly through their distribution channels in order to build loyalty and reduce churn



- MNOs can deliver a customer loyalty program through multiple channels. Delivering loyalty directly to customers or through agents will make them second party operators; this will limit their prospective membership to their own customer base (albeit, a very large base for most MNOs), and focus on behavior already common to customers (airtime purchases, etc.). A merchant loyalty program could operate the same way, but opens other opportunities
- **Delivering a loyalty program through merchants could instead focus on the MNO's mobile money offering.** The MNO can then operate as a third party loyalty provider with multiple partners, and drive mobile money use and merchant participation

Across the world, MNOs operate direct customer loyalty programs as a customer acquisition and retention tool and for marketing purposes



An MNO-agent loyalty program can incentivize agents to increase activity and investments in their agency business



Current incentives

- As a business, the primary incentive for agents is the commission – it is calculated to account for the opportunity cost for the agents
- MNOs offer high-transacting agents business loans to assist with float management (e.g., Safaricom (Kenya), Vodacom (Tanzania))
- Agents receive co-branded marketing and marketing collateral to support their businesses
- Some agents are rewarded for registering new users after the users reach a transaction threshold

However, these incentives are not particularly loyalty-building. Non-exclusive agents, in particular, may need additional incentives to keep them loyal to specific MNOs

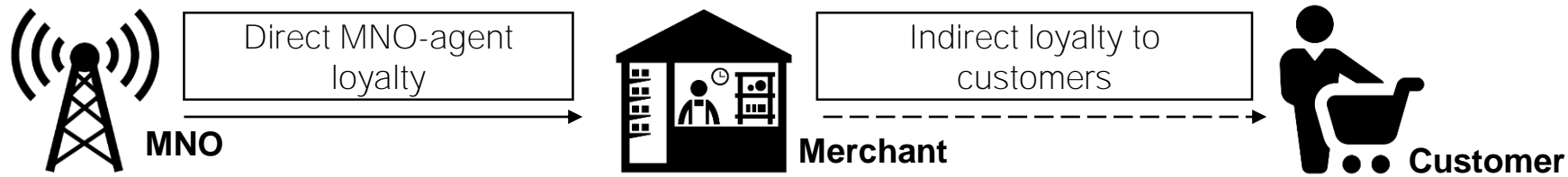
Loyalty program for agents

Agency business requires agents to keep large sums **‘locked away’ as float; this sum would be typically used as working capital in traditional businesses.** Moreover, non-exclusive and non-dedicated agents need to manage float between various provider tills and between the various businesses they operate.

An MNO-agent loyalty program may:

- Reward agents for services (e.g., transactions, recruiting) and behaviors (e.g., activity, float management) to support the business case for increased investment and management of float
- Incorporate some gamification, rewarding more loyal agents with increasingly more attractive rewards, e.g., agent training, business loans

An MNO-merchant loyalty program can catalyze the wide-scale adoption of mobile merchant payments



Current situation

- The primary MNO-merchant engagement is through a mobile merchant payment platform
- However, mobile merchant payments have been slow to take off in markets due to, among other things, the undersold value proposition (in the face of cash), poor linkages with suppliers/banks, and poor digitalization of ecosystems
- Customers interact more with merchants than with agents; the merchant network must be significantly larger than the agent one if mobile merchant payments are to take off

MNOs can support merchants to see the business case for mobile payments, through a combination of incentives (including VAS) and loyalty programs

Loyalty program for merchant

To successfully drive mobile merchant payments, both merchants and customers must be incentivized to migrate to the platform. A loyalty program that rewards both parties may accelerate adoption:

- MNOs could reward merchants for transactions and 'signing up' first-time users
- MNOs could further reward customers – or support merchants to reward their customers – for transacting with the platform
- Rewards to merchants need to be relevant to their businesses, e.g., business loans to most loyal merchants
- Rewards to customers are likely to be more direct, such as airtime or future discounts

Lessons from MNO-agent relationships can inform incentives needed for successful MNO-merchant relationships through a loyalty program

Category	Lessons from MNO-agent relationships	Applicability to merchant loyalty
Main incentives	Agency businesses must make economic sense – commissions must match profits from competing businesses. MNOs also support agents with VAS, such as co-branded marketing and business loans. However, agent incentives may not necessarily cultivate loyalty	Merchant payment should also make business sense; they should bring in additional revenue that would have otherwise been lost without the payment platform. The additional revenue must justify the cost of using the program. A strong loyalty program can help build the case for adopting merchant payments. Loyal merchants should also be rewarded with rewards that support their business operations
Nature of offering	Agents each offer similar, although not identical, services: e.g., cash-in/ cash-out, SIM registration, selling airtime. They can therefore be treated somewhat similarly by MNOs	Merchants, however, will offer varying products. MNOs may have to think about segmenting merchants into relevant categories and tailor offerings specific to each merchant segment. Usage of merchant payments will vary from business to business, e.g., businesses with high-ticket items may find the platform more attractive
Recruiting	MNOs had to balance the number of recruited agents with mobile money users, otherwise running the risk of too few users for agents to be profitable or too few agents for mobile money to make sense. They also had to consider geographic spread of agents to ensure successful remittances across a given country	For merchant payments to work, entire ecosystems would have to adopt the platform. If too few outlets use the platform, users would discount it. If too few customers use it, merchants may drop the platform. Therefore, merchant recruiting will have to be highly strategic
Training customers	Agents have typically been burdened with the responsibility of training customers, and MNOs have had to train them appropriately	This trend may naturally continue with merchants. However, given a less obvious value proposition for a payments platform amidst cash, MNOs will need to offer more support to merchants such as marketing collateral and instruction manuals
Upward integration	Agents need good access to float and support from MNOs in order to successfully run their businesses	Similarly, merchants will need seamless integration of the payments platform with their suppliers, banks and personal wallets. Given the high cost to cash-out, merchants need to especially be able to pay their suppliers with mobile money for this system to make business sense to them

MNOs can deploy third party loyalty schemes through merchant payment platforms

Traditional MNO Loyalty Program

Typically, this is a 2nd party loyalty program that **rewards MNO customers for MNO-related transactions and behaviors**. This, however, brings little new data on customers given the level of insight MNOs already have on consumer behavior. This type of program, despite being common, needs to onboard agents, merchants, and broad collection and redemption partners in order to bring better value and benefits to MNOs. We therefore suggest MNOs consider **merchant payment loyalty programs**

Merchant Payment Loyalty Program

- A program that **rewards customers for using the merchant payment platform in exchange for data on their spending behavior**. This data can be analyzed and insights offered to limited high-performing merchants as a VAS. **Merchants are also rewarded for promoting the platform and on-boarding new users**
- As MNOs know customers' locations, they can send targeted location-based offers for earning and redeeming rewards, e.g., “earn double points by dining at restaurant A in your location”, or “buy a soda from merchant X and get the same value airline back in points”
- For a limited scale VAS, access to it can be linked to a loyalty scheme to determine who qualifies, e.g., customers can be credit scored to receive store credit based on their loyalty standing

MNOs can design a loyalty program that **integrates merchant payment platforms** with **best practices from conventional loyalty approaches**

Designing a successful merchant payment loyalty program will hence need to observe the traits of successful loyalty programs around the world (1/2)

Traits	How MNOs should design their merchant payments loyalty programs
Simple	<ul style="list-style-type: none">• Merchant payments loyalty programs are a relatively new concept and this document advocates for their launch in nascent loyalty markets. It is hence critical for MNOs to make the programs simple and easy to understand given their newness and the relatively low digital literacy in these markets.• The collection and redemption mechanisms should be straightforward with as few caveats as possible. If the program is perceived as difficult or confusing, it may be quickly dismissed by prospective users
Evolves	<ul style="list-style-type: none">• After a successful launch, the MNOs should not let the program run on autopilot. The MNO should observe the reception and activity of the program and quickly iterate to improve the offering. Moreover, they should consider how the program needs to evolve over time and adapt to market trends (e.g., increasing smartphone penetration, growing consumer base).• Since this is a new loyalty space, MNOs will have the opportunity to define the rules of the game and perhaps even proactively define the evolution of these programs.

Designing a successful merchant payment loyalty program will hence need to observe the traits of successful loyalty programs around the world (2/2)

Traits	How MNOs should design their merchant payments loyalty programs
Tangible / relevant rewards	<ul style="list-style-type: none">• MNOs should consider rewards that are substantial and relevant enough to drive loyalty. These rewards could be GSM-related (airtime, SMS) or business-supporting (e.g., merchandise, experiential rewards, marketing material for merchants, loan eligibility, targeted promotions). Whereas customers may appreciate GSM and store offers, merchants tend to appreciate rewards that support their businesses• To offer better rewards for more loyalty, MNOs may consider categorizing merchants and customers into tiers depending on the number and value of transactions in a given time period
Uses data to target customers	<ul style="list-style-type: none">• Since MNOs already have significant customer data, they should leverage the additional data on customer spending behavior to (i) develop comprehensive customer profiles; (ii) explore collaborations with other parties that can analyze the data (or metadata) to provide insights; (iii) partner with financial services providers to credit-score and provide financial services such as store credit; (iv) use the data to better target similar segments

MNOs should also consider the current global trends in loyalty programs as they design their merchant payments loyalty programs (1/2)

Traits	How MNOs should design their merchant payments loyalty programs
Increasing accessibility	<ul style="list-style-type: none">• MNOs are already highly visible and widely used even in most markets. Any loyalty program operated by an MNO will automatically benefit from good accessibility.• To increase accessibility further, MNOs may invite large merchants (who are early loyalty players or may otherwise choose to open a loyalty scheme) to their broad-broad program – following the model of Neqaty in Saudi Arabia
Going mobile	<ul style="list-style-type: none">• By default, the loyalty program will be delivered via mobile phones.• MNOs should closely consider the technological infrastructure in their respective markets (e.g., smartphone penetration, internet availability, cost of services) to determine whether to launch the program on USSD, SMS, smartphone app, NFC, or other platforms
Revenue-based model	<ul style="list-style-type: none">• To appropriately reward customers and merchants for using the platform, the program should ideally reward users based on the value of transactions to the MNO.• However, because of the infancy of the platform and the need to encourage activity, MNOs should consider a combination of value to MNO, overall value of the transaction and volume of transactions in determining the tier categorization of merchants and customers – the latter two being much easier for merchants to understand

MNOs should also consider the current global trends in loyalty programs as they design their merchant payments loyalty programs (2/2)

Traits	How MNOs should design their merchant payments loyalty programs
Emotional incentives	<ul style="list-style-type: none">• MNOs should consider rewarding non-transactional activities that build loyalty. For customers, these may be referrals, social media engagement, and length of usage of platform. For merchants, these may be on-boarding new customers, adding authorized users, and linking the payment platform to a bank account.• MNOs should also consider providing experiential rewards to loyal customers and merchants such as exclusive access to events and promotions, or complementary memberships to clubs
Price-matching / lowering	<ul style="list-style-type: none">• Payment providers are unlikely to be able to price-match products across merchants; however, they could match their service fees to those of competitors (and potentially use that as a marketing message)• The cost of merchant payments (headline fees) is often perceived by merchants and customers as higher than the cost of cash (the cost of cash is often hidden). MNOs will have to use their loyalty programs to create additional value for merchant payments such that their perceived cost/benefit balance matches or exceeds that of cash• In markets with multiple digital payment platforms, merchant mobile payment platform needs to be competitively priced to be attractive to merchants, i.e., MNOs should ‘price-match’ their fees to those charged by other payments providers (e.g., Safaricom’s (Kenya) merchant payment platform offers lower fees than VISA and MasterCard)

