Driving Successful Card Loyalty and Stored Value Programs

How to Get a Better Return on Your Investment

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INTRODUCTION

Consumer loyalty marketing has tripled in size since 2000 to become both ubiquitous and expected in the marketplace. According to the 2013 COLLOQUY Loyalty Census, there are more than 2.65 billion loyalty program memberships today in the United States, alone. In the United Kingdom, 95 percent of consumers have at least one loyalty card in their wallet, and 88.2 percent of them claim to use their cards regularly. A quick look inside your own wallet will reveal the prevalence of card loyalty marketing. The rise in card loyalty marketing has been met with advances in mobile, payment, and card technologies, as well as a surplus of choices. Many loyalty programs today encompass comprehensive consumer marketing strategies that transcend spending incentive initiatives. Card loyalty programs have evolved from simple points and rewards systems to more sophisticated alternatives that combine POS with consumer analytics. Marketers wish to understand, predict and influence consumer behavior, while managing and optimizing consumer spending over time across many locations. Programs that combine payment and loyalty on one card require an extra level of complexity in planning, execution and management. These programs need to handle the integration of consumer, POS, and large sets of enterprise data, and in today's environments they also need to respect the consumer's ever-growing concern for privacy and security.

To manage this new set of requirements and complexity, loyalty and stored value programs are now utilizing cards with larger data storage capacity, multi-functionality and stronger security features. Whether you are considering a simple rewards program or more advanced and multi-faceted programs, it is important to be educated about your options, the available card technologies, and most importantly customer-focused strategic planning and execution.

The wrong card technology selection can lead to a systemic failure in the long run as your system grows and as technology evolves, causing problems in data management or transaction protection.

But then again, a mediocre marketing strategy that does not define attainable goals or address real solutions to consumer problems will not prove to be effective regardless of the technology choices.

Proper preparation for a well-constructed loyalty program can be a daunting task, but its potential rewards are significant. This CardLogix white paper provides an overview of available card technologies and media for simple to complex loyalty programs with useful tips for making informed business decisions. It then provides suggestions for designing and executing a successful program to grow your business, strengthen customer loyalty, and boost your organization's bottom line.

THE IMPORTANCE OF CONSUMER LOYALTY PROGRAMS

The inclusion of a well-constructed and well-executed consumer loyalty program will be what separates a large and successful retailer from a developing one. With a suitable amount of education, planning, and thoroughness, your company will realize its many, long term benefits.

Card loyalty program benefits include:

- **Customer insight.** "Know thy customer" is the first commandment to any effective marketing strategy. Sophisticated loyalty programs do more than incentivize spending. They monitor, analyze, predict and influence consumer behavior in order to strengthen market positioning strategies and increase sales from target customers.

- **Customer retention costs less.** Seasoned marketers know that it typically costs companies 5 to 10 times more to attract new customers than it does to retain existing ones. As time goes on, organizations that concentrate on retaining existing customers spend less on overbearing advertising and marketing outreach costs.

- **Loyal customers spend more.** Existing, satisfied customers have developed an appreciation for your company and products, which automatically differentiates your solutions from the competition. Not only do loyal customers make more purchases, they are less price sensitive and more willing to purchase your products should your prices rise. They are also less likely to turn to a competitor's product if your competitor's prices decrease.

- **Meeting consumer expectations.** Loyalty programs do not only benefit retailers. They benefit the customers too, and they are progressively expecting loyalty programs at retail stores. Research shows that approximately 40 percent of consumers would be less likely to purchase from a store that didn't offer them.

- **Your competition is doing it.** The competition is using their loyalty marketing to win your customers and business. Consumer expectation is that some form of loyalty awards should be offered just to keep their interest. The absence of any program decreases your competitive parity.

- **Incentivizes spending.** Rewards, points and discounts that offer real value to your customers motivate new and existing customers to buy your products vs. the competition.

- **Brand awareness.** Most loyalty programs use company branded cards. These cards serve as a constant, physical reminder in new or existing customers' wallets about your company and products.

TYPES OF CARD LOYALTY PROGRAMS

Any card that can store value and yield data can be used as stored value to accumulate points and monetary value, or as loyalty-only to accumulate points and extract information only.

Types of programs include:

- **Membership and VIP programs.** E.g. Costco, Sam's Club and Vons club memberships offer consistent discounts on all products purchased by being a member. Membership cards are an excellent source for gathering consumer data and tracking purchasing behavior.

- **Simple repeat programs.** E.g. Supercuts stamped paper card utilizes a simple point strategy for a rewarding transactional behavior.

- **Discount and immediate rewards and points programs.** E.g. Frequent flyer and casino player tracking programs with single or multi-tiered compensation for rewarding a customer's behavior. Although a points system is the most common form of loyalty programs, it is not applicable to all business types. This type of loyalty program is most appropriate for businesses that encourage frequent, short-term purchases.

- **Stored Value / Prepaid / Gift programs.** E-gifting is a trend that continues to grow. During the last week before Christmas 2013, Starbucks sold 2 million cards per day. In the year of 2013, sales of gift cards surpassed $118 billion, an eight percent increase over 2012, according to CEB (NYSE: CEB).

- **Multi-applications programs:** These programs combine a few elements of each of the above to reach their goals. A good example is a gift card that morphs into a rewards card once the value has been spent. This type of card can incentivize the card holder to share additional demographic data for future promos and repeat visits.

CARD LOYALTY TECHNOLOGY INFRASTRUCTURE

It is important to understand the basics of a card loyalty program's technology infrastructure in order to make better strategic decisions. The integration of a card loyalty component into an existing computing infrastructure involves how card data moves from the point of use, interacts with larger system data and how securely it must be maintained. Your systems needs to have adequate processing power, bandwidth, data storage and network compatibility. Knowing your overall system is key in your evaluation.

Components of all card loyalty systems include:

- **Cards.** There are many types of cards that differ with respect to the type of embedded machine-readable technologies, card substrates, and card style. Card selection depends on several factors, including budget, level of security requirements, number of program features and complexity, network system architecture, card reader, and available software.

- **Network system architecture.** The locations where your data lives, where it moves, and how it moves define your network system architecture.

- **Card acceptance devices.** Also known as CADs, card readers, or terminals. These devices read information from your card and communicate with other PCs and host computers.

- Card software. Card software includes POS payment applications, card holder management systems, and accounting software among others.

CARD TYPES AND TECHNOLOGIES

The loyalty card is the main contact between your customer and your business. Choosing the appropriate technology and style is integral to the overall success of your program. There are many types of card technologies, and the right technology must be able to handle your program's requirements and meet your security needs.

Card Technologies include:

- **Paper, non-machine readable cards.** Thin paper cards that are punched or stamped every time a purchase is made are still being used today in very simple rewards programs.

- **Barcode.** This is the simplest kind of machine-readable technology with limited data storage. Today, 2D barcodes, QR Codes most commonly, are being used for simple loyalty and marketing programs where consumers are quickly led to a brand's website and to 'check in' at stores to receive loyalty points.

- **Magnetic stripe.** Encoded with read-only data, these cards are very ubiquitous and cost effective for single location businesses.

- **Smart Card - Contact, Memory.** Memory smart cards are chip-based cards used for storing small data sets with limited to no on-card password or file management capabilities. A memory card is more secure than a magnetic stripe card, but significantly less secure than a microprocessor smart card. All contact smart cards require a card reader or terminal to read from and/or write to the card and contain a visible computer chip on the face of the cards.

- **Smart Card - Contact, Microprocessor (CPU).** Microprocessor smart cards contain a central processing unit (CPU) and card operating system to manage keys and to protect data stored in organized card file structures with advanced encryption and authentication functions. Important advantages of microprocessor smart cards include reliable protection of user data and assets, strong authentication of personnel, terminals and PCs, and the ability to run multiple applications on one card in a distributed or hybrid system architecture. One card can manage payment and stored value, loyalty points, and player or consumer tracking. It can also be used as a key card at hotels and hotel casinos. The cards enable off-line authentication and on-line identification, and they do not need to dial out on a network to securely complete a transaction.

- **Smart Card - Contactless (RFID/NFC).** Contactless smart cards differ with regard to their communication interface, using RFID and NFC communication protocols, and they do not require insertion into a reader. Instead, they are presented close to the reader to read and/or write data. Contactless smart cards can contain either a memory or microprocessor (CPU) chip. The chip is not visible on the card, because it is embedded within the card's layers.

- **USB Cards.** Similar to a thumb drive, the USB flash drive is embedded into the card. These cards are commonly used for membership card programs, gift cards and given away at tradeshows.

- **Virtual Cards:** Virtual cards refer to loyalty applications on mobile devices. QR codes and NFC tags are technologies commonly used in these applications. Virtual cards are increasingly being used where convenience and high-speed transactions are priorities. One drawback to virtual cards is the loss of a branded card in a customer's wallet, which serves as a constant, physical reminder of your company's brand.

The type of card technology you choose will depend on many factors, some of which include:

- **Strength of network connectivity.** The strength of your network connectivity, that with which all data within your loyalty program is stored and shared, will help you determine your card selection. Typically, organizations with weak networks benefit more from chip-based smart cards that can hold and transact a significant amount of data without having to remain connected to a network at all times. This is especially true with cards that contain stored value and require multiple POS locations. These systems rely on distributed or hybrid system architectures.

- **Multiple merchants vs. single merchant involvement.** Generally, the more stores a company has, the more sophisticated its system will be. Retailers with disparate locations connect their stores by means of cloud servers or distributed systems that use smart cards with large storage capacities. In general, smart cards offer stronger security than client-server based networks in the cloud.

- **Level of privacy concerns for data sharing among disparate merchants.** More and more, consumers are becoming suspicious of and sensitive to matters of privacy. If ensuring the privacy of consumer data is a feature you wish to advertise in your loyalty program, then the best card choice will often be a CPU smart card with encryption and password protection capabilities.

- **Expected life of the card.** Your choice of card material (substrate) and card technology will affect the life of your card. Some substrates are more durable and longer lasting than others. This is also true for machine-readable card technologies. It has been shown that, on average, contactless chip-based cards last the most amount of time, while magnetic stripe cards last the least amount of time.

CARD TECHNOLOGIES

Card Technology	Digital Data Storage[3]	Drawbacks	Advantages	Average Cost of Finished Cards[1]	Relative Security
Paper Card (NMR)	None	Simple rewards only. Flimsy and often thrown away or lost.	Cost	$0.02	No Security
Barcode	13 bytes average	Read-only, Durability, cloneable	Cost	$0.36	No Security
Magnetic Stripe	250 bytes, 2 tracks	Read-only, 7% Infant Mortality, Reader Life, Cloneable	Cost	$0.38	No Security
Smart Contact-Memory	Up to 250 bytes	Data storage is limited	Read-Write Capability, Durability	$0.80	Medium Security
Smart Contact-CPU	Up to 144,000 bytes	Upfront Card Development Cost	Read-Write & Computing Capability, Durability, Security, Storage. Strong TCO	$1.25	High Security
R.F.I.D. - Proximity	4.5 bytes	Read-only, High Cost of cards, readers and terminals, clone-able	Durability, High Transactional Speed	$2.60	No Security
NFC/ RFID ISO 14443 Segmented Memory	4,000 bytes	Poor security and high cost of card per byte	Existing installed-base of applications	$1.10	Low security
NFC/ RFID ISO 14443 Microprocessor	Up to144,000 bytes	Configuration complexity[2]	High security, mult-functionality and mobile uses	$2.25	High Security
Virtual Card	N/A	No physical reminder of brand in wallet	Integrates with smart phones already in use by customers	N/A	Dependent on Smart Phone and PC Security Features

[1] These prices are for median memory sizes within a series, full color printed and encoded cards at 50,000 units.

[2] Does not apply to contactless cards using pre-configured idblox™ templates.

[3] Digital data storage refers to available user memory. The amount of available user memory a card contains will dictate the amount of information it can manage. For example, an RFID Proximity card can only hold a unique identifier number. A smart card, however, can hold on-card passwords and encryption mechanisms to protect your files. A smart card can also handle on-card stored value for distributed payment systems. Generally, the more user memory a card contains, the more functionality and security the card will offer.

CARD PERSONALIZATION AND STYLE

In addition to the card's technology, its look, feel, and quality can radically affect a customer's perception of your value proposition. This billboard in your customer's wallet is the primary reminder of your brand. It can be enhanced with foils, holograms, signature panels and variable printing.

Card Printing is the lowest-tech aspect of the program, but it is essential because much of your value proposition is carried on this space. All cards need basic printing to identify what they are. This is done with conventional printing techniques like those used for collateral. When viewed as a marketing tool, the card can be more impactful and lasting than most other forms of branding for your business. Cards that contain colorful designs and captivating features are more likely to attract and maintain card holders' attention. All printing requests need design, layout and proofing prior to card production.

Card accessory options, including sleeves, card books, peel off instant rewards, mail outs, and lanyards are other considerations to make when deciding on a card program.

NETWORK SYSTEM ARCHITECTURE

The network system architecture is the framework for the loyalty program and card. Card technologies vary in the amount and level of data processing they can handle, but ultimately all types integrate into a larger system where other, related processes take place, such as accounting, POS, etc.

The three types of system architecture are:

- **Client-Server:** In this architecture, a transaction causes the client (a terminal or PC-based POS) to query value or reward information from the host computer. Because the card merely 'points' to the centrally located data, there is no transaction done on the card and no value is stored there. With each card use, a query must occur to determine and update point status. If your program involves a single point of purchase and you keep your data locally, this is the most cost-effective system. Typical card types are bar-code or magnetic-stripe. If your system has to dial out on a line for a query, this architecture represents the longest transaction time, thus being inappropriate for certain venues. However, the immergence of cloud-based exchange servers have made client-server environments more cost-effective.

- **Distributed:** The terminal and card transact value at the point of transaction, with no reference back to a central host. Data and value are processed real-time at the time of the transaction. Smart contact and contactless cards are the norm in this type of system. Typical applications are stored value telephone or transit systems.

- **Hybrid:** The terminal and card transact value at the point of transaction. Data is collected from the card transaction on the terminal or PC and is batch uploaded regularly to a host computer to reconcile card and central database information and re-synchronize the data. Typical applications are multi-location retailers, casinos and restaurants. Typical card types are contact or contactless smart cards. A secure hybrid system can give a card issuer complete interoperability among POS suppliers and can enable a highly secure and non-repudiable card-present web transactions.

CARD ACCEPTANCE DEVICES

Card Acceptance Devices are the links between the card user and the computing system that executes the loyalty software.

For the sake of clearly defining all of the different hardware devices with which cards can be used, the card industry has adopted the following definitions: The term "Reader" is used to describe a unit that interfaces with a PC or other terminals for the majority of its processing requirements. In contrast, a **"Terminal"** is a self-contained processing device.

Typically, terminals and readers can read magnetic-stripe cards and many can read and write to smart cards. Readers come in many form factors and in a wide variety of capabilities. Physically, they can be as small as a matchbook and configured as part of an attended POS station or in a non-attended kiosk. The easiest way to describe a reader is by the method of its interface to a PC. Smart card readers are available that interface to RS232 serial ports, USB ports, PCMCIA slots, floppy disk slots, parallel ports, infrared IRDA ports, keyboards and keyboard wedge readers. Another difference in reader types is their amount of on-board intelligence and capabilities. Large price and performance differences exist between an industrial strength intelligent reader/writer that supports a wide variety of card protocols and a home style card reader that only works with microprocessor cards and performs all processing of the data in the PC. The options in terminals are just as varied. Most units have their own operating systems and development tools. They typically support other functions such as magnetic-stripe reading, modem functions and transaction printing.

Balance Checkers: These are small key-chain style readers that can read a contact smart card value or points. Some of these devices can also read back the last 10 transactions from a file stored on the card.

CARD ACCEPTANCE DEVICE CONSIDERATIONS

- **Versatility:** How many different types of cards can the device handle? i.e. smart, magnetic, R.F.I.D. (contactless) and bar-code. Keep in mind each card technology uses its own communication protocol to interface with the rest of the system.

- **Storage:** How much capacity do you need to store data between batch host sessions?

- **Physical:** What footprint space do you have to work with? Will display data and keypad be used only by the merchant or also the customer? Is it readable in low or bright light?

- **Security:** Secure Access Modules (SAMs) are often provided in the back of the device. These securely store and isolate programs that work together in the device. Depending on what programs you incorporate, you may need SAMs.

- **Function Extensions:** Purchase now or plan for function upgrades for additional card types. Unplanned upgrades can be costly.

- **Network Compatibility:** When used additionally as a credit/debit acceptance device, the terminal system must be compatible with different approval networks i.e. Visa, MasterCard Amex & Discover.

- **Mobility:** Many methods of payment leverage the convenience and speed of smart mobile devices. Mobile payment solutions include mobile card readers that support magnetic stripe and chip card technology, NFC and 2D barcode mobile device readers, tablet POS solutions, and others. Mobility offers shorter lines and faster, more convenient transactions. Smart phone applications are now reading QR codes, RFID tags, and exchanging information via NFC technology with contactless smart cards.

- **Convenience:** Convenience and fast transactions are most important in shops that cater to "get in and get out" shopping needs with smaller dollar amounts, such as fast food restaurants, convenience stores and gas stations. Shoppers want the fastest way to pay, and they will not bother with a loyalty or membership card if it means having to wait longer than they had previously. In these cases, contactless (RFID) readers or QR code scanners fit best.

HOW EMV AND NFC ARE RESHAPING THE RETAIL LANDSCAPE IN THE U.S.

Two major changes are reshaping the retail landscape in the United States: the demand for mobile payment methods and EMV (Europay, MasterCard and Visa). Payment methods via smart mobile devices are emerging for both card-present and card-not-present transactions. NFC (Near Field Communication) has now been fully adopted by Android and Apple platforms for payment schemes. The method of payment is called "tokenization". This capability in your cell phone will reshape many loyalty and stored value programs and will force a rethinking of traditional magnetic stripe style projects. Other solutions include detachable card readers (also known as dongles) for smart mobile devices and integrated POS tablets that combine payment technologies with consumer loyalty programs, among others.

By 2016, magnetic stripe cards will no longer be the default payment card type in the U.S. as EMV, a smart card-based payment system becomes the standard. Many merchants are already preparing for its migration by installing card readers that handle both magnetic stripe and chip cards, and merchants will need to take EMV standards into account as they decide whether to go forward with a card-present or card-not-present payment strategy.

CARD SOFTWARE

Related card software governs how the card and acceptance device work in the larger system and other sub-systems within your business.

Application software is the engine that runs your program. This software will be a mix of Point of Sale (POS) / Point of Purchase (POP) related applications and back-end reporting and settlement software. There are many choices, often tied to hardware infrastructure that you have or are putting in place (Terminals, PCs). The choice to make, or buy/license, or do both is a difficult decision for most organizations. But if you have already done your research and you have mapped out the infrastructure, your task is much easier.

TOTAL SYSTEM COSTS

Plastic cards have been around for so long and are so ubiquitous that cost analysis of a card-based loyalty program often starts and ends with examination of card cost only. Evaluating card technologies for a system requires viewing the loyalty component strategically as a permanent, long-term investment. Total system cost ultimately governs ROI and should be calculated with the following points in mind:

Transaction Costs. In a client-server system, the connection between card and database depends on either a dedicated data line or dial-up access per transaction. Costs include line access and per-use charges. When loyalty transactions are performed in a distributed or hybrid system, transaction processing is not required for each use of the card. This is especially valuable for any business that does not currently maintain a dedicated data line. It is also a factor for a high volume of transactions on an existing line.

POS Interoperability/Independence. In any business that is or plans to grow into a multi-site operation, POS coordination with a loyalty program can be problematic. POS systems consist of terminals and software that must work with the loyalty card, software, reader or terminal. For some companies, it makes sense to pay per-use and license fees to a single turnkey vendor to integrate between systems and locations. For others, in-house or out-sourced software development makes more sense. The degree to which your company can control the integration road map will dictate cost control and system flexibility. Software is now commercially available for loyalty programs that integrates with POS independence and is licensed via the customer to secure POS vendors.

Web Commerce Fraud. Smart cards excel at securely verifying a cardholder's identity for Internet transactions. This guarantees 'card- present' transactions, eliminating fraud and resulting charge-backs. Additionally, lost or stolen cards cannot be accessed, since the smart card's data is encrypted.

Field Upgradability. Smart cards are reprogrammable not only for program updates, but also for additional applications, such as stored value, ID, etc.

Third Party Fees. Although turnkey solutions are quicker and easier initially, over time, per-use and license fees accumulate and can represent a significant hit to the bottom line.

Media Costs. The cost of media includes the cards and the accompanying collateral.

Ongoing Communication and Promotional Costs. Labor costs, marketing analysis tools, and advertising, should be calculated in your total loyalty program cost.

STRATEGIC PLANNING AND EXECUTION OF CARD LOYALTY PROGRAMS

Now that you have a better understanding of the components involved in a loyalty card's infrastructure, the advantages and disadvantages of different systems, and the available card technologies and factors, it is time to formulate your executive marketing strategy and business plan.

The success of a card loyalty program is dependent on strategic planning, preparation and execution. Unfortunately, many loyalty programs fail due to a mismatch of card technologies and program requirements, poor program design, or poor program execution. Companies lose money on time and effort, and customers get no more value from the businesses to which they are "loyal." Among the various methods to attract and retain high-profile customers, only the companies that combine the correct technology, strategy, and execution will be profitable.

Why do many programs fail?

- **Poor program design and execution.** Only a well thought out business plan with measureable objectives, proper training, and successful implementation will lead to a lucrative consumer loyalty program.

- **Lack of perceived value by the customer.** As loyalty marketing matures and becomes more prevalent, consumers need ever-more compelling reasons to give your program a try, much less stay with it. Consumers are looking for rewards they actually care about, and many customers have been turned-off by the lack of real value in loyalty programs. If consumers cannot see the benefit to use your program, they will not be interested.

- **Wrong card technology per program requirements.** Consumer Loyalty programs differ in terms of complexity and requirements. Programs with multifaceted features and benefits will fail if the card technology and system cannot handle its requirements. It is vital for companies to address these issues during initial stages of project strategy development.

- **A loyalty program is not a cure-all.** Loyalty only enhances and does not replace the timely delivery of quality products, good service, convenience and other key factors of customer service.

SETTING PROGRAM METRICS

The following benchmarks will help you establish and track ROI goals. The understanding of these metrics will help in the creation of a *financial model* that identifies revenue streams, business opportunities/pitfalls and justifies program expenses.

Expected Card Issuance: How many cards do you expect to issue?

Identified Transactions: Can you identify all different types of transactions? (Including quantity, method of payment, place, and time).

Average Customer Value: What is the average worth of your current customers and each transaction, including gross sales and profit, over time?

Average Program Member Value (proposed): What is their expected average worth in sales and in profit after customer acquisition and retention costs?

Margin: What is your current overall profit margin? How will changes in margin affect your loyalty program's ROI?

Current Churn Rate: A model of current customer attrition.

Projected Customer Retention Rate: What percentage reduction in attrition would make your loyalty program profitable? These assumptions are very important for pre-paid stored value programs.

Funding Rate: What can your program afford to offer? What increase in customer spending are you expecting? How will rewards be distributed across various customer segments?

Redemption: What is the maximum amount of redemption the program can handle and remain profitable? Consider that a high level of program success means a high volume of transactions. This could figure prominently into transaction costs and fees discussed in more detail below.

Float: According to a 2011 report from COLLOQUY Loyalty Consensus, of the roughly $48 billion in reward points and miles issued annually, at least one-third ($16 billion) goes unredeemed by customers. Consider the interest earned on the outstanding stored value remaining on the cards that is nominally maintained as members accumulate points/value toward rewards. This is particularly important with gift card program calculations.

Breakage: This is the money that is never redeemed from stored value cards. As an issuer, you can use this, as well as convert card value that is never redeemed.

Points Of Purchase (Present and Future):

Since the cornerstone of a successful loyalty program is to fine-tune your customer knowledge base to increase sales, you must consider the places where your customers might buy from you today and in the future. Especially problematic are 'mystery customers' who are poorly profiled.

For example, many retailers misjudged the initial importance of customers shifting their purchases to the web. Bear in mind that each point of purchase comes with an associated customer acquisition, retention and transaction cost.

Typical delivery channels will include:

- Retail stores

- Other channels, such as distributors

- Internet

- Catalogs

- Related businesses

How customers pay for products is also important. Typical payment methods include:

- Cash

- Debit/ATM

- Check

- Credit

- Mobile

- Gift card/Stored Value Card or certificates

- Coupons & paper punch cards

And, a customer's preferred payment method is also significant. It is suggested that you:

- Identify restrictions, such as the possibility of children paying with checks or a credit card

- Identify opportunities and trends, such as migrating sales to a different payment method. For example, with EMV (Europay, MasterCard and Visa) on the horizon, many U.S. companies are switching to smart card compatible card readers to prepare for the eventual migration away from magnetic stripes and toward chip cards.

Measuring ROI across System Components: With a loyalty program in place, you should be able to provide measurable answers to the following questions among others:

- What ROI did your POS system earn?

- What ROI did the upgrade of your ISP earn?

- What ROI did each marketing advertisement earn?

- What ROI did your new branding earn?

- What ROI did your existing marketing budget earn you last year compared to this year?

THE VALUE PROPOSITION

As loyalty marketing matures, consumers need ever-more compelling reasons to give your program a try, much less stay with it. Loyalty marketing has become so prevalent that customer expectation is very high. Apart from rewards, customers have been turned-off by the lack of real value in many loyalty programs, as well as a merchant's poor execution of them.

A clear definition of what your company is offering to your customers in exchange for a change in their behavior is your value proposition.

Real Value and Brand in their Pocket

Instead of rewarding consumers with points, coupons or freebies that may they have no real interest in, brands are rewarding consumers by giving them back a part of the order value, a branded prepaid credit card. There is no better way to increase customers' value perception than by giving them real value on a card. The consumer actually receives money, so they know the cash value of the reward.

The benefit for the company is the constant brand exposure it gets and the positive feeling the consumer gets every time he or she uses this branded payment card. There is more incentive to hold onto a card when it holds real value.

Program Execution

In addition to getting feedback from customers, first-hand, your assessment of what to offer should also cover promotion of your program.

This includes getting all the staff on board to fully understand the concepts, so they fully execute. The weak program link is often the unhelpful or poorly trained employee.

The redemption process is critical. Think through how to sustain value and a relationship with the customer through the nuts and bolts of converting points to rewards.

THE PROGRAM MECHANISMS

As important as program planning is, the actual mechanism or card that customers use to participate in a loyalty program has undergone tremendous change. The discussion below excludes non-machine readable cards, such as paper punch and 'show only' plastic cards.

Consumers require:

- A clear understanding of your value proposition.

- A clear understanding of how the program works.

- Accurate tracking of accumulated points or value.

- A convenient way to carry, store, and query for points and value.

- Quick and easy redemption.

On the merchant side, requirements for loyalty mechanisms are:

- Accurate reporting on usage and outstanding balances.

- Data integration with their computing system.

- Manageable cost for issuance, upgrades and redemption.

- Creation of real value for sustained customer retention, in addition to simple redemption (not just 'another card').

When considering your system, questions to answer include:

- What customer information should we track?
- How do we get the customer to give us this data?
- How will I distribute the cards?
- How will cards be activated and loaded with value?
- What type of card traceability should I implement?
- What is the minimum and maximum value each card can store?
- Is the card for loyalty rewards only or for other functions, such as stored value?
- Should card access depend on access to a separate database? Or be standalone within the card?
- How many different card artworks will be included in the issuance?
- Who will do the artwork?
- Will there be a refund policy?
- How many cards will be needed?
- Required fraud protection, especially for web transactions.
- How often will the cards need updating, i.e., adding new stores, partners, program features etc?

How the program should work is the basis of your requirements document. Every detail from enrollment through redemption to end of card life should be described.

CONCLUSION

Just twenty years ago, several merchants could commit to memory the identities and preferences of their customers and create loyalty with the personal touch. The quest for customer loyalty became complicated when choices multiplied, points of sale locations expanded and technology advanced. Careful planning can simplify the value concept for your business and help deliver it to your customers. An integrated approach that includes customer loyalty and relationships as key assets in your marketing plan will provide the foundation and the power to sustain years of increased business. It requires an understanding of your customers, an analytic approach to the value proposition, and the correct selection of technology amid careful crafting of a marketing strategy that fits your business model.

ABOUT THE AUTHOR

CardLogix, Inc. has supplied millions of cards and card components to over 42 countries around the world since 1998. Expert in smart card and chip technology, card operating systems, card software, development tools, and middleware, CardLogix has continuously been at the forefront of smart card technology and its applications.

Contact CardLogix today, and let a sales representative walk you through each step of your card loyalty program's design and implementation.

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GLOSSARY

Barcode

Machine readable printing consisting of a series of bars and spaces standardized by ISO.

CRM

Customer Relationship Management, the functions and programs a company uses to connect with its customers; typically divided into logical groups such as call centers, sales force automation, and supply chain management.

Data mining

The application of a collection of mathematical procedures to a company's data warehouse in an effort to find "nuggets" in the form of statistical relationships.

Loyalty

A measure of the future expectations a company has for one of its customers; intent to repurchase.

Interoperability

The ability of your data and systems to work with multiple vendors and types of equipment; typically terminals and PCs.

Network Topology

The map or plan of the network. The physical topology describes how the wires or cables are laid out, and the logical or electrical topology describes how the information flows.

Near-Field-Communication (NFC)

NFC a set of standards for smartphones and similar devices to establish radio communication with each other by touching them together or bringing them into proximity, typically a distance of 10 cm (3.9 in) or less.

Non-Contractual Commerce

A form of business in which the customer has no obligation to make regular purchases. Non-contractual commerce leaves the customer free to move from one vendor to another in search of better price, product availability, product quality, service or some intangible factors. Non-contractual commerce is more amenable to loyalty analysis because a customer's loyalty is tested with each transaction. In contractual forms of business, the customer has a contract with a company and is billed regularly. Examples include telephone services, most other utility bills, magazine subscriptions, software maintenance agreements and health club memberships.

Off-line Authentication

A method of authorizing and verifying that a transaction, this can occur with out the use of a network. These methods are typically associated with smart cards.

Portal

A web browser-based interface to applications, typically customized for individual users.

POS

Point of Sale - A system used to transact with a customer that exchanges value.

POP

Point of Purchase

Retention

Length of time between a customer's first purchase and the latest analysis.

RFID

Radio Frequency Identification, a semiconductor based technology that is now used in tags labels and cards. Sometimes referred to as contactless.

Secure Access Modules (SAMs)

An additional smart card in a smaller package that is used inside a POS terminal to store specific encryption keys and program information.

Satisfaction

A measure of a customer's past experiences, most likely related to their most recent transaction.

Security

The ability to prevent unauthorized access to crucial information; typically enforced by Smart cards, PINs and passwords and by encrypted transmissions.

Segmentation

The process of dividing a potential customer population into groups based on their market type or location.

Transaction Fees

Monies associated with the use of a processing or loyalty network, typically a per use charge.

CardLogix is a leading U.S.-based provider of smart card platforms for the secure transaction of data and value. The CardLogix smart card technology platforms are the basis for innovative applications throughout the world in loyalty, wireless, healthcare, security, finance and entertainment. For more information, please visit CardLogix on the web at www.cardlogix.com or call (949) 380-1312 ext. 102 or 301.