Personalization
and Digital Identity:
The Keys to Unlock Loyalty

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Executive summary

The increasing emphasis on digital channels, to browse and select services and goods, is having a profound impact on customer engagement and architecture especially within retail, hospitality, restaurant and food businesses.

Globalization, increased competition and shrinking margins is forcing many businesses in all of these sectors to rethink the ways they attract, engage and build meaningful relationships with their customers.

As companies shift from traditional service/supply to more customer centric 'experiential' models, it's no surprise that loyalty, which can take the heat of sales acquisition and boosts profitability, is being pushed onto their strategic roadmaps.

However, market feedback reveals that many traditional 'catch-all' schemes lack the digital architecture to satisfy the demands of always on, multi-device using customers and digital-natives, thereby preventing loyalty from achieving its goals or delivering viable ROI.

FreedomPay believes that shifting the emphasis from purely 'tactics' to supporting 'technology' holds the key to unlocking the true value of loyalty, boosting redemption rates, increasing revenue and preventing customer churn.

This report explores how commerce technology in particular can help to close the expectation and reality gap that exists within current loyalty programs, which fail to capture the hearts and minds of modern consumers.

It also reveals how re-engineering loyalty models to include payment-linked ID engines, including tokenization, are crucial to deliver the seamless omni-channel experience, and personalized loyalty and rewards, that today's convenience-focused consumers have come to expect.

In the 'experience' economy, loyalty counts
The business case is clear

When it comes to making a business case for loyalty, figures speak for themselves. Acquiring a new customer is anywhere from "five to 25 times" more expensive than retaining an existing one and it's been found that increasing customer retention rates by 5% can increase profits by 25% to 95%[i].

Loyalty program investment is expected to grow by

21%

by 2023. Yet 54% of customers are inactive.

In fact, members of loyalty programs typically spend between 12-18% more annually than non-loyalty program members[ii]. And, in some industries, loyalty schemes can generate as much as 20% of a company's profits[iii].

A value beyond price

Within the hospitality sector for example, guests are willing to spend, on average, an extra $25 on their preferred hotel brand[iv]. They also drive ancillary revenue by regularly indulging in their favorite services.

They are also more likely to become brand ambassadors and contribute to positive 'word-of-mouth' awareness, which is one of the most powerful components in the retail, restaurant and hospitality marketing toolkit.

New revenue potential

Consumers are even prepared to pay extra to be part of a value-rich loyalty scheme - as long as they see tangible benefits.

There's a growing wave of premium 'pay-to-play' programs championed by businesses that thrive on frequent, repeat purchases or visitors. For an upfront fee, their customers are relieved of inconveniences that could impede future purchases. Many restaurants also offer pay up front meal deals for frequent diners.

Millennials are particularly open to the idea; three-quarters would pay to belong, with 77% of digital natives willing to pay a premium to participate in a loyalty program as long as they're rewarded with valuable perks[v].

Loyalty is broken. Long live loyalty!
Rethinking engagement for the digital generation

Loyalty program investment is expected to grow by 21%[vi] reaching as much as $6.95 billion by 2023. Yet more than half of memberships (54%) are inactive[vii].

With more and more consumers signing up to loyalty schemes, it's clear that the desire to be part of a loyalty program is there. But once signed up, many users are failing to participate in the schemes – the actual practicality of using it or value/convenience balance is switching them off.

Merchants are also missing out. Many traditional programs are still tied to 'card ownership' or the discount mindset, where customers are simply rewarded for items they would buy anyway or encouraged to wait for discounts.

[i] Frederick Reichheld of Bain & Company

[ii] Accenture, June 2017

[iii] McKinsey

[iv] PwC

[v] CrowdTwist

[vi] Business of Fashion

[vii] The 2017 COLLOQUY Loyalty Census

[viii] The 2017 COLLOQUY Loyalty Census

So, what do modern consumers really want from loyalty (and what businesses do to switch them back on)

A frictionless omni-channel experience

Merchants must respond to speed and ease of use. Consumers want to be able to access and redeem loyalty across all channels and they want to be able to do it quickly, seamlessly and with minimal effort. More than half of consumers (57%) feel it takes too long to earn points or miles for rewards and a quarter (26%) of Americans abandon a loyalty program if it doesn't offer a smartphone app[viii].

57%

of consumers feel it takes too long to earn points or miles for rewards.

Personalized benefits

Businesses need a relevant value proposition, perhaps in real-time. Loyalty has to deliver value that resonates with the customer, their habits and their lifestyle. 59% of consumers usually ignore an irrelevant piece of communication from a loyalty program[ix], while 79% are very satisfied with loyalty programs with high personalization[x]. Consumers are increasingly willing to share data to get personalized experiences, enabling brands to deliver more relevant promotions and upsell and cross-sell relevant products or services.

Emotional connection

Businesses need to connect with the modern day consumer. Emotion is one of the strongest drivers of retention. The top five reasons customers give for feeling a connection with a brand are to do with caring. Caring about me, caring about the world, understanding me, being like me, being made to feel special[xi]. Emotionally-connected customers are less price-sensitive, they will also visit a retailer 32% more often and spend 46% more than those without emotional bonds[xii].

'Follow-me' rewards

Businesses must be able to offer flexibility of payment. Increasingly consumers want more liquid forms of loyalty, so they can transport and redeem rewards across different outlets. Open loyalty models that connect synergistic brands and help deliver more value can make brands more relevant to hard to motivate audiences. 23% of millennials have negative or non-existent reaction to companies' loyalty efforts[xiii]. They also want to be able to access loyalty on the platform they love and interact with the most — their mobile device.

ix   The 2017 COLLOQUY Loyalty Census

x   Bond Brand Loyalty report

xi   Customer Thermometer

xii Customer Thermometer

xiii Accenture

What's stopping brands from getting closer to their customers?

The challenges for platform innovation

It's clear that what's needed to get loyalty back on track is a way to create more customer centric models and deliver a safe, secure, frictionless experience. Technical platforms must be able to identify and track customers across all channels and ensure their loyalty journeys are more targeted and rewarding.

Loyalty innovation often gets stuck in the tactically focused 'marketing' mix with little thought to the IT architecture behind it. The majority of loyalty infrastructure has been around for 10 or more years. It's unlikely then that it is able to support the customer centric, highly personalized loyalty schemes that consumers so desperately want.

Indeed, there are many challenges with current consumer architecture including:

Restricted data flow

Many current business functions rely on heavily federated systems with silos of data that are inaccessible from one part of the business to another. SAP, Oracle, Salesforce systems, for example, don't talk to each other. This means that customer data is often fragmented and hard to join up, so merchants are unable to access the wealth of data that already exists within their organization or use it to develop a cohesive loyalty strategy across their business.

Fragmented customer experience

Within the same company, different channels are run by different teams with different agendas and different priorities. Customers can skip across every brand channel and have a vastly different experience within each one. This leads to a fragmented experience for the customer and makes it hard for loyalty to deliver consistent positive interactions.

Poor customer recognition

There is no argument that better analytics tools and technologies are easing the strategic journey toward true one-to-one personalization. However, recognizing ID is the key to unlocking them. Current loyalty platforms still rely heavily on triggers, which adds a layer of friction for the consumer and can result in poor redemption rates. Loyal customers are continually asked to prove who they are or to remember a membership card or number. Unsurprisingly their desire to engage soon disappears.

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Building a new customer centric loyalty model
Connecting commerce and ID

To overcome these challenges, organizations need a new vision. One that uses the latest technology to connect all consumer-facing functions and places an agnostic and powerful identity engine at its heart to deliver next-generation real-time connected commerce and loyalty.

Traditional standard customer architecture

Function centric

- Federated IT systems
- Data in silos
- Poor customer visibility
- Low connection across functions
- Limited innovation potential
- Inflexible services

POS	Payments	CRM	Loyalty Systems
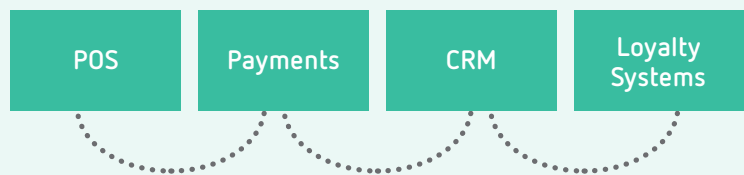
Commerce connected customer architecture with ID engine

Customer centric

- Connected systems
- Data flows freely across functions
- Full customer visibility
- Broad innovation potential
- Flexible services

CRM

Payments — ID Engine — Loyalty

EPOS & Invoicing
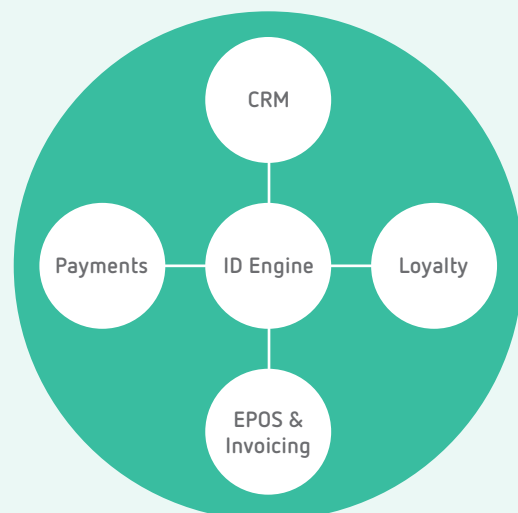
Unlike traditional models commerce connected customer architecture delivers:

- the ability to uniquely identify the consumer in any digital or physical consumer-facing environment including: POS, call-center, in-store, online or via mobile app.

- a way to connect payments and spend to the value of the customer. For example using the value of transactions to determine which customers are VIPs or frequent purchasers and to offer them on-the-spot rewards without a loyalty card.

- alternative payments methods or currencies, including the ability to redeem points as cash equivalent or more.

- a way to extend shared data across networked partners or within a vendor network.

Turning transactions into powerful, profitable relationships

From a technical, and marketing perspective, payment infrastructure is the natural doorway to build out a loyalty program. Payments platforms in their own right are omni-channel, global transaction networks, and have the ability to capture and record transactional data which is rich in customer insight including what, when, how and where they buy.

With the right architecture, non-sensitive payment data flows can be linked through to CRM and loyalty systems, overcoming many of the issues associated with traditional federated systems. With modern platforms, this capability can be delivered at scale, without rip and replacing incumbent business-critical systems.

This enables organizations to execute loyalty as part of business operations - as a platform not as a point solution. So they can make the shift to truly seamless customer centric loyalty programs that encompass security, identity, and tokenization to create deep loyalty platforms.

Solving the issue of identity

The ability to safely and securely identify the customer and know all about them in a moment, is the crux behind delivering a customer loyalty program in the 21st century.

To deliver this, identity has to be ubiquitous across all channels and by any mechanism whether by card, name, payment, phone etc.

Using an ID engine that links loyalty across the business and channels, removes many of the engagement barriers that frustrate customers and cause friction, low uptake and poor redemption.

The role of tokenization – the customer's safety code

One of the most effective ways of doing this is using tokenization – where an algorithm automatically generates an identifier code or token that is linked to the customers payment details, or app, or card, etc.

Commonly used to protect sensitive information and prevent credit card fraud, tokens can be passed through the payment process without actual bank details being exposed. The beauty of this is that businesses can track, monitor and remember tokens without compromising payment security.

Frictionless omni-channel tracking

Tokens work across all channels — physical, digital and mobile. And with the right architecture, they can be linked to CRM and loyalty systems, to provide a 360-degree view of the customer - what they are buying, in which channels, when and how frequently.

Being able to link identity with transaction flow, opens the door to deeper, richer and more valuable insight, allowing organizations to 'follow' customer journeys and deliver more personal loyalty experiences.

Transportable value

Tokens also have the potential to change the loyalty game and take it to another level.

Tokenized points are 100% transferable and tradeable so they can quickly become digital assets within a collaborative cross-loyalty ecosystem. This provides instant liquidity to a loyalty program.

Reward points built on tokens, can become cryptocurrencies that can be used in day-to-day exchange for products and services. This empowers customers to tailor their rewards according to personal tastes and preferences — be it through the purchase, sale or swap of tokens within the greater exchange community.

Providing the tools to deliver richer loyalty experiences

With a centralized and connected loyalty platform, merchants can also use analytics and software tools to turn data into more positive interactions and accelerate exciting new personalized services.

For example:

1

They can identify best performing customers using algorithms to deliver commerce metrics (ACV, frequency) and advocacy (e.g., social sharing).

2

To then target these 'elite' customers with exclusive offers that reflects their status.

3

Optimize shopping cart experiences based on previous behaviors and preferences.

4

Map customer journeys that predict the behaviors of new shoppers and create new paths for repeat purchases that replicate those of a brand's best customers.

5

Curate personalized content and messages based on algorithmically generated customer segments to increase conversion rates.

6

Create lookalike audiences that resemble a brand's best customer segments and advertise to them on various channels.

Overcoming roadblocks

Compliance is necessary but don't let it dampen innovation

Ensuring compliance on data consent, security and access are the three critical issues that retailers who run a centralized loyalty program must address.

While these are all necessary considerations when building out customer centric loyalty programs, merchants shouldn't let compliance become a roadblock to innovation. There are APIs, toolkits and best practice steps that reduce the burden and help merchants conform to international and local regulations. In addition, some consolidated global loyalty platform providers, already allow for data protection and consumer privacy and security to be centrally managed, regardless of where a consumer resides.

Main areas for loyalty compliance include:

European Data Protection (GDPR)

GDPR provides citizens of the EU with greater control over their personal data – be it a name, email, address, date of birth, personal interests, unique identifiers, digital footprints and more. A key element is the importance placed on consent and how it is communicated to the individual. Data needs to be clearly requested from the individual and they must opt into the request. If your loyalty scheme already has members, you must revisit your data processing policies to ensure compliance.

The introduction of GDPR means many loyalty businesses are looking to redesign their platforms, databases and CRM system design to deliver opt-in and opt-out capabilities, which makes it the ideal opportunity to look at new loyalty architecture.

USA data protection

In the US, data protection is regulated by laws enacted on both the national and the state level. At least 24 states have laws that address data security practices of private sector entities. There is, however, no single principal data protection legislation although there is some protection through the United States Privacy Act and the Safe Harbor Act. In America, laws also tend to focus more on privacy and notification if a breach occurs.

PCI compliance

The payment card industry data security standard (PCI DSS) applies to all organizations or merchants, regardless of size or number of transactions, they accept, transmit, or store any cardholder data. PCI DSS has not impacted stored value and loyalty space — yet.

However, merchants should keep PCI compliance in mind as they plan for future programs for gift and loyalty, particularly when implementing cryptocurrencies. PCI is an on-going process. To minimize effort and cost, they can use validated point-to-point encryption (P2PE) and tokenization to significantly reduce PCI scope.

New Payment Services Directive (PSD2) and SCA

In Europe, September 2019 is the deadline for Strong Customer Authentication (SCA), which will be required for all digital transactions, as part of PSD2. All card issuers and merchants/acquirers must support a SCA solution by that date. This requirement will ensure that electronic payment services are carried out in a secure manner, adopting technologies to guarantee the safe authentication of the user and to reduce the risk of fraud.

Two-Factor Authentication (2FA)

SCA basically calls for, at a minimum, 2FA, which requires users to prove their identity using two separate elements from:

- Something they know
  (e.g., a PIN code or password)

- Something they possess
  (e.g., a mobile device or card)

- Something they are (i.e., biometrics, such as fingerprint or a face scan)

Fortunately, there are a wide variety of 2FA solutions already in place that can be applied to loyalty applications that conform to SCA and are widely accepted by consumers such as tokens which can be sent over SMS or other channels.

Turning customer centric vision into practical success

How to plan a new loyalty platform

Before diving in to a new technical solution, it's important to look at the investment in context of the wider business. Here's some simple steps to keep your digital loyalty innovation on track:

Evaluate

Evaluate current consumer architecture. Is it customer centric; is it solving today's challenges and giving consumers what they want and more importantly is it supporting your vision?

Explore

Explore customer centric program designs that suit your customer base and that demonstrably deliver against your business case.

Collaborate

Collaborate with partners that can enable your vision, make sure they understand the issues of compliance, and have a track record in both payments and loyalty.

Determine

Determine the key technologies required, ease of integration, deployment timelines and update/lifecycles.

Create

Create the business case to clearly communicate the benefits to key stakeholders and obtain agreement on resource and expenditure.

Communicate

Build out the digital data architecture and migrate systems – involve cross-functional teams, including training on new capabilities and functions to help them exploit the new platform to the full.

Conclusion

The nature of the loyalty interaction is changing. Digitization of consumer decision and touchpoints has created a desire and expectation for smooth, seamless and highly personal connections. Relationships are now being forged in new ways, and old platforms are too fragmented and linear to support these new requirements.

Technology has changed since the inception of loyalty programs and can deliver far more than points. The capability to deliver virtual currencies, partner networks and new customer centric loyalty design will define the next wave of loyalty investment.

Loyalty will be built around connected commerce platforms that tap into the potential of payment data to deliver a holistic view of customers across all channels and access points. Centralized ID engines will drive ubiquitous and secure access to these using tokens to recognize and track journeys and enable loyalty value to be transportable.

Now is the time that brands must begin to bring customer loyalty into every interaction, not simply asking them to sign up for a loyalty program but doing whatever it takes to ensure both short- and long-term customer retention. Because customer retention equates to profit across the whole business.

Achieving the unification of customer experience, digital transformation, and customer loyalty into one single strategy will require the organization to come together. Direction will ultimately come from the C-suite because putting loyalty at the core of every interaction of any strategy will impact every part of the business, including its policies and processes.

For those that succeed, the benefits will bring them closer to customers than ever before and ensure they stay relevant and engaged to the next generation of buyers.

Talk to us today about how payment technology can enable innovative solutions for your loyalty program.

FreedomPay Inc
FMC Tower at Cira
Centre South
2929 Walnut Street
Floor 14
Philadelphia, PA 19104

freedompay.com
sales@freedompay.com
+1.610.902.9000

FreedomPay World
Europe Ltd
1st Floor, South Quay Building
189 Marsh Wail
Canary Wharf
London E14 9SH

uk.freedompay.com
sales@freedompay.com
+44 203 874 4550

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