

DIGITISATION & DRIVING THE LOYALTY PROGRAMME EXPERIENCE



Whitepaper

1.1 Introduction

With the cost of attracting a new customer said to be five times the cost of retaining an existing one, it follows that fostering loyalty and the associated repeat business is a high priority for companies. Loyalty programmes have historically been used as marketing tools for organisations and brands, to increase customer engagement, drive sales and to launch new products, as well as attracting new customers.

1.1.1 The History of Loyalty Programmes

Loyalty programmes are said to have begun in the late 18th century, with merchants in the US issuing customers with copper tokens which were redeemable against future purchases. This idea of rewarding customers to attract them back at a later date gained popularity throughout the first half of the 19th century, with more merchants adopting this token model. By the latter part of the 19th century, merchants increasingly believed the copper token was too costly and by the early 1900s, the popularity of less expensive loyalty-drivers began to grow.

In recent years there has been a change in the way people shop, with a shift to eCommerce, as evidenced by the success of sites such as Amazon and Alibaba. Alongside this, there has been the shift in consumer expectations; with wide variety of choice for the customer and an omnichannel approach to buying, has come an expectation that loyalty rewards should be simple to accrue and offers tailored to the individual, thereby motivating consumers to 'earn' them. Furthermore, consumers have come to expect rewards to be delivered quickly and more easily.

Businesses increasingly realise that it is not enough to simply offer discounts or rewards through paper coupons, discount codes and plastic cards. Paper and physical card-based loyalty programmes enable businesses to drive customer engagement and retention at a basic level and allow customers to accrue points and redeem rewards. Programmes conducted through a wider range of channels enable organisations access to data previously unavailable to them through paper and card programmes. Omnichannel programmes, using digital technology have a wider range of functions through the sheer amount of data they generate, giving companies greater insights into customer purchasing behaviours, preferences and shopping frequency. This allows brands to motivate consumers through a personalised loyalty programme, tailored to each individual customer, derived from their shopping history and any personal details captured. This enables them to drive brand engagement by connecting with customers in a way that is more meaningful to them.

Although people have become more wary of sharing personal information to receive rewards, there has to be 'give and take'. Companies need to be able to make the best use of the information they do have alongside data gained from purchase habits/behaviour. The increasing digitisation of loyalty schemes allows companies to have even greater insight into their customer base. Many websites now offer customers the opportunity to store payment details, mindful of the fact that reduced friction at POS (whether online or offline) typically increases the likelihood (or value) of consumer spend. It also allows them to track consumer spending patterns and (potentially) to tailor loyalty offers. The onus is on the brand to create a compelling scheme that is easy to use and understand and will keep the customer engaged.

1.1.2 Digital Loyalty

For purposes of the report, digital loyalty is defined as **loyalty and reward programmes which operate on digital platforms and provide rewards and incentives for consumers who engage frequently with a brand**. It includes stamps on a virtual 'punch card', points (or other reward 'currency'), cashback, discounts, free products, offers and charitable donations earned as a result of a purchase or joining a loyalty programme. It covers loyalty programme management systems, platforms, apps and electronic coupons/vouchers and, for the purposes of this report, credit card incentive and reward schemes.

It should be noted that, the term 'digital loyalty programmes' includes loyalty programmes with digital elements and is not intended to indicate that the loyalty programme is entirely digital.

1.2 Segmentation of the Digital Loyalty Market

Some of the key segments of the digital loyalty market are outlined below:

i. Reward Aggregators

The average US consumer has multiple reward programme memberships. Although the actual figure varies from market to market, the potential issues created by multiple memberships are similar; for example, losing track of reward currency accrued, forgetting to redeem reward currency or claim rewards, or reward currency expiring. According to 2017 research from Deloitte, 10 million UK consumers had unused loyalty points and a Bond Brand loyalty report in the same year estimated that the value of unused loyalty points in Canada was \$16 billion.

Rewards aggregators offer a solution as they provide customers with a one-stop view of the multiple programmes of which they are a member, via a single dashboard. They offer a range of services, from tracking points balances, providing tips for redeeming reward currency and tracking expiring reward currency. AwardWallet keeps track of customers' frequent flier miles, hotel points, dining rewards and shopping rewards for free. Others, such as Triplt Pro charge a monthly fee.

It should be noted that although such companies help to drive customer participation in what might otherwise be unused schemes, they potentially do it in a way that dilutes the relationship between brand and customer.

ii. Card-linked Loyalty

Card-linked loyalty is a way of linking payment cards to loyalty programmes, eliminating the need for a customer to carry a separate card or download an app. Offered by companies such as Bink, Loyalize and Fidel, linking payment cards to loyalty programmes also saves time at the POS. Bink also offers functionality enabling businesses to invite customers who have already shopped with them to join their loyalty programme.

iii. POS systems with Integrated Loyalty Functionality

Many POS software vendors offer loyalty programme integration with a POS system. This works by integrating payments and a retailer's loyalty programme on the same platform, enabling direct analysis of purchase data from returning customers in real-time. This allows retailers to better target personalised loyalty discounts.

iv. Mobile Engagement (Email & Text Messages)

Mobile engagement with consumers includes email, text messages and app push notifications. These can be used to communicate offers, events and new products as well as to send electronic coupons and vouchers which can be redeemed either in-store or online. Engagement via digital channels enables businesses to reach customers, even using location data to send offers as they come into the store, or to tailor offers and rewards depending on a customer's geographic location. It is important to note here that the use email marketing in some markets, such as China, is subject to strict compliance regulations. Anti-spam laws allow the imposition of severe penalties for unsolicited emails and non-compliance may result in the sender's IP or domain being blocked.

As well as engagement via mobile, discounts and offers can also be presented electronically as:

- **Downloadable coupons/vouchers:** These can be found on a business's website, social media, via coupon sites such as RetailMeNot or Voucher Codes, or social media.
- **Promotional codes:** Popular in eCommerce, promotional codes do not need to be downloaded. These can be personalised, for single use only or a generic code that can be used by multiple people.
- **Automatic discounts:** These are also used in eCommerce as they offer the customer an incentive to purchase without the need to find and enter a code, thereby reducing the risk of cart abandonment and customer churn.

v. Apps

The use of apps in the digital loyalty space is widespread, including:

- **Loyalty Scheme Apps:** These are branded apps offered for download to smartphone or PC by the business operating the loyalty scheme. They allow scheme members to track their membership; points (or other reward currency) accrued, points redeemed and view and use available offers. The advantage for members is there is no paper coupon or plastic card to lose.
- **Loyalty Card Wallets:** Companies such as fidme and Stocard offer mobile loyalty wallet apps (as distinct from mobile payment wallets that allow customers to store loyalty cards). These enable customers to store their loyalty cards electronically on their smartphone without the need for a separate app or a physical card. The advantages of such wallets is that they eliminate the need to carry multiple cards or to have a mobile app for each loyalty programme. The downside for consumers is that they may miss out on extra offers and rewards from brand/store apps, which are not available unless that brand's app is installed.
- **QR Codes:** These offer a convenient way to deliver rewards for repeat purchases. They can work like a virtual stamp card, with a code being issued for redemption against a future purchase once a customer buys a particular item or spends certain amount of money. QR code payments are already popular in India and China and have growing popularity in Africa & Middle East ,as well as other countries in Asia. Codes can be printed at the bottom of a receipt to be scanned or sent electronically to the customer via email or to their phone and they can be used in conjunction with loyalty programme apps.

vi. Digital Wallets

A notable success in this area is the **Starbucks app**, which has combined payment with its loyalty programme. The wallet was launched in 2014, is funded by a credit/debit card or Apple Pay and can be used to pay for Starbucks purchases in-store or online in advance of a customer's visit. The order generates a QR code displayed on the consumer's smartphone screen, which is then scanned at POS to fulfil the transaction and debit the funds. Until recently, Starbucks' payment app was number one in terms of users, ahead of its nearest rival, Apple Pay. Apple took the top spot in 2019.

The key benefit for consumers of such wallets is reduced time at checkout, whether in-store or online, with no need to re-enter card details on each occasion the customer makes a purchase. The Starbucks app is available in a number of markets and in 2019 was launched in China.

vii. Blockchain

Blockchain claims to offer a simple way to provide a more flexible loyalty programme in terms of points collection and redemption by allowing the exchange of points between programmes. As information is switched via a secure network, it allows businesses to process exchanged points more quickly, securely and increases control of the programme by eliminating the need for third-party involvement.

Proponents of blockchain claim the following benefits of its use:

- It could potentially solve the problem of points never being redeemed.

- Many loyalty programmes are siloed with little or no ability to communicate with one another, if rewards are to be transferred between them. Blockchain allows interoperability.
- It would allow customers to redeem points for rewards that are meaningful to them and potentially redeem them in smaller increments than would be possible with a current multi-brand reward programme.
- The potential for fraud and transaction manipulation are reduced.
- This technology can be used by smaller businesses which do not have the funds to set up a loyalty programme.

1.3 Credit Card Reward Programmes

EMVCo is an industry organisation composed of the six leading global payment network and card providers; American Express, Discover, JCB, Mastercard, UnionPay and Visa. Each member owns an equal share of EMVCo and contributes at both the management and working group level. The organisation's work is supported by a range of associate members and stakeholders in the payment industry.

All the major card providers and payment networks covered in this section offer own- or co-branded reward schemes in respect of cashback, points collection, or other rewards in conjunction with partners in a number of industries such as retail, hotel and travel.

1.3.1 Market Status

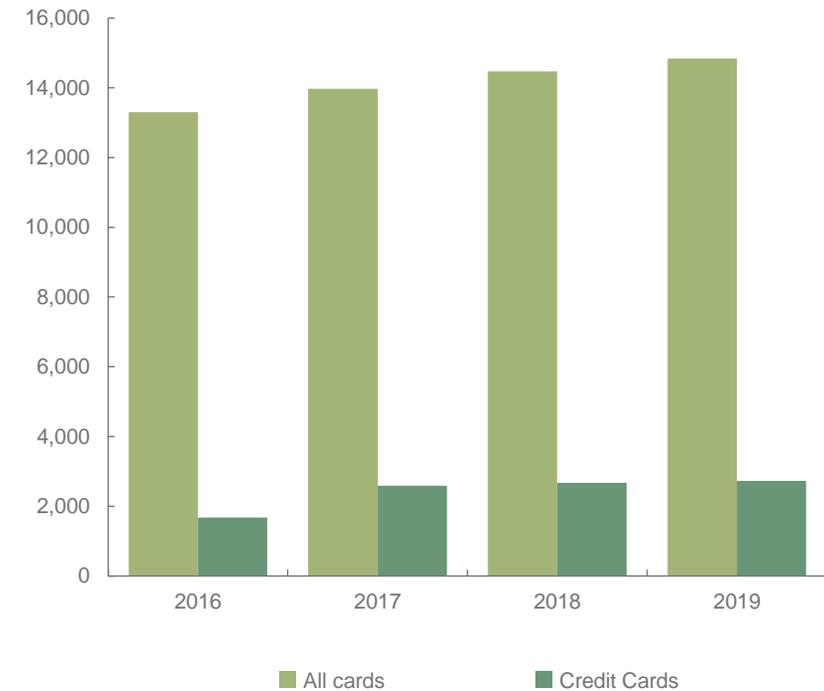
Card-linked marketing is where a company works with a credit or debit card issuer to offer loyalty benefits. Card issuers offering reward schemes

commonly include points or air miles for every pound (dollar) spent on the card, as well as extra points on specific purchases with a range of shopping, lifestyle and travel partners.

Commonly, such relationships have been between airlines and/or hotels and card issuers/payment networks, as a way of rewarding consumer purchase on higher value, less frequently bought goods or services. However, retailers are increasingly moving into this space. Grocery chains, such as Tesco and Sainsbury's, offer services such as banking and insurance, with reward points for their loyalty programme members using their credit or debit cards for purchases. The clear advantage for loyalty programme members is that there is no need to carry a separate loyalty card to accrue points.

Juniper Research estimates that by the end of 2019 there were 2.7 billion credit cards in issue, an increase from the 2013 figure of 2.1 billion. With the global number of credit cards in issue anticipated to exceed 3 billion by 2023, there is clear potential to leverage card ownership and foster loyalty this way.

Figure.1: Payment Cards in Issue (m), All Cards vs Credit Cards, 2016-2019



Source: Juniper Research

1.4 Digital Loyalty Movers & Shakers



Cali Tran
Valassis
President & CEO

Cali Tran was President, Valassis Digital between 2014 and 2018 and became President and CEO of Valassis in early 2019. Prior to Valassis, he was the Senior Vice President of Technology and Business Development at MacAndrews & Forbes, the parent company of Harland Clarke Holdings.

He is also a founder and investor in high potential, market disruptors. His portfolio includes Ancestry (pre-Series A team), GoPlae (co-founding investor) and Adavium Medical (seed investor). Earlier in his career, Tran was a principal at North Bridge Venture and Growth Equity Partners, where he invested in wireless and digital media technology entrepreneurs.

He has a Bachelor of Arts in history from Bowdoin College and an MBA from Harvard.



Dan Slavin
CodeBroker
Co-Founder & CEO

Co-Founder and CEO Dan Slavin founded CodeBroker with his partner, Pero Smrzlic in 2007-2008. Slavin has experience building and leading technology firms.

He has previously led six companies in five different industries, These include International Testing Services, developing testing and training software for secretarial and clerical employees, as well as an early Internet company which had the original patent on the Internet shopping cart.

Slavin also founded a company in the engineering space, undertaking project collaboration and has been CEO of a photo software company.



Narasimha Voruganti
Annex Cloud
CTO

Narasimha Voruganti is CTO and Vice President of Engineering for Annex Cloud. He is responsible for leading research and product development, technology, and strategy behind Annex Cloud's software.

Voruganti began his engineering career over 20 years ago and brings experience in delivering software solutions in domains including Enterprise Software, Banking, Media, Real Estate and HR using traditional and SaaS models.

Prior to Annex Cloud, Narasimha worked at Aditi, Bank of America, Myspace, Realtor.com, NBC Universal and Neogov.



Yair Goldfinger

AppCard

Co-Founder & CEO

At 26, Yair Goldfinger co-founded ICQ, the world's first Internet-wide instant messaging service, which was acquired by AOL. In 2001, he co-founded Dotomi, an online advertising technology company that focuses on creating personal, relevant, and timely one-to-one messaging between marketers and their customers. Dotomi was acquired by ValueClick.

Goldfinger holds a BSc in Maths and Computer Science from Tel-Aviv University and holds several patents in the field of instant messaging.

In 2005, he received the Wharton Infosys Business Transformation Award, and in 2009, he was chosen by the World Economic Forum as a Young Global Leader.



Tim Mason

Eagle Eye

CEO

Tim Mason joined Eagle Eye as Chairman in January 2016 and became CEO in September 2016. He has over 30 years' experience in the grocery and retail industries, with a strong background in strategic marketing and customer loyalty.

Previously, Mason was a managing director at Sun Capital Partners and Chairman of Bonmarché Holdings from 2013 to 2015. Prior to that he was Deputy CEO at Tesco from January 2010 to December 2012. He had a number of other roles in the Tesco Group between 1982 and 2012 including CMO for Tesco and CEO of Fresh & Easy.

Mason spearheaded Tesco's bid to crack America and was responsible for the expansion and operations of 150 stores US-wide.



Joe Disharoon

Kobie

Chief Technology Officer

Joe Disharoon is responsible for all platform development and enterprise architecture at Kobie. He has been designing and operating for over 20 years, with the last 18 dedicated to loyalty technology. He has deployed solutions for Fortune 500 brands across the globe.

Prior to Kobie, Disharoon had roles at Epsilon, Halliburton and Secor.

He has a Bachelor's Degree from the University of Advancing Computer Technology.

1.5 Forecast Summary

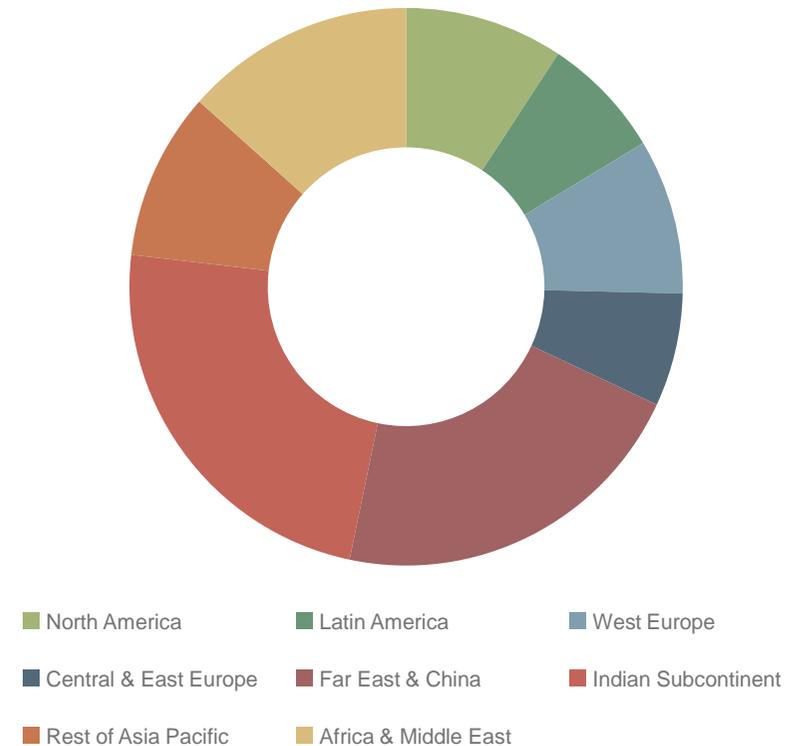
Juniper Research forecasts that membership of digital loyalty programmes will grow to over 48 billion globally by 2023. As economic challenges remain for both consumers and retailers, digital loyalty will become a prized differentiator as retail markets become increasingly commoditised. The study recommends that retailers adopt digital loyalty solutions that enable them to leverage their abundant customer data to offer omnichannel loyalty experiences, combining offline and online touchpoints. This is critical for 'bricks-and-mortar' retailers, which will struggle to recover from revenue lost during lockdowns and increased off-to-online spend migration.

Juniper Research anticipates that the total value of mobile coupons redeemed will grow from \$51.6 billion in 2020 to \$67.6 billion in 2023, driven by increasing QR and app coupon usage. QR coupons will continue to grow strongly in China as QR payments are dominant there, but QR coupon redemption in India and Africa will also grow three-to-four-fold in the next five years as the appeal of QR widens.

The COVID-19 pandemic will mean that both personal and corporate credit card reward values will decline in 2020 as a result of curbed spending, particularly in the travel sector. However, the value of credit card rewards will exceed \$68 billion in 2023, driven by increasing competition between providers and the ability to link spending to existing loyalty ecosystems. The US is expected to be the largest market for corporate card rewards over the next five years, despite a 2020

COVID-related dip, as businesses look for ways to optimise cashflow and harmonise corporate spending.

Figure.2: Digital Loyalty Programme Memberships, Split by 8 Key Regions, 2023



Source: Juniper Research

Order the Full Research

Digital Loyalty Programmes new report delivers a comprehensive and independent assessment of the 25 biggest retailers; offering players in the loyalty space a thorough review of the current state of the loyalty programme market, including key loyalty verticals and credit card rewards, as well as outlining our future outlook for this rapidly evolving market.

This latest research provides detailed analysis of the fundamental drivers of loyalty in different industry verticals, how the digitisation of loyalty programmes is improving, how they are created and run, and how this is evolving the user experience for retailers in diverse markets. The report also examines key examples of digital loyalty programmes in different industry verticals to establish best practice for programme deployment and evolution.

Key Features

- **Market Analysis:** Provides a detailed evaluation of the digital loyalty ecosystem; analysing the current market status for key global regions and industry verticals.
- **Interviews:** With leading digital loyalty platform and solution providers across the value chain.
- **Juniper Research Leaderboard:** Analyses 15 key digital loyalty platform and solution providers to evaluate their respective positioning.
- **Benchmark Industry Forecasts:** Mobile and eCoupon redemption volumes and values, as well as credit card reward/incentive transaction

volumes and values, plus forecasts for digital loyalty programme membership.

- **Retailer Readiness Index** - Index positioning for the top 25 retailers globally by revenue. This is a crucial resource for established and new loyalty programme providers alike.

What's in this Research?

1. **Executive Summary & Core Findings** – Top-level report summarising market forecasts, allied to a series of key takeaways and strategic recommendations (PDF).
2. **Deep Dive Strategy & Competition** – Strategic analysis of market dynamics, drivers and trends, together with a Retailer Readiness Index, a vendor capability assessment and digital loyalty vendor Leaderboard (PDF)
3. **Deep Dive Data & Forecasting** – Market sizing and analysis by region and sector, together with 5 year forecasts for key metrics, including digital loyalty programme memberships, mobile and eCoupon redemption volume and values, and credit card reward/incentive transaction volume and values (PDF)
4. **Interactive Forecast Excel** – Highly granular dataset comprising more than 14,000 datapoints, allied to an Interactive Scenario tool giving users the ability to manipulate Juniper Research's data (Interactive XL).

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