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Beyond Business as Usual

OpEd

What Have You Done For Me Lately?

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WHEN IT COMES TO CHOOSING A CREDIT CARD TODAY, CONSUMERS— that means all of us—are sitting in the drivers' seat. With dozens of competing offers to choose from, we can afford to be as selective as we like. Increasingly, that has meant selecting from rewards-based cards that pay us for our loyalty. This is great for us when we're wearing our consumer hats. But as retail bankers, credit-card issuers, merchants and payments-network officials, it means the stakes for securing loyalty have risen.

The challenge that we all face is creating a long-term relationship with a savvy consumer who is increasingly willing to switch institutional loyalties. Faced with an abundance of choice in the reward-card category—at least 60 percent of credit cards offer a reward component—consumers have been trained to evaluate offers based on a strategy of point accumulation and redemption value. And, the value placed on an offer today may differ from an offer provided tomorrow, or next year. How do we translate an effective rewards program to a sustainable loyalty proposition?

Customer loyalty is a trusted relationship built by offering consistently high-value goods and services, as well as a trusted brand. A positive emotional connection is felt in ways both real, in terms of repeated usage, and perceived, in terms of enhanced brand appeal. For financial institutions to earn that loyalty, they have to consistently deliver superior products and services and deliver unique and relevant experiences to each card holder.

So how do we focus on loyalty? One solution is to focus on creating deeper customer relationships through highly personalized and relevant rewards. Relevant rewards provide consumers with exactly what they need when they need it most. Financial institutions that invested in the right technologies can analyze and understand their customers' behavior beyond basic spending habits; in partnership with a payment network, they can enhance that information and then generate relevant rewards—online and at the point-of-sale. Because these offers are timely and personal, they have the potential to pleasantly surprise card holders by providing an unexpected benefit. This ongoing reinforcement and surprise factor can advance the relationship past point-building into a new phase of high interactivity—and deepening customer loyalty in the process.

Merchants too, play a large role in personalized rewards. Their databases, their inventory-management systems and their POS capabilities all help enable the facilitation of real-time, relevant rewards, beyond the boundaries of traditional commerce. Indeed, retailers that partner with financial institutions and payments networks to create the necessary infrastructure are leading the way in becoming loyalty hubs and benefit by gaining consumers' loyalty.

Loyalty is more about creating valuable relationships than simply offering a rewards program. Products focused on creating consumer convenience and utility can have the same or greater effect than traditional rewards programs. For example, Discover Network's Cash Over program provides consumers fee-free cash back at the point of sale when using their Discover Network credit card. Program analysis showed that this "free" loyalty program led to a 23 percent increase in the number of transactions at these store locations, more than double the lift seen in a typical, more expensive rewards program. While cash access at the POS is not considered a traditional reward program, it demonstrates how meeting the specific needs of cardholders generates measurable consumer response and can translate into deeper loyalty.

As the marketplace for rewards-based products becomes more competitive, the ability of a financial institution to understand, interpret and adapt to changing consumer needs and spending habits will be imperative. For example, a cardholder who initially opened an account to accumulate airline miles may have since started a family and decided that saving for college is more important than free air travel. That cardholder's spending habits over time—fewer travel-related purchases and more transactions in children's stores, for instance—would trigger newly targeted, child-focused reward offers.

Of course, it won't be enough to surmount the technical challenges and cost of successfully implementing a new rewards environment. It will be even more important, especially over the long run, to generate acceptance of the new system among stakeholders. Consumers, merchants, card issuers and payments-networks officials must all perceive a net value from this emerging system for it to succeed. □