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THE FUTURE OF LOYALTY MARKETING, TAKE TWO TECHNOLOGY IN THE HANDS OF CONSUMERS ISN'T HAPPENING

BY KELLY SHERMACH

Ten years ago, loyalty marketing programs faced a technological rebirth. Smart cards were being adopted in the US, and rewards schemes were prophesied to be the “killer app.” Coalitions would emerge and prosper, and perks providers would fight for a bit of consumers’ chips. Individuals, it was foretold, would customize their smart cards according to their lifestyle habits and brand preferences.

More recent messiahs of rewards and recognition have been seen in radio-frequency identification and near-field communications technology. After all, Mobil got a lot of consumers to request its Speedpass fob which need only be waved in front of the gas pump to release fuel flow and authorize payment.

“Overall, I am disappointed to report that technology experimentation vis-a-vis loyalty and the consumer is a pretty dead area, at least in the U.S.,” says Pete Clark, technology director of Wise Research Ltd., Eastern Cape, South Africa.

“It just seemed to me there’d be better take rates on it,” Jim Kuschill, founder of marketing technology consultancy Perfectly Targeted, Cincinnati, says of new-fangled best-customer identifiers. “It’s certainly not anything that will put one program ahead of another. It’s really just raising your cost of doing business.”

Program sponsors are damned if they do try new technology, but are they damned if they don’t? Perhaps the pacing of loyalty marketing maturity is just slower than expected.

The fine line between cool and creepy

“RFID has become unacceptable in the minds of consumers, largely thanks to the ‘ID’ part,” Clark says. Metro Group, the parent of German wholesale clubs and supermarkets, tried RFID-enabled loyalty cards. It abandoned the implementation within three months due to consumer protests and boycotts.

Consumer-sensitive technology developers and program operators, therefore, have approached implementation in a more familiar way. Gone from consumer communications are the costly fobs and the four-letter acronym. Repackaged as a common credit or debit card, technology got an abbreviated abbreviation and promised real-time rewards at the point of sale. Meet NFC.

“NFC is acceptable to consumers because it’s been

presented as fun, entertaining, promising and beneficial, never mind that it's basically the same darned thing" as RFID, Clark continues. "Most people recognize that contactless payments are NFC, but few realize that contactless payments are also technically RFID," he says. "If they realized, many would run a mile from contactless credit cards. A few have, but not many."

Still, adoption of contactless is slow, Kuschill says. Retailers see little value in swapping their current POS terminals for contactless hardware, and consumers continue to use cash at merchants targeted by card issuers for contactless — quick-service restaurants, convenience stores, pharmacies, etc.

"There's a little better take rate in Asia," he says. "They just love their phones and are using their phones as identification and payment devices. But they don't have anything they need to replace." Contactless cards in the United States are relatively few when compared with the ubiquitous mag-stripe technology.

So right now RFID is a no-no for consumer loyalty offerings, but in the future NFC/RF applications will be better received. In the meantime, consumers must be educated as to the safety of the tags and the physical limitations of their communication range, Clark says.

Obviously loyalty and payment card marketers need to determine what they have to gain and what they have to lose by implementing technological innovation. However, the consumer's pros and cons should be top of their priority lists.

"Until consumers understand that it's really not possible for 'them' or Big Brother to watch your car keys or your new wooly jumper's tag from a satellite," Clark adds, "it's going to be a rough road for any loyalty operator that wants to use RFID technology in any useful way."

Looking leading-edge vs. delivering leading-edge

Program sponsors should be able to deliver unique value through the technology they employ.

"The associated technologies that facilitate loyalty programs — RFID, smart cards, widgets, biometrics — started in IT," says Mark Goldstein, CEO of San

Francisco-based Loyalty Lab. "That they are technically cool is a novelty that makes them look leading-edge. That's a competitive advantage, not a unique value proposition."

Biometrics such as finger or retina scans are going the way of smart cards in the United States, he says. "Pay By Touch is losing a lot of traction lately," he says. "Consumers dig the loyalty program but ask, 'why are you making me go through this?'" He says that only one out of every 15 customers at some Pay By Touch-enabled grocery stores use the finger scan technology. At the same stores, nine out of 10 shoppers belong to the loyalty program.

"Loyalty is made harder by adding other technologies to it," Goldstein says.

Programs are getting easier, cheaper and quicker to deploy independent of emerging identification tools.

"The best loyalty programs allow the consumer to identify himself any which way they want," he says. Account information should be stored on a server accessed through a live Internet connection at the POS, whether a brick-and-mortar location or a Web site.

"Loyalty is made harder by adding other technologies to it," Goldstein says. Programs are getting easier, cheaper and quicker to deploy independent of emerging identification tools.

"Do you really need incremental technology?" he challenges. "Make sure you can barbeque the burger before you put all of the special sauce on it."

Technology that the consumer can't see or feel ... yet

"Program operators are improving their technology, but more is behind the scenes than in front," Kuschill says. "You're starting to see more interesting value propositions and the elimination of the 'always double points at blah blah blah.' This requires a more sophisticated rules engine.

"It's really about getting the right

message to the right person at the right time and sometimes over the right channel," he continues. "Identification devices and other kinds of technology, no matter how clever, can usually be replicated by the competition. The value is the ability to use the data, to make inferences from it."

For different verticals, there are different data-usage requirements. Financial services providers, for example, think about promotions and rewards bonuses only once a quarter. However in retail, a program is refreshed or extra incentives are offered on a monthly basis. In grocery, consumers receive different deals each week.

"It's only now that I'm actually seeing some systems out there with general availability that have rules engines dynamic enough to run at the speed of marketing," Kuschill says. "That technology is not deployed widely yet. I thought eight years ago that it would be at this point. Really, it's going to be another five years, six years for the majority of programs to have enough technology and the right technology to work in real time."

Consumers do not see a long-term benefit to a program with technical bells and whistles nor will they choose one with new-fangled technology over one that meets the norm. "Until some program pulls away with technology, way out in front of the pack, I don't see the consumer making a conscious choice away from one that doesn't," he says.

"I grew up in the technology space, and I'd wished for those sorts of things. But you're going to see incremental improvements in segmenting, targeting, bonusing, etc. They will sneak up over time," he says. "It is really the backroom that needs to get smarter and not something that the consumer can see." ■