

BankNews

THE COMMUNITY BANKING MAGAZINE FOR THE CENTRAL STATES

April 2008 | www.BankNews.com



Earn Loyalty with Rewards

ICBA
Convention
Review

Tips to
Retain
Talent

Earn Loyalty with Rewards

As seen in...

BankNews

Reprinted with permission of BankNews Publications. Contents of *BankNews* are, and remain, the property of BankNews, Inc.



Most community banks have traditionally stayed out of the rewards space. But nowadays, faced with increasing competition from larger banks and mono-lines, forward-thinking community bank executives should give serious thought to adopting loyalty strategies appropriate for their institutions' size and customer base.

By Bob Konsewicz

LEVEL 1

Enrollment
Strategy

LEVEL 2

Earnings
and Rewards
Structure

LEVEL 3

Redemption
Process

LEVEL 4

Performance
Measurement

LEVEL 5

Communications
Strategy

Loyalty programs address two key challenges all bankers currently face: boosting customer retention and increasing card usage. Holding onto customers longer — especially the most profitable ones — has become a business imperative across the banking industry. In most organizations, losing just one proven highly valuable customer can equate to having to acquire three or four average customers to compensate for the profit shortfall.

Fortunately, the means to launch a loyalty program are now available to many community banks. An increasing number of large debit- and credit-card issuers now include loyalty programs as an integral part of the card products they provide to smaller financial institutions acting as agent banks, permitting community banks with strong debit portfolios to enter the field. And thanks to steadily improving technology, the cost of evaluating, launching and maintaining a loyalty program has decreased in recent years.

If your institution is considering implementing a loyalty initiative, it is important to develop a solid program design up front. It is the difference between deploying a narrowly focused, technology platform-driven rewards program versus a comprehensive, loyalty-based marketing strategy. Based on the experience and expertise of MasterCard Advisors Rewards Strategy & Services team, several design pillars should be considered:

ENROLLMENT STRATEGY

Target Your Best Customers First and Foremost

The first step of any loyalty strategy is to decide which individuals or customer groups you want to target. We recommend a strategy based on customers' combined current and potential value. For example, if you have a customer segment that is highly profitable and that tends to place all customer business with your bank, then those customers are prime candidates for your enrollment strategy; 100 percent of this cohort should be targeted. You will also have to consider program design decisions related to incorporating a program fee, auto-enrolling customers, and using varying enrollment vehicles or channels to attract the desired customers.

“If your institution is considering implementing a loyalty initiative, it is important to develop a solid program design up front.”

EARNINGS AND REWARDS STRUCTURE Encourage Their Most Profitable Behaviors

The key to any successful “earn and burn” structure is to identify your customers’ most profitable behaviors — and then to encourage those actions using point earning opportunities and tiered rewards. One of the most common pitfalls in developing an earnings structure is to allocate the entire point budget to promoting ordinary behaviors, such as normal card spend. This leaves nothing in reserve to promote more profitable behaviors, such as broadening the use of the card and making it the top-of-wallet choice. In developing a rewards structure, align your program’s value proposition with the financial value of your customers. In many cases, banks have a group of elite customers that are individually worth three- to 10-times more than other customers in terms of profitability to the bank. Yet, loyalty programs are rarely designed to reward them proportionally, and these highly profitable, elite consumers usually receive the same general treatment as the organization’s least profitable customers. A carefully designed “earn and burn” structure, which may include special perks and benefits, will help ensure that high-value customers are rewarded commensurately and thereby achieve better results in increasing retention among your most valuable customers.

REDEMPTION PROCESS Make It Easy for Your Best Customers

A commonly cited reason given by customers that leave or lose interest in loyalty programs is that the “line of sight” to actually receiving their rewards was too long. To minimize attrition, reward levels must be achievable within a reasonable time frame, which can vary by customer group and over time as their behavior changes. It is also important to encourage redemption activity among the right customers. For example, a low value customer who shows no sign of bringing additional business to your bank is not someone you should reward quickly or, maybe, at all. Regardless of which customers choose to or are encouraged to redeem, the redemption process itself must be easy and convenient.

PERFORMANCE MEASUREMENT Specify Your Program’s Goals

Robust analytics are the foundation on which a successful rewards program rests. It is vital to clearly establish your program’s goals and related performance metrics at the outset. And it is more than just deciding that you want to reduce churn. It is about determining how much you want to reduce churn, by when and for which

“Loyalty programs address two key challenges all bankers currently face: boosting customer retention and increasing card usage. Holding onto customers longer has become a business imperative across the banking industry.”

customer segments. Ongoing measurement of program effectiveness, including the cost of communications and incentives, is necessary to determine if the program is achieving its objectives.

COMMUNICATIONS STRATEGY Tailor Your Message to the Desired Audience

Successful loyalty initiatives recognize the value of comprehensive communications strategies in driving results. MasterCard Advisors has defined key moments for such interaction during the life cycle of program members. Once a customer is enrolled, he or she needs to be kept well informed about how and when to earn points to receive rewards; he or she also needs to be kept up to date on how to migrate to a higher rewards tier. Lastly, be sure to employ a variety of communications channels — including direct mail, permission-based email and other means — because different customer segments are apt to respond differently. By testing such variables as incentives, communications channels, messaging and timing, you can design the program that works best for the particular audience.

When implementing a rewards program, it is easy to get consumed by the technological and operational aspects of the process. From a strategic perspective, a disproportionate amount of time is usually spent on the individual selection of program rewards. Instead, your bank’s emphasis should focus on planning the five design pillars: enrollment strategy, the earnings and rewards structure, the redemption process, performance measurement and the communications strategy. Doing so will help ensure your organization develops a high-performance loyalty program that adds value to your card offerings, and will ultimately drive your bottom line. **BN**

Bob Konsewicz is a senior managing consultant for rewards strategy & services, MasterCard Advisors, the professional services arm of MasterCard.