



The dawn of Embedded Loyalty

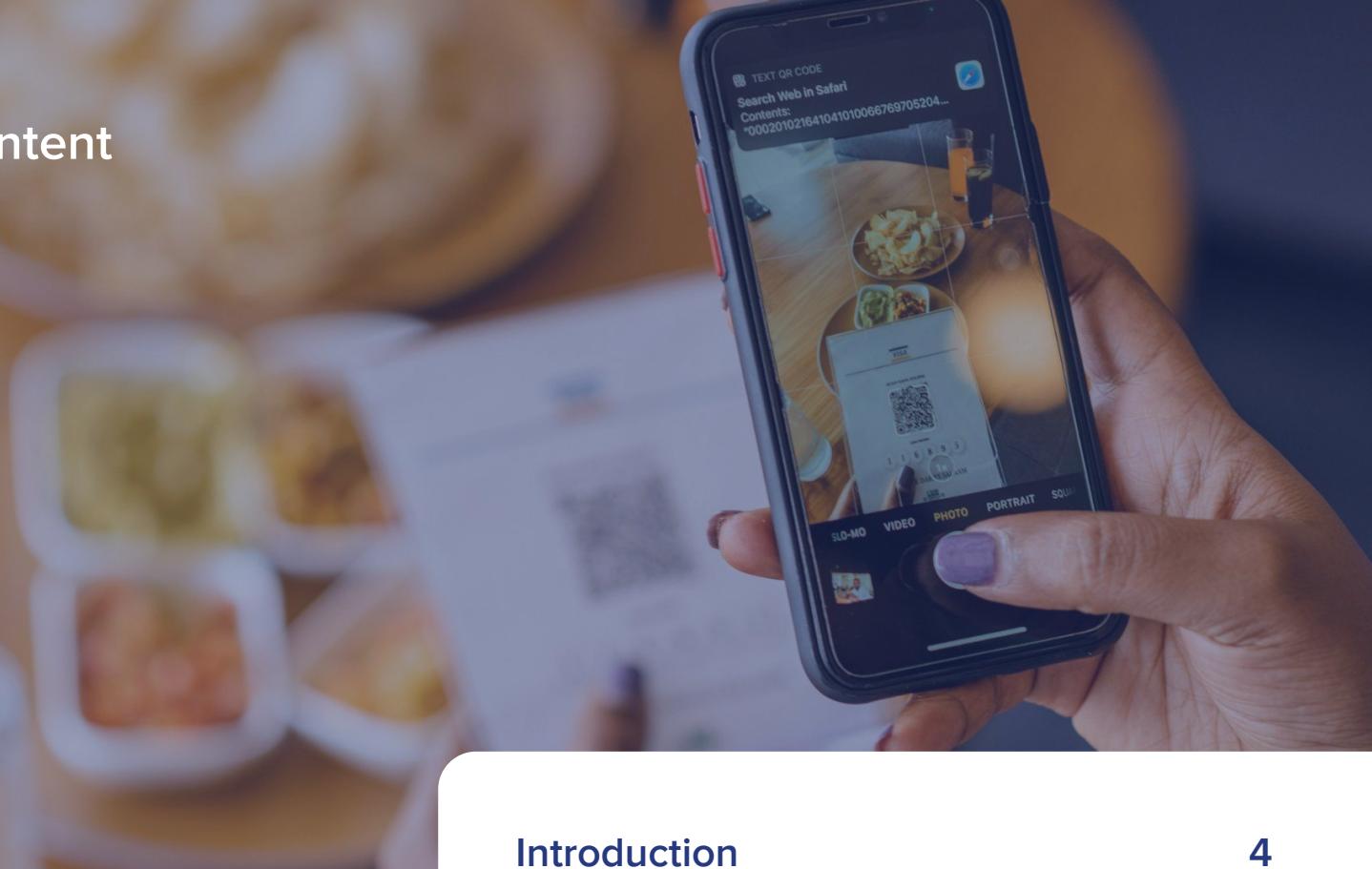
Leverage your payments capability to
increase Customer Lifetime Value

Key takeaways

- ✓ Leveraging payment data provides a 360 view of your customer that can be used for personalized experiences & rewards.
- ✓ Integrating earning and redemption with the transaction flow allows for continuous interaction with your customer.
- ✓ In this day & age, frictionless opt-in and auto-redemption are key to successful loyalty programs.
- ✓ Running successful loyalty programs require a holistic organizational perspective, leveraging multi-disciplined teams.



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Introduction

In today's hypercompetitive marketplace, loyalty programs have become the golden standard to build lasting relationship with customers.

Traditional loyalty programs typically relied on point-based systems or punch cards, rewarding customers based on transactional behavior.

The landscape has evolved significantly in recent years, with advancements in technology and shifts in consumer expectations driving the emergence of more sophisticated loyalty strategies.

As companies struggle to allocate ROI to loyalty programs and offer seamless (omnichannel) customer experiences, customers redeem less than 50% of their acquired points. On average, customers are enrolled in 16 loyalty programs, but only actively participate in 3. Customers demand frictionless, integrated solutions from brands in exchange for their loyalty. It's time for a wake-up from traditional loyalty fatigue.

At PaymentGenes we see the untapped potential of leveraging payments as an instrument to increase customer loyalty. Transaction data helps to build personalized customer experiences. But there is more, payments as a strategic capability can unlock new use cases that will further drive customer loyalty and revenue growth.

Global brands have embraced the possibilities of embedded finance and becoming a more integral part of the customer's life.

By leveraging solutions like digital wallets and white-label BNPL solutions, brands play an integral role in the entire transaction process and can control the end-to-end customer experience.

To push loyalty triggers and provide the adequate nudges for redemption we call for *embedded loyalty* - an integral approach to build lasting customer connections by leveraging your payment capability.

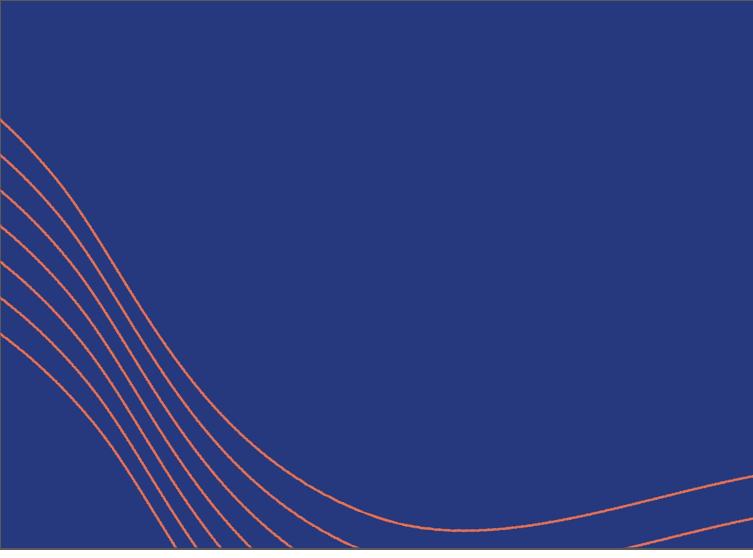
We had the pleasure to host a merchant workshop at the MPE conference in Berlin where we discussed the potential of embedded loyalty. We look forward to explore the possibilities and challenges (to) overcome by the ecosystem in this report.



Kirsten Hoornstra

Practice Lead Merchant Services





Moving beyond the points-for-purchase strategy

The traditional points-for-purchase strategy is increasingly seen as less effective in cultivating customer loyalty due to evolving consumer expectations and market dynamics. Today's customers are seeking instant gratification and seamless experiences in their transactions, a shift driven by the digital age's immediacy and convenience. Traditional loyalty programs, which often require customers to accumulate points over an extended period before redeeming rewards, fail to meet these instant reward expectations.

Additionally, the complexity and delays inherent in points redemption can lead to a disjointed customer experience, further eroding loyalty. In contrast, modern loyalty strategies focus on offering immediate benefits, personalized experiences, and easy redemption processes, aligning more closely with what today's consumers value and expect. This shift is not just about meeting customer demands but also about creating a deeper, more emotional connection with the brand, thereby fostering genuine loyalty.

Recent research shows the significance of evolving customer loyalty strategies. A 2023 study by the Customer Strategy Network found that 70% of consumers prefer loyalty programs that offer immediate discounts or rewards rather than points that accumulate over time. Furthermore, a report by Capgemini revealed that loyalty programs emphasizing personalized experiences see a 28% higher retention rate compared to traditional points-based programs.

This data underscores a critical shift: consumers are not just interested in the rewards themselves but in how these rewards are delivered and personalized. Additionally, Deloitte's Global Marketing Trends 2023 indicates that brands offering seamless and highly personalized loyalty experiences see customer satisfaction scores improve by up to 20%. These figures reinforce the imperative for brands to innovate beyond traditional loyalty schemes, focusing on instant gratification and tailored interactions to cultivate deeper, more enduring customer relationships.





Key loyalty trends to look out for in 2024

Effective loyalty programs are essential for merchants looking to build lasting relationships with their customers in today's competitive marketplace. In 2024, as consumer expectations continue to evolve, merchants are turning to innovative strategies to enhance engagement and foster loyalty.

From gamification to personalised offers, these approaches leverage technology and consumer insights to create compelling loyalty experiences.

Let's dive in:

- **Gamification:** Incorporating gamification elements such as points, badges, levels, and challenges into loyalty programs enhances engagement and incentivizes desired actions from customers, leading to increased participation and loyalty. Asian giants like Temu but also Sephora are good examples of brands using gamification in the customer experience.
- **AI and Data Analytics:** Leveraging AI and data analytics enables merchants to analyse customer behaviour and preferences effectively, leading to more targeted rewards and incentives that are likely to resonate with customers, thereby increasing engagement and loyalty. A good example is Wendy's.
- **Omnichannel Experience:** Offering loyalty program benefits across multiple channels ensures that customers can engage with the program wherever they prefer to shop.

Use cases are the endless aisle (like Zara's Digital Store), click & collect (e.g. IKEA) and omnichannel returns.

- **Instant Gratification:** Providing instant rewards and gratification for loyalty encourages repeat purchases and increases customer satisfaction. Instant discounts or cashback can drive immediate engagement and incentivize desired behaviours.
- **Personalised Offers:** Tailoring offers and rewards based on individual customer preferences enhances the relevance of the loyalty program, making customers feel valued and appreciated. Personalization fosters stronger emotional connections with the brand, driving long-term loyalty. Brands like Starbucks, Amazon and Netflix are setting the bar.



Challenges for successfully running loyalty programs

Economic Sensitivity

Loyalty programs often face hurdles during economic downturns. When consumers are less focused on spending, the perceived value of loyalty program rewards may diminish, leading to decreased engagement. Moreover, businesses may find it necessary to decrease their loyalty program budgets during tough times, resulting in fewer rewards or incentives for customers. Additionally, inflation can increase the cost of maintaining loyalty program benefits and the point liability on the balance sheet, posing a challenge for businesses striving to balance customer satisfaction with profitability.

Competition

In today's crowded marketplace, standing out with a loyalty program is no easy feat. With countless companies offering similar programs, differentiation becomes crucial. Competitors constantly vie for customers' attention by offering more enticing rewards and perks, making it challenging for existing loyalty programs to retain their customer base. Moreover, the emergence of new players with innovative approaches to customer loyalty can disrupt traditional loyalty program strategies, forcing established businesses to adapt or risk losing relevance.

Customer demands

Meeting the evolving preferences of today's consumers presents another hurdle for loyalty programs.

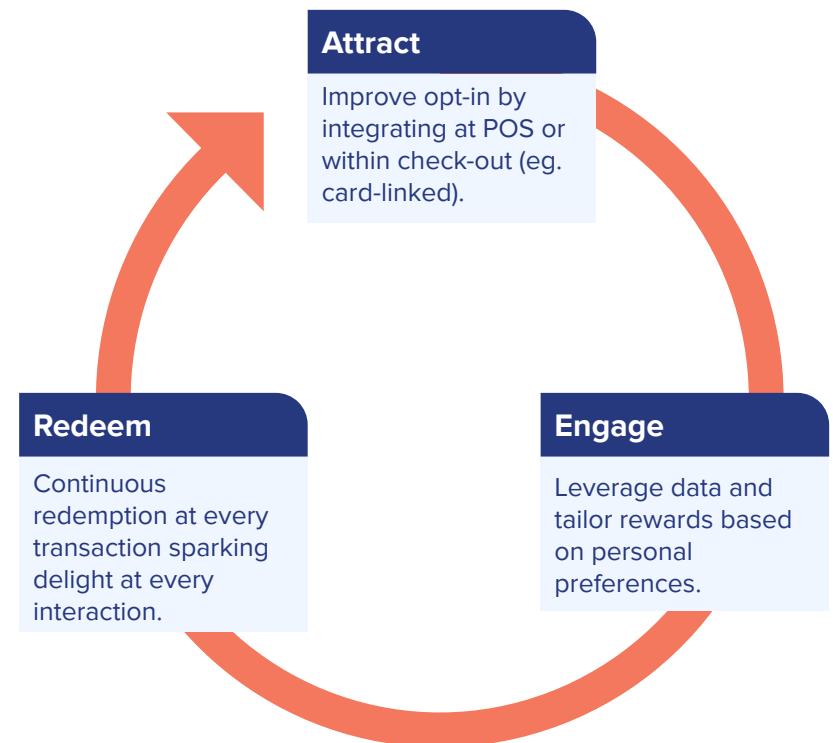
Modern customers seek personalised experiences tailored to their interests and needs. Loyalty programs that fail to deliver relevant rewards or experiences risk losing the attention and loyalty of their customers. Additionally, catering to the preferences of diverse demographic segments, including different generations with varying expectations, requires flexibility and adaptability from loyalty programs. Furthermore, concerns about data privacy and security may deter some customers from participating in loyalty programs, emphasising the importance of building trust and transparency. Research by DNB shows that despite hesitancy to share financial data, customers can be triggered by financial rewards.

Regulation

The enactment of the Digital Markets Act (DMA), PSD3, and stricter cookie regulations significantly impacts loyalty programs by imposing tighter constraints on data collection and usage. These regulations make it increasingly challenging for companies to obtain a comprehensive view of their customers, crucial for tailoring personalized offers and experiences. The restrictions on tracking user behavior and preferences without explicit consent limit the ability of businesses to leverage data analytics for enhancing loyalty programs. As a result, companies must navigate these regulatory waters carefully, finding innovative ways to engage customers and collect data within the confines of the new legal landscape.



Introducing Embedded Loyalty



Building loyalty by providing a frictionless customer experience

Embedded loyalty is the integrated approach to loyalty and embedding it into every step of the customer journey. Traditional loyalty programs tend to be separate journeys that are integrated with the “core” customer journey when a certain (fixed) threshold is reached. The awareness and effort burden is placed at the customer. What if your customer is nudged at the right time, at the right place with a personalized reward? Rewarding loyal customers should be a continuous part of the customer journey.

Payments

Recent years have shown the strategic importance of the payments capability in strengthening customer relations. Examples are offering the right payment mix to broaden the audience and drive conversion. Embedded finance solutions like in-house or white-label BNPL solutions extend the traditional customer relationship beyond the sale. Payments have the potential to move from *conversion killer* to *conversion driver*. A good example is the wallet: building a balance with the brand stimulates future transactions. One-click checkout solutions and BNPL options reduce checkout friction and drive conversion.

In the loyalty lifecycle, there are numerous possibilities for leveraging the payments capability:

Attract

- Seamless opt-in / leverage card data - eliminate the need for separate loyalty cards
- Pre-reward (prepaid cards)
- Card-on-file
- Improve accessibility with BNPL solutions and other embedded finance services.

Engage

- Transaction data for 360 customer view and personalized rewards
- Leverage data generated through digital receipts and open banking - provide customers with access to their data
- Gift cards / P2P wallet payments

Redeem

- Auto-redemption / payout (to wallet).
- Redemption option notification at POS or online checkout.
- Personalized redemption thresholds based on transaction history that provided the right incentive for redemption.
- Loyalty through giving back (i.e. social/sustainability initiatives).



Challenges to consider when embedding loyalty & rewards

Who owns the loyalty topic?

Integrating a loyalty program into a merchant's operations requires effective collaboration across departments like marketing, sales, customer service, finance and IT. This collaboration is crucial to deliver the right business value. However, merchants often face challenges in fostering this collaboration due to global/local organizational structures or a silo approach to channels.

Technology integration & Vendor Setup

Integrating loyalty programs with existing technology infrastructure, such as POS systems, e-commerce platforms, and customer databases, can be complex. Merchants with a fragmented approach to payment processing will be unable to capture the full potential of using payment data to enhance the customer experience. Upgrading the vendor setup to cater for this has substantial organizational implications.

Fraud and Abuse

Leveraging technology solutions such as fraud detection algorithms, machine learning, and AI-powered analytics can help merchants detect and prevent fraudulent activities in their loyalty programs. This may involve monitoring transactions, flagging suspicious behaviour, and implementing authentication measures to verify the identity of customers. Merchants also need to educate their staff and customers about common fraud tactics and encourage reporting of any suspicious activity. Additionally, fraud and abuse can also have a negative impact on a smooth customer journey by prohibiting users to complete purchases, due to over-tuning.

Containing cost

Managing the costs associated with loyalty programs requires careful budgeting and resource allocation. Merchants need to consider expenses such as software development, rewards, marketing materials, staff training, and ongoing maintenance. Establishing clear budgeting processes and cost controls can help ensure that the loyalty program remains financially sustainable and delivers a positive return on investment.

Managing complexity

Streamlining the complexity of loyalty programs involves developing clear processes for program management, customer support, and administration. Merchants need to establish guidelines and protocols for enrolling customers, issuing rewards, resolving disputes, and handling inquiries related to the loyalty program. Simplifying the user experience and eliminating unnecessary barriers can improve customer satisfaction and loyalty program adoption.

Measuring Effectiveness

Technology plays a crucial role in measuring the effectiveness of loyalty programs through data analytics and reporting tools. Merchants can track key metrics such as customer retention, repeat purchase rate, average transaction value, and ROI to evaluate the impact of their loyalty initiatives. Advanced analytics capabilities can provide insights into customer behaviour, preferences, and trends, enabling merchants to optimise their loyalty program strategies for maximum effectiveness.





The Opportunity: Connect with the ecosystem

In today's competitive market, customer loyalty is crucial for all players within the payments ecosystem. Loyalty programs offer a pathway to foster engagement and drive business growth. However, the true power of these programs lies in collaboration between banks, schemes and merchants.

Such collaboration between for example banks and merchants presents a significant opportunity to enhance loyalty programs and maximize their impact on customer engagement and satisfaction. Banks already provide loyalty programs for their customers, but when was the last time you remembered to use your discount vouchers? Embedded loyalty programs between banks and merchants could be the solution to that. Imagine a seamless transition between the check out and the merchant leveraging tokenization technology and automatically applying the discount based on the bank. Can this be the next step onto improving the customer payments journey?

Payment card schemes also play an important role within the ecosystem, launching new checkout features like Click to Pay and offering a secure rails for loyalty solutions. With one-click checkouts on the rise, it becomes vital to connect to the ecosystem and make sure you capture the right customer data. The race for the one-click checkout is on - and we can expect a lot of movement in this area in the coming years.

For merchants it is key to understand the collective interest of the ecosystem and opportunities for developing solutions in collaboration. New business models like subscription services, leasing and financial services can be a game changer and catalyst for growth.

To develop new use cases a close collaboration is required with all parties in the ecosystem, from PSPs to banks to card schemes, APMs and FinTechs. PaymentGenes can facilitate the connections based on our extensive network and vendor-agnostic position in the industry.

Use cases



Starbucks: from brewer to FinTech?

The success of Starbucks' payments capability is not just in its technology, but in how it's been leveraged to create a holistic and rewarding customer experience. By combining convenience, speed, security, and rewards, Starbucks has set a benchmark for mobile payment and loyalty programs in the retail industry.

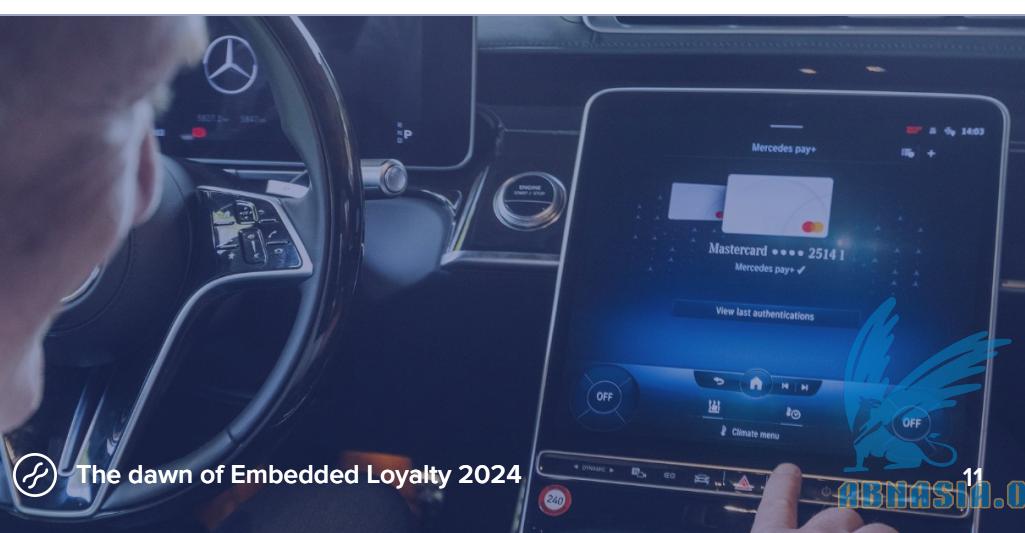
- Starbucks Card: preloaded funds make paying easier and allows skipping the line, whilst providing Starbucks with tremendous amounts of funds and circumventing transaction costs.
- Card-on-file allows for flexible payment options as well as fast checkout.

Source: Starbucks

Mercedes pay

Redefining the OEM D2C relationship by leveraging the payments capability and transforming the car into a payment device.

- Driving loyalty through offering convenient solutions: pay for parking, fuel and charging through in-car payments.
- Continuously rewarding customers with the most valuable asset: their own time.
- New use cases will further strengthen the position of Mercedes-Benz in their customer lifestyle and drive CLV.



Source: Mercedes-Benz



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Industry perspective



Why did you start Payment Loyalty?

Drawing from more than two decades of expertise in the loyalty sector, we've observed a rapidly diminishing tolerance among customers for any friction associated with in-store loyalty programs. Fuelled by the surge in contactless payment adoption, the complexity of enrolling and participating in merchant schemes has introduced a disproportionate inconvenience into the checkout experience, with traditional loyalty mechanics increasingly placing a burden on the customer. We saw an opportunity to make loyalty smarter by leveraging the two components that are already present at checkout: the customer payment method and payment terminal.

How does your solution work?

We embed loyalty into the existing payment flow, basically piggybacking on a process that customers already go through and trust. Payment Loyalty integrate at the OEM smart terminal and payment processing application level to deliver a truly frictionless process. All parts of the loyalty journey, from enrolment, through campaign progression to reward delivery and redemption are executed via the payment terminal, with minimal impact (read: friction) on the existing customer journey. Not only does Payment Loyalty eliminate friction for customers, merchant staff are no longer required to sell or administer loyalty, leaving them to concentrate on delivering great service. By eliminating friction on both sides of the checkout, deliver dramatic increases in reach for merchants, with 70-90% customer participation the norm.

What are the biggest trends in loyalty to watch out for in 2024?

We're biased of course, but we anticipate we're going to see payment embedded loyalty taking a permanent place in the landscape as part of a general loyalty strategy. Smart payment terminals are having their *smartphone moment* and as merchants increasingly understand the value of the channel, adoption will increase rapidly.

By leveraging payment-embedded solutions to recognise and reward profitable customer behaviour, high-performance loyalty is made accessible to merchants of any size. This gives SMB retail businesses a low-cost route to level the playing field with larger competitors and ensure great customers remain great customers.

From a customer point of view, we see low-friction, instant gratification as key. Rewarding great customers little and often is key to maintaining a great and lasting relationship. We look forward to playing a part in this behavioural shift.



Tom Holt
Founder Payment Loyalty



Relatively small rewards can have a high perceived value if the friction to receive them is low.



Rewarding often will generate consistent feelings of surprise and delight.



Customer tolerance for opt-in is getting lower and lower so merchants should leverage existing processes for onboarding.



What's next for Embedded Loyalty?

No regret moves you can make tomorrow

Engage with the ecosystem

Engaging the ecosystem in developing an embedded loyalty proposition is key for merchants aiming to enhance customer experiences and foster sustained loyalty. This approach leverages the strengths of various ecosystem players—PSPs, issuers, acquirers, technology providers, and marketing platforms—to create a seamless and integrated loyalty experience that resonates with modern consumer expectations. By collaborating with these partners, merchants can harness advanced data analytics for personalized rewards, streamline redemption processes, and introduce innovative loyalty features that align with evolving shopping behaviors.

Forster cross-departmental collaboration

Adopting a cross-departmental approach to loyalty ensures it becomes a continuous and integral part of every customer journey. By breaking down silos and encouraging collaboration across marketing, sales, customer service, IT and finance, businesses can create a unified loyalty experience that touches every point of interaction with customers. When loyalty is embedded across departments, it not only enhances customer satisfaction and retention but also fosters a culture of customer-centricity within the organization, driving overall business growth.

Get a grip on your data capability

Providing valuable experiences for your customer starts with a robust profile. Without that 360 view, merchants will not be able to deliver the seamless omnichannel experiences that customers demand as a bare minimum for building loyalty. Considering the impending legislative requirements, merchants need to prepare now.

Assess your payments capability

To determine whether your payment setup is ready for scaling to a strategic capability and integration within your loyalty strategy, a careful 360 assessment will provide you with the right baseline.

PaymentGenes supports merchants with



Payments Strategy



360 Payment Capability Assessment



Vendor Selection





**Supporting merchants
with payments
expertise**



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