A short guide to modern incentives and rewards programs

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Loyalty programs are an effective way to build customer affinity and grow revenue

Showing customers that you appreciate them, and understand their preferences, needs, and lifestyle is a great way to reward them.

In the past, incentives and rewards cards were limited. However, the advent of modern card issuing, available from platforms like Marqeta, has changed where and how loyalty incentives can be used and rewards can be redeemed.

A well-designed rewards program can take into account program, user, and transaction level data, both enabling cardholders to receive incentives best suited to them and allowing you to customize the experience to best meet the needs of your users, while keeping your card at the top of their wallets.

What we talk about in this article:

1. The modern card difference
2. Getting results
3. Critical KPIs
4. Customizable vs. cookie-cutter
5. From insights to action

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1. Why businesses are turning to modern incentives and rewards programs

In the past, incentives and rewards cards came in just two varieties: An open-loop card that could be spent wherever the network brand was accepted and a closed-loop card that was accepted by the retailer that offered the card.

The advent of modern card issuing, available from platforms like Marqeta, has changed where and how incentives can be used and rewards can be redeemed. Brands now have the ability to design custom programs that channel spending by merchant name, category, geography, and more. Spending can also be restricted to particular time periods. The new, more flexible incentives and rewards card programs offer several advantages over traditional programs.

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They drive traffic in a targeted way
By building a program on a modern card issuing platform like Marqeta, brands and companies can offer incentives and rewards at the stores they choose. This means they can drive traffic to a particular store by offering a greater reward at that location, or they can coordinate a promotion with a partner or partners.

They maximize working capital
Incentives and rewards cards issued by a modern card issuing platform allow companies to make the most of their working capital. Unlike traditional incentives and rewards cards, which required companies to set aside substantial reserves, transactions can be funded in real time as they are authorized. This feature, known as just-in-time (JIT) funding, also gives brands the ability to process their own transactions, which can minimize fraud. Because companies are operating on especially tight budgets, this feature is essential.

They capitalize on digital wallet adoption
One of the major benefits of digital wallets is that customers don't have to wait for physical cards to be mailed to them. Cards can be provisioned directly to digital wallets, and consumers can take advantage of the incentives and rewards without delay. There is no risk of losing or misplacing a card in a digital wallet, and no need to call customer support for a new one. Mobile payments, already popular, are projected to quadruple to 40% of in-store purchases in the U.S. in five years. Contactless payments were already on an upward trajectory, and COVID-19 has accelerated their adoption. Given enthusiasm around digital wallets, companies want to make sure their incentives and rewards cards are included in them.

They can add a sizable revenue stream
Incentives and rewards cards earn a portion of the interchange fee, which is paid by the merchant or the merchant's bank to the issuing bank behind the card.

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2. An advantage for every industry

Nearly all businesses benefit from well-developed loyalty cards, but each industry has its own compelling reasons for offering incentives and rewards programs. For example:

Airlines
Traditionally airlines have given customers who were bumped from flights paper vouchers they could redeem for local services. Those paper vouchers were cumbersome to use. As an alternative, an airline can now give a customer a virtual card preloaded with cash that they can use at select hotel chains, dining establishments, and transportation providers by merely holding their digital wallet in proximity to a point-of-sale terminal.

Department stores
With thousands of brands represented in brick and mortar retailers as well as on their e-commerce sites, large department stores like Macy's, Bloomingdales, and Dillard's can use loyalty cards to do things like connect shoppers to upcoming sales and introduce them to emerging product lines. Many department stores are in a serious slump, and incentives and rewards can help pull them out by getting people in the door.

Appliance retailers
As with the home improvement industry, companies selling large appliances, such as Whirlpool and General Electric, can provide incentives programs designed to drive sales while earning interchange to offset the costs of their promotions.

Home improvement outlets
Home improvement outlets such as Home Depot and Lowes regularly partner with a wide variety of companies and brands. By doing so, they can boost sales. A card-based incentives program can be used to increase traffic on dates that coincide with big-ticket promotions.

Car dealerships
Carmakers are eager to inspire customers to remain dedicated to their brand. To do so, they sometimes provide generous cash rebates. The cash can be uploaded to a card, and when it's a compelling sum, it can deter customers from turning their attention to a different brand.

Online retailers
Both traditional brick-and-mortar retailers and new online-only stores have seen digital channels grow as consumers adjusted their shopping behavior in response to the threat posed by the pandemic. To capture their share of this spend, retailers are looking to offer a frictionless rewards experience.

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Restaurants

When a restaurant combines efforts with other businesses in their local area, they can unite to offer more attractive incentives. For example, incentives cards can entice diners to patronize restaurants and theaters or retail districts such as Bourbon Street, Jack London Square, or the Chicago Loop by offering discounts or cash back.

Telecommunications providers

One of the more dynamic industries is telecommunications because customers are continually seeking less expensive plans tailored to their needs. Companies such as DIRECTV and DISH Network can sway customers to switch providers by offering compelling cash-back incentives.

Stand-alone cosmetics stores

Retailers like Sephora and Ulta carry a vast number of brands, all vying for coveted shelf-space. Used together, rewards cards and promotions can be instrumental in guiding customers to particular products. The cards can be embedded with time-sensitive coupons and combined with in-store sample offers or other rewards.

Tire manufacturers

Why would a driver want to stay true to a brand of tire? Because the manufacturer, such as Firestone and Goodyear, provides the customer with a payment card they can spend if they buy from the same brand again. To retain customers who may not care which tires are on their cars, they can also get creative and offer the ability to spend at retail partners.

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3. Five KPIs for measuring program success

Before launching any kind of incentives or rewards program, it's important for companies to analyze their unique needs, as well as the impact their program will ultimately have on their bottom line. In short, programs must provide companies with more value than they cost.

There are several key performance indicators (KPIs) that can help establish effective modern card-based incentives and rewards programs. Once done, the company can measure success over the short- and long-term.

New sign-ups
Card-based incentives and rewards programs can draw in first-time customers. After a promotion has run its course, companies can measure the difference between the number of new sign-ups they are accustomed to having with no such program and how many they have as a result of the program.

Increased overall spend
Do customers with incentives and rewards cards spend more on certain items or categories or overall when they're in the store or shopping on the website? Tracking their total spending will provide companies with that data. When there's an uptick in spending and it's greater than the program's cost, that's a solid measure of success.

Increased spend on high-margin items
Retailers want their customers to purchase products with high margins rather than those set up as loss leaders. They will need to check whether an incentives/rewards card effectively steered customers to items they may otherwise have passed over.

Increased spend with partners
Depending on the sector, forming partnerships with brands and retailers in designated shopping districts can help everyone thrive. A company needs to understand not only how a card is helping them, but also how its partners are benefiting from the incentives/rewards card. This is a strong argument for an open-loop card with dynamic spend controls.

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4. Key factors in the decision to invest in a customizable program

Customers like to sign up for incentives and rewards programs. Across the world, more than one in five consumers report participating in a loyalty scheme, according to a survey of 18,520 people in more than twenty countries by KPMG International. But a significant majority are unhappy with the experience. Sixty percent of all consumers and nearly 70% of millennials complained that the programs were too hard to join and that earning rewards was too difficult. Around 50% of consumers and 96% of millennials agreed that companies should find new ways to reward their customers.

Traditional incentives and rewards programs offer a closed-loop experience. Customers receive a card that they carry in their wallet. Some cards come loaded with cash or points and some give customers the chance to earn additional cash and points as they interact with the brand offering the card. But these cookie-cutter programs offered little variation and cannot easily be customized, even in a general way.

Modern card issuing mitigates these shortcomings by offering cards that are endlessly customizable. Unlike traditional cards that relied on inflexible and outdated infrastructure, modern incentives and rewards cards leverage open APIs — software that lets two programs talk to each other — to access cutting-edge functionality provided by a scalable global platform.

What to expect from a customizable program

Revenue opportunities	Instant enrollment	Adaptability	Data-driven personalization	Your branding and imagery
Earn the revenue from an open-loop card and drive sales with the purchase incentives offered by a closed-loop card	Instantly provision cards to digital wallets, making it easy for a customer to participate in an incentives or rewards program	Introduce new and different benefits at a marginal cost	Adjust incentives and rewards programs to reflect new data on customer preferences	Customize physical and virtual cards with distinctive art that reinforces your brand's image and personality

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5. What to do post-launch, how to derive value from data

Collect insights

After the incentives/rewards program is in place and is being used, an organization is ready to dig deeper into collected data and use it to refine the program KPIs.

Companies may find that customers are more attracted to certain benefits and have used them to the full extent. Other rewards, however, may not have generated the same level of excitement and were left partially used.

If the intention of the program is to keep customers returning for months or years, churning (using the card for a one-time benefit) will quickly be identified.

More intense data diving may reveal that customers were indeed channeled into spending on high-revenue items but that they also continued to spend more in those categories, or that sign-ups spiked in a given month or season.

Take action

Card-based discounts may retain customers more effectively than gift card type rewards. Partnering with brands, retailers, and shopping districts can affect a consumer's spending habits in surprising ways. Pinpointing the nuances of customer behavior is both relevant and powerful since it allows the company to make immediate and financially smart changes to the program.

Depending on the industry, companies may discover the elusive sweet spot: just how much they need to spend on incentives and rewards programs that will result in the highest profit margin.

In short, modern incentives and rewards cards pave the way for the program to improve over time — with no downsides to the process.

Final thoughts

Loyalty programs are an effective way to build customer affinity and grow revenue. By choosing a modern program, brands can channel traffic to specific stores, protect working capital and deliver on consumers' desire for greater personalization and instant access. The sooner programs are put into place, the faster companies will be able to incentivize behavior.

Ready to get your loyalty program off the ground? Reach out to the Marqeta team today.

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About Marqeta

Marqeta's modern card issuing platform empowers its customers to create customized and innovative payment cards. Marqeta's platform, powered by open APIs, gives its customers the ability to build more configurable and flexible payment experiences, accelerating product development and democratizing access to card issuing technology. Its modern architecture provides instant access to highly scalable, cloud-based payment infrastructure that enables customers to launch and manage their own card programs, issue cards and authorize and settle transactions.

Marqeta is headquartered in Oakland, California and is certified to operate in 40 countries globally.