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**REWARD AND LOYALTY
PROGRAMS LURE
MERCHANTS TO
CONTACTLESS AND
MOBILE PAYMENTS**

rewards

By Lisa Dowling

When it comes to contactless and mobile forms of payment merchants in the United States need a big carrot to lure them to these payment solutions. In other countries, ISOs have attracted merchants by combining a rewards or loyalty program with contactless and mobile payment technology. In Japan, for example, these transactions quadrupled last year, reports JBC, leading credit card issuer and acquirer in Japan. Rewards programs just may be the ticket for boosting contactless payments in the United States.

In fact, Discover Card is creating a substantive contactless infrastructure with rewards programs as the cornerstone. “As an industry, we are changing the basic infrastructure of payments and that’s not been done for 50 years,” says Beth Horowitz, vice president of product management for Discover, which is investing in chip technology and launching a marketing campaign aimed at promoting to merchants the value in contactless and mobile solutions. “For the first time in many years, there is dramatic new technology at the point of sale. Mag stripes have ruled, but now we are introducing a chip that allows you to do things that previously we were dependent on back office systems to facilitate,” says Horowitz.

The biggest change in the contactless arena is that companies like Discover are helping to deliver value more quickly and easily to the consumer. That’s because consumers care more about relevant and timely rewards. If a consumer can acquire rewards at the point of sale, that translates to loyalty—and gets merchants on board.

“Chip-to-chip technology can personally communicate to the cardholder via their mobile device and deliver messages about rewards or even provide an immediate reward,” says Horowitz. “Yes, we want to provide a rich rewards program, but loyalty is ultimately what we are after for our merchants.”

Angling the Pitch

With or without a rewards component, not all merchants are viable candidates for contactless or mobile, which are designed to maximize convenience for merchants and customers. The most receptive prospects tend to be merchants where there

KEY NOTES

- ▶▶ In Japan, a reward or loyalty program is the top factor for using a contactless payment program.
- ▶▶ The U.S. market has a long way to go before contactless makes an impact, primarily due to the lack of infrastructure. Currently, only 200,000 contactless terminals are in use, vs. more than 6 million standard terminals.
- ▶▶ ISOs can differentiate themselves by partnering with a loyalty service provider and putting a rewards component in their product offering.

isn't current acceptance and where smaller transactions are the standard.

"It's all about selling to an environment that makes sense," says Horowitz. "ISOs need to find the right merchant, such as those in as parking, vendor, and transit industries. By adding the reward element, you help merchants get customers back in their stores more often." And when transactions tend to be small, volume—especially repeat volume—is a critical success factor for both merchant and ISO.

"I agree that this solution is not for every merchant," says Lori Breitzke, who deals with gift and loyalty solutions as an associate with The Strawhecker Group, an Omaha-based consulting firm devoted exclusively to the ISO and acquirer community. "Depending on what rewards you're going for, there are costs involved and rewards may not be applicable for large ticket items. Sometimes [reward programs are] more of a marketing and branding advantage."

Because cost is always one of the first

infrastructure in place will be able to take advantage of the opportunity.

"I believe it is vital that we continue to implement contactless and rewards, but I don't believe we have to rush and have 100 percent coverage by a certain date," says Horowitz. "We need to move steadily and make smart decisions. As an industry, we are on the right path by focusing on areas that don't have acceptance today. It will give us the ability to provide loyalty capabilities at a new level over the long term."

Breitzke contends that the combination of rewards programs and contactless payments is not a fad. She predicts more interesting rewards programs will be introduced in the coming year, but sees no dramatic movement forward for some time.

ISOs that currently sell gift and loyalty programs need to start talking about contactless and rewards if they want to encourage traffic to their merchant locations. However, the U.S. market has a long way to go before rewards and contactless

ed and mid-tier merchants, it's probably not on the right path. But with the pressure of free terminal offerings, Breitzke says one way an ISO can differentiate itself may be to add a rewards component in its product offering.

"There are a number of very good rewards program providers with quality system capabilities," says Breitzke. "Look for those providers that can offer your merchants accurate reporting and easy manipulation of data so merchants can sort by time of day and frequency of usage."

Despite the challenges, Breitzke has seen positive changes in rewards programs, especially from an issuing standpoint. Banks are consolidating their consumer accounts, increasing deposits, and offering rewards collectively. Breitzke notes that in her work with a number of issuers, most talk about adding rewards to prepaid and contactless. But she also acknowledges that there's not been much implementation because they're still trying to figure out how to make it affordable and efficient.

In the coming year, banks may increase their rewards programs from an issuing standpoint and they won't be based just on signature card usage. As for the ISO community, some may begin to roll out contactless and rewards programs, but Breitzke doesn't see it making a big difference in 2008.

So what approach should savvy ISOs employ when it comes to the utilization of contactless technologies and rewards programs as a growth strategy? By most accounts the barriers to wide acceptance for these tools are still significant whether it's infrastructure, cost, penetration of appropriate markets or consumer adoption. Until there is significant change made with one or more of these elements, it will remain a chicken and egg proposition.

"I don't see contactless becoming a standard yet," says Breitzke. "It is too hard to implement, and ISOs just don't have enough control. They still need to use an outside service provider unless they have a lot of resources." But if today's good planning is tomorrow's success, ISOs would be well advised to position themselves now with the relationships, equipment and resources needed to be ready when the market arrives and look for low-risk opportunities to test the waters. **TT**

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—Beth Horowitz, Vice President of Product Management, DiscoverCard

questions a merchant will ask, they may be more apt to accept contactless technology with rewards if they are reminded that the combination can reduce costs by speeding customers through checkout lines, requiring fewer people behind the counter, while enticing customers to spend more per transaction and to come back more often.

"ISOs have to help their merchants evaluate the cost of what it takes to manage cash and payment," says Horowitz. "If a customer doesn't have cash on hand, will the merchant lose that sale? Could they gain more sales if they offered this service?"

Hook, Link, and Sinker?

Companies like Discover want to have the building blocks today to set up revenue tomorrow. And while they are keen on the marriage of contactless and rewards, they are also aware that it's a long-term strategy. In fact, while experts predict interest to grow this year, they don't expect a dramatic change in adoption. As the emerging younger generation drives demand for mobile and contactless, however, the ISOs and solution providers who have the

make an impact, primarily due to the lack of infrastructure. Breitzke cites the industry estimate that there are only 200,000 contactless terminals in use, compared with more than 6 million standard terminals.

"Smaller merchants are viable candidates, but they may not have the capital to set up a program," she explains. "Yes, contactless has benefits, but it is way down the road. I think it will take a number of years before there is any kind of substantial penetration in the domestic marketplace."

Part of the problem is that ISOs are focused on credit and debit. So when they attempt to sell new solutions, they don't have the knowledge and expertise to be as successful. In addition, sales managers may be reluctant to push contactless, and they may not be giving their agents the appropriate tools to promote it.

When considering whether to include contactless or mobile systems in combination with rewards programs into their product lines, Breitzke stresses that ISOs have to consider factors such as cost, infrastructure, and target market.

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