

[ FEATURE ]

# Hard Times

## KEY NOTES

- ▶▶ One of the emerging tools is a prepaid combination gift and loyalty card invented specifically for ISOs to sell to merchants.
- ▶▶ Gateways, portals, more sophisticated physical terminals, virtual terminals, and other Web-based options expand the range of rewards that can be offered.
- ▶▶ Loyalty programs are just starting to overlap with mobile commerce. Customers in a loyalty program can be invited to register their cell phones so that they can be sent coupons and notification of sales and discount offers.
- ▶▶ For an in-depth look at how ISOs can leverage local relationships to offer gift/loyalty card processing, partnership marketing services, and prepaid card distribution initiatives, check out "Home Field Advantage" in the February issue of *Transaction Trends*.

# Call for Loyalty

By Richard H. Gamble

## More robust, more automated gift and loyalty programs help merchants, ISOs fight consumer spending slump

**A**s consumers spend less and merchants struggle, new variations on old standbys like gift cards and loyalty programs are attracting renewed interest. “We’re seeing a huge push by merchants to implement rewards and loyalty programs,” reports Christian Murray, director of business development for Global eTelecom, based in Destin, Florida. With business slow, merchants are doing everything they can to encourage customers to come back. “Merchants are looking for help, and this creates a big opportunity for ISOs to upsell loyalty programs,” he says. “It won’t make them a ton of money, but it will be great for retention. It’s one of the few opportunities out there that can make a big impact without a big price tag.”

Merchants like gift cards because they save them time and money, streamline operations, provide security, and increase sales, Murray notes. And with the economy faltering, awareness is rising among merchants that gift cards can

make operations more efficient and improve cash flow, he adds.

Sophisticated national chains have found that loyalty/rewards programs are indeed effective in driving repeat business. And they know that this loyalty will be more important than ever in tough economic times, says Kelly Hlavinka, a loyalty marketing expert and partner at Colloquy Consulting, Milford, Ohio. “We’ve seen rapid growth due to proven effectiveness,” she says. “Our research shows that the average household now participates in 12 different loyalty or rewards programs.”

“We have not had a single merchant leave us if they are using our gift card/loyalty program,” offers Joyce Cook, CEO of Nashville-based International Cybertrans. “And our loyalty vendor reports that they have had very few cancellations from their entire portfolio.”

### **ISO-Targeted Tool**

One of the emerging tools is produced by TenderCard, based in Falmouth, Mas-

sachusetts—a prepaid combination gift and loyalty card invented specifically for ISOs to sell to merchants. The cards carry the merchant name, address, and phone number on the front and are sold and loaded by the merchant. TenderCard manufactures the card and handles the back-end processing. The buyer can give it as a gift card or use it himself as a rewards card, earning points each time it's used, says Craig Peterson, vice president of business development. For example, a dry cleaner could issue the prepaid card and add \$5 to it each time a customer spent \$50.

“The merchant decides what rewards make sense for their business. We advise them, based on our experience, but it's up to them to determine the rewards and points,” says Michael Petrone, TenderCard's vice president of marketing communications, who also points out that TenderCard provides ISO training, either in person or via phone.

While merchants always ask how much a gift card program costs, it's normally a money-maker because the merchant sells the cards and gets the cash upfront, Petrone points out. “We've found that 55 percent of the people who receive the cards spend more than the value on the card,” he reports.

For the ISO, there is money to be made upfront—they pay wholesale to TenderCard and set the retail pricing the merchant pays. They also earn some residual income on card usage and improve retention. “A merchant won't leave if there's a gift program with cards outstanding,” Peterson observes.

**Sophistication Improves**

Loyalty programs have made big gains in technological sophistication, marketing precision, and penetration among smaller local merchants. Costs have come down while technology has improved. “There are more Web-based options that help a merchant manage [its] programs,” Murray points out. Gateways, portals, more sophisticated physical terminals, virtual terminals, and other Web-based options expand the range of rewards that can be offered.

Programs operate automatically once they're set up. The merchant has to set the parameters of a rewards program—decide what rewards will be given for what levels of spending, Murray says. But after that, “it's set it and forget it. No decisions have to be made at the point-of-sale. A clerk just swipes the card and whatever rewards have been earned will be applied.”

More and more, solutions are multi-channel. Merchants want to offer a single rewards/loyalty program whether customers buy in stores or online, adds Hlavinka. The Eddie Bauer loyalty program gives participants a “Friends” card they can present in a store and a card number they can use online to get their points. They also allow customers to link their credit or debit cards to their “Friends” account so that anytime that card is used to buy Eddie Bauer merchandise, the rewards points are automatically credited. The shopper doesn't have to carry an extra card or remember a card number, she explains.

At large retail chains, where loyalty programs are crafted with a lot of marketing savvy, the key is to identify rewards with the brand, says Kevin Lewis, director of business development for TSYS Loyalty, based in Alpharetta, Georgia. “The two should blend into one experience,” he says. There is a McDonalds experience with rewards that suit that clientele and a different Saks Fifth Avenue experience for that clientele, he explains.

It has been fashionable lately to offer one-of-a-kind experiences as rewards to big-spending customers, Hlavinka reports—like an American Express reward of two tickets to a Carnegie Hall concert and a chance to meet the conductor over cocktails or a Delta Airlines reward of box seats at a ballgame. These rewards have proven particularly effective at driving spend, but it remains to be seen whether today's economic pressures will drive customers to seek more bread-and-butter rewards, she says.

While reduced consumer spending raises the value of loyalty-driven business, lower revenue and tighter profit margins due to discounting are putting a premium on cooperative programs. “I see a greater appetite and urgency for parties that don't compete to band together to share costs and increase value,” Hlavinka says, citing partnership programs Citigroup has announced with Amazon.com and Expedia.

**Local Merchants Join In**

Loyalty programs and gift cards are expanding dramatically in two ways. One is growing popularity among small local merchants. National chains already have gift and loyalty programs in place, but local merchants are now getting on the bandwagon, Murray says. “There's a big shop-local push going on,” he says. Single merchants are issuing rewards cards good for repeat business at their locations. And groups of local merchants are joining together to issue cards that can build up reward points when used at any of the

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participating stores and then be redeemed at any of the merchants. They're doing the same thing with gift cards.

These are closed-loop cards for that group of merchants, but there are vendors that provide cross-merchant settlement. "We're seeing closed-loop cards expand to communities of merchants, usually ones that don't compete, supported by cross-channel marketing to bring in shoppers," Murray explains.

Multiple merchants can make up a closed user group for a TenderCard program, Peterson explains. The card can be redeemed and earn rewards points only at merchants that have signed up for that particular program, he says. TenderCard is certified on enough POS card terminals that merchants rarely would need to buy a separate terminal, he adds.

Unlike TenderCard's prepaid gift/loyalty combo, most card-based loyalty programs are not prepaid and are not used as payment devices. A shopper usually would swipe a loyalty card in one terminal linked to one processor and database to get reward points and swipe a credit or debit card in another terminal, linked to a different processor and database, to pay for what they are buying, but it's possible to combine the two terminals, Hlavinka says.

PowerCard and UPromise are two providers that serve coalitions of local merchants with gift card and loyalty programs. "When Wal-Mart entered their markets, groups of local merchants in places like Vail and Tucson came together to issue PowerCards that give reward points to customers for shopping at any of the member merchants," Hlavinka explains.

Merchant coalitions typically own their own loyalty programs, but an enterprising ISO could approach PowerCard, UPromise, or other loyalty processors to see if they could earn commissions by selling the program to additional eligible merchants, she adds.

Once a coalition builds critical mass, it can take its nonpayment rewards customer base to an issuer and negotiate an affinity program. The affinity loyalty and payment card could be used for payments at any card-accepting retailer, but only purchases at retailers in the coalition would earn rewards points, Lewis explains.

Mall cards have appeared that are merchant branded under names like "Everyday Mall Card." They can be used at multiple malls around the country, reports Ed Lawrence, a consultant at Auriemma Consulting Group, New York. These are semi-closed-loop cards issued by groups of national chains that are often found in malls. They avoid interchange, although a bank might be hired to provide a settlement network, Lawrence says.

## Expansion Via Mobile Commerce

The other area where loyalty programs and gift cards are starting to expand is through high-tech links to mobile commerce. Loyalty programs are just starting to overlap with mobile commerce, Murray reports. "Customers in a loyalty program can be invited to register their cell phones so that they can be sent coupons and notification of sales and discount offers." The shopper can simply present the mobile device at the point-of-sale and have it scanned to redeem the coupon, or print out a bar-coded coupon. A person who presents a gift card could also be offered the same invitation to register for mobile rewards. "The world of mobile phone technology is starting to intertwine with gift and loyalty programs," Murray observes.

A loyalty participant at a company like LLBean, for example, can put in preferences for a certain shoe or sweater and then be notified by mobile device when that item goes on sale. "It opens the door to some very targeted marketing," Lawrence notes, and loyalty customers would be prime prospects for such mobile marketing. So far, the gift and loyalty providers and the mobile commerce providers are usually separate groups, but they are starting to team up and offer combined programs, he reports.

The battle rages on in the gift-card world between open-loop and closed-loop cards, with merchants having an obvious preference for closed-loop. Closed-loop cards are rapidly replacing paper gift certificates because they're electronic and can be handled automatically, Murray reports. Merchants can sell open-loop gift cards with Visa, MasterCard, Discover, or American Express branding that are good anywhere those brands are accepted, but since the cards can be used anywhere, the merchant loses assurance that the money will be spent in his store. "Open-loop doesn't help a merchant very much," Murray observes. Closed-loop has the obvious benefits of giving the merchant cash now for future business and necessarily bringing the recipient into his store to buy. He also gets to keep spoilage if the card is not fully used.

## Knowing What's Available

For ISOs, loyalty and rewards programs present a very crowded space, Hlavinka says. "Sales reps can't very well become experts in loyalty strategies, but they can talk with their processors and find out all they can about what they can offer merchants and then approach merchants, especially small merchants, with an explanation of what's available and what's affordable for them, showing them ways they might increase their business and profitability," she explains.

What's needed from an ISO perspective, Cook says, is "greater capability and flexibility to interchange a gift card and loyalty card that is reloadable and carries incentives for loyalty spending."

"Gift cards have real appeal for many small merchants. Leading with that feature is a better sales strategy than leading with basic processing or a terminal," suggests Petrone. "The program can bring sophisticated retail functionality to a mom-and-pop merchant."

On balance, the economy is bad news for merchants and ISOs, but it does present opportunities. In fact, "tremendous opportunity" exists today for the acquiring side to develop and offer loyalty and rewards programs, says Ali Raza, executive vice president at Speer & Associates in Atlanta. Merchants, he says, are looking for ways to bring back customers and defend their business. An ISO linked to a processor is in a great position to show the merchant a lot of data about their customers' behavior that would let the merchant pick the most effective rewards program. It might be a free bottle of wine at an Italian restaurant. It might be free gift-wrapping. "With today's data-mining tools, it's possible to construct a rewards program carefully that matches up well with preferences each merchant's customers have shown," he explains. **TT**

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