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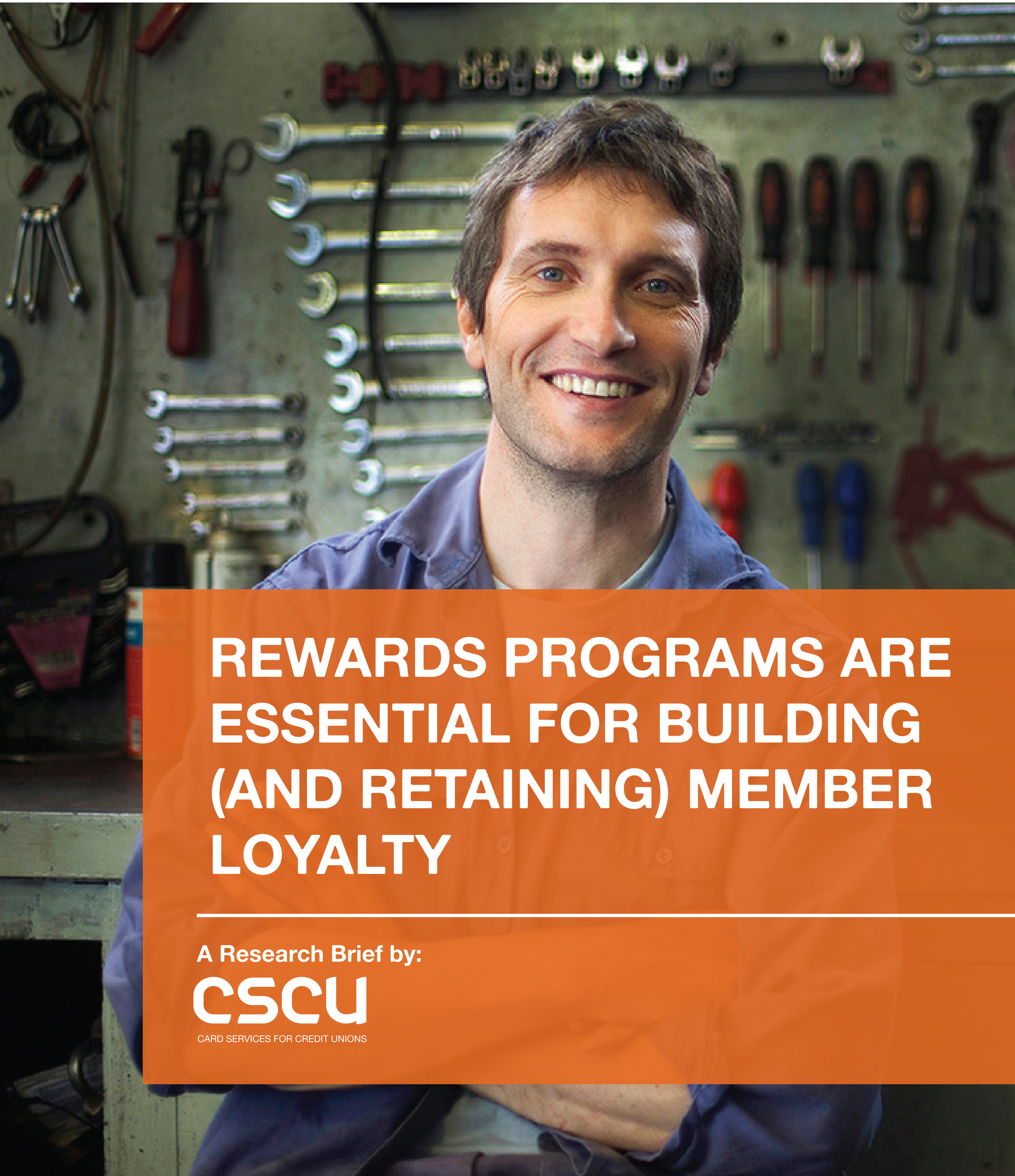

REWARDS PROGRAMS ARE ESSENTIAL FOR BUILDING (AND RETAINING) MEMBER LOYALTY

A Research Brief by:

CSCU

CARD SERVICES FOR CREDIT UNIONS

Rewards Programs Are Essential for Building (and Retaining) Member Loyalty

Loyalty is the most critical metric that credit unions can use to measure performance. Loyal members stay; indifferent members leave. Keeping existing members is easier than finding new ones. Loyal members spread the brand and urge others to join. Loyalty is unquestionably the key to success.

Friendly staff, winning smiles, and good member service, however, will only take member loyalty so far today; to stay competitive credit unions must offer compelling card programs and rewards that have real meaning to their members. Rewards are what consumers and potential members want. Even the most loyal credit union members will jump ship if another financial institution delivers better rewards. This is especially true after the Great Recession—today consumers are much more aware of what they are getting in return for their business.

Research shows that a rewards program is the main reason people select a new credit card: about 30 percent of respondents in one study stated that a rewards program is the most important reason for getting a new card. Likewise, according to the same ComScore study(September 2008), about two-thirds of survey respondents indicated they would consider getting a different card if it offered rewards.

"Credit unions must recognize that cardholders are a lot savvier than they used to be and expect more from their rewards programs," indicates Bill Lehman, vice president of portfolio consulting services for CSCU. "In fact, cardholders are much quicker than banks and credit unions to understand what they want from their financial institutions. Consumers will change financial institutions if they are presented with a rewards program that has a stronger value proposition that better matches their needs."

Designing a Loyalty Program

According to an Aite Group study, approximately 80 percent of all credit card spending is done with cards that carry rewards programs. Does your credit union offer a rewards program? If not, you are barely competitive (surprisingly, about 50 percent of all credit unions don't have a rewards program). If you do have a program but aren't managing it, or don't really understand it, you are still way behind the curve.

Take the time to determine how member loyalty is part of your overall growth strategy. At this stage, don't hesitate to call your CSCU consultant. They are all very experienced with rewards programs, and can help with strategic planning and design for an effective program.

"Now is the time for credit unions to differentiate themselves," says Lehman. "Put a rewards program in place and market it aggressively. Then determine other ways to be creative with it that add value and strengthen the member relationship."

Three key metrics measure loyalty—total number of transactions/month; total dollars spent on transactions per month; and total active accounts. An effective loyalty program will keep these numbers going up every quarter.

One of the most important rewards features that drives member retention and loyalty is a program that does not expire bonus points. If an expiration date is absolutely required, make it no shorter than five years. Also use a rewards program for more than its cash value—link it creatively to other products and services. "For example, let members redeem points for a one-quarter point reduction on a car loan rate," says Chris O'Leary, vice president of sales for CSCU. "Don't silo the program strictly to the card."

Add Some Zest

A basic rewards program in today's competitive environment is boring. Keep an eye on what other financial institutions are offering and engage staff in coming up with creative ways to enhance rewards programs. Market-tested strategies all ready in use include:

- Providing double-point and triple-point programs for seasonal activities or destinations
- Creating a "travel card" where users receive double points for travel-related transactions
- Countering Bank of America's "1, 2, 3" promotion with double points for fuel purchases, triple points for dining, etc.
- Redeeming points for lower rates on loans and other services
- Balance transfer promotions that offer bonus points as part of the balance transfer
- Awarding one-time point bonuses such as 1,000 points at activation, 1,000 points for first transaction, 1,000 points for a car loan, etc.
- Providing double points for the first 90 days on all new accounts
- Promoting double or triple points for recurring payments, such as utility bills

- Promotions that rewards spending totals over certain time periods, such as $5,000 over three months

Relationship rewards are an additional strategy credit unions can deploy to increase member loyalty. Points can be earned through cross-sell opportunities presented by the credit union, such as opening a new checking account, establishing a loan account, and any other products or services the credit union wants to actively promote. Furthermore, the additional points earned by members can be redeemed for lower interest rates or reduced or free services, which keep reward costs down. By taking the time to create an effective relationship-rewards program credit unions can deepen member awareness and loyalty across all products and services.

"Single-line product positioning can be fairly simple and even be covered in a one-page checklist," says Robert Legters, senior vice president of loyalty services for FIS. "A relationship rewards checklist, however, is much more extensive. Leaders must sit down and determine the right model and how it pertains to the overall strategy. A value must be assigned to every product or service. Less than one percent of our clients offer relationship programs because of the time and effort required."

Some credit unions tend to assume they can't afford even a simple rewards program. "However," O'Leary points out, "rewards can be put on any card and make it profitable. There is very little up-front expense. Redemption costs do increase as the program continues, but the credit union is also building loyalty and generating more revenue from increased use of products and services, which is an effective way to offset those costs."

Loyalty Programs in the Post-Durbin World

The Durbin amendment drastically reduced debit card revenue for many larger banks, forcing them to cut back on cash-back programs. Many smaller institutions are now seizing this opportunity and offering debit rewards as an essential part of their growth strategy, giving them a major competitive advantage and a window of opportunity in which to act.

Some financial institutions are increasing other incentives as well, such as rewards points that entice members to spend more with their debit cards. As a result, merchant-funded rewards programs are rapidly gaining in popularity. Merchant-funded rewards are a pay-for-performance marketing program that channel cardholder spending toward specific merchants in exchange for funded bonus points or cash back.

"It's a win/win/win situation for the member/merchant/credit union," says Legters. "Consumers use their debit or credit cards to accumulate points for merchandise, or to generate cash back. Merchant-funded rewards are designed to yield higher rewards for shopping activities at select participating retailers because the retailers are funding the additional rewards earnings, alleviating the burden of expense on the credit union."

Legters adds it's critical to maintain a balance of national, local, online, and in-store options that members can use to earn additional points or cash back. Consumers want variety and will change programs if there isn't enough selection. "We've done comparisons in the industry," he notes. "It's important to feature national merchant offers both in-store and online—they are absolutely essential to drive program performance."

Keeping an Eye on the Future

Mobile technology is rapidly evolving and will soon become the preferred distribution channel for rewards programs. For example, by 2016 smartphone traffic is expected to grow 50 times the size it is today. Marketing campaigns will be developed around mobile devices that reinforce consumer behaviors and drive certain programs—an example would be members enrolling for mobile alerts. "With mobile technology, credit unions can send various notices or alerts that inform members of new and select product options, sales opportunities, and much more," says Letgers.

For many financial institutions mobile implementation will require additional investment in technology. A mobile strategy must also be developed for every product or service in the rewards program. "One of the biggest challenges will be having a single platform," says Letgers. "You don't want to implement half a dozen different mobile programs for various products—that would be confusing and inefficient for both employees and members."

Data mining will also help credit unions understand the transactional behavior of each member. "This will allow credit unions to craft personalized messages and give members the information they need, in real time, to make their next transaction," says Lehman.

And don't forget social media, one of the most powerful marketing forces in existence. Facebook will reach one billion users in 2012. Last year Twitter grew at a pace of 32 percent, far outdistancing Facebook (13 percent). Almost two-thirds of Twitter users access the Twitter platform via their mobile phones—something that has not gone unnoticed by the financial giants. For example, in March 2012 American Express announced consumers can now link their credit cards to Twitter—when they tweet using special-offer hashtags, couponless savings are automatically downloaded into their accounts.

If you don't want to be left in the dust, develop an integrated mobile strategy and social media strategy that seamlessly delivers your rewards programs and brand message.

According to Ben Pickering, CEO of Strutta, a provider of social media applications, social media and mobile applications are already converging.

"Whether you look at it as social media going mobile or mobile apps getting social, you can bet that 2012 will see a lot more social activity on mobile devices," he writes on www.socialmediaexaminer.com. "This means that before worrying about the new-new thing, companies need to think about how existing core marketing initiatives carry through to the mobile web. It needs to be just as easy for someone on a mobile device to not only access content, but also act on that content in a social manner."

Stay Focused

To stay competitive in the loyalty marketplace credit unions must present a strong value proposition with their rewards programs and manage them effectively—not just keeping their own members but also attracting new members who are leaving banks.

Implementing a rewards program is just the beginning of the journey—one of the biggest mistakes many credit unions make is failing to market the rewards program or track its performance once it's started. "Conditions can change quickly," says O'Leary. "Credit unions must be able to adjust their programs quickly and respond to changes in the marketplace."

Competition for any rewards program is fierce; banks and credit card companies are pitching high-value rewards programs that target upscale credit union members—for example, in a recent marketing campaign American Express offered prospective consumers up to $300 to switch cards.

Credit unions must be prepared to counter these lucrative offers. If they can't match them dollar for dollar, credit unions have something special they can leverage that banks do not: trust. By marketing relationships, community, and trust with a solid rewards plan that includes both relationship and merchant rewards, credit unions pack a punch that many banks can't counter.