



Loyalty Programs + Digital Wallets: Key Partners in Increased Member Engagement



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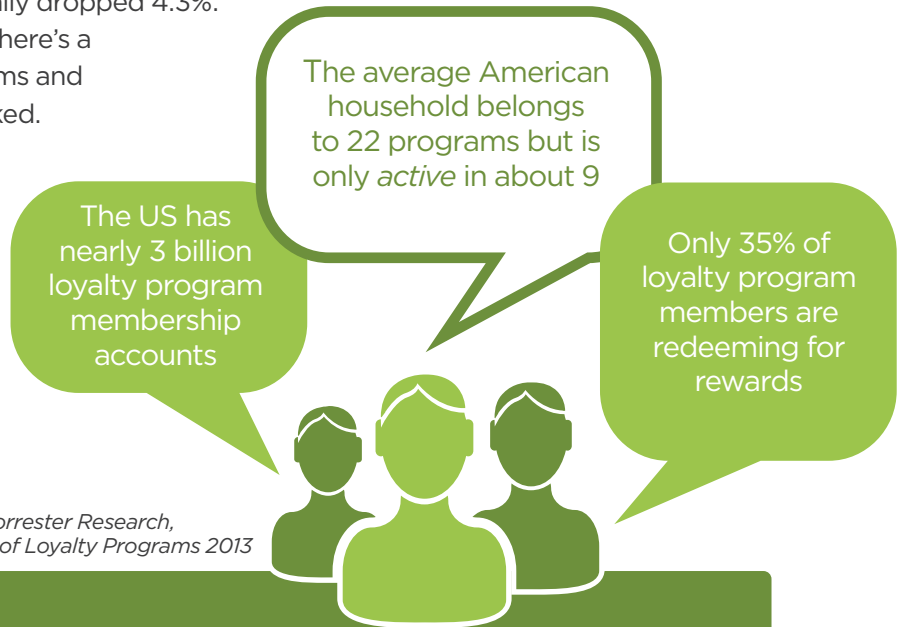
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Growing pains: the achievements and challenges of the loyalty industry



Since 2006, the big story in loyalty has been its staggering growth. Headlines proclaim its incredible achievements, such as swelling its ranks to nearly 3 billion US loyalty program accounts in 2012 (an incredible 27% increase from 2010). With such robust growth, it's easy to focus on the rising numbers and take these statistics at face value. But a deeper investigation that goes behind the headlines turns up some fine print that can't be ignored.

Yes, the average American household belongs to 22 programs (Colloquy, 2012), but of those 22 programs, 56% were considered inactive, with no activity within the past year. From 2010 to 2012, active loyalty program membership actually dropped 4.3%. It's becoming increasingly apparent that there's a disconnect between some loyalty programs and their members, one that can't be overlooked.



Source: Forrester Research, *The State of Loyalty Programs 2013*

The reality is this: when coupled with declining engagement, even rising membership numbers aren't going to add up to success. It's clear that loyalty programs need to focus on their distribution and engagement models, and modernize the way they interact with customers to turn declining active membership around.

Loyalty programs must find a way to continually engage their members.



The state of loyalty today: getting crowded, losing appeal

A crowded marketplace

Loyalty programs are known quantities: time-tested customer engagement methods whose earliest iterations date back over a century. People from all walks of life have a high level of comfort and familiarity with them, resulting in an enormous customer base.

A growing industry

Almost every industry from travel to retail to financial services has its own card-based loyalty programs. Since 2006, all major sectors have recorded impressive membership growth.

YoY Increase, 2010 to 2012

Financial services	130%
Specialty retail	109%
Hotels	73%
Airlines	46%

Source: 2013 COLLOQUY Loyalty Census

However, the industry's growth has become one of its own drawbacks. Too many options are jostling for customers' limited attention. An individual can't keep up with all the loyalty programs asking for his or her time, to say nothing of the organizational challenge in storing and carrying twenty-plus physical loyalty cards.



Source: Chadwick Martin Bailey

Declining engagement

Large loyalty member bases don't equal superior customer retention and customer engagement. *Bulking Up: The 2013 COLLOQUY Loyalty Census* finds active customer loyalty program membership has fallen 4.3% from 2010-2012. It's an unfortunate trend that cuts across verticals.



Retail: According to the Center for Retail Management, only about 12%-15% of retail customers are loyal to any one brand. Fortunately, though, they generate over 70% of a brand's sales.



Airline: A recent Deloitte study found that 72% of high-frequency business travelers are members of two or more programs, and 66% of all travelers would consider switching to a competitor's program even after achieving top status.



Hotel: According to Deloitte, just 45% of respondents felt hotel loyalty programs were important in their stay. In terms of customer wallet share, only one in four guests allocates over 75% of their total wallet share to a preferred hotel brand.

Turning these trends around

73% of consumers wish there were more ways to earn points and miles in their favorite programs

66% of consumers report they'd like to earn points and miles faster

78% of consumers said they'd be more likely to make a purchase if offered points or miles



Luckily for loyalty, these large numbers of unengaged members aren't ready to give up on their programs just yet. According to Points' own research:

Customers are asking loyalty programs to meet them where they are, and engage with them through the technology they're already using. Digital wallets are the solution.

We believe digital wallets can increase engagement in loyalty programs by giving members an easy, instant and cutting-edge way to organize, use, and get more from their memberships at every opportunity.



Source: Points Research - Points of View Panel

Digital wallets: a young industry finding its feet

Digital wallets are *multi-merchant smartphone-based digital platforms that store a variety of payment and loyalty cards and/or virtual currencies in one location*. Compared to elder statesman loyalty programs, digital wallets are still figuring out what they want to be when they grow up.

According to market research firm Berg Insight:



Major digital wallet players

- There were nearly **7.5 million** North American digital wallet users by the end of 2012 using at least a single-merchant mobile payment systems like the Starbucks app (however, of that figure, only a few hundred thousand were using multi-merchant digital wallets).
- This usage amounted to **\$500 million** in in-store spending.
- These figures are predicted to grow to **29 million** digital wallet users and **\$44 billion** in transactions by 2017.
- NFC-enabled phone shipments surged 300% in 2012 and are forecast to grow to **1 billion units** within four years.

Google Wallet • PayPal • Square • C-SAM • MCX
V.me by Visa • Mastercard PayPass

Forrester Research is even more optimistic. It predicts \$90 billion in US mobile payments by 2017, up from \$12 billion in 2012.

Despite the apparent growth, differentiating digital wallets and mobile payments becomes a critical distinction.

Mobile payments (like buying a song through iTunes on your phone or donating to the Red Cross through SMS) are better understood and more accepted by the public partially due to their decades-long development. Digital wallets, while related to mobile payments and single-merchant mobile apps, still remain foreign to many consumers and adoption challenges persist. Only 16% of respondents to a recent Chadwick Martin Bailey survey had used a digital wallet in the last six months.

Digital wallets: the problem-solver

According to McKinsey & Company, the most successful loyalty programs in recent months are those that have provided innovative solutions to members' most vexing issues.

Initially, digital wallets solve the problem of disorganization and clutter with an easy, all-in-one system, and they reduce disengagement with novelty and convenience, bringing outdated or neglected loyalty programs into the digital age. Over time, they will add diversity to members' ability to earn and burn their loyalty currency, and we believe, become a lynchpin of member engagement.



Digital wallets provide a simpler way to track and collect points.

Customers are ready to go digital

Considering consumers' high smartphone adoption rates and their familiarity with the technology, the union of digital wallets and loyalty programs makes sense.

According to a 2013 Vibes study, 85% of consumers say they would receive at least some benefit from adopting a digital wallet while 59% would have a more positive opinion of brands that offer digital wallet content. In addition, 44% of digital wallet non-users think the technology would enhance their shopping experience. A report by Carlisle & Gallagher Consulting Group, *Mobile Wallet Reality Check: How Will You Stay Top of Wallet?* reflects similar sentiments:

65%

of survey respondents rated the ability to make better payment choices, like maximizing their loyalty programs, as the most valued digital wallet service.



57%

said managing receipts and additional documentation was also important.



With 80% of consumers (Points Research) keeping an eye out for opportunities to earn points wherever they turn, adopting digital wallets that allow them to manage multiple currencies in one location at the tap of a screen isn't just prudent, it's intuitive.

Digital wallets + loyalty: a data revolution

The union of digital wallets and loyalty programs may herald a watershed moment for the industry in the realm of big data and analytics. As an industry with relatively little day-to-day customer interaction, loyalty stands to gain a powerful new tool from digital wallet adoption: a wealth of new touchpoints and their accompanying data.

Because digital wallets are directly present at every point of sale, they can feed back information in real-time, opening up a channel that can use big data more effectively than ever before. Digital wallets reveal the Who, What, Where, When and even Why of every member transaction. This touchpoint could be the key to a program's ability to engage individual members in a thoughtful, relevant manner, one that will generate a positive response.

Products of combining digital wallets with loyalty programs



Loyalty programs



Program members

Get a constant flow of real-time, contextual insights

Receive the personalized content they want, often on-site

Identify trends and create accurate customer profiles

Feel engaged and valued

Leverage learnings to target their offers more effectively

Exhibit more loyal behaviours

"By using big data, retailers can gain insight that helps them show the customer that they understand and know them as individuals and can even anticipate what they want"

~ Swanie Tolentino, Big Data Retail Industry Solutions Executive at IBM

Program members are willing and able

According to the 2013 Maritz Loyalty Report:

- Consumers are more than twice as likely to find loyalty programs satisfying if brand communications are relevant.
- 74% of Americans aged 18-34 think receiving personal offers based on their shopping habits is "cool and exciting".
- Most importantly, **73% of Americans would prefer to use their smartphones and tablets to interact with their loyalty programs.**

Time and again, consumers have affirmed their desire to receive timely and relevant content that speaks to their needs on a wealth of channels, including mobile. Messaging like this drives engagement and repeat business. Together, the data that loyalty programs have and the new engagement channel will usher in a new era of connectedness between loyalty programs and their users.

A bright future ahead

Thanks to widespread loyalty program linkage, millions of consumers make credit card purchases they wouldn't have dreamed of making just a few years ago. Co-branded and airline loyalty programs arguably deserve much credit for this customer engagement boost. Today, three-quarters of Americans own at least one card. So there's no reason why loyalty programs joined with digital wallets can't achieve the same behavioral shift.

When it comes to the union of digital wallets and loyalty programs, *inevitability* is a strong word. But when the disparate elements of total success are so strongly apparent, it becomes hard to ignore. It really comes down to a few simple facts:

- The loyalty industry is well established, but faces a growing engagement challenge.
- Loyalty program engagement improves as programs become easier for members to track, trade/transfer, earn, and redeem, and these opportunities are presented wherever they happen to be – online or offline.
- The more loyalty programs join digital wallet apps, the easier it will be for consumers to purchase through mobile and to benefit from timely and relevant communications and offers.
- Thanks to consumer insights from collected data, it's likely that next-generation loyalty rewards will feature greater personalization on communication channels not yet designed or even envisioned.

In an increasingly complex and interconnected world, loyalty and currency-based digital wallets have the potential to make our lives easier, enhancing them with timely and relevant loyalty rewards.

The “golden age” of digital wallets and loyalty is only beginning to unfold. Through 2014 and beyond, digital wallets with multiple collaborating loyalty programs have the potential to finally make their consumer- and merchant-friendly mark. For merchants and consumers who adopt digital wallets and loyalty programs, the best is yet to come.



About Points

Points, publicly traded as Points International Ltd. (TSX: PTS; NASDAQ: PCOM), is the global leader in loyalty currency management. Via a state-of-the-art loyalty commerce platform, Points provides loyalty eCommerce and technology solutions to the world's top brands to enhance their consumer offerings and streamline their back-end operations.

Points' solutions enhance the management and monetization of loyalty currencies ranging from frequent flyer miles and hotel points to retailer and credit card rewards, for more than 45 partners worldwide. Points also manages Points.com, where almost 4 million consumers use the only industry sanctioned loyalty wallet to not only track all of their loyalty programs but also trade, exchange and redeem their points and miles. In addition to these services, Points' unique SaaS products allow eCommerce merchants to add loyalty solutions directly to their online stores, rewarding customers for purchases at the point-of-sale.

Points has been widely recognized among the loyalty and technology communities alike. The company was named the 4th largest Canadian software company and the 40th largest Canadian technology company by the 2013 Branham300 list. Points also ranked 40th among PROFIT Magazine's top 200 Canadian companies by five-year revenue growth. For more information on Points, please visit www.Points.com, follow us [@PointsBiz](https://twitter.com/PointsBiz) on Twitter or read the [Points Loyalty News blog](#).



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