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# Rekindle Loyalty Programs using Blockchain

## Abstract

While certain organizations are still evaluating the potential impact of the blockchain technology, it is quickly emerging as a disruptive force, especially in the context of loyalty and rewards programs. High tech firms may have already leapfrogged into the pilot phase, testing this technology across various non-financial functions. These firms could also consider creating a blockchain-powered loyalty network to disrupt the traditional loyalty program practices—eliminating the limitations and inefficiencies, and heightening customer experience with secure and immediate redemption options across vendors. This paper brings forth the pain points associated with traditional loyalty programs, and highlights how blockchain can help plug these gaps.

# Loyalty and Rewards Program: As it Stands Today

In today's hypercompetitive landscape, most enterprises are adopting customer-centric business models to gain market leadership. Customer engagement and retention being the core focus areas, loyalty programs are becoming increasingly effective as strategic investments. Unsurprisingly, consumers are highly appreciative of businesses who give them preferential treatment, rewarding them for their purchasing decisions—evident from the 2017 Colloquy Census.[1] The report reveals that 3.8 billion customers hold memberships in customer loyalty programs in the US alone.

While the loyalty management market will be valued at USD 4.59 billion by 2021[2], many organizations are still not able to meaningfully engage with their customers. The high tech industry comprises product and service companies, and both these segments are very big on reward programs. For product companies, these programs focus on broadening the brand relationship through cross-selling of services, peripherals, or companion devices. For services on the other hand, reward programs aim to increase customers' usage of the services offered.

Customer sentiments across various industry reports, however, paint a slightly grim picture. Some 57% members don't know their reward points balance, only 25% members are satisfied with the level of effort needed to earn a reward[3], 33% highlight difficulties in using the rewards because of various terms and conditions, and 36% say their points or rewards expire before they can use them.[4]

One possible solution could be to integrate different programs (across brands) into a consolidated loyalty network—enabling customers to earn points from multiple schemes under one wallet that can be used at multiple outlets. But, this addresses only part of the problem. Moreover, businesses are often hesitant to share existing customers' data. On the other hand, there are significant monetary implications as well, not to mention the challenges pertaining to the integration of siloed systems and databases, data security, and coordination of multiple intermediaries.

# Blockchain to the Rescue

More commonly known as the technology behind the cryptocurrency Bitcoin, blockchain can be leveraged to enable a ledger of transactions across participant networks. However, leveraging its full potential will require real-time integration or synchronization with related applications, which in our case will include CRM, ERP, databases, e-wallets, and other loyalty program platforms.

With a blockchain-based loyalty program solution in place, enterprises stand to gain in terms of:

**An integrated system:** A common digital wallet can be used by participating loyalty providers to credit rewards. This provides complete control to providers and consumers alike—the former being able to set the rules that will govern how customers can use the rewards, and the latter having full control to access and use these points as they deem fit. More importantly, this can also allow customers to transfer unused points to a friend or family member registered on the same loyalty network. This solution makes it easier for new partners and vendors to join the program, in turn, giving consumers more options to choose from.

**Reduced OPEX:** By making upfront investments on blockchain and saving costs in the long run, companies can drive down costs considerably. This technology will require an implementation plan centered on:

- System management:  Using smart contracts, businesses can minimize systemic errors and fraud to ensure secure and transparent transactions.

- Transaction ease:  More trust in the transactions will permit program providers to bring down minimum points' requirements for redemption, in turn allowing customers to use points more frequently.

- Lowered acquisition costs: When integrated with social media platforms, such a solution can help participating companies gain better access to customer sentiments, likes, and dislikes. Using this information, companies can customize their offerings to suit customer preferences, thereby serving as a customer acquisition and retention mechanism. This way, the solution can help in bringing down the cost of acquiring and retaining customers.

**Streamlined and transparent process:** Near real-time credit of rewards points allows them to be readily redeemable, if the program provider allows.  In addition, by maintaining a time-stamped distribution database for every transaction, blockchain ensures each record is traceable and every entry is irreversible.

Such a platform of interlinked loyalty programs opens up new business opportunities, both for large and small operators. Large operators with already established programs can adopt new service models and offer value-added services to other businesses, while small operators can connect with other players in the industry, and scale up their business. Figure 1 highlights the journey for partners on the loyalty network—opening up different avenues across touch points, for analytics, segmentation, personalization, sales prediction, cross-selling, up-selling, and so on.
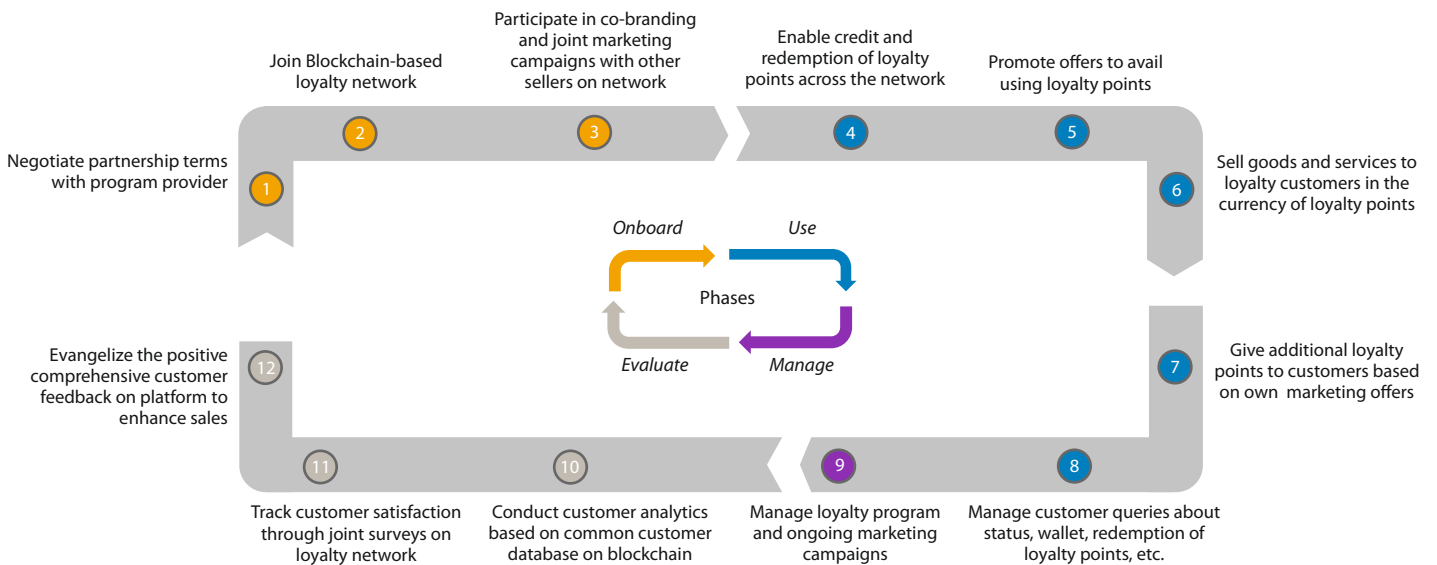


Figure 1: Partner Journey in a Blockchain -based Loyalty Network

## Making a Case for a Blockchain-powered Loyalty Program in the High Tech Industry

As an early adopter of the blockchain technology for non-financial functions, high tech firms can benefit immensely by applying it to their loyalty programs.

Imagine a loyalty consortium comprising:

- Company A: An imaging and printing products maker

- Company B: A consumer electronics brand

- Company C: An online electronic accessory retailer

Within this blockchain-powered network, Joe, a registered loyalty program customer of Company A, has bought a home computer. He earns some loyalty points on purchase. Later, he buys a gaming console from Company B and avails a concession using his existing wallet points. Here, he not just earns loyalty points, but also gets an online discount voucher for buying gaming accessories. He uses this voucher to upgrade his gaming controller from Company C's ecommerce site and earns instant points. He then goes on to place an order for a Bluetooth speaker. This entire cycle reveals how Joe is able to use his points interchangeably and in real-time when interacting with different merchants.

Such a multi-channel network will enhance overall customer satisfaction through easy redemption services and improved loyalty experience. These companies can accordingly capture and analyze customer data for segmentation and profiling, and deliver personalized offers to customers. In the longer run, companies can launch bundled offerings and joint campaigns based on the segments identified. Not only does this extend the reach to a larger customer base, it also helps cut down advertising and branding expenses, increase sales, and improve brand recall and customer stickiness.

No wonder, one of the world's largest high tech conglomerates, Hitachi is already exploring blockchain for its 150 million member rewards program.[5] By testing this technology, the enterprise is keen to determine whether it can meet high-volume transaction system demands and be used as an effective rewards distribution mechanism.

It is clear that the blockchain technology, through its smart contract feature, is poised to rewrite the rules of interaction between parties. For consumers, this becomes a one-stop shop for all their loyalty program needs. And for merchants and vendors, such a platform provides limitless possibilities through shared customer data, co-branding, and joint marketing campaigns.

## A New Frontier for Brand Engagement

Blockchain is not going to replace existing loyalty systems, but will act as a facilitator that will interact with legacy systems through smart contracts, and drive improvements in the existing processes. To embark on this blockchain journey, organizations will need to make some strategic choices such as

cost-versus-benefit analysis. Given the disruptive power of this technology, we recommend high tech companies to make a foray right away. Organizations can start small by building a proof-of-concept that focuses on an internal scenario, and then extrapolate to external use cases, finally broadening the scope. While this may spell huge investment in terms of money and effort, but eventually, all of it will be worthwhile.

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