REDEEMING AT THE POINT OF SALE: TOWARD A BETTER CUSTOMER AND MERCHANT EXPERIENCE

AUTHORS: KYLE CLARK & MARTI BELLER
CONTRIBUTOR: MICHAEL J. MCEVOY

EXECUTIVE SUMMARY

With almost 50 percent of loyalty program customers expressing dissatisfaction[1] with current reward redemption processes, there is clearly room for improvement. Such a level of discontent likely stems in part from the less-than-ideal customer experience that can accompany the well-established redemption options in today's marketplace. Depending on the reward redemption solution, there can be a delayed ability to perform the redemption, a requirement for the customer to become actively involved in securing the redemption, or limited ability to engage in reward redemption at all due to a need for merchant opt-in and upgraded POS technology.

With 'Charge Remover'[2], for instance, the process to secure a reward redemption may place a burden on the customer to become actively involved. In addition, gratification is delayed as reward redemption through this type of solution cannot take place until after the purchase item has posted to the account, which may take several days.

Similarly, with 'Point-of-Sale Integrated Redemption Solutions'[3], participating merchants must 'opt-in' and invest in new checkout infrastructure. Few merchants can make such investments, limiting the locations where customers can avail of reward redemptions. Customer experience may also be adversely impacted by the fact that reward redemption through this solution type typically alters the checkout process.

Despite the challenges, redemption at the point-of-sale can be a frictionless process, while providing customers choice and flexibility in how they use their rewards. However, it must be seamlessly integrated into the purchase process experienced by the customer. To deliver such a redemption experience, a rewards solution must incorporate four key attributes:

EXHIBIT 1. FOUR KEY ATTRIBUTES FOR SIMPLIFYING LOYALTY AT THE POINT OF SALE

1. Instant Gratification
2. Engagement Confirmation
3. Location-based Relevancy
4. Use Existing Infrastructure

[1] A 2014 Colloquy Study (see https://www.colloquy.com/loyalty-strategies/54-of-americans-unhappy-with-loyalty-program-reward-offerings)

[2] 'Charge Remover' refers to issuer-provided solutions which enable cardholders to receive statement credits to offset purchases they have made using their payment cards.

[3] 'Point-of-Sale (POS) Integrated Redemption Solutions' enable reward redemption during checkout. They are available to loyalty customers of, most often, large merchants e.g. a loyalty program integrated with the POS system.

① **Instant Gratification.** Providing consumers with the ability to use rewards for payment at the time of purchase would help overcome long-standing customer frustration with traditional redemption processes requiring consumer action post-purchase. Even better, making the redemption process a passive one from the standpoint of both merchant and consumer would further enhance customer experience and potentially speed checkout at the point-of-sale.

② **Engagement Confirmation.** Customer experience is improved when the loyalty program member receives real-time notification that a reward redemption has been successful at the time of payment. Such a reaffirmation of engagement can be expected to support customer trust and loyalty.

③ **Location-based Relevancy.** Rewards solutions should ideally provide the means for customer engagement with the program in any setting and in real-time. Whether paying for Wi-Fi at an airport or using a mobile app for ordering and paying ahead at a quick service restaurant, reward redemption can be a core purchase component that reinforces program relevancy and loyalty, regardless of the setting.

④ **Use Existing Infrastructure.** Solutions that do not require costly technology changes (e.g. upgraded 'Point-of-Sale' devices) or staff retraining will find a more receptive audience among retailers and other merchants and therefore result in broader engagement and use by the consumer.

A rewards solution incorporating these attributes would likely prove popular with consumers. In a recent study[4], US cardholders said they would spend 30 percent more on their card if they had access to such a solution and 67 percent said they would use their card more often. In practical terms, this would require a solution that enables customers to pay using reward redemption at the point-of-sale, in real-time and without a need for merchant 'opt-in'.

This could be achieved by automatically applying rewards to offset purchase transactions as they occur—thereby minimizing the steps that a consumer needs to take to redeem—without involvement of the merchant or any change to the checkout process (see Exhibit 2, which shows MasterCard's 'Pay with Rewards'[5] product as a proxy for this type of solution).

EXHIBIT 2. ASPECTS OF CUSTOMER AND MERCHANT EXPERIENCE UNDER THREE REDEMPTION SOLUTION TYPES

	CHARGE REMOVER	POINT OF SALE INTEGRATED REDEMPTION SOLUTION	PAY WITH REWARDS
AVERAGE STEPS REQUIRED TO USE REWARDS	High	Medium	Low
NO MERCHANT OPT-IN REQUIRED	N/A	✖	✔
NO CHANGE TO CHECKOUT EXPERIENCE	N/A	✖	✔

Source: MasterCard Advisors

In terms of the four key attributes identified as being necessary for a frictionless redemption process, Exhibit 3 offers a comparison of these attributes across the three redemption solution types. Clearly, a 'Pay with Rewards' type of solution can be expected to eliminate many of the frictions and frustrations experienced by consumers using other redemption solution types.

[4] Research by TNS International (see MasterCard Loyalty Solutions)

[5] 'Pay with Rewards' enables consumers to use a mobile app. to activate reward redemption to their card account automatically as purchase transactions occur. Merchant opt-in is not required and the checkout process is not impacted.

EXHIBIT 3. COMPARISON OF SOLUTION TYPES BY KEY ATTRIBUTES NEEDED FOR A FRICTIONLESS REDEMPTION EXPERIENCE

	CHARGE REMOVER	POINT OF SALE INTEGRATED REDEMPTION SOLUTION	PAY WITH REWARDS
INSTANT GRATIFICATION	Cardholder must wait for transaction to reach statement	Rewards points are accessed at the time of purchase	Rewards points are accessed at time of purchase
ENGAGEMENT CONFIRMATION	Does not interact with consumer during purchase process	Immediate confirmation of rewards usage to the consumer	Immediate confirmation of rewards usage to the consumer
LOCATION-BASED RELEVANCY	Engagement with loyalty program occurs after the purchase event	Use option typically limited to individual merchant of small group of merchants	Real-time engagement with loyalty program can occur anytime, through any purchase
USE EXISTING INFRASTRUCTURE	Leverages existing rewards website	Requires upgrade to existing POS terminals	No infrastructure change and no merchant involvement required

Less Ideal for Customers or Merchants → More Ideal for Customers or Merchants

Source: MasterCard Advisors

CONCLUSION

Almost half of consumers are dissatisfied with the reward redemption options currently available to them in today's marketplace. A 'Pay with Rewards' type of solution improves matters, since it brings consumers closer to the 'frictionless' redemption experience they crave. Such reward redemption solutions should therefore be 'top of mind' among issuers as they re-evaluate their loyalty and redemption strategies.

**For more information, contact kyle_clark@mastercard.com,
or please visit MasterCard Loyalty Solutions.**