



# Partnership Marketing *The Case for Merchant Funded Rewards Programs*

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## Merchant Funded Rewards

### The Situation

With the recent popularity of merchant funded rewards programs, many financial institutions and retailers are considering getting in the game. It is well-documented that programs like Citibank "Thank You" have demonstrated the power and cost effectiveness of offering accelerated earning opportunities to their card holders. Not only do these programs show increased activation and spend rates, they also create the coveted "top of wallet" effect for card holders. In a recent Maritz study, **63 percent** of current and prospective debit and credit card rewards program participants said they would choose a card that allowed them to earn more points by shopping with a specific merchant over other cards.

That's good news for retailers whose advertising dollars are much less impactful in today's fragmented market. Retail marketers are looking for better ways to reach their target audience and they want to measure the return on their marketing investment. Partnership marketing, through merchant funded rewards programs, enables retailers to do both.

Whether they're online, bricks and mortar, or both, retailers who participate in merchant funded rewards programs only pay when customers spend money at their stores. This "pay for performance" strategy helps retailers see immediate results for the investment they make in the program. Consumers receive offers via a medium and source they know and trust, so the credibility of program communications is much higher than traditional advertising.

Another major benefit of partnership marketing programs for both retailers and banks is the ability to fine-tune the campaign based on transactional data to make offers more relevant and enticing to customers.

But, what offers are the best at encouraging consumer spend?



## Merchant Perspective – Advertising in Today's World

Mainstream Media's  
Fragmentation Has Made  
Advertising Ineffective

- \* Newspaper readership has fallen to levels not seen since the 1960's.
- \* Magazine newsstand sales are at the lowest level ever tracked – a period of over 30 years.
- \* Network TV ratings continue to fall with their share of TV audience now less than 50% vs. 75% in 1985.
- \* The top rated TV show in 2006 – American Idol reached 17.6% of TV-owning household vs. 33.8% for 1985's Cosby Show.
- \* Radio listenership is at a 27 year low.



## Discounts

### Are they Equally Effective?

As partnership marketing programs proliferate, many banks and credit card issuers are asking themselves if they can achieve the same loyalty effect by simply offering discounts to participating merchants.

Discounts are certainly attractive to consumers. In fact, in past Maritz polls credit cardholders regularly rank discounts as their top preference. However, discounts alone won't drive loyalty as effectively as equity-based points programs.

To begin with, in today's market place consumers are always looking for the best price and typically they will wait for a sale or discount before purchasing. This has caused merchants to habitually compete based on price. The net effect is that consumers become less brand-loyal as they concentrate on their quest for the lowest price.

In their effort to differentiate themselves from their competitors, retailers actually have trained consumers to react only to a large discount incentive. As consumers continually demand higher percentage discounts, the cost for running an effective discount promotion increases.

The same can be said for Credit/Debit card promotions. Discounts are relatively easy to negotiate with retailers, so they are also easy to match by other banks.

The result? As more banks choose to run discount programs, cardholder loyalty is decreasing.

Maritz Loyalty Track Data 2006		
Rank	What Consumers Say They Want	What Consumers Actually Redeem For
1	Discounts	Certificates
2	Cash Back	Cash Back
3	Merchandise	Discounts
4	Certificates	Travel
5	Travel	Merchandise

## The Case for Points-Based, Merchant Funded Rewards

Consumers become engaged and are increasingly loyal when they participate in a points-based equity program. In fact, Maritz' analysis of cardholder behavior shows that equity program participants outspend non-participants at an average ratio of **2.5 to 1**. In addition, equity program participants' attrition rates are a percentage lower than non-participants.

When banks add more points into the mix through participating merchants, card holders are more likely to increase spend. For example, in a merchant funded customer loyalty program Maritz runs for Canada's Scotiabank, cardholders increased their number of transactions by **53 percent** and the value of those transactions by **51 percent**.

Merchant funded rewards are the boost banks need to reinvigorate their equity-based rewards programs. They're also the alternative retailers are looking for to break through today's fragmented media. When developed strategically and executed properly, merchant funded rewards programs result in higher and more-frequent purchases and customers feel rewarded for shopping at their favorite stores – a winning combination for all participants.

Maritz Program Comparison			
Avg. Of Monthly Metrics	Point Equity	Cash Back	No Loyalty Component
Total Attrition Rate	9.5%	11.0%	10.5%
Involuntary Churn (Inc. Charge-offs)	2.4%	3.7%	5.3%
% Debit Active	50%	40%	33%
Spend/Debit Active Account	\$3186	\$1648	\$1244
Balance/Active Acct Generating Interest	\$9085	\$7494	\$5107

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