

Building Customer Loyalty with Prepaid Cards





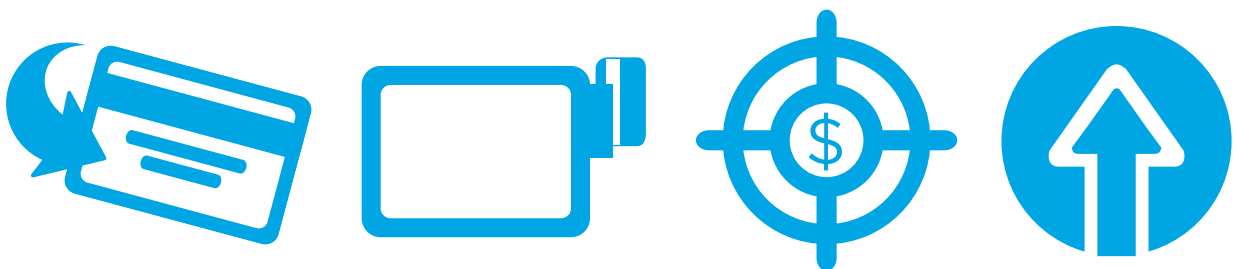
Introduction

Retail purchases with prepaid cards are expected to exceed \$200 billion in 2014, or five percent of all U.S. retail spending. Some well-known retail brands in recent years have turned prepaid cards into a significant portion of their business.

These companies are using prepaid cards in their rewards programs as a kind of magnet that keeps customers coming back. With each card-based purchase, customers accumulate points to earn rewards such as free drinks or special discounts. Small businesses have noticed the success of card-based programs and want in on the action, too. To drive loyalty and sales, small local merchants traditionally have relied on paper certificates, which are easy to counterfeit, and punch cards with point systems that can be difficult to manage, and reward consumers for actions they were already going to take rather than encouraging desired behaviors.

Until recently, prepaid programs have proven cost-prohibitive for small merchants, but that is changing. With so many credit card processors competing for small business share, prepaid offers are becoming more affordable for small merchants. Some processors offer free transaction processing for prepaid (gift) cards, discounted pricing for card orders, and other value-added services that complement credit card processing.

This means small and midsize businesses now can offer prepaid card programs to solidify customer loyalty and boost profits. Unlike paper certificates, plastic and mobile cards are difficult to counterfeit. A prepaid loyalty card program also allows merchants to track purchases and collect data on buying patterns to help them create targeted promotions. By leveraging prepaid cards for loyalty programs, small merchants can compete with large brands that have deep pockets.



Evolution of Prepaid Cards

Prepaid gift cards evolved from paper gift certificates, which started to become popular in the 1980s as an alternative to Christmas, birthday and anniversary presents. Issued by restaurants, specialty stores, coffee shops and large retailers, gift certificates increased in popularity until being gradually replaced by plastic.

Today, prepaid cards have all but displaced certificates, and are often preferred over physical gifts. A 2011 study found that 52 percent of consumers would rather receive a \$25 gift card than a present worth \$45. The 2013 Nilson Report said prepaid cards was the fastest-growing payment type in the U.S. from 2007 to 2012.

Prepaid gift cards offer shopping freedom; a recipient never has to return a gift and feel guilty about it. Instead, recipients hold on to cards until deciding to purchase something they want. And unlike cash or paper certificates, the balances on cards can sometimes be protected in case they are lost.

Recognizing the value of prepaid cards, more and more merchants have been using them to build customer loyalty programs, allowing people to accumulate points for every purchase and rewarding them when they reach a pre-set purchase volume level. In 2000, the number of loyalty program memberships in the U.S. was 973 million, 10 years later it had more than doubled to just over two billion, which amounts to 18 memberships per household, according to research company COLLOQUY.

Open-loop vs. Closed-loop Cards

As plastic replaced paper for gift giving, different types of prepaid cards have been introduced. There are two primary types—open-loop and closed-loop cards—both of which are used by shoppers in lieu of cash or traditional credit cards.

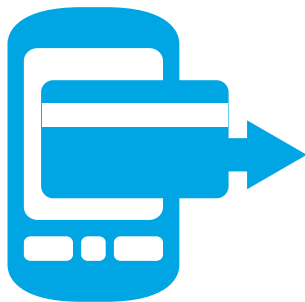
Open-loop cards, issued by card associations such as American Express®, Visa®, MasterCard® and Discover®, offer the advantage of being accepted wherever the respective card brand is accepted as payment. Once the cards reach a zero balance, users may opt to reload them but usually have little incentive to do so.

Closed-loop—or stored-value—cards are specific to a single merchant, such as Fuzziwig's Candy Factory, Durango Joe's Coffee or Booster Juice. Issuers can build attractive rewards programs around the cards to keep customers coming back. Closed-loop cards may be linked to websites where consumers can reload their cards, learn about special offers and check balances and points earned. This equates to usability and convenience for cardholders.

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Closed-loop Benefits

Closed-loop cards provide an effective marketing tool to boost brand recognition. Every time cardholders open their wallets and see their cards, they are reminded of the merchant that issued the card. The more they see the merchant's logo, the more likely they are to return to the store, restaurant or coffee shop to spend money.

Closed-loop cards encourage prepaying for services, help retain valuable customers, build customer loyalty, and attract new customers—all of which drives incremental sales for the merchant. Studies show that merchants who sell prepaid custom cards increase their sales by 30 to 40 percent. Card users tend to spend more than the card's preset value—anywhere from 20 percent to 60 percent more.

Cards are easier to manage than paper certificates, which anyone with a printer can duplicate. Forged certificates, of course, lead to merchant losses. Another benefit is that cards can be used as a referral tool. By leveraging social media and mobile promotions, merchants can encourage their customers to share offers and discounts with friends. Signing up a friend can lead to additional rewards from the merchant, who may offer a discount or freebie for the reference.

One of the most important merchant benefits of card-based rewards programs is customer information. When enrolling, customers may share addresses, phone numbers, email contacts, and household demographics—all of which are useful for marketing purposes. With every customer purchase, merchants also collect valuable data on buying patterns such as frequency and average spend. Savvy merchants use this type of data for targeted campaigns that are more likely to bring customers back to the store.

Cards also expedite transactions when rewards programs are integrated with POS systems. A quick swipe of a card records the transaction and—if the system is set up to accept pre-paid cards—displays the customer's balance on the POS screen. Rapid transactions equate to good service in customers' minds. This means that prepaid cards, on top of the other benefits already mentioned, also contribute to high customer satisfaction levels.

Avoiding Missteps

Building a rewards program around prepaid cards requires careful planning and vision to avoid common missteps. Merchants must set clear goals for their program and create a well-defined process for execution, point redemption and reloading. Decisions must be made on point accumulation and rewards. Is the reward a free drink with

10 points? Cash back after spending a certain amount? A 50 percent discount on the next purchase? A combination of different rewards?

Merchants must decide how to best kick-start the program and what kind of upfront investment to make. For instance, it may help to hand out free cards preloaded with small amounts. Seed cards with \$5 or \$10 for the first 100 or 200 customers would cost less than paying for a \$5,000 billboard on the edge of town.

A loyalty program should be treated as a menu or inventory item, not an afterthought or a mere alternative to paper certificates. Programs can be as sophisticated as merchants want to make them, giving businesses the opportunity to get creative. Once a rewards program is in place, customers need to be told about it through in-store signage, website promotions, mailers and email marketing.

Finally, POS integration is essential. It helps expedite transactions and simplifies recordkeeping. POS systems collect and store data on every purchase, and make the data accessible for point redemption and promotional purposes.

Mercury StoreCard™

Since 2001, Mercury® has offered small and midsize businesses a comprehensive portfolio of payment products and services to help manage their businesses, including the MercuryGift® customizable gift card service. Now the company has raised the bar with the Mercury StoreCard™ service, which allows small merchants to offer loyalty programs rivaling those of large, well-known brands.

StoreCard functions both as a traditional gift card and a reloadable stored-value card. It is designed to help merchants increase foot traffic and transaction value while rewarding their customers for every purchase.

Merchants who offer StoreCard to their customers enjoy a host of features that help set their business apart from the competition, starting with customized plastic cards and merchandising materials that help catch customers' attention while in the store or restaurant.

When merchants enroll in the StoreCard program, they get a customizable Mercury-hosted website to handle targeted promotions and loyalty rewards. The website lets cardholders track their balances and rewards, and set cards to reload automatically when the balance falls under a preset amount. Automatic reloading simplifies management, ensures customers always have funds available on their StoreCard, and reduces wait times at checkout counters.

Mercury's
StoreCard
program
offers features and
tools that allow
even the
smallest of
merchants
to compete
with well-known,
giant brands.



Customers can access the website by scanning the QR Code® on the back of the cards or by entering the URL into a browser. Once on the site, customers can learn about card features and the rewards program. They can also convert their physical store card into a digital card to be used on a smartphone via Apple's Passbook® app or an Android PassMarket™ app. With the power of mobile payments, customers can leave their wallet at home when patronizing the business.

In addition to mobile payments, merchants can take advantage of the technology cool factor by encouraging card members to share promotional preloaded cards with friends and family through social networking sites like Facebook®. Customers can even put their own photos or artwork on the front of the cards to add a personal touch.

With access to Mercury's marketing resources, merchants get help designing their cards and identifying successful promotion ideas and corporate partnerships that can boost customer traffic. All of this adds up to providing value to customers and building loyalty, which leads to repeat business and higher customer satisfaction rates. The ultimate result is higher sales and profits.

Conclusion

Closed-loop, prepaid cards provide multiple benefits to small merchants wanting to offer their customers loyalty programs. Once too expensive for small and midsize businesses, card-based rewards programs are now affordable and easy to manage as a result of competition by payment card processors. Mercury's StoreCard program offers features and tools that allow even the smallest of merchants to compete with well-known, giant brands.

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