Is Your Partner Loyalty Program at Risk? Enter Blockchain.

By Mark Kurtz

One of the most effective ways to drive behavior is through a well-designed incentive and loyalty program. In all the speeches and presentations, I have done, I have yet to find a single person who is not part of at least one loyalty program; most attendees are members of numerous loyalty programs.

Obviously, this is not anything new. As companies want to capture the preference to drive loyalty, organizations reach out to adjacent brands to further engage and solidify the "economies of partners". For example, the BMW ReachNow program now rewards activity with frequent flyer miles on Alaska Airlines. Delta miles can be used on Amazon for purchase. We are all familiar with these scenarios and in many cases, doing "currency point arbitrage" to determine if we want the cash or the trip.

The price for loyalty

As brands compete more and more for our loyalty, the rewards become higher (and more lucrative for the consumer). Using the Hilton-branded American Express card can net you 100,000 Hilton points as long as certain behaviors are achieved. These points are accounted on financial statements and the liability of the value of these points grows year after year. If the loyalty program is not structured correctly, the financial liability can directly impact a stock price in a negative manner.

If you dilute (or eliminate) the points, you lose the goodwill of your customers that you invested millions of dollars in to stay loyal. It becomes a cycle where brands must constantly be looking for new offers to surprise and delight the customer.

Having worked for a national marketing agency focused on loyalty, we typically estimated the yearly loyalty budget to fall between 4%-8% of your sales. Obviously, this would vary by industry. Forbes pegs loyalty budgets to be 5% of annual sales.

The risk of loyalty point inflation?

Some points are more desired than others. Hence, the value appreciates or can depreciate. My former business partner was a million-mile flyer with Ansett Australia. When Ansett went out of business, his "Ansett Currency" was worthless.

The underlying issue becomes: how do we protect the downside variability of converting your activity into something like a utility token instead of "branded point currency. Brands can make the impact by protecting the floor value of their currency. For example, if you own an underlying asset that has value, i.e. a plane trip, you can have your token maintain a minimum value. You may or may not be able to get your partners (i.e. Marriott, Hertz, etc) to recognize the same value. However, at least there is value no matter what the variability.

For a good primer and analysis on getting beyond the blockchain hype, check out this research by McKinsey & Company.

As the ecosystems grow (and yes, this is happening exponentially), it may be too aggressive to jump into blockchain-based platforms as a loyalty incentive. However, the learnings from your loyalty program will help you build the expertise over your competition as you look to gain a competitive advantage. The hidden value will be the data (especially the metadata) and the brands that can get a head start will have the strategic advantage in 2-4 years.