neo

How to Start Thinking About a Financial Services Strategy as a Driver of Customer Engagement

2022

Table of contents

INTRODUCTION

pg 1

SECTION ONE

pg 3

Customer loyalty trends

01 Understanding the shifts in customer loyalty

02 Why financial technology is revolutionary

03 How financial technology and loyalty intersect

SECTION TWO

pg 11

Think about a financial services strategy in three easy steps

01 Having a preferred way for customers to transact

02 Learning about customers

03 Putting the results into action

SECTION THREE

pg 19

Factors to consider when choosing a preferred transaction method

01 Convenience

02 Benefits

03 Customer demand

SOURCES

pg 25

Introduction

Today, customers expect more than just goods and services. They demand a full-service experience that can include elements of location, competition, availability, and incentives.

At the same time, retailers are searching for more than sales—they want customer loyalty. It's a symbiotic relationship where retailers are seeking out strategies to make customers more profitable, while customers are looking for companies that best match their needs and preferences.

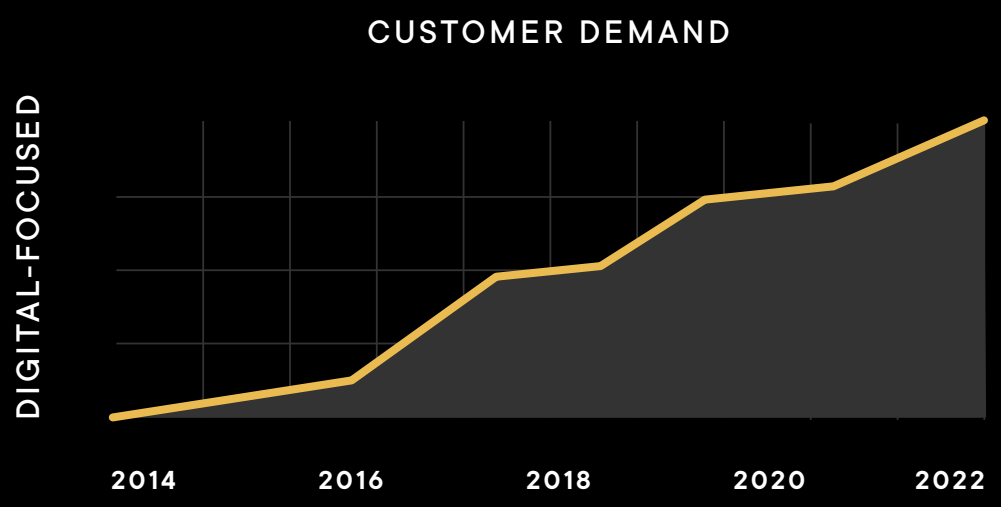
The goal for retailers is to hold onto and expand their market shares. For customers, it's not just about getting the best service—it's also about identifying with a brand and being rewarded for their loyalty.

To support this, larger retailers have started offering financial services, designed to strengthen and expand relationships with their customers.

> By offering loyalty programs and incentives as part of a larger financial services strategy, retailers are quickly realizing they can attract more valuable customers while elevating their brand.

The early 2020s have pushed most industries into adopting a digital-first approach. The Covid-19 pandemic has accelerated this, forcing many people into a digital-first space. But these trends do not only stem from the pandemic. Ecommerce has become a far more prominent sales channel, and digital presence has now become a natural extension of a retailer's business. Even if they aren't aware of it themselves, customers are starting to expect digitization in their interactions with companies. When this experience is not delivered, retailers put themselves at a higher risk of customer churn.

FIGURE 1



Having a strong digital strategy allows businesses to reach many more potential customers. It is also a driver for valuable data collection. This data is now a necessity for success, and retailers that can't adapt to this are falling behind.

Section one

Customer loyalty trends

Brands are not only looking for more ways to attract customers, but retain their loyal customers. When used properly, digital tools can help businesses reach these goals. On the other hand, customers now have an overabundance of brands constantly at their fingertips, and as a result competition is stronger than ever. Because of this, customers are looking for more tangible value from the companies they interact with. So, how can retailers use this to their advantage?

> With the rise of financial technology companies, retailers can offer financial services and everyday financial products more easily than ever.

This can both engage regular customers and attract new ones. For instance, when built effectively, products like loyalty-based card programs, flexible financing at checkout, and brand rewards can increase loyalty, improve customer experience, and help retailers stay competitive in today's digitally-driven landscape.

Many major brands are now embarking on this journey, leaving behind local retailers who don't have the infrastructure and resources to implement financial services programs by themselves. However, with financial technology made readily available to all through emerging fintech companies, big and small retailers alike can now offer financial products to drive customer engagement.

01

Understanding the shifts in customer loyalty

Customer engagement is integral to business success. Although acquiring new customers is important, loyal customers provide exponential value.

> "You're at least 40% more likely to convince an existing customer to buy from you again than you are to convert a prospective customer"
> *~ Huhn.*

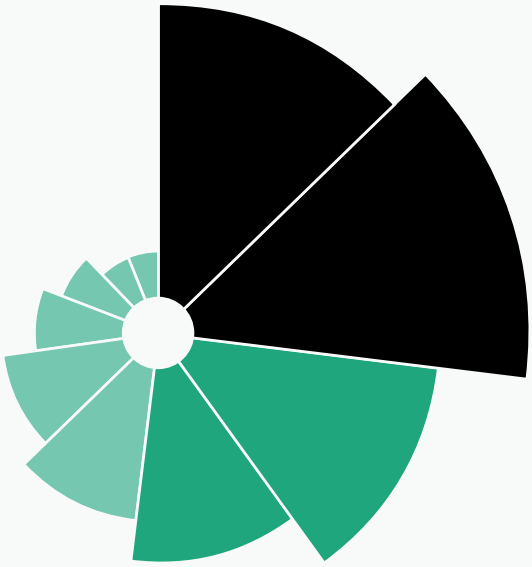
Loyal customers are often more likely to recommend a business to friends, come back more frequently, and spend more, all while costing less to retain than new customers.

Loyalty, however, is getting much more complicated than just program membership. Rather than traditional earn and burn programs, customers need to be consistently engaged with a number of factors that build an ongoing positive experience.

> "Customers prefer rewards programs with cash value, relevance, choice, aspirational value, and convenience"
> *~ O'Brien and Jones*

FIGURE 3

Source taken from Bond Brand Loyalty 2019 study



Customers are now expecting a variety of experience-based elements when interacting with a brand. This includes recognition, support, personal relevance, data usage, trust, digitization, needs, and communication. Although these factors may seem difficult to tackle, most businesses are missing the mark and failing to deliver on these elements. The truth is, these requirements are easier to deliver on than it may seem.

Customer requirements include recognition and support, personal relevance, and meeting needs. These elements can be achieved through truly knowing a customer. Factors like spending data and trends, demographic information, and other insights are typically difficult to collect without a comprehensive loyalty program. By truly understanding customer habits, retailers can create an informed customer loyalty strategy. On the customer side, customers feel as if their experience is more individualized, which creates a better relationship with the brand.

Other elements including ease and enjoyment, digitization, and communication require modern, seamless technology. By offering technology that is intuitive and easy to use, customers are more likely to use the programs offered, and they do not have as many barriers to receiving the experience they want. The right technology can create a significant advantage for retailers. Technology that is adaptable and seamless helps customers and businesses both reach their goals quicker.

Two of the key tools retailers need to drive customer loyalty are data and technology. Without these, delivering a personalized, one-to-one experience to every customer is nearly impossible. Data enables businesses to learn about their customers and cater their strategy accordingly. Technology helps businesses use this data to segment and target customers. The key to unlocking both of these factors lies in an effective financial technology strategy.

02

Why financial technology is revolutionary

The tech industry has been flourishing over the past few years because of the fast pace at which society is evolving. To keep up, a substantial number of startups have been popping up left and right, including financial technology companies. Commonly called fintechs, they have been catching the attention of high-profile investors and many have been able to raise billions of dollars. The huge interest in fintechs is simple: they create innovative financial products that the world desperately needs by using first-class technology.

> While technology has proven time and time again that it can make our lives easier, financial technology helping retailers achieve customer engagement might be the best-kept secret yet.

Some large-scale retailers are already leveraging financial technology to offer their own financial services to customers. They're not focusing on becoming banks per se—rather, they draw their inspiration from the banking industry. How? By taking some of the core components of a traditional bank and adapting them into various programs. Retailers have one strategy in mind: increasing the number of customers who are actively engaging with their brand and regularly using and buying their products or services. In other words, the main objective is to create a loyal and engaged customer base by offering a strong loyalty program. This is often achieved through a credit card program and made possible thanks to its proximity to purchasing decisions. Not only does it allow customers to attribute brand value to their purchases, it is also the most convenient option.

Examples include

- Amazon and its Rewards Mastercard,
- Canadian Tire and its Canadian Tire Money® and Triangle RewardsTM Program, as well as
- Loblaws and its PC OptimumTM Points Reward Card Program.

A lot of major brands are now seeking this path. However, an impactful financial technology strategy is not exclusive to large brands . With the help of fintechs, every retailer can now benefit from the perks of having their own loyalty program without the headaches that come from building one from scratch.

FIGURE 2

LOYALTY PROGRAMS

Amazon Rewards Mastercard

Canadian Tire Money® and Triangle RewardsTM Program,

Loblaws PC OptimumTM Points Reward Card Program

For retailers looking at building an effective loyalty strategy, financial technology can provide benefits that were previously only available to retailers through a co-branded credit card. For example, retailers are limited to their own in-store data, and lack visibility into the holistic picture of the customer and their spend behaviour outside their store. Thanks to technology built by fintechs, retailers can learn more about their customers with little to no effort. With the colossal amount of synthesized data fintechs can provide, retailers can understand their customers and their spending habits across their total wallet, gaining access to meaningful insights they never would have been able to unlock over the counter.

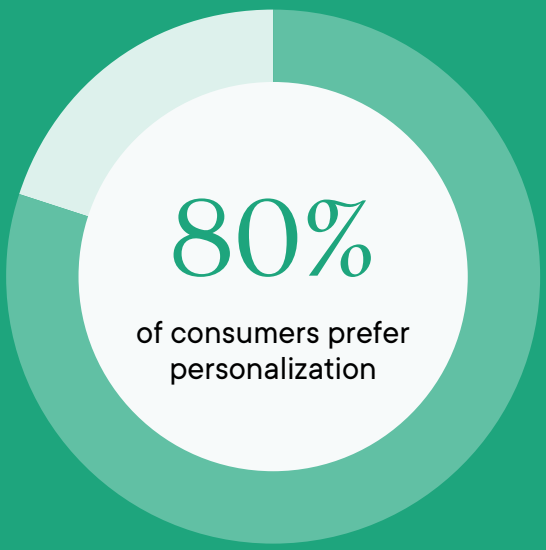
By automatically collecting and compiling data into actionable insights, fintechs can give retailers the ability to easily analyze and understand customer behaviour. Using segmentation, retailers can create loyalty programs, incentives, and offers that are targeted and more effective.

> With up to 80% of consumers being more likely to make a purchase when brands offer personalized experiences

("New Epsilon Research Indicates 80% of Consumers Are More Likely to Make a Purchase When Brands Offer Personalized Experiences."), these perks are becoming an expectation. This means that retailers need to make sure they target and cater to customers at an individual level to stay competitive. They'll thus drive higher engagement, see incremental spend revenue and customer acquisitions, and retain more value.

FIGURE 4

PERSONALIZATION



03

Create a strategy beneficial to retailers and customers alike

What makes financial technology so successful? It incorporates a blend of technology, customer experience, and machine learning. Using technology to sort data allows retailers to drive customer engagement like never before. Machine learning is indeed the key component that makes the difference in getting new customers with loyalty programs and retaining these customers by offering them what they want.

Financial technology should be at the centre of a retailer's personalization strategy. In the past, there may have been clear distinctions between making a purchase at a retailer, buying a financial product, and ongoing customer engagement. Today, those lines are becoming more and more blurred. For example, a customer might get a credit card with one of their favourite brands and expect personalized offers that accelerate the points collected through their built-in loyalty program. The retail experience has changed over the last few years and customers aren't just looking for bargains—they want value and to feel valued.

> "A company must find ways to share value with customers in proportion to the value the customers' loyalty creates for the company"
>
> *~ O'Brien and Jones*

Data and technology increase the value of a loyalty program exponentially. Instead of sinking costs into one-size-fits-all incentives that reward loyal customers and first-time customers equally, technology can take it a step further. By segmenting customers, retailers using financial technology can offer the best offers to their most loyal customers, and incentivize new customers for loyalty-building habits.

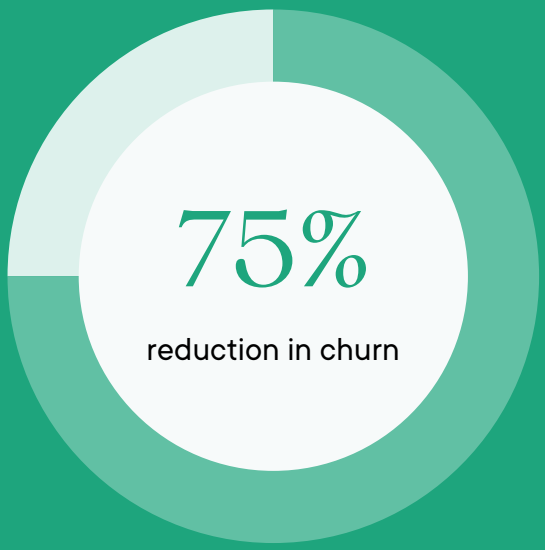
A Mastercard study on rewards redemption showed that "when cardholders receive personalized offers, issuers see up to 18% spend lift from those who redeem, and a 75% reduction in churn" (Samaha).

They suggested using "data-driven insights to tailor experiences to cardholders so you can build deeper connections and long-term loyalty" (Samaha).

Retailers who adopt a financial services strategy that suits the scale and breadth of their business can more effectively increase engagement and strengthen customers' connection to their brand. Basically, it's an opportunity to provide customers with higher personalization, more value, and drive more spending. This type of financial strategy is beneficial not only for retailers because it drives sales, but also for customers because they get the personalized experience they want. It's a win-win.

FIGURE 5

PERSONALIZED OFFERS



Section two

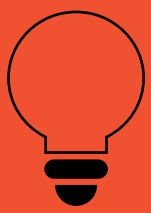
Thinking about a financial services strategy in three easy steps

Developing a financial services strategy can be daunting. However, retailers don't have to shoot for the moon—the right strategy exists. One that only requires resources at hand, and perfectly fits their needs. To ensure the success of their strategy, retailers should consider 3 key steps.

ONE
Having a preferred transaction method.

TWO
Learning about customers.

THREE
Putting the results into action.



01

Having a preferred transaction method

When it comes to preferred payment methods, two options should be considered. If the size and revenue of a business allow for it, retailers should create their own, unique, preferred payment method. Top brands such as Canadian Tire and Loblaws have already done so, which, in turn, has led to deeper relationships with their customers. This option is realistic for select brands with large enough scale, high enough spend per year, and an existing loyalty program. However, offering a preferred transaction method is available to most retailers and is known to be easily actionable and cost-effective.

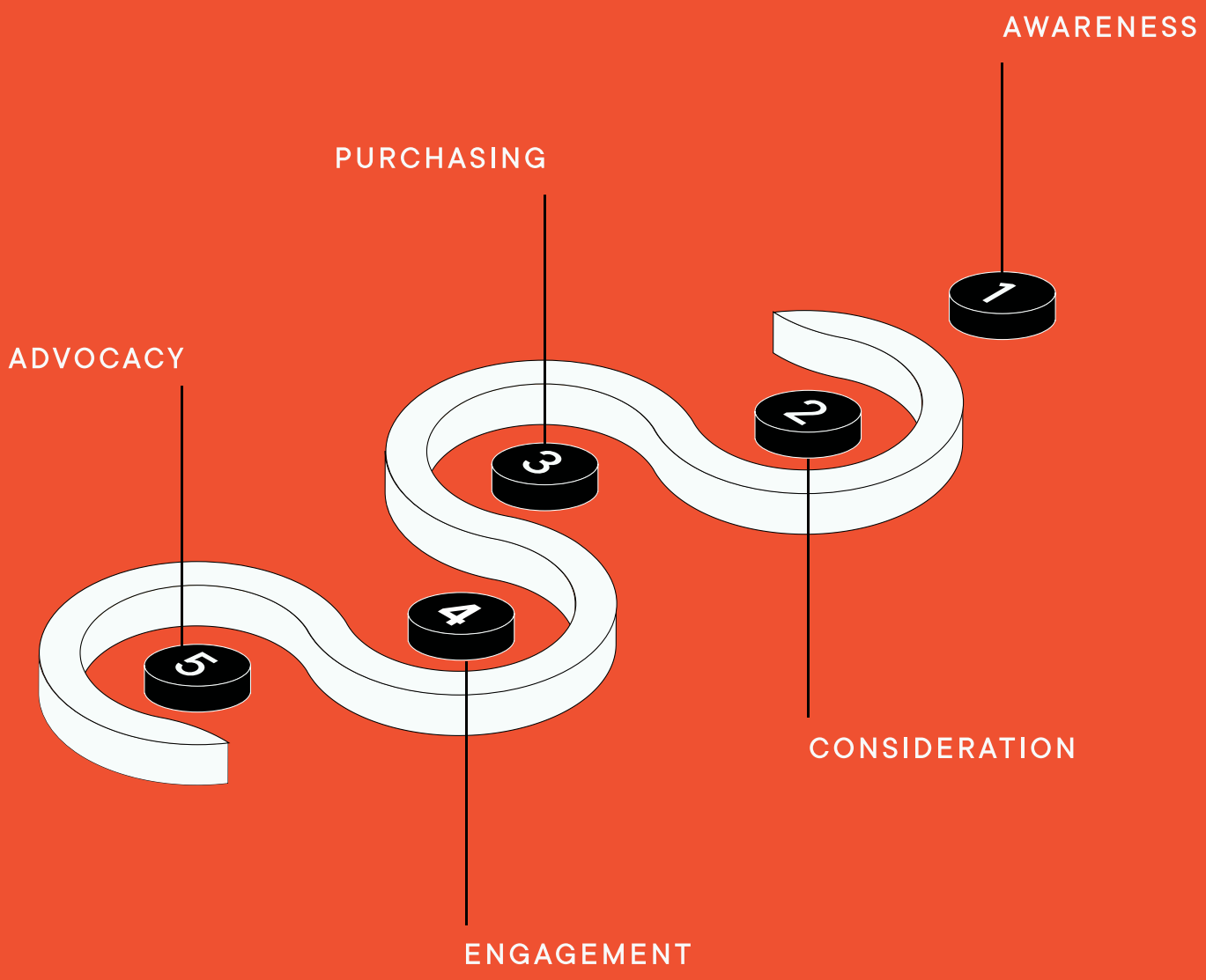
There are many benefits to having a preferred way for customers to transact with a business. The first reason that this is an essential step in developing a financial services strategy is that it provides control over the purchasing phase of the customer journey.

Although often undervalued, this phase is extremely important. In the purchasing phase, customers make key decisions, including what to buy, how much to buy, or even whether to buy.

Preferred transaction methods that offer an incentive for a purchasing behaviour reduce the likelihood of abandoned carts or second thoughts. Pair that with personalized, targeted offers, and businesses are already set up for success.

FIGURE 7

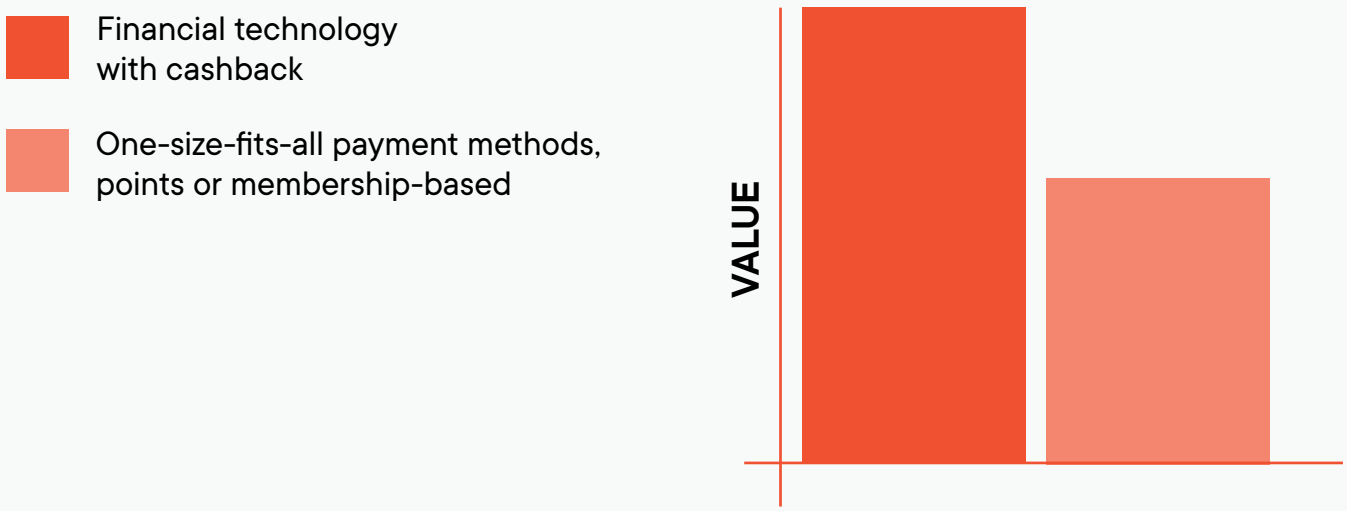
CUSTOMER JOURNEY



Some preferred payment methods transfer value away from retailers. This includes payment methods that are one-size-fits-all and do not identify or incentivize customers on an individual basis. With these, the payment method fees would typically go into someone else's loyalty program. Most of the time, those loyalty points aren't redeemable at the retailer where the sale was made.

Other payment methods that offer the right incentives at the right time, bring value back into the retailer's ecosystem. This includes payment methods that are enhanced by financial technology. The best ones offer points or cashback that customers can redeem with the retailers they spent at. This creates a situation that is profitable for all parties. The customers get more value from using the preferred transaction method, which translates into more spending and more visits, thus benefiting the retailers as well. This is how they can turn payment method fees, their initial investment, into a competitive advantage.

FIGURE 7



Another reason retailers need a preferred way for customers to transact with their business is that it allows customers to link value to what they paid for and how they paid. The right payment method can be turned into a significant competitive advantage. When customers use a preferred transaction method that generates cash value at the point of transaction, the payment method is passing tangible value between retailers and their customers.

02

Learning about customers

With billions of sales transactions happening every day and customers at the heart of them, offering a preferred payment method is a key factor in gaining access to valuable customer data, engaging your customer base through a sophisticated card management interface, and as a result - influencing and motivating customers into making purchases.

Once a retailer has proposed a preferred way for customers to transact with their business, they can start gathering insights.

Good payment methods allow some aggregated insights for retailers to better understand customers' spending habits. Great ones give insights into both in-store and out-of-store spending by providing rich data about all aspects of the customer journey, from frequency to average order value or places they shop at, and everything in between. Retailers can then use this information to target their customers, with relevant and personalized offers to increase revenue and grow their clientele.

Gathering insights allows businesses to better understand customers, and target them with offers that are meaningful to them.
It also helps businesses understand their customers spending habits, and strategize accordingly.

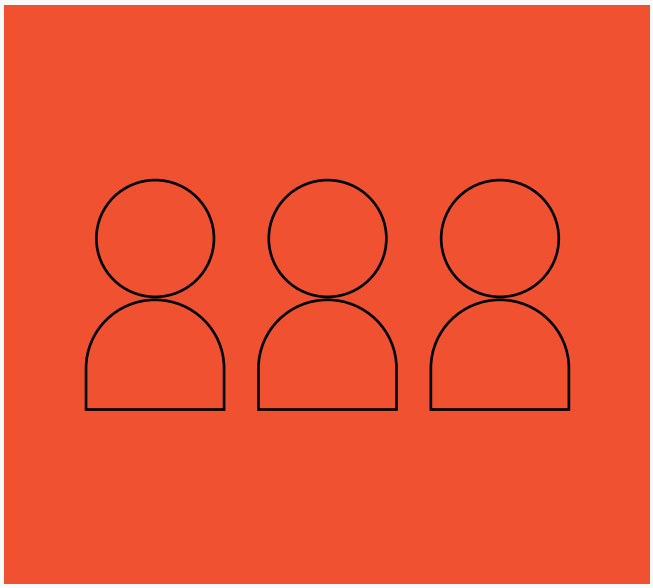
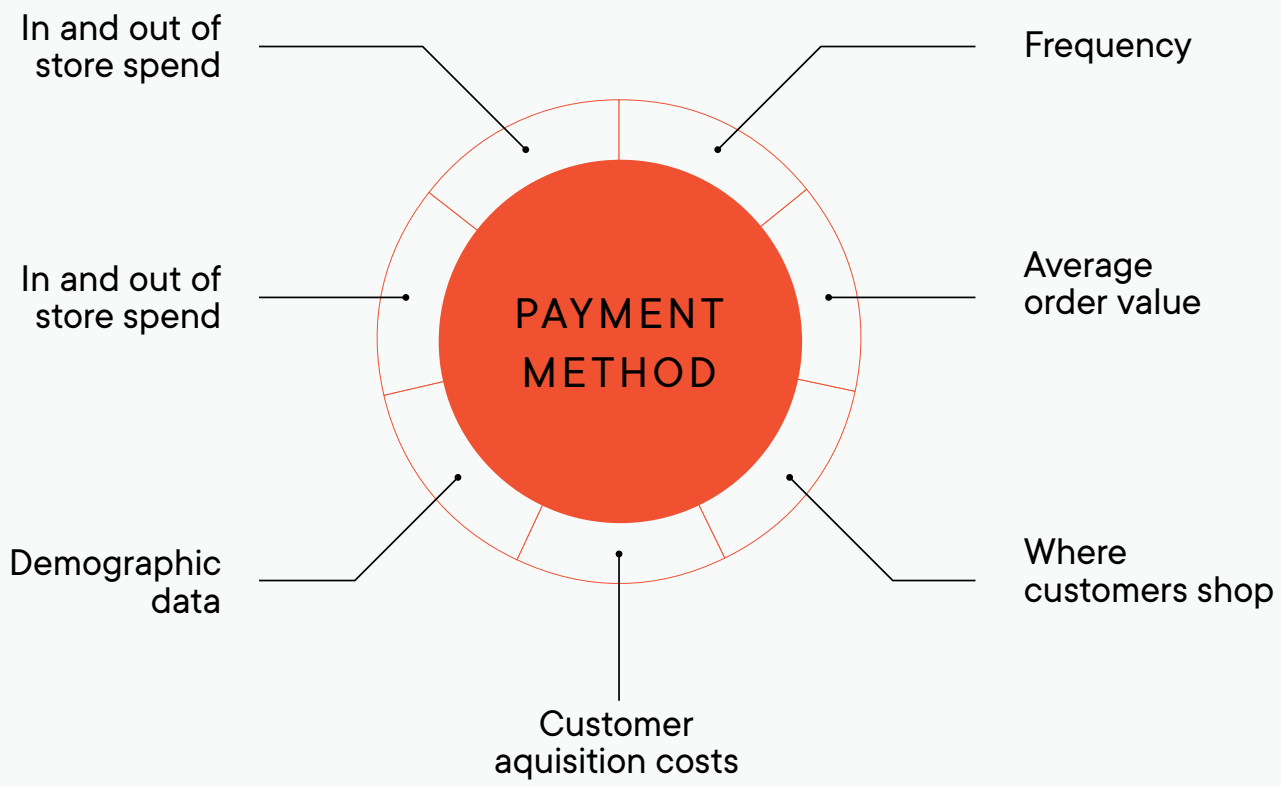


FIGURE 8



Through artificial intelligence, businesses can have a hands-off approach to gathering customer data, with transaction data being organized by a third party financial technology provider.

> Utilizing powerful data-driven technology allows businesses to easily identify trends in ways that are meaningful to them, while customers gain value through more personalized experiences.

The reason a preferred method for transacting with a business is so important is the richer the data is, the more personalized the offers are. Technology powered by artificial intelligence and deep learning enables the automation process, creating custom offers instead of generic ones, and learning from these offers to provide even more custom offers each time. The best part? It's all measurable. It's simple to track results and make adjustments.

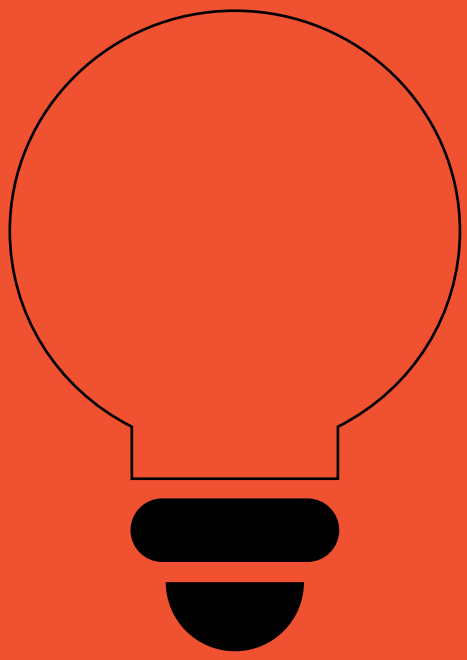
03

Putting the results into action

Now that valuable data and a preferred transaction method have been identified, how can retailers put these into action? There are endless possibilities in which these metrics can provide substantial value to a business.

On top of loyalty, marketing is another metric with more areas of opportunity due to the increase in digitization. Spend data can be an integral tool in a businesses marketing strategy, and has a multitude of use-cases.

With valuable spend data, businesses can easily assess the return on their marketing investment. By directly attributing marketing investment to transactions, businesses can measure the effectiveness of their payments strategy. While other marketing channels do not allow for direct attribution and most funding goes to a third party, a financial technology strategy allows for value to go directly to customers. By investing directly in transaction incentives, a marketing budget can be multi-use, passing tangible value between retailers and their customers.



There are many other insights made available by a preferred transaction method that are difficult to measure with traditional marketing channels. This includes metrics such as cost per transaction, and customer acquisition costs, that are integral to assessing marketing performance. Financial technology allows businesses to easily identify these spending trends and cut costs accordingly. Marketing can be more targeted and intentional through truly knowing customers. Knowing where they spend outside your business allows for more informed marketing campaigns and offers.

> Tracking demographic information allows marketers to know exactly who their audience is, so they can tailor their marketing strategy based on their current and target customer demographics.

These results can also be a key part of a business loyalty strategy. "Tapping personalization capabilities based on a variety of sources of customer data — including loyalty data — ensures an enduring relationship with the customer" (Covello). It is important to continue to cultivate relationships with current customers, and the best way to do that is through data and personalization. Businesses can consistently engage with customers through immediate communication. This can be done through their customer's payment method apps, or through data-driven rewards redemption.

Retailers are also able to easily identify trends. With payment metrics, businesses can learn where their main revenue sources are. They can also learn metrics and assess trends such as average order value, so they can target costs and pricing accordingly, and incentivize customers to spend more, more often. Identifying trends such as these are integral to having a successful strategy. They can also continuously monitor performance and identify the biggest opportunities within their business operations.

Section three

Factors to consider when choosing a preferred transaction method

A tech-driven financial strategy enables retailers to offer tangible value through data-driven personalization and engagement. By bridging loyalty and finance, businesses can deliver a seamless digital experience that gives them a competitive edge. With an abundance of financial options available, how do retailers know which one is right for their business?

There are many different factors to consider when assessing which strategy is right for a business. Some of these include:

1. Convenience.
2. Benefits.
3. Customer demand.

01

Convenience

Although the term “convenience” is broad, it lies in a simple philosophy. The method that is the easiest to use is the most appealing to customers and businesses alike. Loyalty programs that require customers to translate different metrics into cash value are often tedious and confusing. Loyalty programs that offer a direct cash reward can lead to a better customer experience overall.

Mastercard’s study conducted on barriers to rewards redemption found that customers prefer a loyalty program that they can immediately redeem. The suggested resolution was to “[m]ake it easier for cardholders to redeem their rewards by allowing them to redeem at point of sale (POS), which eliminates the need for coupons and vouchers, and by integrating loyalty programs into mobile banking apps” (Samaha).

This is where integration into mobile apps is important. With the amount of people using their mobile devices daily rising, it has become one of the most convenient methods of communication. Customers can easily see rewards earned and therefore attribute the value the business they visited has brought them. Although many brands have their own independent rewards programs, this is inconvenient for customers as they have to track multiple programs with different metrics.

A preferred method for customers to transact with a business, with loyalty programs built into it, is the best way to ensure convenience is met.

FIGURE 9

ACCORDING TO THE MASTERCARD REWARDS STUDY:

69% of consumers say they would redeem their rewards at POS if given the opportunity.

On top of that, 26% of millennials would switch banks for this option" (Samaha).

02

Benefits

The best financial strategy will provide benefits to businesses and their customers alike. When comparing different strategies, there are a few key questions to ask.
How will this help with customer acquisition?
On top of retaining loyal customers, the financial technology strategy chosen should work to help drive traffic to the retailer's business. There should be a way for them to showcase their business to potential customers, or showcase offers to help drive customer spend.

Will this provide customer insights?

Retailers already have access to a lot of data from various channels and platforms. The biggest thing separating them from a powerful financial strategy is having one preferred transaction method that aggregates and analyzes the data. With access to information on users' spending, retailers have the power to not only learn more about their own customers, but also similar users so they can identify and attract new audiences.

> These unique insights provide a high-level view of customer behaviour to make informed decisions faster and react quickly to changing customer preferences.

What is the user experience?

With so many factors going into considering a financial services strategy, it is easy to lose sight of the end-user. Customers should be at the forefront when considering different financial services options. A product that is difficult to use or does not make sense will cause frustration for customers, and will not lead to a good experience. When considering options, it helps to explore the product from the perspective of a user by downloading the mobile app and using it, questioning whether it makes sense as a part of the shopping journey, if it's easy to use and accessible, or if it fits with one's brand? These are all questions that should be asked when exploring the product before considering offering it. The best options will be seamless, easy to use, accessible, and will have an all-in-one approach.

03

Access new audiences

> It all comes down to product-market fit. For this reason, a good financial services strategy should be digital-first. This gives businesses more agility when adapting to changing customer demand.

Current trends include higher demand for a more rewarding, convenient spending experience. When looking for a provider, these factors should be at the forefront. Customers demand these experiences, and retailers that fail to provide this will be left behind for competitors that can deliver on demand quickly.

In addition to rewards, financial technology can also offer personalized experiences to customers. Data-driven technology generates personalized recommendations and incentives based on every customer's individual spending habits. These are offered directly to both past customers and new users who might be interested in a retailer's product or service. With these dynamic capabilities, retailers can significantly improve customer engagement and conversion, thus driving incremental sales back to their business while giving new customers the opportunity to discover their brand. Although the way businesses and customers view loyalty is shifting rapidly, technology continues to keep pace. By using technology to increase proximity to payment methods, businesses can be agile in engaging customers on a deeper level. This is only achieved through a payment method such as Neo, where customers access one technology interface for their everyday finances.

The benefits of adopting financial technology into loyalty strategies are endless. Every business is unique, and the strategies they use should be too. So, how to know which one is the right one?

TABLE 1

	TRADITIONAL LOYALTY MEMBERSHIP	neo
PERSONALIZATION	Offers are not often personalized, and it is difficult to identify the most loyal customers and reward them proportionately.	Segments customers and provides offers based on spending behaviour.
SPEND DATA	Limited	Holistic spend data in and out of store and demographic information.
VALUE	A lot of the programs are one-size-fits-all, and fail to pass tangible value between customers and retailers.	Tangible value between partners and their customers through personalization and experience. Customers feel they are valued for their loyalty, and brands get the most out of every purchase.
ENGAGEMENT	Typically not built on modern technology that creates the experience that is needed to truly engage customers.	Personalized push notifications to deliver customers the right offers at the right time.
USER EXPERIENCE	Often confusing, difficult to redeem at POS, and customers often need to translate points to cash value.	Fully digital, seamless redemption where customers automatically see a cash reward at purchase.
SYSTEM	Often one of the many loyalty cards or apps the customer might have, with unused points sitting in all of them.	An all-in-one experience where customers can explore offers, brands, and manage their everyday finances.

Neo offers a way to implement a financial technology method with a hands-off, low-commitment setup or custom solutions to fit your business needs. To learn more about how Neo can work to level up your loyalty strategy, book a consultation with our Partnerships Team now.

Learn More

Sources

1. Bond Brand Loyalty in partnership with Visa. “Redux: The New Story of Loyalty” *Bond Brand Loyalty, The Loyalty Report*. 2019.

2. Covello, Len. “Council Post: Why Personalization Is the Holy Grail of Loyalty.” Forbes, 21 Apr. 2022, www.forbes.com/sites/forbestechcouncil/2021/11/09/why-personalization-is-the-holy-grail-of-loyalty/?sh=40c1571ee77c.

3. Huhn, Jessica. “Why Your Existing Customers Are Your Best Customers.” Business 2 Community, 13 May 2019, www.business2community.com/customer-experience/why-your-existing-customers-are-your-best-customers-02199165.

4. “New Epsilon Research Indicates 80% of Consumers Are More Likely to Make a Purchase When Brands Offer Personalized Experiences.” *Geo-Redirect*, Epsilon, 9 Jan. 2018, www.epsilon.com/us/about-us/pressroom/new-epsilon-research-indicates-80-of-consumers-are-more-likely-to-make-a-purchase-when-brands-offer-personalized-experiences.

5. O’Brien, Louise, and Charles Jones. “Do Rewards Really Create Loyalty?” *Harvard Business Review*, 1 Aug. 2014, hbr.org/1995/05/do-rewards-really-create-loyalty.

6. Samaha, Jamie. “3 Biggest Barriers to Reward Redemption, and How Can You Overcome Them.” *Mastercard Data & Services*, 23 Dec. 2019,www.mastercardservices.com/en/reports-insights/3-biggest-barriers-reward-redemption-and-how-can-you-overcome-them.

About Neo

Neo is a Canadian financial technology company that is changing the landscape of financial services for businesses and consumers. Neo offers a comprehensive platform for businesses to own customer relationships and take charge of their growth. With a human-centred approach that is focused on building relationships, we work with our partners to plan for the future of their business, every step of the way. Visit our website, or visit us on LinkedIn, Instagram, or Twitter to learn more.

Contact us

Website

LinkedIn