Rewarding Loyal Customers to Increase Mobile Payments Adoption

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1. Introduction

This report examines whether mobile loyalty rewards can impact consumer mobile payment adoption. It looks at how retailers in different segments, including coffee chains and quick service restaurants (QSRs), pharmacies, department stores, and hotels, are leveraging mobile loyalty features to enhance the retail experience for consumers and increase mobile payment usage. The analysis is based on interviews with 12 businesses representing retailers, financial institutions, and loyalty marketing solution providers, as well as secondary industry research.

While many U.S. consumers are shopping with their mobile phones[1], few make mobile payments. Deloitte's "2016 Holiday Survey" found that only one in four mobile phone users make mobile payments using a retailer app, and even fewer (13 percent) use mobile wallets for in-store payments.[2] However, according to Points' "State of Mobile Wallet Loyalty and Engagement in 2016" study, 94 percent of consumers would use mobile wallets more frequently if they could earn and redeem loyalty rewards.[3]

Depending on their personal lifestyles and preferences, consumers participate in a variety of loyalty programs offered by coffee shops, supermarkets, drug stores, hotels, airlines, and other retailers. One study suggests that 72 percent of consumers participate in between one and five loyalty programs.[4] With multiple memberships, it can be difficult for customers to keep track of the various rewards points, remember to bring membership cards and coupons to the stores, or even recall that they are members of a particular loyalty program. To help consumers manage their loyalty accounts more easily and boost customer engagement, retailers are increasingly offering mobile apps with the ability to track and redeem points, make mobile payments, receive location-based offers, and provide added convenience and utility. Other features include the ability to add multiple retailers' loyalty cards and keep track of several rewards programs in one place.

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[1] Mobile phone refers to a *smartphone* which can access the internet and can run a variety of mobile apps.

[2] "2016 Holiday Survey: Ringing in the Retail," *Deloitte*, October 2016. https://www2.deloitte.com/content/dam/Deloitte/us/Documents/consumer-business/us-consumer-business-2016-holiday-survey-results.pdf

[3] "The State of Mobile Wallet Loyalty and Engagement in 2016," *Points*, October 2016. http://media.points.com/new-report-shows-94-of-consumers-would-use-mobile-wallets-more-often-if-they-could-earn-and-redeem-loyalty-rewards.

[4] Urban Airship defines "loyalty programs" as those accruing rewards points, providing special discounts, punch cards, buy 10 get one free, etc. "The State of Mobile Wallet Marketing," *Urban Airship*, July 2016. https://www.urbanairship.com/lp/the-state-of-mobile-wallet-marketing.

2. Mobile Loyalty Capabilities

Consumers who engage in retailer loyalty programs[5] typically earn points for purchases made and receive incentives to make future purchases. Loyalty members can redeem rewards points for discounts, merchandise, and exclusive perks (e.g., early access to sale events or new products, free shipping, etc.) depending on the program. Traditional programs provide customers with physical membership cards, punch cards, stamps, and coupons. However, retailers are gradually integrating mobile technology into loyalty programs, which allows consumers to digitally access and manage rewards via mobile apps.

Mobile wallet and retail apps offer a variety of loyalty and payment features that can improve consumer convenience and utility and help drive up sales. One of the most commonly offered features is a digital loyalty card, which according to Vibes' "2017 U.S. Mobile Consumer Report," 72 percent of mobile phone users want to use.[6] Another survey reported consumer interest in using a mobile phone for several related activities:

- 57 percent to check their rewards-points balance
- 55 percent to redeem reward points
- 54 percent to browse reward options
- 54 percent to find a store location.[7]

Some retail apps offer digital loyalty cards along with advanced capabilities, such as in-store reward redemption, location-based offers, order-ahead service[8] at QSRs, mobile hotel check-in and room key, and other complementary business functions. Some mobile apps are designed specifically to digitally store any loyalty card with a barcode, such as Key Ring and Stocard. Apple Wallet and Android Pay allow users to add participating retailers' loyalty cards and track their rewards balances all in one place, but they are not linked to the payment accounts in the wallet. There are also retail apps that offer loyalty features and mobile payment capabilities where the two systems are not fully integrated. Members can receive mobile offers and earn points regardless of payment method. In contrast, a number of retail apps (e.g., Starbucks and Dunkin' Donuts) seamlessly integrate loyalty and payment functionality. Loyalty members earn points and enjoy rewards benefits for paying with their mobile app.

Mobile loyalty and payment capabilities offer benefits for both retailers and consumers. Since mobile loyalty and payment apps typically require customer registration, they provide retailers with greater access to customer data. Retailers can glean valuable customer insights that they can use to provide more relevant rewards and personalized offers with targeted content based on time, location, preferences, and purchase history. Consumers can manage their loyalty rewards more conveniently and take advantage of member exclusive mobile features, such as placing a customized order at their favorite QSR before they arrive and skipping the line, or checking-in and selecting their room via their preferred hotel's app. These value-added services can help increase consumer adoption of mobile payments.

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[5] A loyalty program is a rewards program offered by a retailer or other business to customers who frequently make purchases.
[6] "2017 U.S. Mobile Consumer Report," *Vibes,* March 2017. http://www.vibes.com/resources/2017-us-mobile-consumer-report/
[7] "New Report: Return on Loyalty Program Investments Higher Than Ever Before," *Bond Brand Loyalty*, June 7, 2017. http://info.bondbrandloyalty.com/the-2016-bond-loyalty-report-press-release-us.
[8] Customers can order and pay via mobile in advance of their visit and pick it up in-store.

3. Mobile Loyalty Benefits by Retail Segment

Retailer interest in offering mobile payments with loyalty features continues to grow as consumers shop more with their mobile phones. According to industry research, 53 percent of retailers offer mobile payment capabilities and 40 percent currently offer loyalty apps.[9] Mobile technology enables retailers to provide robust services and promotional offers to customers that previously were not possible with traditional loyalty cards or via desktop.
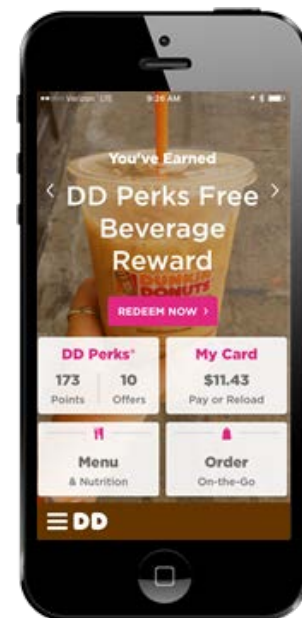
Retailers often design mobile loyalty solutions based on historical data or previous consumer behavior, considering what their customers want and the frequency of their store visits and purchases. This section highlights examples of how retailers in different segments have tailored their mobile loyalty solutions to add value to retain existing customers and attract new ones, and to differentiate their business from competitors.

A. Coffee Shops and QSRs

Many consumers habitually start each day by purchasing coffee from a local coffee shop, and buying lunch at a QSR or other local food venue. Customers generally dislike long lines and wait times at these establishments, and favor speedy checkouts, free food, and discounts. One survey reported that nearly half of consumers (47 percent) enroll in loyalty programs to accumulate points for free merchandise or travel and 41 percent for automatic discounts at time of purchase.[10]

Several coffee chains and QSRs have successfully integrated loyalty and payment functionality in their mobile apps to help address the abovementioned issues. The apps allow loyalty members to track their rewards status, earn points for mobile purchases that can be redeemed for free food and beverages, and receive promotions such as mobile coupons, personalized offers, location-based discounts, and extra rewards points. The apps also enable loyalty members to order-ahead (with the ability to save favorite/customized orders for quick repeat placement), which allow customers to skip lines and help restaurants improve efficiency at registers and drive-thrus.

To encourage greater use of mobile payments, retailers use a variety of targeted offers (e.g., product-, behavioral-, and location-based) delivered directly via their mobile apps to loyalty members. For example, Dunkin' Donuts partnered with regional sports teams for its *Team Wins* promotional offers – a location-based marketing campaign that rewards *DD Perks* loyalty members with product discounts when their local sports team wins. The discounts are applied automatically when DD Perks members pay with

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[9] "The State of Mobile Experience: An Evaluation of Retail, Insurance, Finance, and Supply Chain Industries," *PointSource*, July 2016. http://digital.pointsource.com/acton/media/21911/mobile-experience.
[10] "ShopTalk | Who's cashing in on rewards programs? (Infographic)," *Vantiv*, 2016. https://www.vantiv.com/vantage-point/smarter-payments/shoptalk-rewards-programs-infographic.

the Dunkin' mobile app.[11]

Launched in 2009, the *Starbucks Rewards* program currently has over 12 million U.S. members.[12] Starbucks added a mobile app that integrated mobile payments and loyalty in 2011, and then the *Mobile Order & Pay* feature in 2015. Mobile payments currently represent 25 percent of Starbucks' total in-store purchases, and purchases using the mobile order feature represent six percent of U.S. sales.[13] Although both franchises previously had mobile apps and card-based loyalty programs, Dunkin' Donuts launched its integrated mobile payment and loyalty app in January 2014 and added *On-the-Go* ordering in June 2016; Chick-fil-A launched its *Chick-fil-A One* app and loyalty program in June 2016. Dunkin' Donuts currently has over 5 million DD Perks members and more than 16 million mobile app downloads.[14] Chick-fil-A has over 8 million mobile app downloads to date.[15]

Dunkin Donuts' and Chick-fil-A attribute the success of their mobile loyalty and payment apps to recognizing their customers' needs and purchase behavior and designing features that provide added utility and convenience. The retailers also found it was essential to solicit feedback from customers and franchisees, and ensure that internal departments (e.g., IT, Marketing, Treasury) collaborated during the app development process.

When designing its app, Dunkin' Donuts analyzed the frequency of customer visits. Many Dunkin' Donuts customers made purchases daily, some multiple times a day, so the company believed that a mobile-centric loyalty program with payment functionality would be most convenient and practical to use. Dunkin' also factored mobile technology into a multiphase payment strategy for its franchisees, which resulted in nearly system-wide adoption.[16] Chick-fil-A sought input from its IT and marketing teams, franchisees, and customers regarding its app's features. The QSR found that waiting in line was one of the top pain points for its customers, and made mobile ordering one of the app's key features.

B. Pharmacies/Drug Stores

U.S. drug stores have expanded to offer a broad array of products and services, including medication, beauty and health supplies, groceries, and photos, which incent more consumers to shop regularly for everyday items and fill their prescriptions at one location. Several drug store chains, such as Walgreens and CVS, offer mobile apps with integrated loyalty programs and mobile payments. The apps provide members with digital rewards cards and coupons, personalized offers, and the ability to refill and manage prescriptions. Walgreens' *Balance Rewards* members can also link health data (e.g., daily number of steps) from other mobile apps to earn additional loyalty points.

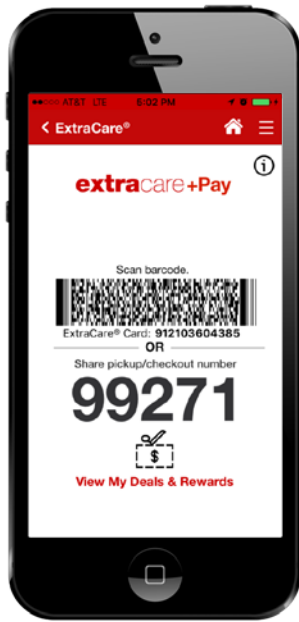[11] DD Perks Rewards discounts are applicable for both mobile and stored value card transactions.
[12] Andrew Meola, "Starbucks' loyalty program now holds more money than some banks," *Business Insider*, June 13, 2016. http://www.businessinsider.com/starbucks-loyalty-program-now-holds-more-money-than-some-banks-2016-6.
[13] "Here's how Mobile Order & Pay could lift Starbucks," *BI Intelligence*, November 7, 2016, http://www.businessinsider.com/heres-how-mobile-order-and-pay-could-lift-starbucks-2016-11.
[14] Interview, Dunkin' Donuts, September 2016.
[15] Chick-fil-A launched the first version of its app in 2012. The company began piloting mobile ordering in 2013. Interview with Chick-fil-A, November 2016.
[16] Some in-stadium and college campus Dunkin' Donuts locations may not accept mobile payments because they have different POS systems. Interview, Dunkin' Donuts, September 2016; and "Dunkin' Donuts emphasizes its growing rewards program," *BI Intelligence*, November 18, 2016. http://www.businessinsider.com/dunkin-donuts-emphasizes-its-growing-rewards-program-2016-11.

Walgreens and CVS have taken different approaches to mobile loyalty and payments. Walgreens was one of the first retailers to integrate its Balance Rewards loyalty program into Apple Pay and Android Pay, and to accept near field communication (NFC) "Pay" wallets[17] at point of sale (POS). The customer taps his mobile phone once at the POS terminal to access his Balance Rewards account, and again to pay with Apple Pay or Android Pay because the loyalty and payment accounts are not connected.

CVS customers can link their *ExtraCare* loyalty cards to the store's mobile app to receive exclusive deals, coupons, and alerts for expiring rewards. In August 2016, the company added a mobile payment feature, *CVS Pay*, to its app to help simplify the checkout process, especially for prescription pickup.[18] Using the current CVS app, customers can redeem loyalty offers, pick up prescriptions, and pay with one scan at checkout.[19] CVS finds that the added utility afforded by its mobile app has increased downloads, repeat usage, and customer engagement.[20]

C. Supermarkets and Grocery Stores

Several industry surveys indicate that not only do most consumers shop for groceries weekly, many are also supermarket loyalty members, and more are using their mobile phones for coupons and other shopping features.

- Grocery store rewards programs have the highest participation rates.[21]
- 54 percent of consumers want to earn and 38 percent want to redeem loyalty points at grocery stores.[22]
- 17 percent of consumers use their grocery store's mobile app for multiple functions.[23]
- While at the grocery store:
    - 49 percent use their mobile phones to access digital coupons
    - 47 percent use their mobile phones to look up recipes
    - 46 percent use their mobile phones to check weekly sales.[24]

To accommodate customer demands, a number of supermarket chains offer mobile apps that complement their loyalty programs and provide relevant features, such as digital coupons, weekly circulars, shopping lists, recipes, and nutritional information. Harris Teeter's app also offers a feature similar to order-ahead service at QSRs – customers can purchase groceries via the supermarket's app, pay with a credit/debit

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[17] NFC "Pay" wallets include Apple Pay, Android Pay and Samsung Pay.
[18] CVS launched its ExtraCare loyalty program in 2001 and the CVS Pharmacy mobile app in 2009.
[19] The CVS app processes loyalty rewards information and verification for prescriptions and payments in one transaction within the app. Other complementary mobile capabilities available via the CVS app include prescription notifications and submission of new insurance information by taking a photo of the card (similar to mobile remote deposit capture).
[20] Interview, CVS Pharmacy, October 2016.
[21] Socratic Technologies survey noted in "ShopTalk | Who's cashing in on rewards programs? (Infographic)," *Vantiv*, 2016. https://www.vantiv.com/vantage-point/smarter-payments/shoptalk-rewards-programs-infographic.
[22] "The State of Mobile Wallet Loyalty and Engagement in 2016," *Points*, October 2016.
[23] "U.S. Grocery Trends, 2016," *Food Marketing Institute*, June 2016. http://www.fmi.org/docs/default-source/webinars/fmi-2016-us-grocery-shopper-trends-overview-webinar5ce7030324aa67249237ff0000c12749.pdf?sfvrsn=2
[24] Ibid.

card or Apple Pay, select a pickup time, and retrieve their order at the store. Other supermarkets, including Shaw's, Trader Joe's, Whole Foods and Wegmans, accept NFC Pay wallets for in-store payments; however, none have integrated loyalty with mobile payments.

The Shop Fetch app provides a loyalty program for partner grocery stores which enables stores to integrate existing rewards programs into its solution. Fetch is currently available in 58 stores, and will launch in another 114 stores by June 2017.[25] Using the app, customers can scan items with their mobile camera and earn points to redeem for free items, receive coupons and offers, create shopping lists, and access personalized nutritional information. An added value of the Shop Fetch app is a feature that transfers the entire contents of a customer's digital cart to the grocery store's POS system and automatically applies discounts with one scan of the app's QR code. This eliminates the need to scan each item individually and speeds up the checkout process. The customer pays with a traditional payment method because Fetch currently does not integrate with its partners' payment systems.

D. Department Stores

Department stores have different concepts and product offerings, and shopping also tends to span multiple channels – in stores, online via browser or mobile app, and a combination of both. Many use rewards programs to incent consumers across channels. Department store mobile strategies can be as diverse as their merchandise selections. Some stores are adding mobile payment capabilities for online and in-store transactions, and mobile loyalty features, including digital loyalty cards, access to rewards status, exclusive offers, and mobile coupons. A few stores use geo-fencing and beacons[26] to increase customer engagement and provide targeted offers.

Kohl's offers its customers several ways to pay with their mobile phones. They can pay in-store using any "Pay" wallet, and use Apple Pay or Visa Checkout to pay via the store's mobile app. Kohl's was one of the first retailers to add its loyalty program (*YES2YOU Rewards*) and private label credit card (*Kohl's Charge*) to Apple Pay, but the two are not linked. In October 2016, Kohl's added a mobile payment feature, *Kohl's Pay,* to its retail app. Kohl's Pay only works with its private label card, which has 25 million active cardholders and 60 percent of in-store sales.[27] Similar to the CVS app, the Kohl's app allows customers to apply loyalty rewards and savings (e.g., Kohl's Cash and offers) and pay using their Kohl's Charge with one scan. Furthermore, Kohl's Pay transaction history is stored in the mobile app, allowing for easy returns and exchanges.

[25] Interview, Fetch Rewards, February 2017.
[26] Geo-fencing and beacons are used for location-based marketing that help retailers determine a customer's particular location. A geo-fence is a virtual fence around a particular geographic area, such as a department store. When a customer enters or leaves the area, the retail mobile app uses geo-fence data to trigger customizable notifications which the customer has opted to receive. A beacon is a Bluetooth Low Energy (BLE) hardware device that broadcasts a signal to a mobile phone when users opt-in via a mobile app. When the mobile phone enters a beacon range, it wakes up, notifies the listening app and triggers proximity-specific content using push notifications and in-app messages.
[27] Sarah Perez, "Kohl's rolls out its own mobile payments platform, Kohl's Pay," October 5, 2015. http://www.altavia-group.com/en/kohls-rolls-out-its-own-mobile-payments-platform-kohls-pay/.

Nordstrom's mobile app complements the features of its decade-old loyalty program, first introduced in conjunction with its credit card products. The loyalty benefits were exclusive to Nordstrom's private-label and co-branded cardholders. In March 2016, the department store expanded its *Nordstrom Rewards* program to include membership linked to customers' mobile phone numbers. Loyalty members can now earn rewards points regardless of payment method. Customers can access their loyalty account and make purchases via the Nordstrom app, but the retailer currently does not accept in-store mobile payments.

Nordstrom leverages push notifications and geolocation to engage with its loyalty members and deliver targeted and personalized offers. For example, shoppers receive mobile reminders about available rewards certificates, and sales and bonus point events when they are near a store. The company is also piloting beacon technology in Nordstrom Rack stores. Customers can download Nordstrom's *HauteLook* app and turn on Bluetooth to receive push notifications about relevant offers based on their purchase behavior while shopping in a Nordstrom Rack store.

One other Nordstrom mobile loyalty feature is *Reserve & Try in Store*[28] which allows customers to reserve items at a Nordstrom store via mobile app and head directly to a fitting room where their items will be ready to try on upon arrival, similar to mobile ordering at QSRs.

E. Hotels

Many shoppers are incented to collect loyalty points and miles in exchange for free flights, hotel stays, experiences, and other travel rewards. The *Points* survey found that over one-third of consumers use airline (35 percent), travel (33 percent), and hotel (29 percent) rewards credit cards. Consumers also make travel arrangements via mobile – 45 percent use smartphones to book hotels, 34 percent to book flights, and 25 percent to book rental cars.[29]

A number of hotel chains have integrated loyalty features into their mobile apps to help customers more easily manage their trips. Common mobile features include the ability to book stays, earn points, redeem rewards, and receive exclusive mobile deals. Loyalty members at Hilton and Starwood hotels can check-in via mobile apps and use Bluetooth technology to tap their mobile phones in lieu of a room key. Some hotel mobile apps (e.g., Hilton) also allow customers to pay for their stay using Apple Pay and Android Pay.

Hilton has gone a step further to partner with mobile technology service providers to offer complementary capabilities within its *Hilton HHonors* app. For example, Hilton loyalty members can select their room location (similar to airline seats) and their preferred view via a feature powered by Google Maps. Hilton also collaborated with Uber to integrate the *Local Scene* and *Ride Reminder* features in its app to help guests explore the local area and arrange transportation during their hotel stay.[30]

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[28] Nordstrom's "Reserve & Try In Store" service is currently available at locations in Washington State.

[29] "The State of Mobile Wallet Loyalty and Engagement in 2016," *Points*, October 2016.

[30] The Local Scene feature is a list of the most popular venues in a market based on the destinations of Uber riders in that area, and the Ride Reminder feature sends notifications that are synced with Hilton hotel bookings to remind travelers to book an Uber to and from their hotel.

F. Sports Teams – A Mobile App for Loyal Fans[31]

A number of sports teams have launched rewards programs and mobile apps to boost fan allegiance and enhance the in-stadium and remote spectator experience. For example, the San Francisco 49ers introduced its loyalty program, *Faithful Rewards presented by Esurance*, and the *Levi's® Stadium* mobile app concurrently when the stadium opened in 2014. The mobile app provides several convenient and relevant features to enhance the game day experience. Fans can purchase parking passes via the app and scan mobile tickets to enter the venue. Once inside the stadium, the app uses geolocation to direct users to their seats. Spectators can bypass the food line by ordering and paying ahead. Food can be delivered to their seats or picked up at a designated express counter.

Integrated in the Levi's® Stadium app, the team's Faithful Rewards program allows fans to earn *yards* for game day activities, such as mobile ticket scans and food purchases; the yards can be redeemed for prizes and sweepstakes. The San Francisco 49ers saw a 30 percent increase in downloads and gained $2 million in revenue from food, beverage, merchandise, parking, and in-app sponsorships in the first season of using the Levi's® Stadium app.

The Levi's® Stadium app also collects and provides the stadium management group with real-time data about user behavior (e.g., which parking lots fill the fastest and peak times for food ordering) that they can use to make adjustments to improve efficiency and ensure an optimal experience for their spectators. Furthermore, the app collects data on the team's season ticket holders, which grew from 17,000 ticketholders before implementing the mobile app to 203,000 at the end of the first season.

G. Financial Institutions and Card Networks

A growing number of financial institutions (FIs) that issue rewards credit cards support mobile loyalty. Several large FIs allow customers to manage and redeem rewards via mobile. One survey reported that 70 percent of consumers like the option to redeem points instantly on credit card purchases, and 43 percent are willing to pay a premium for the convenience.[32] Wells Fargo's *Go Far Rewards* members can access and redeem all available reward options via mobile using the issuer's responsive web design (RWD) site. Wells Fargo has observed an increase in mobile channel rewards redemption since the launch of its RWD site in 2015.[33] Chase and Citi offer in-store reward redemption capability in their mobile apps. Chase Pay customers can redeem rewards points for eGift cards at participating retailers, and use them instantly for in-store and remote mobile payments. Users of Citi's *Pay with Points* and *Shop with Points* solutions can pay with their rewards points for digital and mobile purchases at partner retailers, such as Amazon, Expedia and Live Nation.
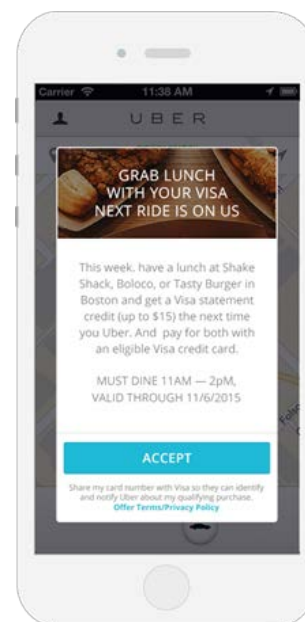
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[31] Interview, San Francisco 49ers, January 2017. Photo credit: levisstadium.com.
[32] "The 2016 Bond Loyalty Report," *Bond Brand Loyalty*, June 2016. http://info.bondbrandloyalty.com/2016-loyalty-report.
[33] Interview, Wells Fargo, February 2017.

FIs employ several strategies to encourage customer adoption and use of mobile payments, which include third-party mobile wallets (e.g., NFC Pay wallets, Visa Checkout, and Masterpass) and proprietary wallet solutions. Some issuers partner with service providers and retailers to attract customers with promotional discounts and cash-back for adding the FI's credit or debit card to a mobile wallet and using it to pay for purchases. For example, Wells Fargo offers a 20 percent bonus cash-back on mobile wallet purchases with select credit cards.[34]

Visa and American Express (Amex) use different strategies and marketing campaigns to incentivize consumers to make mobile payments. For example, the *Visa Commerce Network* helps retailers create online and in-app commerce experiences to acquire new customers, drive loyalty, and increase sales with targeted, personalized offers. Visa connects transactions between two merchants on its payment network and manages promotion tracking. Qualifying purchases are recognized at the POS and rewards are seamlessly applied to cardholder accounts. Similarly, the *Amex Offers* loyalty program offers discounts for qualifying purchases as statement credits or extra rewards points. Using the Amex mobile app, card members can view local Amex Offers on a map and opt-in to deals. iPhone users can also receive alerts when an offer they enrolled in is available nearby or is expiring. Furthermore, Amex cardholders can use rewards points to pay for eligible charges on their statements via the Amex app and to pay for purchases via participating retailers' apps (e.g., Uber and Amazon).

Visa also partnered with retailers in various cities to launch marketing campaigns leveraging mobile geolocation technology. In Q4 2015, Visa collaborated with Uber and a few restaurants to launch a promotion in Boston. When Uber users opened the app, a pop-up message appeared with an offer to receive discounted Uber rides if they used the same Visa card at a local participating restaurant. They tapped "Accept" to receive the discount, which was automatically credited to their Visa card when the transaction occurred.

H. NFC "Pay" Wallets

Apple Pay, Android Pay, and Samsung Pay are adding loyalty features into their mobile wallets to increase consumer adoption. Each one offers incentives for first-time use, including cash rebates and discounts on wallet purchases, and is developing rewards features to encourage continued usage. In November 2016, Samsung Pay launched the *Samsung Rewards* loyalty program that rewards users with points based on frequency of mobile wallet purchases. Samsung Pay also enables users to search for, save, and redeem participating retailers' offers directly within the app. Android Pay has announced plans to integrate payment and rewards cards credentials as part of a single tap transaction. Apple partnered with Blackhawk Network to integrate retail gift cards, e-gifts, and loyalty rewards programs into Apple Pay. The expectation is that these mobile wallet enhancements will add value and motivate consumers to make more frequent mobile payments.

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[34] For information on Wells Fargo Cash Wise Visa® Mobile Wallet options see https://www.wellsfargo.com/mobile-payments/cash-wise-mobile-wallet.

4. Challenges and Opportunities

Despite growing interest in mobile loyalty programs, there are financial and technical challenges that prevent more retailers from offering these capabilities. As evidenced by the examples described in this report, retailers have a variety of mobile loyalty models to choose from. The diverse technology solutions and relative market fragmentation pose a daunting task to merchants, who want to make sure they make the appropriate choices for their customers and businesses.

Retailers tend to be cautious about implementing new technology until they know what consumers will adopt because of the substantial financial investment and efforts to integrate solutions with merchant POS and backend systems. Some retailers also face technical impediments to integrating mobile loyalty programs into legacy payment systems. Historically, many retailers have managed loyalty and payments on separate platforms, as older systems are not compatible with newer mobile solutions. However, more retailers are updating their POS, loyalty, and customer relationship management (CRM) platforms and installing technology to support robust digital capabilities, including loyalty programs.

Larger retailers with the resources to develop their own mobile loyalty and payment platforms are often early adopters. Third-party mobile wallet apps are available to support smaller retailers. It may be more feasible for some retailers to offer a mobile loyalty solution without payment capabilities first, as the integration is less complex. Typically, retailers prefer that customers use their proprietary app for mobile loyalty and payment features as opposed to third-party wallets. Proprietary apps provide retailers with greater access to customer data and more control over mobile features, capabilities, and payment methods (e.g., support for private label cards). However, third-party solutions enable retailers to offer mobile loyalty and payment capabilities without developing their own apps.

Convincing consumers to download multiple retail apps can be challenging. With mobile phone memory space at a premium, consumers will only install and keep retail apps they use regularly. According to comScore, almost half (49 percent) of mobile app users have three or fewer retail apps on their mobile phones.[35] Frequency of mobile purchases and associated rewards at one venue may motivate consumers to download and use a specific retail mobile payment app, such as Starbucks or Dunkin' Donuts, for everyday purchases, but use Apple Pay or another "Pay" wallet at retailers they visit less often or that do not provide a proprietary app linked to a rewards program.

Perhaps the biggest challenge for retailers that offer mobile loyalty and payment capabilities is building consumer awareness. Effective marketing as well as staff training and education on the benefits and added value through rewards of mobile payments are critical. Customers need to know that mobile loyalty features are available. Cashiers could inform customers that their mobile payment app provides loyalty features or point to well-displayed signage at the register. One industry report noted that over half (57 percent) of loyalty program members want to engage with loyalty programs on a mobile device, but 50 percent do not know if there is a mobile app to complement their loyalty program.[36]

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[35] Andrew Lipsman, "State of U.S. Online Retail Economy in Q3 2016," *comScore,* November 16, 2016. https://www.comscore.com/Insights/Presentations-and-Whitepapers/2016/State-of-the-US-Online-Retail-Economy-in-Q3-2016.
[36] "The 2016 Bond Loyalty Report," *Bond Brand Loyalty*, June 2016

5.   Conclusions and Recommendations

There are many ways to leverage mobile phone capabilities to incent consumers to visit stores and make purchases. Besides making it easier for customers to track and redeem loyalty points, retailers are offering more complementary mobile features, such as additional ways to earn rewards, simpler checkout processes, location-based offers, and increased customer engagement. These mobile features can help retailers create more convenient, efficient, and personalized shopping experiences for their customers.

The integration of mobile loyalty rewards and payments should be able to incentivize consumers to pay for more purchases using their mobile phones. There is no one-size-fits-all mobile loyalty and payment model. Retailers should assess their business concepts and customer needs and purchase behaviors to determine the most suitable mobile solutions, keeping in mind the need for some consistency between programs and providing education and training for staff and customers. Soliciting input from key stakeholders, including customers, franchisees, internal IT and marketing teams, and retail staff, throughout the development and implementation process is a must.

Retailers can leverage mobile technology to develop relevant features (e.g., targeted content, location-based offers, order ahead, one-scan transactions, and easy checkout) that increase customer engagement and convenience. Mobile loyalty and payment apps that offer the most utility to consumers and solve actual pain points tend to gain the most traction. Mobile solutions for everyday purchases (e.g., coffee, fast food, and groceries), in particular, can influence change in consumer payment behavior by fostering greater familiarity and comfort with mobile payments, leading to usage in other retail segments.

Implementation of mobile loyalty and payments is an iterative process. Retailers and mobile wallet providers are gradually adding more robust loyalty and payment capabilities to their apps to enhance the retail experience for customers. To allow sufficient time for consumer education and staff training, it may be better to introduce a few features initially. Launching too many new mobile payment options at once may confuse shoppers and lead to negative experiences. Similar to any new mobile app, rigorous testing of the solution prior to launch is critical to ensure a good first impression with a positive user experience, so that consumers will gain trust in the technology and continue to use it in more locations and for the long-term.