

# Rewarding Your Members

## **REINVENT YOUR CREDIT UNION'S REWARDS PROGRAM**

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Increased competition in the credit card market has changed cardholder expectations. Consumers no longer want rewards programs – they demand them.

This white paper explores options for making your plastic rewards programs stand out, increase cardholder usage and inspire further loyalty to the credit union.

## REINVENT YOUR CREDIT UNION'S REWARDS PROGRAM

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Achieving top-of-wallet positioning for your credit union-branded credit and debit cards is no longer a want. It's a need. With the average consumer having four credit cards,<sup>1</sup> the challenge for issuers has shifted. Whereas attraction to the credit card program used to be the core objective, now our sights are set on motivating existing member cardholders to actually use the card already residing in their wallets.

The goal with any rewards program is to drive card usage, increasing interchange income to a point where it offsets the cost of the program. While it's possible that interchange income may soon lessen due to regulation, it's important to realize the revenue stream still exists today and provides tremendous potential for any credit union looking to grow its non-interest income.

More than six thousand credit union credit card issuers exist in today's marketplace, and that doesn't even include the thousands of others outside the credit union space competing for wallet share. With the increased competition has come increased expectations from cardholders who no longer want low interest rates, no annual fee or a rewards program – they demand all three.

Chances are, you've already realized this and have developed a rewards program to satisfy your cardholding membership. But have you crafted that program into something truly "rewarding?" Is your program user-friendly? Is it really incentivizing? And are you thinking creatively, sculpting your rewards program into something intuitive and impossible to live without?

If you answered no to any of the above questions, this white paper holds value for you. TMG works with credit unions like yours every day to help them design and implement impressive rewards programs that not only satisfy members but get them excited about their cards – and their credit union.

## WHAT WE KNOW – HOW CONSUMERS ARE USING PLASTIC

U.S. consumers racked up an estimated \$51 billion worth of fast food on their personal credit and debit cards in 2006, compared to \$33.2 billion one year earlier.<sup>2</sup> Statistics like this show us that people are becoming more comfortable using their cards for everyday purchases, rather than occasional or big-ticket purchases as in the past. With increased use comes increased revenue potential for card-issuing credit unions.

On average, today's consumers are paying their bills on time.<sup>3</sup> This lessens interest and late-fee income potential, making interchange revenues all the more important. Increasing interchange is possible with an enticing rewards program.

1 USA Today, "Credit Card Industry Facts (2006-2007)"

2 USA Today, "Credit Card Industry Facts (2006-2007)"

3 USA Today, "Credit Card Industry Facts (2006-2007)"



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## SHOW ME THE REWARDS – WHAT CARDHOLDERS WANT

While travel and entertainment perks are enticing to consumers, it's important to know that only 40 percent of all rewards in these categories are redeemed. Although this is less expensive for the issuing credit union, it also means the member cardholders are not taking advantage of the program. Therefore, it's important to know exactly what your members are looking for before investing time and money in a new or redesigned rewards program.

Cash-back rewards are increasing in popularity mainly because of the ease of redemption. Most cash-back rewards are simple to redeem, often credited back to the cardholder automatically. Because the cardholder is not required to take action beyond his regular purchases to get his perk, he prefers cash-back bonuses to a points system. Cash-back bonuses are also much easier for the credit union to manage than travel and entertainment perks.

Annual fees are quickly becoming a turn-off as cardholders find they aren't earning enough from their rewards to justify the extra expense. Additionally, there are many providers in today's market offering fee-free rewards cards.

Consumers want rewards programs that give perks for their established spending patterns. They don't want to change their purchasing behaviors to receive rewards. In other words, they want something for nothing. It's the job of us in the credit union industry to figure out how to give that to them without losing money ourselves.

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## MAKE YOUR REWARDS PROGRAM TOP-OF-MIND

### Improve ease of use, tracking & redemption

According to Points.com the average American is a member of 13 customer loyalty programs.<sup>4</sup> Juggling that many perks can be a headache, and cardholders are naturally drawn to those programs that make keeping track of points and redeeming them easy. Additionally, credit unions also value simple, straight-forward plans that are easy to administer. Here are a few ways you can craft programs to satisfy both the member cardholder and your organization.



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4 Forbes, "Vacationing on Loyalty"

### Add rewards to debit

There has been a 23 percent increase over the past five years in the number of credit cardholders who use cards that accumulate points for merchandise, airline tickets or both,<sup>5</sup> meaning consumers have come to expect a rewards program on their credit cards. That expectation has also begun to reach the debit space, as many financial institutions are also attaching rewards programs to their debit offerings.

When it comes to debit rewards programs, the economics often get in the way of brainstorming viable reward program ideas. Because credit cards offer a tremendous amount of income potential as compared to debit, portfolio managers often have a difficult time justifying an investment in debit rewards. One solution these managers have come up with is to attach rewards only to signature purchases, which can yield up to three times the revenue as PIN purchases.<sup>6</sup>

However, because our industry is training consumers to use debit cards rather than cash and checks, we need to consider a combination of signature and PIN rewards to further simplify the plastic concept for consumers.

One such way to offer a successful PIN-purchase rewards program is to negotiate merchant-funded rewards. With this type of program, merchants provide the reward perk in exchange for the exposure and incentive offered by the credit union's debit program. By eliminating the investment required for the actual reward, credit unions make PIN-purchase rewards not only possible, but profitable. By working with a respected and experienced partner, credit unions can negotiate merchant-funded rewards programs that include retailers from across the country.

Work together with local business on a cross promotion that will get the customers in their doors, using their credit-union plastic.

### Work with other local businesses

Take a look at your cardholders' spending habits. Where in your local community are they shopping? Those local businesses may be interested in partnering with you on perks for your cardholders. Think hardware stores trying to attract the Do-It-Yourselfer; gas stations looking to separate themselves from across-the-street competition; boutiques catering to sophisticated tastes. If your membership is a fit for these businesses, talk to them. Work together on a cross promotion that will get the customers in their doors, using their credit-union plastic.

5 USA Today, "Credit Card Industry Facts (2006-2007)"

6 The Boston Globe, "Heavy debit card use raises fraud alerts"



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## More Ideas

One TMG credit union client has recently adjusted its rewards program to keep up cardholder motivation. Instead of offering a straight cash-back reward to all cardholders regardless of number and timing of purchases, the credit union is now offering the cash back to those who reach \$2,000 per quarter. If the minimum is met, the cash-back bonus is delivered to the cardholder at the end of the quarter, and they start over again for the next three months.

The idea behind a deadline-driven program is to keep the cardholders working toward a goal and to leverage a sense of urgency, thus inspiring increased card usage.

## MARKETING YOUR REWARDS PROGRAM

### Consider the economy

More than half of all people with credit cards are using less than 30 percent of their total credit card limit,<sup>7</sup> leaving a tremendous amount of unused credit in the marketplace. Might these consumers tap that credit given the right mix of need and want? Yes, but it's important to consider other factors, such as cultural and economic conditions.

Consumers are becoming more educated every day about the appropriate use of credit cards. And as our economy takes a turn, financial pundits are racing to radio stations and television studios to warn the public against spending money they don't have. Because the "use responsibly" message can be heard as "don't use at all," it's important for credit unions to stay in front of their members, educating them on the benefits of reasonable credit card use.

One such benefit is the potential windfall of a rewards program. The message here is not "spend more, earn more." As consumers become more aware of the pitfalls this kind of behavior can create, they will be turned off by such an idea. Rather, credit unions should encourage members to use the card on their regular, monthly expenses. An effective way of implementing this type of member-centric program is to tie together your credit union's online bill pay with your credit program's reward system.

For instance, a credit union may reward cardholders with 5,000 points (or another valuable perk) if they pay three or more bills online each month. An added benefit to the credit union from this set up is further exposure for its online bill paying system – a great way to strengthen member dependence, appreciation and, ultimately, loyalty.



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<sup>7</sup> USA Today, "Credit Card Industry Facts (2006-2007)"

### Get to know your members

The key to launching or redesigning a successful plastics reward program lies in communication. Are you asking your members what they want, need and expect? Surveying your membership about what drives them to use their cards, what their typical purchasing behaviors are and how they view a rewards program is a great first step.

If you are concerned about participation, experiment with rewards tied to your survey. Offer participants a gift card or a cash reward for answering a few questions. Find out what kind of gifts truly motivate your unique membership.

### Get to know yourselves

Any new program needs an objective. If your credit union is considering a new or rebuilt rewards program, ask yourselves why. Gather your key decision makers together and talk through your goals. Are you looking to increase participants or current cardholder usage? Are you looking for additional interchange revenue to finance a new or existing program? What percentage of increase do you need?

After answering these and other questions, you'll be better positioned to take your ideas to a rewards program partner who can help shape precisely the kind of program to achieve your specific goals. When coupled with your member research, this information can also help your rewards partner craft the marketing message that will introduce the new program to your current and potential members.

### Look to the future

Keep in mind that once you offer a particular perk, it's very difficult to stop offering it. That's why finding a partner with experience and sophisticated systems for program management is so vital. You want to be sure you have the right expertise and support to back your staff.

It's also important that your partner understand the credit union environment and what your members expect. Your membership is unique, and learning their behaviors and expectations is something in which your rewards partner should express interest. As you are evaluating potential partners, watch for this kind of concern. If you don't see it, keep shopping.

Your rewards program is one more tool for increasing member loyalty, something we've all seen slip over the years. Treat it as such by thinking creatively. Talk to your members to learn what they expect – as well as what they don't, so that you can give them the kind of above-and-beyond products they won't get elsewhere in your community.



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## ABOUT THE AUTHORS

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