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• An Open Economy in the Loyalty Rewards Space – Good For Whom?

Posted September 14, 2012 By [Paul Hebert](#) in [Active Loyalty](#), [Breakage](#), [Loyalty Behavior](#), [News](#), [Redemption](#), [Stock](#) With | [No Comments](#)

Recently Colloquy released a white paper on the future of loyalty reward programs. The whitepaper [“An Open Economy: The Evolution of Loyalty in the United States”](#) can be found here (free with registration.)

The white paper walks through the evolution of loyalty programs (see image from the white paper below) and discusses the future of loyalty using history as a guide.



An Open Economy

The authors make a case for what they call an open economy...From the article:



Loyalty 2017
Delta, et al. v. Loyalty
CBM2014-0096

Page 1 of 3 The open loyalty economy is a customer-centric marketplace—sparked primarily by

fungible currency in commerce transactions. In that open economy, consumers will freely exchange and/or combine rewards currencies among programs and within an ever-expanding universe of merchants.

The whitepaper provides data on points/miles, redemption patterns and who and how those rewards can be shared and transferred between programs. It's all good info, and based on the obvious trend it does seem that there will be a day in the future where points/miles become just another currency – as ubiquitous and fungible as cash.

And that – from a loyalty program standpoint – is a problem.

Issuance Wars

From a consumer standpoint I get that it is in my best interest to get as much as possible for my reward currency. That's natural and normal. I also understand that a company wants their customers to be as happy as possible with their loyalty program and will do a lot to make sure they are.

But just because customers want it doesn't mean you should give it to them. What we all really want is customer engagement, and that requires a two-way street, not simply bowing to the requests of the customer and to the actions of our peer group. An "open economy" (IMHO) is a path to mediocrity, sameness and ultimately a devaluation of the whole loyalty ecosystem. We are setting up loyalty rewards as an entitlement – one side giving, the other side getting, and then demanding more and more. Where's the end game?

Here's my prediction, once we enter the "open economy" we will enter an issuance arms race – where the loyalty program that issues the **MOST** points is the victor.

When all the redemption options are the same – and they would be because a consumer can redeem pretty much for anything they want – **then program differentiation can only occur on the issuance side of the equation.**

Complete ubiquity in redemption = escalating point issuance.

If this happens, then loyalty programs become a very expensive way to give customers money. Why not just track the activity and send them a check? Better yet – track the activity and then give them a discount in real time?

I also find it interesting the authors state in the introduction that the whitepaper will:

“

...consider the implications for reward program operators, merchants and consumers.

They do consider some of the possible benefits – but where are the downside risks? Those are never mentioned. I think there are some

- Loss of brand identity
- Loss of consumer control
- Loss of true brand loyalty
- Increased pressure to follow the leader
- Increased costs of issuance
- Possible decrease in breakage (not a big fan of managing to the breakage but it is and should be something to look at.)

Is it just me or does this sound like an obituary for loyalty programs rather than an introduction to a glorious new age? Is this where loyalty programs end – back where they started as a simple discount program for multiple purchases?

The authors conclude the white paper with this:

“

...—it is incumbent on us all to balance the transition and remain firmly focused on customer-centricity. If we do this, rewards as “money” may indeed buy happiness for all.”

Once reward programs become a proxy for cash any true differentiation between programs is lost. Once program differentiation is lost then it only makes sense to eliminate the cost associated with the program.

Just send them the cash and that will make them happy.

I’m I missing something here? How is making points/miles more “cash-like” making my customer more loyal to my brand?

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