



Case Study

Zions Bank

Driving Usage, Differentiation & Value with Merchant Funded Rewards

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Executive Summary

One of the challenging aspects of bringing continuous improvement to the Loyalty sector, regardless of industry, is the dearth of proprietary data shared by program sponsors. Hanifin Loyalty is fortunate to be able to share the results of Zion Bank's merchant funded rewards program launched in 2005.

Cynthia Smith, SVP & Director, Bank Card Products and Services Zions Bancorporation and Kelly Passey, EVP, Access Development originally presented a report on Zions Cash Rewards at Card Forum & Expo 2009. Hanifin Loyalty was able to have a more in depth discussion of the program following the conference and is pleased to share this Case Study of a very impressive merchant funded rewards program.

Zions Cash Rewards is unique in that it centers its value proposition on an extensive **brick and mortar network** of everyday spend merchants which brings high relevancy and interest to the bank's cardholders.

Access Development worked with Zions Bank diligently to create a balance between merchant engagement, cardholder benefit, and an acceptable return to the bank. This philosophy of **balancing the interests of all stakeholders** is key to Access' philosophy on merchant funded rewards programs. Zions bought into the approach to create the equitable nature of the value proposition that, in our opinion, drives program success.



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The **secret to Zions Cash Rewards success** has been to assemble 'everyday spend' merchants and leverage the facts that more than 80% of discretionary spend is within a 10-20 mile radius of one's home and 95% of discretionary spend occurs in retail vs. online settings. With no cost to the cardholder and demonstrated benefits to participating merchants, Zions and Access have created a winning combination for all stakeholders.

Before moving into the details, here is a snapshot of program performance:

Program Summary Performance

Objective	Product	Result*
Increase Card Usage & Spend	Debit Card	6% net increase annual charge volume
	Debit Card	Avg. Trans. Amt. increased 11%
	Credit Card	Avg. Trans. Amt. increased 37%
New Account Acquisition	Checking Acct.	7% net increase avg. new per month
Decrease Attrition Rate	Debit	26% decrease across portfolio
Differentiation	Debit & Credit	9% avg. earn rate
		CVP merchant funded w/primarily brick & mortar partners
		Same value offered for debit & credit

*Based on program data through 2008



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Card Rewards Industry Summary

As reported in an April 2009 article co-authored by Bill Hanifin in **COLLOQUY** (v17i2), the 17 years between the launch of the GM Master Card in 1992 and the near collapse of the U.S. financial system in 2009 might be considered the Golden Age of financial services rewards programs. Recent market turbulence was sparked by the failure of Lehman Brothers in September 2008, but even before that disaster, card issuers had been struggling to differentiate their card rewards offers and maintain engagement with ever more fickle cardholders. Page | 3

For the past several years through the current time frame, issuers have been working hard to answer **4 key questions** that will chart the course for card rewards over the next decade:

1. How can the rewards game be played at lower cost?
2. How can program liability be better managed?
3. Can rewards currency be used to achieve multiple goals beyond retention?
4. Is there life after "points", and how will the next wave of innovation take form?

The path of least resistance is to focus on cost control, and most of the leading issuers have been slashing program costs and raising the bar to make reward redemption more difficult. Most of the big names have fallen prey to public criticism for introducing program rule changes that dilute the value proposition for their cardholders.

American Express, Citi, JPMorgan, and Discover have all made notable changes to their most popular rewards programs. Applying cost control measures is a double-edged sword and in the long run may jeopardize cardholder perception of the card rewards value proposition.

The industry is in desperate need of true innovation and fortunately some answers are in sight. Some banks have extended their rewards currencies across the retail bank in a **Relationship Banking** (RB) model. Banco Popular, Citi, and National City (now PNC) all brought multi-product loyalty to the market in the past few years. Once thought to be a panacea to build bank-wide customer loyalty, Relationship Banking has not been widely adopted due to organizational and cost restraints.

One concept that has met with success and is now being widely adopted in the U.S. market is **Merchant Funded** rewards programs, also described as Pay-for-Performance models or Participating Merchant Networks.



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Merchant Funded Rewards

Merchant funded rewards can be defined as a pay for performance model in which card issuer, merchant, and cardholder are all beneficiaries. Merchants fund rewards to registered cardholders and can measure incremental sales against program cost. The reward offered is much higher than consumers are accustomed in typical card rewards programs.

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Consumers are delighted as they can earn anywhere between 5 – 25% back on their purchases and realize their rewards in the form of cash back or points redeemable for prizes or discounts at the local merchants. The card issuers enjoy a richer program, which drives customer satisfaction while reducing its cost of operations when compared to a traditional rewards program.

In addition to Zions Cash Rewards, many other banks have adopted the merchant funded model. U.S. Bank was an early adopter when it added a merchant component to its “Checking that Pays” program to create US Bank Premium Rewards. With suppliers sniffing an opportunity, the narrow set of specialized merchant network providers expanded and the programs in market proliferated at a rapid pace. The model has proven so successful, that John Owens, Senior Vice President of Cobranded Relationships at US Bank commented in the COLLOQUY article that merchant funded rewards have evolved to **“table stakes, though maybe not a differentiator”**.

The aspect of Merchant Funded programs approaching commoditization most rapidly is the construct and components of the merchant portfolio. Most programs offer an online merchant selection, and a close review of several large programs reveals overlap in the participating merchant group across issuers. Recruitment and assembly of **brick and mortar merchants** is the most **compelling opportunity for differentiation** for card issuers today, though the effort may be realized only through considerable investment of time and resource by the network owner.

The brick and mortar network was the foundation for success with Zions Cash Rewards. “When building Zions Cash Rewards, one of our key goals was to create a program that was truly unique in the marketplace, and delivered real value and relevance to our cardholders,” said Smith. “Today we have over **1,600 local, brick and mortar merchants** giving our customers rewards of up to 50% cash back. I think it’s safe to say we’ve accomplished that goal.”

It may be that organizations who can “crack the code” of assembling a network of local participating merchants may be the ones who create **the next wave of innovation** in card rewards programs. The opportunity to earn promotional currency with local market merchants provides an aspect of personalization for consumers and opens up possibilities for on-site redemption through POS terminals or prepaid cards.



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Zions Bancorporation is a \$55 Billion asset bank holding company headquartered in Salt Lake City, Utah encompassing 8 banks in 10 Western states. The largest of the operating units is Zions Bank, founded in 1873 and currently \$20.8 Billion in assets, serving Utah and Idaho with 138 full service banking offices and 197 ATM's.

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Zions Bank is a consumer oriented bank and an active card issuer with 355K debit cards and 112K credit cards in circulation. The competitive landscape has become more challenging with the encroachment of Bank of America, Wells Fargo, and other large regional players.

Seeking to differentiate its card offer, Zions chose the Merchant Funded Rewards model for its new product—Zions Cash Rewards—launched in July, 2005. The keys to program success are attributed to three important areas:

- **Implementation** – The commitment to engaging employees as program advocates was made possible by education and incentives while the bank was also able to leverage cross-sell opportunities with commercial accounts.
- **Marketing** – The bank adopted a multi-channel approach using micro-sites, email promotion, print directories and offline events.
- **Continued program evolution** – Zions listened to and incorporated the Voice of the Customer to effect continual improvements and leveraged new technology to their advantage.

Zions Cash Rewards

Zions Cash Rewards (<https://www.zionscashrewards.com/>) is a cash back program that rewards Zions Bank Visa cardholders when qualifying purchase are made using their Zions Bank Visa check or credit card.

Cardholders may regularly earn up to 50% cash back using their cards at over 1,600 local businesses in Utah and Idaho. Participating merchants include restaurants, retailers, automotive shops, health and beauty providers and more. Each merchant, in consultation with Access, determines its qualifying cash back offers by setting spend requirements and reward amounts.

Cardholders may log in to [zionscashrewards.com](https://www.zionscashrewards.com) and review individual merchant offers. A search of merchants in the 84121 (Salt Lake City) zip code revealed a rich mix of over 400 merchants. This is a clear indication of a **program delivering everyday spend value** where consumers shop – in their own neighborhood. The one restriction is that only signature debit transactions are rewarded. All credit card transactions are eligible.

The **requirements for membership are simple**. Each customer must have either a Zions Bank Visa debit or credit card and a checking or savings account with Zions Bank. All debit and credit cards are automatically enrolled as a core enhancement to their bankcard offerings, so existing customers don't have to take any special action to benefit from the program. There is **no annual fee** for the program.



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Cash rewards are deposited automatically to the customer's Zions Bank checking or credit card account and earnings appear on the monthly statement.

Additional rewards can be earned by shopping online at zionscashrewards.com. Cardholders receive up to **20% cash back from national online retailers** including Target.com, Gap.com, Walmart.com and many more. Cardholders may also earn up to 5% back when booking travel online. Page | 6

The program uses a multi-channel communication plan to stay in touch with members and mobile savings alerts along with extended merchant funded offerings from destination to entertainment rewards are coming soon.

The Decision to Auto Enroll

Of the several options for managing program enrollment, **auto enrollment has some risk**. To create the balanced benefit for bank, merchant, and cardholder mentioned earlier, Zions and Access decided that merchants needed to have a full view of the program potential, i.e. the target audience size, scope, and spending magnitude.

In Zions Cash Rewards all cardholders are enrolled, as if a core enhancement much like extended warranty or purchase protection plans and, when a qualifying transaction is made, a confirmation email is sent to the cardholder to thank them and inform that their recent purchase to "X" merchant earned them "\$Y" in cash back rewards. This approach ensured **engagement with Merchants** and reinforced program value to cardholders, building not only loyalty and top-of-wallet status for Zions, but also foot traffic and sales for the merchant community.

To select an opt-in enrollment method might have delayed merchant engagement early in the program lifecycle and reduced cardholder awareness. **Opt-in may be more acceptable** when used in the stand-alone 'online shopping mall' construct, but was a better choice with everyday spend, brick & mortar merchant rewards models.

Protecting Merchant Interests and Driving Incremental Sales

An easily over-looked element of executing the Merchant Funded Rewards model is **merchant retention**. Access anticipated the importance of this need and practiced a consultative approach with merchants, going "behind the counter" as referenced by Passey to understand their specific needs, goals, and profit margins.

"Access has been building successful merchant-based loyalty programs for over 25 years, and we currently have the largest merchant network in the U.S. with over 250,000 locations," said Passey. "As a result, we are able to work closely with our merchant partners to structure offers that not only **deliver significant value to the consumer**, but also benefit the merchant by driving the kind of business that meets their business objectives."



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Through this process, Access realized that **multiple reward options** were needed to meet individual merchant requirements. On average, there were 3-4 different cash back offerings available per merchant with the objective to encourage and reward different levels of cardholder spend. For example, there might be an aggressive "50% off" promotion designed to drive new customers, as well as secondary offers triggered by various spend thresholds to encourage visit frequency or bigger sales drafts.

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Merchants liked the approach and cardholders responded positively as they had more than one way to earn rewards. In the event cardholders qualified for multiple rewards, Access systems were able to identify and pay out the richest reward value to the member.

The result is a program that delivers a **system-wide average offer of 22%+ cash back** per qualifying transaction compared to most programs that average 3-5% with a fixed percentage-based reward. Merchants appreciate the "pay for performance" mentality which creates a win for both merchant and bank as the higher transaction frequency and average purchase size generates revenues for all parties.

Success Through Excellence in Execution

Even the most innovative strategy can be trumped by poor execution. It is worth noting the many areas where Zions and Access dedicated resources and attention to ensure that all constituencies supporting and servicing the program were enabled to make the program a success.

The Loyalty Effect, authored by Frederick Reichheld in 1996 remains the definitive book written on Loyalty Marketing, and postulated that in order for a business to create loyalty related shareholder value, it must tackle initiatives in three areas: **customer loyalty**, **employee loyalty**, and **investor loyalty**. His mandate directed companies to embrace loyalty on an **enterprise level**.

Zions realized that customer-facing employees were essential to its success. As a result, the bank provided training to its sales force so that they could easily explain the program benefits and encourage participation while "keeping the message simple." In addition, Zions increased focus on in-branch support, supporting associates with sales aids including, buttons, posters, and brochures.

Customers looking for bankcard products are led through an easy process to help them decide if they want a program that awards 1% cash back or points that could be redeemed for travel and merchandise. The merchant funded element of the program is explained as a bonus element as it is available on all consumer cards, and customers are given the option to personalize their cards with a photograph of their choice.

Bank personnel are also trained to use the engagement process as a cross-sell opportunity, not only for consumer banking products, but also with merchants to build the bank's acquiring business and deepen existing commercial relationships.



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The Marketing Mix & Campaign Highlights

Zions used several marketing channels to manage program communications including email, direct mail, and in-branch. Campaign highlights are described in this section.

The easy to grasp benefit of Email is the low cost of execution, but the key to success in Zions Cash Rewards was the emphasis on targeting (by geography, transaction history, recent activity) and the actionable nature of each communication (driving deep links into the rewards website). Email was also used to manage surveys, gain program feedback & build 'customer voice'.

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In one example, 20,000 emails were sent to cardholders with recent purchase history at nearby merchants. The campaign drove **50% increase** in transaction numbers at the targeted merchants and **134% lift in spend** at a featured merchant within one week of mailing.

Web based promotions included sweepstakes, interactive online games and web technology that went well beyond basic banner advertisements. "**Cash Back Boulevard**" was a particularly effective online game that featured a sweepstakes component and used both direct mail and email for communications. During the campaign, which won an interactive advertising award from the AMA, the bank enjoyed a **27% increase in new cards** issued and **70% increase in logins** to the rewards website.

The utility of Zions Cash Rewards could also be seen in the way it was employed to achieve multiple bank objectives.

- **Cross selling:** Double points were awarded for opening a new DDA account or referring a new customer to the bank who opened a DDA.
 - Signature transactions only were awarded as customers were reminded to "**Use your Pen, not your PIN**".
 - During the campaign, 10% of employees opened a new debit card account, 15% lift was seen in new debit card accounts opened and there was a year over year lift of 15% in signature debit sales.
- **Competitive Response:** To meet a threat from a new branch opening by a competing bank in a key market, Zions offered double points at participating local merchants for a period of time.
 - Results included a 46% increase in transactions at participating merchants and 79% more rewards earned by cardholders, not including the double rewards.
 - Customer retention goals were met as there was a 281% increase in initial deposits from new accounts during the promotion.



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Channel diversity was a foundation of the communications strategy, and Zions used print materials to distribute an annual listing of the more than 1,500 merchants participating in the program. The directories were distributed via branches and mailed to specific cardholders and served to benefit cardholders while also increasing merchant satisfaction.

Reward Options

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Cardholders have seven to eight cards on average and often 'bucketize' spend on specific cards for various reasons (i.e., gas, grocery, & travel card). In an effort to complement the brick and mortar merchant network and create even more compelling reasons to shift spend to its bank card products, Zions is continuing to evolve its attractive benefits package with a variety of merchant funded rewards options, including:

- Online Shopping Rewards
- Travel Rewards
- Business Card Rewards
- Entertainment Rewards
- Gift Card Rewards
- Destination Rewards

Lessons Learned

The lessons learned from assembling this rich but clearly communicated rewards mix are instructive to any issuer considering a similar program structure.

- 1. Merchant offers** should be filtered by quality vs. quantity. The bank was diligent in selecting key categories of interest to the cardholders and structure "rich enough" offers to keep cardholder interest. The job is never finished however, as program evolution is needed to maintain relevance and consumer interest.
- 2. Partner selection** is a key area for consideration if program execution is to be maintained across all program touch points. The experience, stability, and history of new product development were all considerations when Zions evaluated partners.
- 3. Employees** must have buy-in to the program and remain engaged for long term success. This is only accomplished by training customer-facing employees and providing them some level of reward and recognition for their efforts.
- 4. Bonusing related to profitability** as customers were not awarded for all transactions. This placed the burden of education on the bank, but also gave Zions an edge towards reaching program profitability goals.
- 5. Multiple goals were achieved**, for example, commercial relationships were strengthened and retail bank products were opened through cross-sell.
- 6. Email marketing** efforts are most effective when extraordinarily targeted, relevant, and creative. Games and contests were good venues for testing.

Footnote - Industry statistics, program data & results were obtained from the following sources:

- Access Development
- Colloquy
- Zions Bancorporation

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