

Card Linked Offers

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I'm fat and happy from all the Turkey.. and was thinking about what to blog about. I've decided to link a funny story... with a complex market. Earlier this month I was called by a recruiter to lead a new company. Here is the abbreviated dialog

- What is it? "a bank Groupon" ..
- How is it structured? A separate company? A Bank Division? "Both, it is a separate company 100% owned by bank"
- Are they looking to spin it out? Will there be other investors? "no"
- So CEO (with no equity upside) building a business from scratch within a complex bank? "yes"
- Where will it be based? "right here in NYC next to the Bank"
- Did you know the COO of Groupon was given about \$xxM in options... how are you going to compete with that? "we are not looking to compete on compensation.. but we do want to compete with Groupon"
- Good luck with that (See [my previous blog](#) for lessons learned on bank spin offs)

Message here is that top banks and payment networks are getting into the "offers" space. I haven't seen an industry analysis of CARD LINKED OFFERS.... So I thought I would create one. Today I was reading 2 month old post in All Things Digital: [Will the next Groupon Killer be your Bank..](#) ? One of my first Blog posts (2.5 yrs ago) covered this subject as I saw in back in 2008/09 "[Googlization of Financial Services](#)". Here are a list of current leaders in Card Linked offers

Company	Invested Capital	Employees	Key Customers	Investors
Cardlytics	\$60-70M	60-70	CapOne, 30-50 Banks	Caanan, Polaris, ITC
EDO Interactive	\$35.5-40M	31-40		Clayton Assoc, Vantage Point
FreeMonee Network	\$10-20M	30-40	?Visa?	Opus, Redpoint, Sutter Hill, Pinnacle
Linkable Networks (Clovr Media)	\$15-\$20M	20-30		Citi 11/2011, Bain
Offermatic	\$8.3-10M	20-30		Kleiner 3/2011
Catera Commerce (Acq Vesdia)	\$30.0M	165	Barclays, Southwest	IDG, Flybridge

Not all of the companies above are the same. Here are a few basic strategies behind these start ups

Strategy #1 - Improve Existing Loyalty Effectiveness. Colloquy.com is the industry leader in research on loyalty programs. Two recently published white papers by Colloquy.com display a macroeconomic view of the size and value of loyalty programs for U.S. consumers. Colloquy estimates the total value of loyalty currency issued to U.S. consumers in 2010 is a \$48 billion dollar industry across financial, travel and hospitality, and retail sectors of U.S. economy in 2 billion U.S. household loyalty program memberships. Edgar Dunn provide a great graphical view on the purpose of loyalty programs

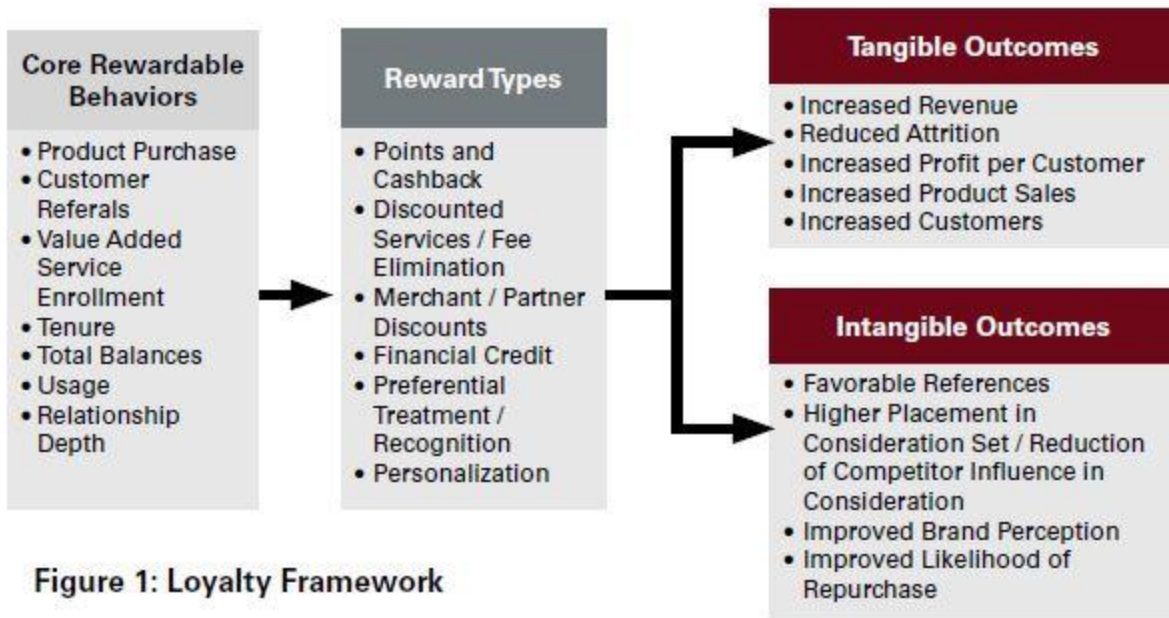


Figure 1: Loyalty Framework

Why do banks want to improve Loyalty?

- A) Credit cards carry a much improved interchange (250-350bps vs \$0.21 flat of Debit)
- B) Loyalty Programs are highly effective card use AND retention tool. From Edgar Dunn

Banco Popular Premia			Citibank ThankYou Program	
	In Program	Out of Program		
Credit Card Outstandings	↑ 53%	↑ 18%	Credit Card Volume	↑ 37 - 120% for members
Card Transactions	7/card/month	4/card/month	Attrition	10x lower for members
Checking Balance	↑ 50%	↑ 30%	Unique Redemptions	↑ 10% / month in 2005
Mortgages	↑ 34%	↑ 10%	Satisfaction	82% overall satisfaction with program
Online Banking Txns.	20/acct/month	12/acct/month		

Figure 2: Sample Results from Retail Banking Loyalty Programs
Source: Colloquy, "The Million-Dollar Swing", December 2006

Strategy #2 - Redemption Network. Improve the way redemption works. Enable redemption of specific items. Catera and Cardlytics are leaders here. [Great Article on Clovr](#) (now Linkable Networks).

Banks used to see card offers as part of a large revenue stream. Now banks need to find unique technologies in order to capture the customers' attention again. Some of that technology comes from mergers such as Cartera and Vesidia to form a new more innovative merchant network platform. Other pieces of the card-linked offer space is coming from companies that are focused on card-linked offers, such as Boston-based Clovr Media.

...The card-linked offer company wants to make sure that promotions they are powering are meaningful. They do that by getting down to the SKU level (the long number on products that identifies a unique product within a store. Tom said, "we can go right down into a particular product within a

*store, get right down into the SKU level. Instead of 10 dollars off at Staples, it's 10 dollars off a cannon printer at Staples. We see that as a very powerful **concept**.*

CONCEPT is the key word here as “networks” are minimal beyond eCommerce store fronts capable of redeeming offers for specific products. In the physical world, none of the participants above have cracked the code on the scenario above. POS integration is too hard AND retailers will not give up their data. Entities like Catera are using other parties (ex SavingStar in Grocery) to give credit for item hours, days or weeks later after the sale.

Strategy #3 - Advertising. The first 2 strategies above are about leveraging the \$48B in loyalty “value” to incent merchant participation. A third strategy is geared to attract retailer participation in an advertising network. The primary value proposition: target card customers with specific offers. This strategy usually driven by card NETWORKS and Issuers looking to expand “value delivery” on existing networks (the googlization article above provides an example). Although Banks certainly have the data to make this work, this is NOT a merchant friendly platform. Can you imagine using your Amex card at Macy's then getting an incentive at Neimen Marcus? This is one reason why retailers are loathe to share any item detail information.. it would only help banks/networks more accurately target their customers.

Apparel, QSR, Furniture and a few other niches could be served in this model (few other retail categories have significant ad budget), but the price is credit card interchange.

Summary

Retailers will respond to banks loyalty spend initiatives, but “redemption” will largely be online (restricted merchandise lists) because retailers do not share data at the point of sale. Banks and the Networks are attempting to expand Card Linked offers into the advertising space, but this means someone will have to sell retailers and construct campaigns. Neither Banks nor the Networks are adept at selling retailers anything, there will be need for 3rd party ad exchange (ex freemonee) where advertisers can bid to place across multiple issuers (ie each issuer control cards). These Ad Exchanges will be slow to mature because there is no proven CPA for card linked offers and merchant profitability. In other words the cost of accepting a credit card and paying for an offer, and tracking profitability is not a home run today. We need only to look at [Visa Offers](#) to see the confusing and bleak future. Consumers are overloaded with e-mail and messages.. behavior will not change until there is compelling value. Value cannot be delivered until there is a critical mass of ads which can be targeted. Targeting can not be done effectively because issuers only have merchant level preferences (not item level/brand). ... Only certain categories of retailers have substantial marketing budgets... the majority of marketing is spent by manufactures. Manufactures don't know their customers.. (hence is why Shopper Marketing is red hot). ... and so on

A logical extension of card linked offers is card linked pre-paid offers. This goes back to “Bank Groupon” listed above. Banks want to run a pre-paid program for retailers.. a “pay before” you eat... at a discount. Keeping it on the card so consumers don't loose the offer and redemption is a seamless process within the existing card settlement flow. Hey this is a great idea for consumers and merchants. Problem is business model for banks. If this pre-paid was sold by a regulated bank entity I doubt if they would be able to take advantage of the breakage which drives Groupon's profitability. Banks will also be responsible for things like escheatment.. this is where state regulators come looking for unclaimed funds.