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Can Blockchain Reinvigorate Loyalty Programs?

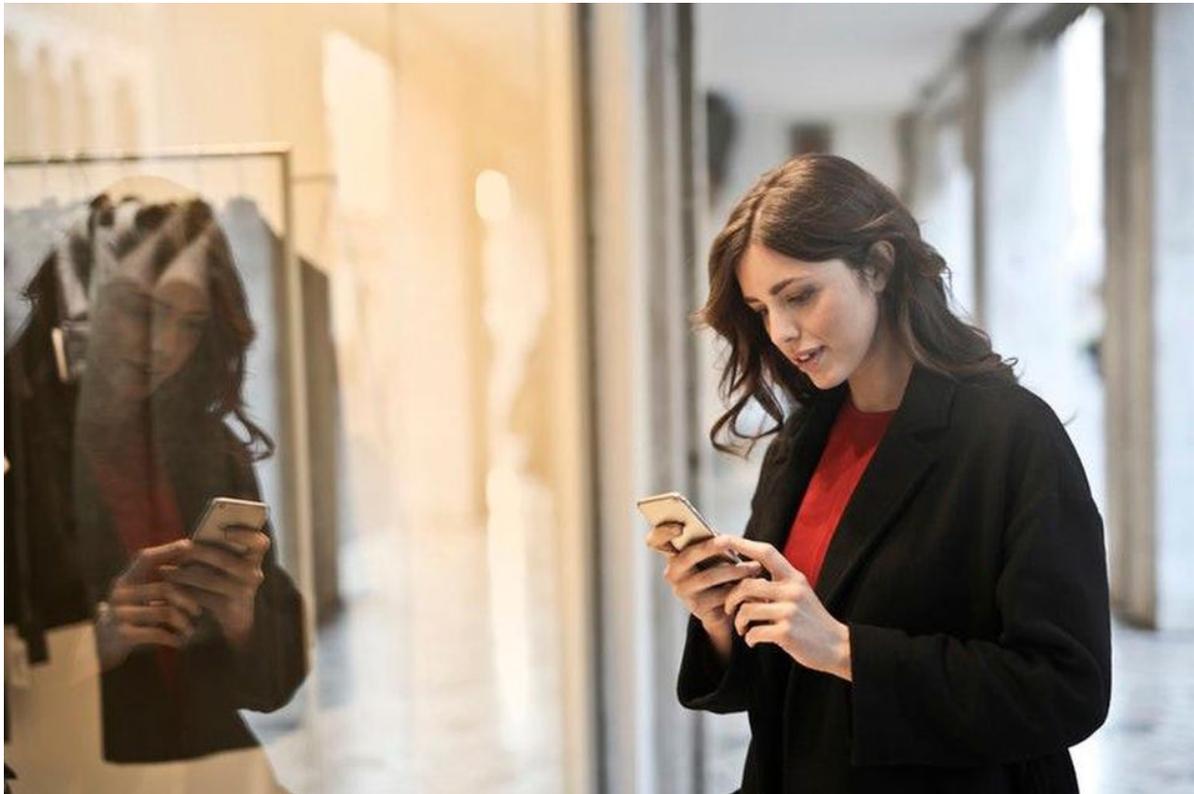


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For over a quarter of a century, I have been a loyalty consultant thinking about, speaking about and writing about customer loyalty. In this article, I want to break through the hype about blockchain to focus on what it can and can't do for your business.

As participation in loyalty programs continues to lag, interest in the possibilities offered by a blockchain loyalty program is growing. There are both opportunities and challenges associated with decentralized ledgers. First, we'll look at the opportunities:

Reward Redemption

Blockchain-based loyalty programs address a number of issues that typically drive customers away from traditional loyalty programs. Among them are problems with redeeming points before they expire and keeping track of multiple loyalty programs.

Low redemption rates are a big problem for loyalty marketers. Members that are not redeeming are not actively engaged in the loyalty program. On the flip side, members who redeem points are more engaged, spend more and are [more satisfied](#) with loyalty programs.

Blockchain allows a customer to store all points in a single wallet rather than trying to manage multiple programs. There would not be separate rules for acquiring and redeeming points from different loyalty programs as is currently the case.

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This lack of friction, in turn, allows customers to exchange tokens for a variety of different businesses and discounts or rewards. In a global loyalty study, [79%](#) of participants said that choosing among several types of rewards is very appealing to them. Program providers still maintain control regarding how points are valued and dispersed and other elements, but their profitability relies less on customers redeeming fewer points.

More Flexibility

When it comes to loyalty programs, [customers value flexibility](#). With blockchain loyalty programs, customers would no longer have to wait to be awarded points but

could potentially receive and redeem them in real time. Plus, blockchain rewards are easier to track and can be redeemed in smaller increments. There are also broader opportunities for engagement including local campaigns, partner offers, biometric authorization and targeted content.

The data stored in the ledger is secure, structured and abundant. It is the perfect source for targeted content driven by big data analysis using artificial intelligence (AI). For example, AI can be used to create personalized messages for each customer with the right offer, right reward, and in real-time.

Reduce Fraud

If companies have sensitive private data, that information will not be stored on the blockchain but remain on legacy systems with which blockchain can interact. For network members, all the necessary information is stored on the ledger. All of this could lead to a reduction in loyalty fraud.

Reduce Program Costs

One barrier in the expansion of loyalty programs is that doing so takes time and money. With a distributed ledger, this cost would be much lower. The savings can be passed on to the customer in the form of requiring a lower minimum balance for rewards points redemption or for more valuable customer experiences.

Challenges

Many companies are already exploring the possibilities that a blockchain loyalty platform could offer. However, like any new technology, there are still many unanswered questions and elements that need further development or investigation.

An Emerging Trend

There are a number of startup companies -- like Vexanium, Gift Jeenie, Qiibee and Loyela -- implementing blockchain loyalty programs. But overall, this type of program is still in its infancy. So far, a few large brands are experimenting with blockchain technology.

Earlier this year, Singapore Airlines [launched](#) KrisPay, which allows members to transfer their KrisFlyer points to partner merchants using a digital wallet that can be accessed in real-time. American Express is also capitalizing on the transferability of blockchain to enable merchants to tie American Express reward points into their own products. Under that umbrella, online wholesaler Boxed is the first merchant [to test the blockchain-based rewards](#).

And Chanticleer Holdings, which owns burger restaurants like American Burger Co., BGR and a handful of Hooters restaurants, wants to empower customers to redeem Merit, its [reward cryptocurrency](#), at any of their brands or trade them with friends. The company intends to give its rewards members more control over their loyalty program to improve their customer experience.

Data Privacy

It will be necessary to take steps to protect customer data and not just keep up with the EU General Data Protection Regulation (GDPR) regarding data protection. Only limited information can be stored on a shared network. The rest, which needs customer permission in order to be collected, must be stored separately.

Consumer Learning Curve

Millennials tend to be interested in Bitcoin and other digital currencies and may be more open to a crypto rewards program. We know that customers don't always fully utilize and participate in loyalty programs as it is, and while blockchain should eliminate some of those barriers, a significant learning curve remains. Customers will also need to download their digital wallet and set up their accounts.

Scalability

At its current level, blockchain technology may struggle with demand. Only three or four transactions per second are possible with Bitcoin, and even Ethereum can only manage 15. The infrastructure as it exists may not be sufficient for a large-scale blockchain loyalty program.

As an emerging technology, blockchain loyalty platforms have enormous potential along with drawbacks. Savvy business leaders would be well advised to stay on top of what happens with companies that are piloting blockchain loyalty programs to how well these programs perform compared to traditional loyalty programs.

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