Target May lead Nation into Chip-Based Loyalty

By Zack Martin

Target Corp., the Minneapolis-based retailer poised to launch the first smart card loyalty program in the United States, may soon get plenty of company. Other major merchants are waiting in the wings and may roll out competing programs in the next 18 months, with widespread acceptance following in three years.

"You will see many major players in the loyalty space make an announcement, and they will serve as a catalyst for people who are on the fence," says Heather Gray, vice president of consumer credit products for San Francisco-based Visa U.S.A. She made the 18-month and three-year estimates before the terrorist attacks on the World Trade Center last month. (See related articles on page one.)

Meanwhile, the gaze of America's credit card and store executives will focus on the fortunes of Target's pioneering efforts.

"We have every anticipation that Target will make a go of the program, and everyone will be looking for them to make an impact," says Gray. "Target is well-poised to make a success of the

'Loyalty and smart cards are a marriage made in heaven,' says Chris Rieck of MasterCard.

Welcome Real-Time has come to America to run loyalty programs, says Aneace Haddad.

smart card effort because they are a merchant and an issuer, and they are one of the premier marketers."

Target intends to send smart cards to all of its cardholders and put smart card readers at the point of sale in Target stores. The company plans to run smart card loyalty programs online and off.

The nature of Target's loyalty program remains shrouded in mystery. Store officials declined to be interviewed for this article, and Gray says the program could hinge on points, punch cards, electronic coupons, frequency discounts, or electronic tickets.

Smart cards with 32K memory can accommodate 36 loyalty programs. The information is stored on the card chips, and rewards and discounts can be offered in real time at the point of sale.

With smart cards, retailers also can change promotions from day to day. "If you're a merchant and it's raining out, you could offer a 10% discount on umbrellas," Gray says. "If it's nice out the next day, you can do a discount on beachwear."

Still waiting

MasterCard International has yet to introduce a smart credit card in the United States, but loyalty will be part of the plan when the Purchase, N.Y.-based association does offer its members a smart card option, says Chris Rieck, vice president of global e-business services at MasterCard.

"Loyalty and smart cards are a marriage made in heaven," says Rieck.

MasterCard operates successful loyalty programs with smart cards in Asia, Rieck says. MasterCard plans to introduce loyalty to its smart cards in Latin America next, he says.

In the United States, showing customers the advantages of loyalty remains one of the biggest challenges, in Rieck's estimation.

"This is not the type of program that will directly benefit the issuer," he says. "But if you tie the reward in with the amount spent — even a small amount — it will start to benefit both the merchant and the issuer."

Visa is working to broker merchant deals, as well as to help the issuers put programs in place, Gray says.

"There is a role Visa can play to offer a consortium of merchants to issuers," she says. "Issuers have more of a challenge in establishing relationships with merchants."

But Fleet Boston Financial Corp. is trying anyway, says Scott Rau, senior vice president of emerging technology for Fleet.

"All of us who have merchant business will try to do unique things for those merchants," says Rau. "We are trying to do something with our own merchants sooner rather than later for our more loyal consumers."

After conversations with retailers, Rau says he believes merchants will begin adopting smart card programs by the end of next year. Seasonality represents a hurdle.

"You can't get in the way of the buying season," Rau says. "The initiative has to be timed correctly."

Sharing the toy

Target's smart card loyalty program is scheduled for launch next year, but it's not known if the retailer will share the program with Fleet, Providian Financial, or First USA, the other Smart Visa issuers, Gray says.

Meanwhile, Detroit-based Catuity

Inc. and Aix-en-Provence, France-based Welcome Real-Time are working to convince merchants and credit card issuers that smart card loyalty can pay off.

Catuity, a loyalty software provider and a partner with Visa, is also working to make deals between merchants, says Rob Kosnik, Catuity senior vice president of sales and marketing.

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>
> **Rob Kosnik**
> *Catuity Inc.*

"We are suggesting they put together coalition programs," says Kosnik. "Coalition programs would allow multiple merchants to use the same currency and spilt up the rewards. But there is a vacancy in this area that would best be filled by a marketing organization."

The best targets for smart card loyalty are large department stores, Kosnik says. "They can deliver a product that is branded by a merchant that has a lower cost and a higher perceived value than if you have to buy a product and offer it as a reward," he says.

Welcome Real-Time prepared for loyalty in the United States by opening an office in Philadelphia this year. Aneace Haddad, CEO of Welcome Real-Time, says the company has signed deals with American card issuers but would not elaborate.

One program Welcome Real-Time has launched is with the cosmetics company Lancome. Consumers sign up for the program and receive free samples when they make purchases. If a smart card is used, the clerk can make sure the consumer receives a different sample pack each time.

"It's not a promotion, because they always

Visa's Heather Gray asserts that more major loyalty players are ready to start using smart cards.

give out different samples," says Haddad. "But you're giving better service."

Loyalty programs are about behavior modification, Catuity's Kosnik says.

"You're shifting someone into doing something more and different," Kosnik says. "Smart card loyalty programs should have that ability, but it's still in question when the programs will be here and whether or not they will be successful." <<