

How Crypto Can Evolve

Brand Rewards and Loyalty



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01 SECTION

How Crypto Can Evolve Brand Rewards and Loyalty



Over the past few years the adoption of blockchain and crypto solutions by household brands has continued to accelerate. While these underlying technologies have been around for some time, new use cases are constantly being tested, explored, piloted and proven out across industries. From [real estate, events and ticketing](#), to [tokenizing carbon credits](#), more companies are beginning to leverage [crypto solutions to drive real value for their business](#) and their customers.

While the possibilities of crypto are seemingly endless, it can be challenging to try and understand how and why organizations across financial services and banking, consumer packaged goods, travel and hospitality, and beyond can look to integrate the technology into their organization, and what exactly they and their customers stand to gain.

One area where we see significant potential and opportunity for companies to leverage crypto is with loyalty rewards programs. Many of us have credit cards, airline mileage plans, or simple coffee punch cards that provide rewards via points, upgrades, free drinks, cash back, discounts, and more depending on the amount we spend. These so-called loyalty programs can be worth billions of dollars for companies but are typically archaic in their architecture and application. However, that doesn't need to be the case.

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Loyalty Rewards Programs: Current and Future State

Recently **more than 400 executives were surveyed** regarding their current loyalty programs. **70% of the respondents** indicated that the digital distribution of their loyalty programs improved customer loyalty. **63% of respondents** say their company's loyalty program budget increased in the latest planning cycle, and businesses think of loyalty as a growth engine just as much as a retention tool. Finally, and potentially most importantly, **91% of the surveyed executives** say their loyalty programs should provide more rewards or benefits for their customers.

Even though both customers and executives find their loyalty programs highly valuable that does not mean that these legacy programs are without issues. Many of today's most popular loyalty programs have multiple pain points that can make both the enterprise and customer experience less than ideal. It can be difficult, for example, for customers to track their rewards or understand how they accumulate; some brands only allow their loyalty programs to be used at certain times; and the amount of redemption options a customer can utilize may be limited as the reward program's value is usually siloed. Adding to these potential obstacles is the possibility that a customer's rewards can decrease or even disappear over time if they are not used. These are but a handful of issues that plague legacy programs today.

Slowly but surely, companies are evolving their loyalty rewards programs to address some of the issues outlined above. As enterprises begin to explore this particular use case to improve customer loyalty and retention, there are important considerations: What would a crypto-native loyalty program look like? How can companies leverage other applications of blockchain and crypto technologies, like decentralized identities (DiDs), NFTs, stablecoins, and/or smart contract functionality to create different loyalty programs, which can benefit both the consumer and the business?

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Decentralized Identities and NFTs as a Loyalty Profile

A Decentralized Identity (DiD) is an identifier that is stored on-chain (i.e. in a crypto wallet) containing metadata that is linked to personal information which is securely stored off-chain.

If, for example, a customer wants to sign up (or opt-in) for a new loyalty program today, they would be required to provide a significant amount of personal identifying information, or PII, and would need to do this for EACH program they want to participate in. This information typically includes name, address, phone number, email, and other identifying information. Providing this information for various loyalty program means there are multiple potential points of failure where personal information could be leaked or stolen. Furthermore, this process is cumbersome and time consuming for both the customer and the companies requesting the information.

This is where a DiD using a concept called zero-knowledge proofs could come into play. A zero-knowledge proof (zk-proof) essentially works to confirm information to a third party without revealing what the information is.

Let's use a winery's website as an example. If a customer is looking to buy wine from a website in the US, it will ask if they are over 21+ years old. Traditionally, the customer would be required to give this website their exact birthday for the winery to confirm they are of the appropriate legal drinking age. If that customer had an identifier containing their birthdate that utilized zk-proofs, they could connect that identifier to the website, the website would "ask" the identifier if the birthdate shows they are 21 years or older, the identifier would respond with "yes," and the customer would be able to access the website without ever providing their actual date of birth. Zk-proofs allow for both users and companies to prove information without ever exposing the details of the information in question, making it inherently more secure than traditional systems we use today.

03 — DECENTRALIZED IDENTITIES AND NFTS AS A LOYALTY PROFILE

By combining these two concepts—DiDs and zk-proofs—online decentralized identities can then be minted as an NFT on the blockchain, and used as a universal identifier for any loyalty program the user wants to join. They would only need to verify their information one time by connecting their digital wallet to the company's loyalty program. From the company's standpoint, they may not even need to spend any time collecting the customer's information. Instead, all they need to do is link the DiD NFT and wallet to the user's loyalty account. This not only removes the burden of the company needing to safeguard that customer's personal information, but also allows them to quickly and easily onboard them into the loyalty rewards program.

For this DiD NFT solution to work, companies would need to adapt their current programs to enable blockchain and other applicable integrations, or build out new programs centered around blockchain-based solutions. If a company were to implement a DiD NFT solution for their loyal customers to use as an identifier, the customers would need a crypto wallet to store the DiD NFT. This opens up many potential doors for companies to evolve how customers can interact with their loyalty programs as users who have a crypto wallet would be able to complete crypto transactions. The ability to conduct crypto transactions through a loyalty program would allow for companies to create new ways of rewarding their customers using crypto solutions, like stablecoins.

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Stablecoins Don't Need to be Currencies

When we think of stablecoins we typically think of tokens whose value is pegged to a large world currency. [Stablecoins can be effective for international payments, settlements, or trading.](#) However, limiting the vision of stablecoins to just digitized/tokenized traditional currencies could also limit their potential use case significantly. Why can't stablecoins keep a pegged value for other assets as well?

Let's think of a world where the majority of brand loyalty programs are now utilizing DiD NFTs. This means that the majority of loyalty programs now inherently are connected via crypto wallets. Companies would then have the ability to tokenize their rewards via stablecoins.

The airline industry is a good example of this. Airline miles could be represented on-chain as a token. However, in order for the airline to continue operating their mileage program similar to that of their current programs, that mileage reward would need to keep its value pegged at a fixed amount, regardless of what happens to their customer loyalty program. This is where company specific stablecoins can come in.

Companies utilizing on-chain loyalty programs would want to mint what are essentially stablecoins. Continuing with the airline example, for each mile a customer earns buying tickets linked to their DiD NFT-controlled loyalty account, they would earn one stablecoin airline mile. This stablecoin mile would stay equal to one for its existence. Since these are not actual currencies, but instead company-issued rewards, the airline would not necessarily need to put aside any capital for the minting of these mileage stablecoins. Instead, these would more than likely be company-specific stablecoins which have no intrinsic value outside of the airline's own ecosystem.

This begs the question: why would an enterprise want to tokenize their loyalty points? By tokenizing these assets companies may be able to save money, allow their customers the ability to more easily track how their points are accumulated and stored, develop easier to use redemption tools for customers, and allow for a new, interoperable marketplace-driven approach to how loyalty programs can better serve customers.

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05 — SECTION

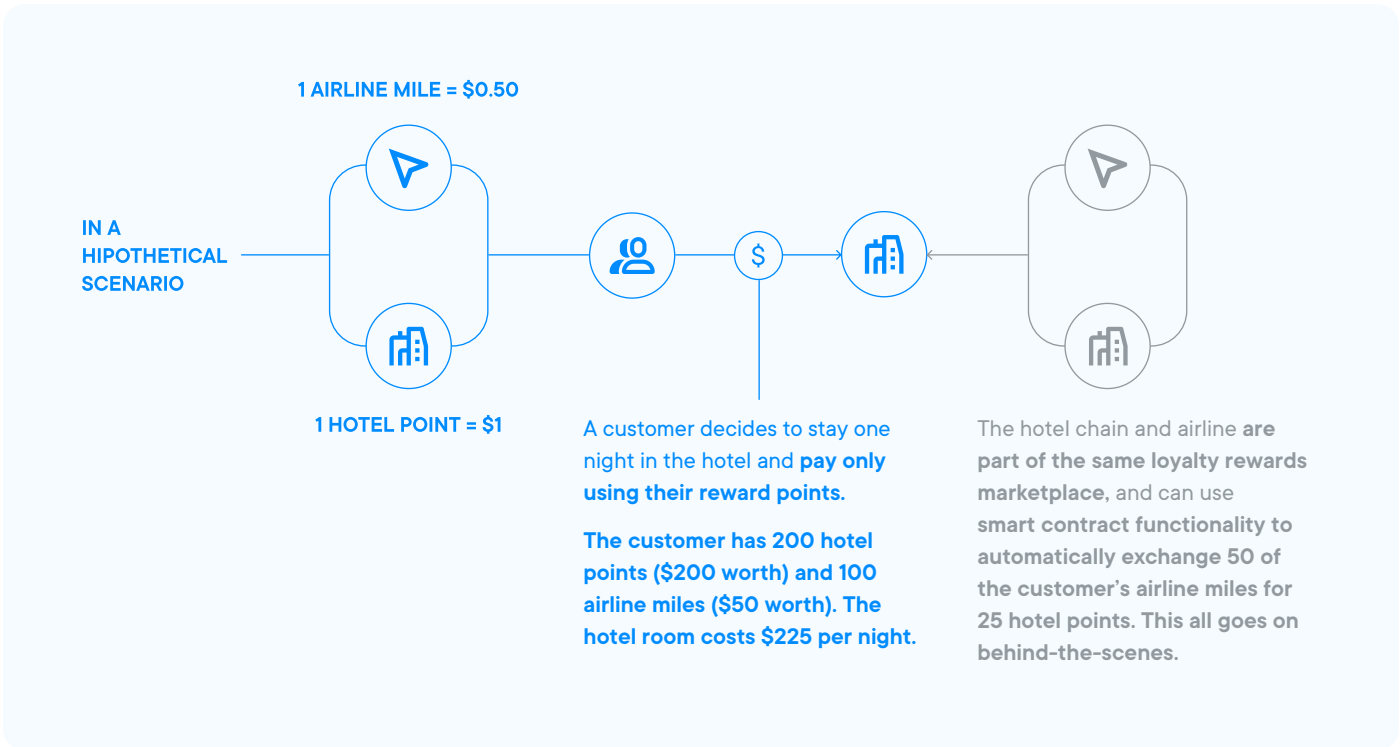
How Tokenized Loyalty Programs Can Create Interoperable Loyalty Economies

As discussed above, if companies begin to tokenize loyalty rewards points using crypto solutions then each loyalty program would incorporate the use of a cryptocurrency wallet. In the existing crypto ecosystem wallets are able to connect to many different decentralized applications, allowing the user to interact with multiple different marketplaces. A tokenized loyalty reward program, like the example above, could act similarly to how cryptocurrency wallets do today by allowing users access to new marketplaces.

What might this look like? First, let's assume there is an airline, a car rental company, and a hotel brand that have all adopted similar crypto-enabled loyalty rewards programs. All three brands have enabled a user identity solution using DiD NFTs and they have tokenized their loyalty points such that a point's value stays constant. Second, let's assume these three businesses, all being in the travel industry, have decided it would be beneficial to work together to offer their customers a better, more seamless experience by creating a loyalty marketplace. In this marketplace customers would be able to use their loyalty points from each business to redeem a flight, access discounts on rental cars, pay for room upgrades using points, etc. But what happens though if the monetary redemption value of one airline mile is different from one hotel point?

This is where smart contract functionality and the interoperability of crypto wallets comes into play. The three travel industry companies can decide amongst themselves a fixed (or variable) exchange rate for each of their loyalty points. Next, they can use smart contract functionality to automatically exchange one company's loyalty point(s) for another when a customer is making a transaction.

05 — HOW TOKENIZED LOYALTY PROGRAMS CAN CREATE INTEROPERABLE LOYALTY ECONOMIES



This example illustrates how companies could encourage their customers to spend their money within certain ecosystems. If a customer knows that their purchases will be rewarded with a loyalty program that allows them to redeem their points at multiple partnered businesses, they may be more willing to limit their shopping habits to only the enterprises that make up this reward ecosystem. This can result in more loyal customers and steadier revenue streams for the partnered businesses.

Loyalty Rewards Programs Will Continue to Evolve

It's worth noting that even though we use a conglomerate of travel industry companies as an example, essentially any industry can create a loyalty marketplace that adopts multiple crypto-related technologies to provide a better user experience. Banks could use a crypto-integrated rewards program to create better and more accurate offerings for their customers. Employers could use a similar program to reward employees for completing extra learning activities by using a DiD NFT solution as the employee's sign-in. Supermarkets could integrate a loyalty program directly with the products they sell in store, giving their more loyal customers discounts on their favorite products directly through the products' suppliers. The opportunities are endless.

Path to Implementation

Depending on available resources, there are multiple ways in which companies can begin to map out their journey to implementation of a crypto-enabled loyalty program. Those with more capital and technical resources can develop their own framework and infrastructure and create a new loyalty solution from scratch. Others can work with fintechs and solution providers to outsource the heavy lifting with a tailored approach, or leverage existing platforms, protocols and relationships with other industry players for easier implementation.

Conclusion

For many companies, there is a discrepancy between how loyal they believe their customers are to their brand, and how loyal those customers actually are in reality. In an increasingly digital, always-on world, it is more important than ever to provide customers with more value and better experiences. Companies that take advantage of the technologies afforded by crypto to evolve their traditional loyalty programs may be able to provide their customers with better rewards, more opportunities, and a more seamless experience, resulting in higher customer retention and long term loyalty.

To learn more about crypto solutions for business, visit ripple.com or [contact us today](#).

About Ripple

Ripple is a crypto solutions company that transforms how the world moves, manages and tokenizes value. Ripple's business solutions are faster, more transparent, and more cost effective—solving inefficiencies that have long defined the status quo. And together with partners and the larger developer community, we identify use cases where blockchain and crypto technology will inspire new business models and create opportunity for more people. With every solution, we're realizing a more sustainable global economy and planet - increasing access to inclusive and scalable financial systems while leveraging carbon neutral blockchain technology and a green digital asset, XRP. This is how we deliver on our mission to build crypto solutions for a world without economic borders.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 152 countries with over 327,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

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