U.S. Consumer Banks and the Potential of Location-Based Offers

Technology, consumer behavior and a variety of business and industry imperatives are prompting banks to adopt location-based services.
Executive Summary

The increasing use of mobile devices like smartphones and tablets, plus advances in location-aware technologies, are driving the adoption of location-based offers (LBOs) across consumer-facing industries, including the retail and healthcare sectors. However, progress has been stymied by a lack of data on consumer spending patterns.

The timing couldn't be better for U. S. retail banks, which must grapple with more competition, less profitability and unpredictable customers. Consumer banking products are now considered commodities, and no longer a source of differentiation. To counter this situation, banks can become a vital resource for retailers looking to develop relevant location-based offers that attract more consumers and strengthen their loyalty.

Yet success in the LBO space requires banks to employ business strategies and technologies (mobile and location-aware) that combine the power of location-based campaigns with Code Halo™ thinking – making and applying meaning from the digital data that surrounds people, processes, organizations and devices.

Location, Location, Location

LBO mechanisms are able to confirm the whereabouts of a mobile user and send offers that are relevant to the recipient based on his or her location and the time of the offer. Over the past two years, LBOs have gained significant traction in many industries, especially retail and healthcare. In fact, the location-based services market is expected to grow nearly five-fold – from $8.12 billion in 2014 to $39.87 billion by 2019.2

For the consumer banking industry, LBOs are increasingly important due to several factors:

• **The proliferation of mobile devices, the emergence of location-based technology and the growing use of analytics.** Throughout the U.S., consumers continue to increase their use of smartphones and other mobile devices. For example, approximately 74% of mobile phone users in the U.S. own or use a smartphone, and 52% own tablets.3 This trend, plus advancements in GPS systems and the use of predictive analytics and advanced algorithms, are contributing to the growth of location-based services.

Customers are also more responsive to LBOs. According to a Cisco survey,4 46% of consumers are interested in having personalized offers delivered to their mobile devices, while 38% are open to receiving personalized promotions related to products and services.

• **Diminishing customer loyalty.** Today’s customers need more compelling reasons to remain loyal and sign up for more products – something banks have known for some time. The competition between banking and non-banking institutions like PayPal, Square, Wal-Mart, etc., has shifted the balance of power in the customer’s favor. Consumers are now more likely to switch banks if their requirements are not met. According to a recent EY survey, approximately 50% of bank customers either opened or closed accounts and services over a 12-month period (2014).5 They expect more from their providers and have more options to choose from. They are also better informed about various banking services, given that so much information is now available online. Many also want products tailored to what they perceive as their unique needs.

• **The need to foster differentiation.** Over the years, consumer banking products have become commodities. Most products and services, such as payments, credit cards, loans and mortgages are very similar as far as terms and benefits go. In contrast, customers’ requirements are becoming more diverse – placing more pressure on banks to distinguish their products in a highly competitive, low-profit environment. As a result, institutions have had to shift their focus away from providing "business as usual" products to tailoring offerings to individual customers’ demands.

• **The growth of digital platforms.** Digital channels offer another, newer avenue for engaging customers. For instance, mobile technologies combined with real-time behavioral analytics can help banks identify the best "moments of opportunity" to offer assistance or make an offer, which could be as simple as sending a text message (SMS) or e-mail.
The Benefits of LBOs

Uncovering Cross-Selling Opportunities

In addition to allowing banks to offer regular promotions, LBOs present the opportunity to strengthen consumer relationships through cross-selling or up-selling. For instance, a bank could automatically extend a customer’s credit limit or cover an overdraft when the customer’s account balance cannot cover a purchase, or if the customer has exceeded the limit on their bank credit card. With the ability to inform them of an offer to increase their credit limit for a low fee in real time, banks can significantly enhance the customer experience, with the potential to draw more revenue from these services. Banks can also utilize location technologies, data collection tools and analytics to deliver a more complete and accurate view of offers that best address customers’ needs and interests at a particular point in time.

How Location-Based Offers Drive Customer Loyalty

In a study conducted by Pew Research Center, approximately 46% of customers reacted positively to location-based offers. Yet in order to deliver compelling offers and coupons to their customers, banks must collaborate with retail establishments to help ensure a win/win for all parties – the bank, its customers and the retail brand. Banks can capitalize on this opportunity by linking retail offers to payment options, such as card-linked promotions or mobile wallets. They can also influence card usage by giving additional discounts to customers who use the bank’s cards. Research shows that customers spend more when they use credit cards instead of cash. For instance, McDonald’s saw customers’ average purchase increase from $4.50 to $7.00 after the company started to accept credit cards.

Retail’s Challenge is Banking’s Opportunity

Retailers were among the first to offer location-based services. M&S, Starbucks, L’Oréal and other known brands ask customers to register by providing information such as their age, gender and interests. For example, Starbucks customers receive a text message extending them a discount on Starbucks purchases when they enter a geofenced area. However, many retailers have been hamstrung in these efforts because they lack access to data concerning consumers’ spending behavior – preventing them from sending contextually relevant offers. Most retailers focus on location-based information, and only send targeted messages when customers are near the retailer’s stores. Consumers do not consider these offers personalized or relevant. They may even find them intrusive and block them.

Retailers are thus turning to smart engagement techniques, including using multiple sources of information to create contextually meaningful offers to customers. This is where banks can step in to help retailers deepen customer relationships and generate additional revenue. Banks are well positioned to improve the relevance of offerings, since they possess detailed insight into customers’ transaction history and spending behavior. Using this granular data – from demographics to psychographics – banks can create highly customized offers that steer

Quick Take

Leading Banks Taking the LBO Leap

- **America First Credit Union Bank**: Customers receive relevant offers on their mobile devices based on their transaction history, and redeem them at designated merchants using their America First debit, credit or prepaid cards.

- **Visa**: To receive offers, customers must register their mobile and Visa card numbers. When a customer makes a payment using their Visa card, the transaction is immediately processed and analyzed to determine if it matches the criteria for a discount to be transmitted. If so, the offer is sent to the customer’s phone via a text message.

- **American Express** has partnered with several retailers to offer real-time promotions based on a customer’s location and credit-card activity.
customers to the "right" merchandise or service at the right moment and at the right place. This can increase customer loyalty and improve business performance for both retailers and banks — affording the latter the opportunity to promote more personalized products and services in the right context.

The Challenges of Implementing LBOs
Among the obstacles banks face when executing location-based offers, the two most significant are:

- **Assuring the security and privacy of end-user data.** The growth of location-based offers has raised concerns about customer privacy. This is understandable, given the potential for misusing customer-related information. Recent data breaches in the retail industry\(^9\) have customers worried about the security of their financial and personal data. The success of LBOs will largely depend on the effectiveness of companies' security controls, such as tokenization and end-to-end encryption.

- **Legacy systems.** Legacy systems can be costly and cumbersome, making it difficult to capture, process and analyze large datasets in real time — a must for LBO environments, which depend on precisely timed opportunities.

Getting LBOs Right
To effectively execute location-based offers, banks should employ a combination of business and technology tools, supported by a carefully crafted strategy. Following are some actions they can take to manage and profit from location-based campaigns:

**Goal-Setting**
The basic aim of an LBO is to enhance and extend banking products and services through more channels, and take advantage of the opportunity to offer them to customers based on location/context. With this in mind, banks should break down their objectives, such as the specific products they want to highlight through LBOs, then prioritize them. For example, banks can send vehicle loan offers to a customer’s smartphone when the customer is actually at a dealership.

**Location Planning**
The next step is to establish geographical boundaries. While setting up a geofence\(^10\) — a virtual perimeter for an actual geographic area — it is best to identify locations that are relevant to the offer or service, such as stores, schools, neighborhoods or event venues, then tag each area for easy identification. Banks can then decide where and when to engage customers (for example, should an offer be delivered while a customer is in a retail store or when they are near the store?)

**Campaign Planning**
As stated earlier, in order to truly benefit from LBOs banks must deliver appealing and contextually relevant offers that entice customers to patronize a nearby business. This requires institutions to deepen their understanding of customer traffic and shopping behavior by analyzing data about a customer’s location, buying patterns and personal preferences. Timing is everything. To drive traffic to a store, the scheduling of messages and offers must be right. With this in mind, banks should develop an outreach message strategy that helps ensure that customers will react positively to the bank’s LBO initiatives.

Banks can direct mobile-based offers to outreach locations through push or pull strategies, or apply a mix of the two.

- **Push messaging** involves sending promotional offers or coupons (retailers, eateries, etc.) directly to customers’ mobile devices or apps to create awareness and trigger action at the point of purchase. For example, a customer pulling up to a restaurant chain’s drive-thru window at 7:PM would receive a discount coupon for the restaurant at that moment via their smartphone.

- **Pull messaging** focuses on getting customers to request individual promotional offers or coupons during the purchase process. In these cases, the customer would be "pulled" to log in to the mobile app to check out available offers at a nearby shopping mall.

Given that these campaign models are based on larger geofences, banks can adopt two messaging approaches:

- **Proximity-based messaging** entails sending offers or deals based on a customer’s location and previous buying patterns.
• **Time-based messaging** involves sending offers or deals based on the customer's location, the time of day, and the customer's previous buying patterns. For instance, a customer's presence in Eat Street at 8:PM (dinner time) would trigger messages related to offers available in nearby restaurants.

**Evaluating Results**
The final step in an LBO initiative is to measure the success of the campaign. In most cases, results are calculated against the retailer’s objectives, such as driving traffic to stores or increasing sales. If required, offers can be refined or redesigned to improve results.

**Technology Enablers**
To further ensure the effectiveness of location-based offers, banks can leverage two key technologies:

- **Location-aware technology.** The primary location-aware technologies in use today are GPS, Wi-Fi and Bluetooth smart devices. GPS works very well when customers are outdoors, but is not as accurate when they are inside. In these cases, technologies such as Wi-Fi networks or Bluetooth can be used to locate a customer. This type of hybrid approach works best.

- **Mobile devices (mobile phones, smartphones, tablets, wearables, personal navigation devices, etc.).** Banks can now track location information via a mobile network or mobile device. Network-based methods utilize the service provider's network infrastructure to identify the location of the mobile device. These approaches use location-aware systems that require the installation of preloaded applications. Users must register or log in,
and report the device location using GPS or Wi-Fi positioning technologies. Mobile-based, location-aware systems provide an accurate geographic position of the user at any given moment.

**Code Halo Thinking**

With digitization, every action an individual takes generates data that is unique and specific to that person. We call this a Code Halo. Customers’ Code Halos hold valuable information collected from a wide array of sources, such as transactions, geographic location, shopping activities and product choices. Code Halos are dynamic, and extremely useful for gaining insight into customers’ preferences and habits. Using advanced analytics and algorithms, banks can analyze the data from customers’ Code Halos, then use it to develop relevant, contextual offers and engage customers in new and lasting ways.

Consider this scenario: As a customer approaches or passes a Starbucks outlet, he receives a real-time offer on his smartphone. The coupon is for 25% off the price of not just any beverage, but a Starbucks Mocha Cookie Crumble Frappuccino — his favorite — based on his purchasing history and preferences.

**Core elements of a Code Halo Solution**

- **Big Data.** An IDC Digital Universe study predicts that the amount of digital data created per year will reach 35 zettabytes by 2020. Meanwhile, it is becoming increasingly imperative for banks to analyze this data to stay competitive. Conventional relational database and data-warehousing technologies are not capable of storing and processing such large data sets in real time. Big data requires highly sophisticated technologies to store and process large volumes of data without any time lapse.

- **Predictive analytics and algorithms.** Algorithms are real-time, rules-based programs developed around customer Code Halos and mobile-device interactions. It is actionable intelligence — formulated and programmed to deliver the right offers at the right moment, with a higher success rate (in terms of conversion rates, wallet share and overall sales). Analytics is the "brain" of Code Halos. Together, location analytics and advanced predictive analytics help identify patterns of events that shape certain opportunities and predict when they are likely to happen again. Location analytics estimates the number of visits, the amount of time spent, and the frequency of trips to retail stores based on mobile location technology. Predictive analytics provides information on the movement and purchase patterns of individuals while they are at a retail site, based on the person’s Code Halos (purchase history, demographics, past behavior and preferences).

**Looking Forward**

Advances in mobile and location technologies, customers’ ever-expanding use of mobile devices, and the ability to gather and analyze volumes of customer-related data are unlocking new opportunities for U.S. retail banks — enabling them to become an indispensable resource for retailers looking to enrich their customer relationships. This is especially compelling for an industry now largely associated with commoditized products and services.

In the age of digital business, banks can apply the vast amount of customer data they collect to help retail businesses develop relevant, location-based offers that entice consumers and fortify their loyalty. Yet success in location-based initiatives will require banks to develop strategies and adopt technologies that are in step with location-based campaigns, and derive more meaning from the digital data that surrounds people, processes, organizations and devices.

*Note: Code Halo™ is a trademark of Cognizant Technology Solutions.*
Location-based offers use a mobile device’s geolocation to alert the user about an offer from a nearby business.


9 A geo-fence could be dynamically generated, as in a radius around a store or point location.


