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Will blockchain technology rewrite loyalty?

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Blockchain technology is poised to create a major disruption in the loyalty space by radically reducing friction and frustration when creating, redeeming or exchanging points.


By Dan Kowalewski and Gregory Simon

Loyalty programs have been flooding the industry with points. According to one estimate by Loylogic, 16 trillion points are issued globally every year (a perceived value of $117 billion), resulting in large balance-sheet liabilities for many companies. Assessing that liability can be a huge challenge, with incorrect estimates having major repercussions. For example, per its 2013 annual report, a change to Alaska Airlines' breakage estimates resulted in a restatement of liability that had a $192-million impact on the company's annual earnings.

Obviously, loyalty programs would like to reduce that liability, but quick fixes like devaluing points is seen as a last resort that will surely backfire with customers. A better solution is to grow the partner network and provide more use options across the broader set of partners. However, part of the problem is that it is cumbersome for consumers to use points at partners outside of a loyalty program network.

Other issues exist, too: Exchange rates between programs are frequently difficult to find, and, in order to redeem points with a partner, the consumer often has to open a browser to both sites to initiate the transfer of points and then make the booking. In addition, point transfers between programs can take days or even weeks for processing.

Enter blockchain technology, a distributed ledger technology platform. Best known as the backbone behind the virtual currency Bitcoin, blockchain enables an entire ledger of transactions to be shared across all participants in the platform. Whenever a new transaction is created (for example, a loyalty point issued, redeemed or exchanged), a unique algorithm-generated token is created and assigned to that transaction. The token is then distributed across the network, and each participant's ledger is updated.

The advantage of blockchain is that it allows all participants in a network to reach consensus about a transaction without the need for a middleman or clearinghouse mechanism. Applied to loyalty partnerships, blockchain could allow numerous participating programs to instantaneously and securely approve all currency creation, redemption and exchange.

An industry-wide blockchain platform would benefit both program operators and consumers in numerous ways.

- Programs could easily expand their partnership networks and remove the friction from the redemption process, improving their member value proposition and reducing liability as more points are redeemed.

- All loyalty points would be tokenized, providing security and traceability as the points are exchanged across partners. Data from those transactions could then be analyzed to obtain customer insights into how points are being spent.
- New partners and coalitions could be added to a program almost instantly, and with low security risk even when a partner is unknown or not yet trusted.
- The platform would allow for the dynamic valuation of points based on the situation. For example, there could be valuation based on integration with a revenue-management platform, thus allowing for a more accurate exchange of redemption value between consumer, brand and owner.
- A blockchain platform could support strategic initiatives like booking direct. For example, a hotel might award points only on direct bookings. Additionally, the points might then be instantly awarded at check-in and redeemed throughout a stay, offering the hotel an opportunity to differentiate the stay experience for direct bookers.
- Lastly, for consumers a blockchain loyalty program would provide greater choice, a single wallet to manage their currency and a frictionless redemption experience.

"Off-the-shelf" blockchain technology platforms are available, but companies must still overcome a number of hurdles, both technical and organizational. For one thing, none of the off-the-shelf platforms have been designed to solve the specific problems of the loyalty industry, so firms will need to make significant industry-specific innovations. Also, because the technology will be new to most companies, participants will need to evaluate it from a legal and risk perspective. Another challenge is that the participants, which are often competitors, must align themselves on a front-end application layer as well as on the business rules in the middle consensus layers that will support the blockchain operation.

Already, a number of hotels and airlines are developing company-specific blockchain applications and proof of concepts. As the technology progresses, it is likely that multiple parallel networks will emerge as leading players. Ultimately, though, these networks will converge, either as an industry utility shared in a joint venture or as the result of the emergence of a network provider, such as a bank or payment card processor.

To be sure, blockchain has the potential to revolutionize loyalty programs. As such, program operators would do well to embrace the technology to strengthen their relationships with members, reduce their liability and improve the overall value proposition of their programs.

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Greg Simon is the CEO and Co-founder of Loyyal, a universal platform for the loyalty and rewards industry using blockchain and smart contract technology. Greg has been involved in the blockchain industry since early 2013 and believes loyalty is the application to unleash the latent value in all things. Prior to discovering blockchain, Greg was in investment banking for 12 years. He is a member of the Dubai Global Blockchain Council and Founding Member/current President of the Bitcoin Association. He has an MBA from Columbia University. He is a CPA and a CBP (Certified Blockchain Professional).

Alex Hill, an engagement manager with Oliver Wyman, also contributed to this piece.