



Photo Credit: Ullas Kalappura, 2016 CGAP Photo Contest

Merchant payments: Loyalty playbook

Ideas for incentivizing merchants, employees and customers to use mobile payments in the retail space



Introduction

Since the launch of mobile merchant payments (referred to as Lipa* in this document) in Tanzania in 2014, MNOs have seen a spike in the enrollment of merchants onto the platforms. However the number of active users remains low due to limited incentives to use these platforms.

CGAP worked closely with Dalberg to understand the ecosystem of and around merchants in Tanzania and the challenges they were facing on a day-to-day basis. Through a human-centered design approach (HCD), the team conducted interviews with about 80 merchants, employees, and customers in urban and semi-urban areas, developed and prototyped potential solutions, and held a design workshop to discuss strategic questions and prioritize interventions.

Value Added Services (VAS) and loyalty models were recommended to support an increase in uptake and active use of mobile retail payments. **This playbook discusses the various potential loyalty models that could increase uptake of mobile retail payments in Tanzania and similar emerging markets.**

**the Swahili word for 'pay', widely used by East African MNOs as a moniker for mobile merchant payments*



Loyalty programs: Four concepts

Points program for merchants & employees

How it works

The points program assigns points to merchants as they complete merchant payments transactions, which can be redeemed between a selection of different rewards.

Rewards

Merchants: Selection between Data, Airtime or SMS

Employees: Pre-defined merchandise that is disbursed when the merchant reaches a specific transaction value

Tiers program for merchants & employees

How it works

Tiers program where merchants unlock levels to access automatic reward packages of increasing value for them and their employees.

Rewards

Merchants: Packages of Data, Airtime, SMS and withdrawal fee

Employees: Pre-defined package of merchandise (*only for silver and gold tiers*)

Tiers program for merchants, employees & customers

How it works

Tiers program where merchants unlock tiers to access packages of rewards for themselves and their employees. Customers earn instant rewards for every merchant payment transaction.

Rewards

Merchants: Packages of Data, Airtime, SMS and withdrawal fee

Employees: Merchandise (*only for silver and gold tiers*)

Customers: Airtime (*based on merchant tier*)

Monthly League

How it works

Monthly contest for a single market segment (pubs/restaurants), with weekly rewards for best performing merchants and one large reward for the monthly winner.

Rewards (Merchants only)

Weekly rewards: Three pre-defined packages of Data, Airtime, and SMS delivered to the top 3 merchants every week

Large reward: E.g. co-hosted event, laptop, or cash register

Cross-cutting components:

- Points are exclusively assigned to merchants, and total volume and value of transactions are used to calculate reward levels across all concepts
- Notifications are sent to users, who can retrieve information by following the prompts on the notifications
- At intervals (e.g. weekly) or for predefined events (e.g. a transaction), notifications are sent to provide status updates to users
- These loyalty models can work well across multiple merchant segments, with the exception of the monthly league which works best within an individual segment, e.g., restaurants and pubs

MNO loyalty programs delivery mechanisms

	 Mobile App	 USSD	 SMS
Character limit	No character limit	182 character limit	160 character limit
Phone type	Smartphone	Basic phone	Basic phone
Operation	Requires internet; real-time	Real-time; sessions time out	No timeouts; sessions stored offline
Security	High	High	Low
Digital literacy requirements	High	Medium	Low
Set-up costs	High	Medium	Low

A mobile app is best suited for geographies with high smartphone penetration across the population

USSD is the best delivery mechanism in areas with high basic phone penetration. It best balances user experience, cost, and security

SMS delivery is best suited for rapid setup, deployment and iterations, particularly for a pilot



This playbook uses an SMS platform to illustrate the various loyalty programs, due to the ease of setting up and running a pilot to test programs in any given country

Rewards for loyalty



Standard feature package

This package comes at little to no cost to an MNO and can play a role in promoting the use of loyalty programs. It may be provided consistently to merchants regardless of merchant loyalty levels.



Morning SMS reminders and reports on progress



Business tips via SMS on how to leverage loyalty program to drive growth, how to train and retain customers on Lipa, etc.



Free SMS bundle in the first hour for marketing use



Standard reward menu

This is the standard menu of rewards available across merchants, customers and employees. MNOs may vary the reward offerings based on user preferences.

Points-based rewards:

- **GSM rewards:** airtime, data, SMS bundles
- **Personal rewards:** small prizes (merchandise), large prizes, discounts on purchases made by merchants
- **Business rewards:** free MNO-branded marketing or branding of shops, business books, etc.

Additional benefits for tiered system: (examples)

- **Bronze:** business branding, business books
- **Silver:** lower transactions fees, lower withdrawal fees
- **Gold:** business loans, access to events, large prizes (e.g., computers)



Additional loyalty incentives

Additional loyalty incentives, such as leader boards or contests, can increase inter-merchant competition.

Leader boards:

Provides merchants with different rewards based on recurring intermediate milestones reached over different periods of time (within their own merchant segments) and ultimately reward the leading merchant at the conclusion of the competition season. Examples include “merchants with largest total volume this week”, “merchant with the largest increase in total volume this week”, “merchant with most transactions at the end of the season”, etc.

Contests:

- Possibly structured as one-off promotional events with larger prizes

Other considerations in designing rewards

- Different merchant segments have different rewards preferences, e.g., restaurants are more interested in branding and publicity while mini-supermarkets are interested in productivity tools such as laptops or cash registers
- High cash-out fees incurred by merchants tend to be the biggest barrier to adoption of Lipa. Rewards that offset this fee will be popular with merchants

Loyalty program

1. **Points Program for Merchants and Employees:** (+ one league contest)
2. Tiers Program Merchants and Employees
3. Tiers Program for Merchants, Employees and Customers
4. Monthly League: (3 cycles within a specific segment)

1. Points for Merchants and Employees (+ one league contest)

1 Customer transacts through merchant payment, and merchant earns points



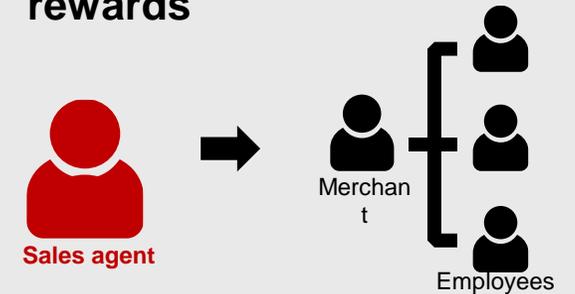
1. Merchant enrolls and receives onboarding message with instructions menu
2. The merchant receives an **SMS notification and automatically earns points for every merchant payment transaction**

2 Merchant selects rewards via SMS



1. **Merchant transaction value and total transactions are tracked**, and at a specific threshold they can start redeeming rewards
2. Employees receive **merchandise when store reaches certain transaction value totals**

3 Sales agent visits merchant and delivers employees' rewards



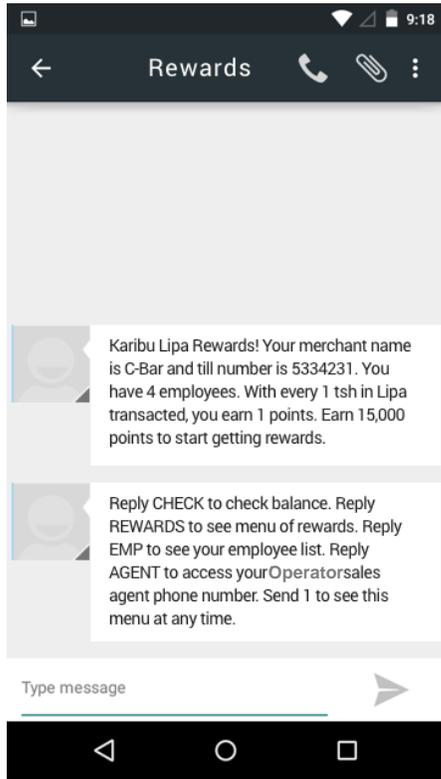
1. **Sales agent receives a notification** that a merchant has redeemed rewards
2. The assigned sales agent **delivers employees' merchandise to the merchant** within 48 hours

Additional details

Over the course of a pilot, a league contest may be introduced to test the effectiveness of a points + competition model.

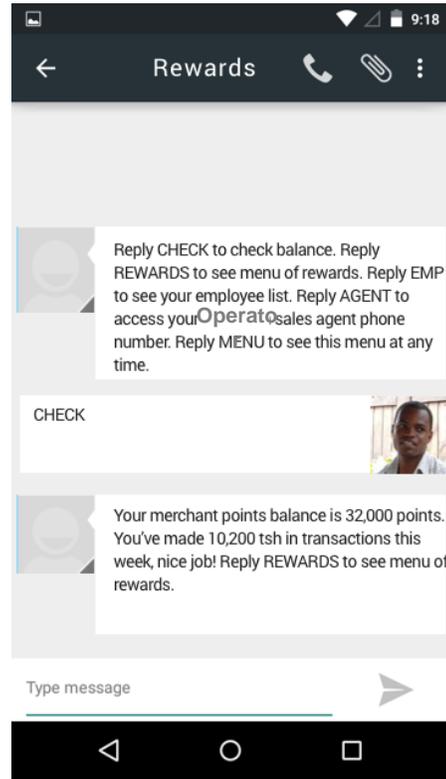
1. Points for Merchant and Employees: Merchant Workflow

1. Onboarding



Once registered in the program, the merchant receives an onboarding message via SMS, with instructions and a menu of options that can be revisited anytime.

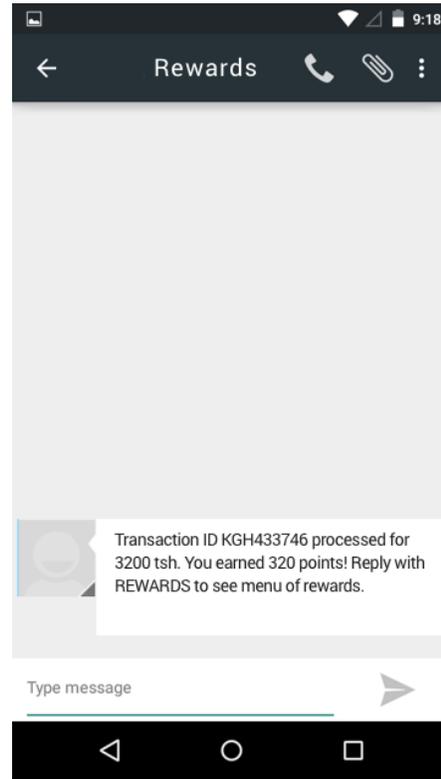
2. Select menu



Merchant can reply with a specific word to access different information:

- **CHECK:** Points balance
- **REWARDS:** Rewards menu
- **AGENT:** Sales agent assigned
- **EMP:** See employee list
- **MENU:** View menu

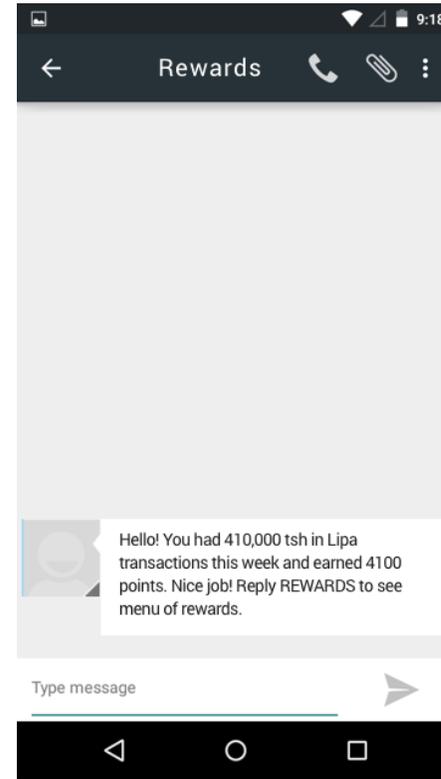
3. Notifications



Merchant receives an SMS notification with the following information for every merchant payment transaction:

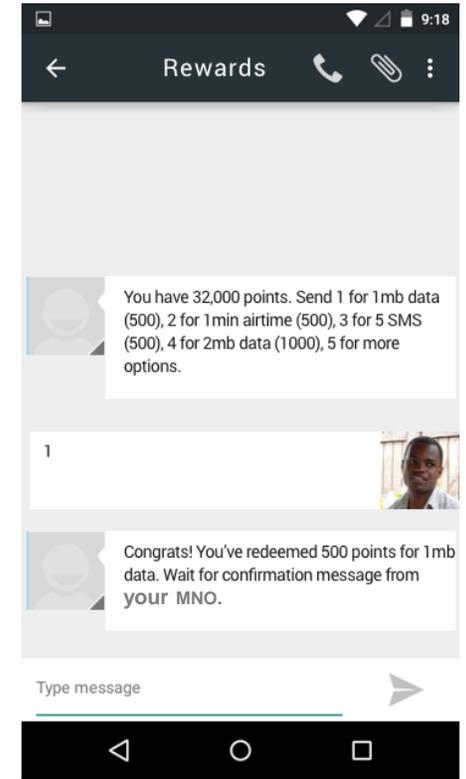
- Transaction code
- Value of transaction
- Points earned

4. Reminders



Merchant receives a weekly notification with points balance and a reminder on how to check and redeem rewards.

5. Rewards selection

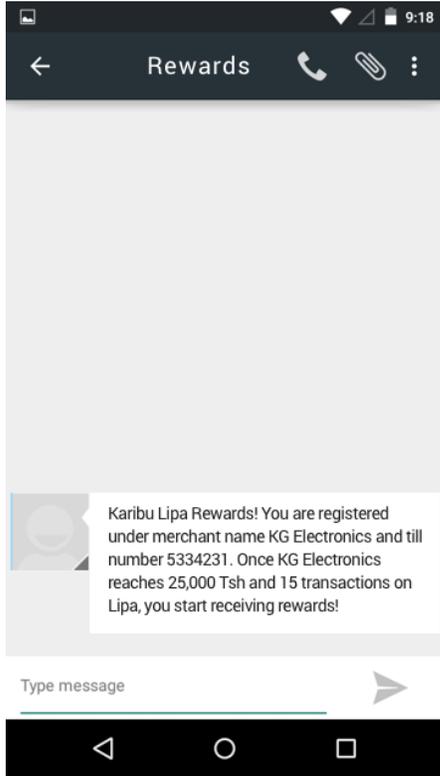


Merchant has the option to select different packages of rewards based on the amount of points earned.

Once selected, the merchant will receive a confirmation message.

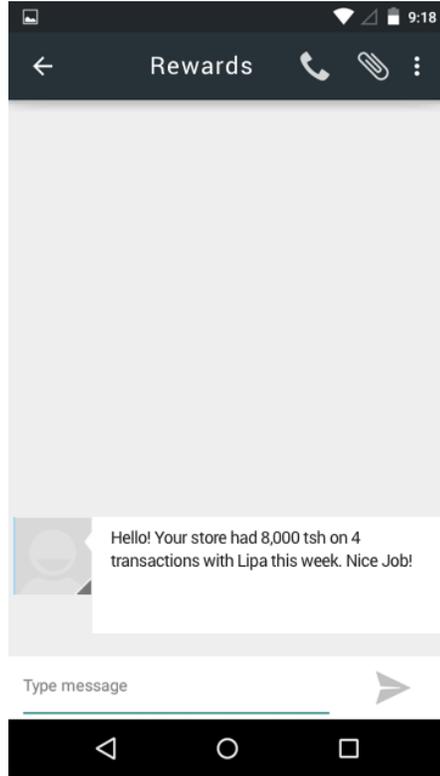
1. Points for Merchant and Employees: Employee Workflow

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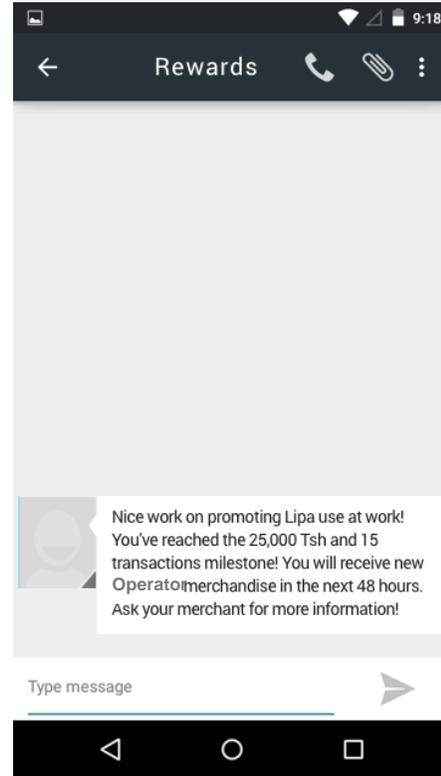
Once registered, the employee receives an SMS notifying him that is registered under a specific merchant.

2. Weekly update



Employee receives a weekly update on the store status and points earned.

3. Rewards notification



Employee receives notification that the merchant reached next milestone and merchandise will arrive shortly.

Additional details

The SMS notification system (for that MNO users only) provides information on the merchant/store progress, and works as a nudge for employees to promote Lipa in the store

Loyalty program

1. Points Program for Merchants and Employees: (+ one league contest)
- 2. Tiers Program Merchants and Employees**
3. Tiers Program for Merchants, Employees and Customers
4. Monthly League: (3 cycles within a specific segment)

2. Tiers for Merchants and Employees

- 1 Customer transacts through Lipa, and merchant progresses towards next tier



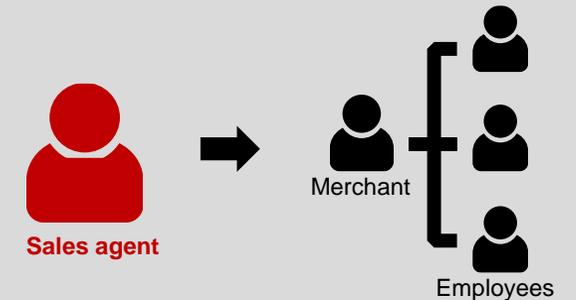
1. Each tier can be unlocked with a **specific transaction value** and minimum number of transactions
2. Merchant **can check his progress anytime** via SMS

- 2 Merchant reaches a tier and receives a package of rewards



1. The **package of rewards is set for every tier** and automatically disbursed once the merchant reaches a new tier
2. When merchant unlocks the silver and gold tiers, **employees receive merchandise**

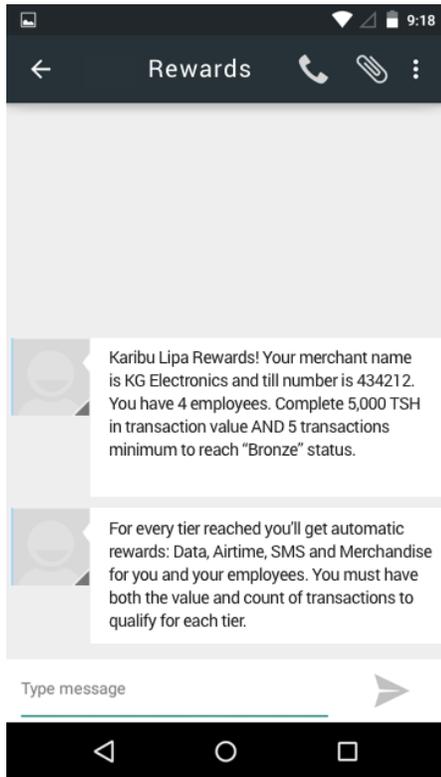
- 3 Sales agent visits merchant and delivers employees rewards



1. The sales agent receives a message from the territory manager informing that a merchant reached a new level **and merchandise for employees should be delivered**
2. The sales agent **delivers the merchandise directly to the merchant** within 48 hours

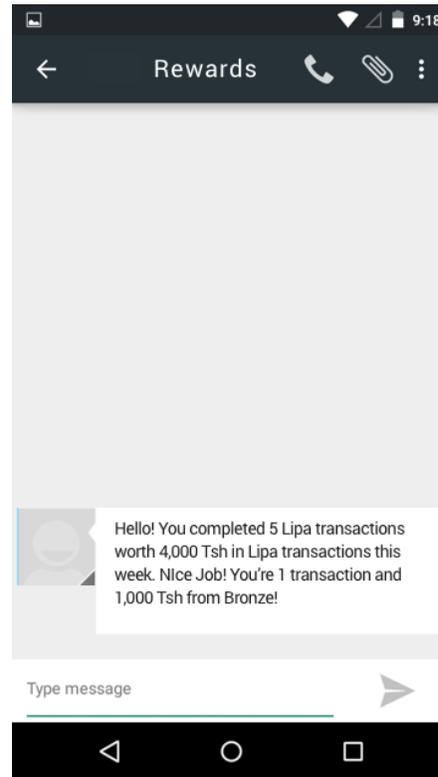
2. Tiers for Merchants and Employees: Merchant Workflow

1. Onboarding



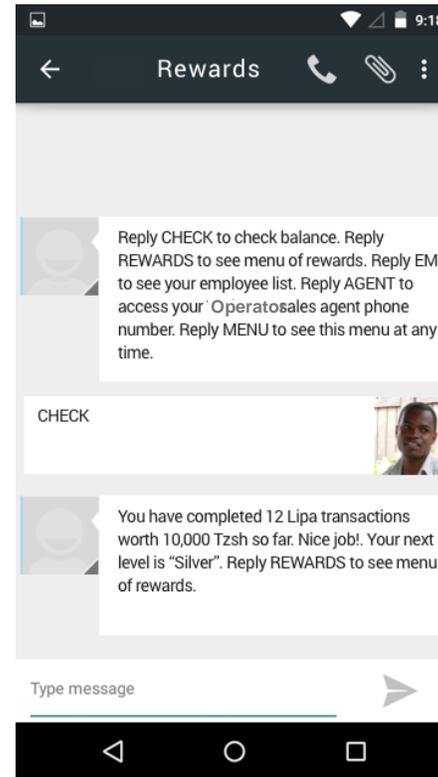
Merchant will receive an onboarding message to the program with additional instructions on the rewards.

2. Weekly reminder



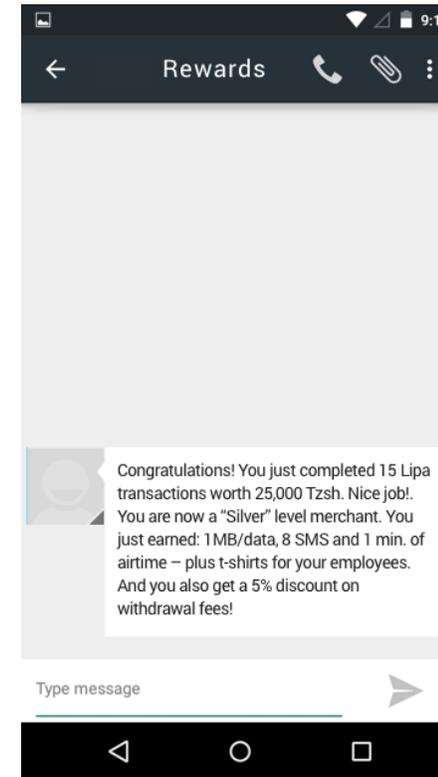
Merchant will receive weekly reminders with points earned and value accumulated.
Merchant can reply REWARDS to learn more about the rewards attached to each tier unlocked.

3. Check status



Merchant can reply CHECK, REWARDS or AGENT to access additional information.

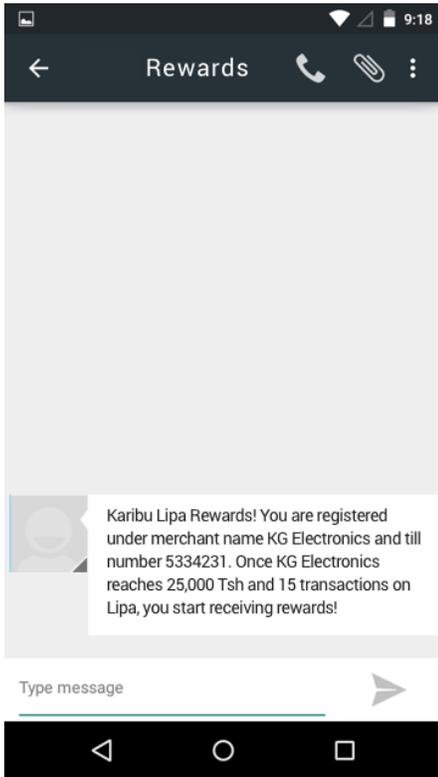
4. Unlock tier notification



Merchants who reach a new tier will receive an instant package of rewards that includes data, airtime and SMS bundle for merchants, and merchandise for their employees. Merchants will have ownership on how they split merchandise between employees.

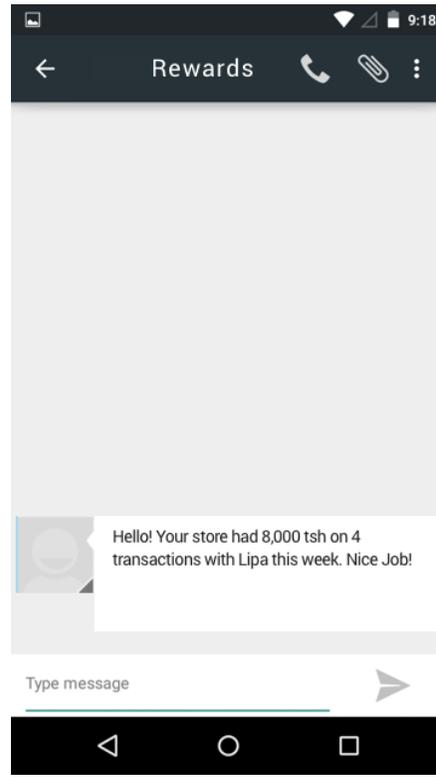
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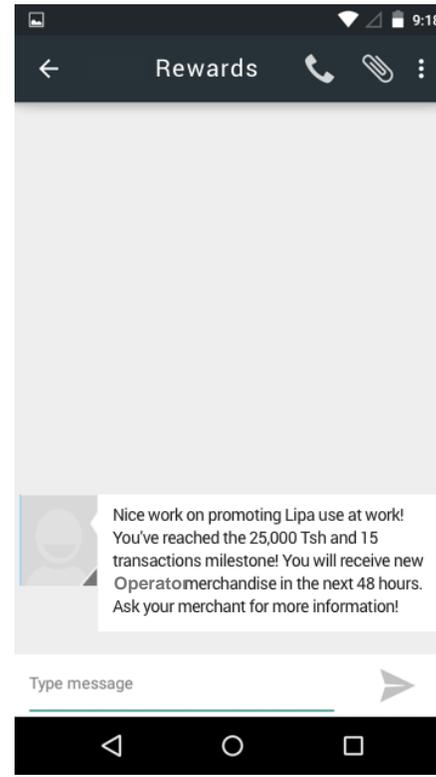
Once registered, the employee receives an SMS notifying him that he/she is registered under a specific merchant.

2. Weekly update



Employee receives a weekly update on the store status.

3. Rewards notification



Employee receives notification that the merchant reached next milestone and merchandise will arrive shortly.

2. Tiers for Merchants and Employees: Sample Merchant Tiers and Rewards

<div style="text-align: center;">  <h3>BRONZE</h3> <hr/> <p>monthly: 20 Lipa transactions 600,000 TZS</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>100MB free data</p> <hr/> <p>2% commission on all transactions or Free withdrawal up to half the amount of Lipa transactions</p> </div>  <p>Lipa bronze poster</p> </div>	<div style="text-align: center;">  <h3>SILVER</h3> <hr/> <p>monthly: 100 Lipa transactions 2,000,000 TZS</p> <p>Bronze +</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>500MB free data</p> <hr/> <p>5% commission on all transactions</p> <hr/> <p>Silver customer service: 24 hour turnaround time</p> </div>  <p>Lipa silver standing sign</p> </div>	<div style="text-align: center;">  <h3>GOLD</h3> <hr/> <p>monthly: 300 Lipa transactions 5,000,000 TZS</p> <p>Silver +</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>1GB free data</p> <hr/> <p>Half-fees on bank transfer</p> <hr/> <p>Business loans for expansion</p> <hr/> <p>Gold customer service: personal advisor</p> <hr/> <p>Quarterly business seminars</p> </div>  <p>Lipa gold card</p> </div>
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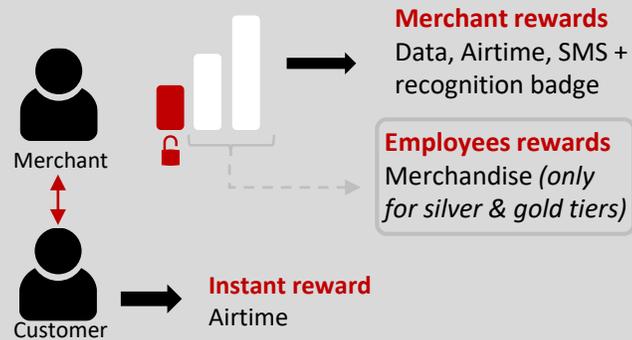
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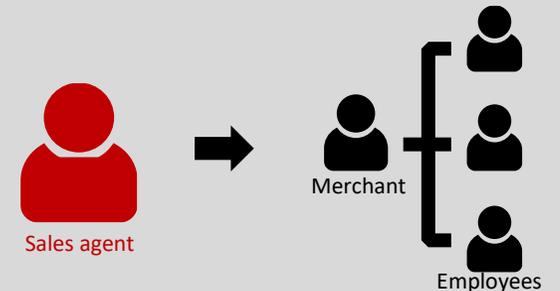
1. Customers can screen bronze, silver or gold stores in the neighborhood via SMS
2. Merchant can check his progress anytime via SMS

2 Merchant reaches a tier and receives a package of rewards



1. Merchants can **unlock a tier with a specific transaction value** and minimum number of transactions
2. If **customer transacts a minimum value, he receives an automatic reward** which varies depending on the merchant's tier
3. **The package of rewards is set for every tier** and automatically disbursed once the merchant reaches a new tier

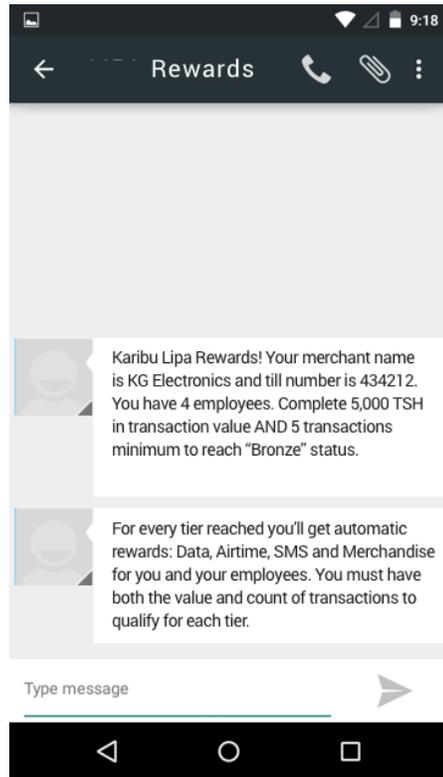
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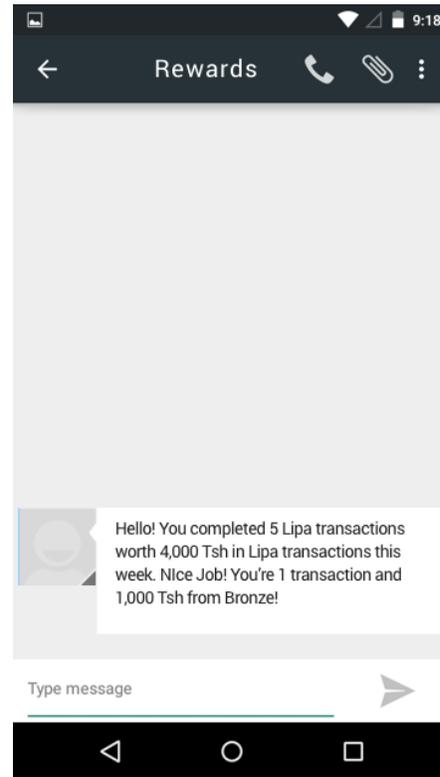
3. Tiers for Merchants, Employees and Customers: Merchant Workflow

1. Onboarding



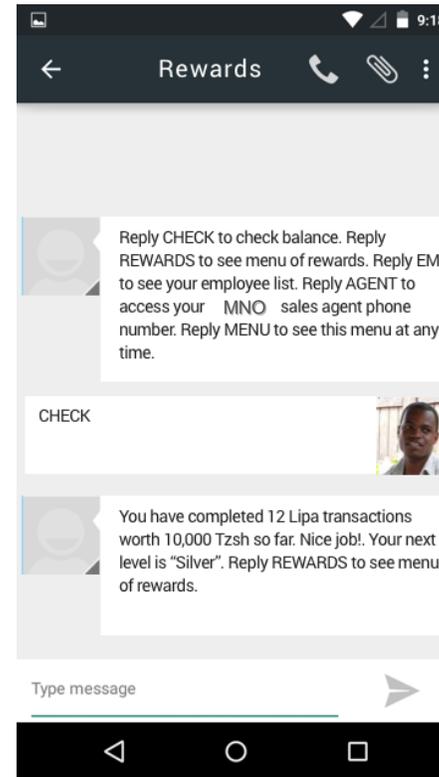
Merchant receives an onboarding message to the program with additional instructions on the rewards.

2. Weekly reminder



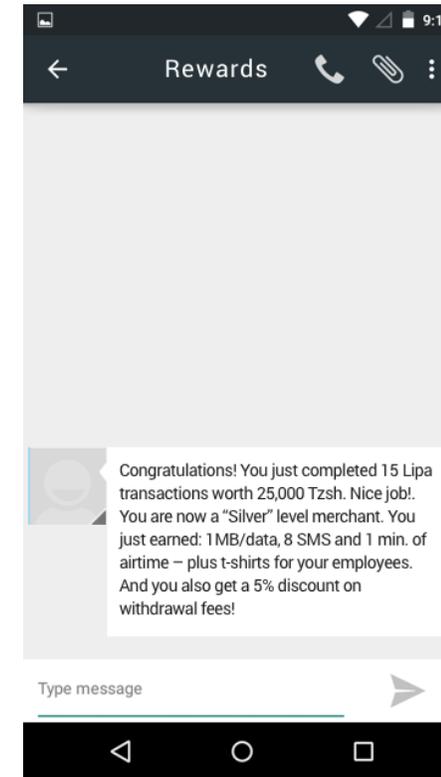
Merchants will receive weekly reminders with points earned and value accumulated. Merchant can reply REWARDS to learn more about the rewards attached to each tier unlocked.

3. Check status



Merchant can reply CHECK, REWARDS or AGENT to access additional information.

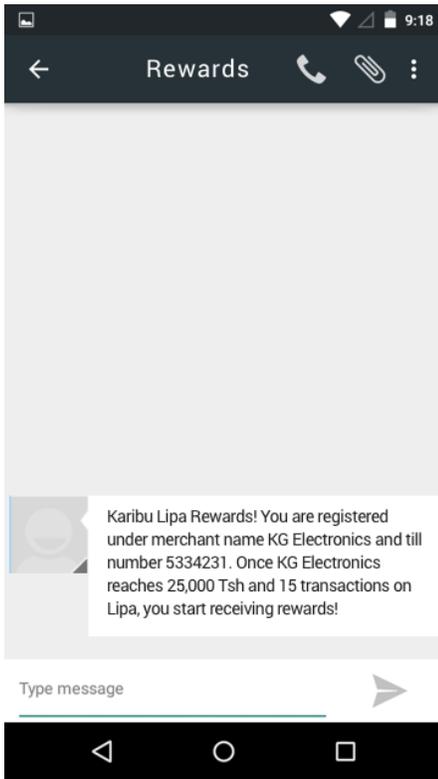
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Merchants who reach a tier, will receive an instant package of rewards that includes data, airtime and SMS bundle for merchants, and merchandise for their employees. Merchants will have ownership on how they split merchandise between employees.

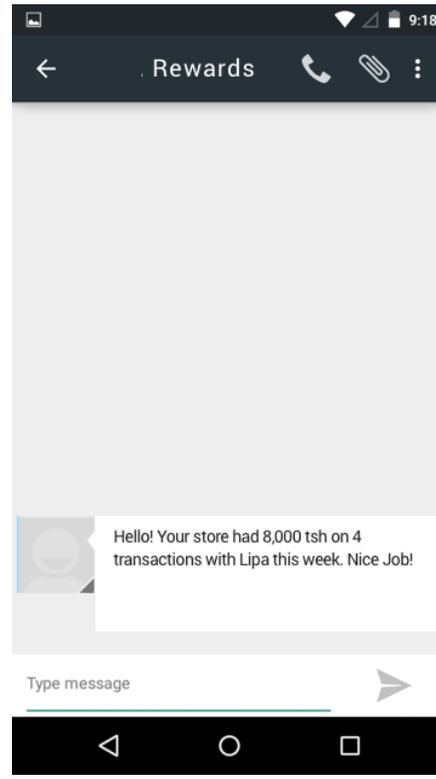
3. Tiers for Merchants, Employees and Customers: Employee Workflow

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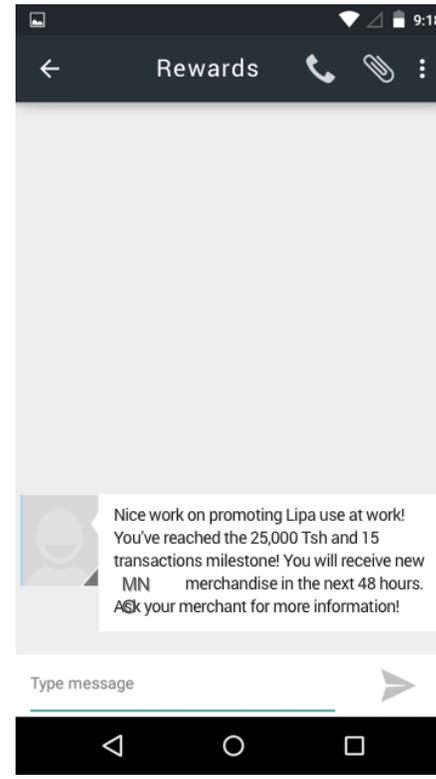
Once registered, the employee receives an SMS notifying him that is registered under a specific merchant.

2. Weekly update



Employee receives a weekly update on the store status.

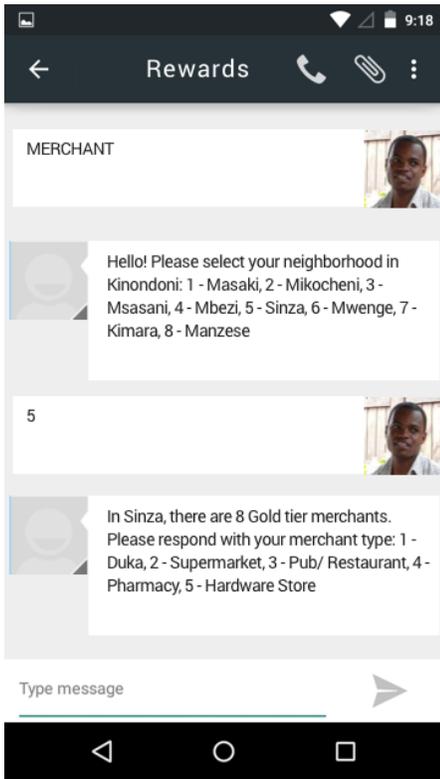
3. Rewards notification



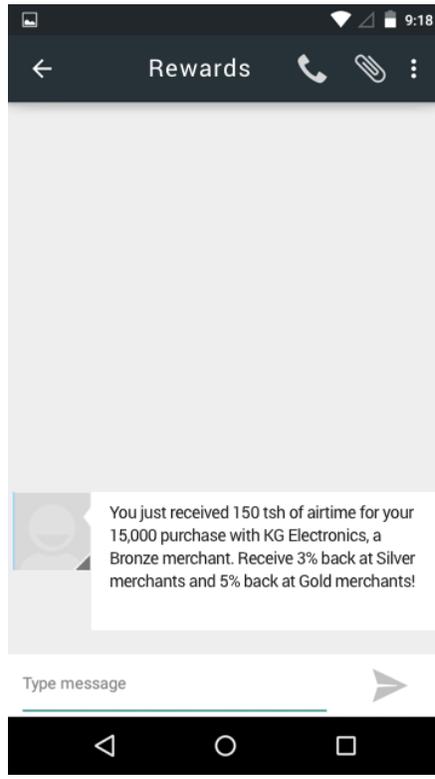
Employee receives notification that the merchant reached next milestone and merchandise will arrive shortly.

3. Tiers for Merchants, Employees and Customers: Customer Workflow

1. SMS merchant screening 2. Instant reward notification



Customers can Reply MERCHANT via SMS to receive a list of Gold merchants in their neighborhood.



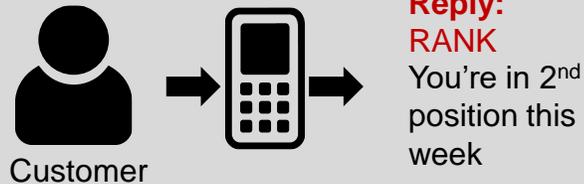
Customers that transact with participating merchants will receive an instant reward.

Loyalty program

1. Points Program for Merchants and Employees: (+ one league contest)
2. Tiers Program Merchants and Employees
3. Tiers Program for Merchants, Employees and Customers
4. **Monthly League: (3 cycles within a specific segment)**

4. Monthly League (3 cycles within a specific segment)

- 1 Merchant receives onboarding message and instructions for the contest



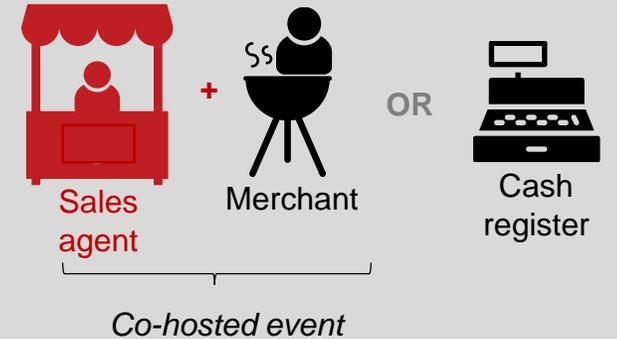
1. The league rank is based on **Lipa transactions** (with minimum value transacted)
2. Merchant can **check his own rank anytime** via the SMS menu

- 2 Best performing merchants get small rewards every week



1. At the end of every week, all **merchants receive a notification with current position** in the contest
2. Merchants in the **top 3 receive weekly rewards** (Data, Airtime, SMS)

- 3 The league winner receives a large reward which is delivered by the sales agent



1. The territory manager receives a notification of the results, and becomes responsible of the logistics to deliver the large reward
2. The **transactions counter restarts at the end of the month** (prior to the next month's league to avoid discouragement with lowest transacting merchants)

Additional details

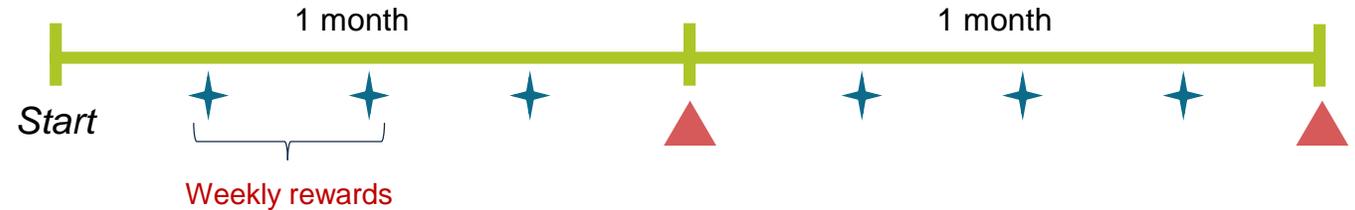
To add relevance and context to the league, it will feature merchants in a specific segment within a neighborhood (e.g. pharmacies in town x)
The weekly rewards are an incentive mechanism to keep merchants engaged on a weekly basis, on top of the large reward

4. Monthly League: Considerations for the League and Reward Structure

League Structure

- **League segmentations:** the league could be segmented by merchant segments (merchants offering similar products/ services) or by geography (merchants in a specified vicinity) or both. Insights from the field research reveal that merchants prefer to compete with peers in their neighborhood
- **Merchant segmentation:** the field research revealed that pubs and restaurants had the best appetite for league competition due to the nature of the competition in the hospitality business
- **League design:** merchants preferred to see how they rank relative to competitors in order to increase their effort

Reward Structure



★ Small Rewards

- **Airtime and data to top 3 merchants** on the weekly league
- **Top 3 merchants** are selected based on number of Lipa transactions of minimum value completed

1st place: 5 GB data, airtime & SMS

2nd place: 2 GB data, airtime & SMS

3rd place: 1 GB data, airtime & SMS

▲ Large Reward

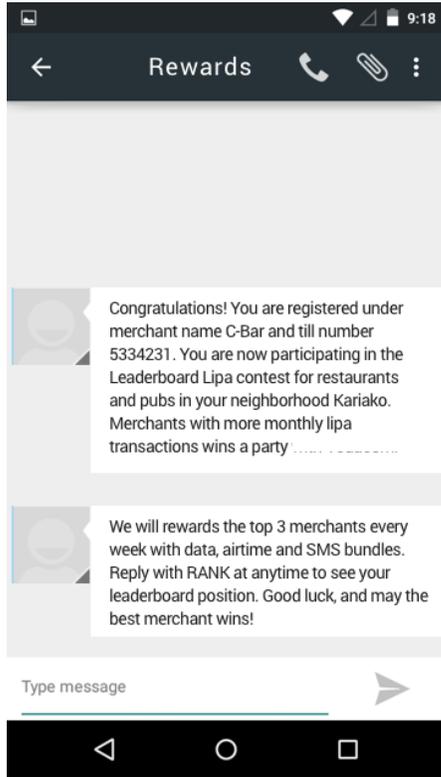
- **At the end of the month the winner** will receive a large reward

Pubs and restaurants are particularly interested in co-hosted promotional events with MNO to attract new customers.

Other market segments are interested in cash registers, laptops or smartphones.

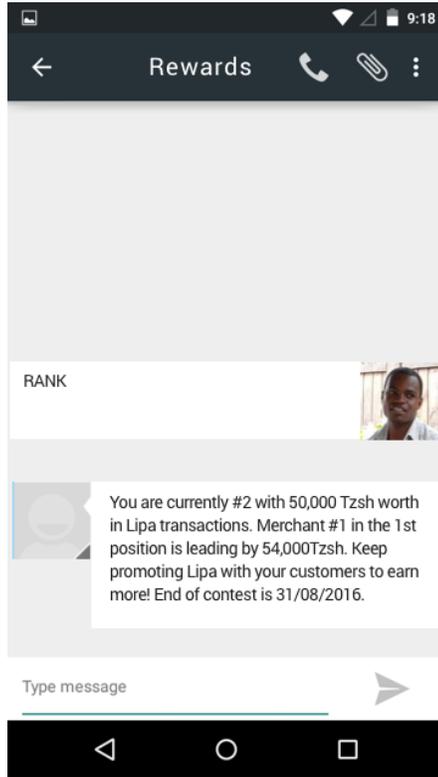
4. Monthly League: Merchant Workflow

1. Onboarding



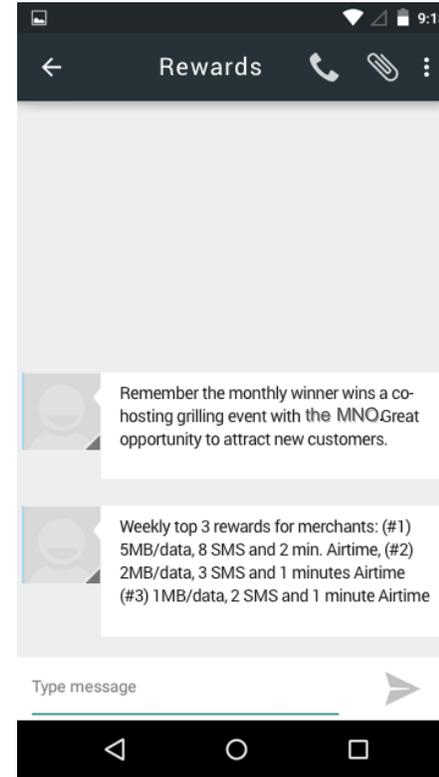
Once registered in the program, the merchant receives an onboarding message via SMS with instructions and a menu of options that can be revisited anytime.

2. Check status



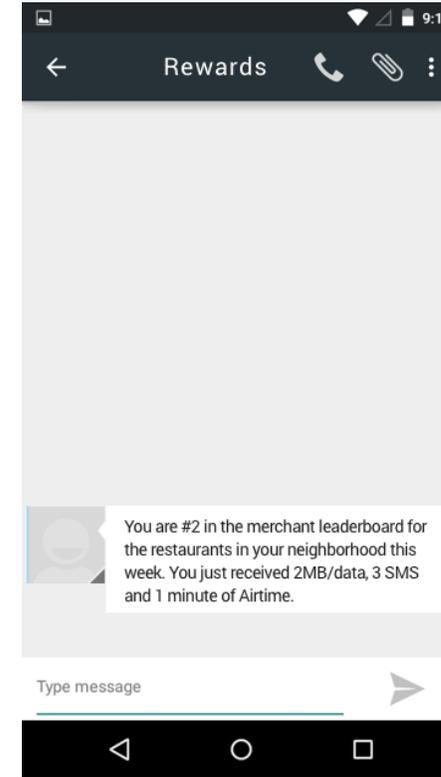
Merchants can reply RANK to receive updated information on their position, and the value accumulated in Lipa transactions.

3. Weekly reminder



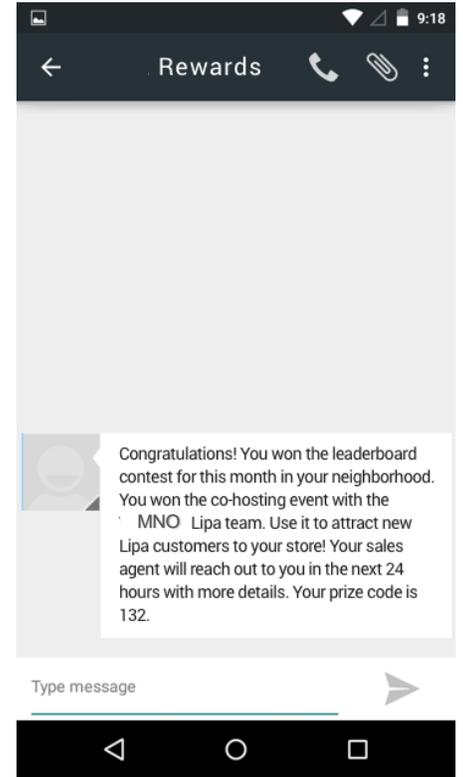
At the beginning of the week, the merchant will receive an SMS notification with a reminder on the rewards for the best performing merchants.

4. End-of-week reward



At the end of the week, the top 3 merchants will automatically receive a instant package of rewards (airtime, data and SMS).

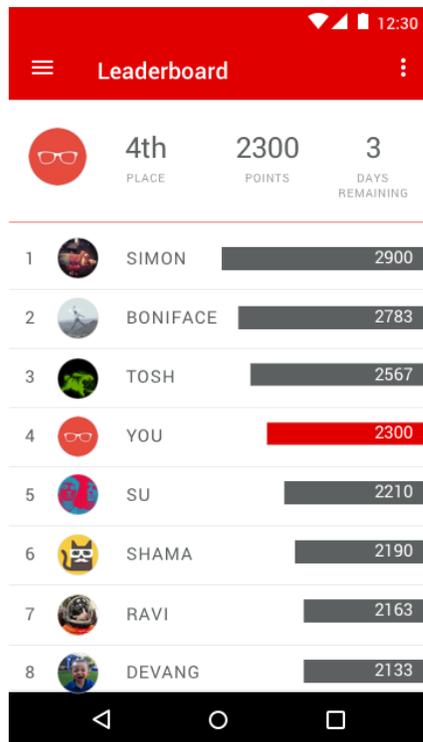
5. League reward



The winner will receive a notification with a prize code. The sales agent will follow up in order to deliver the prize (or organize the co-hosted event). The merchant needs to present the prize code for confirmation.

4. Monthly League: Additional App Features

Merchant leaderboard



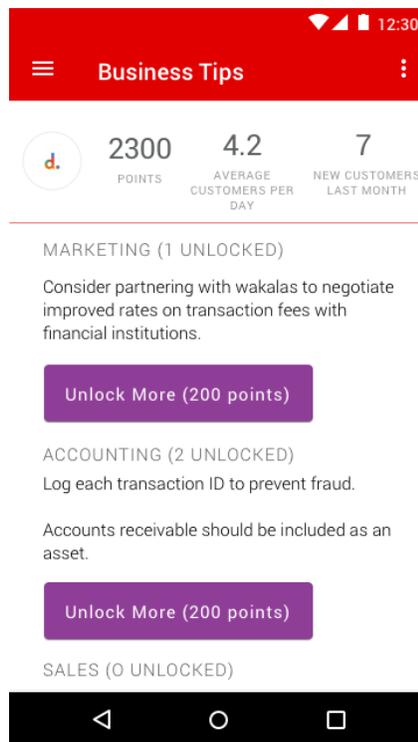
Merchants visually see how they rank relative to their peers in the league.

Neighborhood leaderboard Business tips



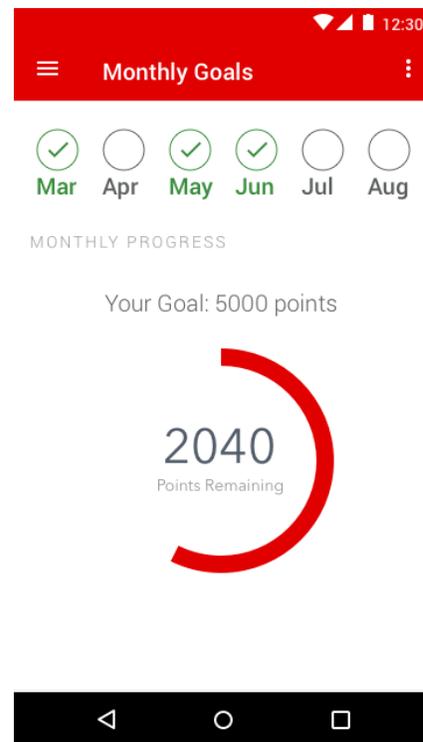
Merchants within a neighborhood can be collectively ranked relative to merchants in other neighborhoods. This can serve as a tool to popularize shopping districts.

Business tips



Merchants can unlock business tips that help improve customer acquisition and retention, and drive more Lipa activity.

Personal goals



Merchants can set monthly goals and monitor progress against them. Similarly, the MNO can set personalized goals for merchants and reward them for achieving them.

Badges



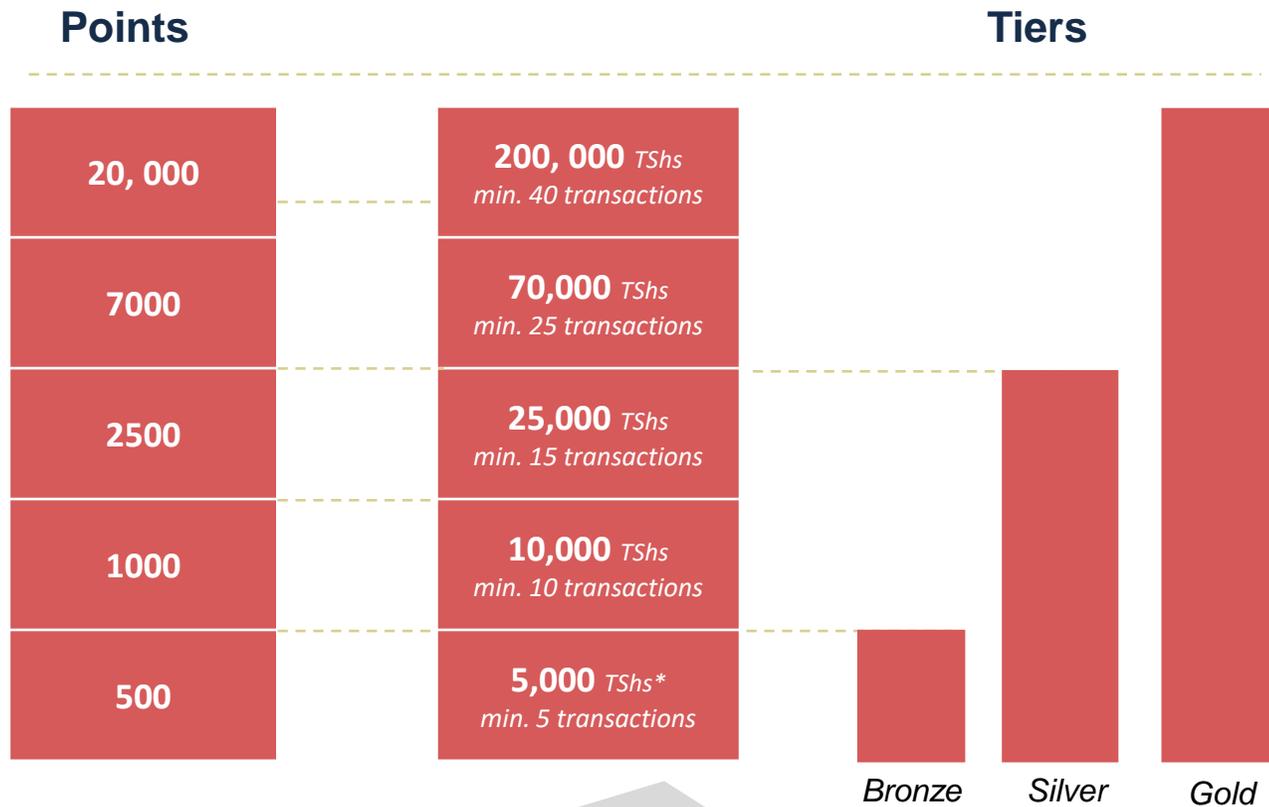
Merchants collect badges for minor achievements and are awarded small rewards for it.

Appendix

Detailed examples

Points and Tiers Structure

The points and tiers program require a total transaction value and minimum number of transactions for each level. Matching the thresholds between the points and tiers systems allows us to compare models.



Rewards

- **Merchant rewards** accumulate to 5% of transaction value
- **Points:** Each reward options (e.g. mins of airtime) accumulate to 5% of transaction value
- **Tiers:** The entire reward package (e.g. mins of airtime, data, withdrawal fee discounts and/or SMS) accumulate to 5% of transaction value
- The value of merchandize for each **employee** accumulate to 5% of transaction value at that level
- **Tiers:** The value of airtime for **customers** is a % of the customer's transaction value
- **League:** The value of the reward package distributed to top 3 positions aligns with the first three thresholds of the points system

Reward Conversions

Based on average MNO outside bundle rates and tariffs in 2016, the following assumptions were made:

- 1min = ~TShs. 450
- 1 SMS = ~TShs 60
- 1 MB = TShs. 50
- The value of the rewards are equally distributed across airtime, data and SMS rewards (after deducting value of withdrawal fee discounts)
- The MNO receives TShs. 5000 for TShs. 200,000 withdrawal; and TShs. 1650 for a TShs. 25,000 withdrawal)

* Merchants are required to make TShs. 1,000 in Lipa transactions to remain active (same as sales Agent KPIs to visit recurring merchants).

Rewards Structure: Points for Merchant and Employees

EARN POINTS: MERCHANTS

10 TShs = **1** Point

THRESHOLDS	POINTS	MERCHANTS			EMPLOYEES
		SMS	Data	Airtime	Merchandise
5,000 TShs <i>min. 5 transactions</i>	500	5	1 MB	1 min.	n/a
10,000 TShs <i>min. 10 transactions</i>	1,000	10	2 MB	2 min.	n/a
25,000 TShs <i>min. 15 transactions</i>	2,500	25	5 MB	3 min.	T-shirts
70,000 TShs <i>min. 25 transactions</i>	7,000	70	13 MB	8 min.	Caps + Umbrella
200,000 TShs <i>min. 40 transactions</i>	20,000	200	38 MB	22 min.	Business Books

Merchants have the option to select one of the rewards. Once selected, the rewards are automatically delivered to the settlement number

Merchandise is delivered by one of the sales agent assigned to the program

Rewards Structure: Tiers for Merchants and Employees

THRESHOLDS	POINTS	MERCHANTS				EMPLOYEES
		Withdrawal fee discount	Data	Airtime	SMS	Merchandise
5,000 TShs min. 5 transactions	BRONZE	n/a	1 MB	1 min.	n/a	n/a
10,000 TShs min. 10 transactions						
25,000 TShs min. 15 transactions	SILVER	5%	1 MB	1 min.	8	T-shirts
70,000 TShs min. 25 transactions						
200,000 TShs min. 40 transactions	GOLD	10%	12 MB	7 min.	60	Caps + Umbrella + Business book

The rewards packages are predefined and instantly delivered to the settlement number once the merchant unlocks a new tier

Merchandise is delivered by one of the sales agent assigned to the program

Rewards Structure: Monthly League



★ Small Rewards

- **Airtime and data to top 3 merchants** on the weekly league
- **Top 3 merchants** are selected based on number of Lipa transactions of minimum value completed

1st position: 5 MB data, 2 Airtime, 8 SMS

2nd position: 2 MB data, 1 Airtime, 3 SMS

3rd position: 1 MB data, 1 Airtime, 2 SMS

▲ Large Reward

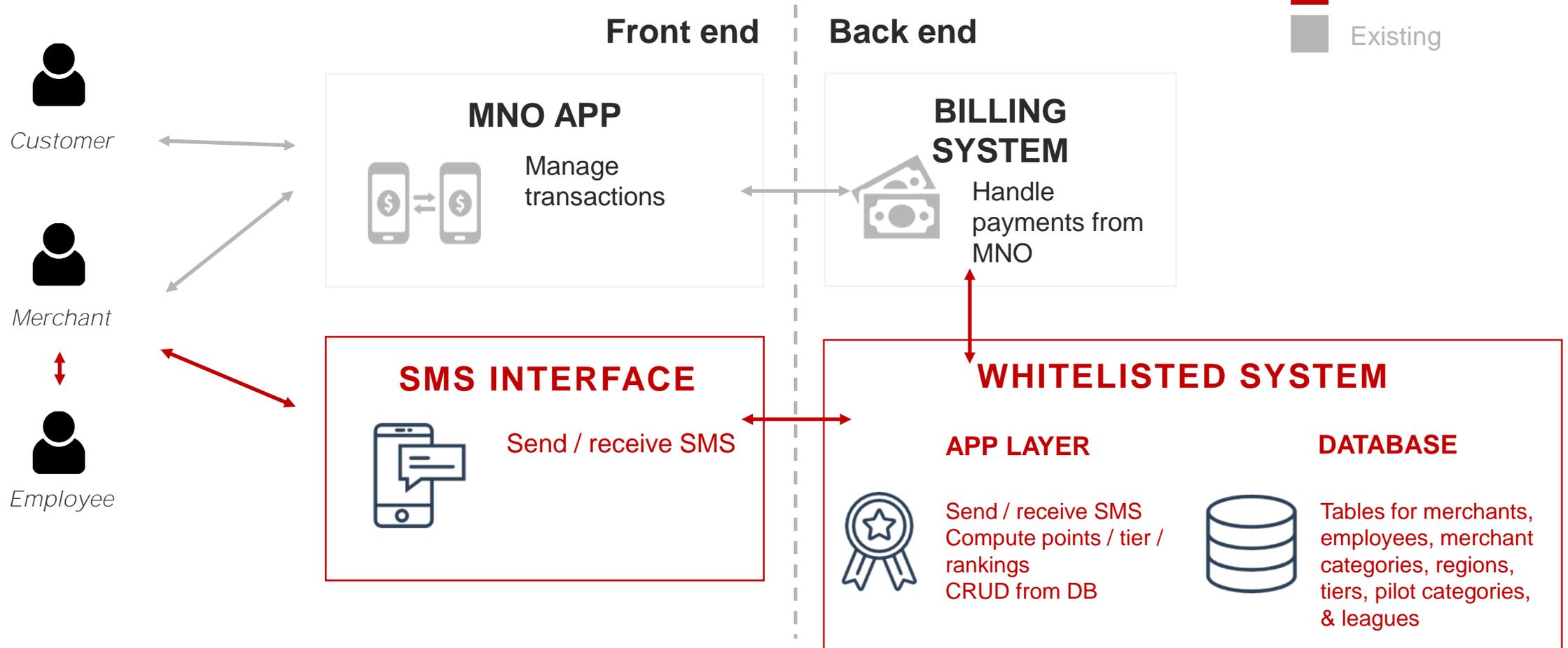
- **At the end of the month the winner** will receive a large reward.

Pubs and restaurants are particularly interested in co-hosted promotional events with MNO to attract new customers.

Other market segments are interested in cash registers, laptops or smartphones.

Proposed System Architecture for the SMS-based Loyalty Program*

 New
 Existing



*The platform has been developed and is available open-source upon request

