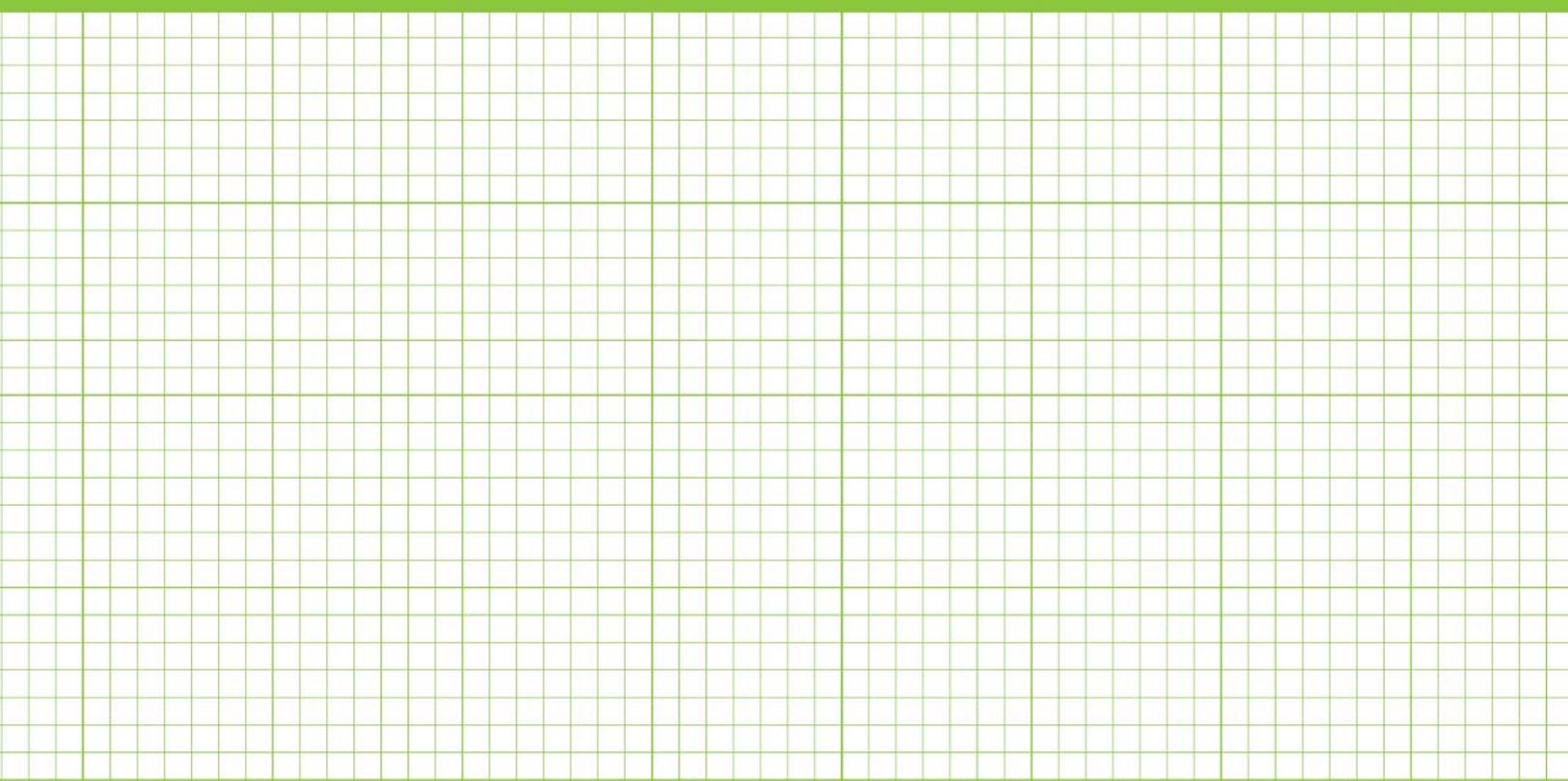




green  
feat  
rewards

# CONCEPT DOCUMENT



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## THE OPPORTUNITY

### REWARDS PROGRAMS

Rewards programs have played an increasing role in service delivery ever since their introduction in the late 1800s, when Thomas Sperry and Shelly Hutchinson sold stamps to merchants. S&H Green Stamps (also known as Green Shield Stamps) could be earned by consumers when making purchases at supermarkets, department stores, gas stations, and other retailers. Today, membership in U.S. loyalty rewards programs has reached 1.3 billion, more than four times the national population, according to COLLOQUY research<sup>1</sup>. Research conducted by First Data, a credit card processor, indicates 76% of consumers belong to credit card loyalty programs<sup>2</sup>. In 2006, the financial services industry alone spent \$10.3 billion on rewards programs<sup>3</sup>. According to a 2008 survey by the Aite Group, consumers rank rewards as the number two reason for applying for a specific card, behind no annual fees and ahead of low interest rates.<sup>4</sup> Based on this industry data, it is clear that financial institutions that wish to compete in the business of offering credit cards must consider rewards programs.

### SOCIAL RESPONSIBILITY

Social Responsibility is the principle of considering overall community welfare beyond traditional financial goals. Two key areas of concern for community welfare are environmental and social practices. The concept of social responsibility is not new to credit unions, especially those in Canada. As financial co-operatives, owned and controlled by their member-customers, credit unions in Canada bring fresh approaches to social responsibility that are as individual and exceptional as the communities themselves. For example, credit unions in Canada have led the way with responsible employment, governance, environmental and investment programs and policies.<sup>5</sup>

Credit unions in the United States have also embraced many of the principles of social responsibility, although not as formally as Canada's credit unions. We align closely with the values of our members and associated organizations, volunteer our time in the governance of our institutions, and partner with charitable organizations. We also, by and large, have been good employers and have taken steps in recent years to align the pay and benefits of our employees with the marketplace. However, we can do better. One aspect of social responsibility in credit union operations that has not been sufficiently addressed is our effect on the environment - essentially our efforts to go "green." This is not to suggest that credit unions have been grossly irresponsible; but in general, there has been a lack of compelling reasons for credit unions to consider environmental factors as part of their ongoing decision making process.

However, changes in consumer philosophy regarding social responsibility may be providing new reasons to change this way of thinking. According to the inaugural BBMG Conscious Consumer Report, nearly nine in ten Americans say the words "conscious consumer" describe them well and are more likely to buy from companies that manufacture energy efficient products (90%), promote health and safety benefits (88%), support fair labor and trade practices (87%), and commit to environmentally-friendly practices (87%), if products are of equal quality and price.<sup>6</sup> This concept is gaining in popularity in the US, and it may become a much more important factor in the future success of businesses as they seek to attract the next generation of consumers and workers.

### TYING IT ALL TOGETHER

An opportunity lies in combining the two concepts of rewards programs and social responsibility - specifically, the concern for the environment by offering green rewards. The Members Group recently conducted an online survey of member credit unions regarding rewards programs, and specifically their interest in offering a "Green Rewards" program. Within the survey, a Green Rewards program was defined as "providing the member the ability to purchase carbon offsets, purchase "green" products and provide charitable support to ecological groups" with the points they earned using their purchase card. Thirty-four credit unions responded to the survey. Ten of the 34 credit unions responded that their members would be

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either “Very Interested” or “Extremely Interested” in a program offering “Green Rewards”. Only one credit union believed that their membership would not be interested in such a program.

## THE SOLUTION

The ultimate design of the Green Feat Rewards program is to reward members with points for purchases at certified socially responsible vendors. The purpose is to encourage members to become conscious consumers by intentionally choosing to shop at retailers who are socially responsible. Members will be able to use these points to support ecological groups, buy green merchandise or reduce their carbon footprint by purchasing carbon offsets. There are some challenges with the ideal concept, such as educating members on socially responsibility and related concepts like carbon offsets; however, we believe this creates an opportunity to create awareness and educate members on the benefits of being conscious consumers. There is also limited availability for certification of vendors who wish to participate and, from a technical perspective, card issuers have not yet begun to categorize and report purchases by merchant code categories (i.e. socially responsible or green) as this concept is still very new to the marketplace. As the green movement grows we believe these challenges will be eliminated. Therefore, the focus of the Green Feat Rewards program is on green rewards with the hope of more to come.

### PURPOSE

The Green Feat Rewards program is designed to encourage credit union members to become environmentally responsible, one of the key areas of social responsibility. In doing so credit unions will attract, educate, and align with members and business partners who also value environmental responsibility. Ultimately, the goal will be to deepen member relationships which will be measured through profitability, and specifically, a thriving payment card portfolio.

### DESIGN AND FUNCTION

The Green Feat Rewards program is a rewards program tied to a payment card - either debit or credit- with the goal of increasing the use of the card. The credit union will reward members with bonus points (on top of the existing rewards programs) for making purchases from environmentally responsible or green businesses. For example, credit unions have an opportunity to select an environmentally friendly retail partner and provide additional rewards to members who purchase from them. Once the points are earned, members would then be able to redeem these points through a rewards website, see APPENDIX A. The emphasis of the website would be on green reward options that may even include a carbon offset reward and green products, apparel, and travel. Members may also have opportunities to redeem their points as a donation towards eco-friendly charities.

### CARBON OFFSETS REWARDS

According to the Environmental Protection Agency (EPA) in Victoria, Canada, “a carbon offset is an investment in a project or activity that reduces greenhouse gas (GHG) emissions or sequesters (stores) carbon from the atmosphere. Carbon offsets are used to compensate for GHG emissions from your own activities.”<sup>77</sup> Activities can include emissions from your automobiles and energy or electricity used in your home. The carbon credits will be used by the credit union to benefit a pre-selected carbon reduction program such as the replanting of a forest. The carbon offset feature of the Green Feat program allows for a philanthropic appeal. Unlike the majority of rewards provided by rewards cards in the market place, carbon offsets do not provide an immediate and direct benefit to the member. The carbon-offset reward can be the center of a campaign. The approach would be much like those taken by Universities and non-profits through affinity programs (co-branded cards). The appeal is focused on the good of the whole and an “easy way to give back” or in this case, an easy way to make a difference in the environment. Credit Unions can include a carbon emissions calculator on their websites to help members determine what their individual carbon

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footprints are. Calculators are available online such the following one available on the U.S. Environmental Protection Agency's website: [http://www.epa.gov/climatechange/emissions/ind\\_calculator.html](http://www.epa.gov/climatechange/emissions/ind_calculator.html).

## MEMBER BENEFITS

Credit Union members will have the opportunity to learn more about their own personal carbon footprint and how some of their daily activities impact the environment. By participating in the Green Feat Rewards program, they will have the opportunity to earn rewards by supporting socially responsible companies as well as their credit union. In addition, members will have the opportunity to make simple changes to their daily routines and the products they use to make a positive contribution to the environment by using their primary reward points to help offset their carbon footprint, purchase green merchandise or support ecological groups. Our hope is that our members will see the benefits of becoming a conscious consumer and how their small changes are a part of a larger movement towards saving our planet for future generations. Consumers today may not be as active as they can be towards being green, because retailers and financial institutions have not made it easy to do. To start by offering programs such as Green Rewards gives our members the tools to be proactive and participate in changing their lifestyle.

## CREDIT UNION BENEFITS

Credit Unions, like many businesses in other industries, can benefit from being environmentally responsible, and not just from the "marketing buzz." A recent IBM survey, "Attaining Sustainable Growth Through Corporate Social Responsibility (CSR)," indicates many companies now view CSR as a growth opportunity and not just a regulatory compliance issue. Sixty-eight percent of those surveyed say they are using CSR activities to help generate revenue. According to George Pohle, VP and Global Leader from IBM Global Services, business can "use social responsibility to drive new revenue streams, to retain and grow customer loyalty, to seek new market share, and to develop new products and services"<sup>8</sup>. In the case of credit unions, the development of this debit/credit card green rewards product is consistent with Mr. Pohle's comments. And there are other benefits as well. Through the concept of carbon credits, the credit union can report on the effect the credit union members are having on the environment and share a compelling story to encourage others to join the effort. Internationally, there is movement in corporations to report triple bottom lines which includes not only the financial results of an organization, but also its economic and environmental impact in the communities they serve and do business in. The credit union may also choose a local program to benefit with carbon credits and develop close partnerships with other environmentally responsible businesses to increase public awareness of the credit union to consumers. Credit Unions will also benefit operationally by reducing resource consumption as well as increasing their attractiveness as employers.

## TARGET MARKET

Green Feat Reward Cards will be attractive to several generations. Consumers who live in urban settings and are already making environmentally conscious purchases will find these cards appealing. The target market for advertising purposes is "credit driven" consumers. According to The Raddon Report, *Are Rewards Programs the Answer*, Credit Driven Households (those between 18-35 years of age with household income over \$30,000) use a debit card more than 20 times a month – 44% more frequently than the national average<sup>9</sup>. Advertising will be targeted toward individuals who shop for organic food, locally produced goods, goods produced from recycled material and who socialize and do research via the internet.

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## MARKETING PLAN

### COMPETITION/ENVIRONMENTAL SCAN

A card with Green Initiatives seems to be the new idea of 2009. Bright Planet launched the first U.S. credit card that cancels out your carbon output. The card is underwritten by Bank of America and invests the reward points most credit cards offer in clean-energy projects. The GreenPaySM MasterCard is a rewards credit card exclusively designed to take every day consumer spending and transfer the derived rewards into carbon offsets which “retire” portions of CO<sup>2</sup> emitted into the environment.

GE Earth Money MasterCard, Wells Fargo Rewards program and Citizens Bank Green Sense all have programs tied to renewable energy reward options and green initiatives. The UK Barclay Bank has launched the Breathe card; this card has a number of incentives to encourage greener spending.

The Green Initiative includes former US President Bill Clinton’s involvement in the Clinton Global Initiative to launch a Green Rewards program that will enable consumers to directly reduce their own greenhouse gas impact by using their existing credit, debit and store cards.<sup>10</sup>

The momentum and interest in spending for a better world, green initiatives and social responsibility is growing rapidly. The time is now for credit unions to take action to incorporate socially responsible and green Initiatives within their organizations.

### PROMOTIONS AND ADVERTISING

Campaigns will be environmentally friendly. Electronic media will be the primary advertising channel for Green Feat cards. When printed materials are used, recyclable paper and environmentally friendly inks are utilized.

Green Feat suggests taking an inventory of what is currently being done in your credit union. Is your credit union looking to move towards environmentally sustainable business practices or simply test the waters in Green? Are you supporting e-statements, green auto loans, recycled debit/credit cards, or promoting solar or green business lending? If the answer is “yes”, then you may want to consider adding yet another benefit for your members through a debit/credit rewards program.

The suggested rewards fulfillment structure includes Green Rewards Samples including green merchandise, green travel, green gift cards and carbon offsets, and a non-green category comparable to other rewards programs. Members can choose to use their accumulated points to further support environmental and socially responsible spending and/or giving. Green Feat suggests to partner and offer double rewards points for vendors that promote Green and socially responsible initiatives.

The rewards program must fit within the mission and long term goals of your credit union. Promoting programs simply to create an environmental halo over your credit union is misleading and is termed, “greenwashing.” Credit Unions need to ensure they become conscious of how Green is labeled within the organization. The Federal Trade Commission, which regulates advertising claims, has not revised the Green Guides since 1998, so the regulations are vague. However, the marketplace is likely to face greater scrutiny from the government and/or environmental organizations in the near future.

The following is a template that can be used to implement marketing initiatives to drive members to use the Green Feat Rewards Card as top of wallet:

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1. Survey members' demographic groups to ensure there is an interest in this type of rewards program within your institution.
  2. Consult processor – Is your debit/credit card processor engaged with a current rewards program; and if so, what are the options to include Green products including rewarding socially responsible spending? If there is no program available, consider engaging with a rewards vendor that offers or is creating green rewards.
  3. Comprehensive educational program – Ensure management, staff and the board of directors are the champions of social responsibility, green initiatives and understand the product and rewards program that will be launched to members.
  4. Develop a cost and reward structure to ensure the viability of the program.
  5. Comprehensive member education – Using website and social media to help members understand components of Credit Union Green Rewards and the impact socially responsible spending can make in changing our environment. Consider podcasts, blogs<sup>11</sup>- Promote rewards through existing channels – website, newsletters, online advertising, blogs and social media sites (see APPENDIX B).
  6. Offer increased point values for member transactions that are deemed green or socially responsible. Targeting member routine daily spending can be a potent force for change.
  7. In the rewards fulfillment center, offer a majority of Green rewards - Green products, Green travel, gift cards to socially responsible vendors. An ancillary category of non-Green may also be included.
  8. Partner with organizations and community events to promote environmentally responsible education.<sup>12</sup>
  9. Host a community recycle event and feature the Green Rewards product.
  10. Promote government tax incentives for Green Initiatives.
  11. Audio/Video news tours and press releases (via email) surrounding campaigns, public relations and credit union events.

## OPERATIONAL AND OTHER CONSIDERATIONS

Our research supports the merit of a Green Feat Rewards program, particularly given the number of examples we have seen already in the marketplace and the degree of increased awareness of social responsibility. However, our efforts to pilot this program point to the fact that, at least for most credit unions, the Green Feat Rewards Program is ahead of its time.

### PILOT

USA Federal Credit Union implemented a rewards program in July 2007 (see APPENDIX C for this credit union's experience in implementing a rewards program). In support of the Green Feat Award concept, USA Federal agreed to run a limited pilot to test the technical aspects of the program, specifically the process of awarding extra points for the use of a specific vendor. In the case of USA Federal, the focus has been on offering a double points program for member purchases at local cooperatives. The efforts tied to the pilot have been in process for three months. As of today, the Ocean Beach People's Market in Ocean Beach, CA, has agreed to a cross marketing effort and the details of this program are being developed. Meanwhile, the majority of the three months has been dealing with the challenges related to rewarding a specific merchant or set of merchants. The process has been identified now and we are simply waiting on a test.

## GETTING STARTED

The Green Feat program is highly customizable and can be modified by each credit union in order to fit into its unique strategies and market niche. The following steps are recommended for product implementation. The length of time needed for each step is greatly influenced by the vendors selected to support the product and the specific program features selected by the credit union.

- Clearly define the market the credit union wishes to reach with the Green Feat Program. Consider surveys of members and target demographics.
  - Identify the most important program features.
  - Verify demand for the program.
  - Identify potential business partners (green retail stores, non-profits) that may increase visibility or demand for the program.
- Select a vendor for the program.
  - Ensure that the vendor is able to support a “green” effort (consider e-statements, recyclable plastic for the cards, environmentally friendly printed material, etc.).
  - If Carbon Offsets are planned as a feature for the card, identify partners to facilitate the process.
  - Select other benefits and features for the program (travel rewards, merchandise, etc.).
  - Establish break even points and income model for the product.
- Set the card features (interest rate, fee structure, program requirements such as e-statements, etc.).
- If the program includes additional benefits for making purchases at specific retailers, build relationships with the retailers and look for opportunities for collaborative marketing.
- Develop a marketing plan.
  - Design the card to match with target demographic preferences.
  - Think green in the marketing effort. Utilize email and online social networking as much as possible.
  - Included environmentally friendly displays for retail partners.
  - Integrate links to environmentally responsible resources, such as tips on how to reduce energy use, into the credit union website.
- If selecting the Debit Card Option
  - Highlight options for making the checking account more environmentally friendly with e-statements, bill pay, and other electronic services.
- Give members an opportunity to suggest retail partners and provide feedback regarding the program.

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## PROJECT TEAM

Filene i<sup>3</sup> is a creative group of insightful and energetic credit unions professional who develop new ideas, innovate, and implement for the benefit of the credit union system. Please visit [filene.org/home/innovation](http://filene.org/home/innovation) or email [innovation@filene.org](mailto:innovation@filene.org) to learn more. The team members who developed this idea are:

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APPENDIX A - WEBSITE SCREEN SHOTS AND EXAMPLES



Site layout and designed concepts were provided by Razr Marketing, Minneapolis, MN.

# APPENDIX B - OVERDRIVE INTERACTIVE SOCIAL MEDIA SITES



## APPENDIX C – IMPLEMENTING A REWARDS PROGRAM

By way of an example, USA Federal Credit Union has provided an insight on their decision to offer a credit cards rewards program.

### BACKGROUND

The credit union's VISA portfolio balance had been stagnant. Their Gold and Classic programs had become outdated and through the rollout of a new Platinum card, the credit union had an opportunity to add a points program. The program will allow the credit union to be competitive in the marketplace by offering travel, merchandise, and cash rebate options to their membership.

### POSITIVE IMPACT

- Additional benefit for membership and builds member loyalty.
- An outsourced solution for the credit union.
- Competitive VISA offering.
- Increased source of interchange income and interest income with existing product.
- Impact on the credit union's image.
- The ability to tie reward points to other product and service promotions.
- Option to offer reward points on signature debit card transactions in the future.

### NEGATIVE IMPACT

- Small but some administrative soft costs.

### FINANCIAL IMPACT

The estimated 12-month income boost from current levels was expected to be approximately \$120K. Please see analysis below:

<b>Est. Yearly Program Cost</b>	<b>12 Months: Expense</b>	<b>12 Months: \$ / Account</b>
Set-Up Cost (one-time)	\$500	\$0.08
Extra Awards Program Cost	\$13,446	\$2.16
Transmission File Maintenance	\$373	\$0.06
Customization - color logo	\$500	not applicable
Gift Catalogs & Postage	\$4,669	\$0.75
Brochures (1 per account + 10% over stock)	\$1,712	\$0.28
Statement Generation	not applicable	not applicable
Postage (Generic Statements)	not applicable	not applicable
New Account Est. Processing Expense	\$5,433	\$0.87
Estimated Redemption Cost	\$142,840	\$22.95
<b>Total Expense</b>	<b>\$169,472</b>	<b>\$27.14</b>

<b>Est. Yearly Income Differential</b>	<b>12 Months: Income</b>	<b>12 Months: \$ / Account</b>
Est. Interchange Income Boost	\$160,434	\$25.77
Est. Increase Finance Charge Boost	\$129,348	\$20.78
Est. Annual Fee Income	\$0	\$0.00
<b>Total Income (estimate)</b>	<b>\$289,782</b>	<b>\$46.55</b>
<b><i>Net Income Estimate</i></b>	<b><u><u>\$120,312</u></u></b>	<b><u><u>\$19.41</u></u></b>

In actuality, the credit union realized a loss in income the first year of \$117,000 based on the model above. The credit union attributes the loss to a steep learning curve and awareness challenge for the credit union after years of neglecting the card portfolio. This explanation is supported by a boost in income of \$85,826 in the first seven months of the second year of the program. The credit union also has seen a \$5 million growth in credit card balances in the 18 months since offering a rewards program.

The credit union has learned that active cards, usage and average purchase price are the principle drivers when seeking to improve a card portfolio's profitability. The traditional focus had been card penetration, which plays a part, but successful card managers have learned that focusing on the behavior of members who already use your cards is most effective. USA Federal has seen an increase in the number of active cards of 388 since offering credit rewards in July 2007. This represents a penetration of .14, exceeding the industry average of .081. The credit union also exceeds the industry average with an average purchase price of \$98.27. Areas that remain a challenge are USA Federal's usage rate of 6.97 and activation rate of 48.40% that lags behind the industry averages, 10.68 and 66.01% respectively.

Through the success of their credit program, USA Federal also decided to launch a debit rewards program in July 2008. An exciting feature of USA Federal's reward program is that the points are householded for both cards.