

CARDAGIN: LOCAL MOBILE REWARDS

When you visit your favorite restaurant, the manager sometimes offers you a free dessert. The restaurant manager could provide such recognition for about 100 of their best customers, but what about the next 1,000 who are also regulars?

—Rob Masri

On a still-nippy February afternoon, Rob Masri, CEO of Cardagin, a mobile marketing network based in Charlottesville, Virginia, scanned his iPhone app as he entered Eppie's, a local restaurant. Through the Cardagin app, Eppie's, an early member of the Cardagin network, could track a user's visits and offer personalized coupons on the spot. That day, Masri was able to redeem a 90% discount for our lunch, over which he spoke passionately about Cardagin's fast progress, the decisions facing him, and the broader trends in mobile marketing.

Since its launch in September 2010, Cardagin had signed up more than 1,200 merchants in 30 cities over 20 states to offer loyalty programs through Cardagin's mobile app and raised over \$5 million in venture funding. More than 25,000 customers had downloaded the Cardagin app, and the mayor of Charlottesville had declared January 18, 2011, Cardagin Day. It was a great start for a business that provided a mobile-phone platform for merchants to access their loyal customers and for customers to obtain personalized rewards from all their favorite merchants in a single location. (**Exhibits 1 and 2** provide an overview of Cardagin's initial launch growth and early user demographics.)

Masri recognized early on that using a smartphone as a marketing medium was an effective way to reach an increasingly mobile consumer base, and the initial challenge was convincing retailers of the value in reaching it. To do so, he would need to increase both the merchant and consumer networks, find new cities for the next expansion phase, and develop and price the next generation of services, helping merchants provide rewards for their customers that were personalized and effective. He had already identified a niche among smaller local businesses in college towns. A number of vendors were all simultaneously trying to capitalize on

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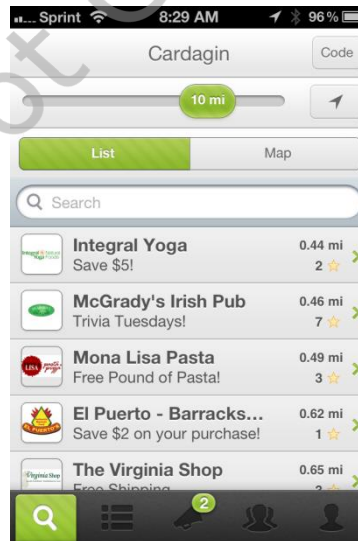
the mobile-coupon trends, so rapid expansion and effective couponing strategies were critical. (**Exhibit 3** is a case study used by Cardagin to educate prospective clients.)

Cardagin Network

By creating a mobile presence in Cardagin's mobile apps, local businesses had exclusive access to a modern customer-retention tool and could begin to identify, reward, and communicate with their best customers—the 20% who generated 80% of their revenue.

Cardagin created a network of local businesses (**Figure 1**). The larger the user base of consumers and merchants, the more valuable and beneficial the network. Using Cardagin's smartphone app, consumers could find their favorite local stores or explore new merchants, eliminating paper loyalty club cards and coupons by tracking and managing points and rewards on a smartphone instead. By accessing the merchant portal on Cardagin.com, merchants could create a mobile presence and target advertisements and promotions to those local consumers most likely to buy their services or products. Through Cardagin's mobile loyalty technology, local businesses could monitor customer spending habits and make more intelligent and better-informed marketing decisions.

Figure 1. Cardagin network.



Source: Cardagin. Used with permission.

The Cardagin software enabled a merchant to target a specific subset of a customer base at specific times. Offers and rewards could be created “on the fly” for immediate effect, with GPS or location-based features making it possible to create and distribute advertisements and promotions much faster and more directly than a traditional television or newspaper advertising channel.

The Cardagin platform had two main components:

- The *mobile app* allowed consumers to use their smartphones to browse businesses, view offers, redeem coupons, join groups, receive notifications, earn loyalty points, and collect rewards. Cardagin offered a native app for the iPhone and for Android-enabled phones, eliminating dependence on Internet availability, as well as a mobile website for BlackBerry, Windows Phone 7, and browser-enabled feature phones. In addition to the consumer features, Cardagin's iPhone app allowed businesses to record transactions and award points at the point of purchase. For example, a business manager could log into the Cardagin app, scan a customer's loyalty or redemption code, enter the purchase amount, and submit the transaction to be recorded on Cardagin's servers.
- The *Cardagin.com website* provided a self-service merchant portal for a business to easily manage its Cardagin account. Businesses could input location information (address, phone number, website, etc.); create advertisements, offers, and rewards; and track loyalty data and other metrics. Additionally, businesses could use the merchant portal to record purchases and award loyalty points (in lieu of a scan or point-of-sale integration). While the main point of use for consumers was via the mobile app and website, Cardagin was in the process of developing a consumer web portal to allow users without smartphones to manage their loyalty points and rewards.

Cardagin gave local merchants an affordable alternative to traditional advertising. At a cost of \$200 per month, or about \$6.67 per day, many local merchants could afford to enter the mobile marketing space. Cost differences as compared to traditional sources are outlined in **Table 1**.

Table 1. Traditional advertising costs by source and size.¹

Yellow pages	Half-page ad	\$6,000/year
Newspaper (25,000 circulation)	Quarter-page ad	\$300/day
Radio spot	30-second	\$50/spot
TV spot	30-second	\$60/spot
Direct mail	Flyer	\$1,000/month

Data source: Case writer estimates based on Charlottesville advertising market.

Once published, the advertisement or reward on the Cardagin app remained active until the merchant changed it, whereas most traditional channels charged for every rerun of the advertisement. Furthermore, these promotions could be more targeted than newspaper or television ads, and the retailer had no obligation to share any earned revenues from deals or points redeemed.

¹ Advertisements in many of these channels had to be run multiple times in order to be effective.