

## Why the loyalty business is becoming a rewarding investment target

By Briton Burge | Published Aug. 15, 2019, [PE Hub](#)

The old adage about the finance industry is “if you want loyalty on Wall Street, get a dog.” That mentality has slowly crept onto Main Street as cultural norms have shifted, a strong job market has persisted and the options for consumers have exploded and are just a click away.

A much-referenced [LinkedIn study](#) reported that millennials will change jobs four times in the first decade they are out of college, twice what Gen Xers did during their first 10 years after graduating. This is indicative of a trend away from long-term loyalty to one’s job, brand or channel partner, which has led to a proliferation of companies looking for ways to engage and influence employees and consumers to ensure longer-term, stable relationships with organizations and products. And investors are looking to capture the growth in the loyalty, rewards and incentives industry.

Just consider some of the more recent deals:

Blackhawk, a leader in prepaid gift rewards and incentive solutions, was acquired in 2018 by Silver Lake and P2P Capital Partners for around \$3.5 billion.

Private equity firm Abry Partners [announced in January](#) a \$22 million strategic investment in [Aduro](#), a wellness platform that teams up with employers and other organizations to motivate employees to stay active and healthy. Comvest Partners [last year](#) bought [Engage2Excel](#), a provider of employee engagement and recognition programs.

Pamlico Capital has taken a majority stake in consumer incentives firm [PrizeLogic](#) and last year invested in [Personify](#), a platform that helps small organizations and non-profits engage their members. Convenience retail software provider PDI [last year](#) bought [Excentus](#), which specializes in customer loyalty programs.

Perhaps the most exciting changes are being driven in the workplace by the Millennials, many of whom are well into their 30s. The \$5.8 billion market for employee incentives and recognition programs is expected to grow to \$30 billion in the next 10 years. Understanding how to engage and retain Millennials is now front and center for companies because they make up the biggest demographic in the workforce—more than one in three U.S. employees.

Within a decade, the Millennial and Generation Z populations will make up nearly 60 percent of workers. Retaining younger and older workers alike has become an even bigger challenge in the current tight labor market.

Studies have found that Millennials are more willing to job-hop than previous generations and are unlikely to feel engaged by traditional perks and bonuses. They are more likely to value policies that

promote work-life flexibility, training in “soft” skills, and corporate social responsibility. The emergence of the gig economy has added an additional layer of complexity when it comes to retention.

The consumer loyalty space is also evolving as companies learn to harness data to refine incentives and target customers with pinpoint accuracy. Rather than offering a standard loyalty reward across the whole country, companies can vary their offerings depending on a customer’s location and likely income bracket. A \$10 gift certificate reward will likely buy more loyalty from an Ohio resident than a Californian, for example.

The emergence of big data and more sophisticated technology is the common thread that is driving change in the sector and encouraging moves toward consolidation.

Companies are finding that the same tech platform can be tweaked to provide loyalty, incentive or reward solutions to different constituents, including employees, consumers and channel partners. One challenge is defining a go-to-market strategy that targets different audiences.

The collection and analysis of more data are enabling marketing departments to more accurately track and measure the return on investment from loyalty programs. The analytics also allow for more targeted rewards.

For example, the Starbucks Rewards program eschews traditional transactional loyalty points in favor of music downloads, games, and the occasional free coffee to engage Millennial shoppers.

To create a more aligned and engaged workforce, companies like Chobani and Delta Airlines have implemented programs that allow employees to recognize co-workers by awarding small bonuses for living company values or for doing a job particularly well.

Loyalty and incentives companies may be attractive to larger businesses looking to do a roll-up. We may also see more interest from companies in the human capital management space or customer relationship management firms who see value in bolting on incentives or wellness offerings to their existing services.

The Ebitda valuation multiples we’ve been seeing in recent deals have generally ranged from high-single digits to mid-teens, but there is considerable variation depending on the business’s revenue model.

The face of loyalty is changing, but it also offers new opportunities for those willing to seek them out.

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