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[Under "This Week's Entrepreneur: DualCurrency Systems"]

Working to reap rewards

Founder says his DualCurrency Systems has found a unique niche and will soon enable customers to combine cash and reward points at participating merchants.

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Pioneer Press

People are hoarding more than 9 trillion unspent frequent-flier miles in the United States, according to WebFlyer.com. What if they could take those miles and spend them on stuff they really want a table saw or movie tickets?

That's the idea Stillwater entrepreneur Joel Hodroff is trying to turn into a profitable business. His startup, DualCurrency Systems, is about seven months away from having a novel credit card enhancement program up and running, Hodroff said.

A major metro-area bank and hospital as well as a national credit card company are considering running pilot programs this fall to test the system, he said. The company's main revenue source will be charging processing fees on each transaction.

The company, which Hodroff runs from his Stillwater home, has risen from the ashes of Commonweal Inc. Hodroff founded Commonweal in 1993 with the idea of establishing a credit card transaction network for converting hours of volunteer work into spendable dollars.

That's still his long-term goal. Commonweal's "Community HeroCards" experiment, however, taught Hodroff to master the system's commercial end first and worry later about altruistic goals. The HeroCards pilot project, launched in 1997, enjoyed some support. The Mall of America, Hennepin County and the Lyndale Neighborhood Association joined to reward volunteers with spendable service dollars.

HeroCards never achieved critical mass. The technology had glitches and the project ultimately failed to make money, Hodroff said. It folded last year after Commonweal exhausted \$400,000 in venture capital.

But Hodroff received two business-method patents on his "Currency Exchange Network" transaction-management and accounting system for handling a combination of dollars and noncash service credits to pay for merchandise.

Back at the drawing board, Hodroff enlisted three local companies that are rebuilding the technology on spec: a loyalty-rewards management company, a point-of-sale applications firm and a transaction-processing company. This time around, he is funding the venture with his wife's income, a second mortgage and an angel investor loan of \$15,000.

"Half the world thinks I'm crazy for sticking with this," said Hodroff, 53. "My wife has just been a patient saint."

Hodroff is the grandson of one of the founders of Hodroff & Sons Funeral Chapels in Minneapolis, recently renamed Hodroff Epstein Memorial Chapels. What Hodroff doesn't have in degrees he attended the University of Minnesota for three years he said he makes up in street smarts.

Growing up in a mortuary operation, he was steeped in business and community service, he said. He

went on to found and sell a solar heating company and has held a variety of sales and marketing jobs.

On DualCurrency's eight-member leadership team is Joleen McFadden of Lakeville, a former partnership marketing director at Carlson Marketing Group. McFadden formerly directed rewards programs for Diners Club International and was director of partnership marketing at National Car Rental.

To be sure, aspects of DualCurrency's model already exist in spades. Credit cards have expansive membership rewards program. The AT&T Universal Card, for instance, gives ThankYou points for every dollar spent, which can be redeemed at a network of retailers. At Points.com, people swap frequent flyer miles for gift certificates at stores such as Eddie Bauer.

But none of the programs combines the pieces the way DualCurrency does, Hodroff said. Its technology can juggle a combination of reward points and cash together on each purchase in one credit card transaction.

Redeeming only rewards points disrupts a merchant's cash flow, Hodroff said, explaining that's partly why frequent flyer miles pile up because Northwest Airlines can't afford to make all those flights available.

DualCurrency Systems will enable people to easily redeem rewards like miles for discounts with retail merchants with one swipe of a card they already have not requiring them to get a certificate or gift card.

When people swipe their credit card or debit card at a point-of-sale terminal, the card links to the DualCurrency System server for the merchant's rules on redeeming rewards and to access the accounts that the member company operates. It allows you to pay for your items in a combination of rewards and dollars.

When a person pays for a \$20 dinner with a debit card, \$15 might come from a checking account and \$5 could come in redeemed frequent flyer miles. DualCurrency debits the rewards account and lets customers check balances on a secure Web site.

"Nobody's really doing this," he said.

Merchants join the network to get more people to patronize their business and set their own rules of redemption, such as the ratio of cash to points for purchases.

Companies join to get a stronger membership rewards program, and cheaply reduce the liability on their books of unused points or miles, Hodroff said.

DualCurrency's target market is companies with existing rewards programs such as American Express and Northwest Airlines, health care companies, employee benefit programs and government agencies.

A full-scale launch of the DualCurrency system won't happen until next year.

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