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# The Value of Loyalty

*In a world of mobile discounts and online deals, experts talk about what loyalty programs should be—but seldom are. **By Brian Quinton***

**L**oyalty programs have been around for more than 70 years, and more marketers than ever are turning to rewards to retain and reactivate customers. But how can these programs be kept fresh and relevant for users while integrating with results-driven campaigns in other channels?

Chief Marketer staged a “virtual round table” with three leaders from loyalty consulting firms—Kelly Hlavinka, a partner at Colloquy; Luc Bondar, vice president of loyalty marketing at Carlson Loyalty; and Barry Kirk, director of strategic consulting at Maritz Loyalty Marketing—to find out what’s right and wrong with current loyalty programs.

## **What’s the scope of loyalty programs today, and what issues does that raise for marketers?**

**HLAVINKA:** Our most recent Loyalty Census found that there were 1.8 billion loyalty members in the U.S. in 2009. The average U.S. household has enrolled in a little over 14 programs across all services. That’s a lot of competition for marketers to become the 15th that they sign up for, and a lot of competition for share of mind and of wallet, because the census found that the average household

actively participates in only about 6.2 of those programs. Ubiquity of loyalty programs really is raising the bar in terms of how we keep customers engaged and keep programs as effective as they’ve proven to be.

**KIRK:** Everybody’s slightly desperate to hang on to existing customers and to wake up a vast group of sleeping customers who could be more valuable but have disengaged from the brand. The

smart brands are disdaining the allure of the discount and the coupon and trying to be more engaging with the program itself, creating something that’s more novel so that when they put it in front of the consumer, they’ll pay more attention to it. What loyalty programs really need to do is say, “Pay attention, because I have something brand new here.” That might be mobile, or social, or gaming. But essentially the smart brands are changing the whole proposition for their members and giving them a reason to pay attention.

**BONDAR:** You get loyalty fatigue only when you have irrelevance, or when you have a crappy experience, which a lot of older programs have. But more importantly, a lot of older loyalty programs don’t create a terribly relevant customer experience; they’re very cookie-cutter. But the programs of today and the future are really built around the ability to create a rich, relevant, personalized customer experience that feels less like advertising or

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marketing and more like information and value to the customer. Thus they’re far less likely to experience fatigue. As loyalty programs improve, we’ll see less fatigue—but that puts the onus on marketers to get them right.

## **Where should discounts and price offers fit into loyalty marketing?**

**KIRK:** In a lot of the programs I’m asked to consult on, marketers start out thinking they need to be more aggressive in offering discounts to loyal



**BARRY KIRK**, director of strategic consulting, Maritz Loyalty Marketing



**KELLY HLAVINKA**, partner, Colloquy



**LUC BONDAR**, vice president of loyalty marketing, Carlson Loyalty

consumers. I think most people in the loyalty space would agree that's not the best move. With the rise of so much "social couponing"—just think about Groupon.com and its imitators—that stuff is everywhere now, and essentially it devalues the brand. It's a zero-sum

game that you're going to continually have to up the ante on to keep people engaged at that level.

**HLAVINKA:** Consumers say loyalty programs are as important as or more important than ever because they real-

ize the programs can help stretch their budgets. But our retail loyalty index also shows that in this economy, price is affecting how consumers define their loyalties right now. The big question is how long that will last. I'm of the opinion it's a pendulum phenomenon. As the economy improves, the pendulum will swing back, and we don't want to abandon the loyalty elements that will be more sustainable than just a price play—which is easily matched by the competition.

**BONDAR:** It varies by sector. Loyalty in retail is about changing customer behavior, getting them to put one more SKU in their basket. If you're just rewarding shoppers for what they're already doing, you're missing an opportunity.

**KIRK:** We often define true loyalty as resistance to a competitive offer, which means you don't always go for the lowest price. It's a natural assumption that that's what consumers want most, but findings show the human brain gets just as excited about status opportunities as cash rewards. The message for loyalty programs is that you don't always have to go the discount route. You can create special experiences that confer status on your high-potential customers.

## FEELING THE LOVE: Loyalty Tips from the Pros

**Kelly Hlavinka:** Get the reward/recognition blend right. A well-designed program that will stand the test of time is not just going to rely on the economic benefits of "Fly us and get a free seat." More sustainable programs will also have a more emotional recognition component: "I recognize that you're a good customer and give you special perks and access because you are loyal to me."

**Luc Bondar:** Simplicity, understandability—these are table stakes. If the program is too complex or overly manual, placing too much burden on the consumers to take part, they will simply check out.

**Barry Kirk:** The programs that succeed will take advantage of new channels and new media and change the experience to get people to pay attention. That may mean ignoring "best practices" for loyalty. If you're following best practices, chances are you're copying what someone else out there is already doing.

**KH:** One way companies can make sure their program is not just a knockoff of the competition is to start by thinking about their brand promise and ways to use their communications and rewards/recognition mix to make that promise tangible.

**LB:** Start with the data. See what it's telling you about what customers are playing, what they're checking out, what they are and are not engaging in. That will give you a good line of sight into what's working in your program.—BQ

**Loyalty members often pass along lots of information about their preferences, their values, life stages, etc. How important is it to use this data effectively, and how well are loyalty marketers doing that?**

**BONDAR:** Programs have evolved over the last five years from simply sticky rewards for best customer behavior to a general understanding and then application of the value of customer data. The role of the loyalty program isn't to create a fixed point-earning structure and a prize mall. That's all simply the

using the data and insights that you got from them about their preferences and needs to make the communications with your members more relevant? Some companies are doing that—but not enough. And our direct customer research shows customers don't feel the programs they're in today are really tailored or relevant to them, despite all the information they know companies have about them.

**KIRK:** Many programs today are sitting on a lot of data that they're not leveraging. They also don't have a strong financial case for their programs. Many

information. But what excites us the most about it is opt-in to that channel will be crucial, perhaps the biggest issue. The reason customers have opted in for all the information tracking of loyalty programs in the past has been the rewards and recognition. So loyalty marketers will probably be able to get opt-in more efficiently than brands requesting it in the context of just pricing or sales messaging.

**KIRK:** Traditional loyalty programs are going to need to shift into those new mobile and social channels. At Maritz we're seeing a lot of work to "game-ify" loyalty programs, add game-like elements into loyalty programs. You'll see more traditional loyalty players move in that direction in the next two years. They'll still have the points, the rewards and the communications. But they're going to acquire the ability to deliver against mobile, social and gaming, to create richer user experiences. Any time the consumer is raising a hand and volunteering information in a social space, those are direct signs a consumer is engaged with you in more than a passive relationship.

**BONDAR:** Once, loyalty was a plastic card that got swiped or shown, and a paper catalog that got mailed, and marketing every quarter to tell me how many points I had in my account. Today, channel shift is a macro trend across all verticals. We'll see fewer cards, because more loyalty activity is moving to the handset. Thanks to social networks and geo-based mobile, loyalty will become one big happy mash-up, with the ability to see where a customer is, who they influence and who they're influenced by. You'll see their value in transactional terms, but also as an advocate for your brand, and can then engage them in a value exchange that is one part financial, one part collaboration on a better experience. ■

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hook by which you enter into a value exchange with customers—to give them something if they'll give you their data.

We've seen use of program data to drive smarter acquisition into the program, to drive differentiated earning models based on customer value, and to drive differentiated redemption models that actively manage the balance between customers and rewards. Loyalty marketers have always been good at looking backward, saying, "We did this and it generated these results for an ROI of X, good outcome, bad outcome." But that doesn't drive new sources of revenue. Savvy marketers today are interested in predicting the future, using data to make smarter decisions about media budgets, customer segmentation and product promotions.

**HLAVINKA:** This speaks to the relevance of a loyalty program. Once someone opts in to have their data tracked in order to earn points, are you

programs were launched because of a competitive threat. We're often asked to come in and look at a program, and the first thing we have to do is figure out if it's driving profitability—and not all programs are. Because of pressures in the market, brands are getting more serious about running models to determine if their loyalty programs are driving incremental behaviors. Some of them will be surprised by what they find.

**What role will new technology platforms such as mobile and social networks play in the evolution of loyalty programs?**

**HLAVINKA:** Loyalty marketers have a huge opportunity to capitalize on the spread of new technology, and particularly mobile. We've talked about the main benefits—everything from using it as an ID device to using it to connect to members to rewards and