

# From Fickle to Faithful

How leading brands are updating their loyalty programs to increase participation and engagement

**E**nrollment may be up, but participation in loyalty programs is declining. To turn the tide, marketers are rejiggering their efforts to place a greater focus on digital interaction.

When it comes to loyalty, Coca-Cola runs the nation's largest consumer packaged goods loyalty program with an astounding 23 million members. How many of those are active is unclear, but what is clear is that the brand continues to reinvent and update the program to meet the changing needs of its members. It listens to the social chatter. It digs into internal and external research and then responds, keeping the program fresh and inviting.

This adjusting, tweaking, modifying or just plan overhauling of loyalty programs is what experts say is needed to keep pace with the digital consumer. These updates keep loyalty members both faithful and active and out of the grips of competitors. Even more importantly, it's all in line with what loyalty program members say they want from the programs in general, not just from Coke.

Coke understands that strategy. Earlier this year it overhauled My Coke Rewards based on what it learned and heard that members wanted. Coke shifted the program from a traditional, transaction

model to one driven by community and social interaction that spits out relevant and relatable content to its members. The content is interactive, "snackable," as Coca-Cola says, and organized around members' personal passions like cooking, gaming and fitness. For sharing the content—a major goal for any loyalty program—members are rewarded with unique, memorable experiences like cooking classes with celebrity chefs or premier tickets to sporting events.

These higher profile incentives are scattered among the more standard rewards like coupons and retailer gift cards. And the program is now compatible across all mobile devices, a must have for driving loyalty program success.

"We're taking that commitment to the next level with this new digital platform by offering experiences that are more personalized,

more social, and more valuable than ever," Kim Gnatt, global group director, digital marketing said when the updates were announced. "With brand new marketing technology systems powering the loyalty platform, we are able to serve content direct to consumers based on their personal preferences and online behaviors. And by leveraging our partnerships, we're able to create one-of-a-kind experiences that only the Coca-Cola Company can offer."



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## LOYALTY MEMBER MOBILITY YOU CAN'T TALK ABOUT LOYALTY WITHOUT TALKING ABOUT MOBILE.

1. Mobile not only improves the program experience, but also ultimately drives loyalty to the brand. Some 48% of members in the 2015 Loyalty Report agreed that they would like to engage with loyalty programs through their mobile devices. Even so, while 12% of customers have downloaded a loyalty program app—an increase of 5% over last year—another 61% are not even aware whether or not the loyalty programs they are enrolled in even offer a mobile app.



### 2. OVERALL SATISFACTION WITH LOYALTY PROGRAM

Impact of Relevance on Receptiveness to Communications	Among top 10 Programs	Among bottom 10 Programs
Interest in receiving	42%	9%
Love receiving	61%	18%
Always read	67%	34%
Impact of Communications Relevance on Program Satisfaction	Among top 10 Programs	Among bottom 10 Programs
Overall satisfaction	85%	56%
Likelihood to recommend	59%	28%
Level of commitment	51%	20%
Program is worth the effort	74%	41%
Feelings about program: Love	50%	14%
Feelings about program: Proud	45%	15%
Feelings about program: Delighted	52%	18%
Makes me feel valued	62%	16%

Interest in Communications (%Percent of Members, 738)

3. The Capgemini study sites L'Oreal's "Beauty Insider" loyalty program as the one to watch. It matches loyalty accounts with Sephora's mobile app, as well as the Apple Passbook mobile wallet. This allows Sephora to provide a seamless purchase experience, where customers can track their purchases, view offers, and redeem reward points on the go via their mobile devices. The strategy has worked, with Sephora's Passbook users purchasing twice as much and twice as frequently as the average Sephora customer, the report said.



Sephora's "Beauty Before Brunch" invites loyalty members to "Sip. Shop. Splurge."

4. eMarketer estimates that this year, there will be 190.5 million U.S. smartphone users of all ages, representing 73.4% of Internet users and 59.3% of the population. By 2019, the smartphone audience will reach 236.8 million, or 85.5% of Internet users and 71.4% of total consumers in the country. These smartphone users now spend 85% of their smartphone time using apps.

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## BIG BUCKS

The amount of dollars earmarked for loyalty is astounding. U.S. companies spend a whopping \$2 billion on the programs every year, according to Gallup. Yet, a new report from Capgemini Consulting finds that the majority of these investments are not translating to increased customer engagement. Only 44% of loyal program memberships are actively used. Why?

The answers are not surprising but offer real insights for marketers straight from the horse's mouth. The report found that 44% of respondents cited a lack of reward relevance, flexibility and value as reasons for not participating. Meanwhile, 79% of loyalty programs use the mobile channel but only 24% allow redemption through it, a real sticking point for members who largely use their mobiles to interact with their loyalty programs. Add to that only 11% of loyalty programs offer personalized rewards based on a customer's purchase history or location data. Another sticking point affecting activity, only 16% of programs reward customer engagement activities

such as taking online surveys, rating and reviewing establishments or referring friends to the program. And, loyalty members aren't shy about laying all their complaints out on social media. The Capgemini report found that 89% of social media opinions on loyalty programs are negative stemming mainly from the lack of reward relevance, rigid reward structures, user experience issues with online channels and poor customer service quality levels.

**"THIRTY-FOUR PERCENT OF CUSTOMERS SAY THEY WOULD NOT BE LOYAL TO THE BRAND IF IT WEREN'T FOR THE BRAND'S LOYALTY PROGRAM"—2015 Bond Brand Loyalty Report**

Another report, The 2015 Loyalty Report from Bond Brand Loyalty, a Maritz Company, reports that despite the slip in active members, consumers continue to enroll in loyalty programs at 13.3 per member compared to 10.9 in 2014. It also reported that active

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## FIVE WAYS TO IMPROVE BRAND LOYALTY

Any solid relationship touches on emotions, intellect and everything in between. Loyal connections between brand and consumer work in exactly the same fashion: much more is needed than the occasional “checking in.”

Loyalty begins with being able to clearly identify your customer; tracking and monitoring of behavior and purchasing; serving up the right mix of benefits (but not necessarily rewards); and using the right channels for engagement.

But forging deeper relationships—those evident among the consumers of brands such as Apple, Sephora and Starbucks—takes more insight. Creating a truly effective loyalty program, one that inspires enduring passion and devotion, requires communication, understanding, and an ongoing effort to keep things fresh.

### Here's five tips to improve your loyalty program:

1. **Engage the whole person.** The Four-Drive Model, developed by Harvard University academics, speaks of four underlying human drives that serve as our motivation for all things in life: the drive to acquire and achieve, to bond and belong, to create and change and to defend. Marketers often satisfy the “acquire” drive through discounts and promotions, allowing customers to gain not only more products, but also higher levels of loyalty rewards and status. This tends to go hand-in-hand with the desire to “defend,” as those customers will have to keep buying to maintain benefits. Top-notch loyalty programs, however, also embrace the “create” aspect by enabling consumers to consider and help impact the world around them, as well as the “bond” drive by enabling consumers to engage and connect with each other on a real level.

2. **Embrace brand alignment.** Make sure that loyalty initiatives embrace the principles of, and help the brand fulfill, promises made to customers in a brand-right way. Think of Walgreens, rewarding healthy choices and actions as part of an overall focus on wellbeing. One of the biggest benefits here is that strong alignment with the brand's unique character can't easily be copied by a competitor. In addition, the integrity of an aligned brand fosters customer satisfaction, a sense of expectations being met, a willingness to advocate, and a tendency to repurchase. Sephora's Beauty Insider program does this particularly

well: through elements such as Beauty Before Brunch, an exclusive event for VIP Rouge members, the program experience helps deliver on the brand promise of empowering members to explore and enjoy the world of beauty.

3. **Consider the value exchange.** It's often easy for brands to articulate exactly what they want from their consumers: bigger basket size, repeat sales, loyalty. But it's also important for brands to understand what consumers want—and need—from them in return at every stage of the relationship. Does the loyalty program authentically deliver against real needs? Is the loyalty program experience enjoyable in and of itself? Does it engender an emotional response from the consumer, in addition to a monetary one? Is it personalized enough that consumers feel special? An important point here: The best loyalty programs focus on completely delighting the brand's top customers, rather than partially pleasing everyone. Think of Amazon's new Dash Button, which allows one-touch re-orders of products for Prime members, providing an easier experience as well as added value.

4. **Remember that each sector is unique.** The elements that drive customer satisfaction with loyalty initiatives are unique to each sector. In payments, for example, our research has shown that the speed with which consumers/cardholders can receive their redeemed loyalty benefits is of utmost importance. In retail, on the other hand, consumers value being “known” by the brands they purchase.

5. **Build loyalty to the brand, and not just to the brand's loyalty program.** When a loyalty program leans heavily on discounts alone, a customer's loyalty may end up being to the monetary incentive; when prices are lower elsewhere, the consumer may be lost. Intrinsically appealing elements such as status, surprise-and-delight moments, customer events, new product feedback and the like, however, may inspire allegiance to all the brand has to offer. Amex's new Plenti coalition program sets up to potentially do the opposite for partner brands, driving member loyalty to the Plenti program itself, rather than to the partners' brands. We'll watch with great interest as this story unfolds. —*Scott Robinson, senior director, loyalty consulting & solutions, Bond Brand Loyalty*

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membership decreased (from 7.8 to 6.7), an indicator that consumers are reaching a program engagement saturation point.

One startling finding in the Loyalty Report is that 34% of customers say they would not be loyal to the brand if it weren't for the brand's loyalty program. Another 76% of Americans think that loyalty programs are part of their relationship with brands. Add to that,

less than half of consumers agree they spend more after having joined a program than before, suggesting that marketers are incurring program costs with no corresponding increase in sales among a significant portion of their customer base. Even more troubling, 44% of respondents to the report said, “It would be easy to replace the program with a competitor's program.” All the more reasons loyalty mar-

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marketers need to differentiate their programs from the competition.

## KEY DRIVERS

Big drivers in member satisfaction continue to be functional elements like easy reward redemption and amount accumulated per \$1 spent, but shouldn't be the focus. Relying solely on these two elements is a recipe for poor performance, according to the 2015 Loyalty Report.

"It is a pitfall to which many brands have succumbed—locked in to an endless cycle of one-upmanship and outspending the competition on rewards. The challenge for brands is that discounts are not sustainably differentiating, and many brands cannot simply continue to one-up or out-discount the competition while still expecting to remain profitable," the report said.

The study also found that loyalty marketers should focus on five experience-based drivers of satisfaction while reducing their reliance on monetary incentives. Programs should be:

- Worth the effort of participating
- Able to meet members' needs
- Enjoyable
- Simple
- Easy to understand

"The path is paved with experience-based drivers of satisfaction—which are as weighty as the functional rewards-oriented drivers in terms of their influence on overall program satisfaction," the report said. Improving performance on experiential drivers can discern the top programs from the "next best."

Bond Brand Loyalty says communications relevance is a key element in engaging and retaining loyalty members and keeping them satisfied. Some 93% of respondents to its survey last year "strongly agreed" that communications from their loyalty programs make them feel valued and important. Programs that ranked highly for communications relevance had members who are highly engaged, significantly more interesting in receiving communications, far more enthusiastic about what they do receive and almost twice as likely to "always read" the communications they receive.

"Customized content (targeted to members based on their behaviors, preferences and stage in their relationship with the brand) can be just as important as a program's perceived net value in generating satisfaction, customer retention and increased sales," the report said. The bottom line, overall satisfaction is tightly linked to content relevance. Brands that deploy compelling and customized communications to make their members feel more valued with

## LOYALTY CHECKLIST

1. **Test and learn**—Once a loyalty program is developed, it shouldn't 'sit on a shelf'. Conduct ongoing evaluations to determine what's working and what isn't. As your customer shifts and evolves, so should the program. Smart marketers are agile and can respond to changing consumer demands and industry trends.

2. **Integrate the program**—A loyalty program shouldn't be a stand-alone program. It should be integrated into the organization's overall brand and value proposition in a seamless way.

3. **Use your data**—If customers aren't receiving offers that are relevant to their lifestyle and needs, odds are they'll stop using the program. Leverage loyalty program data to identify key customer experience elements, and revise your offer and strategy based on what your most valuable customers want.

4. **Personalize your communications**—Consumers respond best to personalized offers that focus on products or services relevant to their needs.

5. **Consider Surprise and Delight**—Loyalty programs that offer 'surprise and delight' experiences have the opportunity to connect with a customer at a deeper level, creating long-term loyalty with the organization or brand. However, it's important to offer relevant experiences based on the data collected. The rewards should be tailored to your best customers.

6. **Gather Customer Feedback**—According to a recent study between LoyaltyOne and Verde Group, shoppers who have a poor customer experience are putting a significant amount of revenue at risk. Of the consumers polled who had a poor customer experience, 81% decided not to contact the retailer about the issue. Among these silent shoppers, 32% said they were unlikely to recommend the retailer to friends and family. By comparison, shoppers who did notify retailers of their poor experience and had their problem completely resolved were 84% less likely than silent shoppers to be at risk of decreasing their spend. Use the loyalty program as a customer touch point to gather valuable customer feedback. —Source: Colloquay

have a strong competitive advantage.

The report found that these brands are also likely to achieve incremental business results with satisfied members three times as likely to spend more with the brand and are less price-sensitive. This group claims to be more than four times as likely to buy something they don't want or need in order to earn points or maintain their program status.

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## ONES TO WATCH

In Bond Brand Loyalty's 2015 Loyalty Report, it rated the "best" and "next" best loyalty programs in several categories. Take a look:

	BEST	NEXT BEST
<b>Retail:</b>	Amazon Prime	Barnes & Noble Member
<b>High Frequency Retail:</b>	Kroger Fuel	Food Lion MVP Card
<b>CPG:</b>	L'Oréal Paris Gold Rewards	General Mills Box Tops for Education
<b>Entertainment:</b>	Regal Cinemas Crown Club	AMC Stubs
<b>Dining QSR:</b>	Subway Rewards	Chick-fil-A Fil-A-The A-List
<b>Dining Casual:</b>	TGI Fridays Give Me More Stripes	Pizza Hut Hut Lovers

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## SECTOR BY SECTOR

American households typically hold memberships in 29 loyalty programs, according to the 2015 Colloquy Loyalty Census, spread among the retail, financial services, travel and various other economic sectors, but are active in just 12 (a higher number than reported by Bond Brand Loyalty). That marks a 4.5% decline over the two-year census period and the beginning of a trend, as the active rate declined for the first time in the 2013 report. An active member is defined as one who earns or redeems at least once a year.



"With so many programs, unless the benefits are relevant to the consumer's lifestyle, and are communicated in a comprehensive way, odds are the member will become disengaged," says Jeff Berry, Colloquy research director. "Many companies spend the majority of their time and financial resources on customer acquisition, but unfortunately do very little to engage and retain the customer after he or she has joined."

Overall, U.S. consumers hold 3.3 billion memberships in customer loyalty programs, that's a 26% increase from 2013, the last time the Colloquy census was taken.

"Companies and brands that understand the key touch-points in the relationship, pay attention to how best customers respond and optimize the overall experience can turn the party up so that people will join in the fun and never want to leave," Berry says.

The 2015 Colloquy Loyalty Census shows that specialty store loyalty memberships now total 434 million, exceeding airline frequent flyer memberships (356 million) for the first time, placing second only to credit card reward programs, which account for 578 million memberships.

"The technological and financial barriers to set-up a loyalty program have decreased, which has allowed more specialty retailers to launch proprietary loyalty programs," Colloquy's Berry says. "On the other hand, airline consolidation has caused the number of loyalty programs in the airline industry to decrease. For example, US Airways Dividend Miles program members were migrated to American's AAdvantage loyalty program earlier this year following the two company's merger in December 2013."

Drugstore memberships rose 88% to 268 million, the highest rate of growth of any census category other than restaurant programs (107%); Drugstore activation rates rose to 66% in the 2015 census versus 50% in 2013, while other retail and credit card program activation rates were mostly flat; Grocery program memberships declined for the second consecutive census, with memberships dropping at twice the rate in 2015 (2%) compared with 2013 (1%); The rate of decline in fuel/convenience store programs slowed significantly to -3% in 2015 from -21% in 2013, the Census found.

Digging deeper into activity by sector, memberships in airline frequent flyer programs declined (-4%) for the first time and stand at 356 million. Airline programs had risen 14% in the 2013 census, according to the Colloquy study.

Credit card reward program memberships grew at a significantly slower pace, 5% in 2015 versus 28% in 2013. Restaurant loyalty program memberships rose 107% to 55 million in 2015, that's down from 171% growth in 2013. The retail, financial and travel categories traditionally have offered two loyalty program

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## CONSUMERS SEE THE VALUE IN FEE-BASED LOYALTY PROGRAMS

The launch of Jet.com this summer generated a great deal of interest from both the media and industry professionals—partly because the online retailer opened with a remarkable 10 million products offered, and partly because it's going head-to-head with Amazon.

For marketers, however, an intriguing topic is Jet.com's business model, which requires membership in order to shop. For \$49.99 annually, the website promises to surpass that amount in savings or refund the difference.

This fee-based approach has become increasingly common—and even preferred—in the management of loyalty programs. Forward-thinking companies are using fee-based membership or loyalty programs to better serve their customers while differentiating themselves from competitors.

Recent research shows that consumers see the value in these programs and are willing to pay and stay loyal for the right benefits—especially the highly sought-after millennial demographic.

In May 2015, a LoyaltyOne nationwide survey of more than 1,000 consumers indicated:

- 62% of shoppers would consider joining a fee-based program if their favorite retailer offered one; among Millennials the figure jumped to more than 75% of shoppers.
- 42% of shoppers claim to already be members of fee-based loyalty programs; among consumers age 25-34, more than half of customers have enrolled.

These results are significant in the context of the decline in consumer engagement with loyalty programs that has been documented over the past four years. The COLLOQUY Loyalty Census has revealed a consistent decline in active U.S. memberships despite double-digit overall membership growth.

In 2010, shoppers were active in 46% of programs of which they were members. In 2012 that number slid to 44%, then dropped again last year to 42%. So consumers, while signing up for more loyalty programs, are becoming less and less likely to use those memberships.

Those factors set the stage for a fee-based approach.

When consumers invest in a membership program:

- They receive immediate gratification and can begin to enjoy benefits without reaching certain levels or tiers in the program.
- They are more motivated to use the membership because they have already paid for it.
- Companies can provide highly compelling benefits because the economics are supported by the membership fees, rather than almost entirely dependent on incremental spending by members.

Based on these factors, marketers should consider fee-based strategies—but the approach may not work for every brand and different variables will be in play in every situation. Here are five quick preliminary steps to assess the feasibility of this approach.

1. Determine the target customers and their desired behavior. Successful customer strategies start with clearly defined, focused objectives. Specify the customer segments that should be the primary targets and the corresponding outcomes to be expected. For example, increasing engagement with the top 10% of customers will likely require a very different approach than reaching the middle 50% of customers.

2. Identify the obstacles to achieving the desired customer behavior. Gain a deep understanding of the customer's experience and mindset, both existing and latent customer attitudes. The barriers holding customers back may be in the form of price, risk, convenience, choice or possibly emotional considerations such as fear of commitment.

3. Develop solutions to overcome those obstacles. Create meaningful rational or emotionally stimulating benefits to lift your customers past behavioral barriers. Appealing to a customer's need to save time or reduce risk can be a powerful influencer for the right segment.

4. Evaluate how to package the program benefits. Consider how the targeted consumer interacts with the brand or product. What impact do factors such as channel, timing and pricing have? How can the benefits be organized to optimize opportunities for engagement?

5. Align the initiative with the broader product or service offering and brand identity. Economic projections may be favorable for a fee-based program, but it can fail if not in step with the company's goals. The program needs to fit into the broader value proposition, brand narrative and front-line employee culture.

The launch of Jet.com demonstrates—and consumer research supports—that fee-based loyalty programs and memberships are not only acceptable, but in some cases, preferred. Brands can take cues from recent market successes and aggressively explore this avenue for increased customer engagement. This approach, combined with a focus on delivering meaningful value and utility, can result in a true differentiator in today's competitive marketplace.

— Lance Du Chateau, Associate Partner, LoyaltyOne Consulting



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types, proprietary and partnership. But the lines are being blurred by a group of emerging programs that were non-existent five years ago, including large e-commerce loyalty programs, daily deals, cash and discount online platforms, and mobile loyalty programs, among others, which now account for 13% of nationwide memberships.

Take TGI Friday's for example, the casual dining restaurant chain is leveraging relationships formed through its loyalty program and using that data, as well as feedback from other customers, to inform everything from marketing campaigns and rewards programs to menu items.

"We're creating a new look, feel and vibe at Friday's," Rob Henderson, customer relationship marketing and loyalty manager, TGI Friday's, said last month at a DMA conference.

The restaurant chain is redesigning locations, reaching out to customers with special campaigns like mobile food trucks and engaging them through its "Give Me MoreStripes" loyalty program, where they can earn points and special offers. Once customers join the marketing team's goal is to turn them in to "best friends" who are Friday's best customers and ambassadors, Henderson says.

"We want to create closer relationships with our customers. Members who are our best friends visit 23% more often, they spend more, they bring their friends and they appreciate our offers. Members like to feel special, so we treat them special," Henderson says.

"Give Me MoreStripes"—which ranked as the "Best" loyalty program in the Dining Casual category in the 2015 Loyalty Report—members are privy to special VIP events and previews of new menu items, as a reward for being so engaged with the brand. Program members open Friday's emails at a 50% rate, with a 61% response rate, according to Henderson.

The Friday's team is also engaging its most loyal fan base across social media, and it has created a new social CRM database to manage social media and guest feedback. This helps Henderson identify brand advocates, drive awareness of new products, influence menu and product options and alter or reward operational behavior inside Friday's restaurants.

For example, last year Friday's teamed with Bethany Frankel and Skinnygirl Cocktails that drew a total



of 1 million social reach impressions, over 9,000 likes on Facebook and 22,000 social shares.

Henderson says the campaign also provided marketers with ancillary information on those who participated in the campaign, including gender, age marital status, number of children and income. Friday's also gleaned data on users interests, like favorite TV shows, sports, websites and music.

"We're looking to use that information to influence media buys," Henderson says.

Another successful campaign allowed Friday's customers to "Rate Your Burger," and provided marketers with valuable feedback through diner reviews.

"It offered the guest a chance to tell us what their experience was like. We leverage guest feedback and transactional data to inform performance," Henderson says.

TGI Friday's needed a place to house all of these reviews so customers would have a place to see them displayed, so a new "Social Hub" section was created on the Give Me MoreStripes webpage. This hub page shares guest reviews and authentic guest ratings, and helps marketers identify sentiment for Friday's products, service or brands.

"The main thing here is trust. What's better to build trust than other customers' reviews? Voice of the customer creates brand sentiment and loyalty," Henderson says.



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