LOYALTY MARKETING IN THE DATA-DRIVEN ERA
WHAT YOU NEED TO KNOW FOR 2020

BIG "L" VS. LITTLE "L" LOYALTY
Why smart marketers need a healthy mix of both strategies

On a macro level, there is a trend toward Big "L" loyalty programs that engender loyalty among a broader set of customers beyond those already enrolled in the loyalty program. Big L programs use engagement tactics that transcend transactional-type rewards and get more personalized. Little "l" loyalty programs, on the other hand, are traditional loyalty programs. The most progressive brands are doing a combination of both by focusing on what the consumer wants in the broadest sense that will drive loyalty, and then, within the loyalty program itself, engaging more deeply in a one-to-one relationships.

Starbucks, Amazon and Apple are just a few of the brands that have mastered both strategies that speak directly to a new generation of consumers. Two-thirds of Gen Z consumers said their impression of a brand is positively impacted by its association with a social cause, and 58 percent report such an association could spur a purchase, according to social impact company DoSomething Strategic. According to the study, brands with the highest correlation to a social cause among consumers include Savage & Fenty, Dove, Fenty Beauty and Nike, while Loft, StitchFix, Coach and DSW had the lowest.

"These brands think about the customer experience, the value that the customer is receiving from the brand beyond just the product or service that they're buying," says Tad Fordyce, svp loyalty at Epsilon. "They have a great customer experience, putting the customer at the center of everything they do and that drives brand loyalty at the highest level."

Customer experience and value is at the heart of the Dunkin' loyalty program, too, which was recently integrated into the DD Perks Rewards Loyalty app as a way to deliver more convenience, faster delivery and faster ordering to its customers. The app has reached 10 million downloads and has driven bucket loads of loyalty for the brand.

"The app was based on being a more progressive type of connection with their consumers," says Rick Boubelik, senior director of loyalty at Epsilon.

"If it's a points-based program some companies will give additional points to complete the profile or respond to a survey or connect with their social account," Boubelik says. "Those little things really help engage new members."

ENGAGING FOR THE LONG HAUL

Engagement with loyalty members, of course, varies by industry, but best practices include being on brand with your messaging and understanding the level of engagement among members. Tapping your analytics' team will help you understand your data points and KPIs to make sure you're life cycling customers.

"Members come in to the program for a reason and you need to maintain and nurture that reason," Boubelik says. "Whether they came in because it was points, service or price based, understanding and communicating that reason helps solidify an emotional and transactional relationship through the long haul."

Among Epsilon's analytic platform offerings is VAP (Value, Attrition and Potential), a segmentation algorithm that is applied to all customers in any given program. It can be augmented with additional metrics that a brand may want to include, but minimally it allows Epsilon to score customers based on how much value they have, and their potential value.

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WHAT'S INSIDE

"We've also got a share of wallet analysis and what their likeliness is to attrite over time," Fordyce says. "We work with brands to set up promotions and triggers based on how those numbers change over time. We recommend a communication plan that looks at different dimensions of that segmentation and as customers move from one segment to another you've got preprogrammed communication paths that you can take them down to try and incentivize them to spend more with you."

INTO THE FUTURE

In the next two-to-five years one of the biggest trends in loyalty marketing will be consumers having an even greater voice in how loyalty programs evolve. The programs that are going to be the most successful are those that allow the consumer to have a choice in how their data is used and what kind of promotions and benefits they get.

"If you look at all the focus on privacy, the new regulations in California and New York, GDPR, the common theme is that the consumer data is their asset," Fordyce says. "We're going to see even more diversification in loyalty programs where there won't just be a set of benefits that everybody gets, but rather consumers choosing the kind of benefits they want from a program. The ability to have a very flexible benefit structure, whether it's points or miles, will be on a personal basis. The type of promotions customers get will be personalized based on their needs and desires and how they've communicated those to the brand."

On a macro level there's also a trend toward convergence of adtech and martech. Separate advertising and marketing departments are going the way of the dinosaur. Companies that are fragmented in the way they organize activities between advertising and traditional marketing are not going to have a unified message to engage with the consumer holistically.

MAKING THE CONNECTION

The three things you need to get your loyalty marketing program up and running

1. CMO BUY-IN: Getting CMOs to understand that training front line staff, especially in retail where the turnover rate is high, is imperative. Key points to communicate to employees include why the loyalty program is important for the customer, the company and the employee.

"A lot of times marketing departments are responsible for the loyalty program, but education and training of their field staff is highly critical to the success of the program. That helps connect how the programs can really benefit all of the parties," Boubelik says.

2. CLEARLY DEFINED KPIS: Any brand launching a loyalty program needs to understand KPIs they can track and communicate to management.

"From an internal perspective, there's always going to be pressure on the budget and to continuously prove the value of the loyalty programs because they can be expensive to run and administer, but they do drive incremental value," Fordyce says. "Making sure you've got clear communications in place that allows the marketing department to communicate to the rest of the organization, not the least of which is the CFO who's looking at these numbers, to say, 'Look, here's how much we're spending on the program but here's the incremental value we're driving in terms of new customers, retained customers and sales volume.'"

3. CLEAR COMMUNICATION: Educating new members through straightforward communications on how to use and engage with the program using simplified earning charts and other visualizations will make sure they understand all aspects of the program.

HOW MACHINE LEARNING IS HELPING INCREASE LOYALTY PROGRAM ENGAGEMENT

The multiple components of a loyalty program—acquisition, increased engagement, redemptions, attrition and re-engagement—can be enhanced through machine learning to deliver truly personalized experiences. Today, machine learning is enhancing data-driven marketing strategies by playing a key role in understanding what motivates loyalty members to continue their purchases and move through the customer lifecycle towards the true goal—lifetime brand loyalty.

To understand machine learning, it's best to look at the outcome. Machine learning provides better accuracy in marketing communications, promotional offers and touchpoints, as well as improved personalization and acceptance by the consumer of the information sent to them.

To get there it takes data, and lots of it. Not just the standard transactional, demographic and POS data, wrapped up in segmentation and propensity models, but modern data. That includes all kinds of different data, including web or mobile interaction, social media and connections, location, app utilization, emotional inferences, as well as feedback from technologies like RFID, wearables, Chatboxes and VR and AR experiences.

"The perception of 1:1 marketing is dated and needs to be refreshed to accommodate today's technical and data abilities. We now take a broader approach to change the storyline to 1:You," says Boubelik. "We understand the quality of the time you're online, or in store with nano-location capabilities. With all the different types of data—even social preferences and reading reviews—we can paint a more accurate picture of the type of person you are and how you want to shop, buy and engage with the brand."

Machine learning is the engine that constantly adjusts all that data

and makes it more accurate, enabling marketers to go to market to get better engagement, better revenue and better results.

"Ultimately, machine learning frees up a marketing managers' time from the processes and execution of daily customer engagement to better focus on creating content that motivates a customer," Boubelik says. "It shifts the mindshare to a more proactive customer versus the reactive we prominently see today."

In addition to data, machine learning requires technology on the marketers' side.

Marketers need to understand the broad range of technologies needed to communicate to customers and the importance of partnering with their technology and data teams to create single customer interaction roadmaps and budgets.

"It's not just in hiring media agencies, ads and media budgets, but the technology and talent to create some of these models," Boubelik says. "For loyalty, the models differ by industry, and currently most of our successful models are around dynamic segmentations, which are curated purchase journeys, channel optimization and testing and effective personalized content."

For Walgreens' Balance Rewards Program, Epsilon enabled enhanced personalization on the pharmacy chains' website and app. Simple yet effective changes included adding an exclamation point after "Welcome [the member's name]!" as well as more advanced

> "Most of our successful models are around dynamic segmentations, which are curated purchase journeys, channel optimization and testing and effective personalized content. Machine learning can be really great, but if marketers don't have the execution means on their side, that's the hard part."
> —*Rick Boubelik, senior director of loyalty at Epsilon*

updates like adding a motivational tile so members can earn more points per dollar and faster redemptions. Other enhancements include a clear visual on progress toward the next reward and an explanatory graphic to easily see the available reward and how to redeem.

Epsilon client United Airlines uses machine learning to offer up valuable seat upgrades, boarding priorities, additional mileage points and a whole host of other enticing offers that match with a customer's preferences, tendencies and precisely deliver the offers (that change based on time to flight, availability, demand, weather and several other factors) at the many inflection points the customer maybe using. This is all happening in real-time and with thousands of customers on a continual basis throughout the day.

THE THREE STAGES OF EFFECTIVE MACHINE LEARNING

1. COLLECTION

Data should be aggregated from multiple channels to form a single view of a customer.

"We know all the devices consumers are on so we can communicate across those devices by bridging online and offline channel data," Boubelik says. "Something as simple as knowing what colors each customer responds to in an email can create more endurance to the brand. Data storage is getting cheaper, data hubs more efficient and faster, and there are more and more new sources that will make marketing, as well as content, easier for us to achieve personalized moments for 1:You. Think wearable, open source apps, citizen data scientist access, city/state community data and the list is growing every day."

2. DETECTION

Identifying and understanding consumer interactions with the brand is the foundation for machine learning.

Once customer insights, anomalies, trends and value scoring are identified then companies can focus on creating meaningful campaigns and content that will resonate with consumers and drive action

"This is where the 'Machine Learning Factory' team at Epsilon is creating modules around next best actions instead of just best offer promotions," Boubelik says. "The Factory serves as our hub for internal and external created machine learning modules for customer acquisition, online and offline engagement, redemptions, retention and more, all

in real-time and optimized by channel. Since we live in an 'always on' digital world, machine learning is critical to create real-time moments that are truly valuable to our clients' customers."

3. ACTION

Machine learning can build defined segmentation, nurture programs, campaign designs and improve content creation and real-time marketing. Then—you're ready to act.

For example, through the use of machine learning, eBay, an Epsilon client, enabled real time 1:You messaging by using machine learning for segmentation, curated purchased journeys and product recommendations. Continuous channel testing was conducted using machine learning for optimizing time of day messages and identifying effective content personalization including color and word selection. Search engine marketing was ramped up using proper search ordering with predictive models that resulted in better search analytics. Advanced analytics included constant testing and learning versus just A/B testing and data exploration for all eBay marketers. Lastly, machine learning provided new ways for eBay to interact with customers through voice assist with Google home and BOT designs that provided faster customer service and behind-the-scenes targeted offer tracking.

"Some of the marketing managers see machine learning as 'OMG I have to be an analytics brainiac,'" Boubelik says. "It's actually very accessible and affordable to start. Continuous testing can be done in a very simple form and get you fabulous results."

3 WAYS TO INSPIRE DEEPER EMOTIONAL CONNECTIONS
Ideas for using emerging data points as emotion indicators

Understanding the role of emotions in your personalization marketing is essential for success with loyalty programs. There are emerging data points that can be used as emotion indicators, and machine learning plays an integral role. When these behavioral data points are integrated into a data set, the marketer is on the path to fully understanding their customers' emotions and gaining a 360-degree view. Loyalty members react when they sense you're empathetic to their wants and needs. When they see the human side of your brand, they can relate.

"Marketers have data that helps them understand what customers do, when they do it and where they do it, but they don't really have data that tells them why they do it," says Tamara Oliverio, CLMP, senior director loyalty strategy at Epsilon. "The 'why' is super important because that's the single motivating factor behind why a consumer behaves the way they do and it's almost entirely based on emotion."

In fact, nearly three-quarters of loyalty programs today offer experiential-based rewards, compared to 61 percent last year, making experiential rewards that leverage emotions a baseline element of loyalty programs, according to Gartner's Loyalty 2019 report.

Engagement-oriented brands can also give members opportunities to connect with certain philanthropic missions and brand purposes that motivate them. Toms shoes, for instance, activates emotional loyalty by allowing loyalty members to donate collected rewards to support a cause of their choice, the report said.

Here are three ways to develop those deeper customer connections using emotional indicators as a guide.

"Being loyal to a brand means..."

Nearly three-quarters of loyalty programs offer experiential-based rewards, making such rewards a baseline element of loyalty programs to drive emotion.
—*Gartner*

1. LISTEN AND COLLECT
"Really listen to why people are doing what they're doing," Oliverio says. "We make a lot of inferences as marketers as to why people do what they do, but we're not necessarily listening to why they do it."

That means listening and gathering data points—lots of data points—whether through surveys, social listening or the use of new technologies like eye tracking and facial recognition, that can read expressions and emotions to understand how a customer might be feeling in the moment to inform marketing communications.

Understanding your customers' emotions is at the heart of modern loyalty marketing and these emerging data points can be used as indicators when applied to machine learning. It takes time to collect emotion data, but once in hand it can be mined for progressive profiling, and to deliver more personalized messages, rewards and experiences.

"The key is being able to scale it on an individual level, which would take time to get to that point," Oliverio says. "In the meantime, you can find lookalikes and make some inferences based on those similarities. But it's going to be much more informed if you can create certain segments by getting a sense of people's emotions in that individual moment."

2. DEVELOP A PLAN
With the data in hand, identify different segments, like specific personas. Leverage key segments—high value, high potential—most likely to attrite, and lapsed users and prospects. Ideally, there would be various micro-segments (and personas) within each of those segments that are created and/or informed once the emotional data is added to the data set. Use that information to inform customer experiences based on actual emotional indicators. Map the customer's journey and then develop the right message to evoke the emotion you want for that particular brand moment.

"It helps inform any messaging and creative, but really taking it from an informed emotional approach, as opposed to an inferred emotional approach makes the difference," Oliverio says.

Epsilon leverages its proprietary Emotional Loyalty DNA Model to help understand where people are within the loyalty path. The model was identified in collaboration with Epsilon's Customer Insights team and a number of published biological papers. It defines seven phases of the loyalty journey—awareness, testing, attraction, uncertainty, familiarity, commitment and, the ultimate goal, [brand] love and loyalty.

"It's all rooted in psychology and biology," Oliverio says. "Within each stage there are various emotions that people feel—positive, negative, neutral emotions—the point being to identify each stage the consumer is in, the emotions they might be in in a given moment and then try to evoke a certain emotion in that stage that helps them get to the next stage."

3. MEASURE THE RESPONSE
After a plan is developed and executed, marketers will want to measure the performance of the strategy and tactics implemented. Did short-term incremental behavior occur (purchase or engagement)? Has there been material impact to customer lifetime value? Did the consumer change which phase in the Emotional Loyalty DNA model they were in?

Once all this is understood, various tactics and strategies within the overall plan can be adjusted. Like determining patterns in the data that can be applied to predictive modeling to identify consumers in a certain stage who are exhibiting patterns similar to others in that stage to improve what the next steps might be.

"Use that data to predict the next behavior and apply that to a machine learning model," Oliverio says. "Test to determine what kind of correlations exist between certain moods or emotions at the interaction—that would be the pattern, like those interaction specific to a loyalty program, like enrollment, point earning behaviors or point burning."
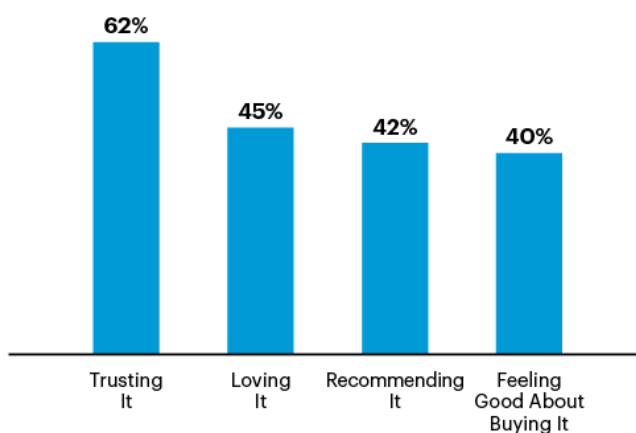
THE 5 HABITS OF HIGHLY SUCCESSFUL LOYALTY MARKETERS
How to engage loyalty program members and create powerful connections

1. CREATE AN ONGOING DIALOG

You've invested resources into getting to know your customers, now you need to keep the relationship active and alive through personalized communications. Consumers who read welcome messages engage with more than 40 percent of that brand's messages during the following 180 days. So, don't stop at the welcome. Create a variety of communications that keep customers engaged across channels. Remain flexible and adapt to your customers' current needs. React to anticipated communications in real time. Capturing the moments in which the customer is coming to you is essential.

2. FOCUS ON IDENTITY MANAGEMENT

Identify individual members whenever and wherever they interact with your brand, from both a known and online perspective. Identify their needs and observe their behaviors to fulfill on their expectations and more. This leads to getting the best ROI. Loyalty marketing is typically permission based—consumers are opting in, so it becomes a lot easier to target those consumers with the right message and measure that return in terms of engagement and transactions.

3. PRIORITIZE CUSTOMER SERVICE

Train your associates and provide them with the tools, technology and techniques to get to know the consumer. Social chats, customer service calls, follow-up policies and anniversary "thank you" gifts to surprise and delight members will create new ways for you to glean insights. Then, integrate this data into the program data. Observational data is key to building the emotional component of powering connections. Some 93 percent of customers are likely to make repeat purchases with companies who offer excellent customer service, according to HubSpot.

4. OFFER MORE EXPERIENCES

In the past, loyalty programs centered around money. Almost universally, the more you spent, the more money, points or perks you earned. Today's modern loyalty customers want experiences, particularly Gen Z and young Millennials ages 18-29, and brands need to respond to this shift. One brand leading the pack is Starbucks, which just updated its rewards program for members to earn Stars—or rewards points—sooner, and to use those points to buy more items and receive more experiences than before. As of last December, Starbucks counted 16 million members in its loyalty program. The program makes up about 40 percent of the company's transactions in the U.S. and has grown 26 percent in the last two years, the company's CMO Matt Ryan told USA Today

5. BRING ON A TECH PARTNER

Consider technology products and services that can offer a wide range of options including behavior-driven, personalized offers, relevant communications, engaging gamification experiences across channels and devices, redemption and currency options, websites and app management, machine learning, artificial intelligence and predictive analytics among other services.

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