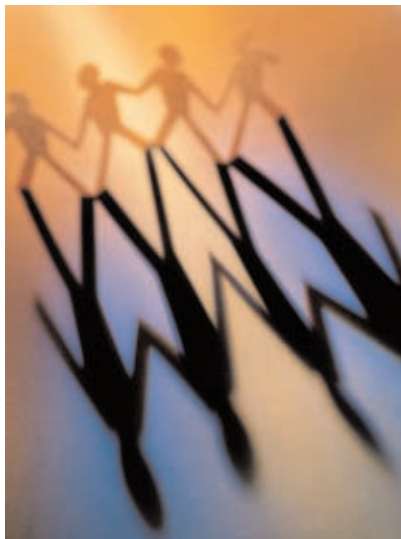


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Segmenttalk



The Difference Engine

A Comparison of Loyalty Marketing Perceptions
Among Specific U.S. Consumer Segments

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The Difference Engine

A COMPARISON OF LOYALTY MARKETING PERCEPTIONS
AMONG SPECIFIC U.S. CONSUMER SEGMENTS

“The future has already arrived. It’s just not evenly distributed yet.” – William Gibson



Introduction

In 1991, science fiction authors William Gibson and Bruce Sterling published *The Difference Engine*, an alternative-history novel that postulated a Victorian-era world in which mathematician Charles Babbage’s “difference engine”—an early prototype of a mechanical computer—was mass-produced, which allowed Great Britain to achieve technological domination over other 19th-Century nations. In reality, Babbage’s early PC was never built; the British crown developed cold feet over the escalating costs required to build the massive mechanical device and pulled the plug. The difference engine was simply ahead of its time.

In essence, the idea of loyalty marketing—leveraging customer data to create customer value, as envisioned by those early travel industry pioneers in the 1980s—was similarly ahead of its time. Marketers knew that the ability to track and to deeply understand customer behavior would enable them to build more relevant, engaging offers that would create real brand loyalty.

If those early dreams of one-to-one marketing proved largely a pipe dream, it wasn’t for lack of vision. The technology required to actually enable data collection and analysis at the enterprise level simply wasn’t available. And when affordable and scalable loyalty software platforms finally hit the market in the 1990s, the entire concept had already been hijacked by the CRM software industry—which promptly drove itself, along with many CMOs, straight over the cliff.

And so, like Teddy Roosevelt, we did the best we could with what we had, where we were. The result was a marketing landscape saturated with loyalty programs that largely looked alike. We find ourselves today in a marketplace with 1.3 billion loyalty program memberships in the U.S. alone. In this saturated environment, practitioners of the loyalty discipline are left wondering how to improve program performance, deliver differentiated value to customers and still meet the ROI hurdles laid down by their respective enterprises.

And so marketers find themselves in need of a far deeper understanding of consumer attitudes and perceptions toward loyalty-marketing programs. If we have indeed entered an era of loyalty program saturation, then carefully crafted program differences based on highly segmented or individualized needs may be the only salvation. One size will no longer fit all. Some marketers are farther ahead down this path of differentiation than others; as Gibson says, the future is already here—you just have to grab your share of it.

"In examining this landscape, we concluded that active loyalty-program participation rates are, given membership size, moribund. Are consumers really as bored with programs as the activity rates suggest? And if so, how are these attitudes reflected in demographic segments of key interest to marketers?"

While every business creates its own definition of target audience, many of those definitions are expressed in demographic terms. As COLLOQUY helps clients understand, design, enable and evolve their loyalty strategies, we consistently hear questions about a few select demographic groups of high interest—the ever-growing Affluent population; Young Adults, who will become the core customers of tomorrow; Emerging Hispanic audiences, especially those who are recent arrivals and have modest or below-average income levels; Core Women, wedged between their mid-twenties and retirement, moving through increasingly complex life stages and responsible for a vast amount of purchasing power and influence throughout the U.S. economy; and Seniors, an often stereotyped yet widely diverse group whose numbers swell with each passing year as Baby Boomers begin to fill the ranks.

While there are many other segments of interest, and we could easily have followed traditional age, gender and income criteria to study differences, we purposely choose these five segments to align our research with the high-profile audiences of the loyalty-marketing industry. We found customer segments that each possess different attitudes about loyalty brands and engage in unique behaviors that separate them from other segments. But these segments also comprise individuals united in their quest for brands that celebrate their worth. The challenge for loyalty marketers is to build the loyalty "difference engine" that builds advocacy, retention and marketing ROI.

The landscape

COLLOQUY recently published a white paper reporting on the size and scope of the U.S. Loyalty Marketing industry (*CensusTalk: Sizing Up the U.S. Loyalty Marketing Industry*, April, 2007). Based on our research, we reported more than 1.3 billion memberships in U.S. loyalty programs, a 35.5 percent growth rate since 2000. The average number of memberships per household is 12. We also estimated that only 39.5 percent of all memberships are "active"—an average of 4.7 per household, or approximately 2.5 per person. Membership totals are heavily skewed in favor of three major market sectors—Financial Services, Travel and Retail—with the most explosive growth occurring within the Financial Services industry.

Focused on memberships, the census results are best used as a sizing and scoping resource from the perspective of the loyalty-marketing program operator. In examining this landscape, we concluded that active participation rates are, given membership size, moribund—and we openly wondered whether consumer opinion would reflect this saturation. Are consumers really as bored with programs as the activity rates suggest? And if so, how are these attitudes reflected in demographic segments of key interest to marketers?

An essential tool

And so the next logical step in our survey of the loyalty landscape was to undertake a study exploring the perceived differences in loyalty-program participation among key consumer segments. We designed a questionnaire focused on attitudes and recalled behaviors regarding loyalty programs in order to assess consumer attitudes regarding specific program attributes and explore the perceived impact of loyalty programs on purchase behavior.

By undertaking this study, we also realized that we were walking into a potential trap. Having read, reviewed and reported on nearly every consumer loyalty research finding released into the public domain since 1990, we knew that consumers generally under-report their involvement with loyalty-marketing programs. Moreover, they often underestimate the impact of such programs on their own behavior. The reasons for this are complex, and frankly beyond the scope of this discussion; suffice it to say that if we were to survey a specific set of program members about program impact and then compared their answers to their *actual* purchase behavior, we would likely uncover even stronger contrasts between perceptual and transactional behavior than this survey reveals.

Despite these limitations, it is important to recognize that these survey results accurately represent consumer attitudes about loyalty programs. Consumer behaviors, perceptions and opinions such as those reported in this study are essential tools for loyalty marketers trying to better understand and influence customer behavior. Why do customers embrace or reject a program or offer? How can we define the critical emotional touch points that yield a more effective reward and recognition strategy? While there will always be a disconnect between reported attitudes and real behavior, this survey does illuminate a host of implications based on the actual perceptions of those segments most important to your bottom line.

Methodology

COLLOQUY conducted this consumer survey research in April 2007 using established online sampling and interviewing methodologies. Convergys Corporation, one of the leading marketing research providers in the U.S., conducted the study on behalf of COLLOQUY. Convergys procured the study respondents from the opt-in, online panel sources of Greenfield Online, a respected U.S. consumer panel provider, and the respondents are broadly representative of the U.S. population within each consumer segment.

For this study, panel respondents received email invitations to complete an online survey regarding loyalty programs. A hyperlink provided in the email invitation took respondents to Convergys's proprietary, secure online surveying site to complete the questionnaire.

To enhance consistency, we provided respondents with a broad definition of loyalty-marketing programs. We obtained a total of 500 completed interviews from each of the six consumer segments for a total of 3,000 completed interviews, which enabled us to report data representing segment populations at an approximate 95 percent confidence level with a +/- 4.5 percent margin of error. Where reported, participation levels by vertical market yielded a significant sub-sample of participants in the Financial, Retail and Travel sectors, which allowed us to cross-tabulate and analyze the data by these vertical industries.

We chose segment definitions to represent specific U.S. consumer demographic segments of high interest to both our clients and to loyalty-marketing practitioners. The six segments researched included the following:

- **General Adult segment:** This segment included weighted representation of each of the five specific segments and other segments not covered below. The General Population segment essentially serves a control group and is representative of the entire U.S. adult population.
- **The Affluent segment:** This segment contained male and female heads of households with annual incomes of \$125,000 or greater.
- **The Young Adult segment:** Any respondent 18 to 25 years of age.
- **The Senior segment:** Any respondent age 60 years or older.
- **The Core Women segment:** Any female respondent 25 to 59 years of age with an annual income between \$50,000 and \$125,000.
- **The Emerging Hispanic segment:** Any respondent 21 or older who proclaims to be of Hispanic origin with an annual household income of \$40,000 or less.

We included individuals who did not meet any of the five specific segment definitions in the General Population group in accordance with their true proportions to the U.S. adult population.

Part I: Participation

“Engaged consumers—those who earn and redeem benefits, visit program web sites and respond to program communications, auctions, surveys and promotions—know whether they belong to a program. The unengaged may not remember—or may simply not care.”

Among the general U.S. population, 57 percent of respondents claim to belong to a loyalty-marketing program. While the COLLOQUY Loyalty Census tells us that the actual active participation rate is lower than this survey response at 39.5 percent, it’s not surprising that nearly six out of ten consumers say they belong to a program—because as we all know, membership does not equal activity. The 39.5 percent activity rate we reported in the Loyalty Census is a ratio reflecting all 1.3 billion U.S. memberships. In this survey response, however, we may assume that consumers are recalling the average of 2.5 *active* memberships per adult that the Census reported.

We could therefore reasonably expect the affirmative response rate to be higher than 57 percent—and because it is not, an indictment of the programs themselves begins to emerge. Engaged consumers—those who earn and redeem benefits, visit program web sites and respond to program communications, auctions, surveys and promotions—*know* whether they belong to a program. The unengaged may not remember—or may simply not care. A good rule of thumb to remember, therefore, is that a consumer who self-reports loyalty program membership is recalling *active* membership—not membership in every program that has her name in a database.

Affluent segment: As expected, the highest index of participation rests with Affluent adults, with nearly eight out of ten respondents stating that they belong to a loyalty program. The higher income, greater purchasing power and likely maturity of this segment clearly align with higher active participation rates. This group also reflects a higher average level of education than the General Population—another variable known to correlate well with program awareness, interest and consideration.

The Affluent are likely to recall loyalty-program memberships in all three of our key verticals—Financial Services, Travel and Retail. We speculate that many among this segment entered the loyalty game through their professional lives—possibly as frequent business travelers. We further speculate that the 80 percent participation rate is unlikely to grow much further among the Affluent, as those who want to participate are already active members in their favorite programs.

Core Women segment: Women reported 60 percent loyalty program participation—only slightly higher participation than the General Population. Since this segment comprised a wide age range (25-59) and cut across marital status, education and other demographic levels, the participation rate is in line with our original expectations. Because this segment tends to control the majority of household spending in their respective situations, Retail loyalty programs are likely a much stronger driver of participation than Travel or Financial Services.

While participation among this group has probable upside, issues of trust and time likely factor into loyalty program participation decisions. Word-of-mouth is likely to play a key role in both for- and against-participation decisions.

Senior segment: This group reported slightly lower participation (54 percent) than the General Population, though the ratio is in line with our forecasts. Participation rates possibly decline with age; hence the younger members of this segment are more likely to recall active participation in loyalty programs than are their elder peers. The influences of age, lifestyle change, retirement, income stability and health all likely mitigate participation.

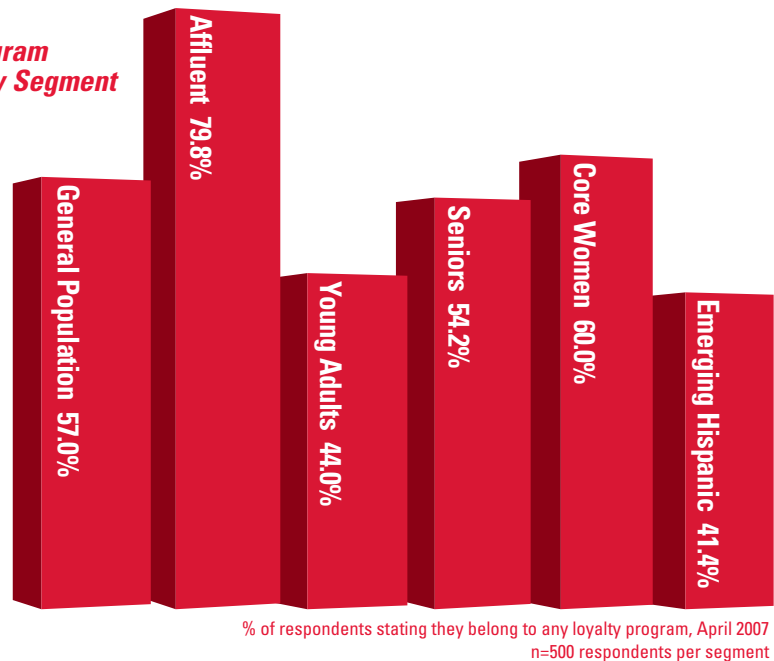
As Baby Boomers—who have participated in loyalty programs for most of their adult lives—begin to enter this segment, we expect the ratio of participators will rise in the next decade. Trust and simplicity of program operation will likely be key elements in helping to grow participation for this segment.

Young Adults and Emerging Hispanic segments: These groups report the lowest indices of participation—roughly four in ten for each group—but their recalled participation rates nonetheless exceeded our expectations. Marketers are traditionally biased in their belief that below-median income levels produce a corresponding lack of loyalty program involvement. Additionally, Travel and Financial Services relationships are typically underdeveloped among both groups, acting as a further constraint on loyalty involvements.

The data, however, suggests otherwise. At over 40 percent for each segment, participation is already significant; both groups are aware of the loyalty game, have their antennae up looking for value and will likely continue to participate as long as program operators deliver benefits targeted to the unique needs and desires of each segment. We predict continued upside growth of activity in both segments as retailers, ecommerce sites and telecom programs drive participation. Current value may reside in the Affluent segment—but significant potential value resides with Young Adults and Emerging Hispanics.

“The new battle is in Retail: Introduction to and sustained activity within loyalty programs will be much less a function of frequent business travel than it was in the previous decades. As each segment evolves over time, the corresponding metrics of age and income won’t follow traditional patterns.”

Exhibit 1
Recalled Loyalty Program
Participation Rates by Segment



Conclusions:

Demographic and lifestyle variables yield a confirmed difference in who will or will not play the loyalty game today. Beyond the natural implications of who composes your target audience, this insight into loyalty-program participation rates elevates the importance of several marketing best practices.

- **Don't discount moderate incomes:** Although income plays a significant role in program participation, moderate income does not disqualify certain segments and in fact represents significant untapped potential for marketers to enroll and engage these audiences.
- **The new battle is in Retail:** Introduction to and sustained activity within loyalty programs will be much less a function of frequent business travel than it was in the previous decades. As each segment evolves over time, the corresponding metrics of age and income won't follow traditional patterns. With the Travel and Financial sectors saturating the Affluent market, retailers have an opportunity to make early inroads in all segments.
- **The new value segments:** Finally, both Young Adults and Emerging Hispanic audiences are already developing a familiarity with loyalty marketing offers, and both segments appear to offer substantial opportunity for relevant programs now and in the immediate future.

Part II: The Holdouts, Nay-Sayers and Churners

Among those who said they did not belong to a loyalty program, including those who didn't know whether they did or didn't, seven principal obstacles emerged from the survey. As expected, income-related issues were the primary reason for not joining—and yet this obstacle was cited by only 23 percent of the General Population.

Other significant factors included the unwillingness to pay a fee, even though many programs are free. Additionally, approximately one in ten non-belongers felt that loyalty programs offered no value, were a hassle to play in, or did not offer compelling rewards. Similarly, one in ten members of the General Population segment didn't join because they feared a resulting onslaught of junk mail. An insignificant portion of the General Population specifically mentioned privacy concerns as their primary reason for holding out.

Affluent segment: Non-participation among the Affluent centered on program value propositions—indexing significantly higher than the General Population on the attributes of no perceived value or lack of compelling rewards content.

Young Adult segment: This group expressed concern over program fees—a likely outgrowth of modest income, entitlement attitudes, and familiarity with fee-based retail programs in the music, entertainment and consumer electronics segments. This group also referenced “other” reasons for not belonging at more than twice the rate of the General Population—citing vague references to “don't want to” or “no reason, just don't” that highlight the independence of this segment and their unique views on relevance.

However, Young Adults index significantly lower than the General Population on their perception that they needed to spend too much to benefit from loyalty programs. At first glance, this finding seems counter-intuitive to what one would expect given their average income level; perhaps the entitlement generation sees something for nothing as a no-brainer, regardless of how much they have to spend?

Core Women segment: This group generally mirrored the control group in providing reasons for non-participation. We saw one noticeable exception: the “hassle factor” was strongest for this segment than for any other group interviewed. Complexity issues and a time-starved lifestyle may be key factors influencing this response.

Senior segment: This group was most likely to reference spending as the primary reason for not joining. This finding is not unexpected; all economic data shows that spending slows as age advances. But it's interesting to note that Seniors also index higher than the General Population on lack of perceived program value and boring rewards as justification for their non-participation.

COLLOQUY contends that these issues are intrinsically linked in the minds of mature adults—if greater value and more relevant rewards content were available, Seniors would focus less on the spend side of the loyalty equation. As more Boomers join the Senior ranks, attitudes regarding lack of value and unconvincing rewards will increase as primary hold-out factors. Note also that program fees are much less an issue for Seniors than they are for any other group interviewed.

Exhibit 2 Primary Reasons for Not Belonging to a Loyalty Program Among Non-Participants

	General Population	Affluent	Young Adults	Seniors	Core Women	Emerging Hispanic
Need to spend too much	23.0%	12.9%	16.4%	27.5%	24.0%	20.8%
Don't want to pay a fee	17.9%	13.9%	21.8%	9.2%	10.5%	17.4%
No value	12.1%	14.9%	10.0%	16.2%	11.5%	6.1%
Don't want junk mail	9.3%	10.9%	7.5%	7.9%	6.0%	11.6%
Other	9.1%	7.9%	20.4%	15.3%	18.5%	17.4%
Hassle	8.7%	10.9%	8.6%	7.4%	12.5%	6.8%
Rewards not compelling	7.6%	19.8%	5.7%	10.0%	8.5%	7.5%
Privacy concerns	1.2%	2.0%	2.1%	1.7%	1.0%	3.8%

"Approximately 45 percent of non-belongers perceived that 'all loyalty programs look alike.' Approximately one-third of all nay-sayers reported that 'loyalty programs are too confusing.'"

All groups surveyed were also asked to give additional reasons for not belonging. Three primary de-motivators emerged from the responses:

- **Boring rewards:** The lack of compelling rewards became the dominant "other" reason among the General Population, surpassing spending as the top obstacle. Among the segments, the Affluent, Core Women and Senior segments identified the lack of compelling rewards in their top three "other" reasons for not playing the loyalty game; the Young Adult and Emerging Hispanic segments were much less likely to offer up rewards issues as another reason for non-participation.

These findings demonstrate the power of rewards to make or break program participation. Income and spending levels aside, without compelling, aspirational and unique rewards, consumer boredom is inevitable. Conversely, younger and more emerging demographic audiences are far less bound by income considerations than conventional wisdom suggests. These groups are more likely to base participation on relevance and perceived value.

- **Look-alike programs:** Approximately 45 percent of non-belongers perceived that "all loyalty programs look alike." This perception was exceptionally strong among the Affluent audience (62 percent). Nearly one in four non-participants claimed "there are too many loyalty programs," with the Affluent group again reporting the highest perception (53 percent).

Related, approximately one-third of all nay-sayers reported that "loyalty programs are too confusing," with the strongest feelings expressed by the Affluent, Senior and Emerging Hispanic audiences. Despite these perceptions, approximately one in ten of non-participants said they would be likely to join some type of loyalty program within the next six months—a trend reported most strongly among the Emerging Hispanic audience.

- **Program churn:** Just under 20 percent of the non-participating General Population recalled past participation in a loyalty program. In other words, they were category churners—people who had previously played the game and dropped out. An additional 11 percent weren't sure if they ever belonged. Segment churn rates were comparable to the control group among Affluent and Core Women audiences. Rates index lower than the General Population for Young Adults, Seniors and Emerging Hispanics. While dropping out of a program is a common consumer experience, the number of consumers churning from the entire category of loyalty programs should raise alarms for loyalty marketers. Clearly, we're not doing enough to keep customers engaged.

Exhibit 3 "Did You Ever Participate?" Among Current Non-Participants in Loyalty Programs

	General Population	Affluent	Young Adults	Seniors	Core Women	Emerging Hispanic
Yes	18.9%	18.8%	8.6%	11.8%	17.0%	11.3%
No	70.1%	64.4%	78.6%	73.8%	77.5%	70.6%
Not Sure	11.0%	16.8%	12.9%	14.4%	5.5%	18.1%

Conclusions:

While some American consumers will never play the loyalty game—let's face it, some of us are just not joiners—these recalled reasons for non-participation offer important clues for program designers.

- **Segmentation is key:** Proper value- or potential-based segmentation is the best possible guide to program enrollment strategies that result in less program churn and a more effective use of your loyalty investments. The days of enrolling everyone just because you can are now over.
- **Set proper funding rates:** Low program funding rates that force members to spend for months or even years in order to earn even entry-level rewards are primary instigators of program churn. Balance your program funding rate with an earn velocity quick enough to mitigate those "spend too much" and "no value" perceptions. These complaints are not simple corollaries to modest incomes—they're value judgments that cut across all customer segments.
- **Capture the imagination:** If your rewards content fails to reflect the imagination, desires and aspirations of your target audiences, then why would you expect that audience to get on board? These issues are addressable. Cost always limits your abilities, but to succeed in building customer relationships you must evaluate your program not only on cost, but also on return. Instead of simply rewarding your best customers with the same inventory used by your competitors, differentiate your reward offerings by recognizing segment differences.
- **Simple is better:** Program simplicity, hassle-free terms and conditions, sound privacy principles, and targeted, relevant communications are all under your control. Properly focused and executed, each program element can positively affect participation and reduce program churn.

Part III: Program benefits

We asked all respondents who claimed loyalty program participation to recall the type of benefits they enjoyed. As these results reference multiple-program participation, the data best serves as a composite for the value propositions currently deployed by loyalty program sponsors across all industries. Additionally, we reported data by following the traditional definitions of **hard benefits** (free money, free goods, free travel, etc., which bring a hard cost to the program sponsor) and **soft benefits** (special access and privileges for members that may or may not carry tangible costs).

As we expected from our long familiarity with consumer loyalty program surveys, the hard benefit of cash-back on purchases and the soft benefit of member-only discounts topped the list of desired program benefits. While many programs use one or both of these design elements, the steady increase of cash-back features in credit card programs and the use of two-tiered pricing schemes in grocery frequent-shopper programs both likely contribute to the results. As segment differences are rare, we'll instead focus on the broad benefit categories.

Cash-back: Young Adults index lower on cash-back rewards versus the General Population, a counter-intuitive finding given the lower medium incomes. The response may reflect their sense that the pennies earned back at specific spending thresholds aren't worth the effort.

Discounts: Seniors index lower on discounts versus the General Population—an interesting finding likely tied to their attitudes toward grocery and other retail programs and their suspicion that retailers manipulate prices to make up for the proffered discounts. The similar findings across the remaining segments could signal that largely undifferentiated discounts are so prevalent that they mean little to consumer interest in loyalty programs.

Points: Points-based programs were widely recalled by all segments, although the types of rewards earned through point accrual varies significantly by segment. While free travel is referenced by all segments, it's a particularly important benefit for Affluent audiences. Core Women and Seniors also value free travel more than the General Population. Receiving points toward in-store merchandise redemption is valued most by Emerging Hispanics, but isn't widely recognized as a benefit among Seniors. Receiving points toward reward catalog redemption rates mostly highly in the Affluent and Core Women groups, while Seniors mention this benefit least.

Auto-issue certificates: Certificates earned for free goods and services—a benefit associated closely with retailers, restaurants and entertainment providers—were cited less often than points or cash-back benefits. Both the Young Adult and Emerging Hispanic segments were more likely than the General Population to desire these benefits; Seniors were once again unimpressed by them.

“Seniors index lower on discounts versus the General Population—an interesting finding likely tied to their attitudes toward grocery and other retail programs and their suspicion that retailers manipulate prices to make up for the proffered discounts.”

Exhibit 4 Types of benefits associated with loyalty programs among participants

	General Population	Affluent	Young Adults	Seniors	Core Women	Emerging Hispanic
Cash back	54.7%	54.9%	40.5%	52.4%	47.0%	45.4%
Points for free travel	39.1%	70.4%	37.3%	46.1%	50.0%	35.3%
Points for in-store redemption	32.6%	34.1%	27.3%	21.0%	27.0%	36.7%
Certificates	28.2%	37.1%	40.5%	17.7%	37.3%	40.1%
Points for web/catalog item redemption	25.2%	38.3%	30.5%	25.5%	36.0%	30.0%
avg hard	36.0%	47.0%	35.2%	32.5%	39.5%	37.5%
Discounts	47.9%	42.9%	49.5%	36.5%	49.0%	41.5%
Upgrades	20.8%	43.4%	16.4%	18.1%	22.3%	17.4%
Members-only info	19.7%	27.8%	20.0%	9.2%	21.3%	23.2%
Members-only access	13.7%	17.8%	10.9%	4.1%	7.3%	17.9%
avg soft	25.5%	33.0%	24.2%	17.0%	25.0%	25.0%
avg gap	10.4%	14.0%	11.0%	15.6%	14.5%	12.5%

Conclusions:

While customers' interest and participation in hard and soft benefits reveal no groundbreaking conclusions, the survey results do reflect the wide differences in reward preferences between individual segments. Some useful insights emerge:

- **Remember that travel still warms the Affluent heart:** While the Affluent index higher than the General Population on all hard benefit types, their likely preference for free travel corresponds to their ability to spend enough to reach redemption thresholds and their familiarity with travel programs from their professional lives.
- **Engage moderate incomes with merchandise:** Merchandise rewards function as modest aspirational rewards for moderate income segments to which free travel rewards may seem like a pipe dream. Core Women also like travel rewards more than the General Population, but also prefer merchandise rewards more than other segments. Merchandise rewards likewise attract the lower income Young Adult and Hispanic audiences. The exception to this rule is the Seniors segment; they don't appear to prefer merchandise benefits, regardless of redemption channel.
- **Focus on soft benefits to win:** On the soft-benefit side of the value proposition, all benefit types except discounts are mentioned infrequently. The Affluent segment indexes highest across the board—a logical outgrowth of their experiences with the Travel sector, where soft benefits are well entrenched. Core Women and Seniors demonstrate the widest gap between hard and soft benefits recognition—an insight representing opportunity for loyalty marketers to introduce special privileges to each audience. If we remove discounts as a soft-benefit feature, the average gap between hard- and soft-benefit recognition would increase for all segments. The message is obvious: loyalty programs today fall down on the soft-benefits side of the value proposition. Best customers do not associate participation with special privileges.

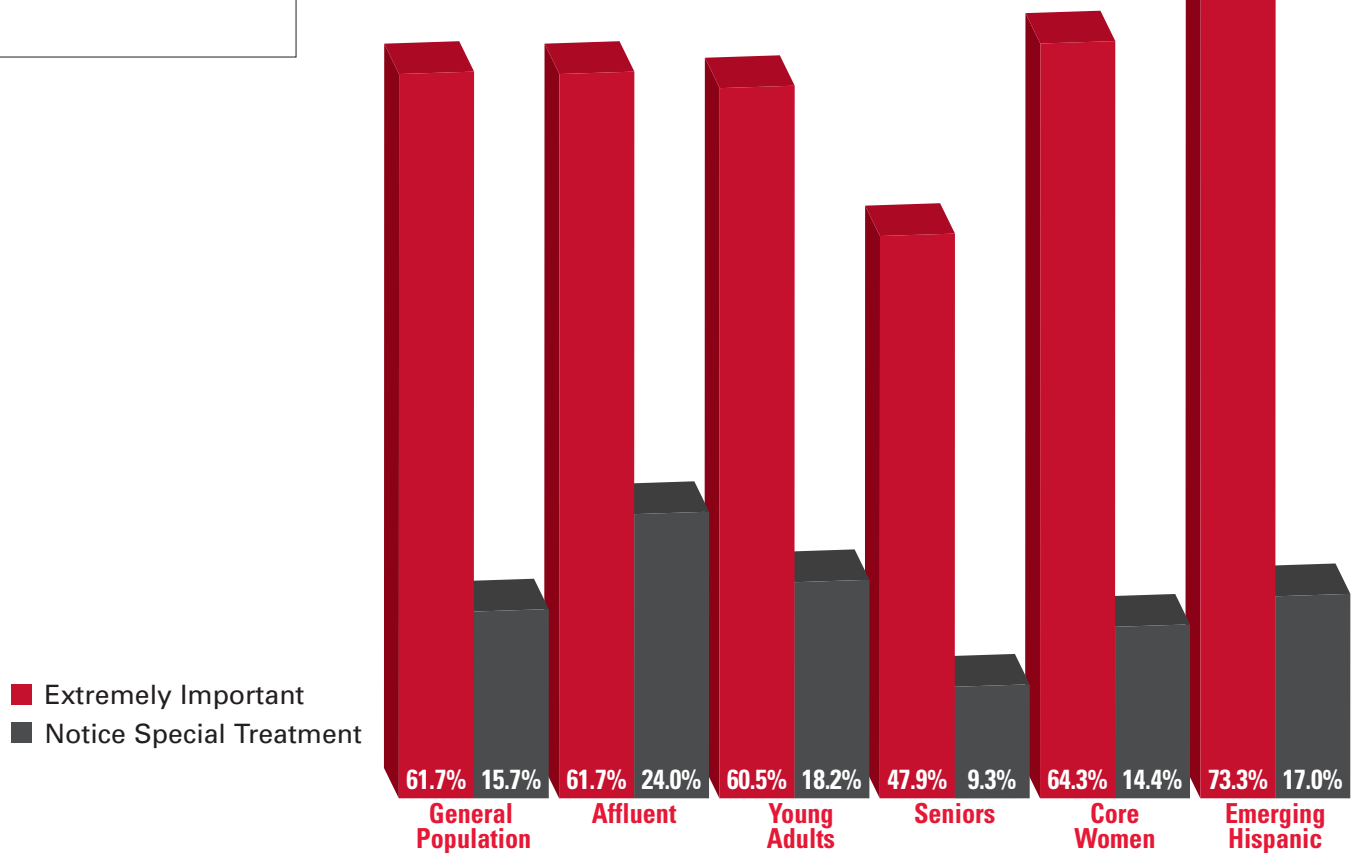
Part IV: Customer Engagement

To loyalty marketers attempting to engage these critical demographic segments, the perceived absence of non-discount soft benefits is critical. When asked to rate the importance of special privileges, preferential treatment and unique, members-only benefits, nearly two-thirds of loyalty program participants offered an "extremely" important rating (8, 9 or 10 on a 1-10 rating scale). The Emerging Hispanic segment surprisingly rendered the highest importance ratings for soft benefits among the groups surveyed—a clear signal to loyalty marketers intent on pursuing this audience. Once again, the exception to this rule was our cantankerous Seniors segment; only half of surveyed Seniors rated soft benefits as extremely important.

"When we asked consumers if they noticed these same special treatment benefits in the programs to which they belonged, only one in five consumers could confirm actual delivery of said benefits. The benefits were either absent or invisible."

In contrast, when we asked consumers if they noticed these same special treatment benefits in the programs to which they belonged, only *one in five* consumers could confirm actual delivery of said benefits. The benefits were either absent or invisible to the consumer—either way, customer engagement and emotional loyalty suffer. To withstand the full scrutiny of attentive consumers, your program must blend reward and recognition effectively.

Exhibit 5
The Wake-Up Call:
Importance vs. Delivery of Soft Benefits Among
Loyalty Program Participants



Our demographic survey asked respondents to rate the importance of soft benefits from 1 to 10, and then to rate the actual delivery of those benefits in programs they belonged to—again, from 1 to 10. This chart demonstrates the gap in each segment between perceived importance and the noticed delivery (both rolling up those answering 8, 9 or 10).

Forging the Relationship Chain

Between the point at which a customer enrolls in a loyalty program and the defining moment of benefit redemption, loyalty marketers have at their disposal a plethora of tactics to drive customer engagement. Collectively, these tactics form what COLLOQUY refers to as the Relationship Chain.

The fundamental purpose of the Relationship Chain is to build a continuous dialogue with customers—through multiple channels—to deepen the relationship. The reported findings of industry veterans and COLLOQUY's own experiences consulting with Fortune 500 clients tell the tale: Dialogue builds engagement, and increased engagement yields increased member value and sustainable retention. Hence, the loyalty marketer who invests in Relationship Chain tactics generates a return on that investment. If dialogue is properly timed, segmented and channeled, the return can be significant.

Because our survey covered a multitude of programs in a variety of sectors, and because each program likely follows a unique set of engagement practices, we elected to quantify consumer involvement in Relationship Chain tactics by querying their involvement with traditional communications tactics and channels. We measured involvement on a 1-10 scale and characterized the top three box scores (8, 9 and 10) as "extremely involved." Our assumption is that survey results function as a surrogate measurement for engagement with traditional Relationship Chain tactics.

For most tactics and segments, we measured engagement levels between 40 and 60 percent. For ease of discussion, we break down the results below by Relationship Chain tactic:

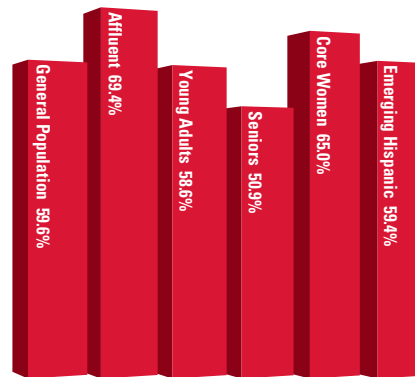
Identification Devices: Unsurprisingly, the highest-scoring Relationship Chain tactic remains use of an Identification Device (ID)—such as a plastic membership card, credit or debit card, or online membership profile—by which the brand can track consumer behavior within the safe haven of a loyalty program. Seniors—perhaps the segment most sensitive to privacy issues—and to a lesser degree, Young Adults—who live more chaotic lives than their middle-aged parents—index below the General Population. But as there can be no relationship without customer identification, the ID remains the most critical component of the Relationship Chain.

Direct mail: Engagement through printed direct-mail communications hovered around 40 percent. While we did uncover segment differences, the absolute values are generally much higher than most clients believe. Emerging Hispanic audiences report high levels of extreme involvement with direct mail, a response consistent with other industry research. While the Affluent segment reported engagement ratings in line with the control group, Core Women are much less involved with direct mail—a response perhaps reflecting their reliance on personal networks for brand recommendations. Young Adults reported lower levels of print involvement, although direct-mail special offers generally pique their interest. Seniors ranked most tactics low, with the exception of mailed statements—Seniors, it seems, like to cut to the bottom line.

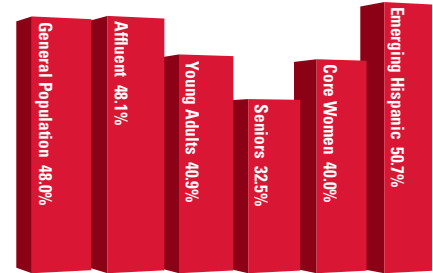
Electronic communications: Email and web-based communication tactics yield responses similar to direct-mail responses, with approximately four in ten loyalty program participants citing "extreme involvement." Contrary to our expectations, Young Adults do not engage through electronic channels more than direct channels. However, the Affluent segment does interact more through electronic channels—and are most likely to respond to online surveys. Emerging Hispanics respond to most online measures with the exception of surveys, while Seniors maintain their position as the least engaged segment across all tactics.

Exhibit 6
Engagement Levels (top 3 box ratings or "extremely involved")
with Direct Mail Tactics Among Loyalty Program Participants

"Hispanics are hungry for engagement: Forget the conventional wisdom about lack of access to e-channels among lower-income U.S. Hispanics. This audience is interested, engaged and hungry for relevant content—regardless of channel."



% of participating respondents who say they are extremely engaged (top 3 boxes) in using a loyalty card, loyalty fob or ID device



% of participating respondents who say they are extremely engaged (top 3 boxes) in reading program statements



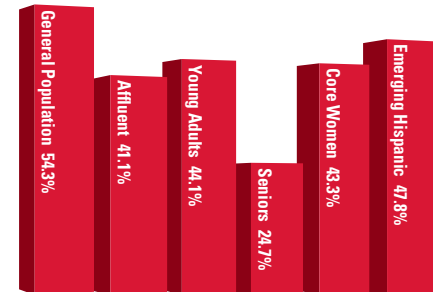
% of participating respondents who say they are extremely engaged (top 3 boxes) in reading special offers received

Exhibit 7
Engagement Levels (top 3 box ratings or "extremely involved")
with Electronic Media Tactics Among Loyalty Program Participants

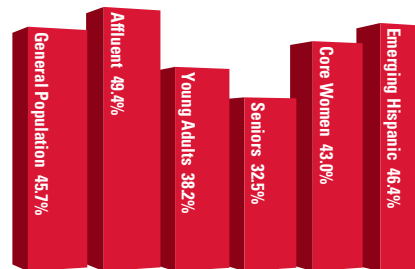
"Let the individual choose the channel: If these survey responses tell us anything, it's that, when it comes to communication channels, making broad generalizations about any one of our surveyed segments is an invitation for trouble."



% of participating respondents who say they are extremely engaged (top 3 boxes) in receiving program information via email



% of participating respondents who say they are extremely engaged (top 3 boxes) in logging onto program web sites for program information



% of participating respondents who say they are extremely engaged (top 3 boxes) in responding to member surveys about your preferences

% of participating respondents who rated activity among top 3 boxes on 1-10 involvement scale

Conclusions:

That a full 40 percent of all loyalty program participants across all industries report “extreme involvement” with Relationship Chain tactics should give heart to all loyalty marketers. Communications remain the most significant driver of brand engagement, regardless of the type and channel of delivery. From this cross-section of ratings, several insights emerge:

- **Hispanics are hungry for engagement:** Forget the conventional wisdom about lack of access to e-channels among lower-income U.S. Hispanics. This audience is interested, engaged and hungry for relevant content—regardless of channel.
- **Let the individual choose the channel:** If these survey responses tell us anything, it’s that, when it comes to communication channels, making broad generalizations about any one of our surveyed segments is an invitation for trouble. We assume that Young Adults are first and foremost electronic animals—but they aren’t strictly drawn to email or the web. In fact, the Affluent are more likely than Young Adults to engage with your brand electronically. The time-starved Core Women segment engage at lower levels across all tactics and channels—which means message relevance is of critical importance to reaching this audience. Finally, Seniors are less intimidated by electronic channels than we might think; their overriding demand is that you answer, as quickly as possible, the question “What’s in it for me?”
- **Sweeping cuts will backfire:** For loyalty marketers, cost pressures are an omnipresent threat. With program membership counts at bloated levels, and variable communications costs increasing year over year, the natural inclination is to cut. Often, the executives favoring the cuts will trot out stereotyped visions and urban legends to defend their actions. Don’t let them. While some subtle differences in engagement levels exist, your best customers value brand communications regardless of their demographic segment. Don’t implement sweeping cuts. Instead, target your communications dollars more effectively. Segment your customer base and deliver your marketing messages where they will do the most good.
- **Differentiate with soft benefits:** Customers evaluate loyalty programs along two dimensions—the rational and the emotional. In the former dimension, customers seek economic value; in the latter, they seek validation and self-actualization. The blend of hard and soft benefits is therefore the proven champion in compelling loyalty program design. That so many consumers expect soft benefits and so few perceive their delivery is an indictment of current program designs focused most exclusively on the hard-benefit side of the value equation. Those marketers who focus equally on the soft side will build programs that resonate strongly with all consumer segments, independent of their age, income or gender.

Part V: Redemption patterns

Savvy loyalty marketers have long recognized that reward redemption patterns carry pronounced differences depending on membership composition. Redemption patterns result from many complex moving parts: demographic traits, certainly, but earning velocity, redemption options and program design, among other elements, all play a part.

We asked survey participants to recall their benefit-redemption frequency within the past year. We segmented this question by industry. General Population redeemers told us they had burned their points an average of 1.8 times in the past year for credit card and other Financial Services programs and an average of 1.2 times for Travel industry programs. Given the higher earning velocity and point balances of credit card reward programs, we expected a corresponding higher redemption frequency in the Financial Services sector; we further expected that the Affluent segment would yield the highest average redemption frequency in both Financial Services and Travel. The survey results confirmed both assumptions.

Exhibit 8 Average Number of Redemption Events Within the Past 12 Months by Industry Participants

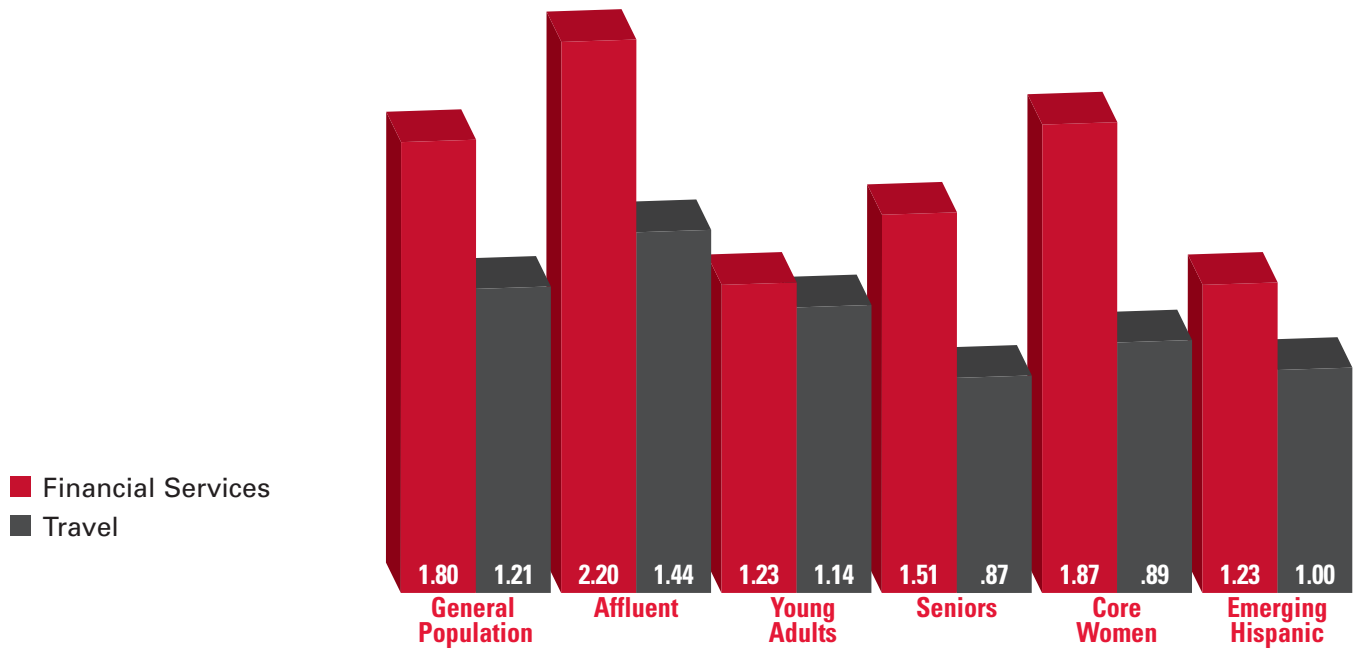
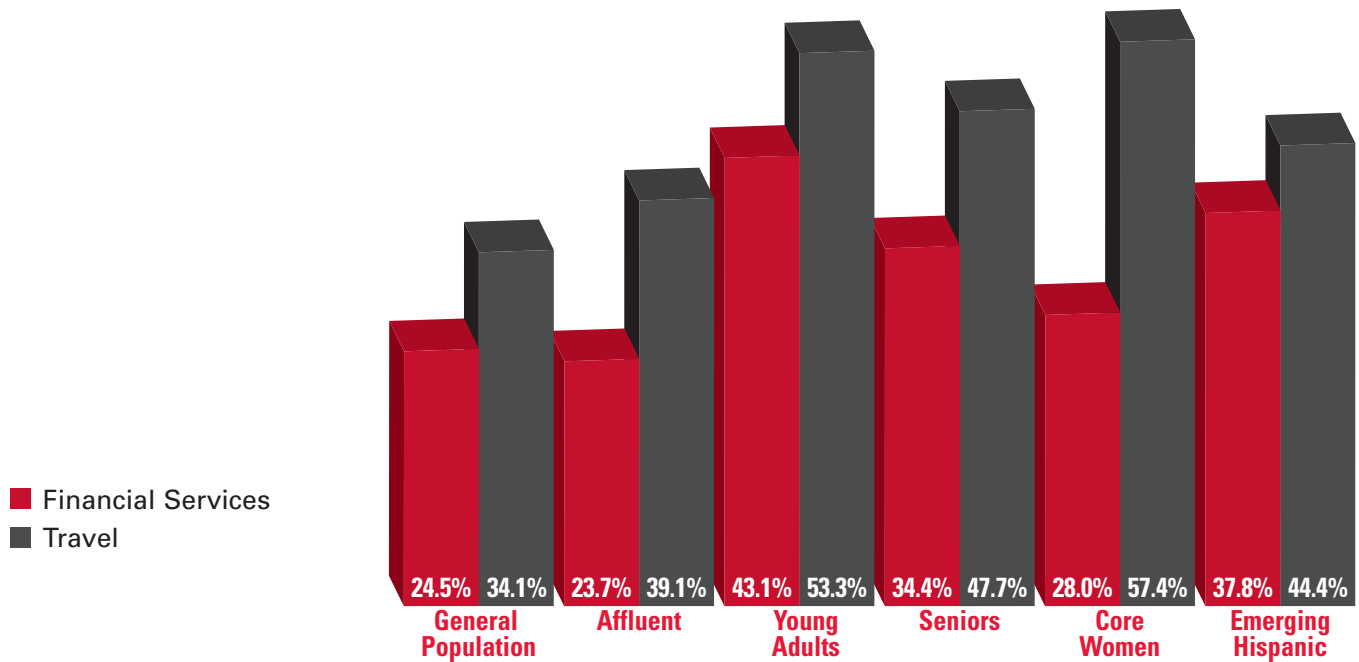


Exhibit 9
Level of Non-Redemption
Within the Past 12 Months by Industry Participants



Some more interesting patterns emerged when we queried the remaining segments:

Instant gratification rules: In the Financial Services sector, the data suggests that most segments burn points for lower-level rewards rather than saving currency for the more aspirational travel rewards. While the number of redemption events for Young Adults and Emerging Hispanic audiences were predictably lowest, the similarity between the two industry sectors was a surprise—which suggests that these groups are burning currency rather than saving it. The pattern of multiple redemptions per year in the Seniors and Core Women segments in the Financial sector also indicates frequent earn-and-burn redemption. Among redeemers, most respondents indicated a minimum once-per-year redemption frequency in both Travel and Financial Services programs—which means participants are extracting value from the programs.

Redemptions still lag: While redeemers are clearly enjoying the game, an unhealthy percentage of participants in both the Financial Services and Travel sectors told us they had not redeemed within the past year. Predictably, non-redemption percentages among Financial Services program participants were much lower than Travel, which no doubt reflects the massive bank of unredeemed airline miles reported in COLLOQUY and elsewhere. The 40-50 percent of Hispanic and Young Adult non-redeemers in Travel programs likely reflects spending deficiencies that act as a drag on redemptions. The Core Women audience also reports a high level of Travel non-redemption; we speculate that women bank points for aspirational rewards at a higher rate than other segments.

Variety is the spice: While the top redemption items in both the Travel and Financial Services industries reflect the standard offerings in most programs, sufficient variety in redemption patterns suggests that redemptions do allow for individual self-expression. For example, all consumer segments rate retail gift cards and certificates as a top Financial Services program redemption option, and the Affluent unsurprisingly redeem for travel-related rewards at a high rate. Both the Young Adult and Emerging Hispanic segments, however, exceed the General Population incidence for redemption of electronics, magazine subscriptions and entertainment related rewards. Clearly, these audiences, both of which represent untapped potential for marketers, value variety and choice in reward options.

Travel still pulls: In the Travel industry, high levels of free airline travel and hotel room redemptions remain the norm. Segment differences in both industries follow income and spending patterns. A surprising tidbit: While all segments cite car-rental redemptions at a slightly higher rate than the General Population, Emerging Hispanic audiences seem to have a special appetite for them. Airport lounge memberships and merchandise options, however, have little impact on members. Redemptions for upgrades—both airline seats and hotel rooms—pull strongest for Affluent consumers, though both Young Adults and Emerging Hispanic audiences claimed significant redemptions. The bottom line: In-kind rewards are still the gold standard in engaging consumers through Travel loyalty programs.

Retailers must work to engage: Because most retail loyalty programs come in two flavors: discount-based and gift-certificate-based, we tailored our retail program redemption questions to reflect these predominant models. Among retail program participants, the average incidence of redemption for these two types of rewards was approximately 4.5 times per year, with Seniors and Core Women redeeming most frequently in this sector. We believe the actual incidence is much higher, given that we include grocery and retail fuel programs in which consumers enjoy the discounts with each shopping trip. Why is it that consumers actually perceive the annual number of benefit events at a substantially lower rate—more in line with specialty retail purchase cycles than with grocery/fuel cycles? The data suggests that typical two-tier pricing and discount-based rewards—the model that dominates high-frequency retail environments—simply don't engage consumers. The retail discount reward is now a commodity.

“The data suggests that typical two-tier pricing and discount-based rewards—the model that dominates high-frequency retail environments—simply don't engage consumers. The retail discount reward is now a commodity.”

Exhibit 10
Types of Redemptions Within the Past 12 Months

	General Population	Affluent	Young Adults	Seniors	Core Women	Emerging Hispanic
Among Financial Services program Redeemers						
Retail certificates	36.7%	43.7%	50.0%	34.9%	62.0%	66.7%
Hotel rooms	16.1%	17.4%	10.3%	9.6%	12.0%	7.4%
Airline Travel	9.2%	35.3%	10.3%	15.7%	13.0%	16.7%
Apparel	6.1%	6.6%	8.6%	2.4%	5.0%	9.3%
Entertainment	4.5%	9.0%	8.6%	1.2%	7.0%	18.5%
Vacation/cruise packages	1.9%	7.8%	1.7%	1.2%	6.0%	7.4%
Electronics	1.3%	10.8%	13.8%	6.0%	9.0%	22.2%
To bid on auction items	0.8%	5.4%	5.2%	1.2%	4.0%	11.0%
Magazine subscriptions	0.4%	10.8%	13.8%	6.0%	9.0%	22.2%
Among Travel program Redeemers						
Airline Travel	56.7%	67.8%	65.0%	62.8%	54.9%	43.5%
Hotel rooms	53.3%	42.2%	30.0%	34.9%	54.9%	34.8%
Airline seating upgrade	28.6%	30.1%	25.0%	4.7%	11.8%	34.8%
Hotel room upgrades	18.2%	29.5%	35.0%	7.0%	15.7%	21.7%
Merchandise	10.2%	11.0%	5.0%	4.7%	2.0%	26.1%
Car rentals	9.8%	24.7%	20.0%	11.6%	25.5%	39.1%
Magazine subscriptions	6.1%	13.7%	15.0%	14.0%	9.8%	21.7%
To bid on auction items	1.8%	4.8%	15.0%	0.0%	2.0%	8.7%
Airport lounge membership	0.0%	11.6%	15.0%	0.0%	5.9%	13.0%

Conclusions:

Our data on loyalty program redemption patterns allows us to illuminate some important best-practice considerations:

- **Make your rewards a difference engine:** Reported redemption data offers further evidence that different segments respond to different reward offerings. While redemptions are equally rooted in spending, earn velocity and redemption thresholds, the wide variety in redemption suggests that potential to engage individual customers within a loyalty program remains untapped. One-size-fits-all loyalty models have worked in the past—and the past is where they belong.
- **Build community through rewards:** Two inexorable trends that appear in opposition can in fact work together to achieve new heights of customer engagement. First, loyalty marketers in every industry are frantic to control program liability. The fight-or-flight response of the executive team is often to slash the program funding rate. But liability can also evaporate through increased redemption—and redemption equals engagement. Second, consumers are flocking to social network sites, blogs and other community platforms seeking product and service recommendations. Why not combine social networking with reward redemption—allow your customers to rate redemption options, make reward recommendations and even design their own reward catalogs? A differentiated, community-building approach to redemption can build loyalty and control liability at the same time. What's not to love?
- **Hold the altruism:** While loyalty marketers continue to push altruistic value propositions and charity-based redemptions for their PR value, consumers tell a different story. When we asked consumers to tell us the primary beneficiary of their redemption events—and we allowed for multiple responses—approximately nine out of ten redeemers reported themselves as the reward recipient. We saw little variation among the segments interviewed. Even family is given short shrift—redeemers cited family members as a primary recipient less than 20 percent of the time for all segments except Core Women and the Affluent; we saw similar responses in regard to gifting points to charities. Among redeemers, the “me” factor far outweighs the “we” factor.

Part VI: Customer satisfaction

Asking consumers to rate the impact and influence of the loyalty programs they belong to is a dicey proposition. No one wants to admit that loyalty programs influence their behavior; we all like to think we are free agents who make logical purchase decisions based on such fundamental drivers of loyalty as price, service and quality. With that said, satisfaction survey questions do provide an important, if imperfect, measure of emotional attachment to the loyalty brand.

In our survey, we broke down satisfaction queries by our key Financial Services, Retail and Travel verticals. We asked participants to evaluate satisfaction along multiple dimensions on a 1- to 10-point scale. We report the top three box ratings below. Additionally, we asked the loaded question: Does the rewards feature have any influence on decisions to do business with the sponsor? Finally, we asked participants to gauge program influence on their past 12 months of purchases.

Satisfaction: Financial Services programs

Satisfaction levels with program sponsors in this sector are consistently high (67-74 percent) across all segments. Other important insights:

- Consumers perceive substantial program value, but they’re more satisfied with the institution than the program—which indicates that they’re always hungry for more. Value scores appear lowest among Young Adults.
- Consumers rank their feelings of disappointment at the prospect of the sponsor discontinuing the rewards program even higher than they rate program value. They want more—but they’ll also take what they have. End your reward program, and the Affluent are likely to be your most disappointed audience.
- Consumer likelihood to recommend a Financial Services provider because of the rewards program parallels the value scoring and is especially strong among Affluent and Emerging Hispanic audiences and especially weak among Seniors.
- The perceived retention effect of the rewards program mirrors the satisfaction scores and is highest among the Affluent.
- A healthy percentage of consumers believe that the presence of a rewards program caused them to select the institution as their primary Financial Services provider.

“Consumers rank their feelings of disappointment at the prospect of the sponsor discontinuing the rewards program even higher than they rate program value. They want more—but they’ll also take what they have.”

Finally, while half of consumers surveyed claim no program impact on Financial Services purchase behavior, approximately 40 percent openly admit that the program has influenced their behavior in a manner financially beneficial to the sponsor. Young Adults and Emerging Hispanic groups are most likely to admit to influence; Seniors much less so. Across all survey measures, we consistently found that the influenced group in each segment reported higher participation, more frequent redemption, greater program value and satisfaction and increased engagement.

Exhibit 11
Financial Services: Perceived Impact and Influence of Rewards Programs
% of participants who report top 3 box ratings on 1-10 scale

	General Population	Affluent	Young Adults	Seniors	Core Women	Emerging Hispanic
Financial Services Program Participants						
Satisfaction with Financial Services institution	73.5%	67.5%	67.2%	70.1%	67.4%	69.6%
Likelihood to keep Financial Services due to rewards	66.4%	73.1%	58.6%	64.0%	68.0%	69.6%
Disappointment level if rewards stopped	57.4%	64.6%	60.3%	60.4%	59.3%	58.0%
Satisfaction with value from rewards	50.7%	53.9%	46.6%	48.2%	49.4%	50.9%
Likelihood to recommend due to rewards	48.9%	55.0%	50.0%	39.6%	48.8%	56.3%
Financial Services purchase behavior for the past 12 months motivated by rewards						
Increased	39.4%	36.5%	43.1%	25.0%	36.0%	43.8%
Decreased	3.2%	4.1%	4.3%	4.9%	5.2%	8.0%
Stayed the same	55.5%	57.2%	52.6%	67.7%	57.6%	43.8%
Became primary Financial Services provider due to rewards	45.9%	46.9%	42.2%	32.3%	39.0%	36.6%

Satisfaction: Retail programs

Satisfaction levels with Retail program sponsors are also consistently high (60-70 percent) across all segments. Other insights from the data:

- Consumers perceive substantial value in retail rewards programs that is more in line with overall satisfaction than we saw in the Financial Services sector—though there’s still room for improvement. Core Women and Seniors report the lowest value scores.
- Also unlike the Financial Services results, consumers report disappointment at the prospect of program elimination nearly equal to their perceived program value. Emerging Hispanics profess the greatest potential disappointment.
- Consumer likelihood to recommend a Retailer because of the rewards program is generally lower than the value scoring—especially among Seniors, Young Adults and the Affluent.
- The perceived retention effect of rewards programs again mirrors the satisfaction scores and is lowest among Young Adults.
- In the Retail sector, the presence of a rewards program has less effect on acquisition versus the Financial Services industry. And yet, more than one-third of Young Adult and Emerging Hispanics participants report that the program caused them to select a retailer.

Finally, while more than half of consumers surveyed claim no program impact on their Retail purchase behavior, approximately 30-40 percent openly admit that programs have influenced their behavior in a manner financially beneficial to the sponsor. The influence scores are again strongest among Young Adults and Emerging Hispanics and much less pronounced among Seniors. As before, we found that the influenced group in each segment reported higher participation, more frequent redemption, greater program satisfaction and increased engagement.

“Consumer likelihood to recommend a Retailer because of the rewards program is generally lower than the value scoring—especially among Seniors, Young Adults and the Affluent.”

Exhibit 12 Retail: Perceived Impact and Influence of Rewards Programs % of participants who report top 3 box ratings on 1-10 scale

	General Population	Affluent	Young Adults	Seniors	Core Women	Emerging Hispanic
Retail Program Participants						
Likelihood to keep Retailer due to rewards	67.7%	67.8%	59.6%	61.3%	65.2%	67.8%
Satisfaction with Retailer	66.2%	70.9%	66.7%	60.5%	61.7%	65.3%
Likelihood to recommend due to rewards	59.6%	53.7%	52.5%	45.2%	56.7%	57.9%
Disappointment level if rewards stopped	58.4%	59.5%	56.7%	55.6%	58.7%	65.3%
Satisfaction with value from rewards	53.6%	60.4%	58.9%	53.2%	54.7%	60.3%
Retail purchase behavior for the past 12 months motivated by rewards						
Increased	37.4%	27.3%	36.9%	21.8%	31.8%	40.5%
Decreased	5.6%	2.6%	4.3%	5.6%	4.0%	4.1%
Stayed the same	55.3%	67.8%	54.6%	72.6%	60.7%	52.9%
Became primary retailer due to rewards	27.0%	22.9%	34.8%	13.7%	22.4%	38.0%

Satisfaction: Travel programs

We found that satisfaction levels in the Travel sector lag behind the other two sectors—approximately 47-57 percent across all segments. Other insights from the data:

- Satisfaction scores are generally lower in the industry overall—especially in the rewards-centric airline sector. Consumers nonetheless perceive substantial value in travel rewards programs, although value scores once again lag behind the other two sectors. Core Women and Young Adults report the lowest value ratings.
- As in the Financial Services sector, Consumers report disappointment at the prospect of program elimination at a higher rate than perceived value, with Affluent audiences expressing the greatest potential disappointment.
- Consumer likelihood to recommend a Travel provider because of the rewards program is on par with overall satisfaction ratings for three segments. Recommenders occur at a significantly lower level among Seniors and at a significantly higher level among Emerging Hispanics.
- The perceived retention effect of travel rewards programs is consistently higher than the reported satisfaction scores and is greatest among the Affluent group.
- In the Travel sector, the presence of a rewards program appears to have a positive effect on acquisition in only one out of three cases, and has the least effect on Young Adults and Seniors.

"In the Travel sector, the presence of a rewards program appears to have a positive effect on acquisition in only one out of three cases, and has the least effect on Young Adults and Seniors."

Finally, while approximately 60 percent of consumers claim no program impact on their Travel purchase behavior, approximately one in four consumers openly admit that the program has influenced their behavior in a manner financially beneficial to the sponsor. The Affluent report the highest influence scores while Seniors report the lowest scores. While we observed a weaker relationship between the influenced group in each segment and other engagement metrics than we observed in the Financial Services and Retail sectors, those consumers who reported strong influence also reported increased engagement.

Exhibit 13 Travel Services: Perceived Impact and Influence of Rewards Programs % of participants who report top 3 box ratings on 1-10 scale

	General Population	Affluent	Young Adults	Seniors	Core Women	Emerging Hispanic
Travel Program Participants						
Likelihood to keep travel provider due to rewards	64.4%	69.8%	51.5%	54.8%	59.7%	61.3%
Disappointment level if rewards stopped	61.0%	64.8%	48.5%	43.5%	53.7%	49.3%
Satisfaction with Travel provider	57.6%	55.9%	47.0%	50.4%	51.7%	49.3%
Likelihood to recommend due to rewards	50.6%	55.9%	45.5%	37.4%	49.0%	57.3%
Satisfaction with value from rewards	48.0%	48.0%	34.8%	40.9%	38.3%	42.7%
Travel purchase behavior for the past 12 months motivated by rewards						
Increased	28.2%	28.5%	22.7%	13.0%	24.2%	21.3%
Decreased	14.0%	9.3%	4.5%	14.8%	10.7%	12.0%
Stayed the same	56.9%	60.5%	59.1%	69.6%	63.8%	56.0%
Became primary travel provider due to rewards	34.7%	34.5%	25.8%	25.2%	32.2%	40.0%

Conclusions:

These composite satisfaction and impact responses allow us to draw some important conclusions from the data:

- **Loyalty programs have definite brand impact:** Active loyalty program members are well aware of the value and potential inherent in participation. The numbers suggest a strong relationship between the loyalty program and the brand. Participants like loyalty programs, and their advocacy influences satisfaction with the sponsors, their referral behaviors and their likelihood to attrite. Perhaps most significantly, despite their reluctance to admit to influence, substantial numbers of consumers know their purchase behavior has changed because of the program—and aren't afraid to admit it.
- **Programs have become an entitlement:** Across all three sectors, the negative feelings about possible program eliminations, combined with high retention scores, indicate that companies wanting to remove loyalty programs from their marketing strategy face a difficult challenge. In the Travel industry especially, loyalty programs and Travel brands are wedded at the hip for the foreseeable future. Consumers now expect that Financial Services providers, Retailers and Travel providers will recognize and reward them for their continued patronage.
- **Satisfaction measures aren't enough:** Marketers design loyalty programs to generate a positive impact for their companies. While an enlightened few measure this impact in terms of the marketing insight they derive from the loyalty database, the vast majority of U.S. companies still measure impact in terms of customer satisfaction metrics or short-term financial results—while giving loyalty metrics such as share-of-customer and Customer Lifetime Value short shrift. A balanced scorecard approach—one that incorporates short- and long-term financial goals, customer satisfaction and loyalty measures, and the results of actionable customer intelligence—is much more powerful. No single measurement can accurately capture the complex benefit of applying sophisticated combinations of recognition and reward to build customer value.

Part VII: Building a difference engine

We undertook this study to capture the voice of the customer. We focused on these specific consumer segments because our clients and industry peers suggested that these audiences—disparate in age, income and cultural background, but nonetheless united in their quest for value and their desire for economic and emotionally rewarding relationships with their banks, retailers and travel providers—have emerged as a central focus of loyalty marketers. We hoped to understand the perceived differences among these audiences and suggest some possible ways for loyalty marketers to speak to them as both members of key demographic groups, and as individuals.

The depth of detail in these research findings far surpasses this published summary. In the months ahead, we'll share those details with our clients and subscribers to gain deeper insights and turn those discoveries into actions. With respect to the broad findings in this white paper, we humbly offer ten immediate implications to loyalty marketers hoping to build their own loyalty difference engine:

"Loyalty marketers are adept at capturing and influencing the gradual climb of a newly-acquired customer through value segments from casual shopper to brand loyalist. The U.S. marketplace today, however, demands a new marketing discipline that measures demographic segment mobility."

1. **Build a data-based goldmine:** All loyalty marketers should make concerted effort to collect demographic, lifestyle and attitudinal information on program members and merge it with their transactional databases. The combination of self-reported and behavioral data creates a strong platform for differentiation.
2. **Celebrate the differences:** Loyalty marketers, analysts and communications specialists must challenge the conventional wisdom about certain demographic segments enrolled in their loyalty programs. Rewards are a way of life for your best customers regardless of their age, gender and income stereotype—and yet each segment views rewards from a unique perspective that defies easy generalizations.
3. **The new paradigm—Demographic Segment Mobility:** Loyalty marketers are adept at capturing and influencing the gradual climb of a newly-acquired customer through value segments from casual shopper to brand loyalist. The U.S. marketplace today, however, demands a new marketing discipline that measures *demographic* segment mobility. What happens to offer response as Emerging Hispanics migrate into the Affluent demographic? How does the behavior of our Core Women customers change when they migrate into the Senior category? Will Young Adults carry fresh attitudes with them as they enter middle age? Our ability to influence these audiences will change as their attitudes evolve over time.
4. **Transactional behavior always matters:** Self-reported results are important, but as we have seen, consumers reluctant to admit that a loyalty program influences their behavior will always bias the results. Unlike the stock market, in loyalty marketing nothing predicts future performance better than past performance. Capture consumers in your loyalty marketing stream as early as possible to capture their behavior, and use the resulting insight to build the Relationship Chain with your most valuable segments.
5. **Set off the Value Detectors:** Consumers in all surveyed segments are sophisticated players of the loyalty game who search the marketing airwaves for signs of value, relevance and differentiation. Each customer carries a unique set of value antennae. Those marketers who can deliver individualized attention will capture customer attention, spend and advocacy.
6. **Focus on the soft side:** The soft benefits side of the loyalty-program value equation remains underdeveloped for all consumer segments across all industries. The power of recognition and special privilege must join points, miles and discounts in the front seat of the program as a principal way to differentiate and attract loyal customers.

7. **Personalization as prerequisite:** Spelling a customer's name correctly on a versioned statement no longer qualifies as personalization. Loyalty marketing communications have entered a new era of personal relevance and highly differentiated presentation. Direct-mail communications, emails and brand web sites must dump the generic approach and speak to the individual—a goal that will require marketers to filter content and channel through the prism of customer data.
8. **No acquisition without identification:** 25 years of loyalty marketing tell the tale: In many industries, you can no longer compete for customer acquisition without a loyalty marketing strategy. That's certainly true in the Financial Services and Travel industries, and in five years it will be true of the Retail industry, as well. Loyalty marketing requires customer data, and customer data requires customer identification. Mass marketing, viral and word-of-mouth tactics and short-term promotions will increasingly fail at acquiring new customers.
9. **Retention equals ROI:** Loyalty program analysts have proven that loyalty marketing tactics exert a significant, measurable effect on customer retention. The consumer perceptions revealed in this survey confirm that effect. To model your loyalty marketing ROI on short-term lift without adjusting for the retention effect does a disservice to the enterprise sponsoring the effort.
10. **The customer is in charge:** Finally, remember that the days of push marketing are over. Loyalty programs do not, nor have they ever, "created" loyalty. What successful loyalty marketers do is, in fact, *market loyalty*. You market the idea that you are loyal to your customers by exceeding their expectations, delivering differentiated value and driving highly personalized interactions. The customer will choose the level of interaction based on the extra value you deliver.

Finally, remember that the art and science of building customer value requires a deep commitment by the enterprise to deliver exceptional, individualized customer value across all channels and at every customer touch point. Loyalty marketers have always had this vision; it just took some time for the technology to enable it. That day has arrived.

As Mr. Gibson says, the future is here now. Combine the data presented in this paper with your own customer insights to build a difference engine that both leverages the lifestage elements that unite us within certain demographic groups and celebrates the differences that make each of us unique. Don't wait to grab your share of the future—do it now.

The Authors



Kelly Hlavinka directs all COLLOQUY strategic consulting, publishing, education and research projects. Kelly established COLLOQUY's Consulting group in 2003. Under her direction, it has grown to a team of internationally recognized practitioners working with such notable clients as American Express, Citi, MGM MIRAGE, Eddie Bauer, Best Buy, HP Software and Visa International.

An expert in the theory and practice of loyalty marketing, Kelly has been published by *DM News*, *The DMA Insider*, *DIRECT* and *COLLOQUY*. She is often quoted by publications, including *Newsweek*, *Advertising Age*, *CMO*, *Cards & Payments*, *Smart Money* and *1to1 Magazine*. Kelly has been a featured presenter at industry conferences sponsored by the DMA, FTMA, IIR and Source Media in such locations as New York, London and Paris. She leads COLLOQUY's faculty in teaching a series of loyalty marketing workshops and webinars around the world.



As Editorial Director for COLLOQUY, **Rick Ferguson** is responsible for all COLLOQUY publishing, educational and research projects. An acknowledged expert in the theory and practice of loyalty marketing, Rick has published numerous articles and white papers describing the characteristics of marketing programs which seek to change customer behavior. He has been quoted as a loyalty expert in the *Wall Street Journal*, *Guardian UK*, *Fast Company*, *USA Today*, and the *Dallas Morning News*. He serves as a contributor to *The Journal of Consumer Marketing* and *Chief Marketer* magazine. Rick has been a featured presenter at industry conferences sponsored by the DMA, NACS, FTMA and Terrapinn. As a key member of the COLLOQUY faculty, he has delivered educational workshops and webinars on the principles, practices and technologies of loyalty marketing in the U.S., U.K., South Africa, Malaysia and Singapore.

The Publisher



COLLOQUY comprises a collection of resources devoted to the global loyalty-marketing industry. The flagship resources are COLLOQUY Consulting, a loyalty consulting practice; COLLOQUY®, a quarterly publication serving the loyalty-marketing industry since 1990; www.colloquy.com, the most comprehensive loyalty web site in the world; COLLOQUY's Research and Education divisions; and the COLLOQUY Network, a global network of consultants certified in COLLOQUY's consulting methodology. Together they provide a worldwide audience of 25,000+ marketers with consulting services, news, editorial, educational and research services across all verticals and around the globe. COLLOQUY magazine subscriptions are available at no cost to qualified persons at www.colloquy.com.

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