

LoyaltyOne

The Global Loyalty Infusion

A worldwide review of loyalty best practices and innovations

By Bryan Pearson

Toronto, Ontario, where I live, features some of the finest fusion restaurants in the world, serving everything from kosher sushi to chutney wontons to jerk wuxi pork. This mix of vibrant flavors provides apt metaphor as we consider the best practices of loyalty programs around the globe. Even in today's saturated marketplace, we find a full menu of loyalty innovations to spark the marketing palate.

With these tastes in mind (and a glass of wine in hand), here's a look at some of the current trends and best practices with which loyalty chefs can spice up their own marketing plans:

Open-source loyalty. We've seen a burgeoning trend in which marketers have outsourced loyalty value proposition design to the most effective design team available—their own customers. In 2006, Turkey's Garanti Bank launched the *Flexi* credit card, which allowed card applicants to craft a custom-made reward card by choosing from a menu of rewards, repayment schemes and interest rate options. Cardholders even design the look of the card and can upload images from their own collections.

In the U.S., the Chase *Freedom Card* allows cardholders to switch between cash-back and points rewards options as desired. Capital One recently took the cue from Garanti Bank with the Capital One Card Lab, which likewise allows cardholders to design their own rewards credit card online. By bringing customers in on the value proposition design, these card issuers are front-loading their rewards programs with personalized, relevant offers that differentiate in a crowded market.

Open-source marketing extends to reward redemption as well. In the United Arab Emirates, Ehitad Airways' *Etihad Guest* program features a web site slider that allows members to create personalized cash-plus-miles awards. The cost of entry? Just a single mile. Credit card concierge services that follow in the footsteps of Diners Club's "Personalized Rewards" and American Express's "Your Reward" allow members to dream up their own rewards, from personal wine cellars to orthodontia for the kids. In an age of marketing saturation, loyalty marketers will continue to innovate by making their customers true partners in the brand relationship.

Partnership marketing. Coalition loyalty programs, in which a core group of sponsor companies works with a third-party operator to issue a common loyalty currency to members, thrive around the globe. Canada's AIR MILES Reward Program, The U.K.'s Nectar, Germany's Payback, New Zealand's FlyBuys, Brazil's Dotz and other programs have all enjoyed sustained success. Newer coalitions also continue to launch; India's i-Mint program recently announced signing its 2-millionth member after a year of operation. Coalition programs provide sponsors with a shared data platform to build acquisition and a shared marketing platform to reduce costs and increase response rates.

As successful as the coalition model is, other creative loyalty partnership models are thriving. In the U.S., a national coalition program has yet to launch, but partnership marketing—a licensed

currency model in which a company buys loyalty currency to offer to their customers—is taking root. Citi's *ThankYou Network*, for example, recently partnered with Expedia to create a new layer of robust travel earning and reward options for *ThankYou* members. In Australia, Choice Hotels' *Choice Privileges* program and Virgin Blue Airline's *Velocity* program have teamed to make their rewards currencies easily interchangeable. Such loyalty partnerships will help more companies achieve critical mass, and will transform the loyalty industry by creating additional value for members, partners and stakeholders.

The color green. In Europe and in North America, green marketing is red-hot—and that heat extends to the loyalty space, with green-themed programs and altruistic reward options proliferating. In the U.S., GE Money's *Earth Rewards Platinum MasterCard* contributes up to one percent of purchases to carbon offsets. In the U.K., Barclaycard's *Breathe Card* offers a similar value proposition. Since April 2007, when Wells Fargo made renewable energy certificates available for redemption in their *Enhanced Rewards* program, green rewards options have proliferated. No fewer than 20 loyalty programs have added environmental rewards and benefits to the mix in 2007.

Green, of course, isn't the only form of altruism; the rise of socially-responsible value propositions has continued throughout this decade. Early versions, such as the college-savings themed coalition program *Upromise* in the U.S., paved the way for a new generation program offers that leverage their customers desire to do well by doing good—such as the American Express Members Project, which allowed Membership Rewards members to suggest and vote on charitable causes, one of which Amex promised to fund up to \$5 million. Taking altruism a step farther, the *uTango* coalition in the U.S. allows young married couples to apply a percentage of their purchases to a savings fund that promises a payout of up to \$1 million—if the couple can stay married for 30 years.

While altruistic and community-minded benefits certainly carry broad consumer appeal, their proliferation highlights a broader trend, and one more likely to transform the loyalty industry: the use of database segmentation to target green and altruistic rewards to those customers most likely to respond. Loyalty marketers include altruistic rewards not for their PR value, but for their bottom-line benefit.

The data difference. Loyalty marketers are blessed with access to an incredible amount of customer data—but have historically been cursed by their inability to leverage that data to benefit either their customers or their brands. Today, that curse has been lifted as the next generation of loyalty marketers perfects the art and science of building customer value. Facing a saturated market, these marketers understand that share-of-customer battles will now be won in the database.

In the retail sector, such U.K. companies as Tesco and Boots have led the effort to analyze the purchase patterns of loyalty program members, segment them by their shopping proclivities and deliver relevant offers that result in incremental lift and cross-sell revenues. North American companies, meanwhile, are also entering the data game more aggressively. The U.S. grocer Kroger Co. and health-and-beauty retailer CVS/pharmacy are attempting to replicate Tesco's success across the Atlantic. In Canada, two AIR MILES Reward Program sponsors, health-and-beauty retailer Rexall/Pharma Plus and DIY retailer RONA, are mining collector data across multiple dimensions to predict and respond to attrition, proactively influence segment migration and create relevant offers.

Relationship Banking. In 2003, Puerto Rico-based financial services company Banco Popular pioneered the concept recognizing and rewarding their customers across their entire relationship with the retail bank. Designed to build loyalty to the banking brand rather than to individual card products, Banco Popular's *Premia* program has allowed the bank to gather actionable customer data and that delivers bottom-line benefit.

This concept was quickly replicated in the U.S. with such launches as Citi's *ThankYou Network* and National City's *Points* program. In Canada, Bank of Montreal likewise rewards AIR MILES reward miles across banking lines. Look for this Relationship Banking model to spread beyond North America as financial services companies around the globe seek to capture customer loyalty by leveraging their loyalty programs to cross-sell them into multiple product relationships. The future of financial services loyalty lies not solely in the credit card, but more broadly in the entire banking relationship as customer look for financial partners rather than mere credit providers.

Moving beyond plastic. Loyalty marketers are continually looking for ways to differentiate the ubiquitous plastic payment or membership card. In the U.S., electronics retailer Circuit City issued a *Pirates of the Caribbean*-themed gift card that doubles as a DVD embedded with the film's trailer. In Dubai, Dubai Bank's *Royale MasterCard*, targeted at the ultra-affluent, is a cavier-colored black reward credit card encrusted with real diamonds.

If there is a hint of desperation in these offerings, it's because the days of having customers carry a plastic slice of your brand in their wallets may be numbered. Cardless payment technology continues to make inroads; contactless payment systems such as MasterCard's Paypass, Visa's Wave and ExxonMobil's Speedpass continue to proliferate—and you don't necessarily need a plastic card to use these systems. Garanti Bank issues a contactless radio-frequency identification (RFID) patch that customers can use to turn their cell phones or watches into payment devices. Biometric identification and payment systems continue to proliferate in the grocery and high-volume retail sectors.

But the true card-killer might be mobile payment systems that turn cell phones into credit or debit payment systems through RFID or SMS messaging. Such systems are already entrenched in Japan, and will soon proliferate in emerging markets where lack of widespread broadband access has made cell phones the loyalty platform of choice—in South Africa, more than half a million people use their cell phones to conduct their banking transactions. Loyalty marketers will soon live in a world with Visa-branded cell phones and text messages that indicate how many loyalty points a customer has earned sent with each purchase. This new generation of tools will require marketers to create value propositions rich enough to create a desire to opt in—because without explicit customer opt-in, you're only creating more spam.

Of course, loyalty marketers can ill-afford to throw these ingredients together at random. There's a culinary term for such ill-considered conglomeration: *confusion cuisine*. But by paying attention to global practitioners honing the art and science of loyalty and relationship marketing, by networking with them and learning what their programs bring to the table innovation, you can help move the art and science of loyalty marketing forward. Listen to your customers, analyze their behavior through effective segmentation, choose strategically-aligned partners and leverage the latest in payment and communications technology—but do these things strategically, with your business objectives and brand strategy guiding your choices.

So, to you loyalty innovators, a tip of my wine glass. I can't wait to sample the latest loyalty cuisine.

Bryan Pearson is President of LoyaltyOne, operators of AIR MILES, COLLOQUY, Precima and Direct Antidote. He can be reached at bpearson@loyalty.com.

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