

Loyalty Brief

CMA 2009 Special Bulletin

LoyaltyOne

Head of the Class

A focus on the latest loyalty-marketing trends can help you earn straight “A”s in customer loyalty



By Bryan Pearson
President and CEO, LoyaltyOne

In lean economic times, the one thing we can't afford to cut back on is innovation. The current recession only turns up the pressure to do more of what we should all have been doing anyway – constantly devising creative new ways to outpace the competition.

At LoyaltyOne, our work with clients and partners around the globe gives us a unique vantage point for tracking the latest in loyalty-marketing innovation. Having seen firsthand which promising ideas yield the most bankable results, we've grouped the lessons learned around a few common themes. Put these “Four Cs” into practice and you'll be on your way to earning straight “A”s in customer loyalty.

Summary

For marketers looking for an edge in the current economic downturn, LoyaltyOne President and CEO Bryan Pearson presents four critical trends in loyalty marketing. Four Cs: Coalition and Partnership Marketing, Cooperative Social Networking, Customer-Centricity and Cause marketing. Anticipating these trends and integrating them into your marketing plans can help fuel innovation and position your company for long-term success.

Fast Fact:

Coalitions Rule

Two-thirds of Canadian households have active AIR MILES accounts. Germany's PAYBACK program is supported by the same proportion of German consumers. And New Zealand's Fly Buys program boasts a remarkable 98 percent household penetration.

- Source: LoyaltyOne, Loyalty Partner GmbH, Loyalty New Zealand

I. Coalition and Partnership Marketing

Many successful companies have evolved their loyalty value propositions beyond standalone loyalty programs to form marketing partnerships. Citi's ThankYou Network, for example, was originally structured as a proprietary Relationship Banking program that rewarded customers of Citi's retail banking products and services. Then Expedia joined as a travel partner, issuing ThankYou Points on airline and hotel bookings. Now the program has expanded its merchandise rewards by adding Amazon.com as a redemption partner. The resulting network now offers a stronger value proposition for Citi, its customers and its partners—straight "A"s for everyone involved.

Of course, the ultimate extension of this partnership trend is the coalition model of loyalty. The coalition model has clear advantages. Shoppers earn a single loyalty currency from multiple sponsors, including credit card partners and high-frequency gas, grocery and pharmacy retailers that help increase earning velocity. Coalition members earn more rewards faster than they do in proprietary programs. Coalition partners, meanwhile, can offer a compelling value proposition while sharing marketing and operating costs. Customer data collected includes not only proprietary transactional behaviour, but also cross-shopping behavioural data that leads to valuable share-of-customer insights.

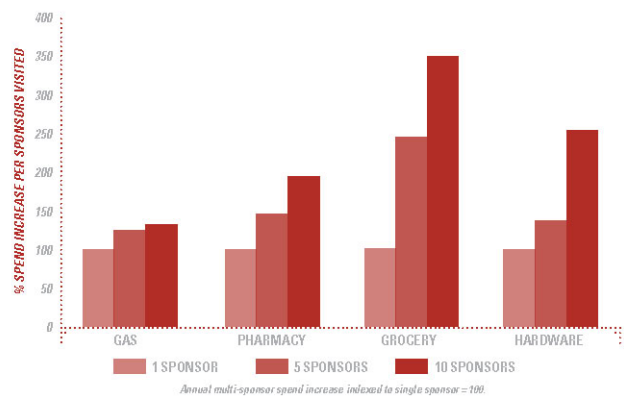
With advantages such as these, it's easy to see why loyalty coalitions enjoy incredible success worldwide – whether it's our own AIR MILES Reward Program here in Canada, the PAYBACK program in Germany or the Fly Buys program in New Zealand. The U.S. market is poised for a similar success story. In lean economic times, customers expect more value for their loyalty program participation, while marketers hope to improve their loyalty ROI. With the average Canadian household actively participating in over nine loyalty programs, it's time for Canadian marketers to build real value into their programs—and to take a closer look at the advantages of existing loyalty coalitions.

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Case Study: AIR MILES Reward Program CATEGORY: SPECIALTY RETAILER

Graph 1: The Power of the Coalition

Individual Sponsors' sales rose as customers shopped with all partners in the AIR MILES coalition.



Individual sponsors of the AIR MILES coalition loyalty program achieved increases in annual spend ranging from 24% to 144% among customers who shopped with at least four other loyalty program sponsors. Shoppers who patronized 10 or more coalition partners showed annual increases of 32% to 248% with individual sponsors. The coalition partners were already using the rewards currency to enhance their individual promotional efforts. They now saw an opportunity to join forces and boost program participation across the board. As customers saw their currency balances grow more quickly – and their ideal rewards become steadily more attainable – they began further consolidating their everyday shopping within the coalition, trying to maximize the positive impact. Meanwhile, the participating sponsors benefited from immediate sales gains and shared or decreased marketing and promotional costs, while building solid relationships for the future.

II. Cooperative Social Networking

Consumer word-of-mouth activity has been around since the first human recommended a piece of flint to his neighbour. What takes today's cooperative marketing into a whole new dimension is the sheer scale of social networking platforms such as Facebook and Twitter, and the amazing speed with which consumer opinions can be shared with millions of other consumers. The new challenge for marketers: To cooperate with loyal champion customers to form positive word-of-mouth in a wired and networked marketplace.

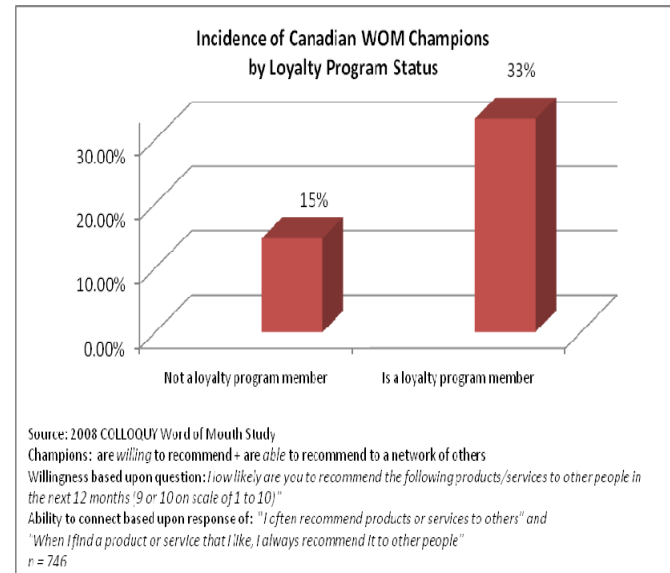
Customer-centric companies around the world have already taken up the challenge. Turkish wireless carrier TurkCell supports an online advisory board of loyalty program members who provide input on marketing campaigns and service enhancements. U.S. computer manufacturer Dell has leveraged its IdeaStorm community, where users contribute new product ideas and suggest enhancements for everything from software to power cables, to build a strong community of champion customers. And Canada's own AIR MILES Community provides a meeting place where AIR MILES Reward Program Collectors can share collection tips, swap redemption stories and rate program features.

Recent COLLOQUY research into word-of-mouth marketing found that a company's most active rewards program members are also its most energetic online champions. Cultivate these influencers. They're already in your loyalty program database—and the program itself is your most effective tool for winning their trust and harnessing their energy.

Fast Fact:

Customer Champions

The untapped WOM potential of loyalty programs



COLLOQUY's 2008 Word of Mouth research revealed significant evidence of a direct correlation between reward program activity and consumers' positive WOM endorsement activity. **Here are some of the key findings:**

- Loyalty program members are 127% more likely to be WOM Champions than the general population;
- 31% of loyalty program members are self-described WOM Champions;
- Only 15% of non-loyalty program members are self-described WOM Champions;
- 68% of WOM Champions in loyalty programs intend recommend a program sponsor's brand within a year;
- Actively participating loyalty program members are over 3 times more likely than non-active members, and over 7 times more likely than non-members, to be WOM Champions.

III. Customer-Centricity

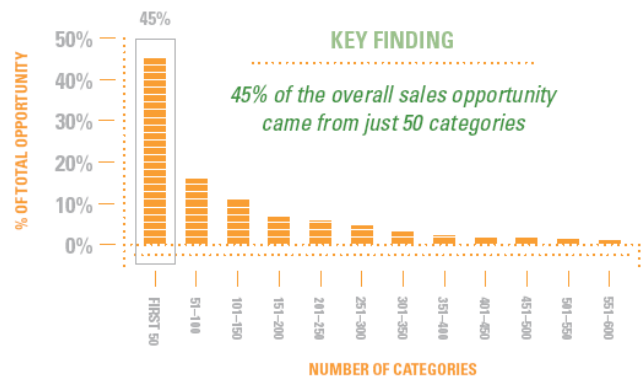
Guided by sophisticated data analytics, true customer-centricity reaches beyond the quarterly marketing campaign to reshape product development, pricing strategies and even geographic expansion.

U.S. gaming company Harrah's Entertainment, for example, brings impressive customer-centric focus to its Total Rewards program. Harrah's creates detailed profiles of every Total Rewards member, segmenting them by value and frequency along with cross-category, cross-property and lifecycle behaviours. Their goal: To reward loyal customers, offer tiered levels of service and build more profitable long-term relationships. This enterprise loyalty strategy has seen Harrah's transform themselves from a small player to the undisputed leader of the U.S. gaming industry. Across the globe in South Africa, the Woolworths retail chain analyzed rewards program data to identify core and discretionary purchases among key segments. The retailer then removed 15 percent of its product offering that was irrelevant to high-value customers. Sales grew by 6 percent.

More and more retailers are tapping the rich insights locked within their customer data. But as my Precima colleagues stress, advanced analysis and segmentation are just tools of the trade. The real test of a customer-centric strategy is how effectively it translates customer data insight into relevant offers and differentiating in-store experiences that impact the bottom line.

Case Study: Precima

CATEGORY: GROCER



By helping a client grocer make their top 50 product categories a retail priority, LoyaltyOne's Precima, a business that focuses on advanced retail analytics, helped the client reallocate their marketing and merchandising dollars toward the categories with the greatest potential for improved returns. Ultimately, this shift represented a strategy that could yield a sustainable competitive advantage— which, in turn, would be difficult for competitors to duplicate.

IV. Cause marketing.

Loyalty marketing can influence far more than customer shopping patterns. A new breed of socially conscious loyalty value propositions rewards customers not only for brand loyalty, but also for their social impact.

The (RED) campaign was an early trendsetter in this regard. Major brands such as Apple, Starbucks and Gap Inc. created unique products bearing the (PRODUCT) RED logo, with all proceeds going to fight AIDS, tuberculosis and malaria in the developing world. Since 2002 the program has raised \$110 million. An innovator in the environmental arena is the U.S. RecycleBank program, which tracks the recycled waste from participating households and awards points redeemable for rewards that range from grocery products to vacation travel. The AIR MILES My Planet Program, recently launched here in Canada, offers bonus reward miles to collectors who purchase eco-sensitive products, and also adds compelling green redemption options to the rewards portfolio. The My Planet web site, meanwhile, provides a wealth of environmental information in the form of discussions, polls and social networking.

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The Final Exam

As with any emerging trends, these four trends in marketing innovation come with a few provisos that should become a part of every marketer's homework:

- **Deliver real value.** Customers want to earn rewards quickly. They want relevant offers with plenty of options. They want to be heard. And if your program looks the same as everyone else's, they'll quickly lose interest. The days of copycat programs treated as afterthoughts in the marketing department are over.
- **Focus on data analytics.** First, ensure your privacy protocols are airtight. Then use data-driven insights to get the right offer to the right customer through her preferred channel. Leverage data from your loyalty program and partner with your vendors to market to customers according to their propensity to buy. Unlike the stock market, past performance is a strong indicator of future customer behavior—and the more you understand customer behaviour, the more proactive and efficient your marketing campaigns become.
- **Be authentic.** Authenticity is critical in today's networked world, where mere lip service to sustainability and other social or charitable causes quickly becomes exposed. But the authenticity test applies to more than just your marketing efforts—your entire company must walk the walk with its own corporate sustainability efforts and charitable causes. Your customers have a razor-sharp instinct for spotting insincerity. So keep it real – by being real.

Not all of the Four Cs will be applicable within your particular market, business model or customer strategy. To ace your final exam, apply what learnings you can from these loyalty trends and, where possible, apply them to differentiate yourself from the competition. Most importantly, don't let today's economy prevent you from moving innovation forward. Explore new tactics, strategies and models. Test and learn. Emulate innovative business leaders to adapt and evolve in this new economic reality. The one C that applies to every customer-focused enterprise is Change. The ability to create meaningful change, for both our companies and our customers, is what separates the also-rans from the valedictorians. Given the right tools, support and motivation, any one of us is capable of making the head of the class.

About The Author

As President and Chief Executive Officer, Bryan Pearson leads all of the enterprises organized by Alliance Data under the LoyaltyOne umbrella: the AIR MILES Reward Program, LoyaltyOne Consulting, COLLOQUY, Direct Antidote and Precima. Joining the organization soon after its founding in 1992, he moved through a series of progressively senior roles, becoming President of the AIR MILES business in 1999 and assuming his current position in 2006.

Bryan is a highly regarded expert on enterprise loyalty, retail marketing, coalition marketing and customer relationship management. He is a frequent speaker at industry events around the globe, and his views are widely quoted in national and international publications. He also contributes to COLLOQUY magazine as a writer and a member of the editorial board.

A strong supporter of many community and charitable groups, Bryan is a board member of the Special Olympics Canada Foundation. He is also an active participant in the Venture Management program at Queen's University.

Additional resources

For additional resources, please visit www.loyalty.com for the latest case studies and executive columns from LoyaltyOne, and www.colloquy.com for the latest in loyalty marketing news, research and best practices. Also see these specific articles and white papers:

- COLLOQUY white paper: *The New Champion Customers*. Available for download at www.colloquy.com.
- Precima research: *The State of Customer Centricity*. Available for download at www.precima.com.
- For any LoyaltyOne business, including the AIR MILES Reward Program, LoyaltyOne Consulting, COLLOQUY, Direct Antidote, and Precima please contact:

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About LoyaltyOne Inc.

LoyaltyOne profitably changes consumer behaviour. We work with more than 100 of North America's leading brands in the retail, financial services, grocery, petroleum retail, travel, and hospitality industries. Together, we collaborate to create lasting loyalties that benefit you and your customers.

Through a vibrant team of businesses including the AIR MILES Reward Program, LoyaltyOne Consulting, Precima, COLLOQUY and Direct Antidote, each specializing in a loyalty discipline, we design, deliver, and manage a suite of loyalty marketing services—consumer data, customer-centric retail strategies, direct-to-consumer marketing, loyalty consulting, and more. Applying experience and expertise, we put data into action, developing powerful solutions that make your marketing smarter and your brand more relevant. And through our thought leadership and world-class analytic capabilities, we're setting the pace for the global loyalty industry.

LoyaltyOne is an Alliance Data company. For over 30 years, Alliance Data and its businesses have helped its clients build more profitable, more loyal relationships with their customers. Today Alliance Data is a leading provider of loyalty and marketing solutions derived from transaction-rich data, managing 107 million consumer relationships for North America's leading brands.