

# The Brave New World of Loyalty Marketing

**ADVANCED TECHNOLOGIES  
HELP BUILD A CONSUMER  
BASE WITH UNPRECEDENTED  
ENGAGEMENT.**



**B**y all accounts, membership in loyalty marketing programs is going through the roof. In the most recent state-of-the-state analysis by the COLLOQUY Loyalty Census, membership in the programs came in at a whopping 1.807 billion people, a 24 percent spike from the 1.3 billion members tallied in the census conducted in 2007.

As before, the study showed that the financial services category was, by far, the largest segment of the loyalty pie. After that, airline providers accounted for 277.4 million, specialty retail had 191.3 million, hotels counted 161.8 million and grocery stores rang up 153.3 million.

Clearly, and despite the lingering effects of a global recession, these are the good, old days for loyalty/incentive programs. But with membership approaching 2 billion people, loyalty marketers also are coming to grips with a new reality: Technological advances that have come on line in the past few years are changing the game and making it possible to engage all those people in new, previously untapped ways.



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Ivan Frank, CMO at ePrize



Scott McCormack, VP of smartOne Prepaid Solutions, First National Bank

Scott McCormack, VP of smartOne Prepaid Solutions, First National Bank, couldn't agree more. McCormack's group frequently reaches out to the company's best customers on a number of fronts, including e-mail, phone, direct mail and in-person. At each interaction, he says, they gauge consumer reaction in order to proactively determine how to add value via incentives in the future.

"We are part of a financial institution that has built a customer service approach as part of its DNA for over 150 years," he says. "That DNA won't change; our marketing approach won't change. It will remain focused on adding value."

In a depressed financial environment, McCormack adds, smartOne Prepaid Solutions actually will increase its loyalty marketing activities.

"In a down economic climate, my team and I heighten our focus on delivering value through loyalty marketing," he says. "For our customers, that means proactive engagement from our client service team. We are a value-added service provider that succeeds based on our customers' success. We are loyal to our customers, and, in return, we often receive their loyalty."



Kelly Hlavinka, a partner with COLLOQUY

"With a loyalty program, you have to do everything you can to make sure your members are engaged and spending as much as possible with you," she says. "Targeting is going to be the key. You have to find who your best customers are and what it is that they want most."

"Rather than casting the net wider and wider, marketers who are active in the loyalty space have to begin to look inward, and they have to ask themselves if they have done the best job they possibly can at mining new insights about their membership," says Kelly Hlavinka, a partner with COLLOQUY and a co-author of the 2009 census report. "They have to be re-enforcing their loyalty communications at all touchpoints... on their Web site, in e-mails, in their merchandise selection and in person."

Hlavinka uses the example of Hilton Hotel's "My Way" loyalty program, of which she is a member. If, for instance, she told the company that she would be most interested in traveling to the Caribbean, future e-mails and other correspondences typically would contain information about hotel deals in the islands.

## BEST PRACTICES FOR LOYALTY MARKETING

**M**any loyalty marketers are looking for the best way to attract an engaged audience of consumers. This is particularly true as the economy appears to be emerging from its free-fall. White papers offered by COLLOQUY list a variety of best practices on how to make loyalty programs work in the current environment. Here's a sampling:

**Target Millennials**—This group of young adults appears to be highly receptive to loyalty programs. And they are tech-savvy enough to be reached with the latest communications platforms, including email, interactive online elements, mobile and social media.

**Cultivate "champion customers"**—Marketing's holy grail is a customer who will, after becoming engaged with a brand, go to the next level and extol the product's virtues to his or her circle. That circle can be a tightly knit group of in-person friends and relatives or a large swath of virtual acquaintances that congregates in the blogosphere.

**Explore partnerships**—Partnerships with like-minded companies can enhance the loyalty/value proposition for sponsors, partners and consumers.

**Spread loyalty across your enterprise**—Customer loyalty needs to be rewarded at as many touchpoints as possible. Leveraging customer data at the enterprise level means enhancing customer engagement in-store, online, through the call center and at point of sale.

**Stick with it**—Even in our economic times, avoid the temptation to cut loyalty programs that are meeting their goals. Deep, sweeping cuts can backfire and distance the company from its most loyal customers.

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Source: 2009 COLLOQUY Loyalty Census—memberships expressed in millions

Whether the economy is tanking or booming, however, McCormack says his group follows one cardinal rule: Keep it simple.

“Too often, loyalty and incentive programs out-think the audience,” he says. “We’ve learned to start simple and think big. Being nimble for our clients has helped them win; we always recommend a step-through-and-add-on process versus a build-big-for-everything-you-can-think-of approach. The most important item in loyalty/incentive programs is redemption and usage by the key constituents that are trying to be reached; building or creating the end goal... loyalty. Complexity often leads to poor execution.”

Few people know that better than Ivan Frank, CMO at ePrize. As the executive who oversees the company’s loyalty business, Frank is keenly aware of just about every aspect of loyalty tools and how they interact with today’s cutting-edge platforms, including the Internet, interactive, mobile and social media. His message, like McCormack’s, is that a loyalty program can be as sophisticated and complicated as you want to make it—as long as it appears in an easily digestible form when it reaches the consumer.

“The tools that we have access to today are game-changers for loyalty marketing programs, there’s no doubt about it,” says Frank. “Loyalty programs have always been

about driving a larger, more comprehensive relationship with consumers, and that’s still the case. But there are much more powerful and effective ways of doing it with today’s technology. And that has really raised the bar.”

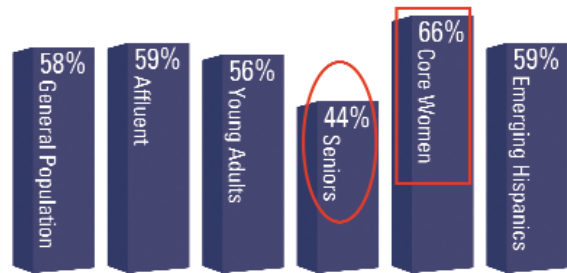
But all that technology, if misused, can be a major problem for marketers, he cautions.

“The flipside though, is that there’s a danger of being over-complicated,” he says. “The best marketers want to produce communications that are as simple as possible for a wide range of consumers, no matter how sophisticated the campaign is behind the scenes. So it’s always a bit of a balancing act.”

At ePrize, which has launched more than 5,000 promotions for nearly three-quarters of the top 100 brands since 1999, that balancing act typically begins with a rigorous assessment of their client’s past performance with loyalty programs, its competitive set and its goals and objectives. The group then begins to work with clients on a charter of sorts, one that lays bare a brand’s vulnerabilities, as well as its attributes. The end result is a strategic plan that not only sets priorities for loyalty initiatives but lays important groundwork toward taking the steps that will be necessary to make the campaign a success.

“In terms of improving customer loyalty,

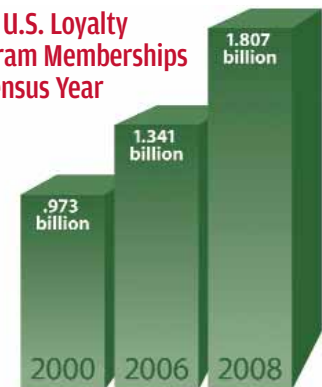
## Percentage of WOM Connectors by Demographic Segment



• **Connector:** “I often have conversations with others about the products and services I use” and/or “I often recommend products or services to others” and “When I find a product or service that I like, I always recommend it to other people.”

• n = 720

## Total U.S. Loyalty Program Memberships by Census Year



Source: 2009 COLLOQUY Loyalty Census; 2007 COLLOQUY Loyalty Census; 2000 COLLOQUY Sizing Study

setting the right strategic priorities have never been more important,” Frank wrote in a recent white paper. “With an accurate, highly defined list of problems and opportunities to be solved, an improvement effort begins on a path to success. On the other hand, failing to accurately establish these priorities can be drastic.”

Certainly, individual marketers will have individual priorities. But, moving forward, certain trends seem to be developing that could enlighten many loyalty programs.

Recent white papers produced by COLLOQUY suggest that Millennials, young adults in the 18-25 age range, particularly are open to loyalty-related communications from marketers. The group’s most recent census showed that participation rates by this group stood at 58 percent, a 32 percent improvement over the census conducted in 2007. And nearly half of those responding (46.4 percent) said that retail rewards programs were “more important” during the recession.

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The study said 27 percent of Millennials are actively seeking to enroll in new loyalty programs to help stretch their budgets.

Another demographic group that shows upside for loyalty marketers is women, which, COLLOQUY contends, is particularly true when considering the word-of-mouth factor in building a brand's engagement levels. When asked, 66 percent of "core women," those 25-50 years old with household incomes between \$50,000 and \$125,000, said they have either had conversations with friends or relatives about products or services, or they have actually recommended them to others. Hlavinka adds that social media platforms have solidified the likelihood that women will pass along brand preferences via word-of-mouth.

"Clearly, if you're a loyalty marketer, you should be doing everything you can to retain these people, keep them engaged and keep them participating in the communications you're putting out there," she says. "There's a strong correlation between women and word-of-mouth marketing, and things like Facebook and Twitter have enabled it to a whole new level."

Another universal trend in loyalty marketing is that bigger is not always better. While programs once attempted to amass the largest possible audience—sometimes with a large percentage of inactive members—today's loyalty efforts are more concerned with the quality of membership and not just the quantity.

"Just because someone is involved in a loyalty program doesn't necessarily mean that he or she is profitable for the marketer," says Mark Johnson, president and CEO of Loyalty360.org, the Loyalty Marketer's Association. "There is a huge push these days to look at the makeup of memberships to make sure as many people as possible are participating and engaged in your brand. Marketers are using the latest techniques in behavioral optimization and sales optimization to look at the most profitable customers so that they can better understand past behavior and influence future sales."

Hlavinka agrees: "Companies invest a lot of money to influence consumers with these programs. But if the members aren't engaged, it's hard to make the case with

your CFO that you should keep doing all this loyalty outreach."

Loyalty360's Johnson, who helped found the organization 11 months ago, says marketers are "hungry" for new ways to excel in a discipline of marketing that, despite its challenges, can help to build an unprecedented bond with a consumer base that

becomes what all marketers dream about... passionate brand ambassadors.

"We started this group because of the huge interest in this space right now within the marketing community," he says. "People want insights. They want best practices. They want solutions that will bring their loyalty programs to the next level." ■