Lure of the Loyalty Leverage

Unpacking Loyalty Programs

June 2022

Contents

Introduction

Section 1

1. Introduction

Businesses have been transforming their customer relationship strategies across the globe owing to the digital transformation. Hence, the market for loyalty programs has been consistently evolving, giving rise to innovative solutions. According to Mordor Intelligence's study, the APAC loyalty management market was worth USD 946 million in 2020 and is predicted to expand to USD 3643 million by 2026, an almost fourfold increase in just six years. Both, the customers as well as the companies seem to be benefitting from these loyalty programs.

Loyalty programs have evolved significantly since the initiation of their use. The loyalty programs started out as generic rewarding mechanisms to gain increased purchasing frequency and value from the company's most loyal customers. Now loyalty programs are about personalisation, utilising data-driven insights to first map a user persona, then tailor the rewarding mechanisms and touchpoints in accordance to people's purchase behaviour. This is just one of the ways in which loyalty programs have evolved over the decades. This report discusses other aspects of this evolution with respect to the design of the loyalty programs, their redemption requirements, level of interaction with consumers and the dynamic role of technology.

Loyalty programs are increasingly being utilised in different forms across all industries. While they began as a tool for the travel industry, more sectors have introduced such programs such as restaurants, gas stations, the financial sector, etc. While some brands are relaunching their loyalty programs for the second or fourth time such as Air India, there are other brands, introducing these programs for the first time. But how profitable are these loyalty programs? Why are companies spending money on such programs instead of just using it for marketing? This report also discusses the economics of loyalty programs, its applications across the retail, hospitality and financial sector as well as key factors that influence the design of the loyalty programs.

Why are consumers willing to pay for such loyalty programs? Why are more and more consumers associating loyalty programs as a way of feeling a connect with the brand? How should you design a highly profitable loyalty program? If you require answers to such questions, the section of this report on understanding consumer behaviour, discusses the behavioural drivers for adoption of such programs. At the end of this section on consumer behaviour, either you would leave as an informed business or an informed consumer. The psychology of consumer behaviour is at the core of understanding why these loyalty programs work or fail.

Throughout the report there are examples given from different industries with distinct loyalty programs. In a world where competition increases every day and there is increased pressure on market share, brands are targeting implementation of loyalty programs to sustain their loyal customers and onboard more. Rewards are an integral part of the life of a customer, especially in this digital age with targeted marketing taking over the social handles and search engines. This report discusses the market for loyalty programs in depth, focussing on its evolution to understand the influences of the historic programs on today's market and discussing the industries and consumers it applies to.

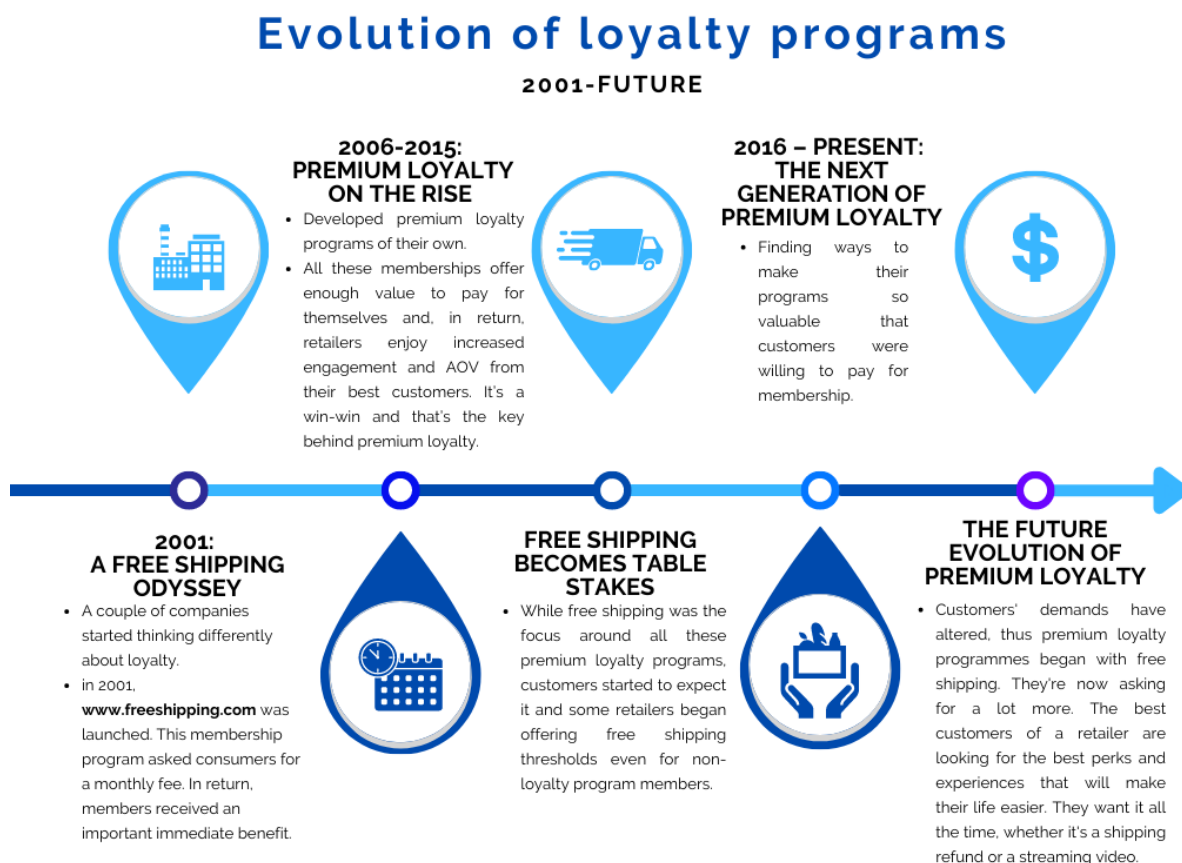# Evolution of Loyalty Programs

Section 2

2. Evolution of Customer Loyalty Programs

India is a developing country where about 2/3rd of the population lives in rural and suburban areas where the payments have been dominated by paper-based transactions. So, the adoption of digital payment tools was low till very recently. During this time, it was dominated by traditional loyalty programmes with plastic cards where users could earn points that could later be redeemed for awards.

With demonetisation coming into place in 2016, the scenario shifted. As the government promoted digital payments there was an inclination towards loyalty programmes. There was greater acceptability of credit and debit cards where customers could earn better rewards like instant cashback.

There was also a push towards e-commerce websites. It was made with realisation about the ease of shopping anytime and anywhere. Here, with traditional rewards some retailers are also starting thinking about additional things they could do in this space.

Evolution of loyalty programs
2001-FUTURE

2006-2015: PREMIUM LOYALTY ON THE RISE
- Developed premium loyalty programs of their own.
- All these memberships offer enough value to pay for themselves and, in return, retailers enjoy increased engagement and AOV from their best customers. It's a win-win and that's the key behind premium loyalty.

2016 – PRESENT: THE NEXT GENERATION OF PREMIUM LOYALTY
- Finding ways to make their programs so valuable that customers were willing to pay for membership.

2001: A FREE SHIPPING ODYSSEY
- A couple of companies started thinking differently about loyalty.
- in 2001, www.freeshipping.com was launched. This membership program asked consumers for a monthly fee. In return, members received an important immediate benefit.

FREE SHIPPING BECOMES TABLE STAKES
- While free shipping was the focus around all these premium loyalty programs, customers started to expect it and some retailers began offering free shipping thresholds even for non-loyalty program members.

THE FUTURE EVOLUTION OF PREMIUM LOYALTY
- Customers' demands have altered, thus premium loyalty programmes began with free shipping. They're now asking for a lot more. The best customers of a retailer are looking for the best perks and experiences that will make their life easier. They want it all the time, whether it's a shipping refund or a streaming video.

For this they directly used customer data to understand the barricades that may stop a customer from shopping online. One of the key concerns was the shipping costs. This gave rise to premium loyalty programmes. First with freeshipping.com where customers could buy a membership and get free shipping across multiple online retailers.

This gave a further opportunity for brands like Amazon to also launch Prime Membership. Amazon as a brand really leveraged the premium model. First beginning with free shipping, they realised that customers wanted more and that customers saw the potential and value of these loyalty memberships and were willing to pay for it. It started adding more and more sugar to the package including media library access, prime photos, quick grocery delivery services in a few states, etc.

Future of Loyalty Programmes

The best customers of a retailer are looking for the best perks and experiences that will make their life easier. They want it all the time, whether it's a shipping refund or a streaming video. Thus, businesses are required to look beyond complex reward systems and create an exceptional and personalised experience for their customers using strategies and technology.

Shoppers Stop – Loyalty Program

Shoppers Stop is one of the nation's largest department store chains. But with multiple competitors in the market and e-commerce becoming the norm, it was becoming challenging to keep up.

Shoppers Stop Loyalty Programme called First Citizen which was the traditional earn and burn points system has now been digitally revamped where the customer has convenience of shopping across myriad platforms: In-Store, online (website and Mobile App) and via WhatsApp calling connecting with the Personal Shopper Program.

The upgraded programme has enhanced personalised shopping experience via WhatsApp and Text and also the privileges of using the Personal Shoppers Lounge in-store, while the Personal Shoppers assist them in choosing the right fit and size with the help of specially trained personnel deployed in Shoppers Stop stores across the country. One can even try the outfits in exclusive sanitised trial rooms at the Lounge.

It also has a premium First Citizen programme with added privileges of increased percentage of reward programmes, discounts, no queue shopping home delivery of alterations, valet parking and personalised services.

It aims at bringing back the joy of shopping which customers missed during the lockdown period and encourages customers to shop across platforms.

Industry Application

Section 3

3. Industry Application

In the following section, characteristics of loyalty programs across various industries has been discussed. There is great variation in loyalty programs across different industries and this is driven by the differences in the level of competition in the industry, consumer purchasing behaviour, among other key differentiators.

Customer Satisfaction Vs Customer Loyalty

Is customer loyalty leading to customer satisfaction instead of the other way round?

One of the key expected outcomes of providing any good or service is to fulfil the needs of a consumer such as a certain level of satisfaction. It is expected that once such demands are fulfilled up to a certain expected standard it gives a company a loyal customer who guarantees repeat sales whenever a similar demand from the same consumer arises. However, as customer loyalty programmes gain importance there has been a shift. Companies are relying on Customer Loyalty programmes to rope in consumers and satisfy needs that they may not know exist.

Take the case of Air India. They turned their customer base around by providing a fabulous Frequent Flier Miles Membership where, as a member, you can earn FR points when you fly Air India and 27 Star Airline partners on eligible fare paying tickets, and redeem them for award travel faster than most programmes. On higher fares, such as full fare economy, and on Business/First Class, you earn bonus FR points, and clock FR points faster. Would Air India continue to spend on improving their customer loyalty programs or would their focus shift to improve services like flight experience, the food and beverages and the overall comfort? Is it because the costs of the former change are much cheaper than bringing operational changes?

Reach out to us and let us know what you think?

3.1 Economic Value of Loyalty Programs

The economics value of the loyalty programs inspires the design of the same. Hence, the value of the loyalty program is defined by 3 key parameters; 1) *Loyalty margin* – the benefits of the LP to the customers in comparison to the costs of the program, 2) *Incremental share* – the contribution with respect to increased spending, as measured by incremental margin contributed by the consumer in comparison to the funding cost of the programs and 3) the *program size* given by the profits generated. Loyalty margins are impacted by the cost of the company's underlying products. On the other hand, incremental share and program's size are defined by the consumers' level of interest and engagement with the category. The economic value of LPs from each industry varies and hence, impact the decision about the design of LPs. These three parameters translate into 3 essential goals of loyalty programs,

1. **Increased frequency:** Getting the consumers to buy more of the products or services
   For airlines it could mean getting the consumers to fly more often and for hotels it would translate into increased frequency of stay at the hotel
2. **Increased spending:** Getting the consumers to purchase higher value offerings
   For hotels it would mean that consumers would purchase higher fairs, better rooms, engaging with high margin ancillary and partner products
3. **Increased affinity:** Getting the consumers to love the brand and the product or service. Getting the consumers to spread positive word of mouth and getting them to form an emotional attachment with the brand.

3.2 Loyalty Program Types

Customer loyalty programs take a lot of different forms and an indicative list of the same is given below.

	About	Benefits	Target Industry Use	Limitations
Earn & Burn	Members redeem rewards in exchange for the money spent	• It is easy to use as customers need to simply build up the loyalty currency to redeem it. • Since, all kinds of purchases, online/ offline are rewarded, consumers can identify themselves on both platforms • Programs are easy to manage as rate of redemption depends on the availability of loyalty currency • High perceived value for customers	• Companies with high frequency, fast purchase decisions • Brands, retailers selling commodities • Brands competing on value for money	• Focus only on transactional loyalty • Difficult to add personalisation • Easy to copy by competitors as they can offer better discounts
Tiered Programs	Members gain greater benefits and rewards as they advance through different tiers.	• Improves perceived status of consumers • Allows for improvement in experiences by segmenting consumers and providing targeted communication • Allows firms to establish long-term sustainable relationship • Helps to differentiate from competitors	• Companies facing higher decision times and higher order values • Brands and retailers offering emotionally relatable products • Brands that aim to provide high-quality shopping experience	• When consumers start feeling entitled to the benefits that form part of a specific tier, they would be much less acceptable to changes
Perks	All members regardless of their age of enrolment gain benefits and rewards. The idea is to create positive experiences	• Supports brand building through greater shopping experience • Generates a sense of gratitude as benefits are granted unconditionally • Easy to manage	• Brands and retailers with low purchase frequency but high average order value • Companies focussing on high adoption	• Low personalisation as segmentation is missing • Lack of customer investment as there is no

	that incentivise engagement as well as purchase such that a new benefit could be awarded.	• These exclusive services are seen as more valuable than their relatively low cost • For businesses with such excusive services, it offers an incentivise to highlight these to the customers	rate and community support • Brands position on exclusivity	clear goal to work towards
Gamified Programs	Members are encouraged to complete challenges or collect badges regularly to incentivise engagement.	• Encourages repetitive behaviour that fosters creation of a habit • Has the scope for engaging customers in non-transactional deals such as social media sharing, content creation or other brand engagement.	• Brands and retailers selling emotionally relatable products • Brands and retailers positioned on community support • Companies that share the same values with their customers	• It required regular updating • Consumers can lose interest if the program becomes too complex
Loyalty Communities	Within the loyalty programme, communities are smaller clubs. They are centred on certain themes, hobbies, or values that the consumer cares about.	• Option to add an unlimited number of communities • Connect with customers via their interests • Support brand building • Highly personalised experience	• Brands and that wish to strengthen brand identity • Businesses that aim to engage customers with specific values • Companies that wish to foster a sense of belonging among consumers	• Not a standalone loyalty program but an addition to other programs

Source: Antavo (2021) How to Create Customer Loyalty Programs: A Definitive Guide (2021)

Many companies merge two or more programs together to deliver a Hybrid Loyalty Program. It allows companies to select the best features from each program, move the most important KPIs, cater to the target audience and connect with customer values.

TIERED PROGRAMS

Jet Airways Frequent Flyer Program

JetPrivilege Members receive rewarding experiences with unique privileges across five membership tiers: Blue, Blue Plus, Silver, Gold and Platinum.

PAID PROGRAMS

Club Mahindra Membership Program

To make holiday plans simply for their members Club Mahindra have divided the year into colour-coded seasons

VALUE BASED PRORGAMS

Shiksha : CSR program by P&G

This program is P&G India's research that revealed education as one of the causes that consumers are more concerned about and are looking for a simple way to contribute.. This type of program gives customers a feeling of ownership in helping social causes through customer purchases.

THE COALITION PROGRAM

Payback

Payback is one of India's Multi-brand loyalty programs. Customers can earn points on their daily activities be it shopping, payments, grocery, fuel and more.

CASH BACK PROGRAM

Topcashback.in

TopCashback is India's most generous cashback site to save customers money on all their online shopping. It has several e-commerce merchants like Flipkart, eBay, Paytm, Mobikwik, Jabong, Homeshop18, Myntra and a lot more.

3.3 Retail Industry

The need for loyalty programs in the retail sector is driven by the intense competition in the industry. Consumers' shopping behaviour in retail is characterised by high purchase frequency. Consumers in this industry generally have a larger basket value such that a customer who goes with an intention to only buy a laptop could also end up buying a mouse and earphones, transforming the basket size from 1 to 3. This increases the potential for revenue collection. Consumers in this segment are seeking rewards that make transaction easier and cheaper, such as vouchers, extended return periods and free shipping. Since the product offerings across most retailers are similar, the value of the loyalty programs lies in their ability to help retailers differentiate among themselves.

3.3.1 Loyalty Program Value

Retail LPs have low loyalty margin. For retailers, giving away products through discounts can generate low to non-existent benefit as consumers value the reward at the same amount as the discount. This is to say, that if a retailer offers a 5% discount, the consumer values it at the same level i.e., 5% and perceives it effectively as a new price for the product or service. Price cuts can also be easily copied by the competitors, leaving little room for differentiation. Hence, retailers find it difficult to increase their loyalty margins for a program that offers discount.

For this reason, LPs that include systems that ensure that consumers earn and redeem rewards at varying speeds are more beneficial. Components of LPs with such characteristics include, points, reward tiers, non-monetary rewards, low or no cost gestures such as in-store benefits which enhance consumers experience of shopping with the retailers. Retailers can use points to pace the speed at which consumers reach each reward tier, increase the reward mechanisms and also control the floating currency that ultimately the consumers use.

Another effect of the tiered programs is that they promote increase spending that ultimately feeds into improving incremental share for the retailer. In each tiered reward program, targets and qualifying time are defined in advance and vary based on the type of product/ service and purchasing behaviour. The progressive improvements in the value of rewards with spending targets positively impact incremental share for the retailer.

In the retail industry, with a diverse category of consumers, the scope for increasing the consumer base is high. Once the profitability of the program is proved in the trial period, different strategies aimed at involving consumer segments in a targeted manner can improve the program size.

3.3.2 Features

Omnichannel Experience

With greater integrations in shopping experiences, an omnichannel approach is not only necessary as part of the sales strategy but also through its loyalty programs. Retailer's online, offline and mobile presence needs to be seamlessly integrated such as to provide consumers with a consistent experience of shopping with the company. It also allows companies to manage their loyalty programs across marketing channels. Starbucks offers such an experience to its consumers. Customers can access credit, follow their progress and redeem free drinks seamlessly through all the channels.
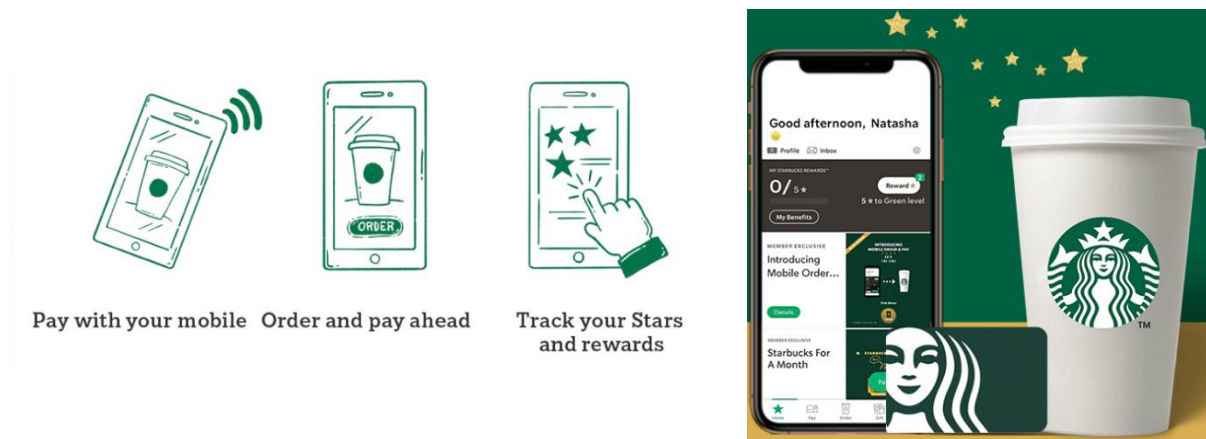
Source: Starbucks

Personalisation

Personalised offers by retailers are still in their nascent stage. Personalisation in retail loyalty programs is gaining popularity as they contribute to the enhanced emotional bond created between the consumer and the company. Personalisation also offers retailers in a market with intense competition with an opportunity to set themselves apart. It can be offered in various forms – personalised rewards, personalised communications and interactions. Personalisation has the opportunity to enhance satisfaction for loyalty programs by 6.4 times. Sephora, a French multinational chain offering personal care and beauty care products has 5 million members as part of their loyalty program. Sephora has a tiered loyalty program, the Beauty Insider program offers its members sessions with industry-leading make up professionals, personalised perks and product discounts. The foundation for personalisation is quality customer data. The data stores information on customer's profile and habits including past purchasing behaviour and interaction with the application. To personalise the rewards, customers are segmented based on their needs and wants. Finally, these rewards are delivered to consumers by offering them personalised opportunities to redeem the rewards.

2022 Beauty Insider Benefits

All members earn 1 point per $1 spent.

Savings	INSIDER Free to join	VIB Spend $350	ROUGE Spend $1000
Beauty Insider Cash* ▸ Apply 500 points for $10 off your qualifying purchase	●	●	●
Point Multiplier Events ▸	2X Points	3X Points	4X Points
Seasonal Savings Events* ▸	10% off	15% off	20% off
Points for Discount Events ▸	●	●	●
End of Year Discount* ▸	●	●	●
Free Standard Shipping ▸	$50 min.	$35 min.	No min.
Rouge Reward ▸ Exchange 2500 points for $100 off your purchase			●

Source: Sephora

Proximity Marketing

A relatively new way for integration of loyalty programs with technology is the use of location-based push notifications to attract customers. McDonald's in Turkey used such an approach to promote its coffee flavoured beverage in 15 cafes in Istanbul. As part of this promotion, the company used a famous Turkish loyalty app called Shopping Genie to target users while they were near a McD Café. Customers received mobile coupons via the app, instructing them to buy a coffee and obtain a free beverage from the new drink line. This proximity marketing campaign using beacons assisted McDonald's in achieving a 20% conversion rate with 30% of users receiving the promotion.

In collaboration with consumer products major Unilever, UK grocery giant Tesco began its "largest experiment" of iBeacon technology, putting beacons in 270 locations throughout London. As part of the Pink and Black marketing effort, they released the 'Mpulse app.' When they passed by embedded beacons at 270 Tesco Express stores after downloading this app, customers received unique vouchers for cheap Pink and Black Magnums right to their phone.

Rewarding the Customer Lifestyle

Fashion merchants, particularly those offering sport and fitness gear, may encourage clients to live a healthier lifestyle by utilising current technologies. Recognize members for participating in sports activities and provide points using a sports tracker integration, such as Strava. This system also provides shops with quite a new layer of customer details. Encourage more sustainable alternatives by rewarding individuals who bring their own bag to the store.

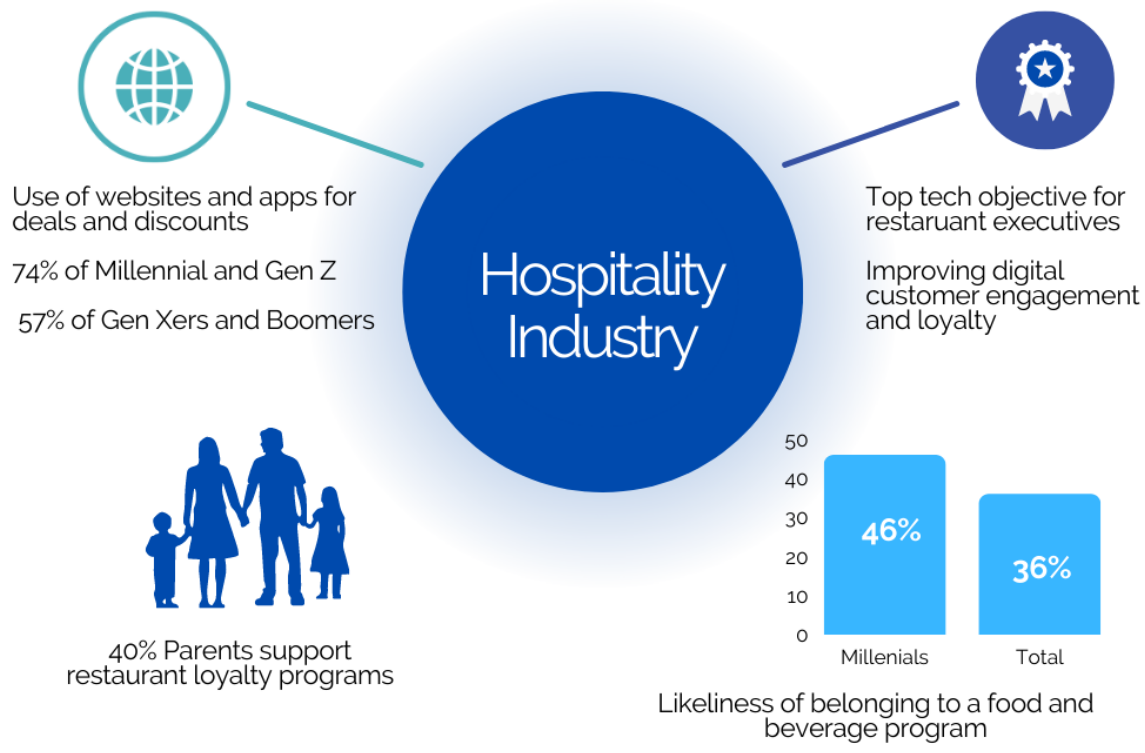Adidas uses its Creators Club to reward consumers for using its workout apps.
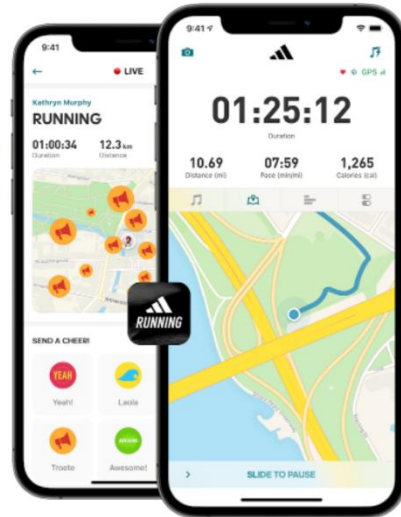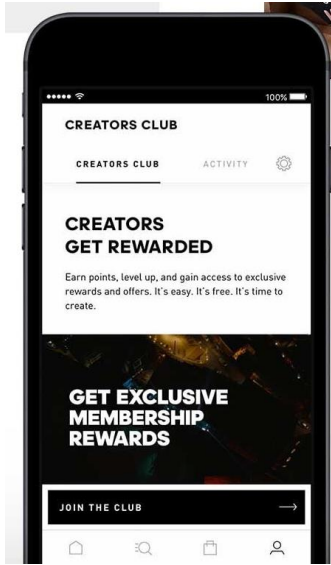
Source: Adidas

There are some other interesting loyalty programs as well including gamification including badges, challenges that help to incentivise consumers to interact with retailers on a daily basis. In-store reward promotion schemes also include in-store treasure hunt, smart mirrors, photo contests and augmented reality usage for experiencing and trying products.

3.4 Hospitality Industry

Hospitality Industry covers a series of sub-industries that range from airlines, hotels, restaurants and coffee shops, theme parks and theatres, among others. Loyalty programs are popular choice in this industry and have gained momentum in the recent years due to the rapid growth of tourism and greater global integration. The hospitality industry aims to provide experiential benefits, hence LPs that provide non-monetary rewards such as upgrades and additional services that improve program members' service experience, play a significant role in enhancing customer loyalty. This is in contrast to industries that place a primary emphasis on functional benefits such as discount retailing.

Hospitality Industry

Use of websites and apps for deals and discounts

74% of Millennial and Gen Z

57% of Gen Xers and Boomers

Top tech objective for restaruant executives

Improving digital customer engagement and loyalty

40% Parents support restaurant loyalty programs

Likeliness of belonging to a food and beverage program

46% Millenials

36% Total

Another crucial differentiation of the hospitality industry such as airlines and hotels are that their services are highly perishable. So, if the services are not already booked by paying customers, then it is attractive for LP offers that reward customers with upgrades that are not already booked. The businesses are able to increase the perceived value for the customer at low costs as these vacant capacities would otherwise perish. Nonetheless, it is important to note that LPs are not so uniform even within the hospitality industry for diverse sub-industries.

3.4.1 Hotel Industry

Loyalty programs in the hotel industry aim at increasing guest retention and new guest acquisition. One of the first loyalty programs in this segment were introduced by Holiday Inn in 1983. The loyalty programs are influenced by the guest's frequency of stay, number of points collected and type of reward facilitated. Broadly, the programs can be divided by three categories, partnership rewards, points system and personalised rewards. Partnership rewards are a traditional way of running loyalty programs. Guests receive benefits for hotel's ancillary services such as cab, laundry, Wi-Fi, spa, airport transfers, discounted rates at pubs, among others. Points system has been preferred by branded hotels wherein for every booking, a guest gets some points that can be redeemed once a pre-specified threshold is reached. Across the industry, points can eb redeemed on overnight bookings, room upgrades, dining and shopping expenses, discounts on area attractions and cashback redemptions. Personalised rewards do not necessarily have a set criteria and hotel decided on what to offer and when to offer them. These could include a gift hamper, free meals, free night, among others. A tiered loyalty program ideally has no-cost rewards as the level of rewards increases such as free laundry

services, complimentary valet parking, select in-room amenities, complimentary early check-ins and check-outs and member rates. Loyalty programs help enhance financial outcomes such as increased Revenue per available room (RevPAR), profits and average daily rate. It also helps organisations develop more informed sales strategy, build a loyal customer base and boost occupancy rates, improve hotel performance and online rankings.

3.4.2 Loyalty Program Value

Hotels services with respect to the room are high-value, perishable assets such that the hotel can give the room away for free at little or no incremental cost. For a hotel company with unsold rooms, a "free" hotel room costs the hotel only the expense of cleaning the room but for customers the benefits are perceived heavily monetarily. Hence, hotels have high loyalty margins. In a tiered program provided by hotels, added benefits such as ability to choose one's own room has an effect of increased loyalty among the members, increasing the incremental share.

Case Study: Marriott

Marriott International has nearly 7,000 sites globally and a portfolio of 30 brands varying from long-stay to luxury. Marriott Bonvoy is among the earliest loyalty programs with its predecessors Marriot Rewards and SPG. Marriott's program structure consists of 6 distinct tiers wherein the benefits improve with increased points.
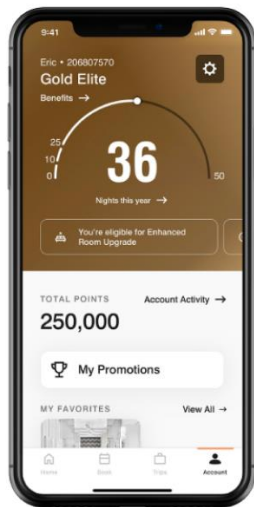

Source: Marriott

For their most loyal customers, Marriott offers "lifetime tiers".

Lifetime Silver Elite
250 lifetime nights + 5 years Elite status

VIEW SILVER ELITE BENEFITS

Lifetime Gold Elite
400 lifetime nights + 7 years Gold Elite status or higher

VIEW GOLD ELITE BENEFITS

Lifetime Platinum Elite
600 lifetime nights + 10 years Platinum Elite

VIEW PLATINUM ELITE BENEFITS

Source: Marriott

The Marriott Bonvoy reward programme has two earning standards: stays and points. Members may also earn points by buying tour and activity packages, reserving hotel services (such as spa, golf, and dining), renting hotel space for business or family gatherings, or spending money with relevant partners such as car rental companies, airlines, and restaurants. It also offers experiential rewards in the categories of culinary, entertainment, lifestyle, sports, partners through its Bonvoy Moments. Some Moments are offered at a fixed price, while some are accessible through an auction. This is a fantastic gamification aspect that adds some enthusiasm to the way of delivering points. The Marriott Bonvoy app has a simple design with a convenient gauge and point counter so members can see how many stays and awards members have at any one time.

Source: Marriott

3.5 Financial Sector

With the rapid digitalisation of all industries, customers of banks, insurance companies are seeking best deals online and loyalty programs offer an important way to do so. The financial sector differs from the other sectors where purchase of products happens in a traditional sense. Under financial services, members are instead incentivised to spend money using credit cards or highlight service packages such as loans or mortgages. Additionally, enrolment in these programs is limited to an active

participation of its members. Rich reward catalogue could include cashback, direct cash rewards, reduce loans, mortgages, reward for being long-standing customers, interest rate boosters, physical gifts or travel benefits. Offer management such that new offers and deals are provided time to time.

Pioneers
Risk Takers

2/3 switched banks
for corporate social
responsibility

Banking Industry

PRAGMATISTS
ubiquitous and trusting

HUMAN ADVISORS
96% trust

SKEPTICS
tech-wary, dissatisfied

STAY LOYAL
Bank for 14 Years
Insurer for 7 Years
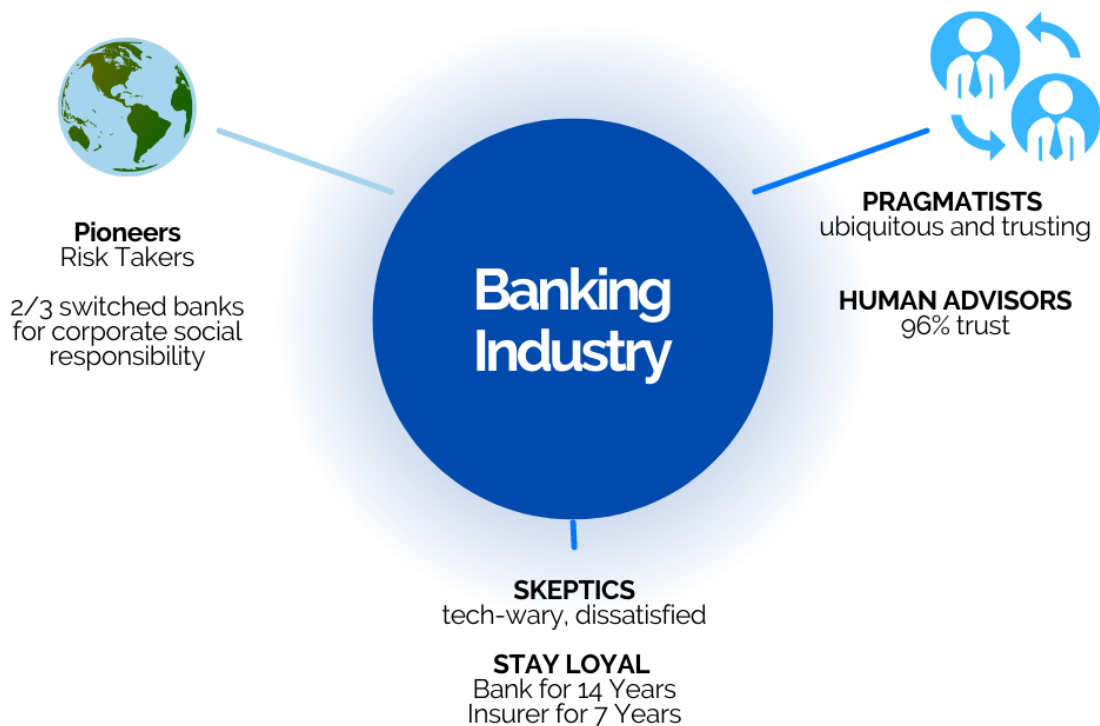
Source: Loyalty Statistics : The Ultimate Collection By Ashley Autry (2021)

3.5.1 Features

Account based membership and rewarding renewals

Financial loyalty programs are limited to active users of the financial services. Account renewals and rewards can be encouraged through loyalty rewards otherwise inaccessible to other members. This creates a fear of missing out and added exclusivity to the program.

Customisable loyalty program types

Each loyalty program would need to be customised with respect to the objective of the program, such that to encourage credit card usage the organisation needs to offer points based on net purchase made with the card. For more service oriented financial offerings, a tier based on account balances is more apt. Additionally to increase enrolment rates a perk system with instant benefits is the way to go.

Omnichannel

It is essential for loyalty programs to have an omnichannel approach such that customers can benefit from the program, earn points and redeem rewards at every touchpoint, sitting at home, physical office to offer a seamless experience.

Engage customers outside buying cycle

Customers of financial services usually interact with the company at times of service renewal. Hence, it is important to engage with customers at touchpoints beyond sales touchpoints. There is scope to reward healthy lifestyle through app integrations wherein people are rewarded for reaching certain workout milestones.

Reward sharing

These benefits allow customers to establish groups, connect with one another, and work toward a common objective to create a community around your company. It sets up a cashback reward with a significant redemption margin and urges people to deposit their points in a pooled pool. All competitors receive a prize once they reach their goal. Charity events can be used in the same way, with members giving a reward to those who cannot afford it.

Free membership bonuses

These are non-transactional benefits that offer members an end-to-end rewarding journey, including priority credit services, fast lane at banks, welcome gifts, zero-fees banking services, bonus points for newsletter signups, etc.

Nedbank, South Africa

In the financial sector, especially with banking, people often create accounts and then become inactive in their level of interaction with banks. Nedbank in South Africa is awarding consumers for making regular deposits into their account, for using digital channels for banking and even allow consumers to pay back their bank fees using reward points. This is to encourage people to engage with the different services. Nedbank has gamified its loyalty programs, allowing consumers to engage in a competition to win bank win up to R1,5 million towards their loan settlement every three months on their personal, home or vehicle loan. The competition increases the participation and engagement with the bank's program significantly. The competition succeeds on the principle of consumer psychology where more people sign up to have a chance to win their loan back. They also allow consumers to using one of our savings or investment products and you could win R50 000 through their structured savings program. This includes propositions such as saving 10% every time people swipe for a transaction to encourage people to save more. Emotional loyalty, not just about giving people a bunch of points but to assist them in valuing the brand and what the company stands for.

3.6 Determinants of LPs

A variety of variables influence the different stages of the functioning of loyalty programs, their adoption, execution and outcomes.

i) Firm level characteristics impact the adoption of LPs. These include characteristics of firms' products and services, general firm or store characteristics such as market share,

competition, distance to store and the firm's offering with regards to the design of the program.

ii) Characteristics of the loyalty programs such as their structure, content, redemption requirements such as points accumulation and expiry policies, reward status and characteristics, reward type and rate, their perceived value, all influence the adoption of loyalty programs. Most reward mechanisms are transaction based such that they reward consumers for making purchases. Consumers that can easily evaluate the benefits of loyalty programs, time needed to collect and redeem them are more likely to stay brand loyal. The mechanisms in which loyalty program functions also differs by the stage in which the consumer is;

    a. Early customer lifecycle stages: In the early stages where consumers are new to a loyalty program, reward rate and redemption time are particularly important. Consumers prefer quick advancement towards redemption of reward points and hence show greater persistence towards the loyalty program.

    b. Mature customer lifecycle stages: Hedonic, relational (such as preferential treatment), status and even delayed responses help maintain motivation of consumers in the later stages.

iii) Consumer's characteristics also influence and decide the adoption of loyalty programs. These include their current membership patterns, spending behaviour such as number of items in each shopping trip, changing shopping patterns and customer's relationship with the brand. Consumer's relationship with the brand includes their trust and commitment towards the company. Consumer's cognitive and emotional predispositions, sensitivity to price, overall experience, perceived pride or happiness all impact the consumer's decision to continue or quit the LP. Consumer's adoption is also impacted by their level of adoption of the competitor's loyalty programs. Special focus should be on demographic characteristics such as household-related variables, especially in the retail and hospitality sectors where large amount consumption is done on a family basis.

The impact of the loyalty programs can be measured by two sets of variables;

i) Firm Performance: These include financial and strategic performance with regards to sales, profitability, sales productivity, financial risk or profitability.

ii) Brand/ Customer Equity: These include the amount of program membership, their redemption behaviour, preferences for reward types, purchasing behaviour such as total spending, share of wallets, repeat purchases, purchase quantities, frequencies, among others.

Consumer Behaviour

Section 4

4. Understanding the Consumer

Expectations from loyalty programs have changed over time, now more and more people want to be engaged in new ways and have a meaningful association with retailers. The adoption of different rewards by companies, globally has been showcased in the figure below.

Experiential Rewards Adoption Rates

Reward	Adoption Rate
Members only processes that make members' lives easier	28.50%
Acess to partner experiences	44.80%
Enhanced consumer service or member-exclusive services	50.90%
Priority access to products or private buying clubs	46.50%
Members-only products	45.70%
Product or service development input	33.60%
Social media takeovers	19.00%
Community Forum	20.70%
Behind-the-scene events	37.90%
Early Access to sales and VIP events	60.30%
Extended Return Policy	16.40%

The estimates include responses from companies on their current use of such programs as well as their intention to use the same in the next 3 years.

Source: Antavo (2022) Global Customer Loyalty Report

Loyalty programs aim to motivate consumers to spend more money and spend it more often. Yet, consumers show great affinity for these programs.

Loyalty Statistics

According to research, loyal consumers spend 67 percent more than new customers due to recurring purchases, greater cart sizes, and frequent upsells. As long as the benefits were valuable, 81 percent of conventional loyalty programme participants would join a premium loyalty programme at their preferred shop. The loyalty programme has improved the brand experience for 82 percent of Gen K, 85 percent of Millennials, 84 percent of Gen X, and 80 percent of baby boomers. According to the loyalty programme, 80 percent of Gen K, 43 percent of Millennials, 76 percent of Gen X, and 53 percent of Baby Boomers buy from the company more frequently. Saving money and member-only bonuses are the top two reasons customers join loyalty programmes.

Given these statistics, it would be interesting to note how these loyalty programs are influencing consumer behaviour. Is the success of the programs only attributed to its simplicity and reward value? Are there some hidden factors inducing change in consumer behaviour, that consumers subconsciously sign up to? The following section would be of interest to consumers who wish to understand why they can't resist those rewards at their favourite clothing store, airlines, hotel chains and for businesses it could be a way to understand how to maximise conversions.

At the core of the loyalty programs and their marketing tactics is the psychology of consumer behaviour. This section looks at a few psychological principles that drive the success of loyalty programs.

Customer Lifetime Loyalty Touchpoints and Influences

■ *Loyalty Touchpoint*
■ *Psychological Principles*

Loyalty based engagement, redemption opportunities, credit-card and other partnerships, expedited customer support, referral benefits, location based engagement

Positive reinforcement, goal gradient theory, IKEA effect, Idiosyncratic fit, social status perceptions

Regular Engagement

Loyalty oriented communications, rewards

Positive reinforcement, illusions of a head start

Reengagement

First Purchase

Loyalty focused communications, Personalized loyalty profile

Illusions of a head start, Loss Aversion

Declining Engagement

Offers

Loss Aversion, social status perceptions

Dormant Member

Immediate discounts

Present Bias

The most effective loyalty programs are designed to keep the customer engaged throughout their lifetime. To improve this lifetime experience of the customer loyalty programs could be integrated at multiple stages of a customer journey.

4.1 Positive Reinforcement

Remember, how as a school student we would be rewarded with a gold star for acing our tests or at work when we receive a bonus after closing a project or a deal?

These are examples of positive reinforcement at play. The idea is to attach favourable outcomes to specific actions. These actions are encouraged by the company in order to increase customer engagement with loyalty programs. Favourable outcomes act as an incentive to continue to repeat the behaviour in order to receive the reward again.

Hence, with every action of purchasing or engaging with the company, the consumer is rewarded for the same, creating a loop of continuous engagement that leads to the formation of a new habit. This principle drives permanent change in the consumer's behaviour. Identifying the process of repeated behaviour and linking it to different types of rewarding behaviour leads to significant switching costs for consumers. Rewards after repeated purchases ensure reinforcement of the behaviour in question i.e., participation in loyalty programs such that it repeats itself again.

When a company offers special rewards in return for profitable customer behaviour (such as completing a purchase or referring a friend), users quickly comprehend how their actions are related to the benefits they get. So, when Uber rewards its consumers for referring the app to their friends and family, Uber is imposing a positive reinforcement loop that would keep the regular consumers engaged.

4.2 Goal Gradient Theory

The goal gradient theory explains why runners find a new drive and desire to win the race as they get closer to the finish line. This is because as they get closer to the finish line, the desire to win overpowers the tiredness from a long race.

Imagine you're at your favourite clothing store and have already selected items worth INR 5,000. The shop assistant tells you about a new discount of about 20% which you can avail if you spend an extra INR 1,000. Do you go for this offer or do you continue with your former cart?

I think it is safe to say that most of us would be tempted to avail that 20% off even if it means we are spending an extra 1,000 unnecessarily? Do we want that item/ items worth INR 1,000 or is it just the lure of the reward? And if the answer is the latter for you as well, then we are prey to the goal gradient effect.

The theory states that as people get closer to the end target, the more effort they put towards achieving the goal. For customer loyalty programs it means that people make more frequent purchases when they know they are closer to achieving the reward goal. These goals could be reaching a VIP tier or qualifying for discount or a free item. The principle is just another way to keep people motivated to keep engaging with the loyalty program.

Nonetheless, it is important that these goals are achievable because if the goals seem unattainable, the theory can work in the opposite direction with consumers losing their interest.

4.3 Illusions of a head start

A car wash company was running a loyalty program through loyalty stamps such that every time a consumer returned, they would receive a stamp on their card. After 8 stamps, consumers would be rewarded with a free car wash. An experiment was run among 2 groups of consumers, both groups received equal number of stamps (8 stamps) that needed to be filled before they could redeem the reward. Yet, 34% of consumers from one group redeemed the free car wash in comparison to only 19% for the other group. The former group even bought the stamps sooner than the latter group. What changed between the two groups? Keep reading this section to find out.

By influencing the perception of progress, companies can incentivise consumers to participate in the loyalty program. This is achieved through the endowed progress effect such that if consumers feel that they are already on their way to receiving a reward (compared to starting from zero), they are much more likely to achieve it. This is what happened in the car washing example. While the group with higher redemption rate were given 10 stamps with 2 already filled, the other group was given 8 empty stamps. So, while both the groups had to go for car wash the equal number of times to unlock the reward, the former group perceived that they had a "head-start".

Among loyalty programs, this illusion of head start has been used to give users a welcome bonus. By starting of new consumers with bonus rewards for their first purchase, the companies set on a momentum which leads to continuous progress. This principle is not only effective for the first-time customers but for also customer who are failing to reach a given reward tier. Customers would enjoy a head start by shortening the (literal and mental) distance to the next goal with extra points or pre-earned progress to the goal.

4.4 Loss Aversion

Loyalty programs are built around the principle of rewarding people but could a fear of making a loss drive consumer to buy more?

The principle of loss aversion states that people feel much more pain on losing $10 than they would feel an elation in gaining $10. Hence, the motivation to avoid losses is significantly higher than the motivation to earn. This is to say that with respect to loyalty programs people have a fear of potentially missing out.

With respect to loyalty programs, adding scarcity and urgency to the reward structure can increase the engagement, or bring people out of dormant stages. When customers become aware of possible loss, using strategies such as reward redemption limits and expiration dates may establish a feeling of urgency, motivating them to act.

With Sephora's reward programmes, spending a particular amount in a given year is required to maintain tier status and continue receiving relevant incentives.
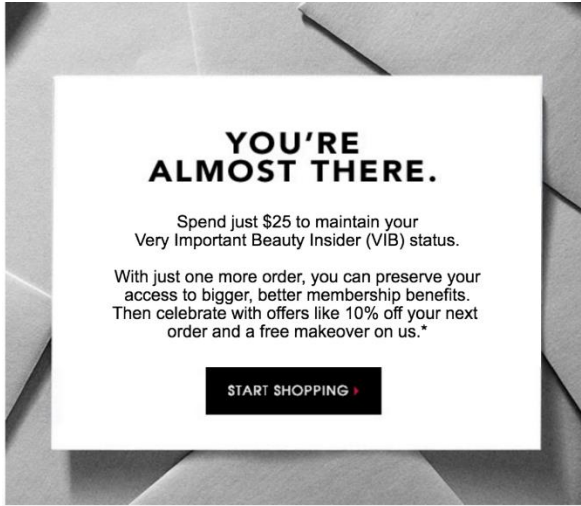
Source: *Sephora*

Sephora puts a bar at the bottom of their promotional mailings to offer an extra layer of customization based on the consumer's account. Other emails from Sephora contain status updates, reminders, and social proof about the number of people availing the rewards and in a particular tier.

Source: *Sephora*

4.5 Social Status Perceptions

Humans are social beings, with the perceptions the society has about us significantly impacts our self-concept. Consumers that are part of loyalty programs experience elation from involvement in loyalty programs. This elation is motivated from the desire to obtain higher status in the society as that is associated with feelings of superiority and privileges. Members of a particular program/ tiers of program, associate and identify themselves in comparison to this group of members of LPs. Feeling of belongingness to community of LP members can even outweigh the financial incentives associates with LPs. Utilitarian discounts, improved convenience along with social, informational and hedonic rewards enhance consumer's perceived value of themselves in comparison to others. It is no secret that most consumers constantly define themselves and their status in comparison with others. Hierarchical LPs (e.g., silver, gold and platinum) allow people to form positive appraisals about themselves, hence improving their perceived status. Hence, as long as LPs make consumer feel special, make them feel like they are in on an exclusive deal that are difficult for others to earn, LPs work. LPs are leveraging these consumer preferences to design experiential rewards that drive emptions while consumer purchases. This trend is characterised by a shift from demand of rewards that only provide monetary benefits, to those rewards that enhance a consumer's perceived status.

4.6 IKEA Effect

Yes, this effect is named on the Swedish furniture giant and it describes how people value objects that they create themselves more than if it comes already made. When consumers put continual investment into some object, they form personal attachment to it as if the object was endowed to them. As you might have noticed in your own personal life, objects that you own are harder to give up.

In the market for loyalty programs, IKEA effect comes in the form of personalisation, wherein customers are encouraged to invest time and effort into making a product their own. This can range from asking people to fill their profile or rating products in their catalogue or customising the colour scheme. All of these tactics make the consumer value the product more and makes it less likely that they would churn. Consumers would also be willing to pay a higher price for such objects.

4.7 Idiosyncratic Fit

Pause. Think about the brands that make you feel an affinity towards. Chances are that they these brands have similar values to you, they depict a lifestyle that you own or aspire to and you feel a personal connection to the brand. Personalisation is not just a buzzword. Personalising rewards, campaigns and other marketing collaterals such that people perceive that the program is tailored to them and they are more motivated, engaged and satisfied. Loyalty emails offer a 35 percent average clickthrough rate, making customers feel appreciated since they are based on their connection with the brand.

4.8 Present Bias

Imagine you are given the option to choose between a $1000 today and $1100 in 2 years' time. What would you prefer?

If your answer is receiving the reward today then you are challenged by something known as present bias, wherein people prefer immediate rewards over waiting for them. Additionally, people's engagement level is also impacted by the immediacy of the rewards. So, to attract dormant users, companies often use such tactics such as offering immediate discounts because for these people, future rewards are heavily discounted, making present rewards more lucrative.

Considerations

Is it too late to regain your consumers' interest in the company?

These are just some of the principles driving consumers to adopt loyalty programs. Yet it is important to be cautious in the design for the Loyalty Program because consumers can lose their engagement when the programs aren't universally available and experience loss if loyalty programs change overnight.

Uber rewards its customers through Uber Rewards based on 4 tiers of consumption. The problem with the program is its availability in only 6 countries for a service that is available across 80 countries. When user is not able to use these rewards in other countries, there is a sense of frustration rooting from a lack of information on the status of loyalty programs. This acts as a serious interference in the process of encouraging consumption habits for Uber users.

	Blue 0 pts	Gold 500 pts	Platinum 2500 pts	Diamond 7500 pts
Earn points with every eligible ride or Uber Eats order	+ ◆	◆	◆	◆
Exchange reward points for rewards	+ ◆	◆	◆	◆
Priority support	+	◆	◆	◆
Flexible cancellations	+	◆	◆	◆
Favorite route point boost	+		◆	◆
Priority pickups at airports	+		◆	◆
Premium support	+			◆
Highly rated drivers	+			◆
Premium rides point boost	+			◆
Double points on Eats	+			◆

Source: Uber

LPs are incorporated to foster long-term, sustainable customer-brand relationships. Hence, the aim is to form, maintain and strengthen this relationship. A fair exchange results in increased revenue, positive word of mouth, increase in share of wallet and customer retention. Exchanges that reap rewards inculcate feelings of gratitude in customers for most cases. When customers are under-rewarded, they form lower levels of satisfaction and purchase repetition due to perception of injustice. This can even happen when customer is elevated status for elite customers can turn into scepticism if it is a result of unearned status.

United Airlines changed its frequent flyer program such that it shifted from a focus on miles travelled to monetary value of tickets purchased. This increased focus on high revenue passengers backfired as generally, high revenue purchases come from corporate flyers that already have a pre-signed contract with the airline and the high-level managers. Hence, for such purchases users are rarely responsible for booking tickets and hence' rewarding loyalty to such users isn't beneficial to increasing revenue share as their money is already guaranteed through contracts. Such a change in the design of loyalty that only rewards high spending users is detrimental to long-term, sustainable customer-brand relationships.

Conclusion

Section 5

5. Conclusion

There is an ever-increasing appetite for loyalty across distinct industries, yet the current landscape is crowded. Differentiation continues to be a challenge with loyalty programs taking similar designs across a given industry. Uniform member experiences create a need to find ways in which consumer experiences can be made unique. While personalisation through the use of purchasing behaviour data is an upcoming trend across loyalty programs, there is a need to integrate the data-driven insights on how consumers purchase with the reasons for engaging with loyalty programs. Utilising psychological principles that boost consumer participation and engagement with loyalty programs is the key to profitable programs. Other factors defining the success of the loyalty programs include developing improved digital interactions, initiating proper frequency of communication and channels. Emphasis on experiential rewards as well as engaging with consumers beyond the purchase cycle has also been placed in the formation of a future-proof loyalty program. The market for loyalty programs is experiencing new shifts at the cusp of the covid-19 pandemic, changing consumer behaviour and digital innovation.

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