Amplifying loyalty – from insight to action

Introduction

The loyalty landscape is ever-changing and this is certainly no time for loyalty leaders to stand still. So what are those in the industry observing and planning for the future? And how is consumer behaviour being affected by macro-economic factors? Insight is the touch-paper that can light the way to building brand love and long-term devotion on ever-shifting sands.

This paper, compiled by Salesforce, Collinson and OSF Digital, explores some of the trends, trajectories and predictions that could prove key to developing effective loyalty strategies forward. Our in-depth research provides important insights, delving into areas such as rewards and benefits, the financing of loyalty and the future of loyalty.

It goes beyond any regulation or guidance we've seen before – and while it does pose risks for firms that do not comply, there's also an opportunity to use it as a driver to truly place customers at the heart of your business.

What our research reveals – a snapshot

We commissioned research probing multiple aspects of loyalty to provide industry and sector specific insights. Looking at the Travel, Transport and Hospitality (TTH), Retail, Consumer Packaged Goods (CPG) and other sectors allowed us to drill down and identify the trends, challenges and opportunities evident in each and draw comparisons between the sectors too.

Highlighting some of the key findings overall, almost all but the most nascent and under-invested loyalty programmes realise ROI, with years 1-3 being the most common time period for achieving returns. When asked how a loyalty programme adds value to a business, extracting customer value and customer analysis scored highest. It is interesting to note that analytics is seen as so important, signifying the strategic business value and growing sophistication of loyalty schemes.

Programme benefits vary widely between the sectors we surveyed, with some loyalty leaders keen on introducing new rewards and others rather more complacent and content to stick with the status quo, arguably leaving them open to competitive threat. Since the only constant in loyalty is the increasing rate of change, standing still is unlikely to be the best option for established programmes.

88%

Points, redemptions, tech and infrastructure are often cited as the heaviest costs to companies running programmes, with 88% of companies intending to invest for the future.

This is just as well because customer fatigue and increased expectations are seen as the biggest challenges in the next three to five years, in relation to customer engagement, loyalty and loyalty programmes. Putting some 'pzazz' into the marketplace and meeting the demands of members will require both investment and creativity.

Customer expectations, paid subscription loyalty and costs are thought to be the areas most likely to influence reliable returns.

32%

of businesses have a **paid subscription loyalty programme.**

45%

are considering it, showing that **subscription loyalty is here and set to grow.**

Many of the executives in our survey agreed that seamless omnichannel experiences closely connected to brand values are optimal but they anticipate an increasingly crowded loyalty marketplace where differentiation will be key.

So there are some strong, shared overall themes but also some distinct tendencies by sector. Next we take each of these in turn, providing key findings and direction for the creation of compelling, future-fit loyalty schemes.

Where is the Travel and Hospitality sector going?

The TTH sector exhibits traditional tendencies

TTH as a sector is still recovering and consolidating post pandemic, lurching from lockdown and lay-offs to soaring demand now the populace is free and up for travel, adventure and new experiences. Rising costs of living are however putting pressure on discretionary spending and hospitality in particular is hit by less penetration, frequency and spend – as well as staffing issues, rail strikes and the increased cost of energy and ingredients.

60%

Although tourism grew globally by 60% in 2022, it is still below pre-pandemic levels so these **businesses should be saluted for staying afloat in the current climate.**

However, leaps in loyalty longer term will not be made if brands in the sector adopt a cost cutting rather than value adding loyalty strategy – favoured by many of our research respondents in this sector, where our respondents exhibit traditional tendencies.

Paid subscription programmes – a growing trend under-utilised by TTH brands

The majority of TTH loyalty schemes are still free to join (56%), with relatively low adoption of paid subscription (16%) and hybrid schemes (28%). Brands in other sectors have been quick to spot the appeal of recurring subscription revenue and increased traction which comes into play when customers pay.

Paid subscription loyalty is one of the biggest recent innovations in loyalty and provides plenty of unleveraged potential for TTH brands to evolve their schemes. A paid for loyalty proposition can increase loyalty budgets, enrich rewards, increase frequency, drive up average transaction value and drive retention.

Easyjet Plus! is a good example of a paid airline scheme and yet it is mainly brands outside the sector which are enjoying the fruits of subscription schemes – Amazon Prime, Prêt a Manger and CVS to name but a few. There is much to learn from their success, not least that customer engagement and retention increase when they are making a contribution in return for a reward they value.

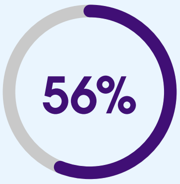
60%

A McKinsey survey in 2020 found that **consumers who pay for loyalty programmes are 60% more likely to spend more.**

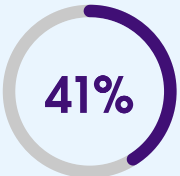
It seems a heightened value exchange works for all parties. See McKinsey on paid loyalty.

Rewards that rely on discounts, points and miles

The TTH sector is still largely taking a traditional approach to rewards too.



TTH loyalty efforts make 56% use of **own brand discounts.**



41% use of **reward points or miles.**

British Airways Executive Club and many other airline schemes are good examples of the enduring 'miles' model. If there is a trend here, it is sticking to what works but surely there is extra 'mileage' in adding more experiential angles?

Some in the sector would keep rewards as they are (34%) but another 34% would like to change their scheme rewards given the opportunity – with a greater focus on value added experiences.

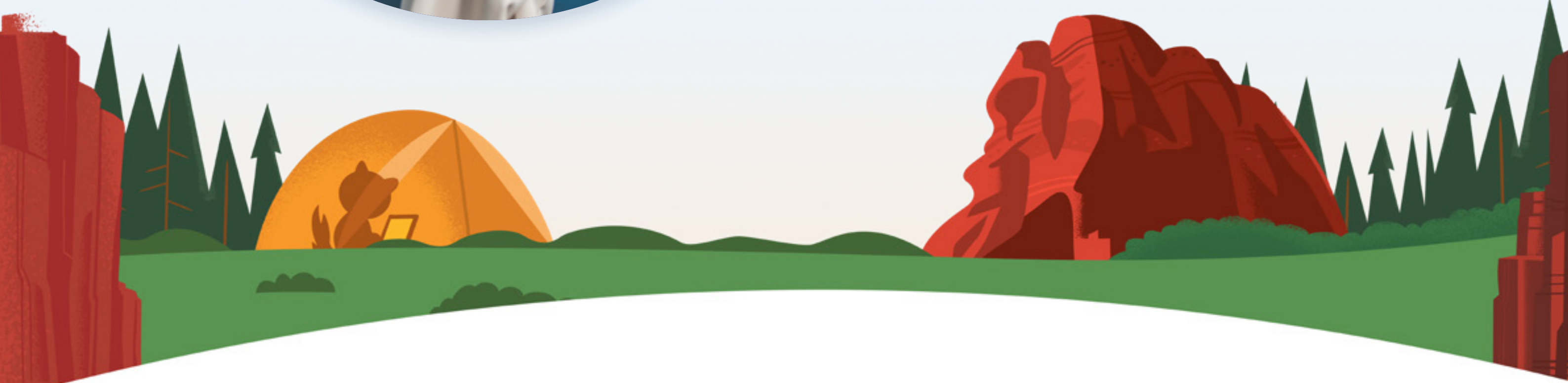
The price of loyalty

Unsurprisingly, given the sector's reliance on points or miles, issuance and redemption of these emerge as the biggest costs for TTH brands (28%), followed by technology and infrastructure at 22%.

The picture so far is one of conservatism if not complacency in the sector. However, encouragingly, 38% of TTH loyalty leaders are looking to invest in enhanced customer experience and customer journey management and 34% intend to invest in reward innovation, creating new added value experiences and benefits.

Trip Advisor's Travel in 2022 – A Look Ahead reveals that over two-thirds of travellers are seeking new experiences with the top three considerations being new places, new experiences and learning about history and culture. So there is a huge opportunity to reflect this consumer trend to 'try something new' and create unique experiences before and after travel takes place. It's also fertile ground for content – creating customer journeys that are metaphorical as well as physical.

Forward investment strategies in this sector are based on the belief that seamless customer experiences and innovative, relevant rewards (both 51%) will drive the greatest returns for brands operating the loyalty programmes of the future. And this is borne out by our consumer research.



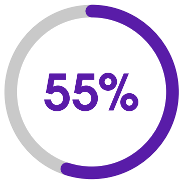
What challenges are we facing?

New tech adoption and new ideas are needed

Consumers have less to spend at a time when travel costs have increased. This together with the off-putting disruption and delays caused by strikes will mean less travel for many and cause some customer experiences to be far from ideal.

Looking beyond the current context, loyalty managers in the sector see understanding AI and predictive technologies in order to drive programme marketing decisions as their biggest challenge. AI will of course see the automation of many future tasks, removing some resource costs but first it requires understanding, testing and investment.

With our helicopter view of loyalty across wider sectors, we see innovation as a major challenge – taking travel loyalty to a new destination for once, while tried and tested miles and points (which have existed for decades) remain the bedrock.



The insurance sector is out in front in this regard, with 55% of schemes being paid for, in exchange for **added value experiences, tickets and other tangible benefits.**

Many tourism and hospitality industry leaders admit they lack a 360-degree view of customers, a single guest view, and the ability to offer a personalised customer experience.

However, these limitations can be addressed by implementing a digital transformation strategy that utilises data to create connected and personalised guest experiences across all channels and interactions, thus consistently providing customer value and fostering loyalty. See more on this here.

Compliance with privacy and security regulations is also seen as a challenge by research respondents, along with sustainability in loyalty and how to offer green rewards.

Where can we win?

Value must come to the fore

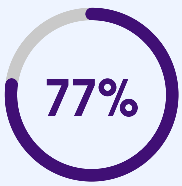
We can see that paid schemes and innovation present opportunities for TTH loyalty in future along with new, relevant rewards and seamless customer experiences but how do those in the sector view the future?

> Greater integration with payment methods is anticipated as a key trend (44%) by our respondents but loyalty leaders are also aware that increased consumer apathy towards loyalty programmes is a threat that will need to be turned into an opportunity to bring fresh energy rather than stasis to schemes.

On a broader basis, higher costs and the squeeze on spending sees consumers seeking greater value than ever. And this presents the biggest opportunity of all for brands with loyalty programmes – to helpfully reward members with great value, relevant offers that really make a difference.

This could manifest as money off in return for spend, frequency or engagement but it could also be an experience that would otherwise have been beyond budget for the customer and which builds brand bonding too.

And that leads to an important caution:



Over three quarters of **loyalty programmes operating transactional only models fail** according to Capgemini.

Loyalty leaders in all sectors would be well advised to build emotional engagement and create unique experiences, bringing the brand to life in order to engender true brand loyalty in the long term.

Where do we go next?

These trends, challenges and opportunities combined provide the insights needed to evolve future loyalty offers. Travelling will continue to cost more and could be stressful due to strikes. Loyalty programmes are a great way for companies to compensate – delivering added value at low cost to customers. Whether saving customers money or making their experience smoother and more enjoyable, loyalty leaders can make a difference – transactionally or experientially.

That said, the recent dilution of reward value by some big players has hit the headlines (think Tesco and Boots to name just two), to the detriment of the programmes and the brand goodwill. Deflecting focus away from transactional rewards by creating unique experiences and engagement opportunities not only takes the spotlight and sting out of cost cutting but builds brand bonding too.

And if hard pressed customers just can't afford to travel as much right now, new 'micro' reward opportunities can be created. Customers don't want to wait 12 months or more for a free reward, so different ways of staying on the radar are key. Digging deep into the brand and looking for creative ways to interact with customers and introducing fun through gamification mean more ways for customers to engage, earn and win even when they are not transacting.

Leveraging existing strategic relationships or seeking out new ones to differentiate a programme are smart moves, providing more reward choice cost-efficiently. Paid for propositions likewise – recurring subscription revenue can be a welcome means of subsidising a scheme and enriching rewards, with resultant upticks in retention.

Smart collection and use of data has always been at the heart of successful schemes. With an increased emphasis on preference data, personalisation and relevance can be improved – ensuring the right message is targeted at the right person at the right time, creating a better customer experience. Easy omni-channel engagement and super-easy digital UX will provide firm foundations for relevant, rewarding and seamless customer journeys.

Partnerships can be big financial contributors to loyalty programmes, adding more value at low cost.

Retail and CPG loyalty – how are schemes and shoppers changing?

New models, advanced personalisation and digital transformation are in evidence in retail and they are the signposts that loyalty is developing to new levels of sophistication.

The Odyssey programme from Starbucks with its immersive, educational experiences and ability to earn ‘digital collectibles’ (NFTs) which can be swapped or even sold is a great example of digital innovation, venturing as it does into the metaverse.

Pets At Home VIP Club cleverly leverages its customers’ love of pets with high levels of personalisation and truly tailored offers.

And of course, Amazon Prime can be credited with leading the way on paid loyalty – proving that customers will absolutely pay to belong when the rewards are right.

Purpose, provenance and protecting the planet

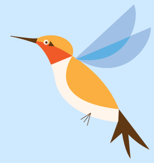
The CPG sector is seeing growing consumer interest in alternative protein sources, with Global Market Insights forecasting a market value of $193.75 billion by 2028.

Healthier, sustainably sourced food products and eco-friendly production methods are also high on the agenda for consumers together with a desperate desire for price rises to settle, across the CPG board.

This presents an interesting conundrum for marketers who need to demonstrate provenance, purpose, fair pricing and even basics like availability in the core business in order to keep customers.

Put bluntly, the product needs to be readily available to ensure habitual repeat purchase – an issue for some companies presently with supply chain difficulties. The loyalty programme can be pivotal in supporting and integrating provenance and purpose as well as creating further reasons to stay loyal, minimising defections and defending market share.

Knowing who is pushing boundaries and how, together with what peers and competitors are planning, is key for loyalty leaders looking to launch or amplify their schemes and keep customers in trying times.



What themes and trends are emerging?

Keep on keeping up!

42% of loyalty leaders see **increased customer expectations** as a key challenge.

41% are worried about **customer fatigue with loyalty programmes.**

It takes time and funding to keep a scheme alive and kicking as well as true differentiation to capture attention and achieve stand-out in a busy marketplace. Programme evolution and all manner of innovation, new iterations, refreshes and re-launches will be on the cards for ambitious brands looking to keep up with competitors and customers whose demands change.

While many loyalty programmes are still built upon traditional points systems that reward shoppers for transactional activities only, smart organisations are re-thinking how they approach loyalty. Brands are investing in programmes that focus more on experiences and complimentary services, omnichannel engagement and hyper-personalisation.

The power of purpose and play

It's likely we will see sustainability and social responsibility integrated into loyalty programmes, with rewards for eco-friendly purchases and behaviours as well as charitable and volunteer work. However our research indicates that while some sectors see green loyalty as a big challenge, it is not turning consumer heads as much as tangible rewards. That said, customers are interested in buying sustainable brands, especially when it comes to food. The reality is that consumers are seeking tangible loyalty rewards AND sustainable sourcing. McKinsey forecasts that supplier collaboration to 'solve for sustainability' will be a trend for the European grocery sector in 2023.

Fun and immersive experiences will be a feature of many future schemes with challenges, leader-boards and competitions increasing playful engagement via gamification. And tech such as Augmented Reality (AR) will likely offer new and unique experiences for programme members.

It's not all about transactional and functional rewards; engagement and experiences count. Gamification differentiates, engages and encourages social sharing according to Customer Thermometer, who cite Domino's 'track your pizza' and 'design your own pizza' (with the latter using AR) as neat ways to involve customers and keep them coming back for more.

De-valuation of loyalty rewards disguised as programme re-design

The retail sector, like the majority of other sectors, is struggling with the challenges of operating a business in today's economic climate: rising costs, labour shortages, aggressive price competitions driving down margins and customer confidence which is in turn causing customers to 'tighten their belts'. At the time of writing, food inflation has reached an all-time high. Unfortunately, loyalty programmes have been identified as a way to scale back costs and the value of loyalty points issued is an obvious target.

Several large retailers like Lidl have 'diluted' their programmes by reducing points values, much to the chagrin of many customers. Some have even made national news. In the US, CNN covered Dunkin Donuts' changes to its rewards programme – DD Perks. There was consumer outcry at the increased points thresholds required to redeem free drinks. Best Buy was also the subject of unfavourable feedback for making reward points dependent on having a Best Buy credit card and even Starbucks said in December that members would need to spend more to earn popular freebies. See more from CNN on these here.

That said, this sector has some of the biggest schemes going – both 'bricks and mortar' and digital businesses. So significant loyalty success stories are an inspiration to the category even if the value exchange is not always as rich as it once was.

The rise of 'Direct-to-Customer' in the CPG sector

Recent years have seen an increase in the direct-to-consumer channel (DTC), which instigates a direct relationship and as a consequence, a requirement for personalised marketing messages. So, much as we see in the retail sector, CPG brands in the DTC channel will tailor programmes to individual customers, offering personalised rewards and experiences based on preferences and behaviours. Data will track and analyse consumer activity, tailoring rewards and providing insights.

What potential barriers and blockers are we facing?

Financing the loyalty future

High costs may prove a barrier to some; personalised, high value rewards and seamless omnichannel experiences don't come cheap! Investment in technology and resources is needed to manifest these and some boards will back off given the difficulties often found in forecasting and measuring ROI. This is where specialists like Collinson can provide the commerciality and balance required to create an appealing but financially sustainable programme. Recruiting people with the right skill-set is tough in retail at present, with demand for staff out-stripping supply and a hike in headcount costs being experienced by many, as market conditions and candidates battling the cost of living push pay up.

The devil is in the detail (and the data)

Collecting and using customer data to personalise rewards and experiences clearly requires best practice protocols and will raise data privacy concerns with some. And while multiple tiers and personalisation can be motivating for programme members, too much complexity can obfuscate and make it difficult to participate. Even if reward options are manifold, convenience and ease for the customer are key.

A question of competing priorities

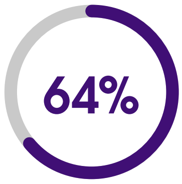
Environmental concerns, sustainability in the supply chain, availability and affordability will continue to clash here with macro-economic events and the UK economy as they are.

CPG brands distributing through the retail channel will find pressure on margins as the multiple grocers push still harder to guard their own profits and cushion customers where possible.

Yet savvy marketers know that often the best leaps are made when competitive brands retreat and curb spending. So the big challenge is how to navigate these turbulent times, serving customers well and building loyalty programmes fit for the future.

Joined up thinking

Integration with other customer-facing technologies such as mobile apps and social media will be a theme – providing the joined up experiences our research shows consumers are seeking. And retailers (especially those in fashion) will show a penchant for partnerships with other brands, expanding the customer bases of both and providing more diverse reward options.



of our business research respondents predict that **customer expectations will have the biggest impact on loyalty schemes in the next 3-5 years**, with seamless experiences also featuring heavily.

Integration and partnerships are ways in which these challenges can be met.

Joined up thinking internally across departments is also an important consideration. Loyalty should not be owned solely by the Marketing department. All customer-facing teams need to be ambassadors of the programme, to help create and deliver great experiences to members. And also to provide critical front-line feedback to the team responsible for the programme – listening to customer feedback and acting upon it to improve the offer.

Key opportunities for Retailers and CPG brands

Customers paying for perks

We are witnessing the rise and rise of paid loyalty, with schemes providing a 'double bubble' for brands benefiting from recurring subscription revenue and customer spend on core product. This trend has headroom to grow at pace, because customers are happy to pay for perks where the value is perceived as significant.

64% of **retail sector schemes are still free** and that **retail brands have the lowest adoption of paid for schemes from all sectors surveyed.**

See more on paid loyalty from Collinson here.

Data, personalisation and differentiation

Given all of the above, personalised retail loyalty programmes which cater to the needs and preferences of shoppers will fare well in future, with valuable data gathering driving insight and being used to transform the overall customer experience.

For instance, schuh, a UK-based footwear retailer, implemented a personalised loyalty programme that aligned with their brand values and assets. The retailer leveraged their loyalty programme to offer tailored promotions, personalised recommendations and exclusive benefits to their customers. By gathering valuable data on customer preferences and shopping habits, schuh was able to enhance the customer experience, build long-term relationships and increase customer retention.

Right now, engineering value wherever possible will win over a public with tight purse-strings but going forward, to win and keep long term fans in a cluttered space, this type of personalisation together with differentiation will be dynamite. And the latter can best be achieved by aligning loyalty programmes with brand values, purpose and assets.

Relationships that create returns

For DTC brands, the opportunity is to build enduring 1:1 relationships with customers, enriched and extended by a loyalty offer. Big players like P&G are worth a look at in this space.

For CPG brands selling through retail, understanding their challenges and taking the opportunity to be part of their schemes and solutions is worthy of consideration.

44% of retail loyalty leaders are **planning to invest heavily in points or miles and in enhancing the customer experience.**

All CPG brands can leverage advocacy and referrals from existing members to acquire new customers, to drive repeat purchase, profile customers and predict patterns of behaviour, extend lifetime value, cross-sell, upsell, develop multiple product holdings and purchases, gather data and key MI and develop valuable segments of customers further. Well-designed loyalty schemes have the capability to deliver against multiple different business goals.

Leading with values

Consumers today are more conscious of the ethical and moral aspects of the brands they engage with. They are drawn to companies that align with their own values and purpose. This shift in consumer behaviour presents an opportunity for retailers to differentiate themselves by incorporating brand values into their loyalty programmes.

By leading with values, retailers can create a deeper emotional connection with their customers. Loyalty programmes that reflect and support causes such as sustainability, social responsibility, or inclusivity can resonate strongly with consumers. This approach not only enhances the overall customer experience but also helps retailers build a loyal customer base that shares their values.

Retail and CPG loyalty – where next?

It's clear from recent commentary around the de-valuing of points that customers quickly calculate their value. Any attempt to unfavourably alter the value will have a negative effect on the loyalty programme and the customer experience. It is possible to reduce reliance on points and avoid creating such future issues.

Money saving offers that are tailored and exclusive to members can be just as effective, as can early access to new products, events and so forth. The North Face's VIPeak programme does a lovely job of linking points, gifts, gear and events.

With creativity, it is possible to differentiate a programme and build strong emotional connections with members. Focusing on the brand, company values and associated assets will bring the brand to life and fostering relationships with members such that they become brand ambassadors is a smart move, harnessing advocacy and social sharing.

Equally, finding new ways to involve suppliers and partners in the programme has manifold benefits – bringing fresh content, rewards, money can't buy experiences and more to members, often at reduced cost to the business.

Generating quality content that enriches the customer journey will increase engagement beyond the purely transactional. There's a real opportunity here to make every communication and touchpoint count. One size fits all newsletters become much more relevant if they instead deploy insightful segmented messaging for example. And clear, practical content can help to shape behaviours favourable to the business, such as migrating more customers to online services or reducing returns.

Customer service remains critical as part of the overall experience and ensuring this is top notch (including operational preferences such as fast-track service or next day delivery) will ensure satisfaction levels remain high. Even customers with complaints can be converted into fans if dealt with promptly and fairly.

Ringing the changes and adding the fun factor by introducing gamification into the digital in app experience will reap dividends. Mixing up in-store and online tactics to drive members into 'bricks and mortar' retail for special events makes members feel valued, providing experiences and interactions which go way beyond the functional. Nike and JD Sports are examplars in this space.

Looking for innovative ways to capture more customer preference and profile data should be an aim given how essential it is to the creation of more personalised experiences. Progressive profiling which builds out a customer profile over time, sometimes using gamification techniques or image choices rather than text only can transform the exercise from dull to 'done' because it's fun.

Loyalty leaders should aim to create 'loyalty magic' by sourcing high perceived value rewards at low cost to the business. Think how good a frequent flyer feels when redeeming that free flight ticket – an excellent example of the customer enjoying a significant freebie which costs the airline far less than the published price. It's a value exchange which works really well for both parties.

For all sectors, achieving differentiation will be key for cut-through – you first have to be noticed before building the 'loyalty love.'

82%

of our business research respondents agree that a **loyalty programme provides stand-out,** so there is consensus here.

The winners will be those that turn insight into action and deliver truly different loyalty programmes that create super-fans out of shoppers.

Time to turn insight into action?

See more on Collinson's Loyalty Landscape research here.

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