

Maritz insights: the loyalty report

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A comprehensive report on the state of the Canadian loyalty landscape

The consumer loyalty landscape is maturing, as consumers are not only joining many programs each, but are purposely modifying their purchase decisions in order to optimize their loyalty program membership experience. Consumers modify where they shop, what they buy and even how much they are willing to spend in order to maximize the rewards they earn within loyalty programs.

But how do consumers choose the programs they belong to and the programs in which they engage most? Not only are there hundreds of programs to choose from, but even for those who have chosen their preferred retailer or bank, there are STILL choices; most banks have several programs, retailers have credit card and non-credit card programs, and some retailers even have multiple non-credit card programs. In a sea of alternatives, how do consumers choose, assess meaningful value and stay engaged over time?

This whitepaper looks at these and other important questions for loyalty marketers.

About this study

Marketers who continue to spend or promote spending on loyalty marketing solutions need regular opportunities to stop and reflect on the success and the future of not only their own loyalty programs, but the loyalty landscape overall.

Maritz' 2nd annual report titled *Maritz Insights: the loyalty report* offers one such opportunity to reflect on the Canadian loyalty landscape, driven by the voice of consumers. Our report reveals the results of a survey of more than 6,500 consumers, exploring attitudes and behaviours on loyalty marketing programs impacting regular shopping and purchase decisions.

About the research

Research results were taken from a survey commissioned by Maritz Canada and conducted by Maritz Research Canada. The survey was fielded from December 2011 to January 2012 and spoke to a total of 6,665 Canadians, though certain lines of questioning were asked to subsets of this overall base. The sample was augmented to ensure sufficient response from certain subgroups, such as affluent consumers, though total results were weighted to national proportions on all major demographics such as income, age, gender and region.

Authors

This report was written by:

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Loyalty program influence and relevance

Consumer reactions to and participation in loyalty programs continue to solidify that loyalty marketing solutions are not going away any time soon. Their impact, pervasiveness and weight is simply too powerful. Ninety-two percent of us are members of at least one loyalty program. On average, a consumer is a member of 6.4 programs that we are able to identify top-of-mind. For a non-essential service tied to marketing, this penetration is remarkable.

What is more important to marketers is that, beyond enrolment success, programs are working. An obvious and core objective of loyalty marketing for operators is to reduce attrition. Sixty-two percent of consumers tell us that loyalty programs make them more likely to continue doing business with a particular company.

The objectives of most loyalty marketers go further than simply having a lot of members, and marketers should confidently expect more tangible and measurable benefits stemming from loyalty programs if those programs have

been developed with consumers in mind. Nearly one-half of consumers tell us that loyalty programs cause them to modify when and where they shop to maximize benefit, and 39% modify brands purchased to maximize loyalty benefits. All of these numbers are either stable or increasing since first collected by Maritz in 2010. What is truly impressive about the impact of loyalty is that many benefits are received because consumers were willing to be inconvenienced to receive them. For example, 35% have driven further and out of their way to a retailer aligned with a loyalty program they are engaged with.

Driving out of one's way is less surprising for gas and grocery purchases where choices are more saturated with loyalty and distance between competitors is relatively small. However, meaningful numbers of consumers tell us they have driven further for loyalty-aligned retailers in other categories as well, including movies, electronics, home improvement and apparel to name a few.

Are you a member of at least one loyalty program?

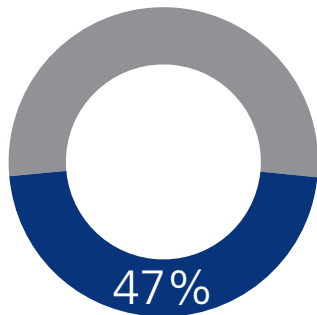


92%

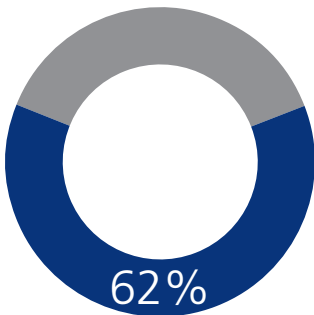
How many programs are you a member of?



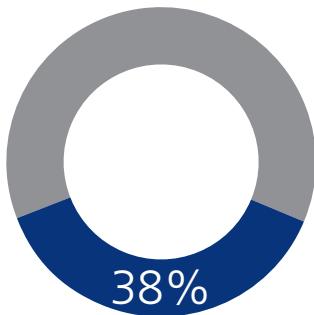
6.4
on average



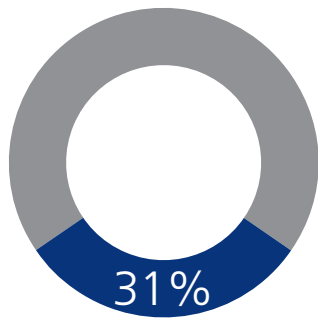
Modify when and where I shop to maximize loyalty benefits.



Loyalty programs make me more likely to continue doing business with a company.



Modify brands purchased to maximize loyalty benefits.



Would switch from my current credit card if not for the loyalty program.

Loyalty marketing is best known in retail and financial services sectors, largely because of its influence. In financial services, we know that few make credit card decisions that aren't influenced by loyalty marketing. In fact, consumers tell us that a reward program associated with a credit card is the primary factor that makes a card their preferred choice, even more than wide acceptance and interest rates. Further, even when speaking of established credit card accounts, 31% told us that they would switch credit cards if it wasn't for their loyalty program.

The challenge for marketers operating within this blend of success and saturation is to build programs that will stand out from those offered by competitor brands. It is no longer sufficient to simply add a program to a brand and wait for lift and expected retention. Programs are rarely the only one in a specific category and loyalty marketers must seek to now build the best loyalty initiative in their category. Considering this, our research reveals some core lessons for success in driving consumer choice (enrolment) and engagement when operating a program.

Loyalty influence among affluent consumers

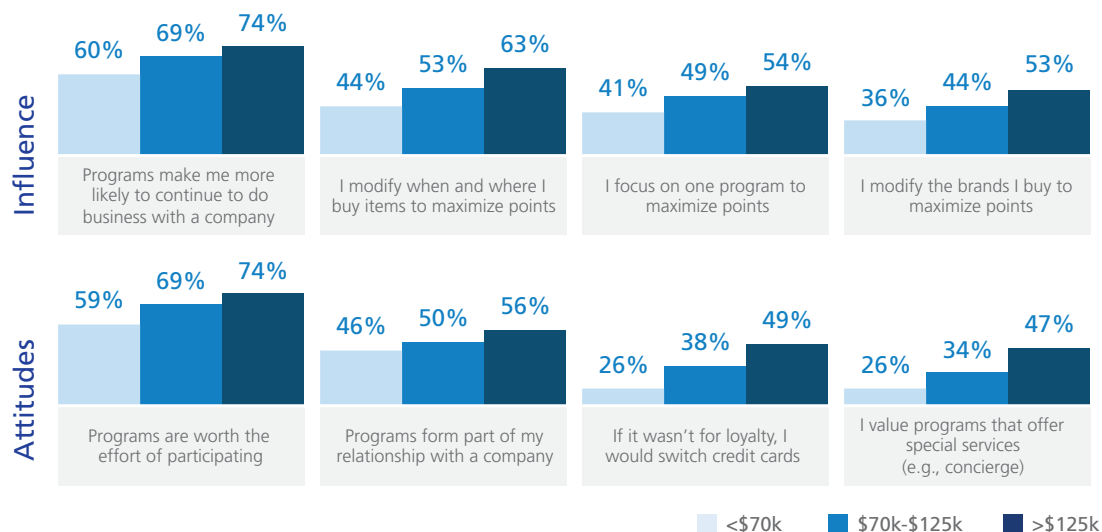
Interestingly, our study finds that loyalty programs are much more of an influential factor among mass-affluent consumers. Consumers with higher personal income belong to more loyalty programs and are much more likely to acknowledge that loyalty programs influence their consumer behaviour in overt ways such as long-term loyalty, the places to shop at and the brands one buys.

Consumer choice and engagement in loyalty programs

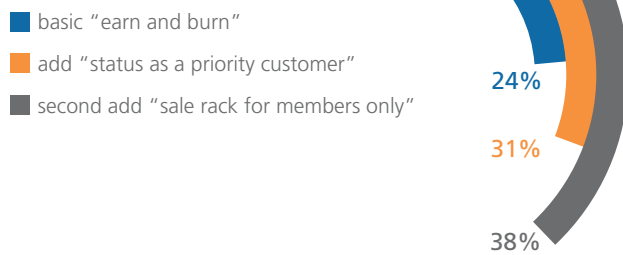
The report clarifies that consumers choose programs aligned with brands they already have some functional or emotional affinity to; following that, the core assessment is based on the value exchange being offered. The largest consumer complaint with loyalty programs is their individual assessment of the value propositions being offered. This is usually evaluated in terms of hard benefits provided in the form of cash, rewards or discounts.

This is not to say that softer benefits aren't important. Many are motivated by privilege, access and in-kind services, and soft benefits tend to work better as enhancements to core offerings than on their own. As enhancements, they are powerful contributors. An example from our research shows the addition of soft benefits to a traditional earn-and-burn loyalty program has the potential to greatly increase the attractiveness of a program.

Loyalty programs are most influential among affluent Canadians



Program appeal



Despite the need to focus on value exchange between brand and consumer, trying to outspend one's competitors on offers or rewards is expensive, unnecessary and unsustainable in consumer loyalty programs. Our research shows in a number of different ways that once competitive hard benefits are offered, softer benefits can be powerful optimizers that are often less expensive.

When examining a long list of reasons why consumers did not join loyalty programs, complaints focused on three main areas. Value consideration, as previously discussed, was signified as most important. Other considerations revolved around complaints associated with cumbersome processes and privacy. With so many programs competing for attention, those that rely on cumbersome processes for enrolment, participation or redemption are often and

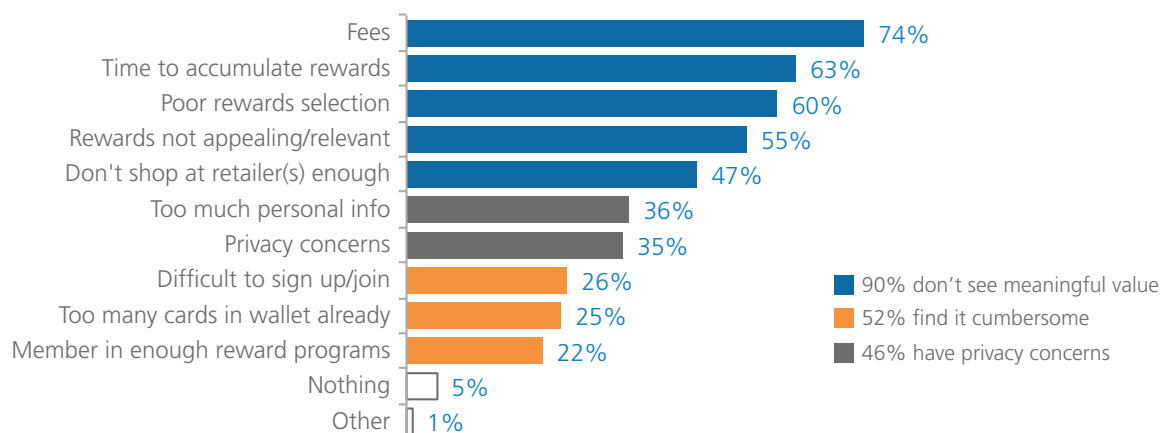
quickly dismissed. Simplicity should be a core objective for new programs and many existing programs should be re-evaluated against this principle.

In terms of privacy, some consumer segments will always be lost to this concern. Others may be catered to with transparent, reassuring explanations of how data will be captured, securely stored and used. The obvious emphasis should be on making a clear argument for the significant value a loyalty program can provide to the individual consumer.

Continuous member engagement in a loyalty program is essential for achieving objectives over time. Engagement is best delivered through careful management of each member's varying needs throughout the program's lifecycle. The best programs do this through an influential process of data capture, followed by deliberate offers; communications are coupled with data capture from their loyalty program and the consumer is understood. Here, too, some simple lessons emerge from our study.

For starters, programs need to be careful not to monitor engagement exclusively by redemption behaviour. Fifty-seven percent of consumers in points-based programs tell us they bank points for redemption of bigger-ticket items. This is also a powerful warning to program operators considering changing rules for expiration and redemption to an existing membership base. Many consumers really love the programs they are most attached to. Forty-five percent of consumers told us they get a "rush" from watching loyalty program balances grow.

Reasons for not joining more loyalty programs:

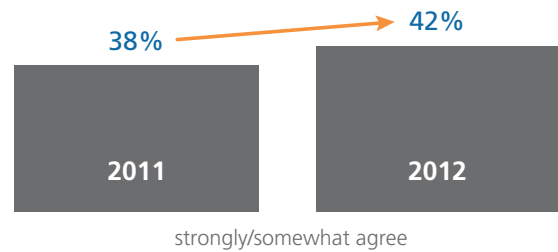


Communication

Past battles for consumer engagement in loyalty were primarily fought on the strength of discounts, rewards and offers brought to the table. Success for many competing brands in this regard suggests that future battles will evolve to be much more dependent on the strength of communication. Maritz' research shows tremendous correlation between successful communication and satisfied members. Our research and operation experience adds to a common-sense understanding that consumer communication success is specifically tied to loyalty program satisfaction. Relevance and creative presentation of communication are the high-level indicators that best predict this success. When everything works, consumers tell us that they look forward to and anticipate receiving communication with a brand. Despite this, less than half of consumers feel loyalty programs do a good job of communicating with them. This number should be much higher, considering that a core promise of loyalty marketing is an elevated relationship with a group that has raised their hands in favour of one brand over another. What a tremendous opportunity!

At a minimum, brands should continue to be diligent about collecting email addresses and seek permission to connect. Email continues to be the communication channel of preference for loyalty program members, regardless of what is being communicated (offer, updates, account balances, program/brand information).

Agreement: reward programs often do a good job communicating with me

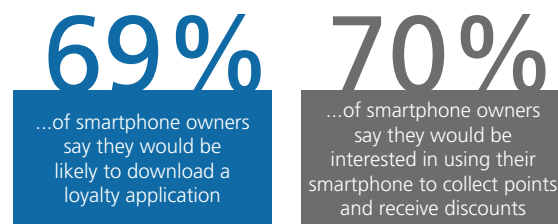


majority of smartphone users are interested in downloading applications that allow them to connect with loyalty programs to track status and collect information. Mobile will continue to emerge as an important vehicle for delivering offers and discounts, and will be an enabler of traditional reward redemption and choice.

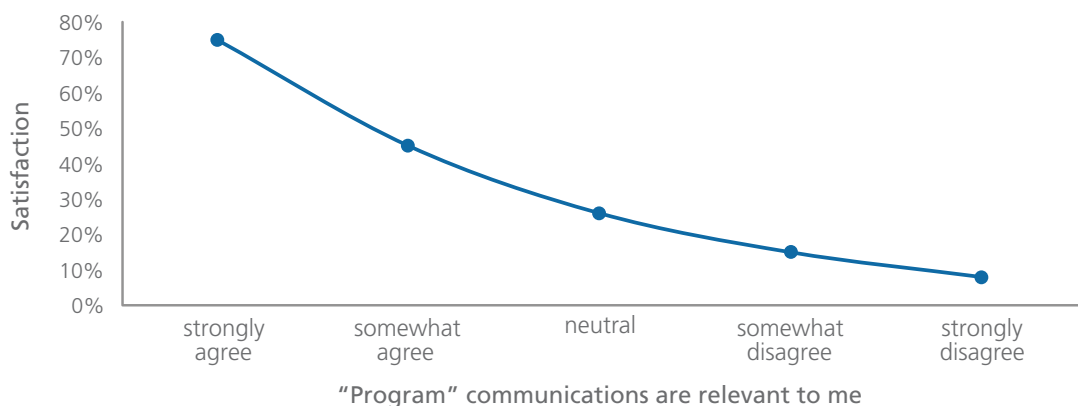
The openness to mobile loyalty may blaze a trail for other broader communications and engagements a brand may be interested in. In retail, for example, 50% of consumers who have never downloaded a retail-related app say they would be likely to download a loyalty application. This suggests loyalty may prove to be an engagement gateway for many other mobile initiatives. Many of the best loyalty marketing initiatives are well on the road to an exciting mobile presence, while others are dipping their toes in the water with a simpler, redirect-to-web approach.

Mobile engagement

Although email continues to dominate in terms of preference and use for loyalty communications, mobile communication continues to emerge as a growing preference for communicating with a loyalty program. This trend will continue to rise as smartphone usage rises. A significant



Good communications drive program satisfaction



Summary

There is no doubt that loyalty has become an integral part of the consumer experience for the vast majority of consumers. Loyalty marketers need to ensure their programs appeal to consumers by using an appropriate exchange of value that offers customers enough benefits while remaining affordable for marketers to operate. Our research uncovers some of the clues to doing this successfully, but this will be a continuously moving target. Consumers' expectations for loyalty programs are higher than ever and will only continue to rise as competition in the space increases. Retailers, banks and programs that constantly monitor and stay in front of consumer trends will be the most likely to achieve long-term success.

About the authors



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Rob is a seasoned loyalty marketer and marketing researcher currently responsible for Loyalty, Analytics and Research practices with Maritz Canada Inc. and Maritz Loyalty

Marketing. With a background in consumer research and analytics focused on loyalty, Rob is also an experienced and a valued consultant for clients with respect to gaining a deep understanding of their customers and applying insights to loyalty performance improvement.

Rob has consulted for some of North America's most senior business leaders with a special focus on retail and financial service sectors. He has extensive experience in projects leading to strategic recommendations and business solutions in a variety of industry sectors, including B2B and B2C scenarios. Projects typically include a range of customer/stakeholder experience and loyalty solutions, understanding purchase drivers and behaviours, and strategic planning and communications, but almost always include a focus on linking data to action, change and deeper connections to brands.

Rob's consumer opinion and loyalty insights are often quoted by popular media and trade publications. He is regularly called on to speak at national conferences and industry events.



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Kyle is an Account Manager for Maritz Research Canada, with over 8 years of experience conducting marketing research-based consulting for some of Canada's leading organizations,

focused primarily on the telecommunications and financial sectors, with emphasis on loyalty and customer experience. His work often focuses on helping clients gain a better understanding of customer sentiment to create happier and more loyal customers.



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