Loyalty trends for the 21st century

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Abstract Loyalty marketing programmes have been developed during periods of great change over the last 20 years, during the expansion of the travel industry in the 1980s and the technology boom of the 1990s. During the early 2000s, however, the value of loyalty programmes has increasingly been questioned. In this paper, the authors propose that this is due to a lack of understanding of the role and nature of loyalty programme development. Through an analysis based on grounded research, five loyalty marketing trends are identified and then tested against available evidence to highlight issues that must be considered in the future development of successful loyalty marketing programmes.

UNDERSTANDING LOYALTY MARKETING

Loyalty marketing may be defined as the business process of identifying, maintaining and increasing the yield from best customers through interactive, value-added relationships, typically through the use of loyalty programmes.

In most highly-developed vertical markets, there are some marketers who have adopted the tactics of recognition and reward to identify, maintain and increase the yield from their best customers — though some competitors may prefer to avoid an individual customer focused approach.¹ After decades of double digit growth, the loyalty market has shown signs of

fatigue from both consumers and practitioners.² As a result, the loyalty marketing industry has begun to encounter characteristics of a mature market.

The challenge for loyalty marketers in 2004 and beyond is to reinvigorate their programmes based on an understanding of loyalty marketing trends. This paper aims to identify the key trends.

Overall methodology

This research employs Kolb's experiential approach,³ based in grounded theory. Kolb proposes a four-stage learning cycle starting with the concrete experiences of the authors, then allowing for some

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observation and reflection, and leading to the formation of abstract concepts and generalisations. These concepts or generalisations are then tested against the evidence available to form a conclusion to this paper. The evidence available comprises relevant academic and management literature, as well as some primary research commissioned by COLLOQUY in the form of a survey and some focus groups.

This approach has many weaknesses, particularly in the first stage, which is heavily influenced by any bias in the authors' experiences. All knowledge, however, exists within a particular paradigm,⁴ and at least the authors' experiences cover different perspectives (academic researcher, consultant practitioner and global commentator), different geographies (both North American and European) and different sectors (mainly retail, travel and financial sectors). In any case, the conclusion aims to provide some generic insight as a starting point for consideration when developing specific loyalty programmes, rather than an end point in itself.

Identified trends

Observation and reflection on the authors' experiences leads to five trends being identified for analysis. Two of the trends reflect the evolving structure of the loyalty industry, while the remaining three trends relate to the experiences of the most successful loyalty programmes.

These structural trends may be encapsulated as:

- ubiquity: the omnipresence of loyalty marketing programmes in well-developed markets
- coalition: the increasing advantage of coalition loyalty marketing programmes over single company proprietary programmes.

The trends for successful loyalty marketing may be encapsulated as:

- imagination: the requirement of successful loyalty marketing programmes to employ technology imaginatively
- wow: the requirement of successful loyalty marketing programmes to differentiate from similar programmes offered by competitors
- analysis: the requirement of successful loyalty marketing programmes to effectively analyse the performance of their customers and programme.

Each of these trends is described in more depth and analysed to assess the present situation and future relevance to loyalty marketing.

UBIQUITY

'u.bi.q.ui.ty — n. Existence or apparent existence everywhere at the same time; omnipresence.'⁵

The first proposed trend is that loyalty marketing programmes are ubiquitous in all mature markets. The proposition is that the core goals of loyalty marketing — convincing invisible customers to raise their hands and identify themselves, moving them along the relationship chain through sophisticated database marketing techniques and increasing the incremental revenues gleaned from them throughout their customer life cycle — have captivated marketers hungry for data to fuel their enterprise customer relationship management (CRM) initiatives. Businesses around the globe have therefore embraced loyalty marketing as a tactic to deliver desired business results. The result is that loyalty marketing programmes have

become ubiquitous in the mature markets of North America and Europe.

Evidence of the ubiquity of loyalty marketing programmes is reflected in their coverage of these mature markets.

For example, the Food Marketing Institute⁶ reports that more than 76 per cent of all US grocery retailers with 50 or more stores now offer a frequent shopper programme. Meanwhile, a McKinsey study⁷ reveals that 53 per cent of US grocery customers are enrolled in such programmes. According to Web Flyer,⁸ there are 89 million members of airline frequent flyer programmes in the world, 74 million of them in the USA alone. In Canada, led by the Air Miles loyalty coalition, more than 70 per cent of all households participate in at least one loyalty programme. According to Warrillow and Associates,⁹ 45 per cent of all US and Canadian small business owners belong to a loyalty programme sponsored by one of their suppliers. Of these, 60 per cent belong to more than one programme, with the average participation exceeding 2.3 programmes. New business-to-business (B2B) loyalty programmes have appeared in the telecoms, industrial supplies and technology products sectors.

In Europe, the UK is perhaps the most mature loyalty market in the world, the Nectar coalition loyalty programme launched in 2002 to challenge the established reign of the UK's version of Air Miles. When UK grocery giant Sainsbury's, a long-time Air Miles sponsor, switched their coalition allegiance to Nectar, their main competitor, Tesco, immediately entered the Air Miles programme. Tens of thousands of UK grocery shoppers have since switched to Tesco, in part because of their infatuation with collecting miles.

These examples merely scratch the surface of the breadth and depth of the

global penetration of loyalty marketing programmes. While the loyalty industry may want to bask in the sunshine of ubiquity, trouble may be looming on the horizon. As a result of this glut of loyalty programmes, consumers may be more alert than ever, and seek not those brands that offer only a 'me-too' approach to loyalty, but rather those brands that bolster their overall value proposition with a sophisticated and differentiated loyalty marketing programme.

According to proprietary COLLOQUY research¹⁰ (see Figures 1 and 2), the US loyalty market looks flat.

Between 1996 and 2000, the average increase in loyalty programme membership in the USA exceeded a compound annual growth rate of 30 per cent. By the end of 2000, COLLOQUY estimated total US consumer membership stood at 973 million — an average of more than four programmes per adult — yielding a market size of US \$1.8bn, exclusive of rewards costs. For 2001, the annual rate of membership growth slowed to 8 per cent, and grew by 6 per cent during 2002. The total number of consumer members is estimated at approximately 1.1 billion by the end of 2003.

Based on experience, mature markets outside the USA, such as Canada, the UK and Australia, appear to have similar growth rates. Active programme participation rates are modest in many sectors, with typically only 20–25 per cent of enrolled members earning or redeeming promotional currency within the past 12 months.

Implications

Thus, the loyalty market appears to be heading for saturation and might be considered mature. Many similar programmes exist. Currency exchanges

Figure 1 US loyalty programme membership growth

and third-party reward and redemption networks are growing from existing loyalty brands, such as the Tesco Clubcard programme. Huge membership programmes, such as those in the airline, hotel and credit card sectors, are looking for ways to reduce communications costs with their members by shifting their communications online. The consumer may be in danger of entering a prolonged phase of boredom with the proliferation of loyalty programmes. These challenges also represent a real opportunity for loyalty marketers to break the chains of parity and proliferation by being first to market with new and innovative loyalty technologies, strategies and programme designs.

COALITION

'co.a.li.tion — n. 1. An alliance of people, factions, parties, or nations. 2. A combination into one body; a union.'¹¹

The coalition model of loyalty, where three or more companies band together to share the branding, operational costs, marketing expense and data ownership of a common loyalty currency, has become a dominant loyalty model outside the USA. Examples include Nectar in the UK, Payback in Germany, More Rewards in Singapore and Air Miles in Canada. The multi-merchant loyalty coalition offers strong economic benefits to cash-strapped programme sponsors and a higher velocity of earning for programme members. The USA and Mexico offer notable exceptions to the 'coalitions rule' trend.

There has been much speculation about the root causes of the failure of national USA coalitions. This may be due to the sheer size and fractional structure of the US market, the lack of a truly national grocer or gasoline sponsor to provide the 'earnings engine' of everyday spend, or maybe the go-it-alone nature of US marketers intent on building, protecting and

Figure 2 US loyalty programme membership year on year

enhancing the equity of their brands.

One group of coalition loyalty programmes that does exist in the USA focuses more on altruistic goals than commercial intentions, such as the US college-savings programmes Upromise and BabyMint. Similarly, the Cure Card, a charity-based coalition loyalty programme benefiting the Breast Cancer Research Foundation, reached over US\$1m in sales through the use of over 93,000 Cure Cards at over 1,000 retailers nationwide, including Adrienne Vittadini, Carolee, Casual Corner, Petite Sophisticate and August Max Woman.

Further evidence is emerging that the coalition model may take root in the USA in a more commercial way, focused on 'lifestage' or 'lifestyle' themed coalitions, built around particular demographic buckets, geographic regions or affinity groups.

Selected examples of this new 'coalition lite' model include

ClubMom, Inc., the online affinity club for US mothers that counts actor Andrew Shue and daytime talk-show host Meredith Vieira among its founders. ClubMom was launched as a rewards loyalty coalition programme in the Detroit area in 2003. The programme allows 'moms' to earn points for shopping at coalition partners including Farmer Jack supermarkets, JCPenney, Payless Shoe Source, Nine West Stores, Pier 1 Imports and Radio Shack. Members can redeem points for rewards such as vacations, spa visits, romantic dinners for two, housecleaning services and gift certificates, and can also earn additional points via the ClubMom Rewards MasterCard issued by Citibank.

Another example of this type of programme is provided by Crew Card, a chip card-based coalition programme that allows college and high school students to receive 5–15 per cent discounts from participating US retailers as well as earn reward points

redeemable for products available on the programme website. Student-friendly retailers such as Dominos, Subway and U-Haul have received smart card terminals to help them award, track and redeem loyalty points earned from purchases. The programme operators anticipate 500,000 student members and over 27,000 retail merchants participating by the end of 2003.

City-wide coalitions also exist, such as the Hudson City Card launched by the Hudson, Ohio Chamber of Commerce and the PowerCard in Tucson, Arizona. The Hudson City Card is designed to encourage affluent residents to patronise local businesses and offers discounts and other benefits at 35 participating Hudson merchants. In Tucson, Arizona, 30 retailers and over 10,000 members now participate in the PowerCard. Retailers can set their own discount and points-earning and redemption offers, while members can elect to receive offers from all, some or none of the programme sponsors.

Implications

While mass coalition programmes may be limited to one or two in each market, many more examples of niche coalition programmes can be expected to appear over the next few years, perhaps geared towards children, seniors, gays and lesbians, extreme sports enthusiasts, tourists visiting beachfront communities, ski enthusiasts and so on. Some of these coalitions will thrive, while others will wither on the vine. Mass coalition programmes will need to ensure that the total offering covers the majority of consumer spending opportunities, in order to keep participation rates high. On the other hand, niche schemes will be of great interest to the relevant

participant, but risk representing a group of customers that is too small to cover the associated costs and benefits.

Having established two structural trends in the marketplace, three trends focused on successful loyalty schemes are discussed.

IMAGINATION

*'i.mag.i.na.tion — n. The ability to confront and deal with reality by using the creative power of the mind; resourcefulness.'*¹²

As in most mature markets, new technologies are finding fertile grounds for innovation and productivity gains within the loyalty marketplace. Smart cards, radio-frequency identification devices (RFID), realtime point-of-sale, wireless, the worldwide web and the third generation of loyalty 'rules engines' all enter the 21st century with proven cases of success in enabling some form of reward and recognition, somewhere in the world. But while these technologies offer great hope to enable loyalty programmes, these opportunities are available to all. It is their creative and imaginative application that will separate successful and failing loyalty marketing programmes.

Every loyalty programme requires the sponsoring enterprise to enable the capture of an individual's transactional data, the filtering of these data through a rules engine that assigns both points and interventions and the storage, reporting, and retrieval of all member and programme information from a centralised database. Without sophisticated technology, the loyalty programme operator is confined to a punch card or a stamp programme — anonymous versions of reward and recognition that previous generations may recognise, but which simply will not work in the wired world.

Since the late 1990s, new technologies have aggressively invaded loyalty marketing. In the 21st century, many of these technologies will attempt to take centre stage. Candidates for emerging loyalty technologies include smart cards.

Smart cards

While chip-based smart cards can no longer be accurately labelled as 'new' or 'emerging' technology, the prolonged failure of interested parties to find a suitable vehicle to push smart card acceptance in the USA finds this technology still on the 'coming soon' list. Smart cards offer the promise of real-time earning and redemption of promotional currencies as the chip interacts with a chip reader during a point-of-sale transaction. Although loyalty has thus long been viewed as the 'killer application' that would drive smart card acceptance in the USA, the lack of a true chip-based loyalty solution speaks to the failure of smart card advocates to articulate clearly their vision of what shape true smart card-based loyalty programmes will ultimately take.

Outside the USA, the chip card continues to play a role in major loyalty programmes around the world. For example, in Turkey, the Garanti Bank Bonus MasterCard programme recently reached the 2 million threshold in members. This coalition programme now boasts 750 stores with over 18,000 outlets where cardholders can redeem Bonus points. Since the programme launch in April 2000, Garanti claims that members have redeemed US\$22m in cash value awards and US\$13m in goods and services. The first coalition loyalty programme in Poland, Premium Club, is based on a smart card. Programme partners include Scandinavian oil giant Statoil and fast food chains KFC and Pizza Hut. Japanese bank JCB

International and Singapore shopping mall Bugis Junction announced the joint launch of the Bugis Junction Mizu Card, the first chip-based credit card to offer a loyalty programme from all the retail tenants in an entire Asian shopping centre. Cardholders can accumulate two Mizu points for every \$10 charged on the card's chip anywhere within the mall or the InterContinental Singapore Hotel. Points are redeemable for rewards ranging from exclusive gifts to shopping vouchers. Cardholders also enjoy double Mizu points on their birthdays and soft benefits including discounts from mall outlets, a free slice of birthday cake and deluxe hotel room rate packages, including breakfast and dinner buffets for two.

Implications

From such examples, it may be deduced that the multi-merchant coalition model for loyalty provides the most fertile ground for smart card use, and that smart cards were in each case chosen to fit the overall strategy of the programme design, not simply because they were the 'hottest' technology available. As with any loyalty technology, the ultimate success or failure of smart cards will depend upon the value propositions attached to them and the ability of their adherents to use them to facilitate sustainable dialogue with customers. For smart cards, the jury is still out.

RFID

The use of radio-frequency identification devices (RFID) to track loyalty programme members and their transactions is another technology that may come of age in the next few years. By providing contactless communication with point-of-sale devices within 12 to 48 inches, RFID devices provide a convenient, relatively inexpensive

alternative to both magnetic strip and smart card payment systems. If RFID becomes commonplace for payment, it will surely become the logical loyalty vehicle. The convenience store and fast food industries, long searching for a payment device that will allow them to capture customer data without reducing volume, are especially interested. Several interesting tests of the technology have already occurred.

For example, in early 2001, ExxonMobil tested Speedpass in conjunction with their Mobil Rewards loyalty programme pilot. By giving members bonuses for switching to Speedpass, ExxonMobil was able to show significant lift in activation and usage of the Speedpass payment device. MasterCard recently conducted trials of its own PayPass contactless payment system in Orlando, Florida with over 15,000 consumers and 14 merchants including Chevron, CitiGroup, JP Morgan Chase and Loews Cineplex.

Further trials are underway, such as Integrity For You (IFY), which are in the process of launching a new RFID system for US restaurants in the second half of 2003. The system will allow diners to use an RFID-enabled card to identify themselves at a kiosk upon entering a restaurant in order to receive personalised service and special offers. Restaurants can operate either discount or points-based loyalty programmes through the system, which IFY plans to expand to include other retail sectors such as theatres, golf shops, car servicing and sales, dry cleaners, pharmacies and specialty retail outlets.

Perhaps the most imaginative use of RFID, however, is a system demonstrated by IBM in South Africa in February of 2003 and set to be piloted by several European banks. The system involves embedding an RFID tag in a passbook or loyalty card. When an elite-level

customer or loyalty programme member enters the bank, the tag is scanned automatically, triggering an instant text message to an employee cellphone as an alert to the customer's presence. The system can be linked to a bank's CRM software in order to pull up such information as how the customer likes to be addressed, a list of accounts and the transaction history. IBM says that banks using the system will probably adopt an opt-in policy, which will be crucial to alleviating privacy concerns. Couple this system with a sophisticated loyalty strategy, and RFID may prove to be a winning loyalty technology.

Implications

RFID has major advantages over other card-based systems in that no contact is required. This opens up a new world of possibilities to the imagination of loyalty marketers.

Biometrics, wireless and more

Around the world, marketers are also testing a new generation of 'Minority Report' style technologies and their applicability to loyalty and CRM.

For example, an iris-scanning pilot has been tested at Schiphol Airport in the Netherlands. Accessible only to members of the airport's Privium frequent travellers' programme, a record of the iris scan is kept on a chip-enabled membership card against which the iris is compared each time the traveller passes through immigration at Schiphol. The goal is to speed best customers through security checkpoints while allowing more time to screen infrequent flyers. Retailers including McDonald's, Kroger supermarkets and Levitz Furniture are piloting fingerprint-based systems that identify customers. Kroger and Levitz use biometrics to help verify checks, while McDonald's increases the security of

self-service credit card transactions with the extra identifier. Italian luxury goods maker Prada has tested 'e-tag' technology in its New York stores. By attaching the electronic tags to merchandise in the store and monitoring shopper movements with electronic sensors, the retailer can keep track of every aspect of a shopper's behaviour on the floor. By combining the e-tags with their loyalty programme, Prada can create 'brickstream' profiles to enhance their consumer data, thereby influencing profitable behaviour and alleviating privacy concerns. Gap, Toys 'R' Us and Hollywood Video have also tested e-tags in their stores. US grocery chain Stop & Shop has tested wireless loyalty technology attached to their shopping carts: wireless, web-based, battery-powered personal shopping assistants linked to the grocer's loyalty programme database.

Implications

All of these emerging technologies offer new possibilities for the collection and management of loyalty databases, and hence, also for the recognition and reward of customers. In particular, contactless programmes may make it easier for loyalty marketers to be more proactive in recognising loyal customers prior to any purchase, for example on entering the store. In any case, the technologies only enable, the customer offer depends upon the imagination of the loyalty marketer.

WOW

'wow — interj. Used to express wonder, amazement, or great pleasure. n. An outstanding success.'¹³

The problem of ubiquity resides not only in the proliferation of loyalty programmes in the marketplace, but also in the perceived sameness of the reward

offerings in many programmes. Across industries, consumer fatigue and boredom may develop if redemption choices found in most reward catalogues are uninspiring, such as the 'ho-hum toaster', discount offers from the usual suspects, weak cash-back offers, boring magazine subscriptions or gift certificates from the same half-dozen internet retailers. Even airline miles may have lost some of their lustre in the middle of a prolonged travel recession.

Consumer ennui with loyalty has often been documented. For example, research conducted by Quadstone in late 2001¹⁴ revealed that the trend of consumer boredom with loyalty was well underway even before the recession put undue pressure on marketers to produce results. Among the sample of 1,000 consumers surveyed, 19 per cent claimed that they 'usually forget' about the loyalty programme points they have earned and that the points 'expire before I use them'. Among those consumers who did not own a loyalty card, nearly half (47 per cent) said that they had no interest in them, with 19 per cent of consumers saying that they 'don't see the benefit', 10 per cent revealing that they had owned loyalty cards in the past but saw 'no perceived benefit from their use', and 18 per cent admitting that they 'don't know enough about them'. Despite the perceived lack of follow-through in loyalty programme promises, a full 73 per cent of those consumers who used loyalty cards believed that retailers use the purchasing information collected on them to 'design future rewards that will be even more appealing'.

Focus groups conducted by COLLOQUY¹⁵ in the hotel frequent guest category reveal that once the branding and logos were removed from the rewards catalogues, members could not tell the difference between

programmes. This supports the view that consumer expectations of loyalty programmes, fostered by programme operators, are drastically misaligned with reality. The danger is that consumers lose interest and may head for the competing offers.

Some loyalty programme sponsors aim to avoid this danger by offering an experiential or aspirational reward. Experiential reward design embraces the idea of redeeming points for once-in-a-lifetime experiences, premium merchandise and lifestage or lifestyle-themed rewards that appeal to a member's dreams. This could be termed the 'Wow Factor!' — enhanced value propositions that seek to leverage the consumer's desire for new, value-added, emotional, experiential, unique and compelling rewards.

A few examples reveal the breadth and depth of reward offerings available to marketers willing to think a little differently.

For example, Neiman Marcus's InCircle programme, perhaps the pioneer in aspirational rewards, is still going strong nearly 20 years after its inception. Members can avail themselves of rewards ranging from drinks and appetisers at The St. Regis in New York, Houston or Los Angeles for 5,000 points, to a private six-day European golf tournament with 15 guests travelling in a private luxury jet for 5 million points. Not to be outdone, Harrods of London launched their own best customer programme, By Invitation, in 2002. Customers redeeming enough points can take a chauffeur-driven trip to the studios of jeweller Boodle & Dunthorne and create their own jewellery with top designer Rebecca Hawkins; take a day trip to Florence with Harrods' bed linen buyer; enjoy classic motor racing experiences; or spend the day on

chairman Mohamed Al Fayed's 65,000 acre Balnagown estate.

Aspirational rewards are not confined to those with exceedingly high incomes. Musicland Group and Clear Channel Entertainment have joined up to launch GetAccess, an exclusive membership programme designed to appeal to baby-boomer rock 'n' roll fans with sizeable but not very high disposable incomes. Members pay a \$60 membership fee in exchange for the right to purchase tickets to premium acts such as the Rolling Stones before the tickets go on sale to the general public. Membership also includes discount offers such as two-for-one ticket specials, the opportunity to purchase or win merchandise and signed memorabilia, backstage venue tours and VIP services at selected events. The operators also promise co-branded partnerships with telecommunications, credit cards and other partners.

Examples may be found, even at low disposable incomes, such as American Super Laundry, a Los Angeles-based chain of Laundromat, which offers its modest-income frequent customers the opportunity to take the entire family to Disneyland.

For some members, these examples are not just rewards. They become opportunities of a lifetime. The consumer will aspire to redeem, which means growth in spending, increased share of customer or reduced attrition for the loyalty programme sponsor.

A useful way of providing such aspirational, especially one-off, rewards is through loyalty auctions. Loyalty points auctions are expected to become increasingly common as they provide programme operators with a useful vehicle to burn off points liability, at the same time as wowing consumers. Auctions are fun, and drive participation in a world of short attention spans;

Figure 3 Mix of hard and soft benefits as customer value increases

experiential desires, coupled with an element of surprise, drive results. Pioneers in points auctions include Continental Airlines, which offers OnePass mileage auctions for such juicy awards as a trip to the New York Yankees' spring training facility and Grammy Awards tickets and backstage passes to 'The Producers'. Online auctioneer eBay has recently launched Anything Points, a fledgling loyalty programme designed to appeal to eBay's 69 million registered users and take advantage of literally the largest reward redemption catalogue in the world.

Implications

Careful and imaginative use of the Wow Factor! offers significant opportunities for loyalty marketers to overcome ubiquity and differentiate themselves in a crowded marketplace by enriching their value proposition. An increased adoption of this highly aspirational approach to reward design and fulfilment can be expected.

It should be recognised that soft benefits, based on emotional rather than logical needs, are much more likely to provide the Wow Factor! — though this depends upon the relevance of the offer to the consumer. This suggests that soft

benefits should be increasingly offered to the highest value customers, as illustrated in Figure 3.

Furthermore, soft benefits tend to be much harder for competitors to copy and so provide real differentiation.

In a world of ubiquitous loyalty programmes, the presence or absence of the Wow Factor! may increasingly separate successful loyalty programmes from those doomed to failure.

ANALYSIS

'an.a.lyt.ics— n. 1. Division of a subject into elemental parts or basic principles. 2. Using, or subjecting a subject to a methodology involving algebra or other methods of mathematical analysis. 3. Proving a known truth by reasoning from that which is to be proved.'¹⁶

According to a study by the IDC consulting group,¹⁷ business analytics generate an average five-year return on investment (ROI) of 431 per cent. Analytics based solely on customer strategy, the study reported, generated a median ROI of 55 per cent. AMR Research¹⁸ estimates that investments in analytical CRM applications will grow at nearly double the rate of operational CRM systems, with the market

Figure 4 Analytical growth chart

expanding to nearly US\$4.4bn — 19 per cent of the total CRM market — by 2005.

These numbers point out the emergence of the next long-term trend in loyalty marketing: the increasing importance of customer data analytics and business intelligence in gaining and retaining market share in an increasingly competitive world.

In 2003 and beyond, the loyalty-marketing database will take on increased significance as the fuel to power the CRM engine. Marketers will be able to take advantage of a new subset of business data analysis, loyalty analytics, using advanced, outsourced analytical capabilities and/or new database marketing tools to perform marketing tasks, such as forecasting marketing ROI, measuring customer value, modelling customer attrition and intervening prior to their departure, and determining the net present value of major marketing campaigns and initiatives, to name a few.

Based on an analysis of practice in the travel and financial services industries, Ferguson proposes three 'lifestages' through which an enterprise must grow before achieving multi-dimensional customer data analysis (Table 1).¹⁹

Taken as a whole, these three stages illustrate the development of loyalty analytics capabilities, as detailed in COLLOQUY's Analytical Growth Chart (Figure 4).²⁰

Implications

It is important to note that mastering the art of loyalty analytics does not necessarily mean an expensive, full-blown, customer loyalty programme complete with points, magnetic-stripe cards, redemption catalogues and call centres. Customer behaviour can be influenced provided that basic systems or processes can capture customer transactions and reward and recognise customers according to their different

Table 1: Loyalty lifestages

Loyalty life stage	Data toddler	Data adolescent	Data adult
Customer information	Invisible customers	Capturing transactions	Advanced customer segmentation and scoring
Programme status	Determining ROI	Comparing ROI to forecast	Enterprise-wide CRM initiative
Customer database	Fregmented data	Programme-specific datamart	Multidimensional data warehousing
Analytical tools	Basic reporting tools	Advanced reporting, basic analytical tools	Advanced analytical tools

behaviour. Intimate knowledge of customers and mastery of loyalty analytics provides a logical, commercial framework within which to operate a loyalty programme, and therefore can be expected to increase the chance of success.

RENAISSANCE

‘ren.ais.sance — n. A revival or rebirth of intellectual or artistic achievement and vigor.’²¹

The five loyalty trends outlined here suggest how successful loyalty programmes may be developed in the medium term. From these trends, some key points are proposed that may inform future loyalty marketing decisions.

First, as loyalty programmes become increasingly ubiquitous, consumer value-detectors have never been sharper. Hollow value propositions will be exposed and fail.

The increase in coalition-based loyalty schemes will help avoid under-funding but may not help differentiation unless the right programme partners are chosen with complementary brands.

While technological developments will enable customer data sets to be built through active dialogue and feedback, imagination is the key to differentiation, and successfully rewarding and recognising the most highly-valued customers.

Imagination leads to successful differentiation in the consumer’s perception through the Wow Factor! The value proposition between hard and soft benefits must be balanced, with the balance shifting towards soft as member value becomes higher.

Finally, successful programme creativity must be tempered with sound financial judgment. Financial analysis of the performance of any loyalty programme is critical to long-term success. Understanding which specific behaviour must change, along which dimension, by how much and over what period of time, will allow the loyalty marketer to draw correlations between the variables within the programme and the financial results being produced.

In summary, successful loyalty marketers will thrive in a renaissance of customer loyalty programmes, building a connected alliance of customers, partners and vendors, enabled by technology, all working towards profitable, sustainable, mutually beneficial relationships.

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