



EXECUTIVE SUMMARY
LAUNCH EDITION

2015

LOYALTY
REPORT™

About The 2015 Loyalty Report

The 2015 Loyalty Report study was conducted in January of 2015. A sample of 11,316 North American consumers, over 1,700 of which have household incomes greater than \$70,000, participated in this study through an online survey. The report explores year-over-year changes in consumer attitudes and behaviors to uncover insights on loyalty initiatives, brands, and over 200 programs in industries such as retail, consumer packaged goods, financial services, entertainment, and dining.

Become
a Loyalty
Brand, not
just a Brand
with a Loyalty
Program.

EXECUTIVE OVERVIEW //

The past year saw an increasing number of consumers opt-in to a variety of different loyalty programs. Our study shows consumers overwhelmingly agree that loyalty programs are worth the effort, and it appears the extent to which programs are effective in influencing customer behavior show no signs of diminishing.

Here's what else we found:

1. Enrollment is up, despite a limited capacity for engagement.

Meaningful year-over-year increases are observed on all key sentiment trackers:

- “Programs are definitely worth the effort”
- “Programs make me more likely to continue doing business with certain companies”
- “I modify when and where I make purchases in order to maximize the benefits I receive”
- “I modify what brands I purchase in order to maximize the benefits I receive”
- “Programs are part of my relationships with the brands”

Even the average number of programs in which consumers are enrolled continues to climb – from **10.9 programs** per Member in 2014 to **13.3 programs** per Member in 2015.

Yet customer participation (or lack thereof) in these programs tells a slightly different story.

Despite the increase in average enrollments, the average number of programs in which Members are active (i.e., make a purchase) has decreased from **7.8** to **6.7** – which tells us that consumers appear to have a finite capacity in terms of the number of programs with which they can actively engage.

As loyalty becomes more crowded, it is more important than ever for brands to identify how their programs can differentiate and win.

2. Marketers must focus on authentically fulfilling customer needs, to break the habitual reliance on the discount-oriented value proposition.

Program satisfaction correlates well with many of the desired outcomes that marketers expect of an investment in loyalty, such as the likelihood to continue doing business with the brand and recommend the program.

Naturally, marketers ask, “What drives program satisfaction?” The functional elements, including the ease with which rewards can be redeemed and amount accumulated per \$1 spent, rank highly as drivers of program satisfaction. Yet, relying on these functional elements is a pitfall to which many brands have succumbed – locked in to an endless cycle of one-upmanship and outspending the competition on rewards.

Our study reveals a better path for marketers eager to reduce their reliance on monetary incentives in pursuit of customer engagement and program satisfaction. The path is paved with experience-based drivers of satisfaction – which are as weighty as the functional rewards-oriented drivers in terms of their influence on overall program satisfaction. Elements such as ‘The program is worth the effort of participating’, ‘The program meets my needs’, and ‘The program is enjoyable’.

3. The program must serve the brand, not just the program.

34% of customers say they would not be loyal to the brand if it weren't for the brand's loyalty program, and programs are seen as an extension of the brand as affirmed by the 76% of Americans who think that loyalty programs are part of their relationships with brands.

As such, the ultimate role of the loyalty program is to drive loyalty to the brand; it is not sufficient for programs to drive program satisfaction without fostering corresponding and sustained loyalty to the brand.

4. Mobile in loyalty not only improves the program experience, but ultimately drives loyalty to the brand.

Mobile is a strategic high ground in loyalty. It's at once a combination of a communication conduit, a unique identifier, and a payment vehicle. It is the customer's link between online and the real world. Mobile adds utility to marketing as part of an improved customer experience in a way that loyal customers appreciate.

And yet there is contradictory data regarding whether consumers want to interact with programs via mobile. While 48% of Members agree, "I would like to engage with loyalty programs through my mobile device," only 12% of customers have downloaded a program app, and 60% of smartphone owners are not aware whether or not their program even offers a mobile app.

For brands with mobile loyalty apps already in play, there are benefits being achieved. For instance, 62% of customers using the program's mobile app are satisfied with the program, as compared to only 45% among Members who have not downloaded a mobile loyalty app.

While the role of mobile in loyalty is, in part, to improve the program experience itself, the higher-order objective is to improve the brand experience overall and, ultimately, drive loyalty to the brand.

In this regard, there is an untapped opportunity with mobile: The percent of customers loyal to the brand among customers who agree, "The mobile app meets my needs" is 10 times higher, revealing a link to a better mobile experience and the resulting brand loyalty.

5. Some of the most beloved brands have no formal loyalty program, yet lean on familiar loyalty design principles to achieve their covert and stealthy alternatives to formal programs.

Marketers often cite brands such as Nike+, Apple's iTunes Genius, and Nest Learning Thermostat as benchmarks, because of their high customer loyalty. They're strong brands that own a loyal following – but the one thread that ties them all together? They achieve high levels of customer loyalty without an explicit loyalty program.

These informal approaches to loyalty have managed to avoid the loyalty "program" moniker, yet they have cleverly borrowed some of the familiar design principles of formal loyalty program design, including a mechanism that uniquely identifies customers, and interventions to encourage and reinforce behaviors.

What is compelling is that these brands have crafted a value exchange that is not solely reliant on a discount and monetary exchange, but rather on one that fulfills customer needs, makes customers feel recognized and valued, and engages through relevant and personalized experiences. In short, these principles help brands outperform by making the experience with the brand better, get customers to a place where they're willing to pay a premium, and make them more loyal to the brand.

And though the evidence is highly supportive, we are careful not to convey that informal programs are the right choice for all brands – regardless of their chosen approach, organizations should strive to become a loyalty brand, not just a brand with a loyalty program.



01 QUICK FACTS & RATINGS

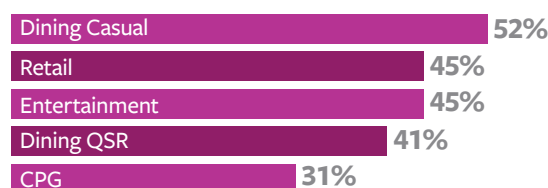
QUICK FACTS //

MEMBER SATISFACTION IS UP

43%↑ (39% in 2014)

of members are
very satisfied with the
program experience

SATISFACTION BY CATEGORY



NUMBER OF LOYALTY CARDS IN WALLET UP, BUT NOT ALL ARE ACTIVELY USED

13.3↑ (10.9 cards in 2014)

Average # of Loyalty Program
Memberships

6.7↓ (7.8 cards in 2014)
ARE ACTIVE



48%

of members
would like to
engage
with programs
via a mobile device

FIRST IMPRESSIONS ARE IMPROVING

42%↑ (34% in 2014)

of members
are very satisfied
with the program
enrollment experience

ADVOCACY IS KEY

34%

of members
strongly agree
they would recommend
the program to others



JUST NOT THAT SOCIAL

10%

↑ (9% in 2014)

of members follow a
loyalty program
on social

WEBSITE USAGE A DECREASING UTILITY

33%

↓ (37% in 2014)

say they
visited the
program's website
in the past year

MAKE IT PERSONAL

28%

↑ (21% in 2014)

of members
feel very satisfied that
they get a personalized
experience

PROGRAM MEMBERS' TRUST GROWING

37%

↑ (31% in 2014)

strongly agree
that programs are
trustworthy

TRUST BY CATEGORY

Dining Casual	42%
Dining QSR	41%
CPG	37%
Entertainment	36%
Retail	35%



02

KEY
FINDINGS

INSATIABLE CONSUMER APPETITE FOR LOYALTY PROGRAMS COULD BE MORE THAN SOME CAN STOMACH.

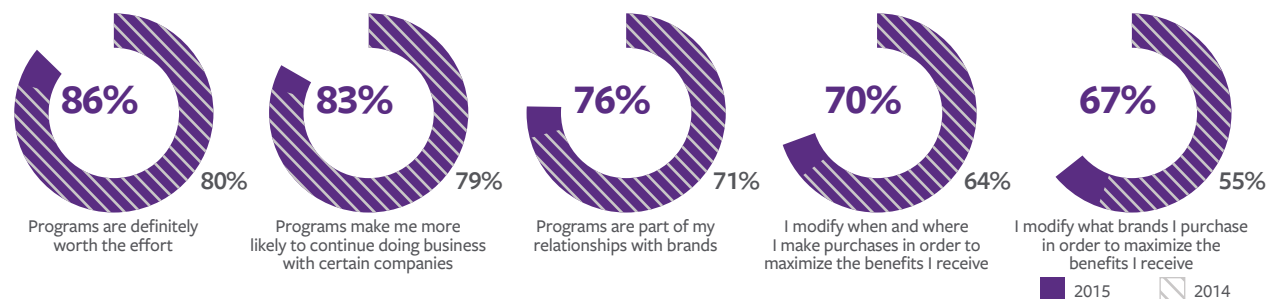
ENROLLMENT IS UP, DESPITE A LIMITED CAPACITY FOR ENGAGEMENT.

The past year saw more and more consumers opt-in to a variety of different loyalty programs. Consumers overwhelmingly agree that loyalty programs are worth the effort, and it appears the extent to which programs are effective in influencing customer behavior is showing no signs of diminishing.

In each of the years Bond Brand Loyalty has conducted this comprehensive study on consumer usage of and attitudes toward the loyalty programs in which consumers participate, we have captured and tracked a number of general sentiments, including:

- “Programs are definitely worth the effort”
- “Programs make me more likely to continue doing business with certain companies”
- “Programs are part of my relationships with brands”
- “I modify when and where I make purchases in order to maximize the benefits I receive”
- “I modify what brands I purchase in order to maximize the benefits I receive”

LOYALTY PROGRAM ATTITUDES (AGREE WITH STATEMENTS)



Meaningful year-over-year increases are observed on all of these key tracker metrics. Even the average number of programs in which consumers are enrolled continues to

climb – from 10.9 programs per Member in 2014 to 13.3 programs per Member in 2015.

Consumers are telling us that there's work to do to improve programs in the very near future.

Despite the increase in average enrollments, the average number of programs in which Members are active (i.e., make a purchase) has not shown a corresponding increase. This suggests consumers are reaching a program engagement saturation point. So, despite the capacity to enroll in more programs, consumers have a finite capacity in terms of the number of programs with which they can participate and brands they can actively engage.

CONSUMERS HAVE A FINITE CAPACITY IN TERMS OF THE NUMBER OF PROGRAMS AND BRANDS WITH WHICH THEY CAN ACTIVELY ENGAGE.

For some loyalty brands, the race for share of mind and wallet could be a race to the bottom. Less than half of consumers agree they spend more after having joined a program than before, suggesting that marketers are incurring program costs with no corresponding increase in sales among a significant portion of their customer base. This will be especially problematic for programs whose loyalty value proposition is anchored in discounts or rebates.

LESS THAN HALF OF CONSUMERS AGREE THEY SPEND MORE AFTER HAVING JOINED A LOYALTY PROGRAM.

(49% agree they spend more with brand now vs. pre-membership.)

Moreover, a material portion (44%) of customers agree, "...it would be easy to replace the program with a competitor's program", suggesting that programs are falling short in terms of serving as a key source of competitive differentiation for many brands. This is particularly true among programs in the payments sector, for which 48% of customers agree with this statement.

So, programs need to provide utility to real customer needs, and brand-right benefits that are easy and enjoyable to engage with. Aside from sustainable differentiation, this will help avoid customer criticisms and less-than-desirable statistics like these.



Is your program running on antiquated legacy technology? Reach out to us at TLR15@bondbrandloyalty.com and ask us about **Synapze™** – our mobile loyalty solution.

PROGRAM SATISFACTION.

TOP-RATED PROGRAMS.

The Best, Next Best and Last programs in each sector are listed in the tables on the following pages.

In many categories, we have found there is little that discerns the top program in a sector from next best. In fact, where top programs score similarly on the key drivers, what discerns the top program from next best programs are the experiential drivers. As such, it is important for programs to succeed on the primary drivers in order to compete, yet the opportunity to

differentiate from competitors resides through a focus on improving performance on experiential drivers.

Given the program parity in many sectors, loyalty marketers and program operators will be well served to look beyond the functional, rewards-centric attributes to the experience-oriented attributes as alternate and differentiating means of improving overall program satisfaction.

The programs below are a sample of the over 100 programs covered in our report.

Amazon Prime
AMC Stubs
Barnes & Noble Member
Cabela's Club Rewards
My Coke Rewards
CVS ExtraCare
Dove Insider
Dunkin Donuts DD Perks
Food Lion MVP Card
GameStop PowerUp Rewards
General Mills Box Tops for Education
Giant Eagle fuelperks!
HUGGIES Rewards
JCPenney Rewards
Jiffy Lube Rewards
Kellogg's Family Rewards
Kohl's Yes2You Rewards
Kraft First Taste
Kroger Fuel
L'Oréal Paris Gold Rewards
Lowe's MyLowe's
Macy's Star Rewards
My Best Buy

My Starbucks Rewards
Nordstrom Rewards
Office Depot | Office Max MaxPerks
Pampers Rewards
Pepsi Experience Points
Pizza Hut Hut Lovers
Qdoba Rewards
Rite Aid wellness+
Safeway Reward Points
Sephora Beauty Insider
Sonic My Sonic
SUBWAY Rewards
Target Pharmacy Rewards
TGI Fridays Give Me More Stripes
Toys "R" Us Rewards "R" Us
Walgreens Balance Rewards



Are you interested in how competitors' programs score versus yours on these program performance imperatives? We've got **data on over 100 programs**. Send us a message at TLR15@bondbrandloyalty.com. We'd love to have a conversation.

Best

Next Best

Last

Best

Next Best

Last

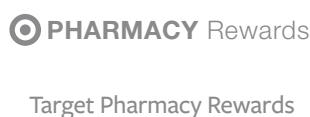
Retail

MID-FREQUENCY



Retail

HIGH-FREQUENCY



CPG



Entertainment



Dining QSR



Dining Casual



WHAT DRIVES PROGRAM SATISFACTION? //

BREAK THE CYCLE, NOT THE BANK.

MARKETERS MUST FOCUS ON AUTHENTICALLY FULFILLING CUSTOMER NEEDS, TO BREAK THE HABITUAL RELIANCE ON THE DISCOUNT-ORIENTED VALUE PROPOSITION.

Program satisfaction is a worthy pursuit for marketers – in general, program satisfaction correlates well with many of the desired outcomes that marketers expect of an investment in loyalty, such as the likelihood to continue doing business with the brand and the likelihood to recommend the program.

The more salient question that naturally follows: What drives program satisfaction? In other words, what are the program elements on which program operators should focus in order to most positively influence overall program satisfaction?

To answer this question, we assessed over two dozen potential drivers of program satisfaction and identified the elements most strongly related to overall satisfaction. What did we find? Elements that ranked as top functional

drivers of satisfaction include:

1. The appeal of rewards.
2. The ease with which rewards can be redeemed.
3. The amount accumulated per \$1 spent.
4. Ability to reach rewards in a timely manner.
5. Number of ways benefits can be earned.

It should come as no surprise to even the least-savvy loyalty marketer that these functional elements rank highly as drivers of program satisfaction. Traditionally, these are tactics marketers have leaned on most heavily in their pursuit of increased enrollment and customer behavior outcomes. In fact, these features are often given the most prominence when it comes to program collateral that highlights reasons to join.

TOP 5 LOYALTY PROGRAM CLIMBERS (VERY SATISFIED RATINGS, 2015 VS. 2014)

- +31%** SUBWAY Rewards
- +31%** Barnes & Noble Member
- +30%** The Children's Place myPLACE Rewards
- +26%** ShopRite Rewards Program
- +26%** Lowe's MyLowe's

TOP 5 LOYALTY PROGRAM DECLINERS (VERY SATISFIED RATINGS, 2015 VS. 2014)

- 11%** Qdoba Rewards
- 12%** Kraft First Taste
- 13%** Dove Insider
- 19%** Outback Steakhouse My Outback Rewards
- 27%** My Best Buy

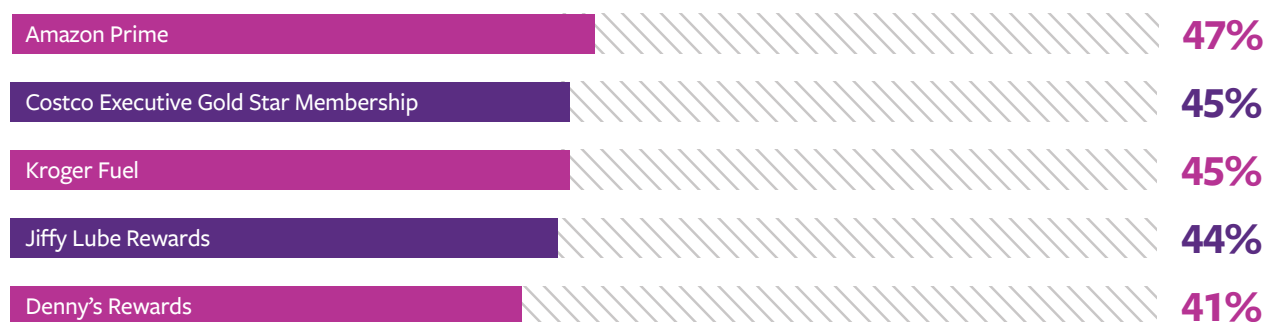
Discounts, points, and rebates do have a role in engaging customers and influencing behavior. And yet, relying on these functional elements is a pitfall to which many brands have succumbed – locked in to an endless cycle of outspending the competition on discounts.

The challenge for brands is that discounts are not sustainably differentiating, and many brands cannot simply continue to one-up or out-discount the competition while still expecting to remain profitable.

Thankfully, our study reveals a better path for marketers eager to reduce their reliance on monetary incentives in pursuit of customer engagement and program satisfaction. The path is paved with experience-based drivers of satisfaction – which are as weighty as the functional rewards-oriented drivers in terms of their influence on overall program satisfaction. Elements that ranked as the top experience drivers include:

1. The program is worth the effort of participating.
2. The program meets my needs.
3. The program is enjoyable.
4. The program is simple.
5. The program is easy to understand.

TOP 5 LOYALTY PROGRAMS: “PROGRAM MEETS MY NEEDS” (STRONGLY AGREE RATINGS)



As such, in crafting an ROI-positive loyalty program value proposition that enables a balanced and mutually beneficial value exchange between a brand and its customers, marketers (and customers) will be well served to ensure the program is designed to authentically meet customers' needs in ways that go beyond a focus on discounts and the dividend issued per \$1 spent, while also enabling an experience that is both easy and enjoyable.¹

¹Forrester's Customer Experience Index comprises three similar elements, meeting customer needs, enjoyment and ease.

LOYALTY TENSION: FUNCTIONAL VS. EXPERIENTIAL

The pressure to focus on the familiar, functional attributes often outweighs the desire to differentiate through experiential attributes. In the loyalty context, rewards do have a role, and points do have a purpose, and while it's imperative for marketers to focus on the things that matter most to customers, the focus has been so uniformly embraced across the loyalty landscape that program parity exists. Most loyalty programs compete on appeal of rewards, amount accumulated per \$1 spent, and the ease with which rewards can be claimed. Programs that innovate to address customer needs with brand-aligned solutions in ways that are easy and enjoyable for customers will differentiate, win, and relieve this tension.

THE IMPORTANT ROLE OF THE LOYALTY PROGRAM //

LOYALTY IS IN THE EYE OF THE BEHOLDER.

THE PROGRAM MUST SERVE THE BRAND, NOT JUST THE PROGRAM.

Thirty-four percent of customers say they would not be loyal to the brand if it weren't for the brand's loyalty program.

We've commented in earlier publications on the potential contradictory sentiments this figure might trigger among marketers. For instance, this stat may be perceived as a positive indicator for, say, a Director of Loyalty – proud that his team's efforts and accomplishments are responsible for a significant portion of his organization's business. In contrast, this stat may also trigger worry for a CMO (and, in particular, for a CMO of a brand for which customer engagement with the program relies heavily on monetary drivers of program satisfaction, such as 'amount accumulated per \$1 spent') concerned that a significant portion of her brand's business might be at risk should a competitor's loyalty program decide to offer a higher program dividend to the market.

Either way, the finding above suggests that without a

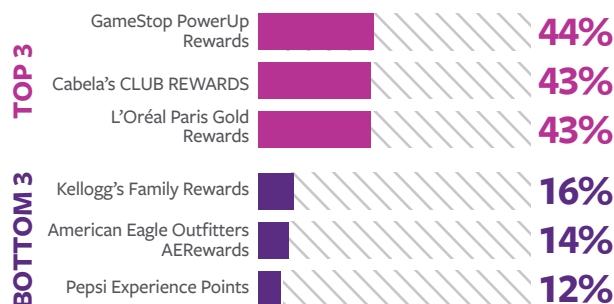
program there would be no loyalty to the brand – as such, marketers must ensure that loyalty to the brand is achieved because of the program.

Meanwhile, programs are seen as extensions of the brand as affirmed by the 76% of Americans who think that loyalty programs are part of their relationships with brands.

The ultimate role of the loyalty program is to drive loyalty to the brand; it is not sufficient for programs to drive program satisfaction without fostering corresponding and sustained loyalty to the brand.

It is encouraging to see that 62% agree, "The program makes my experience with the brand better" and that 63% agree, "The program makes me more loyal to the brand." It should be of concern to marketers that the other 38% and 37% respectively do not agree that the program improves their brand experience – nor that the program makes them more loyal to the brand.

"THIS PROGRAM MAKES ME MORE LOYAL TO THE BRAND" (STRONGLY AGREE RATINGS)



LOYALTY TENSION: PROGRAM SATISFACTION VS. BRAND LOYALTY

There is tension between program satisfaction and brand loyalty. Though satisfaction as a measure is universally embraced as a useful and general customer sentiment metric, it does not sufficiently embody the brand loyalty outcomes sought by marketers in their pursuit of brand loyalty. Loyalty outcomes such as the likelihood to continue doing business with a brand, to recommend the brand, to think of the brand first when shopping a category, to miss the brand if it went away, and more. Satisfaction is fleeting, while loyalty endures. The tension is relieved when programs fulfill on achieving satisfaction among customers, all while engendering an enduring sense of loyalty to the brand.

JUST HOW IMPORTANT IS THE PROGRAM? //

LOYALTY IS THE BRIDGE BETWEEN BRAND PROMISE AND CUSTOMER EXPERIENCE.

THE 4 Ps OF MARKETING SHOULD INCLUDE A NEW 2nd P, THE (LOYALTY) PROGRAM.

Traditionally speaking, marketers have planned their strategies guided by the framework of the 4 Ps: Product, Price, Promotion, and Place.

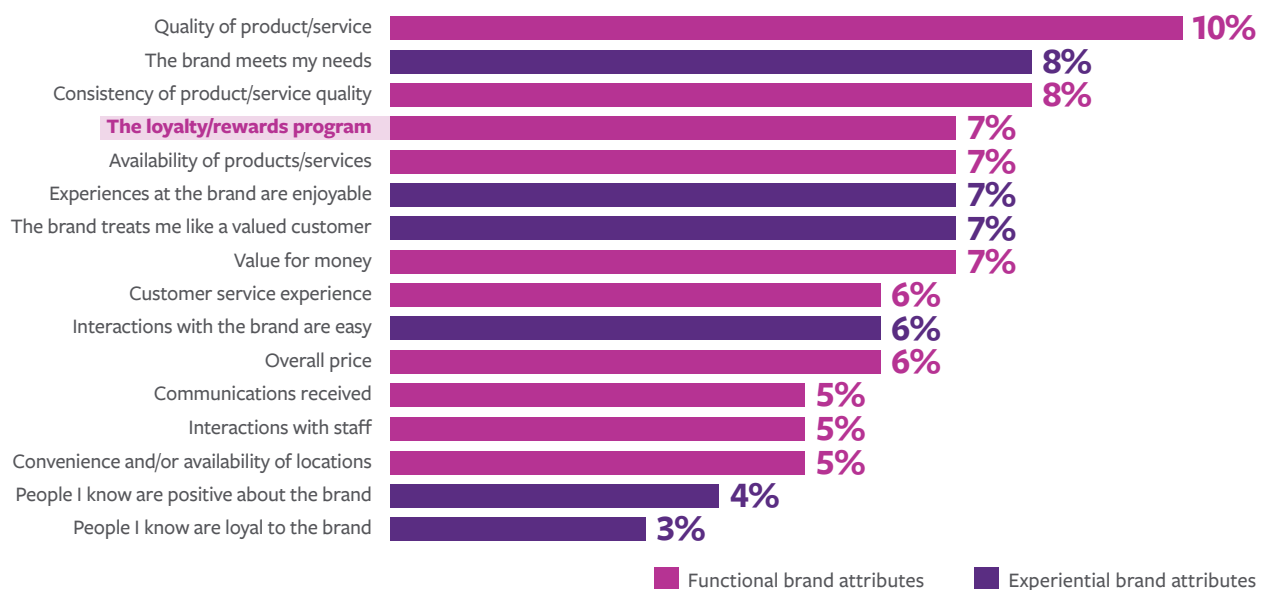
This study reveals the importance of a loyalty program in driving overall satisfaction with a brand; which just might be the evidence supporting inserting a new second “P”, the (loyalty) Program.

We included *the loyalty program* as a factor in the Bond Loyalty Report, and assessed it alongside a host of other

factors that potentially influence consumer satisfaction with brands, including the quality of product (or service), the consistency of product (or service) quality, price, value for money, location/convenience, and more.

What the results show is that the loyalty program ranks ahead of factors such as value for money, price, and convenience/availability of locations in driving satisfaction with brands. Loyalty program ranks behind only two of the functional drivers assessed: quality of product/service, and consistency of product/service quality.

DRIVERS OF OVERALL BRAND SATISFACTION (BOND TRUE DRIVERS ANALYSIS)



THOSE WHO EMBRACE
A HIGHER-ORDER ROLE
FOR LOYALTY PROGRAMS
– A ROLE BEYOND THAT
OF SIMPLY A DISCOUNT
DELIVERY MECHANISM –
WOULD BE JUSTIFIED IN
ARGUING IN FAVOR OF
PROGRAM'S INCLUSION
AS A NEW 2ND P.

Interestingly, represented among the top drivers of satisfaction with the brand, and ranked second overall among all factors assessed, is “The brand meets my needs.” This tells us that “loyalty” is an opportunity for brands to close the gap between what they promise their customers and what their customers experience along the path to purchase. Done right, it becomes a path to repurchase that is frequently traveled by the customer who is engaged and loyal.

The role some loyalty programs currently play in terms of driving loyalty to the brand is evident. The role that all loyalty programs must play is significant; not just in terms of driving loyalty to the brand, but serving as a source of sustainable, competitive differentiation for brands.

LOYALTY TENSION: IMPORTANCE OF PROGRAM

Product, Price, Promotion, Place...Program? Is the loyalty program merely a proxy for price and promotion, or does it stand on its own as a legitimately distinct consideration in the marketing mix? Given the emphasis of points and rewards within most loyalty programs, and therefore an overlapping role with price and promotion, the answer seems “no.” Emerging thinking related to “informal loyalty” initiatives as covert and stealthy alternatives to formal programs might elicit a similar argument: informal initiatives, literally embedded in the product experience itself, may also serve as a proxy for product. In any case, the loyalty tension should be dissolved, given that the loyalty program asserts itself as the second most weighty functional element – sitting second only to product in driving overall satisfaction with the brand.

LOYALTY AND THE UPWARDLY MOBILE CUSTOMER.

MOBILE IN LOYALTY NOT ONLY IMPROVES THE PROGRAM EXPERIENCE, BUT ULTIMATELY DRIVES LOYALTY TO THE BRAND.

Alerts, apps, native apps, click-thrus, geo-fencing, iBeacons, LBS, MMS, SMS, NFC, short codes, QR codes, mobile payment, mobile wallet, mobile web, and more – if there's one thing marketers continue to talk about and obsess about, it's mobile.

Given the extent to which technology, and specifically mobile, permeates the lives of consumers today, it follows that brands are taking a mobile-enabled (and in many cases a mobile-only) approach to engaging with customers.

It's clear that consumers want to interact with brands via mobile. Data captured through this study reveals that 48% of Members agree, "I would like to engage with loyalty programs through my mobile device." Further market trend evidence is plentiful, for instance: as of October

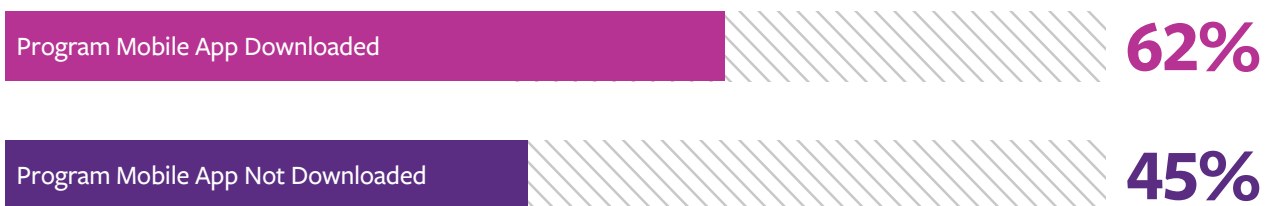
2014, the Apple App Store surpassed 85 billion app downloads.¹

Meanwhile, at least in terms of loyalty mobile apps, the appetite for apps might not be as it appears.

Our study reveals the presence of what may appropriately be termed "mobile loyalty app'athy." While 12% of customers have downloaded a program app (which represents an increase of 5% over last year), still 61% of smartphone owners are not aware whether or not the loyalty programs in which they are enrolled even offer a mobile app.

Mobile pays dividends in terms of program satisfaction:

OVERALL SATISFACTION WITH LOYALTY PROGRAM (VERY SATISFIED RATINGS)



¹ <http://www.statista.com/statistics/263794/number-of-downloads-from-the-apple-app-store/>

IF IT LOOKS LIKE A DUCK.

HOW SOME OF THE MOST BELOVED BRANDS HAVE USED LOYALTY DESIGN PRINCIPLES TO (SEEMINGLY) AVOID LOYALTY “PROGRAMS” ALTOGETHER.

What do Nike+, Apple's iTunes Genius, and the Nest Learning Thermostat have in common? For starters, these brands have been included for the first time in our annual loyalty study.

The short answer: Marketers often cite these brands as benchmarks, because of their high customer loyalty. They're strong brands that own a loyal following. But the one thread that ties them all together? They achieve high levels of customer loyalty without an explicit loyalty program.

The term “loyalty” carries a great deal of baggage. Today, the term is most often used as a synonym for loyalty “program,” and as a proxy term for points, perks, and rewards. Mostly, it has lost its association with its literal meaning as an unwavering allegiance to something.

As such, we endeavored to identify what guidance can be gleaned from the approaches and mechanics these benchmark brands are taking, in order to guide a better path forward for the brands and marketers tied to existing loyalty programs.

Loyalty (in the program sense) appears stalled; virtually all loyalty programs in-market today – including tenured

programs launched decades ago, as well as new incumbents launched since the widespread adoption of Facebook, Twitter and mobile – rely on the same, familiar do-this-get-that behavioral models, and lean all too predictably on the same, familiar monetary rewards to influence customer behavior.

The resulting loyalty landscape is one full of undifferentiating me-too programs. In many ways, programs have been relegated to serving as a discount delivery mechanism for brands, dispensing run-of-the-mill satisfaction in the name of a program that keeps the status quo – instead of riding higher as a catalyst for brand loyalty.

Meanwhile, savvy marketers seek strategies to differentiate and win. And so, while evidence to guide loyalty's repair and recovery is yielded through a thoughtful analysis of loyalty programs, we also crave new clues to pave loyalty's path forward, uncovered from an assessment of less-formal and more-embedded activities by brands achieving loyalty to their brands without formal loyalty programs.

Impressively, a number of these brands without programs included in our study are achieving loyalty outcomes (in the emotional sense), and all without a formal loyalty program.

KEY PERFORMANCE METRICS FOR SELECT INFORMAL LOYALTY PROGRAMS

	Very/Somewhat Satisfied	Strongly/Somewhat Agree: “Likely to continue doing business”	Strongly/Somewhat Agree: “Say good things about the brand”
Nike + Plus	90%	82%	84%
Nest Learning Thermostat	73%	68%	79%
Apple iTunes Genius	70%	72%	74%

And while these informal approaches to loyalty have managed to avoid the loyalty ‘program’ moniker, they have cleverly borrowed some of the familiar design principles of formal loyalty program design, for instance:

- A mechanism that uniquely identifies customers
- A means to capture and track activity

- Interventions to encourage and reinforce behaviors
- Benefits beyond discounts, including genuinely meeting the needs of customers

In comparison to their formal program counterparts, brands with embedded and informal approaches to engendering customer loyalty are outperforming on a number of elements.

LOYALTY PROGRAM PERFORMANCE METRICS AND OUTCOMES (STRONGLY/SOMEWHAT AGREE RATINGS)

SELECT KEY DRIVERS			
Meets my needs	72%	65%	111
Makes me feel valued & important	63%	53%	119
Communications are relevant	73%	60%	122
Personalized experience	71%	55%	129
SELECT OUTCOMES			
Experience makes my overall experience with the brand better	74%	62%	119
Willing to share personal information with brand	68%	51%	133
Makes me more willing to pay a premium	59%	38%	155
Makes me more loyal to the brand	75%	63%	119

To infer from the data that informal initiatives we studied outperform formal loyalty programs is accurate. To conclude, however, that the intended guidance to marketers is to do nothing rather than to proceed with a loyalty program would be a mistake. In fact, these informal loyalty initiatives are loyalty programs – highly organized, highly purposeful, highly embedded...programs. These programs identify customers uniquely, track behaviors, employ highly sophisticated segmentation and scoring mechanisms, and intervene to encourage customers toward desired outcomes and behaviors. Informal loyalty is loyalty, nonetheless.

And though the evidence is highly supportive, we are careful not to convey that informal programs are the right choice for all brands. Still, much can be learned from brands approaching customer loyalty in informal ways.

Consider iTunes Genius: With your permission, it identifies and deciphers your media preferences, and in turn guides you effortlessly to additional choices of potential interest.

Consider Nest: It learns your habits, adjusts your environment for you accordingly, and even ‘rewards’ you with digital acknowledgements of your green behaviors.

Both of these connected services enable your unique identifier, capture and monitor your activity, intervene to guide your behavior, and reward you by meeting your needs.

Through informal loyalty, these brands have crafted a value exchange that is not solely reliant on a discount and monetary exchange, but rather on one that fulfills customer needs, makes customers feel recognized and valued, and engages through relevant and personalized experiences.

Whether via a formal program or an informal one, organizations should strive to become a loyalty brand, not just a brand with a loyalty program.

LOYALTY TENSION: QUICK WINS VS. BRAND LOYALTY

There is tension between the marketer’s average tenure vs. the time it takes to build brand loyalty. Brand loyalty not only takes work, it takes time – yet, the marketer’s scorecard is typically comprised of mostly short-term objectives. Brand loyalty is not an overnight endeavor, and it’s most certainly not a tactic to lean on at the end of the quarter when sales need a promotional boost to achieve target. Given the pressures marketers face to drive a return immediately, it’s understandable how loyalty programs are seized upon to serve as a mechanism to deliver discounts.

MARKET COMMENTARY: HOW STANDALONE LOYALTY PROGRAMS CAN COMPETE WITH NEW COALITION PLENTI.

So, what are the implications of the Plenti launch in May 2015? While the U.S. marketplace has distinct differences compared to other countries where coalition models thrive, one can suspect a lot of attention against this landmark initiative. Coalition, by design, has an inherent power of helping partners acquire new customers by harnessing each brand's customer pool. It can also move market share away from retailers with standalone programs, as customers tend to gravitate toward programs that alleviate the need to carry multiple cards, and collect multiple currencies. Last but not least, a coalition tends to accelerate Members' currency-earning powers by getting them to their rewards quicker.

So, how should standalone loyalty programs defend against these threats? In regions with successful coalitions, we also see standalone loyalty programs that have prospered. Take the Canadian marketplace where Air Miles and Aeroplan (two key coalition programs) have extremely high penetration and a wide range of hundreds of partners. Large-scale standalone loyalty programs such as Shoppers Optimum (operated by Shoppers Drug Mart), SCENE (operated by Cineplex & Scotiabank), and many others not only co-exist with coalition – they thrive.

Operators of standalone proprietary programs need to ensure their programs are meeting their membership needs by following some of the loyalty design principles we utilize at Bond:

Brand Alignment – This is core to loyalty design, and refers to the precise relation of the program's components with the attributes and personality embodied by the brand. Marketers should be concerned with the extent to which the attributes of their loyalty programs support and align with their brands' attributes and positioning. Doing so can deliver nearly 6 times higher Member satisfaction, compared to programs that fail to achieve strong brand alignment. It can be very challenging to get a coalition's brand to align with all partner brands, given the vast array

of brand types that could join a coalition. Getting this right will ensure your program is designed to succeed.

More than a Transactional Relationship – Understanding human motivation is the key to successful loyalty program design. It is important to understand how and when tactical monetary features, such as discounts, cashback, and rebates, are used, and how to integrate non-monetary benefits into your program. In fact, sometimes non-monetary benefits can have a higher value to certain customer segments. Your loyalty program should strive to make customer connections that go beyond discounts or points, given that coalition programs focus much of their attention on helping customers get to their monetary benefits quicker.

Communication Relevance – Last year's Loyalty Report revealed a tight link between customer satisfaction and the extent to which customers deem loyalty program communications as personally relevant; the higher the relevance, the higher the satisfaction with the program. Sixty percent of customers want to receive communications from the programs in which they are enrolled, and 60% consider those communications to be relevant. Given the investment most programs make in communications, marketers can do more to ensure their Members feel valued and important. A coalition loyalty program has the benefit of a shared marketing and targeting cost structure, and will therefore be able to communicate more frequently. Conversely, it is even more important to ensure each standalone loyalty program communication effort is highly relevant and rewarding for Members.

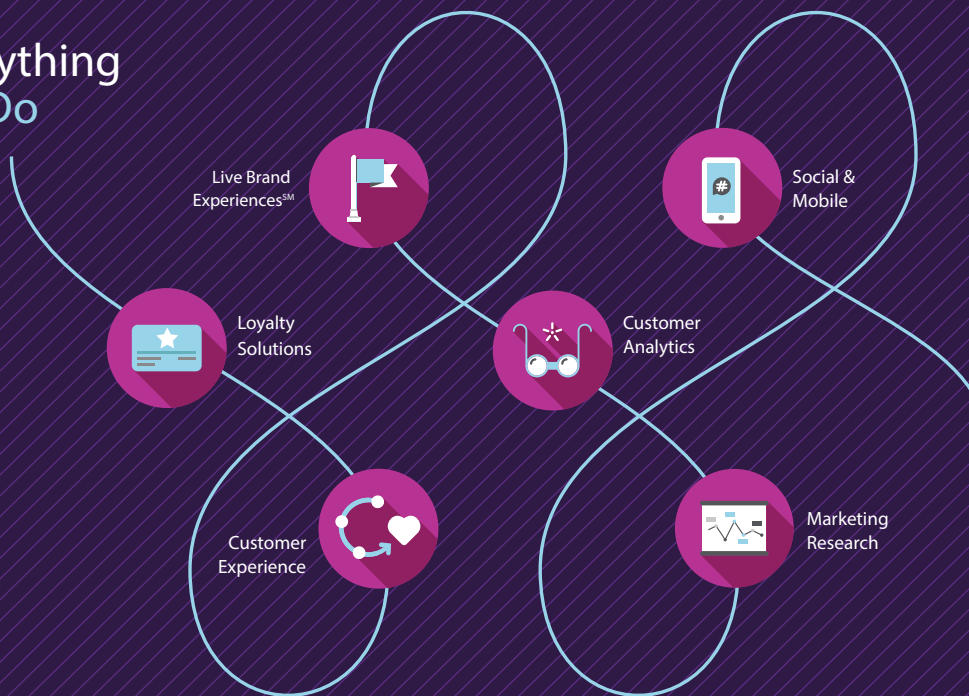


Are you eager to differentiate your program from competitors? We can help. Reach out to us at TLR15@bondbrandloyalty.com and ask us about our approach to brand-aligned **program design**. We'd love to have a conversation.

About Bond Brand Loyalty

Bond Brand Loyalty, a Maritz Company, is a leader in building brand loyalty for the world's most influential and valuable brands. We make the world more rewarding for customers, richer and more resilient for brands, and extremely profitable for our clients. We build measurable, authentic, and long-lasting relationships through a combination of services that include loyalty solutions, customer experience, marketing research, customer analytics, live brand experiences, and proprietary loyalty technology platforms.

Everything
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Contact us at **1-844-277-2663**



info@bondbrandloyalty.com



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