



From everyday to extraordinary: How retailers can woo shoppers with points and miles

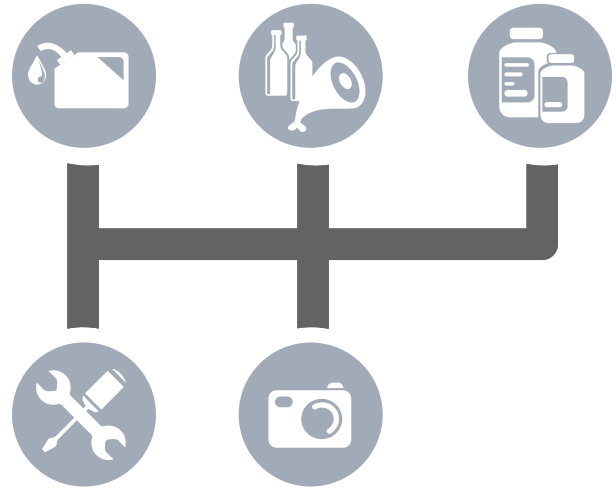
New findings on consumer attitudes reveal the importance of offering rewards for everyday spending in shoppers' favorite loyalty programs



Inside this Whitepaper

What drives everyday shopping behavior?	2
Loyalty by the numbers (they're huge!).....	3
The Points survey findings	4
Everyday Earners = extraordinary opportunity.....	9

What drives everyday shopping behavior?



To what extent does earning loyalty program points and miles influence decision making surrounding everyday purchases such as gas, groceries, pharmaceuticals, home improvement products and consumer electronics? More specifically: do shoppers care about earning small amounts of points? Our original research sheds light on consumer attitudes and behaviors concerning loyalty programs, with some surprising results.

With more than three decades under their belts, airline frequent flyer programs have learned how to make loyalty programs soar.

Now it's retail's turn to shine.

But can programs built around the purchase of everyday essentials like orange juice, toothpaste and gasoline capture the hearts of consumers without the inherent glamour of travel?

The reality is, for many consumers who do not travel for business, airline tickets and hotel stays are infrequent expenses. As a result, these consumers may be less likely to rack up significant quantities of points/miles through bigger-ticket, travel-related purchases. However, travel-related rewards such as airline tickets or hotel stays remain highly desirable and provide a powerful incentive to earn, along with other large rewards such as big screen TVs and valuable gift cards.

Fortunately, the flexibility of today's loyalty programs means that shoppers can indeed earn these types of extraordinary rewards by buying ordinary, everyday items at their supermarket, pharmacy, clothing store or service station.

Intrigued by the possibilities, Points wanted to explore the inherent opportunities of this situation for both the consumer and the retailer.

We surveyed more than 1,500 loyalty program members to find out their thoughts on how and where they like to earn loyalty points/miles. We were especially interested in their attitudes towards “high frequency earning” — being rewarded with a handful of points/miles in the programs they already collect for the types of inexpensive purchases they tend to make anyway, as opposed to acquiring fistfuls of points/miles for less frequent, bigger-ticket purchases.

Our study breaks ground by proving high-frequency loyalty can be highly effective if done correctly.

We discovered that although the amounts per transaction may be small, consumers do in fact value the opportunity to earn rewards for everyday shopping (the orange juice, toothpaste and gasoline type of purchases) as a way to reach a more exotic, exciting goal that is often far from ordinary (say, a trip to Las Vegas or Hawaii).

This combination of everyday and extraordinary provides inherent possibilities for the retailer who participates in a **high-frequency, flexible program that taps into the power of frequent flyer programs** to capture the consumer’s imagination and aspirations.

Loyalty by the numbers

The loyalty industry is **huge** — larger than the US video game and movie industries combined — and presents an enormous opportunity for the businesses that tap into it.



¹ Value of points and miles earned in US per year as of 2011, Colloquy, The Billion Member March: The 2011 COLLOQUY Loyalty Census, p. 1.
² Video game revenues (excluding hardware) in 2013: <http://www.pwc.com/gx/en/global-entertainment-media-outlook/segment-insights/video-games.jhtml>.
³ Box office ticket sales in 2012: Entertainment Weekly, <http://insidemovies.ew.com/2012/12/31/box-office-report-2012/>.
⁴ As of 2012. Colloquy, Bulking Up, p. 1.
⁵ Estimate based on: 9.5 active memberships per US household (Colloquy, Bulking Up, p. 1) X 115.2 million US households 2008-2012 (US Government Census: <http://quickfacts.census.gov/qfd/states/00000.html>, accessed March 10, 2014).

Loyalty program members are goal-setters

In early 2014, we surveyed a panel of more than 1,500 members of multiple loyalty programs⁶ to uncover their attitudes towards high frequency earning opportunities. As part of that survey, we asked them about their loyalty goals.

Our survey revealed that the overwhelming majority of respondents (81%) have redemption goals in at least some of their loyalty programs. And nearly half (45%) say they have a goal in **all or most** of their programs.

They are most likely to set their sites on an award flight — 68% said they have a target in an airline frequent flyer program — but retail loyalty program goals come in a close second, with 48% setting goals in these programs.

This is important information because having a loyalty program redemption goal makes a consumer more likely to work towards accumulating points or miles in order to achieve the reward. Moreover, studies have shown that consumers increase their purchase rate as they get closer to their reward.⁷

It's also important to remember that, thanks to the flexibility of today's loyalty industry, a consumer can set a goal in one program and work towards it by accumulating points/miles in their other loyalty programs. So a reward goal of free travel could lead to increased spending in retail stores.



“... a lot of people want the miles instead... Their feeling is, ‘Money is only money and if I take money instead of miles, I’ll just use the money to pay a bill.’ There’s nothing special about paying a bill. But when they take frequent flyer miles as a reward instead of cash, they will use them to take trips and that gives them memories. That makes the miles special.”

~ **Xavier Drèze, Marketing Professor, The Wharton School, University of Pennsylvania⁸**

⁶ The Points of View & Vision Critical Panel, surveyed February 12-19, 2014.

⁷ Praveen K. Kopalle, Scott A. Neslin et al., The Joint Sales Impact of Frequency Reward and Customer Tier Components of Loyalty Programs, September 2011, p. 32.

⁸ The Lowdown on Customer Loyalty Programs: Which Are the Most Effective and Why, September 6, 2006: <http://knowledge.wharton.upenn.edu/article/the-lowdown-on-customer-loyalty-programs-which-are-the-most-effective-and-why/>.

Most members look to everyday shopping to earn

The purpose of our survey was to gain insights into how shoppers work towards their goals. Specifically, we wanted to uncover whether they felt it was most important to receive larger points/miles awards once in a while, or whether they were content with small but regular accumulations.

The Everyday Earner says...

“Small points are important because not everyone has money to spend on large purchases.”

~ Points of View Panel Member

68%

say it's worth it to earn small amounts of points/miles



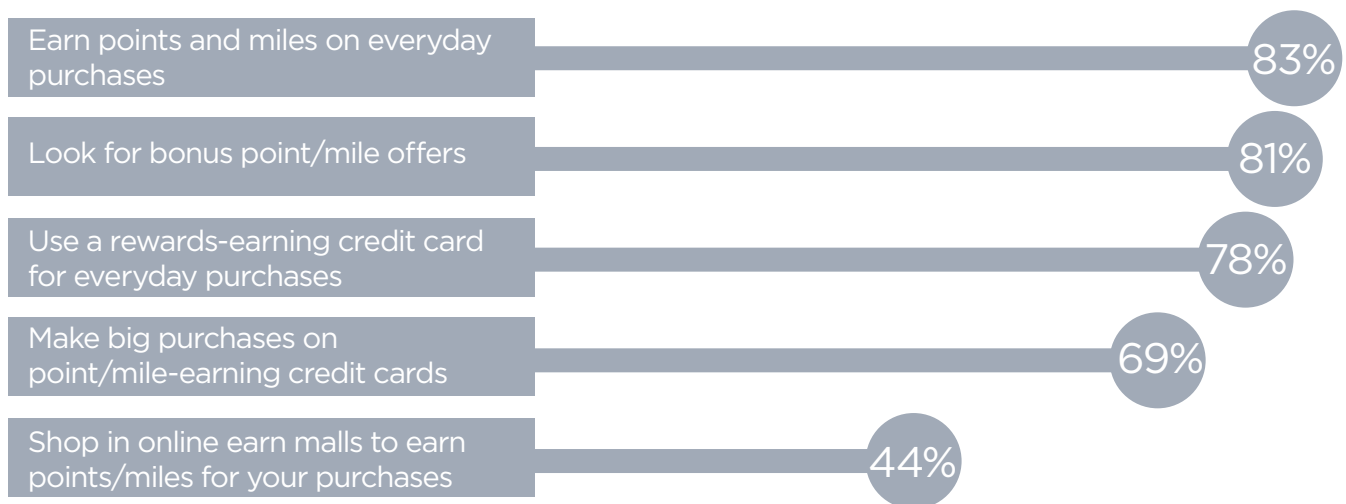
We learned that shoppers are more likely to work diligently towards their reward goals, accumulating a few points/miles here and a few more there, than to score hundreds of points/miles on a large, one-time purchase.

In fact, **more shoppers earn points and miles on everyday purchases than any other way of collecting** (see chart, below). Seeking bonus offers and double-dipping by paying with a loyalty program co-branded credit card rounded out the top three methods of earning, both of which are consistent with this slow and steady approach.

Furthermore, these so-called “Everyday Earners” **consistently** told us that earning even small amounts is important. For example, a solid 66% of respondents agreed or strongly agreed with the statement, “Earning points/miles in my favorite programs is important to me, even if I am only earning a small number of points/miles.” Elsewhere, 68% said that earning small amounts was worthwhile.

This suggests that gradual accumulation of a small handful of miles at a time is meaningful — provided the loyalty currency being given is the desired one.

How do shoppers reach their award goals? ⁹



⁹ Points Survey, Q4. % who answered Often or Sometimes to the question, “How often do you use each of the following methods to reach your award goals?”

Everyday Earners are *passionate* about collecting

What is truly inspiring is how enthusiastic Everyday Earners are about earning points and miles. A Maritz US survey previously revealed that shoppers will go out of their way to earn.¹⁰ Our survey reinforced these findings, leading to some interesting learnings for retailers.

Nearly two-thirds of respondents (60%) said they actively look for promotions that will help them earn more points/miles. And well over half (56%) said they **never** miss a chance to earn points and miles in their favorite loyalty programs — **even when the amounts given are small**. Extrapolated to the general population, that means that as many as **100 million Americans** could share this dedication to collecting small rewards points/miles.¹¹

Moreover, brand loyalty goes by the wayside where earning is concerned. A solid 69% of our survey respondents stated that they would break habit and choose a different brand at least sometimes in order to earn more points/miles. Slightly more than half (54%) admitted they **buy more** from companies when they are being rewarded for purchases.

This is consistent with data from Forrester Research, which puts the average increase in basket size of loyalty members versus non-members, when points/miles are being handed out, at 13%.¹² This suggests that retailers have enormous potential both to push certain products and to increase overall sales by awarding points/miles.

How loyalty programs shape members' purchase behaviour



¹⁰ The 2013 Maritz Loyalty Report, US Edition, p. 3.

¹¹ Based on 74% of Americans belonging to at least one loyalty program (Colloquy, The Rules of Engagement: Loyalty in the U.S. and Canada, 2011, p. 2), and a US population of approximately 240 million Americans over 18 (US Census Bureau: <http://quickfacts.census.gov/qfd/states/00000.html>, accessed March 19, 2014).

¹² Forrester Research.

Points/miles awards: a valuable tool for retailers

What will be of interest to retail store owners is our finding that almost half of respondents (48%) said they will shop at a different store in order to earn points/miles. On the flip side, a mere 20% indicated that they will not shop elsewhere. One-third (32%) sat on the fence, neither agreeing nor disagreeing.

This suggests **points accumulation is a far bigger influence on spending among loyalty program members than either convenience or store loyalty.**

It also represents enormous opportunity, considering that 74% of Americans belong to at least one loyalty program.¹³ If nearly half of that group (48%) could potentially be lured to a different store by the promise of earning points/miles, that's about 178 million American adults.¹⁴ Factor in the potential to swing the fence-sitters, and this figure could grow to as much as 80% of shoppers — or an estimated **192 million Americans who would switch stores.**

Retailers have an enormous opportunity to attract potentially millions of customers simply by dangling the baby-sized carrot of a few points or miles in popular programs.

The enormous potential of Everyday Earners

Shoppers who determinedly hunt for small amounts of points/miles in their favorite loyalty programs can be lured by savvy retailers.

The Everyday Earner says...

"I drove over 10 extra miles to buy something at a store where I knew I would get points even [though] the item purchase[d] was more expensive than the closer store."
~ Points of View Panel Member



¹³ Colloquy, The Rules of Engagement: Loyalty in the U.S. and Canada, 2011, p. 2.

¹⁴ Based on approximately 115.2 million US households x 74% x 48% = 40.9 million households. US Census Bureau: <http://quickfacts.census.gov/qfd/states/00000.html>, accessed March 19, 2014.

Everyday Earners have long-term potential

We also discovered from our survey that the drive to collect is so strongly ingrained that it shapes people's shopping behavior — and can in fact be habit-forming.

Nearly three-quarters (71%) told us they preferred to shop at places that offer points/miles in one of their programs.

Even more impressive is the potential for this to drive repeat behavior — 79% agreed or strongly agreed that “a store offering points/miles in a program I already collect in would make me **more likely to return again.**”

Moreover, offering awards reinforces the feel-good factor. Nearly three-quarters (73%) said their favorite programs were the ones they earn in most often.

88%
continue collecting
after they've redeemed



Even more good news: the loyalty life-cycle is long. An overwhelming majority of respondents (88%) said they continue collecting even after they reach their goal and redeem. This finding supports a recent study, which revealed that loyalty program members who redeem points to obtain rewards not only stay engaged with the program and brand longer, but were also more likely to **continue or increase their spending** and use of the underlying product or service.¹⁵

Why everyday earners could be your best customers



¹⁵ PwC, Loyalty analytics exposed: What every program manager need to know, 2013, p. 1.

Everyday Earners = extraordinary opportunity



The message to retailers is clear:
the way to win consumers is to be there for them, day after day.

Shoppers want to earn points/miles, and they **value even small amounts** that add up to meaningful rewards when presented **frequently** and **in the programs they collect**. When these conditions are met, shoppers will go out of their way to earn, changing brands and even switching stores to do so.

In many cases, awards on high-frequency spending are a means to achieving a much larger and more exciting reward goal such as free travel. In this way, the Everyday Earner works a kind of alchemical shopping magic, transforming ordinary daily shopping trips into extraordinary experiences.

Such passionate collecting presents enormous potential for retailers. Providing everyday earning opportunities is a powerful tool that serves a variety of purposes. It can lure new customers into the store, and it can increase the frequency of visits. It can help to push specific products, boost purchases of high-margin products and expand basket size by encouraging bulk discount shopping.

And, for retailers with an eye on the future, it can also pave the way for longer-term loyalty, as point-seeking shoppers are inclined to return to the stores that reward them with high frequency earnings.

About the survey

The survey forming the basis of this paper was conducted by Points between February 12 and 19, 2014. The questionnaire was distributed electronically to a voluntary panel comprising both male and female members of Points.com from the US and Canada. Of the surveys distributed, 1,504 were completed.

About Points

Points, publicly traded as Points International Ltd. (TSX: PTS; NASDAQ: PCOM), is the global leader in loyalty currency management. Via a state-of-the-art loyalty commerce platform, Points provides loyalty eCommerce and technology solutions to the world's top brands to enhance their consumer offerings and streamline their back-end operations.

Points' solutions enhance the management and monetization of loyalty currencies ranging from frequent flyer miles and hotel points to retailer and credit card rewards, for more than 45 partners worldwide. Points also manages Points.com, where almost 4 million consumers use the only industry sanctioned loyalty wallet to not only track all of their loyalty programs but also trade, exchange and redeem their points and miles. In addition to these services, Points' unique SaaS products allow eCommerce merchants to reward their customers with points and miles from the world's largest loyalty brands.