

Retail Loyalty Redefined:
Challenging 5 Common Assumptions

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More together.

Long before airline frequent flyer programs caused the loyalty industry to take off, loyalty programs were the domain of retail:

collecting tokens or stamps and trading them in for groceries, housewares and other goods. But for a marketing strategy with such a long history, it's still difficult for many businesses to come to a clear verdict about the place of loyalty programs in today's retail landscape.

The debate surrounding the value of a loyalty program for a retail business is driven by conflicting tales of success and lack thereof. And while retailers' personal accounts of their experiences with loyalty can contain useful insights, they often contribute to the ambiguity that lingers around the topic. In the interest of helping curious retailers gain an up-to-date perspective, Points decided to challenge five common assumptions surrounding loyalty program marketing in a retail business.



ASSUMPTION #1:

Rewarding customers with discounts is better for business than rewarding them with loyalty currencies.

Everyday low pricing and discounting are extremely popular in retail marketing, and many retailers feel that these strategies generate more profits than awarding loyalty currencies on every purchase. In the short term, they may get more customers in the door. But when you think long-term, constant discounting does a disservice to business, whereas awarding loyalty currency lets retailers keep more margin in their pockets.

CHALLENGE #1:

Rewarding with loyalty currency actually carries a higher per-dollar value for a business.

Discounting attracts customers who are less loyal to a brand and more reactive to the lowest price – even when it's offered by a competitor. In contrast, offering loyalty currencies as a reward attracts high-value customers who are less price-sensitive and more willing to adjust their shopping behaviour based on the ability to earn.

In a 2014 Points survey of loyalty collectors, 69% of respondents indicated they would switch brands to earn their favourite currencies, while **54% admitted to buying more per purchase** when they were receiving currency rewards.

More than half of a retailer's business is likely coming from a small portion of total customers: [The Center for Retail Management at Northwestern University](#) reports that 12-15% of customers loyal to a single retailer represent between 55-70% of its total sales. A one-time discount not only takes money out of the business, it promotes the risk that the customer may never return. As time goes on, discounting creates an unmanageable downward pressure on pricing that rewards your least-profitable customers.

Awarding customers with loyalty earnings, however, creates a bounce-back effect where money comes back into the business. Loyalty also contributes added value by feeding retailers steady information about shoppers' in-store habits, allowing them to more successfully personalize the shopping experience to meet their top customers' needs.



ASSUMPTION #2:

Consumers want cash back, not travel rewards.

It seems like an obvious choice: offer your customers “free money” and they’ll be happier than if you offered them a non-monetary reward of equal value. The pervasiveness of this assumption has caused many retailers to abandon rewards programs for cash-back programs. The problem is, utilitarian cash will never have the emotional resonance of aspirational rewards.

“[The] 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.”

Professor Xavier Dreze
The Wharton School of Business

CHALLENGE #2:

The perceived value of a travel reward is actually higher than a cash reward.

A Wichita State University study examined participants’ preferences for cash and non-cash rewards. When participants had to pick one or the other, they took the money. But, when they were asked to rate their happiness with each type of reward separately, the results were reversed: participants reported greater satisfaction receiving a cruise, big-screen TV, or VIP sports ticket than the equivalent monetary reward. The excitement and enjoyment of getting a luxury item they wouldn’t buy for themselves proved far more powerful than the practical satisfaction derived from cash.

Non-cash rewards, especially travel rewards, leave a lasting impression.

While monetary rewards have their place, brands can’t expect them to create an emotional connection with customers the way travel rewards do. The added aspirational value inherent in earning an indulgence or an extravagance unseats cash as the king of rewards.



ASSUMPTION #3:

Customers don't care about earning small amounts of points, so businesses that don't sell big-ticket items shouldn't bother.

Retailers whose customers spend small amounts per transaction often question the value of offering currency rewards. If they can only afford to award buyers with a few points per dollar spent, how would that add up to an impactful loyalty program? Conventional wisdom would suggest that consumers lack the patience or tolerance for earning big rewards one small transaction at a time. However, this couldn't be further from the truth.

CHALLENGE #3:

In contrast to small cash back awards, consumers actively seek out small currency awards.

We know that loyalty collectors love to accrue points. What's fascinating is that unlike with cash back rewards, the intensity of the desire to collect remains the same regardless of the amount of points being earned per transaction. This is a direct result of consumers coveting large rewards like travel, and in turn, setting goals to get there.

In 2014, we surveyed over 1,500 members of multiple loyalty programs and found that among retail program members, 48% actively set redemption goals. Our research also revealed that 68% of members say it's worth it to earn small amounts of points and miles to help move them closer to these goals. Consumers will engage in accrual activity, regardless of the size of the accrual, particularly when they are confident that they can achieve a reward. Having more opportunities to earn, regardless of quantity, only serves to enhance consumer engagement with loyalty, and with the business doing the awarding.

This currency-earning phenomenon intensifies as goals appear within reach: loyalty program members become more active as they approach redemption levels or membership tier thresholds. Evidence of this is outlined in a [2011 Dartmouth study](#) where researchers found that "Consumers increase their purchase rate as they get closer to an award." Showing a collector the light at the end of the tunnel kick-starts their desire to get there, and lifts their frequency, recency and spend.

68%

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



ASSUMPTION #4:

Loyalty programs turn consumers off with too many marketing communications.

Anyone with an inbox knows about the daily influx of marketing and promotional emails, and how many of those messages never get read at all. But what sets loyalty programs apart is that by managing their communications to get the right offer to the right people at the right time, loyalty program messaging has a greater impact on customers than other marketing emails.

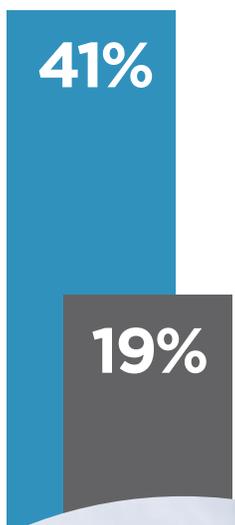
CHALLENGE #4:

Loyalty messaging cuts through the marketing clutter.

Loyalty programs offer members non-intrusive reminders of the merchant relationship and of the earning they have experienced. Members covet their accounts, and check them regularly. In fact, consumers have demonstrated time and again that they pay attention to loyalty-related messaging, enabling brands to send them promotions that enjoy above-average conversion rates.

According to a 2014 study by [SpotOn Data](#), **promotional offers emailed to loyalty members produce an average open rate of 41%**, compared to the 19% industry average open rate for email marketing.

Active members of a loyalty program want to know what they've got in their accounts, how much more they can earn, and where else they can earn it. This desire to track their earnings opens up the opportunity for regular merchant-customer communications through balance updates, and the desire to earn more currency in more places motivates them to interact with a merchant's promotional offers as well as those of other program partners. When it comes to loyalty marketing, the right kinds of communications, properly and carefully managed, serve to keep customers motivated and engaged with their program as they work towards a reward.



41%

19%



ASSUMPTION #5:

Loyalty programs are expensive.

It's true that currency-based programs, which are most effective in driving incremental sales, can be costly and complex to manage. But that doesn't mean loyalty has no place in retail. In fact, the opposite is true. Joining a multi-partner loyalty program keeps costs under control and minimizes risk, while yielding benefits that can be far superior to hosting an in-house program.

CHALLENGE #5:

Loyalty programs are very affordable – when you don't have to create your own.

A growing trend among retailers is to forego hosting their own programs in favor of partnering with proven schemes like frequent flier, hotel, or financial services programs. Multi-partner programs are able to mitigate common pain points that merchants typically experience with proprietary and even coalition loyalty programs. In partnership situations, merchants can focus on their core business, instead of on the challenge and expense involved in starting and managing their own program. And unlike coalition loyalty, each business retains exclusive control over its own data.

Further mitigating the already-reduced costs of partnership are the opportunities retailers can access by teaming up with an established loyalty brand. Partnership puts the strength of a globally recognized loyalty program's investment dollars and brand equity behind your own business. It opens up new marketing channels and segments not serviced by your current efforts, and may open up a relationship with modes of payment where double-dip earning opportunities are available.

Perhaps most importantly, when a business offers an established loyalty currency, it widens its potential consumer base to every collector of that currency. The larger travel and financial services programs have member bases that run into the tens of millions, all of whom become potential customers. Simply put, the option of multi-partner loyalty changes the question from "Can I afford to participate in loyalty?" to "How can I afford not to?"



It's time to challenge your own loyalty assumptions.

For forward-thinking retailers, the message is unmistakable: loyalty linked to aspirational rewards works, and there is a way to make it work for you.

The modern retail landscape and its empowered customer pose a significant challenge to brands. Today's consumer holds the purchasing decision power, and it's the brand that must react to his or her desires in order to stay profitable. Multi-partner loyalty can be the most effective – and cost-effective – way for retailers to take back some of this power.

Challenging the five common loyalty assumptions outlined above supports a new perspective on the immense potential for loyalty programs in retail businesses, shaped by:

- the value of currency awards over discounting;
- consumer desire for travel awards;
- consumer willingness to collect small amounts of currency, frequently;
- the efficiency of loyalty marketing communications; and
- the affordability of loyalty partnerships.

Armed with these insights, any retailer can see the clearest, most accurate picture of the current loyalty landscape – and the place they can have within it.



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.