



Don't Confuse Loyalty with a Loyalty Program

By Steven Georgeou and John Grace

“What really drives customer loyalty?” is a straightforward question that many CEO’s are asking themselves. A popular response is to employ a loyalty program. This is not necessarily the right answer.

Every airline, hotel, credit card, and grocery store has a loyalty program, and they spend in aggregate \$50 billion dollars a year on rewarding customers according to *Forbes*. Just look at the numbers:

- 83% of consumers participate in a loyalty program
- On average each U.S. household belongs to 29 individual programs, but are only active in 12
- The airline industry alone in North America earned \$9.6 billion by selling miles to partners in 2013.

Loyalty programs are big business.

Average Household Memberships



Source: The 2015 COLLOQUY Loyalty Census



But if you peel back the onion, you’ll find that *only* 42 percent of program members are active, engaged or participate (*The 2015 Colloquy Loyalty Census*). That’s a lot of wasted dollars that could be put to use elsewhere. This is not to say that loyalty or reward programs don’t work. They should be used as a form of recognition for valuable customers. But marketers need to reframe how they view these types of programs. The purpose of the programs, including the common practice of providing awards to all customers – good, bad and even unprofitable ones – needs to be rethought.

Shift from “Incentives” to “Value”

In many cases, the behavior these programs “reward” isn’t necessarily the optimal behavior from the company’s point-of-view or even best for the bottom line. Witness what is happening in the airline industry – the innovators of the modern day loyalty program. Delta Airlines announced earlier this year that SkyMiles would be awarded based on the *value* of the ticket purchased rather than the number of miles flown. While this doesn’t seem earth-shaking at first glance, it is a seismic change for frequent flyers – especially less frequent flyers. No longer will programs reward members flying on discounted tickets as many miles as those traveling on full fare tickets. Earning miles based on value as opposed to distance is the construct that frequent flyer programs should have thought through way back when they began in 1981. So let’s agree that rewarding valued customers is one of the many options to engendering loyalty, but not the only thing. What else is there?

American Airlines introduced the AAdvantage frequent flyer program in 1981 to learn who was sitting in seat Row 5, Seat A. Prior to frequent flyer programs, airlines had little or no data on individual passengers. Information about ticket sales was purely for operational purposes and revenue accounting. Loyalty was a secondary motive.



Customer Service as a Critical Driver

True customer loyalty is driven by two other important influencers. One is customer service. Research has identified customer service as an important contributor to loyalty. In fact, one study revealed that “76 percent of American shoppers view customer service as a ‘true test’ of how much a brand values them” (*Aspect Software*). A loyal customer is someone who repeat purchases *and* will happily recommend your brand. This makes sense. Who would continue to do business with a company that doesn’t deliver what they promise, doesn’t resolve problems, or disappoints when it comes to customer experience? “Seventy percent of customers cite poor customer service as a reason for not buying from a brand” (*McKinsey*). We often call it “flaw recovery”. In other words, a brand is really tested when something goes wrong and you need help. How a brand responds is often the most defining moment in a brand relationship. There aren’t enough reward points or miles to compensate for bad customer service. If you have a loyalty program that rewards the right behavior, *and* outstanding customer service, there is a much greater likelihood you will develop the best possible customer relationship.

Brand at the Core

The other driver of loyalty, and possibly the most important, is the “brand”. Brand should be the strategic center driving all communications and behaviors. It is the value proposition, the positioning, the customer experience and yes, rewards (for the right behavior). As loyalty programs have become very pervasive, too often the rewards start to drive the brand instead of the reverse. A notable example are the airlines that have emphasized more and more ways to earn miles for years while service levels deteriorated and new service fees were implemented – all to the detriment of the airline brand and industry’s reputation. Fortunately, many airlines have started to realize that reliance on rewards solely to build customer loyalty may produce only short term results. Witness the re-introduction of new in-flight services including audio/visual equipment, upgraded meal services and refurbished cabins. By improving the brand experience, there is a much greater chance that loyalty will be generated.

Loyalty Without a Loyalty Program

The proof that the brand supersedes rewards is evidenced *not* by the most successful loyalty programs but by the most successful brands. Interestingly, there are brands that stand out as hugely successful companies in an industry; brands that you want to do business with again and again; and brands that are known for their extraordinary service. And many of these brands don’t have reward programs. Think about Four Seasons, Apple, and Zappos. In lieu of traditional reward programs, these brands have relied on the power of their brand to drive how customers perceive them. Fueled by innovative technology, high touch recognition or superior customer service, each of these brands has developed an approach to earning customer loyalty in a way that sets them apart from competitors. This drive for uniqueness makes them a leader in their respective industries without the expense and inefficiency of a traditional loyalty program.



Any company with a mission of “Delivering ‘WOW’ through service” is bound to stand out in the crowd. And Zappos does this consistently. It utilizes social media like few others do to engage its customers and re-enforce its commitment to service. When Zappos promotes its customer service, it shares it on Google+, posts it to Facebook, tweets it on Twitter, and pins it on Pinterest. It knows how to “surprise and delight” new customers with unexpected overnight delivery, for example.

How to Uncover What Drives Loyalty

In the rush to compete, marketers sometimes lose sight of the fact that a brand doesn't have to offer a loyalty program to build loyalty. So the starting point is to really step back and revisit the core brand definition and determine if it is; a) unique and differentiated, b) credible and c) relevant. In many cases, a central brand idea has wandered, not by design, but by circumstance. So take the time to go back and review what the brand stands for, then and now. This requires an open mind and a methodical process.

Once this is done, answer these questions:

- Can your brand build loyalty without a loyalty program? How?
- What other initiatives can differentiate and drive preference in a meaningful manner?
- Can a value-based program be developed to optimize the investment and drive greater loyalty?
- Are you leading or following the competition?
- In what areas could you fuel innovation to build loyalty?

Great brands, leadership brands, start by understanding their unique culture and DNA. There are specialized techniques to mine an organization for these elements. If this is a starting point, then understanding what is on the mind of your customers is the next step. Our experience is that standard research methodologies usually turn up the same set of attributes for anyone in the category searching for answers, and the result is that brand drivers often look the same, thus lacking uniqueness. There are innovative ways to uncover what key audiences need to hear, methodologies that deliver more robust understanding and are a starting point for action.

The big lesson here is not to confuse a loyalty program with earning loyalty. Loyalty programs may seem like the obvious solution, but they are not necessarily the only answer. These programs can be expensive, and if not designed to reward the "right" behavior, may actually dilute the brand and waste valuable marketing resources.