



**ALLEGIANCE™**

*The Power to Engage*

## **Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?**

**Rewards programs have become pervasive, but how  
do they impact customers' emotional connection to the brand?**

By Kyle LaMalfa

Allegiance Loyalty & Engagement Expert

# Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?

## Do rewards programs translate into customer engagement?

While rewards programs play an important role in many companies' overall marketing strategies and add to a brand's value proposition, they do not alone create engaged customers. True customer loyalty and engagement strengthens a brand and is built with three key factors; time, positive experiences, and most importantly, listening to customers. When customers are engaged with a brand, they are connected with their hearts, not simply their wallets.

Rewards programs provide points or rewards to customers who do more business with the company. These points can be redeemed for discounts, perks, coupons, "free" stuff, etc. Most companies build rewards programs for the same reasons: they want to add value to their brands and keep repeat customers. And who wouldn't? More than 80 million Americans use credit cards with rewards programs attached, which accounts for more than 84 percent of all credit card purchases.

According to COLLOQUY, "membership in U.S. loyalty rewards programs has reached 1.3 billion, more than four times the national population." And Jupiter Research found that "more than 75 percent of consumers now have at least one loyalty card, and the number of people with two or more is estimated to be one-third of the shopping population." This suggests that, in the mind of consumers, rewards programs add real value.

There are obvious reasons why companies continue to offer these programs, and even more obvious reasons why consumers choose to fill their wallets with plastic cards and key chain tabs. In exchange for rewards, consumers receive everything from free hotel stays and airline tickets to a night with John Travolta and the cast of Hairspray, the Movie.

The businesses that invest in rewards programs see them as opportunities to reach consumers that normally would not try their products or services. But opponents of rewards programs question whether companies are simply paying for repeat business through free gifts, discounts and point systems, and whether the programs are really worth the investment.

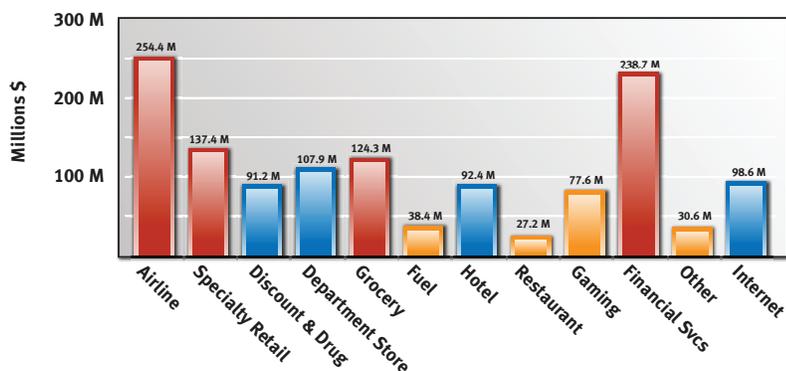
**"Membership in U.S. loyalty rewards programs has reached 1.3 billion, more than four times the national population."**

– COLLOQUY

**"In truth, successful businesses do not have to buy their way into their customers' hearts – and in many circumstances, they can't. True customer loyalty and engagement goes beyond frequent flyer programs, frequent buyer cards, and frequent dining rewards. Engagement comes from experiences with a brand and is built through two-way relationships. In exchange for customers' loyalty to its products and services, a company will listen and respond to customers' feedback and focus on delivering outstanding customer service. Often these experiences can be initiated and supported by a rewards program."**

– Kyle LaMalfa

### US Loyalty Rewards Program Membership



US loyalty rewards program membership has reached 1.3 billion, according to COLLOQUY research that provides the first comprehensive census-taking of loyalty marketing since the modern loyalty era began with frequent flyer incentives in 1981. COLLOQUY's benchmark-setting measurement, based on a fourth-quarter 2006 analysis of a dozen business sectors, reveals that the average US household belongs to 12 loyalty programs. In a key finding, the COLLOQUY census shows that "active participation" in loyalty programs is a blended average of 39.5 percent across all sectors analyzed, a number that COLLOQUY experts characterized as "dismal." Of the 12 programs per average household, 4.7 yield active participation. The census results raise a major question. Does the participation data mean the loyalty empire has reached a saturation point? The response from COLLOQUY experts: "Loyalty memberships are flying dangerously high. Fat membership roles may look good in a press release, but active loyalty program members are the only members who count."

## Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?

In truth, successful businesses do not have to buy their way into their customers' hearts – and in many circumstances, they can't. True customer loyalty and engagement goes beyond frequent flyer programs, frequent buyer cards, and frequent dining rewards. Engagement comes from experiences with a brand and is built through two-way relationships. In exchange for customers' loyalty to its products and services, a company will listen and respond to customers' feedback and focus on delivering outstanding customer service. Often these experiences can be initiated and supported by a rewards program.

For the thousands of companies that spend billions on rewards programs each year, and the customers that patronize their products and services, there is little doubt that the programs offer increased value. However, in terms of creating true loyalty and customer engagement, the rewards programs are merely part of a much bigger puzzle. In this paper, we will analyze these programs and offer suggestions on what is needed to ensure that a customer's loyalty will not disappear even when the program does.

There are a wide variety of rewards programs, including appreciation, partnerships, rebates, affinity and coalition programs, to name a few. The first program is credited to American Airlines, which started its AAdvantage program in 1981. While the programs have propagated across industries, they have also created a generation of consumers that feel entitled to rewards – often asking the question, “What else is in it for me if I buy your products?” – as if a quality product is not enough.

The customer appetite and expectations for rewards programs have evolved as well, spurred oftentimes by companies' attempts to differentiate their programs from competitors. Whereas earning miles from actually flying was once enough, airlines have expanded their programs to allow customers to earn frequent flyer miles by shopping at certain stores, drinking a brand of coffee, or reading a specific newspaper. American Airlines' AAdvantage, for example, has partnered with more than 200 vendors at its online store where customers can earn bonus miles for buying products.

Companies have also created partnerships for unique ways to spend miles, which may satisfy consumers who are having a difficult time dealing with limited seats or hotel rooms allocated for their loyalty points. For 245,000 points, Hilton HHonors members can be a beer brew master, while for 520,000 points one can become a pro-wrestling ringside manager.

Essentially, rewards programs have become a business in-and-of themselves. Driven by the need to compete, companies have to invest significant resources to create and support the programs. What was once seen as a unique marketing strategy designed to create loyal customers has become a common or “must-have” part of an overall marketing strategy.

There is little doubt that customers see value in participating in rewards programs that make them feel appreciated and offer discounts. Customers like it when they earn a free night's stay at a hotel, receive a free meal on their tenth visit, or are bumped up to first class. If the costs outweigh the benefits to the company, however, one or more aspects of the program could suffer. Fewer seats for frequent flyer miles rewards, more blackout dates for hotel points, or out-of-stock merchandise could result in negative loyalty consequences.

**“As point systems become a commodity (because everyone has one), companies must leverage things that can't be duplicated: brand and customer service.”**

–Jack Aaronson, CEO of The Aaronson Group

# Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?

## Rewards Program Efficacy

“As point systems become a commodity (because everyone has one), companies must leverage things that can’t be duplicated: brand and customer service.” said Jack Aaronson of The Aaronson Group.

In other words, while everyone likes to collect points, the emotional connection with consumers has more to do with the brand qualities and promise. The efforts of the company to ensure its customers’ repeated, positive experiences pay huge dividends. How do rewards programs fit in, and are rewards programs worth the effort and money that it takes to implement and manage them? Again, the answer really depends on who you talk to and what industry they are in.

### ***There are three key factors that determine the effectiveness and longevity of loyalty programs:***

- 1 Cost** – What does it cost to run loyalty programs? If a company gains more than they spend on managing the program, is that enough reason to have one?
- 2 Data** – How is the data being used? Is the data being used to improve the organization, the rewards program itself, the customer experience? Are they using the rewards program data to retain customers?
- 3 Program Evolution** – What have you done for me lately? Once you give customers discounted or free stuff, what will they want next? Can companies afford to keep giving more?

### ***Rewards programs raise the question, “What is a customer worth?”***

In looking at the cost/benefit of rewards programs, companies try to determine what a customer is worth. For example, in 2006, Vonage estimated that each of its 1.6 million customers had a value of \$1,600, while “a national pizza operator has estimated the average ‘life time sales value’ of a loyal customer is around \$13,000.” Another hotel operator placed the lifetime value of each customer at \$100,000, and gave any staff member the authority to spend up to \$2,000 per customer on the spot to resolve a customer issue.

Banks seem to place a high value on customers and are notorious for using incentives and rewards to attract them. When Bank of America introduced its online bill payment option, it spent \$45 million to market the program, including playing commercials on its A.T.M machines and paying customers in some markets up to \$25 for their first online payments. Chase promised customers up to \$150 if they opened a checking account and used the online bill-pay options, while Citibank gave away 10 getaway trips to Mexico or the Caribbean and a first class 17-day cruise valued at \$42,000.

## What to do with the data?

With nearly 90 percent of Americans participating in some kind of rewards program, companies are dealing with mountains of data. Companies can use this data to better understand their customers, add value to their programs, and influence buying habits.

However, companies also need to recognize that the data could be misleading. For example, when customers at a grocery store lose their rewards card, the cashier will give them another one without asking for contact information or connecting them in any way

“A [rewards] program that is not driven by data is usually driven by discounts, like those offered by retailers that give, say, 25 percent off a customer’s next purchase for joining the program. These programs don’t discriminate between truly valuable customers and the occasional discount shopper.”

– Harvey Thompson

# Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?

with the rewards card number. While the consumers received the benefits of the rewards program – i.e. discounted price – the store simply has more cards in circulation without any way to understand or communicate with the customers.

Therefore, the ability to measure results is critical to the success of any rewards program. Effectively capturing how the program is being used, producing reports and analyzing the data will help companies to better understand who their customers are, what their customers are worth, and what to expect or hope to be their desired behaviors. The data can also serve as a measuring stick to determine how effectively the program is working and as justification for making any changes.

“A [rewards] program that is not driven by data is usually driven by discounts, like those offered by retailers that give, say, 25 percent off a customer's next purchase for joining the program. These programs don't discriminate between truly valuable customers and the occasional discount shopper.”

To build loyal customers it is critical for companies to know the difference between these two types of customers. Companies should use the data collected from rewards programs to help distinguish between customers and improve the program, the organization, and the overall customer experience.

By capturing demographic information and purchasing behavior, companies will have a better understanding of who their customers are and will be able to deliver more targeted and relevant marketing messages. The data will point to what campaigns are working, what products and services are getting the majority of customers' business and which customers seem to be more frequent buyers. With the data, companies can tweak their programs to continue to add value while identifying which customers are the most valuable to the organization.

## Program Evolution

Many consumers have now come to expect companies to offer rewards programs. In fact, it is not uncommon for the average person to have more than one rewards card in his or her purse or wallet. Once companies have a rewards program and begin to provide incentives for repeat customer behavior, consumers have a tendency to simply want more. For consumers, it is always about “what have you done for me lately?”

This causes many companies with rewards programs to continue to find ways to add value and new “perks,” including escalating advancements, such as special hours for frequent shoppers, bigger discounts for frequent flyers, and more extravagant ways to spend points. Many companies are faced with the challenge of being able to afford consumers' lavish appetites for rewards programs and continue giving more; not only to differentiate their program from competitors, but also to keep their current program customers happy. What happens if their programs do not evolve, or worse, start to reduce the points and benefits?

Harvey Thompson, author of “Who Stole My Customer,” commented, “Mainstream rewards programs already show signs of being competitively pressured into a steady state where companies are giving away very similar benefits, unable to pull back because of the threat of lost business and unable to give more because of high costs. The key to effectively competing for loyalty is ensuring the quality of the customer experience, not the quantity of customer rewards.”

**“The key to effectively competing for loyalty is ensuring the quality of the customer experience, not the quantity of customer rewards.”**

– Harvey Thompson

# Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?

Regarding viability of rewards programs, Joseph C. Nunes, marketing professor at University of Southern California's Marshall School of Business, said, "Programs need to be designed to offer differentiated products and services to customers based upon their purchasing patterns and profitability. If these programs are simply based on quantity discounts or paying for patronage, they will not endure."

Therefore, to continue to add value to their programs and keep customer interest, companies must continue to improve and enhance their programs.

## Going Beyond Rewards to Customer Engagement

As companies deal with the increasing costs, mounting data and rising consumer expectations surrounding rewards programs, many are asking the question, "How can I attract loyal customers without rewards programs?"

A more effective question may be, "how can I use my rewards program to benefit both my customers and my company?"

If your rewards programs are successful at adding value to the customer experience, as well as profits to the company's bottom line, then rewards programs should be embraced.

However, if the rewards program is the only thing your company is doing to drive customer engagement, then you will probably not like the answer to the question. By themselves, rewards programs rarely create the full emotional attachment that brings true customer engagement. Engagement is built over time and comes from creating mutually beneficial relationships with customers. One of the keys to creating relationships is providing customers with direct access to company decision makers through a feedback management system that demonstrates that the company cares about them and is indeed listening.

Engagement adds value to a brand's strength, as engaged customers are more likely to share their positive experiences with friends, refer business, purchase more products more frequently, avoid competitors, and forgive mistakes. Engaged customers will also let companies know when their products or service did not meet expectations. In this case, it is up to the company to respond to customers' comments and concerns in such a way that customers know that they are more than a number on a rewards card.

In the case of negative customer experiences, trying to correct them by giving more rewards points will not further customer loyalty as intended. In fact, engaged consumers do not necessarily want more miles or points to simply "fix" the problem. Engaged customers want to know that the company is going to do whatever it takes to ensure the mistake never happens again. Should the mistakes keep occurring, more points or miles will not help to further engagement. Negatively impacted consumers, regardless of how many points they have, will likely be flying another airline, staying at a different hotel or shopping at another retailer.

To understand the hearts and minds of its customers, companies need to encourage two-way communications and create a convenient way for customers to continually express their concerns, report problems or deliver praise. Solutions such as the Allegiance Engage platform for Enterprise Feedback Management can help companies encourage this communication and respond quickly to customer comments, suggestions and complaints. It also helps them to use the feedback to improve products and services and track the impact of these actions on the bottom line.



*Engaged customers are more than satisfied and more than loyal; they are emotionally connected to you. They go out of their way to show their association with your company, they become an active promoter of your business, and support you during good and bad times. In the end, they make you more money.*

**"It's not enough to have CRM. You need the hearts and minds of the customers to close the loyalty gap."**

– Jeff Marr, VP, Walker Information

## Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?



Research shows that companies that are effective at listening to their customers build loyalty and engagement over time. They take the information they receive from customers and make changes, whether it involves a specific individual in a bank branch, a customer service department, or the entire company. When customers recognize that their concerns, suggestions or feedback are responded to and resolved, they begin to realize that they are important to the organization; that their voice can make a difference; and that they have a relationship with the brand.

While reward points can encourage transactions and add value to a brand; positive experiences and listening to customers will create engaged customers and add to a brand's strength. Engagement is about the relationship that a customer has with a brand and the brand with that customer. Engagement programs work together with loyalty programs to fill the gaps and connect to peoples' hearts and minds. True engagement is built over time, through positive experiences, and most importantly, by listening to the voice of your customer.

Rewards programs can and do play a significant role in creating positive experiences. Providing discounts, coupons and freebies while focusing on developing an emotional connection with your customers, however, is a much more effective way to engagement. What will encourage your customers to talk about your brand and keep them buying again and again is your ability to reach their hearts through listening and responding to their needs, and consistently delivering quality products and customer service.

Research shows that companies that are effective at listening to their customers build loyalty and engagement over time. They take the information they receive from customers and make changes.

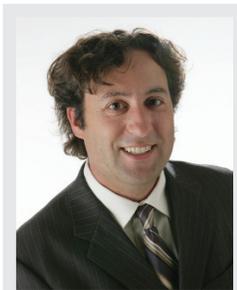
“Engagement programs work together with loyalty programs to fill the gaps and connect to people's hearts and minds.”

—Kyle LaMalfa, Loyalty Expert

### *Allegiance*

*For more information about how to increase your loyalty and engagement, visit [www.allegiance.com](http://www.allegiance.com) and learn about the Allegiance Engage Platform, which is a software platform and services designed to help companies actively build engagement and link it to business outcomes to grow revenue faster.*

# Buying Loyalty: Do Rewards Programs Translate Into Customer Engagement?



## About the Author

**Kyle LaMalfa**

**Allegiance Best Practices Manager & Loyalty Expert**

**[kyle.lamalfa@allegiance.com](mailto:kyle.lamalfa@allegiance.com)**

Kyle LaMalfa has been a career data analyst since 1996, answering business questions and solving business problems for executives and managers. He has undergraduate training in Mathematics and Economics and graduate training in Statistics and

Sociology. LaMalfa has been in the consulting business since 2004. Recently employed as Lead Statistician at a prominent market research company, he now serves as Principal Consultant at Allegiance. LaMalfa helps Allegiance clients become more profitable by acting upon the benefits of Engagement. Beyond Engagement Best Practices, problem solving specialties include customer/employee attrition, data mining, and predictive modeling.

Palmer, Kimberly, "Putting a Price on Rewards," U.S. News & World Report, June 24, 2007, <http://www.usnews.com/usnews/biztech/articles/070624/2credit.htm>

[http://www.customerthink.com/news/colloquy\\_research\\_1\\_billion\\_loyalty\\_members](http://www.customerthink.com/news/colloquy_research_1_billion_loyalty_members)

Young, Margaret and Stepanek, Marcia, "Trends: Loyalty Programs – Card Tricks," CIO Insight, December 1, 2003, <http://www.cioinsight.com/article2/0,1397,1458960,00.asp>

Audi, Tamara, "Loyalty Points that Buy a Night with John Travolta," The Wall Street Journal, December 26, 2007

Aaronson, Jack, "Loyalty Doesn't Come from a Program," ClickZ, May 20, 2005

<http://produktiv.com/pj/2006/05/how-much-is-customer-worth.html>

<http://www.restaurantowner.com/public/278.cfm>

Ibid

Bayot, Jennifer, "Banks Offer Sweeteners to Paying Bills Online", The New York Times, April 21, 2003

Bondar, Luc, "Loyalty Programs Grow up Just in Time," <http://www.carlson1to1.com/loyalty/Frame.aspx?page=loyaltygu>

Compton, Jason, "What Price Loyalty?," DestinationCRM.com,

Knowledge@Wharton, "The Lowdown on Customer Loyalty Programs: Which Are the Most Effective and Why," September 6, 2006, <http://knowledge.wharton.upenn.edu/article.cfm?articleid=1545>

Young, Margaret and Stepanek, Marcia, "Trends: Loyalty Programs – Card Tricks," CIO Insight, December 1, 2003, <http://www.cioinsight.com/article2/0,1397,1458960,00.asp>