



2013 LOYALTY
MANIFESTO

**CONTEXTUAL LOYALTY:
THE EVOLUTION OF SOCIAL**

LOYALTY{TRUTH}

A Loyalty Marketing Manifesto

I knew loyalty had to change. You knew this too. By 2006 loyalty and rewards programs had blanketed the US, with the typical household belonging to about 18 programs. Consumer affinity for rewards was similar in Canada and the UK, positioning loyalty programs as "table stakes" for most businesses.

What follows is what I, and some of the genuine thought-leaders in our space, see looming now and on the next horizon.

Read on.

Bill Hanifin
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The successful adoption of loyalty programs globally made them, ironically, a target for criticism. I'm not sure the name of the disease, but loyalty marketing was showing symptoms of the same affliction impacting Microsoft, Apple, and Walmart. As these notable brands grew in size and popularity, each also suffered a consumer backlash.

Illustrating how the line between "good guys" and "bad guys" was becoming increasingly tenuous, Apple had begun its grass roots revolt against Microsoft as the "good guy" but was now at risk of becoming the "bad guy" as consumers reconsidered having all their digital assets in the Apple basket. Walmart, whose growth was triggered by consumer friendly "every day low prices", was now under fire from these same consumers as allegations of poor treatment of employees and suppliers threatened to erode its brand reputation.

So far the backlash has not been fatal for these brands, just as the expression of consumer boredom with loyalty programs and accusation that they just don't work are equally benign. The common theme that we should remember is any

leadership position can fall under threat, and even household names and widely accepted business practices can be compelled to undergo scrutiny and retooling in order to remain relevant.

Among the keys to successful business evolution are to avoid overreacting to mob-mentality thinking

that leads to suppression of the facts in lieu of a great sound bite. By taking this crowd-generated thinking into perspective, business can glean out actionable learnings that will actually render business improvement.

“Suddenly, brand conversations were taking place in non-traditional channels and everyone was playing the game except the brands themselves.”

We are now at that inflection point in determining the future of loyalty marketing.

As loyalty programs reached a new peak of penetration across North America, the social graph was just coming into focus. I won't recount the explosive growth of the many new digital communication channels collectively known as "social media", except to say that the shift in consumer behaviors influencing purchase decisions was never so dramatic as during the period 2006 –

2009. Almost as if the prison doors were suddenly unlocked, consumers broke out of a mass media prison and capitalized on data availability and transparency to strike up their own conversations among each other.

Suddenly, brand conversations were taking place in non-traditional channels and everyone was playing the game except the brands themselves. Traditional loyalty models which measured historical purchases and injected incentives with intention to influence the future, were finding themselves too late in the conversation to make an impact. It was time for brands to “get ahead of the conversation”, both in designing their marketing mix and communications within the context of their loyalty programs.



The three years spanning 2006 through the beginning of 2009 were a time of social media discovery for most consumers. Facebook opened its scope beyond the college crowd, Twitter took flight, and people learned that blogging could serve a business purpose as much as represent a new venue for free speech. Loyalty Truth spent this time learning as well. Our study of Millennials (Generation Y) combined with a number of social

media experiments with our own Twitter, Tumblr, Flickr, Digg, Reddit, “you name it” accounts served to create a foundation of working knowledge which prepared us for the adoption of social media in earnest by businesses in 2010.

During 2010, Tasti D-Lite (1) was planning the launch of, in our opinion, the first brick and mortar loyalty program to award points for online check-ins, updates, and tweets. During this same time frame, TopGuest (2) became a way for frequent travelers already collecting points in established

hotel loyalty programs to be rewarded for location-based check-ins. The casino and gaming world adopted Twitter and location based promotions through Social Rewards (3), giving The Venetian and other large venue operators a way

to reward customers to recommend special offers across their network, drive additional purchases, and keep people on-site longer.

There are many other examples, some no longer with us, which we could cite. The important note is that the collective impact of this early activity led Loyalty Truth to adopt the term “Social Loyalty” (4)



tasti D·lite

in early 2010 to describe a potential future direction of Loyalty Marketing.

We've been exploring this loyalty greenfield ever since, and are now convinced that it's once again time to evolve our thinking or risk becoming stale.

Through our work with Generation Y, we came to realize most loyalty programs in market by 2006 were "built by Boomers for Boomers". Observing the explosion of brand conversations in digital channels, and the rapid changes in consumer purchase behavior, it was clearly time to break the old-school loyalty mold and build a new construct to engage the next generation of consumers, referred to as Consumer 2.0.

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Loyalty Truth conducted a quick survey (5) of the loyalty leaders in our industry in early 2011 and found that loyalty marketers as a whole were not directly engaging with social media to any great degree. A gap had been created, not just between consumers and the brands that hoped to get their attention, but between these same brands and the

community of loyalty marketing providers which served them. I can attest that our own sharing of early thoughts about transforming loyalty marketing models to become “social” were met with some yawns as well as skepticism.

Fast forward to the beginning of 2012, when we thoughtfully set about to identify three words (6) that we believed would guide our industry over the next 12 months.

The three words were Data, Mobile and Social.

Data had already been thrust into mainstream conversation by Rupert Duchesne, Chairman of Aimia, as he spoke frequently during 2011 about

“The Rise of the Datarati”. He

explained why customer data was becoming the “new oil” and how it

could be converted as an energy source to drive revenue through

intelligent incorporation into loyalty strategy.



My take on data was more mundane, but complementary and similarly powerful to the theme presented by Mr. Duchesne. One of the three greatest unfulfilled promises of loyalty marketing (7) was the under-utilization of customer data by

brands operating programs. If only these brands, our clients, could be encouraged to bring the value of this historical transaction data to life, tremendous value could be unlocked.

Mobile seemed an obvious choice as many voices were predicting the mobile handset to become the center of consumer purchase activity in the near term. The predictions were supported by research studies concerning mobile handset sales, smartphone penetration, mobile application development, and budding partnerships to build digital payment wallets.



The key to successfully incorporating the mobile platform into loyalty programs already in existence was more subtle than it appeared. Solutions were complicated to execute, and determining how consumers wished to interact with mobile handsets to get the most from their loyalty program experience was a complicated riddle to be solved.

Including Social in our list of three words acknowledged the explosion of activity in the social graph and the rapid changes in consumer purchase behavior seen both online and offline. We learned

that brand conversations were taking place outside of traditional channels, and that consumer purchase decisions were increasingly made based on new triggers.

One of the most influential new triggers is the referral and recommendation of products and

services among friends and trusted members of social networks. Aimia's survey of Millennials in the US, UK and Canada, titled "Born This Way – How Generation Y will reshape customer loyalty", (8) is a must read to gain full understanding of how this influential population segment is responding to

loyalty programs today and how they desire to interact in the future.

As we wrap up the fourth quarter of 2012, change continues to march on and we have come to understand that another word should be added to our "list of three".

The word is Human.

“The importance of referral and recommendations from friends and trusted members of social networks was and is one of the most influential new triggers.”

Lest we overlook that our customers are all human, we are leaving opportunity on the table. For 30 years, we have built loyalty models around a blend of reward and recognition. We've worked with behavioral (transaction) and attitudinal (via qualitative research) data, and often have appended third party data using zip code or some other unifying demographic indicator to solve for customer tendencies and preferences.

If we are to successfully create customer strategies that engage and delight consumers in the next stage of digital development, we need to incorporate the disciplines of psychology with knowledge of human behavior to create value propositions that engage Consumer 2.0, this new generation of digitally connected consumers.

To effect this change and meet the needs of the digital native, reward and recognition should remain essential ingredients of an effective value proposition. Both terms however need to be redefined in terms of intrinsic and extrinsic

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motivation. Over the past several years, intrinsic rewards have taken on greater significance for employees in the workplace over extrinsic (tangible or monetary) rewards. In the world of employee recognition, many experts assign heavier weighting to intrinsic rewards in designing employee incentive programs today. (9)

Loyalty marketers have been fascinated with experiential rewards over the past decade, essentially taking advantage of this same human

response to intrinsic motivations. Pine and Gilmore wrote in their book *The Experience*



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Economy that “experiences are inherently personal, they actually occur within any individual who has been engaged on an emotional, physical, intellectual, or even spiritual level, ... greatly increasing the value of the offering.”

A 2010 article titled published in the *Journal of Consumer Psychology* 2010 by three Psychology professors from Harvard, University of Virginia, and the University of British Columbia supported the power of purchasing experiences over tangible goods. Entitled “If money doesn’t make you

happy, then you probably aren't spending it right", (10) the article cited research indicating 57% of respondents reported deriving greater happiness from use of money to make an experiential purchase, while only 34% reported greater happiness from a material purchase.

Another study reinforced this finding, reporting that "83% of those surveyed reported "mentally revisiting" their experiential purchases more frequently than their material purchases". It's clear that experiences generate this high level of satisfaction among consumers as they are not only memorable, but connect and reinforce the person's identity with the brand providing the experience.

This is not to say that "tangible" rewards are inappropriate or no longer relevant for use in Loyalty programs. At the same time, we should recognize the limited utility of tangible rewards to create long term consumer loyalty, and might want to explore some alternatives. Considering that 80% of most loyalty program annual budgets are

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accounted for by reward costs, every percentage point that can be shifted to lower cost intrinsic rewards will yield big returns for the program sponsor.

Gamification is one area where marketers are capitalizing on the human nature of customers and their positive response to intrinsic motivations. By applying game mechanics, defined as the “application of gaming techniques to non-gaming activities”, marketers are discovering new ways to trigger consumer engagement and increase retention. By addressing these basic human needs, marketers can finally deliver to people what they truly want in a loyalty program.

Even the nascent field of gamification is evolving. Kris Duggan, CEO Badgeville, recently shared that the commonly used definition of gamification “doesn’t really tell you much”. He explained the broader vision that gamification represented “the intersection of psychology with technology”, resulting in the prospect that marketers could “incorporate human behavior traits to really understand what motivates people and use that in marketing or business strategies to achieve business objectives”.

Tony Ventrice, one of Badgeville's lead strategists and a veteran of Zynga and Playdom, describes gamification this way: "measuring the natural behaviors and interactions of your customer experience and recognizing them in a way that tells a story of growth". Tony has learned that growth is an umbrella covering several triggers for human motivation. He suggests that a value proposition intriguing to Consumer 2.0 will blend intrinsic rewards to "recognize behaviors that say something meaningful about the individual" with extrinsic rewards that "deliver money, prizes or privileges". The sweet spot of the offer will be found where intrinsic rewards are maximized and extrinsic rewards are sprinkled in as needed to fill the gaps.

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The sweet spot of the offer is found where intrinsic rewards are maximized and extrinsic rewards are sprinkled in as needed to shore up overall value.

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Social Loyalty continues to be a solid descriptor for the new generation of loyalty programs being created today, but is limited by too much focus on channels. All the fuss about Omni-channel marketing boils down to a more inclusive way to address questions like "what do Likes on my Facebook page mean?", "how should I make the

best use of location based marketing?”, and “can my Twitter account be more than a public relations & customer service channel?”.

The pillars of Data, Mobile and Social serve well as a solid foundation for strategy planning and program design, but each refers to a distinct piece of the digital loyalty puzzle. **A unifying term which Loyalty Truth has adopted to describe how marketers will shape new value propositions and deliver value to digital consumers is Contextual Loyalty.**

Contextual Loyalty has several key components:

- 1. It shifts the focus of customer engagement from channels and networks, the implied emphasis of Social Loyalty, to flexibly meet the customer wherever they are.*
- 2. It recognizes that value propositions can be effectively formed with heavier weighting on intrinsic rewards when allowed by the business model and competitive forces.*
- 3. It acknowledges the spectrum of behaviors eligible for reward has dramatically expanded. Going beyond purchases, marketers can reward non-transactional behaviors, i.e. shares, reviews, recommendations and others across the social graph.*

4. The range of rewards that will motivate behaviors have significantly increased, going beyond discounts, coupons, and other financial incentives. We can now offer status, reputation, and influence to drive behavior change.

5. Customer experience will take on new meaning as relevant and personalized communications will occur in preferred listening channels while consumers are in proximity to a purchase decision - or at least when the customer wants it.

6. Using behavioral psychology to access consumer's motivational DNA sparks engagement naturally, precluding the sense of manipulation against which most consumers rebel.

This Loyalty Manifesto 2013 is just a start. Marketers and loyalty program managers still have lots of work ahead to figure out how to use this new mix of incentives in program design. There is more to come and a few blanks to fill in.

Brian Solis, Altimeter Group, stated recently that “Context is King” citing that “customer behaviors and expectations are evolving. They (Consumer 2.0) expect to engage your business and all it represents in new channels...their way”. As the “Rise of Connected Consumerism” that Solis talks about (11) continues, we encourage you to connect the dots that will influence the evolution of Loyalty Marketing.

Do Millennials Buy In To Loyalty?

- 78% are more likely to choose a brand that offers a loyalty program over a brand that does not
- 78% say it should take less than 3 months to earn a reward
- 58% check user reviews before purchasing
- 57% use mobile devices to make price comparisons in store (aka “showrooming”)
- 26% are interested in using mobile devices in lieu of plastic loyalty cards
- The top 2 reward app “wants” are coupon downloads, point redemption

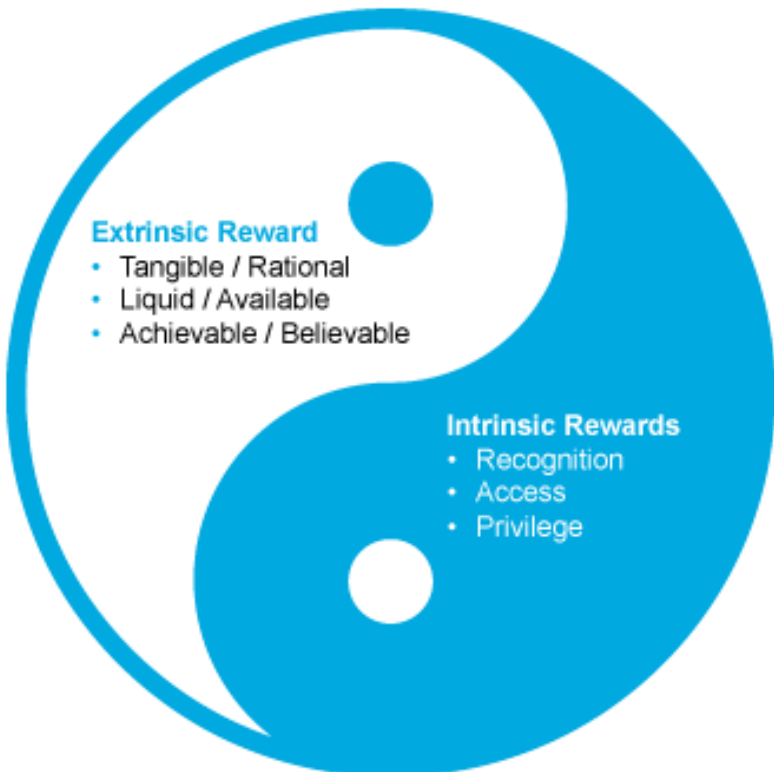


Source: Aimia US Millennial Survey
2011 “Born This Way”

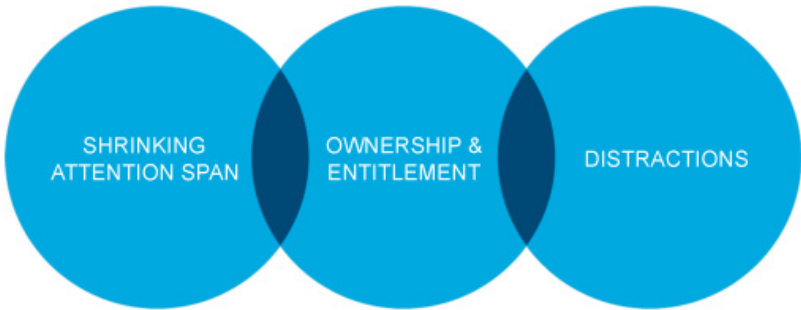
The Next 3 Years ...

Contextual Loyalty

- Transcends the channel focus of social loyalty to encompass value delivery
- Recognizes human response to extrinsic and intrinsic motivations to create loyalty beyond traditional “give and get” models
- Provides flexibility to support loyalty strategy in any business model



HUMAN BEINGS – CIRCA 2012



Creating loyalty among digital consumers is a challenge when we consider the current status of the “human being” in 2012

Shrinking attention span

The “USA Today Effect” is pervasive as consumers want bullet points, sound bytes and video rather than read your cleverly written emails, newsletters, and - yes - ebooks.

Distractions

Making fun of people who can’t “walk and chew gum” at the same time seems a quaint notion describing a bygone era. Multi-tasking has become a badge of honor among many consumers and sleep deprivation is no longer a weakness but a well crafted skill.

Entitlement

The availability of digital content in the early days of the internet led many to believe that only the naive or uninformed paid for music, video, news media, and research information.

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