Lifelong Loyalty

5 Principles Supporting
Lifelong Loyalty

November 2022
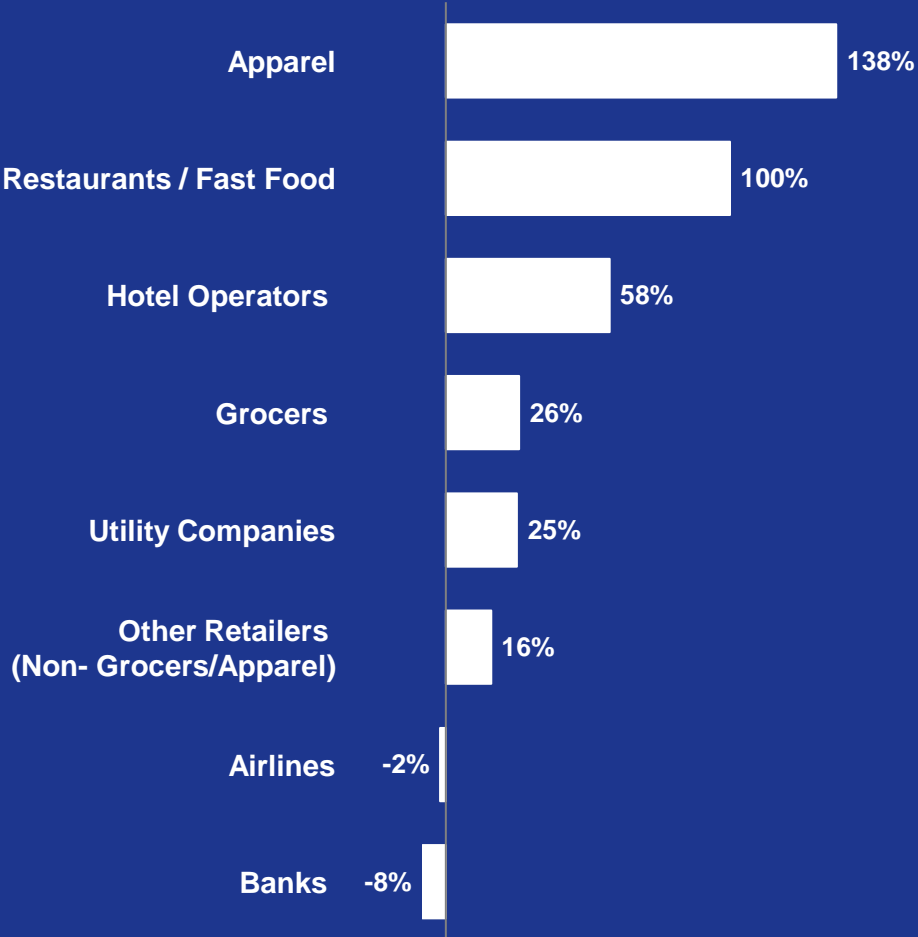
OC&C
Strategy consultants

uncommon sense™

Loyalty programmes are increasingly important to companies across sectors

Change in Mentions of Loyalty programmes in Annual Reports[1] 2017-21 by Sector

Sector	Change
Apparel	138%
Restaurants / Fast Food	100%
Hotel Operators	58%
Grocers	26%
Utility Companies	25%
Other Retailers (Non- Grocers/Apparel)	16%
Airlines	-2%
Banks	-8%

1. Top 5 UK listed companies reviewed across sectors

When (re-)designing loyalty programmes, we believe there are 5 principles for Lifelong Loyalty

1 **Start with the strategic objective**

Loyalty programmes must support and enhance business priorities, and have a clear customer focus

2 **'Earning' must be simple and demonstrate tangible value**

The best programmes offer a simple, 'universal' way to earn, while encouraging additional engagement to earn faster / more

3 **You want members to use their benefits!**

Benefits should appeal broadly, celebrate the individual and offer choice to address specific target customer segments

4 **The economics must be understood overall and by customer group**

Monetising free / low-cost assets, minimising cannibalisation, and passing costs to partners / suppliers are critical levers to managing cost, and increasing ROI

5 **Maximising value requires integration across the business**

Loyalty cannot stand alone – it is essential to integrate across customer facing touchpoints and across business operations

1

Loyalty programmes need to be designed to support business objectives, with a clear focus on target customer groups

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Questions to ask of your programme

What priorities can loyalty support? Is loyalty **the best way**? Eg vs investment in price / marketing

Which customer groups are you attempting to reach through loyalty? Do you **understand how much each group is worth** and **how much you're willing to invest?**

Common objectives for loyalty programmes

Increase preference and capture share of wallet

Retain customers / stimulate next purchase

Understand customers better

Expand repertoire / purchase higher margin products

Increase usage of **new / preferred channels**

Smooth demand / increase utilisation during off-peak

Monetise customer database

Common objectives across virtually all loyalty programmes – essential to consider **which customer groups** you want to reach through loyalty – and their needs / value

Important for companies with store / offline interactions

Focus on these objectives varies by company – and by **customer group**. For example, capturing customer data (especially with marketing rights) is highly valued amongst lower frequency groups

Influencing channel behaviours is an increasingly important objective for loyalty programmes

Channel Objectives ———————

Recent Examples Include ———————

Travel Operators

> Encourage **'direct'** bookings - maintaining / reclaiming volumes vs OTAs

Hilton Honors Members can chose their room – selecting eg rooms with great views, use digital key, order room service, chat with front desk

Retail

> Encourage **use of apps** to enhance (and influence) **store shopping experience**

Asda's new Pounds not Points programme tasks shoppers with in-store app missions – to collect rewards

Hospitality

> Encourage use of apps to **streamline ordering** (and reduce cost to serve) and maintain ownership of customer (vs 3rd party platforms)

McDonalds new loyalty programme requires ordering via the app to earn rewards

2

Earning something is a powerful motivator. This must have a simple, mass-appeal mechanic
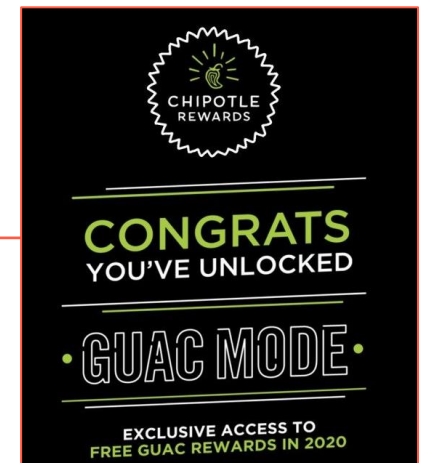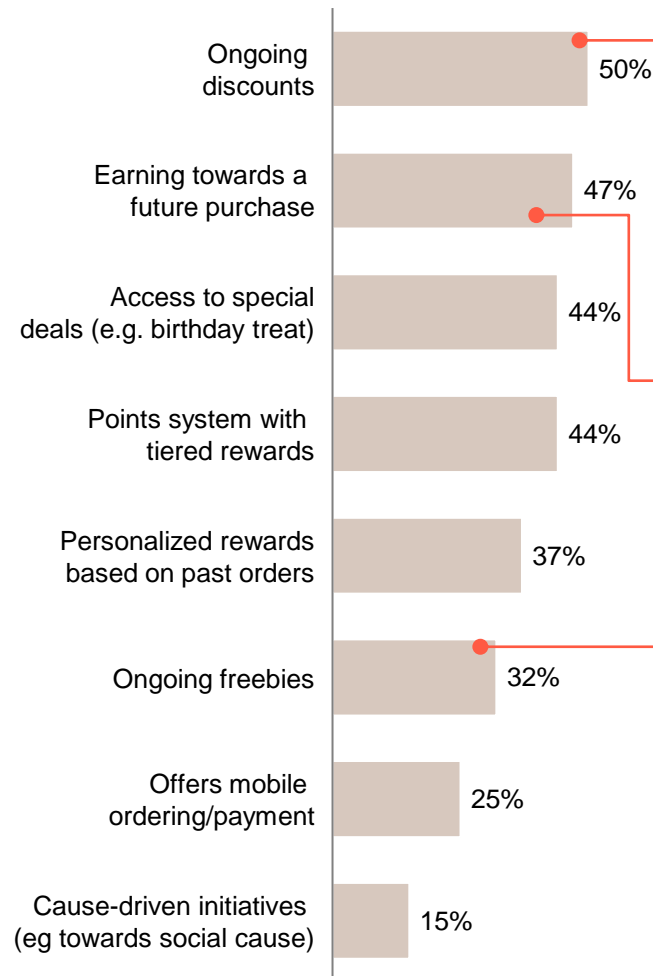
Questions to ask of your programme

Can you describe the reason to join in a **short sentence?**

Does the mechanic have **broad appeal** across your customer base?

Does the mechanic give you scope to **target specific customer behaviours** you want to change?

"Which of the following would encourage you to join a loyalty programme?
Select all that apply

Category	%
Ongoing discounts	50%
Earning towards a future purchase	47%
Access to special deals (e.g. birthday treat)	44%
Points system with tiered rewards	44%
Personalized rewards based on past orders	37%
Ongoing freebies	32%
Offers mobile ordering/payment	25%
Cause-driven initiatives (eg towards social cause)	15%

Source: Kantar Profiles/Mintel - January 2022

Accessing Tesco Clubcard Prices create a 'must join' reason for shoppers to sign-up and realise instant benefit
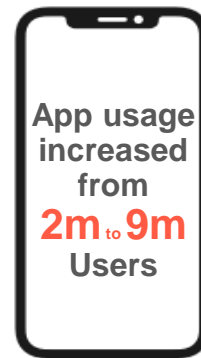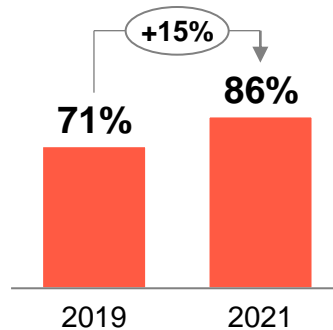
TESCO

Tesco shifted focus from a 'rewards later' (Points) to a 'rewards now' scheme in 2019 through launch of member only Clubcard Prices

Highly visible in store, the shift has delivered a **step-change in Clubcard's already high usage**

…and allowed **Tesco to maintain share** – the only Big 4 grocer to do so in context of Discounter growth

% Sales from Clubcard Holders

+15%

71% (2019) **86%** (2021)

App usage increased from **2m** to **9m** Users

Clubcard Prices now account for **100% of** Tesco's promotions

Starbucks Rewards is simple – yet flexible, to nudge customers towards desired behaviours

Broad appeal and simple mechanic

- **Universally relevant** as reward (free drinks) are the core proposition
- **Readily understandable** in markets where loyalty schemes are common (eg US, Europe)

Flexible mechanic which can be used to encourage desired customer behaviour

Additional stars can be earnt through **games and promotional periods,** rewarding customers who engage (and buy) more…
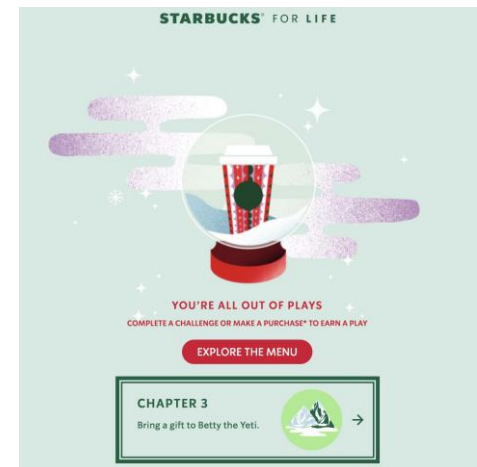
…while customers are **steered towards customer journeys which Starbucks wants to promote** – eg app / cobrand credit card

1★ per dollar
Pay as you go

2★ per dollar
Add funds in the app

3★ per dollar
With Starbucks® Rewards Visa® Card

SHEIN **awards points** for purchase – and for engagement

The simplest way to earn additional points is through **leaving reviews**

Highly informative user generated content is encouraged as members receive more points for posts with size information and photos

Members can earn up to $20 per day in points through reviews

Most popular items have **1000+ reviews**

Review our products

Points can be earned by posting comments and reviews on purchased items. After meeting the minumum of text product comments, you will receive 5 points.

Post a comment	Post a comment with pictures	Post a comment with size information
5	10	2

| All Reviews (1000+) | Image (100+) | | | Rating | All ⌄ | Review by product | All ⌄ | Sort by | Recommend ⌄ |

M***n
Hips: 83 cm / 33 in
Height: 155 cm / 61 in
More ⌄
26 Sep,2022
★★★★★ Super soft and not see through!
Translate
Overall Fit: True to Size   Color: Grey   Size: S
👍 Helpful (180)   •••

a***i
Height: 159 cm / 63 in
Bust Size: US 34/EUR 75
More ⌄
16 Sep,2022
★★★★★ Very stretchy and soft material. Not see through which is great 😊
Translate
Overall Fit: True to Size   Color: Grey   Size: S
👍 Helpful (117)   •••

V***x
Waist: 70 cm / 28 in
Hips: 96 cm / 38 in
More ⌄
3 Oct,2022
★★★★★ So comfy! The material is amazing and light. Not thick and too warm. Will look cute with jumper over the top or shacket and a pair of trainers or boots 😍 please please like my review your girl is skint afffff xxxxx
Translate
Overall Fit: True to Size   Color: Grey   Size: M
👍 Helpful (116)   •••

50 bonus points are awarded for the 'most helpful'

支 **Alipay**™

Members of Alipay earn 'green energy' from everyday activities – eg walking instead of driving.

Alipay rewards members with virtual trees – planted in app based world…

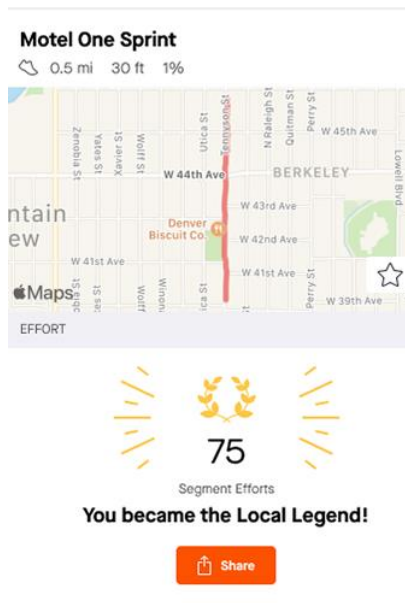**…which supports Alipays commitment to the environment – planting a real tree for each virtual tree**

56g Green Energy from Walking

I've planted 1 tree!

"Congratulations! Thanks to your efforts, now a real tree will be planted in the desert!..."
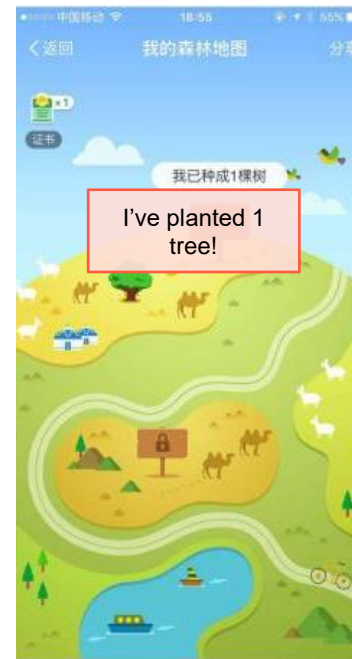
100m+ trees planted

500m members participate

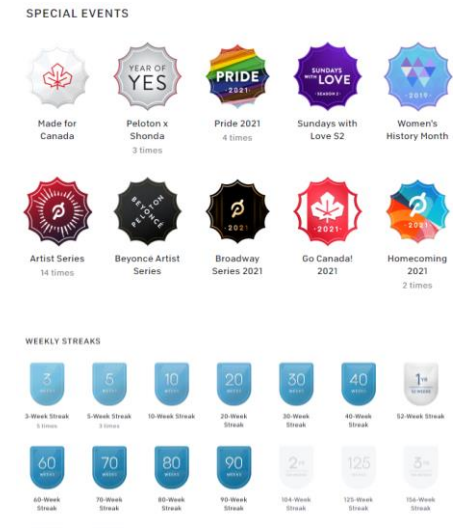**Highly local competitions** through Strava's activity tracking encourage **regular participation**
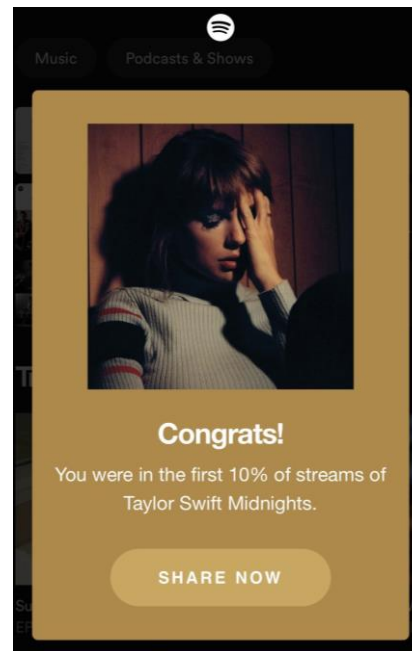
Spotify codifies behaviours in **sharable soundbites** – encouraging **social conversations**

Peloton uses multiple **awards, streaks and competitions** to nudge users to regular activity and **try new** classes

3

Benefits should be designed to be used. Redemption should encourage incremental purchases

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Questions to ask of your programme

Are your members **regularly using their benefits**? Are these benefits valued?

How can redemption be used to **stimulate incremental purchases**?
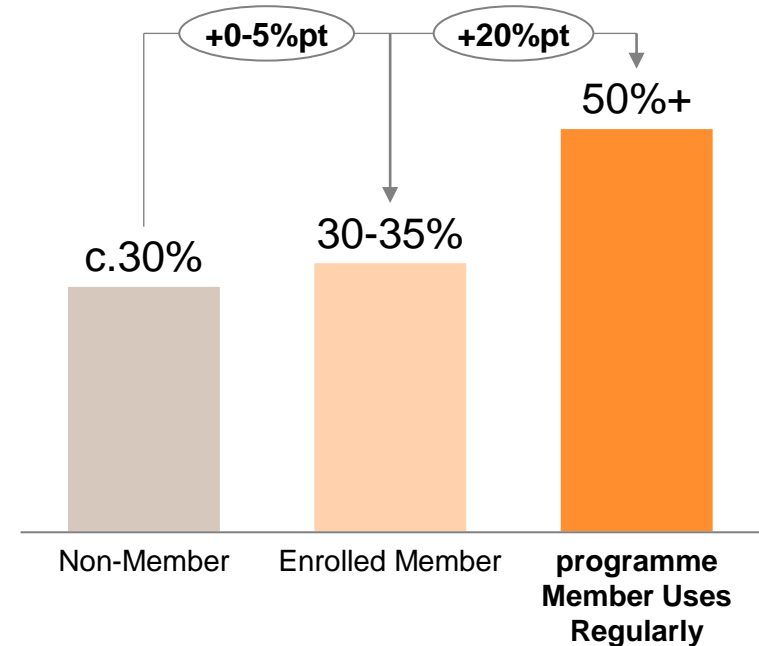
Enrolment isn't enough – active engagement is key

15 | Average number of loyalty programmes each adult is **enrolled** in

6 | Average number of loyalty programmes each adult **uses** regularly

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Example Uplift in Share of Wallet for Travel Loyalty programme

+0-5%pt   +20%pt

c.30%   30-35%   50%+

| Non-Member | Enrolled Member | **programme Member Uses Regularly** |

TOMS benefits are designed to initiate a new basket – and capture incremental spend

TOMS

TOMS has designed its points-based loyalty programme with the intention of points being used 'little and often' – helping members see tangible value on most orders

For example – if a member placed a $50 order, they would earn 50 points – redeemable for free shipping on their next purchase

Offers

| 0 Points Spring Prints Giveaway | 50 Points Free Shipping | 100 Points $10 off (Minimum $50) | 125 Points 10% off | 150 P... $15 o... |

TOMS Gear

| 520 Points Women's Alp Recycled Canvas in 6 colors | 520 Points Men's Alp Recycled Canvas in 5 colors | 620 Points Women's Alp Mallow in 9 colors | 725 Points Men's Alp Rover in 5 colors | 330 P... Tiny A... |

Giving Rewards

| 10 Points Help support mental health | 10 Points Help support access to opportunities | 10 Points Help support disaster responses | 10 Points Help support ending gun violence |

*Redemption **encourages the next basket** – while never giving away too much*

__Excess stock is cleared__ through points redemption

*TOMS' **social mission is reinforced** through charity donation benefits*

adiClub gives members **priority access** to product launches and events – creating regular engagement with customers, while ensuring that new products are purchased and promoted by Adidas' best customers first

LEVEL 1 ....

CHALLENGER
Welcome Rewards

☆ GIVE BACK

👟 CREATORS CLUB EXCLUSIVES

🎟 HYPE ACCESS

🛍 EARLY ACCESS

0-999 points
Challenger members can also join local events and enjoy member-only discounts and bonuses.

· LEVEL 4 ....

ICON
Exclusive rewards

💎 SPECIAL EVENTS

👥 HYPE PRIORITY ACCESS

🏃 ADIDAS RUNTASTIC PREMIUM 12MTHS*

🛍 ICON BONUS
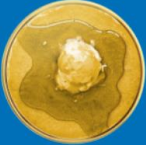
9,000+ points
Creators Club Icon members receive exclusive access to the very best of adidas—first.

Benefits readily available (at a low cost) to all – eg early access, donations to charity

Money can't buy benefits (eg meeting Messi) offered to a very limited number of adidas' highest influence customers
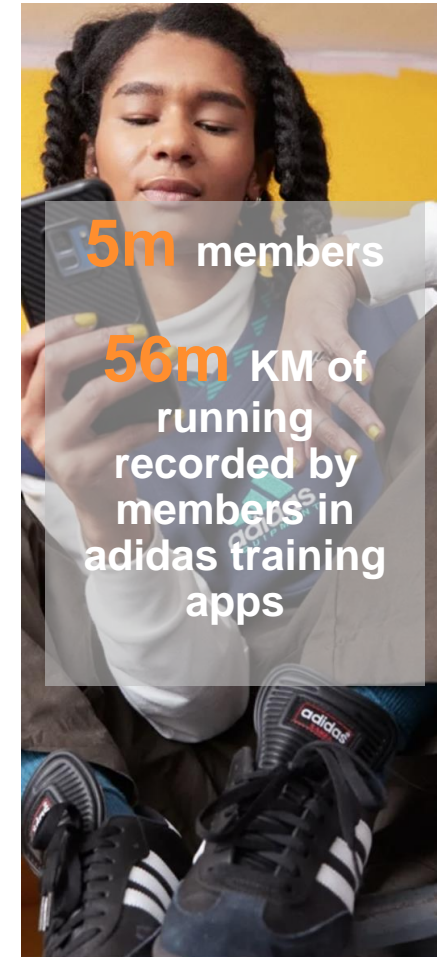
5m members

56m KM of running recorded by members in adidas training apps
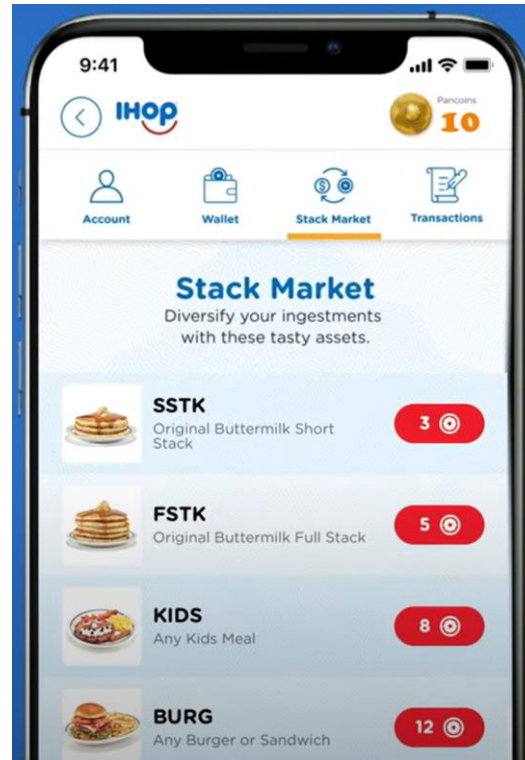
Spend
$5 ⟫

Earn One PanCoin™

How Do I Earn Rewards?

It's simple! Every $5 spent at IHOP earns you one PanCoin to use on rewards.

What's A PanCoin?

A PanCoin is a crypto-pancake, you can trade 3 PanCoins for a short stack of 3 pancakes

Stack Market
Diversify your ingestments with these tasty assets.

	SSTK	
	Original Buttermilk Short Stack	3 ◎
	FSTK	
	Original Buttermilk Full Stack	5 ◎
	KIDS	
	Any Kids Meal	8 ◎
	BURG	
	Any Burger or Sandwich	12 ◎

INTERNATIONAL
BANK of PANCAKES ™

IHOP encourages engagement and regular usage through the app based 'Stack Market' – allowing customers more ways to use their PanCoins

Each $5 spent rewards customers with one PanCoin – 3 PanCoins can be redeemed for pancakes

Halfords' freemium model is designed to encourage cross-shop between 2 business divisions

halfords

halfords motoring club

Choose the **best plan for you.**

Join Halfords Motoring Club Premium today for £4.99 a month or £49 a year and get access to a wide range of instant benefits to keep you moving all year round, worth over £100.

		Premium Worth over £100 Helping you save across the year	**Free** Worth £30
		£4.99/mo £49/year	£0.00/mo
		Join Premium	**Join Free**
		Premium	**Free**
MOT Offer	ⓘ	FREE MOT Save £39.99	£10 OFF
10 point car check	ⓘ	2 x FREE Save £30.00	1 x FREE
Welcome Voucher *£20 minimum spend on free membership	ⓘ	£10	£5
5% off motoring products and services	ⓘ	✓	✗
1 x FREE fitting in our stores of wiper, bulbs or batteries	ⓘ	✓	✗
FREE next day delivery (online orders)	ⓘ	✓	✗
Exclusive offers and member discounts	ⓘ	✓	✓

Halfords Freemium loyalty programme stimulates new visits by offering discounted and free services visits

These benefits are targeted at services with 'known value' eg MOTs which drives value perception of the programme, and encourages trade-up to paid-for programme

Since launching in March 2022 Halfords motoring club has >0.5M members and aims to have 1M by April 2023

4

Loyalty programmes need to deliver sufficient value to customers as to encourage usage, while minimising cost to deliver

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Questions to ask of your programme

Do you understand the **cost / benefit overall and at customer segment level** of your loyalty programme?

Do you understand how **dialling up / down specific benefits** can influence customer behaviour – and programme economics?

3 approaches are commonly used to support loyalty programme economics

Monetise 'free' assets	• Most loyalty programmes create value from monetising assets which are otherwise given away – eg priority access, or have very marginal cost to deliver – eg enhanced service / product
Minimise Cannibalisation	• Making the economics work requires minimising cannibalisation of existing super-user spend (eg limited redemption on high demand lines / dates), while investing just enough to change behaviours of lower frequency customers
Pass on Costs to Suppliers & Partners	• Customer access is the most valuable asset of any rewards scheme – programmes need to understand the value of a customer to a specific supplier / partner and charge accordingly

Loyalty programmes of fixed asset businesses (eg travel) can be more 'generous', retailers must work hard to create customer value

	Typical Monetary Value to Customers of Rewards Points[1]	Typical Implied Cost to Deliver	Share of Cost Covered by Partners	
Hotels	10.0%	3.0%	High (when franchised)	Fixed inventory hotels commonly operate with c.30% spare capacity which can be 'given away' as rewards at a low marginal cost to serve
Restaurants / QSR	8.0%	2.0%	Low	Restaurants high gross margins and potential for incremental visits / larger orders support generous rewards
Airlines	3.0%	2.0%	Low	
Retail (excl Grocery)	2.0%	1.2%	Mid	Retailers inventory is expensive to give-away. Reflecting this retailers try to minimise the giveaway of prime stock – encouraging redemption on sale items / priority access. In Grocery, redemption is largely covered by CPG suppliers paying for product promotions
Grocery	1.0%	0.8%	High	
Credit Cards	0.5%	0.2%	Mid	

Fixed inventory businesses eg Hotels, monetise unused capacity through loyalty rewards – marginal cost is low; perceived value high

Points

Monetise 'free' assets

Points redeemed on inventory – few hotels are 100% full allowing assets to monetised at marginal cost
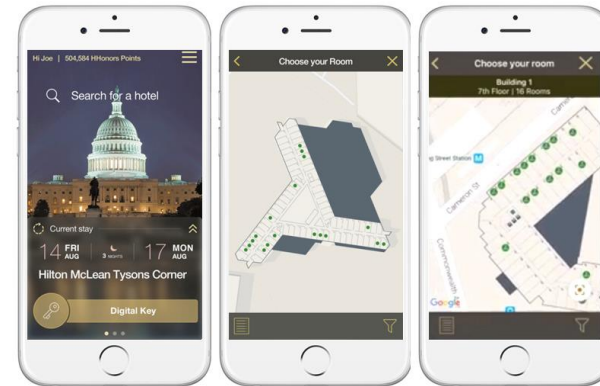
Minimise Cannibalisation

Dynamic pricing and black-out dates encourages redemption on lower-occupancy nights

Pass on Costs to Franchise Partners

Loyalty members book direct – creating a low cost customer acquisition channel for franchisees who cover the cost of points issued

Other Low Cost Assets Monetised

Members can chose their room – selecting eg, quiet rooms / rooms with great views

Free / discounted breakfasts and drinks encourage on-property consumption – increasing overall revenue

High restaurant margins support generous redemption rates – a wide range is common to encourage trialing / bolt-on purchases

Range of implied value from points redemption across menu items
Effective Cash Back Rate on Spend with…

[Starbucks logo][1]

6% **7%**   **14%**

Drinks are typically lower value, as rewards often cannibalise existing sales, while food purchases are more likely to be incremental – with uptake encouraged through more generous redemption pricing

[Chick-fil-A logo]

5% **7%** **9%**

Single units are priced more generously than meals – as potential to stimulate new incremental snacking visit, or add on to an existing order
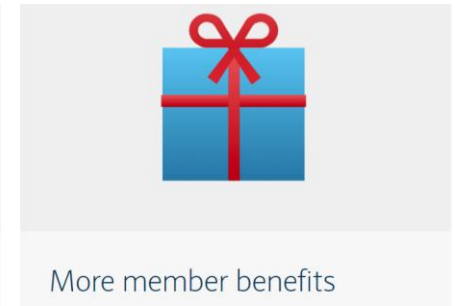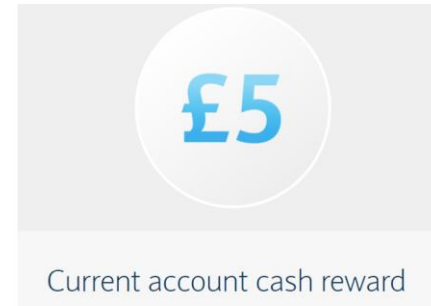
[McDonald's logo][2]

7%   **13%**   **18%**

Financial Services must 'work harder' to make the economics add up – learnings re: eg partnerships are relevant for all

compare the market™

BARCLAYS

Compare the Market uses *Meerkat Movies* rewards programme as the **businesses main marketing tool** – and differentiation versus other price comparison websites

The reward appears to be **generous to consumers** (2 for 1 movie tickets), but is **funded by major cinemas** as the offer is limited to low utilisation days – Tuesdays and Wednesdays, where incremental ticket sales are highly valued (even when effectively half price)

Low margins in retail banking, a focus on headline rates and sticky customer relationships leave little scope to invest in loyalty rewards. Barclays Blue addresses this by **explicitly linking rewards to customers taking out more products** with Barclays

Understanding 'the ask' of potential partners (often customer access), and designing programme benefits with this in mind helps maximise perceived customer value, while minimising the cost to deliver

Creating explicit links between new products taken and benefits is a great way to manage cannibalisation of existing loyal base, and provide steady, positive programme economics
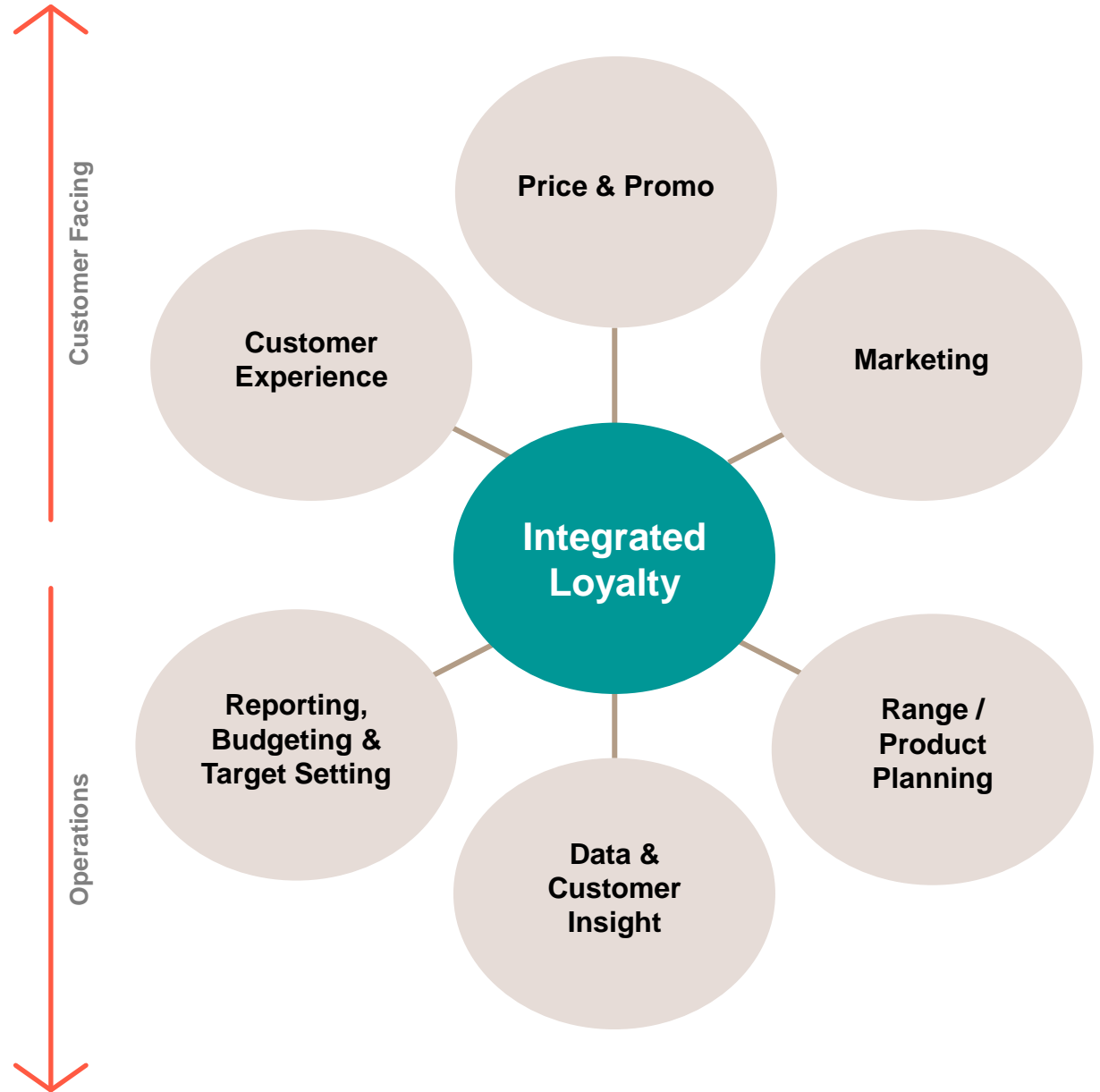
5

Maximising value requires integration across the business

Questions to ask of your programme

Are investments in loyalty considered alongside other price and promo decisions?

How is enhanced customer knowledge being used to improve user experience?

Are you willing to 'hold-back' your best proposition for loyalty members? *Eg member only pricing*

Customer Facing

Operations

Price & Promo

Marketing

Customer Experience

Integrated Loyalty

Range / Product Planning

Reporting, Budgeting & Target Setting

Data & Customer Insight

5 Principles for Lifelong Loyalty

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