

JOE BERRY AWARD 2023

ENTRY – JBA-23-147

Topic # 4 - B Maintaining Loyalty in Crisis

Presentation #3

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Executive Summary

Loyalty programs are like the pokies – addictive in nature and unexpected in anticipation.

Loyalty strategies are wild cards that when used effectively become crucial in retaining and gaining customers. As computing power for analysis has improved and content creation has evolved, barriers to entry have decreased leading to a proliferation of competitive loyalty programs. Understanding what influences a customer to engage or disengage is critical to becoming the market leader.

In an inflationary environment, rising prices will erode purchasing power, reduce the value of savings, likely drive interest rates and put upwards pressure on unemployment. Lower income earners are most affected with a higher percentage of their budgets being used for essential goods. These uncontrollable influences inflict added pressure on retailers to find innovative ways to offer value in an already saturated market.

This essay explores several loyalty strategies that are being deployed in markets today and identifies the key attributes that makes them successful.

It will be asserted that:

1. There are three key needs that underpin loyalty: Utilitarian, Experiential & Emotional
2. The concept of ‘Reward, Relevance and Recognition’ are the basis of loyalty strategies
3. ‘The Loyalty Affinity Model’ must be considered for future success

The concluding recommendation is that retailers will need to go above and beyond to remain successful in the future. Loyalty is not just about points, but rather ensuring you have the right offer for the right customer.

The retailer’s goal: retain the best and grow the rest⁴⁸.

⁴⁸ <https://thepointofloyalty.com.au/adam-posner/>

Current Strategies – securing the transaction

In essence a loyalty strategy is a transaction with the exchange of data and incentives between retailers and customers. In today's environment customers value their data and consequently have higher expectations for what they receive in return.

According to the 2022 ALA Report, for a loyalty strategy to be successful brands must incorporate three key needs⁴⁹:



Retailers should strive to achieve all three-pyramid levels within their strategies. To be included in the customer consideration set, brands must meet 'Utilitarian Needs' at a minimum. "Utilitarian needs are all about practicality and functionality and at the core of any relationship"⁵⁰. These needs are also known as "Hard Benefits"⁵¹.

Supporting this is Paulo Claussen's Theory on The Three R's – 'Reward, Relevance and Recognition', which reveals that at the most basic level a reward system must be implemented to fulfill these needs. 'Rewards' are "the transactional part of the program"⁵². It's clear from my research that rewards need to be compelling, personal and tangible in demonstrating that customers are truly valued.

⁴⁹ <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

⁵⁰ <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

⁵¹ <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

⁵² <https://www.hughes.com/sites/hughes.com/files/2021-12/CustomerLoyalty.pdf>

The most effective way to reward a customer is through 'points / spend based discounts' or 'tiered based' loyalty strategies:

Points / Spend Based Strategies⁵³:

- #1 most preferred in Australia
- 49% of Australians indicate they see value in these programs
- Integrational
- Requires flexibility in their benefits

The most activated points-based strategy is executed in the Supermarkets channel, which has the "highest loyalty penetration in Australian"⁵⁴. Coles Supermarkets program Flybuys sees customers accrue points through every transaction. However, what Flybuys does so successfully is that it also taps into the Second R – 'Relevancy', moving beyond the transactional by being customer centric.

Tracking data allows Flybuys to understand spending habits, not just demographically but more importantly behaviorally. This type of personalization is integral in forming customer connections.

Tiered Based Strategies⁵⁵:

- #3 most preferred strategy
- Appeal to Gen Z
- Encourages more purchases, more often
- Provides different benefits based on rank

Tiered-based strategies are successful because they encourage customers to aspire to a goal as part of an exclusive membership. Rewards create an anticipation and excitement that maintains the customers attention on the brand. This is also known as 'Incentivized Loyalty'⁵⁶.

Australian retailer Mecca continues to prosper through their "Beauty Loop"⁵⁷ loyalty program. The more customers spend, the quicker they progress from tiers one to four. "Beauty Loop Boxes" are distributed with exclusive offers, deluxe samples and in-store experiences. One of the attractive aspects of this rewards program is that all customers will receive at least a basic Beauty Loop. It's Mecca's way of staying in touch and saying thank you.

⁵³ <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

⁵⁴ <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

⁵⁵ <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

⁵⁶ <https://www.rqcm.com.au/gamification-mcdonalds-monopoly-marketing/>

⁵⁷ <https://www.mecca.com.au/beauty-loop.html>

During economic hardship showing gratitude goes a long way. Not only does it remove the impersonal barrier of a purchase, but also encourages referrals⁵⁸. Communication is therefore integral and in the case of a loyalty strategy can be leveraged through the influence of social media. Brands that create hype and exclusivity naturally lend themselves to customer-based social media platforms. Community groups, such as Mecca's "Chit Chat" go beyond the transactional as members positively and unintentionally do the marketing for them.

Personally, I subscribe to four loyalty programs, including Mecca's Beauty Loop. Despite the samples not always being relevant to me, the excitement from collecting my reward is addictive and thrilling. However, I recently experienced Mecca running out of Beauty Loop's and consequently as quick as the excitement came, it went. As not all customers are as loyal, businesses need to be weary in ensuring they don't over promise and under deliver, particularly in challenging times.

When analyzing the current strategies, the final "R" – 'Recognition', emerges as the key to true customer loyalty. In times of uncertainty recognizing your best shopper in their customer journey is critical to building a long-term strategy. 'Recognition' is as important for the customer as it is the retailer. The customer not only "feels in control and sees the power of their loyalty but also feel as if the brand is being generous"⁵⁹.

During the recent pandemic, Qantas was exemplary in 'recognizing' the lifetime value of their most loyal customers. Maintaining a customer's status despite the inability to fly showed flexibility as points could be transferred to other initiatives. However, the intricacy of 'recognition' is that it must occur throughout every interaction, something Qantas should remember when managing the fallout from losing Platinum customers luggage versus once off travellers.

Reflecting on the above strategies makes it apparent that every business should be able to effectively implement a loyalty strategy. Despite this ease, retailers still manage to get it wrong. In discussing these theories with Country Road Group's Loyalty Manager Jessica Lyon⁶⁰, this can occur for the following reasons:

1. Ineffective use of Data⁶¹

Customers are very aware of the value of their data and have high expectations in what they receive for this exchange. Offers that fail to be targeted, segmented and personal will not convert to a transaction. To this extent, customers will sacrifice privacy for relevancy.

⁵⁸ <https://global.hitachi-solutions.com/blog/customer-loyalty-solutions/#example>

⁵⁹ <https://www.hughes.com/sites/hughes.com/files/2021-12/CustomerLoyalty.pdf>

⁶⁰ <https://au.linkedin.com/in/jessica-lyon-37ab33198>

⁶¹ <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

2. Value Proposition

Australians participate in an “average of 6 loyalty programs”⁶², therefore, getting cut through can be difficult. At a minimum, value received must match or surpass the value spent. Understandably it can be costly for the retailer if it doesn’t illicit a reaction from the shopper. However, when the value equation doesn’t add up customers will simply switch to a better offer.

3. Miscommunication and Lack of Simplicity⁶³

Many loyalty programs fail because “customers are left wondering how they work”⁶⁴. Having too many elements may cause confusion even if you are providing superior value. Ensuring the barrier to entry is not too complex to redeem points is integral in attracting customers.

When a customer reaches the “true loyalty” status they come to demand and expect retailers to go above and beyond in return for their devotion. Exceeding *Utilitarian Needs* and unlocking the next two levels of the pyramid are where the future of loyalty lies.

Future strategies - beyond the transaction

With continued advances in economic, social and technological markets, loyalty will need to represent more value in the future. I believe it will need to surpass “The Three R’s”. Retailers will need to become more focused on what satisfies the customer rather than focusing on their own opportunities. This will be the differentiator as to who wins and who loses.

In conjunction with the above pyramid, retailers should consider the Loyalty Affinity Program Model⁶⁵. This reveals the key drivers of loyalty programs and highlights going beyond basic ‘Utilitarian features’ to unlock ‘Experiential / Emotional Needs’.

⁶² <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

⁶³ <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

⁶⁴ <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

⁶⁵ <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

Loyalty Program Affinity Drivers

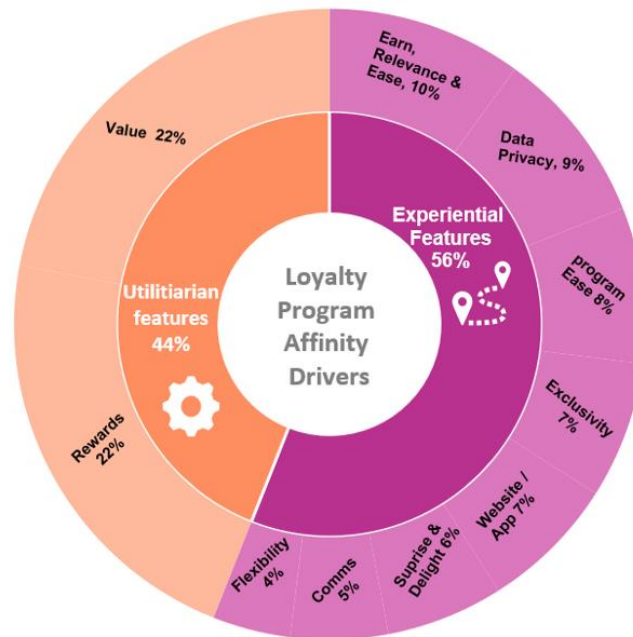


Exhibit2: Loyalty Program Affinity highlights drivers for success by leveraging as many elements as possible / relevant

Whilst this report has already touched on a number of these drivers, there are several others that need to be considered for future success:

1. Experiential Loyalty – “Surprise & Delight”

When speaking with Ms. Lyon, it's evident that experiential Loyalty is the future⁶⁶. “Experiential needs cover all points of the customer journey and are critical in creating loyalty⁶⁷. This converts a transactional interaction to an emotional connection by building long-term retention tools known as “Soft Benefits”⁶⁸. This supersedes the importance of price.

This is the “Surprise and Delight”, the “Warm and Fuzzy”, the pinnacle of marketing loyalty. Members want to feel an emotional connection to a brand and a sense of community. Loyalty specialist Adam Prosner refers to this as a “Joyalty program” where “maximum joy and delight from one or a series of “magic moments” is delivered by a loyalty program”⁶⁹.

‘Joyalty’ can be successfully executed in a variety of ways. For the likes of Mecca this can be through their in-store experiences, for Supermarkets it might be by spontaneously giving away groceries. The aim is to encourage referrals and positive

⁶⁶ <https://au.linkedin.com/in/jessica-lyon-37ab33198>

⁶⁷ <https://blog.smile.io/5-examples-of-experiential-rewards-for-luxury-brands/>

⁶⁸ <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

⁶⁹ <https://thepointofloyalty.com.au/your-2023-guide-to-a-joyalty-program-its-joyfully-free/>

word of mouth, ultimately leading to the creation of brand ambassadors in every-day customers. With inflation at the forefront these types of strategies are pivotal in maintaining customers.

2. The Omnichannel Experience⁷⁰ - “Program Ease” & “Website / App”

A seamless Omnichannel is every retailer’s goal. Companies with strong omnichannel engagement “retain an average 89% of their customers, compared to 33% for those with weak omnichannel strategies”⁷¹.

Success for retailers will require hyper-personalization, cross channel gamification and smoother user experience. Think QR Codes, addictive competitions and tailored instant wins all delivered through a convenient channel. From a loyalty perspective it makes the “overall reward experience more exciting and sophisticated”⁷².

It is important to note that customer expectations in delivering seamless user experience are extremely high. “Three quarters of customers expect brands to provide smooth and consistent omnichannel engagement”⁷³. When this process becomes fragmented, losing customers can be as quick as gaining them.

The McDonald’s App⁷⁴ is leading this sector by using gamification to interact with consumers. Not only does it offer instant rewards but has adapted it’s in store Monopoly game to the online channel. Through a customer centric approach, data is leveraged to present targeted rather generic offers and uses location services to drive convenient in-store purchases. In essence, this approach is faultless, as consumers will likely make incremental purchases when in store.

One omission from the above model that needs to be considered for future success is ensuring a level of social consciousness. Studies show that “70% of consumers want to know how the brands they support are addressing social and environment issues when making purchase decisions”⁷⁵. This reaffirms that loyalty is not just about points or price. Ethically sourced products and packaging have become a customer expectation.

⁷⁰ <https://www.magestore.com/blog/the-rise-of-omnichannel-loyalty-programs/>

⁷¹ <https://global.hitachi-solutions.com/blog/customer-loyalty-solutions/#example>

⁷² <https://antavo.com/blog/omnichannel-loyalty-programs/>

⁷³ <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

⁷⁴ <https://www.retaildive.com/ex/mobilecommercedaily/how-mcdonalds-loyalty-strategy-is-maturing-beyond-mobile-coupon-enticement>

⁷⁵ <https://www.ascm.org/ascm-insights/consumers-care-about-corporate-social-responsibility--and-so-should-you/>

Food chain Grill'd have taken this one step further through their "Local Matters"⁷⁶ program. This allows customers to vote for their favourite community group, with the most awarded party receiving a donation. In times of uncertainty, brands that "involve their customers in co-creation activities foster trust which translates into greater loyalty"⁷⁷.

Conclusion

Economic pressures and the added complexity of inflation will see customers seek value that goes beyond basic rewards. In difficult times customers place greater reliance on loyalty programs to manage the spiralling cost of living. Influencing whether a customer goes left or right will require a balance of 'soft and hard' loyalty strategies.

Retailers need to leverage the concept of 'Reward, Relevance and Recognition' in ensuring a well-rounded strategy. It's important to remember that loyalty strategies are not just about offering points and will fail if a lack of value is perceived. As industry competitiveness continues to grow offering the best strategy through 'Experiential Drivers' will unlock future success.

The key is ensuring you have the right offer, to the right customer, at the right time, in the right channel.

⁷⁶ <https://www.grilld.com.au/news/localMatters/local-matters-10-years>

⁷⁷ <https://dobetter.esade.edu/en/brand-loyalty>