

***THE QUEST FOR  
A SIMPLE***

# **LOYALTY PROGRAM**

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**Synopsis: Marketers believe that consumers want a simple program. However, many of the biggest, most popular, and most engaging loyalty programs are anything but simple. How can that be?**





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**A**ny fly that has sat on the wall during a loyalty program design session with marketers will recognize a recurring theme – the desire for a simple loyalty program. Marketers firmly believe that consumers want a simple program. But many of the biggest, most popular, and most engaging loyalty programs are anything but simple. How can that be?

## **IT TURNS OUT THAT PROGRAM COMPLEXITY EXISTS FOR VERY GOOD REASONS:**

### ***CUSTOMER NEEDS VARY.***

The single person buys different things than the head of a household shopping for a family. If a loyalty program sets their reward goals based on the single person, the family will qualify for multiple rewards per week and ruin the program economics. If the program bases reward issuance only on the family, then the single person will never earn a reward and become more likely to defect.

#### ***Each member wants to feel they can reach a reward.***

There is behavioral research that shows that members are more likely to claim that they feel loyal to a brand and are more likely to make their next purchase from that brand when they perceive themselves to be 80% of the way to a reward rather than only 20% of the way to a reward.<sup>1</sup>

That is why smart programs with higher engagement rates have been setting up variable reward options so each customer can earn and redeem something. It can be digital reward catalogs like the ones quick service restaurants have introduced, or it can be the variable points redemption enabled by Amazon at checkout.

Customer needs also vary by gender, generation, and simple personal preferences. One customer may want to redeem their Starbucks or Panera reward for a free drink while another customer will go for the chocolate croissant. Enabling choice is inevitably more complex than auto-issuing a \$5 off reward, but enables programs to meet the different needs of very different customers.

## **THE SAME CUSTOMER HAS CHANGING NEEDS OVER TIME.**

When members first join a program, they tend to focus on the core value exchange proposition – if I do this, I’ll get that incentive. That’s one relatively simple message and many programs stop there. However, there is research indicating that incentive-only approaches do not build long term brand equity.<sup>2</sup>

As customers experience multiple interactions with a program, they come to value the softer benefits that make it easier to do business with the company. The frequent traveler completes a profile that makes booking new reservations easy and customized to their preferences – the aisle seat or the feather-free bedding. The frequent coffee shop customer can order their favorite morning beverage and muffin with one click so that it will be waiting for them.

*Creating a profile or confirming preferences becomes a reasonable complication to get additional program benefits over time.*

## **THE SAME CUSTOMER MAY HAVE DIFFERENT NEEDS ACROSS CHANNELS OR PRODUCT LINES.**

Airlines and hotels have long recognized that frequent travelers have different needs when traveling on business from when they travel with their families – that is why the rewards offer choice and flexibility for the same customer depending on their needs. The member can choose to upgrade a business flight or to pay for their hotel room with a combination of money and points when taking the family on vacation.

In an earlier time, offering a choice of rewards led to ever expanding and complex reward charts such as the major hotel chain with separate rewards for the Level 2 hotel in Des Moines and the Level 5 hotel in Hong Kong. Fortunately, user experience design has dramatically improved so that the complexity works in the background and does not trouble the member.

## **PROGRAMS NEED TO STAY FRESH BY ADDING NEW ENHANCEMENTS.**

When Maritz and The Wise Marketer recently asked a broad selection of program members what drove them to disengage from a program, there were about the same number of members who said “Program was boring / had nothing new over time” as the number of members who said “Program rules were confusing or unclear.”<sup>3</sup> That’s a stunning result.

***Simplicity can become boring and might ultimately be as detrimental to member engagement as the confusion of complex program rules.***

Our own Kobie research showed that only a quarter of members said they wouldn’t join a program because they did not see what the benefits were.<sup>4</sup> The biggest reason for not joining was that the program required too many purchases to earn a reward, which may imply that the value proposition was all too simple and clear.

The lesson is that a static program can become a moribund program. The most popular and beloved hotel programs evolved over the past 30 years to address needs of the increasing variety of travelers and to embrace evolving trends. There are social communities, there are elite services delivered via mobile app, and there are variable rewards accessible via any channel. They tend to be the most complex programs in market, but the best brands do a stellar job of presenting only the value proposition needed at each point in time – what you need to book to reach the next tier, what you need to do to skip the line and go straight to your room, and then what you earned on your most recent stay.

## **FINANCIAL MARGINS AND COST STRUCTURE CREATE VARIETY OF EXPECTATIONS.**

There are also company-driven reasons for program complexity. If you have very different margins by product line, you are willing to give very different incentives. This is why Alaska Airlines, which is still mileage based, gives members a **bonus of 75%** for flying in first class instead of economy – the first-class fare is that much more profitable for them. It is also why the Orbitz program enables you to earn **3% back** on hotel spend but only **1% back** on airline spend – and also why you can redeem Orbucks only for hotels – the commissions on hotels are that much more profitable for Orbitz.

You also may need very different levels of incentives to break through in different categories. For example, **3% back** is a relatively standard incentive for a credit card, but customers expect **10%-40% off for retail items**. Both of those expectations are at play when you design a retail program which includes a store private label or co-branded credit card.

A simple approach would be to set the earning based on only the lowest payout products. However, that doesn’t create an incentive to buy that higher margin item you really want to sell. But many marketers balk at the complexity of having separate earning rates for different items.

***Again, behavioral research can help inform how to show the complexity.***

*continued...>*

Consumers find it more motivating to know that they'll earn "an average of 10 points per \$1" than if they're told "you'll earn 7-13 points per \$1" because an average is one number and easier to comprehend than a range of numbers.<sup>1</sup>

If a customer is buying that low-margin product, show them the number of points they'll earn for that item. If they are looking at the overall program, don't bother them with a chart of that says they will earn 7 points on category A, 10 points on category B, and 13 on Category C; keep it simple and tell them they'll earn an average of 10 points per \$1.

## **MULTIPLE BRAND PROGRAMS REQUIRE COOPERATION TO COMBAT COMPLEXITY.**

The trick in multi-brand companies is to balance the desire of each brand to maintain a unique identity while creating a strong loyalty program with a coherent member experience that drives purchases across the brands. The entire point of having a portfolio of multiple brands is to leverage synergies and systems, but many companies struggle with the day to day management of a multi-brand program. Each brand wants to own the customer and have top placement at all touchpoints – they often argue for separate programs.

The companies who do a good job of managing brand portfolios reduce potential program complexity by focusing on the end to end member experience:

- *Creating a communication hierarchy for displaying brands and products in a way that makes sense for the member based on how they currently buy*
- *Leveraging the right times to cross-sell and present new brand experiences*
- *Making the handoffs across brands seamless – for example, with a single sign-on*
- *Recognizing when the program needs to stand alone and be center stage for the member (e.g., account balance, status, and progress towards their next program benefit)*

## **CORPORATE MERGERS CREATE OTHER CHALLENGES TO PROGRAM SIMPLICITY.**

Mergers create unique pressures. Usually the buying company imposes their program on the purchased company, often with a weakening of loyalty from members of both the surviving program and the transitioned program.

The mergers that navigate the challenges are the ones that quickly identify the critical intersections and develop the best possible user experience at those points:

- *Linking accounts smoothly and securely*
- *Rounding up of both points and tier qualification during the transition – short term expense is usually offset by reduced churn*
- *Alignment of tier benefits, as logically as possible*

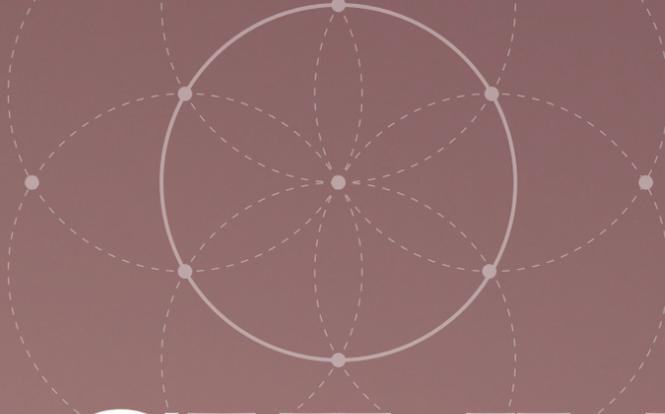
IHG provides an example how to manage both a merger and an on-going multi-brand portfolio approach. For several years, Kimpton has had a unique "Raid the Mini-Bar" tier benefit that is beloved by elite members. When Kimpton was added to the IHG hotel portfolio, IHG quickly decided that they couldn't expand the "Raid the Mini-Bar" benefit to all hotel brands, but they left the benefit as a unique brand experience when IHG elite members stay at a Kimpton property.

1. "Illusionary Progress in Loyalty Programs: Magnitudes, Reward Distances, and Step-Size Ambiguity," Rajesh Bagchi and Xingbo Li. Journal of Consumer Research, Vol. 37, No. 5 (February 2011), pp. 888-901 published by: Oxford University Press. Stable URL: <http://www.jstor.org/stable/10.1086/656392>

2. "Models for the Financial-Performance Effects of Marketing," Dominique M. Hanssens and Marnik G. Dekimpe, (2017), Handbook of Marketing Decision Models, B. Wierenga and R. van der Lans (editors).

3. "From Transient to Resolute: How Deep does Loyalty Go?" The 2018 Maritz | Wise Market Loyalty Landscape

4. Kobie Marketing Research, (September 2017)



# SUMMARY

Given all the very good reasons for complexity, it is perhaps not so surprising after all that many successful programs are very complex indeed.

Let's face it – what marketers REALLY mean when they say they want a simple program is that they want the program to be simple for them. They want a program to have:

- *Technological simplicity – easy plug and play technology that is straightforward to integrate across all touchpoints*
- *Operational simplicity – short training requirements with rules that are easy for associates to remember*
- *Communications simplicity – a single value proposition that will work as an elevator speech to sell the program internally and also work in mass advertising without the bother of targeting different messages at different touchpoints*

The best programs make it easy to do business with the brand across a broad range of customers with different needs. They show the member a specific value proposition at each specific point in time. The member experience makes sense, feels easy and not-intrusive.

Often, the ideal customer experience requires complexity behind the scenes in order to implement fluidly in front of the customer.

The value proposition to show the customer at enrollment will be different from the value proposition to show the same customer later as they get close to earning elite status. Save the detailed description of tier benefits until the customer is close enough to that tier status to feel it is an attainable goal. Showing the right value proposition at the right time may take some complex upfront work by the marketer in order for it to be simple for the customer.

The same will be true for scripts for the associate; there will be more than one script but a well-designed customer service system will show only the script they need for where they are in an interaction with the customer.

If you have rewards that change when your prices change, you don't have to show customers the value of every reward, you just have to make it easy for them to look up the reward they want. That is what the airlines and hotels have mastered in the past 10 years with their booking engines which enable customers to toggle between looking at prices in dollars and the number of points needed.

There are two simple phrases to remember to create the kind of program simplicity that customers crave:

- *Clarity of message at each point in time*
- *Intuitive experience for enabling choice and incorporating change*

Those two guidelines may not be simple to design and implement, but in the end, complexity for the marketer tends to yield the more engaging experience for the customer and ultimately, the more profitable enduring loyalty program.

**ABOUT KOBIE** We are a loyalty marketing company that designs, builds, supports and optimizes customer experiences for many of the world's most successful brands. Kobie believes in building relationships by deepening the emotional and behavioral connections brands have with their customers. Our integrated and innovative loyalty solutions deliver the most impactful results for our clients' bottom line. **To learn more, visit [kobie.com](http://kobie.com).**

**ABOUT THE AUTHOR** Kate is a Senior Loyalty Consultant at Kobie Marketing. She has been launching influential loyalty programs for some time - she can even tell you the inside story of how Mileage Plus 100k elite status came to be called 1K. Before Kobie, Kate was a Partner at Metzner Schneider Associates, a consultancy for program design, building the case for loyalty, and customer experience implementation. While there, she was vital to the launch of Virgin America's innovative Elevate program and the ShopYourWay Rewards program for Sears and Kmart. Kate also has hands-on experience managing the global expansion of Mileage Plus and launching elite benefits for United Airlines.





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# LOYALTY

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