Elevate Engagement To Unlock The Potential Of Your Loyalty Program

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Executive Summary

Today, customers have more information, more options, and more control over the buying process than ever before. As a result, businesses must dedicate even more effort and resources to acquiring, engaging and retaining their customers. For consumer-facing organizations, loyalty programs offer a particularly compelling way to build and reinforce the customer relationship. Yet, many businesses spend much of their time focused on the financial benefits of the program rather than taking full advantage of the insights and engagement opportunities that their programs create. These loyalty programs emphasize discounts and offers rather than building relationships, and a result, they never get at the "why" of customer behavior and fall short of creating real and lasting loyalty.[1] Truly effective programs extend to the full brand experience to build emotional loyalty that goes beyond short-term consumer actions.

In seeking to understand how loyalty program decision makers can optimize both their loyalty strategies and programs, Deluxe Corporation commissioned Forrester Consulting in November 2014 to conduct an online survey of 150 marketing directors and brand managers in the US with strong influence or final decision making authority over their organization's loyalty programs. The study sought to specifically test the hypothesis that organizations with loyalty programs that incorporate engagement mechanisms as well as utilize multiple touchpoints increase various loyalty metrics such as customer retention and satisfaction.

In the course of this study, Forrester confirms that loyalty program decision makers that have loyalty programs with multiple channels and with high engagement mechanisms are more satisfied with how their programs perform. They also report high levels of impact on the key metrics they measure. .

KEY FINDINGS

Forrester's study yielded six key findings:

› **Loyalty program decision makers utilize their programs to acquire, engage and retain customers.** Respondents rate retaining (26%) and acquiring (17%) customers are the top two primary business objectives for loyalty programs—followed by engaging (11%) and satisfying them (10%), as well as improving their experience (9%).

› **Most, however, only feel their programs are "good enough" and few truly satisfy.** While two-thirds of loyalty program decision makers are satisfied with their program's performance, only 16% are completely satisfied with their results.

› **Many of these programs are not mature enough to fully develop customer relationships and glean valuable customer insights.** Less than 25% of loyalty program decision makers agree that their loyalty programs have the necessary maturity to gather deep understanding of why customers are loyal and leverage a multifaceted approach toward developing strong customer relationships.

› **Few are seeing the success they would like in driving behaviors with their programs.** Of the top three types of behaviors loyalty program decision makers seek to influence, just one-fifth or less feel they are completely successful in driving purchase frequency, spend or brand advocacy.

› **Dissatisfied loyalty program decision makers report that their programs do not have as many touchpoints as those satisfied with their programs.** While the programs of those satisfied have an average of nine channels, the programs of those dissatisfied have only an average of six.

› **Loyalty mechanisms that engage customers have high impact on measured loyalty metrics.** Engaging mechanisms such as exclusive access to products/services and members-only events are among the top five loyalty mechanisms that have high impact on such metrics as customer retention and customer satisfaction. These can work in concert with more traditional reward mechanisms such as instant discounts to create a multidimensional loyalty mix.

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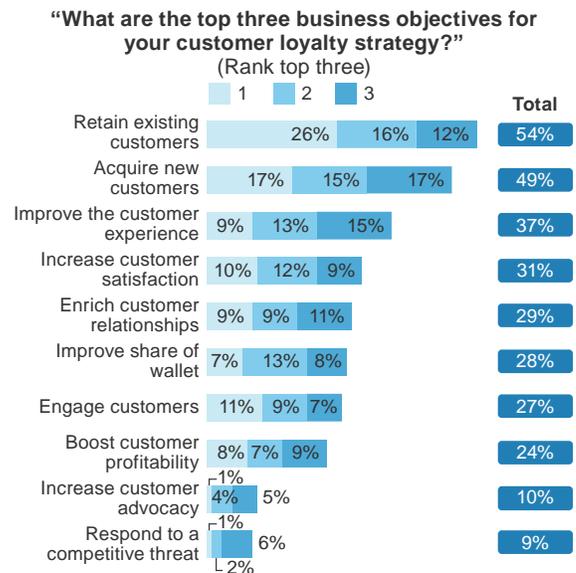## Companies Rely On Loyalty Programs to Acquire, Engage, And Retain Customers

In the age of the customer, it's more important than ever to engage effectively with your customers — how, when, and where they desire. This empowered customer has access to more choices and faces fewer barriers in switching to competitors, meaning that companies have to evolve their thinking from being a 'company with a loyalty program' to a loyalty company that seeks to develop more meaningful and lasting relationship with their customers. Loyalty programs must therefore transform from being thought of as vehicles for points and discounts toward being a tool for retention, engagement, and advocacy.[2]

In our study, loyalty program decision makers seem to echo this imperative and claim they are using their loyalty programs to achieve these objectives (see Figure 1):

› **Retention remains a key objective of loyalty programs.** Over half of those surveyed identify it as a top three objective. And, 26% of loyalty program decision makers surveyed state that retaining customers is the primary business objective of their loyalty program. This is unsurprising given that most programs reward members for purchase and interaction frequency.

› **Forty-nine percent utilize loyalty programs to acquire customers.** Second to retaining them, loyalty program decision makers look to loyalty programs as a mechanism to win new customers. Indeed, the insights gained from loyalty programs among current customers help decision makers identify the 'right' kind of new customer to attract. And in retail and banking verticals, loyalty program perks are often advertised to prospective clients in order to entice them to make a purchase or open a new account.

› **Loyalty program decision makers look to loyalty programs to impact relationship health.** In addition to acquisition and retention priorities, respondents rely on their programs to serve customer needs by improving experience (37%), increasing satisfaction (31%), enriching relationships (29%), and engaging customers (27%). When customers enroll in a loyalty program, they allow companies to collect valuable profile, preference, and behavioral data that companies can use to uniquely recognize, reward, and communicate with them.

FIGURE 1

Decision Makers Wish To Use Loyalty Programs To Acquire, Engage, And Retain Customers

"What are the top three business objectives for your customer loyalty strategy?"
(Rank top three)
1 2 3   Total

Retain existing customers	26% 16% 12%	54%
Acquire new customers	17% 15% 17%	49%
Improve the customer experience	9% 13% 15%	37%
Increase customer satisfaction	10% 12% 9%	31%
Enrich customer relationships	9% 9% 11%	29%
Improve share of wallet	7% 13% 8%	28%
Engage customers	11% 9% 7%	27%
Boost customer profitability	8% 7% 9%	24%
Increase customer advocacy	1% 4% 5%	10%
Respond to a competitive threat	1% 6% 2%	9%

Base: 150 US loyalty program decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

Underleveraged And Underutilized Loyalty Programs Fail To Deliver On Objectives

Despite their stated priorities, loyalty program decision makers admit that they are not realizing the full potential of what their loyalty programs are capable of. While two-thirds report general satisfaction with their loyalty programs (see Figure 2), only 16% are *completely* satisfied with its overall performance. This gap between those entirely satisfied with the results of their loyalty strategies and programs and those who feel it is "good enough" or worse highlights a key opportunity for loyalty program decision makers to improve and further optimize program performance.

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FIGURE 2

Most Loyalty Programs Are "Good Enough" But Do Not Completely Satisfy

"What is your overall level of satisfaction with your customer loyalty program performance?"

| Completely satisfied | Somewhat satisfied | Neither satisfied nor unsatisfied | Somewhat unsatisfied | Completely unsatisfied |

Two-thirds (67%) are generally satisfied . . .

| 16% | 51% | 14% | 15% | 3% |

. . . yet only 16% are *completely* satisfied

Base: 150 US loyalty program decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

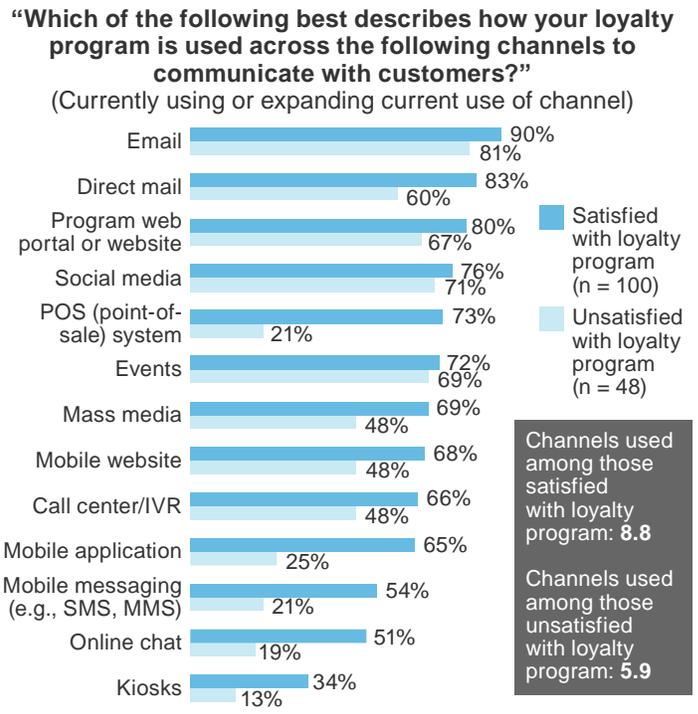## LIMITED PENETRATION OF COMMUNICATION CHANNELS STIFLES CUSTOMER INTERACTION

Empowered consumers demand more control over their interactions with brands and are growing impatient with traditional marketing and advertising. If loyalty programs want to engage in a relevant dialogue with their best customers, they need to be able to engage with customers wherever they choose to interact.

In our study (see Figure 3), those reporting dissatisfaction with their loyalty programs indicate:

› **Lower use of channels overall.** Loyalty program decision makers dissatisfied with their loyalty programs only use an average of about six channels, while those who are satisfied use an average of nine. Additionally, those dissatisfied use *every* channel to a lesser extent than those who are satisfied. Giving customers limited opportunities to engage results in less opportunities to capture valuable insights and ultimately to realize the intended goals of the program.

› **Lower use of mobile.** Mobile is particularly important if companies wish to truly engage customers wherever they are at the most opportune moments. Use of mobile websites, apps and messaging is notably higher among those satisfied with their loyalty programs versus those who are unsatisfied. For example, 65% of satisfied loyalty

FIGURE 3

Those Less Satisfied With Loyalty Program Performance Use Fewer Potential Touchpoints

"Which of the following best describes how your loyalty program is used across the following channels to communicate with customers?"

(Currently using or expanding current use of channel)

Channel	Satisfied	Unsatisfied
Email	90%	81%
Direct mail	83%	60%
Program web portal or website	80%	67%
Social media	76%	71%
POS (point-of-sale) system	73%	21%
Events	72%	69%
Mass media	69%	48%
Mobile website	68%	48%
Call center/IVR	66%	48%
Mobile application	65%	25%
Mobile messaging (e.g., SMS, MMS)	54%	21%
Online chat	51%	19%
Kiosks	34%	13%

Satisfied with loyalty program (n = 100)

Unsatisfied with loyalty program (n = 48)

Channels used among those satisfied with loyalty program: **8.8**

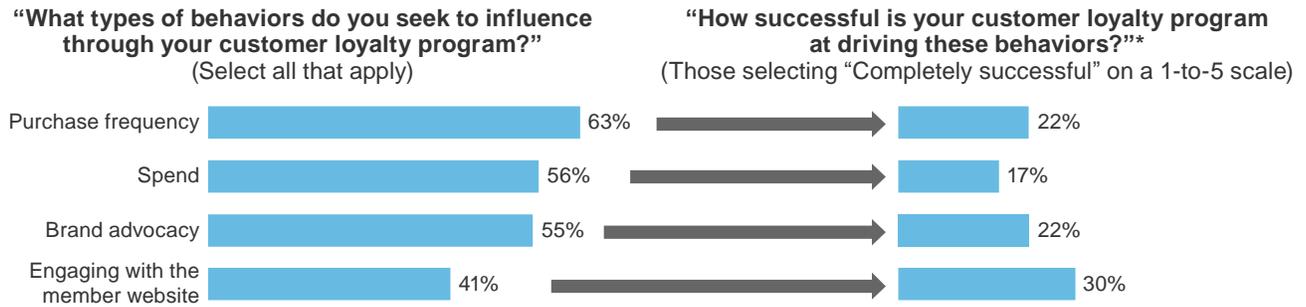Channels used among those unsatisfied with loyalty program: **5.9**

Base: US loyalty program decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

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FIGURE 4

Loyalty Programs With More Touchpoints Drive More Behaviors More Successfully

"What types of behaviors do you seek to influence through your customer loyalty program?"
(Select all that apply)

"How successful is your customer loyalty program at driving these behaviors?"*
(Those selecting "Completely successful" on a 1-to-5 scale)

Behavior	Seek to influence	Completely successful
Purchase frequency	63%	22%
Spend	56%	17%
Brand advocacy	55%	22%
Engaging with the member website	41%	30%

Base: 150 US loyalty program decision-makers

*Base: variable US loyalty program decision-makers who are influencing each behavior through their customer loyalty program

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

program decision makers use mobile apps versus 25% of unsatisfied decision makers, and 54% of those satisfied use mobile messaging versus 21% of those unsatisfied.

› **Narrower breadth.** Those dissatisfied with their programs employ traditional, digital, and in-person channels in unequal measure compared to those who are satisfied. For example, those satisfied utilize point-of-sale systems nearly as equally as new channels such as social media (73% and 76%, respectively) while those dissatisfied are more inclined to stick to a single channel type.

MANY PROGRAMS FAIL TO SUCCESSFULLY DRIVE DESIRED LOYALTY BEHAVIORS

By engaging their customers, loyalty decision makers are ultimately seeking to drive consumer behaviors that lead to more frequent time spent on websites, brand advocacy, and ultimately greater and more frequent purchase. Nevertheless, few find they are actually attaining these results (see Figure 4):

› **Few loyalty programs are able to drive advocacy and engagement successfully.** In our study, only 30% of those seeking to drive engagement and only 22% of those seeking to drive brand advocacy are reporting complete success—indicating that loyalty program decision makers are struggling to utilize their loyalty programs to drive soft behaviors—let alone making purchases.

› **Few report great success in influencing the purchase cycle.** It stands to reason that if most programs cannot establish the emotional connect necessary to drive advocacy and engagement, the financial payoff will not follow. While nearly two-thirds of loyalty program decision makers seek to drive purchase frequency, less than one-quarter of those feel they are completely successful in doing so. Furthermore, only 17% of those seeking to use their loyalty programs to drive spend are completely successful.

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PROGRAM IMMATURITY LEADS TO MISSED INSIGHTS AND WEAKER CUSTOMER RELATIONSHIPS

Loyalty program decision-makers must advance their approach to loyalty by building mature programs that make effective use of the insights gathered, truly engage consumers with the brand, and have the necessary technological structure to deliver these experiences.[3]
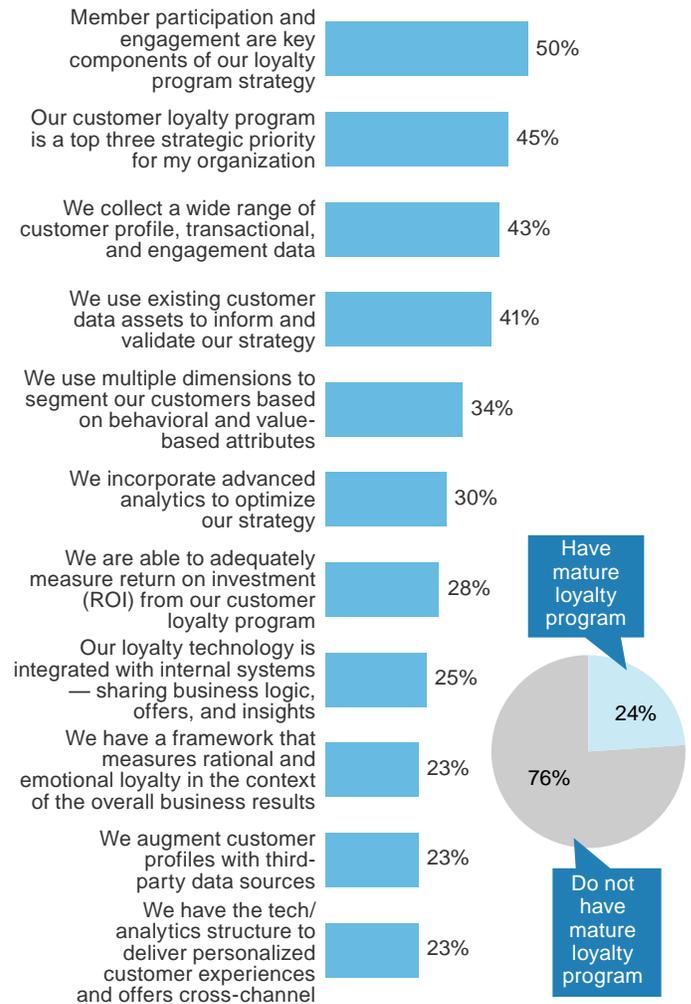
A mature loyalty program is one which can gather deep understanding of why customers are loyal and leverage a multifaceted approach toward developing strong customer relationships.[4] In our study, we found that less than one-quarter of loyalty program decision makers agree that their loyalty programs fulfill the requirements of a mature strategy (see Figure 5). Specifically, many programs lack:

› **Advanced data management and analytics skills.** A truly robust and effective loyalty strategy creates a continuous feedback loop between the customer and company which allows customers to be heard and yields rich customer insights and understanding. Yet, less than one-third of respondents agree their strategy utilizes advanced analytics to optimize their strategies. And, less than one-quarter completely agree that they augment customer profiles in their loyalty programs with third-party data sources.

› **Integrated technology.** Only 25% completely agree that their loyalty technology is fully integrated with systems with the goal of sharing logic, offers, messages and customer insights, and only 23% completely agree that their technology and analytics structure can deliver consistent customer experiences and offers across channels. In order to achieve the objectives for their loyalty initiatives, loyalty program decision makers need to step up their technology execution to act on the insights they get from the program.

FIGURE 5

Mature Loyalty Programs Apply Insights To Influence The Business Strategy

"Indicate level of agreement with following statements about your company's approach to customer loyalty."
(Those saying they "Completely agree" on a 1 to 5 scale)

Statement	Percent
Member participation and engagement are key components of our loyalty program strategy	50%
Our customer loyalty program is a top three strategic priority for my organization	45%
We collect a wide range of customer profile, transactional, and engagement data	43%
We use existing customer data assets to inform and validate our strategy	41%
We use multiple dimensions to segment our customers based on behavioral and value-based attributes	34%
We incorporate advanced analytics to optimize our strategy	30%
We are able to adequately measure return on investment (ROI) from our customer loyalty program	28%
Our loyalty technology is integrated with internal systems — sharing business logic, offers, and insights	25%
We have a framework that measures rational and emotional loyalty in the context of the overall business results	23%
We augment customer profiles with third-party data sources	23%
We have the tech/analytics structure to deliver personalized customer experiences and offers cross-channel	23%

Have mature loyalty program 24%

Do not have mature loyalty program 76%

Base: 150 US loyalty program decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

Diversify Customer Interactions And Rewards To Optimize Loyalty Outcomes

One of the most compelling correlations with loyalty success that our study found was an increase in the number of channels being incorporated into the program with ability to drive behaviors. Consumers want to interact with brands when they please, so loyalty programs that are giving them as many opportunities to do so see greater rates of success in accomplishing their goals. Our study finds that (see Figure 6):
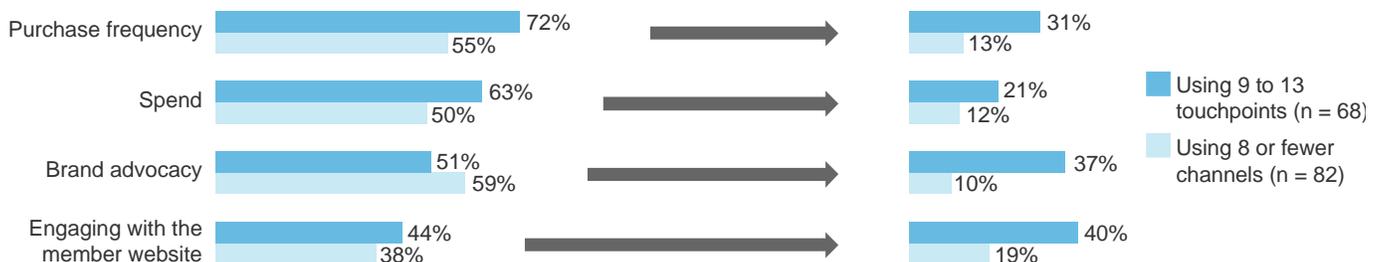
› **Utilizing more channels increases success in driving all behaviors.** Those employing nine to 13 touchpoints report being completely successful in driving purchase frequency, spend, brand advocacy and engagement with their site at greater rates than those who use 8 our less touchpoints.

› **More channels particularly drive brand advocacy and engagement.** 37% of those using 9 to 13 channels report complete success in driving advocacy compared to only 10% only using 8 or less channels, while 40% of those using 9-13 channels claim complete success driving engagement compared to 19% of those using 8 or less channels.

FIGURE 6

Loyalty Programs With More Touchpoints Drive More Behaviors More Successfully

"What types of behaviors do you seek to influence through your customer loyalty program?"
(Select all that apply)

"How successful is your customer loyalty program at driving these behaviors?"*
(Those selecting "completely successful" on a 1 to 5 scale)

Purchase frequency — 72% / 55% → 31% / 13%

Spend — 63% / 50% → 21% / 12%

Brand advocacy — 51% / 59% → 37% / 10%

Engaging with the member website — 44% / 38% → 40% / 19%

■ Using 9 to 13 touchpoints (n = 68)

▨ Using 8 or fewer channels (n = 82)

Base: US loyalty program decision-makers

*Base: variable US loyalty program decision-makers who are influencing each behavior through their customer loyalty program

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

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An effective loyalty program needs to also include multiple mechanisms to appeal to both a wide swath of potential customers as well as the various ways they wish to interact with the brand. A successful program should include a mix of benefits that provide tangible rewards, opportunities to deepen relationships with engagement, as well as mechanisms that recognize and acknowledge customer value.[5] Therefore, loyalty program decision makers should strive to incorporate a multidimensional mix to drive behaviors (see Figure 7). Indeed the most successful programs will include loyalty program mechanisms that most closely align to their organization's objectives and their unique customer bases. Our study reflects this, as loyalty program decision makers who are satisfied with their programs report that they use more loyalty mechanism than those who are unsatisfied (see Figure 8).

FIGURE 7

Reward, Recognize, And Engage Members With Compound Benefits

Benefit	Reward	Recognize	Engage
Access		✔	✔
Auctions	✔		✔
Cash back	✔		
Exclusive content	✔		✔
Experimental benefits	✔	✔	✔
Instant discounts	✔		
Instant wins and sweepstakes	✔		
Loyalty currency	✔		✔
Member events		✔	✔
Reward catalog	✔		✔
Surprise and delight rewards	✔	✔	
Targeted offers	✔	✔	

Source: Forrester Research, Inc.

FIGURE 8

Loyalty Program Decision-Makers Are More Satisfied With Programs Using More Mechanisms

Average number of mechanisms used or piloted among those . . .

. . . satisfied with their loyalty program (n = 100):

11.2

. . . and those unsatisfied with their loyalty program (n = 48):

5.2

Base: US loyalty program decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

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FIGURE 9

Reward, Recognition, And Engagement Mechanisms Have High Impact On Outcomes

"In your opinion, what impact has implementing the following loyalty program mechanisms had on. . .?"
(Extremely high or high impact; top five shown)

Changes in purchase behavior		Customer engagement		Customer retention	
Cash back (n = 37)	59%	Instant discounts toward futurepurchases of your products or services (n= 44)	73%	Exclusive access to products, services, orsales (n = 64)	67%
Instant discounts toward future purchases of your products or services (n= 46)	59%	Cash back (n = 35)	71%	Cash back (n = 44)	66%
Exclusive access to products, services, orsales (n = 51)	57%	Exclusive access to products, services, orsales (n = 50)	70%	Instant discounts toward futurepurchases of your products or services (n = 52)	58%
Recognition based on value (n = 39)	56%	Mobile rewards and offers (n = 36)	67%	Member-only events (n = 64)	55%
Loyalty currency (n = 42)	55%	Loyalty currency (n = 45)	62%	Points-as-payment redemption (n = 37)	54%

Base: variable US loyalty program decision-makers who use the loyalty program mechanism and measure the outcome

Source: A commissioned study conducted by Forrester Consulting on behalf of Deluxe, January 2015

Furthermore, implementing loyalty mechanisms serve more than simply allowing customers to collect points and rewards—the relationship they create with companies ultimately drive metrics. Importantly, mechanisms that engage and recognize are just as effective in as more traditional mechanism that reward. In our study, we found that various mechanisms that incorporate compound benefits have a high impact on (see Figure 9):

› **Changes in purchase behavior.** Mechanisms with engagement characteristics such as exclusive access to products / services (57%) and loyalty currency (55%) are just as effective as strictly reward based mechanisms such as cash back (59%) and instant discounts (59%) in impacting changes in purchase behavior.

› **Customer engagement.** Reward mechanisms such as instant discounts (73%) and cash back (71%) work hand-in-hand with exclusive access (70%) to impact

engagement. Notably, mobile rewards and offers (67%) also highly impact customer engagement outcomes, highlighting the importance of mobile in effectively deepening relationships with customers.

› **Customer retention.** Both exclusive access to products / services (67%) and cash back (66%) have the highest impact on customer retention over other loyalty mechanisms. Although customers are still incentivized still stay with traditional reward mechanisms, the high impact of engagement mechanisms on retention shows that actually building relationships and *loyalty* are just as important.

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Key Recommendations

Marketers need to break from the mindset of viewing their loyalty programs as set of points, discounts, and rewards used to drive transactional behavior. Loyalty is both behavioral and emotional, and effective strategies and programs will mirror this evolved approach. To begin this evolution, you need to:

> **Recognize your loyalty program as a vital engine for acquiring, engaging, and retaining customers.** The most successful loyalty programs encourage members to share all kinds of profile, preference, and behavioral data and derive deep customer understanding from that information. And while these insights should certainly be applied to improve program performance, they also have broad applications across the entire enterprise including customer experience design and acquisition marketing, To begin embedding and integrating loyalty insights, first, audit the processes, tools, and resources you have in place to collect and analyze customer data to optimize the insights you're gathering from the program. Then, reach across the aisle to other internal teams that will benefit from those insights and build processes for collaboration.

> **Facilitate contextual member interactions across channels.** Consumers now have the expectation that they can get whatever piece of information they are looking for immediately, wherever they want it. For some, traditional push channels like email and direct marketing will still be relevant. But, in order to spark meaningful interactions with all of your best customers, you must embrace additional touchpoints. Our study finds that loyalty program decision makers most satisfied with their loyalty programs deploy it across more channels. But, this isn't just about rolling out the same interactions across more channels. Map out a member interaction ecosystem to understand where, when, and for what reason members interact to better understand customer expectations and bridge the gap between push and pull messages,

> **Balance and diversify your rewards mix.** Customers respond to a wide variety of loyalty program mechanisms, and if you want to meaningfully reward, recognize, and engage your customers it's time to move beyond simple transactional benefits. Experiment with both proven mechanisms such as instant discounts and loyalty currency as well as those less utilized such as rewards auctions and surprise-and-delight rewards to give customers options and drive engagement as well as transactional behavior. But to avoid implementing an overly complex benefits structure that members struggle to understand, be sure to carefully align your chosen benefits with your program, customer, and brand objectives.

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Appendix A: Methodology

In this study, Forrester conducted an online survey of 150 marketing directors and brand managers in the US to evaluate their organization's customer loyalty strategies and programs. Questions provided to the participants asked how and if their loyalty programs incorporated engagement mechanisms as well as utilized multiple touchpoints to drive loyalty metrics. The study began in November 2014 and was completed in January 2015.

Appendix B: Endnotes

[1] Source: "Create An Evolved Loyalty Strategy, Not Just An Effective Program," Forrester Research, Inc., February 19, 2015.

[2] Source: "Be A Loyalty Company, Not A Company With A Loyalty Program," Forrester Research, Inc., February 18, 2015.

[3] Source: "Be A Loyalty Company, Not A Company With A Loyalty Program," Forrester Research, Inc., February 18, 2015.

[4] Source: "Advance Your Approach To Customer Loyalty," Forrester Research, Inc., October 15, 2014.

[5] Source: "Perk Up Your Customer Loyalty Program," Forrester Research, Inc., May 30, 2014.

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