SEEING BEYOND THE LOYALTY ILLUSION: IT'S TIME YOU INVEST MORE WISELY.

ROBERT WOLLAN, PHIL DAVIS,
FABIO DE ANGELIS, AND
KEVIN QUIRING

accenturestrategy

In today's hyper-competitive business environment, leaders are working hard to find and free up capital to drive growth. Looking at all the investments they make in the name of loyalty and customer satisfaction is an often overlooked and underestimated place to start.

The truth is that traditional loyalty programs are costing significantly more, and delivering significantly less, than many executives realize. To reclaim the loyalty value that is slipping through their fingers, business leaders are starting to rethink what loyalty means for their customers—and for their business.

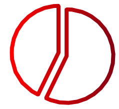
GROWING PAINS

Investments in loyalty are booming. More than 90 percent of companies currently employ some form of customer engagement or loyalty program.[1] In the United States, alone, loyalty program memberships grew at a rate of 26.7 percent from 2012 to 2014. There are already 3.3 billion such memberships, or 29 per US household.[2] And that number is rising.

This focus on loyalty is costing more than most business leaders realize. Businesses spend billions each year for non-cash loyalty incentives.[3] Even more, and potentially greater, costs are hidden in the "loyalty" line item within programs that simmer in the background, consuming investments at a steady pace, year after year. Once activated, they are difficult and time-consuming to shut down. So they rarely are.

Investments in loyalty are booming.

Given the high cost, is the business case for loyalty investments sound? It depends. Accenture has found that members of loyalty programs generate between 12 and 18 percent incremental revenue growth per year than non-members.[4] However, there are several indications that loyalty investments, in their current form, are not generating all the value they could. Our recent research confirms that for growing numbers of consumers, many loyalty investments are simply missing the mark.



57 percent spend more on brands or providers to which they are loyal. That means 43 percent spend the same or less. And more than a third (36 percent) consider loyalty irrelevant to their spending.

71 percent claim loyalty programs do not engender loyalty.[6]

61 percent switched some or all of their business from one brand or provider to another in the last year. Not surprisingly, the propensity to switch is 6 percentage points higher among customers for whom loyalty programs have a negative or negligible effect. But even consumers who spend more on brands to which they are loyal switched 17 percent more often than those who spend less. And the clincher? "Loyal" customers who spend more are 9 percent more likely to retract their loyalty altogether.[7]

77 percent of all consumers admitted they now retract their loyalty more quickly than they did three years ago.[8]

23 percent demonstrate a negative or non-existent reaction to companies' loyalty efforts.[9] And that number is rising, particularly among younger consumers who will be critical to driving revenue growth in the years ahead. The sobering truth is that for nearly a quarter of consumers, all that spend is actually hurting the relationship.

These findings suggest that as loyalty investments have grown, our understanding of how customers behave and how they view loyalty has not kept pace. It's time for companies to rethink loyalty and maximize the value of today's most loyal customers. Without a course correction, investments in loyalty are likely to be wasted in the years ahead—diluting margins, draining profitability, driving less-than-expected growth, and decreasing customer value along the way.

LOYALTY, REINVENTED

Leaders who recognize their loyalty programs aren't delivering the results they desire have the opportunity, if not the obligation, to rethink how, why and how much they are investing in loyalty. We believe companies can do five things to maximize the value of loyalty and free up capital to invest in other growth initiatives.

Justify every investment, with an eye toward margin growth. The first step to maximizing loyalty value involves eliminating programs that do the opposite. Identify every investment made in the name of loyalty (including rewards and capability investments) based on their ability to drive margin gains. Then apply Zero-Based Budgeting to isolate and shut down initiatives or loyalty program elements that are margin-dilutive. Once less valuable programs are eliminated, companies can use their freed capital to re-architect their remaining loyalty programs to engage customers and monetize experiences. This effort involves breaking the cycle of giving things away and rethinking the many ways in which money is invested in things that don't offer a payback. Rewards, for example, simply dilute the sale price. Pivot those investments to value-added experiences that are not free. Developing prioritized service channels is one example.

TURNING OFF THE LOYALTY AUTOPILOT

Many airlines are fundamentally changing a mainstay loyalty perk: the frequent flier mile. For the past 30 years, airlines have rewarded loyal customers with redeemable miles based on the distance they traveled. Now, in an effort to optimize revenues, carriers are issuing rewards based on the amount their loyalty members pay to fly. The move makes sense financially. Passengers that pay higher fares are more profitable. The change in the program is intended to attract, serve and retain those high-value customers.[10]

Double down on new customer acquisition through retention. Our research revealed that loyalty programs aren't generating as much of a sales uplift as many leaders believe. On the other hand, they do a decent job of keeping customers engaged. And that's important, since customers who are fully engaged tend to refer others. Rather than investing in initiatives aimed at directly increasing the wallet share of loyal customers, companies can benefit from placing greater investment emphasis on leveraging the goodwill and word-of-mouth generated by the loyal base as a source of "warm" acquisitions.

That means recalibrating investments to focus on retaining customers with highly satisfying experiences and leveraging their connections to acquire new customers. That's where the hidden pools of loyalty returns lie.

Learn the Millennials' loyalty language. One group that warrants personalized attention is Millennials. This segment now numbers 1.8 billion globally and is expected to have a lifetime value of $10 trillion.[11] Unfortunately, Millennials aren't enamored with most current loyalty programs. In fact, our research revealed they are more likely to have a negative reaction to a company's attempt to earn their loyalty. Therefore, it is critical that companies understand Millennials' impressions of loyalty and then tailor language and experiences to their values and behaviors. Across all communications and loyalty investments, address what Millennials like and dislike, and what types of promotions and rewards they are likely to embrace or shun (see sidebar).

TAILORING LOYALTY TO THE YOUNG

Millennials' values and behaviors set them apart. Without understanding these differences, companies will be unable to deliver the relevant loyalty experiences that this lucrative group values most.

WHAT DO CONSUMERS VALUE?

Millennials	Others
Celebrity endorsements	Lower prices
Supporting causes	Privacy/data security
Personalization	Product/service quality
Innovative experiences	Single point of contact for issue-resolution
Access to exclusive offers or partnerships	Urgency of issue resolution

HOW DO CONSUMERS RESPOND?

Millennials	Others
Quicker to switch providers and brands	More forgiving
Spend less with brands with which they are loyal	Spend more on brands with which they are loyal
Share positive experiences with friends and family	Keep satisfaction to themselves
Use more channels to interact	Use their preferred channel to interact
Seek flawless performance against high (and rising) expectations	Seek adequate performance against static expectations

Source: Accenture Strategy Global Consumer Pulse Survey, July 2016.

Recognize that actions speak louder than words. Given that customers' loyalty feelings are no longer the predictors of buying behaviors they once were, companies might consider expanding their sensing capabilities to include customers' actions. Our research found, for example, that more than half of the most loyal customers actively recommend brands to others. And 14 percent express their loyalty by publicly endorsing or defending the company via social media.[12] These tangible actions demonstrate a customers' affinity more than a self-reporting measure of "satisfaction" ever could. Redouble efforts to strengthen loyalty behaviors and encourage advocacy.

Advocacy is an increasingly critical indicator of true loyalty. Advocacy measures open up new possibilities for companies to treat their best customers like the brand champions they are.

View loyalty as a team sport. Building loyalty is necessary. But it's also an investment. Loyalty leaders invest in "listening architectures" to capture, analyze and act on customer feedback across internal silos in near real-time. It also may make sense to work with partner organizations to create lower-cost acquisition channels and share the advertising and operating expenses associated with loyalty programs. American Express has found that a collaborative approach to loyalty pays off big. It has launched its PAYBACK card program in six countries (the program is called "Plenti" in the United States), which rewards customers who purchase from select partners and across multiple channels. It provides a full service, including IT and financial platforms and even data monetization approaches for companies that want to gain greater control over their loyalty costs. Since launching PAYBACK in Germany in 2000, 28 million consumers and 650 partners have signed on. Annual sales generated by the card now exceed €27 billion (US$28 billion). Tellingly, 95 percent of all reward points are redeemed, which suggests that customers find the program relevant and valuable.[13]

LOYALTY IS DEAD. LONG LIVE LOYALTY.

Loyalty still matters. It always will. But today, as the correlation between customers' loyalty sentiments and purchasing behaviors continues to weaken, it's becoming clear that the old loyalty rules no longer apply. Business leaders can re-evaluate their loyalty investments and adjust to the new reality with a strategy that focuses on maximizing value. Those that make the necessary changes will not only achieve a new form of competitive advantage, but free up capital that can drive additional growth.

JOIN THE CONVERSATION

@AccentureStrat

Follow Us on LinkedIn

CONTACT THE AUTHORS

Robert Wollan
robert.e.wollan@accenture.com

Phil Davis
philip.a.davis@accenture.com

Fabio de Angelis
fabio.de.angelis@accenture.com

Kevin Quiring
kevin.n.quiring@accenture.com

REFERENCES

[1] Experian, "Driving customer loyalty: Maximize loyalty program data collection to drive insight and revenue," November 2014.

[2] Jeff Berry (Colloquy), "Customer Loyalty in 2015 & Beyond: Are You Wasting Your Money?," October 2015.

[3] Incentive Federation, Inc. "Incentive Marketplace Estimate Research Study," July 2016.

[4] Accenture Digital research, June 2016.

[5] Accenture Strategy 2016 Global Consumer Pulse Survey.

[6] Accenture Digital research, June 2016.

[7] Accenture Strategy 2016 Global Consumer Pulse Survey.

[8] Ibid.

[9] Ibid.

[10] Aarian Marshall, "Frequent Flier Miles Are Kaput—The Game's About Credit Cards Now," Wired Magazine, November 23, 2016.

[11] Erin Mulligan Nelson, "Millennials Want to Party With Your Brand But On Their Own Terms," Advertising Age, August 2, 2012.

[12] Accenture Strategy 2016 Global Consumer Pulse Survey.

[13] www.payback.net

ABOUT THE RESEARCH

In July-August 2016, Accenture surveyed 25,426 consumers in 33 countries to gain a better understanding of their buying preferences, attitudes and behaviors. The 2016 survey collected and analyzed responses from the largest sample of consumers in the 11 years of our conducting this research.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 394,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

ABOUT ACCENTURE STRATEGY

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership help drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy.