

Is Digital Killing Loyalty?

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Is digital killing loyalty? No, but it is changing it forever.

As front-office executives look to retain customers and generate profitable revenue growth, many continue to celebrate the success of their traditional "loyalty" programs. However, an interesting paradox has emerged: The number of customers participating in loyalty programs has grown by more than 40 percent across industries over the past six years. Despite this, 64 percent of customers switched a provider last year in at least one industry. And of that group, 50 percent said they would consider future offers from non-traditional players that they may never have previously considered.¹

What does it mean when consumers demonstrate, on the one hand, their intentions to be loyal and, on the other, their intentions to leave? It suggests that traditional loyalty programs haven't been attracting customers for the reasons companies think. And it could mean consumers' decisions to leave have less to do with a company's loyalty program, or even its products or services, than with the experience that company provides.

The paradox has revealed a sobering truth: loyalty is not what we thought it was. The worst part? Most companies are still investing as much as ever in these programs that are delivering less and less.

Customers are loyal to experiences, not to companies.

Digital has changed consumer behaviors forever. And it has even made some sales models obsolete. But it hasn't killed loyalty. What it has done is illuminate the flaws that have been eroding the results of loyalty programs and investments. It's revealed the new dynamics of loyalty and exposed the fact that customers are (and most likely always have been) more loyal to experiences—than to companies, products or brands.

Appreciating the significance of this revelation requires an honest assessment of traditional loyalty approaches. In the not-too-distant past, sales models took the form of a classic sales and marketing funnel in which customers moved in a linear fashion from discovery to consideration to evaluation to purchase. To most companies, "purchase" was the pivotal event. That's where loyalty was secured. So that's where loyalty investments—most commonly in the form of rebates, discounts and points for purchase—were made. The problem is that such non-differentiated and non-targeted offers are blunt instruments that do little to encourage long-term engagement or

more consumer spending. In fact, they do the opposite. They chew away at profitability—a point reflected in Accenture's research, which found that nearly half of the three-quarters of respondents who joined at least one loyalty program did so simply to access the best deals. The chase for better pricing explains why program participation has grown so significantly and why 27 percent of consumers are actually members of multiple loyalty programs at the same time within a given industry. On the surface, those rising loyalty numbers are impressive. But they are not measures of loyalty. And they certainly aren't measuring true business impact.

Another flaw that digital has revealed in loyalty programs is the assumption of permanence. Companies believed that once customers were acquired, they would stick around. The thinking was understandable. Customers did seem to demonstrate their loyalty over time. They kept coming back, despite their providers' shortcomings. In reality, these displays of "enduring devotion" were anything but. Customers weren't eternally loyal; they were merely visitors for a time. Digital has both empowered the customer and made these dynamics more obvious. It has provided customers with more information and opinions than ever before. It has lowered the barriers to competition and revealed new players. And it's made it extraordinarily easy for them to access new products, new services and, yes, new loyalty programs that offer even better deals. That's why consumers are leaving (or considering leaving) their providers in droves.

Finally, digital provides insights into what customers value and what it means to be loyal. Specifically, it has revealed that what truly drives loyalty is the quality of the experiences customers have before, during and after a sale. Their loyalty to an experience, as opposed to a company or product, is evident in a number of Accenture's research findings:

- 65 percent of consumers use online channels—not primarily for price advantages, but for convenience, speed, the quality of information provided, and access to a broader range of choices.
- 60 percent find "being promised one thing and delivered something else" the most frustrating experience they can have with a company.
- 65 percent (nearly 80 percent in emerging markets) have switched at least one provider in the past year due to poor service.
- 82 percent of "switchers" believe companies could have retained them with better experiences and more accurate expectations.²

Loyalty, re-imagined.

What does this new definition of loyalty mean for companies? It means they need to approach loyalty—and win it—with vigilance and in entirely new ways. Fundamentally, they must identify what matters to the customer and deliver value at every interaction, through any channel. Because the experiences that translate into loyalty start long before purchase and continue long after, a company's management of loyalty programs can, likewise, never stop. The real focus needs to be on the ongoing processes of "discovery" and "evaluation." Those are the stages of engagement in which customers can be pleasantly surprised and companies can demonstrate their ability to keep their promises.

Some forward-thinking companies have placed their loyalty bets on the delivery of experiences that customers notice and value. Those bets have paid off.

- O2 (Telefónica UK Limited), the UK's leading provider of mobile services, launched Priority Moments. This innovative location-based loyalty program elevated the role of "discovery" in the customer journey by providing a steady stream of unique experiences, discount offers from high street brands, and exclusive access to "must-see" live events to customers based on their interests, behaviors and geo-locations. Not only was Priority Moments one of the UK's fastest-growing loyalty programs, it delivered a multi-million pound churn-reduction benefit and helped the company achieve conversion rates of up to 95 percent.³
- Investment giant Charles Schwab Corporation has built loyalty among its base of Registered Investment Advisors (RIAs)—not through a loyalty program, per se, but by offering them access to industry-leading insights and practices, as well as an end-to-end technology platform that helps them manage their client relationships. The improved experience for the RIAs helps translate into an improved experience for the RIAs' clients.⁴
- American Express Company and Uber, Inc. have joined forces to deliver rewarding experiences to their joint customers. The first-of-its-kind mobile loyalty program allows passengers in Uber cars to earn double American Express points when they use their card or redeem their points to pay for Uber rides. Uber drivers benefit, too, via an incentive program that recognizes those with the highest customer ratings. American Express and Uber are among the first companies to recognize—and capitalize on—the notion that loyalty is a "team sport."⁵

Loyalty for the long haul.

Loyalty is—and always has been—a marathon. But it is now won or lost over a series of successive sprints. In today's quest for loyalty, each interaction provides a new opportunity to deliver an engaging experience and enable customers to discover new opportunities and services or access new things. To drive loyalty in the digital age, companies need to:

- **Deconstruct their existing loyalty programs.** Companies invest in a variety of loyalty value propositions and capabilities, only a portion of which actually generate sustainable loyalty. By evaluating the effectiveness of the entire program, as well as its individual features, companies can decommission the program elements that are not driving ROI and use those funds for new capabilities that will.
- **Focus on experience, not discounts.** Companies should design a new experiential loyalty model using value propositions that focus on exclusive access and experience, as opposed to simply discounted goods and services. They should allow customers to unlock new rewards as loyalty grows. Above all, they need to ensure that the value propositions deliver on the brand promise, including explicit and implicit promises perceived by the customer.
- **Integrate loyalty programs with end-to-end customer experiences.** Companies need to ensure every step in the customer lifecycle considers customer loyalty. They need to increase the focus on the capabilities that allow loyal customers to discover and rediscover solutions. And they need to take every customer interaction into account when assessing the loyalty of an individual customer.
- **Expand the eco-system of loyalty partners.** To expand loyalty value propositions into adjacent spaces and categories, companies should establish trade partnerships with organizations that offer complimentary offerings and channels to the same customer segments. They need to use these partnerships to increase the impact, relevance and exclusivity of their value propositions.
- **Make loyalty an enterprise objective.** Customer loyalty must be a priority for every part of the enterprise, whether generating demand or fulfilling demand. Companies need to define coherent loyalty metrics that are relevant and meaningful to every function in the organization. They need to orchestrate ownership and accountability for each function's role in the customer lifecycle. And they need to enable the end-to-end views necessary to assess the quality of every interaction and every experience.

It's time.

It's time for companies to acknowledge that loyalty is neither permanent, nor under their control. Companies don't "own" loyalty; they simply have it on loan for short periods of time, from one interaction to the next. Digital has confirmed the need to delight or surprise customers on an ongoing basis. Every experience makes a difference. And satisfying experiences, delivered over time, are what build long-term relationships and drive profitable growth.

References

¹ Customer 2020: Are You Future-Ready or Reliving the Past? The 2014 Global Consumer Research, Accenture, 2014

² Ibid.

³ Mobile Marketing Association. O2 Priority Moments case study, 2014. Retrieved on February 26, 2015 from http://www.mmaglobal.com/case-study-hub/case_studies/view/27023

⁴ Charles Schwab & Co., Inc. website: <http://advisorservices.schwab.com/public/advisor/technology>

⁵ American Express press release, "American Express and Uber Launch First-of-Its-Kind Mobile Loyalty Program," June 9, 2014. Retrieved on February 26, 2015 from <http://about.americanexpress.com/news/pr/2014/amex-uber-mobile-loyalty-program.aspx>

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