

[COVER STORY]

Celebrate, Contemplate:

Loyalty's Heavy Hitters on Where We've Been, Where We're Headed

The traditional gift for a 25th anniversary is silver. We'd like to make it reciprocity.

Loyalty marketers can fill warehouses with the investments they've made to better understand the person behind the purchase, to derive clarity from insights. Yet we seldom pause enough to reflect on how our actions define us, and our industry.

For our 25th anniversary as a leading researcher and publisher, COLLOQUY has gathered a select group of loyalty leaders and visionaries and asked them to share their own insights into the industry's evolution. Many of these pioneers – from Don Peppers and Seth Godin to the loyalty marketers at Hilton Worldwide and Delta Air Lines – have witnessed the key events over the past 25 years, and many shaped them. We have gathered their responses and present them here, as our anniversary gift to the industry. →



Our Experts



Jeanne Bliss, president of CustomerBliss and author of "Chief Customer Officer 2.0"



Emily Collins, senior analyst focused on customer-loyalty programs, Forrester Research



Bob Daly, senior vice president of FlexPerks Rewards and loyalty management, U.S. Bank



Steven Dennis, COLLOQUY contributor, president of luxury consulting firm SageBerry Consulting



Roger Dow, president and CEO, U.S. Travel Association



Bernie Feiwus, former senior vice president of marketing, Neiman Marcus



Seth Godin, author of several best-selling books, including "Linchpin" and "Purple Cow"



Phil Hawkins, head of loyalty operations, Coles supermarkets, Australia



Caroline Larson, director of customer engagement and loyalty, Caribou Coffee



Bryan Pearson, president and CEO of LoyaltyOne, author of "The Loyalty Leap"



Don Peppers, customer relationship expert, author, founding partner of Peppers & Rogers Group



Randy Petersen, editor and publisher, InsideFlyer magazine



Daniel Pink, author of five books, including "Drive," host and co-executive producer of "Crowd Control"



Peter Sheahan, author of six books, including "Fl!p" and "Making it Happen," founder/group CEO of the business engagement firm Karrikins Group



Simon Uwins, author of "Creating Loyal Brands," former chief marketing officer of Tesco UK, Fresh & Easy



Mark Weinstein, global head of loyalty and partnerships at Hilton Worldwide



Karen Zachary, managing director, SkyMiles Global Program Management, Delta Air Lines →

Q: Describe what to you was a critical loyalty turning point.

Dennis, SageBerry: The notion that personalization, in many cases, was the key to deepening loyalty.

Daly, U.S. Bank: Although the introduction of airline frequent flyer programs is often cited as a critical turning point in loyalty, these programs weren't jet-propelled until they introduced cobranded credit cards as a means to accelerate mileage earning. In fact, for many large airlines, credit card purchases account for more awarded miles than actual flying.

Uwins, "Creating Loyal Brands": The first was the publication of "The Loyalty Effect" by Frederick Reichheld in 1996. This really crystalized how loyalty could be a business strategy, rather than simply a marketing tactic. The second was the development of the Net Promoter Score in 2003. It moved the focus of loyalty beyond spend and frequency to fostering advocacy.

Peppers, Peppers & Rogers: When frequency-marketing programs leaped the airline barrier and went into retail. I think the seminal non-airline

frequency program of the 1990s was the Tesco program in the UK. The Clubcard program was their secret weapon. That gave legitimacy to the idea that, 'Hey, loyalty programs can be more than about airline mileage.'

Feiwus, Neiman Marcus: During the early 1980's, the retail landscape was rapidly changing with retailers losing both brand and geographic exclusiveness. Therefore, customers had more choices, and it was a greater challenge to maintain their loyalty. Fortunately, technology had reached a point where loyalty programs were feasible.

Q: When and how did you know the concept of loyalty marketing had arrived?

Pink, "Drive": When I looked in my wallet and realized that I had more – way more – loyalty cards than credit cards, bank cards and government IDs combined.

Dow, U.S. Travel Association: In 1985, we launched Marriott Rewards, when our competitors did not – thinking loyalty programs were too costly and would not work in lodging. We had a two-year head start and over 2 million loyal guests by the time they realized their costly miscalculation. →

"For many large airlines, credit card purchases account for more awarded miles than actually flying."

~ Bob Daly, U.S. Bank

Sheahan, "Flip": When my local coffee shop owner handed me my 10-cup punch card and said that he wanted to thank me for my loyalty, and then punched the first nine immediately. In that moment I did not care how much his coffee cost compared to the retailer down the road. What I felt, in its purest sense, was loyalty.

Collins, Forrester: About five years ago when it became clear that the balance of power had shifted from companies to the customer. The rapid adoption of mobile and connected technologies gives consumers access to an incredible amount of information. As such, the consumer is in control, and traditional competitive advantages no longer hold water. Today, the relationship (with) customers determines business success.

Weinstein, Hilton: Rewarding loyal customers has been around forever, from the baker offering "buy 12, get the 13th pastry free," to the sophisticated point-of-sale solutions at gas stations. When airlines and hotels launched loyalty programs, a two-way relationship was formed – the cornerstone of a program that transcends 'do this, get that' mentalities.

Q: What was the single most important event in loyalty, to you?

Bliss, CustomerBliss: The first airline loyalty programs in 1981, followed by hotels, rental car companies and Neiman Marcus' record-breaking first loyalty program. These were the first organized efforts to embrace, understand and engage with customers beyond transactions.

Pearson, "The Loyalty Leap": Digital communications changed pretty much every aspect of how we engage with consumers. But in terms of importance, I think it was recognizing the consumers' critical role in establishing long-term brand success, and how loyalty can serve that.

Dow, U.S. Travel Association: When American Airlines launched AAdvantage, followed a week later by United launching Mileage

Plus. That marked the beginning of the loyalty scramble.

Larson, Caribou Coffee: Loyalty rules changed with the emergence of online retailers. Brick-and-mortar stores had to ... evolve to provide better service, recognition, reasons to come back to them specifically – a loyalty program. Now, online retailers are creating their own loyalty programs, not based on points. Amazon Prime is a great example.

Zachary, Delta Air Lines: For Delta, it was transitioning from a model that rewards members based on the distance that they flew to one that rewards them based on their spend(ing). Shifting to this model recognizes and rewards our members' investment with Delta while continuing to provide great value to all frequent flyers. →



Q: If you could do one thing over again, what would it be?

Hawkins, Coles: Put even more energy into measure, measure, then ... measure!

Dennis, SageBerry: I would have pushed the redesign of Neiman Marcus' InCircle program to be more remarkable.

Dow, U.S. Travel Association: (I would have) included all of Marriott's multiple brands in Marriott Rewards – which was only for Marriott's full-service hotels – much sooner.

Godin, "Linchpin": I'll answer for the industry ... The race to the bottom in email marketing, the incessant spam, the refusal to self-regulate. Marketers have ruined the greatest medium they've ever had.

Petersen, InsideFlyer: Seriously – nothing. I've been lucky enough to watch, wonder and be part of one of the most extraordinary chapters of the travel industry when it slayed critic after critic,

industry after industry and organization after organization.

Sheahan, "Flip": Change my behavior as a consumer. Only now that I have become immersed in the industry have I become aware of the massive value I left on the table as a customer.

Uwins, "Creating Loyal Brands": I would spend a lot more time early in my career understanding the emotional drivers of behavior.

Feiwus, Neiman Marcus: Create a lifetime tier in addition to the annual program.

Bliss, CustomerBliss: Truly honoring loyalty. I was recently charged \$35 for replacing my lounge card by an airline with whom I have so many millions of miles that I have lifetime status at its highest level. These rules say, 'We want you to be loyal to us, but we won't be loyal to you in return.'

Pearson, "The Loyalty Leap": How much they can influence change and improve the role that loyalty marketing serves. Just consider the potential power of a

well-connected brand ambassador – just Google "I Love Ikea" or "I Love Southwest." What many companies miss is the opportunity to give their budding ambassadors a platform.

Dow, U.S. Travel Association: Trying to join every program in a segment – spreading out their purchases vs. concentrating their spending on one or two, to gain the benefit of 'high spender' points/miles accelerators.

Q: What do you think consumers miss/don't see regarding the loyalty relationship?

Godin, "Linchpin": They miss the fact that companies don't care. At all. That the whole thing has been industrialized and productized and turned into yet another profit center. They miss being missed. They miss humanity. →

"Many consumers don't realize how complex systems are required to be to do a good job of engaging, recognizing and rewarding guests."

~ Caroline Larson,
Caribou Coffee

Uwins, "Creating Loyal Brands": Once customers share data with you, they assume you know everything about them, and that you have the intention and the capability to personalize their experiences. But you can never perfectly know everything about them, or personalize everything. So it's essential for the marketer to develop a proper two-way relationship with the customer to both manage expectations and maximize value.

Larson, Caribou Coffee: Many consumers don't realize how complex systems are required to be to do a good job of engaging, recognizing and rewarding

guests. They think that all systems are built, integrated and easily flowing with information from one place to another. In reality, most systems are created piece by piece, over time, and sometimes in silos.

Peppers, Peppers & Rogers: They may think of (loyalty) as a company's effort to secure their continued patronage, but I also think that consumers, unless really emotionally involved with the brand, are mercenary. They're making economically rational decisions, and a lot are suckered into making loyalty program decisions based on upfront promotions.

Q: Build a loyalty starter kit. What three tools are essential?

Pink, "Drive": 1. A great product. Getting points for a mediocre hotel doesn't help much. 2. Transparent process and rules. If someone understands how it all works, (he is) far less likely to complain and much more likely to be satisfied. 3. Simplicity. Anything companies can do to save people even a step can pay big dividends down the road.

Dennis, SageBerry: 1. Deep customer insight. 2. A unified customer experience. 3. An amplified (remarkable) experience.

Daly, U.S. Bank: 1. A compelling and relevant customer-value proposition borne out of extensive data analytics and financial rigor. 2. Operationally

efficient program architecture that is delivered with consistency by extensively trained front-line personnel. 3. Flexible and scalable reward platform infrastructure.

Godin, "Linchpin": 1. Build something I'd miss if you took it away. 2. Focus not on prizes or the transfer of value, but on recognition, on humanity, on people. 3. Care more.

Collins, Forrester: 1. Define an enterprise-wide loyalty strategy that links to the larger business objectives and focuses on the total customer relationship. 2. Customer insights ... great loyalty strategies create an exchange of value between the company and the customer. 3. Technology to bring your loyalty vision to life! →

Weinstein, Hilton: 1. A core product that members love. 2. Benefits that members value and you're prepared to consistently deliver. 3. An ecosystem that empowers and enables a personalized relationship through two-way dialogue.

Pearson, "The Loyalty Leap": Any tools that enable the company to use the data it collects to meet pre-established goals: 1. A platform to hear your customers in real time. 2. A system for sharing what you hear throughout the organization to reveal unexpected potentials. 3. The capacity to deliver on the initiative's promise.

Peppers, Peppers & Rogers: 1. The first tool is a mental model that loyalty is not the be-all, end-all goal of any loyalty program. You want customers to like you, to have an emotional commitment. Do not confuse a loyalty program with loyalty. 2. Adopt a business model that understands the more different your customers are in either their values or needs, the more useful the loyalty program is. 3. A program where I can redeem points for a variety of different things, maybe even with different companies. Why not let customers choose their rewards in advance, and earn their points toward them? They'd get insight into what really rings my chimes.

Q: Points and miles – here to stay?

Pink, "Drive": I sure hope so. I've got lots more to spend!

Hawkins, Coles: While it may be fashionable in 2015 to dismiss points as a currency of influence, the current evidence suggests that this currency still does indeed have a 'point.' What may excite and incentivize one customer may be quite different to the next.

Larson, Caribou Coffee: Loyalty needs a type of currency, but I think points and miles

will eventually disappear. There will be a new, more engaging currency based in technology that's easy to manage and understand. Members will have more latitude and control, making them more loyal consumers to the product, not the currency.

Zachary, Delta Air Lines: Absolutely! Next question?

Weinstein, Hilton: Being able to choose how you want to earn rewards is an important foundation of our program and allows members to experience various benefits depending on what type of trip they are with us for. →




Q: Coalition loyalty – a fad or here to stay?

Pearson, “The Loyalty Leap”: Here to stay. The pure elements of the model may change a bit, but the idea of multiple parties contributing to a common pot still makes sense – especially where a richer data asset is created for the benefit of all the partners in the program.

Daly, U.S. Bank: Absolutely ‘here to stay’ in many corners of the globe. In the United States the jury is still out, but we’ll know in the next 36 months if (America Express’) Plenti and other aspiring coalition programs take hold. The odds are even as most U.S. households are already entrenched in many loyalty initiatives and may not see a compelling reason to join another.

Sheahan, “Flip”: There is still tremendous potential in the coalition model. Its ability to connect consumers to a brand and drive loyalty for reasons beyond discounting gives it an advantage over certain cash-back-only programs. (However) the evolving payments world poses a threat to the weaker coalition models.



Dennis, SageBerry: All about personalization and being remarkable.

Zachary, Delta Air Lines: Loyalty will continue to evolve but the basics – rewards, recognition – will always remain the core in a service business.

Peppers, Peppers & Rogers: Loyalty will be individualized. Aggregators will do things like your grocery shopping and other routine stuff. (So) consumers will be managing their relationships with vendors rather than vendors managing relationships with consumers. I wouldn’t be surprised if I see consumers offering their own loyalty programs to vendors. →



Q: How would you describe loyalty in the year 2040 (25 years from now)?

Q : What advice would you give a young loyalty marketer?

Pearson, "The Loyalty Leap": Ask yourself before embarking on any project, whether it involves a short-term promotion or a long-term loyalty initiative: Is this adding relevant value that the customer can readily appreciate? If not, start over. You have to demonstrate, genuinely, that you care about the customer at every turn.

Uwins, "Creating Loyal Brands": Just remember that despite all the labels – consumers, customers, employees, advocates, etc. – it's just about people, and building relationships with them.

Peppers, Peppers & Rogers: Be in a position where you don't have to buy your customers' loyalty, you sell it to them. If a customer really likes me and wants to do business with me because I am always a step ahead of their needs, (then) the more invested they are in the relationship.

Q : What is the biggest mistake a loyalty marketer can make?

Feiwus, Neiman Marcus: I have seen several programs where, in an effort to entice customers, programs were so expensive that they could not be sustained.

Q : Fee-based loyalty – on the way up, or out?

Petersen, InsideFlyer:

Up. There's empirical research in other industries that shows this is an acceptable variation of loyalty – Amazon Prime is a very interesting example.

Q : What does a customer loyalty strategy require to be remarkable, or a "purple cow"?

Godin, "Linchpin": Make something worth talking about. ←



For an extended transcript of all interviews, click here.