

# The 22 major factors that will shape the future of customer loyalty

By Peter Clark (co-author, The Loyalty Guide)  
Published by *The Wise Marketer* in June 2006.

***While we must look into the past to find out why customers defect, stay loyal, or advocate a brand, we also need to see changes coming. Here we detail the 22 major factors that are set to shape the future of customer loyalty programmes around the world...***

In this article, we've drawn guidance and data from the 36 chapters of *The Loyalty Guide III* (April 2008, Wise Research), to offer practical insights into the technological developments, market trends, business strategies, and behavioural shifts that will define and shape successful loyalty initiatives up to 2010. We have purposely kept our focus on practical developments rather than merely expounding theory.

The most obvious way of predicting future trends is to examine what has happened so far and then make projections from that. But that is fraught with danger because paradigm shifts have a nasty habit of turning up just when they're least expected. Who would have predicted even ten years ago that the mail and the fax would have been relegated to the extent that they have by e-mail? And with the rapid growth of spam and online fraud, e-mail is already getting much harder to use for reliable customer contact. Another shift is already overdue.

## **The future imperfect**

Paradigm shifts have a nasty habit of turning up just when they're least expected...

Some of these factors we discuss here are already known to loyalty marketers, but their importance in shaping the industry means they shouldn't be dismissed from our attention when planning ahead. But others are new and perhaps even surprising, and are likely to become the key points of differentiation between loyalty programmes that succeed and those that don't.

### **1. Loyalty programmes become far more sophisticated**

In general, loyalty programmes will continue to get more sophisticated and more useful as time passes. But while they might be much more complex beneath the surface - they will appear simpler to the consumer. Think of the ways in which advancing technology has often led to much more complex and powerful equipment that is much easier to use. Although consumers generally need to be given simple options and rules to follow, the technology behind loyalty programmes will develop (largely using complex rules-based engines) to help marketers offer different sets of options to the right customers at the right times.

### **2. Multi-territory loyalty programmes will develop**

As international boundaries are lowered and domestic travel cheapens, there is increasing scope of multi-territory loyalty programmes. In the past few weeks we've seen DCS Technologies announce a loyalty platform that aims to span Australia, China, Hong Kong, Malaysia, Singapore, Taiwan and the Philippines - with other Asia-Pacific countries to follow ([see 14th June 2006](#)). We've also seen Air Miles announce the extension of its UAE and Qatar operations into Lebanon and Bahrain, followed by Saudi Arabia ([see 5th June 2006](#)). There are numerous US-based loyalty programmes that operate equally in Canada and Mexico, and credit card-based reward programmes are also taking loyalty across borders.

### **3. An explosion of loyalty coalitions and networks**

Multi-partner and coalition programmes will become much more widely used and accepted, both by businesses and consumers worldwide - although some challenges exist in terms of geographic scale in some countries and markets. Coalition loyalty programmes offer a huge range of marketing advantages (e.g. shared marketing, lower costs, cross-partner customer acquisition) which will also become greatly more important over time. Loyalty networks (such as Rewards Network) are also likely to become increasingly popular because of the sheer range of partners they offer consumers. Being a looser version of a formal loyalty coalition, they usually provide consumers with loyalty benefits or rewards at a great variety of outlets and merchant locations (as they don't usually provide sector exclusivity for merchant partners). Loyalty networks are already ideally placed to take full advantage of the new international expansion trend, with many already having partners in multiple territories.

### **4. Loyalty programmes become truly multi-channel**

According to the database marketing provider *Total DM*, approximately one-third of the UK's major corporations are making their loyalty programmes multi-channel. Other than providing loyal customers with greater convenience, the big advantage is the comprehensive data that comes from all customer touch points for segmentation and profiling. Not surprisingly the loyalty pioneers (the credit card, retail, and travel sectors) have been very successful in going multi-channel, and most other sectors are catching up as quickly as possible. Total DM predicts that, as alternative channels gain more traction in the next few years, most loyalty schemes will operate consistently across all channels - and the loyalty pioneers are the ones to watch and follow.

### **5. A new focus on loyalty data and Customer Lifetime Value**

Loyalty programmes are not only a source of data with dozens of practical business-improving uses (see '[The 30 major factors in the success of customer loyalty](#)'), they're a tool for financial metrics. The CMO will increasingly be joined by the CFO, the CIO, and the CEO in finding bottom-line value in the programme's data. Customer Lifetime Value (CLV) is increasingly being recognised as one of the most important measures of the worth of a customer. It takes into account not only the customer's value now but the expected value over their projected lifetime as a customer. It is arguably the best way a marketer can demonstrate unequivocally that a programme is working: the CLV of targeted customers will rise. Being able to identify customers through a loyalty programme means being able to monitor long-term customer lifetime value, and being able to identify the demographic, sociographic, and even purchase profiles that define the most profitable customers - and that knowledge enables you to target and develop even more of them.

### **6. Loyalty programme operators turn to predictive analytics**

There's a growing focus on predictive analytics (which software provider SPSS defines as "connecting data to effective action by drawing reliable conclusions about current conditions and future events"). Predictive analytics, like ERP and CRM, is both a business process and a technology. It makes it easier for marketers to identify and better understand customers' wants, needs, and priorities by continually analysing all sorts of customer data, such as loyalty programme data, transactional data, and customer service interaction data. The ultimate aim of predictive analytics - rapidly becoming a common reality - is to aid in the making of decisions that lead to changes in how both customers and employees behave. With the adoption rate at less than 1% in the year 2000, a 10% adoption rate in 2005 demonstrates the growing interest in real-time predictive analytics - a trend that is likely to continue for several years to come.

## **7. Rewards will become more of a key differentiator**

Almost every coalition loyalty programme in each market offers very similar rewards to its competitors. And most single-operator loyalty programmes offer similar rewards to their same-sector competitors. Very few can truly say they differentiate based on their rewards. As consumers grow weary of participating in (and keeping track of) multiple reward programmes, this problem is one that will increasingly attract their attention when allegiances are formed to one loyalty programme or another. There was a time when "a trip into space" was a unique reward - but even that has now been offered by several loyalty programmes around the world. And, big rewards aside, the entire rewards catalogue will have to become even more imaginative in order to give something that still has value but is not too expensive to supply.

## **8. Changes in society and populations mean more 'fun rewards'**

In the Western world the population is aging fast. In many countries birth rates are falling, and the elderly are living longer. This is already leading to a crisis in funding pensions as fewer people of working age have to fund the pensions of more and more pensioners. This will mean that marketers will have to adjust their approach to cater not only for older consumers, but for older consumers who are living on lower incomes. People now work longer hours than in previous decades, leaving less time for recreation, family life and rest. This can only get worse in the near future and, for many consumers, time is already more precious than money. As a result, the loyalty programmes of the near-term future will increasingly have to offer rewards that focus more on fun and family activities, and at a point or mile redemption level that most people can reach within a few months.

## **9. Tiered pricing will help develop real consumer engagement**

The data from a loyalty programme can help formulate pricing structures. If enough best customers are happy to buy a product at a particular price there is little point in reducing that price simply to attract "cherry-pickers" (disloyal bargain hunters). Through transactional loyalty data, the effect of changing prices can also be studied (e.g. which customer segments buy significantly more or less). To aid differentiation, smart retailers will increasingly allow their customers to use loyalty points to 'buy' extra discounts on selected items throughout the store (an example cited by loyalty guru Brian Woolf is the offer of nappies for US\$9.99, or spend 600 loyalty points and get them for US\$3.99 instead). This kind of pricing causes the customer to actively think about their loyalty points balance dozens of times on each shopping trip. Such on-the-spot engagement is hard to achieve any other way, and retail adoption of the technique (which Woolf calls 'Access Pricing') can be expected to grow rapidly.

## **10. Lifestyle and Lifecycle marketing take centre-stage**

The general trend toward lifestyle marketing is bound to affect loyalty programmes positively. In fact, loyalty marketing is in essence a form of lifestyle marketing - that is, it is activity shaped around the interests, attitudes, opinions, and way of life of the best customers of a business. However, in order to practise lifestyle marketing, it would make sense for any business that doesn't in the course of its business continually collect demographic and purchase data from customers (as would, say, a credit card operator) to do this via a loyalty programme. And lifecycle marketing opens the door to more profit. It can be used to cross-sell and up-sell to customers. It also provides the knowledge needed to develop a truly meaningful (even if still automated) relationship with the customer: How a consumer reacts to an offer usually depends on what stage of their lifecycle they are at.

### **11. Consumers will seek to 'punish' impersonal loyalty operators**

While loyalty programme managers can now understand their customers in ever increasing detail, their customers are also demanding more and more relevance of the brand message to their life-stage interests. As a result, anything they hear or see from a company that seems impersonal or poorly targeted will increasingly be "punished", whether directly by the individual consumer (e.g. withdrawing their business and switching to a competing brand) or by a more damaging "viral backlash" when they tell their friends and family the story.

### **12. Consumer behaviour will continue its path of change**

Consumers are making fewer shopping trips, spending more per visit, more willing to travel, experiencing a more competitive selling environment, having more information at their disposal, and exhibiting less supplier loyalty. The phrase for loyalty marketers to bear in mind from now on is that "membership does not equal loyalty". Even now - and more so in the future - the shopping experience has become far too complicated and consumers simply have too much choice and too little time. The behaviour patterns of entire markets and demographics now change more quickly than in the past, possibly due mainly to the ease with large networks of consumers can communicate with each other online.

### **13. Dialogue and feedback increasingly driven by customers**

Improved communications and CRM systems that provide enterprise-wide customer data will make it possible to have more meaningful dialogues with customers while making it easier for them to get their point of view across to the company, whenever they want to. This involves a distinct move away from mass communications (even personalised ones) and a move toward carefully timed and targeted individual communications. According to feedback solutions provider *Comhra*, this approach can give marketers much more accurate data for segmentation and can greatly improve campaigns for cross-selling, up-selling, customer profitability, and customer retention. An increasing number of companies are also choosing to open up 'blogs' and forums on the internet for the open public debate of their products, services, brands and image. These will increasingly allow consumers to express their feelings openly. More importantly, companies will be using them to monitor brand reputation, spot potential brand damage, and gather ideas for product/service development and improvement.

### **14. Enabling technologies will give innovators the advantage**

There are a number of technological aspects that will develop over the next few years, some of which are behind-the-scenes technologies that consumers aren't aware of, and some of which will directly affect and interface with the consumer. Marketers will find new ways of using each technology that becomes available to them, and innovation will flourish. One key to success here is to have skilled technical members in the loyalty programme's development team. For example, mobile phones immediately suggest broadcast advertisements and SMS coupons, but innovative loyalty marketers are now using 2D and 3D barcode images (in MMS messages) as on-screen loyalty programme and reward codes than can be scanned at a retailer's point of sale.

### **15. The rise of mobile loyalty management technology**

The mobile phone - a device which is now in the hands of almost every consumer in the developed world - is already playing an increasingly important role in customer loyalty initiatives, and that trend can only grow in significance. The mobile phone presents a quick, cheap, and ever-present channel of communication in almost real-time. As we've seen, it can replace any number of loyalty cards simultaneously, and the advent of NFC (near field communication) chips allows them to be used for contactless payments, promotions, coupons, opt-in advertising, and even consumer-to-consumer viral marketing. In markets

where mobile phones are ubiquitous, we can expect to see the gradual phasing out of plastic cards and key fobs.

#### **16. Renewed growth in loyalty-based EMV cards**

An increasing number of EMV-based smart credit cards are being issued with electronic purse facilities, and some already have space allocated on the chip for loyalty programmes. This trend is likely to continue for the rest of the decade, both for contact-based and contactless smart cards issued by financial services institutions. Contactless payments have been amazingly successful, with 2005 seeing the widespread introduction of contactless payment systems worldwide. The charge was led by American Express (ExpressPay), MasterCard (PayPass) and Visa (Visa Contactless), in conjunction with numerous banks, and POS and card technology providers (such as VeriFone, OTI, and ViVOtech).

#### **17. Stored value and gift cards merge with loyalty applications**

The market for electronic gift cards (stored value cards) is expanding rapidly. Gift cards have been widely used in the US for longer than in other parts of the world, but the popularity is now beginning to spread, even having a significant impact on holiday season and post-holiday retail sales patterns. Companies using reloadable (pre-paid) gift card solutions have more than just a gift card at their disposal: they have a potential loyalty card that consumers are already attached to because: a) it contains money they can spend, and b) it was given to them by somebody they know. Companies are already adding excitement factors such as sweepstakes and cash rebates (for both spending and re-loading) to encourage repeat purchase behaviour. Gift cards can also be expected to develop into affinity (co-branded) programmes with external partners and non-profit causes, to gain further consumer engagement.

#### **18. Consumer acceptance of RFID generates new loyalty options**

Consumers have been somewhat scared by a number of "big brother" media reports about RFID (radio frequency identification) chips - also see '**Using RFID**'. But the reality is that all new auto-identification technologies have met the same kind of resistance (remember how in the 1970s and 1980s the humble bar code was accused of being "the mark of the beast", among other conspiracy theories?) The German retail giant *Metro Group* briefly implemented RFID chips in some of its loyalty cards during a trial programme for its *Future Store* hypermarket, but consumers apparently weren't ready to accept it. However, when consumers begin to understand how a new technology really works, and when the benefits start to be felt in everyday life, acceptance and adoption follow. RFID's usage in contactless payments, anti-theft devices, access control, and even in passports will bring about the "consumer comfort factor" that will allow RFID into retail store environments, and ultimately into the consumer's purse, wallet and home. The options for marketers - particularly for loyalty programmes (which primarily serve as data capture programmes) - will be vast, and limited only by imagination... and responsible data usage, of course.

#### **19. Cardless ID innovations drive loyalty programme adoption**

As consumers get tired of carrying a bulging wallet or purse full of plastic cards, it's only natural that they will begin to empty out the ones they value the least. For any loyalty programme operator other than a national or international coalition, that seriously challenges "consumer buy-in". One option is to give the consumer a very strong motivation for carrying the card, although this is always difficult (and usually expensive to keep up). Another is to combine the loyalty card with a payment card, but this tends to limit the consumer to a single loyalty programme for their preferred payment card. Another idea is to swap the card for something else, like a key fob or sticker, but again a person can only carry a small number of these with them. This leaves one alternative: getting rid of the card completely. Examples of innovative ways of doing this include: biometrics

(e.g. finger print scanning), using a vehicle registration number, using a mobile phone-based bar code or ID number, using the mobile phone number itself, using a national identity number (in countries that have them), or even using payment card numbers as loyalty programme identifiers (although these change, and most consumers use more than one). These approaches, and others yet to come, will drive loyalty programme adoption by removing an element of inconvenience.

## **20. The internet further alters the marketing landscape**

The internet is having an enormous effect on the world of retailing in particular. It is possibly the most important thing that has happened to the retail sector since the introduction of plastic payment cards. But its effect is still far from being fully realised: with every passing year, new channels of electronic communication and new methods for e-commerce are being opened up. New security and anti-fraud measures are being created to protect consumers and retailers alike, and consumers' pre-purchase research is being radically changed - for example: makes, models, alternatives, competitive prices, and local availability can be compared before buying; second-hand goods are just as easily found as new goods; consumers no longer buy only from local merchants; and easily-found and highly candid consumer reviews can help make or break a brand. The internet, while having many problems (such as spam, scams, viruses, and bogus e-commerce web sites), is rapidly becoming the first port of call for consumers who want to find a product, check on specifications, find a supplier, compare prices, check availability - even if they then go to a bricks-and-mortar store to physically see and touch the product before making their final buying decision.

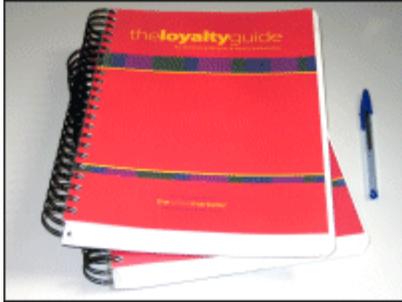
## **21. Globalisation will make customer loyalty harder to develop**

Globalisation has generally made it harder to develop loyalty. For a start, it largely removes any advantage that patriotism might have provided from the equation. It also means that companies are now trading in areas where they are distinctly 'foreigners' and they might actually have barriers to break down before developing loyalty can even be contemplated. Another global factor that will play an increasing role is that of developing countries. As the markets of the already developed countries become increasingly saturated, businesses will turn to the developing markets. They may well find less infrastructure than they are used to at home. This could pave the way for smart card-based programmes because they can operate effectively without the reliable and regular up-loading and down-loading of data. It could also stimulate imagination in the development of small, inexpensive, but still desirable rewards.

## **22. The pace and scale of change will continue increasing**

This growing trend applies to the way in which people live, the way in which business is conducted, and even who trades with who. Because so many things are changing at once, making predictions is a hazardous business. There is bound to be conflict between what technology can do and how much consumers fear what it can do. The temptation will be for businesses to rely on technology to help improve the customer experience while at the same time cutting costs. But this will not be enough on its own. As far as the customer is concerned - and most would agree this is the key factor in building relationships and profits - technology is of little or no help if front-line employees are not empowered to help them.

The traps, pitfalls, and warnings of the past have always been useful for planning action in the future - the worse the failure, the more widely the lesson is learned. The successes of the past rapidly become role models for the future. But at the pace with which technology, retailers, service providers, general commerce, and



even consumers are shifting and changing, the time has come to use increasingly predictive science to find the pitfalls before we reach them. Our conclusion for the future is this: new technology can be costly, but it can also be the marketer's best friend - if it's used smartly. But at the same time, don't forget that the technologies and techniques of the past may still be the most appropriate or reliable for some tasks, particularly when the attitudes and habits of the ever-slow-to-embrace-change

consumer are involved.

### **Where to find more detail**

The Loyalty Guide III - a 900+ page guide to customer loyalty worldwide - explains every aspect of loyalty programmes, best practices, concepts, models, innovations, trends and future technologies, all backed up with case studies, original research, illustrations, charts, graphs, tables, and presentation material. Find out about the principles, practicalities, metrics, analysis, future, and bottom-line effects of loyalty, and gain the expert guidance of dozens of loyalty and relationship marketing thought-leaders, worldwide.

Find out how to use loyalty programmes and customer data to increase customer profitability, reduce churn, and monitor and increase customer frequency, spend, and share of wallet. The whole world's major programmes are detailed, studied, and summarised: find out how others are succeeding, what works, and - more importantly - what doesn't work, and why. The executive summary, table of contents, downloadable samplers, and pricing/ordering information are available at <http://www.theloyaltyguide.com/>.