THE LOYALTY REPORT™

2014

bond. BRAND LOYALTY

Executive Summary

Loyalty is changing – it is not just a program, but rather a powerful sentiment and a desired outcome.

Marketers today wonder, "Are my customers loyal to my brand, or just to my program?" and, "Is our marketing really driving incremental purchases, or is it simply rewarding behaviors consumers would have undertaken anyway?"

The Bond Loyalty Report – US Edition 2014 helps marketers understand consumer preferences, behaviors and attitudes toward brands and the loyalty initiatives in which consumers participate. The study is based on a comprehensive survey of nearly 6,000 consumers and identifies key themes pertinent to loyalty marketers today. The study captures 'program'-level ratings for over 170 programs and reveals the drivers of brand loyalty across seven key industry sectors: retail, CPG, financial payments, travel, hospitality, dining, and entertainment.

FIVE SIGNIFICANT FINDINGS EMERGED IN THIS YEAR'S STUDY:

1. Loyalty programs are an extension of the brand experience – brand alignment is a design imperative.

Brand alignment is a core loyalty design principle that refers to the precise relation of the program's components with the attributes and personality embodied by the brand. Marketers should be concerned with the extent to which the attributes of their loyalty programs support and align with their brands' attributes and positioning. Doing so can deliver nearly 3x higher Member satisfaction compared to programs that fail to achieve strong brand alignment.

2. '4-Drive' Engagement is key to sustaining customer engagement.

Understanding human motivation is the key to loyalty program design. We aligned a portion of our study with a motivation framework called the 4-Drive model, to understand how traditional loyalty programs make

use of tactical monetary features such as discounts, cashback, and rebates – and why non-monetary benefits rate higher among Members we surveyed.

3. Personally Relevant Communications and Recognition are core elements of a successful loyalty program.

Our 2013 study revealed a tight link between customer satisfaction and the extent to which customers deem loyalty program communications as personally relevant. It seemed the higher the relevance, the higher the satisfaction with the program.

This has been confirmed again this year. Fifty-six percent of customers want to receive communications from the programs in which they are enrolled, yet only 46% consider those communications to be relevant. Given the investment most programs make in communications, we want to understand how to optimize this investment. We explore this divide in depth to find out what makes Member satisfaction soar to 93%, and what marketers can do to ensure their Members feel valued and important.

4. **Trust must be established before consumers will consider sharing personal information.**

As marketers, we stand at an interesting crossroads: customers expect increased customization and personally relevant content from brands, yet are reluctant to share the personal information that enables such personalization. Recent high-profile data breaches (e.g., Target, Evernote, Snapchat, Neiman Marcus) have made consumers even more aware of privacy and security concerns.

Willingness to share personal information is strongly correlated with trust; 49% of Members who strongly believe a program is trustworthy are willing to share information – more than 3x the average respondent.

5. **Millennials are very loyal to their peers.**

Millennials (aged 20-34) now outnumber Boomers (45+) and are entering the high-purchase life stage, so it's no wonder marketers are increasingly focused on this segment. A question many marketers are grappling with is: "Are Millennials loyal to brands?" Evidence from this study suggests Millennials are very loyal to their peers, and to the programs with which they associate a fair value exchange.

Loyalty programs are more important for driving loyal behaviors among Millennials than among any other group, especially for brands in CPG, telecommunications, entertainment, and retail industries. Millennials are very aware of value propositions and commerce trade-offs: 46% say they wouldn't be loyal to a brand that doesn't have a strong loyalty program – considerably higher than their boomer parents.

For Millennials, being recognized by their peers and social groups positively impacts how satisfied they are with brands. Suggesting the Drives to Bond and to Create are key areas for marketers to consider. Programs that create meaningful and inventive ways for Millennials to be recognized by peers and social groups can achieve higher engagement.

Millennials claim they are willing to modify how they shop in order to maximize benefits: 68% of Millennials will change when and where they shop in order to receive program benefits. A third confess to buying something they do not really want in order to earn points or maintain benefits, and more than half of Millennials (60%) are willing to switch brands, if it means getting more benefits.

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01

BRAND
LOYALTY

01. Brand Loyalty

29%
CUSTOMERS AGREE

Loyalty programs are intrinsically linked to brand loyalty.

We are curious as to why many brands still rely primarily on points, discounts and rebates as core elements to influence customer behavior – even brands whose positioning is not focused on price and savings. The challenge for most of these brands is that monetary incentives are not sustainably differentiating, and brands cannot simply continue to outspend their competition and expect to remain profitable.

Loyalty today is not (just) the program, rather it's the relationship and the sentiment elicited by the brand. And it's the desired outcome – having greater precision to influence the behaviors of key customers. It's time for brands to look beyond points to establish deep, meaningful relationships, even bonds, with their customers in ways that are engaging, emotionally rich, and brand aligned.

Marketers today wonder (and maybe even worry):

- "Are my consumers loyal to my brand, or just to my program?"

- "Are my customers emotionally loyal, or do they purchase the brand simply out of habit?"

- "Is my program really driving incremental purchases, or is it simply rewarding customers for behavior they would have undertaken anyway?"

Twenty-nine percent of customers agree, "I would not be loyal to the brand, if it weren't for the program." What does this mean to marketers? Is this a high number, or is this a low number? Should marketers be concerned that nearly 30% of their customers are loyal to the brand only because of the program, or should the interpretation be more positive: that the program is achieving a desired outcome among nearly 30% of customers? Our point of view is that the right answer is both.

29% OF CUSTOMERS AGREE, "I WOULD NOT BE LOYAL TO THE BRAND, IF IT WEREN'T FOR THE PROGRAM."

Key Learnings

Among brands with high program love and high brand love, the percent of brands with brand aligned programs is 94, whereas this value is much lower for the majority of programs
—
Sixty-three percent of brands have a higher percent of customers who love the brand than who love the program
—
Marketers must ensure that brand equity is preserved and leveraged in order to foster stronger, brand aligned programs. Conversely, widely loved programs have a role to play in strengthening the brands they are part of and, more importantly, ensuring equity is built into the brand and not just into the program

This perception is highest among Members in payment card programs where 36% claim they would not be loyal to the brand if not for the loyalty program benefits. This may not be surprising given the limited opportunities to differentiate in the category. A loyalty program and its associated rewards are a key factor in a consumer's decision to apply for a payment card.

CPG and retail categories are lower, at 27% and 23% respectively – not surprising, given there are more opportunities to differentiate across customer experience, product, price, promotion, and more.

What's love got to do with it?

We have endeavored to understand to what extent enthusiasm and passion, such as love of a brand and love of a program, factor into brand loyalty.

To help answer whether customers are more loyal to the brand or to the program, we assessed love in two ways:

1. We evaluated differences in **love for the brand between Members and non-Members.**

2. We looked at differences in **love for the brand versus love for the program among Members only**.

In the first step of the analysis, we would naturally expect the percent of customers who love the brand to be higher among Members. It is reasonable to assume that a brand's most loyal customers would be more likely to enroll in a brand's loyalty program. It is also possible that a brand's program is fostering brand loyalty among enrolled customers.

Our study shows that this is true for Target, Best Buy, Kroger, and others. However, surprisingly this is not the case for all brands.

For some brands, the opposite is true: the percent of non-Members who love the brand is higher than the percent of Members who love the brand. This is true for GameStop, Amazon, Safeway, Regal Theaters and others. This raises the question, "Could your loyalty program be eroding brand love?" Or rather, "Can a bad program actually damage a strong brand?" The answer may, in fact, be yes.
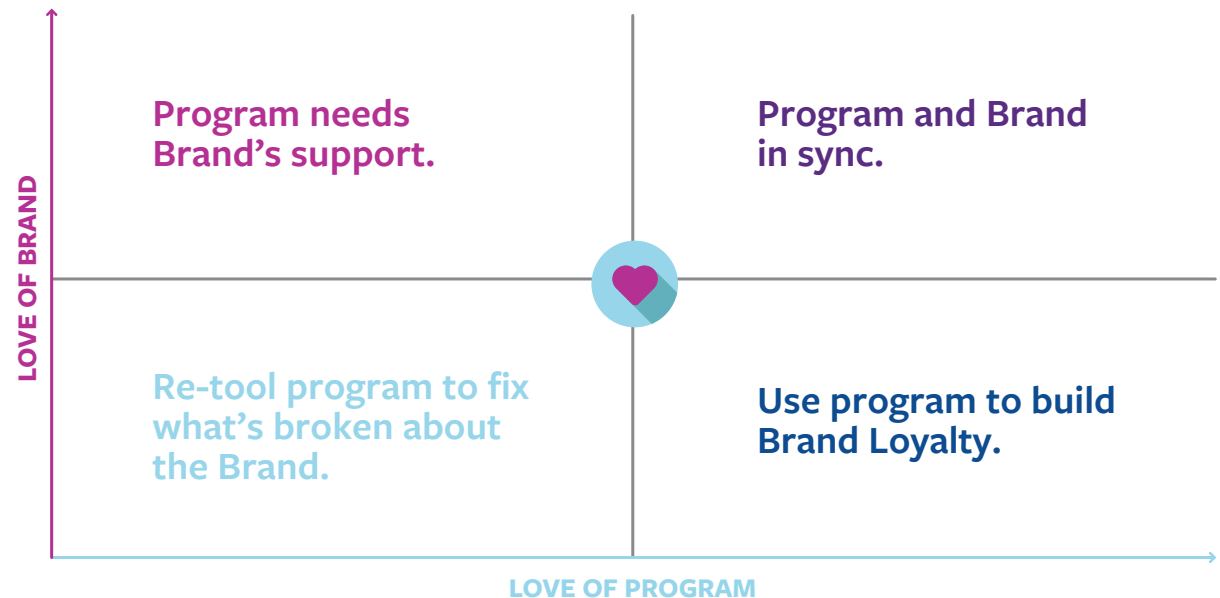

Love Matrix – Program Love vs. Brand Love

In the second step of the analysis, we evaluated the difference between Member love for program versus love for brand. Twenty-six percent of Members agree "I love the program", and 29% agree "I love the brand." In four of the sectors we studied, the percent of Members who love the brand is higher than the percent who love the program: this is the case in payment cards, travel, CPG, and retail.

There are some individual brands for which the percent of Members who love the brand is higher than the percent of those who love the program. Could this be a case of a strong brand with an underperforming program, perhaps? Or, a strong program that is fostering even higher brand love? Hilton, Coke, Nordstrom, and Southwest are examples of brands for which this occurs.

Meanwhile, there are brands for which the percent of Members who love the brand is lower than the percent who love the program. Could this suggest a stronger program, and/or a weaker brand? Or, a strong program that is building program love but not brand love, or is perhaps even eroding brand love? Loyalty cannot fix a broken brand, but it can support fixing what is broken about the brand.

Love Matrix quadrant chart — vertical axis: LOVE OF BRAND, horizontal axis: LOVE OF PROGRAM.
- Top left: **Program needs Brand's support.**
- Top right: **Program and Brand in sync.**
- Bottom left: **Re-tool program to fix what's broken about the Brand.**
- Bottom right: **Use program to build Brand Loyalty.**

Sixty-three percent of brands have a higher proportion of customers who love the brand than who love the program. This suggests that marketers need to work harder for the loyalty program to not only align with the brand strategy, but to enhance and strengthen the customer experience with the brand.

In our study, we evaluated the weighting of various factors in purchase considerations: product, price, service, location, and loyalty program.

What's interesting in evaluating brands across this Love Matrix is how the weight of these factors yields a noticeable pattern of results:

- When there is brand love and/or program love, product is more important than the baseline average – it's a badge

- When there is brand love, customer service is less important – and consumers are willing to look the other way if things are not perfect

- When there is no brand love, customer service is more important – likely due to the critical perspective of these consumers who are not committed

- Among brands unloved, communications are less important – there is low interest in a dialog

- Price is more important among customers who love the brand's program – and the benefits enhance the value proposition

- When Members love the program, location is less important – people are willing to make the effort

- The program is more important among those who do not love the brand – although it is likely not sustainable

In response to the question, "Are customers loyal to the brand or to the program?" – the answer is to both, "and it depends".

02

BRAND
ALIGNMENT

57%
MEMBERS AGREE

An experience with a brand feels "a little off" or unsatisfying, if it is not in line with the expectations set by its marketing communications. Whether it's the bank associate's welcoming smile, a conversation with a customer service representative, or a retailer's return policy, every touch point is intrinsically linked (for better or for worse) to the brand experience and the brand promise.

Brand alignment is how a marketer ensures its brand builds trust by keeping the promise of the brand promise.

When it comes to loyalty design, brand alignment is a core principle that refers to the extent to which the attributes of the program support and are aligned with the attributes and positioning of the brand.

The evidence in support of this design principle is clear: brand aligned programs deliver nearly 3x higher Member satisfaction than programs that are not aligned with the brand. This is especially apparent among brands whose Members agree that, "My experience with the program is the biggest part of my experience with the brand." In other words, when the program experience comprises the biggest part of a Member's relationship with the brand, the percent of satisfied Members is even higher.

Brand Alignment is Important to Members and to brands

Overall, 57% of Members agree that, "My experience with the program is consistent with the brand overall." This is highest in co-brand credit card programs at 64%, and lowest in the retail category at 55%.
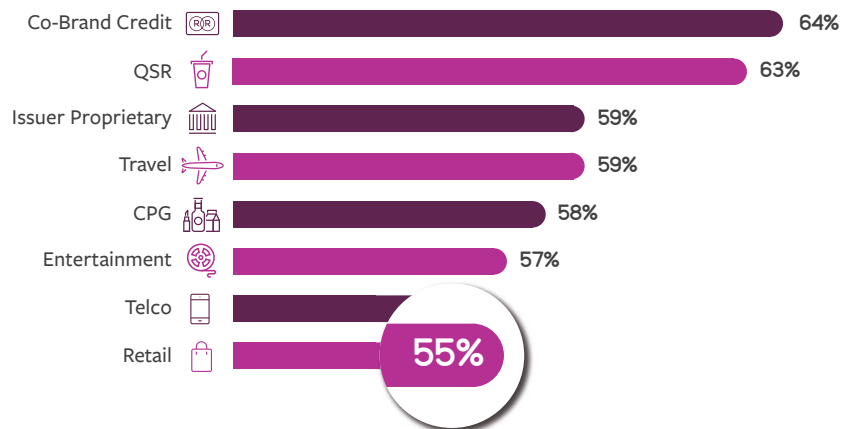
57% OF MEMBERS AGREE, "MY EXPERIENCE WITH THE PROGRAM IS CONSISTENT WITH MY EXPERIENCE WITH THE BRAND OVERALL."

Key Learnings

Brand aligned programs have nearly 3x the proportion of satisfied customers

—

Brand aligned programs represent a sustainably differentiating means of engaging customers, and are difficult for competitors to replicate

Brand Alignment: Varies by Sector

Sector	%
Co-Brand Credit	64%
QSR	63%
Issuer Proprietary	59%
Travel	59%
CPG	58%
Entertainment	57%
Telco	
Retail	55%

A better measure is likely the percent of programs in which Members deem the program as being brand aligned. Ninety-five percent of co-branded credit card programs show that the majority of its Members (i.e., >50%) agree the program is brand aligned. Surprisingly, retail is only 55%.

The program with the highest percentage of Members agreeing with program brand alignment is the AMEX *Blue Cash Everyday* in which Cardholders receive 3% cashback for grocery purchases, 2% cashback for gas/fuel purchases, and 1% back on all other purchases. Plus, as with other AMEX Cards, *Blue Cash Everyday* includes benefits such as extended warranty, purchase protection, and return protection. AMEX is endeavoring to be perceived as inclusive, approachable, and affordable – the *Blue Cash Everyday* value proposition appears aligned with that strategy.

Conversely, Charter Communications' *Live It with Charter* program has the fewest Members agreeing that the program experience is consistent with the Charter Communications brand. Charter Communications offers TV, internet and phone services. *Live It* offers Members branded merchandise, travel sweepstakes, and cashback bill credits for purchases made through its online mall.

Here, the program value proposition appears unrelated to the Charter Communications brand's value proposition of "best value communication services".

## Brand Alignment is Linked to Customer Satisfaction

Satisfaction among Members who disagree that the program is aligned with the brand *and* who disagree that program experience is the biggest part of their experience with the brand is 28%. The percentage soars to 92% among Members who agree that the program experience is aligned with the brand experience, *and* whose program experience comprises the biggest part of their experience with the brand.

Clearly, consistency between the program experience and the brand experience must be a primary focus of all marketers. In pursuit of higher satisfaction among Members, marketers should seek to create programs that deliver on their brand promises, and embody the attributes and personality of the overall brand experience.

Moreover, brand aligned programs are difficult for competitors to replicate and, therefore, represent a sustainably differentiating means of engaging customers.

Brand Alignment = Committed to Program

Our study revealed a very tight link between brand alignment and the extent to which Members are committed to the program. In fact, 3x more Members are fully committed to the program in brand aligned programs.

Percent of Members who agree, **"The program experience is consistent with the brand experience."**
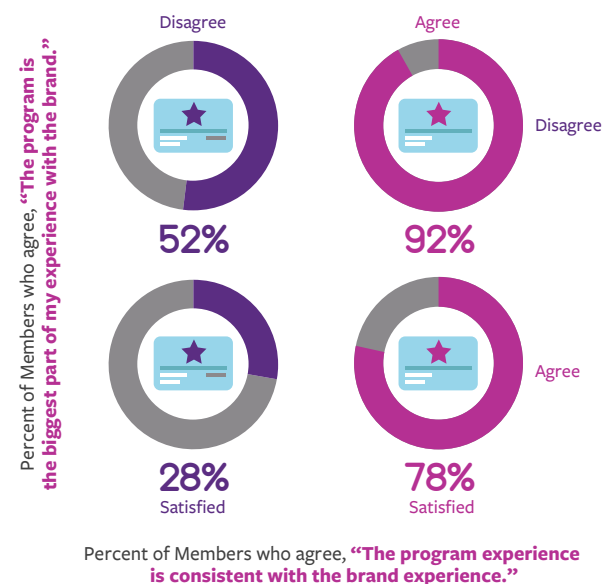
03

4-DRIVE ENGAGEMENT

2x
MORE IMPORTANT

Design Principle: 4-Drive Model

We invest significant amounts of study into the science of human motivation through The Maritz Institute – a network of researchers, thought leaders and subject matter experts, and pioneering client companies.

Our approach to brand loyalty includes a motivation framework called the 4-Drive model, based on the work of Paul Lawrence and Nitin Nohria at the Harvard Business School. They theorized that human beings are motivated by four biological drives: the innate drives to Acquire, Bond, Create, and Defend.

Traditionally, the elements of most loyalty programs focus on the Drive to Acquire and Drive to Defend. The Drive to Acquire, in the loyalty context, includes features such as points, status and stuff. The Drive to Defend is embodied in loyalty program mechanics that, for example, require Members to maintain their purchase frequency in order to maintain their eligibility for program benefits (e.g., lounge access in air travel programs or automatic room upgrades in hospitality programs).
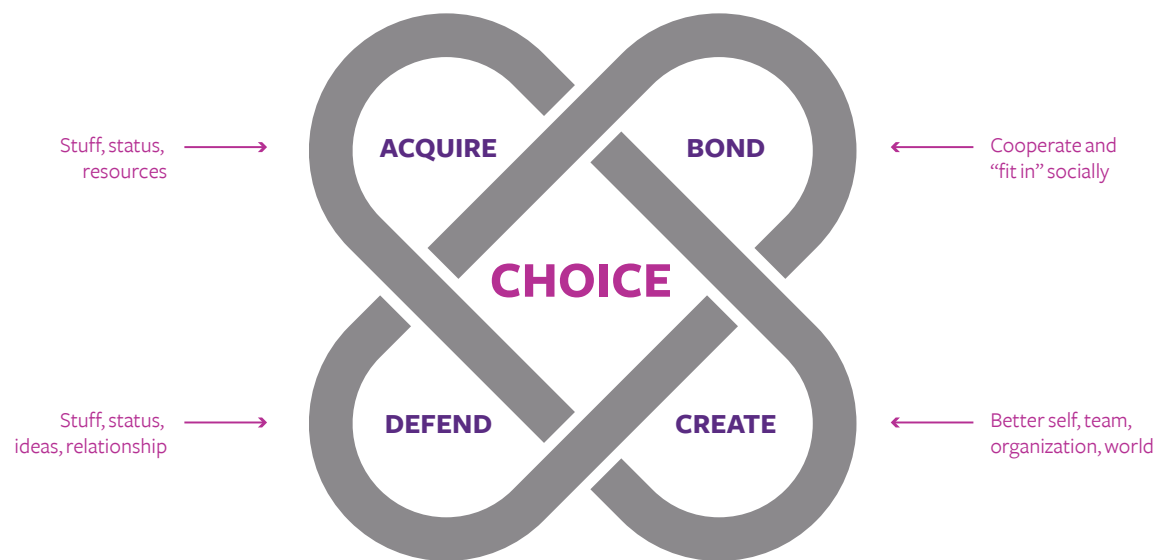
AMONG MEMBERS WHO DEEM THE PROGRAM AS PART OF THEIR RELATIONSHIP WITH THE BRAND, THE STATED LEVEL OF IMPORTANCE OF NON-MONETARY BENEFITS INCREASES SIGNIFICANTLY, IN SOME CASES BY OVER 2x.

Key Learnings

The majority of today's in-market programs rely heavily on Acquire and Defend mechanics such as discounts, cashback and rebates. And are critical tablestakes for any program

—

Importance of non-monetary Bond and Create mechanics increases nearly 2x post-enrollment

—

Next-generation loyalty initiatives should consider embracing a holistic approach to customer value proposition design and, more specifically, to accommodate elements that live across all quadrants of the 4-Drive model

Stuff, status,
resources →   **ACQUIRE**   **BOND**   ← Cooperate and "fit in" socially

CHOICE

Stuff, status,
ideas, relationship →   **DEFEND**   **CREATE**   ← Better self, team, organization, world

Based on the work of Dr. Paul Lawrence Dr. Niten Nohria at the Harvard Business School.

4-Drive: importance of program benefits

Few programs today leverage the Drive to Bond (i.e., the innate human need to feel related to others and feel part of a community), or the Drive to Create (i.e., the innate human need to satisfy curiosity, to explore, learn and express oneself) in their designs.
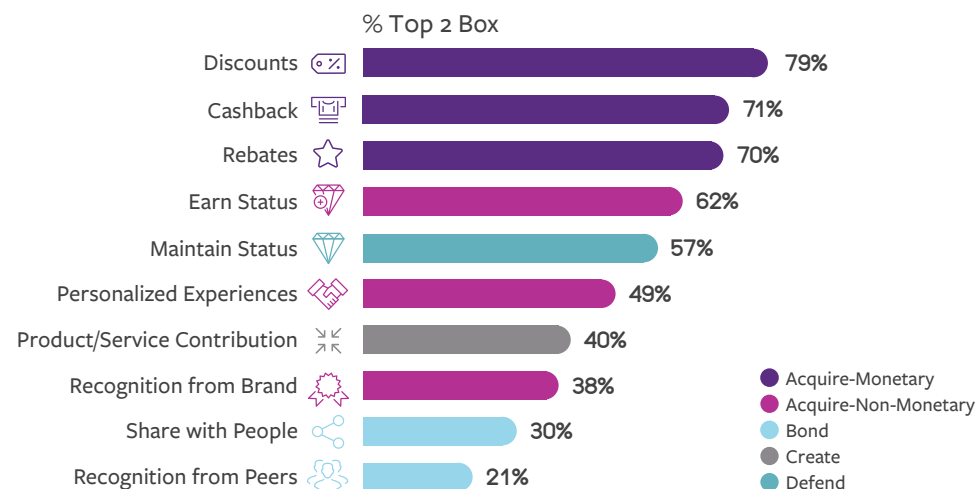
Our study endeavored to uncover any differences in the stated level of importance of various program elements aligned with each of the 4-Drives. Not surprisingly, discounts, cashback and rebates (Acquire elements)

rated most important by the highest percent of guests. Today, these are the elements around which most programs are designed. Non-monetary Acquire mechanics (e.g., earn status) also rated high at 62% of guests.

Elements aligned with Bond and Create rate lower; yet on closer investigation, a very interesting pattern emerges: along with Members who deem the program as part of their relationship with the brand, the stated level of importance of non-monetary benefits increases significantly, in some cases by more than 2x.

So, while discounts and rebates may be a critical tablestake for acquiring new customers, the percent of Members stating that non-monetary benefits are important increases with tenure – and, as such, non-monetary benefits are more aptly suited to drive retention and foster a deeper level of engagement among existing customers than it is to acquire new ones. In particular, Bond elements increase nearly 3x post-enrollment.

Importance of Benefits, Grouped by 4-Drive Quadrant

% Top 2 Box

Benefit	% Top 2 Box
Discounts	79%
Cashback	71%
Rebates	70%
Earn Status	62%
Maintain Status	57%
Personalized Experiences	49%
Product/Service Contribution	40%
Recognition from Brand	38%
Share with People	30%
Recognition from Peers	21%

Legend:
- Acquire-Monetary
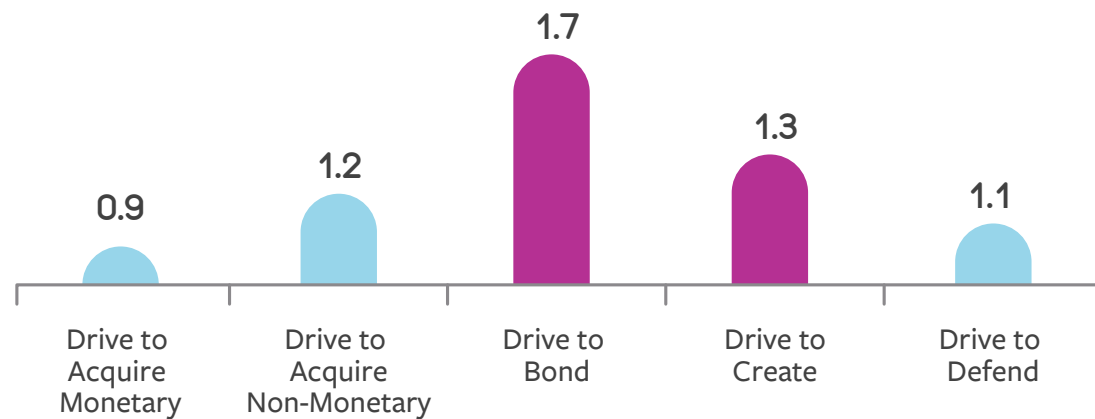- Acquire-Non-Monetary
- Bond
- Create
- Defend

We embrace the 4-Drive model as a loyalty design framework within which to design holistic and valuable brand loyalty propositions, as well as an auditing framework to identify opportunities for brands to increase the engagement of their customers. Successful (and sustainably differentiated) next-generation loyalty initiatives embrace a holistic approach to customer value proposition design and, more specifically, accommodate elements that live across all quadrants of the 4-Drive model.
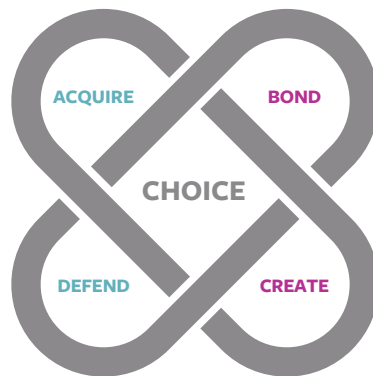
We believe that Loyalty initiatives must evolve beyond the current reliance on monetary means to influence behaviors and into new territory that engages the whole person in authentic, emotionally rich and brand aligned ways.

Importance of Non-Monetary Benefits

ACQUIRE · BOND · CHOICE · DEFEND · CREATE

Drive to Acquire Monetary	Drive to Acquire Non-Monetary	Drive to Bond	Drive to Create	Drive to Defend
0.9	1.2	1.7	1.3	1.1

04

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RECOGNITION, NOT JUST RELEVANCE

04. Recognition, Not Just Relevance

Personalized and Relevant Communications Enhance Program Satisfaction

Our 2013 study revealed a tight link between Member satisfaction and the extent to which Members deem loyalty communications as personally relevant. It seemed the higher the relevance, the more likely a Member is to be satisfied with a program.

While most brands focus on the monetary value of their loyalty programs, many are missing a key element in engaging and retaining their members: delivering relevant and personalized program communications. We believe that, over the long term, customized content (targeted to Members based on their behaviors, preferences and stage in their relationship with the brand) can be just as important as a program's perceived net value in generating satisfaction, customer retention, and increased sales.

Communications relevance is very highly correlated to program satisfaction. In fact, 93% of those who strongly agree "... communications I receive from this program are relevant to me" report very high overall satisfaction – compared to only 20% of those who strongly disagree with the statement.

SATISFACTION IS NEARLY 4.6x HIGHER AMONG CUSTOMERS WHO STRONGLY AGREE COMMUNICATIONS RELEVANT
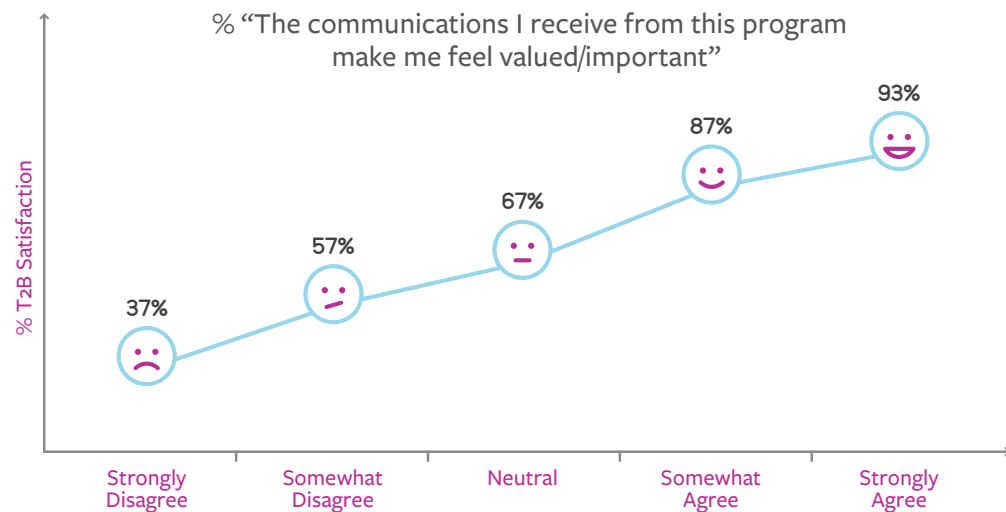
Key Learnings

Compelling and personalized communications are core to a program experience

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Overall satisfaction is tightly linked to content relevance

—

Relevance is tightly linked to emotional affinity for the program and the brand

—

Brands that deploy compelling and customized communications to make their Members feel more valued will have a strong competitive advantage

Percent of Members Satisfied with Program, based on Communications Relevance

% "The communications I receive from this program make me feel valued/important"

% T2B Satisfaction

Strongly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Strongly Agree
37%	57%	67%	87%	93%

Programs that ranked highly for communications relevance have Members who are highly engaged, as well as:

- Significantly more interested in receiving communications

- Express far more enthusiasm for communications

- Almost twice as likely to "always read" communications they receive

Relevant communications is a powerful engagement tool that makes Members feel valued and increases their affinity for the program. Members of the top-rated programs were 50% more likely to be satisfied, more than twice as likely to recommend the program or express commitment, and about 3x as likely to express strong emotional attachment such as love, pride, or delight.

Beyond readership and emotional connections, brands that rated well in relevant communications are also likely to achieve incremental business results. Members of the top 10 programs are twice as likely to stay with the brand and modify when and where they buy, compared to those of the bottom 10. They are also 3x as likely to spend more with the brand, and are less price-sensitive. This group claims to be more than 4x as likely to buy something they don't want or need in order to earn points or maintain their program status.

While increased relevance improves these results, it is clear that relevant communications can also be used to establish a bond that makes Members feel valued and important.

Most brands are not delivering customized communications that resonate with their Members. Fewer than half of respondents agreed that the communications were relevant to them. Only 39% said communications were personalized, and only 34% claimed the programs made them feel valued or important.

Yet despite these low communications ratings, they hold out hope: 47% still assert that they "always read" the communications they receive and 56% say they are interested in receiving communications from programs. For the top 10 programs on relevant communications, these other metrics increased considerably, suggesting there is a tremendous upside to engagement through more relevant and personalized messaging and content.

Impact of Relevance on Receptiveness to Communications	Among top 10 Programs	Among bottom 10 Programs
Interest in receiving	42%	9%
Love receiving	61%	18%
Always read	67%	34%

Impact of Communications Relevance on Program Satisfaction	Among top 10 Programs	Among bottom 10 Programs
Overall satisfaction	85%	56%
Likelihood to recommend	59%	28%
Level of commitment	51%	20%
Program is worth the effort	74%	41%
Feelings about program: Love	50%	14%
Feelings about program: Proud	45%	15%
Feelings about program: Delighted	52%	18%
Makes me feel valued	62%	16%

Interest in Communications (%Percent of Members, T2B)

05

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TRUST

38%
CUSTOMERS SURVEYED

The Role of Trust in the Personal Information Trade-off

While Members of loyalty programs expect more customization and relevance from brands, they are reluctant to share the personal information required to deliver such personalization.

Recent high-profile data breaches (e.g. Target, Evernote, Snapchat, Neiman Marcus) have consumers even more aware of privacy and security concerns. In fact, privacy is a leading reason why people choose not to join a loyalty program (56%), second only to fees (68%).

About one-third of those surveyed were concerned about how brands would use their personal information, and were unsure why programs require it (up slightly versus one year ago, from 29% to 32%). Suggesting that marketers must inform Members of how and why their information will be used to enhance their experience with the program.

Conversely, 38% feel that programs request more personal information than they were willing to share, up significantly from 2013 (29%). Interestingly, loyalty program membership does not translate to increased openness; program Members are not more willing to share information with brands than non-Members.

38% OF CUSTOMERS SURVEY ASSERTED THAT LOYALTY PROGRAMS WANTED MORE PERSONAL INFORMATION THAT THEY WERE WILLING TO GIVE.

Key Learnings

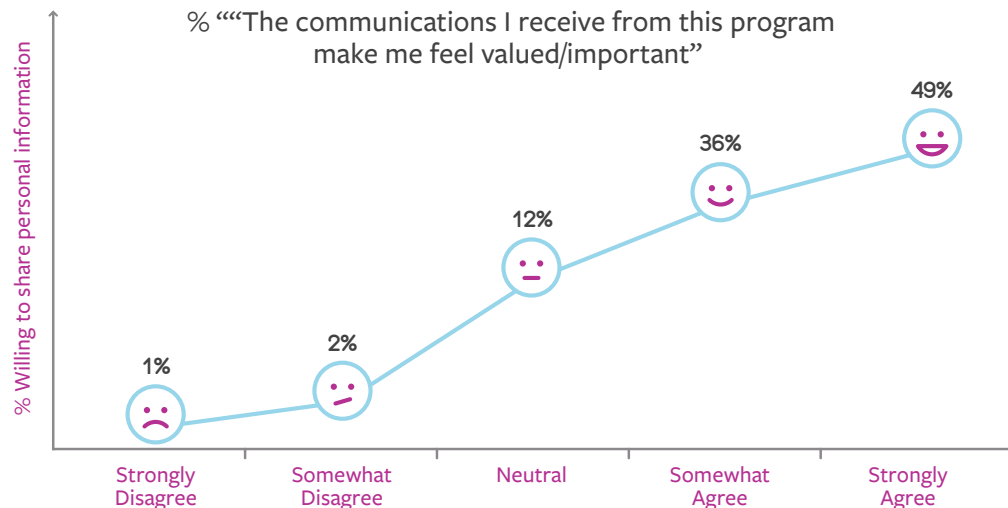Very few customers are willing to unquestioningly share personal information with brands
—
Customers are more willing to share personal information with brands they feel are trustworthy
—
Membership in loyalty programs is not an antidote to privacy concerns
—
Willingness to allow use of personal information depends on when and how information will be used
—
Transparency, permission-based use, and adherence to policies are key to balancing privacy concerns with trust

Percent of Members Satisfied with Program, based on Communications Relevance

% ""The communications I receive from this program make me feel valued/important"

% Willing to share personal information

Strongly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Strongly Agree
1%	2%	12%	36%	49%

So, how can brands capture the information they need in order to deliver relevant content when Members are reluctant to share? Trust may be the gateway to greater Member openness and dialog. Willingness to share personal information is strongly correlated with trust; 49% of Members who strongly believed a program is trustworthy are willing to share information – over 3x the average.

Programs rated as trustworthy benefit in additional ways: they garner significantly higher satisfaction scores (88% for the 10 most trustworthy programs compared to 53% for the bottom 10).

Members gave trustworthy programs more "permission" to use their data in creative ways; on the "cool to creepy" scale of program personalization, tactics were perceived as more "cool" and less "creepy" when used by trustworthy programs.

Openness to use of personal information also depends on context. For example, gas companies are rated less "cool" than grocery stores or coffee shops if they invite Members to a local event, perhaps suggesting consumers don't see this as a logical extension of the relationship with a gas company — yet gas companies were ranked less "creepy" than all other industries if they used smartphone GPS to offer local deals, perhaps since it is related to driving?

Some uses of information can be considered "creepy", regardless of industry: almost 60% of respondents were negative about any company determining benefit eligibility by checking Facebook status.

Brands can nurture trust through their programs with greater transparency of data policies and practices that are communicated clearly and concisely to customers and program Members. Customers may be more willing to share when they perceive their data is being used to their benefit (e.g. personalized discounts based on previous purchases, automatic ordering and payment via smartphone) without crossing the line into invasion of privacy (e.g. checking your friends' status updates to determine eligibility for benefits).

Perception of the use of Personal Information Improves with Trust
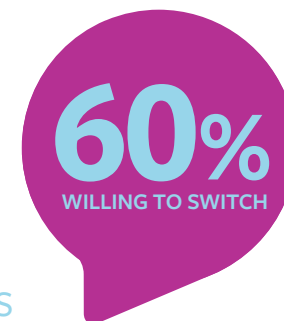
% "cool"

Personalize discounts on favorite items, based on purchasing habits	58%	+8%
Personalize offers you want, based on preferences you can manage/update	54%	+8%
Invite you to local events/online communities affiliated with program	36%	+7%
Set preferences for purchases on smartphone so your order is processed and paid for instantly	33%	+6%
Offer special benefits to those who "Like"/"Follow" a program on Facebook/Twitter	32%	+7%

● Overall Average
● Among Trusted Brands

06

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KEY SEGMENTS

60%
WILLING TO SWITCH

Building Relationships with the Millennial Segment

They've been defined as everything from hopeful to entitled, but those born between 1980 and 2000 are the bull's eye of many of today's brands.

Millennials (aged 20-34) now outnumber Boomers (45+) in North America, so it's no wonder marketers are increasingly focused on this segment. A key question marketers grapple with is: "Are Millennials loyal to brands?" Thankfully, the simple answer is yes. In fact, in many ways, Millennials are the most loyal customers – provided the brand knows how to connect with them in ways they care about. They are very clear that fair value trade-offs must be two way and beneficial to both brands and consumers. They also expect transparency and clarity. They are savvy consumers who have grown up with marketing and technology.

According to our study, Millennials are the customers most willing to modify how they shop, in order to maximize the benefits they get from loyalty programs. Sixty-eight percent of Millennials will change when and where they shop, if it means getting more program benefits. And a third of Millennials even confessed that they've bought something they didn't need or want, in order to earn points or maintain status benefits.

More than half of Millennials (60%) are also willing to switch the brands they buy, if it means getting more benefits. So, if your competitors have a stronger loyalty program than you currently have, they also have a very powerful tool for stealing your share.

Millennials are also significantly more interested in non-monetary benefits from brands:

60% OF MILLENNIALS ARE WILLING TO SWITCH THE BRANDS THEY BUY IF IT MEANS GETTING MORE BENEFITS.

Key Learnings

Millennials are over-index in participation in loyalty; especially in telco, entertainment and CPG programs
—

A greater proportion of this segment is influenced by program benefits (e.g., modify what, where and when they buy)
—

Millennials are more willing to share personal information and are more digitally inclined
—

Social Recognition – the opportunity to interact with others, and receive recognition both from programs and from peers is very important to this cohort

Importance of Benefits	Overall Average	Millennials Average	Index
Receiving recognition from your peers/social group	24%	33%	1.4
Opportunity to share your product/service experiences with others	32%	41%	1.3
Eligibility to contribute to product/service enhancements	42%	50%	1.2
Receiving recognition from the brand/company/program	40%	47%	1.2
Receiving personalized product/service experiences	50%	55%	1.1

% of Members, T2B

The ways to build loyalty among Millennials have some fundamental differences from how to achieve loyalty with their Boomer parents and other key customer segments. Not understanding these differences will at best represent a missed opportunity for marketers, and at worst mean alienating the largest customer segment in North America.

Loyalty programs are more important for creating loyalty with Millennials than any other group, especially for CPG, telecommunications, entertainment, and retail sectors. Forty-six percent of Millennials say they wouldn't be loyal to a brand that doesn't have a good loyalty program – considerably higher than their Boomer parents.

However, building loyalty with Millennials isn't just about points and costly benefits. In fact, there are a lot of powerful and inexpensive ways to build loyalty with Millennials – which means smart marketers can spend a lot less money to build bonds with Millennials than their less-savvy competitors.

So what else makes Millennials different?

Millennials want a dialog with brands. Millennials also obsess about their social following, and see the internet as a platform to broadcast who they are and what they care about.

Marketers and programs that provide Millennials with ways to share their product experiences and to make suggestions to enhance the brand have much higher satisfaction ratings. In fact, 1 in 2 Millennials want an opportunity to provide ideas to marketers for ways to enhance products.

Millennials trust and are more influenced by their peers than most other customer segments. Loyalty programs that offer ways for Millennials to be recognized by peers and social groups have higher engagement. For 33% of Millennials, the simple act of being recognized by their peers and social groups positively impacts how satisfied they are with the brands that enable this type of recognition.

Millennials' mobile devices are central to everything they do, including how they engage with brands. Mobile is the primary way Millennials connect online, chat with friends, share photos, read emails, access websites and social media, and provide product ratings.

While Millennials are often characterized and criticized for their collective expectation for instant gratification, they are a generation of incredible possibility. Marketers that create authentic experiences can bring these customers closer to their brands, creating a rich dialog for advocacy in place of a one-to-many marketing bullhorn.

Interest in interacting with Brands through Mobile Device	Overall Average	Millennials Average	Index
SMS/text message on a mobile device	9%	15%	1.7
Facebook	10%	17%	1.7
Mobile "app" (i.e., application)	12%	20%	1.7
Program website – on tablet or smartphone	13%	19%	1.5
Emails (viewed on a tablet or smartphone)	30%	39%	1.3
Emails (viewed on a computer)	67%	57%	0.9

% of Members, T2B

Key Segment: Hispanics

1.4x
HISPANICS AGREE

Increasingly, marketers are paying particular attention to the Hispanic consumer segment – and with good reason.

The Hispanic population in the U.S. is 53 million, or 17% of the total population, making people of Hispanic origin the nation's largest ethnic or racial minority – the largest ethnic or racial minority in 21 States.

Hispanics comprise nearly half of the nation's population growth: nearly 1.1 million of the 2.3 million added to the population between July 2011 and July 2012 were Hispanic.

Studies reveal Hispanics are very family and culturally oriented. There are 11.6 million Hispanic households, of which 63% are married couples and, of those, 61% have children less than 18 years of age. Seventy-four percent of Hispanics older than 5 years of age spoke Spanish at home in 2011.

Loyalty Program Participation

Hispanics are very involved in loyalty programs, and over-index relative to the national average in telecommunications, CPG and QSR programs (Index 174, 144, 137 respectively), though under-index in travel programs (Index 79).
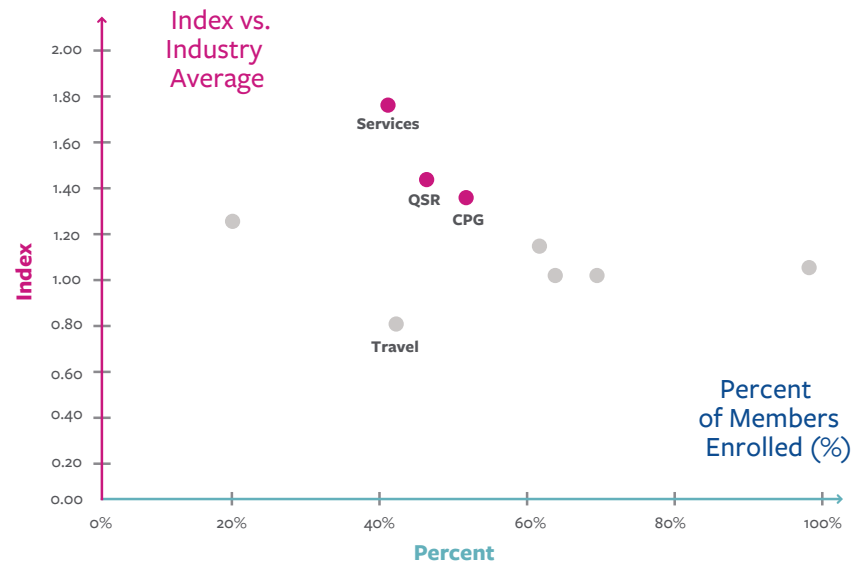
HISPANICS ARE 1.4x MORE LIKELY TO AGREE, "I WOULDN'T BE LOYAL TO THE BRAND IF IT DIDN'T HAVE A GOOD PROGRAM.

Key Learnings

Hispanics love loyalty programs, as demonstrated by high enrollment and influence of programs on behaviors. Ninety-eight percent of Hispanics participate in at least one retail program, and this segment over-indexes in telecom, QSR and CPG programs
—
Social- and mobile-centric program elements will have high appeal and utility among Hispanics, given their orientation to community and culture. This group has high Drive to Bond and Drive to Create, and a preference for interacting with brands via a smartphone/mobile device. Examples include shareable program benefits, digitally enabled social shopping experiences, and authentic referral mechanisms
—
Hispanics' social orientation to family and community is also evident in their activity with brands. Hispanics are 2.8x more likely to join a Members-only group, 2.1x more likely to follow a brand on Facebook, and 2x more likely to participate in a Members-only event. Programs that enable Members to fulfill on a sense of community and social interaction will have higher appeal

Index vs. Industry Average

Index

Services
QSR
CPG
Travel

Percent of Members Enrolled (%)

Percent

Importance of Benefits	Overall Average	Hispanic Average	Index
I have bought something I didn't need or want in order to maintain eligibility for points/benefits	22%	40%	1.8
I have bought something I didn't need or want in order to earn points/benefits	22%	35%	1.6
I may have paid slightly more for a product to earn benefits in this program	28%	42%	1.5
I modify what brands I buy in order to maximize the benefits I receive for purchases	35%	49%	1.4
I have redeemed for a reward specifically to give it as a gift to someone else	33%	46%	1.4
I wouldn't be loyal to the brand if it weren't for this program	31%	43%	1.4
I get a rush from accumulating points	37%	51%	1.4

Social Activity	Overall Average	Hispanic Average	Index
Joined a Members-only group	4%	11%	2.8×
Follow brand on social media (e.g., Facebook)	7%	15%	2.1×
Participated in a Members-only event	8%	12%	2.0×

% of Members, T2B

Influence of Program

Loyalty programs heavily influence the attitudes and behaviors of Hispanics toward brands. In fact, Hispanics are 1.4x more likely to agree, "I wouldn't be loyal to the brand if it didn't have a good program."

Socially Oriented

Hispanics' social orientation to family and community is also evident in their activity with brands. Hispanics are 2.8x more likely to join a Members-only group, 2.1x more likely to follow a brand on Facebook, and 2x more likely to participate in a Members-only event.

In terms of the 4-Drive model, the importance of program elements that are aligned with the Drive to Bond and Drive to Create are of much higher importance to Hispanics.

Importance of Benefits	Overall Average	Hispanic Average	Index
Receiving recognition from your peers/social group	24%	43%	1.8
Opportunity to share your product/service experiences	32%	49%	1.5
Receiving recognition from the brand/company/program	40%	58%	1.5
Eligibility to contribute to product/service enhancement	42%	58%	1.4

Percent of Customers interested in reward-related activities on a smartphone/table	Overall Average	Hispanic Average	Index
(Net) Any Activities on smartphone/tablet	72%	88%	1.2
Share offers with friends or family	15%	22%	1.5
Review a program's rewards discounts/points for merchandise from a catalog	23%	32%	1.4
Checking in to unlock content (e.g., sales, recommended products, etc.)	17%	23%	1.4
Refer family or friends to a program	13%	17%	1.3

% of Members, T2B

Preference for Mobile

Given this segment's significant participation in mobile telecom programs, the level of interest in program-related activity on a smartphone/tablet is higher than the general population.

Loyalty marketers and program operators will find increased success in engaging this segment through more culturally, family, and socially oriented program value propositions and experiences.

07
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2014 RATINGS & RANKINGS

2/3 SATISFIED

Marketers have long used customer satisfaction as a straightforward and reliable measure of the extent to which products and services meet or exceed a customer's expectations. There are a number of related metrics employed by loyalty marketers that also serve as reasonable and reliable gauges of customer loyalty, including propensity to purchase again, propensity to recommend, and others (all of which are highly correlated statistically).

Our study evaluated these metrics and more, and we selected customer satisfaction as the means by which we rate and rank over 160 programs that have program-level customer feedback. More specifically, we adopted a top-2-box (T2B) score on a 5-point scale that ranges from very satisfied to very dissatisfied.

We set out to uncover three things related to satisfaction:

1. The T2B satisfaction score among Members participating in each brand's program.

2. The ranking of each brand among other programs in the category, based on these satisfaction scores.

3. Key drivers of satisfaction in each category – that is, the things loyalty marketers need to focus on to maintain or improve their programs' satisfaction scores.

Overall Satisfaction

Overall, the percent of customers satisfied with their program(s) is 69, which represents a slight change relative to the metrics in our 2013 study. The industry should take pride in the fact that two-thirds of participants are generally satisfied, yet we must also acknowledge the call-to-action that the remaining unsatisfied one-third represents.
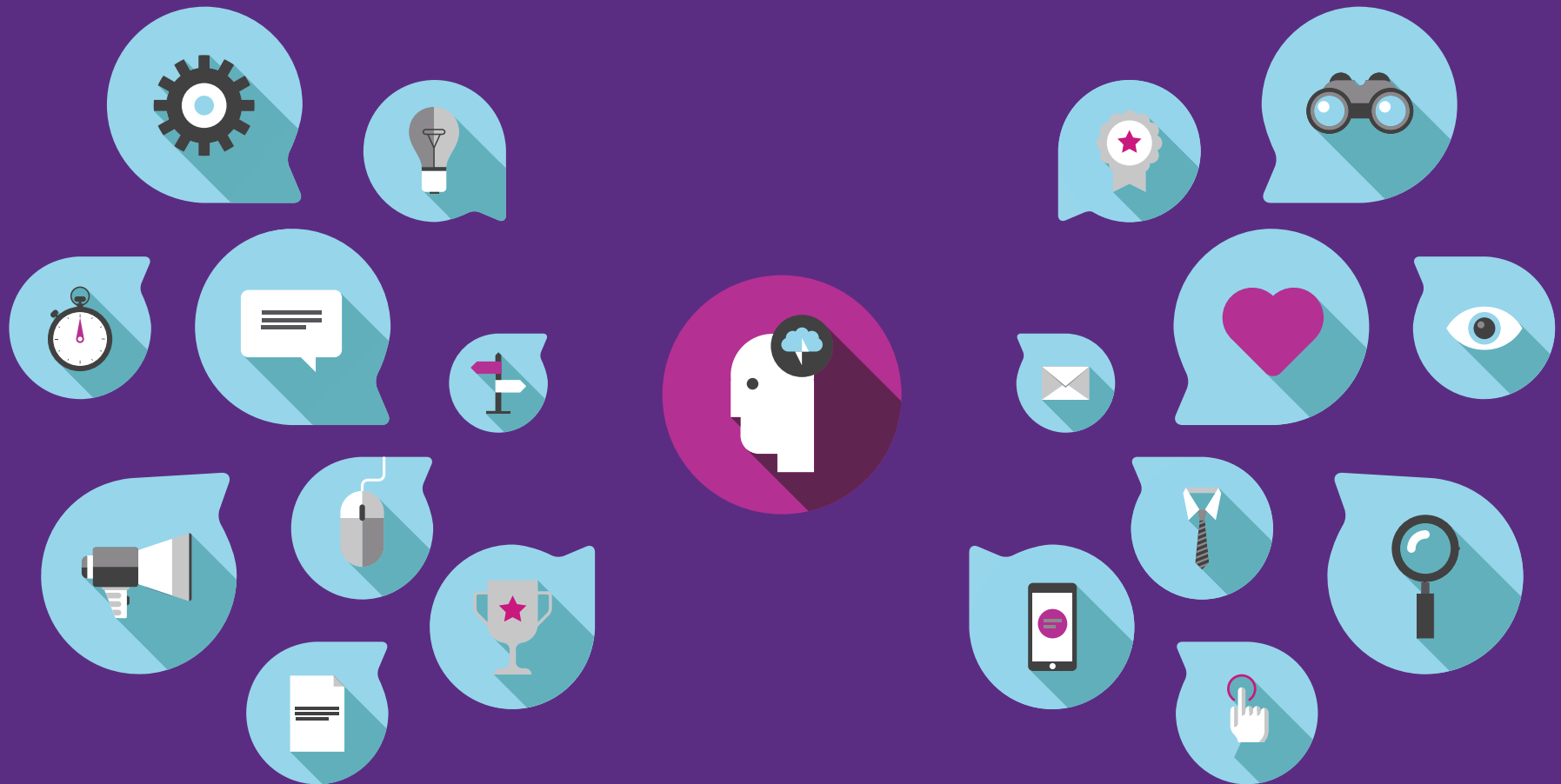
Program Satisfaction by Category

On a category-by-category basis, the perspective is higher than average for some categories. Payment cards, for example, see three quarters of customers as satisfied, while CPG (65%) is below average compared to other categories.

TWO-THIRDS OF MEMBERS ARE SATISFIED WITH THEIR PROGRAMS.

Percent of Members Satisfied (T2B), by Category

Category	
FI Credit Card	75%
QSR	74%
Sports & Entertainment	73%
Retail/Merchant	68%
Travel	68%
CPG	65%
Services	62%

We Evaluated 35+ Potential Key Drivers of Satisfaction

Key Drivers of Satisfaction

To ensure the satisfaction metric is not only interesting but actionable, we endeavored to uncover the key drivers of satisfaction by testing over three dozen loyalty features.

In general terms, the Top 5 key drivers of satisfaction are as follows:

1. Quality of rewards available.

2. Total earning potential available to reach desired rewards.

3. This program is trustworthy.

4. Ability to reach desired awards in a timely manner.

5. Process/ease/speed with which rewards can be redeemed.

Top-Rated Programs – Satisfaction

Finding its way into the key drivers list in many categories is the attribute, "total earning potential to reach desired rewards." The industry has typically interpreted this metric as spending activity – yet consumer capacity to spend more is often finite. As such, brands are increasingly looking beyond just purchase activity to find additional ways to reward desired behavior by customers, including activities such as advocating for a brand and writing product reviews.

In some categories, we see there is little that discerns the top program in a category from next best. In fact, because top programs score similarly on the key drivers, what discerns the top program from next best, therefore, is a secondary driver. This suggests there are tablestake elements that programs must deliver against in categories where limited differentiation exists (such as across payment card programs), and that the opportunity to win is tied to improvements in the secondary and discerning drivers.

For each of the categories we studied, the Top 5 key drivers are unique. The top driver, and the Top 3 rated programs, are listed in the table on the following page.

Top Programs on Overall Satifaction

Category	Ranked 1st	Ranked 2nd	Ranked 3rd	Top Driver of Satisfaction
CPG	Dove	Box Tops Education	mycoke rewards	Total earning potential available to reach desired rewards
Dining – QSR	Papa Johns Pizza	My Starbucks Rewards	Denny's	I am proud to say I am a Member of this program
Entertainment	AMC Stubs	Cinemark	Regal Cinemas	Total earning potential available to reach desired rewards
Payment Cards	Southwest Chase Visa	amazon.com Chase Visa	American Express	Quality of rewards available
Retail – Department	Kohl's Rewards	Nordstrom Rewards	JCP rewards	Total earning potential available to reach desired rewards
Retail – Grocery	Giant Eagle fuelperks!	King Soopers	BI-LO	Quality of rewards available
Retail – Pharma	wellness+ savings + healthy benefits	extracare	Walgreens balance rewards	Total earning potential available to reach desired rewards

Top Programs on Overall Satifaction (*continued*)

Category	Ranked 1st	Ranked 2nd	Ranked 3rd	Top Driver of Satisfaction
Retail – Apparel	adidas	Nike	carter's | OshKosh B'gosh	Total earning potential available to reach desired rewards
Services – Telco	verizon	T··Mobile·	at&t	I am proud to say I am a member of this program
Travel – Air	jetBlue TRUE BLUE	Alaska Airlines MILEAGE PLAN	American Airlines AAdvantage	Quality of rewards available
Travel – Hospitality	Marriott REWARDS	HILTON HHONORS	IHG InterContinental Hotels Group	This program is trustworthy

ABOUT
BOND
BRAND
LOYALTY

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Bond Brand Loyalty, formerly Maritz Loyalty Marketing, has been practicing brand loyalty for over 100 years for the world's most beloved brands. We believe that the world can be a more loyal place – a world more rewarding for customers, richer and more resilient for brands, and extremely profitable for the underlying businesses those brands represent. Named by Forrester as a leader in loyalty and number one in strategy, we build measurable, authentic and long-lasting relationships between our clients' brands and their customers through a complete combination of services, including loyalty design, customer experience solutions, market research, insights and analytics, live events, experiential marketing, and powerful loyalty technology platforms centered around a signature human science approach to brand loyalty.

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