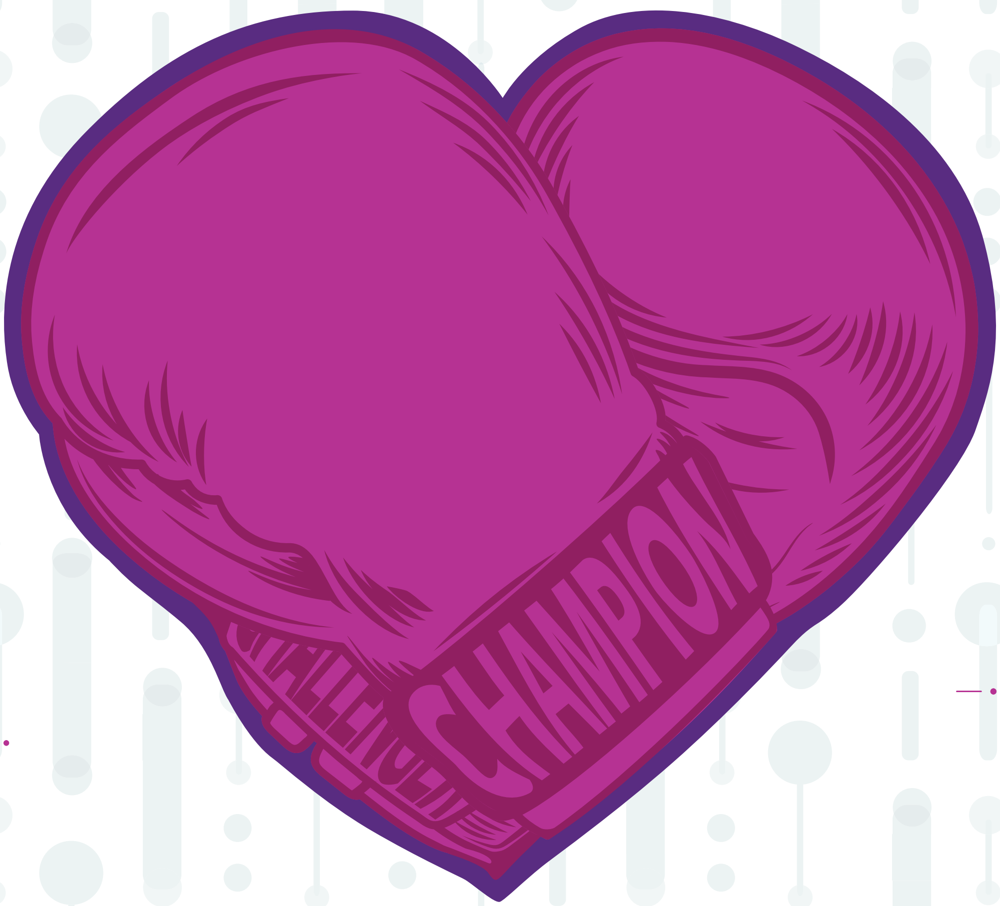
Launch Edition

THE BATTLE FOR LOVE & LOYALTY

THE LOYALTY REPORT 2017



EXECUTIVE SUMMARY

bond BRAND LOYALTY

IN COLLABORATION WITH VISA

PUNCHING ABOVE YOUR WEIGHT

This year, the gloves come off as we pit champions versus challengers in a battle for consumer love and loyalty. Changes in Program Member attitudes and behaviours are reshaping the loyalty landscape and pressuring the status quo.

Loyalty Program design does not need to rely solely on the familiar punch of a dividend. It's about hitting smarter and punching above your weight with a superior customer experience that recognizes your best customers.

With more Programs competing for their attention, hyper-informed consumers expect personalized and shared interactions across a brand's loyalty ecosystem. A Program's success hinges on its humanity and ability to respond to competitive pressures, embrace evolving technologies and create a better Member experience.

To differentiate and knock out your competition, your loyalty Program must adapt, surprise and delight.

Let's step into the ring.

NORTH AMERICA'S LARGEST LOYALTY STUDY

10+

INDUSTRY SECTORS INCLUDING

- Payments
- Retail
- Grocery
- Hotel
- Gas
- Airline
- Entertainment
- Coalition
- CPG
- Etc.

400+

LOYALTY PROGRAMS

50+

ATTRIBUTES

- Program Mechanics
- Rewards & Redemptions
- Earn Mechanics
- Brand Alignment
- Loyalty Emotional + Behavioural Outcomes
- Human-to-Human Experiences
- and more

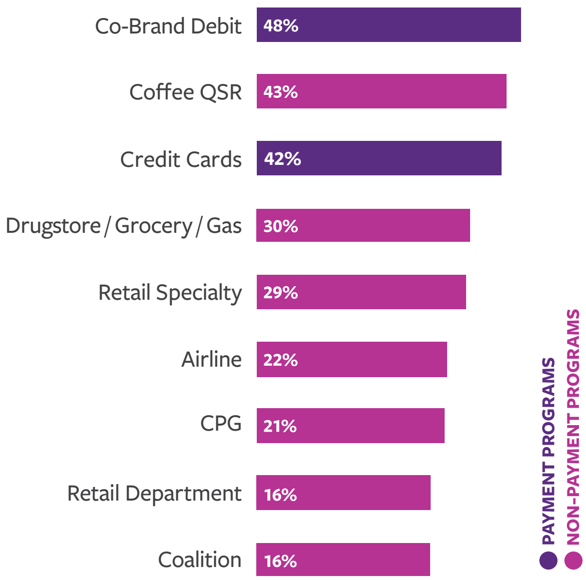
A sample of over

28,000

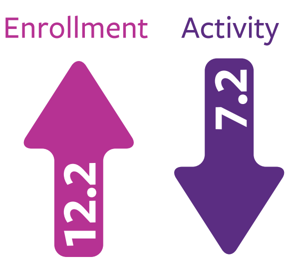
NORTH AMERICAN CONSUMERS participated in this study through an online survey

FAST FACTS

MEMBER SATISFACTION BY SECTOR



"Very Satisfied" with Loyalty Programs



Average total Program enrollment has grown 25% over the last four years to 12.2 Programs per Member

THE LOYALTY ADVANTAGE

The permission-based relationship of Loyalty offers something that other forms of marketing don't

77% say that Loyalty Programs make them more likely to continue doing business with brands

58% modify spend to maximize Loyalty benefits

63% are more likely to recommend brands with good Loyalty Programs

Members who enjoy participating in their Loyalty Programs are **11X** more likely to be very satisfied, yet only 18% feel this way

PROGRAM REPS NOT PULLING THEIR WEIGHT

SHOW THEM SOME LOVE

10%

STRONGLY AGREE

Program representatives consistently make Members feel positive emotions

AN EXTENSION OF YOUR BRAND

9%

STRONGLY AGREE

Program representatives consistently improve Members understanding of the Program

BEST CUSTOMERS ARE NOT BEING TREATED BEST

ONLY 12%

of Members perceive their experience with the brand as better than that of non-Member customers

FAST FACTS

THE DIGITAL AND MOBILE EXPERIENCE

47%
AGREE

47% of Canadians would like to interact with Loyalty Programs on their mobile devices

27%

27% of Members enroll online compared with 45% at a brand's location

65%
DON'T KNOW

65% of Program Members don't know if their Program offers a mobile app

ROOM FOR IMPROVEMENT

26%

of Members are very satisfied with their Program's customer support experience

Up from 21% in 2016

GETTING PERSONAL

ONLY

14%

of Members are very satisfied with the level of personalization they experience with their Program

Up from 12% in 2016

Trust is key to Loyalty

however, 24% of Members strongly agree that Programs are trustworthy—**Slightly up from 22% in 2016**

REDEMPTION

Working hard for the reward

ONLY 16%

of Members are very satisfied with the level of effort needed to earn a reward or benefit

THEY JUST DON'T KNOW

55%

of Members don't know their points balance and **41%** are unaware of their points value

ARE YOU FORGETTING SOMETHING?

$16 Billion

In Canada, an estimated $16 billion in points are left **unredeemed** by Members

CHAPTER 1

LOYALTY IS A MARKETING HEAVYWEIGHT

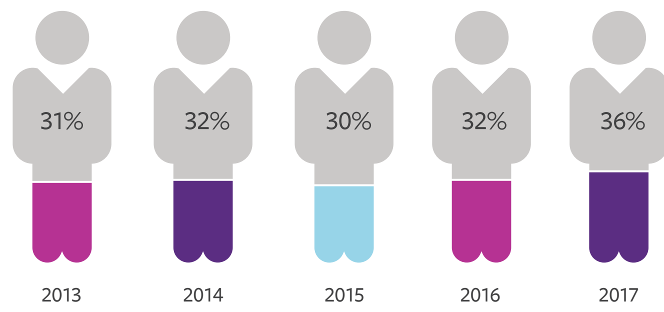
With increasing challenges in the battle for love and loyalty, Programs must keep their gloves raised to maintain their heavyweight status.

SATISFACTION IS UP, BUT THE BELL HASN'T RUNG YET

Historically in this study, overall Member satisfaction has been stable—neither increasing, nor decreasing substantially. Most Program operators would likely agree they have made Program improvements and increased budgets. Yet, any positive impact on Member satisfaction has likely been diminished likely by continuously increasing consumer expectations and increased Program imitation among competitors.

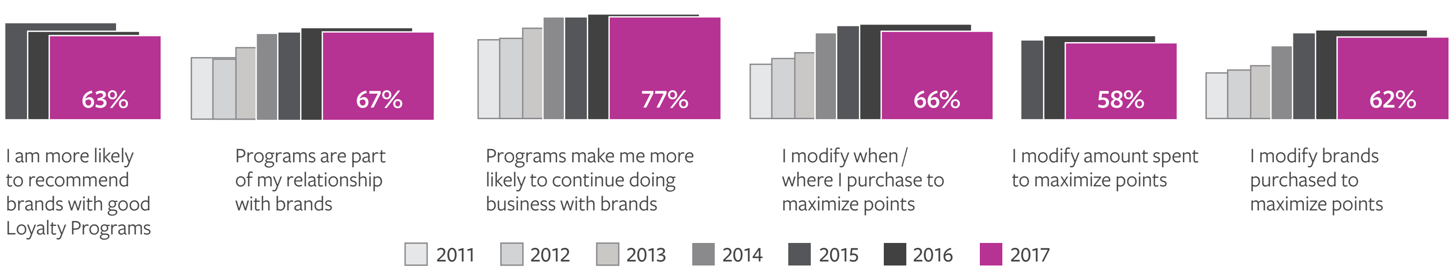
To provide context, this 2017 study was fielded at a time of heightened consumer scrutiny on Loyalty Programs' terms and conditions, triggered by the introduction of an amendment to the consumer protection act related to points expiry in Ontario. Despite this, overall Member satisfaction has increased by 4%, to 36%. This increase is no small feat; however, more needs to be done to transform smiles into tangible results.

Member satisfaction is up, and the impact of Loyalty Programs on Member spend, choice, advocacy and retention is high. Few, if any, other marketing initiatives could claim impact of this magnitude. Yet, key loyalty outcome metrics are under pressure as the following six key outcome metrics show a slight decline for the first time in the history of this study.



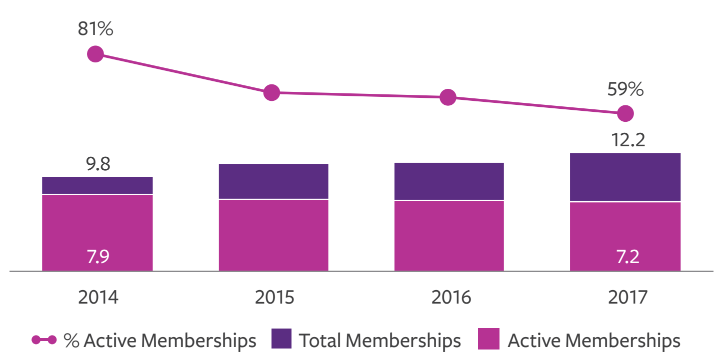
"Very Satisfied" with Loyalty Programs

Loyalty Key Performance Indicators



MEMBERSHIPS ARE UP, WHILE MEMBER ENGAGEMENT IS AT CAPACITY

Since our 2014 study, the average number of Program memberships per Canadian consumer has increased steadily from under 10 Programs to over 12. Meanwhile, the number of Programs in which Members are active, meaning they have earned or burned Program benefits or rewards, is virtually unchanged at just under 7.2 (60%). This suggests that Members have an interest in continuing to enroll in additional Programs, yet their capacity to engage has reached a threshold.



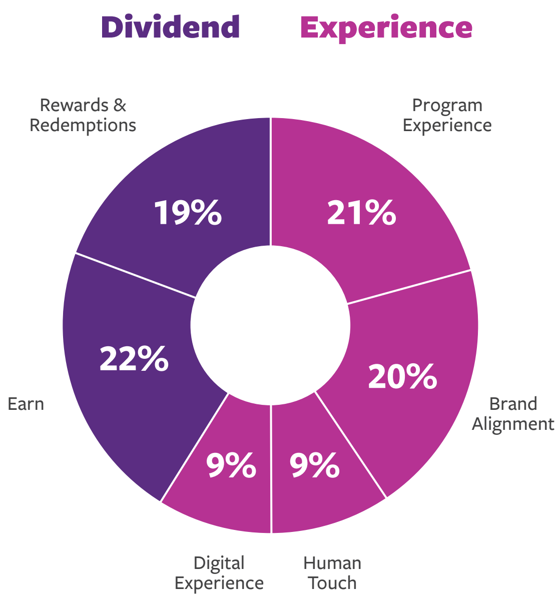
CHAPTER 2

EXPERIENCE PACKS THE STRONGEST PUNCH

We evaluated over 50 potential key drivers of Program satisfaction. Among them, “meeting needs” packed the greatest punch. So, how do you ensure that your Members are enjoying their loyalty experience and course-correct if they start to lose the love?

EXPERIENCE REIGNS

Of all the ways in which Members interact with and evaluate Loyalty Programs, the experience matters the most. Experience drivers are more important than monetary drivers in achieving Program satisfaction. Not surprisingly, earn and burn elements are important; however, it's the experience that makes the greatest difference in overall satisfaction. The experience—comprising the digital experience, human touch, and the way in which a Program aligns with the brand—also offers the greatest opportunity to differentiate from competitors.



SATISFACTION BY SECTOR

Average Member satisfaction varies by sector. For instance, the highest average Member satisfaction rates are among the Grocery Co-Brand Payment and Airline Co-Brand Payment sectors, with 52% of Members identifying as very satisfied. Conversely, the lowest average Members satisfaction rates are among the Department Store Retail (16%) and Coalition Loyalty (16%) sectors.

LEAVE YOUR COMPETITION BEHIND

Members evaluate their Programs on a variety of attributes, benefits, and experiences. But which are the most influential drivers of satisfaction? We conducted in-depth regression-based analysis to understand the most important factors driving Members to be very satisfied with their Program. Results show a meaningful mix of dividend, reward, and experience elements are the most important drivers of Member satisfaction. The top 10 drivers are as follows:

TOP 10

1. Program meets needs
2. Enjoy participating in Program
3. Level of effort needed to earn a redemption
4. Time to earn desired rewards/benefits
5. Program rewards/benefits appealing
6. Ease of redemption
7. Ways rewards/benefits can be earned
8. Amount accumulated per $1 spent
9. Program consistent with brand expectations
10. Customer support

Assess your key Program touch points and the human-to-human interactions as areas of opportunity to create an experience that trumps your challengers and engenders your customers to your brand.

KEY TAKE-AWAYS

1 Focus on the drivers that matter most

2 Top drivers differ by sector, by segment, and even by objective

3 Differentiate on experience, not on rewards

CHAPTER 3

THE ANTICIPATION IS JUST AS SWEET AS THE REWARD

Members eligible to redeem are just as satisfied as Members who have just made a redemption—suggesting the anticipation of a reward upon redemption eligibility is just as sweet as the reward itself.

Yet, many Members show a lack of awareness of points balance and the absence of a redemption goal. Alarmingly, 55% of Members do not know their points balance and satisfaction within this cohort is similar to that of Members who knowingly have a minimal points balance.

$16 BILLION REASONS TO CARE

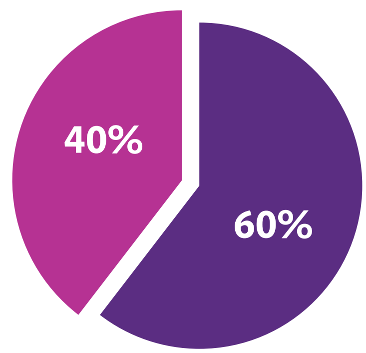
The cumulative points liability for all Programs in Canada is estimated to be valued at roughly $16 billion. This value represents both risk and opportunity for loyalty operators – redeeming for even a small portion of these points would likely create many great Member experiences, however the sheer value of this unredeemed currency highlights the importance for loyalty operators to offer cost-effective redemption options. The fact that Canadians have collected and not redeemed such a high level of points suggests Programs could be doing a much more effective job of engaging Members and driving redemption behaviour.

KEEP THEIR EYE ON THE PRIZE

40% of Members do not have a redemption goal. In other words, they do not have an intended use for their accumulating points. Members without a goal are 10% less satisfied, suggesting that simply encouraging Members to set a redemption objective can drive up Member satisfaction.

No Goal

32% very satisfied overall among Members without a goal



Goal

42% very satisfied overall among Members with a goal

Program operators invest significantly, and likely disproportionately, in rewards. As drivers of Member engagement, rewards deserve much of your focus and attention; however, be sure not to overlook and undervalue the phase preceding redemption eligibility. Operators must make it easy for Members to decipher their status, and help Members find a purpose for accumulating points. Plus, the closer the Members get to their goal, the greater the satisfaction.

¼ of Members have not redeemed

SATISFACTION GUARANTEED?

Redeemers are 2× more likely to be highly satisfied with the Program than non-redeemers, yet still ¼ of Members have not redeemed; putting them at a higher risk of attrition. Perhaps surprisingly, satisfaction is vulnerable immediately following redemption. In fact, receiving the reward can literally be a let-down and as such, Program Operators must intervene to mitigate attrition risk by maintaining engagement.

KEY TAKE-AWAYS

1 Focus on the redemption experience, not the reward

2 Encourage reward goal setting

3 Foster better awareness of accumulation status, and communicate progress

4 Take action to mitigate post-redemption attrition risk

CHAPTER 4

COMPETE AGAINST RICHER DIVIDENDS WITH A BETTER EXPERIENCE

Punch above your weight with a better Program experience than your competitors'. By focusing on a superior experience, your Program will delight your Members and compete with champion brands and Programs that offer richer dividends.

COMMON PROGRAM ELEMENTS ARE OFTEN THE LEAST EFFECTIVE

From over 28,000 survey responders, we assembled an inventory of Program value proposition elements for over 400 Programs. This collected data includes a Program- and market-level perspective, revealing the things that are most, and least, commonly offered to Members by Programs today.

Not surprisingly, many of the most common Program features are the things that have the least impact on satisfaction, given that mimicry erodes impact. Monetary features (e.g., cashback, promotions, discounts) are widely available, yet yield a below-average impact. The Program experience features (e.g., personalization, tiers) are less common and score higher on satisfaction impact among Members.

Program experience features score higher

GO TOE-TO-TOE WITH ANALYTICS-DRIVEN DECISIONS

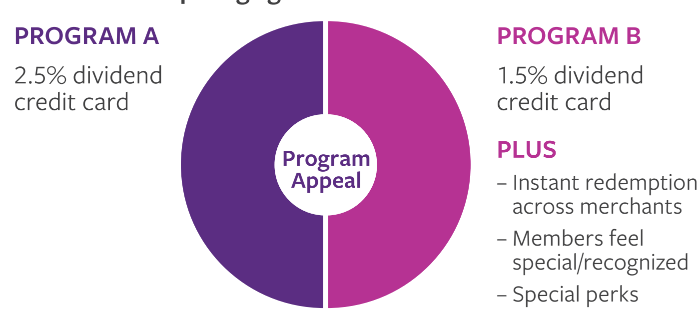
Advanced analytics and decision sciences guide numerous business Programs and decisions – increasingly, this goes for loyalty as well. Program operators are, and should be looking to analytics to answer questions such as "**How can we compete with Programs offering a richer dividend?**" or "**How can a challenger brand compete with a market leader?**". Bond has designed and applied advanced preference analytics to data collected from over 14,000 respondents to create "Loyalty Moneyball", a tool that gives us the ability to understand the potential market impact of making various changes to the Program construct or the Program experience.

THROWING A WINNING PUNCH IS NOT ABOUT DOLLARS SPENT

Our analytics show that Loyalty Program operators can buy-down expensive dividends with a better Program experience. To compete as a challenger and increase overall Program appeal, add special perks and personalized offers, and ensure representatives of your brand make Members feel special.

Case in point: An air travel payment card Program that allows Members to pay with points, offers special perks and whose representatives make Members feel special can expect an impact on Program appeal equal to that achieved by a Program without such experiential benefits, but rather a 1% additional dividend on spend.

Competing against a richer dividend



KEY TAKE-AWAYS

1 Determine the right mix of dividend and experience

2 Challenge brand champions with the a better mix of Program features

3 Compete against Programs offering richer dividends through less expensive Member benefits

4 Identify white space using analytics

CHAPTER 5

THE LOYALTY ECOSYSTEM—LOYALTY BEYOND THE PROGRAM

Only 12% of Members perceive their experience with the brand to be better than that of the brand's non-Member customers. In other words, the majority of Members—who typically are among a brand's best customers—feel that they are treated just like all the rest.

We found that 67% of Members agree that the Program is part of their relationship with the brand. It is our belief that the role of the Program is to engender loyalty to the brand, not just to the Program. A successful Program is one that makes the overall brand experience better.

ENGINEER A BETTER PROGRAM EXPERIENCE

To ensure that your best customers feel recognized, your Program must function as an interconnected and interacting component of your overall brand loyalty ecosystem. Working in tandem with formal and informal loyalty initiatives, your Program should strive to align with all areas of your business in pursuit of positive brand loyalty outcomes.

Among Members who strongly agree that there is consistency of the Program experience across the brand, a 4.6× lift in satisfaction is achieved. Unfortunately, only 17% of Members strongly agree with this statement. This presents a tremendous opportunity for your Loyalty Program to punch above its weight with better email, online, social media and in-person interactions.

YOUR PEOPLE

3x

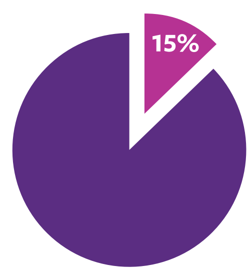
Your people should be your best advocates. They play a pivotal role in your brand's loyalty ecosystem, representing both your brand and Program. When representatives improve Members' understanding of the Program, including how it works and the benefits, we see a 6-fold increase in Member retention. More compelling, among Members who agree the Program's representatives make them feel positive emotions, there is a 12-fold higher likelihood of Member retention. These are critical competitive advantages to have when you step into the ring to battle for loyalty.

LEVERAGE WHAT YOU ALREADY HAVE

Program Operators often ask, **"How can we do more with what we already have?"** or **"What gaps exist that warrant the addition of something new?"** However, few ask, **"How can what we have work better together?"** and likely even fewer ask, **"What other assets exist across the organization (that can be integrated into the ecosystem)?"** Assets exist within your business—often hidden in plain sight—that can integrate with your loyalty ecosystem and yield incremental benefits for your business.

IT'S NOT OVER UNTIL THE BELL RINGS

So, do you think that your Program is improving Members' loyalty to your brand? It is—sort of. Our study also reveals a strong lift in satisfaction among Members who agree that the Program makes their experience with the brand better; however, only 15% of Members feel this way. This should tell you that the fight hasn't been won yet. Programs should focus on demonstrating to Members how the Program enhances their relationship with the brand. This differentiator could mean the difference between throwing the winning uppercut and throwing in the towel.



Only 15% of Members agree that Programs makes their experience with the brand better

KEY TAKE-AWAYS

1 Do not operate your Program as a loyalty silo—instead, integrate your Program and your brand's discrete initiatives into a cohesive loyalty ecosystem

2 Identify and optimize new loyalty assets in your organization, that are currently hiding in plain sight

3 Use your people to enable a better Member experience...and devote your Program to enabling a better brand experience

THE BEST IN LOVE & LOYALTY

GROCERY & DRUGSTORE

1. PRESIDENT'S CHOICE PC PLUS
2. METRO & MOI
3. SHOPPERS DRUG MART OPTIMUM PROGRAM

RETAIL – GENERAL

1. AMAZON.CA AMAZON PRIME
2. MEC (MOUNTAIN EQUIPMENT CO-OP)
3. COSTCO MEMBERSHIP

AIRLINE

1. PORTER AIRLINES VIPORTER
2. WESTJET REWARDS
3. AIR CANADA ALTITUDE

DINING / QSR

1. MCDONALD'S MCCAFÉ REWARDS
2. STARBUCKS REWARDS
3. SECOND CUP COFFEE CO. REWARDS

THE BEST IN LOVE & LOYALTY

CONSUMER PACKAGED GOODS (CPG)

1 Johnson & Johnson | 2 P&G | 3 Nestlé

JOHNSON & JOHNSON HEALTHY ESSENTIALS

P&G EVERYDAY / BRANDSAVER / BRANDSAMPLER

NESTLÉ BABY PROGRAM

CO-BRANDED DEBIT CARD

1 President's Choice Financial | 2 Scotiabank | 3 BMO

PC FINANCIAL DEBIT CARD

SCENE SCOTIACARD (DEBIT)

BMO AIR MILES DEBIT CARD

COALITION

1 SPC Student Price Card | 2 Air Miles | 3 aeroplan

SPC
(STUDENT PRICE CARD)

AIR MILES
(BLUE CARD—NOT INCLUDING CREDIT CARDS)

AEROPLAN
(NOT INCLUDING CREDIT CARDS)

COMING SOON
PAYMENT CARD PROGRAMS

- Merchant Co-branded
- Bank Branded Points
- Bank Branded Cashback / Rebate

PROGRAM LISTING

DEEP DIVE REPORTS AVAILABLE ON OVER 100 PROGRAMS ACROSS 50+ ATTRIBUTES

AEROPLAN · AIR CANADA ALTITUDE · AIR MILES · AMAZON.CA AMAZON PRIME · AMERICAN EXPRESS AEROPLANPLUS · AMERICAN EXPRESS AEROPLANPLUS GOLD · AMERICAN EXPRESS AIR MILES · AMERICAN EXPRESS AIR MILES PLATINUM · AMERICAN EXPRESS GOLD REWARDS · AMERICAN EXPRESS SIMPLYCASH · AMERICAN EXPRESS THE PLATINUM CARD · BEST BUY REWARD ZONE · BMO AIR MILES DEBIT CARD · BMO AIR MILES MASTERCARD · BMO AIR MILES WORLD ELITE MASTERCARD · BMO CASHBACK MASTERCARD · BMO WORLD ELITE MASTERCARD · CAA DOLLARS · CANADIAN TIRE CASH ADVANTAGE MASTERCARD · CANADIAN TIRE GAS ADVANTAGE MASTERCARD · CANADIAN TIRE MONEY (PAPER) · CANADIAN TIRE OPTIONS MASTERCARD · CANADIAN TIRE OPTIONS WORLD MASTERCARD · CAPITAL ONE ASPIRE CASH PLATINUM MASTERCARD · CAPITAL ONE ASPIRE TRAVEL MASTERCARD · CAPITAL ONE PLATINUM MASTERCARD FOR COSTCO · CHAPTERS INDIGO IREWARDS · CHAPTERS INDIGO PLUM REWARDS · CHASE AMAZON.CA REWARDS VISA · CIBC AERO PLATINUM VISA CARD · CIBC AEROGOLD VISA INFINITE CARD · CIBC AEROGOLD VISA INFINITE PRIVILEGE CARD · CIBC AVENTURA GOLD VISA CARD · CIBC AVENTURA VISA CARD · CIBC AVENTURA VISA INFINITE CARD · CIBC AVENTURA WORLD MASTERCARD · CIBC DIVIDEND PLATINUM VISA CARD · CIBC DIVIDEND VISA CARD · CIBC DIVIDEND VISA INFINITE CARD · CIBC TIM HORTONS DOUBLE DOUBLE VISA · COSTCO MEMBERSHIP · DESJARDINS PRESTIGE PLATINUM / BONUSDOLLARS VISA · DESJARDINS VISA ELEGANCE GOLD / BONUSDOLLARS · DESJARDINS VISA MODULO GOLD / BONUSDOLLARS · DESJARDINS VISA ODYSSEY GOLD / BONUSDOLLARS · ESSO EXTRA · GOLF TOWN LEADER BOARD · HOME DEPOT CONSUMER CREDIT CARD · HUDSON'S BAY CREDIT CARD · HUDSON'S BAY MASTERCARD · HUGGIES REWARDS · JOHNSON & JOHNSON HEALTHY ESSENTIALS · LONGOS THANK YOU REWARDS · MBNA REWARDS MASTERCARD · MBNA SMART CASH PLATINUM PLUS MASTERCARD · MCDONALD'S MCCAFÉ REWARDS · MEC (MOUNTAIN EQUIPMENT CO-OP) · METRO & MOI · MY CANADIAN TIRE "MONEY" CARD · NESTLÉ BABY PROGRAM · NORDSTROM DEBUT REWARDS · OLG WINNER'S CIRCLE REWARDS · P&G EVERYDAY / BRANDSAVER / BRANDSAMPLER · PAMPERS REWARDS · PC FINANCIAL DEBIT CARD · PC FINANCIAL MASTERCARD · PC FINANCIAL WORLD MASTERCARD · PENNINGTONS STYLE INSIDER PROGRAM · PETRO PETRO-POINTS · PIZZA PIZZA CLUB 11-11 · PORTER AIRLINES VIPORTER · PRESIDENT'S CHOICE PC PLUS · RBC AVION VISA INFINITE PRIVILEGE · RBC CASH BACK MASTERCARD · RBC ESSO VISA · RBC REWARDS+ VISA · RBC VISA CASH BACK · RBC VISA INFINITE AVION · RBC VISA PLATINUM AVION · SCENE · SCENE SCOTIACARD (DEBIT) · SCOTIA MOMENTUM VISA · SCOTIA MOMENTUM VISA INFINITE CARD · SCOTIABANK AMERICAN EXPRESS · SCOTIABANK GM VISA CARD · SCOTIABANK GOLD AMERICAN EXPRESS · SCOTIABANK SCENE VISA · SCOTIAGOLD PASSPORT VISA · SEARS CLUB REWARDS · SECOND CUP COFFEE CO REWARDS · SEPHORA BEAUTY INSIDER · SHOPPERS DRUG MART OPTIMUM PROGRAM · SIGNATURE RBC REWARDS VISA · SPC (STUDENT PRICE CARD) · STARBUCKS REWARDS · TD AEROPLAN VISA INFINITE CARD · TD AEROPLAN VISA PLATINUM CARD · TD CASH BACK MASTERCARD · TD CLASSIC TRAVEL VISA CARD · TD FIRST CLASS TRAVEL VISA INFINITE · THE BAY / HOME OUTFITTERS HBC REWARDS · TJX CANADA STYLE+ LOYALTY PROGRAM · WALMART REWARDS MASTERCARD · WESTJET RBC MASTERCARD · WESTJET RBC WORLD ELITE MASTERCARD · WESTJET REWARDS

TO LEARN MORE

Thank you for entering the ring in the battle for love and loyalty! We hope that you enjoyed the Executive Summary of The Loyalty Report 2017.

To learn more about the detailed report findings or to purchase a customized version of the full report, please contact us, and we will be happy to arrange a call.

ABOUT BOND BRAND LOYALTY

Bond Brand Loyalty is a management-owned agency that specializes in building brand loyalty for the world's most influential and valuable brands. Our mission is to make marketing more rewarding for customers, richer and more resilient for brands, and more profitable for our clients. We build measurable, authentic and long-lasting relationships through a combination of services that includes loyalty solutions, customer experience, marketing research, customer analytics, live brand experiences and proprietary loyalty technology platforms.

Visit our website, follow us on Twitter or contact us at 1-844-277-2663.

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