

The
Loyalty
Report

'19

REDUX:

THE NEW STORY
OF LOYALTY



bond.

IN PARTNERSHIP
WITH **VISA**

Loyalty Remastered, Renewed, Reimagined

Loyalty Programs continue to drive results for Brands, but everywhere we look, we're reminded that change is constant. New competitors, evolving technologies and rising customer expectations are putting Programs in flux and placing constraints on Member satisfaction. To keep pace, Program operators make adjustments, but those often result in the same old story.

To create meaningful change, Loyalty needs a redux, a term from the film world that means a new interpretation of an existing work. When we recall the origins of Loyalty—to create differentiation and give customers new reasons to keep coming back—we realize that Program operators must rewrite the script to make Loyalty even more relevant to today's audiences.

In the ninth year of the largest global study of its kind, The Loyalty Report 2019 surveyed over 55,000 consumers across more than 900 Programs in more than 20 markets. The findings will help Loyalty marketers remaster the customer experience, renew their sense of purpose and reimagine the ways to build bonds with Members.

Will your Program play a key role in the new story of Loyalty?

“The Loyalty Report is our opportunity to bring the Member to the table, as Loyalty marketers are in a perpetual race to meet changing customer expectations. We apply science and art to the thinking around how we can master the customer experience in a way that brings significant benefits to Brands and Members.”

— Rob Daniel
EVP, Client Leadership, Bond

The World's Largest Study of Loyalty, Engagement and Known-Customer Experience

Sample of more than

55K

Consumers

In

20+

Markets

Across

NORTH AMERICA
SOUTH AMERICA
ASIA PACIFIC
EUROPE

Examining over

900

Programs

In

15+

Industry Sectors

- Airline
- Apparel Retail
- Automotive
- Big Box Retail
- Car Rental
- CPG
- Entertainment
- Quick Serve Restaurant & Dining
- Gas & Convenience
- Grocery
- Health & Beauty
- Hotel
- Informal
- Online Retail
- Pharmacy
- ... and more.

Across

50+

Attributes

- Loyalty Mechanics
- Program Influence
- Behavioural Loyalty
- Emotional Loyalty
- Earn Mechanics
- Rewards & Redemption
- Brand Alignment
- Human Experiences
- Digital Experiences
- ... and more.

9TH
ANNUAL
STUDY



11K Canadians provided feedback on 175 Loyalty Programs

Fast Facts:

Memberships Continue to Rise but not all are Active



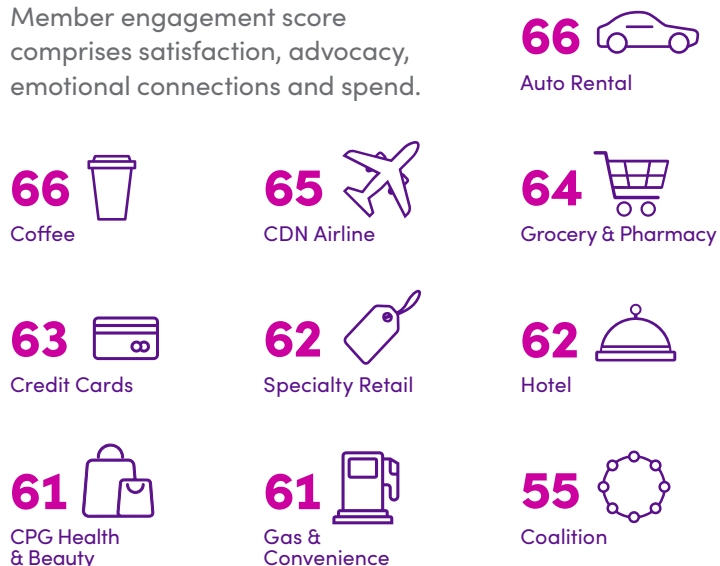
What Drives Loyalty?

Top 5 Drivers of Member Engagement

- 1 Enjoy participating
- 2 Meets needs
- 3 Makes brand experience better
- 4 Rewards appealing
- 5 Consistent with brand expectations

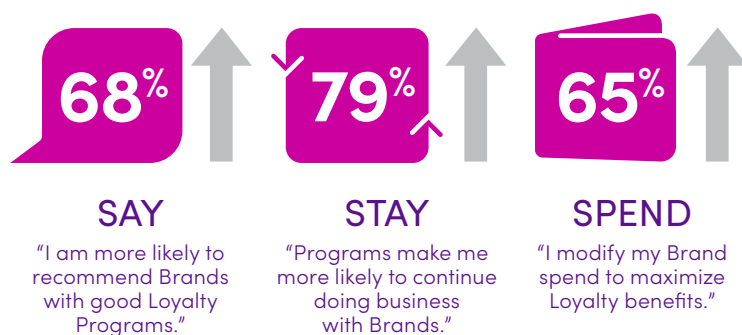
Member Engagement by Sector

Member engagement score comprises satisfaction, advocacy, emotional connections and spend.



Positive Momentum

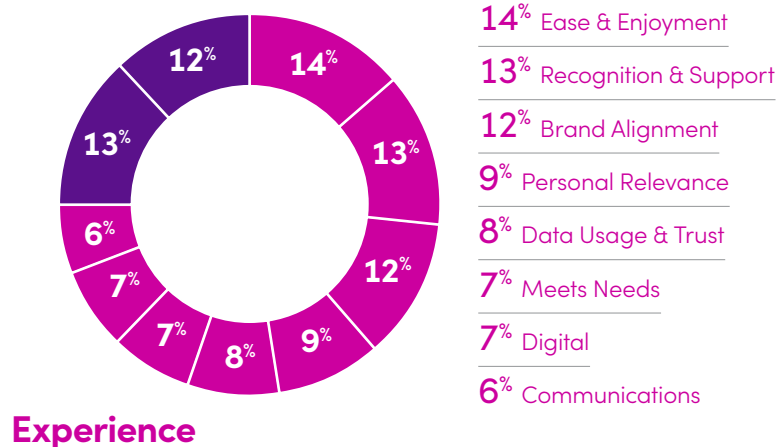
Influence of Loyalty continues to be stronger year over year.



It's the Experience that Matters Most

Experience continues to rise and accounts for almost 3/4 of what drives Member engagement.

Earn & Burn



Get Personal Already

Personalization has long been considered an important part of the experience yet only 1 in 10 members are very satisfied.



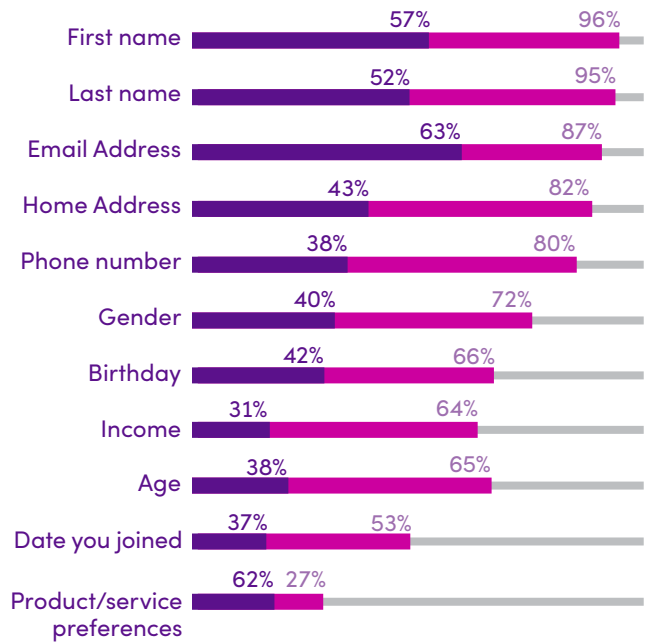
Very Satisfied with the Level of Personalization



Higher Permission with Younger Members

- 83% Gen Z
- 81% Younger Millennials
- 80% Older Millennials
- 77% Gen X
- 73% Baby Boomers
- 69% Silent Generation

Meanwhile, Members say that Programs are only using **half of the information they collect**.

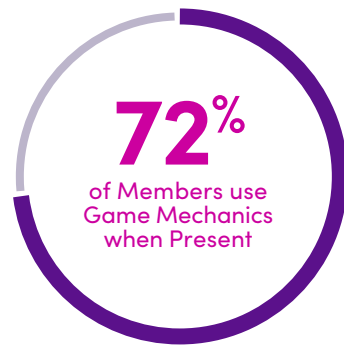


1.8x

Enjoyment Lift when Game Mechanics are Used

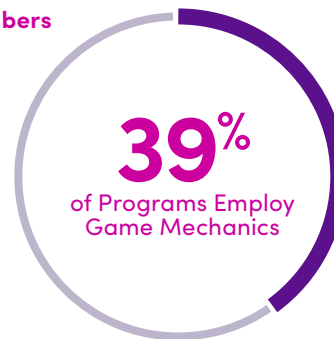
Gamification Drives Program Enjoyment

Members who engage with game mechanics enjoy participating almost twice as much. 7 in 10 members engage with these mechanics when present, but only 4 out of 10 programs employ them today.



Higher use with Younger Members

- 77% Gen Z
- 78% Younger Millennials
- 70% Older Millennials
- 71% Gen X
- 66% Baby Boomers

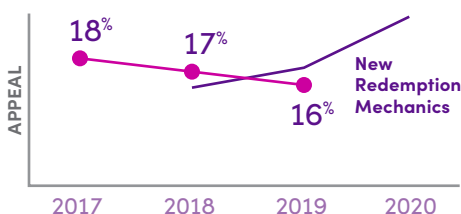


- 63% CPG Health & Beauty
- 48% Coffee
- 43% Gas & Convenience
- 40% CDN Airline
- 35% Credit Cards

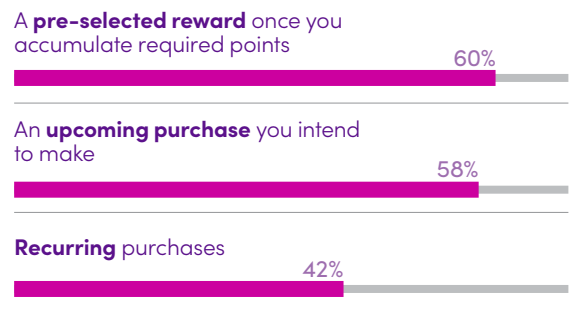
Experience is the Antidote to Declining Rewards Appeal

Satisfaction with the appeal of reward offerings is on the decline but new redemption techniques have the potential to drive appeal among Members, especially among Gen Z and younger Millennials.

Decline in Appeal of Reward Offerings



Appeal—The Ability to Use Points to Pay for...



The State of Loyalty

Loyalty continues to bring positive outcomes for Brands, and the impact on advocacy, retention and spend (or “**say, stay, spend**”) remains strong.

At the same time, Programs are challenged to keep up with rising Member expectations. As a result, we’re seeing downward pressure on Member satisfaction across multiple sectors of Loyalty and credit card reward Programs. In this year’s survey, **33% of Members** indicate they are very satisfied with the program, down from **36% in 2018**.

The experience continues to matter most: four of the five top drivers of Member satisfaction and engagement are related to the experience. While Program operators place a heavy emphasis on acquisition to drive Membership growth, harnessing an understanding of what drives satisfaction and engagement with an existing Member is the bigger opportunity. Loyalty must be grounded in retention over acquisition, and engender a propensity for Members to stay engaged.

To leverage the full power of Loyalty, Programs need to work harder to improve the customer experience, help the Brand deliver on its promise, and drive member engagement. In this report, we examine six opportunities that will help your Program move the needle on key drivers and craft your new Loyalty story for 2019.

“When customer engagement is done right, it moves the needle in a big way for Brands. What drives businesses are the bonds they build with their customers, and the experiences are what create those bonds.”

—Sean Claessen
EVP, Strategy & Innovation, Bond

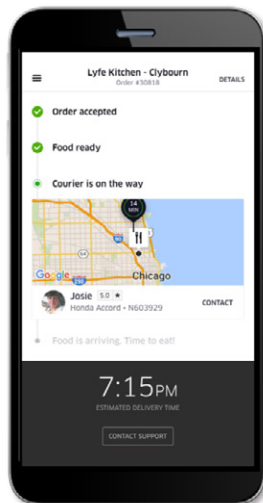


1 | Get Personal Already

Personalization has been an integral part of the Loyalty conversation for years, and marketers are well aware of the need to develop data-driven, relevant and individualized Member experiences. Yet, there is still a striking gap between Program operators' intent and action. Our study shows that only **1 in 10 Members are very satisfied** with the level of personalization in their Loyalty Programs.

What's getting in the way? Brands simply aren't using the data they collect, or they're not using it effectively. In fact, Members perceive that Loyalty Programs are only using **50% of the information they collect**. Surprisingly, many Programs aren't even using Members' basic personal attributes. For example, virtually every Program collects Members' first names (**96% of Members agree**), but only **57% of members** say Programs are using that data.

Compounding the challenge is that new benchmarks keep getting set as consumers engage with game-changing products and services. For example, on the Uber Eats app, everything is personalized based on user preferences, and customers receive multiple real-time updates regarding the status of their orders.



3.8x

LIFT IN SATISFACTION



As expectations rise and Member preferences continually change, it's difficult for Loyalty marketers to keep up. In our study, only **1 in 10 Members say Programs** are actively learning their preferences, and only **12% say Programs keep their preferences up to date**.

When personalization is done well, there is a **3.8x lift in Member satisfaction** with the Program. Other outcomes of personalization are: Members **"say good things about the brand" (4.2x lift)**, **"stay longer" (3.1x lift)** and **"spend more with the brand" (2.3x lift)**. In addition, many of the top drivers of Member engagement are related to personalization, including recognition and support, personal relevance, communications, and data usage and trust.

Loyalty marketers must get serious about personalization and close the gap between intent and action before it becomes a chasm.

Brand Snapshot | A New Model For Personalization

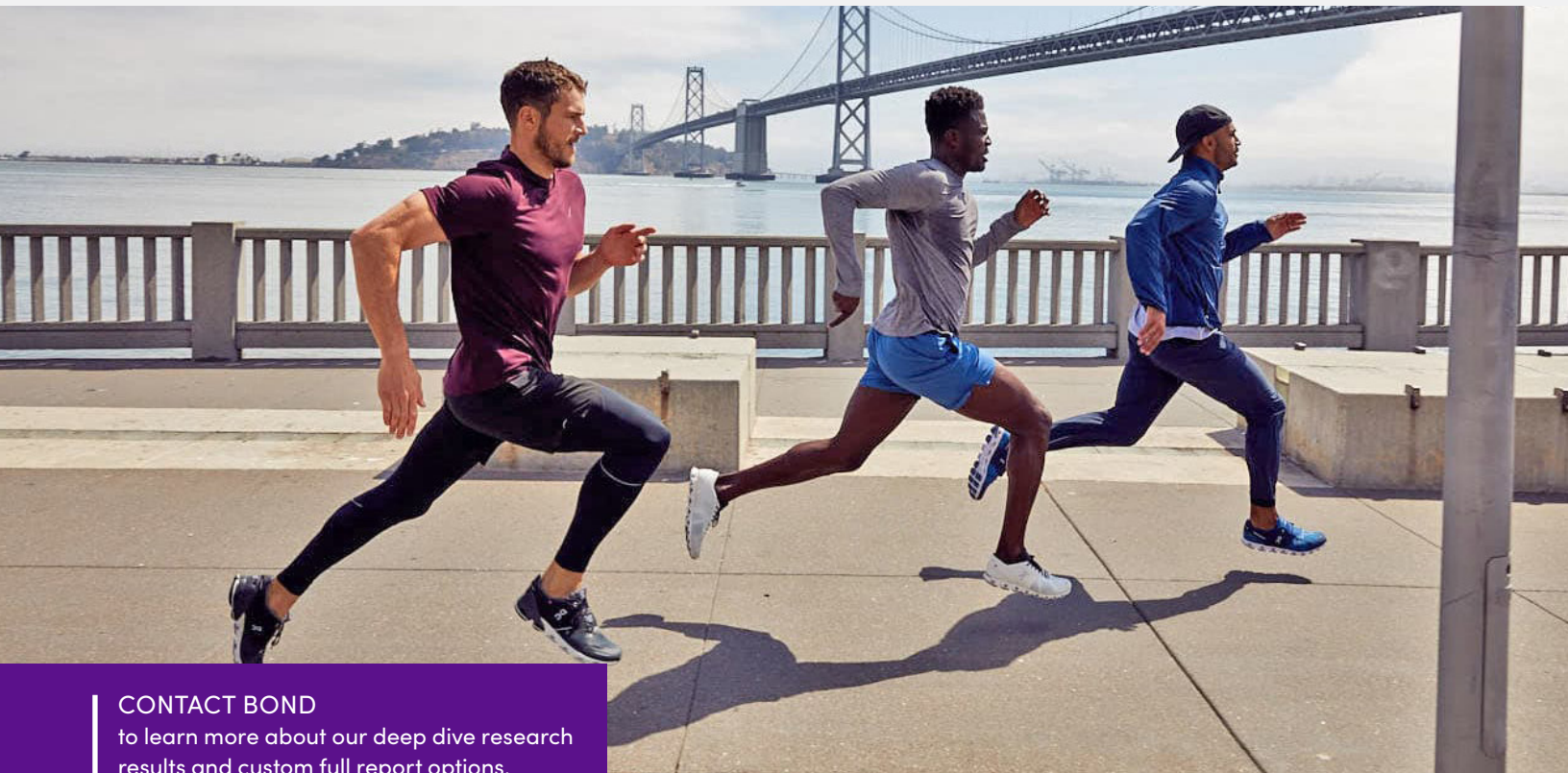


Hill City, Gap Inc.'s new men's activewear label, is a digital-first brand that offers a glimpse into the future of personalization.

Looking to get feedback and build a loyal customer base, Hill City launched the Wear Tester program on Facebook Messenger. Once chosen, testers could talk with the brand (via chatbot), provide product feedback and get access to exclusive products. Over time, the brand will learn enough about customers to make personalized suggestions. Eric Toda, Hill City's head of marketing, told Wired: "We want to be as one to one as humanly possible. I think it's the future of marketing."

"Personalization doesn't need to be complex. Loyalty marketers just need to do it and not let striving for perfection get in the way of getting started."

— Scott Robinson
VP, Design & Strategy, Bond



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to learn more about our deep dive research results and custom full report options.

2 | Unlock the Power of Partnerships

There's been a flurry of partnership activity in Canada over the past 12 to 18 months, with Brands and Programs like PC Optimum and Esso, RBC and Petro Canada, and Canadian Tire's Triangle and Husky forming alliances in the Loyalty space. That has left many Program operators contemplating if they too need a Loyalty partner, or if they have one already, how to make the partnership work more strategically.



Our survey shows there is consumer appetite for partner models:



are interested in partnerships

Partnerships can provide Brands new opportunities to interact with consumers, while securing a greater share of wallet. In fact, our survey shows highly impactful spend with partner models. For example, two thirds of RBC Loyalty Members surveyed are spending more at Petro Canada since linking their RBC cards, and more than half of Triangle Members who are Husky customers say they're spending more at Husky Fuel.

“There is strong consumer appetite among Members for Loyalty partnerships, but Operators must design diligently since a poorly conceived partnership can be detrimental. Additionally, Program operators should look to experience-based components to capture white space and differentiate.”

— Kyle West
Managing Director, Global Insights, Bond

Traditionally, partnership models tend to be a collection of earn-and-burn mechanics: the ability to earn faster, earn in more places, and receive discounts at partners. However, with earn-and-burn elements comprising just one-quarter of what drives overall Member engagement and three-quarters related to the experience, there is more potential to unlock. Loyalty partners should take advantage of experience-based components such as a more personalized experience, reciprocal status with each brand, and a better customer experience to drive appeal upwards even further.

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to learn more about our partnership assessment, value exchange design and ROI tools & workshops.

3 | Remake the Redemption Experience

Rewards still matter to Members and redemptions continue to have positive impacts for Programs. Across our study, **72% of all Members have made redemptions**, and there is a **1.8x lift in satisfaction** among redeemers versus non-redeemers. However, the appeal of rewards is on the decline. In 2019, only **16% of Members say they find rewards appealing**, down from **17% in 2018** and **18% in 2017**.



Two factors are putting pressure on the appeal of rewards catalogues. First, Amazon ensures consumers can get virtually any product from anywhere on the planet, delivered the same day or next day, and this immediacy has set a standard in the delivery experience that traditional rewards catalogues haven't kept up with. Secondly,



rewards catalogues across Programs have little to no differentiation—a toaster is a toaster, is a toaster.

Brands must evolve their Programs by focusing on the redemption experience, not just on the reward. Some key considerations are:

- ✓ Time to earn rewards;
- ✓ Level of effort to earn a redemption;
- ✓ Ease of the redemption process; and
- ✓ Time to receive redeemed rewards.

By focusing on the experience, Program operators can get more out of their rewards strategy with redemption mechanics that reimagine the traditional reward for today's consumer who expects the program will anticipate, fulfill, and even refill the redemption with immediacy, simplicity, and ease.

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to learn more about our full body of knowledge in rewards and redemption including: satisfaction lift among redeemers vs. non-redeemers across all sectors; satisfaction lift on the top earn-and-burn drivers; and points balance and redemption values.

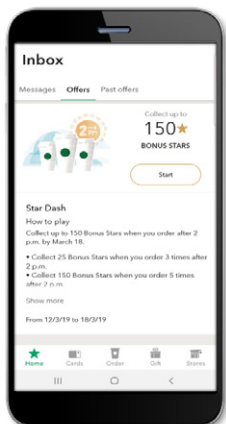
4 | Gamification: It's Back (well, it never really went away)

While many Loyalty marketers dismiss gamification as a fad, it's worth a second look. In our study, "enjoy participating" is the number-one driver of Member engagement, and gamification emerges as a powerful way to level-up enjoyment. Members who engage with game mechanics enjoy participating in a Program nearly twice as much as those who don't.

By definition, gamification applies elements of game design to non-game contexts. In Loyalty Programs, game mechanics include status and tiers, levelling-up and unlocks, missions and challenges, goal setting, progress feedback, and more. The premise is that all of the elements that make games so enjoyable have the potential to make Loyalty Programs highly engaging as well.

Here are two examples of effective game mechanics at work in the Loyalty space:

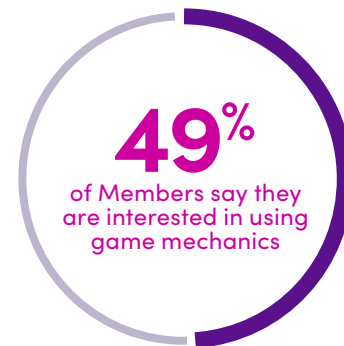
- Starbucks Rewards has multiple tiers based on spend, tracks Members' status and reward progress, offers purchase incentives, and features challenges such as making a certain number of purchases in one week to achieve bonus stars.



- Virgin Red is a highly gamified Loyalty Program featuring mechanics such as virtual treasure hunts, vaults that can be unlocked for prizes, and daily "this or that" quizzes to earn extra points.



What is the consumer interest of gamification? In our study, nearly half (**49%**) of Members say they are interested in using game mechanics. One in four Programs employ game mechanics, and **72%** of Members engage with game mechanics when they are present.



Think about how to apply gamification to meet your business objectives and calculate the dividends on important metrics in your scorecard. Is it time for your Program to get in the game?

5 | Rethink Strategies For Gen Z & Young Millennials

As Loyalty marketers look to the future, engaging the next generation of consumers should be a top priority. Unlike their parents, Gen Z, and Young Millennials are Loyalty natives: they've been Members of Programs ever since they've been consumers. They're **highly influenced by Loyalty Programs (65% Gen Z and 71% Young Millennials)**; however, they're less satisfied with programs overall.

Program Influence (Advocacy, Spend, Brand Choice)



Program Satisfaction % Very Satisfied



■ Gen Z (18-23) ■ Younger Millennials (24-29)

The top drivers of Satisfaction for younger consumers are the same as total Canadians: enjoys participating, meets needs and makes the experience better. However, they care more about the Program experience than other cohorts.

Young consumers are more willing to share information with the Brands they engage with. Gen Z is nearly **50% more comfortable than the average Canadian** with the information Programs collect about them, and Young Millennials are **35% more comfortable**.

When it comes to communications, it's no surprise that young consumers prefer social, mobile and instant message. But you may be surprised by how much they

over-index. Compared to the Canadian average, Gen Z over-indexes on social media by **65%**, mobile app by **44%** and instant message by **27%**.

Brands considering the addition of paid tiers to their Loyalty Program will be making the right move with the next generation. Even though young consumers are at beginning of their earning potential, they're already indicating they're willing to pay a fee to receive enhanced benefits.

Gen Z and younger millennials are also beginning to change the payments ecosystem, and they'll expect a digital experience wherever they go. Our study shows that younger consumers are much more likely to save their card on file or in a digital wallet than older consumers.

"Payments are not keeping up with Gen Z and Young Millennials. I use my phone to pay for everything and I'll bring my wallet just in case the merchant doesn't accept tap or if my purchase exceeds the limit. So, if you're still working on designing your plastic, you've missed the boat with me."

— Alie Donnelly
Senior Research Manager, Bond

6 | Reimagine Loyalty Across the Member Journey

The lines between the Brand, the Program and the product are increasingly blurring. Today, the Program is a key part of the Member's relationship with the Brand, and in cases like Amazon Prime, the program is the Brand. The way in which a Prime Member experiences the Brand is only through the Program.

As the Brand and the Program have become more intertwined, a new principle has emerged. The role of the Program is to be an extension of the Brand, to make the Brand experience better, and to help the Brand deliver on its promise.

It's not easy to keep pace with this evolution, and Brands have some catching up to do. In our study, only **15% of Members strongly agree the Program makes their Brand experience better.**

To solve for this, here are the questions we pose to Program operators: What are the moments that matter most across the Member journey, and what role can Loyalty mechanics play to improve the Member experience? With Member engagement mapping, we can look beyond the point of purchase to the entire experience ribbon, and consider what new Loyalty currencies can be introduced at every touchpoint.

New currencies—a concept we introduced in last year's Loyalty Report—are perks and benefits that are created by repurposing and monetizing existing assets customers find valuable. They deliver on specific needs such as time saving, convenience, brain space, confidence, and a sense of meaning.

Across the experience ribbon, look for the moments that matter most to your customers and solve pain points with new currencies. For example, a travel-

focused credit card might do a great job at letting Members pay for a flight with points or more quickly get through security. What about the moments that aren't being fulfilled by the Program, like checking in and boarding the plane?

Companies outside the Loyalty space are already solving for pain points in travel. For example, new technologies have been introduced, such as permanent electronic bag tags that allow passengers to enter their flight details online, skip the airport check-in process, and drop their luggage off at designated spots. A travel credit card could certainly do this work, improving the Member experience and engendering Loyalty to the Brand.

In any sector, Brands that can meet real human needs along the entire experience ribbon will create meaningful differentiation.



when Programs make the experience with the Brand better

LEARN MORE

about Bond's Engagement Mapping approach to build a better journey and identify the human and digital touchpoints that provide the greatest business returns for your Brand.

Loyalty Program Engagement Score

Based on Member Engagement

Coffee

1. McDonald's McCafé Rewards



2. Starbucks Rewards



3. Second Cup Coffee Co. Rewards



Airline

1. WestJet Rewards



2. Porter VIPorter



3. Air Canada Altitude



Grocery & Pharmacy

1. Co-Op Membership



2. Metro & Moi



3. President's Choice PC Optimum



Retail

1. Amazon.ca Amazon Prime



2. MEC (Mountain Equipment Co-op)



3. SCENE



Gas & Convenience

1. Petro Canada Petro Points



2. 7-Eleven 7Rewards



3. Fas Gas Litre Log Program



Loyalty Program Engagement Score

Hospitality

1. Wyndham Rewards



2. Marriott Rewards



3. IHG Rewards Club



Department

1. Simons The Simons



2. Nordstrom The Nordy Club



3. Hudson's Bay Rewards



Health & Beauty

1. The Body Shop Love Your Body Club



2. Sephora Beauty Insider



3. Sally Beauty Rewards



Coalition

1. SPC (Student Price Card)



2. More Rewards



3. AIR MILES Reward Program
(Not including AIR MILES credit cards)



Coming Soon

Payment Card Programs

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

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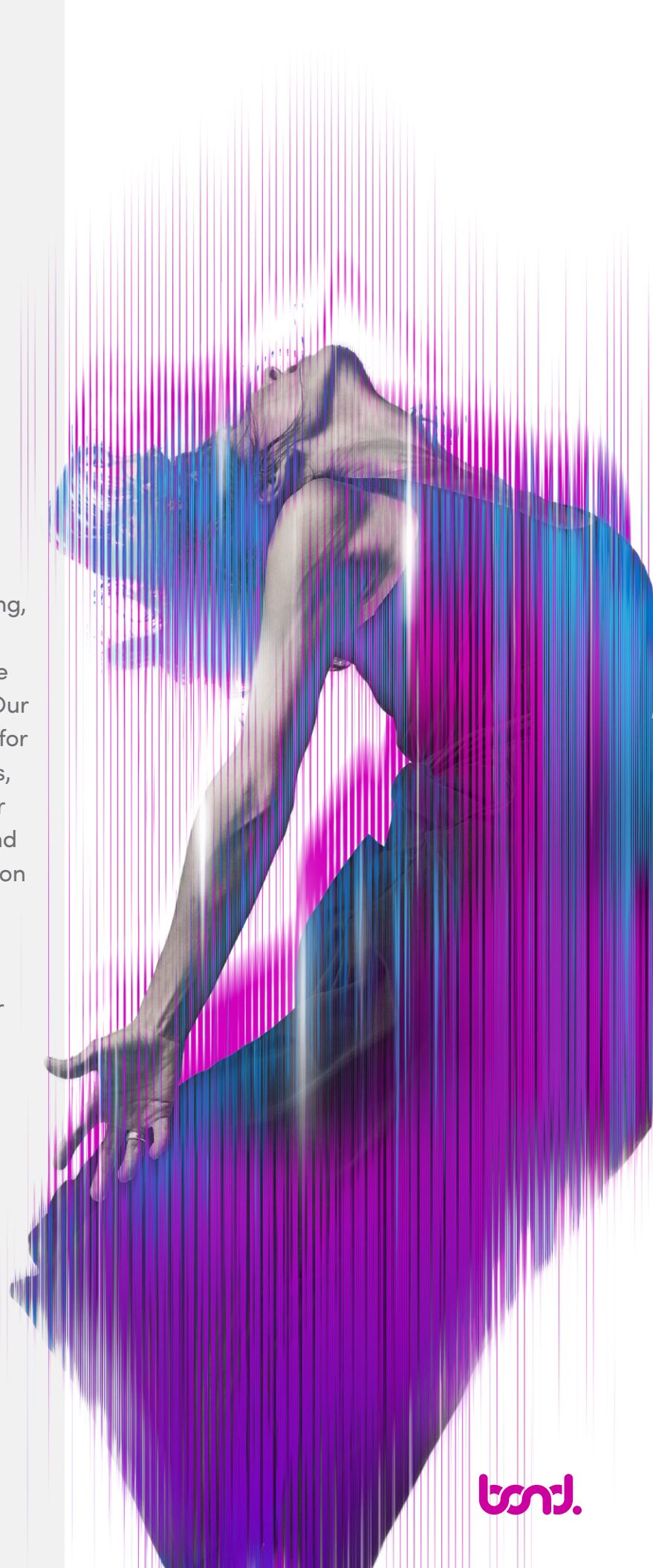
YOUNG MEMBERS AND
MODERN LOYALTY

PERSONALIZATION
IN PAYMENT

RENOVATING REWARDS:
THE UNCATALOG

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