

# COLLOQUY

Loyalty Talks



MAR/APR 2015  
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## Meeting the Middle

*The shrinking of the middle class is creating an instability that affects all corners of the economy. Fortunately for many, loyalty insights can help.*

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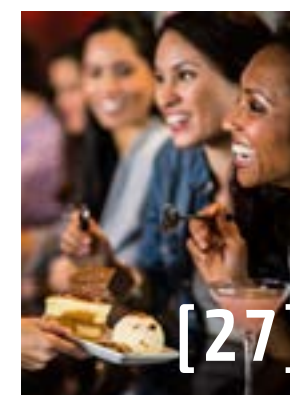
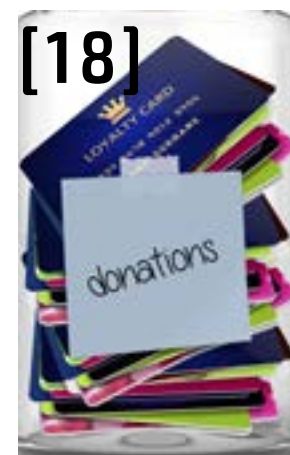
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DENNIS ARMBRUSTER

## [EDITOR'S LETTER]

# Getting to Retail 2.0

*If retailers aspire to ring up superior sales, then they must formulate a more advanced version of the customer experience.*

*More than three quarters of consumers (77%) experience at least one problem when they make a shopping trip, according to the Verde Group – a Toronto-based customer experience research firm. Of those customers, just 45% are completely satisfied with how the problem was resolved.*

To break free of the static experiences of traditional retail, let alone identify potential problems, merchants have to adapt the organizational principles and technologies to deliver personalized value wherever, and whenever, the consumer wants it. But doing so requires more than an investment in digital technology; moving to retail 2.0 takes an understanding of customer insights that exceeds the predictable cat litter coupon for the cat food buyer.

In short, retailers, marketers and merchants need to work together to maximize investments and endeavor to surprise and delight the shopper through increased relevancy and value.

For those in doubt, let me toss out one more data point, from LoyaltyOne: 67% of

consumers feel they receive no benefit from sharing their personal information with companies. It should be no surprise, then, that active loyalty memberships have been declining, and grocery programs in particular are down 2% since 2012, according to the 2015 COLLOQUY Loyalty Census.

To reverse this increasingly alarming trend, I'd suggest a series of simple practices, enhanced through 2.0 insights that could show customers not only that retailers understand them, but can prove it.

**LOCATE THE PAIN POINTS:** Many merchants have a general understanding of customer satisfaction; however, few have a handle on the "silent killers," such as stock shortages or service priorities.

Moreover, specific financial and behavioral problems can elude those research methods that identify metrics, such as net-promoter scores. Linking customer experience pain points with behavioral analytics can help organizations shape operational treatments and marketing to engage consumers across all channels.

**IMPROVE CUSTOMER LOYALTY:** Once a customer is engaged with the brand, the organization can use the added data and insight to better personalize the experience. The trick is doing it in a way that is welcome. Customer data, along with testing, can help determine to what shoppers best respond. Optimizing investments in loyalty programs, digital fliers, mobile apps, on-premise sales and service models and (opt-in) location-based promotions are all mutually useful ways to increase relevancy and nurture authentic loyalty. Note: Cross-channel sales are more than four times larger than online sales and are expected to increase to \$1.8 trillion from \$1.4 trillion between 2014 and 2018, according to Forrester Research.

**OPEN NEW SALES CHANNELS:** To better stand apart from expanding sources of competition, retailers can invest in and test new digital applications and channels. This includes broadening their online and mobile engagement strategy via multimedia solutions, social integration programs, home delivery services and the creation of

customer communities. Gamification also can become a part of the shopping experience – game mechanics can reward shoppers in creative ways to recognize their brand loyalty, or for sharing creative ways a product or service adds value to daily living.

**USE MULTIPLE INCENTIVES:** Instead of pouring resources into one promotional strategy, more retailers are offering multiple, simultaneous incentives to go with their standard points programs. These efforts can include personalized sales and service support, location-based short-term sales, personalized products and brand-oriented events.

All of these efforts can be maximized through customer data, to deliver results that benefit basket and brand. Promotional pricing, for example, can deliver a 3% to 6% sustained lift in sales, while promotional events can produce a 3% to 7% lift for targeted customer portfolios.

These are the kinds of metrics that translate to retail 2.0, and sales growth. ➔

See you in the aisles,

DENNIS ARMBRUSTER  
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Celebrating its 25th year, COLLOQUY has served as a leading publishing, education and research practice, bringing together loyalty practitioners from around the world. A pioneer in the industry, COLLOQUY is the first publication dedicated expressly to the art and science of loyalty marketing and has since become the go-to resource for loyalty intelligence. Today COLLOQUY engages and educates loyalty marketers with its magazine, weekly e-newsletter and timely and comprehensive loyalty-marketing website, colloquy.com. In each issue of the magazine, the "COLLOQUY Recognizes" feature highlights excellence in loyalty. COLLOQUY delivers industry-leading loyalty benchmarking reports and educational workshops, webinars and speeches. The COLLOQUY Summit is the premiere annual loyalty event. Advertising, sponsorship and publishing opportunities are available via the COLLOQUY Network, a global partnership of loyalty service providers. COLLOQUY is an independently operated division of LoyaltyOne. To learn more, visit colloquy.com.

Moving to retail 2.0 takes an understanding of customer insights that exceeds the predictable cat litter coupon for the cat food buyer.



## [ LOYALTY LANDSCAPE ]

## LOYALTY AT A CROSSROADS

Everyone seems to want an invitation to the loyalty party, but more than half of them stand in the corner and refuse to mingle once they get there.

Loyalty-marketing programs have never been more popular in terms of sheer numbers – memberships jumped by 26% to a whopping 3.3 billion. But that does not translate to equally high active rates. In fact, 58% of those memberships are inactive, with no participation in a 12-month period.

Those are just a couple of the revelations in the 2015 COLLOQUY Loyalty Census, a comprehensive and in-depth evaluation of the loyalty landscape in the United States and Canada during the research period of 2012-2014. The report provides analysis – both broad and deep – into the reward programs of corporations and other organizations, how consumers are using them (or not) and ways in which marketers can use the insights gleaned from the data to make those programs more effective.

The Loyalty Census also delves into the data by industry, providing insight into the core loyalty sectors – retail, financial services, travel/hospitality – uncovering revealing details such as the explosion in the number of prepaid cards and store credit cards and what that means for financial services loyalty operators.

For the first time since COLLOQUY began its in-depth benchmarking of the loyalty industry in 2000, we've created a sector called "emerging platforms" to capture a number of categories that don't fall into the three primary sectors. Emerging platforms includes everything from large e-commerce programs (Amazon Prime) to daily deals (Groupon) to online travel agencies (Orbitz) and others, and the sector already accounts for 13% of all loyalty programs.

One thing is clear: Loyalty programs in and of themselves do not create loyalty. The wild growth of memberships contrasted with the continuing creeping loss of active rates makes this a time of great challenges in loyalty marketing – but also great opportunities. The 2015 COLLOQUY Loyalty Census helps loyalty operators use that data to refine and revamp their programs to be more personal, useful and relevant.

Download your free copy of The 2015 COLLOQUY Loyalty Census today and see highlights at right.



← Click here to watch the 2015 Loyalty Census Webinar

Big numbers  
Big hurdles

## INFOGRAPHIC

Our sweeping analysis of loyalty marketing from 2012 to 2014 reveals what's working, what's stumbling and how to step up the game.

## THE GOOD NEWS

Loyalty programs still going gangbusters



2014 TOTAL MEMBERS:

3,300,000,000

## THE BAD NEWS

Once signed up, members usually just ... fade away

The average U.S. household is enrolled in 29 loyalty programs but is active in only 12.

INACTIVE MEMBERS  
58%



## THE NEW KIDS ON THE BLOCK

These emerging platforms account for 13% of all memberships.

DAILY DEALS • POINT AGGREGATORS • ONLINE TRAVEL AGENCIES • CASH AND DISCOUNT ONLINE PLATFORMS • MOBILE REWARDS • CARD-LINKED OFFERS

## MOVERS AND SHAKERS

DRUGSTORES GREW

88%  
FROM 2012

RESTAURANTS SHOT UP

107%  
FROM 2012

## THE ANTIDOTE FOR SAGGING ENGAGEMENT

- Fearless, detailed review of loyalty program
- Intensely personalized customer interactions
- Sharing insights across the organization
- Vigorous integration of technology and mobile channels





## [ Q &amp; A ]



ERIC MESSERSCHMIDT

# Ulta Beauty Sitting Pretty

With 15 million members, Ulta Rewards gives a volumizing lift to the retailer's sales and strategy. In this Q&A, Eric Messerschmidt, vice president of loyalty, talks about its expansion and plans.

Q

BY KAREN BELLS

An Ulta Beauty store is part glossy-white lab, part explosion-of-color art gallery. In 10,000 square feet, it packs a full-service salon, 20,000 beauty products to be touched and sampled, and a huge decanter of loyalty – shoppers regularly gush on fan websites.

In the popular Ultamate Rewards loyalty program, lotions and potions are blended with data and research to create powerful insights that guide business. Ultamate Rewards counts 15 million active members, and 80% of company sales come from them.

Ulta reported fourth-quarter earnings of \$1.35 per share on revenue of \$1.05 billion for the period ending March 13, beating analysts' estimates in one of its best quarters. The company plans a rapid expansion of its nearly 800 stores, expecting to add 100 locations a year for each of the next four years. That offers the potential for many more loyalty members and more ways to learn from them. Eric Messerschmidt, vice president of strategy, loyalty and customer relationship management, talks about the importance of Ultamate Rewards. Following are edited excerpts.



Ulta plans a rapid expansion of its nearly 800 stores, expecting to add 100 locations a year for each of the next four years.

**COLLOQUY:** Can you give a basic sketch of Ultamate Rewards?

**MESSERSCHMIDT:** Ulta Beauty's loyalty program was launched 20 years ago, and we have tested several versions to ensure we are offering all of the benefits and perks our guests are searching for in a rewards program. As Ultamate Rewards members, guests earn points for every dollar they spend in-store, online or at The Salon at Ulta and are able to use those points as a discount on any of Ulta's 20,000 products. When a member spends more than \$400 within a calendar year, they are upgraded to platinum status, where they earn points 25% faster. Platinum members also receive exclusive bonus point promotions and an additional birthday gift.

**Q:** Can you point to specific efforts – perhaps the program changes a year ago – that have contributed to membership growth?

**MESSERSCHMIDT:** A number of factors contributed to where we are today, including the conversion of two programs into one last year, a strong value proposition and the integration of the program on all guest touch points. Additionally, Ulta Beauty plans to open 100 new stores every year for the next four years, which is a great contributor of new guests and Ultamate Rewards members.

**Q:** How do you make sure they participate instead of just being passive members?

**MESSERSCHMIDT:** We ensure our communications and promotions are as personalized as possible, increasing relevancy and efficiency. We also offer a series of ongoing communications to our members with the objective to educate and reiterate the program value proposition.

**Q:** How is the loyalty program integrated throughout Ulta's marketing and business development?

**MESSERSCHMIDT:** Ultamate Rewards is a strategic asset for our company that provides strong value across several dimensions. It enables us to gather rich data from each customer transaction and use that data to target and communicate offers that provide greater return on our marketing investment. Ultamate Rewards is integrated (at) every customer touch point, including in-store signage and collateral, receipt point summary, online experience, social interactions, the Ulta app, mailers and personalized content via emails.

**Q:** Talk about how your in-store sales associates and salon employees market Ultamate Rewards, as well as how it is promoted on the Ulta website.

**MESSERSCHMIDT:** Our in-store associates are truly the program's ambassadors and receive extensive training on how to communicate the value of Ultamate Rewards to our guests. As part of our ongoing effort to deliver a more personalized guest experience, we are piloting a new 'clientele-ing' app that will enable store associates to sign up guests for Ultamate Rewards, review point balances and past purchases and create a guest profile right from the sales floor instead of at point of sale. We also have targeted POS messaging that empowers our associates to deliver relevant messages and promotions to our members. Ultamate Rewards is integrated throughout ulta.com, providing program and sign-up information for non-members along with a "My Rewards" section for program members to review balances, redeemable points values and transaction histories. ➔



**Q:** How have the lessons learned from operating Ultimate Rewards shaped how it functions today, and how it will function in the future?

**MESSERSCHMIDT:** Years of experience have provided us with some great insights on how to shape the program. We aim to provide a flexible, easy-to-understand program structure with a strong value proposition, integrated and accessible program information, email-only perks and a package of platinum benefits to recognize our most loyal guests. As for the future, our vision is to make Ultimate Rewards as enticing as possible to the many different segments in our membership base by creating tailored benefit packages based on customer interests and behaviors.

**Q:** Anything else you want to share about Ultimate Rewards?

**MESSERSCHMIDT:** Our Ultimate Rewards program helps us more powerfully engage with our best customers. About 80% of Ulta Beauty's sales are from our Ultimate Rewards loyalty members. As of (the third quarter) 2014, our Ultimate Rewards program has grown 16.1% year over year. Our strong comparable growth across retail, salon and e-commerce was driven by loyalty member sales growth. Average sales per member increased compared to last year, equally influenced by greater shopping frequency and higher spend per transaction. 

Karen Bells is staff writer at COLLOQUY.

# [ NEWS BREAK ]

A news roundup from COLLOQUY.com



## WALGREENS ANNOUNCES CHANGES TO BALANCE REWARDS PROGRAM

Balance Rewards customers on Medicare and Medicaid may now earn points on prescriptions. ***Read more.***



**WELLS FARGO  
OFFERS REWARD  
REDEMPTION  
THROUGH ATM**

Members can now redeem rewards in the form of deposits or payments to their qualifying Wells Fargo accounts. ***Read more.***



Click to tell us how sales associates promote your loyalty program.



## COCA-COLA REVAMPS MYCOKE REWARDS

Taking a content-based approach, the new MyCoke Rewards offers customers rewards for community and social interactions. **Read more.**



## GULF OIL LAUNCHES REWARD PROGRAM

The new Gulf Oil Power Points program allows Gulf Electricity customers to convert qualified spending on everyday purchases to reduced electricity bills and free gasoline. ***Read more.***



## SOUTHWEST AIRLINES SCALES BACK REWARDS PROGRAM

Southwest Airlines is the latest airline to reduce the value of loyalty reward points. ***Read more.***



## UNITED AIRLINES' MILEAGEPLUS ADDS CRUISES AS REDEMPTION OPTION

United Airlines MileagePlus program includes new cruise travel options, allowing U.S. members to book cruises using miles or a combination of miles and money. ***Read more.***



**THE WALL STREET JOURNAL INTRODUCES GLOBAL PROGRAM**

Now tailored to different regions in the world, WSJ+ provides subscribers a series of events, experiences and special offers. ***Read more.***



## [FEATURE STORY]

# Taking Change Off Autopilot

Q

BY LISA BIANK FASIG

When some of the nation's top carriers announced they would alter their frequent flyer models, airline pundits focused on how the changes would affect reward earnings. But behind the scenes, the real earnings stem from managing the change.

Both Delta Air Lines and United Airlines have adjusted the way frequent flyer members earn miles, to dollars spent from miles flown, and with those shifts they set off a succession of required adjustments across respective organizations.

"It will affect thousands of employees to one degree or another," said Seth Kaplan, managing partner of Airline Weekly. "From probably a smaller group of people who were deeply involved in making the decisions and implementing the changes, to a larger group that deals directly with the partner companies who purchase miles, all the way out to any frontline employee."

In short, these companies likely had to pilot considerable change management strategies, and the results are critical to their successes. Almost 25% of consumers surveyed said they would consider Delta or United less often because of the changes, and just 9% more often, according to research by Brian Karimzad, director of MileCards.com. (Southwest Airlines and British Airways also are changing their reward models.)

Delta did not respond to requests for comment, and United declined. So we spoke to change management experts to outline what a company should do to prepare for such change.

## FLEET-FOOTED FLYERS

The most important levers in change management are those that strategically help people adapt to their new work expectations, said Kate Nelson, partner at Change Guides in Cincinnati. These levers are: leadership, communication and engagement, resources, and training and skill building.

Timing, too, is essential.



Companies should identify every employee group within the organization that the change will affect. This can range from customer service representatives and check-in counter workers to those in business development and finance.

"It still takes a period of time for people to transition," said Nelson, also co-author of two books on change management, including "The Change Management Pocket Guide." "The sooner you start to prepare them, the smoother it will be on that 'go-live day.'"

With the key levers in place, a major airline – or any organization – can embark on three critical steps.

1

**Identify the affected and the effect:** Companies should identify every employee group within the organization that the change will affect.

This can range from customer service representatives and check-in counter workers to those in business development and finance. Once the change management team identifies each group, it can determine how to





**“You can see that there would be ripple effects throughout. It’s not just a change you’d send communications to customers about and then you’re done.”**

alter their behaviors to adhere to the new operations.

For example, some groups must communicate the change to customers, a need that should be addressed early – the most intensive portion of Delta’s communications plan occurred three to six months before it announced program changes to its 92 million members, the company told COLLOQUY in 2014. The financial team, meanwhile, can be drawing up new calculations for tallying miles on the books. And members of the business development team can be reconfiguring mile distribution among purchasing partners such as hotels or rental car companies.

“You can see that there would be ripple effects throughout,” Nelson said.

“It’s not just a change you’d send communications to customers about and then you’re done.”

2

**Give them the tools:** A clear picture of each employee group’s responsibilities prepares the organization to develop operational strategies and goals for each.

This requires integrating new customer data and insights into existing processes to determine the most effective growth measures, said Brian Ross, president of Precima, a LoyaltyOne analytics solution. “They should incorporate their newly determined approach into the process, make necessary changes and support these changes with the appropriate data and tools,” said Ross, who has written extensively about change management.

These strategies and tools will vary, however. More intense changes, such as those required of managers who work with rewards partners, may require training and new systems. Some team members may need to take customer service seminars. Dedicated web pages with frequently asked questions and other guidelines – much like those created for customers – could assist employees, Nelson said.

3

**Be there:** As company leaders launch their team-specific strategies, they should actively support the switch, both Nelson and Ross said. If

team leaders cannot be on hand to take questions and troubleshoot, they

should invest in third-party experts to do so on their behalf. Employees should be invited into the process, apprised of milestones and informed of what they stand to gain from effective change management. Internal reward programs can aid in this process but will not work unless employees understand why the change is taking place.

Which leads to the importance of measuring, Ross said. If a marketing manager continues to be evaluated based on metrics of the former reward model – say customer acquisition – rather than on metrics aligned with the new model – customer retention – it’s unlikely the behavior will change.

Doing this also will help the company focus on the elements of the change that create the greatest opportunities to generate more revenue, by ensuring the customers’ brand experience delivers on and, ideally, exceeds expectations.

“For true change to be implemented, the organization should measure and manage its processes and teams in accordance with its new approach,” Ross said. “All of the organizational structure, roles and policies, right down to how people are measured and evaluated, must change.” ←

Lisa Biank Fasig is senior writer and editor at COLLOQUY.

Click to tell us how you communicate program changes.





## [TOUCH POINTS]

# From Runways to Front Rows Rewarding the Member Who Has Everything



Q

BY STEVEN DENNIS

**Benjamin Franklin famously said that money has never made man happy. But that isn't stopping loyalty marketers from finding ways to turn high spending into highly enriching experiences – and for good reason.**

As loyalty programs have become ubiquitous, and many brands struggle to gain share in a largely stagnant market, it's never been more important to grow and retain a company's very best customers. While many high spenders appreciate and take advantage of the progressively more valuable gift cards that come with higher levels of spending, cash-back schemes aren't differentiating and can even serve to devalue a luxury brand's image.

When faced with delivering something that is both remarkable and cost-effective for customers with nearly unlimited spending potential, luxury marketers must focus on additional benefits that reinforce their brand's positioning and create proprietary, hard-to-duplicate value for the client.

From my experience there are three major areas upon which to focus:

## 1. UNIQUE ACCESS.

The key is to deliver a wow experience that is “on brand,” highly valued and (often) cannot be obtained by the client at any cost.

Ideally, these events are remarkable in the truest sense; that is, they engender strong storytelling that leads members to extol the company's virtues among their peers.

Fashion brands and luxury department stores are among the leaders here, offering access to impossible-to-get seats at New York, Paris and Milan Fashion Week runway shows or entrance to ultra-exclusive VIP events with designers or celebrities. Another benefit of some programs is a “get it first” feature, which recognizes certain highly sought-after products are in very short supply, so it moves elite members to the front of the line.

Tony hotels and resorts have the ability to employ their scarce inventory as a loyalty benefit by reserving their best suites and villas exclusively for their very top customers. Many casinos have become legendary in building over-the-top residences for exclusive use by their high rollers. For example, the Atlantis Bahamas' Bridge Suite – so named because it spans to connect two of the resort's towers – covers nearly 5,000 square feet, employs a permanent staff of seven and is used primarily as a reward for VIPs and high spenders.

Some brands are experimenting with other types of special access. Kimpton Hotels recently revamped its Karma Rewards program and added direct communication to its CEO as a benefit for only its top-tier members. And fractional jet ownership brand NetJets went so far as to reserve a private U2 concert for its most frequent flyers. ➔





**2. PERSONALIZATION.**

An important aspect of any good customer-driven strategy is to treat different customers differently. This is especially critical when dealing with the unique demands of a company's most discerning customers.

Most high-end brands are seeking to build a deeper understanding of their best clients' needs and wants and then tailoring the experiences to fit those profiles. Concierge services for higher-tier customers are increasingly popular benefits. Many programs also employ clientele-specialized software to note and deliver on an individual customer's specific preferences.

What sets apart many programs, however, is bringing a bespoke or individually curated aspect to bear.

With its just-launched Icon Privileges, Canada's leading luxury department store Holt Renfrew is putting personalization at the core of its program. Members are able to access a progressively wider set of privileges as they spend more. At the very top level, deemed Front Row+, elite customers gain access to a dedicated concierge and the promise of curated experiences.

Neiman Marcus has famously been willing to develop customized travel itineraries for its uber-spenders, including flying them and their salespersons to Paris for unforgettable shopping excursions.

**3. RECOGNITION.**

While tangible rewards and perks are at

the heart of most loyalty programs, research shows that acknowledgement of a member's status – and gratitude for his or her spending and loyalty – will go a long way as well. Reinforcing a customer's place in the top tier through distinctive membership cards, special "thank you" gifts and VIP areas or expedited check-in lines helps build a stronger emotional tie to the brand.

In some cases, the opportunity arises when merchants can surprise and delight a brand's best customers. As an example, for its Chairman's Circle tier (annual spending of \$600,000 or more), Neiman Marcus is reported to hold a special in-store ceremony where the store's general manager presents the client with a crystal version of its InCircle Rewards membership card.



Most high-end brands are seeking to build a deeper understanding of their best clients' needs and wants and then tailoring the experiences to fit those profiles.

**ECONOMIC CONSIDERATIONS**

I realize that delivering remarkable and effective benefits to customers who can afford anything could be expensive and complex. Individually curated experiences or concierge services necessitate highly trained staff (or partners), and the incremental cost can easily be in the thousands of dollars per client. Deciding to offer these benefits requires a solid understanding of the retention, share-of-wallet growth and word-of-mouth improvements that can be attributed to those features. Research and testing should be performed before diving in.

Other benefits may be less costly, but the return on investment may be more difficult to measure. Special recognition programs may cause some minor process changes and management refocusing, but the out-of-pocket expenses are typically low and the potential for engaging and resonating with top members is high when executed strategically.

Reallocating scarce inventory, reserving rooms that may well go unsold and creating special check-in lines and the like often have little incremental cost, but are guided by a commitment to differentiating and allocating the most valuable benefits to the most valuable customers.

And importantly, they all have one feature in common – they make the member's day a little easier, a little more pleasant. That should make anyone happy. ←

Steven Dennis is president and founder of SageBerry Consulting, which works with retail and luxury brands and investors. He is an ongoing COLLOQUY contributor.





## [FEATURE STORY]

# Does the Charitable Option Need a Handout?

Q

BY KAREN BELLS

**Free upgrades and discounted meals** often hit the spot for loyalty members, but sometimes they'd rather just make a difference in someone's life.

Many consumer reward programs give members a charitable option, letting them donate points or miles or designing other ways to tie loyalty efforts to nonprofit donations. Industry experts say this has several benefits for companies, including a sense of pride; a higher social profile; a marketing boost; a way to clear points off the books for accounting purposes; and bigger loyalty ranks. However, with so many loyalty programs offering a charitable component, it runs the risk of being merely a member expectation rather than something special. Loyalty operators must create the most relevant, interesting and effective approach.

Loyalty experts say a charitable option should be created thoughtfully and reviewed regularly, but it's still a smart move for consumer-reward programs.

"It just opens up your program to more folks," said Mark Heckman, a Sarasota, Fla.-based retail consultant and longtime grocery loyalty executive. "People may be at a point in their lives where they're not interested in discounts and points."

**HHONORS – 11.4 MILLION POINTS OF GIVING** Hilton Worldwide has found the need to freshen its donation option, which it began offering in 2006 in its HHonors reward program. Some members definitely prefer to donate their points to one of the charities with which the hotel company partners, such as American Red Cross or World Wildlife

Fund, said Mark Weinstein, global head of loyalty and partnerships. In 2014, HHonors members donated 11.4 million points totaling about \$30,000. That amount is a small piece of the larger corporate responsibility efforts, he said, but has the added bonus of creating a deeper relationship with members and partner charities.

Under the current iteration, HHonors sends a \$25 donation to the charity of choice for every 10,000 points donated. In April, Hilton launches its new approach in conjunction with a new partnership with Pointworthy, which will allow real-time donations, an easier process and considerably more choices in charity partners.

Donating accrued points is the most popular charitable option offered by companies with loyalty programs and often the most straightforward one, said Alex McEachern, loyalty marketing specialist at Ontario-based Sweet Tooth Rewards, which creates loyalty software primarily for retailers, with clients from startups to household names like Universal Studios Inc.

Beyond donation of points, the two other primary ways to add a charitable component: giving more points for the purchase of socially responsible products and making a corporate donation based on points earned, McEachern said.

The latter works especially well piggybacked onto marketing or events that a company would do anyway, he said. Say a retailer earmarks one day a month or year when a certain percentage of sales will go to charity. Tying that effort to the loyalty program means the program is likely to attract new members, he said.

## CHARITY TAKES WING

McEachern said Sweet Tooth sees some companies pursue a charitable component in their loyalty programs, but not nearly enough. One industry that has embraced the charitable option is airlines, with most major carriers allowing loyalty members to give frequent flyer miles to charities, which use the gifts to fly program recipients to destinations (such



With so many loyalty programs offering a charitable component, it runs the risk of being merely a member expectation rather than something special.



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as getting children and families to their Make-A-Wish Foundation locations) and delivering volunteers such as doctors and scientists to global areas in need.

Charitable donations of loyalty rewards spike anytime there's a huge need driven by a natural disaster or other crisis, said Beau Ballin, vice president of marketing and client strategy at MotivAction LLC. The Minneapolis-based company designs programs in employee engagement, sales incentives and customer loyalty for clients including 26 Fortune 500 firms.

After well-publicized disasters, he said, as much as 70% of all redemption in some client programs has been designated to Charitable Choice, which allows loyalty members to donate. At other times, e-gift cards are the most popular redemption option, Ballin said, with Charitable Choice typically second most popular.

### GENEROUS ADVICE

The experts in this story offered nuts-and-bolts advice for loyalty programs considering offering or revamping a charitable choice. Here are five top tips:

Communicate clearly and often, through various online and offline channels, including website banners, email blasts, newsletters and text campaigns. In stores, have cashiers promote the charitable option and provide point-of-sale information, said Heckman.

Keep the donation option as simple and streamlined as possible. Louisville-based convenience and gas store chain Thorntons, for example, raised \$6 million for a new building at the University of Louisville in part through a simple donate-at-the-pump campaign.

Make sure the charities chosen align with the overall corporate culture as well as the loyalty members' mindset. Companies should survey customers to find out which nonprofits resonate with them.

Don't let the donation amount be a barrier. Thorntons' pump donations were as low as 50 cents. Hilton's revamped charitable option will allow increments as low as \$1 with a minimum of \$10 donated.

Do the math for members. At the end of the year or the donation duration, said Heckman, organizations should let members know exactly how much was given to which charities. Showing them the overall money awarded lets members see that their donation, which might be relatively small, is part of a movement that can be much bigger, said Ballin.

Perhaps the most important consideration when adding or updating a charitable option, said McEachern, is there is plenty of evidence consumers are willing to spend more with companies that give back and prove their social responsibility. As one example, he cited a study by Cone Communications that found 91% of customers choose a brand that is socially responsible, holding other factors constant.

"You can become a more shared brand," McEachern said. "With the increased sharing, you can get more people to want to be part of your loyalty program. And then, they're more likely to tell their friends."

And that, in a nutshell, proves the adage about doing good leading to doing well. ←

Karen Bells is staff writer at COLLOQUY.



# OVER-THE-MOON OR UNDERWHELMED?

Over 50% of customers are unsatisfied with the value they get from their loyalty programs.

In today's challenging economy, customers are exercising greater caution and discretion than ever when making purchases and product selection. And with more and more competition sharing the landscape, it is critical for your loyalty program to build meaningful relationships that turn one-time purchasers into lasting brand advocates. Only through constant evolution can it retain its edge over other programs.

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[COVER STORY]

# Meeting the Middle

Adjusting the Customer Experience to  
Meet the Squeezed Middle Class

Q  
BY LISA BIANK FASIG



When the middle class shrinks, no one should shrug.

The repercussions will, after all, expand across the economy like an unstable universe, affecting most of us. Many businesses are sensing this now. The size of the middle class slipped to 43% of the total population in 2013, from 53% in 1967, according to research from The New York Times. (The Times defines the middle class as households with annual incomes of \$35,000 to \$100,000.) Accordingly, higher-end businesses are recording greater growth, while those geared toward conservative consumption are seeing smaller gains. →



Now, like collapsing stars, many of these consumers are disappearing from the middle class; a good number are migrating into the upper class, but many are struggling simply to earn more and not fall into the lower class.

The dynamics of this evolution can be devastating, because when one cornerstone of our massive economy shifts, it sets off a reaction that compromises the whole. Consider that many billion-dollar organizations have been founded expressly to serve the middle-income market. Now, like collapsing stars, many of these consumers are disappearing from the middle class; a good number are migrating into the upper class, but many are struggling simply to earn more and not fall into the lower class.

“It seems like the middle is the place where you’re losing pretty clearly, but part of it is competition. Discount places are more and more effective” at drawing consumers away from retailers traditionally popular with the middle class, said Steven Fazzari, professor of economics at Washington University in St. Louis. “It’s clearly an issue. Somebody’s going to serve that middle part of the market (but) the ability to expand and grow revenue will be more of a challenge.”

In short, organizations that target this shrinking segment are tasked with making their value propositions immediately relevant and attainable, or risk failure. Marketers know that rewards programs are effective tools in delivering promotions and savings that deliver such value; the challenge is finding those that are cost-effective – and, sometimes, have the added benefit of making this segment feel special. (See sidebar on page 27.) The opportunities are propitious: Half of households earning less than \$50,000 are enrolled in one to four reward programs; 55% of

those who make \$50,000 to \$99,000 are enrolled in the same number, according to COLLOQUY research.

This story will examine the dynamics of loyalty among the middle class, and what several companies across industries should know to better accommodate the shifting needs of this group – not just those consumers on an upward path, but those in the lower middle class hungry for practical rewards.

#### AISLES TO SMILES

An illustration of the effect the shrinking middle class has on the economy can be drawn in the aisles of Whole Foods.

The Austin, Texas-based natural foods chain, in a sign that price was becoming a competitive issue, began testing a reward program in September 2014. In October it launched its first national advertising campaign, called “Values Matter,” while reducing prices on its shelves.

Based on first-quarter earnings, the strategy is paying off. Same-store sales, or sales at stores open at least 13 months, rose for the first time in more than a year, by 4.5%. Profits gained almost 6%, beating investor expectations. Whole Foods now expects to expand its rewards program, called Market Rewards, to most stores by Christmas 2015.

Whole Foods competition, however, is not limited to other grocers. Consumers are paying more for many goods,



from utilities to the drive-thru, said Burt Flickinger III, managing director of the Strategic Resource Group, a retail consultancy in New York. Food prices alone rose 2.5% to 3.5% in 2014, he said.

“The cost of eating out has gone up significantly,” he said. “A McFish (Filet-O-Fish) at McDonald’s in many markets across the country is double what it was two years ago.”

The upshot is people are hitting the supermarket more, but buying less. Chains with loyalty programs, such as Kroger, are increasingly relying on their data to connect with cost-conscious families. “It will tie in discounts on multiple purchases of milk with lower prices on ready-to-eat cereal,” Flickinger said. Kroger and Whole Foods also offer Friday specials, because a lot of working parents tend to hit the store on the way home on Fridays.

#### TAILORING MENUS, OFFERS

Also vying for those commuting parents are low-cost dining chains, several of which use data and technology to reach the middle class while improving margins. The pizza chain Domino’s, for example, offers reduced prices on items that its customers pick up, cutting delivery costs, Flickinger said.

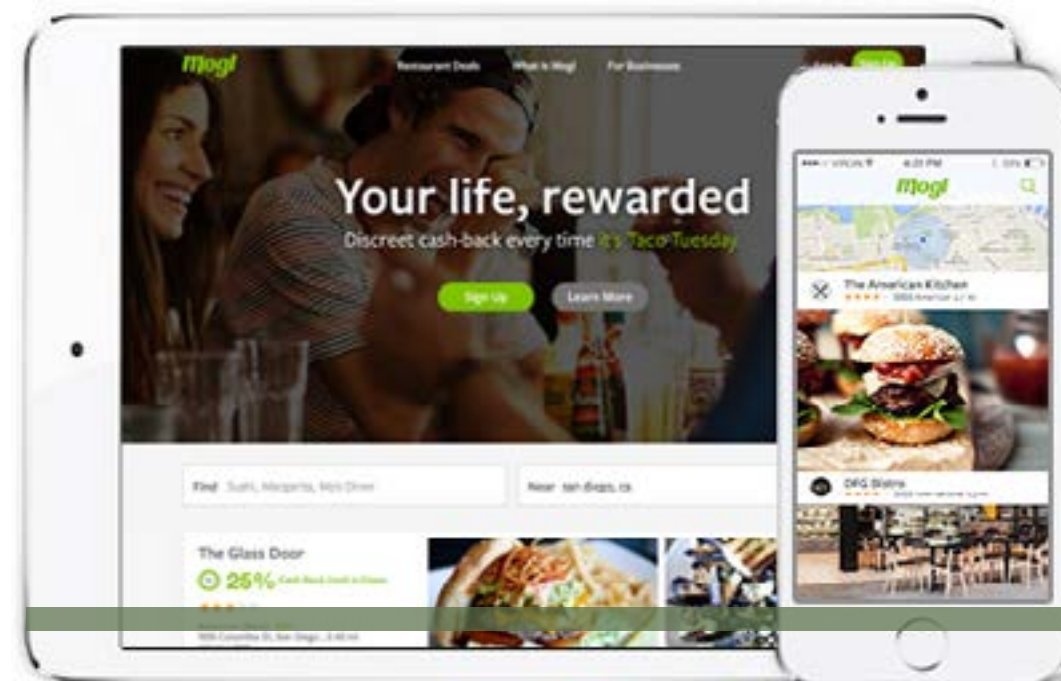
Real-time rewards, such as those offered through card-linked programs, are another high-value perk for cash-strapped consumers, and a growing number of restaurants are partnering with financial institutions to do so. The San Diego-based restaurant loyalty company Mogl, for example, enables its restaurant partners to adjust their cash-back offers at different times of day to encourage traffic during slow times. A coffee chain that normally offers 5% cash back can immediately goose it up to 15% from 9 to 11 a.m., said Peter Vogel, entrepreneur in residence at Mogl.

In addition to tailoring rewards, several credit card issuers have the resources to duplicate competitor markets, Vogel said. They can determine whether people who eat at Olive Garden and Chili’s also visit Red Robin.

Vogel wagers that card-linked programs, combined with mobile wallets, will be the next evolution of loyalty, delivering the best bang for buck to the middle class because they will deliver faster earnings. “You’re getting points for everything you’re doing on multiple cards, but essentially all on mobile wallet,” he said.

#### UPSCALE RESERVATIONS

Hotel operators, too, are checking out (and checking into) opportunities to reach the shifting consumer base, with substantial upside. Almost 60% of hotel guests participate in at least one hotel loyalty program – translating to a 40% open market – according to the Alliance Data Retail Services Loyalty Travel Guide survey. →





# Step Aside. A ‘Medium Roller’ is Coming Through

Q

BY KAREN BELLS

**He might not be courtside next** to Leonardo DiCaprio at a Lakers game, but that doesn’t mean the Average Joe can’t feel special.

Some loyalty programs are building in attention—getting extras for best customers who aren’t among the high-roller set, awarding them randomly or at specific benchmarks with perks or experiences that resonate. →

In this case, however, hotels are reaching for stars on both ends of the spectrum, reflecting the shift of former middle-income consumers into the upper-income bracket. The number of rooms sold in upscale hotels rose 6.9% in 2014, according to hospitality research firm STR Inc. The number of rooms sold in mid-scale hotels and economy hotels, such as Best Western or Red Roof Inn, rose 3.6% and 4.1%, respectively.

Hotels are responding. Red Roof Inn in 2014 introduced an upscale economy chain called Red Roof Plus+, and Best Western International is expanding its upper-midscale Best Western Plus and upscale Premier locations, according to a January press release. At the same

time, Best Western continues to cater to lower-income guests with promotions through its Best Western Rewards, such as a \$25 Best Buy gift card after two separate stays.

Red Roof Inn and Best Western, like many lower-cost hospitality chains, also compete with value perks such as free breakfast and Wi-Fi. “Our promotions deliver extra value to entice travelers to stay with us again,” Best Western spokeswoman Laura Cherry wrote in an email.

Which leads to a potentially more pressing issue for companies striving to meet the middle. While many of these consumers have ascended, or are ascending to higher-income lifestyles,

a good chunk of lower-income households is not earning more. Many might not even know in what bracket they exist, said Liam Malloy, assistant professor of economics at the University of Rhode Island.

“Almost everybody believes they are in the middle class,” Malloy said. “The issue is not so much the shrinking of the middle class as the lack of income growth for those in even as much as the bottom 90% of households.”

For loyalty marketers managing in an unstable economy, this translates to a constellation of opportunities in high-value, but low-cost, perks. ←

Lisa Biank Fasig is senior writer and editor at COLLOQUY.

How does your program target the middle class? Click to tell us.





The practice hits on the goal of “surprise and delight” on many loyalty marketers’ minds, and some industry experts say it’s a low-cost way to deepen relationships and help create the most profitable consumers.

These “medium-roller perks” also bridge the gap between big-money and rare loyalty extravaganzas – say, a long shot at a cruise in a My Coke Rewards sweepstakes – and run-of-the-mill discounts.



At restaurant chain TGI Fridays, one way to deliver that VIP feeling is Jump the Line passes, which members of its Give Me More Stripes loyalty program earn and present to be seated right away. Members report loving the recognition and

impressing hungry friends when the group is seated right away on a busy night, said Michelle Malish, senior director, customer relationship management and loyalty.

Exclusive perks are a great way to reward evergreen customers who stick by a company, said Noah Fleming, a strategic marketing consultant who focuses on customer loyalty and retention. And those folks tell others and spend a lot of money.

In his new book “Evergreen,” Fleming details a ladder of loyalty, with multiple rungs that encourage members to keep climbing in the relationship.

“If you stick a ladder in front of somebody, our natural human inclination is to want to climb it,” he said. “Typically people want what they can’t have. It’s a motivator for your other clients, then you can structure your plan in a way to show them how to get there.”

Speaking of wanting things they can’t have ... a ride in a high-performance Porsche might fit the bill. Delta Air Lines began surprising SkyMiles Diamond Medallion members, including business travelers, in Atlanta in 2011, waiting for a member to exit the plane and whisking him across the tarmac to a connecting gate.

The goal: Shake up travelers’ days and make them feel recognized. Delta recently added Seattle and Detroit to the Porsche surprises, now offered in six cities.



Delta flyers aren’t the only travelers getting a taste of the good life. In December, Hertz celebrated the three-year anniversary of its Gold Plus Rewards loyalty program by surprising some members with free upgrades to Jaguar, Mercedes and other luxury car brands.

Other queen-for-a-day perks: Early access to sales for Nordstrom Rewards members, even those in the program’s lowest tier; (higher-tier members also gain invites to private shopping events). Or special gifts on the seats of loyalty members of the Chicago Symphony.

The point should be not only to reward loyal customers but also to prompt those who aren’t yet to say, “Hey, how can I get that?” said Fleming. One of his clients, a restaurant with \$3 million in annual sales, has a loyalty program that shows patrons what they’re missing.

All diners receive the regular menu along with a supplementary one – a high-end, black menu from which only loyalty members can order. Members pay a one-time \$20 fee to enroll but get a \$20 gift certificate for their next visit; turns out they spend about 70% more on that next visit.

Even better, the owner has collected purchase transaction and value data on a couple thousand customers.

What about the risk of aggravating customers who aren’t getting ushered into an early sale preview or having their car valet parked? The trick, said Malish of TGI Fridays, is employee training. If customers complain about being bypassed for seating – which happens, but not often – team members explain the situation and encourage them to join the free Give Me More Stripes so they, too, can earn line-jumps.

Fleming, too, said staff training is key to making sure others are intrigued rather than turned off when they see someone getting special perks. He cautions a little pushback is normal and might signal those unlikely to become high-value clients anyway.

And no apologies from the restaurant with the members-only menu. Said Fleming, “Not even the Pope himself can order from that menu if he doesn’t have a card.” ←

Click here to tell us what your company or program is offering to deepen customer relationships and help create the most profitable consumers.

Karen Bells is staff writer at COLLOQUY.

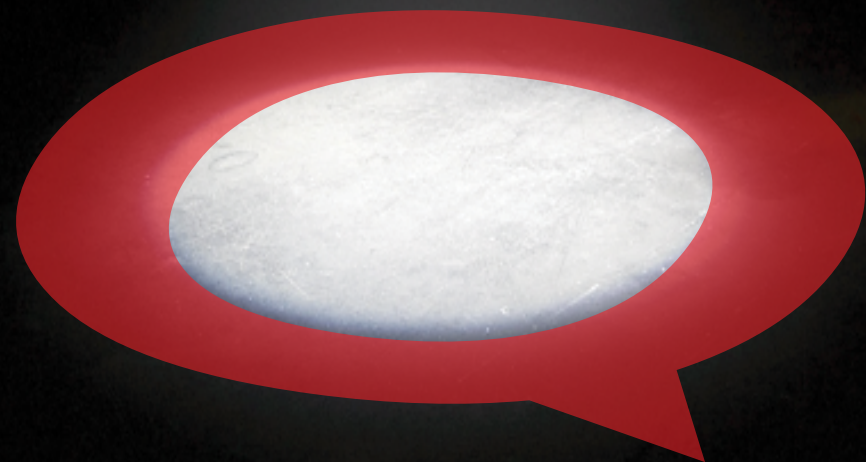




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Recognizes

MAR/APR 2015



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#### **COLLOQUY RECOGNIZES VODAFONE KARAKARTAL FOR SPORTS/MOBILE LOYALTY**

To leverage a sponsorship deal with Besiktas, one of Turkey's oldest and most popular soccer teams, Vodafone launched Vodafone KaraKartal, the first mobile-dedicated sports loyalty program in Turkey. Membership benefits include free Internet, minutes and text messaging on match days to let fans share their team spirit. Besides increasing customer engagement, the program has enhanced loyalty retention rates through the partnership of two powerful brands. *Read more.*



#### **BDO UNIBANK FOR RE-ENGAGEMENT STRATEGY**

BDO Rewards, the customer loyalty program of the Philippines' largest bank, BDO Unibank Inc., wanted to engage high-tier members with significant point balances but who were not actively involved. The campaign included a personal letter from each member's BDO branch head highlighting the available points and offering customized rewards – creating the opportunity for personal interactions and deeper client relationship development. *Read more.*



#### **COLLOQUY RECOGNIZES RED LION HOTELS FOR PROGRAM TO WATCH**

Red Lion Hotels Corp. put to bed its old approach to loyalty, shuttering its points-based R&R Club and launching Hello Rewards in December 2014. Hello Rewards forgoes points and tiered status in favor of a personalized and simpler recognition plan that includes surprises and more interaction with members on every visit, without restrictions on how and when to award special treats – nor on which channels members can use to book. Hello Rewards members also get the best available rates, express check-in, late check-out and room upgrades when available and a free stay every seventh visit. *Read more.*



#### **COLLOQUY RECOGNIZES PLAYSTUDIOS FOR SOCIAL/MOBILE GAMING**

Gamers can now convert their online playing into real-world jackpots with myVEGAS Rewards. Players rack up points for using Playstudios' myVEGAS casino games on Facebook and mobile and redeem them for hotel rooms, show tickets and other goodies. Meanwhile, corporate partners – a Las Vegas who's who including the Bellagio, Cirque du Soleil and MGM Grand – engage with the gamers, hand out freebies (an opportunity to fill empty rooms and seats) and work to turn them into loyal customers. *Read more.*

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