COLLOQUY

Special Issue

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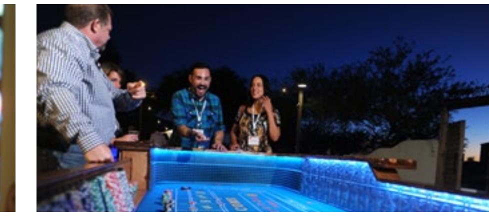

Summit – an Event for Learning, Networking and Snake Eyes

Mix roughly 200 of the best marketers in the business with several major global brands and a little throw of the dice, and the result might just alter the course of loyalty.

This is what took place at the 12th annual COLLOQUY Loyalty Summit, held Sept. 29 to Oct. 1 in Scottsdale, Ariz. Attendees from major organizations including American Express, Walt Disney, Target and Best Western attended to hear the latest in loyalty strategies from Ikea, Kellogg's, Sephora and Orbitz.com, to name just a few. Keynote presentations from retail expert Kevin Graff and futurist Mike Walsh provided detailed strategies for enriching today's retail experiences while preparing for tomorrow's consumer.

And we had fun, from an opening golf tournament to an Old West-themed gambling night complete with barbecue ribs, music and an open fire.

As the COLLOQUY team reflected upon these events we thought: Why keep it to ourselves? Taking a page from our speakers and their engagement lessons, we at COLLOQUY decided to package and deliver the 2014 Summit experience to all of those who could not attend. This special issue of COLLOQUY includes coverage of all presentations at the Summit. We've added on-the-spot video interviews with speakers and attendees, and plugged in some photos to illustrate the three-day gathering.

On behalf of the COLLOQUY team, I want to thank everyone who made the 12th COLLOQUY Loyalty Summit a success, and that especially includes our sponsors and our attendees who shared feedback, ideas and questions. Your participation will make the 2015 Summit an even better one, and we hope to see you there.

Good luck in all your endeavors,

Jeff Berry
COLLOQUY Research Director

COLLOQUY
Loyalty Talks

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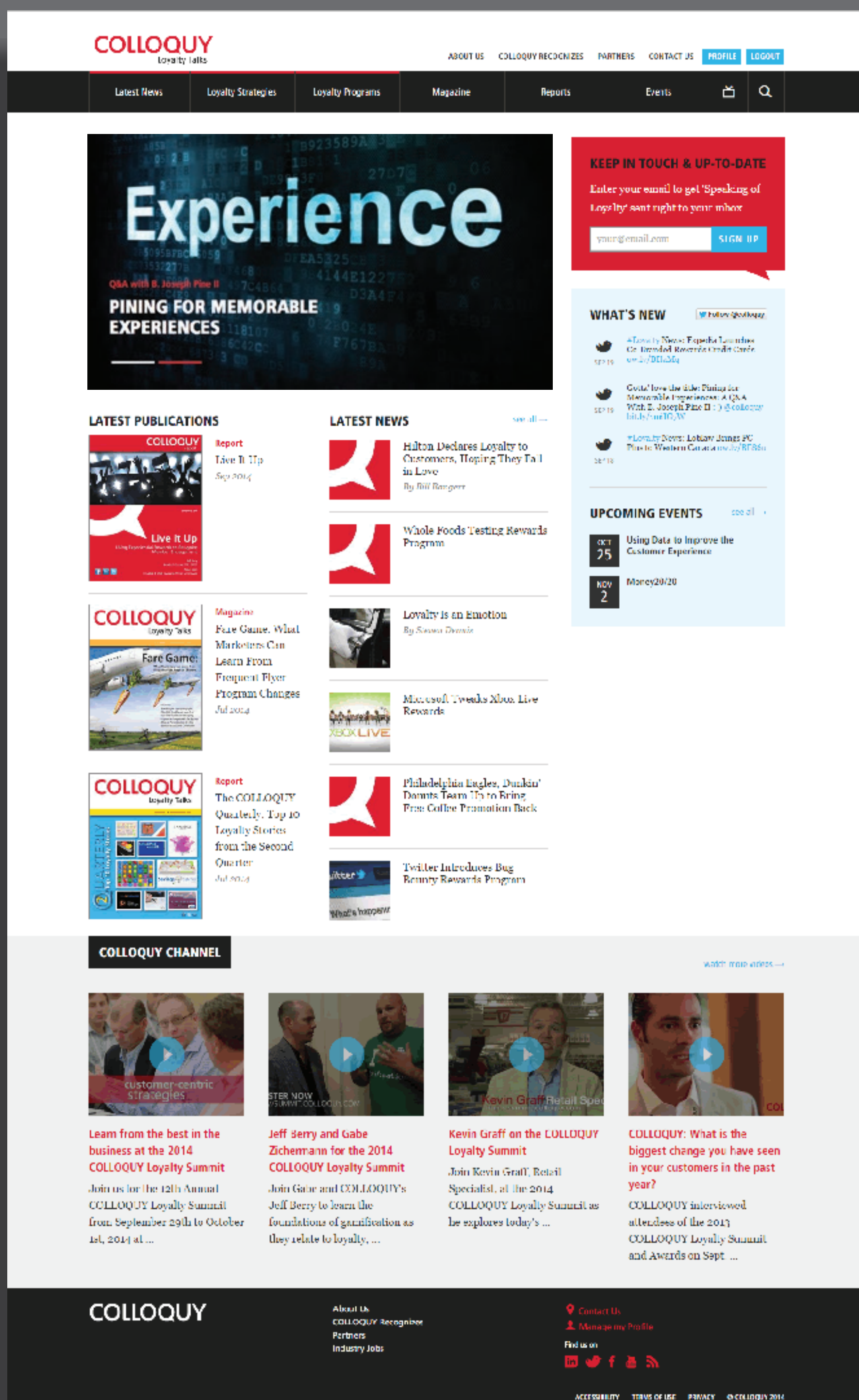

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How Ikea, Sears, JCPenney and Metro Canada Engage

Regardless of what it is selling, every merchant strives to conquer one key challenge: genuine customer engagement. As more merchants embrace loyalty marketing to achieve that, they are testing the power of data.

This was the key takeaway from a series of afternoon sessions at the 12th COLLOQUY Loyalty Summit. From a global retail powerhouse to American institutions, the organizations shared one common thread: the requirement of personalization to engage.

Here are the highlights from loyalty experts with four major brands:

Ikea: Even the Ikea Family Program USA came with assembly. Diane Zoll, head of the 7 million-member program, detailed how the Scandinavian merchant put together a program that engages members globally, without points or rewards. "When we were launching in the United States the first thing I said was, 'No this is not going to work,' Zoll said, "but it doesn't matter." What matters, she said, is knowing the Ikea customer and using that knowledge to be relevant.

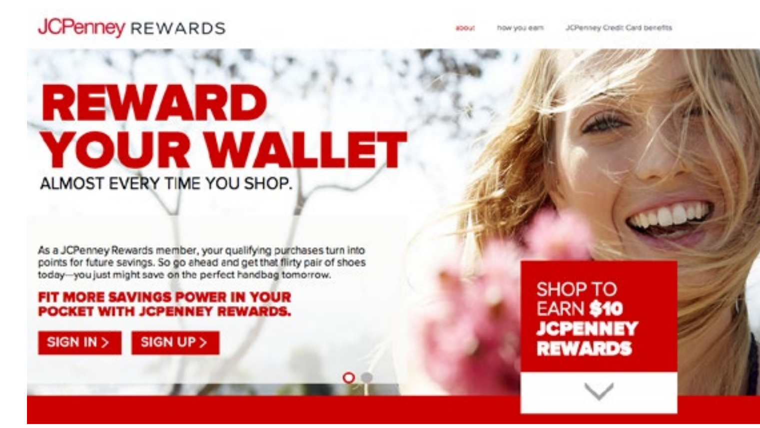
To this end, Ikea is using the profile information provided by one-third of its Family Program members. Each store is responsible for adding context, messaging and promotions that resonate with members of its respective community. For example, Ikea places specific Family Program goals in every employee's personal evaluation. The result: Family Program card scans represent 40% of total sales, ands 70% of those members making purchases do not have member offers in their baskets.

Sears: Chris Williams, division vice president of the Shop Your Way Rewards program, told the audience how Sears hopes to fully engage customers by giving them rewards options inside and outside the store. Sears has formed partnerships with more than 50 brands, including Groupon, Avis, DirecTV, Burger King, Samsung and Kenmore. He said the company strategy is to give program members as many options as possible to earn and redeem points.

SHOP YOUR WAY REWARDS℠

A key part of the strategy, according to Williams, is teaming with MasterCard's Card Linked Services to form a coalition of partners in the Shop Your Way Rewards program. Williams said one benefit of the program's structure is the ability to provide program members rewards almost immediately, something he said will be copied by other loyalty programs in the years to come. "We want to get where everyone else is 10 years from now, one year from now," he said.

JCPenney: Almost immediately after launching the JCP Rewards program in 2009, JCPenney realized the need to overhaul the initiative. Lindsay Eichten, marketing project manager for JCPenney, described the various incarnations that led to today's JCPenney Rewards. Since 2009, the retailer was tweaking the program about once a year. One major change involved increasing engagement with employees so they could have informed conversations with customers about the program and build stronger relationships.



Eichten also said the company learned its customers valued the brand heritage built up in its 110 years. "We started to recognize the brand equity that JCPenney represents," she said. "We got a lot of feedback from customers that they missed what JCPenney stands for." Eichten said in the short life of the programs, several mistakes had been made which the company will use as learning opportunities.

Metro (Canada): In her presentation, Natalie Voizard, senior director of loyalty at Metro, explained the technique of using multi-motivators – varying program initiatives ranging from promotional programs and pricing to points and member privileges. "You really have the opportunity to leverage a lot of multi-motivators, a lot of incentives, in order to engage your customers," she said.

Voizard walked through several motivator strategies with examples. In discussing pricing programs, she described how Metro operates a weekly website-only flier featuring offers not on its printed fliers, doubling sales of those specific products. Addressing member privileges, she said Metro offers quarterly mailings with personalized coupons, contests and multiple versions of weekly emails that inform members how they can earn points or miles to maximize program benefits.

Joe Pine and the Experience Economy

For anyone who doubts the value of experiences over advertising, consider this: The average amount of time spent in an American Girl Place is four hours. The amount of money consumers spend for the experience, meanwhile, actually covers the cost of the location.

"The experience is the marketing," said B. Joseph Pine II, author of "The Experience Economy" at the 12th annual COLLOQUY Loyalty Summit. "The best way to generate demand for any (product) is with an experience so engaging the customers can't help but spend time with you, pay attention and spend their money with you."

In short, Pine argues that companies are better off investing their marketing experience in experiences than in advertising.

Using examples ranging from Wizard bubble gum dispensers to Lego to the traveling Charmin Restroom experience, Pine illustrated what he called the three currencies in the experience exchange: time, attention and money.

Each of these organizations and others, he said, are proving a greater return on investment by innovating the experiences through

a combination of real and virtual locations, from flagships stores and experience hubs to worldwide markets. The key is in knowing a company's portfolio of customers, and then building a portfolio of capabilities, or offerings, to meet those needs. It doesn't hurt to charge a fee for the experiences, either; in fact, it often improves engagement.

Volkswagen customers, for example, pay a fee to spend a day with the brand. If someone orders a car and comes for it, a robotic arm will pick it up and deliver it as if by hand. or added admission fee, the customer can be the virtual car going through that experience.

"If you want loyalty with your customers then create the experiences that they want today," he said.

Pine backed up his point by measuring the efficacy of advertising versus an experience. An advertisement, he said, can reach a large number of people, but how much time does the brand spend with them? A few seconds, perhaps, and the consumer may not even be paying attention.

With experiences, however, those seconds expand into minutes or even hours, and tend to

capture a greater amount of attention and focus. Further, a good number of people are willing to spend money for that experience. In cases like American Girl, Lego and others, Pine said, the customers actually spend enough money to cover the cost of the locations.

"There are companies today that are getting (significant) return on their marketing investments because they are creating experiences that translate to infinite loyalty," he said.

Pine closed by advising organizations to build a "learning relationship" through which they learn about the customer, can customize the experience, reap (and deliver) the benefits and in return, generate more brand interactions – a tight circle around each customer.

This is what loyalty marketers must do, he said, or they too will be commoditized, much like toys, gum and toilet paper. Q

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How Caesars Turns Partnerships to Profit

Sometimes, in the loyalty business as well as the gaming business, the best odds are with the long shots.

This was the case described by Michael Marino, vice president of customer loyalty at Caesars Entertainment. At the 12th annual COLLOQUY Loyalty Summit, Marino described how the operator of the Total Rewards program has increased membership involvement and engagement through unexpected partnerships and other efforts.

"The way we want to measure success is: Are people finding us more engaging?" Marino said.

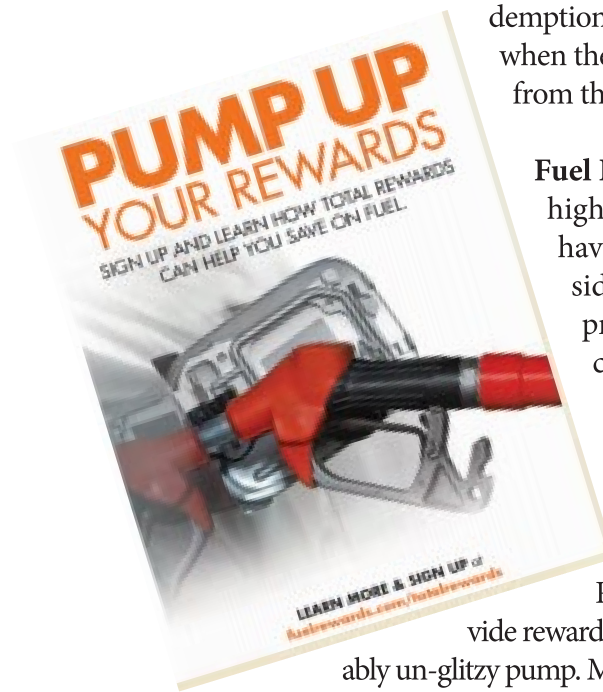
Caesars sought to improve engagement in a number ways. It adjusted and added benefits within its Diamond tier, for example, to encourage engagement and inspire members to strive for the top, Seven Star tier. This translated to increased interest and activity within that tier. "By restructuring the program, we've seen great success," he said.

Also among the long-shot bets paying off are partnerships. "Our customers want to do more with our program than just earn inside the casino walls, so we looked for partners that we thought added value for our customers outside the casinos," Marino said. He highlighted several unlikely pairings that are paying off for Caesars.

FanXchange: FanXchange provides tickets for a wide range of events, from concerts to professional sports. Through its partnership with Caesars, called TR Live Events, Total Rewards members can redeem their points for these tickets, even when the event is outside casino walls.

Starwood Hotels: It may seem like Caesars is partnering with a competitor, but the two companies offer benefits to each of their member groups through their shared services. Starwood, for example, operates only one hotel on the strip. All Starwood members earn points with Caesars and vice versa, Marino said, so they earn credits and points in both directions. "The Starwood members, they now have nine options in Las Vegas that they now can redeem star points for."

SkyMall: Caesars sells lots of goods at its resorts, but perhaps the member will be inspired in the air. So it has partnered with SkyMall, the airplane catalog company, to provide its members one more redemption option, perhaps when they are returning from the Strip.



Fuel Rewards: Even high rollers can have a practical side. Higher gas prices are a key concern among Total Rewards members, so Caesars partnered with Fuel Rewards to provide rewards at the considerably un-glitzy pump. Members earn 10 cents off a gallon, up to $1.50 off a fill up.

Marino concluded with results. "Does it actually affect the bottom line? We have seen it does," he said.

For instance, 80% of Caesars' gaming play is tracked through its Total Rewards card, he said. The company has found engaged customers have increased their trips by 13% and their spending by 7%. Further, Caesars' partnerships have generated 40,000 room nights.

Kevin Graff on Turning Trends Into Sales

If merchants keep chasing a light, they may never make it out of the tunnel that shapes the retail industry.

This was part of the message by retail expert Kevin Graff at the 12th annual COLLOQUY Loyalty Summit. Graff compared retailers to moths to the bright light, investing the lion's share of their resources in bright objects like technology and digital sales, when 90% of sales are still taking place in the store.

"What if almost everything we do today is about to become wrong?" he told gatherers. "In business and in retail specifically, everything eventually does."

Graff, a retail services expert with more than 20 years experience, outlined several trends, some of which are causing merchants to chase after that bright light and some that help merchants operate better. These trends range from the endless "sameness" of chains to the fact that in-store service actually matters, despite the proliferation and investments in technology.

"A lot of retailers are trying to fix service with technology, but merchants should not lose sight of the fact that the tenants of good service have not changed," he said. Customers want to feel special, safe, excited, stress free. "We are chasing technology but is the service really better?"

1: Focus on goals: Graff asked how many audience members were clear on the key measures of their loyalty programs, to which many raised their hands. Then he asked how many of the people actually executing the programs – frontline workers – were clear on the measures, and the number of hands dropped. "If your team doesn't know the measures of success, how do you expect to achieve them?" he asked. Merchants can get everyone in every store to perform at a higher level, just by getting them to try harder.

2: Share results consistently: On this point Graff was concise. The best-run retailers create space in the back of their stores to post and track performance metrics, for all employees to see and contribute to.

3: Accountability for success: Performance must matter, and merchants should make what their employees are doing more important. "We tend to get away with what we can," Graff said, comparing employee performance to speeding, saying people will go as fast as they can get away with. Scorecards, he suggested, are one way to help.

4: Ongoing training and coaching: Graff asked the audience, "How often does an employee ask if the customer has a rewards card, and when told 'No,' just says OK?" Merchants need to train and coach employees to perform great. This includes how they want consumers to use it.

5: Make it worthwhile: If it is not making the goal increasingly worthwhile for those who have to execute toward it, the merchant won't reach its loyalty goal.

In closing, Graff asked the audience members to score themselves on each of the goals, from one to five. He asked how many had a 21 or higher, to which less than five raised a hand. He then lowered the score, to a show of more hands.

"For every point that you lost you are losing somewhere between one and 5% in productivity each day," he said.

"After digging into this industry and seeing the good things that you are doing out there, we need to execute them at a better level."

Gabe Zichermann on Loyalty, Fun and Gamification

For loyalty marketers to understand the economic power of fun, it helps to consider how boredom will eventually flatten out even the greatest experiences, including relationships.

"Regular sex with the hottest person you can get to sleep with you has a two-year life expectancy," Gabe Zichermann, founder of gamification.co, told attendees at the 12th annual COLLOQUY Loyalty Summit. "The shift from awesome and cool to not awesome and cool is a normal part of our development and behavior."

And this leads to a daunting challenge: What must loyalty systems do to get beyond that? The food industry is responding with more fat and sugar; the entertainment industry with slightly altered repetition of popular programming.

The loyalty industry's vision, meanwhile, is a hamster wheel, Zichermann said, and the industry is making it less attractive every year, because companies are forced to do more with less.

Enter gamification. Games actually want the customer to habituate; they are created to influence flow so the customer becomes one with the game. The key difference is the outcomes vary.

"The game feels unique to you, the software creates a component that understands you," through artificial intelligence, he said.

The challenge for loyalty marketers is that routine and process have been an important part of the structure of the economy. Consumers want variable outcomes, like those from slot machines, and therein lies the potential of gamification: It bridges what marketers want their customers to do with the customer's desire to do something new and unique with each interaction.

How do loyalty marketers adopt a gamification strategy? They can start by observing how games operate, relying on repetition, journey and failure.

"Everything we do needs to take on this new frequency. It needs to connect with what people want at the pace they expect," he said.

The Domino's Pizza Hero app, for example, challenges players to make pizzas, which are then baked at the store and delivered to the player's house. This game now generates $1 million in revenue a week, and if the player is really good, Domino's offers him a job.

Which led Zichermann to the power of fun, not only for engaging, but also to tell relevant stories.


fun tells a story

Even a subway ticket machine can be fun, he said – one gave free tickets to people who performed a number of squats.

"If we bring the fun we can increase people's happiness, and I know this sounds obvious but happiness is important, and our consumers' happiness is important."

For one thing, happiness improves the economy. Happier people live longer, spend more money and are more social. Loyalty programs that make members happier on the whole are more likely to have long-term engagement.

mastery: Domino's

But, Zichermann warned in closing, success hinges on one caveat: Nothing is fun forever. Organizations must be constantly involved in refreshing the process and making the experience fun and interesting, regardless of how sexy it is today. Q

Sephora and the Beauty of Pairing Digital with Physical

The beauty in Sephora's loyalty program is not only in the eyes of its members, but also in its operators.

The three-tier program thrives on an integration of channel experiences online and offline, and that has translated to a highly engaged member base, as well as an internal education, said Sarah Choi, vice president of Sephora's Beauty Insider program.

"We've got millions of beauty junkies in our database," Choi told her audience at the 12th annual COLLOQUY Loyalty Summit. The program is tracking double-digit growth in its top VIB (Very Important Beauty Insider) and VIB Rouge tiers, while members continue to spend more.

But the program has had its challenges. Choi identified three areas of opportunity when she joined Beauty Insider:

1. Low program awareness among shoppers and little understanding among many members regarding the program's benefits and tier structure.

2. Lack of ways to make its most engaged members feel more special.

3. Lack of enthusiasm in the stores and little attention to creating an integrated online/offline customer experience.

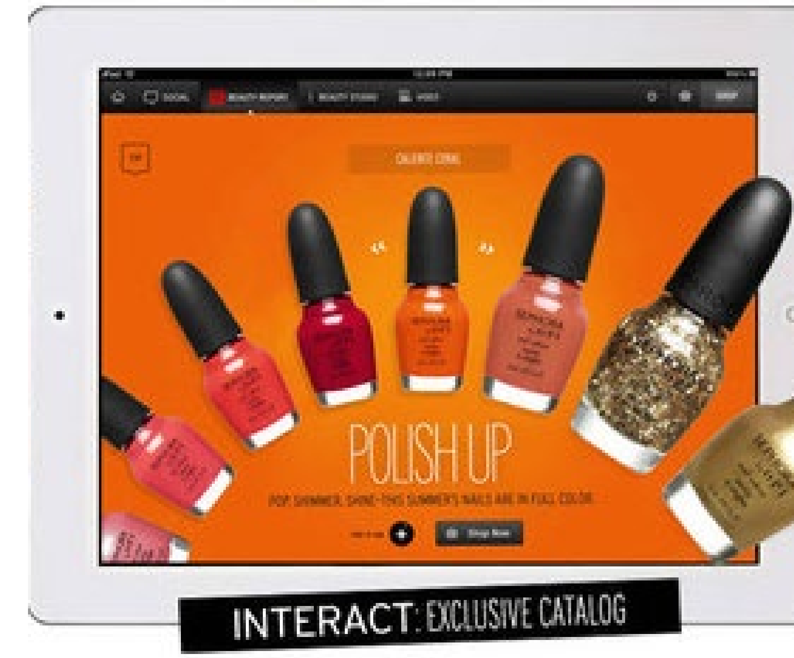
Sephora responded in a variety of ways, according to Choi:

- Beauty Insider has a large, diverse group of members who are highly social and provide feedback on product performance through social channels. Sephora also spends time talking with and listening to customers to craft a program that resonates with them. For example, sampling is at the core of what Beauty Insider offers and gets at what the customer loves. "It's not about pricing, its not about discounts, its not about dollars off," Choi said.

- The program uses its data insights to tailor rewards. It can target based on skin tone, for example, and send promotions for specific products. VIB members may get triple or even quadruple points for buying particular items during special promotions. These perks extend to "backstage" events and experiences with specific brands. Further, Sephora added VIB Rouge, a new program tier to distinguish its most engaged members.

- In the store, Sephora spends significant time training its staff to understand the program. It tracks and measures store performance goals and shares the information to ensure staff understand the value of good performance.

- Likewise, Sephora's online business, with the largest online market share of prestige beauty clients, Choi said, is equivalent to



the traffic in its stores. Because email is the No. 1 way the company communicates with members, Sephora invests in personalizing and targeting email campaigns that make sense. Other online efforts include social media and a mobile app allowing members to track their points, tier levels and rewards. Staff members are trained to help members download and use the app.

- Lastly, the data. The breadth of data Sephora collects through Beauty Insider is both an opportunity and a challenge, Choi said, since Sephora must use the insights in ways that are relevant to each of its members. Cross-channel integration, technology and marketing all come together.

"The program lives inside every person at Sephora," she said. "It doesn't just reside inside me."

Futurist Mike Walsh on Using Today's Big Data Tomorrow

Human behavior is the ultimate test for what will happen in loyalty marketing years to come, and that behavior is about to be shaped by a generation unlike any before.

This was the message by Mike Walsh, futurist and author of the book "Futuretainment," during his keynote presentation at the 12th annual COLLOQUY Loyalty Summit. "It's easy to get lost on the science and technicalities of this," he said. "What we are dealing with is not data, it's human beings."

Walsh walked the audience through the future of data and marketing by presenting five questions, with suggested solutions.

1. How are we going to engage with the next generation of consumers?

The next generation changed radically in 2007, when Steve Jobs introduced the iPhone. Soon, parents were handing them to their crying children. "We gave them a powerful device that became their reference point for interactions with the world," Walsh said. And this begs the question: Is the smartphone a technology or a social revolution?

"Whatever we think the future is going to be, it will be built by a generation with a very different view of the (technology)," he said. "It is already in their hands."

Walsh suggested that attendees set up youth labs of next-generation consumers and ask them to describe how they would design a loyalty program.

2. Why does traditional marketing need a re-think for the 21st century?

Walsh asked attendees what would happen if their chief marketing officers and chief information officers swapped jobs. What would they learn? Today, 81% of organizations have chief marketing technologists, so the convergence of these roles is already underway.

As a result, technologies such as iBeacon should focus on the journey already taking place, he said. Prime time television will eventually disappear, but that moment with the consumer will be the most valuable time a brand can buy.

Walsh asked listeners to take random samples of new customers and work with their channel teams to model the exact paths they took and the events that influenced their decisions.

3. How might we reimagine the idea of the company for the data-driven era?

We tend to admire companies that redesign their corporate identities, Walsh said, but how often do organizations design or redesign themselves? Data is becoming more fluid and easier to integrate, not simply because companies are folding their data into cloud platforms, but because cloud-based platforms are integrating with each other. In time loyalty programs will integrate as well. This will translate to a more holistic view of what consumers do, but also will create the challenge for businesses to elevate their activities to be more strategic and consider what designing a company for the 21st century means.

To head off this challenge, Walsh advised attendees to run audits to find out how much of their business operations have turned into code. What is the ratio of paper passing to platform enablement?

4. What can our worst customers teach us about innovation?

The worst customers can teach great brands a lot, Walsh said, illustrating with an example from a Chinese village, where villagers used washing machines not for clothes, but to clean their potatoes. Seeing the opportunity, the manufacturer began marketing the machine as a potato washer, and is now top seller. "They look at what their customers, even worst customers, do and give them more of it," Walsh said.

The point is that organizations should think about the world as one moved by customer innovations. Walsh challenged the audience to take their teams out of their comfort zones and into spaces consistent with the customer's direct experience, and see what insights are gained. "What do customers do today that drive you crazy?" he said. It can turn into source of opportunities.

5. Why is big data actually about the future of leadership?

There is 99% correlation between U.S. spending in science, space and technology and with suicides by hanging and strangulation. A strange observation, but Walsh had a point: The data-driven enterprise should be rethought.

Loyalty is where big data was born, but now it needs to be brought to the rest of the enterprise to inform how each department thinks as well. He suggested the audience create a culture of data-driven experimentation, and to gauge whether their systems get smarter through interactions.

"We're moving to a new world," Walsh said. "A new world where a new generation is coming through. Think big, think new, but most important think quick.

"The future is now."

How Orbitz is Transforming Through Loyalty

When Orbitz.com launched its loyalty program in 2013 it aimed for simplicity, but the journey delivered a few twists.

"Our biggest learning was we had an awesome program – it was simple – but we cluttered it up and it was not simple," Sarah Butterfass, senior director of loyalty, Orbitz Worldwide, told gatherers at the 12th annual COLLOQUY Loyalty Summit.

Launched in 2001 as air-only travel service, Orbitz invested 2.5 years in developing Orbitz Rewards with a clear goal: to offer an easy-to-use program that guided consumers toward more lucrative-margin bookings, such as hotels, while also delivering margin to the overall business.

As the fourth most-visited travel site in the world, Orbitz had access to the insights to get started. It looked at its various customer bases – regular air bookers, occasional travelers and traveler arrangers that book a high volume of air and hotel – and conducted surveys and focus groups. It asked people about the loyalty programs they liked, the features that appealed to them and those that did not, to determine how to make itself stickier than its rivals. Orbitz learned that its customers did not like points or limitations, such as blackout dates, and wanted something fast, easy and flexible.

"That's how we landed on Orbitz Rewards," she said. "The focus of the program is it's fast, it's easy and it's instant."

But it wasn't always easy. Orbitz launched the pilot in 2013, giving 1% back immediately on air purchases and 3% back on hotels bookings. All went well. Then, working off of feedback from the pilot, the program officially launched in the fall of 2013 with added features such as a mobile app that promised higher reward rates. Orbitz also added a hotel-selection feature to the program, various promotions to guide desired behaviors across multiple channels and the ability for members to earn on trip packages.

However, all of these options and features added complexity, particularly with the added channels. In short, it overwhelmed some members. So Orbitz took a step back and streamlined its offers and messaging. It also changed the program's tier names from Star and Super Star to the more traditional (and understandable), silver and platinum.

In time, it clicked. Orbitz is now booking increasingly more four- and five-star hotels and more hotel nights, achieving one of its key goals. Half of new members are new to the brand, and a large percentage who are now redeeming had not booked a hotel with Orbitz before. The company has since introduced the Orbitz Rewards Visa Card, which offers added benefits and earnings over non-card purchases, and Orbitz Rewards Dining, which provides added "Orbucks" to members who dine at participating restaurants.

All of which makes for simply better insights, and results.

"We set out to create a program that was simple and easy to use," Butterfass said. "At the same time it needed to hit our business objectives. It's amazing to see that it did both."

Kellogg's Shares the Insights Behind the Cereal

Creating a loyalty program is no just-add-milk endeavor, particularly for a consumer packaged goods company.

But Kellogg's had to take on the challenge. In the late 2000s, many of its retail partners were having conversations with customers through their own loyalty programs and credit cards, and soon after some consumer packaged goods joined the fray, with websites that offered recipes and other services that triggered conversations.

"As a result, they were retaining a higher percentage of those households," said Mark Staples, associate director of Kellogg's Family Rewards, at the 12th annual COLLOQUY Loyalty Summit. Kellogg's knew it was time to strike and create its own customer conversations.

Kellogg's Family Rewards, launched in 2010, was a walk-to-run process, Staples said, consisting of several steps. He walked through them in his presentation.

Build scale: When it started the program process, Kellogg's database of 250,000 customers was fragmented and "mish-mosh"; it needed to grow in a consistent way. To better organize the database, Kellogg's encouraged interactions, investing in display ads that promote online customer engagement, as well as triggering communications right through its packaging.

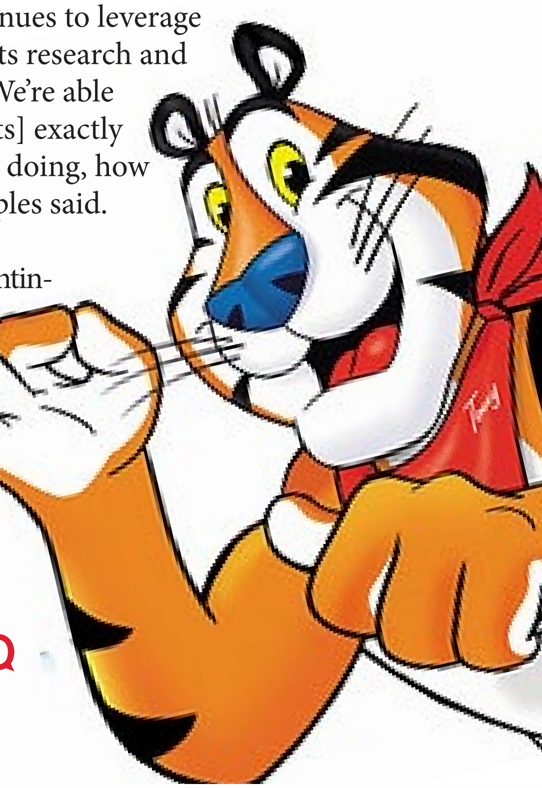
Segment and learn: Kellogg's started with a one-size-fits-all customer profile, so it needed to boil it down. It first set up a series of questions to create macro segments, and used the information to create clusters through which it could gather more insights. All of this lead to a better understanding of each customer, her family and her family's needs.

Engage and activate: At this point Kellogg's applied its insights to communications across categories to stimulate consumer interest. For instance, one promotion offered 1,000 bonus points with a particular purchase. The result: 545,000 units sold with one promotion.

Focus on best customers: Kellogg's introduced several initiatives and capabilities to track purchases down to the stock-keeping unit. Further, consumers can enter codes to earn and redeem points for coupons, gift cards and merchandise. It paid off – Kellogg's Family Rewards now counts more than 8 million members and is the company's most-visited site.

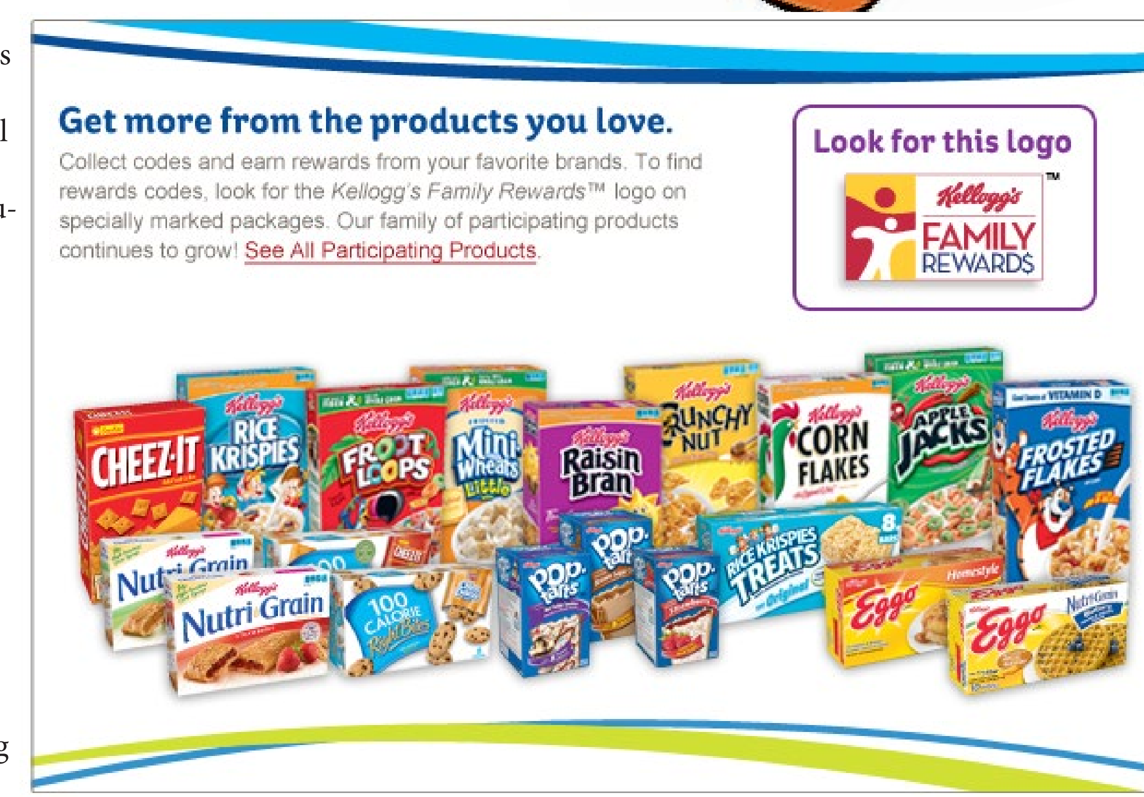
Partner with customers: Prosperous retail partnerships are as important to Kellogg's as is meeting its own financial goals. So it teams ups with merchants regularly. An exclusive program with Walmart, for example, encourages consumers to visit the stores to buy specific products. This enables both companies to track specific packages purchased at Walmart stores.

Deliver lift and optimize: To measure the program's success, Kellogg's tracks member households starting from the day they enroll in the Family Rewards program. Comparing member household activity against similar households that were not in the program, Kellogg's recorded a lift in sales and in return on investment among program members. Kellogg's continues to leverage its data to enhance its research and communications. "We're able to tell [the merchants] exactly what the program is doing, how it is measuring," Staples said.



That said, Kellogg's continually works to prevent the program from getting soggy with members, Staples said.

"Were working on some pretty major things right now." Q



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