

Aren't You Special!

Loyalty cards are all the rage in today's marketing world. In fact, their popularity has even spread to the political realm, with Democratic presidential candidate Barack Obama establishing a "My Points" program.

But do loyalty cards work? And, even more important, do they work the way we, as marketers, think they do? According to the recent *Hub* survey, the answer is yes... and no.

Nearly every discussion of consumer loyalty starts with the shining star of the category: airline loyalty programs and their mileage rewards. But if you ask high-spending airline consumers whether reward miles keep them returning to the same reservation desk again and again, the answer is a resounding "no."

Instead, true consumer fidelity is shaped by loyalty program intangibles like service, convenience, special treatment and recognition. These are known as *soft* benefits—benefits that tell consumers they are valued, appreciated and, most of all, "special."

Time and time again, loyalty research shows it is these soft benefits that matter most to your top customers. They also create aspiration—envy, if you will—among "near-best" customers who want to reach the elite category.

Soft benefits are where brand differentiation and uniquely ownable value propositions reside. Hard benefits, such as airline miles and discounts, are not ownable value propositions and are the leading cause of death among loyalty programs.

According to a 2005 *Colloquy* study of 2,000 loyalty programs launched since 1990, 38 percent of the loyalty initiatives failed—and 77 percent of those failed initiatives offered few or no soft benefits. So why aren't we, as marketers, responding by offering up the soft benefits our customers crave?

When *The Hub* asked marketing executives which type of loyalty cards they carry, the majority—79

percent—said they carry cards issued by grocery stores, drugstores, and mass merchandisers.

These types of programs usually are built around hard benefits—profit-eroding discounts and "buy X and get Y" promotions. But do these programs profitably change consumer behavior? Do they change your behavior? Do you shop at your local grocery store because of its loyalty card? Or would you shop there—card or no card—because it's convenient, has great service and offers good product selection?

Don't get me wrong. I love discounts just as much as the next consumer. I love the knives, chairs, tents, picnic baskets, roasters, woks, coolers, gardening tools and hibachis I get as thanks for swiping my loyalty card at my local grocery store.

But here's a secret I don't want the storeowners to know: They don't have to give me that stuff. I would shop there regardless, because—yep—it's convenient and I like the selection and service. So, there you have it.

My grocery store's loyalty program is laden with hard benefits (read: profit-eroding discounts) applied to the wrong customer. Me. And a large percentage of the people carrying their loyalty card are just like me!

Loyalty programs are great—but only when administered correctly. First, target your program to customers who represent share-shifting opportunities through customer insight, database analytics, segmentation and carefully engineered enrollment methods.

Then, more aggressively consider brand-differentiating (and ownable) soft benefits that make your customers feel valued, appreciated and—of course—special. ■

Soft benefits are the key to brand loyalty.



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Do you use loyalty cards? Why do you use them? Do loyalty cards make you more loyal?

We thought it would be interesting to ask marketing executives how they felt about loyalty cards—not as marketers, but as shoppers.

On the pivotal question of whether loyalty cards make you more loyal, opinions were deeply divided, with 52% saying, “yes,” and 48% saying, “no.”

A total of 84 respondents offered further comments, with 43 elaborating negatively and just 12 commenting positively. Another 12 swung both ways. Typically, the negative comments were more emphatic, for example: “Loyalty cards really stink. They are ways to manipulate customers for the retailer’s end benefit.”

Despite the divided response, about 80% of respondents (327) played along when we asked which loyalty card program is their “favorite.” Of those, 218 named 237 brands.

Sixteen brands received five or more mentions: American Express, followed by CVS, United Airlines, Starwood Hotels, Barnes & Noble, Duane Read, Delta Airlines, Borders, Kroger, Marriott, Costco, Hallmark, Hilton, Qantas and Staples.

In explaining the reasons for their loyalty, there wasn’t much passion, with rare uses of words like “love”, “very”, or “best.” The comments typically centered on the ease of discounts, the immediacy of the rewards, the ability to upgrade, the amount of money saved, or the convenience of the store location.

Thirty-three respondents used the opportunity to reiterate that they used no loyalty cards or had negative feelings about them. Of interest, only one respondent identified a car company (Subaru) and just four mentioned Starbucks. No mentions at all in the fast food, home improvement or telecommunications categories.

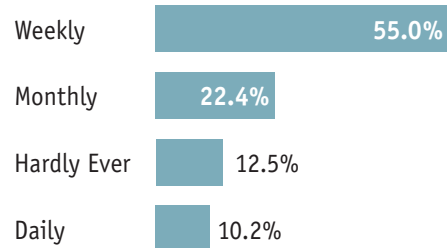
We also asked, “Which brands are you most loyal to and why?” Seventy-four percent (298) responded, and of those, 221 named a total of 606 different brands! However, only 78 of those brands received more than one mention. One

Card-Carrying

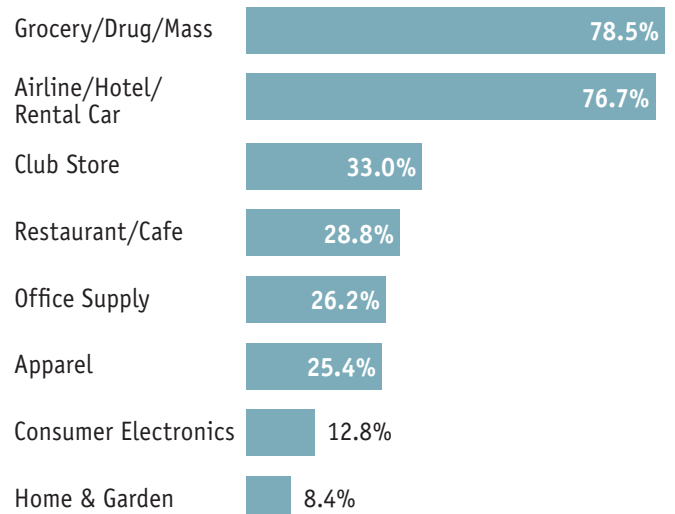
Do you currently use loyalty/frequent-buyer cards?



How frequently?

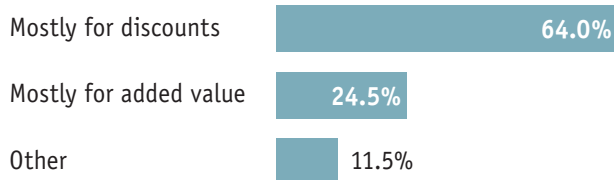


In which categories do you have a loyalty card? (check all that apply)



Loyalty

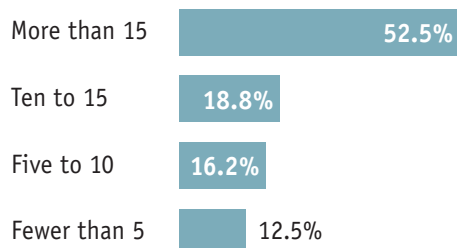
Why do you participate?



In general, do loyalty cards make you more loyal?



Number of years in marketing:



respondent identified 19 brands and three others mentioned 13, 12 and 11 respectively.

Twenty-four brands were mentioned five or more times, led by Apple with 31 mentions. The others were: Costco, Trader Joe's, Target Stores, Coca-Cola, Marriott, CVS, Amazon.com, American Airlines, Delta Airlines, American Express, Whole Foods, Southwest Airlines, Starbucks, Starwood Hotels, Toyota, Honda, Kroger, Audi, Best Buy, Borders, Crest, Nike and Tide.

Lots of consumer goods brands were mentioned, as were a number of local retail outlets and restaurants. Surprisingly, there was no mention of Krispy Kreme, just one mention of JetBlue, and minimal mentions of fast food outlets, financial institutions or business products.

The reasons given tended to be very personal, ranging from convenience, consistency of quality, the level of savings, the feel or aroma or fit of the product, its taste, or the comfort level provided. For example:

"Nutella. No alternatives ! :-)"

"I'm loyal to the brands that provide me with the best everyday service. Loyalty is only as good as the last experience. If I get treated poorly with or without a loyalty card, I don't go back. Life is too short."

"Earth Science facial moisturizer. Why? Well you ought to see me !!! :-)"

"Brands that do what they say and say what they do in a clear, ordinary, authentic way gain my trust, which leads to a favorite brand status and sometimes loyalty."

"Apple—they have some evil spell on my soul."

RESPONDENT PROFILE

A total of 405 survey respondents included brand marketers (28%), consulting firms (20%) and ad agencies (14%). Twenty-three percent of respondents work in package goods firms, 11% at media or entertainment firms, 8% in retail and 8% in financial services. A majority were senior-level executives with 71% reporting more than ten years of experience in marketing. ■