



Service Excellence Cockpit Loyalty Report 2019

International Benchmarking of Loyalty Programs



www.service-excellence-cockpit.org

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Dear Readers

Customer Service & Loyalty Marketing are converging more and more (see McKinsey, Customer Experience, 2017, The Forrester Wave Q3 2019). In this respect, we are pleased to present for the second time survey-based market data and KPIs for the management of loyalty programs in the sixth edition of the Service Excellence Cockpit. More than 225 participants from Germany, Austria, Switzerland, Spain and Ukraine took part in the survey. Of these, about 80 participants provided input on specific loyalty marketing KPIs. In the future, loyalty programs from other countries will be added.

Customer loyalty marketing is increasingly becoming a competitive advantage in our world of interchangeable products and services (commodity). However, and here lies the crucial weakness of Loyalty marketing: the lack of performance measurement against industry targets and benchmarks.

Despite the ubiquity of programs, there is hardly any literature and concrete information on the generally accepted and strategically established benchmarks or key performance indicators (KPIs) for loyalty programs. In most cases, companies merely measure their loyalty programs according to internal benchmarks (navel-gazing), such as comparing previous year vs. current year. This says little to nothing about the fitness and efficacy of the program.

We want to remedy this shortcoming in the sense of a neutral information entity - with the aim of making the program management measurable and comparable and thus to lay the foundations for improving the quality of the loyalty programs.

Compared to the little available standard studies on loyalty program metrics, the present Loyalty Report provides the framework for defining the current status and for designing appropriate recommendations for one's own loyalty marketing.

The informative value of the survey, which was developed on the basis of a research project together with the Lucerne University of Applied Sciences, can be increased even further by using filters, for example, filtering answers by industry sectors. We are proud of this granularity and will further refine and enrich it for you in the next issues.

In this respect, we are pleased to present you with this report for the first time a compilation of the relevant market data from the loyalty marketing community.

With excellent regards,



Daniel Stiefel und Rémon Elsten
Service Excellence Cockpit



Alexander Meili
Loyalty Advisor

Loyalty Report 2019

The term Loyalty Marketing is becoming more widely used. It basically includes all aspects of sustainable Customer Management - driven and guided by reward mechanisms (monetary, such as tangible rewards, points and cashback or non-monetary, such as status and privileges).

As part of this report, Loyalty Marketing is confined to the sub-aspect "programs", which can be both loyalty and reward programs as well as customer and benefit clubs.

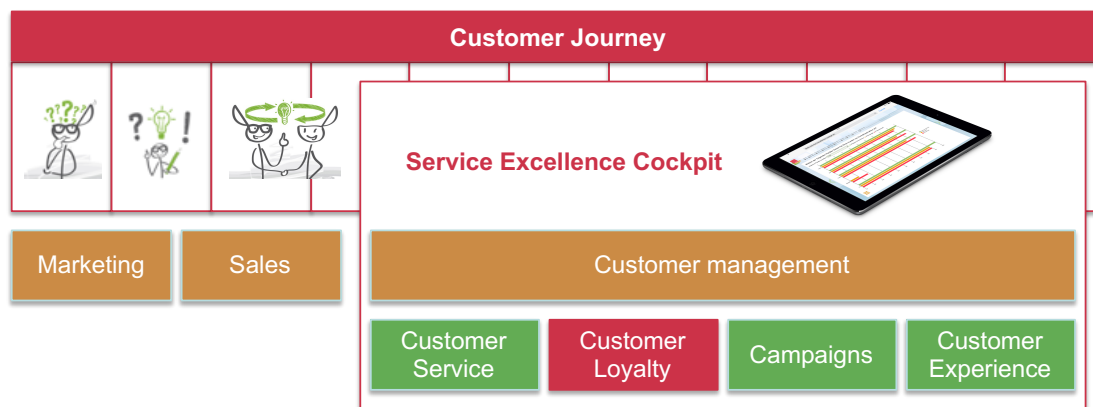


Figure 1: Customer Journey & Customer Loyalty

The report shows current market data from more than 50 companies on the topic of loyalty and is structured into the following chapters:

1. Program Profileration
2. Program Design & Card Family
3. Program Member Account (online)
4. Program Tiers (status)
5. Program Objectives
6. Program Communication Channels
7. Programs & Social Media
8. Program Key Performance Indicators - specific loyalty KPIs
9. General Loyalty KPIs (NPS, Customer Effort, Churn)

1. Proliferation of Programs

Loyalty programs are ubiquitous - both nationally and globally (Splendit Research, 2019, Conceptio 2018, Forbes, 2018). A growing number of companies invest directly in the customer and rely on customer loyalty programs or plan an introduction to optimize the customer experience. In our survey, 42 percent of respondents said they run a loyalty program.

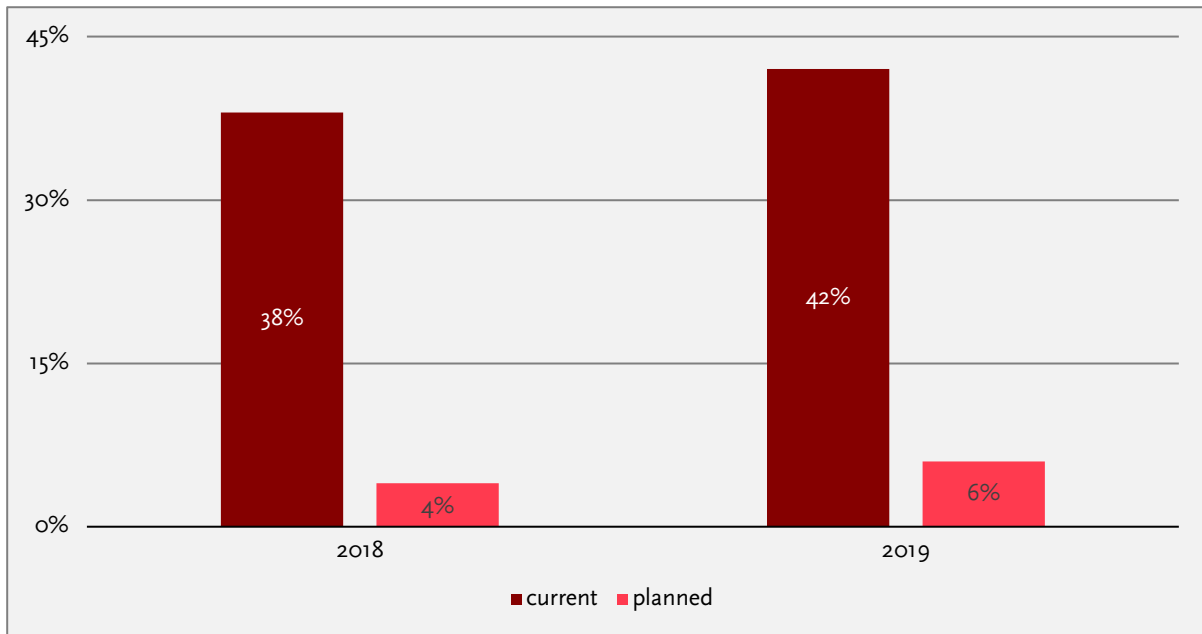


Figure 2: Use of loyalty programs

2. Program Design

Basically, all customer loyalty programs can be grouped into 4 models. Thus, there are models that reward customers with immediate benefits such as «Discounts & Exclusive Product Information» and those with delayed benefits such as «Points & Loyalty Vouchers», both with the goal to encourage the customer to repeat purchases.. In addition, there are models with non-monetary valuations, such as hierarchical privileges, , also known as «Status Benefits» that focus on recognition. Finally, there is the model that combines both: «Status & Points» (type Miles & More).

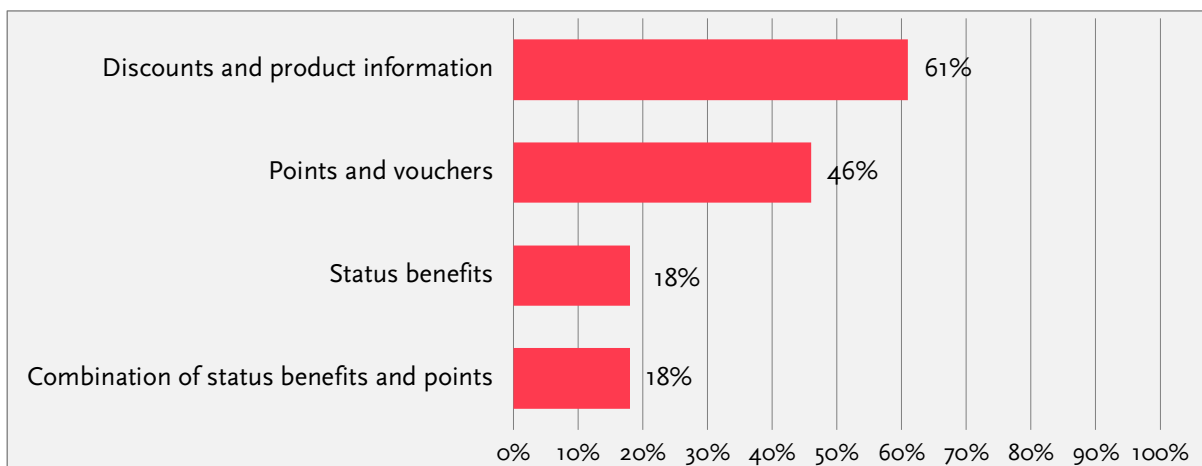


Figure 3: Design of loyalty programs (multiple answers possible)

Among the respondents, programs with immediate benefits such as discounts as well as delayed benefits such as points and loyalty vouchers are the most prevalent.

Another distinction can be made in the functionality of loyalty cards. Most respondents rely on classic membership cards with no payment function. However, more than half of the respondents also offer membership cards with a payment function (payment on invoice or via credit card).

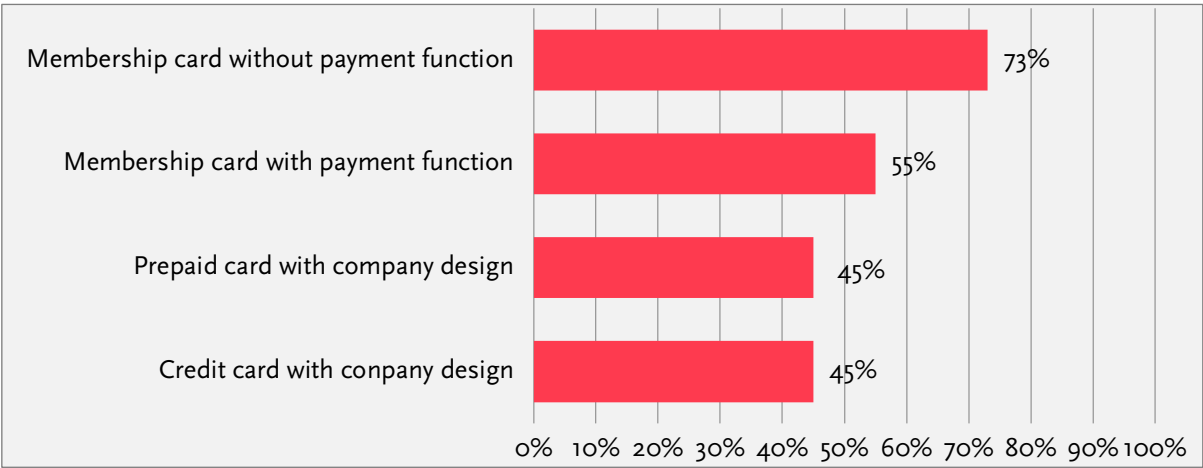


Figure 4: Types of loyalty cards (multiple answers possible)

3. Program Member Account (online)

A surprisingly large majority (91 percent) of the surveyed loyalty programs offer their members online access to their customer account (login). Of course, this varies per sector and also by country.

In most cases, the loyalty status is clearly indicated in the online user profile, either by color or highlighted by text boxes. Generally, personal online member accounts are an effective tool for program managers to connect with the customer in case of loyalty program updates and commercial offers.

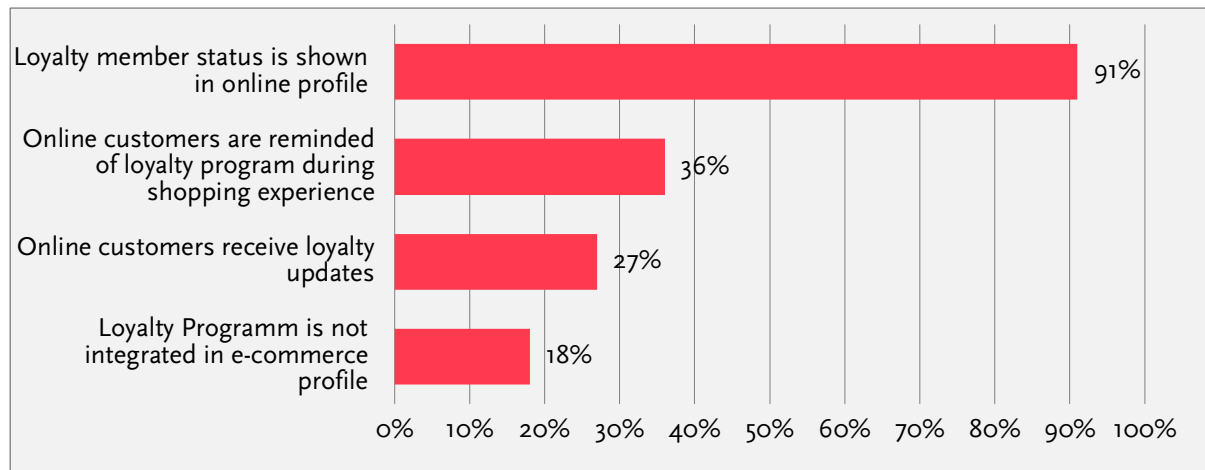


Figure 5: Connection of loyalty program and customer account (multiple answers possible)

4. Tier Levels

Similar to a pyramid, the members of the customer loyalty programs are distributed among the various status groups.

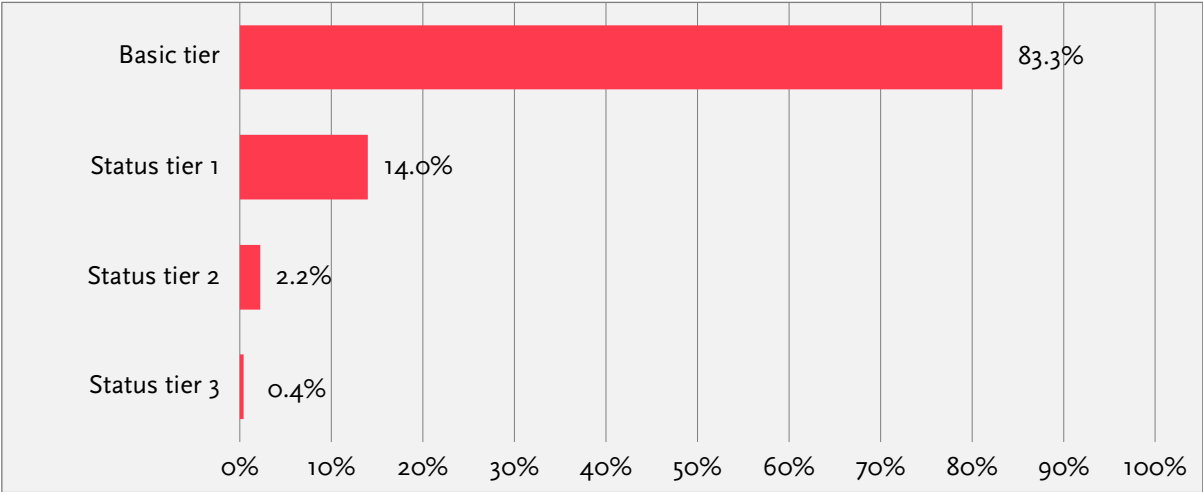


Figure 6: Distribution of members by status level

This is also due to the fact that about half of the programs contain only a basic tier (typical for programs in the food sector). In addition to the basic tier, around a quarter of the respondents also have at least one elite tier (e.g. silver, gold) and around 13 percent have two or more elite tiers.

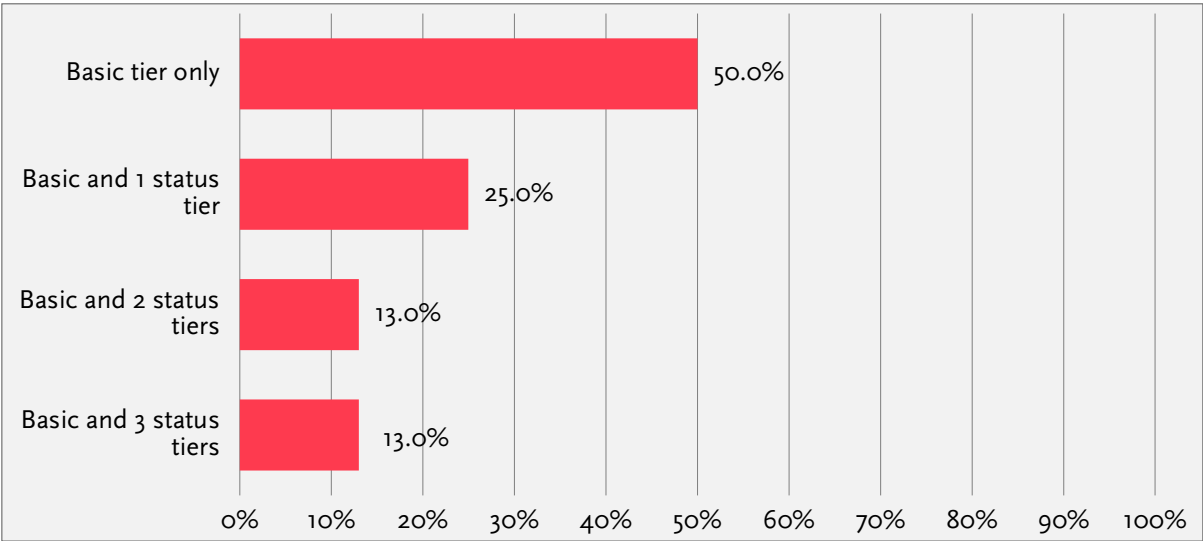


Figure 7: Number of status tiers

5. Program Objectives

Different achievement goals may underlie loyalty programs. At the center, as expected, is a strengthening of customer loyalty (retaining customers) and thus an increase in the share of wallet (customer development). Also important is the gain of information about the customers (smart / big data) and the possibility of differentiation from the competition. The latter goal dimension was easier to achieve in the old days as there were not many programs yet. Today, differentiation must be achieved at the content level, as part of the program design. It is also interesting to see that loyalty programs are increasingly being assigned new customer acquisition tasks (NCAs). The classic dividing lines between prospective and existing customers are blurred and have become fluid.

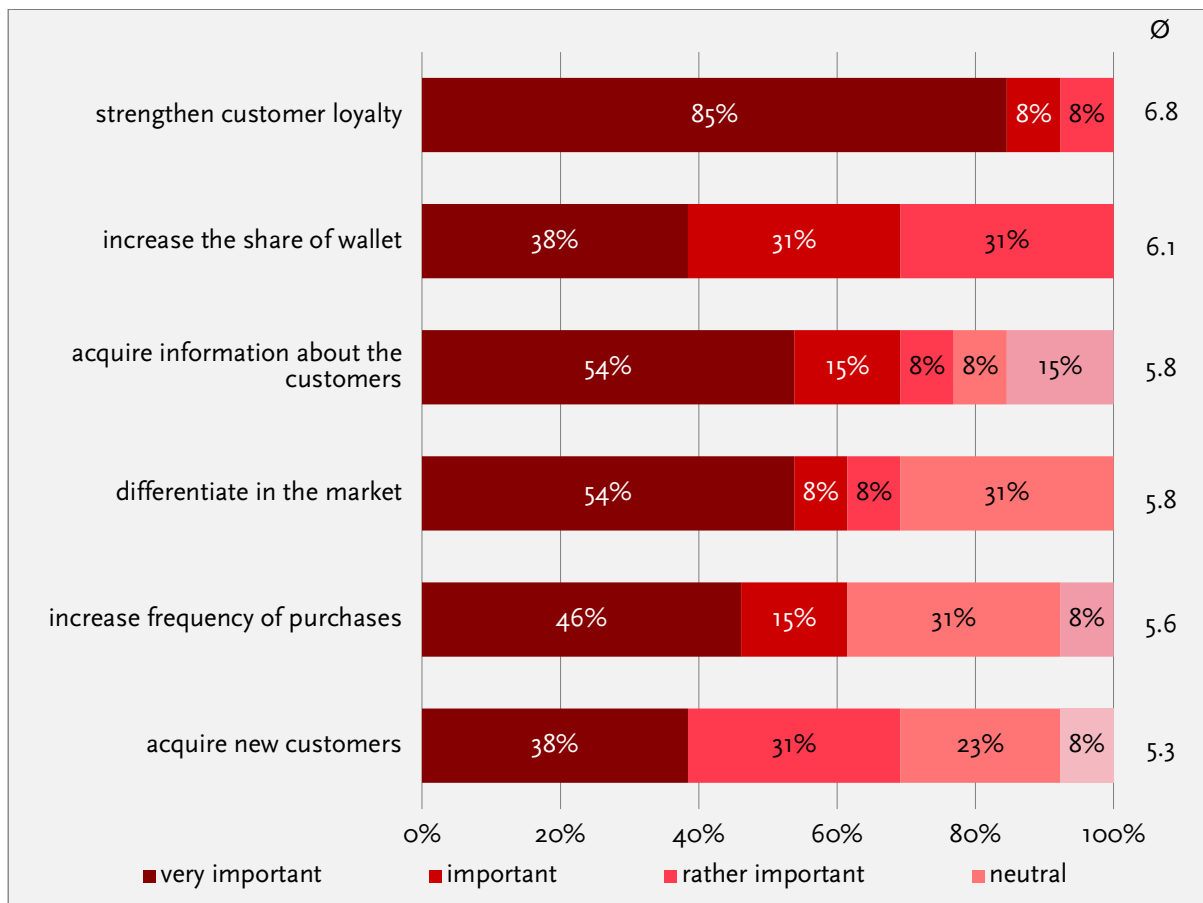


Figure 8: Objectives of loyalty programs

6. Program Communication Channels

The customer (program member) today demands a wide range of possibilities to get in touch with a company. Companies (program operators) are required to comply and offer these channels.

The interviewed program operators provide traditional channels such as telephone, letter, e-mail and still fax for contacting the program members. New channels such as chat, the web portal and App messenger services are on the verge to establish themselves as a fixed component of customer communication. The plan to introduce live chat for instance is high at 50 percent.

Not surprisingly, new media is increasingly supplementing the classic channels. Often, the program operators still lack experience in dealing with this new form of communication, or the channels are operated through cooperation with external service providers. It will be interesting to compare the responses below in the course of the next years.

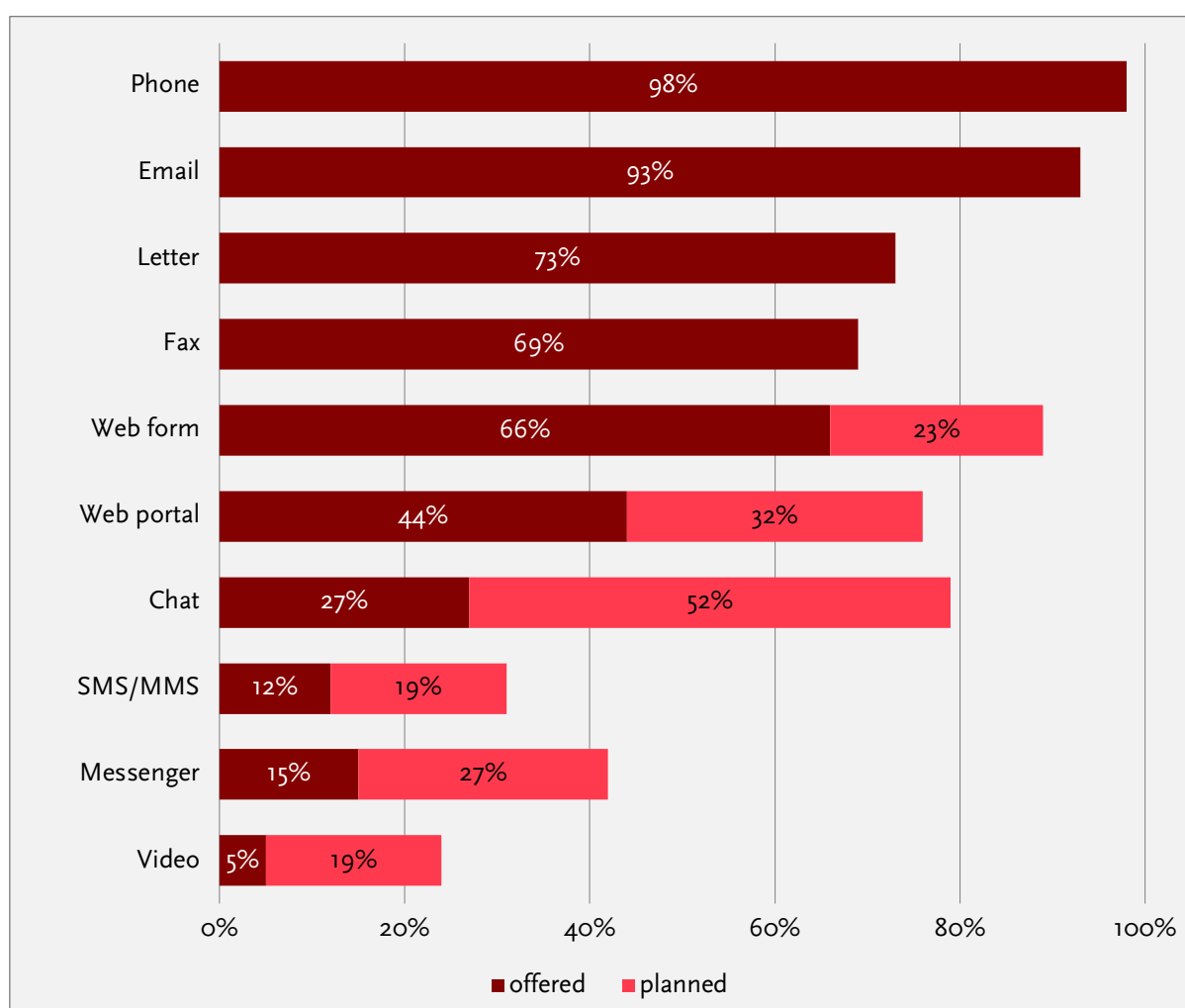


Figure 8: Existing and planned channels for member communication

7. Loyalty Programs & Social Media

Many programs also use social media to communicate program content (e. g. offers, news, benefits) to engage with members. Members in turn use social media to comment or rate the programs.

Some program members meet on dedicated third party forums to share tips and experiences. Some loyalty programs offer their own forums (communities) to promote and steer the peer-to-peer dialog and to involve the members in product development and idea generating processes (co-creation). Depending on the program maturity level, social media are used to a different extend. Modern loyalty programs not only react to transactions but also extend earning options to mere interactions, like posts or referrals.

As part of this Loyalty Report, we restricted ourselves to asking companies whether they are monitoring social media, and where they are facilitating discussions and conversations about the program.

Of the surveyed companies, 66% monitor Facebook activity, followed by Twitter and proprietary customer forums. It turns out that in the last 5 years Facebook and Twitter in particular have received much more attention. Since Google+ was discontinued in 2019, this platform will not be pursued further in the future. We are curious to see if Facebook and Twitter will continue to be such dominant channels relevant to loyalty in the future.

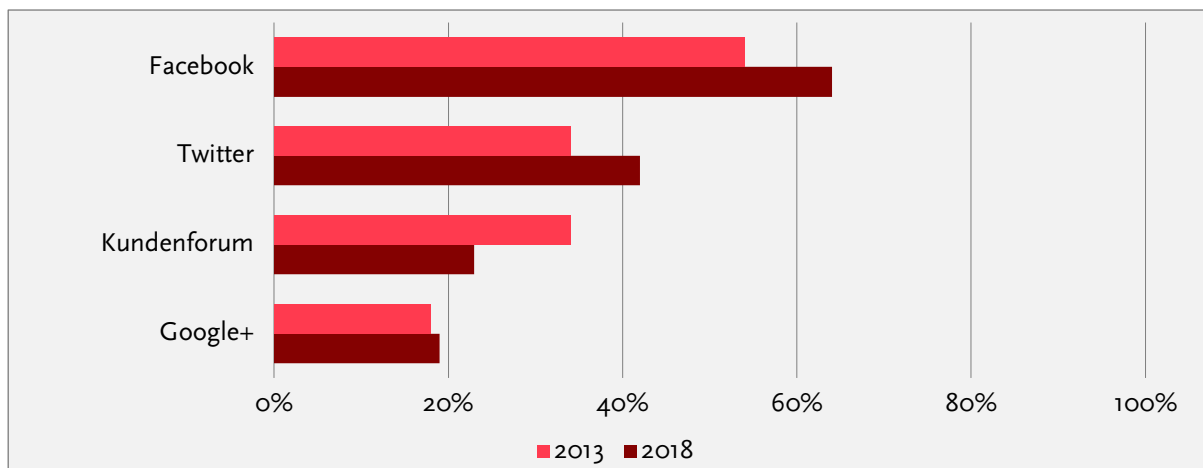


Figure 9: Monitoring social communication about the program

8. Loyalty Program KPIs

At the heart of the Loyalty Report, the most important KPIs for customer loyalty programs were queried. As mentioned at the beginning, the practice shows that few loyalty managers apply a systematic measurement of success of their loyalty programs. Most companies limit themselves to a mere comparison with sales development: current versus previous year. This provides a first good indication. However, it is far from sufficient for a professional assessment of the effective program performance and for a solid basis for possible program adjustments.

The following figure shows (comparable to a checklist) the core metrics of any program and aggregated comparative values of the surveyed participants. The most important KPIs are the Activity Rate, the Penetration Rate and the Growth Rate. These KPIs provide a good indication of the fitness level of the program. As a rule of thumb: If a program deviates too much from the values in the figure, a more detailed program review (especially industry-specific) is recommended.

Special attention should also be paid to the Redemption Rate of the points or loyalty vouchers in circulation. Generally, the higher the rate the better it is. A high quota is a direct indicator that the program is attractive and relevant and that members are motivated to generate incremental revenue.

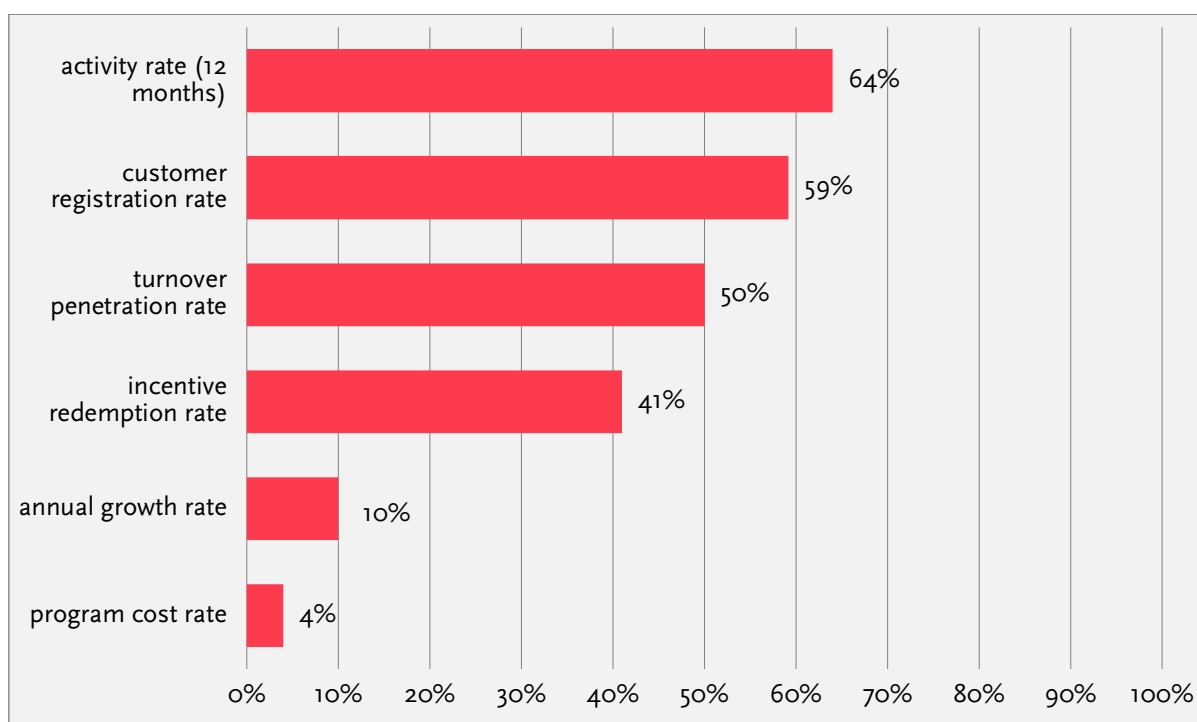


Figure 10: Key figures of loyalty programs

(for exact definitions: service-excellence-cockpit.org/en/)

9. General Loyalty KPIs (NPS, Customer Effort, Churn)

The strategic measures of customer satisfaction known as "Net Promoter Score" (NPS), "Customer Effort Score" and "Churn Rate" were also included in the Loyalty Survey.

Currently, 32 percent of respondents use NPS (on a regular or on an ad hoc basis) and another 17 percent are planning to introduce it. However, Customer Effort Score and the Customer Churn Rate are still rare. The latter finding may be surprising in the context of loyalty and must be put in context with the respective goals of loyalty programs (chapter 1.2).

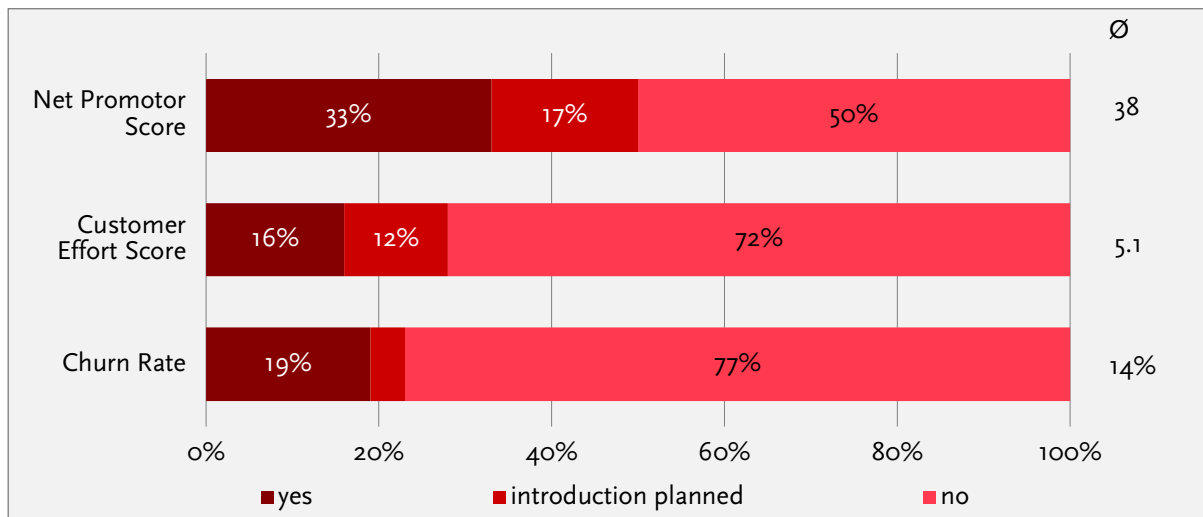


Figure 11: Application of Net Promoter Score, Customer Effort Score and Churn Rate

The NPS has shown a slightly positive trend in recent years. A positive sign and indication of the increasing importance of the convergence of customer service and customer loyalty.

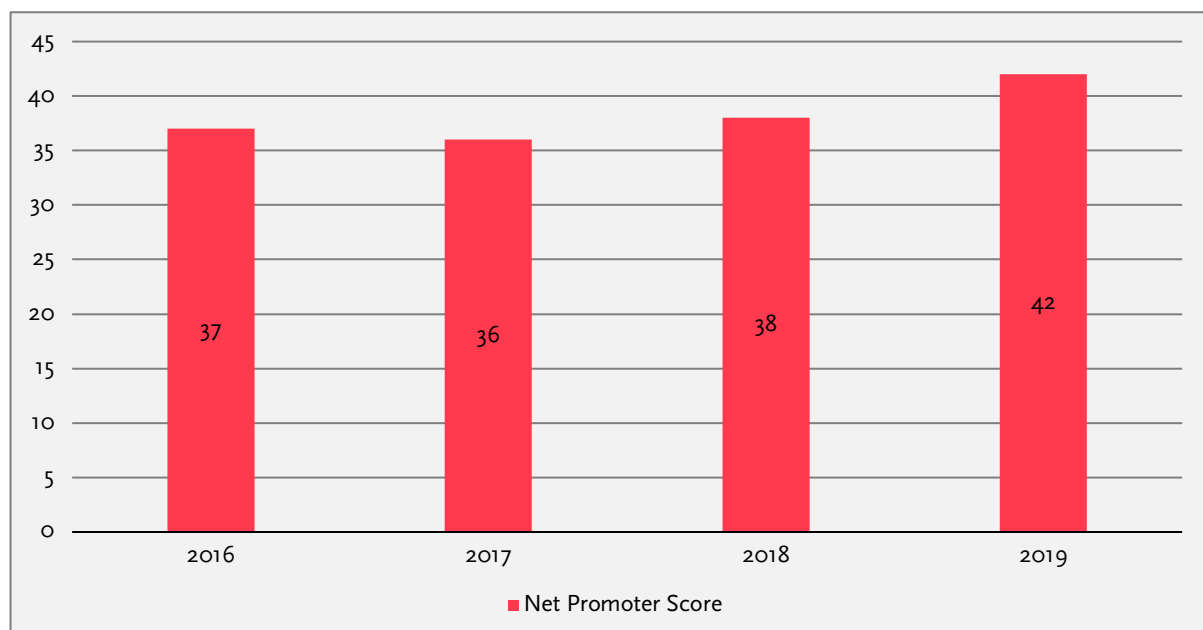


Figure 12: Average NPS in multi-year comparison

Summary

- Loyalty programs are widely used - every second company has one in place
- Top program goals are strengthening customer loyalty (retaining customers) and expanding the share-of-wallet (developing customers)
- Points-based programs are still the most popular types of programs
- Programs cover up to 50% of company turnover (≈ penetration rate)
- Healthy programs have high activity and redemption rates (> 50%)
- Programs are increasingly proliferating in social media
- Chat is leading the trend towards digital communication channels
- Net Promoter Score is becoming more important in measuring loyalty programs



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