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thinking.



Reimagining Loyalty Programs

An Interview with Bryan Pearson, Loyalty Marketing Pioneer

Bryan Pearson:

Bryan Pearson is the former CEO of LoyaltyOne, which runs the Air Miles program in Canada, and a best-selling author and speaker on the subject of loyalty marketing.



Welcome to the Customer First Thinking podcast, Episode 12. My name is Stephen Shaw, the host of this podcast. In this episode we interview Bryan Pearson, the former CEO of LoyaltyOne and a true pioneer in loyalty marketing.

Canadians do love their loyalty programs. They not only belong to more than a dozen different programs on average, they are amongst the most active participants in the world, according to a KPMG study last year. That study found that 56% of Canadians earn program rewards at least several times a week. Some of these programs are mammoth in size: the PC Optimum loyalty program has 16 million members – Air Miles has 11 million – Aeroplan has 5 million. Today just about every retailer, grocer, gas station operator, quick serve restaurant, and hotel offers some kind of loyalty program.

People just want to save money, it seems, whether that comes in the form of redeemable points, instant discounts, cash back, or other monetary prizes and incentives. But does that make them “loyal” to

the company – or to the program? That question has dogged the loyalty business ever since the advent of frequent flier programs in the 1980s which were designed as “barriers to exit” - a way to discourage people from switching airlines. And that is largely how most loyalty programs operate today, driving repeat sales through “this for that” reward schemes. The term loyalty is really a misnomer, mistaken for what it actually means: sacrificing a bit of margin to win repeat business. In other words, a promotional ploy.

Most people admit these programs do little to make them feel more loyal – especially since most are merely variations on the “earn and burn” concept. They see them as “savings” programs, not “loyalty” programs. The benefit to the loyalty program operator is easy to see – the capability to track and influence individual buying behaviour; for members, however, the program experience is purely transactional. Nothing about it makes them feel special or appreciated – more a contractual commitment than an expression of gratitude for their business.

That’s why loyalty programs are long overdue for reinvention. They should show greater appreciation to customers. They should foster a more intimate relationship based on known needs and behaviour. They should treat customers as valued members of a community. They should feel like a natural extension of the brand experience. But that means marketers must stop thinking of them as “loyalty programs”. Instead they need to be rebooted as “customer programs”, designed to humanize the brand experience.

As the former CEO of LoyaltyOne, which operates the Air Miles program, Bryan Pearson is a passionate believer in the need to reimagine loyalty marketing. He was an early pioneer in the growth of coalition loyalty programs, which became highly popular in

Canada because of the opportunity for “collectors” to earn rewards faster through a wide network of sponsors.

Hired by Air Miles when it first began in 1992, Bryan rose through the ranks to lead the 1,500 person company until he parted ways last August in a surprise departure. Under his 12-year stewardship, LoyaltyOne became highly proficient at converting the massive amount of purchase data it had amassed on two thirds of Canadian households into valuable marketing insights for sponsors.

Today Bryan is a popular keynote speaker on the conference circuit, sharing his ideas on how to transform loyalty marketing. I started our interview by asking him whether he had any inkling when he was first hired by Air Miles that it would take off so quickly with so many Canadians.

BP

Bryan Pearson (BP): The outcome of Air Miles and how big it has become far exceeded any of our wildest imaginations. And I think we really saw that in the late '90s when we started to get grocery penetration across the country, and really the program just took off at that point. But at the end of the day, not only did the business exceed the wildest expectations, but I think what we've been able to do for our clients in recognizing the full potential of what we created, you know, it's reached way beyond the initial intent, which was really a promotional tool. And yet, we're still a long way from what's possible, which is kind of the exciting piece still.

SS

Stephen Shaw (SS): Right. Well, it was foundational what you did. I mean, you were creating a new mindset around the use of data, frankly, at the time. And you were in the vanguard of a movement that was just getting momentum at the time.

BP

A few of us who came out of a similar space, I think, Stephen, which was out of the database marketing space, who came in and joined the company. Ernie Johansen was one of those people who's now at Bank of Montreal. And we came in and looked at the business and said, “Wait a second. You know, you guys are thinking of this as a promotion and a currency and sort of a buy/sell effect but you're missing the biggest asset in the business, and that's the database of information you're creating on consumerism and Canadians. And, you know, if you start to focus on that, then the value proposition completely changes for the sponsors or the clients, which

were a part of Air Miles. I think that's really where the whole thing turned. And it was that focus and that sort of little critical insight, which I think was the spark which allowed the business to continue to grow for decades.

SS

Decades is right and on and on. So full disclosure here, my wife is an avid points collector and I would put that in capital letters, in fact, I joke with her that that's her hobby, right? She plans her shopping around how many points and so on and so forth. She's telling me stories as I'm trying to read my weekend newspaper about her travails and so on and so forth. And I'm just thinking, “Wow, it's just like, how many more folks are there out there? Like, she's not unique. There's lots of folks out there.” And Canadians I think have proven themselves over the years to be avid points collectors for whatever reason. Do you have an explanation for that? Does game theory come into play here as being a cause and effect?

BP

Well, I think game theory plays a role in it for sure. I think it's sort of, but it's hardwired into the psyche or behavioral psychology of who we are as human beings. And so loyalty programs certainly tap into that, you know, sort of animal reaction, at the back of the brain, of something for free and this sort of enjoyment factor. Not everybody is super excited and sort of likes to game them. But I would say in any program, in any sector that you look at, you're gonna find that your very, very best customers either just simply spend a lot of money with you or they are making a conscious decision to gamify the system.

SS

But isn't that the success of your coalition program that people are making that conscious decision to go to this grocery store or use this credit card or, or, or, right? I mean, that's the whole purpose of the thing.

BP

Yeah, if you move from proprietary to coalition, so multi-partner, that definitely is core to it. And what we've seen and proven in each and every category is this thing we call the network effect, which is the more partners that you use, the more loyal you become to any individual partner because there's this sort of forced multiplier or magnifier of the effect of your ability to collect. And so in a coalition program, the number one weapon you have to compete is the idea of speed of earning, your ability to actually earn that reward, whatever it is, an accelerated pace, that if you were doing it historically in a standalone environment.

And I think your comment on Canada, just to go back, is also very observant in the sense that I do believe... I used to say the UK was the most sophisticated loyalty market around. But I now believe that Canada actually is the most competitive and sophisticated loyalty market, not because of technology necessarily, not because of individual applications, but because foundationally there's a real commitment. And Canadians view loyalty programs as a differentiator and they actually respond and look for the value that's inherent in these programs. In a lot of other markets, what you saw as loyalty programs defaulting to price or defaulting to much simpler mechanisms. And in Canada, I think there's a richer underpinning. And my theory is really quite simple. The genealogy of Canada, it all comes back in some ways Air Miles and how we populated a lot of the population out there. And also other places like, Steve, where you worked over time, where you were involved in different peripheral ways in and around the loyalty space. And so there's this rich database marketing history and there's this rich loyalty history. And at one point, I think I remember of the top 10 programs in Canada, 9 were being operated by alumni from the Air Miles reward program. (9.35)

SS

Well, it became like Amex used to be a graduation school for marketers.

BP

Yeah. Yeah. And so I think this ethos sort of penetrated and permeated the marketplace and where people looked at it and said, no, this isn't about, you know, a cost of the business or something, which is just a marketing expense. But there's this view that there's real inherent value if you operate a loyalty scheme, a loyalty program, in a way that is really designed to sort of engage, entice, and reward, really reward, the customer for what they do.

SS

Is the reason that it took root in Canada so quickly, is the fact that the infrastructure here allowed for that to happen either in terms of the coverage of banks or the coverage of grocery stores or that it enabled you to quickly get cross-country coverage? Did that make it easier to do here than perhaps it might have been elsewhere?

BP

Well, it didn't feel quick in the moment because it did take us about seven or eight years to get that coverage.

SS

Well, you had some big wins early though.

BP

We did. We had Safeway, Bank of Montreal. Shell came on fairly early. I think what really allowed us to build it well was, you know, Canada operates a series of elegant oligopolies, right? So, you know, where each particular sector has three to five critical players that sort of consume most of the consumer economics in the space. And so if you could get one of them and sustain their effort around accumulated new collectors, new consumers, and then have those consumers cross-populate across two, three, four, five sponsors, what you do is you enact that network effect and then our partners start to see real financial results. And then it's...again, it sort of establishes the momentum and the staying power of the program. Certainly, you know, the technological infrastructure helped, but I really think it comes back to our ability to nurture, you know, some critical partners and to do the program digitally, right, which was, those were the two pieces which I think were mission critical to being able to stand up and sustain momentum where in many other countries like the U.S. with "Plenty", you know, they just weren't ever able to create enough critical mass to actually demonstrate the results back to the partners. (11.58)

SS

I think you've had your own attempts to crack the U.S. market very early on, in fact, and did not experience the same level of success clearly. And as you point out, "Plenty" to do with the business. What are the factors that have made it more difficult to create an equivalent type program in the U.S.?

BP

Yeah. Oh, you can almost look at where has really good programs been set up. So Australia and New Zealand, England twice, Germany, Poland, those are probably the benchmark countries where a really decent coalition has been stood up. Again, in each of those places, I think similar factors were at play, which is you got the cornerstone. It's like a mall, the anchor tenants who came in and sort of created that ability to attract a critical mass of consumers, and then to be able to monetize that across important spending categories, which is everyday spending. So again, they started with petroleum and gas retailing with grocery shopping. They usually had a financial services player, which brought a credit card or an earning accelerator to the table and then generally you had a department store, home improvement, or something like that. And if you can get those core categories

stood up with sufficient market penetration, then you've got the right ingredients, as long as you get the economics and all the other things right in the background. And I think the problem with the U.S. is it's a very fragmented economy. You know, if you can't get the really big players like Kroger or Safeway Albertsons to kind of step in...

SS

Kroger has its own program.

BP

And that's what's happened is that in the U.S., generally, the players down there, you...it was like putting together a Rubik's cube. You know, you sort of had to manipulate it in a way that you could get critical mass in a market to demonstrate that you would get that network effect happening. And in the meantime, because of the free...let's say the free market approach to data that exists in the U.S. market... you know, one of the big things that the coalition program does is on a permission basis, secure this kind of unique ability to collect, accumulate, and then use that information for the benefit of the sponsors because that's what the consumer does. They sign on to Air Miles or to Payback or to Nectar. And they essentially say, "You can accumulate this information." And in the U.S. with the freedom that exists, you know, one of the greatest benefits of a coalition program, there's a whole bunch of substitutes for that in the U.S. And so the net is, you know, "Why would I put my brand at risk of another brand, if you want, through a coalition when at the end of the day I can get 80% of the benefit that I would see by virtue of just buying data on the market and aggregating it with the information that I have through my own proprietary program?"

SS

I see.

BP

And so I think it's been really tough to make a goal of it. And "Plenty" just, you know, did the same thing that everybody else did, which is they felt a need to go to market too early without the right partners in place. And, you know, I think we affectionately call that the Billion Dollar Club, but it may be more than a billion now that's been spent trying to do coalition loyalty in the U.S.

SS

The market, you know, was dramatically affected I would say when Air Canada made the decision to repatriate its own loyalty program and change the landscape, I would say, rather dramatically. What are your thoughts on Air Canada's motivations for doing that and where do you see...how do you see this evolving going forward?

BP

You could see a little of the writing on the wall when they launched their "Altitude" program. I think there was some sort of schism that happened between the airplane organization and the airline at some stage. And I believe what the airline was struggling with is where a lot of the market is heading towards, which is if I'm going to be creating, you know, unique experiences for my best customers, so I'm gonna create a super elite or top tier gets a certain suite of benefits, the perception they had is that more credit was going to Aeroplan than it was going to the airline for what they were creating. And so, you know, you saw this segregation of programs where they launched their own brand "Altitude" and they really turned Aeroplan into a scoring mechanism for how you accumulated the currency. But they took the benefits out of Aeroplan and sort of attached those more to their brand. And I think when you look down the road at how this eventually unfolded, you know, what they probably came to the conclusion of, having seen other things that happened in the market, that at the end of the day, you know, the risk of essentially untethering themselves completely from Aeroplan was so great on their partner's credit card companies and on the airline and what a mess that might've created that at the end of the day it was probably cheaper to acquire Aeroplan and just fold it into all the other activities they did and really take complete ownership of it than it was to separate and continue to launch their own program and launch their own physical currency, which would have been, you know, the way they kept score. So for me, it's natural evolution that sort of connected to where Canada wanted to take loyalty in general. And really, the structure of...maybe the one I haven't talked about is the structure of a deal that really goes back to the days of when ACE spun out Aeroplan, saw that there was way more multiple in the coalition and loyalty business than there was in the airline. (17.26)

SS

Even today, I think investors in the U.S. value the loyalty programs more than they do the airlines. I think I've read that figure.

BP

Yeah. I mean, there's more inherent value in... You know, we can go back to department store and the old Sears days where, you know, the department store made no money and the Sears credit card made 110% of the profit of the department store. So in many instances, loyalty is the same mechanic in certain industries and certain sectors.

SS

Well, it's interesting because I remember distinctly interviewing Rupert Dushane for "Direct Marketing" magazine around the time of Aeroplan spinning off. And I asked him that question. I still remember asking this: "What happens if Air Canada decides not to sell you the miles at market value at some point down the road?". He obfuscated a little bit around the answer to that question, but he had thought about it clearly, that that was gonna be a risk down the road. I wanna ask about Loyalty One. There's a lot of conversation today about first-party data and the desire to have it and have access to it in a way that never existed before. Is this going to be the push that companies need, this desire to acquire first-party data, to shift to creating their own proprietary loyalty programs that they don't exist today? And if not, if that's not the door they go through, they'll go through some other door like a lot of these DTC startups are doing today. So do you see that in the cards, having an organization that straddles both areas, do you see this desire or increasing desire to actually move into creating proprietary programs?

BP

Yeah. I mean I think there's more and more companies that are...if they're in loyalty, then they're trying to figure out how they improve that value proposition and how they create a connection with consumers through that. If they're not in loyalty today, I think it's fair to say that anybody who's not in loyalty is trying to figure out what the mechanism is to understand who their customers are and loyalty has to be on the very short list of, "How am I gonna actually engage?".

SS

How do you get people to self-identify if you don't offer them something in return like you said? It's hard to build an audience otherwise.

BP

It's a loyalty program or a loyalty program proxy. I mean, we can talk about Amazon and Prime, right? Is that a loyalty program or is that a paid benefit or is it both, right? But they found another way to create a line of sight, which created an engagement point with consumers.

SS

Well, I love Jeff Bezos' quote about Prime. He said, "You know, we wanted to create a program where you'd be crazy not to wanna sign up or be a part of."

BP

Right. Yeah. You know, let's just put that as a halo over the remainder of the conversation because I think that's

really where companies are gonna have to think about their competitive edge. And, you know, we were talking a little bit about the "Loyalty Leap" and, in fact, I wrote that, whatever, six or seven years ago now, which means I really wrote it eight years ago. And for me, it was really a cry for help to the industry to say, "Come on, let's step up because we're sitting on all this information." The consumer knows that you're sitting on all the information and what they simply want is for you to improve the experience, to actually use that in a way which benefits them in a capacity, which makes sense for them from, you know, whatever retail category, whatever service category you're in. And in so many instances, what you saw was people were, you know, thinking it was just a promotion back to the very beginning even on Air Miles and not engaging the consumer, engaging in even that conversation of, you know, "What else could this data do?" And, you know, fast forward now a period of time and I think between, you know, AI machine learning... I mean, we can go through all the buzzwords, but at the end of the day, it all fundamentally points to the same thing, which is: "I have this pool or wealth of information about my consumer and how can I draw inferences or learning from that, which I can use strategically to create a competitive advantage?"

SS

I wanna come back to that because it's such an important statement that you just made. I wanna make sure you have the time to address this. I just don't wanna leave a thread of a thought though, because I, you know, it is, your book was written six, eight years ago and it did speak to this whole idea of creating sort of a more cohesive customer experience, leveraging loyalty data, for sure. And, you know, that's the whole customer experience movement, frankly. That's the "customer first thinking" that we talk about as well. But according to Forrester, most members of loyalty programs... Now, here they're referring specifically to the U.S. of course, but don't really feel, and this is, I think the point you were just making, that those programs make them any more loyal to the brand. So really today loyalty markets still haven't stopped treating it as a promotional platform. And I would even point to... Maybe I'm out of line here, but the "Optimum" program to me is largely as a promotions program, not a loyalty building, emotional loyalty building program. I guess it works, clearly. But do you see the beginnings of an acceptance that

the loyalty program has to be much more than just about buying loyalty as opposed to earning it?

BP

Yeah, I think it...so I would agree foundationally with the Forester comment. I do think that an awful lot of loyalty programs because of a lack of proper stewardship or vision end up in a place which they're glorified discount programs. And so, you know, what the consumer looks at is, "I could either not get the discount or I can sign up and get the discount." But you're really only appealing to one segment of the consumer base, which is that consumer who's looking for the best price. And not every consumer defines value by best price. A lot of consumers define value by adding experience or it adds in content and information, or it adds in help and ease of use and those kinds of things and the price is important, but it's not necessarily the be all and end all despite, you know, what everybody kind of trumpets out in the marketplace. When you look at the evolution of where... you know, if you pull a string through and you say, you know, "Is the vast majority of the market still doing that?" I would say that in the last eight years there has been... seismic is too strong a word - but I'd say there is a seismic change to the conversation. I'm not sure there's a seismic change in the implementation.

SS

No.

BP

Okay? So I think that there's a lot more conversation, again, back because of these tools and techniques which have sort of arisen, which has made the ability to gather, analyze, draw conclusions from the information that people have. But, you know, there still is missing in my mind, the kind of artistic direction around, you know, how do you actually take all this data and information and learning and craft it into strategy? But, you know, it certainly in my mind has shifted the view that loyalty, you know, another means to apply a portion of my marketing budget in terms of where I wanna spend money against the consumer, right? And it has shifted. Now, the other thing I'd say - cause you used Optimum - is the default still, unfortunately, is that companies when they do the analytics, are figuring out how to create, yes, a little bit more personalized experience, but there's still an awful lot of, "Let me shape that and drive it and sort of shield my profitability or shield, whatever, it is and sort of to drive the consumer's behavior in a way," which is as much about the retailer's profitability as it is about the experience for the consumer. (24.53)

SS

Well, it's been increasing visit frequency and basket size for the most part. I love the terms you used to use in your economic modeling is "lift and shift". And I still use that term because it's so perfect. But if it's a commercial intent, then it's a targeting message and a promotional offer. If you wanna introduce an emotional angle to this, which is, "I wanna feel better about the experience I'm having," I think that's where the programs are struggling. And I'm not sure it's the fault of the programs as much as it is in often the organizational model that doesn't give freedom to people who wanna say, "No, no, we actually have to aim higher here in what we're trying to aspire for the program." Do you agree with that?

BP

Yes. I think the sophistication of aiming higher, we're not at, you know, in a wholesale capacity yet. I think the sophistication of being able to make, get offers out there and to sort of increase the relevance of the offer. So at least now, right, I think you would agree that at least now when my supermarket reaches out or sends me, "Here's the top 10 things you should be looking at," 8 out of 10 are stuff that you've actually seen in my basket before, whereas if you went back in the time tunnel even 5 years, I'd say they were lucky to hit 30%, okay? So from that perspective, I think there's an acceleration and benefit in relevance in some personalization. But the view of saying... You know, I'm not even talking about, you know, one-to-one. If we go back all the way to Hughes and the thinking of, you know, one-to-one marketing, I'm thinking just in the terms of one to few or one to segment. Do you know what I mean? Because in that environment we still haven't got all the way. It's still Fisher Price. It's still blocks and circles. Like the ability for us to acquire this information, identify the real criticality of what this consumer might be going through, and then to tailor an experience to who they are, we are Stone Age still on that.

SS

Well, and I think it's, and, you know, forgive me for this term, but there's no "corpus callosum" between the analytics and insight group and strategic planning. Like, there is no textbook that says, "This is actually the way you need to think about it. Here's a step by step by step what you do." I mean, maybe old catalog marketers could come up with that because they could connect, you know, RFM models for sure. But then they were still basically trying

to sell stuff as opposed to, “How do I use this insight to actually develop different experiences for different parts of my population or have different values and things that mattered to them?” That’s the biggest challenge.

BP

Right. Yep. And technology is not the barrier anymore. There still is, you know, work that needs out from a technology standpoint. But if you go back in the time tunnel to when we were young men, we dreamt of this stuff.

SS

Yeah, of course.

BP

And then you had to think about how you executed it through direct mail. I think it made us smarter marketers because we really had to do the analytic work to figure out where the returns were, right? Today, it’s sort of gone back to a mass targeted, sort of spray and pray mentality because your economic cost of putting an email out is next to zero, right, or a text message or any of that or an ad tech, you know, or putting something through the ad tech world and sort of loading it up because that person may have passed by your website at some point and he’s decided, “I’m gonna throw something back out there and see if I can bring them back.” That approaches zero, you know. All the media dollars have gone there. But you know what I’m saying. And yet, you know, how do you create richness? And is there gonna be a shift in how the companies decide to spend the money? And for that, you know, it’s my pet peeve in the entire system is we are still a conquest marketing mentality. (28.43)

SS

Acquisition and growth.

BP

Acquisition and growth. And, you know, the whole term that used to be used is sort of a customer grooming. In other words, trying to migrate the customers you have, understand them, engage with them, lend them something that’s gonna be more personalized, which will, you know, connect them more with your brand and grow. You know, that’s still not the mainstay of what happens in the marketplace.

SS

So it’s so interesting because the genesis of the term relationship marketing is, it goes back to 1983. And the term came up because a professor in the U.S. looked at how dollars were spent and was putting... I understand why companies were so fixated on acquisition when a lot of the potential value and future revenue actually lay in existing customers. And so he just thought it was common

sense when he introduced the term. It took 10 years before that term had any traction whatsoever. And today, we accept it as a natural part of the language but we’re still not practicing it because, to your point, companies from on down on top basically say, “You know, we need to put growth ahead of any other objectives,” for sure. It’s not creating the... I think the challenge here for CXM people that are in charge of customer experience is to connect the dots between growth and where the value is in that portfolio. And I think that’s where they struggle today, even retailers.

BP

Which connects us back to one of the earlier topics, which is, you know, what is the role of loyalty and why won’t more people get into loyalty because in the absence of something which defines an ability to circle, you know, to connect that back to, “This is Bryan Pearson who is effectively shopping, and here I can track their behavior over time,” you know, most companies just don’t have the capacity, retailers in particular. So now the question is not, “Who’s that photo ID, you know,” not photo ID, but, “Who’s the facial recognition to some anonymized number that I came and I watched and I saw it come?” I mean, there’s all sorts of proxies for it. At the end of the day, you need to know, “It’s Bryan Pearson. He wants to engage with my brand who has demonstrated this kind of capacity.” And until you get that longitudinal view of the customer and their activity over time, cross-category to the SKU level, etc, etc, you know, as somebody doing CXM it’s still a little bit ethereal. And I think that’s where the worlds collide and everything starts to jive is this vision that experience will be the differentiator, right? It will be the differentiator. I write a lot for “Forbes” on retail and that’s a core theme of where I go all the time, which is essentially, you know, online is coming offline for a reason and that’s because they need to create a physical presence to add an experience to the brand beyond a box arriving and it’s Warby Parker and looking at my glasses and trying them on and sending back the ones I don’t want, you know. In Chicago, you go to a store and then you still order online but you go to the store because it says... (31.47)

SS

Even Amazon has Amazon Go now.

BP

Yeah. This is what the brand is about, right? And everybody uses offline from a retail standpoint today. Bricks and mortar is looking at the incursions that the online retailers

are making and the doomsday predictions of everybody. But they need to pivot and think about, you know, “What am I gonna stand for and what’s my experience?” And so experience is a great differentiator. And, you know, the question we’re here spending time solving as an organization is proprietary network, you know, campaign-based, long-term card-based, you know. Whatever it is, it’s how are we gonna slot back in and use the assets we create to effect change to allow our partners to compete in this world, which is so dynamically changing over the last 5 to 10 years.

SS

Yeah. It’s, obviously, particularly in the retail space with the challenges they have and, you know, the necessity to actually create a good store experience today. And it’s interesting but at the end of it all, you need a financial model to demonstrate that this is worthwhile. Isn’t that another tough thing to do? I mean, go back to when you started Air Miles. You were great at this. You guys went in and presented, you know, financial models to show the business potential business value and of the network effect, you referenced it earlier. Today if you were pitching a company on the logic of getting into this marketplace, you know, notwithstanding, I think you used the term ethereal.

BP

It’s not ethereal. Unfortunately, it’s pure math.

SS

Yeah, no, be nice to customers...

BP

Oh, you mean in terms of the experience.

SS

No. I’m saying that you have to go in and present the financial case to divert X percent of your budget now out of promotions into a loyalty program. So there’s that. But more than that, out of acquisition and to customer retention and loyalty, there’s a business case that has to be built around that. When you go in today to promote the concept of a loyalty program, how are you presenting that business model today? Is it in the broader context of the business? Is it in the more narrow context of the tactical execution?

BP

If I’m really fair about it, I would say that in most instances the client or potential client is viewing it immediately in the context of the most narrow framework, which is, you know, what did the activities, which the immediacy of the activities around the program, what did that generate from a benefit standpoint. Now, we’re able to pull that out in different ways because we look at, you know, what are

the adjacent behavioral changes that existed. So if we’re thinking supermarket loyalty, because it’s easy to talk about, is when you run a promotion and you get the gamification from the consumer, how did the consumer gamify the system? So if you gave an offer, which was a spend-based offer, and then you earn a whole bunch of bonus points, you know, what categories did they come from, how did that change the spend? Did they go deeper on sale items or did they buy things which weren’t on sale? Did they buy products or categories they wouldn’t normally buy and therefore they created a new experience in other parts of the store? So it starts by the very core is did it pay out or not because that’s the way the companies are thinking. Then the next layer of the onion is really the, “Okay, what other benefits did I get from it?” And then the widest one is really the, “Hey, if that’s what’s happening, then you know, where else could we apply this sort of tool or these capabilities in a way that it really is about this broader experience, strategy conversation?” I think the intent of many companies is they start from the experience and look in, but when they measure, they start from the inside and work out if that makes sense.

SS

Yeah, no, it does. I mean, but that at the highest level of that scorecard hierarchy would exist things like NPS and customer retention and churn factor, which if you’re improving loyalty, presumably, will improve over time. Is that a key part of your business case or as you put it, do you really start to say, “No, the incremental spend you’re gonna get will outweigh the investment in this by a five to one ratio?”

BP

We do both. So the answer is yes and. So yes, we do both ends of that because I think if you’re not telling that story, you know, there’s a lot of places that an organization could invest their money in different ways. And so you have to talk about the enablement aspect and you have to talk about the direct impact, right? And so, you know, let’s put a firm example. We just completed that Loyalty One, our sort of benchmark study, looking at loyalty and customer management, right? And we broadened the platform because historically went out and said, “Well, you know, how many loyalty programs are there? How many people are members of loyalty programs?” But that’s really not telling the ecosystem story, right? The ecosystem story is this really needs to be seen as a platform. And the platform

then extends into what you're doing in CRM because it informs it. It goes into CXM because it informs it. And so then it goes into your pricing and your customer-centric merchandising and it changes the way... you know, if you bring consumer into what you're actually doing, which is what marketers are supposed to be doing, right? The consumers at the center of your purpose. If you really do that and you do your decisioning around that, you change the way you traditionally do a lot of the activities you would have done as a retailer or a service provider. And what we're seeing is that, generally, you know, if you just did the ROI on a loyalty program, you might get let's say 50% to 100% ROIs, that sort of thing. I think the study said 71% of companies are spending more than 2%, you know, of revenues on their loyalty program probably. (37.20)

SS

Which is high when you consider that the average marketing budget is like something like around 7% of revenue.

BP

Correct. Yeah, correct, which says it's... And then if you take the influence of that 2% onto what more of the marketing budget is being spent, I think the numbers were, it goes from 2% to 4% or something. So you know, that's in my view, reflecting generally what's happened to market around marketing budgets, which they've become more thoughtful in their application, but that information is really driving a lot of the activity. And then, you know, what we're seeing is that you can see another, I think what we said was something like three to five times the effect of the loyalty program alone again, if you start to use the consumer information to drive your consumer-centric pricing or your consumer-centric merchandising.

SS

Three to five times effect on revenues.

BP

No. if your return is let's say 100%...

SS

Oh, I see.

BP

...on your loyalty program, once you add in this other benefit on the way through, you could get to 300% to 500% ROIs, which are insane, right? But, you know, we know from clients that will go in and they'll spend with us, you know... I've got a couple of examples where we've done all the customer-centric pricing for them. So that's purely analytic. They pay us for the services of the analytics and then they're seeing a 10X return on every dollar they spend

in the analytic space simply because...and that's in savings in... just let's say...

SS

Or efficient targeting.

BP

...cost avoidance of just not making bad decisions, you know. And if you eliminate that because the buyer always says that product needs to be at \$3.99 and that's my sale price. And the reality is the elasticity and the co-dependencies of other products, you can sell it for \$4.29, you know, price it at \$4.29. You don't lose the volume. You know, you might lose a little bit on volume but you make it up on the margin space. And so you're just optimizing for whatever aspect you're really pursuing as a retailer. So that's the magic.

SS

And retail's your sweet spot, I'm presuming.

BP

Yeah, I'll spend a lot of time in it. Yes.

SS

You write for "Forbes" magazine on retail. Let me ask you about that because when you look at... Well, let's take Canadian Tire as an example. You know, it went digital... relaunched I think successfully their credit card loyalty program ... have spent a lot of time and effort in terms of analytics space, but even they...in my own conversations a couple of years ago with them, they indicated that, you know, in the end, you're trying to create... and this is the analytic conversation ... an end consumer that actually sees the value in the data instead of sees the values through the filter of their specific role in the organization, i.e., merchandising being a good example. So yes, you're going to try, use all that data to perhaps optimize category management, etc. Gary Saarevirta, we talked about him earlier, now runs an AI-powered business to help retailers do that, an amazing story there. But in the end their frustration was in order to get to the right answers, you have to be asking the right questions. And isn't that the challenge for retailers from a skillset perspective is that they really are newbies for the most part at this game and need the help of organizations like yourself and others, I'm presuming, to really succeed here. What do you see as the major stumbling blocks for companies to successfully do loyalty programs? Is it mindset? Is it legacy infrastructure? Is it a lack of imagination? Is it all of the above? What do you see as the big obstacles?

BP

Yeah, I think I'm almost checking the "all of the above" box because it's a little bit of everything. Let me decompose that for a second. So I think from a traditional loyalty program aspect I think there's so many great examples of different loyalty initiatives that exist out there that at the end...or even let's say, moments of experience, right, which there's tons of inspiration. You just have to cherry pick and think about where your loyalty program design and what you're trying to do. Ultimately, you know, the goal of a really well-run loyalty program is to get... If you're really bought in, if you've really drunk the Koolaid and you're completely bought in, it's about how do I get maximal information on my consumer base, which is there's probably an economic efficiency in there somewhere. But where's my maximum benefit which is as much penetration, as much information as I can gather. I think where the system... To get to that point, yeah, you probably need some advice and sometimes you need somebody to help you think through it, but at the end of the day, that's not the hard part from an executive commitment standpoint. People are gonna look around and say, "You know, I wanna connect with customers." Like, that's an easy story to tell. The company needs to understand that they're gonna make that commitment and it's gonna cost X percent and they're gonna have to reallocate. And that's a priority question.

SS

Well, but it's also tough to find people with the skill sets to hire and convince them.

BP

Yeah, that's where I really get on the second piece, right, because I think it's once you've got it set up and you're operating it, it is what do you do with that wealth of information which was coming in, which I think you're dead on. You need...you know, the problem is that at that point, you really start to fight existing paradigms, which are well-entrenched and, the lack of imagination may also be the lack of commitment that exists from the C-Suite. This has to be top down through the organization from the chief executive officer. It cannot be bottoms up from somebody in a loyalty, you know, department who's trying to get change through the organization and whatever else because it is so broad-reaching, you know, the ability, as I wrote in the book, you know, a while back... If you really wanna to make it real, you need to democratize that data. You need to gather all the data sources. You need to connect them

in the company. You need to make that data available for decisioning. You need to have sort of this view, this almost crusade-like view, that, you know, I'm out here to create the optimal experience for the customer and to feel supported, in many cases going against the traditional paradigms that have driven the retailer. And you see that more than anywhere in the merchandising departments. It could also be in pricing departments and service companies, right? And so you...or operations areas where we've not done that before. We've never put this at the end of the aisle. You know, we've never executed this from a service standpoint. It's gonna be too difficult to do in a hotel chain. I think that you need that real top-down view, which encourages and embraces and sort of allows the imagination to flow through the organization with a mindset, which is, "What can we do versus what can't we do?" (44.07)

SS

It's kind of ironic because the board is, for the most part, peopled by numbers-obsessed executives. And they have a tough time buying into, I think, the softer elements of this. So it still has to in the NB financial case that has to be made, but unless you're doing it with the, how should I put it, the passion and zeal of a proselytizer and evangelist of some kind, yeah they don't buy into the whole end game here, which is how do we become more customer-centric?

BP

Yeah. And yet what's interesting is that when you look at so many industries that have been disintermediated, they've generally been disintermediated by new thinkers...

SS

No kidding.

BP

...who have started with the consumer and not with a paradigm. And I think that the piece that I always encourage people here and all my clients, anybody I spend time talking to, is, you know, you can't... What we have is a camper and bear problem, yeah, which is the following, which is I think in many categories what happens is everybody looks around at the other campers and the bears coming and all they figure is, "I just need to run faster..."

SS

Right, than the other guys.

BP

...than one of these guys, okay? And if I run faster than one of these guys, I'm not gonna be eaten by the bear, okay?" The problem is that they're comparing themselves across

their traditional competitive framework. And so when you look across and everybody is doing the same thing, you don't have to move that fast. There's no urgency or call to action. And yet, the consumer, you know, is standing there looking and they're saying, "You know what? I was flying the other day on whoever it was and I had this incredible experience where I got... You know, they approached me and they gave me this special pass, and, you know, whatever experience it was because they acknowledged or somebody picked up on the factor of system, gave a flag that, you know, Steve Shaw's an important person and he's flown so many miles this year and whatever else. And they kind of go, "I'm this fantastic customer of retailer XYZ and I never get treated that way and yet they've got all my information," okay? And so I think, you know, I call it transference. It's like the consumer's transference. They're category-agnostic. They're not a camper and bear scenario.

SS

That's true.

BP

They basically are looking for, "This is the best experience." And, you know, how many times have you been somewhere where somebody says, "You know, why can't somebody just Uber this?" You know, and it's almost a verb, right? It's like, you know, you link a GPS system with payments and the ability to rate and sort of create this social network around my ability to have this sharing economy with a car that picks me up. And if it's not a good experience, I can rate them low and they won't be driving very long. Why can't they Uberize this?

SS

Well, and I had this conversation with Jay Baer recently where – he wrote a book called "Youtility". And I always use this term marketing as a service. And it is this idea that if we stopped thinking of marketing as a communication department and start thinking of it as a service department, we would move faster down this road. So let me ask you this. When you do look out at the retail marketplace for, you know, the ideal models or companies that are really doing this right, or even outside of retail, frankly, what are the companies that immediately come to mind and why do those companies come to mind over others?

BP

So I find this the hardest question to answer.

SS

It always is, isn't it?

BP

It really is hard to answer because I'm an instances guy, right? So I don't think there's very many companies globally that are doing all the pieces right. They tend to do a little piece here right or a little piece of that right. And if I could create the Frankenstein example, I would put them together.

SS

True.

BP

But I'll give you two instances of things where I think for different reasons, you know, they're showing that just that little signs of brilliance of... So in the airline space, I'll use Delta and I'll use United, competing carriers, but on Delta, something very simple, right, which is the bag tracking piece. And I don't know if you've seen this, but if you've got the Delta app and you're connected through, when you're on the plane you get this little message that says, "Your bags are loaded on the plane," which is sort of the biggest piece of angst that I have as a traveler, especially somebody who almost never tracked, you know, checks luggage. But they will track it. They say, "It's offloading on the plane. It's on the baggage belt," or whatever it is. And so especially if you're connecting, you know, there's a little piece of experience. They're already getting that data because it's being fed into the system but it's not connecting back to the consumer and recognizing that the concern or that consumer constraint that they have around checking luggage, right? United, I hosted a round table. I had one guy, we were looking for examples of this. We were talking about exactly this topic and he said United, he was flying through and they had the profile who he was. I don't know what other data sources they may have had. I think a little bit of this might be luck as much as anything else, but he had a three-hour layover. And when he landed, he gets a message pop up, which says, "You have a three-hour layover. This is your gate in terms of where you're going. And by the way, there's a brewpub, which is around the corner," and a little map popped up which said, "If you follow this, you can get to the brewpub and you'll get 10% off whatever you buy when you go through there." Okay. And he said, "I love beer." And I was like, "Hmm. I don't think they knew that." But let's just say, you know, another little example. And then one, which is close to home for us is, you know, we look at, you know, what's the future where loyalty is going because we talk a lot about network loyalty and card-based loyalty. But we also run

a company that does campaign-based loyalty, short-term, you know, between sort of 8 to 12 weeks or up to 16 to 20-week programs in particularly food retailers. And IGA Quebec, you know, they really embraced the view and they understand that, you know, at the end of the day back to the gamification of the consumer, you need this combo pack of how you create its own network of benefits. And some people will be more price-oriented. Some people will be more oriented towards, “How do I get those beautiful set of wine glasses over the next 12 weeks?” And somebody else will be, you know, “I want my miles. Like, I really want to fly to Paris or whatever.” (50.04)

SS Or can you create a unique experience for me because I’m such a brand advocate and I’d like to get closer to the brand?

BP Right. And so, you know, they found a way to marry those things together and execute the programs and do it in a way that they’re really making it seamless for the consumer. In that instance, they recognized they have the Air Miles card and so they linked their short-term and the other benefits. Everything happens through the card. Rather than having this layering of promotions, it’s got this sort of central view of what’s happening with the consumer. And then, you know, connecting the ease of use and even things like gifting, you know, if you collect your stamps in this instance, real old school, these digital stamps is, if I don’t really collect for that but my daughter might be collecting for them, I can gift them all to her. And what they found is that when they gifted, the theory would be, “Well, you’re not gonna get the same level of uptake or loyalty or anything,” but they spent 5% more, even though they weren’t even actually collecting and they were collecting for somebody else...

SS Yeah, that’s sad.

BP ...which is just bizarre, right? But it’s really recognizing an inherent emotional connection...

SS That’s right, yeah.

BP ...with the consumer. So those are three little examples. There are different places where there are programs that are set up and they’re running, you know, they’re doing a lot of things right. But it’s very hard to say anybody’s

SS I can’t agree more, which is pretty amazing to think how long loyalty programs have been around since the mid-80s, I guess, if you’d go right back to American Airlines and we still have not got to a point where it’s right. But so my final question around this is, project out five years, six years even. We talked about your book being written six, eight years ago and it’s how fast time has gone. Five years may not be the right period of time, does the term actually loyalty program disappear entirely, and it stops getting looked at as a program and simply as a way of doing business?

BP Wow. Yeah, that wasn’t quite where I thought you’d go, but yes, I would actually agree with that assertion. I think in an ideal world, we always talked about big “L” and little “l” loyalty, you know, big L being the real consumer loyalty, the emotional loyalty. You’re trying to play on the customer.

SS Right. I feel with my heart, not my head.

BP Yeah, and little “l” loyalty being the programmatic elements. And I do think we start to talk about, you know, what are really your customer loyalty considerations. And underneath that is a entire stack of activities which are focused on, you know, really connecting with the consumer and finding a way to, you know, understand them, a wealth of data, analytic tools which allow you to actually take advantage of that, a channel structure, which allows you to act upon it. And then, you know, ultimately getting to what the experiences are that you’re willing to, you know, load into that from a transformative standpoint to make it happen. So I totally see that evolution. I would equally say, you know, we kind of are talking here about you need to think about it as a platform. It’s not a program. It’s a platform.

SS A platform and which is, you know, certainly the word de jour. I’m not sure everybody actually totally can define what that really means. But that’s an interesting point is that platform then can be networked out to other partners where as an ecosystem now, you’ve got one platform connecting to another or you’re all participating on one platform to provide additional value and utility to your members, your customers, your subscribers, however you wanna describe it.

BP Yeah. And I think the richness of data will become the competitive advantage. And so, you know, will coalition or will coalition programs be sort of the new black?

SS Or do you take your model out of China?

BP Well, yeah, and that's what I'm saying. I think the... You used the word network and that's where I would go. I think it's about network multi-partner. It's a loose coalition, not in the traditional sense. And I don't think... I think coalitions need to evolve. Let's put it that way. But at the same point, I think other companies will be finding ways where they cozy up to adjacencies with brands that make sense.

SS And you verticalize it.

BP And then finding a way to actually, you know, share to create a richer experience for customers.

SS You are sharing audience or member or subscriber data and each of you is contributing in some way to an enhanced experience. And maybe you're even... You know, it's sort of a future version of Air Miles in some respects because maybe you would even brand that. I mean, you look at Alibaba and Tencent and the others, they are effectively moved down that path, right, end to end from engagement. And the concept of advertising is disappearing from that society and it's being replaced by this idea of creating experiences that engage people.

BP Yup. Yeah. And, you know, engaging them more effectively closer into the moment that something is of need. If I'm gonna buy a car, take a trip...

SS In the moment.

BP ...whatever it is, it's like, "You know, how do you gather and curate that?" Another favorite word of mine is curation, you know, and I think that you will not have this cacophony of brands out there that you're working with. As a consumer, I think you will have a smaller suite of brands. So it's like your phone. You know, how many... Most people have 60, 70 apps on their phone and they use seven, eight apps. They use 10% of that. I think brands will be the same thing.

SS You select brand relationships that are in your inner circle and all the rest may be floating on the perimeter, many of them substitutable. But the ones that you choose to surround your life with, the ones that make your life richer and more integral to your life.

BP Yeah. And I bet you if you looked at them, what happens underneath that is they've crafted a way to collect enough data about you and they have a mindset and philosophy as a company, which is around the curation of the experience that you look and say, "I could not live without them being part of my life."

SS What a great way to end this interview. I could be here for another two hours talking to you. That was unbelievable.

BP Cool. Thanks. It was my pleasure.

That concludes our interview with Bryan Pearson.

As we learned, most companies still view loyalty marketing through the prism of revenue growth. Their reward is the instant bump in sales they get the moment they make a "bonus points" offer. But where is the payoff for the program member beyond the savings they earn? Where is the human connection? That moment when customers make the leap from being indifferent about a brand to raving about it. People prefer companies that treat them as people. The true meaning of loyalty is when they believe the brand is loyal to them.

You can find past episodes of this podcast on CustomerFirstThinking.ca where you'll also find blogs, articles, strategic frameworks, video and more on the transformation of marketing.

In closing, a big shout-out to Justin Ecock for his contribution in making this podcast happen. Until next time, thanks for listening.



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