Customer first 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.

Canadians do love their loyalty programs. According to a KPMG study last year, they not only belong to more than a dozen different programs on average, they are amongst the most active participants in the world, with 56% of Canadians earning program rewards at least several times a week.

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? Most people admit these programs do little to make them feel more loyal: they see them as "savings" programs, not "loyalty" programs. The program experience is usually purely transactional: nothing about it makes them feel special or appreciated.

As the former CEO of LoyaltyOne, which operates the Air Miles program, Bryan Pearson recognizes 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.

Today Bryan is a popular keynote speaker on the conference circuit, sharing his ideas on how to transform loyalty marketing.

SS **Stephen Shaw (SS):** Did you have any idea when you first started at Air Miles that it would "take off" as quickly as it did?

BP **Bryan Pearson (BP):** It exceeded our wildest imagination. The program turned out to be much more than just a promotional vehicle. Our household database became our biggest asset because of the insight it gave us into shopper behaviour that we were able to share with our partners.

SS Canadians have shown themselves to be avid points collectors. Why is that?

BP I used to say the UK was the most sophisticated loyalty market. But I now believe that Canada is actually the most competitive and sophisticated loyalty market - not because of technology necessarily, but because Canadians view loyalty programs as a differentiator. What we've proven in each and every shopping category is something we call the network effect. The more partners that members use, the more loyal they become because of their ability to earn rewards at an accelerated pace.

SS Is the reason Air Miles grew so quickly in Canada is that you were quick to sign up national sponsors?

BP Well, it didn't feel quick at the time! It took about seven or eight years.

SS But you had some big wins early though.

BP We did, that's true. We had Safeway, Bank of Montreal. Shell came on fairly early. Fortunately for us, Canada has a number of "elegant oligopolies". Each sector – grocery, banking, gas retailing - has a few critical players. Whereas in many other countries - like the U.S. with "Plenty"[1] - they just weren't ever able to create enough critical mass to get the network effect they needed. "Plenty" felt a need to go to market too early without the right partners in place. We affectionately call that the "Billion Dollar Club" because it may be more than a billion now that's been spent trying to do coalition loyalty in the U.S. I think the problem with the U.S. is it's a very fragmented economy. If you can't get the really big players like Kroger or Safeway Albertsons to sign up, it's like putting together a Rubik's cube. Companies just prefer to buy consumer data on the market and merge it with their own proprietary program data.

SS When Air Canada made the decision to repatriate its own loyalty program it changed the landscape rather dramatically. What do you think led to that decision?[2]

BP You could see the writing on the wall when Air Canada launched its "Altitude" program. They probably came to the conclusion that the risk of untethering themselves completely from Aeroplan was too great given the mess it would have created. It was probably cheaper in the long run to simply reacquire Aeroplan.

SS I believe investors in the U.S. assign a higher valuation to the airline loyalty programs than they do the airlines.

BP Yeah. And that's not just true of the airlines. Think back to the Sears loyalty program. The department store made no money, but the Sears member credit card sure did.

SS There's a lot of talk today about the hunger for first-party data. Is that going to lead to every company offering its own proprietary loyalty program?

BP I think it's fair to say that anybody who's hasn't got a program today is trying to figure out how to directly engage with their customers. Look at Amazon and Prime.

Is that a loyalty program or a paid benefit or both, right? They found another way to create an engagement point with their customers.

SS I love Jeff Bezos' quote, "We want Prime to be of such value, you'd be irresponsible not to be a member."

BP In my book "The Loyalty Leap" I made the argument that, as loyalty marketers, the customer knows we're sitting on all this information and all they want is for us to use that data to improve their experience. We always need to ask ourselves how we create value for members.

SS According to Forrester, most loyalty programs don't make members feel more loyal to the brand.

BP I would agree with that. I do think that an awful lot of loyalty programs are glorified discount programs. The choice for the consumer is, "Either I sign up to get the discount or I don't." But you're really only appealing to the consumer who's looking for the best price. And not every consumer defines value by best price. What's missing is how you take all of this member data and craft it into a program that works on multiple levels.

SS Are most companies still at an immature stage in their use of customer data?

BP I think the targeting ability has improved. But as far as using it to tailor a more personalized experience, most companies are still in the Stone Age. My pet peeve is that as marketers we still have a conquest marketing mentality - a fixation with acquisition and growth. The idea of getting to know your customers better, engaging with them, connecting them your brand and growing the relationship - that's still not what goes on in most businesses.

SS I suppose because companies always put growth ahead of everything else. They don't see the connection between future growth and the untapped value in the customer portfolio.

BP Which takes us back to the role of loyalty. Until you get that longitudinal view of the customer and their activity over time, CXM seems ethereal. Yet customer experience is the great differentiator today.

SS When you're pitching the idea of a loyalty program, how do present the business case to skeptical senior executives?

BP Let me use retail as an example. Say you want to offer a whole bunch of bonus points. You'd want to show the impact of that offer on consumer spending patterns. What shopping categories did they come from? Did they go deeper on sale items or did they buy things which weren't on sale? Did they buy products or shop categories they don't normally do? So, in short, did the bonus points offer pay out or not? Because that's the way most retailers think.

SS No reference to softer measures like a loyalty or NPS score?

BP We do both. Because you do need to tell the full story. A loyalty program should be seen as an enterprise platform. That platform can influence CXM, merchandising, pricing, all parts of the business. Today, 71% of companies are spending more than 2% of revenues on their loyalty program. If you just did the ROI on the loyalty program alone, you might get a 50% to 100% return. But if you use the member data to inform your pricing and merchandising strategy, you can get 300% to 500% ROI. It's avoiding the cost of bad merchandising decisions based on a lack of actual behavioural data.

SS What do you see as the biggest obstacles to running a successful loyalty program? Is it the company mindset? Is it legacy infrastructure? Is it a lack of imagination?

BP All of the above. But most of all, the company needs to understand that they've got to make a long-term commitment that's going to cost "X" percent. And that's an executive-led prioritisation question. This has to be top down through the organization starting with the CEO. It cannot be bottom up from marketing. It should be a crusade to create the optimal experience for the customer. But to succeed companies need a "can versus can't" mindset.

SS However, the board is usually populated by bottom line-obsessed executives. They have a tough time buying into "loyalty" as a goal.

BP Yeah. What we have is the "camper and bear" story. You know the one: A bear is approaching the campsite, and everybody looks around at the other campers and figures, "I just need to run faster than the other guys". The problem is they're comparing themselves against their traditional competitors. How many times have you heard, "Why can't somebody just Uber this?".

SS Which companies immediately come to mind as "best in class" in loyalty marketing?

BP That's always a tough question because there are so few companies that get it completely right. So instead I'll give you two instances, both in the airline category. Delta has this bag tracking capability. If you've got the Delta loyalty app you'll get a message on your flight confirming your bags are loaded on the plane. But then Delta will also track the movement of the luggage, telling you when it's is being offloaded and when it's on the baggage belt. The other example is United. Recently a member of their loyalty program told me he had a three-hour stopover before his connecting flight. When his plane landed, he got a message on his United app which gave him his departure gate and informed him of the nearest brewpub in the airport, knowing he loved beer. Both great examples of using data to create a better experience.

SS Looking out at the future, does the term "loyalty program" eventually disappear, and simply become a way of doing business?

BP I like to talk about big "L" and little "l" loyalty. Big "L" is real loyalty, emotional loyalty. Little 'l' loyalty refers to the programmatic elements. Underneath that is an entire range of activities focused on connecting with the consumer and finding a way to understand them. Again, we need to think about it as a platform. Not a program. A platform. The richness of data will become the competitive advantage.

1 - The Plenti program was a coalition program created by American Express, modeled after a similar program in Germany called Payback that Amex also owned.

2- In 2019, Air Canada announced plans to acquire Aeroplan which it initially created in 1984 as its official loyalty program. In 2005, it was spun off as a separate public entity that was eventually acquired by Aimia.

Stephen Shaw is the chief strategy officer of Kenna, a marketing solutions provider specializing in customer experience management. He is also the host of a regular podcast called Customer First Thinking. Stephen can be reached via e-mail at sshaw@kenna.ca.