

# Unity in Diversity: Common Thread in the Factors that Drive Success of Multi-Sponsor Loyalty Programs

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## Introduction

Loyalty programs have been a cornerstone of firms' marketing strategies for decades given their role in building up relationships with customers through the enhancement of customer satisfaction. The customer level interactions which loyalty programs entail not only leads to long term relationships with retained customers of the firm, but also enables firms to acquire potential customers. Thus loyalty programs are the precursor to brand-building and creation of firm value through optimization of customer as assets.

In order to understand the motivation of customers to participate in loyalty programs, we have to explore what drives customer loyalty. According to 'The Social Consumer Study (November 2014)' of 927 global consumers by 'The Society for New Communications Research', the main reason why customers become loyal to a company is his/ her expectation of a positive experience (35%). High product/ service quality (20%), value proposition through balance between price and quality (17%) and low price (10%) are some of the other critical deciding factors for customer loyalty.

### TRUE CUSTOMER LOYALTY DRIVERS

What are the events or factors that cause you to be loyal to a company?



### WHY CUSTOMERS PARTICIPATE IN BRAND LOYALTY PROGRAMS

Although customers are typically drawn to brand loyalty programs to save money, opportunities to earn and receive rewards also factor into their rationale.



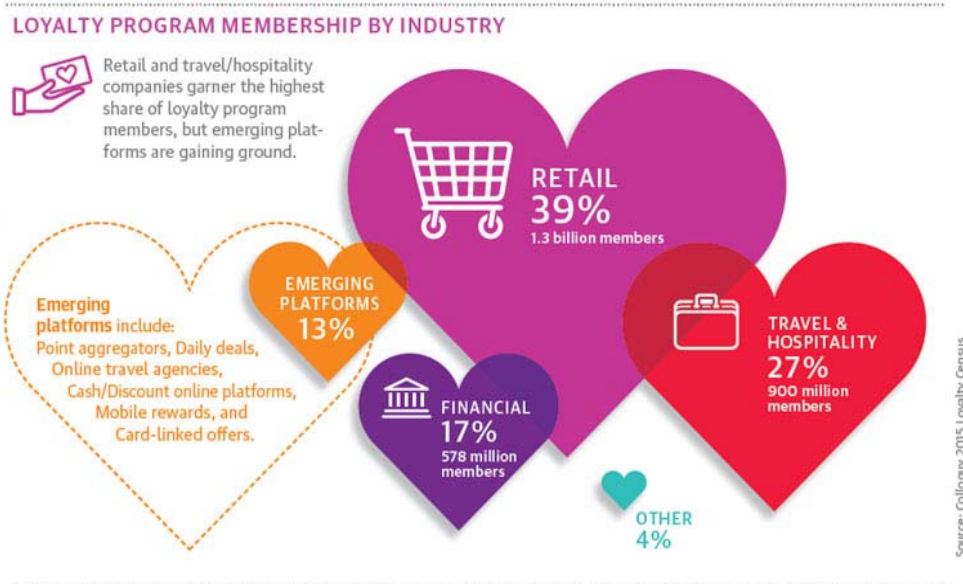
Source: The Social Consumer Study, The Society for New Communications Research, survey of 927 global consumers, November 2014.

Source: TechnologyAdvice, survey of 3,162 loyalty program users across the U.S., July 2014.

When we look at loyalty programs implemented by firms, the rationale for customers participating in such programs naturally follows from their motivation to stay loyal to the firm.

So expectedly the TechnologyAdvice survey of 3162 loyalty program users across the US (July 2014) reports that 57.4% of these members are drawn towards loyalty programs to save money, followed by 37.5% who look to receive rewards.

As is evident, loyalty programs by firms turn out to be a very important tool to garner customer attention which is reflected in the fact that almost 1.2 billion customers (39%) in the retail sector are members of some loyalty program (2015 Colloquy Loyalty Census). The travel and hospitality sector account for the second highest share of loyalty program members (900 million members accounting for about 27%). Financial sector with about 578 million members (17%) and emerging platforms (13%) are the other sectors with the largest penetration of loyalty program membership. It is important to note that emerging platforms which include point aggregators, daily deals, online travel agencies, cash/ discount online platforms, mobile rewards and card-linked offers has probably the most potential in expanding the reach of loyalty programs and firms need to exploit these platforms efficiently in order to succeed in their usage of the programs.



### Standalone vs. Multi-Sponsor Loyalty Programs

This is where coalition loyalty programs or multi-sponsor loyalty programs come into play. According to a White Paper by SLI (a leading coalition loyalty program in the US), multi-sponsor programs offer distinct value propositions relative to standalone programs. In the following table, they identify 5 key elements of program designs where coalition loyalty programs enjoy a distinct advantage over standalone programs.

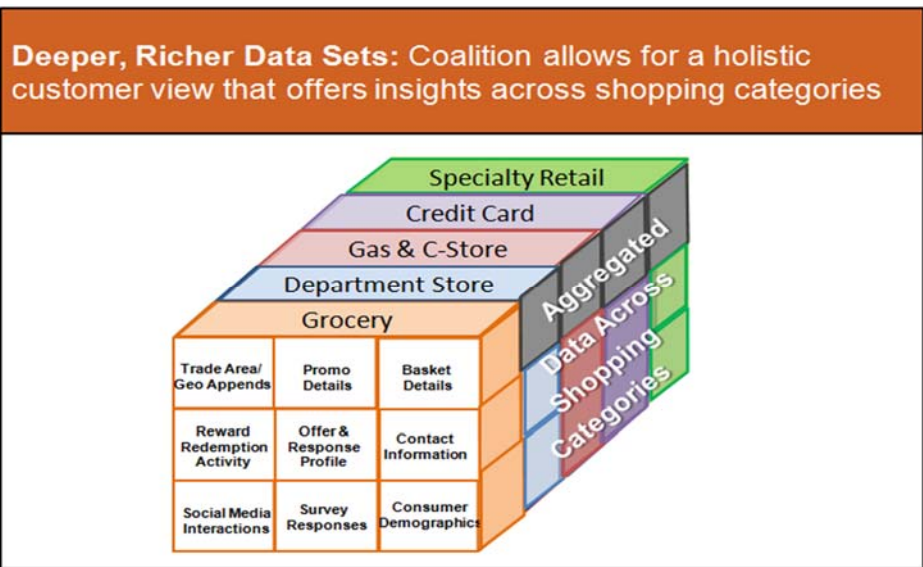
Not only does multi-sponsor loyalty programs give opportunity to customers to earn rewards points across many spending categories compared to a single category for standalone programs (accounting for 40-60% of household expenditure vis-à-vis 5-25%), the type of rewards available for a given level of customer spending are much broader and richer (with only limited assortment of rewards under standalone programs). These rewards under multi-sponsor loyalty programs are

also significantly more valuable (more than \$150 compared to less than \$50) and usually have no expiry date or a long-term expiry.

<b>Consumer Value Proposition Comparison: Coalition vs. Standalone Loyalty Program</b>		
<b>Program Design:</b>	<b>Coalition Program</b>	<b>Standalone Program</b>
Earn Reward Currency From	Many/ all spending categories	Single spending category
Eligible Household Spend	40-60%+	5-25%
Rewards Inventory	Broad & rich	Limited
Value of Total Reward (after 12 months based on same underlying consumer spend)	High (\$150+)	Low (typically <\$50)
Expiration of Points / Reward Offer	Typically never expire or long-dated expiry (5 years+)	Often short expiry window for many retailer loyalty programs (1-3 months)

Given that coalition loyalty programs aggregate data across multiple shopping categories (e.g. groceries, credit cards, gas and convenience stores, department stores, specialty retail etc.), they allow for a holistic customer view that offers insights across shopping categories. This is because multi-sponsor loyalty programs have richer information available across the following dimensions:

1. Matched transactions across geographic locations
2. Promotion details targeted towards individual customers
3. Details on shopping baskets of customers
4. Reward redemption activities
5. Offers available to customers and their response profile
6. Contact information for each customer
7. Social media interactions within customers and between customers and firms
8. Additional information from customized surveys
9. Customer demographics and socio-economic profiles



### Multi-Sponsor Loyalty Programs: The Pieces of the Puzzle

Even though coalition loyalty programs provide the opportunity to get an in-depth view of customers, handling all the pieces of the puzzle simultaneously can often turn out to be a dilemma, especially when the information available can range from transactions of customers with partners across multiple categories and promotional offers by partners in collaboration with loyalty platform to response of customers to campaigns and their reward accumulation and redemption. So, the overarching challenge which becomes relevant is – *the strategic management of customers by identifying tactical decision variables across the different information dimensions, such that the firms can optimize the success of the multi-sponsor loyalty program while simultaneously proving incentives to partners for active participation.*

### Research Questions

In order to address the above challenge, we identify 3 primary dimensions of customer behavior which form the basis of understanding the pattern of interactions of customers with the loyalty program and its partners –

- i. Transactions by customers with partners across multiple product categories
- ii. Redemption of rewards by customers
- iii. Response of customers to promotional communications by partners

Efficient strategic management of loyalty programs requires identifying the tactical drivers which facilitate customer engagement through these behavioral parameters. Once we can pinpoint these drivers, loyalty programs and their partners can target customers to increase transactions in the more profitable categories, facilitate redemptions of rewards which motivate customers for greater involvement and create incentives for them to respond to promotional offers, which in turn increases their activity.

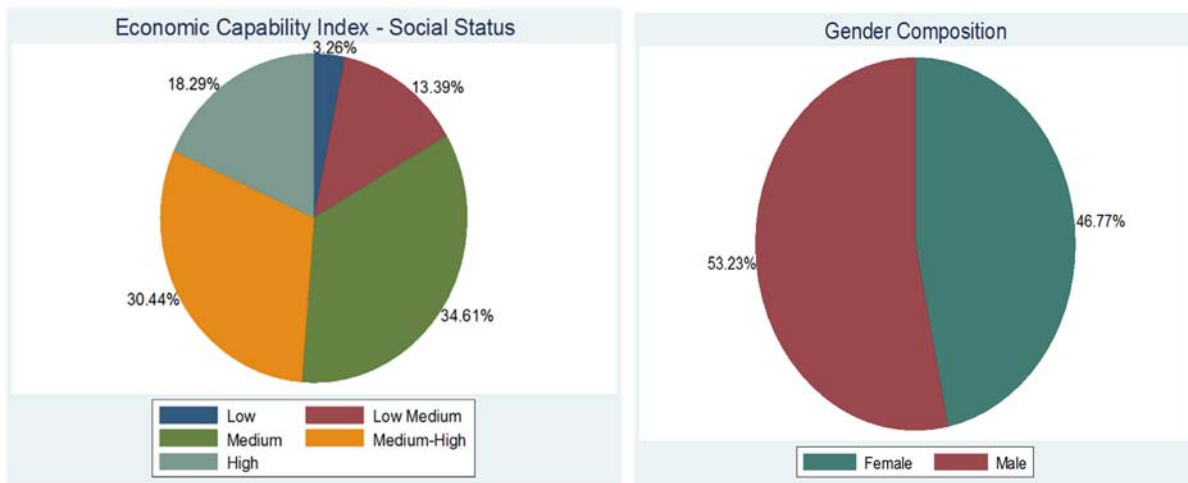
In order to go deeper into the understanding of transaction, redemption and response patterns of customers, we pick 2 components for each of these behavioral metrics as follows –

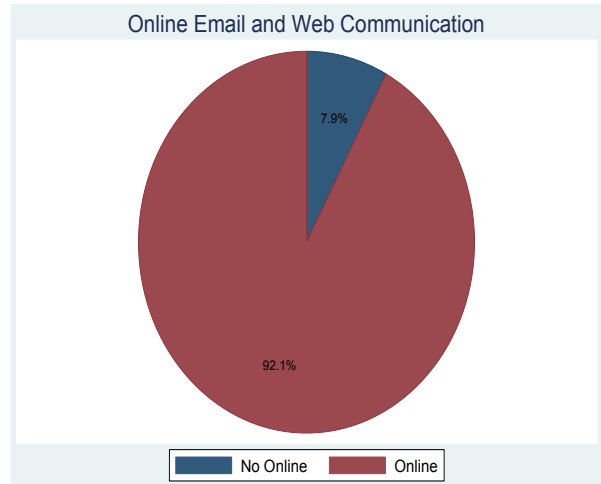
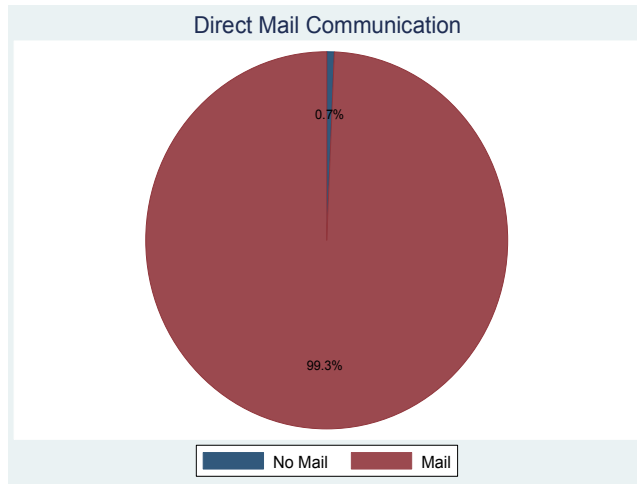
- a. Transactions:
  - i. How much do customers spend on transactions?
  - ii. In which categories/ store formats do customers shop more frequently?
- b. Redemptions:
  - i. Which partner channels do customers use to redeem their accumulated points?
  - ii. How much points do they use for redemptions?
- c. Responses:
  - i. Which type of response modes are frequently used when customers receive promotional communications?
  - ii. What determines the impact of these campaigns?

### Travel Club – Air Miles Dataset

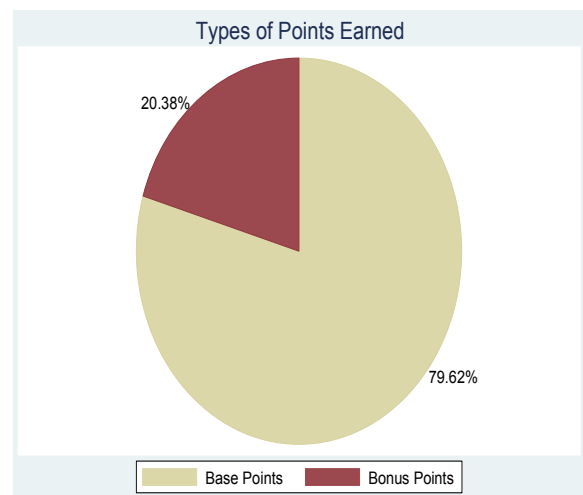
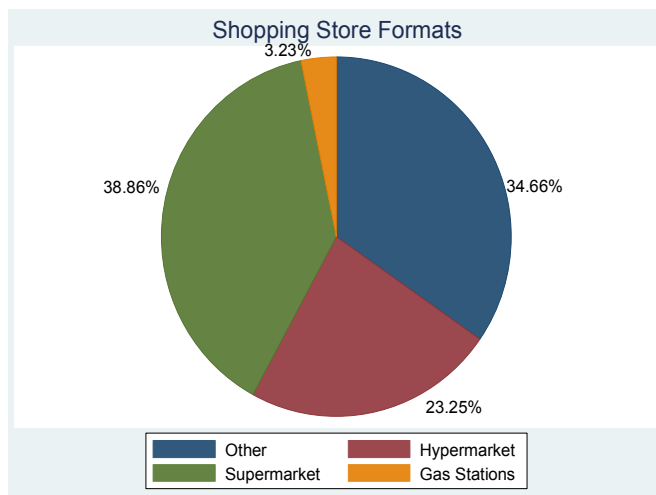
We had access to 10,000 of the coalition loyalty programs most active customers for the year 2015. Within that time window, these customers had a total of 1,731,557 transactions across different partners (5,387 shopping points) under multiple product categories, received 4,227,467 promotional campaigns corresponding to 767 different campaign actions, responded to offers 1,101,597 times and had redeemed their due rewards 56,074 times. Given the enormity of the dataset, it is important to get a perspective of the general patterns and trends in the dataset by looking at some descriptive statistics.

Customers: The data had a reasonably even distribution by gender with 53.23% male customers. When we look at the ‘Economic Capability Index’ of this population, we observe a similar proportion of ‘Medium’ and ‘Medium High’ customers (34.61% and 30.44% respectively), followed by ‘High’ (18.29%), ‘Low-Medium’ (13.39%) and ‘Low’ (3.26%) customers. Almost all of these customers can be accessed by physical direct mail communications (99.3%) and about 92.1% is reachable by online email and web communications.





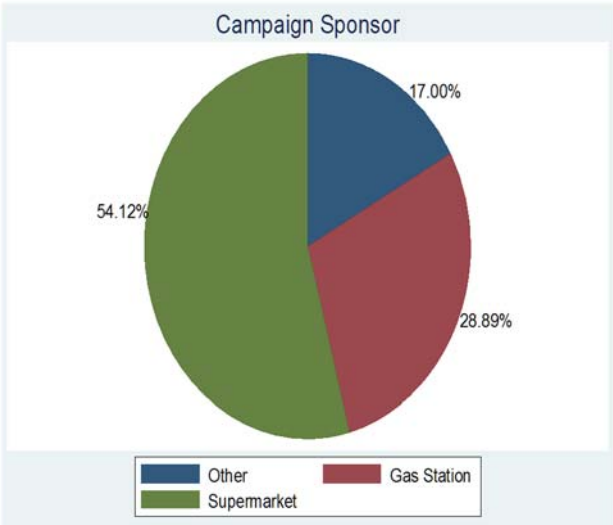
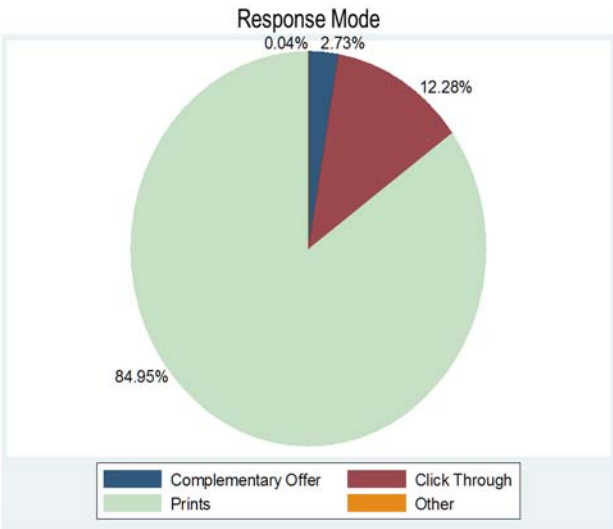
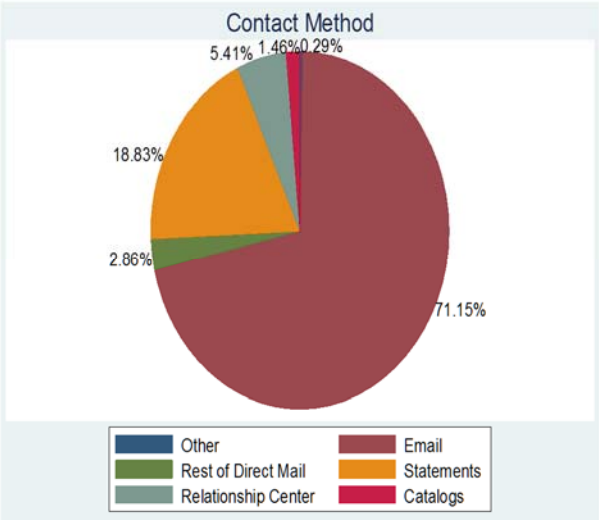
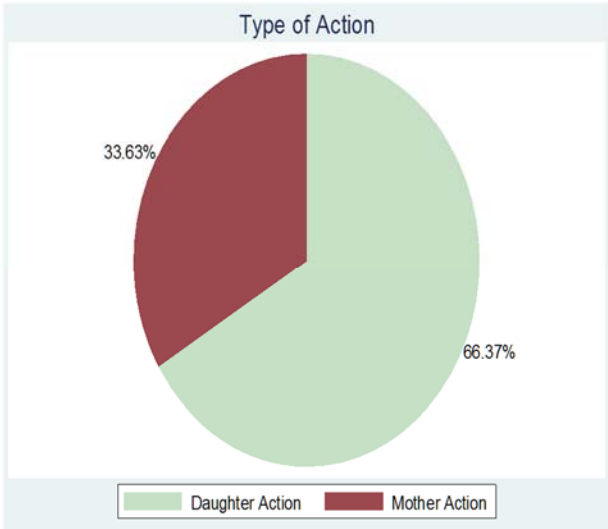
**Transactions:** The transaction pattern of these customers reveal some interesting details. Each customer on average spend about 52.04 euros during the 1 year period, though we see significant dispersion in spending. Of these transactions, 38.86% were done in supermarkets, 23.25% in hypermarkets and 3.23% in gas stations while 34.66% were unassigned, implying that transactions that were undertaken in travel, online and mobile devices constituted this category. Finally, it is worth noting that the points earned by the customers while making these transactions were overwhelmingly ‘Base’ points (79.62%), which means only about 20.38% of the transactions yielded points which were provided as ‘Bonus’ because of specific nature of the transactions.



While the above figures give some idea about the nature of the transactions that were undertaken by customers of the loyalty program, it is worth exploring transaction patterns were related to the other behavioral markers like redemptions, campaigns and responses. Overall, we see that customers made a transactions with a partner of the loyalty program every 3.44 days. Following a reward redemption, a subsequent transaction took place only after a gap of 75.82 days on average, which implies that customers in general are in a state of ‘goal-attainment’ once they

redeem a reward. Once a campaign communication is send to customers, a transaction happens within 1.41 days on average, thereby emphasizing the effectiveness of such measures. However, once a transaction has taken place, usually customers wait for about 5.43 days to respond to a campaign, probably because they are not in a mental state to think about a campaign which had been send earlier and respond to it, just yet.

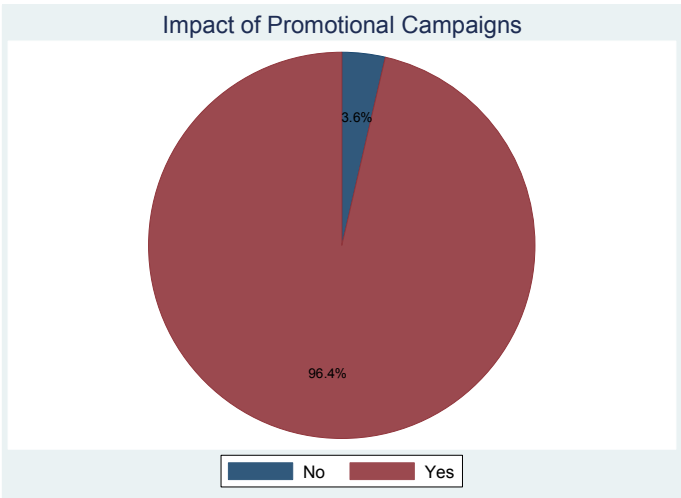
Promotions: Now, if we look at the promotional offers which were being send by partners to customers in collaboration with the loyalty program platform, the majority were ‘Daughter’ actions (66.37%), implying that these campaigns involved careful customization based on the customers’ response patterns. For every 2 of these actions, 1 ‘Mother’ action were sent to the customers, which were designed at an aggregate level. Interestingly, 71.15% of these promotions were undertaken via Email, followed by Statements (18.83%), Relationship Center (5.41%) and Direct Mail (2.86%), with only small fractions done through catalogs and other means.



Using these promotional strategies, the loyalty program was able to reach most of their target customers either online or off-line through some form of printed messages (84.95%). Only about 12.28% customers remained who responded to the campaigns via click-through method and 2.73% customers accepted a complimentary offer, which required them to take an additional action in order to avail the benefits of the promotion.

It is important to point out here that the loyalty program, in partnership with other firms, usually send campaigns to the customers every 3.29 days. However, the customers usually do not respond to every campaign offer and in fact responds to every other promotion, with an average duration between responses of about 7.24 days. Interestingly, when a customer chooses to respond to a promotional campaign, they respond within a day (duration between campaign and corresponding response = 0.91 days).

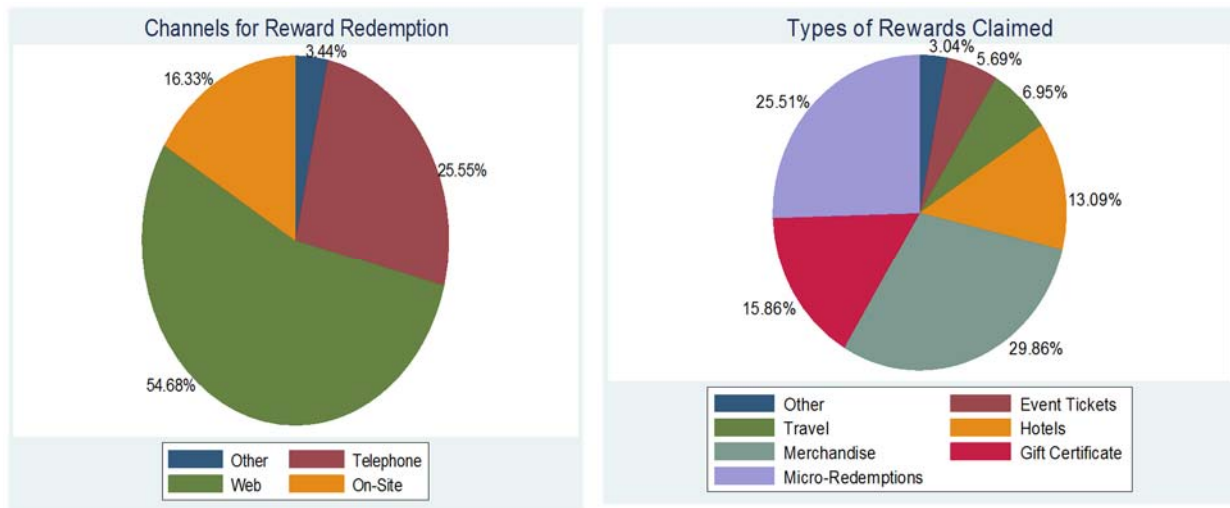
At an aggregate level, majority of these promotional messages were developed in collaboration with supermarkets (54.12%) and gas stations (28.89%), with only about 17% being send from other partners. Irrespective of whether a campaign communication included an offer or not, 96.4% of consumers were impacted by the promotional strategies of the loyalty program's communication effort. The impact was highest when the promotional strategy was implemented via Mail (99.2%) and lowest when it was implemented on a mobile device (0.7%), which is rather surprising given the prevalence of such devices. However, email (90.2%) and web-based (34.7%) promotional communications were moderately successful, implying that new mediums of customer contact were still effective.





Rewards: The final and probably the most important piece of the puzzle in a multi-sponsor loyalty program is the nature of reward redemptions by customers. It is interesting to observe that customers on average spend about 2122.74 points on each reward redemption. The loyalty programs' reward offers usually have 1.42 units per reward and 1.40 prizes in each reward, thereby signaling that customers usually look for reward bundles than single rewards. Also, monetary (with mean of 50.58 euros) or points discounts (79.75) offered by the loyalty program during redemptions plays an important role in the behavior of customers.

The duration between reward redemptions is relatively longer (92.46 days). Also, as we have seen, customers usually start transactions after a reward redemption with a longer duration (the fallout of 'goal attainment'), the loyalty program also understands this trend and sends campaigns only after about 74.01 days following a redemption. In a similar vein, response to promotions is also slow to pick up after a redemption, with an average duration of 71 days.



The most preferred channel for reward redemptions is web (54.66% customers using this method), followed by telephone (25.55%) and on-site redemptions (16.33%). This is not unusual since most customers are increasingly becoming comfortable in using web-based tools rather than traditional means of communication.

As for the types of rewards which were claimed by the customers of the loyalty program, the main type was merchandising rewards (25.51%) where customers received actual products. A closely second were micro-redemptions where customers usually look for smaller instant redemptions rather than accumulating points for bigger gains. Other major categories of rewards claimed included hotel bookings (13.09%), gift certificates (15.86%), travel reservations (6.95%) and event tickets (5.69%).

### Critical Metrics for Strategic Management of Multi-Sponsor Loyalty Programs

Now that we have been able to get a broad idea about the database of Travel Club loyalty program customers, we proceed to identify the tactical drivers that can lead to better strategic management of the program. This is important because, unless we are able to pinpoint some critical elements in the diverse and detailed information available in such databases, it will be difficult to come up with a coherent plan of action to effectively target customers and make the loyalty program a success.

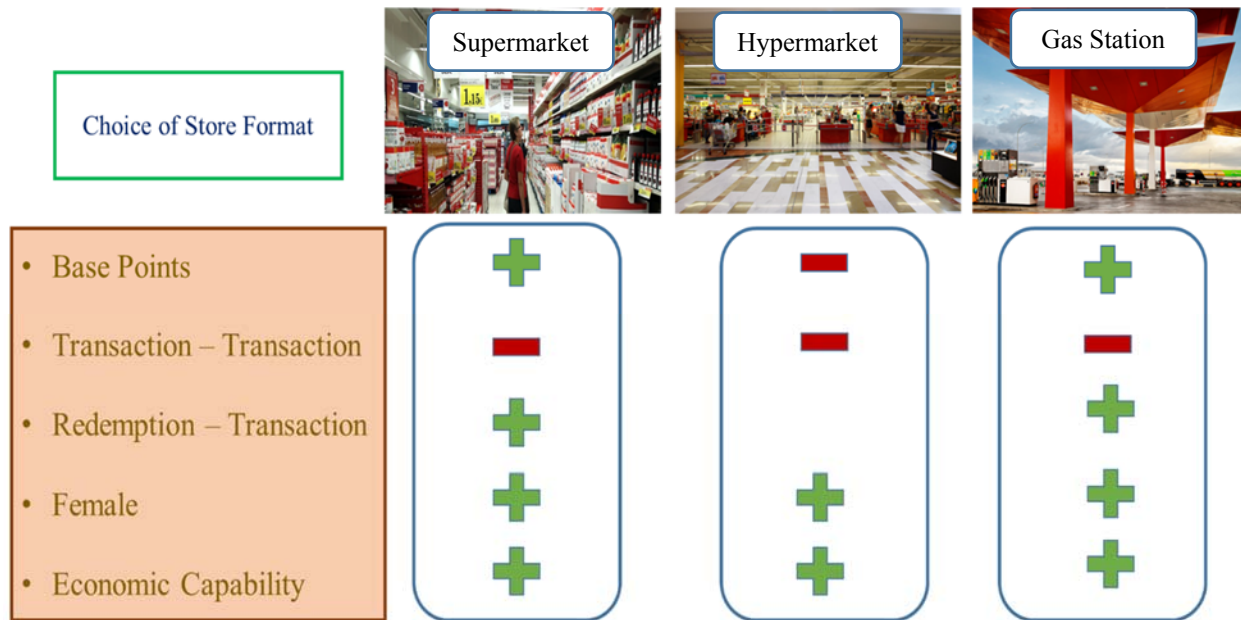
As discussed earlier, for each of the 3 strategic behavioral indicators (transactions, redemptions and responses), we have included 2 sub-dimensions of customer engagement and in order to explore the underlying tactical drivers, we used 2 methodological tools –

- a. Ordinary Least Squares Regression – To understand the causal relationship between tactical drivers and corresponding strategic matrix, when the relationship is linear. This method finds the optimal parameter estimates (coefficient of tactical drivers) by minimizing the sum of squares of the error terms. This approach was used for the following 2 dimensions:
  - i. Euros spend on transactions

- ii. Points used for redeeming rewards
- b. Multinomial Logit Regression – When the strategic dimensions are discrete categorical variables, we chose to use this method which maximizes the likelihood of the discrete outcome happening in order to optimize the parameters using a continuous analog of the discrete relationship. The method was applied when we identified the drivers behind the following behavioral markers:
- i. Choice of store format during transactions
  - ii. Choice of channel for reward redemption
  - iii. Choice of response mode when campaigns are send
  - iv. Likelihood of impact of promotions

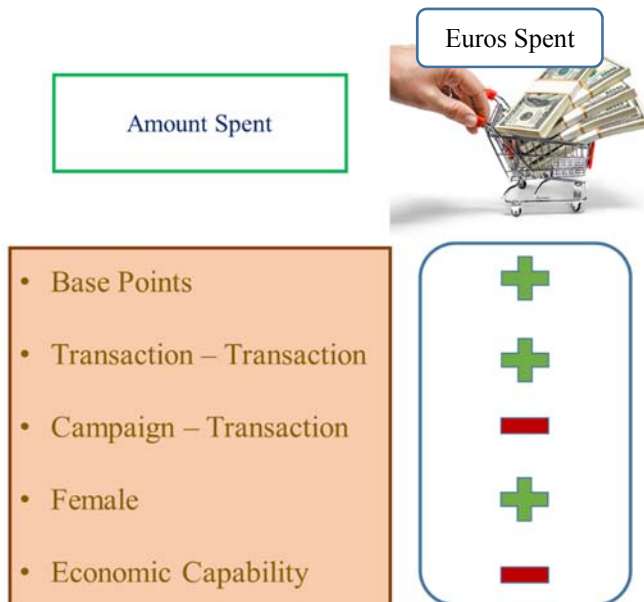
Transactions: Findings

- a. Choice of Store format – We identified 3 main types of store formats which are important to customers, namely – supermarkets, hypermarkets and gas stations. Within these shopping channels we found that the following 5 tactical drivers are most important:



- I. Base Points – Transactions increase in supermarkets and gas stations when customers are offered more ‘base’ points relative to ‘bonus’ points, which facilitates more transactions in the hypermarket channel.
- II. Duration between 2 Consecutive Transactions – When the duration between 2 consecutive transactions increase, most likely the customer has become dormant or has become inactive in their usage of the loyalty program. So, expectedly transactions in all 3 channels are likely to go down.
- III. Duration between Reward Redemption and Subsequent Transaction – Following a reward redemption, customers usually are in a mental state of goal attainment. As a

- result, they are less likely to carry out another transaction immediately. This is reflected in the fact that in supermarkets and gas stations, the possibility of transactions is only likely to increase after a longer duration following a redemption.
- IV. Gender – Unexpectedly, female customers seem to be more loyal to either of the 3 shopping channels than males, even in gas stations. This implies that females care more about earning points in order to get rewards as well as make savings based on the promotional offers.
  - V. Economic Capability – It is however not surprising that customers who have greater economic capability usually shop more in all 3 shopping formats.
- b. Amount Spent – We used euros spent in each transaction as a measure of customer involvement in the program and a metric of the program’s success. Again we point out to 5 tactical drivers that influence the amount spent:

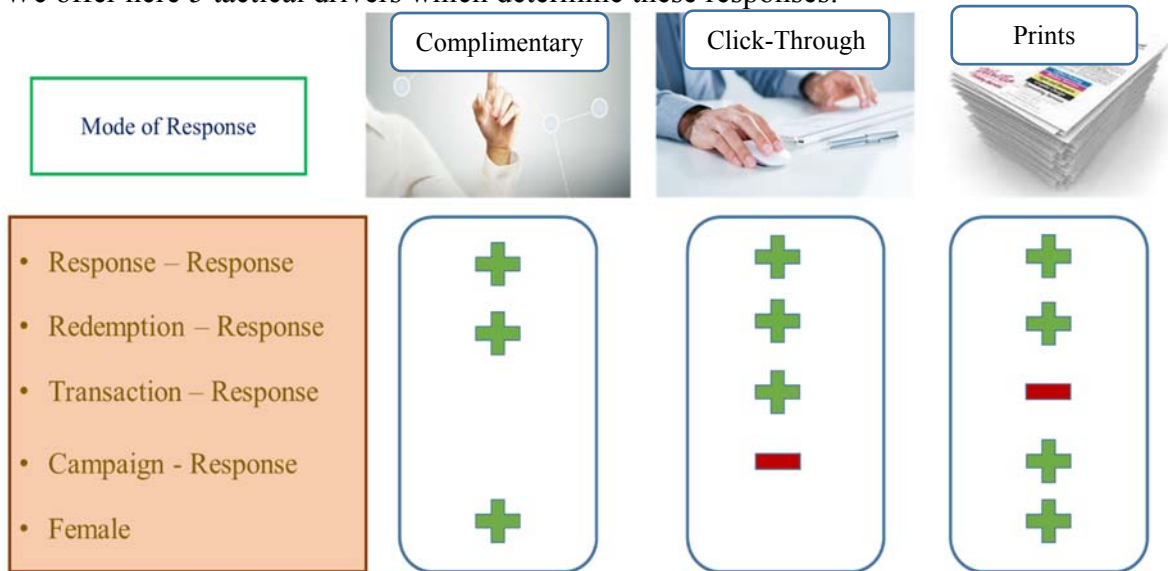


- I. Base Points – When customers earn more ‘base’ points, they are naturally likely to spend more in transactions across all formats.
- II. Duration between 2 Consecutive Transactions – Again, not surprisingly, customers who transact less frequently, and more likely to spend more in each transaction.
- III. Duration between Promotional Campaign and Subsequent Transaction – It is interesting to note that when the loyalty program sends out a campaign action, customers tend to spend less when the transaction happens after a longer duration, which means that spending is higher closer to the promotion, thereby indicating success of the campaign.
- IV. Gender – Given that we have already seen female customers to be more loyalty program oriented, it is not unexpected that they are also the ones who spend more during transactions.

- V. Economic Capability – However, customers who are well off, are likely to spend less on each transaction, maybe because they tend to transact more frequently across all shopping channels.

Response to Promotions: Findings

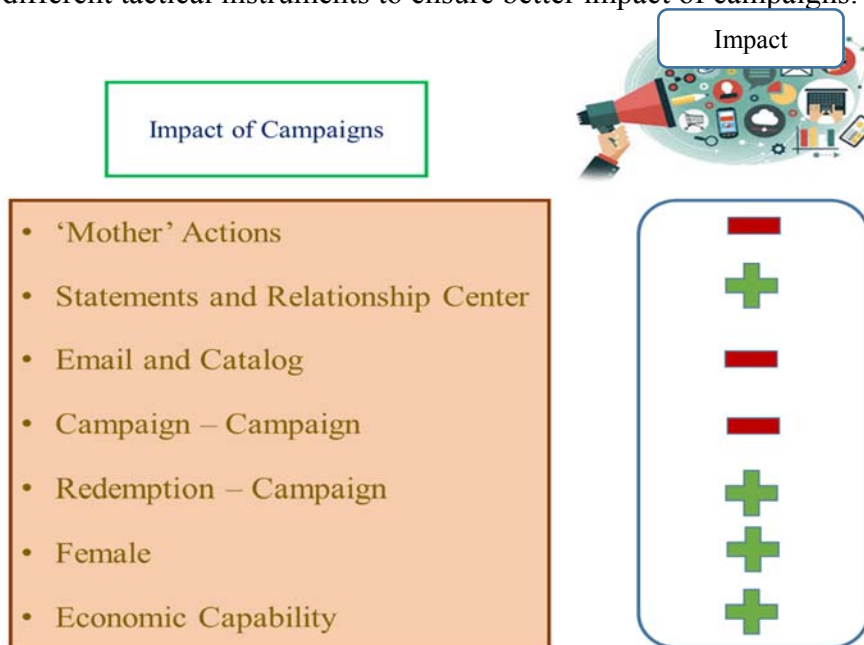
- a. *Mode of Response to Campaigns* – Now, if we shift our attention to the responses of customers to promotional campaigns by the loyalty program, we see 3 main response methods – online and offline print messages, click-through and complimentary offers. We offer here 5 tactical drivers which determine these responses:



- I. Duration between 2 Consecutive Responses – As responses become more frequent, customers are more likely to respond through either of the 3 means, which is expected.
- II. Duration between Reward Redemption and Subsequent Response – We have already seen that, following a reward redemption, transactions become less frequent, in fact they only pick up after a long duration. So, we observe a similar pattern in responses to campaigns as well since customers most likely do not respond to a campaign unless they are making a transaction. As the duration from a redemption increases, responses by all 3 modes tend to increase.
- III. Duration between Transaction and Subsequent Response – We observe that, after a transaction responses to a campaign only increase after a time delay with the click-through method, while through print messages online and offline, responses are usually higher immediately after a transaction. This is because, with messages being the most frequently used method of contact, customers have ready access and hence they are more likely to respond immediately. Click-through responses require customers to first browse through their emails to find the appropriate web links before they can access the promotion.

- IV. Duration between Promotional Campaign and Subsequent Response – Campaigns on the other hand had a different pattern of responses in these response modes. Response to print messages online and offline only increase long after a campaign because if customers choose not to respond immediately, a lot of these messages get accumulated and hence customers respond to them only when transact with a particular partner and have relevant promotions available. Click-through campaigns, once received, can be immediately responded to, even if an immediate need to make a transaction is not there.
- V. Gender – Finally, we see that female customers prefer to respond more to online and offline messages and complimentary offers. As discussed earlier, these customers are usually more hands on with elements of the loyalty program and so do whatever is needed to avail the promotional offers. They are also probably less tech savvy to respond via click-throughs.

b. Impact of Campaigns – It is important to remember that even if customers respond to campaign communications from the loyalty program and its partners that does not ensure impact of those promotions. Only when these promotional strategies are impactful, it is expected that customers will get more involved with the program, increase their frequency and volume of transactions and redeem their points at regular intervals, thereby ensuring better customer experience and success of the program. We have identified 6 different tactical instruments to ensure better impact of campaigns:



I. Type of Actions – The loyalty program creates 2 types of campaign actions to target its customers. While 'mother' actions are designed at an aggregate level, 'daughter' actions refer to the individual actions within each 'mother' action, thereby making them more customized. We found that 'mother' actions have more impact on

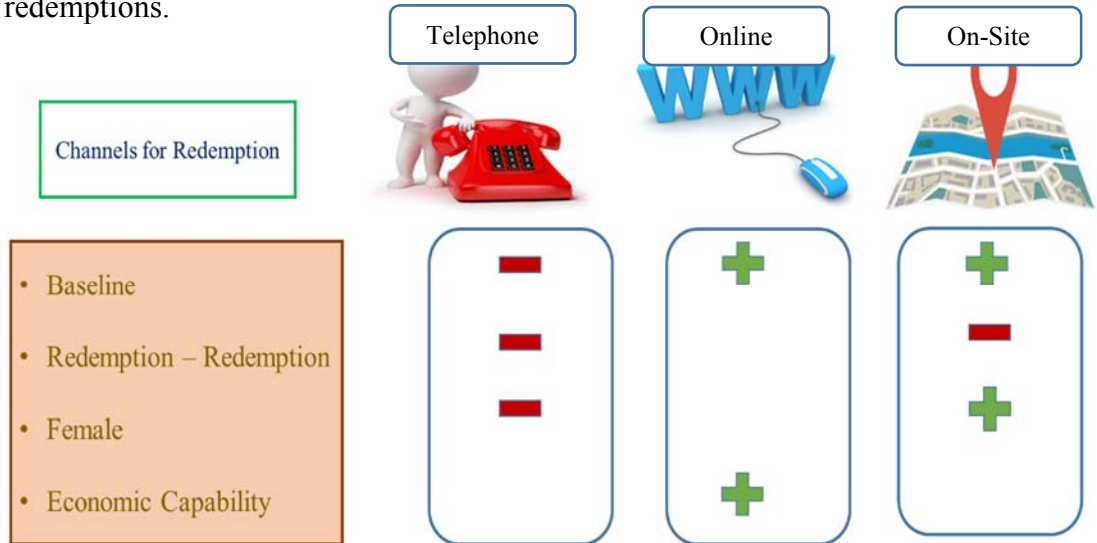
- customers relative to ‘daughter’ actions implying that customers react more proactively to customized offers.
- II. Contact Methods – With regards to the methods of contact with the customers, emails and catalogs have lower impact than statements and contacts by relationship center. Since relationship centers provide direct customer interaction and statements provide information regarding customers’ transaction and point accumulation patterns, customers are expected to react instantaneously and hence are impacted more. Emails and catalogs on the other hand might create customer fatigue if send frequently and hence have lesser impact.
  - III. Duration between 2 Consecutive Campaigns – When campaigns are send frequently, customers might respond to them instantaneously, but over a longer duration, impact goes down, again probably because of customer fatigue.
  - IV. Duration between Reward Redemption and Subsequent Campaign – As explained earlier, reward redemptions lead to a feeling of goal attainment, which makes any initiative taken by the loyalty program less effective. The impact of campaigns is no exception. So, immediately following a redemption, impact of campaigns is lower, but it gradually increases as the duration from redemption increases.
  - V. Gender – Female customers are expectedly more reactive to campaign communications, mainly because they have more involvement in the program across all strategic dimensions.
  - VI. Economic Capability – Not surprisingly, customers with higher economic capabilities have more impact of the promotions.

### Reward Redemptions: Findings

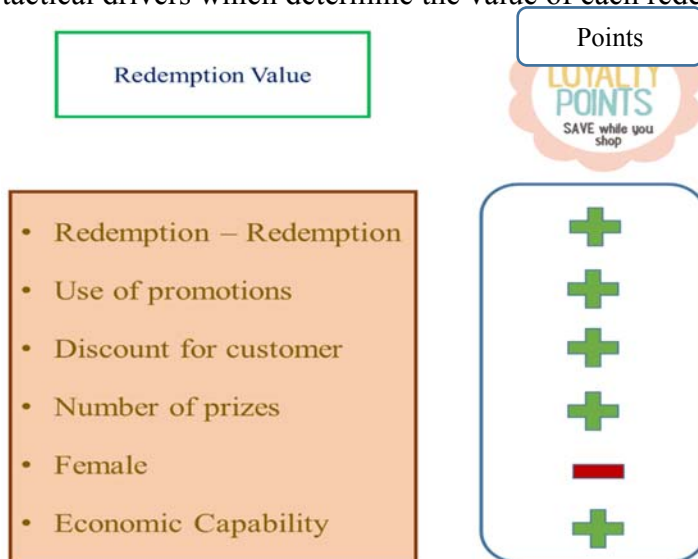
- a. Channels for Reward Redemption – The final metric for the success of loyalty programs is reward redemptions and within that it is important to understand which channels customers use to redeem their accumulated points for rewards. This will help the loyalty program to target customers with appropriate reward offers. With respect to the channels for redemptions, we report 3 different tactical drivers that drive customer behavior:
  - I. Intensity of Usage – Overall, telephones as a channel for redemption have been gradually going down in importance relative to online and onsite redemptions, which is not surprising given the increased importance of web platforms and also the willingness of customers to sometimes access the rewards first hand before redeeming them in lieu of rewards.
  - II. Duration between 2 Consecutive Redemptions – As the duration between redemptions increase, customers use telephones and onsite methods less frequently than online channels, probably because online customers can explore additional information related to the rewards.
  - III. Gender – Interestingly, female customers prefer to use telephones less for reward redemptions and onsite channels more. This is because female customer most likely

want to have an understanding of what they are getting as rewards before they can actually redeem.

- IV. Economic Capability – Customers with higher economic capability prefer the online channel for redemption because they have greater access to web and probably do not want to spend the time to talk to someone on the phone or visit an actual store for redemptions.



- b. *Value of Reward Redemptions* – Finally, every time a customer redeems a reward, he/ she need to spend the accumulated points, which implies that they not only get some experiential satisfaction from earning the reward, but also incurs the cost of doing away with their points, thereby implying a high degree of involvement. We identify 6 different tactical drivers which determine the value of each redemption:



- I. Duration between 2 Consecutive Redemptions – As the duration between redemptions increase, expectedly customers spend more points on each reward because they have accumulated more points.

- II. Use of Promotions – When the loyalty program offers a promotion at the time of a reward redemption, customers are more motivated to obtain a high-value reward and hence they are willing to redeem more points.
- III. Discount for Customer – At the same time, if customers are offered a discount during a reward redemption, either in terms of lower number of points for a reward or euro discounts on the value of the reward itself, customers are also likely to spend more points for redeeming the reward.
- IV. Number of Prizes – Usually customers prefer to get a reward which has multiple units, this increases their motivation to spend more points.
- V. Gender – Female customers are likely to spend less points on each reward compared to male customers. This again points to the careful behavioral patterns of females, who not only are careful in earning the most points during transactions, but also do not prefer to spend all the points on the redemptions. Rather they look for smaller rewards of lower value.
- VI. Economic Capability – Not surprisingly, customers with a higher economic standing are willing to spend more points on redemptions because they are likely to accumulate more points quickly because of their higher transaction frequencies.

### Learnings from the Analyses

Summarizing the above findings we can conclude the following critical managerial takeaways under each of the 3 strategic behavioral dimensions of multi-sponsor loyalty programs –

1. Transactions:
  - a. Bonus points are more effective in hypermarkets
  - b. In supermarkets and gas stations, expect transactions to accelerate only after a cooling-off period after redemptions
  - c. Transaction spending is higher closer to promotional campaigns
  - d. Female customers are more loyal in gas station transactions
2. Responses:
  - a. Following a campaign, responses are quicker on click-throughs
  - b. Following a transaction, responses are quicker on prints
  - c. Statements and relationship centers are more impactful than emails and catalog
  - d. Frequent campaigns have higher impact
3. Redemptions:
  - a. Online and on-site are increasingly favored for redemptions compared to telephones
  - b. Online redemptions are likely to be higher when redemptions are infrequent
  - c. Infrequent redemptions also increase redemption value
  - d. Female customers are more likely to redeem on-site

### Conclusion

As we had mentioned in the motivation for this report, coalition loyalty programs provide partners benefits that go above and beyond the value addition which standalone programs offer.

However, often the challenge which these multi-sponsor loyalty programs and their partners face is the effective management of the rich and diverse customer-level information which is available from these programs. We argued that in order to strategically manage the customer base under these programs, we need to identify certain tactical decision variables. In this research we have identified a set of such tactical variables based on 3 metrics for loyalty program success – transactions (store formats and euros spend), responses and campaigns (method of response and impact of campaigns) and reward redemptions (channel of redemptions and value). The managerial insights can be extremely useful in not only building better customer relationships (for both retention and acquisition), but also motivate partners to get involved in the program.

In conclusion, we strongly recommend the adoption of the ‘PACE’ methodology (proposed by NextBeeMedia) to successfully manage loyalty programs. This method requires loyalty program managers to be –

1. Personal – Personalized memorable experiences through understanding of customers’ preference.
2. Adaptive – Learn from changes in customers’ behavioral adaptations and market evolution.
3. Control – Track, analyze and interpret information while simultaneously enduring data security.
4. Exciting – Use feedback to make program fresh, intuitive and fun through smart changes in design elements.



#### Challenges for Customization and Way Ahead:

It is understandable that the success of coalition loyalty programs rests on the ability of program managers to implement customized targeting, while at the same time ensuring that the implementation does not become overly complicated. For this purpose, they need to simultaneously determine optimal promotional and reward offers which are interdependent from

the program's perspective. Also, these targeting decisions need to be contingent on the transaction patterns, reward redemptions and response to campaigns from the customers' point of view. With this perspective, our research next year will address the following questions:

- a. Which customers to send promotional and reward offers and when?
- b. What should be the objective, retention or acquisition?
- c. What kind of promotional and reward offers to send and through which communication mediums?
- d. Which partners should be collaborated with for specific promotional and reward offers?
- e. Are there any importance for segmentation – demographic, socio-economic or behavioral?