

# BEYOND REWARDS: RAISING THE BAR ON CUSTOMER LOYALTY

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## Reimagining Loyalty for Today's Customer

Whether through points, miles, or cashback, customer loyalty has traditionally been transactional. Businesses offer discounts or monetary rewards and, in return, they expect customers to remain loyal. Granted, the approach does still work—but only to a degree.

The following report, based on a survey of 400 executives worldwide, shows a significant evolution in customer loyalty strategies. Five years ago, businesses considered traditional monetary rewards the single most important component for building loyalty. Today, such rewards have dropped to fourth place—ousted by exceptional customer service, digital access, and ease of use, which are now ranked the top three drivers of customer loyalty. Businesses are starting to recognize the importance of building dynamic customer relationships that extend far beyond tangible products and transactions.

While many businesses have tried to adapt to these changing expectations, the data reveals that gaps persist. Only 42% of respondents believe their organization's approach to customer loyalty is effective, and only 43% consider their approach to be digital-first. With 55% of respondents saying they've updated or refreshed their loyalty strategy within the past two years, it's clear that businesses are grappling with changing tides.

These findings point to the need to challenge standard notions of rewards, and begin reimagining the future of customer loyalty. In the following report, we discuss four critical steps:

- **Create seamless, unique experiences:** Customers love rewards points, but they also love experiences, perks, and customized offers that make them feel special. Our research shows that brands are increasingly focused on personalization and cross-industry partnerships that open more channels for customers to earn and use rewards.
- **Deliver contextual loyalty:** In addition to offering dollars and points, brands also need to build personal relationships with consumers and meet them precisely where they are. In fact, 57% of respondents say that forging emotional connections is a primary reason for investing in customer loyalty initiatives.
- **Become digital-first:** Digital-first solutions are key to engaging busy, hyper-connected customers. Brands need to offer instant gratification through simple solutions. Of respondents whose companies recently made changes to their loyalty strategy or are planning changes within the year, the top reason was to create a more digital experience (44%).
- **Leverage predictive analytics:** Businesses must move from linear insights to dynamic analytics to connect customer touchpoints and effectively measure returns. Just 41% of respondents say their organization can successfully track the ROI of customer loyalty investments, and only 31% claim best-in-class loyalty measurement capabilities.

At Mastercard, we partner with leading brands around the world to help them reinvent their loyalty strategies and think beyond traditional models of customer engagement. We bring loyalty to life through end-to-end solutions that help businesses attract, engage, and retain customers. Built on a global technology network and over 30 years of loyalty expertise, Mastercard Loyalty & Engagement creates memorable experiences that keep consumers coming back. The data in this report shows that customer loyalty is shifting, and the brands that respond most rapidly will stand out among the rest.

# BEYOND REWARDS: RAISING THE BAR ON CUSTOMER LOYALTY

*The roadmap to customer loyalty is being redrawn.*

Eager to create enduring relationships with customers, companies are looking beyond traditional loyalty programs built on economic rewards such as points, airline miles, discounts, or cash back. While still offering those traditional rewards, they're also seeking to foster loyalty by other means, including promoting shared values with customers. In addition, they are offering customers personalized experiences and interactions and unique access to or early notice of events, sales, and other activities.

That's a key finding from a new survey by Harvard Business Review Analytic Services of 400 executives in more than a dozen major industries around the globe. The research explores how different businesses are approaching shifts in the customer loyalty landscape and identifies recent trends, strategies and technology investments in loyalty.

The survey documents that as recently as five years ago, traditional rewards such as points and miles were considered the top determinant of a loyalty program's success. Today, those same executives rank traditional rewards fourth most important (42% say it's a top driver of success), after exceptional customer service (51%), digital and omnichannel access (48%), and ease of use (45%). Perhaps even more telling, these executives believe that five years from now digital and omnichannel access will be the most important factor in loyalty program success (53%), while economic rewards will rank a distant eighth, tied with "building a community among members" (both 29%). [FIGURE 1](#)

"Today's consumers don't necessarily need to receive something physical or tangible to feel rewarded," says Erin Warren, general manager of the Rakuten In-Store Network, which allows consumers to earn cash back on in-store purchases made at participating retailers. "Your best customers want some kind of acknowledgment that they are indeed your best customers. Rewards are a component for driving customer loyalty because it makes them feel special and recognized by the companies they buy from."

Companies recognize that emotional connections with customers are important because selling isn't just about logic. They also know it's easier to establish connections with personalized communications rather than mass-audience messages, especially when it comes to shared values, such as a commitment to environmentalism.

## HIGHLIGHTS

—  
**400**

SURVEY RESPONDENTS IN MORE THAN A DOZEN MAJOR INDUSTRIES AROUND THE GLOBE.

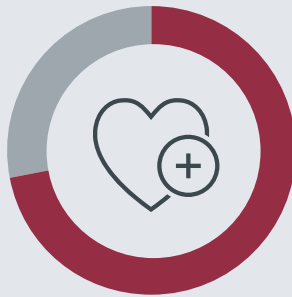
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**48%**

OF RESPONDENTS SAY DIGITAL AND OMNICHANNEL ACCESS ARE IMPORTANT TO THE SUCCESS OF A LOYALTY PROGRAM.

—  
**44%**

OF RESPONDENTS ARE INVESTING IN MAKING THE LOYALTY PROGRAM A MORE DIGITAL EXPERIENCE.

# KEY FINDINGS



**72%**

of survey respondents say optimizing customer loyalty is a top-five priority of senior management at their organization this year.



**42%**

of respondents believe their organization's customer loyalty strategy is effective.



**46%**

of respondents say their loyalty strategy lacks innovation.



**55%**

say they've updated or refreshed their loyalty strategy within the past two years, including 30% who did so in the past year.



**49%**

of survey respondents say the challenge of maintaining customer loyalty for long periods of time is the top hurdle their organization faces in building its customer loyalty program.

## 5 YEARS AGO

Reward values were the top determinant of a loyalty strategy's success.

## TODAY

Only 42% say reward values are a top driver of success, behind exceptional customer service (51%), digital and omnichannel access (48%), and ease of use (45%).

## IN 5 YEARS

53% say that digital and omnichannel access will be the most important driver of success, while economic rewards drop to eighth most important.

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019

Companies also know that in some instances, economics are dictating a different approach to customer loyalty. Over the past decade, for example, changes in allowable interchange fees and other fees in the European Union prompted most banks there to scale back their cashback programs, which, in many cases were funded at least in part by those fees. “Now the currency for loyalty programs in the UK is, in many ways, access. This could be access to concert tickets or concierge services for high-net-worth customers, or to discounts at movies, retailers, or restaurants,” notes Madhu Kejriwal, head of cards, loans, and payments at HSBC UK. “And the loyalty strategy in many cases is primarily around customer engagement, with a massive focus on the customer journey.”

Executives recognize that their organizations can’t afford to be left behind as customer expectations evolve and loyalty strategies become more sophisticated. The new survey finds that more than half of their organizations have updated or refreshed their loyalty strategy within the past two years, including 30% who did so in the past year. And 72% report that customer loyalty is a top-five business priority for their C-suite.

### Struggling to Keep Pace with Customer Expectations

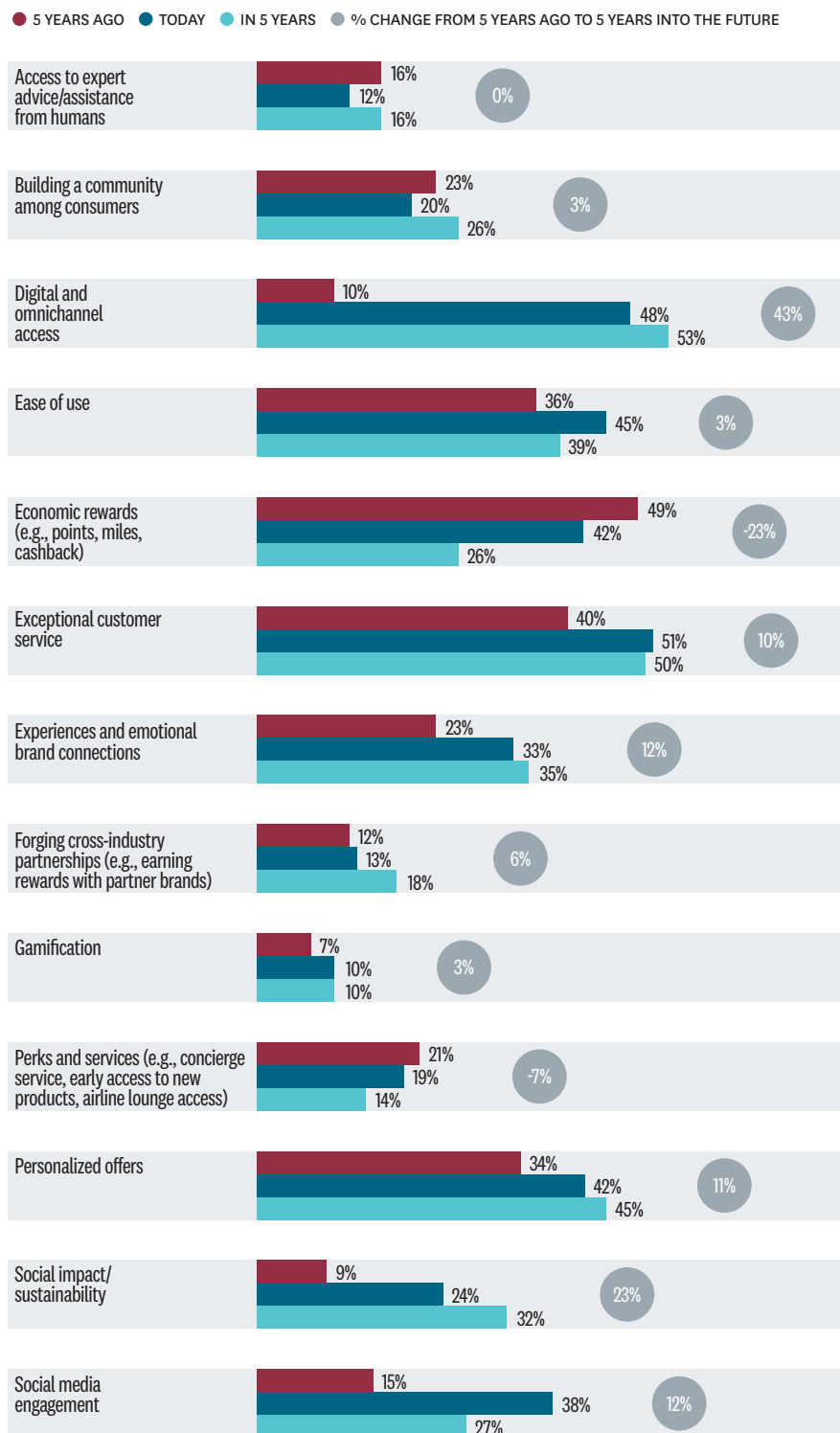
Despite these insights, many loyalty strategies don’t appear to be keeping pace with customer expectations, and aren’t driving the results organizations want. Fewer than half of survey respondents (42%) believe their organization’s customer loyalty strategy is effective. Nearly half (49%) say it’s a challenge to maintain customer loyalty for long periods, and a third say it is difficult to expand their relationship with consumers (e.g., drive larger transactions). Thirty-seven percent say they’re challenged by competition from rivals’ loyalty programs.

Inside-the-box thinking may be part of the problem. Forty-six percent of respondents say their loyalty strategy lacks innovation, and only 43% say their organization has developed a

FIGURE 1

## CUSTOMER SERVICE, DIGITAL, AND OMNICHANNEL ACCESS ARE KEY

What features are most important to the success of a loyalty program?



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019

“Rewards need to be simple to earn and simple to spend,” says Madhu Kejriwal of HSBC Bank.

about their preferences, and they expect communications to be tailored to their interests. They don’t want to feel like a number.”

Nor do they want to feel misled, which can happen when companies promise benefits they can’t sustain or when claiming rewards becomes difficult.

“Rewards need to be simple to earn and simple to spend,” says Kejriwal. “If a loyalty program tries to be too clever in terms of how you earn or spend rewards, it can end up being non-sustainable, even if it’s backed by a very strong marketing budget.” He also warns against rich offers that attract a flurry of attention from consumers but are too expensive to maintain, too complicated for customers to easily use and follow, or available to only a small fraction of customers.

All that said, Kejriwal recognizes that rewards need to be aligned with the customer’s needs and value to the business.

“No one reward would be able to satisfy a very diverse customer base,” Kejriwal concedes, noting that some loyalty

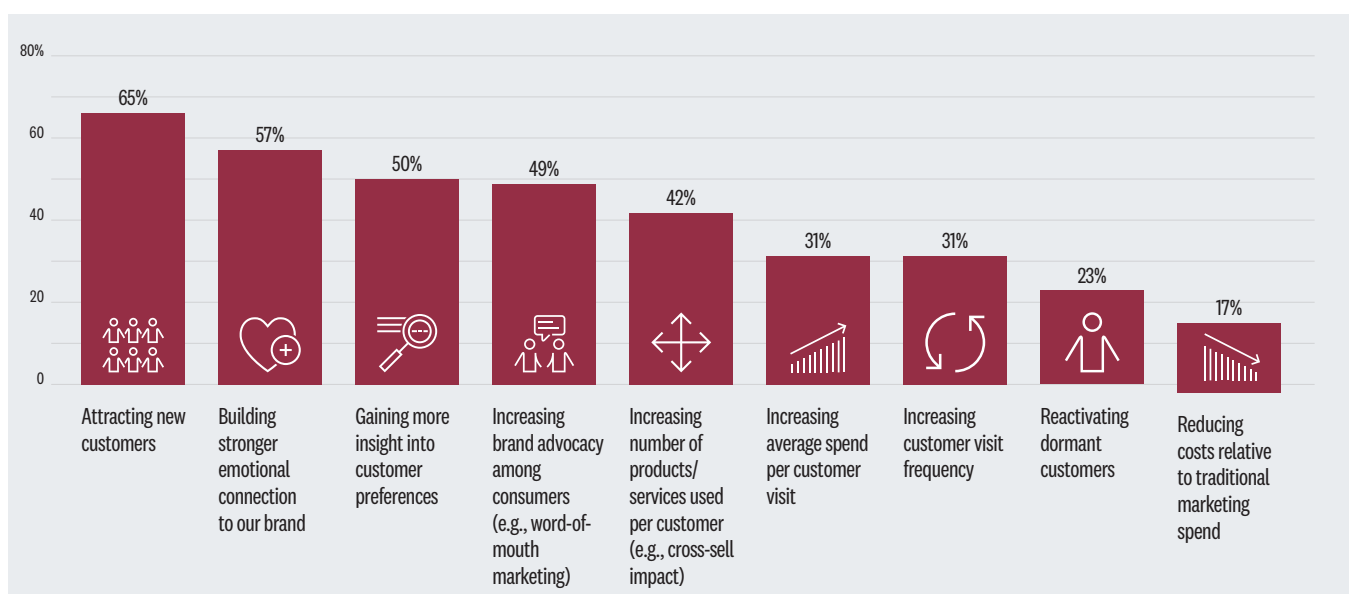
digital-first loyalty strategy. Those who do not have a digital-first strategy may be at a disadvantage. Consumers who can hail a rideshare from their smartphone or shop online increasingly expect similar digital experiences across other aspects of their lives.

“Customers have definitely become more savvy,” says Olivia Wirth, CEO of Qantas Loyalty, a subsidiary of Qantas Airlines that runs both the Qantas Frequent Flyer and Qantas Business Rewards loyalty programs. “Customers’ expectations are a lot higher, particularly around how they interact with brands and companies, in part because they’re exposed to so many great digital experiences in other parts of their lives,” Wirth says. “They’re aware that we know a lot

FIGURE 2

## TOP LOYALTY GOALS: ATTRACTING NEW CUSTOMERS, BUILDING EMOTIONAL CONNECTIONS

What business goals are primary drivers for investing in customer loyalty initiatives?



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019

## Loyalty Around the World: Asia Leads on Digital, Europe and North America on AI

While organizations around the world are largely aligned on the importance of digital-first, seamless experiences to drive customer loyalty, the Harvard Business Review Analytic Services survey reveals a handful of significant regional differences in how organizations approach making those experiences a reality. **FIGURE 3**

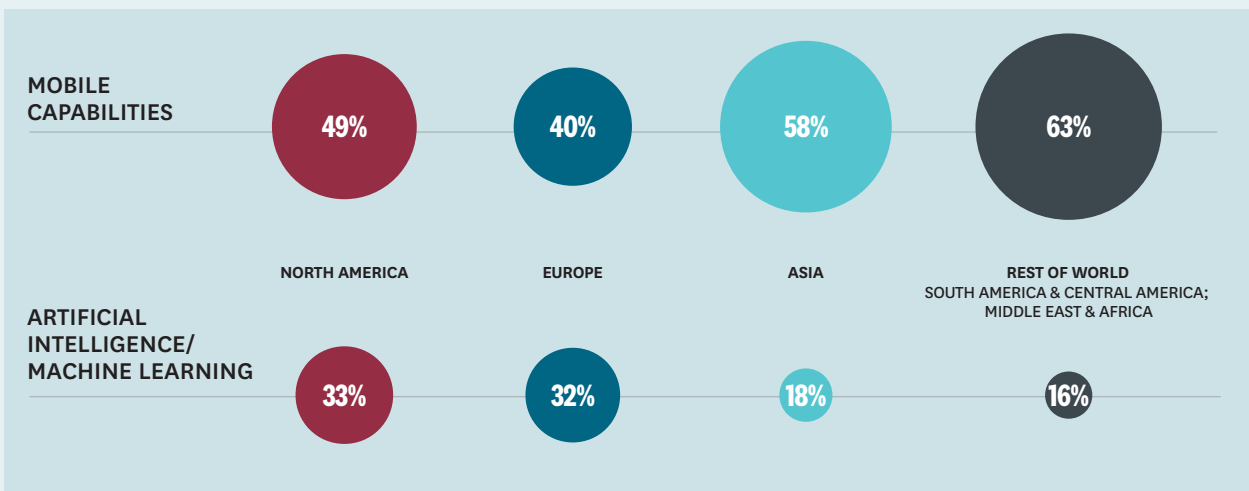
- Asia is leading the way on digital.** Asian businesses are more likely than others to have a digital-first loyalty strategy (52%, vs. 43% of all respondents) and to operate a customer loyalty program (72% vs. 61%, including just 53% in North America). Asian organizations also are more likely to say their loyalty benefits are easy to use (56% vs. 45%, including just 39% in North America) and that they can track the ROI on loyalty initiatives (50% vs. 41%).
- European companies are investing aggressively in artificial intelligence (AI) and see customer service as the key driver of loyalty program success.** Thirty-two percent of European businesses are investing in AI to improve their customer loyalty strategy, versus 25% of all companies. (Only North American companies are almost equally aggressive, with 33% investing in AI.) On the other hand, companies in Europe are less likely than those in other regions to rank customer loyalty a top-five business priority (60% vs. 72%), to be able to link loyalty investments to profits or other business goals (30% vs. 42%), or to have refreshed their loyalty strategy within the past two years (48% v. 55%). They also are less likely to have pricing and promotions strategies that drive customer loyalty (45% vs. 57%).
- North American businesses are connecting with consumers emotionally.** Sixty-six percent say they connect on an emotional level with consumers, versus 57% of all businesses. However, they are not as focused as companies in other regions on making loyalty programs a more digital experience (30% vs. 44%). On the other hand, North American respondents are just as likely as others to say their organizations already have a digital-first loyalty strategy (43% for North Americans and 43% for

continued on page 6

FIGURE 3

### DIGITAL IS A PRIORITY ACROSS THE BOARD, BUT GEOGRAPHIES DIFFER ON AREAS OF INVESTMENT

North America and Europe lead on artificial intelligence, while Asia, South America, Central America, and the Middle East and Africa focus on mobile.



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019



## LOYALTY AROUND THE WORLD

continued from page 5

all respondents). North American businesses also are more likely than others to believe ease of use will remain a key driver of loyalty program success within the next five years (49% vs. 39%), and most likely to be investing in AI to improve their customer loyalty strategies (33% vs. 25%).

- **Organizations outside of Asia, Europe, and North America make loyalty a top priority, but also are more likely to struggle with creating an effective loyalty program.** Eighty-four percent of management teams in Africa, the Middle East, South America, and Central America have made optimizing customer loyalty a top-five priority this year, versus 72% of all respondents. Still, those same developing economy executives are more likely to find their customer loyalty strategies ineffective (47% vs. 37%). And contrary to overall trends, they are more likely to expect economic rewards to remain an important driver of loyalty program success within the next five years (38% vs. 26%). Finally, businesses in developing economies are more likely to have refreshed or updated their loyalty strategy in the last two years (64% vs. 55%). They are more focused on making their loyalty program a digital experience for members (56% vs. 44%). And they are more likely to see “social impact/sustainability” as an important feature five years from now (48% vs. 32%).

programs may need to offer different strategies for different customers. An airline’s loyalty strategy might offer one level of rewards, such as premium seats and lounge access, for customers who truly are frequent flyers. Another rewards level geared to people who fly less often may offer points that can be applied to purchases with program partners.

### Investing in Technology to Keep Pace with Customers—and Better Measure Results

Difficulty with measuring results also may be holding back companies that want to do a better job building customer loyalty. Just 41% of respondents say their organization can successfully track the ROI of customer loyalty investments, and only 31% claim best-in-class loyalty measurement capabilities. Similarly, just 42% say their organization effectively links loyalty investments to profits or other tangible business goals. The most common metrics used to measure customer loyalty are retention (cited by 62% of respondents), Net Promoter Scores (NPSs) (42%), and total revenue per customer (42%).

Even companies with highly effective loyalty strategies see room for improvement. “Our analytics are pretty robust,” says Warren, of Rakuten In-Store Network. “But I’m not sure we’ve completely cracked the code in terms of learning how to synthesize data to drive meaningful, personalized experiences—which, in turn, drive customer loyalty.”

Wirth agrees. Qantas boasts a successful loyalty program whose close to 13 million members equate to half the population of Australia, and its recent acquisition of an analytics and actuarial consulting business has significantly boosted its analytics capabilities. The loyalty program pays close attention to its NPS, and also how and how frequently its members engage with the company and its loyalty program—from how often they make purchases to their lifetime value. Still, Wirth says, nascent technologies like machine learning and other artificial intelligence (AI) applications

will be important to further refining her organization’s analytics capabilities, and, by extension, its efforts to personalize relationships with customers. AI can help in extracting insights from large volumes of data far more efficiently than analysts working on their own.

“It’s one thing to deliver on personalization if you’ve got a small membership or customer base,” Wirth says. “But when you have millions of members, you have to rely on technology to do it at scale. So that’s a critical area of ongoing investment for us.”

Right now, only a quarter of survey respondents say their organizations are investing in AI to improve their customer loyalty strategy, but that number should increase drastically given AI’s role in analyzing massive amounts of data quickly, thereby enabling more accurate personalization of customer initiatives.

“We are investing a lot in improving our data intelligence capabilities,” observes HSBC’s Kejrival. “Our goal is to make the customer journey easier and simpler, removing friction while keeping their personal data safe and secure.”

Meanwhile, AI is just one in a long list of technology investments on the business community’s radar. The most common areas where respondents say their organizations are investing right now are mobile capabilities (52%), customer service chatbots (38%), and application programming interfaces (APIs) (27%). [FIGURE 4](#)

It’s no secret why mobile capabilities are the number one investment organizations are making when it comes to customer loyalty. A digital-first approach is quickly becoming the new standard, as customers increasingly prize seamless omnichannel experiences alongside traditional rewards. As a result, technologies such as digital wallets are crucial in winning customer loyalty.

Many organizations assign responsibility for customer loyalty to more than one team, but by far the



most common group to take a lead in overseeing loyalty strategy is the marketing/customer acquisition team, cited by 66% of survey respondents. That's followed by the customer service team (40%) and sales (32%).

Given the importance of customer loyalty, it's not surprising that some companies are looking outside their own organizations for help in developing and administering customer loyalty programs. Thirty-one percent of respondents already let an external partner manage their loyalty platform or would like to do so. Additionally, 28% use an outside partner to handle loyalty-related marketing campaigns or would like to outsource that function.

### Rethinking Loyalty Goals: Attracting Customers, Building Brand Affinity

Executives say the primary goals for their loyalty strategies include attracting new customers (cited by 65% of respondents), building a stronger emotional connection to their brand (57%), and gaining more insight into customer preferences (50%). **FIGURE 2**

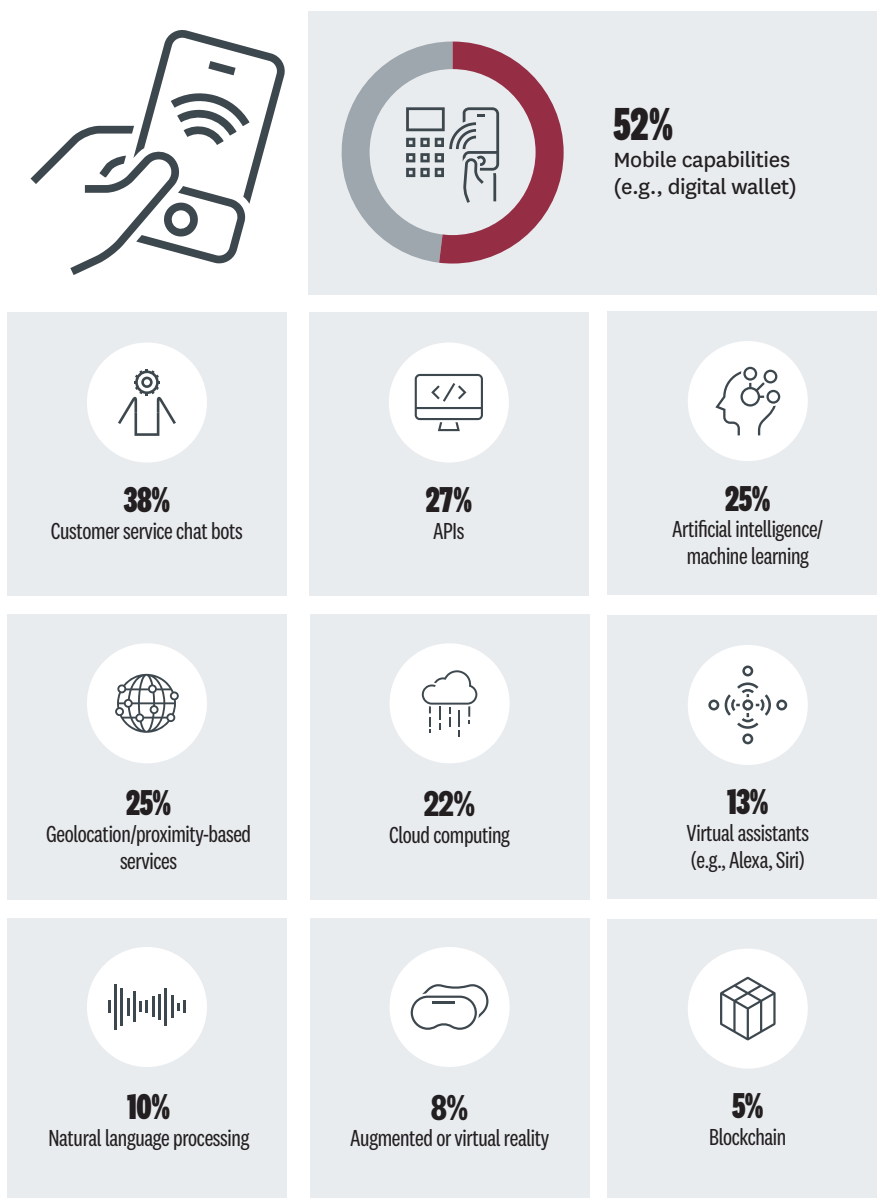
Among individual companies, the emphasis can vary depending upon their business challenges. The top goals for Rakuten In-Store Network, which is part of Rakuten Rewards (formerly Ebates in the U.S.), include attracting new members and driving more spend from existing members. "We can't afford not to do both," says Warren.

At Qantas, the top goals include engaging with customers, assuring that the airline remains members' first choice for air travel, driving more yield (average fare per passenger per mile), attracting new customers, and setting up cross-sell opportunities. "But underlying all this is driving member engagement and ensuring that we understand our members' needs," Wirth notes. Qantas tracks engagement in a variety of ways, including how frequently customers choose to purchase, how often they use their points to redeem products other than airline flights, and overall levels of customer retention.

FIGURE 4

## MOBILE LEADS TECHNOLOGY INVESTMENTS IN LOYALTY

What technologies is your organization investing in to improve its customer loyalty strategy?



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019

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“As loyalty becomes a more digital experience, we want to ensure that we’re delivering a **more personalized experience for our loyal members**,” says Olivia Wirth, CEO of Qantas Loyalty.

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Meanwhile, at HSBC UK, Kejriwal says the loyalty strategy is keenly focused on driving customer engagement, with a “massive focus on the customer journey” and making sure customers feel rewarded for doing business with the bank.

### Aligning Loyalty Strategy with Customer Expectations

Companies are taking a wide range of actions to solidify their relationships with customers. As noted, 55% of survey respondents say their organizations have updated or refreshed their loyalty strategy

within the past two years. The most common changes they have made or are planning involve creating a more digital experience for members (44%), adding personalized offers (40%), adding new perks or benefits (30%), and using social media and celebrity partnerships to forge emotional brand connections with customers (28%). **FIGURE 5**

Rakuten Rewards is exploring multiple new ways to engage with customers. In addition to sponsoring several professional sports franchises, it layers a variety of events over these sponsorships, such as basketball camps with NBA basketball players, to further connect with customers. And while its business previously was aimed at only online shoppers, the company three years ago launched the Rakuten In-Store Network specifically to engage with in-store shoppers and offer them more ways to earn rewards. More recently, it created a dining program that allows members to earn rewards when they eat at participating restaurants.

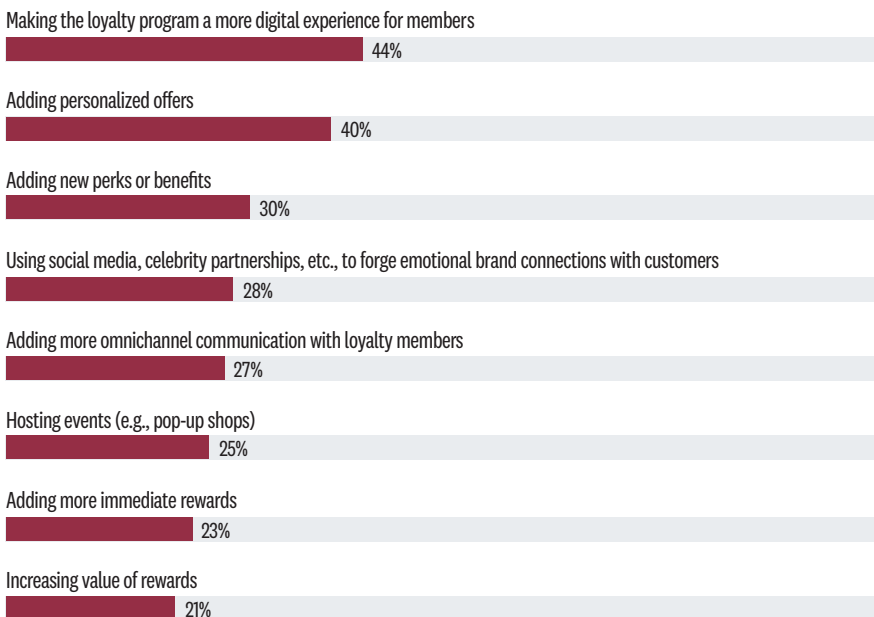
Rakuten Rewards also is working on building out other new business categories in which its members will be able to derive value from their relationship with the company. And its parent, Japanese e-commerce and internet company Rakuten Inc., has applied to launch a new subsidiary in the U.S. that will provide a variety of banking services, including credit cards. “We think that if a member can earn with us every day, they will be more likely to engage with the Rakuten Rewards app and see benefits from that engagement on a daily basis,” Warren says.

Qantas also has been working to broaden what is already a very

FIGURE 5

## DIGITALIZATION AND PERSONAL OFFERS ARE TOP CHANGES

What loyalty program changes has your organization made recently, or does it plan to make within the next 12 months?



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019

## Loyalty by Industry: Tech, Telecom, and Retail Are Highly Focused on Digital

As with geography, companies' efforts to build customer loyalty also vary by industry. Tech and telecom companies, as well as retailers, are aggressively focused on having digital-first loyalty strategies, for example, while manufacturers are focused on building emotional connections with customers. Leisure and hospitality companies are more likely than others to operate formal loyalty programs, but less likely to consider them to be effective. [FIGURE 6](#)

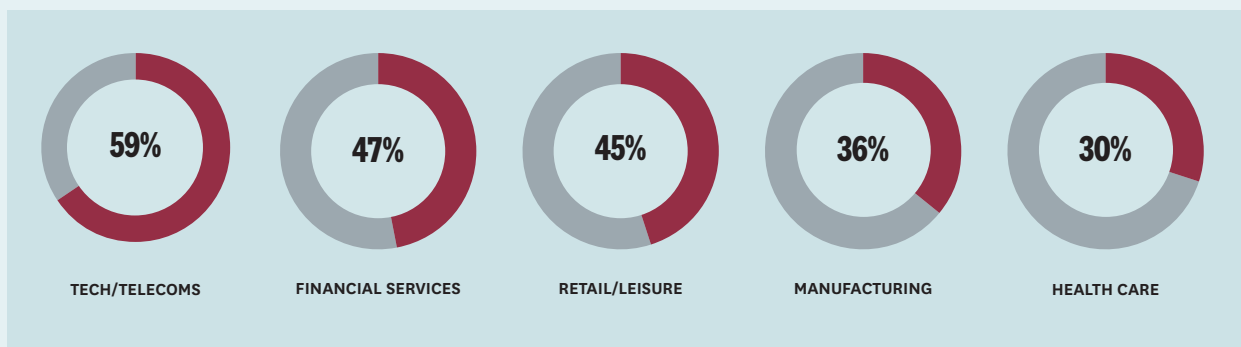
- Tech and telecom companies are more likely than others to have a digital-first loyalty strategy and be investing in AI capabilities.** Fifty-nine percent of tech/telecom companies claim a digital-first strategy, versus 43% of all survey respondents, and 39% say they're investing in AI, including machine learning, to improve their loyalty strategies (versus 25% of all respondents). AI can help companies analyze data at scale and understand their customers with greater precision. Companies in this group also are much more focused than others on investing in customer loyalty to drive the reactivation of dormant customers (38% vs. 23%), likely a consequence of the degree to which telecom customers tend to change providers. In line with that, tech and telecom companies also are more likely than others to have a "retention and customer lifecycle management" team with at least some responsibility for customer loyalty (48% vs. 21%).
- Manufacturers are seeking channels to connect directly with customers and would like to better understand them.** Seventy-one percent of manufacturers cite "building a stronger emotional connection to our brand" as a reason for investing in customer loyalty initiatives, and 64% cite "gaining more insight into customer preferences"—versus 57% and 50%, respectively, of all survey respondents.
- Financial institutions are heavy investors in mobile.** Sixty-six percent say they are investing in mobile applications to improve customer loyalty, versus 52% of all companies. Financial institutions also are more likely than other companies to believe that card-linked offers, such as cash-back offers through a debit or credit card, are important to the success of a loyalty program today (23% vs. 13%). They are nonetheless less worried than other businesses about maintaining customer loyalty over long periods (41% vs. 49%), perhaps reflecting the fact that it is harder to transfer a banking relationship than it is to start shopping at a new clothing store or eating at a different restaurant. Finally, they are more likely to assign primary responsibility for loyalty programs to product teams (32% vs. 22%) and to outsource the operation of their loyalty platform to a third party (27% vs. 17%).

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FIGURE 6

### THE RACE TO DIGITAL-FIRST

Tech/telecom companies are more likely to claim a digital-first strategy.



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019



## FIFTY-FIVE PERCENT OF SURVEY RESPONDENTS SAY THEY'VE UPDATED OR REFRESHED THEIR LOYALTY STRATEGY WITHIN THE PAST TWO YEARS.

expansive loyalty program featuring more than 300 business partners with which its customers can earn rewards. It recognizes that the more ways it gives customers to connect with the program, the more likely and the more often they will do so. “We absolutely want our loyalty members to earn rewards, but encouraging our members to use their points is an important piece of this ecosystem we’ve created,” Wirth says.

Put another way, rewards that aren’t being redeemed aren’t really doing much to drive loyalty.

Qantas has also launched new businesses with no direct link to its airline operations, such as health insurance and an online wine store that participate in the Qantas Frequent Flyer program. “We’re always looking at different verticals that we can grow to provide new ways for our customers to earn more Qantas Points,” Wirth says. “The focus is twofold: how they can contribute from the customer perspective and also from a financial perspective. (Qantas Loyalty sells Qantas Points to its business partners, who in turn award them to their own customers.) We’ve seen significant growth in the insurance vertical, for example, and we expect that in the next four to five years we will reach around 3% of the overall health insurance market in Australia.”

Qantas Frequent Flyer has also partnered with a credit card company to offer members who link their card to their frequent flyer profile a unique program of personalized promotions specially curated around their habits and interests. Members can receive bonus point offers on in-store and online purchases from over 100, partners including restaurants, retail chains, and petrol stations.

“Personalization is one area where we have been making a significant investment and will continue to do so,” Wirth says. “As loyalty becomes a more digital experience, we want to ensure that we’re delivering a more personalized experience for our loyal members. Technology now allows us

to do that. And it’s going to deliver, ultimately, a better experience for our members and make them more engaged. We think it’s a win-win situation.”

While survey respondents may no longer consider traditional rewards the number one determinant of a loyalty program’s success, they are still an integral component of such programs. To that end, Qantas recently announced a package of enhancements to its loyalty program that included making more than one million additional rewards seats available to its loyalty members annually. It also created a new tiered points program to better reward members who earn most of their points via on-the-ground transactions—a newer, growing, and important cohort of customers.

Wirth says that just weeks after the program changes were implemented, Qantas had already seen a 27% increase in the number of points redeemed by its loyalty program members, with approximately 35% of all redemptions made by members who had never redeemed points in the past or within the past 18 months. “That’s a significant number for us,” she points out.

In fact, Qantas CEO Alan Joyce has said publicly that the \$25 million the company is spending on the program changes will be earned back within a year, and that it was a necessity if the company is going to meet its goal of growing earnings from its loyalty business by a third over the next three years.

Qantas’ experience illustrates that while many businesses view rewards programs as a cost—and may even view rewards redemptions as a negative—they are likely missing the broader point that they are an investment in customer loyalty, and can be profit centers in their own right.

## Customer Insights Move the Loyalty Needle

When deciding how their loyalty strategies should change, business leaders indicate they are intently focused on what the customer does and wants. The most common inputs, cited by 54% of survey respondents, are customer surveys, followed by consumer purchasing history (52%), and NPS (41%). [FIGURE 7](#)

Qantas, for its part, looks closely at an array of data points to gain insights, including where its customers choose to fly, how they travel, how they make purchases, what they purchase, and which brands they favor. But the organization also seeks their direct input. It has, for example, a panel of frequent flyers who share information about their lifestyles and what they think about the company's business. The company also hosts dinners and other events for its most frequent passengers—those who have platinum status or higher in its frequent flyer program—which allow them to interact directly with senior Qantas executives, including Joyce.

Rakuten Rewards, too, makes extensive use of its data reservoir, looking at when customers have opted into an offer, when and where they buy, and what they buy. Among the key metrics the company monitors, says Warren, are how many new members are signing up and how much repeat business members are delivering.

Without delving into specific metrics, Kejriwal confirms that HSBC's analytics teams sift through customer feedback and spend data and are seeing a positive payback on its loyalty initiatives, including higher overall spend levels and more active and engaged customers. Credit card activation rates also have improved.

## LOYALTY BY INDUSTRY

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- **Retailers are investing widely in digital capabilities**, with 59% saying they've recently made or plan such investments to improve their loyalty programs, versus 44% of all companies. Retailers also are investing more broadly in omnichannel communications with loyalty members (56% vs. 27%) and gamification (30% vs. 11%). For these companies, the primary drivers for investing in loyalty initiatives are increasing the average spend per customer visit and customer visit frequency—more than twice as many retailers cite them as do all companies as a group. More so than any other industry group polled, retailers believe more widely in the value of traditional rewards as an important contributor to loyalty program success (59% vs. 42%) and in the importance of personalized offers (56% vs. 42%).

Maintaining customer loyalty for an extended period is the top challenge retailers face (63% cite it versus 49% of all companies), and they also worry more that customers don't see value in their programs (52% vs. 31%). As might be expected, they rely more heavily than other businesses on consumer purchasing history (74% vs. 52%) and web browsing data (33% vs. 22%) to design their loyalty strategies, and they track a wide range of metrics to measure loyalty, led by customer retention (70%), revenue per customer (46%), and percentage of rewards redemptions (43%).

- **Leisure and hospitality companies are more likely to operate a customer loyalty program, but less likely to consider their loyalty strategy effective.** According to the Harvard Business Review Analytic Services survey, 90% of leisure and hospitality companies operate a loyalty program, versus 61% of all companies. However, 55% of leisure and hospitality companies say their loyalty strategy is ineffective, versus 37% of all respondents. Ubiquity may be the explanation. With loyalty programs so common in the travel industry, simply offering one may not be much of a differentiator. Meanwhile, leisure and hospitality companies use a broader array of metrics to measure customer loyalty than other companies, on average, including customer retention (81% vs. 61%), percentage of rewards redemptions (39% vs. 21%), social media engagement (52% vs. 30%), test-versus-control experimentation (26% vs. 14%), and total revenue per customer (55% vs. 44%).

Companies in this group also have a sharp focus on attracting new customers and increasing brand advocacy among consumers; 84% say the former is a primary driver of their loyalty investments and 68% say the same of the latter, versus 65% and 49% of all survey respondents, respectively. Finally, companies in this group are more likely to have added, or be planning to add, personalized offers to their loyalty program (54% vs. 40%), more immediate rewards (54% vs. 23%), and unconventional rewards such as charitable donations or interactive experiences (25% vs. 17%). Yet they are also more likely to be increasing the value of traditional rewards (43% vs. 21%).

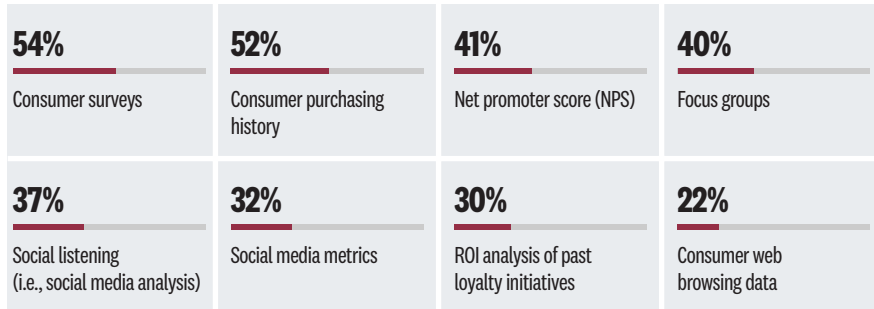


**“HAVING A SUCCESSFUL LOYALTY PROGRAM MEANS HAVING A CONSTANTLY EVOLVING LOYALTY PROGRAM,” SAYS OLIVIA WIRTH, QANTAS LOYALTY.**

FIGURE 7

## CONSUMER SURVEYS, PURCHASING HISTORY ARE TOP INPUTS TO LOYALTY STRATEGY DESIGN

What inputs do you use when designing your loyalty strategies?



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, MAY 2019

### Conclusion

As customer expectations evolve in an increasingly digital world, driving customer loyalty has become an increasingly important component of marketing strategy. In some industries—credit cards, air travel, lodging, car rental—loyalty programs are practically obligatory. But traditional rewards may not be valued the same way they once were. Nor are they as easily offered in some cases, especially where interchange rates have been capped. All of which means that companies need to rethink their loyalty strategies. Here are six ways they can advance the ball:

#### Look beyond traditional rewards.

Surprise and delight customers with benefits that go beyond traditional rewards. Provide personalized experiences. Give customer service representatives more authority, and incentives, to resolve complaints. Provide unique access to events that fit the customer's interests.

**Focus on simplicity.** Improve the transparency, ease of use, and sustainability of any loyalty program that's offered. Otherwise, customers will abandon it for other options. The more customers earn and use rewards, the more valuable those rewards become—for customer and company alike.

**Build brand affinity through shared values.** Visceral connections generated by shared values allow companies to build customer connections and drive customer engagement in ways that traditional rewards cannot.

**Partner with other businesses.** The perceived value of loyalty rewards should be higher than the cost of providing them, says Kejriwal. One growing trend is to enhance a loyalty program's value by partnering with retailers, airlines, hotels, and other businesses to expand customers' options to earn and use rewards.

**Invest in new technologies** to take advantage of the wealth of consumer insights that are available and better personalize loyalty offerings to customers.

**Seek third-party help** to accelerate the process of improving loyalty strategy. Where companies do not have the knowledge, expertise, or resources they need to rethink their loyalty strategy, they can look to outside partners, including organizations with access to high volumes of customer transaction insights.

"There's never going to be a silver bullet—one program change or a deliverable—that will ensure that a loyalty program meets the needs of the business and the customer," says Qantas Loyalty's Wirth. "Rather, having a successful loyalty program means having a constantly evolving loyalty program—one in which businesses test and learn and use customer insights to ensure they are delivering a program that's relevant to their members."



## METHODOLOGY AND PARTICIPANT PROFILE

A total of 400 respondents drawn from the Harvard Business Review audience of readers (magazine/ newsletter readers, customers, HBR.org users) completed the survey.

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### SIZE OF ORGANIZATION

<b>13%</b> 100-499 EMPLOYEES	<b>12%</b> 500-999 EMPLOYEES	<b>22%</b> 1,000-4,999 EMPLOYEES	<b>11%</b> 5,000-9,999 EMPLOYEES	<b>43%</b> 10,000+ EMPLOYEES
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### SENIORITY

<b>29%</b> EXECUTIVE MANAGEMENT/ BOARD MEMBERS	<b>47%</b> SENIOR MANAGEMENT	<b>19%</b> MIDDLE MANAGEMENT	<b>6%</b> OTHER
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### KEY INDUSTRY SECTORS

<b>29%</b> FINANCIAL SERVICES	<b>12%</b> RETAIL	<b>8%</b> TELECOM	<b>5%</b> HOSPITALITY/ TRAVEL	<b>2%</b> ENTERTAINMENT/ LEISURE	<b>1%</b> AGRICULTURE
<b>17%</b> MANUFACTURING	<b>8%</b> HEALTH CARE	<b>6%</b> TECHNOLOGY	<b>3%</b> TRANSPORTATION	<b>1%</b> RESTAURANTS	<b>1%</b> MEDIA

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### JOB FUNCTION

<b>23%</b> GENERAL/EXECUTIVE MANAGEMENT	<b>11%</b> MARKETING/PR/ COMMUNICATIONS	<b>8%</b> FINANCE/RISK	<b>7%</b> OPERATIONS/ PRODUCTION/ MANUFACTURING	<b>4%</b> R&D/INNOVATION/ PRODUCT DEVELOPMENT	<b>3%</b> CONSULTING
<b>14%</b> SALES/BUSINESS DEVELOPMENT/ CUSTOMER SERVICE	<b>8%</b> STRATEGIC PLANNING	<b>7%</b> HR/TRAINING	<b>6%</b> INFORMATION/ KNOWLEDGE MANAGEMENT/IT	<b>3%</b> ENGINEERING	

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### REGIONS

<b>30%</b> NORTH AMERICA	<b>23%</b> EUROPE	<b>27%</b> ASIA	<b>20%</b> REST OF WORLD
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Figures may not add up to 100% due to rounding.





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MC214441019