



# LOYALTY PROGRAMS WHY NOT YOU?

## THE FEVER SPREADS: REWARDS GO VIRAL

Now one of North America's most successful loyalty programs, Air Miles was the first to bring together a coalition of retail partners to reward repeat customers with, among other things, airline tickets – now something like a second currency. But Jeff Fredericks, spokesperson for Air Miles' parent company, LoyaltyOne, likes to say that the purpose of loyalty programs is not points or air travel.

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So if loyalty programs are there not only to reward you, but to help companies give you more of what you like, shouldn't you be doing everything you can to cash in?

“They are a means to an end,” he says, “and that is really to understand customers – what they value and how to grow their purchases and build a lasting relationship.”

Every loyalty cardholder should remember that fact. Loyalty programs are built to collect information about what you buy, when, where and why. They also track how you redeem your points – what you value – so that they know what people find relevant and useful, and can give you more reason to remain a regular customer. “The goal is to deliver relevancy,” says Fredericks, “because customers respond when it means something to them.”

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companies give you more of what you like, shouldn't you be doing everything you can to cash in?

## EMBRACING LOYALTY

More and more North Americans are answering that question with a resounding yes. A 2011 survey by Colloquy, another LoyaltyOne company, estimates that 2.1 billion loyalty memberships in the U.S. – or 18.4 per household – collect \$48 billion worth of consumer loyalty rewards each year. Members redeem about \$32 billion worth, or \$417 per household.

The loyalty boom creates an interesting phenomenon. On one hand, “the reward program market is truly saturated,” says Lynda Lovett, co-founder of MarketSense, a market research company in Toronto that specializes in credit card and rewards programs. But its annual CardSense survey shows that, far from being jaded, consumers are using the programs more often and more astutely, while new rewards-based programs are appearing each year with better and better offers.

“Since we started our research program in 2006, we have seen healthy growth for Air Miles, Aeroplan, Shoppers Optimum and Petro-Points, as well as new entrants like Scene, Walmart Rewards, Pure HMV and WestJet Frequent Guest,” says MarketSense co-founder Mary-Anne Huestis. To stake out their ground, both new and old issuers are sometimes raising the typical reward value of 1 - 1.5 per cent to two percent on purchases such as gas, groceries and drugstore items, or even up to four per cent for some purchases made with the Scotiabank Momentum Visa Infinite. Visa Infinite cards and World MasterCard are also offering features such as travel insurance, concierge service and special-event access, although the cards come with a premium fee.

“There is no question it’s a consumer’s market, and it’s driving rewards up,” says Huestis. “The bar is being raised for issuers. Otherwise, they are not in consideration.”

## CHANGE IN CONSUMER BEHAVIOUR

Faced with this increasingly lucrative proposition, the average consumer is saying: Why not? Especially in tough economic times. “I think the last recession brought a ‘sea change’ to the rewards market,” says Huestis. “People got the message that these rewards were valuable, but they had to be disciplined.”

The result is an educated, aware and practical consumer. More people carry cards with rewards attached – 76 per cent in the 2010 survey, versus 72 per cent in 2006 – and only 54 per cent now carry cards without rewards, versus 72 per cent five years ago. And thanks to the bonus rewards incentives, they use them at all price points – not just for expensive purchases – and for everyday items that they previously paid for with cash or debit, such as groceries, gas and drugstore

purchases. At the same time, there was also a shift in reward redemptions away from just travel to include lower-priced items that are easier to achieve and that people need more often.

“People are becoming more savvy about how to maximize the utility of programs,” says Lovett. For example, 52 per cent now actively look for ways to earn points (versus 48 per cent in 2009), 57 per cent know the details of the rewards programs they belong to (versus 53 per cent in 2009), and 34 per cent change where they shop to get more points (31 per cent in 2009). They are doing all this while falling less often into the common traps of credit card usage: 51 per cent never carry a balance (46 per cent in 2009), 56 per cent check the conditions of the card in advance (52 per cent in 2009), and 43 per cent pay attention to new offers from other cards to make sure they’re getting the best deal (40 per cent in 2009).

“From an earn perspective, people have learned to integrate their cards into everyday life to accumulate these banks of points,” says Megan McKee, director of rewards and strategy for American Express Canada. She says the most popular redemptions of Membership Rewards, besides travel, are for home renovation expenses, restaurant meals and clothing stores. “So they are not just accumulating points through everyday spending, they are spending points for everyday budgetary items as well.”

The shift in consumer behaviour is, of course, exactly what the designers of reward programs expected – they assigned higher rewards to everyday purchases in order to entice cardholders to use their cards more often, both to increase volumes and to track those spends.



The American Express Gold Rewards card is a good example. Appearing on the market in late 2010, Gold Rewards offers two points per dollar of gas, grocery, drugstore and travel purchases, on top of the usual point-per-dollar for everything else. It also meets or exceeds the flexibility standards of other cards – cardholders can book

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travel any way they wish, and redeem points to pay the balance on their card. Points are transferable to Aeroplan miles on a one-to-one basis, or to eight other frequent-flyer programs. Or you can redeem for gift cards and merchandise, such as home improvements from The Home Depot or restaurants such as The Keg. In other words, the points are pretty much like currency. “It’s the flexibility that cardholders like,” McKee says, “because they want to redeem their points right down to the penny.”

## REDEEM EARLIER USING SPECIAL OFFERS

As shown by the 34 per cent who change their shopping patterns to maximize rewards, cardholders are

also paying attention to special offers, so issuers are successful in this regard as well. Best Western Rewards runs four special seasonal promotions each year, offering extra points, free nights and free gift cards for a minimum stay period. This summer, three separate stays earned an extra free night. “It’s important that rewards be within relatively easy reach,” says Dorothy Dowling, senior vice-president of marketing and sales for Best Western International. “Three stays is very easy to achieve, so that promotion worked very well for us.”

She says those free nights usually translate into another paid night or two, so both the guest and the hotel win. “Canadians are extremely astute consumers with respect to loyalty,” says Dowling, who is based in Phoenix, Ariz. “When promotions come out, they participate at higher levels than in the U.S. When we offer premiums on social media, Canadians also respond to these at higher levels. Canadians are just very savvy. They’re very engaged, they’re watching, and they understand what to do to get the most out of it.”

## UP NEXT

The smartphone boom and GPS capabilities will probably lead the next movement in loyalty programs. Using this model, retailers will be able to make special offers – discounts or bonus points, for example – at locations near you. These offers will be personalized, based on your purchase history, resulting in better-than-average deals on products you will probably like.

“These types of offers will provide card members with more choice and likely more relevant deals based on their location,” says Huestis. “Ultimately, customized offers have the potential to increase perceptions of these brands. We believe that this will appeal to at least an early-adopters segment and make loyalty programs ‘stickier.’”

## HOT REWARDS: THE NEW FACES OF CUSTOMER CURRENCY

For many years, the reward coveted by most loyalty program members was the travel reward, especially airline tickets. They became the currency of loyalty.

With the recession, and with the maturity of these programs, loyalty rewards are being democratized. Consumers are embracing many different kinds of rewards – some because they are more attainable, such as cash-back rewards, some because they are more valuable, such as one-of-a-kind experiences.

“A trend we’ve noticed over the past few years is toward more frequent redemption of reward points across the market,” says Huestis, of MarketSense. “We saw decreases in redemption for air travel in favour of more practical rewards like gift certificates, groceries and movie passes.”



## CASH IS KING – AGAIN

The simplest of the new rewards currencies is currency itself. “Cash-back cards appeal to the disciplined consumer to whom cash is king,” says Daniel Iwachiw, director of co-brand partnerships at American Express Canada. “The flexibility is obviously a big draw. People are free to spend the money any way they see fit.”

He says recent economic hardship has made people look for ways to stretch their dollars. “We think consumers are looking to maximize the value of high-volume, everyday spending,” says Iwachiw. “Coming out of the recession, people are watching their money much more carefully, and cash-back appeals to them.”

You don’t even need to ramp up your spending and surpass a threshold to get the reward. The new TrueEarnings card from Costco and American Express, for example, gives cardholders a return of up to two per cent on gas purchases, three per cent on restaurant spending, and up to one per cent on the rest, both at Costco and elsewhere. You get your annual refund each January in the form of coupons usable at Costco, but you can exchange them for cash. It’s an attractive offer, especially for a no-fee card.

And the rising popularity of cash as a reward is creating a twist on the cash-back theme: the cash card.

Cash cards combine features of gift cards and debit cards. Like a gift card, the amount on the card is pre-paid and is used like cash. But, like a debit card, you can use the cash card pretty much anywhere the vendor accepts it.



While they are now finding many uses – payroll and government benefits, for instance – cash cards are also gaining acceptance as a payment vehicle for loyalty programs. In this application, the cash card replaces coupons, which are easily lost, and when customers ask for replacements, there is no way to check whether they were issued or used.

DCR Strategies Inc. of Toronto manages TruCash pre-paid card programs for Visa, MasterCard and Discover. When a client company wants to reward customers, they issue a card loaded with a cash rebate. In the “open-loop” version, the customer may use the cash card anywhere that Visa, MasterCard or Discover are accepted; in a “closed-loop” version, they must spend it with specific merchants that are included in the program.

“It’s not just a payment system but also a customer tracking system and database,” says Sara Mackay, vice-president of new business development at DCR. “We can track where it is being spent and which promotions work best.”

The Buffalo Sabres issue pre-paid Discover cards to their season ticket holders. They load a percentage rebate onto the card, depending on the value of the seats purchased, and the cardholder can spend them anywhere

in the First Niagara Center: at concession stands, for merchandise or for non-hockey events such as concerts. “People like using them,” says Mackay, “because it’s like getting something for free. Customers feel rewarded and appreciated.”

## EASING THE GAS GOUGE

Just as cash-back helps people fight the battle of the budget, gasoline rewards help beat down a common budget killer. “The gas price rise has certainly helped grow our membership and card usage,” says Jim Kozack, vice-president of marketing for Canadian Tire Financial Services, issuer of the Gas Advantage MasterCard; membership has climbed 13 per cent in the last 12 months, in concert with a relentless rise in gas prices. It’s all the more remarkable because credit card growth in general has been flat over the same period. “Gas is a very emotional purchase when it comes to price,” says Kozack. “People drive across town for a two-cent savings, and that’s your immediate minimum gas price rollback when you use this card.”



With this program, Canadian Tire has also turned reward attainability into reward immediacy, by pioneering a brilliant way to deliver its gas savings. When you swipe your card through the self-serve reader at the pump, the actual price-per-litre on the pump rolls back, based on your last month's net new purchases. If you spent up to \$499.99, the rollback is two cents; if you spent \$500 to \$999.99, it's five cents; between \$1,000 and \$1,999.99, it's eight cents, and beyond that you pay 10 cents a litre less for the entire month, or until your Canadian Tire gas bar purchases exceed \$700 that month, at which point you return to a two-cent rollback. "That's the magic," says Kozack. "You're not waiting for a rebate, you're not waiting to reach a threshold. You get an immediate benefit."

## MOMENTS YOU'LL NEVER FORGET

At the other end of the spectrum is another new and popular reward: the once-in-a-lifetime experience. Special access was brought to prominence by American Express "Front of the Line" privileges, which allow members to buy event tickets before the general public. But Starwood Hotels & Resorts Worldwide has opened up a new dimension by giving its Starwood Preferred Guest (SPG) members the chance to buy or bid on rare experiences: singing onstage with Sting, a private voice lesson with pop star Natasha Bedingfield, a tennis clinic with U.S. pro James Blake at the US Open, a round of golf with pro Colin

Montgomerie or, in Canada, a pre-party with U2 before their concert at Toronto's Rogers Centre – and that's just to name a few.

Members can buy some Moments rewards with their points – such as watching the US Open from a private suite. Others, they have to bid on. The clinic with James Blake went for about 60,000 points, the Bedingfield lesson went for 20,000 points, and Super Bowl tickets with sideline access went for the all-time record of 550,000 points.

It adds up to some real excitement for members – and buzz for the Starwood brands. "We're smaller in terms of our number of hotels," says Gretchen Kloke, vice-president of global loyalty marketing for SPG. "But this is why SPG focuses on experiences, rather than gift cards or merchandise. It is something that sets the SPG program apart, and it's very difficult for others to duplicate."

## NEW MARKET, NEW REWARDS

When Cineplex decided in 2007 that it wanted to know more about its 60 million a year movie-going customers, it launched its Scene loyalty program – in partnership with Scotiabank – with rewards targeted to that market: a free movie for every 10 they see, and discounts at the concession stand. At three million members, Scene is now recognized as one of the most successful new entries in the industry.

But it wasn't just the free movies and popcorn deals. Scene has turned into an "entertainment access" portal,

# FAST WAYS TO FLY ✈️

Since the invention of the frequent flyer program – American Airlines with its AAdvantage program was the first big airline to offer one in 1981, although theirs was not the very first – travel rewards have topped the list of preferred rewards. For those who chase the dream vacation, RewardsCanada ranks the top travel rewards credit cards each year.

RewardsCanada.ca identified leaders in five categories. Founder and CEO Patrick Sojka says, “It’s virtually impossible to pick one best card – it comes down to what’s best for you.” He suggests, however, that most Canadians are best off with a travel points credit card or a hybrid card that allows you to use points for any travel or hotel expenditure, while business travellers may prefer a tied program for one airline or one hotel. Here are the top picks:

**TRAVEL POINTS CARD WITH FEE:** Aimed at the top of the market with a fee of \$120, the Capital One Aspire Travel World MasterCard nevertheless gives you a rate of return of up to two per cent on all purchases, which can be used toward travel with any provider. Insurance covers travel accident, baggage, car rental, trip cancellation and out-of-province travel medical – an outstanding package.

**TRAVEL POINTS CARD WITHOUT FEE:** The 1.25 per cent rate of return puts the American Express Blue Sky credit card in close range of the fee cards. Points can be redeemed against booked travel up to 12 months after the charge is posted. You can redeem as few as 10,000 points, so you only need to spend \$8,000 a year on the card.

**HYBRID CARD WITH FEE:** American Express Gold Rewards took top place in this category for offering two points per dollar on gas, grocery, drug-store and travel purchases, and the flexibility of redeeming the points to pay for any travel charge on your statement through the TripFlex option. The RBC Visa Infinite Avion card came a close second for the ability to book flights with any airline and no blackout periods.

**AIRLINE CARD:** One of Canada’s most popular cards, the CIBC Aerogold Visa Infinite offers 1.5 Aeroplan miles – and thus access to Air Canada’s unequalled flight network – for every dollar spent on grocery, gas and drugstore purchases. It also has “decent” redemption rates, especially on business-class tickets, which Sojka says give you the greatest rate of return on any credit card spending.

**HOTEL CARD:** A tie between Starwood Preferred Guest credit card from American Express and the Priority Club Rewards World MasterCard from Capital One. Sojka says the Starwood card is “the choice if you’re looking for good elite-status perks or great airline transfer ratios.” The Priority Club card gets praise for cardholders getting a free night for as few as 5,000 points, great insurance and benefits, including trip cancellation and out-of-province medical coverage, as well as automatic Gold Elite status, with all spending counting toward Elite status.

with carefully crafted rewards and contests that appeal to a young, entertainment-oriented market.

For example, members may get invitations to movie premieres and launch events with actors such as Julianne Hough. This summer, members could participate in an exclusive online chat with the band Allstar Weekend. But Scene has ramped up the excitement and created a Scene community where members redeem points to enter contests and play games with high-value prizes. A draw for Lady Gaga tickets in Las Vegas, for instance, cost 50 points to enter. Another offered a chance-of-a-lifetime prize of flying to Osheaga Festival concerts in Montreal and writing about the experience on the Scene Facebook page. Later this year, Scene will be launching a movie trivia game on its Facebook page, where members can challenge to earn more Scene points.

“We were looking for a psychographic rather than a demographic,” although the 18-to-45 age group dominates, says Scene general manager Shawn Bloom. “It’s for people who like movies, concerts, entertainment and dining out. For us, the value is in the data we collect about customers, and that gives us the ability to create programs and events that interest them and bring them back more often.”

Yes, travel rewards are still the king in the land of loyalty, but there are now many contenders. ■