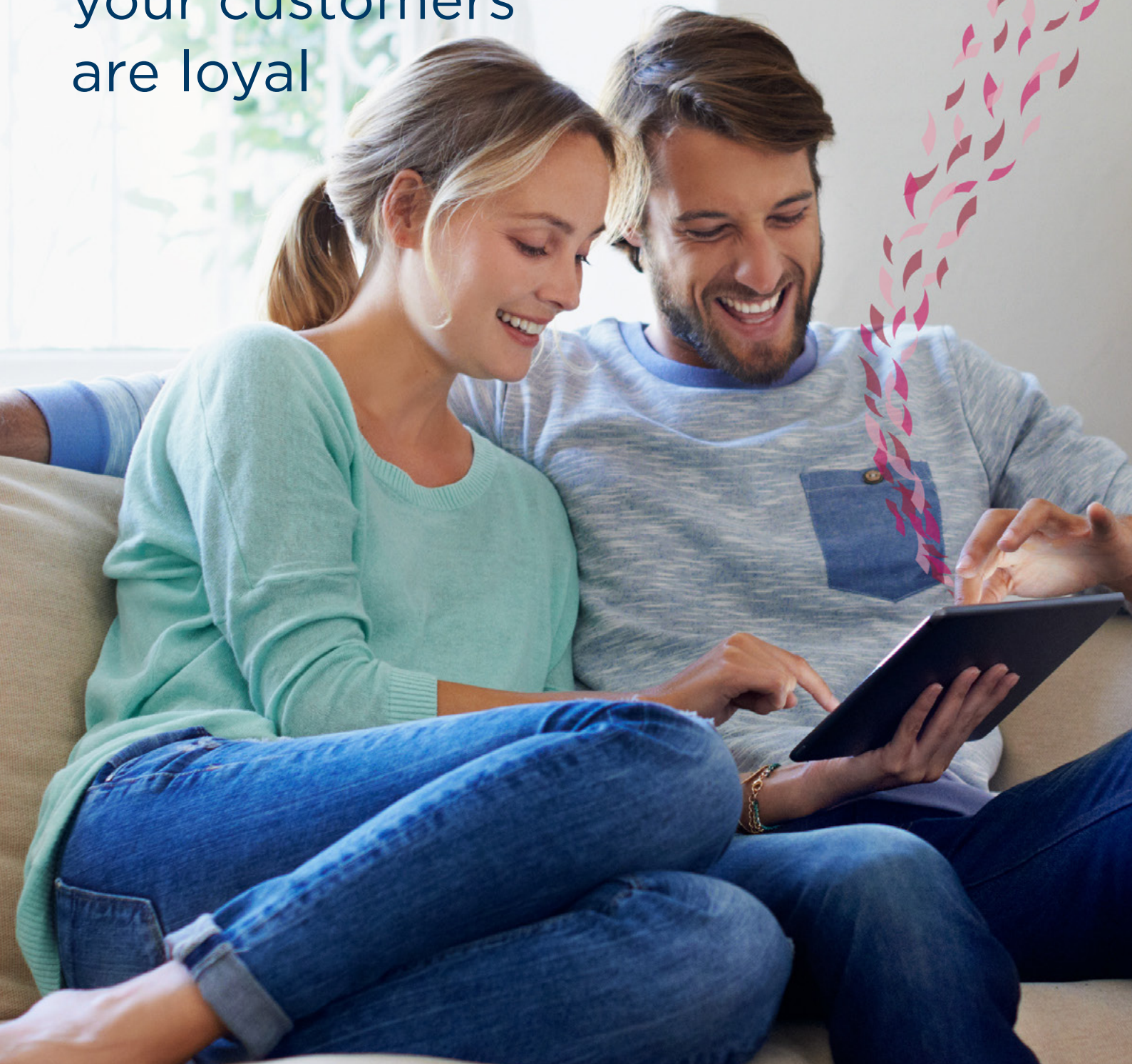




Redemption:
the real reason
your customers
are loyal





Introduction

For most loyalty marketers, redemption is viewed as the “second cousin” to member acquisition or earning activity. A reward is simply an enticement for the customer to make repeated purchases, and then the brand must follow through with this promise when the customer completes a redemption activity.

Redemption is not, however, the “reward” at the end of a series of actions. It is actually the prime mover of your loyalty programme. It is redemption, not earning, that is the engine that drives repeated engagement and deepens the relationship between customers and brands. The experience and satisfaction of getting a reward is what really motivates your customers.

Loyalty reward programmes exist, at the most basic level, to drive incremental revenue.

They motivate and support increased customer engagement and reward loyal customers for repeated engagement with a brand. There are many nuances to today's programmes, but the core activities for members are earning points and redeeming points. Points are primarily earned through purchasing behaviour, but as the importance of advocacy and influence become more apparent, industry-leading programmes award for a variety of behaviours that support brand profitability. When viewed as a linear relationship, membership acquisition is followed by earning, and only then does redemption enter the picture.

Collinson is deeply committed to understanding the relationship between "earning" and "burning" to help our clients achieve the best results for their loyalty programmes. We've conducted big data analysis using frequent flyer programme (FFP) data from three different regions around the world. This includes analysis of millions of earning and redemption activities and customer behaviour associated with those activities. Additionally, we conduct annual value of redemption research with 5,000 frequent travellers to understand their loyalty experiences.

The results of our research in the travel industry offer insights that can be leveraged in other sectors as well, such as retail and financial services, to drive loyalty rewards programme success. The research clearly identifies redemption as the prime mover for a loyalty programme, and this paper will highlight three factors that can help loyalty marketers: redemption frequency, core vs. non-core rewards, and low vs. high value rewards.





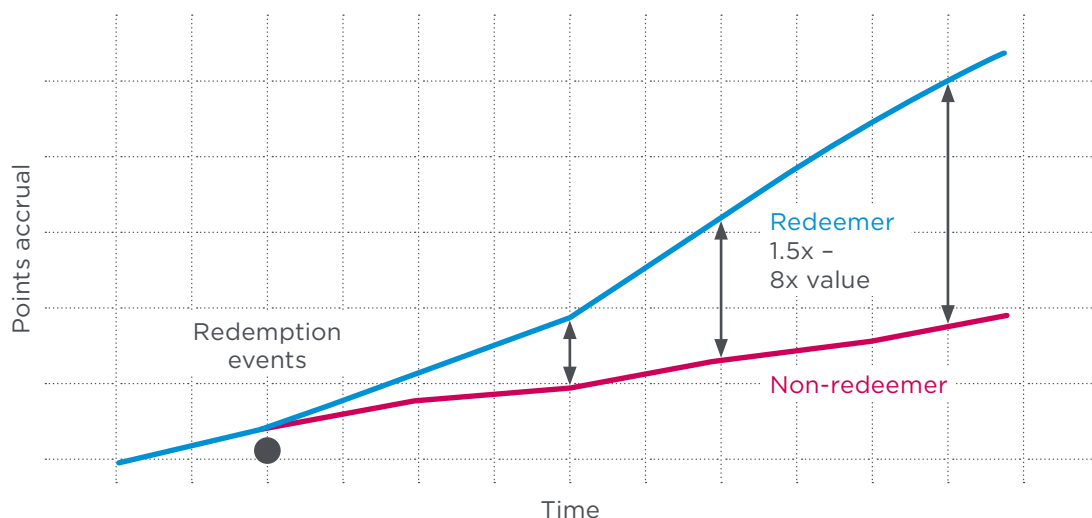
Redemption frequency matters

Redemption, not acquisition or member earning, is the key to loyalty programme success. The metrics of redemption should be viewed as a proxy for engagement – and engagement is where the rubber meets the road in converting membership interest in your brand into action – from purchasing activity to advocacy. The experience of choosing and receiving just the right reward is an experience that drives emotional engagement with your brand.

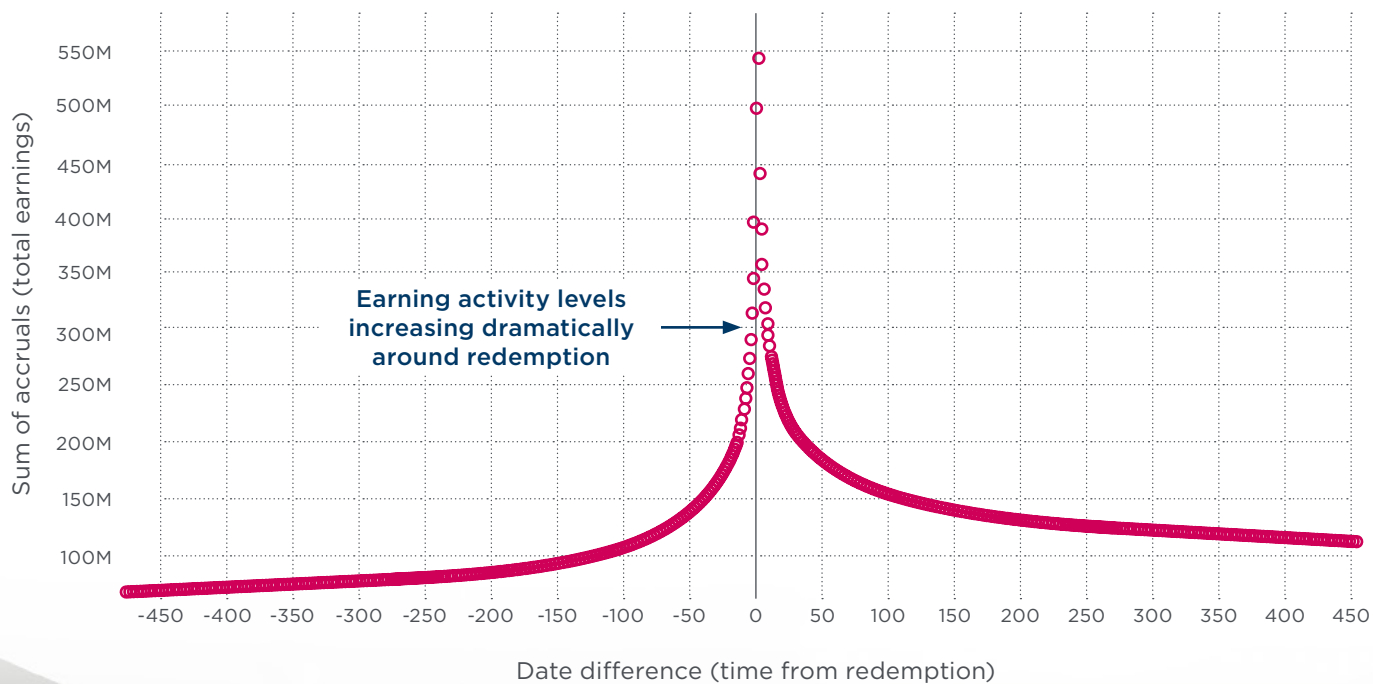
How important is redemption to current and prospective members? Collinson research has shown that redemption is such a powerful experience that 93% of customers who join

a brand's loyalty programme do so with the intention of redeeming loyalty currency, and over half of them even have a specific redemption in mind before they join!

The act of redemption creates “stickiness” in the relationship between a member and your brand. Beyond the emotional engagement, customers who redeem their loyalty currency are worth one-and-a-half to eight times more than non-redeeming customers (including non-redeeming loyalty programme members). And members of retail loyalty programmes who redeem points for gift cards ultimately spend an extra three to five times the value of the gift card on additional products.



There is a run-up of earning activity as a member approaches a redemption event and then, as expected, an initial fall-off in activity post-redemption:





How this redemption cycle looks for your loyalty programme members can be nuanced.

Data analytics of your loyalty programme and member activity can yield a variety of insights and variations to which you should be attuned. Here are some things to look for if you undertake this kind of analysis:

- Earning activities pre-redemption: is there a strong and continuous activity level building to the redemption event? Or are there lulls in activity that provide opportunities to proactively communicate with members to help them reach a redemption goal by encouraging earning activities?
- Earning activities post-redemption: a drop-off in earning activity after redemption is, of course, normal and to be expected. But how quickly does a member resume engagement with your brand? Does it recover to former levels or does it taper off? Each of those scenarios is worth further investigation, and could present a chance to encourage re-engagement. A lower level of earning activity after redemption may indicate that a member is cashing out and is a churn risk. Never lose sight of the reality that it can cost 5-25% more to acquire a new customer versus retaining an existing one (Tiffani Bova, Growth IQ, 2018)!

Harvard Business Review (Jan-Feb 2017) examined the role of habit in loyalty – what they termed a ‘cumulative advantage’ for brands. The gist of the argument is that once customers are familiar and comfortable with a brand, if it is easiest for them to continue to purchase from that brand, they will do so. That may not (initially) yield a customer who is emotionally engaged and readily advocating for your brand, but it does yield a customer who continues to purchase from you versus from a competitor.

Our research suggests that, at least within the travel industry, 65% of loyalty programme members are increasingly inclined to fly, stay or purchase with the same brand again after a redemption event – up from 59% just two years ago. Some of those customers may be passionate about your brand and actively advocating for it. Others may be re-engaging out of habit. The bottom line is that, post-redemption, you have a customer that has a relationship with you. The opportunity available is to deepen that engagement: to personalise communications, learn more about your customers, and fuel continued earning activities to turn the engine of redemption.

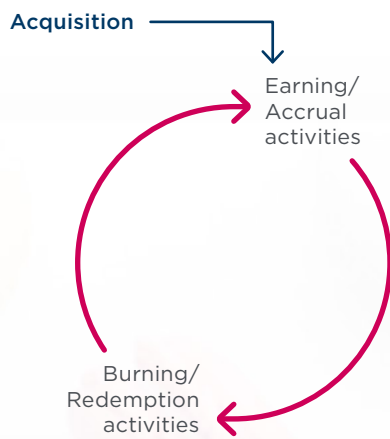
Your programme’s marketing goal post-redemption is to quickly reignite members’ interest in earning points at a time when they have low points balances and are most vulnerable to defection. And for members who have healthy balances, but haven’t yet redeemed? Expired points should never be viewed as a savings for the bottom line of a programme; they are a missed opportunity to grow your business.

Summary

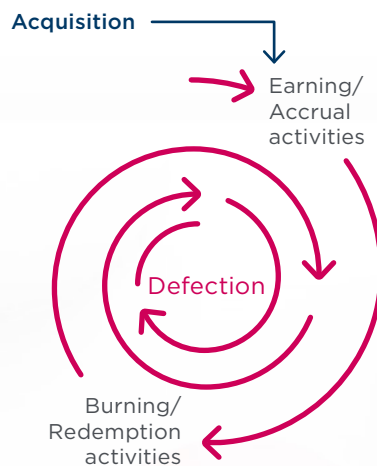
Creating sustainable habits of loyalty, increasing earning activity, boosting overall brand engagement and loyalty; redemption is the prime mover for all of these in your loyalty rewards programme. It also makes your programme one that gives your customers the satisfying experience they want. Coupled with a carefully calibrated communications plan as part of your overall loyalty strategy, a target of frequent redemptions can properly refocus you on the retention of customers.

Loyalty marketers sometimes envision their programme running like scenario **A.** in the figure below: a well-balanced machine with

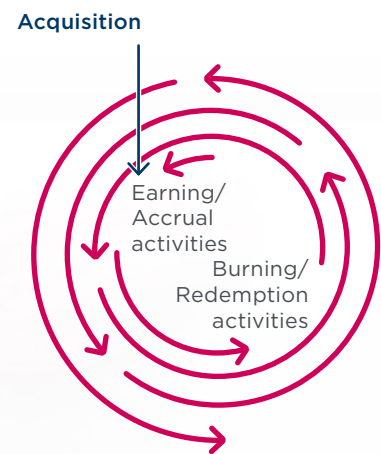
member acquisition and calibrated earning and burning activities. What may happen when focusing on acquisition and earning, however, is illustrated in scenario **B.** – a slow spiral with infrequently redeeming members engaging in fewer and fewer accrual activities after each sporadic redemption until they eventually defect. Programmes that offer varied ways to earn and that encourage frequent redemption – especially lower value redemptions that push frequency metrics – can create a profitable cycle where redemption drives earning. Finally, in **C.** we see the ideal state – redemption activity actually increasing member engagement and driving earn activity.



A. What we imagine is happening



B. Too few redemptions of too high-value rewards establishes a downward spiral of engagement



C. Increased frequency of redemptions spurs an increase in earning/accrual activities

Just a 5% increase in customer retention can drive up to a 75% increase in profitability (Bova, 2018, p. 186). Evaluating how you motivate and perhaps even incentivise loyal customers to redeem more frequently is a great way to boost those retention numbers and increase your brand's profitability.

About Collinson

Collinson is a leading global loyalty and benefits company. We craft customer experiences that enable some of the world's best-known brands to acquire, engage and retain the most demanding, choice-rich customers.

Our loyalty experts differentiate our clients' propositions using our unique combination of loyalty strategy, award-winning solutions and loyalty services. We drive long-term engagement by creating deeper, more meaningful connections.

We have 30 years' experience working with the world's leading payment networks, over 600 banks, 90 airlines and 20 hotel groups in over 170 countries. Our clients include Visa, Air France KLM, Mastercard, British Airways, Qatar Airways, Alpha Bank, Mandiri, IKEA, American Express, Intercontinental Hotel Group, Hilton and Radisson Hotel Group.



23 locations



14 countries



2,000 talented individuals



800+ clients

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