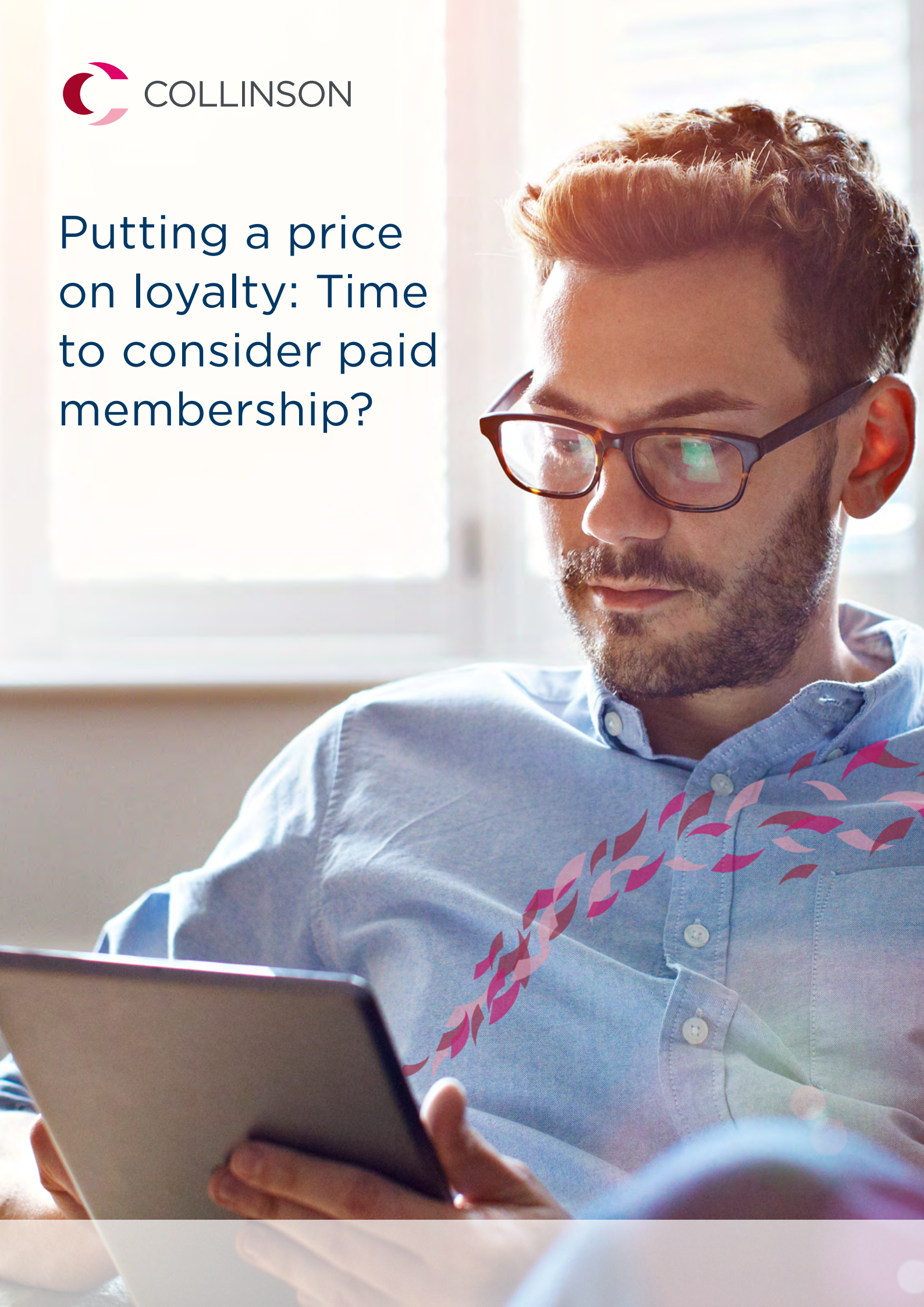



Putting a price on loyalty: Time to consider paid membership?





The rise of paid loyalty programmes signals not just a new tactic in the arsenal of loyalty marketers, but a sea-change in loyalty itself. Customers are changing, their expectations are changing and for some brands, delivering a paid membership programme may be the way to target loyalty to some of the new realities of delivering experiences increasingly desired by customers.

Why are we now seeing a rise in the consideration and the deployment of paid loyalty schemes?

We believe that the combination of three trends is creating an environment for this change: the rise of the subscription economy, the increasing importance of customer-defined experience and an under par performance of traditional loyalty programmes.

TREND 1

Rise of the Subscription Economy

The product economy, where ownership was the goal, is being increasingly replaced by the subscription economy. Rather than buying a product outright, customers and businesses rent, or pay a subscription, usually monthly or for just the times they need the product. We are seeing this trend across most industries, from software (Adobe®) to car sharing (ZipCar), we see customers and businesses embracing the subscription model. While not a new idea, subscription models began to enjoy widespread adoption in the wake of the 2007-2008 recession. Companies and consumers were eager to embrace financial models that provided maximum flexibility in the wake of economic flux.

Businesses welcomed as-a-service models that allowed them to purchase only the software and other technology that they needed for the number of employees they currently had – with the option to increase or decrease their subscription on a monthly basis. Consumers welcomed the flexibility of subscription services over ownership as a way to selectively opt-in to only the goods and services they wanted, with (mostly) penalty-free opt-out options if their financial situation changed. The subscription model often allows a smaller regular payment, rather than a single transaction thus allowing for the purchase of higher ticket items at an affordable rate.





TREND 2:

Customer-defined Experiences

The desire for consumers to define, create and manage their own experiences is the second trend that has helped to create a rich environment for paid loyalty. Ever since the term “Experience Economy” was introduced by Joseph Pine and James Gilmore in 1998 (Harvard Business Review), we have seen the move to customers demanding – and brands trying to provide – brand experiences. The phenomenon of customer-defined experience manifests under a large umbrella of topics covered by marketing and loyalty agencies and research organizations. Forrester Research, for example, has been

publishing around the theme of the “Age of the Customer” since 2011. More recently, they focus on best practices for “customer-obsessed” companies. And it has been increasingly difficult to tease apart the concepts of “engagement,” “loyalty,” and “customer experience.” In fact, you really cannot engender customer loyalty without attention to engagement with customers or creating a customer-centric experience. Indeed experiences are important enough to the consumer that according to Cap Gemini, 81% of consumers are willing to pay more for a better experience.

TREND 3:

Under-performance of Traditional Loyalty Programmes

Loyalty programmes do not really have an acquisition problem, they have an engagement problem. Enrolment in loyalty programmes continues to increase, although the rate of increase has slowed from a high of 26% per year to 15% for 2014 to 2016 (2017 Colloquy Loyalty Census). Customers abandon loyalty programmes for a variety of reasons, but the Colloquy study suggests that members' inability to earn a reward (57%) or their interest in the rewards on offer (53%) are among the top reasons for disengagement.

There is a deeper level to this as well and our experience suggests that one or more of the following factors contribute to brands' challenges in engaging fully with members once they have joined a loyalty programme:

- 1. Lack of Differentiation.** Customers today are bombarded with marketing and loyalty messaging. Brands do understand differentiation is essential to success. In a recent study that Collinson commissioned Forrester Research to conduct, 68% of brands believe that competitive differentiation is a critical or top priority for customer strategy. Tied with differentiation is a desire to increase brand loyalty and advocacy. To succeed, therefore, the brand must meet both criteria : a brand and its loyalty programme (itself deeply aligned with the brand and the brand values) that are differentiated.
- 2. Data Poor, Incomplete Data Analysis.** Data is the life-blood of loyalty. Understanding what the KPIs and other key metrics are to be measured is a critical starting point to the success of the programme. A key priority should always be clarity on what data will be collected, how it will be collected, and how it will be analysed.

- 3. Lack of Insight.** For a programme to succeed it needs to understand both the customer, and their context. Often, brands are already halfway here – they have collected mountains of data! But just relying on raw data streams is not enough, there must also be some insight into what motivates customers, what demotivates them and what they think and feel about the brand. Programmes should not be built on the basis of just what a brand needs, but rather on how to win, engage and appropriately reward members. Leveraging advanced analytic capabilities including machine learning and other aspects of artificial intelligence technologies are essential to turning data into insight.

The rise of the subscription economy, customer desire to define their own experiences, and the under-performance of existing loyalty programmes - together, these three trends help describe the inevitable evolution of the traditional marketing approach of "right person, right message, right time." Customers, effectively, have now become habituated to a subscription model and they expect that model to perform to their expectations. Additionally, customers of all kinds (both consumers and business customers) are buying into options that allow them to set the terms for their engagement with brands. Rather than brands making the decisions about message content and delivery, now customers are taking charge and are willing to pay for subscriptions to have products delivered when and how they want them. When compounded by an increased disengagement with traditional loyalty programmes, the stage has been set for a new kind of paid loyalty programme.



Will paid-for programmes provide a new lease of life for loyalty programmes for both clients and members?

From a customer perspective, the answer appears to be a resounding yes. Loyalty One claimed that 62% of respondents would consider joining a paid for loyalty programme if their favourite retailer offered one; these numbers increase to 75% and 77% with 18 - 24 year-olds and 25-34 year-olds respectively.

65% said customer rewards were worth paying for if relevant to their needs, and 47% said rewards in fee-based programmes were better than rewards in free programmes. Among 18-24 year-olds that number rose to 79%. Based on this data the paid for experience is part of the future of loyalty.

But are they right for you? Early on in any client conversations we almost inevitably ask the question “what problem are you trying to solve?” Before starting down the road of developing a paid-for loyalty programme the decision has to be made as to what you want to achieve from the programme. In spite of the seemingly inexorable rise of paid for loyalty programmes, they may not be the best solution for your particular circumstance.



The advantages of a paid-for programme can be considerable.

Rather than being one of many forgotten and under-used programmes, a paid programme is likely to help the brand become the default destination for a customer. Having invested real cash in the programme the member will be looking to get a return on their investment. This is a key advantage of members paying a fee; you are not only more likely to encourage the membership of your best and most committed customers, but also for the brand to be the first port of call.

Other advantages and considerations include:

- Far better funding than a free programme. This will allow higher levels of investment for programme development and of course a better portfolio of rewards to further engender loyalty.
- Higher quality data both at joining and point of purchase as the customer is investing in the brand. More data leads to deeper analysis opportunities which in turn leads to better and more relevant communications, benefits and rewards.
- ROI will be higher and faster due to fees, and the much higher probability of repeat purchase. Another advantage, with the absence of points in a paid for route, is the issue of how to account for and deal with breakage will no longer a consideration.
- Higher risk. Get the pricing and the value exchange wrong and the programme will be punished. If the perceived value is out of balance a paid loyalty programme can fail as quickly as a free programme. For example, the now defunct Hilton Select programme and in the UK the Game Elite programme were heavily criticised in the trade press for having little value.

The value of a paid loyalty programme is a complex notion.

In the initial stages the member will likely make a simple heuristic mental calculation: Will I save money if I join this programme? For example, the \$50 it costs to join Lands' End® Canvas circle membership: a member will get benefits such as 20% off full-priced merchandise, 10% off sale merchandise, plus free shipping and free returns. Each customer has to ask themselves "Will a \$50 membership fee save me money or not?"

For those programmes with a wider portfolio of benefits such as Amazon Prime, the equation may be a little more complicated. The signature benefit of free shipping may be enough for many (and part of the value equation will be convenience). For those where the free shipping is not enough, Amazon Prime offer a whole slew of other benefits, such as streaming video, music and gaming content. Not only will the customer need to consider the added benefits in isolation, but also where they fit in combination with other services to which they are already subscribed.

The revenue generated by paid for schemes is also allowing some brands to develop programmes where a free programme would not be possible. In the UK, EasyJet have launched their EasyJet Plus programme. Under normal circumstances EasyJet, as a low cost airline, would have thought seriously

before launching a frequent flyer programme (FFP) on a par with the premium airlines – the cost of the infrastructure and resources alone can be considerable. However, the context in which a key demographic found itself was changing. Business travellers are increasingly no longer allowed to book business class on short haul flights. This meant the points earned through a premium carrier's FFP were far lower, in other words, their FFP were of no use to them. EasyJet Plus membership can be bought for less than the price of a business class upgrade and provide frequent flyers with many of the benefits that the now unobtainable elite status would have previously provided. The flyer now gets a better experience and the airline has generated an additional revenue stream.

The previous examples are essentially based on transactional loyalty. However, we are seeing examples where paid programmes engender a far deeper level of emotional loyalty. Such a programme is Rapha®'s Cycling Club which is specifically designed to tap into the passion of cycling. While membership does provide some transactional benefits the core of the club is about being part of the Rapha® cycling community and shared experiences as rewards. By facilitating group rides, meetings and unique clothing the programme creates an exclusive club around the concept of the cycling culture.



The advantages of a paid-for programme are clear, but does that mean brands should forget about a free programme?

The most basic advantage of a free programme is the potential size of membership. A paid approach will restrict your membership. A free approach, with no barrier to membership, will deliver more customers into the programme.

If you need to know more about who is buying from you, a free programme may provide a better solution. Fee-based programmes will only target a narrow range of your customer base. A free to join programme will allow you to collect data, and understand potentially all your customers. While that may include a number of single-transaction purchasers the wastage can be measured and managed.

If the objective is to gain an extra sale or an extra visit a free programme will provide a larger base to target. So while the percentage taking up the offer may be lower the absolute number will be greater.

The nature and structure of a traditional programme allows different rewards for different customer types. The majority of paid programmes are one-size-fits-all. Once you are a member they don't tend to differentiate between different behaviours or the different value of a customer. A free programme through the use of points and tiering can not only reward different groups, differently but can also create behaviour change through loyalty programme techniques and other behavioural nudges. Further, the very act of redemption creates greater loyalty. Our own research saw that 65% of members would fly or stay with the same airline or hotel brand "whenever possible" following a positive redemption. The power of earning a free gift should never be underestimated. The benefits of a free and open loyalty programme are very tangible.

Is a paid membership loyalty programme right for your brand?

Paid membership loyalty programmes are clearly a popular trend right now, but they should be considered as a specific tactic in an overall loyalty strategy. Is a programme like this the right approach for your brand? Consider these points:

1 Is your current loyalty strategy focused on customer acquisition or customer retention?

Having a clear focus for your overall strategy can help you better evaluate the balance between for-free loyalty programmes and paid loyalty programmes. Traditionally, for-free programmes have been used to drive acquisition and for-fee programmes used to target retention, but every brand is unique.

2 Is your customer base (and existing loyalty programme if you have one) clearly segmented?

Paid membership programmes are often very helpful at re-engaging with higher tier customers who may not currently transact enough to retain their previous tier's status, but who enjoyed the prestige and benefits of the tier, and are willing to pay a fee to recapture those benefits.

3 Do your loyalty programme benefits lend themselves to be bundled and delivered as a unique offering to customers?

If you have an existing for-free programme, a membership programme tactic must be complementary to that programme without devaluing and demotivating the behaviour of existing loyalty programme customers.

4 How well do you know your customers and their preferences?

Customer demographics matter. Younger customers are showing a willingness to pay for loyalty programme and benefits that deliver the kind of experience they want.



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.



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2,000 talented individuals



800+ clients

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