



## State of the LOYALTY INDUSTRY™

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### **First, Do No Harm: The Loyalty Providers' Role in Protecting Our Clients' Brands**

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Talking about work over coffee with a close friend recently, she remarked, "You know, I don't envy you your job right now. How is any company getting loyalty out of consumers in this economy?"

Her pity for me – and all loyalty marketers by proxy – is not completely unfounded. Consumer trust in U.S. business is low. In fact, it's at its lowest level in 10 years, dropping from a high of 58 percent in 2008 to a dispiriting 38 percent, according to the 2009 Edelman Trust Barometer. To put that in perspective, that's even lower than immediately after the Enron scandal. Maybe that's not astonishing after the beating the economy has taken in the last two years, but it's a statistic that has to weigh heavy on anyone responsible for managing a brand or nurturing customer loyalty.



That decline makes all the more concerning the recent news reports taking several loyalty providers to task for promoting what the reports consider to be deceptive online marketing practices. According to the findings of an ongoing Senate investigation, these companies are accused of using promotions on reputable ecommerce websites to lure customers into unwittingly enrolling in fee-based membership clubs. The practice is enabled by the e-commerce companies themselves, who pass customer credit card data directly to these third parties without clearly notifying the customer. Some consumers say they only realized they'd been charged a membership fee months later after noticing unexplained 'mystery' charges on their credit card statements. What is perhaps most unfortunate and ironic about these revelations is that all three companies involved promote themselves as leaders in the consumer loyalty space.

This irony has not been lost on Sen. Jay Rockefeller, chairman of the committee leading the investigation, who said during the recent hearings, "Tricking consumers into buying goods and services they do not want is not okay – not even close."

Whatever the outcome of the investigation, Sen. Rockefeller's point should be taken to heart by any marketer whose objective is to drive true customer loyalty. Clearly this type of scheme does nothing to engender loyalty, let alone build a relationship of trust and mutual benefit between customer and brand.

Of course, this situation involved only a relatively few number of loyalty programs. More pervasive in our space right now is the number of companies – from financial services to hospitality – that are either implementing or considering strategies to *devalue* their loyalty program in an effort to improve their financials. While in some cases such changes are reasonable, even advisable, we assume at our own peril that consumers won't take notice. They will notice, they will react, and they will speak out. The reality is, of course, that some programs are simply too rich at the moment -- their earnings and rewards structures were designed when the economy was more flush and as a result the numbers don't work any more. So I understand the need for a shift in strategy.

At the same time, I strive to be very customer-centric when I consider any loyalty strategies, primarily because I believe consumers are savvy and are able to see through schemes that are mostly self-serving for the brand and don't take their loyalty into consideration. Given time, consumers will figure out the difference between brands sincerely interested in mutually beneficial relationships and those simply looking to exploit them. Devaluing points is transparently *non*-customer-centric -- its basically changing the rules in the middle of the game, even when I (the consumer) have been delivering the requested behavior in good faith. It might make near term financial sense, but it's a losing strategy in the long run if the end result is the defection of high-value customers – that's simply the pursuit of quarterly financial goals to the potential detriment of customer lifetime value.

Protecting our clients' brands, then, also requires protecting the consumers who have given their loyalty to those brands. This is not as hard as it might seem, even if devaluing your program is unavoidable. At the most basic level it means thoroughly considering the customer in deciding how to roll out changes that will significantly impact the program value prop for members:

- Consider applying a devalued points strategy only to low and medium value customers. That is, see if the numbers still work if you exclude your top customers from this shift. If you don't need to hit them with this change, don't.
- Consider allowing points already on the books to be redeemed as normal. Only new points earned would come under the new rules. This would certainly be perceived as more fair to existing customers, although admittedly it would add some complexity to the program.
- Finally, communicate, communicate, communicate. If you are going to devalue points, don't make the switch too immediate. Give customers fair warning that the change is coming. Being up front and open with customers about these kinds of

decisions can go a long way toward them giving you a pass on it, even if they aren't completely happy about the change.

A great example of this is how Starbucks has handled the recent overhaul of their My Starbucks Rewards program (full disclosure: I'm fanatically loyal to my Starbucks grande soy vanilla latte, so I might be biased here). Starbucks clearly made a decision last year that they needed to restructure their program, possibly to make it less rich, but also certainly as a move away from the auto-redemption discount model that likely was not driving enough program engagement. Well in advance of implementing those changes, those of us in the existing program were contacted to let us know what to expect and give us time to react. More importantly, as the new program was rolled out, we were sent a high-quality direct mail piece with a new card, a free drink coupon, and the announcement that we'd automatically been enrolled in the upper tier of their new two-tier program structure. Giving existing members advance warning and then reinforcing and rewarding the value of their previous loyalty was a smart move by Starbucks and exactly how all brands should seek to handle such situations.

Optimizing customer lifetime value is about more than how effectively we can extract a few more dollars from trusting consumers. It's about creating a mutually beneficial relationship. Reputable designers of loyalty programs need to look for optimal benefits for all stakeholders – customers, company, channel partners and employees – for any strategy to succeed in building sustainable relationships. Leaders in our industry must hold firm that our solutions are designed to build customer loyalty and engagement with the brand, not take undue advantage of consumer trust and goodwill.

If there is an upside to our current U.S. economic woes, it's that many consumers still see their favorite brands as safe harbor, where their transactions are secure and their loyalty isn't taken for granted. Our goal should be to ensure that this does not become a naïve assumption. Companies with successful brands inherently know that every interaction they have with a customer, employee or their community has an impact on trust. In turn those companies trust us – providers who are in the business of building customer loyalty and engagement – to fulfill our obligation as stewards of our their brand experience and reputation. To truly live into that obligation, we must be at least as committed to the care of consumers as we are to the care of the brands we serve.