**FROM ENTITLEMENT
TO EMPOWERMENT**

RE-SHAPING LOYALTY SCHEMES FOR A MOBILE-FIRST WORLD

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LOYALTY PROGRAMMES ARE EVERYWHERE

THE CHIEF MARKETING OFFICER COUNCIL REPORTS THAT:

96%

OF THE UK
ADULT POPULATION
IS NOW A MEMBER
OF AT LEAST 1
LOYALTY SCHEME

2/3
RD'S OF US BELONG TO
THREE OR MORE
LOYALTY PROGRAMMES

"NEW TECHNOLOGIES ARE CHANGING THE LANDSCAPE FOR LOYALTY. THERE IS NOW AN OPPORTUNITY TO SERVE UP NEW AND COMPELLING OFFERS. THOSE WHO DO THIS RIGHT WILL SEE BOTTOM-LINE BENEFIT"

SIMON ATKINSON, ASSISTANT CHIEF EXECUTIVE OF IPSOS MORI.

This is hardly surprising. For shoppers, such schemes seem to offer 'something for nothing', an even more attractive formula than usual during these straitened times.

For businesses, customer loyalty is a prerequisite of long-term profitability (although not a guarantee of it). Such programmes – reward schemes, member offers, email marketing and all the other forms of CRM – clearly work. In their August 2012 survey on Factors That Impact How We Grocery Shop, Nielsen found that Retailer Loyalty Schemes ranked 5th out of 16 factors in Europe (behind things like Price, Clarity Of Labeling, Healthfulness Of Offer and Cost Of

Getting There, but ahead of things like Organic Products, Recyclable Packaging & Self Service Checkouts).

The real question is whether they could work harder. Shopper expectations have been radically heightened by digital in general, and by the smartphone revolution in particular; and we believe that most businesses are moving more slowly than they should to address this shift.

The goal of this White Paper is to explore in detail the implications of these changes; and outline the steps by which Loyalty Programmes can more effectively connect, delight and motivate in a Mobile First era.

SUMMARY AND TABLE OF CONTENTS

In **The Loyalty Grail** and **Brand Darwinism**, we examine the fundamental importance to business of securing Profitably Loyal Customers and how brands have evolved their proposition from "delivering services" to "guiding transformations" in pursuit of this goal.

The Behavioural Gap suggests most Loyalty Schemes have failed to keep pace with this progression. By remaining primarily Exercises in Entitlement, we argue that they are failing to meet fully the expectations of **The Empowered Shopper.** Nor are they responding to the emerging behaviours we highlight in **Place: The Final Frontier.**

In **Defining Loyalty 2.0**, we examine how brands need to respond. **Attracting Scarce Resources** describes how brands should reward Data and Location in addition to Purchase and Attention; whilst **Empowerment: The New Currency Of Loyalty** emphasises the importance of Personal Recognition, Contextually Relevant Information and Entertainment.

Getting Heard focuses on the different ways in which we believe the CRM communications model needs to evolve in a Mobile First world; whilst **Profiting from Participation** maps the course towards more active and two-way Loyalty Programmes.

Finally, we distil our recommendations into **An Empowerment-Based Model for 2.0 Loyalty Programmes** and outline a **10 Point Action Plan** by which retailers and manufacturers can capitalise on the opportunity.

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SPONGE IS A MOBILE FIRST AGENCY

WE TURN SHOPPERS INTO BUYERS, AND BUYERS INTO ADVOCATES

OUR ROLE IS TO HELP BRANDS STAY IN TOUCH WITH THEIR CUSTOMERS IN WAYS THAT CREATE INCREASED SATISFACTION AND VALUE FOR BOTH PARTIES

Since we were founded in 2002, Sponge has focused on maximising return on investment for its Clients via the mobile channel. We think we have as much insight into the mindset of the mobile consumer as any agency in the UK, probably more.

Our mantra is "psychology not technology". We believe that strategic insight and relevant creativity are the keys to unlocking the channel's potential; technology is simply a means to an end.

Sponge's services cover consultancy; the design and build of mobile first sites; shopper marketing; and mCRM.

Our key Clients include adidas, ASDA, Bacardi, Barclays, Coca-Cola, Evans Cycles, Investec and McDonald's

We would obviously love to get as much feedback on this paper as possible; so please do email any comments you might have to phil.gault@spongegroup.com

The thinking that follows also exists in presentation form.

If you would like us to share that with you and your colleagues, please email Bill MacLachlan on: bill.maclachlan@spongegroup.com

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WHEN ALL'S SAID & DONE, BRANDS EXIST TO BE ENGINES FOR CUSTOMER LOYALTY

IT'S IMPOSSIBLE TO FEEL LOYAL TOWARDS A SMALL PILE OF BEANS (51%), TOMATOES (34%), WATER, SUGAR, MODIFIED CORNFLOUR, SALT, SPIRIT VINEGAR, SPICE AND HERB EXTRACTS.

But add packaging, the implications of pricing and display, the emotional connotations accrued over years of promotion, the resonance of conversations and personal experiences…And, hey presto, you have the engine for loyalty that is Heinz Baked Beans.

The fundamental goal of marketing is to create Profitable Loyalty; that is, to maximise the percentage of customers who are of value to the business attitudinally, behaviourally and financially (the purchases they make minus the cost of servicing those purchases).

Academic studies indicate that genuinely profitable customers are typically just 20% of the total; increasing that percentage by even a point or two will have a disproportionate effect on the bottom-line over time.

THERE ARE MANY BENEFITS TO PROFITABLE LOYALTY

+ THE LIFETIME VALUE OF THOSE CUSTOMERS
+ THE FACT THAT RETAINING THEM IS VASTLY LESS EXPENSIVE THAN ACQUIRING NEW CUSTOMERS (AS LITTLE AS 1/20TH OF THE COST)
+ THEIR WILLINGNESS TO TRY AND BUY NEW PRODUCTS AND SERVICES
+ THEIR PROPENSITY TO ACT AS ADVOCATES ON YOUR BEHALF

When he was running Heinz, Dr.Tony O'Reilly was adamant as to the importance of Loyalty. His definition was an ambitious one: if a shopper couldn't find their favourite Heinz product on the shelf, he expected them to drop their basket and go to another store. That may seem like a stretch target, but it reminds us of two important things.

First - true Loyalty is something active and passionate. Loyalty may well become habitual, but it's a higher order of bond than habit alone.

Second – and we all know this, but too often act as if we'd forgotten it – every brand is made up of two parts: the various stimuli provided by the brand owner; and the multifarious ways in which those stimuli are received, interpreted and responded to by individual consumers.

The interplay of these two elements has been in constant flux since the dawn of marketing; and the rate of evolutionary change is accelerating by the day.

THE FUNDAMENTAL GOAL OF MARKETING IS TO CREATE PROFITABLE LOYALTY

A MODEL OF COMMERCIAL EVOLUTION

EXTRACT COMMODITIES →	MAKE GOODS →	DELIVER SERVICES →	STAGE EXPERIENCES →	GUIDE TRANSFOR- MATIONS →

Brands became brands when they started delivering a service. In Henry J Heinz's case, this was around 1853 when - at the precocious age of nine – he started growing, grinding, bottling and selling his own brand of horseradish sauce from a wheelbarrow in Sharpsburg, Pennsylvania.

At this service level, the value exchange is essentially about Entitlement: this amount of guaranteed utility in exchange for this amount of money.

WHILST 'ENTITLEMENT TRANSACTIONS' STILL HAVE AN IMPORTANT BEARING ON HOW WE SHOP, COMPETITIVE PRESSURES HAVE MADE THEM INSUFFICIENT IN ISOLATION.

It was these pressures that led to the 'Golden Age' of advertising in the 70's and 80's: an era when leading brands used the power of TV and cinema to "stage experiences" in order to create desire and preference. For those of you old enough to remember, British Airways was the classic example with epics like Manhattan and Global.

The Digital Era has moved things on again. The most successful brands still stage experiences, both figuratively in their advertising and literally in terms of event marketing and content creation: witness Red Bull's superb Stratos initiative around Felix Baumgartner's extraordinary speed-of-sound free-fall jump in October.

But now they do something else too. They promise us transformation; be that by 'giving us wings' or by turning each of us into an athlete worthy of celebration.

INCREASINGLY, THE ADVERTISING PROMISE COMES ACCOMPANIED BY DIGITAL PRODUCTS AND SERVICES THAT PROVIDE TANGIBLE REASONS TO BELIEVE

TAKE NIKE+. BY ALLOWING EACH OF US TO TRACK, SHARE AND COMPARE OUR ATHLETIC ACHIEVEMENTS WITH THE WORLD'S LARGEST RUNNING COMMUNITY, NIKE IS PROVIDING BOTH A SPUR TOWARDS TRANSFORMATION, AND A PLATFORM TO COMMEMORATE IT.

When it comes to "guiding transformations", the most highly evolved form on the planet today is Apple...which is one of the reasons it's also the most valuable business in the world. The iPod, the iPhone, the iPad, iTunes – these are all products cum services that have liberated and empowered consumers by fundamentally altering the rules of the game.

Characteristically, Clay Shirky nails it when he talks about "Apple selling transformation". (Although he does go on to suggest that with the iPhone5, they may increasingly be "shipping incrementalism".)

BRAND PREFERENCE DOES NOT GUARANTEE DESIRED SHOPPER BEHAVIOURS

THE LAYERING OF EXPERIENCE ONTO SERVICE, AND OF TRANSFORMATION ONTO EXPERIENCE, HAS BEEN DEMONSTRABLY SUCCESSFUL IN CREATING BRAND DIFFERENTIATION AND CUSTOMER AFFINITY. BUT SHOPPERS – TRICKY BEASTS THAT THEY ARE – OFTEN NEED A LITTLE MORE TO CONVERT PREFERENCE INTO ACTION.

Sometimes, the triggers to action are so embedded in the user experience that we don't even think of them as Loyalty mechanics. Amazon is an excellent example, especially in Mobile. The way it personalises the experience (welcoming me by name); how it makes discovery easy via predictive search, recommendations, barcode scanning and image recognition; the synchronisation of the shopping basket across channels; the minimisation of purchase barriers via one-click payment; even the consistency of design – these are, at heart, all thoughtfully clever ways of maximising Loyalty.

Our focus in this White Paper, however, is on the more overt programmes and tactics: discounts, value adds, reward schemes, member offers and so on; plus the CRM activity that accompanies them.

As we wrote in the Introduction, such programmes are now ubiquitous; especially in sectors like Retail where differentiation is often hardest and competition fiercest. But therein lies the challenge.

THE MORE SUCH SCHEMES HAVE PROLIFERATED, THE MORE LIKELY THEY ARE TO BE SEEN BY SHOPPERS AS SIMPLY 'ENTITLEMENTS'.

ENTITLEMENT IS NOT THE SAME AS LOYALTY

Collector schemes are a good example. Whilst we wouldn't dispute that shoppers value them, we would argue that they engender a relatively low (and decreasing) level of involvement.

The experience has become commoditised: I receive one asset (points) in exchange for another (money). There's a predictability, a direct proportionality and consequently very little delight. Stuart Evans of ICLP has a relevant and appropriately provocative insight here: "If a customer has to pay to receive a benefit, then it is no more than a bribe for future behaviour. If the reward is free, however, then it is a thank you for past behaviours".

In some instances, whole categories have become defined by the notion of Entitlement. Anyone who knows me will be aware I'm a big fan of Australian wine. But what I buy each week is almost solely dependent on what's on offer. The interesting thing is that there is always an offer. Accordingly, I feel no appreciation for the discount – but if for some reason there wasn't one, I'd feel cheated of something I've come to view as an Entitlement.

To be clear: there is nothing 'wrong' with Entitlement per se. It plays an important role in how we shop, and it's an important contributor towards the habituation for which all brands strive. Our point is simply that Entitlement is not the same as Loyalty; certainly not in the active, passionate sense sought by Tony O'Reilly or Steve Jobs or Roberto Goizueta when he led Coke.

We talked earlier about how brands have evolved from 'delivering services' to 'guiding transformations'. It seems to us that exactly the same evolution needs to take place with Loyalty Programmes, and for exactly the same reasons.

IN ORDER TO CREATE STRONGER AND LONGER LOYALTY AMONGST THOSE PRIZED PROFITABLE CUSTOMERS, THE SCHEMES WE DEVISE AND DEPLOY NEED TO BECOME MECHANISMS FOR EMPOWERMENT RATHER THAN SIMPLY EXERCISES IN ENTITLEMENT.

FROM ENTITLEMENT TO EMPOWERMENT

A NECESSARY RESPONSE TO THE CHANGED PSYCHOLOGY AND BEHAVIOURS OF THE MODERN SHOPPER

Many factors are coalescing to give consumers an ever increasing degree of control: ultra competition drives up quality whilst suppressing price; information abundance and the ability to consume the media of choice at the time and place of choice extends knowledge; the availability of purpose- or interest-specific social media channels, and the ability to self-publish within those channels, amplifies opinions; ecommerce brings retail to us and removes the friction of time. And the smartphone revolution is massively accelerating this shift in control.

ONE APPARENT COROLLARY OF INCREASED EMPOWERMENT IS A DECREASE IN LOYALTY.

This is particularly true in terms of ecommerce: any retailer is only ever one click away from desertion. Given that the modern shopper is usually also an impatient shopper, it's hardly surprising that 46% of UK adults say they will abandon a planned transaction if they experience a problem on the web site. And most of them will look elsewhere immediately. If they find a satisfactory experience, they may very well never return.

Even completing a sale online is no safeguard: I was talking to a retailer last month who was frank enough to confess that:

70% OF THEIR ECOMMERCE CUSTOMERS NEVER REPEAT PURCHASE

Given the importance to a business of Profitably Loyal Customers, that's a scary statistic.

As always, what is behaviourally true is also attitudinally true. In terms of expected loyalty towards retailers over the next few years, the latest IGD ShopperVista Loyalty Index shows a negative balance of -6%; whilst expected loyalty to FMCG brands is -14%.

Not surprisingly, this tendency towards disloyalty is most prevalent amongst younger shoppers. Exactly half of 15-24 year olds claim to feel loyal towards a particular supermarket; that figure rises to 71% amongst 55-64 year olds. Of course, we all tend to get more 'loyal' (or at least habituated) as we get older and routine takes over; but there are good reasons to assume that today's 15-24 year olds will be less easily won or retained than their parents were.

MOBILE IS REMOVING THE FRICTION OF PLACE

HAVING ACCESS TO 'PERFECT' INFORMATION (AND COMPETITIVE OFFERS) WHENEVER AND WHEREVER IS A FURTHER MASSIVE LEAP FORWARD IN SHOPPER EMPOWERMENT. IT IS CREATING A NEW SET OF BEHAVIOURS THAT HAVE IMPACT ACROSS EVERY STAGE OF THE PATH TO PURCHASE. AMONGST THE MOST DRAMATIC OF THESE IS WHAT SHOPPERS ARE NOW ABLE – AND KEEN – TO DO IN-STORE.

THE VIBES MOBILE CONSUMER SURVEY FROM AUGUST 2012 HIGHLIGHTS HOW SMARTPHONE OWNERS ARE COMBINING DIGITAL WITH PHYSICAL SHOPPING:

17% ARE USING THE COMPANY'S APP

10% ARE SENDING SMS'S TO RECEIVE MORE INFO

20% ARE RESEARCHING THE STORE'S OWN SITE

27% ARE SCANNING QR CODES

33% ARE COMPARISON SHOPPING ON A DIRECT COMPETITOR'S SITE

31% ARE LOOKING UP REVIEWS TO GET AN IMPARTIAL SECOND OPINION

Findings like these illustrate the dichotomy of Mobile Shopping. On the positive side, there's ample evidence of the opportunity to heighten engagement by satisfying this appetite for additional information.

But equally, there are clear signs of the 'show-rooming' phenomenon that fills so many retailers with dread. As it should: a ClickIQ survey last year explored what percentage of shoppers who searched 3rd party sites whilst in-store subsequently bought via Amazon. Astonishingly, the figures were 24% at Walmart and 21% at both Best Buy and Target.

These are trends that no retailer or manufacturer can afford to ignore. Sponge believes that there is actually a massive opportunity within this threat, and we have written in our previous White Paper (**M-Shopping: Final Nail or Final Hope for the High Street?**) about how we believe brands should respond.

AS OUR BEHAVIOURS CHANGE, OUR ATTITUDES CHANGE WITH THEM

THE MANY NEW THINGS THAT A SMARTPHONE ENABLES US TO DO – COMBINED WITH THOSE PRODUCTS AND SERVICES THAT HAVE HELPED US TO UNDERSTAND ITS FULL POTENTIAL – IS DRIVING A DRAMATIC INCREASE IN OUR EXPECTATIONS.

In important ways, this is re-framing the relationship we have with brands as we increasingly look to them to provide new kinds of utility and deliver the sort of transformative experiences we talked about earlier. Peter Fisk puts it well when he says:

"WHAT BRANDS ENABLE PEOPLE TO DO IS NOW MORE IMPORTANT THAN WHAT BRANDS DO THEMSELVES."

Specifically, the brands we are coming to value most highly are those that help us to get more out of our resources; especially those resources which are scarce. For some of us, that is time. For others, money. For all of us, it's location.

FOR SOME, IT'S TIME

FOR OTHERS, IT'S MONEY

FOR ALL OF US, IT'S LOCATION

THE KEY ATTRIBUTES OF LOYALTY 2.0

The rise of the Empowered Shopper, and the concomitant increase in his or her expectations, is making Loyalty ever harder to win...and even harder to maintain.

To prosper in this environment, brands not only need to elevate their proposition to a more transformative level; they need to support and activate that proposition by re-energising the Loyalty Programmes they run.

WHAT SHOULD BE THE DEFINING CHARACTERISTICS OF THESE SCHEMES ?

The core purposes will obviously remain the same as ever: to ensure the brand occupies the highest possible position in the consideration set (share of mind); to provide the most effective triggers to action (share of behaviour); to maximise spend over time (share of wallet); and to encourage positive word-of-mouth (share of conversation).

But whilst these 'whys' may not alter, the changes in shopper needs and deeds that we examined earlier imply that we must start thinking differently about the 'what' and the 'how'; with particular reference to four main areas:

WHAT ACTIONS WE REWARD

THE NATURE OF THE REWARDS WE OFFER

HOW WE ASK PEOPLE TO PARTICIPATE IN THE REWARD

HOW WE COMMUNICATE THE REWARD

GETTING MORE OUT OF SCARCE RESOURCES

As we mentioned earlier, people are increasingly looking to brands to help them get more out of their resources, especially those that are scarce and therefore most highly prized.

By zeroing in on these areas (and by understanding that different individuals suffer from different types and degrees of scarcity), there is a significant opportunity for brands to make their Loyalty Programmes more relevantly empowering. This does not mean that everything will change.

For many people, **Money** is obviously a scarce resource (particularly at the moment). It follows that schemes must continue to reward spend – not least because purchase is, if not proof of Loyalty, at least a prerequisite for it.

Aimia has written interestingly about how 2.0 Loyalty Programmes could be linked to purchase in new ways. They call it "stealing Amazon's thunder". Their core thesis is that in an increasingly transparent world, you need to move towards offering customers the most competitive price possible – particularly if that customer is measurably and profitably loyal. In other words, you may need to sacrifice margin on today's sale in order to secure and maximise future revenues.
So far, so obvious.

The smart bit is their recommendation that retailers make dynamic price matching an exclusive benefit for shoppers who sign up to a Loyalty scheme. As they say: "Holding customers' hands while they find a lower price online may seem counter-intuitive – until you remember that every action conducted via your app results in proprietary data that is owned by you rather than Amazon".

IGD also brings some useful insight to bear on this. Their research indicates that the current levels of promotional intensity can lead to shopper confusion; 44% of us say we find it difficult to identify best value within a store.

Putting these two together, the implication is that pricing itself is likely to be a key lever within 2.0 Loyalty Schemes; with profitably loyal customers being rewarded with both greater transparency and lower prices. As an indication of things to come:

BEST BUY USA HAS ANNOUNCED THAT STAFF WILL HAVE THE DISCRETION TO MATCH ONLINE COMPETITORS' PRICES DURING THE HOLIDAY SHOPPING SEASON.

THE SECOND SCARCE RESOURCE IS ATTENTION

MARKETERS HAVE ALWAYS RECOGNISED HOW PRECIOUS A COMMODITY ATTENTION IS; AND LOYALTY 2.0 IS LIKELY TO SEE NEW MECHANISMS BEING DEVELOPED TO REWARD IT.

The dramatic growth in dual screening (which is very much a mobile and tablet phenomenon) provides brands with relevant opportunities to evolve the model. Look, for instance, at **Coca-Cola in Hong Kong** and how it used gamification to build attention, recurrence and conversation – all of which are critical drivers towards Loyalty.

Image credit: Mark Kong

It seems inevitable that we'll see many more brands seeking to extract maximum value from the 'magic moments of engagement' they create by transitioning the audience to a second, generally mobile medium. Those individuals who make the journey, and especially those who go on to share their experience of the journey, can expect rewards in the shape of exclusive content or unlockables or flash prizes. This is the sort of amplification model Adam Stewart, Marketing Director of Play.com, is thinking of when he says: "As soon as you can get customers engaging within the social space, the viral element means the reach extends. And that's where the power comes from in terms of loyalty".

As it becomes increasingly critical for brands to develop a single view of the customer, Data will become an even more valuable prize than it is today.

SHOPPERS, OF COURSE, ARE ALREADY AWARE THAT THEIR PERSONAL DETAILS ARE A SCARCE AND HIGHLY TRADEABLE, RESOURCE.

IF WE'RE HONEST WITH OURSELVES, MOST SHOPPERS CURRENTLY GET A PRETTY RAW DEAL IN EXCHANGE FOR THEIR DATA

TOO OFTEN, THE 'REWARD' IS LITTLE MORE THAN IRRITATINGLY FREQUENT EMAILS OF LIMITED INTEREST AND LESS RELEVANCE.

As we'll come on to argue later, this will no longer be acceptable in the Mobile Age. Rather than simply being inefficient, such practices will become measurably counter-productive as irrelevant intrusion into a highly personal space will generate opt outs and – worse – negative word-of-mouth.

As always, this shift will create a real opportunity for those brands smart enough to develop more sophisticated systems for managing and rewarding permission. The race is towards maximum individualisation: across content, channel preference, frequency and context. One single (and slightly depressing) data-point should help make the case. A recent survey by StrongMail found that 80% of emarketers who targeted emails for delivery at a specific time of day saw a measurable improvement in performance.

The depressing part is that more than half of those surveyed weren't segmenting by daypart; nor did they have any test and learn programmes planned to help them get to that segmentation.

If shoppers believe that a brand will only send them content of genuine value – and see that it's working hard to identify those moments and situations where that content will be of maximum relevance – they will be vastly more prepared to provide deeper access to their personal details. Not only is such a display of trust a strong indicator of a propensity towards Loyalty; the scarce data that they surrender provides the raw ingredients required by any truly effective Loyalty Programme.

THE FOURTH, FINAL AND PERHAPS MOST SIGNIFICANT OF THESE SCARCE RESOURCES IS LOCATION

SOME PREDICT THAT THE GREATEST SINGLE SHIFT IN MARKETING OVER THE NEXT DECADE WILL BE THE TRANSITION FROM AN ATTENTION ECONOMY TO A LOCATION ECONOMY.

Whether that's right or wrong, it is self-evidently true that Location is a key determinant of what we are likely to buy and who we are likely to buy it from.

Equally, it is clear that one of the primary implications of the smartphone revolution is that Location comes into play as a marketing driver to a vastly greater extent than ever before.

One consequence of this will be to accentuate the obvious and commercially important conjunction of Local, Social and Mobile; as JiWire found last year, 62% of shoppers are happy to share local deals with their friends. Facebook knows this. Groupon knows this. And newer entrants like **LivingSocial** (which uses social and mobile to "connect local businesses with local shoppers by offering surprise and delight deals on a hyper-local basis" and is now part-owned by Amazon) also know it.

Motivating shoppers to visit your store is the first step towards a sale; and hence the first step towards cultivating a Profitably Loyal Customer. Hence the excitement around location-based services like Shopkick...or indeed Apple's new Passbook feature in iOS6.

Whilst there is already no shortage of these third party 'media plays' (and have no doubt that is their primary model: they will aggregate an audience for you in return for owning your customer's data),

BRANDS – WITH A FEW HONOURABLE EXCEPTIONS – HAVE BEEN SLOW TO JOIN THE PARTY. BUT AS THEY COME TO APPRECIATE THE VALUE OF LOCATION AS A SCARCE RESOURCE, THAT IS ALL CHANGING.

MOBILE MEANS YOU NEED TO SET UP STORE WHEREVER THE SHOPPER IS

Every day seems to bring news of another retailer investing in free wifi in-store; and following hard on the heels of this will be a growing emphasis on schemes that incentivise registration, opt-in and the progressive trading of personal data for rewards. (There's an important caveat emptor here. Many of the companies selling these wifi services are media players themselves. If they're offering you a free lunch, that's simply because they're hungry for ownership of your customers' data.)

Momentum will build further as growth in NFC-enabled handsets and the mainstreaming of scanning technology allow both retailers and manufacturers to stimulate and reward specific actions at the aisle or shelf level.

But of course it's not just about in-store. Retailers are increasingly experimenting with ways of reaching customers wherever they go.

Tesco's recent trial at Gatwick may seem decidedly niche, but it's a fascinating example of how smart brands are now thinking.

FMCG brands like Coca-Cola are increasingly trialling new location-sensitive communications models via internet-enabled poster sites and vending machines. And the wonderfully named Mondelez (née Kraft) is exploring the benefits of offering individual shoppers different mobile experiences based on their location. Working with Shopkick, the same shopper may receive personalised coupons when in-store; and games and other forms of entertainment content at home.

REWARDING SCARCE RESOURCES IN ORDER TO DRIVE SPECIFIC ACTIONS – ENTRY TO A PLACE, THE SUPPLY OF DATA OR PERMISSION, INCREASED ATTENTION, AND PURCHASE – WILL BECOME A KEY FOCUS OF LOYALTY 2.0. BUT IT IS ONLY ONE PART OF THE EQUATION. COMPLEMENTING IT, NEW THINKING WILL EMERGE IN TERMS OF THE REWARD STRUCTURE ITSELF.

"CONSUMERS ARE NO LONGER ONLY INTERESTED IN CARD-BASED PROGRAMMES"

The second main area in which Loyalty 2.0 will look different to current programmes is in the nature of the rewards offered.

We talked earlier about how many reward schemes are fundamentally exercises in Entitlement: the receipt of points in direct proportion to the amount of money spent. This equation is unlikely to disappear anytime soon. Retailers and manufacturers will always want to reward spend directly; and shoppers will always want to see their custom recognised.

The danger is that such schemes are at risk of becoming commoditised, and therefore blunt. I have both a Tesco ClubCard and a Nectar Card for use at Sainsbury's: whose points are worth more ? And how does either offer stack up in value terms against the ASDA Price Guarantee ? I'd consider myself a reasonably well-informed shopper, but I haven't got a clue. Worse, I'm not sure that I really care that much.

Our point is not that schemes like this don't work; they clearly do, particularly in terms of reinforcing habits. But they seem to work at a relatively low level; and increasingly they feel out-of-step with shoppers' expectations. Recent research by The Logic Group and IPSOS Mori found that 42% of shoppers want to receive offers whilst in the act of shopping, not afterwards.

As they put it: "Consumers are no longer only interested in card-based programmes. They are looking to alternatives such as social media and real-time discounting to stay loyal".

The challenge, then, is how to re-invent such schemes in ways that deliver differentiation, maximise relevance and, ultimately, create the sort of proactive and passionate loyalty that converts to on-going profitability.

The answer, we believe, lies in the notion of Empowerment. Whilst there are an almost infinite variety of possible mechanics and tactics, the essential principles of an Empowering Loyalty Programme are three-fold:

ENTERTAIN ME   INFORM ME   RECOGNISE ME

THERE IS NOTHING MORE EMPOWERING THAN BEING TREATED AS AN INDIVIDUAL

WE ALL WANT TO RECEIVE ACKNOWLEDGMENT THAT WE MATTER, TO FEEL THAT – JUST FOR A MOMENT – THE WORLD IS BENDING TO OUR NEEDS AND DESIRES.

Way back when, of course, this was the norm. The shopkeeper would know his customers by name, would remember what they typically bought, would be in a position to tell them that their favourite joint of meat would be coming in tomorrow and offer to put it aside for them.

It seemed that structural and economic changes had put an end to this type of 1:1 service model forever. However, technology – and especially mobile technology – is now giving us the opportunity to re-create it.

OUR MOBILE PHONE NUMBER IS AN UNAMBIGUOUS IDENTIFIER OF WHO WE ARE.

Whilst we swap between email addresses with gay abandon, and frequently discard them without a backward glance, we place a high value on our mobile number. Indeed, once we are 12 or 13, there is every probability that we will keep that number for life.

By securing access to their mobile number, brands have the best opportunity they have ever had to build a relationship with a shopper over his or her lifetime. If we can then accumulate intelligence and insight around that number (a name, regular behaviours, purchasing history, social actions, and especially location), we will be able to empower shoppers in new and commercially valuable ways.

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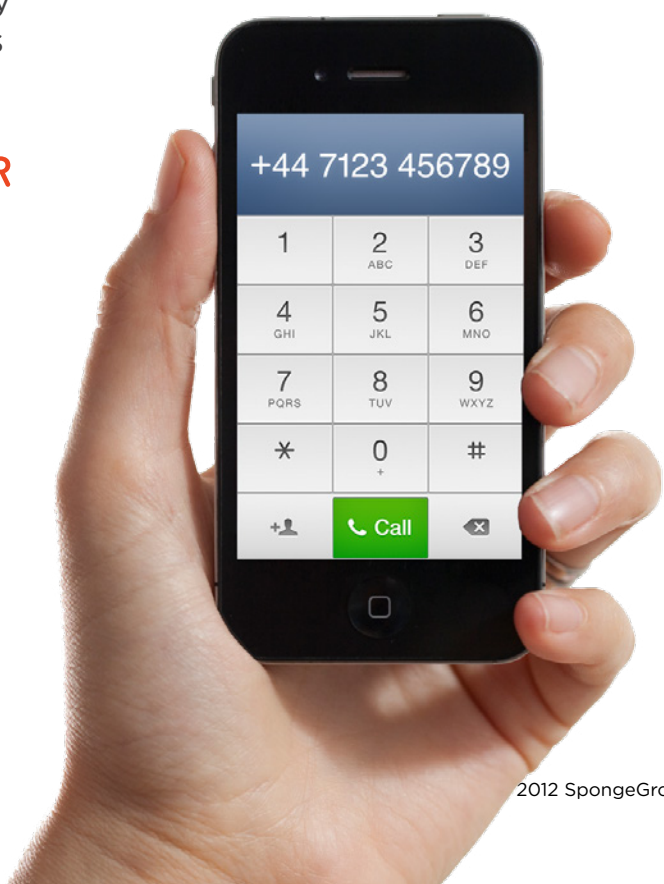
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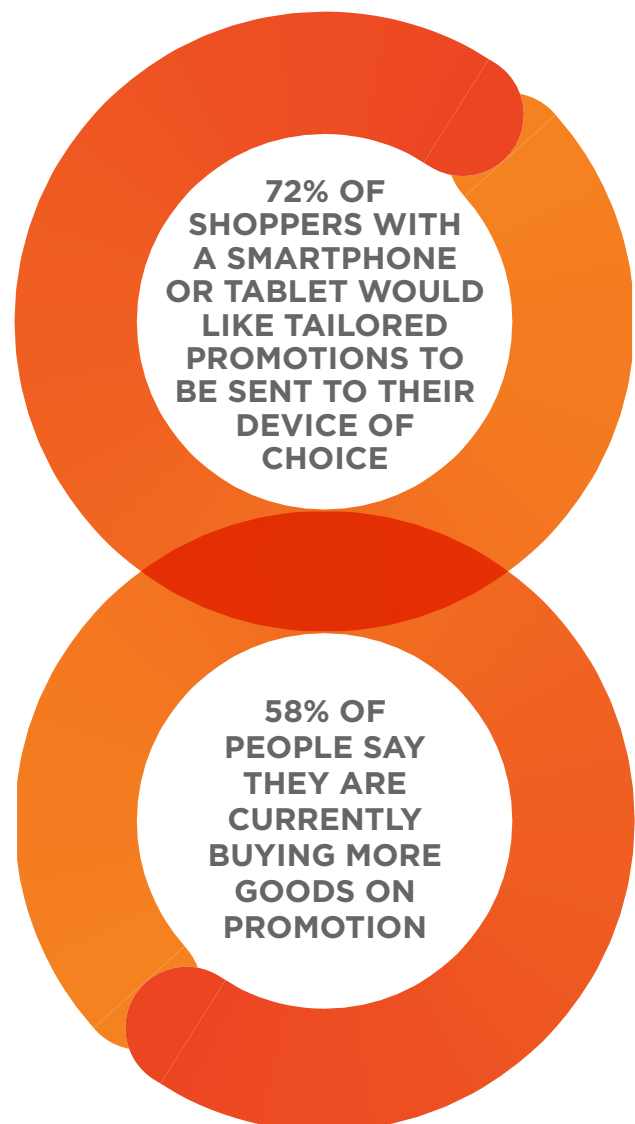
Just as one example, imagine walking into your local Waitrose to be greeted by a message on your phone that says:

"WELCOME BACK, PHIL. HOPE YOU ENJOYED THAT RIOJA YOU BOUGHT LAST SATURDAY. TODAY WE'VE GOT SOME GREAT DEALS FOR YOU ON SPANISH REDS."

The distinction here is between advertising as intrusion, and advertising as a service.

If we can get the value exchange right, and harness creativity to charm and inspire people into participating, there is a growing body of evidence that shoppers will be highly receptive. Booz & Company has found that 83% of us would be more likely to do business with a retailer that allows us to create and control a personalised shopping experience across multiple channels. (Remember what we were saying about Amazon earlier ?)

And the latest IGD ShopperVista research revealed that:

72% OF SHOPPERS WITH A SMARTPHONE OR TABLET WOULD LIKE TAILORED PROMOTIONS TO BE SENT TO THEIR DEVICE OF CHOICE

58% OF PEOPLE SAY THEY ARE CURRENTLY BUYING MORE GOODS ON PROMOTION

SMART COMPANIES ARE ALREADY COMMITTING HEAVILY TO THIS PRINCIPLE OF RECOGNITION

We talked in our last White Paper about the Neiman Marcus Service app, which allows shoppers to build 1:1 relationships with their favourite sales associate via email, IM and face-to-face. Neiman Marcus is extending this philosophy with their InCircle loyalty scheme. Amongst other benefits, this allows you to choose the days on which you'd like your points to be doubled – and it's difficult to think of anything more empowering than that.

Macy's has gone further yet. It is making Recognition the driver for its entire business strategy.

MACY'S: A BUSINESS BUILT AROUND 1:1 RELATIONSHIPS

The re-invention of Macy's started with a simple question: if 7 out of 10 American shoppers already visit one of our stores (on- or offline) each year, do we really need to invest in attracting new customers? Or should we simply make more of the constituency we already have?

Macy's decided the answer was the latter. In other words, they should re-orientate their efforts around their existing audience in order to maximise Profitable Loyalty. This has led them to create a unique store programme, whereby every shop is tailored to the needs and wants of the local customer base to a very high degree.

It has also persuaded them to invest in printing 500,000 different versions of their direct mail book, and to commit to a future where every piece of online communication will be unique to the receiver.

Recognising individual shoppers is explicitly at the heart of their strategy. In their words: "Consumers are looking for you to acknowledge that you know them, show that you care about them and are working hard to thank them for their business".

Which sounds very much like the shopkeepers of yore.

SUPPLY CAN CREATE DEMAND, AND TODAY WE ALL FEEL THAT WE HAVE A RIGHT TO PERFECT KNOWLEDGE

BUT OVER-SUPPLY CAN ALSO BE PROBLEMATIC; I'M SURE I'M NOT THE ONLY ONE WHO OFTEN SUFFERS FROM INFORMATION OVERLOAD WHEN SHOPPING ONLINE FOR, SAY, A SUMMER HOLIDAY. WHAT WE'RE ALL LOOKING FOR IS THE GOLDILOCKS SOLUTION: ENOUGH INFORMATION TO FEEL FULLY CONFIDENT IN OUR PURCHASING DECISION, NOT SO MUCH AS TO LEAVE US PARALYSED BY CHOICE.

In terms of Loyalty mechanics, the opportunity here is for brands to find ways to deliver precisely the right quantity and type of information at precisely the right time and place – understanding, of course, that what is 'right' will vary for individual shoppers. The higher the perceived value of that information (socially generated ratings, reviews from both your peers and a network of trusted experts, transparent pricing information that allows shoppers to compare apples with apples), and the more it feels like that information is privileged and inside-track, the greater the sense of empowerment.

There is a demonstrable commercial upside here. Booz & Company has found that conversion rates on items under $200 can increase by as much as 240% if a customer views ratings and reviews during the shopping process. And the Vibes report we mentioned earlier discovered that 14% of smartphone owners who scanned a barcode or texted for product information when in-store went on to make an additional, unplanned purchase.

MOREOVER, 48% FELT BETTER ABOUT THE PURCHASES THEY'D MADE.

BEARING IN MIND THE GOAL OF PROFITABLE LOYALTY, INCREASED SPEND AND INCREASED SATISFACTION ARE TWO PRETTY BIG WINS.

SHOPPERS ARE INCREASINGLY RESEARCHING AND COMPARING IN-STORE

THE INFORMATION IMPERATIVE IS ONE OF THE MAIN REASONS WHY INSTALLING FREE WIFI IS SUCH A CRITICAL STEP FOR RETAILERS.

Shoppers are increasingly researching and comparing in-store, so the smart strategy is to enable that behaviour and seek to turn it to your advantage. It's also fundamental to the business case for apps: first, access to valuable information that other shoppers may not possess provides a tangible reward for downloading; second, functionality like scanning provides the easiest possible route to the specific content that shoppers are looking for in the here and now.

When it comes to empowering the shopper via Information, Best Buy is one company that's had a Damascene conversion. It wasn't very long ago that they were doing everything they could to impede their customers' mobile behaviours and turn their stores into 'walled gardens'. Now they've gone all open source, announcing a major partnership with RedLaser (the barcode scanning app that – in a further ironic twist – happens to be owned by eBay).

RedLaser has added geo-fencing capability to its app tied to 1,100 Best Buy locations, allowing the communication of personalised offers and rewards: store-specific discounts, special prices on 'open box' inventory, added value warranties and installation services, and product advice. Shoppers can even scan in their Best Buy loyalty card to the app.

OUR STRONG VIEW, AS WE SAID EARLIER, IS THAT BRANDS SHOULD ALWAYS BE WARY OF THE DATA THEY CEDE TO 3RD PARTIES;

but given the criticality of empowering shoppers via Information, much better the current Best Buy strategy than futile attempts to deny them access. That is one game that the customer will always win.

CREATING ENRICHING AND ENTERTAINING EXPERIENCES IS FUNDAMENTAL TO BUILDING LOYALTY; AND HELPING SHOPPERS TO DISCOVER, PARTICIPATE WITH AND SHARE CONTENT VIA THEIR MOBILE PHONE CAN SIGNIFICANTLY ENHANCE THE EXPERIENCE

WE WROTE IN OUR PREVIOUS WHITE PAPER ABOUT HOW MOBILE CAN AMPLIFY THE SENSORY ADVANTAGES OF HIGH STREET SHOPPING.

This is the whole ethos behind the design of **Burberry's new store**. It's partly about being useful and convenient: for instance, by providing mobile checkouts (à la Apple) that allow people to buy whilst sat on a sofa; or by laying on iPads to entertain the kids whilst you shop. But it's equally about being entertaining.

Some of the methods are 'old world': the installation of a live stage and 420 speakers around the main hall. Some are dazzlingly new and inherently mobile; such as embedded chips that trigger specific content when you take items of clothing into the changing room.

THE ENTERTAINMENT PRINCIPLE APPLIES AS MUCH ONLINE AS IT DOES IN THE 'REAL' WORLD

On the one hand, you have initiatives like the partnership between Topshop and Facebook at London Fashion Week which allowed shoppers to customise and pre-order clothes and accessories as they appeared on the catwalk. On the other, you have heavy-duty innovators like **Keytree.**

Capitalising on improvements in bandwidth and the imminent take-off in internet connected TVs, Keytree is re-imagining the online shopping experience. Their goal is to create 3D versions of retailers' stores, complete with 3D products on 3D shelves. Rather than clicking a mouse or touching a screen, shoppers would 'fly' through the store gathering the items they want. So...very much like my local Sainsbury's but without the queues and (presumably) with the ability to delete whole aisles that I never visit.

We also believe there are significant opportunities to make collector schemes more entertaining via 'gamification' (horrible word, important principle).

Let's take Nectar as an example. As it stands, all points are equal: there's no particular reward or positive feedback for reaching significant landmarks (5,000 or 25,000 or whatever). But what if those milestones unlocked some content that's of interest and value to me: a game (or a new level within a game); a free song to download; or time-limited access to a service that's normally subscription only? Or what about borrowing further from game design and building in 'easter eggs', where I know there's a 'magic point' somewhere between 10,000 and 15,000 – but I don't exactly where it is or what benefit it will trigger.

BY BUILDING IN SUCH TECHNIQUES, THERE IS POTENTIAL TO INCREASE ENGAGEMENT; TO DRIVE PURCHASE AND COLLECTION (IT'S HUMAN NATURE TO ASPIRE TO REACH THE NEXT LEVEL); AND TO DEFER REDEMPTION.

SOME RETAILERS ARE ALREADY REAPING THE BENEFITS OF THIS APPROACH

DSW Shoes, for instance, structures its collector scheme like a game and shapes it to drive the behaviours it values most. You have to 'complete the game' within 24 months (because points expire); you can 'power up' (an opportunity to earn double points twice a year); you have to choose between different 'levels' ($10 spent on regularly priced items is worth more points than $10 spent on discounted items).

Similarly, **Panera Bread** runs what seems to be a standard model Loyalty Programme – apart from the fact that you never know what the reward will be or when you'll receive it. It could be a free drink, or an invitation to a tasting, or a recipe book.

Of course, the Entertainment Principle can be flexed in many different ways. One interesting area is Corporate Social Responsibility. It's worth taking a look at what **Charitable Checkout** is doing.

A "pay-for-performance cause marketing platform", they've cleverly inverted the usual model: a celebrity endorses a charitable cause and then uses social and mobile channels to encourage his or her followers to donate to that cause; and in return, donors receive discounts or prizes from the sponsoring brands.

How individual brands choose to apply the principles of Recognition, Information and Entertainment will, of course, be subject to their particular objectives, audiences and propositions. But whatever the specifics, the strategic purpose should be fixed: to create more fierce and active loyalty by recognising and rewarding the behaviours we most want to encourage in ways that leave the shopper feeling privileged and empowered.

One area that will become of increasing importance is the extent to which consumers can be persuaded to engage and interact across multiple channels. Shop Direct recently revealed some pertinent stats. By tracking shoppers across different devices, they found that customers who use both the desktop and a smartphone during the purchase journey convert at ten times the level of desktop-only customers. If they use a tablet too, the conversion rate improves to fifteen times.

THE MOBILE PHONE IS THE DEVICE BEST PLACED TO 'JOIN THE DOTS' BETWEEN THE DIFFERENT WAYS IN WHICH SHOPPERS ENGAGE WITH A BRAND

Of course, some of this is self-fulfilling. Customers who are already loyal are inherently more likely to engage across multiple channels; and shoppers who are on the verge of purchase are naturally more likely to seek to complete the process via whichever device is most convenient at the time.

But the logic works both ways. By offering a compelling, seamless and relevant experience across different channels (including the physical store), brands will give themselves the best possible chance of maximising that percentage of shoppers who become profitably loyal.

Given its persistent presence within our everyday lives, the things it enables us to do, and the rich variety of ways in which we interact with it; the mobile phone is the device best placed to 'join the dots' between the different ways in which shoppers engage with a brand. It follows that Mobile is also going to be the key to developing a single and actionable view of the customer journey.

It already punches well above its weight. A recent study by the Ryan Partnership in the States showed that mobile has a disproportionately high impact on shopper behaviour relative to penetration. Apps, for instance, were attributed an impact score of 34% compared to a penetration level of 15%. SMS performed almost equally as well with an impact score of 30% and a penetration rate of 16%.

The other side of the same coin is IGD's recent finding that only 16% of UK smartphone owners say they've found a genuinely useful food and grocery related app. That means there's 84% of the market still to play for – and there aren't many marketing channels about which you can say that.

EVEN THE MOST EMPOWERING LOYALTY PROGRAMME NEEDS EFFECTIVE COMMUNICATION

THERE'S AN AWFUL LOT OF COMPETITIVE NOISE OUT THERE

YOU WILL FAIL UNLESS YOU CAN GET YOUR MESSAGE TO STICK

Whilst the whole mix obviously comes into play, there are two primary communication channels for Loyalty Programmes: in-store and online.

We've written above about how the unique locational potential of Mobile creates new communication opportunities in- and near-store: welcoming the shopper as an individual, recognising their previous interactions with the brand, delivering content of personalised interest and contextual relevance, giving them privileged access to information of particular utility.

These opportunities will grow as technologies like NFC entrench; as falling costs make it feasible for SKU's to have their own dynamic digital signature; and as EPOS systems are mobilised and brought to the shopper.

Our friends and competitors at Fjord sum it up well when they talk about the "New Now" and how every point where there is a physical interaction between a brand and a shopper becomes, via mobile, an engagement platform to deliver instant gratification and drive value.

OUR MAIN FOCUS IN THIS SECTION IS ON OUT-OF-STORE COMMUNICATIONS; AND ESPECIALLY EMAIL

IT'S STILL A TOUCHY SUBJECT FOR SOME, BUT IT FINALLY SEEMS TO BE RECOGNISED THAT THE STANDARD EMAIL MARKETING MODEL IS BROKEN.

Too many brands are guilty of sending out too many emails; too many of those emails are too densely packed with content; too little of that content is relevantly personalised or contextualised. Self-evidently, this is a direct consequence of email's favourable economics: an amazingly low cost per contact.

WHEN FAILURE FEELS FREE, IT'S HARDLY SURPRISING THAT PEOPLE END UP PLAYING A SIMPLE NUMBERS GAME.

However, we believe that failure is about to stop being free. If they haven't already, incautious marketers are about to see how irrelevant interruption can have a negative impact on Loyalty. Once again, smartphones will be the catalyst. Responsys estimates that between 30% and 50% of all emails are already received first on the phone, a percentage that is growing fast. This has significant implications.

First, mobiles are intrinsically more personal than the desktop. It follows that emails that add no apparent value feel much more irritatingly intrusive.

Second, the consumption mindset on Mobile tends to be markedly different: people either 'react or reject'. With mobiles being increasingly used for email triage, subject lines that promise nothing of relevance will be met with a grimace...swiftly followed by a press of the delete key.

Third, and building on the above, mobile behaviour is typically much more spontaneous than desktop behaviour. Partly because of the form factor, we look for content that cuts to the chase. We want to be told what we should do next, and what's in it for us. Dense communication that requires unpacking by the receiver will simply frustrate.

Put these together with shoppers' heightened expectations and you have a combustible brew.

SPONGE'S VIEW IS THAT THERE ARE TWO KEY SUCCESS FACTORS: RESPECT AND RELEVANCE

A RECENT STUDY BY VIBES SHED SOME INTERESTING LIGHT ON WHY SMARTPHONE OWNERS OPTED-OUT OF CRM PROGRAMMES. COMPARED TO ALL SHOPPERS, THEY SIGNIFICANTLY OVER-INDEXED ON: SENSITIVITY TO EXCESSIVE FREQUENCY (+25%); SENSITIVITY TO LACK OF TIMELINESS (+47%); AND EXPECTATIONS IN TERMS OF RELEVANCE AND VALUE (+46%).

So with email, we have a channel that should be a highly effective driver of action and builder of loyalty in real danger of becoming a trigger for disloyalty. How should brands respond in the Mobile First era?

Given that we all know that people increasingly consume content across multiple devices, and often approach that content in a different frame of mind depending on the device being used:

IT SEEMS EXTRAORDINARY THAT SO FEW eCRM PROGRAMMES ASK MEMBERS TO NOMINATE THEIR PREFERRED CHANNEL

(and even fewer ask for channel preferences by content type).

A recent study by IKANO found that 57% of Loyalty Programme members would like to be able to specify the types of product information they hear about; and 59% would like to be able to specify the channels via which that news is sent. As smartphone penetration grows towards 100%, expect these percentages to follow.

A new model eCRM strategy should give members the opportunity to state what sort of information they'd like via email, what via SMS, what via voice, what via direct mail, and what via push notifications to an app.

Not only is this an appropriately Customer First approach, the specific choices made by individuals would be a rich source of insight into the nature of the relationship they're seeking.

OUR COMMUNICATIONS NEED TO DO A MUCH BETTER JOB OF RESPECTING THE CUSTOMER'S TIME

WE NEED TO START THINKING IN TERMS OF POSTERS RATHER THAN BROCHURE-LENGTH COPY. AFTER ALL, IF WE CAN SUCCEED IN CAPTURING THEIR ATTENTION, THEY'RE ONLY A CLICK AWAY FROM FINDING OUT MORE (ASSUMING YOU'VE BOTHERED TO CREATE A PROPERLY LINKED, MOBILE OPTIMISED DESTINATION).

This also means we need to focus more on spontaneity, on breaking the desired journey down into a series of small steps. It's not always (in fact it's not often) about finding the knock-out punch.

INSTEAD, IT'S ABOUT IDENTIFYING THE ONE ACTION THAT YOU'D LIKE AND CAN REALISTICALLY EXPECT PEOPLE TO DO NOW;

AND THEN STRUCTURING YOUR OFFER ACCORDINGLY. OF COURSE, THE GREATER THE INSIGHT YOU HAVE INTO THE PRIORITIES AND PROCLIVITIES OF INDIVIDUAL CUSTOMERS, THE MORE EFFECTIVELY YOU'LL BE ABLE TO HARNESS SPONTANEITY.

And finally, yet again, it means we need to concentrate much more on context.

Mobile eCRM is likely to be consumed much more immediately than it is on the desktop. This brings Time into play to a much greater extent – and time creates new opportunities to reward members of your Loyalty programme.

For instance: by alerting them to the fact that a new competition has just started on your Facebook page; or by announcing the availability of deep discounts for one day only; or simply by communicating there's a free drink with every meal this lunchtime. And, of course, mobile allows Time to be combined with Location: for instance, by rewarding shoppers who check in to your store today or who visit your bar between 5.30 and 7.30pm.

'SURPRISE AND DELIGHT' IS A PHRASE THAT HAS BECOME SOMEWHAT CHEAPENED BY OVER-USE

BUT IT'S STILL ONE OF THE SUREST WAYS OF ENGENDERING THE SORT OF PASSIONATE LOYALTY TO WHICH ALL BRANDS SHOULD ASPIRE.

The memories that stick with us longest and which have the greatest impact on our subsequent behaviour are generally created when a brand (or a person) does something that utterly exceeds our expectations. These 'magic moments' are the antithesis of the Entitlement model we described earlier. They tend to be unforeseen, highly spontaneous, empathetic and deeply rooted in a particular situation. From that description, it's clear that Mobile is the ideal channel for their creation.

There are many ways in which Mobile can be used to provide an unexpected and unasked for 'thank you' to high value customers. A shopper who's reached a trigger level in terms of the number of points amassed could receive a free gift next time they enter your store. Someone who's socially active on your Facebook page could receive a voucher to thank them for their last interaction. Or a customer who's visited your store for the fifth time could be emailed an invitation to a VIP evening as they exit.

The real-time nature of Mobile also allows the impact of such moments to be amplified immediately via social posts and status updates; or, as we're doing with McDonald's, via constantly updated heat maps that show where the last prize has been won.

Whilst such techniques are relatively simple to implement, they are highly effective in raising awareness, interest and belief in the tangible benefits of a Loyalty Programme.

THE POWER OF THIS TYPE OF APPROACH IS THAT IT IS TWO-WAY AND PARTICIPATORY; BRAND AND SHOPPER ARE EQUAL PLAYERS, WITH THE FORMER TAKING A POSITIVE ACTION IN IMMEDIATE RESPONSE TO SOMETHING THE LATTER HAS DONE.

RATHER THAN 'ONE-SIZE-FITS-ALL', THE TREND WILL BE TOWARDS LAYERING IN MORE GAME-BASED MECHANICS

These notions of Activity and Equality will be central to what distinguishes 2.0 Loyalty Programmes from current schemes. Technology – especially mobile technology – provides us with the means; but what is more important is that the evolved model becomes fully aligned with the grain of digital behaviours. It will be hallmarked by interaction, customisation and self-determination.
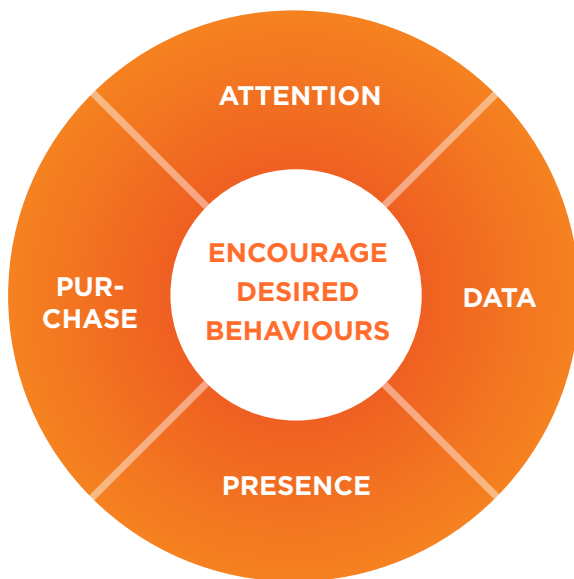
THE GOAL IS TO CREATE ACTIVE PARTICIPATION.

In addition to purchase, we will compensate shoppers for a broader range of beneficial actions: the attention they give us, the places they visit, the data they share, the permissions they provide, the feedback they offer. And we will extend the current definition of Loyalty Programmes to create channels and mechanisms geared towards these purposes. We are already seeing the first signs with the spate of new online forums like The Co-Op's Talking Shop, Your ASDA, and the Waitrose Kitchen Table.
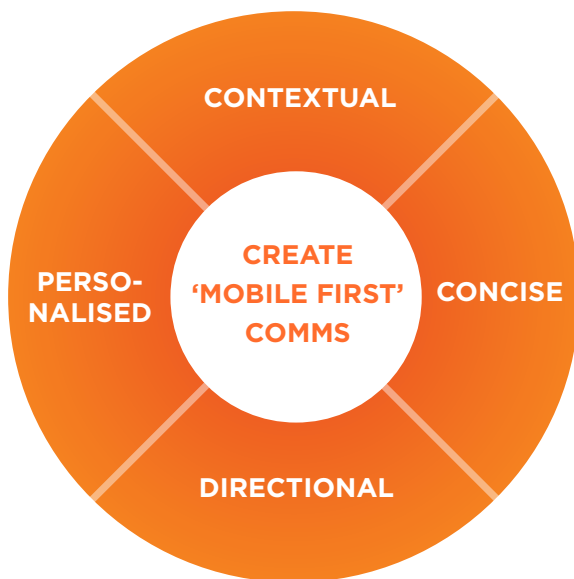
It will also be true of the types of reward we offer. The basic mechanic of points will increasingly be complemented by reward structures designed to meet our appetite for individual recognition, pertinent (and ideally privileged) information, and the stimulus of entertainment. The schemes that do this to best effect will provide their members with a genuine and lasting sense of empowerment.

Finally, it will be true of the ways in which we ask people to participate in and share ownership of Loyalty Programmes. Rather than flat 'one-size-fits-all' schemes, the trend will be towards layering in more game-based mechanics (unlockables, easter eggs, power-ups and the like), as we seek to incentivise members to discover and share content. Obviously, it may be that only a small percentage of members will 'play the game' to any meaningful extent. That need not matter; the important thing is that the people who do play are either already Profitably Loyal Customers or can be persuaded to become so.

AN EMPOWERMENT-BASED MODEL FOR 2.0 LOYALTY PROGRAMMES

ATTENTION

PUR-CHASE

ENCOURAGE DESIRED BEHAVIOURS

DATA

PRESENCE

RECOGNITION

POINTS

DELIVER RELEVANT REWARDS

INFOR-MATION

ENTERTAINMENT

2.0 LOYALTY PROGRAMME

CONTEXTUAL

PERSO-NALISED

CREATE 'MOBILE FIRST' COMMS

CONCISE

DIRECTIONAL

EXPLORATORY

SPONT-ANEOUS

PRIORITISE ACTIVE PARTICIPATION

GAME PLAY

SHARABLE

A TEN POINT ACTION PLAN

ATTRACTING AND RETAINING PROFITABLY LOYAL CUSTOMERS IS ONE OF THE LONGEST RUNNING AND HARDEST FOUGHT BATTLES IN BUSINESS.

There are no quick fixes, no easy wins; and we'd be the last to suggest that the recommendations we make in this white paper will solve the challenge overnight.

We are, however, convinced that the most effective Loyalty Programmes in the future will be those that embrace a 'mobile first' view of the world and leverage the channel's full potential in order to enable and empower members.

OPTIMISING YOUR LOYALTY PROPOSITION IN RESPONSE TO THE PRESSURES AND OPPORTUNITIES WE HAVE HIGHLIGHTED WILL BE AN ON-GOING PROCESS.

BUT HERE'S HOW TO GET STARTED.

THE FIRST 10 STEPS THAT WE WOULD PROPOSE YOU TAKE

1 Make sure you have the building blocks in place.

2 Learn from past experiences.

3 Audit your mobile database.

4 Prioritise mobile data capture going forward.

5 Commit to the cross-channel future.

6 Mobilise your CRM model.

7 Start thinking in terms of Scarce Resources.

8 Emphasise personalisation.

9 Model your communications around spontaneity.

10 Design experiences which allow and encourage active participation.

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1 Make sure you have the fundamental building blocks in place. Does your business have a clear and consistent definition of what constitutes a Profitably Loyal customer? What insights do you have into such customers as individuals, and what important characteristics do they share as a group?

2 Learn from experience. Over the years, you have doubtless trialled any number of initiatives to support and amplify your core Loyalty model. Which worked best, and which failed? Were the successes commercially sustainable and scalable? In particular, what was their impact on the Profitably Loyal segment?

3 Audit your mobile database (assuming you have one). How current is it? What permissions do you have? To what extent is it integrated into your main CRM database? If it isn't, what would be the quickest and most cost-effective way to start the integration process? Honest analysis often reveals that the best solution is to start again from scratch. That's not necessarily a bad thing; there are advantages in working to a blank sheet of paper.

4 Prioritise mobile data capture going forward. Are you making the most of the registration process, and what value exchange would best incentivise new sign-ups to provide both their mobile number and permission to contact them via that number? What are the most relevant touch points in-store, online or within your app(s), and what mechanisms would best exploit those touch points?

5 Commit to the cross-channel future. To what extent are you able to track customer journeys across multiple channels, both physical and digital? Are the basics in place like single log-in? From a mobile perspective, where are you in terms of providing free wifi or other location-based services that give you an insight into the customer's movements? And are you building that infrastructure in such a way as to ensure you retain control over the data?

6 Mobilise your CRM model. Do your current communications recognise the realities of the Mobile era? Are your emails optimised for mobile (at least at the technical level)? Do you allow members to specify what type of information they receive by device, or how often?

7 Start thinking in terms of Scarce Resources. In terms of your competitive position, your brand proposition and your audience's needs, which Scarce Resources are you most interested in attracting and rewarding? Is the priority to broaden the sales funnel, or to get a percentage of the known and addressable audience to make an additional action? Do you have the structures in place to test and learn quickly and effectively?

8 Emphasise personalisation. Do you have the intellectual and technical capability to recognise individual customers – especially Profitably Loyal customers – and inform and / or entertain them in ways that are particularly relevant to their prior behaviours and current context?

9 Model your communications around spontaneity. How do you need to re-imagine the customer journey in order to maximise immediacy of response? What is the one thing you want people to do now, and how will that action be of value to them? To what extent are you exploiting the Time and the Location in which those communications are received?

10 Finally, design experiences which allow and encourage active participation. Are you ensuring your Loyalty communications are situational and sharable? Are you working with the grain of digital behaviour to encourage members to be participants as well as observers, transmitters as well as receivers?

HOW SPONGE CAN HELP

DESIGNING, DEVELOPING AND DEPLOYING SUCCESSFUL 2.0 LOYALTY PROGRAMMES WILL REQUIRE A HIGH DEGREE OF CONSENSUS AND CO-ORDINATION BETWEEN THE MARKETING AND IT FUNCTIONS.

For more than a decade, Sponge has effectively occupied that space where brand objectives, shopper needs and the creative potential of technology intersect. We understand the complexities, the friction points and the critical importance of working within the existing business infrastructure wherever possible. We are therefore well-placed to help create strategic alignment between all relevant stakeholders, and map a commercially realistic and ROI-based plan of action.

Technology will be a fundamental enabler of Loyalty 2.0, and our work with the likes of Barclays, Coca-Cola and McDonald's demonstrates our expertise in this area.

But, ultimately, Psychology will be even more important. Sponge has unparalleled insight into how brands and businesses can acquire, activate and retain customers; especially via the mobile channel.

We believe this insight will be of singular value to any company seeking to evolve their Loyalty Programme to meet the demands and opportunities of a Mobile First world.

In addition to the presentations that accompany this and our previous White Paper, **M-Shopping: Final Nail or Final Hope for the High Street?**, we are in the process of building a Shopper Marketing platform that we see as a key engine for creating Profitable Loyalty. The platform is designed to enable retailers and manufacturers to track a shopper's movements across channels and deliver the most relevant content at the most relevant times and places; all without ceding data control to a third party.

If you'd like to hear more about any of the above, please email Bill MacLachlan at: bill.maclachlan@ spongegroup.com

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