Refreshing rewards

Rethinking and redesigning merchant
loyalty program redemption options

VISA

# How do you evaluate the success of your loyalty program?

Of all the metrics you could choose, the redemption rate is one of the most telling. It is a good indication of how engaged your customers are with the program and is therefore symptomatic of your program's strength.

In this paper, drawing on the global experience of Visa Consulting & Analytics, we offer some recommendations on how to optimize your redemption options.

A highlight in the calendar of anyone who closely follows the world of loyalty is the launch of The Loyalty Report, an annual survey published by Bond Loyalty in partnership with Visa. It is the world's largest, longest-standing study of customer loyalty and engagement. Every year, a central theme is redemption. The 2020 edition concludes that redemption remains a key driver of engagement for any loyalty program, contributing 12% to overall satisfaction.[2]

In this regard, The Loyalty Report is by no means a lone voice. At Visa Consulting & Analytics (VCA), where we work with hundreds of clients across several industries and geographies, we have seen that customers who redeem typically exhibit the highest customer performance metrics, including their net promoter score (NPS). Meanwhile, one of the most widely cited studies in the loyalty field suggests that redeemers will leave a company eight to twenty percent less than non-redeemers, with multiple redeemers having the highest reduction in cutting ties with a service or company.[2]

Given its importance, redemption deserves to be prioritized in the design and operation of any loyalty program. It also makes sense to periodically review your redemption options, in order to ensure they evolve to reflect the changing needs and interests of your customers.
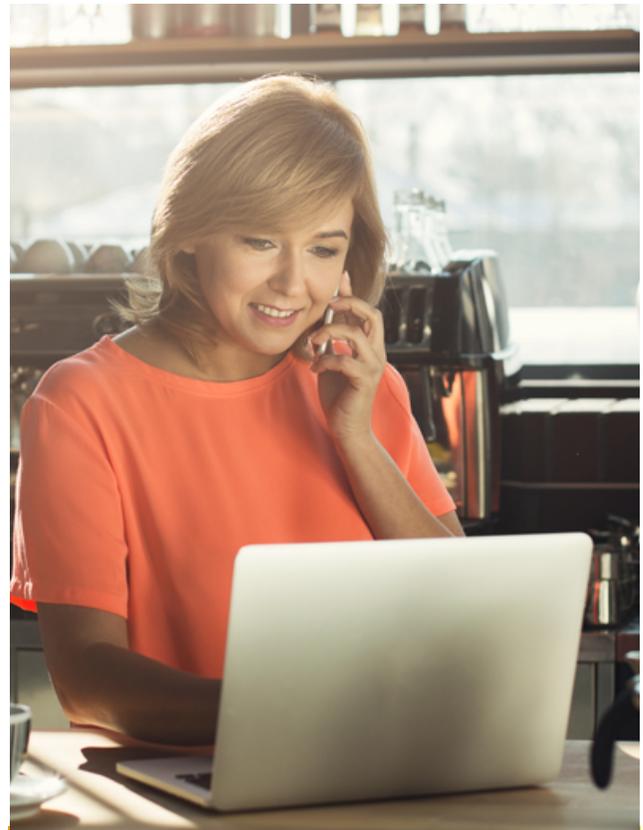
So, what is the best way to review and re-evaluate your redemption options?

The specifics are likely to vary across market sectors and geographies. At VCA, we believe there are seven universal truths that apply to any loyalty program, in any sector, in any country.

1. The Loyalty Report 2020, State of Loyalty, 2020 USA Launch edition
2. ITC Infotech Strategic Loyalty Study, cited by Loyalty Magazine https://www.loyaltymagazine.com/points-breakage-the-bane-of-loyalty-programs/, Loyalty360 https://loyalty360.org/content-gallery/daily-news/rewards-breakage-boon-or-bane-the-role-of-technology-in-optimizing-breakage, and others

VISA

Universal Truth #1

Loyalty is always measurable

Yes, loyalty is complex and multi-faceted. Yes, it can be difficult to put your finger on it. However, if you are serious about managing your program with rigor and discipline, you have no option but to put your faith in a few key metrics and evaluate your program accordingly.

For example, a foundational element of almost all of our loyalty consulting engagements is the principle that customer loyalty is knowable and can be quantified using spend data.

We believe that the two truest measures of customer loyalty are:

- **Share of wallet** – a customer's spend with you divided by their total spend in your category. This can be analyzed for a specific point in time and for change over time.

- **Customer retention** – the percentage of your customers who have spent with you in the past, who continue to spend actively in your category, and who continue continue to spend actively with you.

These two metrics should be measured routinely, both for members and non-members of your loyalty program. They should also be analyzed across your total customer base, for each of your core customer segments, across all customer lifecycle stages, and for those members who redeem and those who do not.

Of course, for this type of analysis, VCA does have a clear advantage. With direct access to Visa transaction data, we are able to interrogate one of the world's largest spend data sets. We can also see whether any loyalty program is delivering against its objectives, especially increased share of wallet.

However you choose to evaluate loyalty, this type of analysis is a crucial first step in any redesign project. In addition to quantifying a program's past performance, it enables you to establish a set of targets going forward; it indicates whether your program needs significant change, a light refresh, or something in between; and it allows you to understand who your program currently appeals to, and who is left in the cold.

VISA

Universal Truth #2
A healthy dose of skepticism should be applied

We all know the theory: your redemption options need to be relevant to your customers.

However, how do you figure out what options are the most relevant?

The usual technique is to ask your customers the question (for example, through interviews, focus groups or surveys). It helps to be skeptical, though, because what people say is often very different from what they do.

This is not to say that market research has no place in your redesign planning. It does play a valuable role (as we explain later in this paper). It is just that it is not a reliable way to discover relevance.

Instead, a second foundational element of our loyalty engagements is to identify where your customers spend their

money, and the extent to which they do it. Most merchants know all about customer spend patterns within their own stores, but wider customer behaviors are typically a blind spot. Again, the Visa spend data fills in the blanks, enabling clients to see, often for the first time, how customers truly live their lives and where else they spend their hard-earned money.

The analysis can include many variables, such as demographic, geographic, and psychographic or lifestyle elements. Armed with this richness of data, it becomes possible to develop a comprehensive segmentation of your customer base.

Segment	Description	% of Cards	% of Merchant Spend	Merchant Share of Wallet	Avg. Income	Child in Household	Price Conscious
Urban Sensibles	Customers in big cities, non-millennial and with high price sensitivity	28%	30%	25%	$84K	0%	100%
Urban Families	Customers in big cities with children, who are price conscious	26%	28%	28%	$98K	100%	67%
Rural Essentials	Customers in rural areas who are price conscious	16%	17%	15%	$81K	29%	95%
Urban Affluent	Customers in big cities, non-millennial, with no children and not price conscious	12%	13%	31%	$102K	0%	0%
Millennial Sensibles	Millennials who are price conscious	11%	7%	39%	$84K	59%	100%
Millennial Affluent	Millennials, not price conscious	7%	5%	42%	$99K	37%	0%

VISA

Each segment can then be further analyzed in terms of the categories in which customers are spending, the extent to which they are engaged in those categories, and the channels through which they prefer to transact.

Segment	Description	Dining	Travel	Everyday	Home Imp.	Apparel	Online
Urban Sensibles	Customers in big cities, non-millennial and with high price sensitivity	0.9	1.0	1.0	2.2	0.7	0.9
Urban Families	Customers in big cities with children, who are price conscious	1.0	1.0	1.0	1.0	1.2	1.0
Rural Essentials	Customers in rural areas who are price conscious	0.8	1.0	2.4	1.0	0.9	1.0
Urban Affluent	Customers in big cities, non-millennial, with no children and not price conscious	1.1	2.8	0.9	1.0	1.1	1.1
Millennial Sensibles	Millennials who are price conscious	1.3	0.8	1.1	0.7	1.2	1.0
Millennial Affluent	Millennials, not price conscious	2.1	1.0	0.9	0.6	2.5	1.2

In this example, the Millennial Affluent segment is more engaged in the Dining and Apparel categories. With this depth and clarity of insight, it becomes possible to think about relevant redemption options with far more confidence.

In addition, an important consideration, especially in the wake of COVID-19, is to identify and track any changes in consumer behavior. What was relevant and appealing just a few months ago could be less so now. For example, there is evidence that the pandemic has accelerated the shift towards ecommerce, that there is an increased appetite for direct-to-consumer propositions, and that people are generally reassessing what constitutes "value." All of this has an impact on reward programs and redemption options, and Visa spend data offers a direct line of sight to the changing behaviors as they play out.

VISA
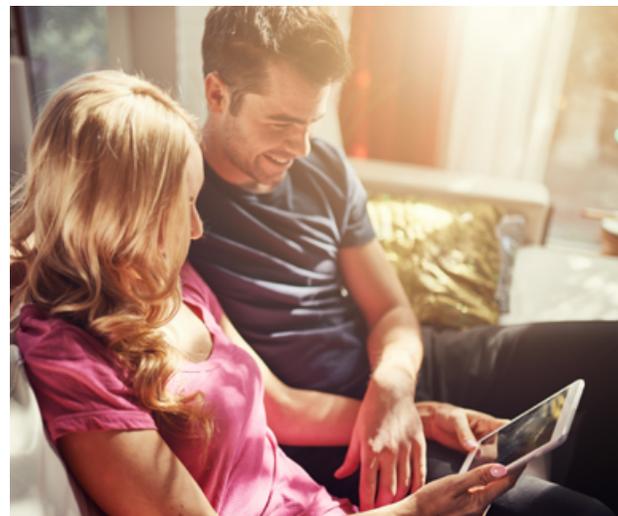
Universal Truth #3

Your consumers may not be consumers at all

Our loyalty assignments tend to be united by their diversity. We work with many players from many sectors, in many geographies. However, one similarity is that almost all of our clients underestimate the prevalence of small businesses within their customer base.

For example, in a recent engagement with a U.S. merchant that considered itself to be "a consumer brand," we found that small businesses actually accounted for over 15% of its customer base and more than 20% of its Visa payment volume.

By understanding the predominance and the type of small businesses interacting with your brand, you can get some important new insights into the sort of redemption options that would resonate. For example, in key markets small businesses operating in the contractor space tend to engage significantly in the home improvement and supply and fuel merchant categories, whereas those operating in service industries typically over-index in the advertising, electronics, and office supply categories.

In addition, the question of whether to offer redemption options specifically relevant to the small business customer raises an interesting strategic choice: do you reward the small business customer as a small business or as a consumer?

The answer is not simply driven by how representative small businesses are within your customer base. Other factors include the degree of behavioral overlap between your consumer and small business customers, and whether or not you want to depict your brand as a champion of small businesses.

VISA

Universal Truth #4

The left brain will only take you so far

So far, we have focused on the science of consumer loyalty – zeroing in on the quantitative and analytical dimensions of customer behavior.

The trouble is that, on its own, quantitative analysis does not give you enough insight to make informed decisions about your redemption options. Instead, it needs to be complemented with in-depth qualitative interviews with your customers and prospects, because to truly understand their choices and motivations, you also need to uncover the attitudinal, emotional, and psychological dimensions of their behavior.

Therefore, care should be taken when deciding how to construct this research and who to select as participants.

The usual approach, and the easiest, is to recruit people who are already customers or prospects, and then to normalize across demographic dimensions to ensure representativeness. Gathering feedback from these qualitative

sessions can provide valuable insights that you could never get from quantitative analyses, such as ease of enrollment, earning and redemption processes for the customer.

The downside, however, is that the qualitative insights may become disconnected from the behavioral insights. Specifically, if the participants are not selected based on the behavioral segments that exist within your customer base (see Universal Truth #2), connecting the two together can be challenging.
For this reason, we always aim to embed market researchers into our project teams. These could be our own research specialists, members of a client's in-house team, or third-party professionals.

VISA

Universal Truth #5

It is always best to look beyond your direct competitors

When reviewing redemption options, it is always valuable to conduct some competitive or comparative analysis – and see how other successful loyalty programs function.

Where is the best place to look for inspiration and insight?

The natural response is to compare yourself to your peers. If you are in the airline industry, for example, look to other airline programs.

The challenge is that consumers typically belong to an average of fourteen loyalty programs, but are active in only seven of them.[3] While customers may compare your program to those of your direct competitors, they are more likely, on a day-to-day basis, to *compare your program to other programs they are actively engaged in, regardless of industry*.

The secret here is to use a mix of quantitative and qualitative analysis to deduce which loyalty programs your customers are most engaged with, and which you should therefore regard as your benchmark. In an engagement, for example, we will once again pore through spend data to identify key sectors and geographies (perhaps the carrier at a local hub airport or a retailer with a strong regional footprint). On top of this, we can layer the results of qualitative customer research to provide incremental insights.

This enables us to assemble a roster of truly relevant and comparable loyalty programs that have effectively solved for similar strategic challenges. In a recent engagement, for example, for a client with just two to three customer interactions per year, we looked to the programs of companies that effectively addressed similarly low levels of direct customer interaction.

3. The Loyalty Report 2020, Bond Brand Loyalty in partnership with Visa, 2020

VISA
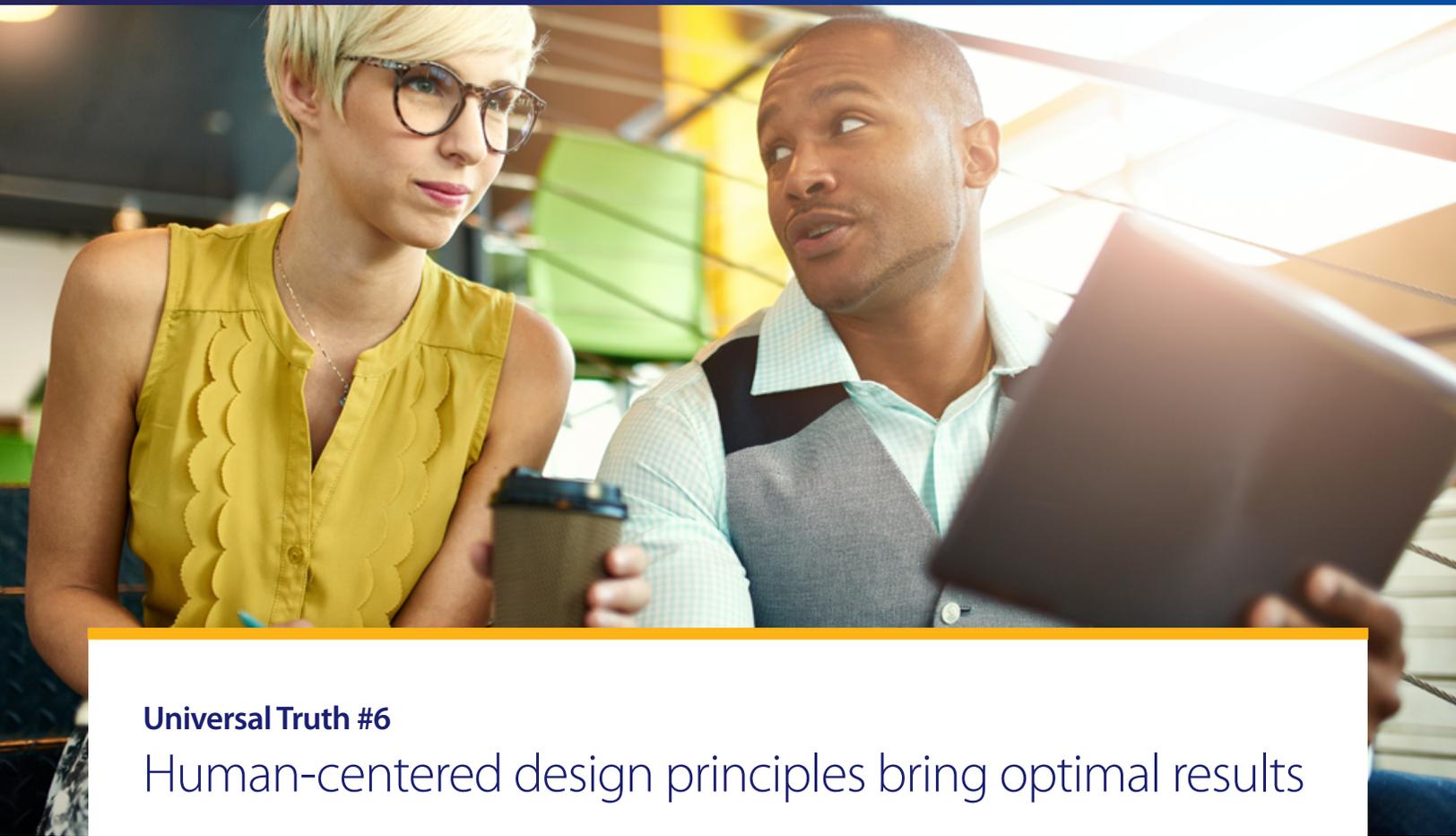
Universal Truth #6

Human-centered design principles bring optimal results

There are several valid ways to approach the process of innovation. We believe human-centered design always brings optimal results, particularly when ideating new redemption options.

As the term suggests, human-centered design ensures the customer is the focus of the innovation process, identifying, in an iterative manner, the underlying goals or problems customers are solving for, and taking an empathy-informed and activity-based approach to achieving them.

By applying this approach to redemption ideation, we can see consumer redemption decisions as driven by the desire to achieve a goal, satisfy a want or need, or solve a pain point

The behavioral analysis and in-depth qualitative interviews described above will provide much of the necessary insight. Still, it is critical to frame the customer's goals, needs, wants, or pain points in the context of the right question. For example, the question "What aspirational redemption options could we offer our customers?" is perhaps less useful than "How can we enable our Millenial Sensible Spenders segment to indulge their passion for dining while still feeling financially responsible?"

Finally, customer journey maps place the customer int he broader context of the redemption experience. This makes it possible to evaluate the pragmatic feasibility of a redemption concept and to identify opportunities to enhance the customer experience.

VISA

The sweet spot lies between customer appeal and "implement-ability"

By working through the methodology outlined in this paper (that is, getting smart about the customer, your company, and the competition, and then using that insight as the foundation for human-centered design ideation sessions), you will inevitably generate a host of ideas for redemption options.

How do you then filter and prioritize these ideas?

The approach we take is to deploy a two-dimensional framework that analyzes each option in terms of both "customer appeal" and "implement-ability".

The **Consumer Appeal** Score is determined by the quantitative consumer market research

Consumer Appeal

Highest Priority

Ease of Implementation

The **Ease of Implementation** Score is used to rate the relative ease of bringing a redemption option to life
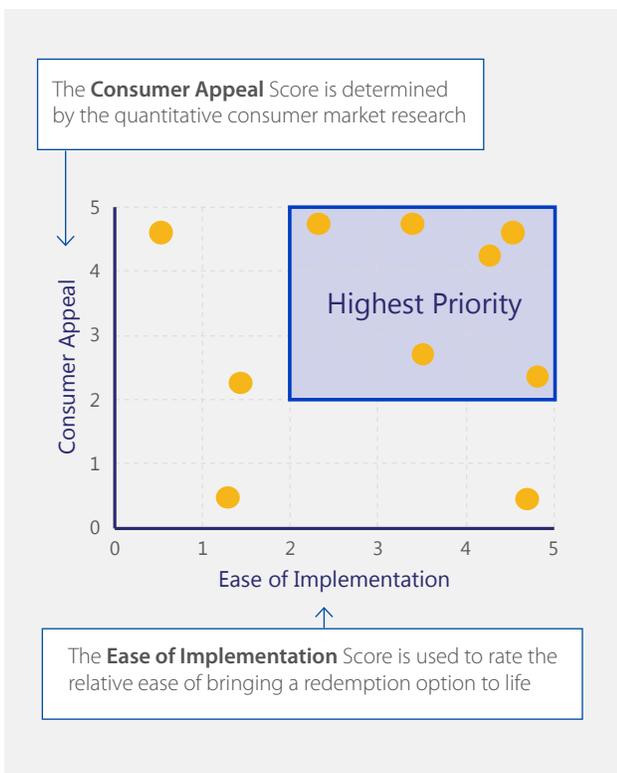
ILLUSTRATIVE EXAMPLE

Customer appeal is measured through quantitative surveys. Again, care should be taken in framing the questions in the right way. The key is to ask customers to score options in a way that aligns with your program's KPIs. For example, asking a customer "How interested are you in this redemption option?" is less useful than asking them "To what extent would redeeming for X increase your satisfaction with the brand?"

To evaluate each option in terms of ease of implementation, you must cover several dimensions. These include:

- Brand relevance (adding redemption options and mechanics that align with the brand, often with brands introducing redemptions for complementary experiences and products that are additive to the core brand's mission)

- Financial relevance (considering cost per redeemed point to properly drive consumer engagement and fiscally manage the points liability)

- Customer experience (considering how feasible it is for your program to easily fulfill a given redemption option)

By plotting these options on a scatter graph, the likeliest winners soon become apparent.

VISA
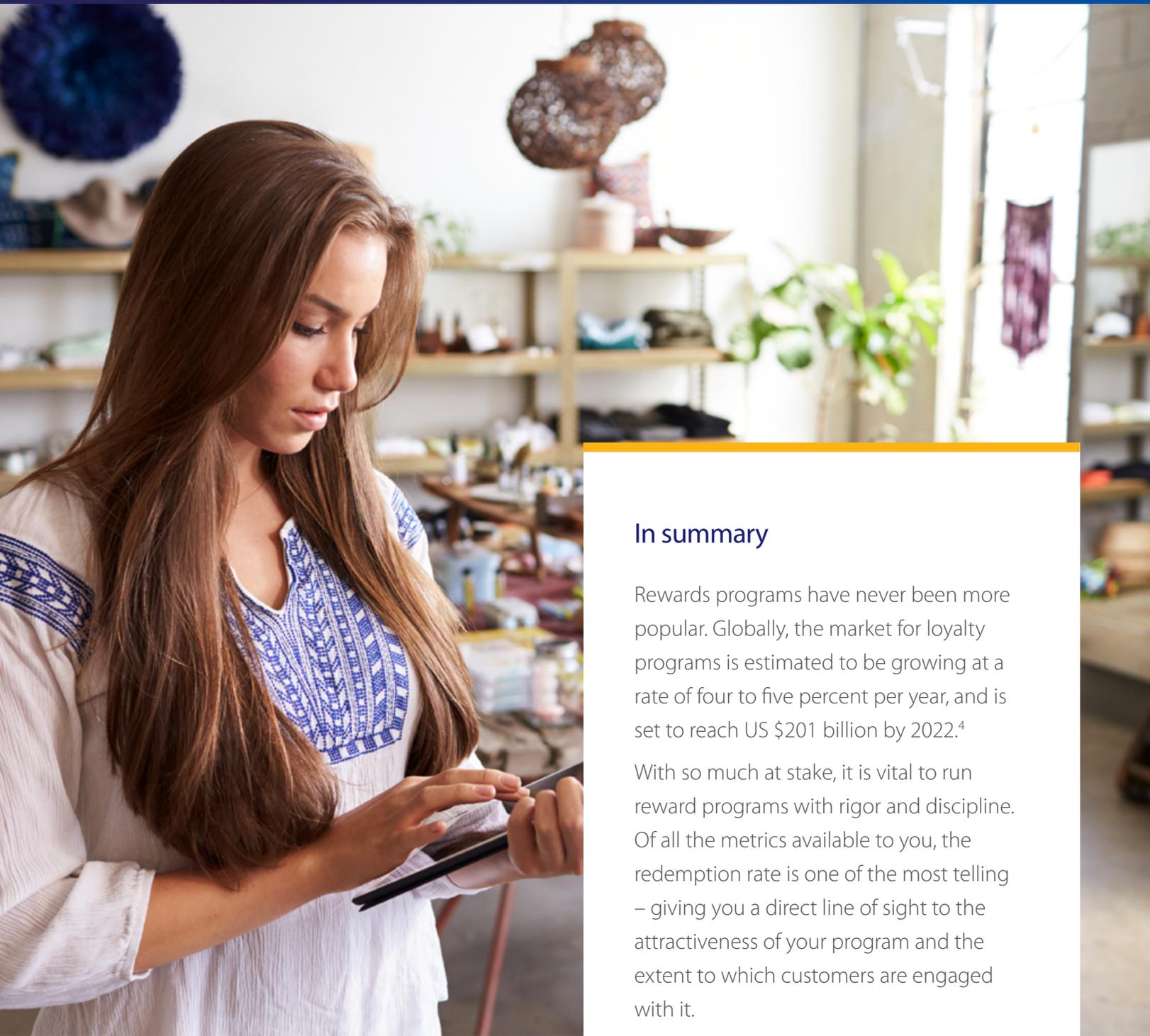
In summary

Rewards programs have never been more popular. Globally, the market for loyalty programs is estimated to be growing at a rate of four to five percent per year, and is set to reach US $201 billion by 2022.[4]

With so much at stake, it is vital to run reward programs with rigor and discipline. Of all the metrics available to you, the redemption rate is one of the most telling – giving you a direct line of sight to the attractiveness of your program and the extent to which customers are engaged with it.

Given this criticality, it makes sound strategic sense for companies to continually review, rethink and redesign their redemption options.

4. Loyalty Programs Market to Reach $201 Billion by 2022, Beroe Inc., February 2019, https://www.beroeinc.com/press/loyalty-programs-market-2022/

VISA

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more, with decades of experience in the payments and retailing industries.

- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, one of the largest payment networks in the world.

- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.
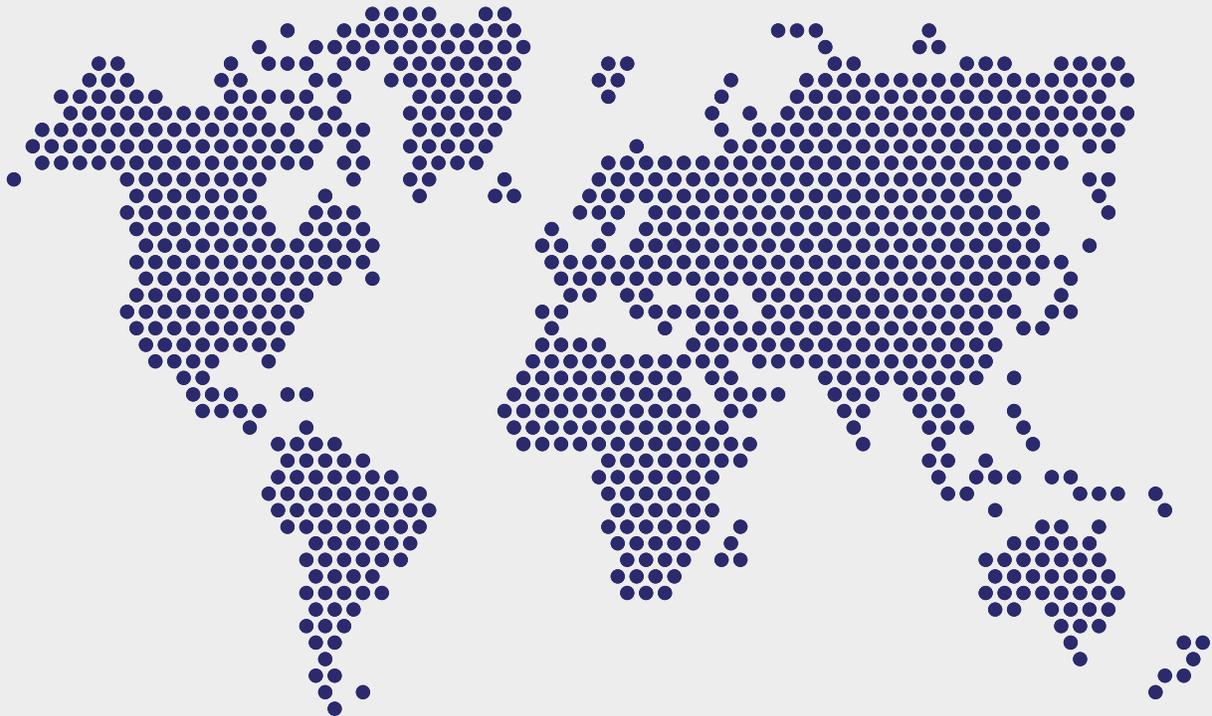
For help addressing any of the ideas or imperatives discussed in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com. You can also visit us at Visa.com/VCA.

  Visa Public

VISA