

Chief Marketing & Sales Officer Forum

Badges and Benefits: Loyalty points are missing the point

In the digital age, the loyalty game is all about making emotional connections at scale.

March 2012 | by Tariq Shaukat and Phil Auerbach

When it comes to loyalty, marketers are a pretty rational bunch. They're focused on rewarding loyal customers with rational benefits—points, awards, upgrades—built around specific events or transactions. It turns out that emotional rewards can be just as effective, and more profitable.

Recognition reigns as one of the most powerful ways to evoke an emotional connection (and by “recognition,” we mean public acknowledgement). Companies are discovering that when they recognize customers during the decision journey, they can drive a deeper level of emotional engagement, all without adding substantively to the cost of the program.

Emotional rescue

Well developed recognition programs with little hard monetary “value” can drive profits. A travel company that offered virtual “badges” to its top customers, for example, saw a 37 percent increase in share of wallet, even when the recognition itself carried little in the way of discounts, points, or added services. At a financial services company, satisfaction jumped 10-fold after it assigned its top customers a personal “relationship manager,” with no specific pricing or product benefits. Recognition programs at an airline created a 20-25 percent lift in year over year revenue. Recognition is more than just lip service; it's a powerful influencer of customer behavior.

Often, though, the emotional connection stems from heavy investment in a “high touch” approach. “Traditionally, loyalty programs have been designed to provide the most exclusive experiences to the very best customers,” says Joshua Kanter, who leads Caesars Entertainment's Total Rewards loyalty program. “In our industry—casino entertainment—that means a personal VIP host, white glove service, access to special offers and invitations to exclusive experiences and events.” This sort of personalized treatment is effective in creating a bond with your best customers.

Making that personal connection at scale

While “high touch” is certainly a reliable way to form an emotional connection, it can be expensive and it often doesn’t scale. The big change in the loyalty business has been the emergence of social media to engage and bond with customers in a truly personalized, relevant, and emotional way, at scale.

This is more than just “badging” (which we mean as a mark of public recognition, such as becoming “mayor” on Foursquare or the “elite member” baggage tags an airline may send you when you qualify for elite status). It’s about providing “social recognition” by highlighting a customer’s loyalty and value in front of their friends, family, and peers, to create a multiplier effect on top of the emotional connection. “Social recognition” also enables companies to tap into the powerful competitive nature of many of their customers, with consumers competing to earn the best badge or have the highest score.

Consider Foursquare members—over 10 million strong—competing to become the “mayor” of a local retailer. Or online gamers in World of Warcraft who spend hours battling to earn guild reputation, which they use to use purchase in-game rewards that confer visible status. In fact, marketers have much to learn from gaming, where designers focus on making the consumer experience competitive, social, and immersive. Marketers need to take advantage of these trends, and provide badges, not just benefits.

Recognition itself doesn’t have to come from a brand. It can be just as effective when it comes from peers. Our research with a media company showed that a top 5 driver of loyalty for young readers on a news site was when they were offered the opportunity to collect a “maven” badge. The virtual tag, customers said, “shows others I care about the world.”

“We have several games online and the big thing is the leader board,” says Kanter of his experiments at Caesar’s. “Through Facebook, you can play CaesarsCasino where it’ll tell you your rank compared to other players, including your friends. There’s something very powerful about that. It’s a form of recognition that’s not limited to the individual. It taps into the player’s social community.”

Beyond boosting sales, a badges-and-benefits approach yields a data bonanza. When customers play a virtual game or check in to a specific retail location, they’re providing useful data about themselves. Companies can use that data to identify high value behaviors, then promote and reinforce the existing behaviors down to the individual level. Or they can use the information to migrate customers to even higher value levels.

What a recognition program at scale might look like

These are early days for the “social recognition” game so it’s still an open book in terms of what these kinds of programs might look like. Here are a few ideas:

A hotel property could create the “Property X VIP Club” for those high value customers at that property. You can even tap into your customers’ competitive spirit by publishing leader boards (for those who opt in) to highlight the #1, #2, #3 guests against different objectives—staying in the most different cities, for example.

An airline could start to provide “High Flyer” badges for certain high value routes. Paid tickets from New

York to Boston every week for 2-3 months might not be enough to earn you super elite status, but could be enough to get special recognition and treatment on that route. These “High Flyers” could be allowed to board early, perhaps, or given a complimentary upgrade on occasion. And this isn’t just for hospitality industries. A retailer could start to recognize people who are cross-aisle shoppers (“the Everywhere Badge”) to reinforce that behavior.

Rational benefits are clearly an important part of any loyalty program. Focusing on providing and sharing the recognition, and indeed encouraging game-like competitive behaviors, however, is where you can generate strong bonds with customers. Marketers should join in the game.

You can find related insights on our Chief Marketing & Sales Officer Forum site: <http://cmssoforum.mckinsey.com>. Please follow us on Twitter @McK_CMSOforum.