



Presents:

## State of the Loyalty Industry: May 26, 2009



By: Bill Hanifin  
Hanifin Loyalty LLC

When I think about the State of the Loyalty Marketing industry today, I see a business that is somewhere between adolescence and adulthood. From the launch of American Airlines AAdvantage in 1981 to the GM MasterCard launch in 1992, our collective experience in two pillar industries is equivalent to children between 17 and 28 years of age.

It's not a stretch to say that the vast majority of strategic thinking and program design evidenced in Loyalty programs today have been built by Boomers for Boomers. That's right, we are the creators of the strategies for which we are also the target audience. Reminiscent of GM's campaign to invigorate a troubled brand in the 1980's by proclaiming "This is Not Your Father's Oldsmobile", we've built the "loyalty" car that we're comfortable riding in, but we are learning that an increasing number of others don't necessarily want to go along for the ride.

There is at least one group of consumers who are not sure they want to jump in our car and they are 80 Million strong, representing almost 25% of the U.S. population. Generation Y (the Millennials) are largely disconnected from traditional loyalty models, and it is not surprising given that some of the oldest in the group were born in 1981, the year AAdvantage was launched. To illustrate how the world has changed since then, in that same year IBM launched its first Personal Computer and Arnold Schwarzenegger was still walking around in a Speedo.

The benefits from investment in Loyalty Marketing programs have never been more evident. Creating a community of customers that are recognized and rewarded for their patronage is the precursor to understanding their preferences, needs, and desires. Loyalty works - whether in booming or troubled economic times.

If there is any criticism to be leveled towards the mirror, it is simply that we may have spent too much time on planning with not enough emphasis on executing our recommendations thoroughly and with flawless perfection. Why else would we be still urging clients to leverage the valuable data they have collected to engender more sincere two-way communications with their customers. Or, why do we plead to invest in the disciplines of program measurement to understand performance, justify budgets, and proactively manage financial liability?

As Marti Beller stated in her article in this series, it is clear that the market is demanding innovation and we, as practitioners, must re-tool to deliver the next wave of thought leadership to benefit both our clients and consumers. The challenge is more formidable than it first appears, as we are comfortable with current structures and consumers have adopted a strong sense of entitlement to their rewards. We need to tap into a way to migrate the foundational elements of building successful Customer Strategies to meet the needs of Generation Y specifically, but also the demands of an ever evolving marketplace.

An area of focus that deserves attention is communications. Peppers and Rogers coined the term “1 to 1” Marketing and almost everyone today promotes the concept of creating meaningful two-way dialogue in the context of loyalty and rewards programs. It was not long ago that the tools available to execute a communications plan were direct mail and catalogs. Adding websites as program portals added functionality and email became the preferred communication medium with its low-cost structure and potential for personalization.

Web 2.0 came along and handed the reins of relationship building to the customer. We now find ourselves in a world offering a range of communication channels, many of which have not earned our full confidence and which we don’t even use on a personal level. I am speaking of all the options that fall under the umbrella term Social Media Marketing and includes communities, blogs, social networks, micro-blogging, and content or feed aggregation. We know these as Facebook, Flickr, LinkedIn, MySpace, Twitter, and many more.

Everyone knows about Social Media, few understand it, and there are proponents and opponents voicing opinion with increasing volume. To some, employing a social media strategy can accelerate achievement of business objectives, to others it is a greater waste of time than watching your teenager play one more round of their favorite video game. The one unifying question is “how do all these pieces fit together?” Almost every business person I know expresses interest in executing a social media strategy that is right for them.

If you are skeptical about incorporating Social Media into the communications stream of your rewards program, even hoping that the world will just “grow out of it”, let me provide encouragement. Peppers and Rogers had the right concept with “1 to 1” Marketing, though execution was too costly for most companies to absorb. It is one thing to craft promotions, offers, and communications by segments, but to drive personalization to the individual account level was not financially sustainable. After the first wave of failed CRM installations, the ambitions of “1 to 1” Marketing were softened to a more practical “Mass Customization”.

The unfulfilled potential of CRM and “1 to 1” communications is made possible with the range of Social Media tools available, and it will be interesting to see how our industry embraces the opportunity to transform program communications and, in doing so, find clues to engaging Generation Y with its favorite brands and creating the enduring brand loyalty that benefits all parties.

## What do you think?

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