



Spiegel Research 5.0



# Just tell us what you want

New insights on what drives loyalty  
in a loyalty program.

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# THE PROJECT

## Loyalty Programs

Industry data and academic research shows that loyalty programs are a time-tested, popular method to increase (1) customer sales and (2) retention.

## Immediate or Luxury Rewards?

Researchers (Yi and Jeon, 2003) have used experimental research to show that immediate rewards (e.g. cash back or gift cards) would be more effective than delayed rewards in promoting brand loyalty for low-involvement purchases (e.g. gas or groceries).

... and yet, other researchers (Kitvetz and Simonson, 2002) found that luxury rewards are particularly effective at building loyalty, perhaps because earning a luxury item through a loyalty program may have alleviated customers' guilt associated with spending money on luxury items.

## Customer Types

Some studies have shown that loyalty programs are the most effective with weak customers and the least effective with best customers simply because the best customers are already near their spending ceiling.

## Challenges

As loyalty programs proliferate, decreased differentiation for each loyalty program—in customers' minds—has occurred. Researchers Capizzi and Ferguson (2005) have pointed out some of the pitfalls of loyalty programs:

- Similar types of rewards: For example, competing airline loyalty programs offer priority boarding, priority upgrades, bonus miles and a separate customer service number as rewards, so it is difficult for a customer to know which loyalty program provide them more rewards.
- Delayed rewards: Customers have to wait to enjoy the benefits of their loyalty.
- Unused rewards: This occurs as the consumer forgets to use the loyalty program when making a purchase or doesn't use the rewards before they expire.

## In this study, we investigate two major questions:

1. Do customer who receive instant rewards through a loyalty program increase their purchase behavior and loyalty?
2. When a consumer makes a decision about which type of loyalty reward he or she prefers (instant v. delayed), how is his or her purchase behavior affected?

# DATA

The dataset came from Canadian Air Miles Reward Program (Air Miles), a large coalition loyalty program owned and run by Loyalty One, a division of Alliance Data. The program was launched in Canada in 1992 and currently 67 percent of Canadian households participate. When consumers make purchases at participating partner companies, which includes more than 100 companies in practically every consumer goods category, they earn points called

“Air Miles.” Air Miles can then be redeemed for merchandise, gift cards, travel or other items from participating partners and beyond. AMRP makes money based on profits of point redemption, fees collected by vendors and unredeemed points.

Until spring of 2012, Air Miles only issued “Dream Rewards,” which are redeemed for delayed rewards such as merchandise and travel. As a special promotion, Air Miles began offering a new reward point category called “Instant Cash” in March 2012, which can be redeemed at the point of purchase for discounts or gift cards. Air Miles offered customers the option to set a point collection ratio between Instant Cash and Dream Rewards.

By asking member to declare a preferred ratio, Air Miles created an opportunity for members to engage with the brand and think about what it means to them. In addition, it allows the consumer to personalize his or her experience with Air Miles.

We analyzed a group of one million Air Miles members and selected 6,258 members who had been members since Jan. 1, 2011 and who decided to participate in the Instant Cash program between 3/12/2012 and 3/25/2012. We created a control group by matching these members at the individual level with members who decided not to participate in the Instant Cash promotion, based on eight characteristics. The eight characteristics were: (1) age, (2) gender, (3) geographic location, (4) brand engagement level (defined by the company to measure the collectors’ engagement), (5) pre-period accumulation level, (6) pre-period redemption level, (7) first accumulation date, and (8) first redemption date.

At the end of this matching process we had a group of consumers who declared their instant versus delayed rewards preference and a matched group that is collecting only for delayed rewards and who did not make a declaration about how they preferred to receive their Air Miles.

## THE RESULTS

Those who declared for Capitalize Instant Cash rewards considerably increased their spending with Air Miles partners. Specifically, those that declared Instant Cash accumulated 68 percent more Air Miles points in the first two weeks after declaring the reward category compared with those who did not elect to receive instant rewards within the first two weeks.

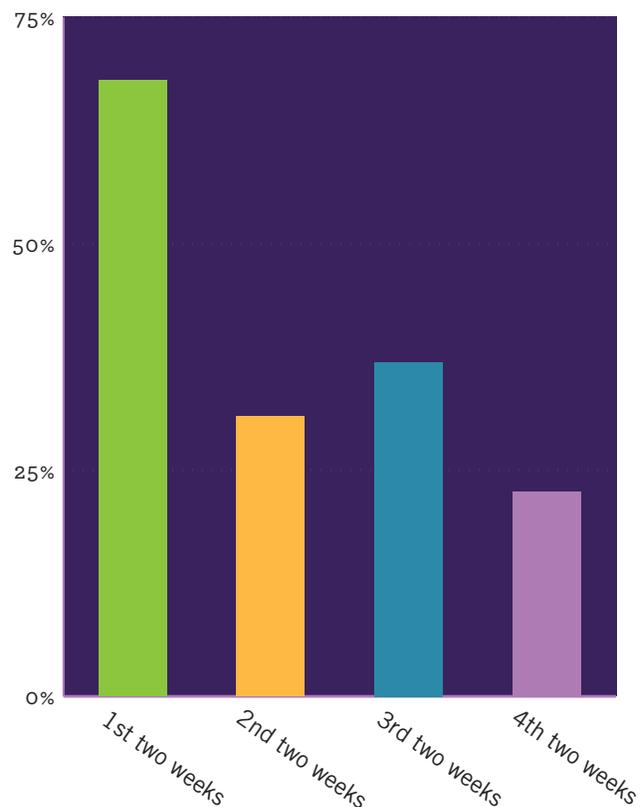


Figure 1. Increase in Air Miles spending over an 8-week period.

The effect of declaration alone is always positive. However, the effect does decline over time, as shown in Figure 1. Despite this trend, a 22 percent increase in spending 8 weeks after declaration is remarkable in both amplitude and longevity.

## SPIEGEL INSIGHTS AND MANAGERIAL IMPLICATIONS

**Spiegel Insight: Declaring for instant rewards in a loyalty program results in increased purchase behavior.**

There are three key elements of this insight that we think are important for marketers to consider.

The action of declaring a preference means that the consumer is interacting with the brand. Our previous studies have proven that [customers who engage more spend more](#) both over the long and short term.

In addition, because customers got to choose their instant versus delayed rewards ratio, they personalize their experience with the Air Miles brand. In this way, Air Miles hands over some control for the loyalty program to the consumer.

What does this mean for marketers? Loyalty programs could mandate that each new customer choose a ratio of reward points when he or she signs up because the immediate cash rewards campaign across all customers proved successful, to a certain extent. The effectiveness of this tactic should be tested, as it is logical to infer that successful redemption

may serve as a motivation for continued loyalty through accumulation. Allowing customers to choose a ratio of reward points may not be feasible for all loyalty programs, but programs can give consumers options about what types of rewards they would like to receive creating a more personalized experience for members.

Another important element of this insight is the instantaneous nature of Instant Cash versus the delayed gratification that the Dream Rewards offer. Clearly the ability to receive rewards on-the-spot appealed to many consumers and motivated them increase their purchase behavior, so marketers should review their loyalty programs to reward customers at the point of purchase.

**Spiegel Insight: Low-spending customers can be activated by inviting them to declare their instant reward preferences.**

The ability to activate previously low-spending customers is great outcome for marketers.

Increased purchase behavior was strongest for the lowest spending customers and weakest for the highest spending customers, which is logical because the highest spending customers are likely closer to their spending ceiling. This relationship shows that for lower pre-accumulation level customers, their post accumulation was boosted significantly by declaring instant rewards.

The inclination for weak customers to increase their accumulation rate of loyalty points due to the immediate rewards promotion implies that Air Miles and other loyalty programs should move to a tiered reward model. For example, if a firm could project what a customer's accumulation rate would be (e.g. high, medium, or low) based

on demographics when he or she signed up (e.g. gender, age, location, etc.), the firm could immediately offer the kind of reward (e.g. instant or delayed) that would most effectively motivate loyalty. This personalized tactic would require continuous leveraging of customers' current data to build a model that could effectively use demographic data to project a spending level.

**Spiegel Insight: Low instant cash ratio results in more spending than high instant cash ratio.**

Customers who set the instant cash ratio lower, and the dream ratio higher, seem to be most affected by instant cash declaration. This is possibly due to the mental effort required to maximize the value they are able to attain from the program.

The customers who are willing to wait for the delayed gratification of Dream Rewards certainly plan continued loyalty to the brand, which is what every marketer wants to inspire. This insight provides caution to marketers not to go overboard in providing only instant rewards, but continuing to use loyalty programs to develop longterm customers.

Overall, our findings support the notion that immediate rewards strategies are useful within the marketing mix of loyalty programs and, more generally, new strategies can be implemented by existing loyalty programs to effectively activate weak customers.

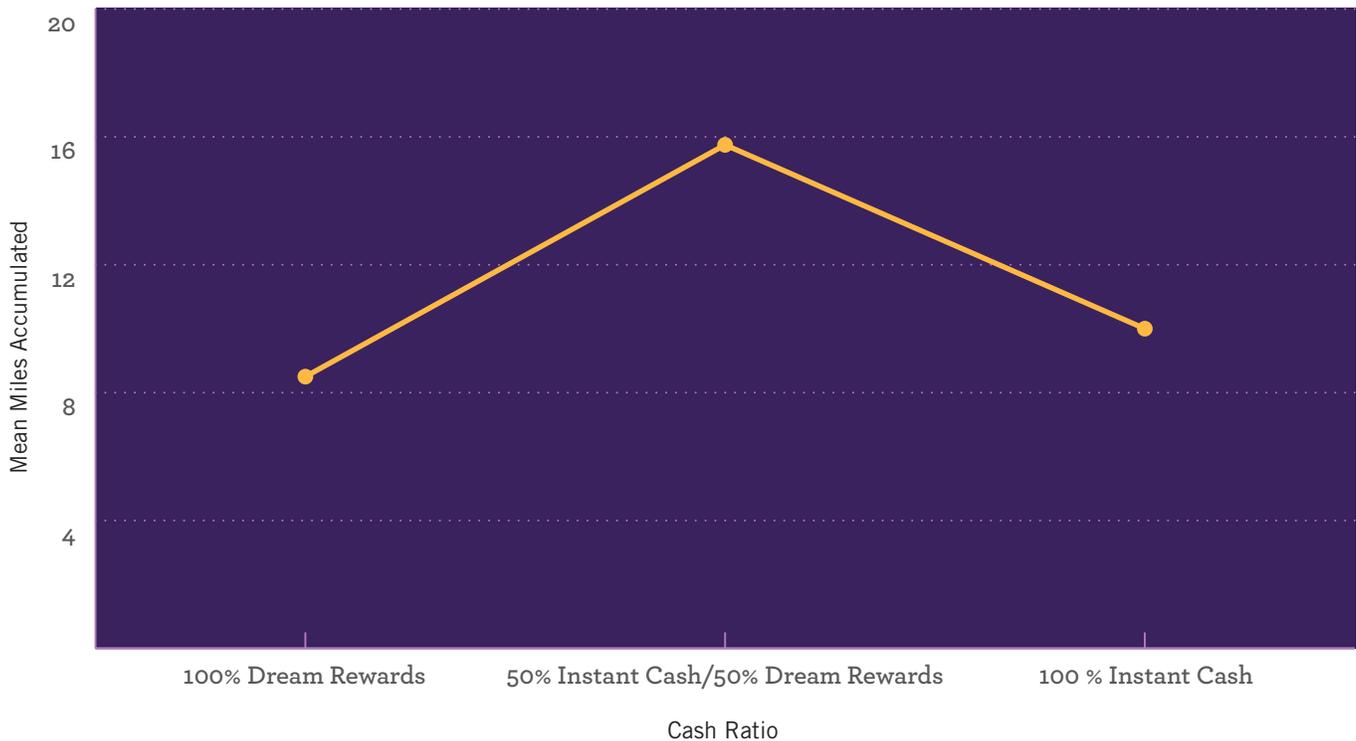


Figure 2. Test period miles by cash ratio

# AREAS FOR FUTURE RESEARCH

## **Does frequency and rate of redemption drive increased value?**

Future research could examine how redeeming rewards, instead of merely participating in an instant rewards program, affects purchase behavior.

## **Can new customers be encouraged to build a habit of loyalty?**

In addition, this study focuses solely on the effect of immediate rewards on existing loyalty members in a coalition program. Future research should investigate the effectiveness

of immediate rewards campaigns on attracting and retaining new customers across categories. A segmentation analysis that profiles and details differences in high versus low spending groups could also be performed. Further research could also analyze the actual ratios that are declared, and how consumer spending is affected.