

The Future of Loyalty

Introduction: Defining loyalty

Before discussing the challenges facing those of us who work in the 'loyalty space' in more depth, it is probably worth providing an overview of what the term means to us.

To us, loyalty is a particular way of thinking about the relationship between brands and consumers. It is about what happens beyond the moment of simple transactions, and the specific products being bought and sold; beyond even the sometimes powerful messages contained in advertising. Instead, loyalty describes the long-term relationship and value-exchanges between brands and their customers, of which those momentary transactions are just a part.

Of course the word 'loyalty' covers a range of emotions and behaviours that go far beyond just the commercial space including

our relationships with family and friends, political parties, nation states, religions, football teams etc. In fact, the question "where do your 'loyalties lie'?" is one which goes a long way toward the formation of our very self identity. And we are well aware that commercial or, dare I say it, brand loyalty lies at one end (perhaps the less invested end) of the human loyalty spectrum. Nevertheless, a person's consumer loyalty does lie on the spectrum and can still involve similar kinds of emotional attachments and accompanying behaviours. The implication of this being that even when talking solely about the future of consumer loyalty, we should still be bearing in mind the future of loyalty more generally, and the evolving ways in which people will emotionally align themselves with different values, ideas and propositions.

Loyalty Experiences

For brands that aspire to creating customer loyalty in this disorderly world, there is a fundamental question that needs to be addressed. Quite simply, what will 'loyalty' be? Already the conversation has long since moved on from the traditional points and prizes models, through ideas of personalised loyalty experiences for individual loyal customers, and on to the challenge of customer and context-led customisation of loyalty experiences.

The Global Challenge

Loyalty in the future will not be like loyalty in the past. This much we know. Where once simple equations ruled (the customer collects points, the customer saves), there is now a chaotic, multi-channel hubbub increasingly driven by fast transactions and instant gratification, and the need for brands to think more deeply about the emotional, less rational,

drivers behind the kinds of loyalty behaviours that might once have been exemplified by your grandmother insisting on her monthly trip to the local department store.

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The Personal Data Dilemma

Lurking ominously in the background there is also the question of to what extent consumers will allow us to collect and use their personal information, and what they will expect in return.

the conversation has long since moved on from the traditional points and prizes models, through ideas of personalised loyalty experiences for individual loyal customers, and on to the challenge of customer and context-led customisation of loyalty experiences. But where will this conversation lead us? And where, in terms of a customer's emotional relationship with a brand, will 'loyalty' begin and indeed, end?

The key drivers behind the evolutionary changes to the loyalty model have been technological of course, both in terms of our ability to collect and store more customer data, and in terms of communications platforms that allow consumers to talk to each other in the same spaces (social media and mobile platforms in particular) that also allow for real-time, in-context marketing and brand-consumer interactions. These new technologies have brought new possibilities, and theoretically at least, brands now have a dizzying array of tools with which to create new kinds of long and short term, emotional connections with their customers. But those same tools have also presaged a new kind of consumer, with new and distinct expectations, some of which look determinedly dis-loyal.

However, reports of the 'death of loyalty', evidenced by increasingly brand-fickle consumer behaviours, perhaps driven by consumers now being empowered by access to different choices and information, may be exaggerated. It is always worth remembering the two sides of the loyalty coin: on the one, those customer behaviours that look, for all intents and purposes, like loyalty; and on the other, the brand-created, customer experiences that are designed to drive those behaviours. Brands may have been mistaken in assuming that 'loyalty' behaviour was ever more than ephemeral, dependent on loyalty schemes with a specific shelf-life; but that does not mean that brands cannot seek to redefine loyalty experiences and find new ways to drive loyal behaviours. The challenge lies in understanding the consumer of the future, and their redefined needs and expectations.

Loyalty has actually always been about creating an exchange of value between brands and consumers and especially about the

value brands can provide beyond the specific features of a product being bought and sold, creating an emotive loyalty. This is unlikely to change. But understanding what kinds of value are likely to be exchanged in the future is a challenge. We need to answer the question fast, since, in this age of digital engagement and interaction, in which one-way advertising messages are now only part of the picture, the consumer is empowered to quickly seek, find and even demand, gratification of his or her own personal needs. Brands will need to respond to this, or find that their once 'loyal' customers are enticed elsewhere. In particular they will need to start seriously addressing the 'harder to quantify' aspects of the value exchange, and reconcile the rational value exchange with the less rational emotional value exchange.

Let's get down to the nitty gritty.

One of the tools that brands increasingly have at their disposal is data (or 'big data' to use the fashionable term). We can now know a lot more about consumer behaviour at both the individual and group level. But we need to learn how to harness it, to make sense out of it, and to create beauty out of it. This challenge brings a number of attendant questions such as: how can we build data collection into business models? How can we know what the best or most relevant kinds of data are to collect? And of course, how can we use this data to create new kinds of loyalty experiences and value exchanges? Lurking ominously in the background there is also the question of to what extent consumers will allow us to collect and use their personal information, and what they will expect in return. The backlash is already beginning in some quarters, although the questions of whether there are generational differences in the value placed on personal information is an interesting one. Either way, it looks like, for brands, providing genuine value in new ways and making commitments to being honest and transparent look like inevitable first steps.

Assuming we answer some of these questions, we then face another immediate challenge: the 'fat wallet' problem. Given that data collection and storage is becoming ubiquitous, and the ability to contact and interact with

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customers is too, so there are more and more opportunities for brands to move in to the loyalty space and offer their own, unique, loyalty experiences. Banks, airlines and hotels are the traditional players in the space, but already we have seen multiple other entrants, not least of course, the likes of Google and Facebook, the very architects of many of the changes we are seeing in customer behaviour.

Consumers will increasingly face the literal and metaphorical problem of having a wallet (or purse) fat with loyalty cards. In this scenario, the value of loyalty may become diluted, the consumer may become overloaded, eventually disengaging from loyalty altogether, and brands will face an increasingly uphill struggle to remain 'front of mind', even when the value they offer is particularly relevant. One solution to this may be to start thinking away from 'pro-active' loyalty, in which the consumer must actively and consciously take part in a loyalty scheme (too many of these and wallets become fat), and on to more 'passive loyalty' models that demand less of the consumer. On the other hand, consumers may be happy to put up with fat wallets, in order to 'smarten up' their consumption patterns, using loyalty schemes strategically.

Behind these more broadly conceived challenges lie the questions and uncertainties surrounding the physical (or digital) mechanisms and infrastructure that will underpin loyalty experiences themselves. As already noted, technology has driven many of the changes we have already seen, and it is likely to in the future. We might for example see a proliferation of payment systems, or indeed a convergence. Loyalty currencies (points, air-miles etc.) might become instantly convertible and flexible enough to be used

across contexts, and/or borders (a question which raises others around creating loyalty experiences that are relevant in different cultural contexts – are loyalty behaviours in China driven by the same set of value propositions?). The mobile wallet is a both a certainty and an uncertainty for those of us thinking about the future of loyalty. It may have little impact beyond changing the mechanism of payments, or the effects could be more profound.

Similarly, the channels for brand-consumer communication and interaction are likely to increase. Mobile is a certainty, but what about the so-called 'internet of things' or wearable technologies? Which inventions and innovations are the most likely to be adopted, and which will prove the most effective channels for the types of relationship-building that drive loyalty?

Associated with all this, comes the question of the impact of real-time, in-context feedback, interaction and marketing. Will the ability to make prices dynamic, rewards instant, and responses to consumer demands individually relevant, all mean that traditional, long-term, loyalty models become meaningless or (to use an excruciating pun) pointless? More likely perhaps is that short-term transactional consumer behaviours, and longer-term loyalty driven value exchanges are likely to co-exist, and it will be more a question of which consumers are looking for which type, and which sectors and brands can generate the different types of services to deliver to those different needs: providing mechanisms that address the relative simply needs of the instant transaction as well as addressing the more complex and diverse variables that go into shaping what makes a consumer loyal.

Diluted Value of Loyalty

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Pointless Points

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Options and Possibilities

As I have already hinted, there are a number of possibilities for the future of loyalty. Change is certain, but little else is. That said, there are some fundamentals upon which we can rely. Consumers will still shop, spend

and almost certainly continue to look for value propositions beyond just the features offered by specific products. In other words, there is still likely to be a space for loyalty. The idea of 'knowing your customer' is also

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Brand Alliances

Strategic brand alliances, designed to deliver sophisticated choice and content, to complex consumer needs, are likely to emerge.

Consumer Power

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going to remain, albeit transformed into a new challenge defined by the tensions between the ubiquity (and inevitability) of having access to ever more customer data, the right to collect that data, how and where you can store or share it and the puzzle of what to do with it once you have it. Alongside this, the death of the traditional media model (if it is even still alive) will finally sink in; what are now considered novel channels of communication will become the norm.

These certainties are more than likely to lead to an enhanced role for high-quality data managers and analysts (or data management and analysis systems). They will lead to a period of re-definition, evolution and innovation in terms of the kinds of value exchanges and exchange mechanisms that define loyalty offers. They will lead to a different set of consumer expectations, perhaps to the point that brands will no longer be able to deliver to them on their own. Strategic brand alliances, designed to deliver sophisticated choice and content, to complex consumer needs, are likely to emerge.

Less certain are the changes that new technologies will bring; especially in terms of payment mechanisms, mobile wallets and communications technologies. We know that consumers will face choices in all of these areas, but which ones they will adopt en masse remains uncertain. Will consumers opt to keep personal information private, while expecting to be able to enjoy the benefits of dynamic prices and rewards from multiple brands in multiple contexts? Or will the increasing demand from consumers for relevancy and personalised content tip the balance in favour of greater sharing? Ultimately can brands manage to create sufficiently tempting, relevant offers and experiences utilising the tools at their disposal (by, for example, gamification, curating, understanding etc.) to hold the consumer's attention and make them more willing to engage and invest? The only certainty here is that the consumer is likely to gain the upper-hand in terms of the power dynamic and principles such as 'great customer service' will no longer be a negotiable.

Proposed way forward

Beyond Loyalty

The limits of what we once called loyalty should begin to extend to cover the domain of individual transactions and real-time consumer-brand interactions. certainly be into the future. We may see reserved seats for women, visible minorities, and other traditionally under-represented groups.

In practical terms, there are a number of ways forward. There is an immediate need to understand the changes that are being wrought on consumer needs and expectations. Significant investment in consumer research and data management and analysis seems to be a no-brainer. These kinds of research will themselves have to be mindful of what we know is coming, and specifically aimed at solving the problems outlined already such as the question of how to understand 'big data' and make it useful; and how to analyse and explore the impacts of new technologies on attitudes and behaviour so as to feed directly into reformulations of truly customer-led value propositions.

In tandem with this, and utilising a method that has been made much easier by the very same technologies we have been discussing,

is the need for brands to be unafraid of testing. We don't know what will succeed in the future and what is in the market today that will fail, so brands face a dilemma: Continue to innovate and test a wide variety of solutions and technologies and see what works (which brings the risk of spreading your focus and investment too thin and failing with all); or pick your winning horse or horses, focus there, be successful, but be exposed when consumers grow tired of that platform and switch to something new.

As the pace of uptake of new solutions is increasing exponentially, especially in younger generations; it is ever harder to decide on the right strategy. The savvy business will be prepared to fail in this environment, but also prepared to learn from that failure, just as much as they must be prepared to respond to successes quickly.

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In terms of actively innovating, brands will need to explore different possibilities and be open to new models. Innovation might be encouraged through strategic alliances with unlikely bedfellows for example, perhaps from different sectors, or from clever acquisition, or investment in or promotion of (lean) start-ups or suppliers.

Above all though, brands must place the customer at the heart of business models. This is likely to involve creating new business models and organisational structures that allow for customer engagement and management to become a core function that cuts across traditional silos, and helps to

focus entire businesses on the contextual needs and value opportunities for different audiences at different stages of a customer journey or experience.

Extreme Customer Centricity

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Impact and Implications

The implications of everything I have discussed are broad.

Consumers' ideas of utility value and similarly expectations of loyalty are likely to move from a recognition of the value in standard and 'always available' loyalty propositions to dynamic, exciting, changing and variable experiences that are 'here today' and 'gone tomorrow'. This will mean an increase in customer-driven engagement in order to see what is or isn't available at any given moment, rather than the annual 'collect, save, spend' patterns. However, we must address exactly what kinds of emotional connections can be created between brands and consumers, and explore the levers that might brands might be able to pull to create them, that are not simply reliant on the rational economic levers of points, rewards and monetary value. In doing so, of course, we may discover that the irrational emotional connections are even more valuable than the rational economic ones that have so far dominated.

Finally, lying behind all of these discussions, and the fact of brands and consumers beginning to interact more frequently and directly, with more customer information sought, collected and utilised, we are also likely to see increases in external

(governmental) intervention and the possibility of regional or national 'balkanisation' in terms of the different ways in which brand-consumer relationships are regulated. This could happen even as companies attempt to move against such trends by, for example, initiating cross platform integrations of customer management in which every brand touchpoint is connected (without recognition of borders) and actively collecting customer data.

In economic terms, the need for brands to have access to the resources (especially the technical resources) to take part in this new world of customer engagement may begin to crowd out smaller players, at least in the short term. And competition for loyalty is likely to mean squeezed margins even for the bigger players. In the coming years, brands will need to be disruptive in their thinking about loyalty, seeking new kinds of value proposition, exploring different models and redefining the very ways in which loyalty is conceived.

Dynamic Experiences

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New Value, Different Models

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Lead Expert – Christopher Evans

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Lead expert on the Future of Loyalty.

Christopher Evans joined Collinson Group in 2103 as a Director, Global Marketing from Coty, a \$4.6bn fragrance and cosmetics company with brands such as Calvin Klein, Davidoff, adidas and Rimmel. His career there spanned 17 years and included both Marketing and Managing Director responsibility within teams based in London, Dubai and New York. Christopher is responsible for uniting the complementary skills and experience we have across Collinson Group so that our clients can benefit from accessing this unique wealth of knowledge and capability. Christopher is also responsible for Collinson Latitude, which combines advanced earning, redemption and ancillary revenue platforms with global content and e-commerce expertise to drive engagement and revenue for our clients.



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About Future Agenda

Context – Why Foresight?

In an increasingly interconnected, complex and uncertain world, many organisations are looking for a better understanding of how the future may unfold. To do this successfully, many companies, institutions and governments are working to improve their use of strategic foresight in order to anticipate emerging issues and prepare for new opportunities.

Experience shows that change often occurs at the intersection of different disciplines, industries or challenges. This means that views of the future that focus on one sector alone have limited relevance in today's world. In order to have real value, foresight needs to bring together multiple informed and

credible views of emerging change to form a coherent picture of the world ahead. The Future Agenda programme aims to do this by providing a global platform for collective thought and innovation discussions.

Get Involved

To discuss the future agenda programme and potential participation please contact:

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Future Agenda 1.0

The Future Agenda is the world's largest open foresight initiative. It was created in 2009 to bring together views on the future from many leading organizations. Building on expert perspectives that addressed everything from the future of health to the future of money, over 1500 organizations debated the big issues and emerging challenges for the next decade. Sponsored globally by Vodafone Group, this groundbreaking programme looked out ten years to the world in 2020 and connected CEOs and mayors with academics and students across 25 countries. Additional online interaction connected over 50,000 people from more than 145 countries who added their views to the mix. All output from these discussions was shared via the futureagenda.org website.

Future Agenda 2.0

The success of the first Future Agenda Programme stimulated several organizations to ask that it should be repeated. Therefore this second programme is running throughout 2015 looking at key changes in the world by 2025. Following a similar approach to the first project, Future Agenda 2.0 builds on the initial success and adds extra features, such as providing more workshops in more countries to gain an even wider input and enable regional differences to be explored. There is also a specific focus on the next generation including collaborating with educational organizations to engage future leaders. There is a more refined use of social networks to share insights and earlier link-ups with global media organizations to ensure wider engagement on the pivotal topics. In addition, rather than having a single global sponsor, this time multiple hosts are owning specific topics either globally or in their regions of interest. Run as a not for profit project, Future Agenda 2.0 is a major collaboration involving many leading, forward-thinking organisations around the world.

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