RIP Rewards?

White Paper
May 2015

Polaris Partners

RIP Rewards?

Recent UK news about rewards has been gloomy: Capital One will withdraw its cashback programme on June 1, and Sainsbury's has halved the earn rate for Nectar points. As these are two of the country's most prominent rewards offers, there's no doubt that other operators will be considering their position.

But before we get ready to write off rewards as a strategy whose time is past, let's just consider the rationale for what in fact are two quite distinct decisions.

Start with Cap One: we've been arguing for some time now that the EU's decision to slash interchange was plain wrong. Our view was that retailers, the noisiest advocates of change, would quietly pocket the savings, and that issuers would withdraw or water down the value of their rewards offers. You didn't need to be a wizard to forecast this: all the evidence from other markets where interchange had been cut said so, as did plain common sense. But the Competition Commission, under the unlamented Joaquín Almunia, ploughed on in the teeth of the facts, and complacently handed card users a double whammy: no reduction in retail prices, and crippled rewards programmes.

The Sainsbury's case is different: from April 11, customers have earned only one point for every pound they spend in stores or online. City analysts argue that this is driven by what they see as the inexorable transfer of customers' shopping habits to arch-discounters Aldi and Lidl, who focus on price promotion rather than rewards. The theory is that Sainsbury's will use savings from the reduced earn rate to fund price cuts.

We're not so sure: the discounters' narrow product range (some 2,000 lines compared with conventional supermarkets' 30-40,000) makes it difficult to do a full weekly shop with them. The likelihood is that, in difficult economic times, even the better-off are tempted into the price-cutters by what certainly are outstanding promotional offers – Lidl pushed out around half a million bottles of cut-price champagne last Christmas – and stay to pick up their high quality fruit and veg. But that's a long way from a full weekly shop.

More likely, Sainsbury's are looking to transfer the rewards focus from same-old, same-old points earning to high value one-off promotions. That, certainly, is what they're saying, and we're inclined to believe them. And here's a case in support: Morrison's, which introduced its Match and More rewards scheme in October last year, is carefully overlaying the basic points concept with one-off promotions, currently an attractive spend-driven offer on quality chef's knives, and individual offers based on basket analysis.

So what should we learn from these very different cases? Is customer loyalty no longer worth fighting for? Well, US bank CEOs would disagree: 30% recently said that their single most pressing concern was precisely to retain their most valuable customers[1].

And we think they're right. Identifying and keeping your best clients has to be front and centre. No doubt, the way that's done will vary with the scale of the business and what it's selling. Rewards, after all, can take many forms: from the barista who recognises you and your preferences, through to an upgrade to the front of the aeroplane on a long-haul flight.

But big business will always struggle with the personal touch, and the more look-alike its market, the more it will have to find attractive ways to differentiate itself, especially with its most valuable customers. Rewards also need to reflect the funding levels available. In this sense, card issuers' challenge isn't one of principle – do we need rewards? – it's how to finance them.

We certainly aren't ready to write off rewards programmes. But consumer markets are changing at a breakneck rate, and business strategies have to evolve with them.

[1] Banking vs. Google, Apple and Amazon, *Forbes,* 17 September 2014

© 2015 Polaris Partners Ltd.

So here's our take on The New Rules for Rewards.

Rethink the scope

Bank card issuers may want to consider a rewards programme covering all their retail products. (We made the case for this back in October in The Next Big Thing).
In the airline world, carriers are already moving decisively to rewards based on spend rather than miles flown – historically the norm, but clearly a flawed proxy for profitability. The natural next step here would be for redemption also to be based on fares – the so-called "dynamic model".

Reconsider the offer

Is it time to redirect all or part of the funding away from the trickle earn concept to frequent, short-term big hits – with all the extra benefits around keeping it fresh? Monoline card issuers may see this as a more affordable and engaging model than the £10 = 1 point concept.

Think about working with partners

Alliances help share the cost, reach new customers, and add value to the existing programme. Merchants and payment card companies have a natural sweet spot here in using data to identify and communicate with their mutual customers.

Keep it alive

Emphasise localness, in-store activity, neighbourhood PR. Virgin Money are working hard at positioning their outlets as being drop-in centres with wifi and iPads as much as bank branches.

Keep it personal

Consider "Just For You" experiences. In Canada, Aeroplan has launched custom-built packages marketed under categories such as Escapes (once-in-a-lifetime trips), In the City (tickets to sold-out concerts and sports events), and Money Can't Buy (items such as signed sports or music memorabilia).

Invest in comms technology

It cuts operational costs and time-to-market, boosts flexibility, and allows greater personalisation. US luxury chain Neiman Marcus uses beacons to identify when its most loyal customers are in the store, and supports this with an app they can use to register their preferences and chat to personal shoppers.

Exploit social media

Forward thinkers like Starbucks are building communities among their customers, based around shared interests. Nike has created a social world around its Nike+ channel, using customers' activity data and the ability to share progress with friends to sell more product. In Greece, Piraeus Bank is using ideas from the gamification playbook to reward customers for consumer reviews and member-get-member activity.

And finally, above all else,

Look after your best customers

Use data to identify them, data to reach them, data to make them a meaningful offer, data to tell them they're important.

Our view? Rewards aren't dead: but they do need to be different. Remember, Silicon Valley is out to eat your lunch. The technology it peddles should be your friend, not your nightmare.

© 2015 Polaris Partners Ltd.

About the Author
Roy Stephenson, Polaris Director

With more than 20 years of experience in the payment card industry, Roy was previously with American Express, where as VP and General Manager, he launched the highly successful commercial card business in the UK, going on to lead product rollout across EMEA and latterly Latin America/Caribbean.

As a consultant, Roy works with banking and payment card clients around the world, identifying and advising on best practices in customer marketing and relationship management. He has also undertaken assignments in media, utilities, airlines and retail.

He has developed and audited coalition and bank loyalty programmes in the UK, Ireland, the Netherlands, Spain, Canada, Dubai, Kuwait, Australia, Singapore, Greece, Israel, Turkey, Saudi Arabia, Brazil, Chile, Venezuela and Mexico.

Roy has also advised on airline FF programmes, and has been the rewards lead in the MasterCard Advisors pool.

He speaks fluent Spanish, reasonable French and is the author of Marketing Planning for Financial Services (Gower Publishing). He has a B. Com, holds an MA in Management Studies and is a Fellow of the RSA.

About Polaris Partners

Polaris Partners is a young company led by directors with decades of experience as senior managers and consultants. We specialise in helping businesses reach their sales and marketing goals.

Most of our work is in the financial services and leisure sectors, but we’ve also completed major engagements for household names in utilities, travel, media and retail. Our clients span the world: we’ve undertaken projects on every continent, and are comfortable working on-site when necessary.

“No job is too big, no job is too small.” In our case, the cliché is true. We’ve advised banks on the strategic management of their payment card portfolios, we’ve helped start-ups write a business plan, we’ve built strategic alliances between leisure sector leaders, we’ve put sales forces on the road.

We have great respect for the numbers – data analysis and financial modelling are important tools for us – but we also believe in the power of creativity.

To learn more, please visit our website at polarispartners.co.uk