**Visa Consulting & Analytics**

# Transforming customer loyalty through the power of data

Great relationships are founded on
best-in-class customer insight

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# Loyalties are changing

**Businesses that succeed in generating enduring loyalty are constantly monitoring customer expectations and delivering on them.**

This need to be in lockstep with customers is important as the loyalty market goes through a transformation period. Three core consumer trends are driving this change.

## TREND #1

### Digitization has presented more opportunities to acquire new customers - but the flipside is that retaining them is more challenging.

The growth of digital interactions has been further fuelled by the ongoing COVID-19 pandemic. From lockdowns to compulsory face masks, barriers to physically visiting shops and entertainment venues continue to exist. As consumers spent more and more time on their phones and other digital devices they naturally moved online to do many of the things they used to do face-to-face.

Online shopping, online banking, virtual healthcare appointments, film streaming, and many more activities are much more established than they were just two years ago, due to the need for due to the need for people to live their lives differently.

**Greater digital interaction provides consumers with immediate access to a far wider range of services and choice, making it easier for them to try something new.** Research by customer engagement platform Braze identified that over a quarter (26%) of consumers tried at least one new brand during the early months of the pandemic, with nearly all of them (95%) reporting an intention of buying from that new brand again[1].

## TREND #2

### Non-financial services are setting the benchmark for customer loyalty.

Highly tailored experiences from technology-based retailers such as Apple, Netflix, Amazon and Spotify have raised the bar significantly. Consumers now expect easy to use and relevant experiences that reflect their lifestyles.

**Extraordinary customer experiences drive the positive emotions that lie at the root of customer loyalty.** Ultimately, customer loyalty is not something you can buy, but rather is created through demonstrating that you know your customer. And that is achieved through seamlessly delivering what they want every time.

## TREND #3

### Consumer preference is for a more personalized and differentiated loyalty proposition. Consumers

are looking for businesses that understand them as individuals, connect emotionally with them and reflect their beliefs.

**As this trend evolves, there is a continual shift from the transaction-based points/ cashbook rewards approach, to one that looks to create an ongoing emotional connection through delivering personalized lifestyle solutions.** The need to create greater relationship stickiness by offering solutions that are difficult to replicate is transforming the loyalty market.

> *"Understanding each customer's behavior, needs, and aspirations must sit at the core of future loyalty solutions.*
>
> *Harnessing the power of data analytics to achieve targeted personalization and segmentation can enable the personal, relevant, and timely connections customers are seeking and, in turn, drive sustainable and rewarding relationships."*
>
> **Carl Rutstein**
> Global Head, Visa Consulting & Analytics

1. Bizcommunity.com, "1 in 4 consumers tried a new brand during the pandemic- global report", August 12, 2020, https://www.bizcommunity.com/Article/1/168/207161.html
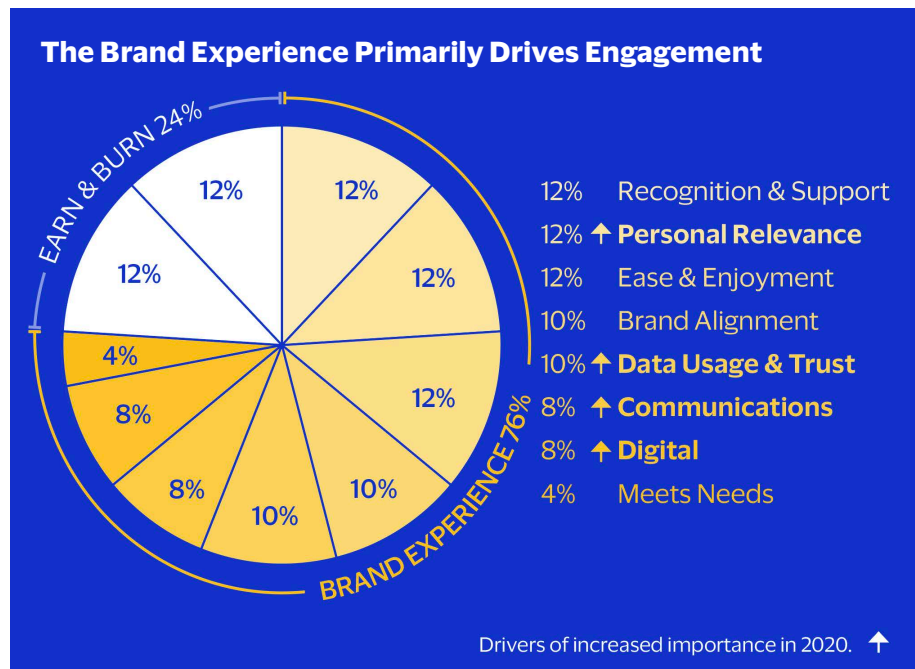
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# Relevance and experience are at the forefront of consumer loyalty requirements

Consumers have never had as great a choice of goods and services available at their fingertips. Through just a few clicks, solutions to their needs can be found, and purchased, from all over the world.

**Therefore, staying close to your customers in a world where disruptive new entrants are trying to own the customer relationship is essential in most industries, and particularly so in banking.** Loyalty programs are fundamental to near-term survival and future success.

**Loyalty solutions are becoming more reflective of the whole customer relationship, rather than simply rewarding transactional behavior. The customer's end-to-end experience with the brand becomes ever more critical in influencing customer behavior.**

The Bond Loyalty Report, conducted in partnership with Visa, is recognized as the industry's longest standing and largest study on customer engagement and loyalty attitudes. In the 2020 report, the brand experience was found to be responsible for 76% of a customer's engagement levels, compared to just 24% generated by traditional "Earn and Burn" loyalty programs.

### The Brand Experience Primarily Drives Engagement

EARN & BURN 24%

BRAND EXPERIENCE 76%

12%    Recognition & Support
12% ↑ **Personal Relevance**
12%    Ease & Enjoyment
10%    Brand Alignment
10% ↑ **Data Usage & Trust**
8% ↑ **Communications**
8% ↑ **Digital**
4%    Meets Needs

Drivers of increased importance in 2020. ↑

**The provision of value-added services is also playing a greater role in loyalty programs, with customers increasingly looking for access to exclusive products or events, or personalized experiences.**

These services can take the form of paid loyalty schemes. For example, a 2020 McKinsey study found that members of paid for loyalty programs were 60% more likely to spend more on the brand, compared to a 30% increase from free loyalty programs[2]. In addition, paid for loyalty programs drive higher purchase frequency, basket size, and brand affinity compared with free loyalty programs. As a result, paying members can be worth several times more than non-paying members, even after setting aside revenue from membership fees.

### Paid for loyalty programs generate value by changing customer behavior[2]

**Purchase Frequency**
**43%**
More likely to buy weekly since joining

**Brand Affinity**
**59%**
More likely to choose brand over competitors

**Basket Size**
**62%**
More likely to spend more on the brand

2. McKinsey & Company, Coping with the big switch: How paid loyalty programs can help bring consumers back to the brand", October 22, 2020, https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/coping-with-the-big-switch-how-paid-loyalty-programs-can-help-bring-consumers-back-to-your-brand/

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# Offers that fit and evolve with the customer's lifestyle maximize return on investment

**Loyalty solutions that add value to a customer's lifestyle can deliver the long-lasting relationship value that companies seek.** Creating solutions that customers are willing to pay for, or which drive the desired customer behavior, deliver sustainable long-term value.

Here are just four examples of differentiated relationship-based loyalty offers that reflect the move away from transactional based schemes.

## Amazon Prime

**OFFERING:** Subscription based in-house loyalty ecosystem offering fast delivery, music streaming, video and e-book downloads, etc[3].

**OUTCOME:** 200 million (mn.) customers in 22 countries (4/2021)[4].

## BMW

**OFFERING:** BWM does a great job of engaging with its customers online, and owners are most likely to drive the same brand again compared to other brands[5].

**OUTCOME:** First global automaker to reach over 1m followers on Instagram and high customer satisfaction, leading to repeat business.

## IKEA

**OFFERING:** IKEA Family gives members a range of benefits, from free advice, drinks and damage cover, to discounts when they shop and special events[6].

**OUTCOME:** IKEA builds connections when people shop and even when they don't shop by offering advice, inspiration and events.

## Vitality Health

**OFFERING:** The Healthy Living program rewards policyholders for keeping fit by lowering premiums and discounting exercise related purchases[7].

**OUTCOME:** The customer can influence their costs for staying healthy.

**In comparison, the return on investment from traditional transaction-based loyalty programs is low.**

**Retailer**

**Card Issuer**

Detailed research undertaken by Oliver Wyman[8] concluded that a retailer turning over $10bn per annum, rewarding their customers with a 1% return of the value of their spend in points, is most likely to see a $27-$60 mn. loss in margin each year. To simply break even, the offer would need to deliver more than a 2.5% uplift on sales volume, with 70% redemption of awarded points.

From a card issuer perspective, these programs can be:

- Underutilized, with loyalty points being unused.
- Undifferentiated, with consumers receiving the same loyalty offer regardless of their lifestyle, and
- Easy to replicate, resulting in any competitive advantage being short-lived.

**If issuers are relying on successfully cutting margins to drive incremental business volumes, they have to carefully target and manage their customers, and this can be difficult to achieve.**

3. Matterofform.com, "The future of loyalty: Designing brand experiences that elevate, enhance and engage", April 2021, https://www.matterofform.com/news/articles/future-of-loyalty/

4. Variety.com, "Amazon Prime tops 200 million members, Jeff Bezos says", April 15, 2021, https://variety.com/2021/digital/news/amazon-prime-200-million-jeff-bezos-1234952188/

5. European CEO.com, "Top 5 European companies with highest company loyalty", June, 2018, https://www.europeanceo.com/business-and-management/top-5-european-companies-with-highest-customer-loyalty/

6. Ikea.com, "About IKEA Family", www.ikea.com/gb/en/ikea-family/about/

7. Matterofform.com, "The future of loyalty: Designing brand experiences that elevate, enhance and engage", April 2021, https://www.matterofform.com/news/articles/future-of-loyalty/

8. Oliverwyman.com, "The future of customer loyalty: Building a next generation reward program", January 2017, https://www.oliverwyman.com/our-expertise/insights/2017/jan/boardroom-volume-2/customer-experience/the-future-of-customer-loyalty.html/

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# To be successful, loyalty programs need to deliver value for all consumers

**The delivery of a successful and innovative loyalty solution is dependent on the collaboration of many players, for instance the bank, loyalty enablers, such as Visa, and retailers.** Strong alignment of purpose and clarity of roles are vital to generate the the desired customer loyalty, with each player bringing something different to the party.

## The Bank

The bank has an ongoing relationship with the customer and manages their money, naturally a service that you will only ask someone to do if you trust them. This position of trust, combined with a deep knowledge of the customer's financial situation and needs, **provides an unrivalled view of who the customer is.**

## Visa

Visa as a network of networks can be the enabler to bring banks, merchants and customers together. This partnership approach is underpinned by utilizing the power of customer transactional data, which can **create an in-depth picture of how each customer lives their life and how their needs are evolving.**

## Merchants

Merchants can attract new customers and reward existing ones for their continued loyalty. With the development of the online market, more merchants are able **to offer the choices and solutions that consumers are looking for.**

Creating the right environment for each loyalty partner to be fully engaged and enjoy the customer retention and engagement benefits they seek is the key to success. Loyalty programs that provide a balanced return on investment for all parties have some consistent traits:

**Customers** receive propositions and offers tailored to their lifestyle, that provide the emotional, community and ethical benefits that they are looking for.

The Bond/Visa Loyalty Report 2020 showed that customers who receive relevant offers are eight times more likely to go out of their way to use them.

**Merchants** more effectively target new customers, enjoy increased sales from existing customers and minimize the level of customer attrition.

Again, our Loyalty Report in 2020 highlighted that 39% of customers are more likely to recommend brands with good loyalty programs.

**Card issuers** drive deeper relationships by providing more tailored products and services, which drive greater usage and higher levels of customer retention.

Studies have shown that by increasing retention levels by 5%, profits can increase by 25% [10]

10  Bain & Co/Harvard Business Review: The Value of Keeping the Right Customers. https://media.bain.com/Images/BB_Prescription_cutting_costs.pdf

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# Using sophisticated data analytics capabilities can unlock benefits for all players

**Understanding what each customer will value sits at the very core of any successful loyalty offer.**
The combination of bank held customer relationship data and Visa payment behavioral data, provides you with the raw material to obtain the depth of customer insight required for you to succeed. **Through the thorough application of data analytics, you can be confident the right customer is being offered the optimal solution.**

Visa can analyze each customer's transactions to obtain insights on their behavior, the brands they like and the things they do. This can be further enhanced by comparing them with customers like them to uncover nuanced insights that give an even greater level of customer understanding.

## Discovering the Customer Through Data Analysis

**Hyper-targeted analysis and segmentation techniques** drive an in-depth understanding of what customers value, how they live their lives and what will drive their brand loyalty.

**A targeted customer specific offer** can be designed to address the transactional data insights uncovered.

**Innovative loyalty offers** can be created to reflect the lifestyle and changing needs of each customer e.g. Sustainability or Cryptocurrency solutions.

## Benefits from this Evidence-Based Approach

### Customer
- Recognized and better understood
- Receives relevant offers
- Rewarded for their loyalty

### Merchant
- Uplift in sales and, therefore, revenue
- Higher customer engagement
- Increase in brand recognition

### Card Issuer
- Deeper customer relationships
- Higher levels of customer acquisition and retention
- Improved customer lifetime value

## Data-Based Loyalty Use Cases

### Hyper-targeted and relevant customer offers

- ▶ **The preferences of every consumer can be identified** from their card payment behavior.
- ▶ **Primary use merchants/merchant segments are identified** e.g. fashion, travel, eating out, etc.
- ▶ **Personalized offers are curated,** reflecting the customer's lifestyle.
- ▶ **Customer take-up is monitored and the suite of offers adjusted** accordingly.

### Identifying and attracting a merchant's target customers

- ▶ **Visa can bring smaller merchants and card issuers together** to get the right offer to the right customer.
- ▶ **The merchant identifies a specific type of customer** they wish to attract.
- ▶ **Visa applies the optimal data algorithm calculation** to select the appropriate audience.
- ▶ **Targeted customers are contacted** by the issuer, who the retailer alone could not have identified.

### Enabling card issuers to curate personalized experiences and maximize loyalty

- ▶ **Customers at risk of going dormant can be identified** leveraging data and machine learning tools.
- ▶ **Key behavioral attributes can be uncovered** by analyzing over 150 card transaction variables e.g. identifying the customer as a football fan.
- ▶ **Bespoke and targeted incentives can be created** e.g. priority seating at a sports game, to minimize the risk of attrition.

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# Let Visa Consulting & Analytics help you differentiate your loyalty program

**With our access to unrivalled customer behavioral data, combined with our data science expertise, we are ideally placed to support you in delivering the personalized loyalty experiences your customers are looking for.** Our insight can make a real difference, ensuring that each of your customers gets the offer that is right for them. With relationships across the loyalty ecosystem, we can ensure the right level of knowledge and know-how are on hand to make your loyalty offering a success.

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**Data Analytics:** The detailed analysis of VisaNet data can reveal hidden insights and behaviors that would not ordinarily be identified. This deeper understanding of the customer enables improved customer profiling and segmentation. Key preferences from both a channel and merchant perspective can be seen and the next best opportunities to increase customer spend can be identified. Knowing what the customer likes, and the potential areas to grow the relationship, allow your loyalty offering to be constructed in the best possible way.

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**Proposition Design:** Continuous customer centric innovation ensures offer relevance, thereby deepening engagement. Here at Visa, we have the capability and experience to create compelling customer propositions. Using our understanding of the customer as the guiding design principle ensures that the end proposition is relevant and attractive. As loyalty engagement solutions are reimagined, we have the expertise, assets and connections to address those topics at the forefront of customers minds, whether it is sustainability, cryptocurrencies, or simply highly relevant retail offers. Utilizing a design thinking approach, we can help you to create a simplified and customer orientated proposition.



**Market Insights**
What are the perceived gaps in the market?
Which features may be relevant and differentiated?

What problems will it solve?

How easy is it to use?

**Customer Evaluation**
Is customer use intuitive?
What changes would make the customer journey better?

**User Experience Design and Prototyping**
What factors are the most important to the customer?
Which design features would excite your target audience?

How can it make customers' lives better?

What does it take to make it happen?

**Process Impact Assessment**
What is the business impact of supporting the customer journey?
How can delivery of the Day 1 proposition be accelerated?

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**Partnerships:** Over the years, Visa has become a trusted engine of commerce connecting individuals and businesses across the globe. Building and leveraging partnerships has played a key role in our success, aligning our skills and knowledge with those of partners to create the best solutions for our clients. In the loyalty space we have longstanding partnerships with merchants, loyalty players, and technology providers in place to access expertise across every aspect of the loyalty ecosystem. Let us, and our partners, share our knowledge and experience with you, to co-create a loyalty offering that can establish an invaluable and resilient long-term bond with your customers.

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# About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, digital marketing specialists, data scientists and economists across six continents.

Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.

Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.

Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

For more information, please contact your Visa Account Executive, email **VCA@Visa.com** or visit us at **Visa.com/VCA** Follow VCA on **LinkedIn**

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