

# Redefining Customer Loyalty

Medallia

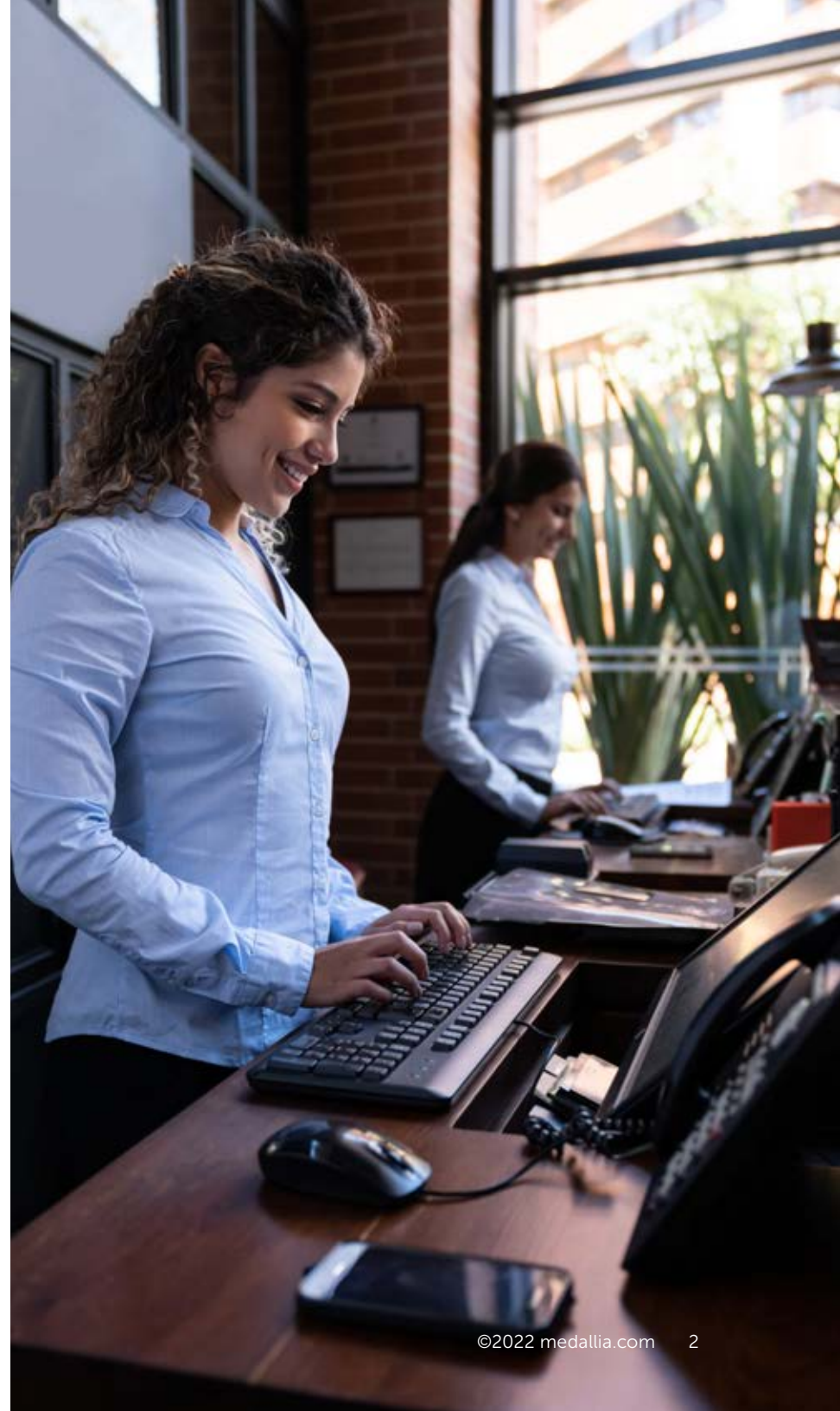


**sense360**

By Medallia

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# About our research methodology

Sense360 By Medallia is a consumer insights company that combines massive amounts of unblinded consumer data to answer tough questions for the world's top brands.

We combine three datasets in our products and research studies:

- 01. Foot Traffic Data.** Our smartphone geolocation panel tracks the movement activity of over 5 million opted-in consumers. This enables us to see trends based on foot traffic visitation at virtually any U.S. business location.
- 02. Spend Data.** Our transaction panel includes the credit & debit card spend of over 5 million consumers, not only at your brand but across competitors and other categories.
- 03. Opinion Data.** In addition to having industry-standard gen-pop survey capabilities, ours is the largest U.S. panel of visit-based survey takers who can be tracked 24/7. Through our foot traffic data, we target consumers who have visited specific locations of interest, and they receive a survey on their smartphone as fast as 24–48 hours post-visit.

Combining multiple datasets yields a more holistic view of the customer journey, and a more accurate way to answer strategic insights questions for brands.

# About this report

We used our credit/debit transaction panel to track activity across a comprehensive set of brands within the airline, hotel, restaurant, and retail industries. We also surveyed panelists to understand the reasons behind their behavior.

Samples have weighting applied for U.S. census representation by age and gender, with the following sample per respondent group:

## Restaurant & Retail

n = 2,022 restaurant / retail general population; fielded April 2022

## Airline & Hotel

n = 1,650 hotel / airline general population; fielded April 2022

n = 1,474 hotel / airline pre-COVID business travelers; fielded April 2022

To learn more about our methodology, visit [sense360.com/methodology](https://sense360.com/methodology).

# Executive Summary

Driving customer loyalty is an imperative for brand leaders across industries, so it's critical to define loyalty effectively, measure it accurately, and select the right tactics for the post-pandemic landscape.

Some key findings and perspectives of this report include:

- **When using behavioral metrics to measure customer loyalty**, consider not just how your customers engage with your brand, but also how they engage with other brands in the market.
- Behavioral analysis shows **consumers demonstrate stronger loyalty behaviors for airlines and hotels than for restaurants and retailers.**
- **Covid-19 has made the average customer slightly more loyal** across the airline, hotel, restaurant, and retail industries. However, for airlines and hotels, this is partially misleading due to the pandemic's impact on business travel.
- **Customers say loyalty rewards / subscription programs play a notable role** in their choice of brand across industries. **However**, engagement with these programs is not a given. Things that are **most likely to resonate with consumers are a mobile-first enrollment / management experience, tangible rewards, and slow expiration periods.**
- Despite what consumers say, restaurant case studies indicate **little immediate impact on company performance** when a loyalty program is launched. Despite this, **these programs offer strategic value in many other ways** and their implementation can still be well-justified.



# How “loyal” are customers?

## Defining customer loyalty: Sense360’s approach

Common loyalty metrics often feature consumer data from internal systems, which limits insights to interactions between the consumer and the brand. But these methods fail to provide competitive context on that consumer’s behavior with the market as a whole.

In other words, your customers might engage with your brand often, but is that just because they engage with the whole market often? It’s critical to understand how your customers interact with your competitors because they might actually demonstrate more loyalty to other brands, which you wouldn’t see in your internal data.

**Our solution to measuring loyalty is different: we track consumer panelist activity within the entire market.** All market activity of a consumer is considered (such as dollars spent or number of transactions with your competitors or other categories) to determine what percentage of that total went to your brand.\*

This measurement helps distinguish which brands have customers who truly demonstrate loyalty by allocating a high proportion of their total spending to that brand over competitors. It’s valuable to benchmark your own customers against the demonstrated loyalty of a competitor’s customers because it illuminates competitive threats and opportunities for improvement.

\*Sense360 products may refer to a similar measurement of “Share of Wallet among Guest of Brand” as the “Loyalty” metric. “Loyalty” as calculated specifically this report is a non-standard Sense360 metric subject to change

## Industries differ in how “loyal” a customer can be

To understand how loyal the average consumer is in various industries like airlines, hotels, restaurants, and retailers, we must first consider the types of people who use the products and services in each industry, how often they use them, and the occasions in which they use them.

Airlines and hotels are used by fewer people, and used less often, than restaurants and retailers. A given consumer may spread out their activity across a smaller number of airlines or hotels than they do restaurants or retailers, and therefore will appear more “loyal” to the airline or hotel they use most often.





**Airlines, hotels, restaurants, and retailers differ heavily in % of the population using the industry category at all, how often, and how many different brands they use**

*From Sense360 credit/debit transaction data. 2021 Annual Data; National*

	Airline	Hotel	Restaurant	Retail
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**Penetration**

% of Population That is a Customer of the Category in the Year	Airline	Hotel	Restaurant	Retail
	31%	35%	89%	99%

**Frequency**

Among Customers, Avg # of Transaction in Year	Airline	Hotel	Restaurant	Retail
	5x	3x	96x	250x

**Average Number of Brands Used**

In Year	Airline	Hotel	Restaurant	Retail
	1.7	1.8	16.4	24.2

**Loyalty**

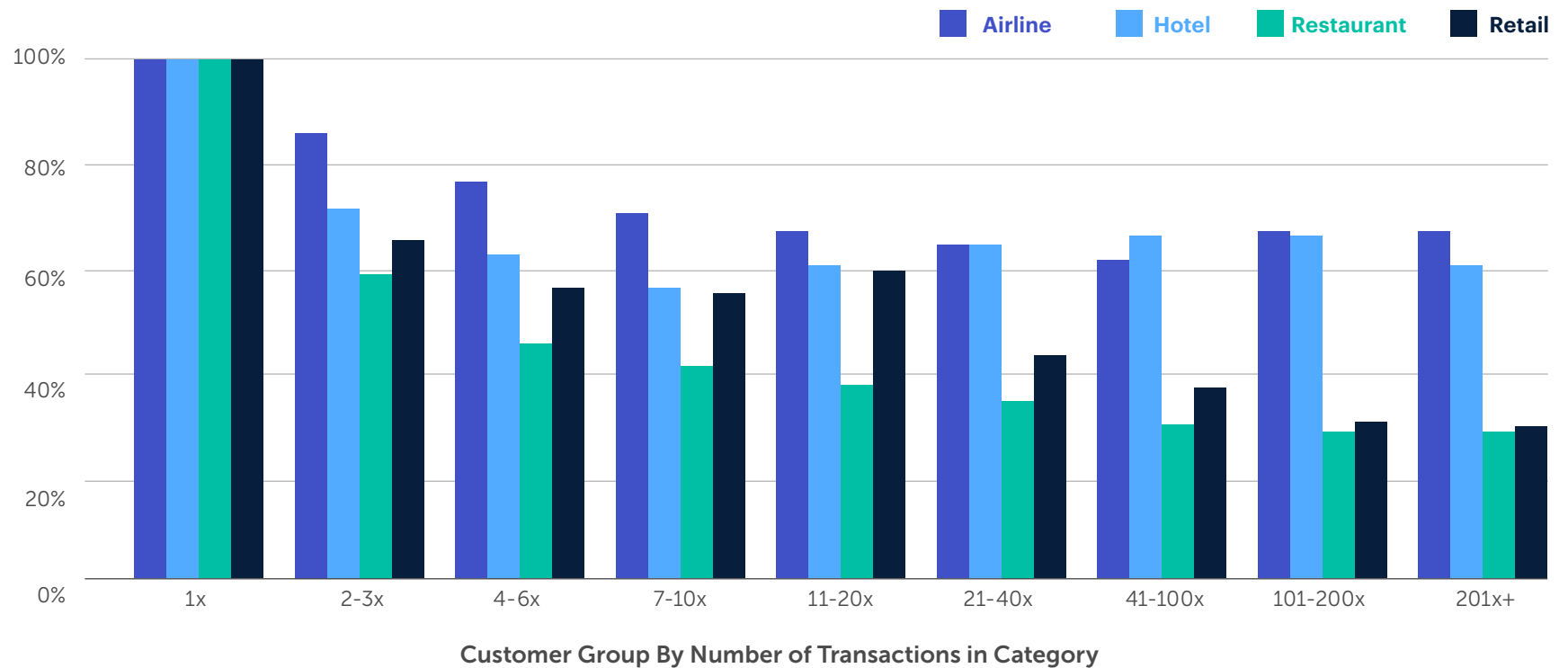
Avg % of Customer's Total Category Transaction Going to Customer's Most Preferred Brand	Airline	Hotel	Restaurant	Retail
	<b>83%</b>	<b>80%</b>	<b>37%</b>	<b>37%</b>

However, airline and hotel brands see a more loyal average customer even when controlling for this. By examining cohorts of customers based on their frequency of use in each industry category, we can see heavy airline users and heavy hotel users still dedicate a larger share of their industry activity to their preferred brand, compared to what heavy restaurant and retail users do.

### Hotels & airlines have more loyal average customers

*Brand Loyalty of Customers, Based on Number of Total Category Transactions They Make. 2021; National; Loyalty defined as % of a customer's total category transactions that went to most frequently used brand. From Sense360 credit/debit transaction data.*

#### Average Loyalty Toward Preferred Brand in Category



Why might this be? Likely factors disproportionately affecting airlines and hotels (compared to restaurants and retailers) include:

- **Different occasions, same category:** A wider variety of products, cuisine types, atmospheres, and so forth exist for restaurants and retailers. Therefore, consumers can be more selective on exactly which restaurant or retailer is best for each occasion. Conversely, lodging and transit needs are usually more straightforward, such as simply needing to get from one city to the next or a place to stay.
- **Fewer suppliers:** With the trend in airline and hotel brand consolidation over the past decade, there are simply fewer brands to choose from. The lack of choice increasingly forces consumers to appear loyal to only one.
- **Geographic barriers:** Airline hubs, like Atlanta for Delta or Dallas for American, may leave consumers in these cities little choice in airline selection. Corporate travel policies or other constraints may also force consumers into a limited set of airlines and hotels to choose from.
- **More incentive to be loyal?** The economics of an open airline seat or unoccupied hotel room means they can be offered as effective rewards to loyalty program members, considering their low marginal costs and perishable nature. This reduces the likelihood a consumer would have bought the flight/room outside of the reward, and they can be given away more easily than a restaurant or retailer could give away a free product.

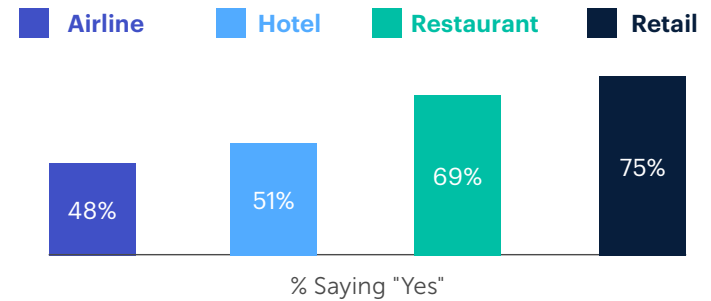






### % of Population Feeling "Loyal" (by category)

Do you consider yourself "loyal" to one or more airlines / hotel brands / restaurants / retailers / stores in particular? From Sense360 April 2022 Loyalty Survey (n = 5,146)



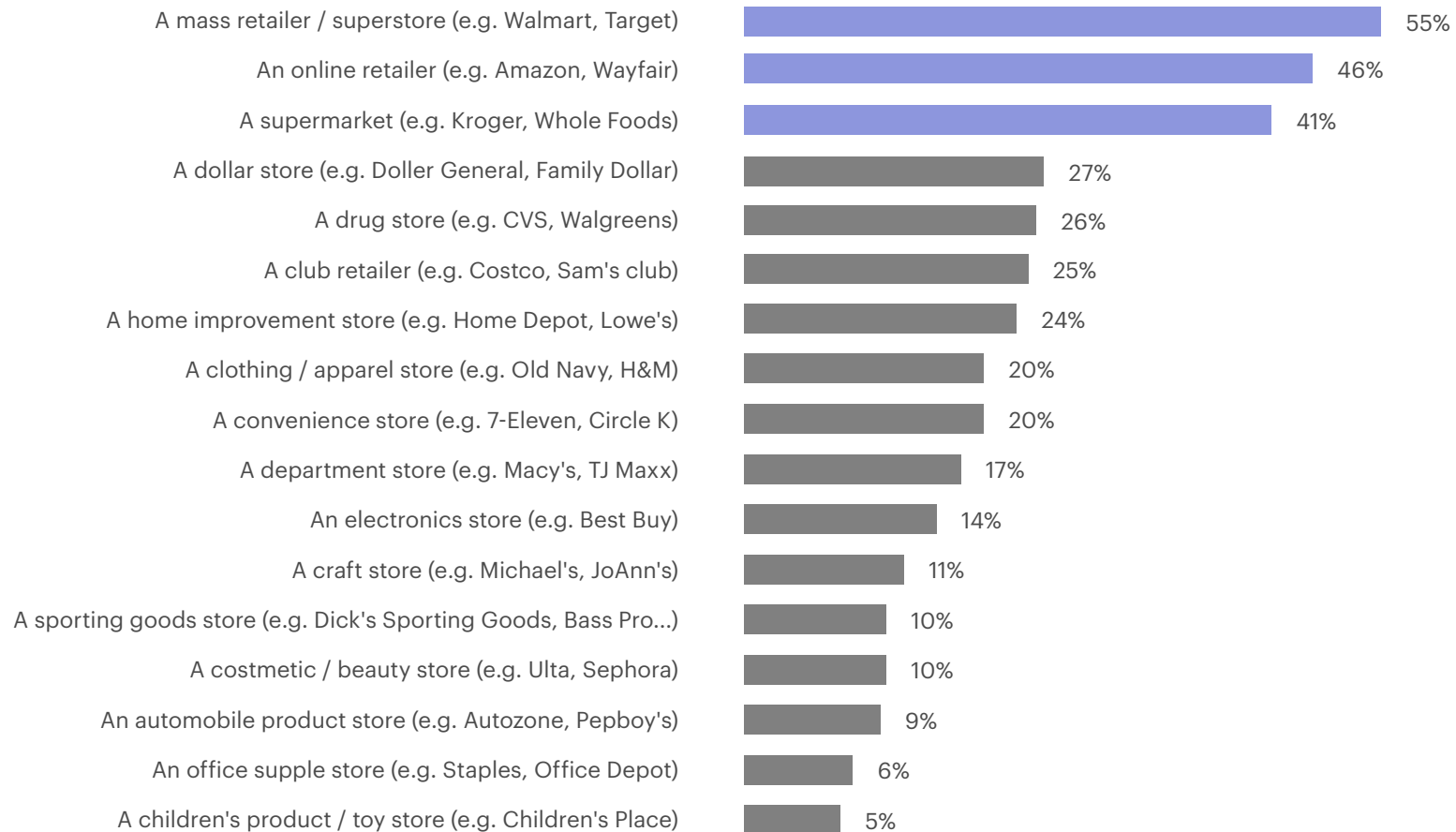
Because of these many factors that give individual airline and hotel brands an advantage in capturing a larger percentage of their customers' total industry transactions, people might behave more "loyally" to airlines and hotels for reasons other than a true feeling of loyalty.

Case in point: more people say they "feel loyal" to at least one retailer or restaurant than they do with hotels or airlines. Of course, the larger percentage of the population that never travels may play some role, but even when controlling for pre-pandemic business travelers, the rates improve to 62% for airline and 66% for hotel, still below the restaurant and retail rates.

Although retailers rank highest in perceived loyalty among consumers, it does vary by the type of retailer. Mass superstores, online retailers, and supermarkets fare much better than specialty retailers across the total population.

## Self-Perceived Loyalty to a Retailer in Specific Category

Of the retailer(s) / store(s) you consider yourself "loyal" to, what category / categories do they belong to? From Sense360 April 2022 Loyalty Survey (n = 5,146)



## What makes people loyal?

For consumers who feel loyal to one or more brands, they consistently cite that one of their main reasons is top-of-mind consideration (i.e. it's the first one they think of). Product quality (for restaurants and retailers), loyalty program membership, and frequency of use are also generally cited across categories. These rank above seeing the brand support causes (social, environmental, etc.), or having merchandise/swag from the brand.

Some of the biggest response skews exist for hotels, where service / experience especially matters, and restaurants, where the respondents often find themselves making recommendations to others or personally knowing the staff / owner.

To drive more **feelings** of loyalty from their customers, brands should invest in top-of-mind recall over competitors, including recurring one-to-one communication with the customer. Managing the customer lifecycle with intentional touchpoints to accelerate the purchase frequency also drives feelings of loyalty. When it comes to driving more loyal **behavior** and designing effective loyalty rewards programs, read on — this report will address these topics in-depth in a later section.


















## Reasons for Feeling "Loyal" to a Brand

For what reasons do you consider yourself "loyal" to that / those [category brand(s)]? From Sense360 April 2022 Loyalty Survey (n = 5,146). Respondents could select multiple choices

\*Asked only for restaurant / retail

\*\*Asked only for airline / hotel

			Airline Rank	Hotel Rank	Restaurant Rank	Retail Rank
First one I think of		33%	3	2	3	1
Better products than competitors*		33%	•	•	1	5
I'm a member of their rewards program		31%	1	1	<b>7</b>	3
One I purchase from quite frequently		31%	<b>6</b>	4	2	2
Better flight / hotel locations**		29%	2	6	•	•
Better value than competitors		28%	4	5	6	4
Better service / experience than competitors		25%	5	<b>3</b>	5	<b>7</b>
I find myself recommending them		23%	7	7	<b>4</b>	6
Friends / family prefer		15%	8	8	8	8
Only one I ever purchase from		10%	9	9	11	10
Credit card / payment system partnership		8%	10	10	12	9
Personal relationship with staff / owner		8%	11	11	<b>9</b>	11
They support causes I care about		7%	13	12	10	12
I speak negatively about competitors		5%	12	14	13	14
I have merchandise / "swag" of theirs		5%	14	13	14	13

## What actions can convert those who don't feel loyal currently?

For airlines and hotels, consumers tend to associate the idea of "loyalty" with rewards programs — not as much for restaurants and retail.

## What "Loyalty" Would Mean to Those Who Don't Feel It Now

*What would being "loyal" to a restaurant mean to you personally? From Sense360 April 2022 Loyalty Survey (n = 5,146). Among those who did not indicate feeling loyal to at least one brand in industry category asked.*

### Top 3 Ranking (Out of 16 Choices):

#### Airline & Hotel

01. "If I was a member of their rewards program"
02. "If it was the first place I would usually think of when I need [to travel]"
03. "If I often found myself recommending it to others"

#### Restaurant & Retail

01. "If it was the first place I would usually think of when I need [food / to shop]"
02. "If it was the first place I would usually think of when I need [food / to shop]"
03. "If I often found myself recommending it to others"

Though the idea of being loyal may often be based on top-of-mind consideration or recommending the brand to others, when consumers are positioned to think about what a brand could have done differently to make them more loyal, more tangible characteristics emerge at the top. "Lowered prices" and "offered better value for the money" rank in the top three across the airline, hotel, restaurant, and retail categories, while offering a rewards program or improving an existing rewards program do not sit in the top five for any category.

This may serve as indication that when consumers think about what defines "loyalty," they can't help but be steered to the concept of loyalty rewards programs, especially in industries like airlines and hotels where programs are commonplace. But when given the choice of seeking changes to the brands they transact with in order to actually make them more loyal, these types of programs aren't the only way to do it.



# Has the pandemic changed loyalty behaviors?

## No uniform consensus on perceived effect of the pandemic

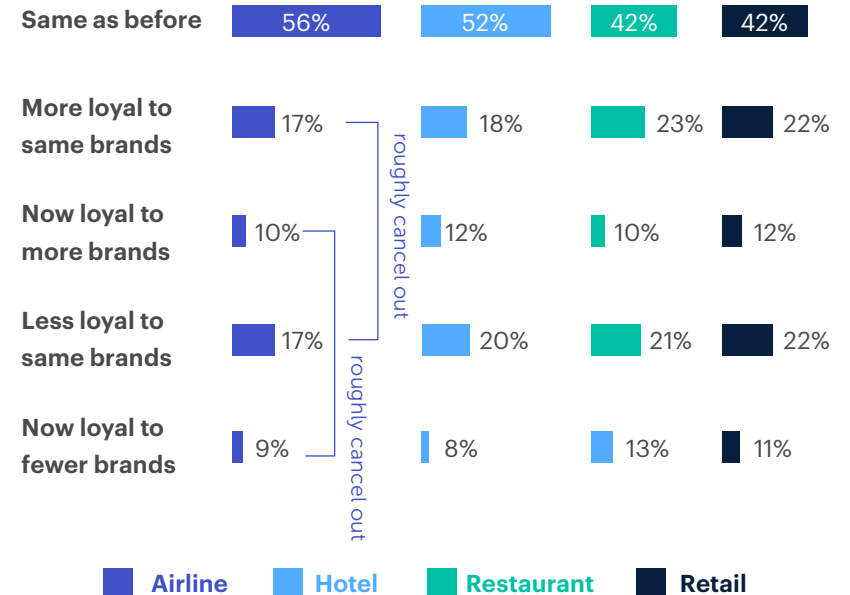
Despite the possibility that loyalty would decrease as consumers may have scaled back on travel and restaurant dining due to the pandemic, consumers generally don't believe their loyalty has changed much over the past two years.

Though some feel they have either decreased the number of brands to which they feel loyal, or feel less loyal to the same brands pre-pandemic, those groups are effectively canceled out by others who feel the exact opposite.



## Self-Perceived Loyalty Changes from the Pandemic

How did the COVID-19 pandemic change your views on the [category brands] you are, or may have been "loyal" to? From Sense360 April 2022 Loyalty Survey (n = 5,146)

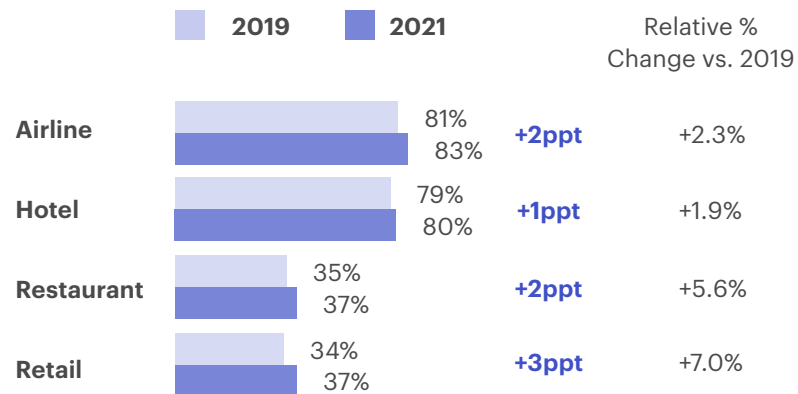


## Behavioral data shows a more nuanced trend

At first glance, customers are more loyal to their preferred brand across all four of the industry categories profiled. On a relative basis, this is especially true for retailers and restaurants.

### Average Customer Loyalty % by Category, 2021 vs. 2019

National; Loyalty defined as % of a customer's total category transactions that went to most frequently used brand. From Sense360 credit/debit transaction data



While seemingly good news, interpreting these metrics requires a deeper understanding beyond just the average customer. For instance, some customers could be increasing their loyalty percentage while others are decreasing it. Or possibly loyalty is up because consumers are reducing their frequency, and therefore have fewer opportunities to cast transactions across a wider variety of brands.

To account for these potential shortcomings, we can also look across customer groups based on frequency level and analyze their loyalty percentages individually.



## Average Customer Loyalty % by Transaction Group, 2021 vs. 2019

National; Loyalty defined as % of a customer's total category transactions that went to most frequently used brand. From Sense360 credit/debit transaction data

# of Txns	2019				2021				abs ppt change			
	Airline	Hotel	Rest.	Retail	Airline	Hotel	Rest.	Retail	Airline	Hotel	Rest.	Retail
1x	100%	100%	100%	100%	100%	100%	100%	100%	0ppt	0ppt	0ppt	0ppt
2-3x	84%	73%	58%	64%	86%	73%	59%	66%	+2ppt	+1ppt	+1ppt	+3ppt
4-6x	74%	62%	45%	54%	77%	63%	47%	58%	+3ppt	+1ppt	+2ppt	+4ppt
7-10x	68%	58%	40%	51%	71%	58%	42%	56%	+3ppt	+1ppt	+2ppt	+5ppt
11-20x	64%	58%	36%	51%	67%	61%	38%	60%	+3ppt	+3ppt	+2ppt	+9ppt
21-40x	63%	60%	33%	40%	64%	64%	35%	45%	0ppt	+5ppt	+2ppt	+5ppt
41-100x	67%	63%	30%	34%	63%	67%	31%	37%	-4ppt	+4ppt	+1ppt	+3ppt
101-200x	75%	74%	28%	31%	68%	67%	29%	32%	-7ppt	-6ppt	+1ppt	+1ppt
201x+	74%	67%	28%	29%	68%	61%	29%	30%	-6ppt	-5ppt	+1ppt	+1ppt

Regardless of customer group (defined by market transaction count), customer loyalty is going up for restaurants and retail. But in airline and hotel, loyalty is only increasing among low-volume users. Also, unfortunately for airline and hotel, the proportion of customers that are high-volume, or are customers at all, is also down.

So while a cursory view may tell a positive story for improved loyalty for airlines and hotels, this is coming at the expense of customer penetration and frequency — and therefore is not a tradeoff these brands would choose to take if given the option. It's better to have a flock of low-volume customers than not have them at all, even if it means they water down your average customer loyalty metric in the process.



## Population by # of Transactions in Each Industry Category

National; 2021, 2019, and absolute percentage point change. From Sense360 credit/debit transaction data

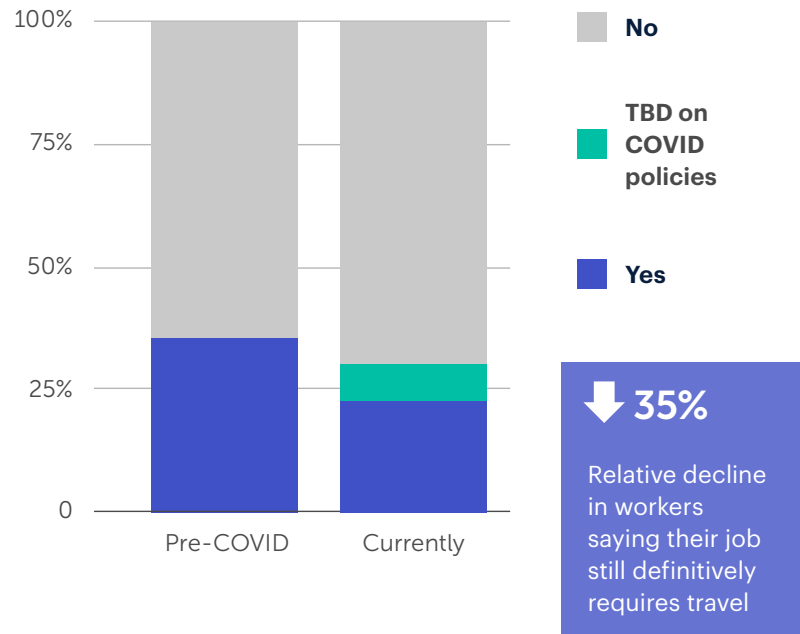
# of Txns	2019				2021				abs ppt change			
	Airline	Hotel	Rest.	Retail	Airline	Hotel	Rest.	Retail	Airline	Hotel	Rest.	Retail
<b>0x</b>	64%	61%	8%	1%	69%	65%	11%	1%	+5ppt	+4ppt	+3ppt	0ppt
<b>1x</b>	9%	14%	3%	1%	8%	13%	4%	2%	-1ppt	-1ppt	+1ppt	0ppt
<b>2-3x</b>	11%	13%	4%	2%	9%	12%	4%	2%	-2ppt	-1ppt	0ppt	0ppt
<b>4-6x</b>	8%	7%	4%	2%	7%	6%	4%	2%	-1ppt	-1ppt	0ppt	0ppt
<b>7-10x</b>	4%	3%	4%	2%	4%	2%	4%	2%	-1ppt	-1ppt	0ppt	0ppt
<b>11-20x</b>	3%	2%	8%	5%	3%	1%	8%	5%	0ppt	0ppt	0ppt	0ppt
<b>21-40x</b>	1%	<1%	12%	6%	1%	<1%	12%	6%	0ppt	0ppt	0ppt	0ppt
<b>41-100x</b>	<1%	<1%	25%	15%	<1%	<1%	23%	13%	0ppt	0ppt	-2ppt	-2ppt
<b>100-200x</b>	<1%	<1%	21%	22%	<1%	<1%	19%	19%	0ppt	0ppt	-2ppt	-2ppt
<b>201x</b>	<1%	<1%	12%	45%	<1%	<1%	12%	48%	0ppt	0ppt	0ppt	+3ppt

What is the culprit for hotel and airline brands that is driving customers out of the market and reducing frequency among many that remain? While personal travel may be playing a role, the downward shifts among once frequent travelers is likely influenced by the changes in work travel requirements.

Not only has the total population of workers that are required to travel shrunk, but the frequency of travel for those still traveling has also declined. Only 40% of those who used to travel one or more times per week pre-pandemic say their job still requires travel once or more per week. Although these travelers historically traveled more frequently and therefore had more opportunity to show “unloyal” behavior by switching brands, their volume of transactions would still undoubtedly be a benefit to the industry that has been missed since the pandemic began.

## Population by Work Travel Requirements ("At Least a Few Times Per Year")

Before the COVID-19 pandemic began (in March 2020), did your job regularly require travel to other cities / states / countries where you would stay overnight for one or more days? / Does your job currently... From Sense360 April 2022 Loyalty Survey (n = 5,146)

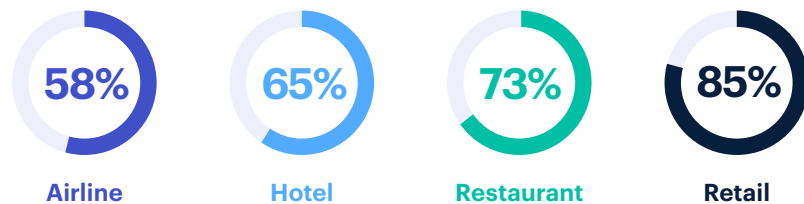


# How do consumers perceive loyalty rewards programs?

Most people belong to loyalty rewards programs, but that doesn't mean they pay attention to them all.

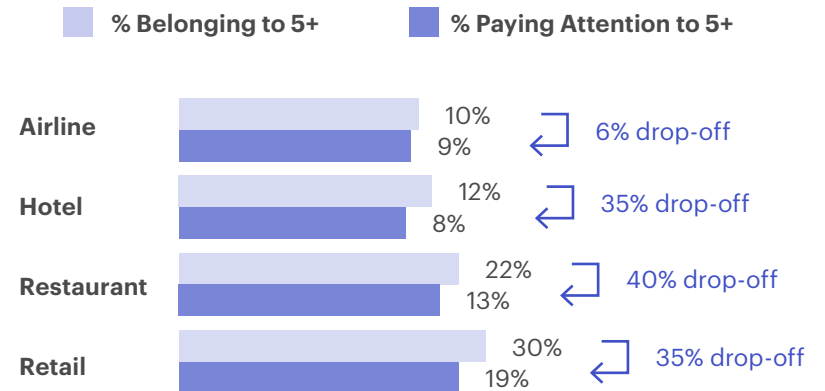
## % of Population with 1+ Loyalty Rewards Program / Subscription Program Membership

By industry category; How many [category] loyalty rewards programs and/or subscription programs do you belong to? Select the choice that is your best estimate. From Sense360 April 2022 Loyalty Survey (n = 5,146)



## Total Population with 5+ Program Memberships (By Category)

For how many of those [category] loyalty rewards programs and/or subscription programs do you actively pay attention to your membership? From Sense360 April 2022 Loyalty Survey (n = 5,146)

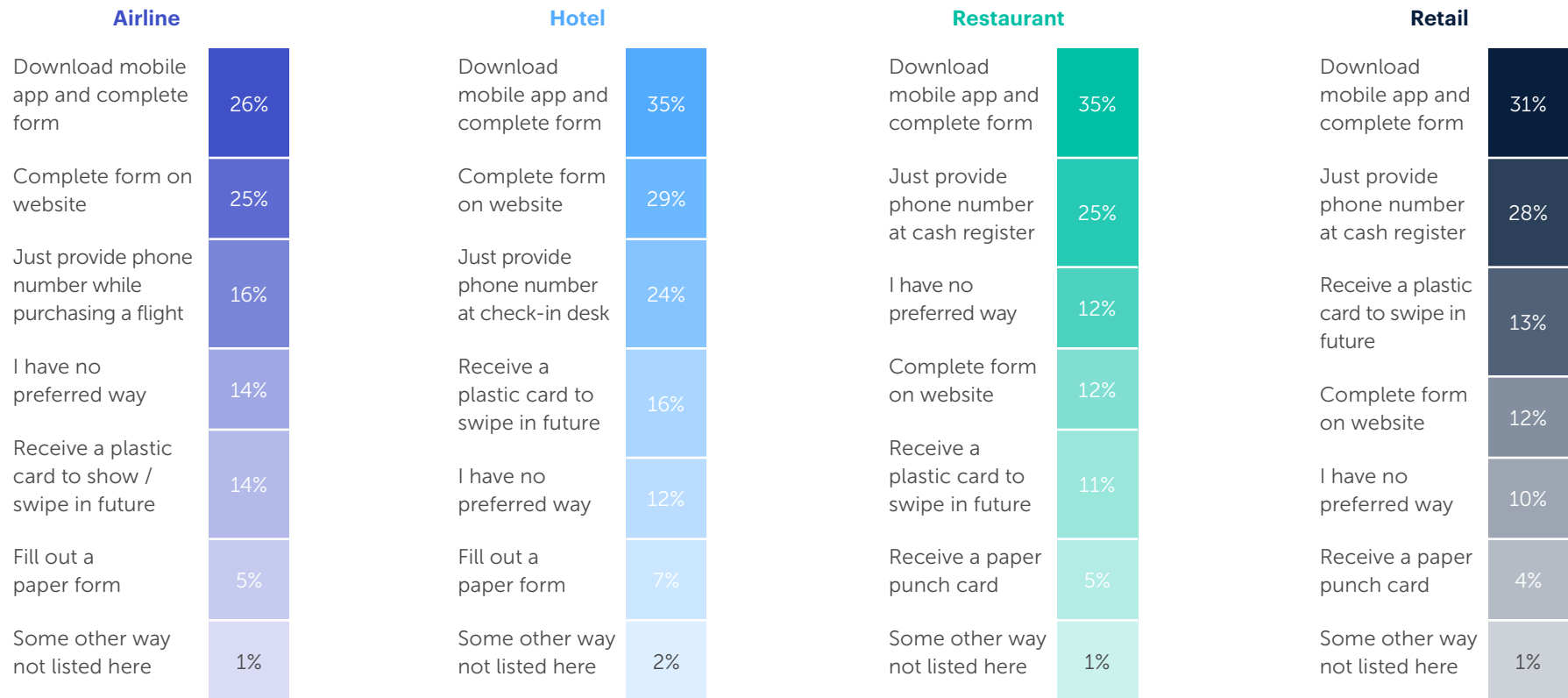


Many brands treat loyalty rewards program membership as a proxy count of their most dedicated members. But unfortunately for many brands, their programs contain significant proportions of members who pay little attention to the program and likely also demonstrate very little loyalty to the brand as well.

Some barriers to further engagement driven by loyalty rewards programs center on the way members experience the enrollment and ongoing account management process. Respondents most often prefer a mobile-first experience, regardless of the industry, and also often prefer simple enrollment and management by just providing their phone number at the time of transaction. This contrasts with less preferred methods revolving around physical cards and forms, now apparently considered a thing of the past to most consumers. Simpler transactions appear to be better for the vast majority.

## Preferred Enrollment for Rewards / Subscription Programs

What is your preferred way to enroll in a [category] rewards program? From Sense360 April 2022 Loyalty Survey (n = 5,146)



Engagement with the program is also dependent on customer perception that it is worth their time to enroll and monitor. Across industries, there’s consistency in what a program must include in order for customers to want to enroll — and that is seen in the form of tangible value.

Of course, brands don’t typically limit the value of program rewards because they think customers don’t want them. It is driven by the need for positive financial impact on the business. For brands believing a program can still be compelling purely because of the engaged messaging with the customer and little else, these results suggest otherwise.

## What customers say a program needs to have

What does a [category] rewards program NEED to have for you to consider enrolling in it? From Sense360 April 2022 Loyalty Survey (n = 5,146)

### Consistently Top 5 (of 13) across industry categories:

- Rewards that don't expire fast once you get them
- Some financial benefit (e.g. rewards for free items, \$-off or %-off discounts)
- A financial benefit better than competitors' programs
- Rewards that you can start earning and using without having to transact at [brand] many times
- Me knowing I'll actually [transact with brand] regularly

### Consistently Bottom 4 (of 13) across industry categories:

- Communication from the brand on new offers, etc.
- A way to avoid receiving communications from the brand
- Some recognition from the company / staff because I am a member
- A way to enroll without using a digital device (e.g. phone, computer)










This is also evidenced by the specific types of benefits customers want in loyalty rewards / subscription programs. Though consumers are generally equal in preference for programs that reward points / credits based on transaction amount or based on dollars spent, across industries these both trump the "softer" benefits of specific privileges / products or special treatment / recognition by staff (e.g. dedicated serving lines, lounge access, etc.).

These also are more popular than alternative ways of providing tangible benefits but on a less transparent schedule, like surprise rewards or access to special promos / offers. Although these alternative methods of distributing rewards may allow brands to avoid consumers "gaming" the rewards earning process and also modify the frequency / costs incurred by reducing rewards without a visible change that irritates customers, brands must acknowledge that building a program around these structures will likely be accompanied by less enthusiasm and popularity from the customer as a result.



## Preferred Benefits for Rewards / Subscription Programs

For rewards program(s) at [category], in your opinion what are the two most preferred ways of earning benefits offered by those programs?  
From Sense360 April 2022 Loyalty Survey (n = 5,146). Respondents could select two choices

			Airline Rank	Hotel Rank	Restaurant Rank	Retail Rank
Points / credits based on txn #		41%	1	1	1	1
Points / credits based on \$ spent		39%	2	2	2	2
\$-off or %-off discounts		21%	3	3	<b>3</b>	3
Special privileges / products		9%	<b>4</b>	<b>4</b>	6	6
Treatment / recognition by staff		9%	5	5	5	8
Access to special promos / offers		9%	6	6	<b>4</b>	<b>4</b>
Occasional surprise rewards		7%	7	8	7	7
Access to early info / special invites		6%	9	7	9	9
Branded Merchandise / "swag"		6%	8	9	8	<b>5</b>














This risk of reduced enthusiasm toward a program is also visible based on the reasons why consumers turn down the opportunity to join a program. It is most common, and possibly unavoidable, for consumers to avoid joining a program if they have no expectation of transacting with the brand again soon (e.g., if the transaction was while traveling far from home). But in cases where the brand has a realistic chance of earning the customer's business again and is failing to do so based on a poor experience, this should obviously be avoided.

Beyond this, the biggest drivers are around the lack of a compelling value proposition. Non-valuable rewards, high barriers to earning the first reward, or too fast of reward expiration rank high for reduced enthusiasm across industries.

As previously stated, brands should also consider the cumbersome nature of enrollment and simplify wherever possible. Too long of a sign-up process ranked in the top 5 on average, and wanting too much personal info also ranks in the top half of reasons.

## Why customers choose to not enroll in some programs

When [transacting in category] in the past and having the opportunity to join their rewards program but deciding not to, why did you decide not to? From Sense360 April 2022 Loyalty Survey (n = 5,146)

			Airline Rank	Hotel Rank	Restaurant Rank	Retail Rank
Didn't plan on transacting again soon		24%	2	2	1	1
Rewards weren't valuable enough		22%	4	4	<b>2</b>	<b>2</b>
Would take too long to earn a reward		21%	3	3	3	3
Rewards expire too fast		17%	5	5	4	5
Sign-up process too long		15%	6	6	5	4
It wanted too much personal info		13%	7	7	8	6
Had no rewards in general		12%	8	8	6	7
Already in too many programs		9%	<b>12</b>	9	9	10
Employee pressured too much		9%	9	10	10	<b>8</b>
Didn't want to use web / app needed		8%	10	12	11	11
Only rewards and no other recognition		7%	11	11	12	12
Planned to sign up later and forgot		5%	13	13	13	13
Situation has never happened to me		18%	<b>1</b>	<b>1</b>	7	9

## Understanding the perspective of high status / tier program members

As it is common for consumers to be rewards program members, and also to pay little attention to at least some of the programs for which they are a member, examining the nuances of the high-status / tier (e.g. "Platinum level") hotel and airline members vs. the rest of the population is key.

These customers with loyalty program "status" show the following characteristics of note:

### 01. They skew male and pre-pandemic business traveler.

Intuitively based on the demographic profile of heavy business travelers, this group is among those most likely to earn higher tiers in hotel and/or airline programs.



**02. Interestingly, many don't consider themselves "loyal," and many didn't demonstrate "loyal" behavior to earn their status.** Although they are more likely to consider themselves loyal to at least one airline (73% vs. 42% for non-high tier) or one hotel (71% vs. 43%), this still leaves over a quarter who don't feel loyal. A possible culprit: for both airlines and hotels, roughly half of those with "status" have it due to a credit card or other type of partnership, not because they were awarded it directly by the brand itself through demonstrating high frequency of transacting. For brands looking to make the benefits of a higher tier especially enticing, they may want to consider if the easy access to these tiers is worth the benefits received from partners, especially if it devalues the prestigious perception from those who earn the status through activity.

**03. They are more than twice as likely to avoid enrolling in future programs because they feel they are already in too many.** However, this does not rank among the top three reasons for declining to join another program for either those who have status with at least one brand and those who don't.

**04. They especially care about special treatment and access, and care less about discounts and promos.** Those with status do understandably skew more affluent, and therefore are likely less sensitive to price. They also may often travel with another entity like their company footing the bill, and therefore care relatively more about their treatment and recognition instead of being given especially good price offers.



# Can a loyalty rewards / subscription program show a measurable impact?

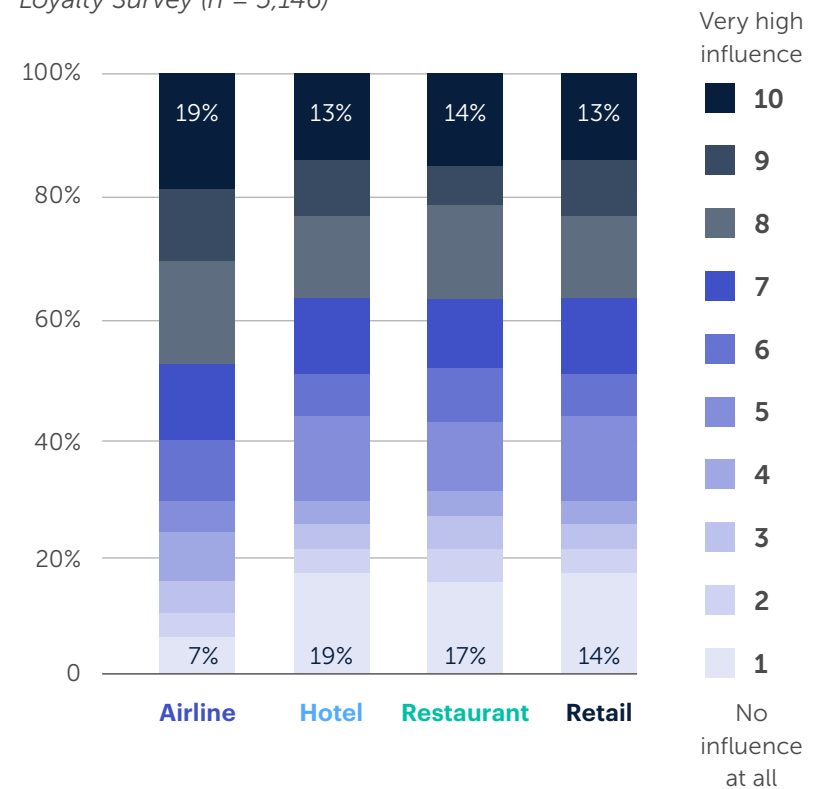
## Do customers believe loyalty rewards / subscription programs influence their purchasing behavior?

For a loyalty rewards / subscription program to be financially justifiable, considering the costs of both running them and gifting benefits to the consumer, brands need evidence that the program causes the average consumer to spend more than they otherwise would have without the program. This incremental spend, though often hard to measure, can partially be detected through consumer surveys on how the program influenced their decision-making, as well as analysis of pre- and post- program spending behavior.

From a voice-of-the-customer perspective, loyalty programs play a substantial role in which brand consumers choose for a given occasion.

## How Big of a Role Loyalty Rewards / Subscription Programs Play

For program(s) of which you are a member, on a scale of 1-10 how much do you believe they influence your decision to [transact with brand in category] instead of others? 1 = no influence at all, meaning you would still [transact with that brand] the same amount even if they didn't have a rewards or subscription program. 10 = very high influence, meaning you would never [transact with that brand] if they didn't have a rewards or subscription program. From Sense360 April 2022 Loyalty Survey (n = 5,146)



Especially for airlines, consumers say their membership in a program plays a sizable role. And in terms of how big this role is compared to other factors offered by each brand (e.g. location, value, experience), programs are especially impactful for hotels as well. Among pre-pandemic business travelers, programs rank in the top three factors for both airlines and hotels.

And while not as big in restaurant and retail, the relatively lower share of total restaurants and retailers that have programs at all (compared to the proportion for airlines and hotels) likely explains the gap. Consumer perceptions indicate that when a restaurant or retailer does actually have a program, it plays a noticeable role in a consumer choosing that place over competitors.

### Rank of Attributes as Reason for Choosing Brand in Most Recent Transaction

*The last time you [transacted with a brand in X category], what were the top reasons you chose that one over others? From Sense360 April 2022 Loyalty Survey (n = 5,146)*

Airline	Hotel
<ul style="list-style-type: none"> <li><b>01</b> Best value for the money</li> <li><b>02</b> Lowest price overall</li> <li><b>03</b> Best flight hours / length (i.e. direct vs. layover)</li> <li><b>04</b> Loyalty / rewards program</li> </ul>	<ul style="list-style-type: none"> <li><b>01</b> Best location for where wanting to be</li> <li><b>02</b> Best value for the money</li> <li><b>03</b> Lowest price overall</li> <li>-----</li> <li><b>05</b> Loyalty / rewards program*</li> </ul>
Restaurant	Retail
<ul style="list-style-type: none"> <li><b>01</b> Had best tasting food</li> <li><b>02</b> Had type of cuisine / specific items I wanted</li> <li><b>03</b> Most convenient location to me</li> <li>-----</li> <li><b>13</b> Loyalty / rewards / subscription program</li> </ul>	<ul style="list-style-type: none"> <li><b>01</b> Best value for the money</li> <li><b>02</b> Most convenient location to me</li> <li><b>03</b> Lowest price overall</li> <li>-----</li> <li><b>09</b> Loyalty / rewards / subscription program</li> </ul>

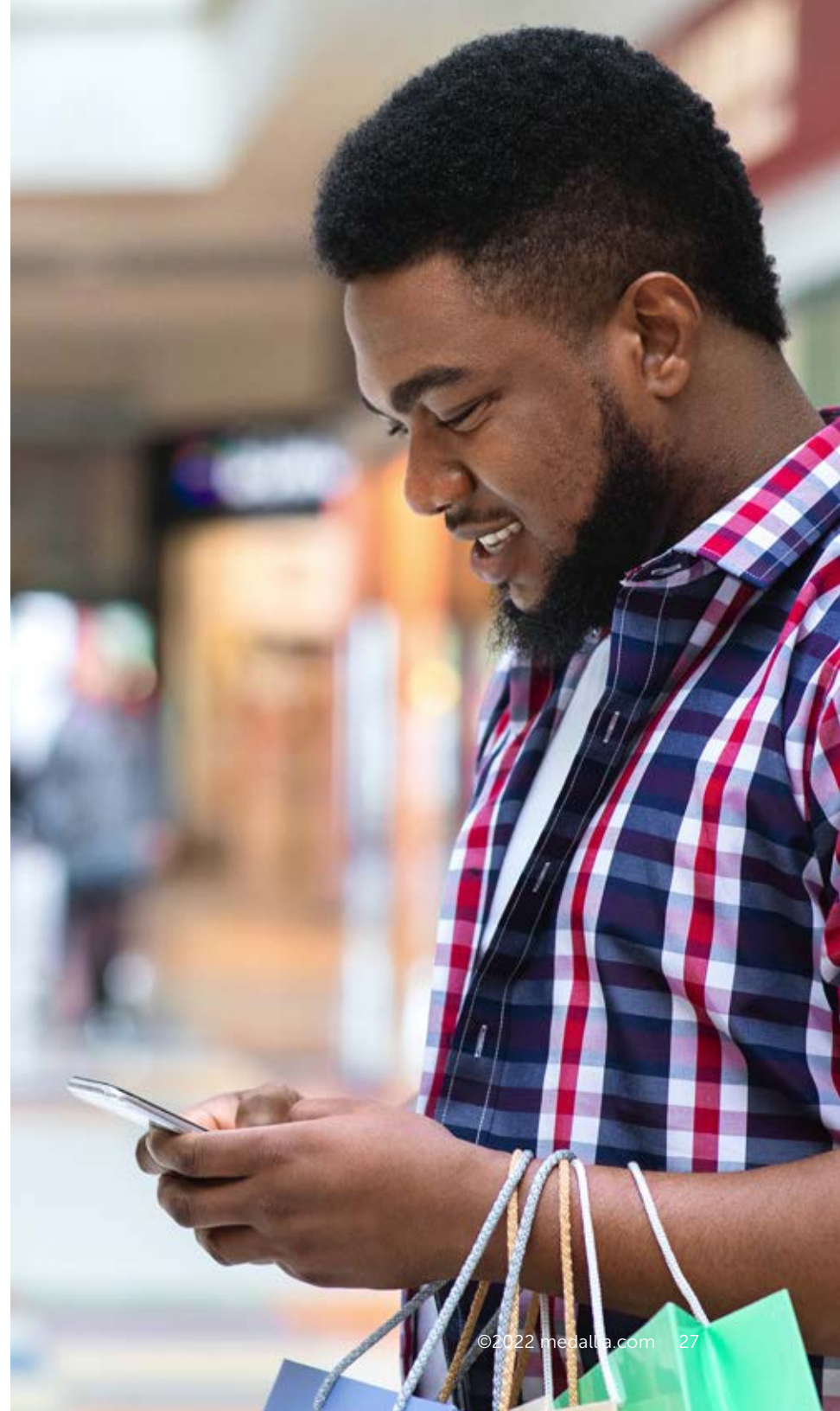
## Despite what consumers say, is there clear evidence that programs improve a brand's topline performance?

Using select examples from the restaurant industry, we examined the first twelve months following the launch of new loyalty rewards programs to see if market share and average customer frequency changed for the respective brands. Presumably a full year is enough time for a sizable percent of the customer base to enroll and exhibit behavioral change, and these examples were selected to have 12 months of observation before the start of Covid-19.

- Subway (new program launch in March 2018)
- Chick-fil-A (revamped program launch in September 2018)
- Chipotle (new program launch in March 2019)

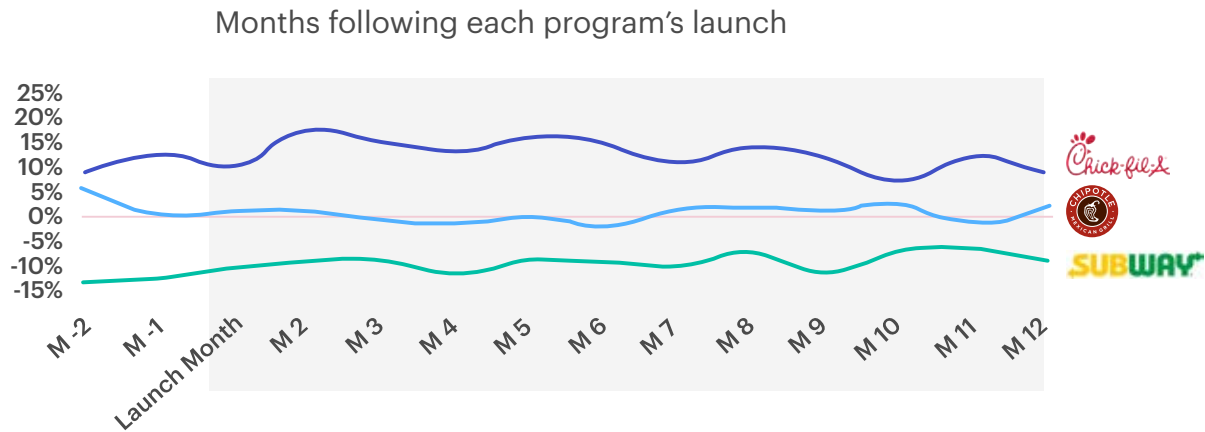
This analysis is not meant to serve as the final word on whether or not loyalty programs drive incremental transactions. Other approaches, like monitoring the change in behavior of individual customers before and after joining the loyalty program, may provide clearer indicators. Industries other than restaurants may see different performance as well. Restaurants were chosen for this analysis primarily because leading brands in industries like airlines and hotels have had loyalty programs for decades, preventing a pre-launch baseline to be determined with our research panel.

Beginning with share of spend in the Quick Service and Fast Casual restaurant market, the year-over-year trend lines for each brand prior to, and within 12 months of, launching the program is plotted below. In all three cases, brand performance was generally unchanged.



## Share of Sales in Quick Service + Fast Casual Market

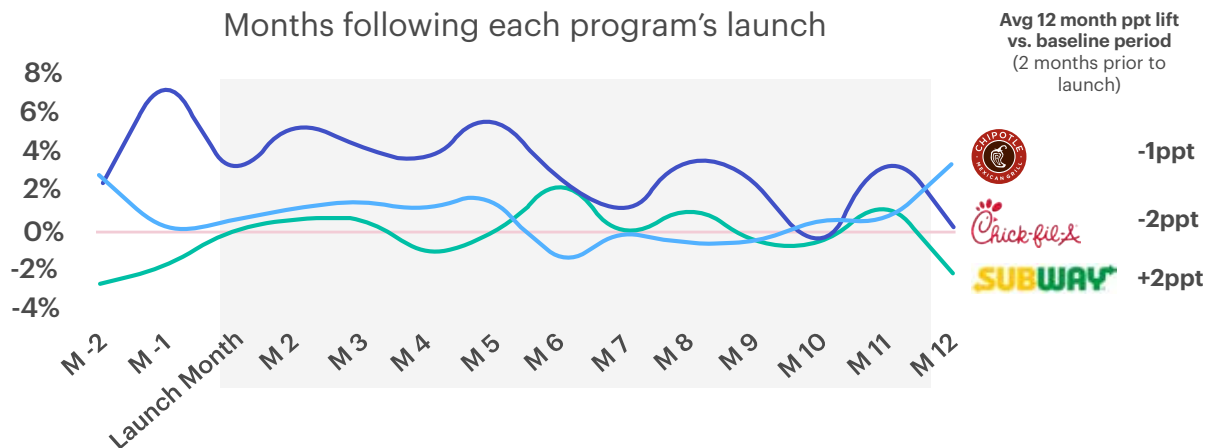
YoY Relative % Change; National; Spend excluding 3rd Party Delivery; months from date of each program's launch.  
From Sense360 credit/debit transaction panel



In case market share was not a reliable indicator on its own due to other changes impacting each brand (e.g. store openings / closings), frequency per customer would presumably be another helpful indicator to see if behavioral change could be attributed, at least in part, to the program launch.

## Monthly Transaction Frequency Per Customer

YoY Relative % Change; National; Spend excluding 3rd Party Delivery; months from date of each program's launch.  
From Sense360 credit/debit transaction panel



It's possible consumers, when knowing they are a member of a program, believe the program is causing them to choose that brand more often than they otherwise would (even if they truly are not).

It is also possible that although these programs are driving incremental behavior in some customers, it is difficult to detect in topline company performance, effectively being washed out by the many other tactics and larger market factors impacting each brand.

It may also be the case that some programs truly take years to develop enough adoption and habit change to show a noticeable impact – for instance, if the program launch is accompanied by long-term behavioral change in mobile app / online ordering use, which is an incremental driver of company performance.

### **The limited evidence of rewards program launches driving financial returns right away is not a reason to say they have no value**

Even if it is difficult to detect the extent to which loyalty rewards / subscription programs generate incremental spend beyond what a consumer would have purchased without the presence of the program, these programs offer many other strategic benefits that may justify their implementation by a brand.

#### **01. Driving behavior change toward increasingly important purchase channels.**

Reduced in-person order channels for industries like restaurants allow rewards programs to be a useful tool in encouraging customers to use the brand's website / mobile app. It also encourages them to purchase directly through the brand's first-party channels instead of a third-party aggregator that will erode the brand's margins.

This is a trend that has already been underway in the hospitality industry for years, with many hotels pushing consumers to book through their website instead of an aggregator like Expedia by providing rewards points only through direct bookings.

#### **02. Gathering unique customer data at scale to inform future business decisions.**

Rewards programs are a valuable way for a brand to track the same customer's activity over time and better understand responsiveness to offers, product preferences, and other pieces of information.

These insights can inform several areas of marketing strategy, including pricing, product development, and others.

#### **03. Building a captive audience to push more marketing through owned vs. paid media channels.**

With enrollment processes often including physical address, email address, and/or phone number collection (and in some cases mobile app download), a rewards program can serve as a great way to establish touchpoints between the customer and the brand.

With the right customer relationship management (CRM) capabilities, a brand can develop a rich cadence of communication through channels like email, text, push notification, and even direct mail. Each of these touchpoints can further establish the brand as top-of-mind to the consumer and motivate future purchases by conveying timely offers or new product launches.



**04. Monetizing that audience through marketing access for select partners.** Rewards / subscription programs that serve as the backbone of building up a brand's CRM database create a valuable audience for other brands that would be willing to pay for access.

Using the program as a tool for strategic co-branded partnerships (e.g. credit card / airline partnership, entertainment or live event / restaurant partnerships) can allow the brand to engineer a new revenue stream on its own in many cases. But brands should be careful not to devalue brand messaging or irritate customers through communication / access overload.

# Conclusion

With customer loyalty, or a lack thereof, remaining a critical influencer for the success or failure of many brands, those looking to increase it should consider the following:

- **Understand the ways the pandemic has (and hasn't) changed the average customer's loyalty behavior, and position your brand from there.**
  - As the pandemic has only slightly modified the demonstrated brand loyalty of the average consumer through their transaction behavior, and consumers don't overwhelmingly feel that it changed their loyalty towards brands, strategies to drive further loyalty may not need to "reinvent the wheel" compared to what worked pre-pandemic.
  - Consumers are still motivated by the core positioning levers brands have worked to optimize over decades – especially regarding product quality, value, convenience, and service. Recently popular positioning around safety protocols or involvement in social causes may affect loyalty for some, but not the majority, of customers.
- **Don't sacrifice the other contributors of profitability in an effort to maximize loyalty metrics**
  - As seen with an average improvement in customer loyalty but reduced frequency per customer and customer counts for airlines and hotels, optimizing brand performance should be done with a balance of prioritizing loyalty alongside new customer acquisition and other objectives.



- Incentivizing customer loyalty through rewards programs or heavy offers should also be done with a careful eye on the marginal costs of each. Better loyalty metrics aren't valuable if lower profit comes as a result.
- **Think carefully about the strategic benefits of a loyalty rewards or subscription program for your brand before launching / revamping one**
  - While the incremental behavior of consumers after joining a loyalty program may lack meaningful change based on available evidence, loyalty programs can still be useful tools to drive other brand objectives on steering customers toward more profitable ordering channels, enabling insightful data collection, and building an audience for brand-owned marketing channels.
  - However, to make a program compelling, the tangible value of points or discounts are still most preferred to consumers, and trying to drive high enrollment and engagement with a weak value proposition to the customer risks being ineffective.

**If building better customer loyalty matters for your brand, you need the right information and capabilities to do it.**

As shown in this report, consumer behavior regarding loyalty is nuanced across industries and how metrics are defined. However, what is clear is that factors that have affected consumer behavior in recent years are impacting certain types of customers and various industries to different degrees.

It's critical for brands to use holistic research to understand their customers and the competitive landscape now more than ever.

Researchers and strategists can gain a better understanding of their own, and their competitors', customers by:

**01. Knowing customer behavior outside of your four walls.**

Loyalty cannot be measured just by how your customer interacts with you. It needs the context of the relative preference you hold compared to the competitors that also battle for that customer's business. Panel research with visibility into the full customer journey provides insights that internal customer data alone cannot.

**02. Adding more datasets.** Topline performance, or basic customer-level metrics like frequency and retention, alone can't explain the reasons consumers are spending more or less with your brand. Combining behavioral data (i.e. spending and foot traffic visits) with attitudinal data (surveys) explains not only the what, but the why. And getting feedback from a representative set of your industry's customer base, not just a select group of your own most engaged customers, can better inform opportunities for new product development or experience transformation.



As brands continue to see the more recent impacts of inflation, geopolitical tensions, and labor issues, Sense360 by Medallia can guide you in the right direction by acting as an extension of your team and answering your toughest insights questions.

If you'd like to scope out your next research project, see a demo of our self-service insights dashboards, or if you simply have a question about our research – don't hesitate to [contact us](#).

**Authored by:** Andrew Custage, Head of Analytics, Sense360 by Medallia

## About Medallia

Medallia is the pioneer and market leader in Experience Management. Medallia's award-winning SaaS platform, the Medallia Experience Cloud, leads the market in the understanding and management of experience for customers, employees and citizens. Medallia captures experience signals created on daily journeys in person, digital and IoT interactions and applies proprietary AI technology to reveal personalized and predictive insights that can drive action with tremendous business results. Using Medallia Experience Cloud, customers can reduce churn, turn detractors into promoters and buyers and create in-the-moment cross-sell and up-sell opportunities, providing clear and potent returns on investment. [www.medallia.com](http://www.medallia.com)

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