



As Inflation Bites, Loyalty Programs Are More Important Than Ever. Here's How to Create One That'll Stand the Test of Time.

By Dev Patnaik

Discounts and rewards form the backbone of loyalty program. But the future has more in store for companies that are willing to go beyond what exists today.

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Chances are your loyalty program is failing. While north of 80% percent of Americans are enrolled in them, most are used once or twice and then forgotten.

Customers are finding that what's intended as a perk has evolved into work. Points programs have become so freighted with varying rules, conditions and tiers that they're too complex to navigate and too confusing to see the value.

Still, with inflation eating into spending habits, companies may be tempted to pull back on some loyalty awards until better days arrive. However, now is the time to go full steam ahead. During times of economic tumult, shoppers are more likely to change brands. The smart companies are winning them over by going beyond points to connect on a deeper, more lasting level.

The limits of a discount

The loyalty program was born from the recession of the early 1980s when American Airlines launched its frequent flier initiative. AAdvantage now generates nearly \$3 billion a year.

Starbucks started its program as the economy cratered in 2008. Fifteen years later, it's gone from rousing success to public backlash over to its own points struggles. Due to rising costs, Starbucks and Dunkin' hiked the points required to earn a free drink, bringing instant fire from social media. Boston Public Radio summarized the outrage when it asked its listeners, "How are you handling this catastrophe?"

The discount dilemma

On one hand, the controversy shows the power of a free cup of coffee. On the other, it shows how tenuous loyalty becomes when it's based on a discount. Add in the cost of building apps and managing data, and these largely transactional programs come with considerable risk — especially in times of turmoil.

During the pandemic, 75% of consumers tried new ways of shopping, according to McKinsey. More than half of those people abandoned old brands for new ones.

After all, true loyalty requires more than a 5% discount. There needs to be a personal connection — the kind of emotional attachment that causes customers to bypass the cheaper place down the street because they feel you stand for something bigger, something they care about.

More than 70% of Gen Z and millennial buyers say they'll pay more for products linked to environmental or social causes. Win this brand of consumer over, and you're earning a customer with a lifetime value of 306% above the conventional shopper. The more innovative companies are already showing how it's done.

Much more than “discount”

Customers stand by your brand when they believe the same things you believe: This is the test of true loyalty. Discounts alone don't build that relationship. The best loyalty programs offer multiple ways customers can engage with you — far beyond monthly coffee discounts or free mascara samples.

There is no shortage of ways to create strong loyalty programs. The trick is to find the combination that matters most to you and your best customers.

Start with researching why people love you, who you hope to attract and what matters to them — then design a system that uniquely expresses your purpose or values. You'll soon see it's more complicated than discounts, freebies or even a shallow stab at social impact like donating a percentage of sales proceeds to a charity.

Simply naming a cause doesn't build lasting loyalty unless your customers see it running as a theme throughout all their interactions with you. TOMS is known widely for its promise to donate a pair of shoes for each one purchased. Patagonia's "Don't Buy This Jacket" campaign urged customers to consume less to help the planet. These companies' programs match what's represented on their websites, advertisements and public presence. They drive results. Patagonia sales rose 30% after its campaign.

Hyper-personalization is key. Like any good relationship, relationships grow deeper when you get to know people individually. DSW customized shoe recommendations based on the shopper's location and season. REI tracks purchasing patterns to help plan your next camping trip.

Despite consumers' fears about handing over personal data, loyalty programs are somewhat immune. Eighty-two percent say they're willing to share that information if it means more personalized service. And 75% say they're more likely to be loyal to a brand that understands them on a personal level.

Appeal to heart, values and lifestyle

Once you start to look closely, you'll realize that the best programs hardly look like programs at all. Take Disney or Apple, for example. These brands don't have loyalty programs per se, but they build loyalty in other ways. Apple stores function as community centers, offering free programming for people to learn. Disney's lighthearted vibe and clean, well-functioning parks encourage visitors to return year after year into adulthood. Sephora has built a tiered program that rewards its biggest customers with better perks, including in-store classes and early access to products.

Compare all of these to the programs most companies run, and you begin to see a decisive advantage. On one side are systems that look no different than 1,000 other companies. On the other are programs that directly appeal to a customer's heart, values and distinctive lifestyle.

Upheaval has a way of making consumers reexamine their loyalties. Once you lose that loyalty, it may not return. Programs need to evolve in the same way the world does. They also need to continually improve at a time when shoppers are pitched a new program with every purchase they make.

With so many companies beginning to innovate, waiting on the sidelines is simply an invitation to lasting damage.

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