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2018
Loyalty Programme Member Engagement Survey

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INTRODUCTION

This study is a follow on to our previous studies conducted in 2014 and 2015[1] and builds on the learnings generated from those studies and our insights developed over the last 20 years in the industry as loyalty marketing practitioners. By exploring members' experience and perception of loyalty programmes in South Africa, this study aims to unpack what is necessary from a customer perspective in order to optimise programme engagement – and thereby help programme owners and operators fine tune and adjust their existing propositions and uplift programme performance.

RESEARCH OBJECTIVES AND SURVEY METHODOLOGY

To date, the concept of loyalty programme engagement across the entire South African loyalty landscape has not been reported on in much depth. There are, no doubt, many internal studies that have been completed for specific loyalty programmes (existing or proposed) by programme owners and research houses. These, by definition, are unpublished and often either brand or industry sector specific. And rightfully so. The insights and learnings extracted from our study are focused on a range of industry sectors of the local loyalty landscape. By asking probing questions that highlight the customer's experience of their world of loyalty, we are striving to add to the body of knowledge that has developed since the launch of South Africa's first loyalty programme, Protea Prokard, in 1986. Sharing these insights will uplift the perception of the industry, and also the success of those that are in the game.

Limited data exists from the supply-side to objectively measure and compare engagement levels across all sectors. Historically, the only measure that has been used to compare programmes is the size of the membership base. But as this report will confirm, the size of the membership base is inconsequential if members are not actively participating in the programme. Similarly, comparing programmes and highlighting those that are largest is a trivial exercise at best and flawed ab initio for the simple reason that certain industry sectors (like grocery retail, mobile telecoms or even fashion retail) will, by definition, have more customers because of the nature of their core product or service offering and/or the frequency of customer engagement. A lack of active participation should provide programme owners with good cause to suspect that the programme is doing little for the brand, customer experience, and the bottom line.

The results of this study serve to provide insight into registered members' perceptions of their engagement levels, the value of rewards / benefits offered, and how the programme has influenced their behaviour. The report also explores topics such as loyalty programme smartphone app usage and data privacy concerns.

A total of 1,413 respondents completed the online survey conducted in November 2017. The respondent base was influenced by the data collection methodology; only those with online access could complete the survey. A random draw for a single R10,000 Takealot voucher was offered as an incentive to complete the survey.

[1]Available for download at: www.eighty20.co.za/loyalty-programme-member-engagement-survey-2015/ and www.eighty20.co.za/valuenettwork-south-african-loyalty-and-rewards-survey-2014/

Out of a possible 100+ programmes in South Africa, 26 key loyalty programmes were tested in this study.

Results from our 2014 and 2015 studies and the 2016 BrandMapp survey[2] were used to identify the key programmes customers are registered for.

[2] *For more detail on the BrandMapp survey, visit: www.whyfive.co.za/brandmapp/*

Grocery / Health & Beauty

Retail Banking

Lifestyle, Leisure & Entertainment

Medical aid / Insurance

Fashion Retailers

Restaurant & Take-aways

Travel

Credit Cards

THE AGE OF CUSTOMER CENTRICITY

Today's South African customers are smarter, more empowered and have more options to vote with their hard-earned income than ever before.

Yes, we are indeed spoilt, fickle and hard to please, and we expect only the very best from the brands that serve us. Armed with new technologies and understanding the power that these unlock, we are fast developing a permission-based mindset which allows (READ: expects) the brands that we engage with to perfect and enrich our experience, personalise their proposition, save time and provide flexible choices that are easily accessible to us. Faced with an array of rewards, benefits and value adds from almost every provider in every industry sector, the power is vested with us: the customers. We demand a loyalty programme that not only enhances our experience with the brand in and of itself but also understands the full world in which we exist. Do not see us in silos, do not restrict our proposition to your offering only. Recognise that we are customers with multiple relationships with multiple brands across multiple industry sectors – and develop your solution around that reality. The lines are blurring: driven by partnerships and alliances that recognise that a customer expects a whole lot more than what a single brand can offer in order to be viable in this highly competitive landscape.

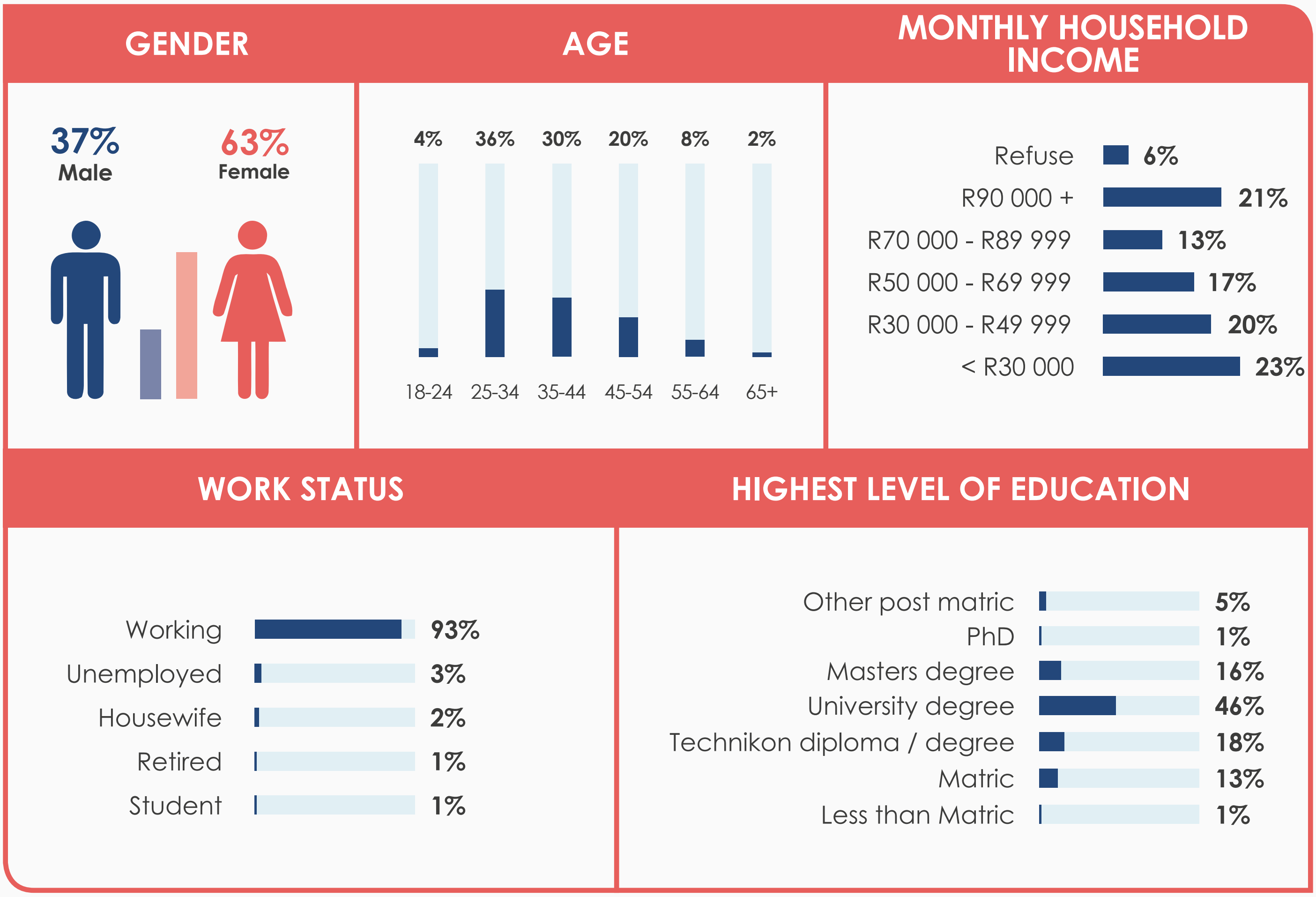
Spoilt by world-class propositions (initially in retail banking and health insurance) developed and enhanced over the last 20 years, we expect the same 'new normal' from every single brand that chooses to launch and operate a loyalty proposition. Innovation is key to success. Anything less than the 'new normal' benchmark is a missed opportunity to create a meaningful relationship, evidenced by declining levels of engagement and satisfaction with not just the programme, but also the core product and service offered by the brand. Loyalty programmes exist to drive increased engagement and longevity. Finding the optimal solution, and evolving it over time to align with customer expectations, helps brands differentiate themselves and improve the programmes that they have invested significant resources in.

Gone are the days of developing a do-this-and-get-that one-dimensional redeemable points offering. That is pre-millennium thinking. Mechanical, rational and left-brain orientated designs have been pushed over the last 15 years to up their game and develop a more holistic and multi-faceted approach that draws from the behavioural sciences. Winning programmes have taken the traditionally functional and rational earn-and-burn syntax and enhanced this by presenting the customer with an array of integrated, personalised and pinpointed benefits underscored by advances in mobile and digital technology and wrapped in a layer of complimentary emotional experiences. To appeal more to the intuitive and thoughtful side of human dynamics, leading programmes are demonstrating more insight in the form of tangible recognition of who their customer is (at an individual, more granular level) and how best to satisfy the full range of her needs. A much deeper understanding and alignment to ensure that the full experience that follows collecting and tracking loyalty currencies at least matches and preferably exceeds the expectations.

Left brain **Right brain**

Medical practitioners highlight the importance of whole brain synchronisation, where a balance is found between both hemispheres of the brain creating harmony. Could the same be expected of loyalty programme practitioners?

RESPONDENT DEMOGRAPHICS



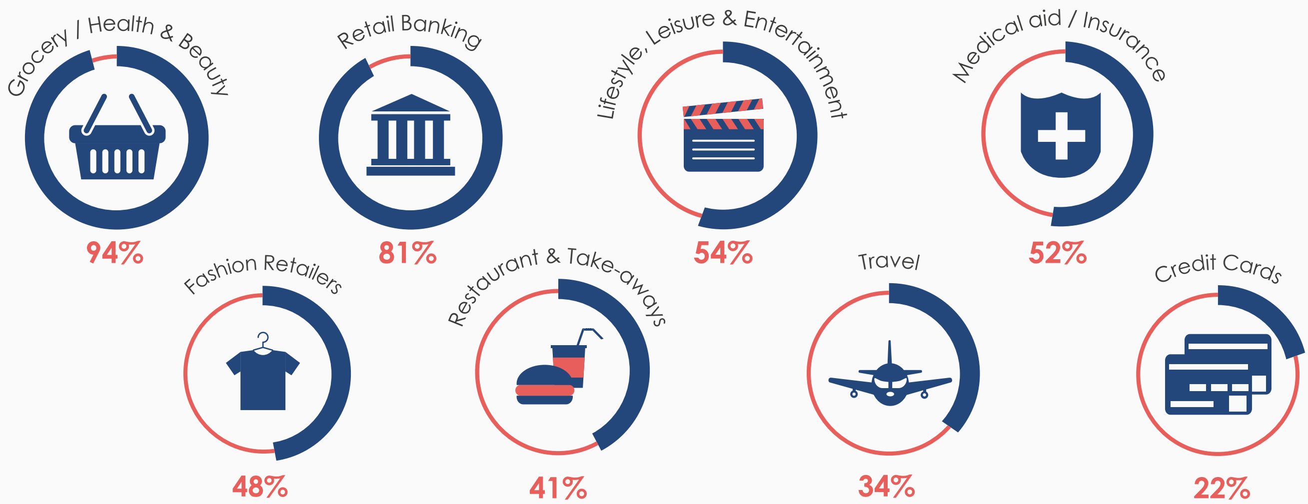
The respondent base is skewed towards females (63% female, 37% male). There is also a skew towards higher incomes; 51% of respondents have a gross monthly household income of R50,000 or more. This is not surprising since most of the sample base is well educated (80% have a tertiary qualification) and working full or part time (93%).

In terms of life stage, half of the sample base is between the ages of 35 – 54 years old, while 40% are younger than 35. Just less than half of the respondents are living in nuclear households (45%), while 22% are couples with no children. Just under 80% of respondents were living in either Cape Town or Johannesburg.

It is important to note that the respondent base of this survey is not representative of the total loyalty base in South Africa. However, it does provide unique and very valuable insights into the experiences and perceptions of this highly economically active demographic group.

MEMBERSHIP PENETRATION

MEMBERSHIP PENETRATION BY INDUSTRY SECTOR



The percentage per industry sector indicates the proportion of respondents that are currently registered for at least one loyalty programme in that industry sector

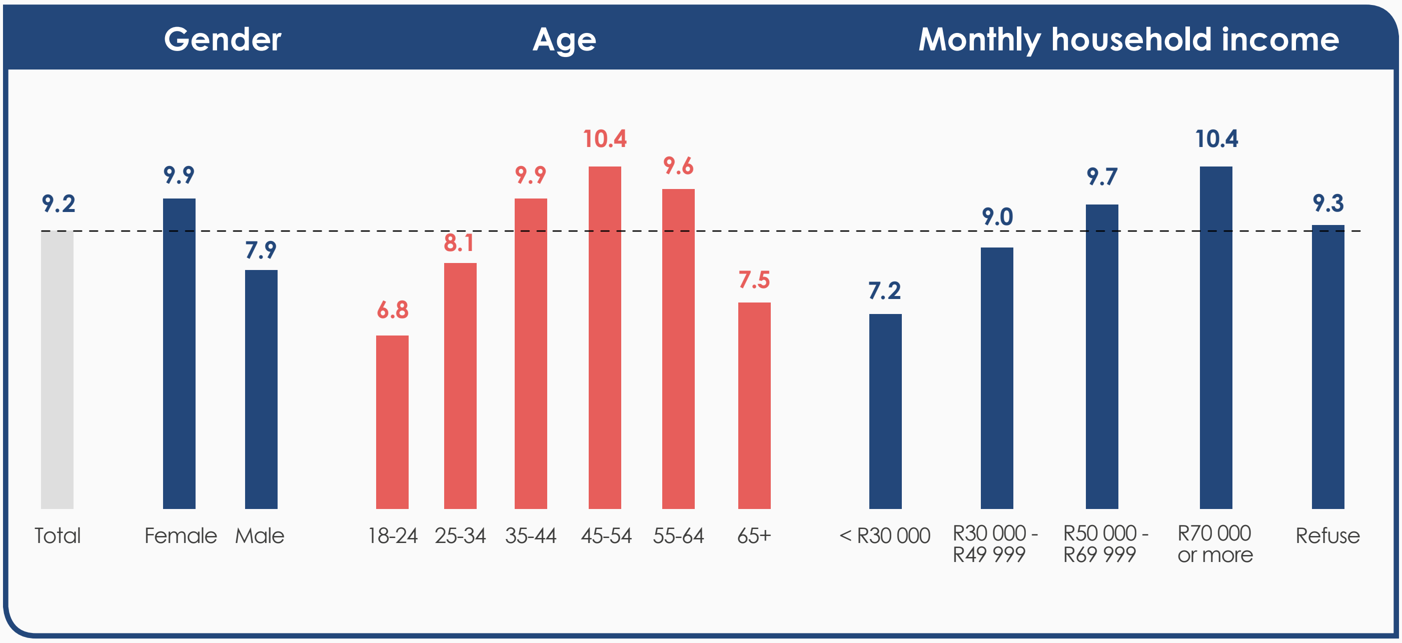
Understandably, of the 26 programmes included in the survey, the top programmes by membership size are those offered by the major grocery and health & beauty retailers: Pick n Pay Smart Shopper with 79%, followed by Clicks ClubCard and Woolworths WRewards with 70% and 65% respectively. The high penetration statistics (4 of the 6 programmes are above 50%) in this sector is a function of the shopping frequency (in some cases every day) and the level of competition and cross-brand shopping. Industry newcomers My SPAR Rewards and the Makro mCard show lower levels of penetration at between 20% and 30%.

Outside of the retail sector, industry veterans Discovery Vitality and FNB eBucks in the medical aid / insurance and retail banking sectors respectively, each had 45% of respondents belonging to their programme. This differs significantly from other players, the majority of whom have been in the market for at least 5 years (and some 10+ years) in their sector: sub 10% penetration for Momentum Multiply and Sanlam Reality; and sub 20% penetration for Standard Bank UCount, Absa Rewards and Nedbank Greenbacks. Penetration statistics within the respondent base are often aligned with market share. In some instances, however, penetration is a function of a range of variables including time in market, attractiveness of the proposition and the resultant brand equity. Of the three programmes surveyed in the medical aid / insurance sector, Discovery is the largest medical aid provider with 2.7 million members (as of October 2017). In comparison, Momentum Health had just over 250,000 members[3].

[3]*https://businesstech.co.za/news/finance/205466/the-biggest-medical-aid-schemes-in-south-africa-and-how-much-theyre-charging-in-2018/*

MEMBERSHIP PENETRATION BY DEMOGRAPHIC

Average number of loyalty / reward programmes currently registered for



On average, respondents are members of 9 loyalty programmes overall with nearly 80% of respondents belonging to six or more programmes. What is noteworthy is that there is still a reasonably sized group of so-called loyalty junkies: almost 30% of our respondents are members of 10 or more programmes. This is the same result as obtained in our 2015 Survey indicating that programme membership has remained relatively stable over the past two to three years. Given that there are over 100 programmes in the market, and more that are rumoured to enter the market, this finding brings to light two important questions. Firstly, can consumers cope with more than nine programmes? The numerous free text responses from respondents calling for a loyalty programme aggregator certainly suggests that these consumers are at capacity (at least their wallets are). Secondly, how do new programmes stand out from what appears to be a somewhat saturated market?

> **"I would like to see ONE card that can be linked to multiple rewards / loyalty programmes."**

> **"I'd be more interested in loyalty programmes which could be loaded on to ONE app! The loyalty programmes which do this, will get my undying... LOYALTY!"**

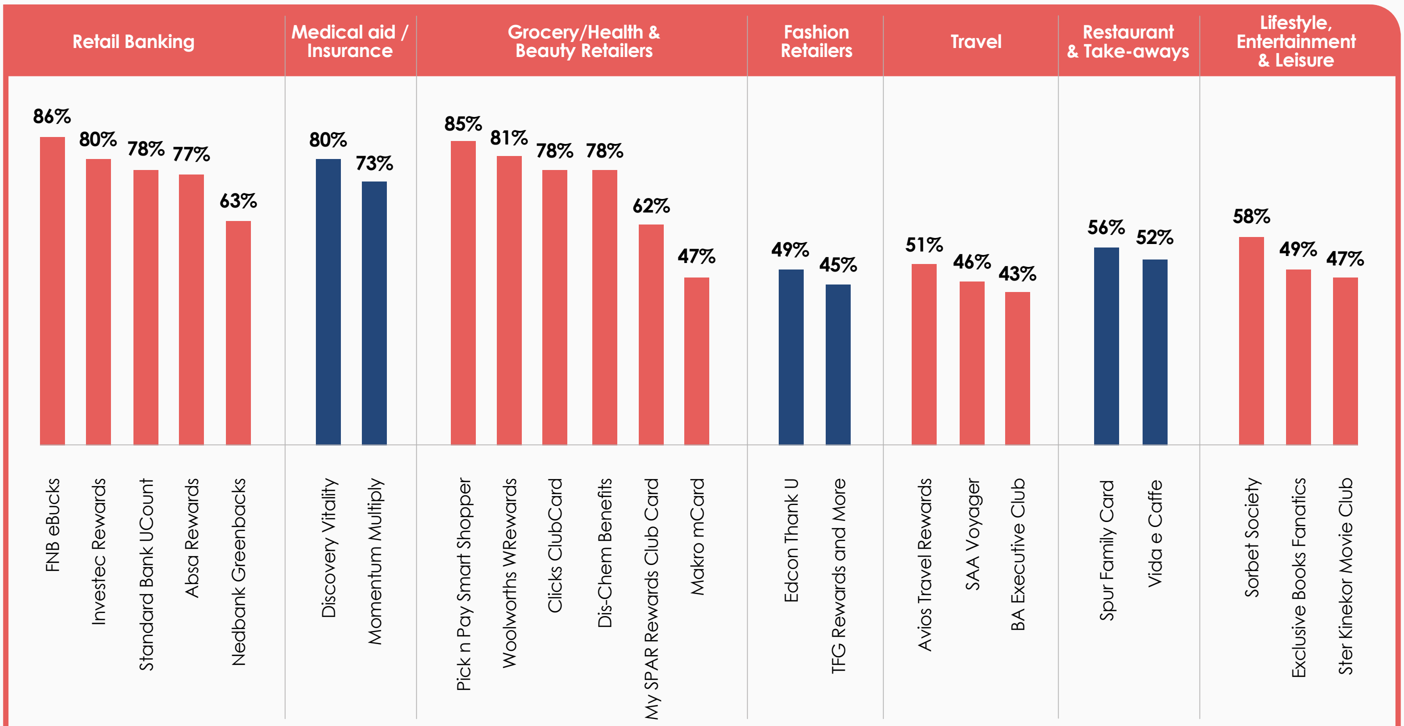
In terms of demographic differences in programme membership, our survey revealed that, on average, females tend to belong to two more programmes than men. There is also a clear upward trend in the number of programmes registered for and the respondents' income and age (except for the 65+ age group).

PROGRAMME ACTIVE USAGE

As discussed earlier, while the size of a programme's membership base is often highlighted, it is by no means the most important metric. The members' level of engagement and activity on the programme is far more indicative of the success of a programme.

The survey explored active participation using a self-assessment question, "Of the loyalty / rewards programmes that you are currently registered for, which would you regard as ones you actively use?" In addition, we also asked participants to rate the perceived value of rewards and benefits that they received: a key determinant in the levels of engagement with the proposition. This will be detailed later in the report.

Percentage of registered members who are active users

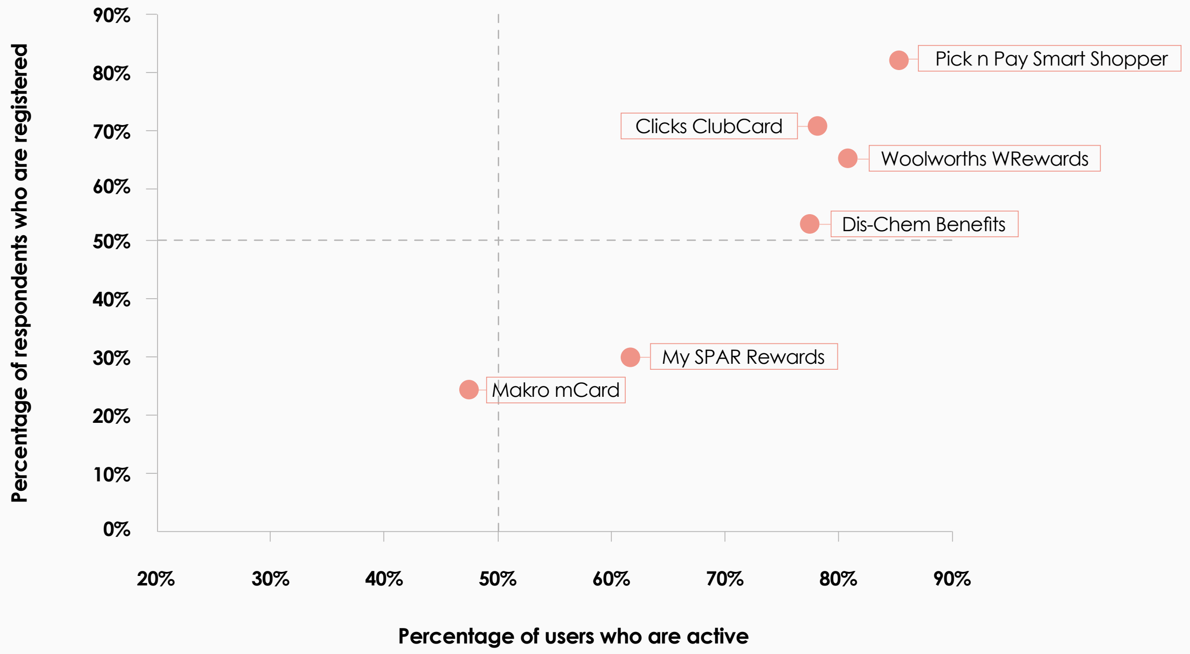


"Of the loyalty / rewards programmes that you are currently registered for, which would you regard as ones you actively use? Active use includes purposefully accumulating points, regularly redeeming points, making use of benefits such as visiting an airport lounge, getting a discount on a purchase, reading communications such as emails, or using the programme app."

It can be expected that some sectors will have higher activity rates than others. For instance, grocery retailers and banks typically interact with their customers more frequently than fashion retailers and travel / hospitality providers. Therefore, it isn't surprising that the programmes with the highest activity levels include Pick n Pay Smart Shopper and FNB eBucks, while the programmes with the lowest activity levels include TFG Rewards, Edcon Thank U, SAA Voyager and BA Executive Club.

Rather than comparing across sectors, it is better to compare within the same sector and see how the different programmes stack up against one another on this measure.

ACTIVE USAGE IN THE GROCERY AND HEALTH & BEAUTY RETAILER SECTORS



In the grocery and health & beauty retail sectors, there is little difference in active usership amongst the top programmes including Smart Shopper, WRewards, Clicks ClubCard and Dis-Chem Benefits. Around 80% of respondents registered for these programmes said they were actively using them. However, there are two clear outliers in this sector that appear to lag: Makro mCard with less than 50% active usage and My SPAR Rewards at 62% active usage. Makro mCard is very new to the market, the programme was only launched in June 2017. In addition, it is an exclusively digital play which may discourage active usage depending on the apps performance and usability – it is too early to tell.

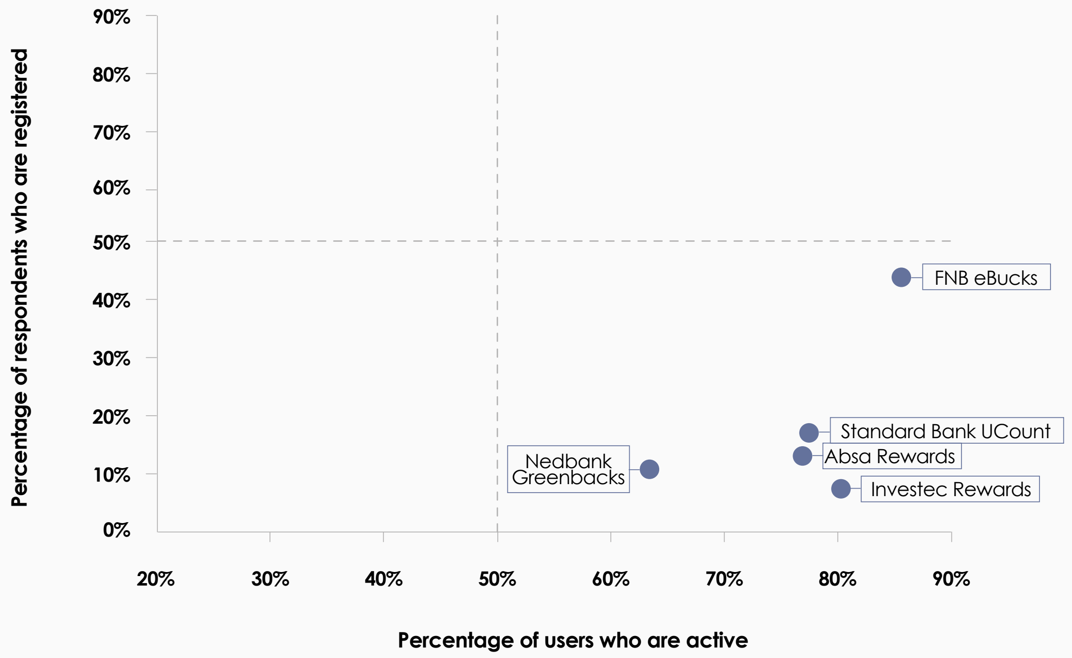
Woolworths WRewards' performance on the active usage measure is significant given that it is the only non-points-based programme amongst the other top retail programmes. This shows that there are other ways to encourage and drive member engagement. The high activity score might also be due to the high overlap between the long-standing MySchool programme and WRewards.

On average,

72%

of registered grocery / health & beauty retailer loyalty programme members are active users

ACTIVE USAGE IN THE RETAIL BANKING SECTOR

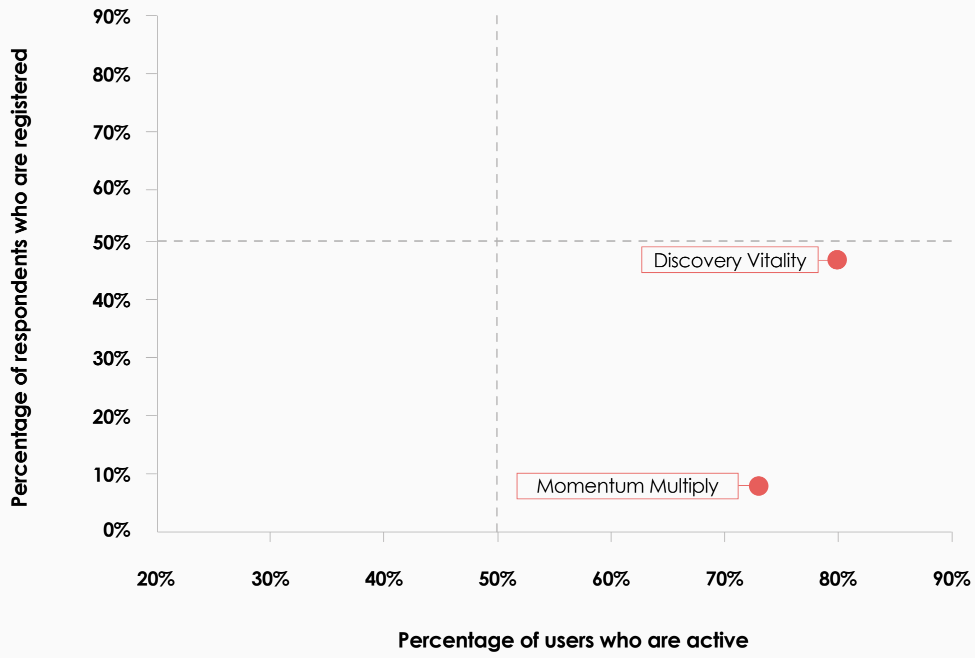


In the retail banking sector, FNB eBucks is the clear standout with 86% of respondents registered for the programme saying they are active on it. Of course, FNB eBucks has the benefit of being the oldest retail banking programme in the market (launched in late 2000) and clearly the years of investment in building the programme's brand equity has paid off.

Conversely, the Nedbank Greenbacks programme appears to be falling behind on member engagement with 63% of respondents saying they are active on the programme. Active usage is strongly linked to reward redemption. Given this, Nedbank Greenbacks' poor performance is surprising considering that their reward currency (Greenbacks) can be converted to cash, used to pay bank charges and fees, or used to purchase various goods. With the relatively liquid nature of the reward currency, one would expect higher redemption / activity levels.

On average,
77%
of registered retail banking loyalty programme members are active users

ACTIVE USAGE IN THE MEDICAL AID / INSURANCE SECTOR

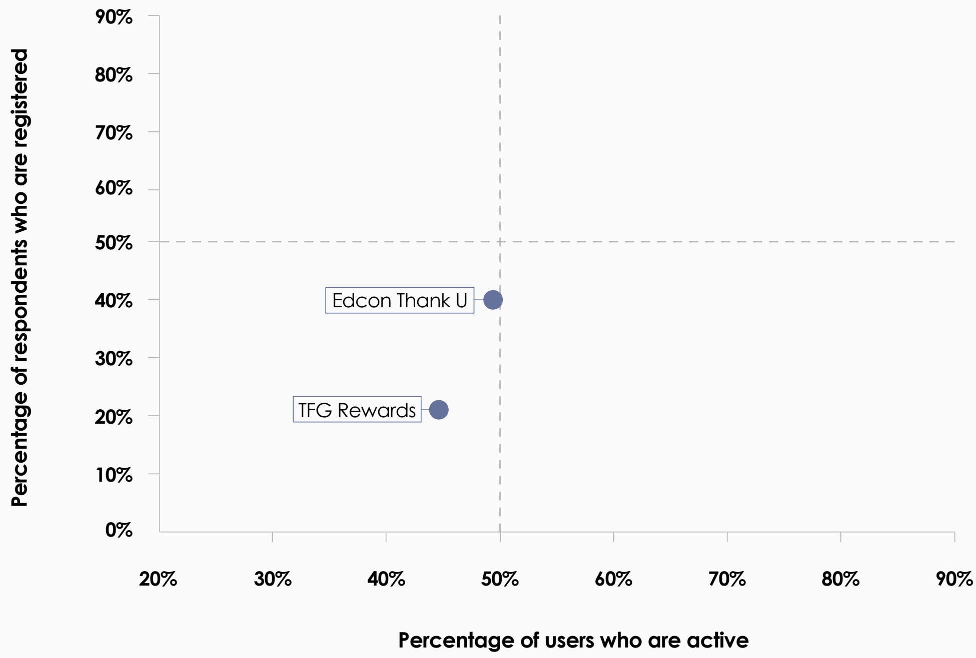


While Discovery Vitality is the clear leader in terms of the size of its membership base, when it comes to activity levels, there is not a huge amount of difference between the challenger programme Momentum Multiply: 73% of respondents said they actively use Multiply compared to 80% for Vitality.

Innovations such as effective gamification can help drive member activity

South Africa's medical aid industry is proof that loyalty programmes can help drive brand engagement and goodwill in traditionally low engagement sectors

ACTIVE USAGE IN THE FASHION RETAILER SECTOR



In the fashion retail sector, both TFG Rewards and Edcon Thank U have low engagement levels; less than 50% of respondents registered for the programme said they were active on it. Clearly both programmes need a refresh. This calls into question the viability of a standalone fashion retail programme – underpinned by the low purchase frequency of shoppers coupled with the high levels of competition in this sector and the need, at a core proposition level, to stand out from the new entrants.

When considering viability obviously a key factor is the return the programme owner receives from its loyalty programme. TFG Rewards and Edcon Thank U are structurally very different yet they have very similar activity levels. TFG follows a promotional approach (members earn a voucher/s every time they purchase at TFG stores which are redeemable on their next purchase) whereas the Edcon Thank U programme rewards customers for every rand spent (R1 earned for every R100 spent). Arguably the cost for rewarding customers for every rand spent (Edcon model) is the more expensive approach, therefore one must ask, are Edcon getting sufficient bang for their buck? Given these findings, perhaps not.

> **"If a loyalty programme really puts something back into your pocket it is surely a strong incentive to support a certain store."**

WHICH PROGRAMMES ARE WINNING IN SA?

Proportion of active users that would recommend the programme to someone else

"Of the programmes that you actively use, which of these would you recommend to someone else (e.g. friend, colleague, family member)?"

One of the key objectives of this study was to understand which programmes are winning over the hearts, minds and wallets of South African customers. One of the ways to test this is to understand which programme's members would recommend to someone else, like a friend or family member.

FNB eBucks obtained the highest recommendation score overall with 83% of respondents saying they would recommend the programme to someone else. After FNB eBucks, the programmes with the highest recommendation scores include Momentum Multiply and Discovery Vitality with 78% and 77% respectively.

For some programmes the recommendation score is considerably different when viewed by age segment (< 35 years old and 35+). Standard Bank's UCount programme is a good example in this regard. On average, 48% of the younger segment (<35) are likely to recommend the programme to others, compared to 69% for the older segment (35+). The converse was true for Momentum Multiply and FNB eBucks and a few other programmes including Avios Travel, Vida e Caffe and all the programmes in the lifestyle and entertainment sector.

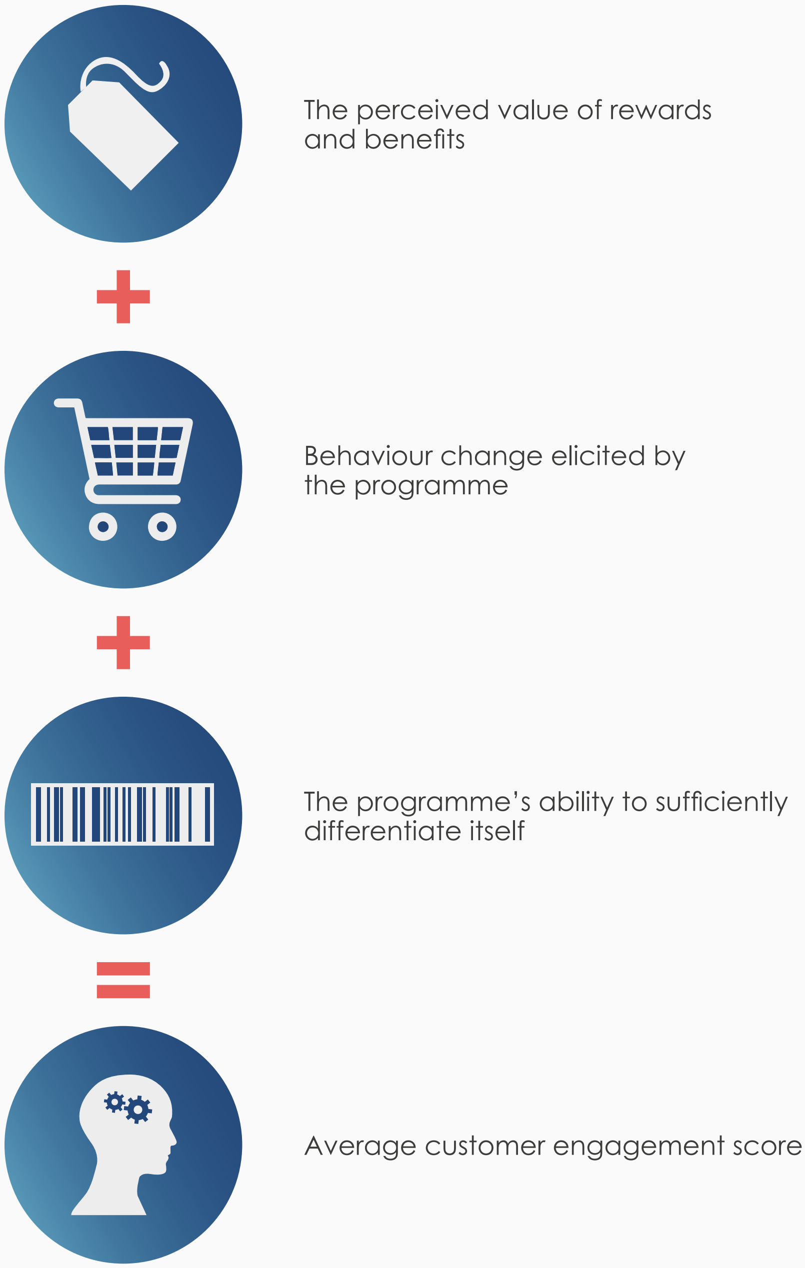
For several programmes, the balance of detractors to promoters is poor. This is most notable in the fashion and travel sectors but also across other sectors with My SPAR Rewards, Makro mCard, Investec Rewards and Vida e Caffe all having less than half of respondents willing to recommend the programme to others.

LOYALTY PROGRAMME ENGAGEMENT

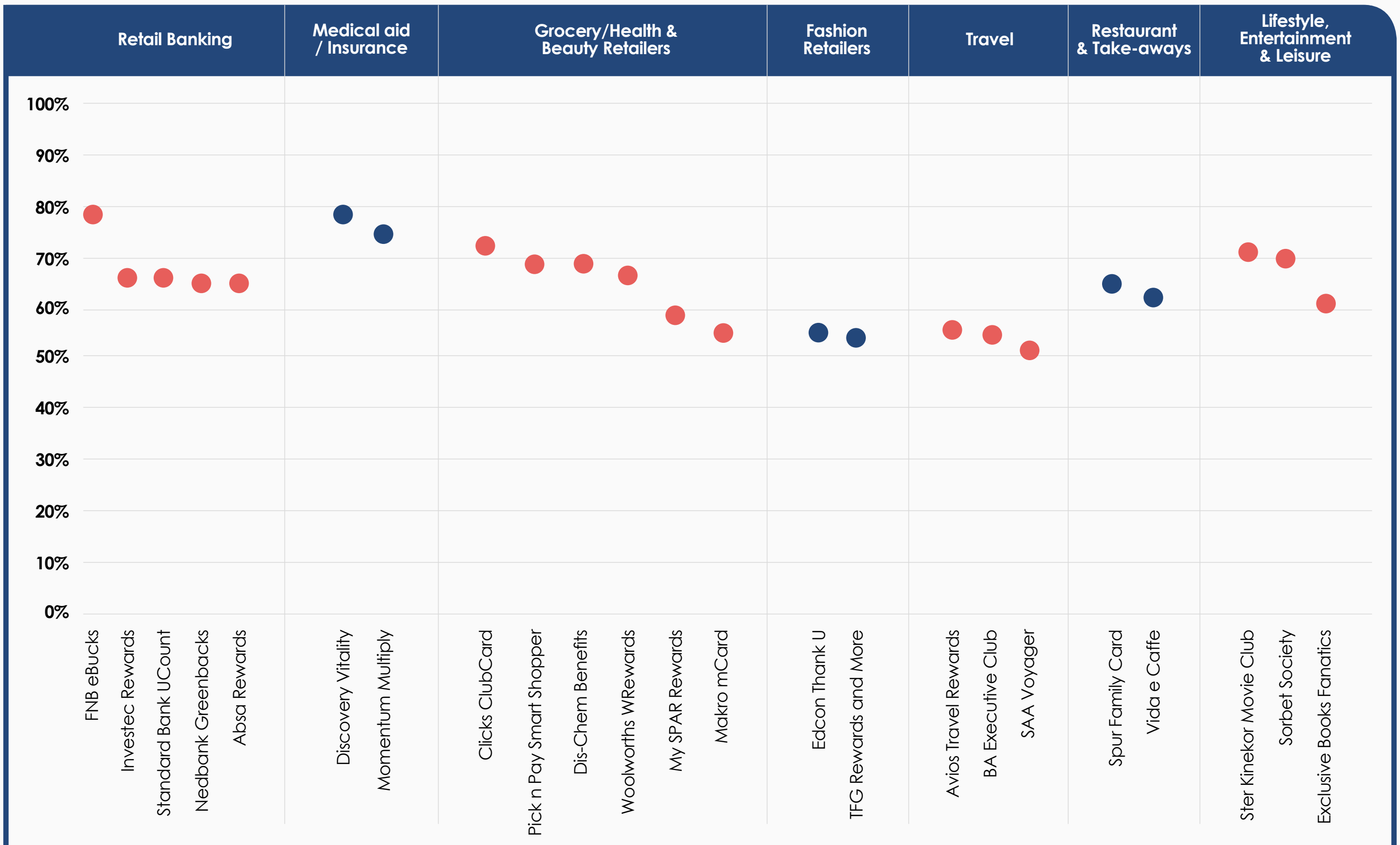
We explored engagement from the members' perspective by looking at three key factors:

- the perceived value of rewards and benefits
- behaviour change elicited by the programme, and
- the programme's ability to sufficiently differentiate itself

This is a good starting point and provides a single measure from which to compare programmes within and across sectors using an average customer engagement score.



DO MEMBERS VALUE THE REWARDS / BENEFITS OFFERED?



"For each programme that you actively use, how would you rate the programme in terms of the value to you of rewards / benefits offered?" (Excellent, Good, Average, Poor, Very poor)

Arguably one of the most important drivers of member engagement is the perceived value of rewards and benefits offered. Simply put, if members do not perceive the reward to be worth the effort, they are not going to engage (no matter how hard you try). However, a key point often overlooked is that this reward does not have to be purely monetary. The reward could be a truly personalised and relevant customer experience with your brand – that in itself is a wonderful reward.

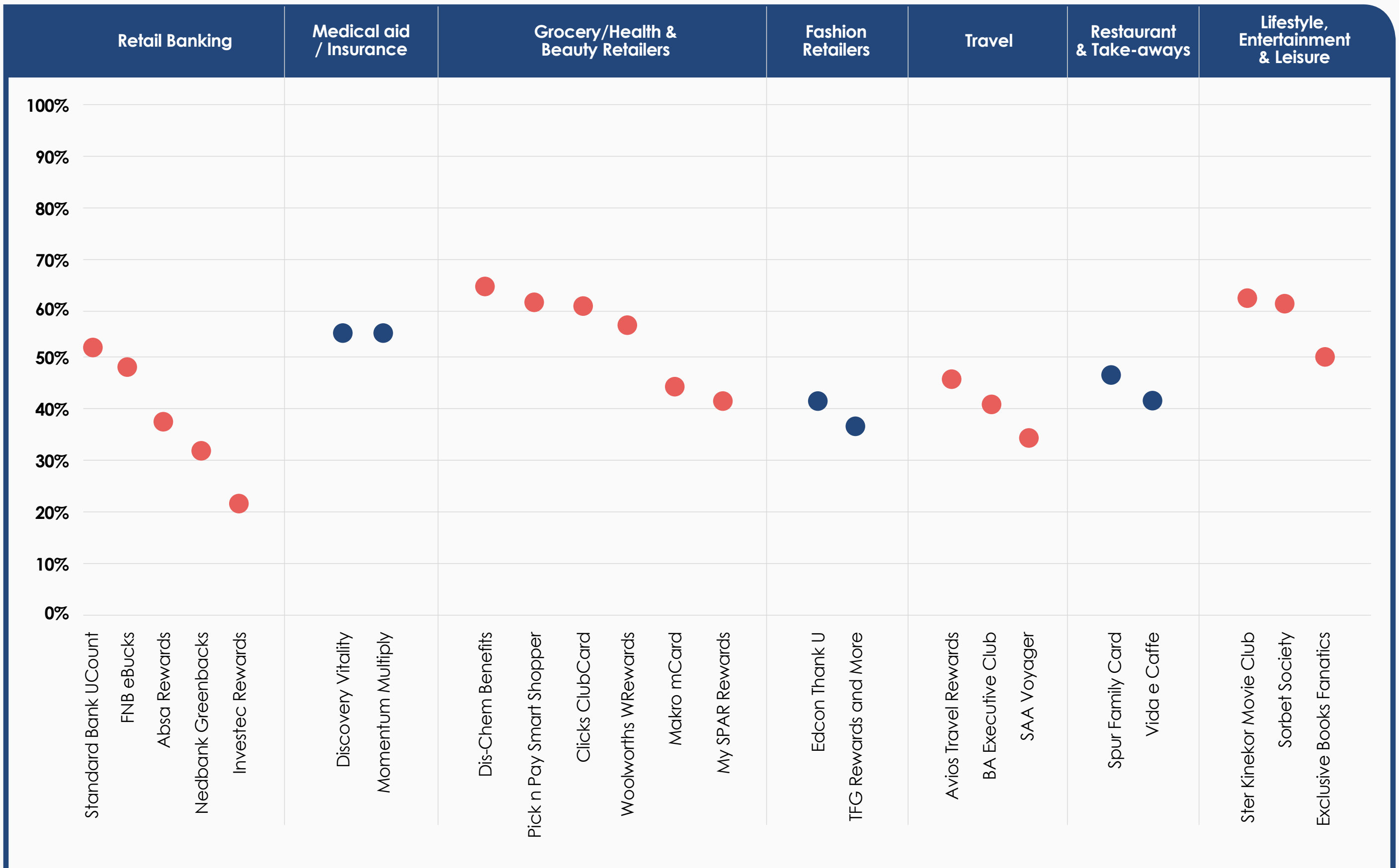
Relative to some of their North American counterparts, few South African loyalty programmes appear to have really nailed the truly personalised customer experience. So, when local programmes are compared based on their rewards and benefits, it is often the programmes that offer the richest rewards (in redeemable points or rands and cents) or those that offer the most frequent rewards (e.g. FMCG programmes) that come out on top.

To explore this, respondents were asked to rate the programmes they actively use according to the value of rewards / benefits offered using a 5-point scale from excellent to very poor. Average scores were calculated to facilitate the comparison.

As noted, there is a clear link between spend frequency and points accrual and the perceived value of rewards and benefits. Programmes that customers regularly interact with during their normal daily lives, like banking and FMCG programmes, score higher than airline programmes which customers use maybe a handful of times a year (with the exception of regular business travellers).

In terms of individual programme performance, FNB eBucks is the clear stand-out in banking and, to a slightly lesser extent, Discovery Vitality in the medical aid / insurance sector. FNB eBucks' performance relative to the other banking programmes is noteworthy considering that the programme is not significantly richer than its competitors. The programme's time in the market and focus on marketing and brand awareness is likely to have contributed to this score.

DOES THE PROGRAMME ENCOURAGE BEHAVIOUR CHANGE?



"Please rate each programme according to how much influence it has on how and where you shop?" (Very influential, Somewhat influential, Not at all influential)

It is widely known that how people think they behave (or say they behave) often differs to their actual behaviour. Therefore, assessing behaviour change via self-assessment must always be treated with caution.

Nonetheless, in an attempt to explore members' perception of their own behaviour change, we asked respondents to rate the programmes they were actively using according to how much influence the programme has on how and where they shop. The question used a three-point scale – very influential, somewhat influential and not at all influential. Scores were averaged to compare programmes within and across sectors as detailed.

The answer to this question demonstrates the power of good partnerships and alliances. The top performing retail programmes all have strong partnerships with other programmes which are clearly helping to drive behaviour change. For example, Dis-Chem Benefits is a reward partner on the Discovery Vitality, Momentum Multiply and FNB eBucks programmes. Similarly, Pick n Pay Smart Shopper has partnerships with Absa Rewards, Discovery Vitality and Momentum Multiply.

Fuel retail partnerships are also likely to be a strong factor for behaviour change, particularly for banking programmes and a few retailers. Discovery Insure and Standard Bank UCount pioneered the aggressive marketing of exclusive fuel retail partnerships in 2011 and 2013 respectively. Since then a number of banks, retailers and airlines have emulated this approach including Clicks ClubCard and Shell, SAA Voyager and Total, Absa Rewards and Sasol, Dis-Chem Benefits and Total, Avios and BP, and Edcon Thank U and Engen.

DOES THE PROGRAMME DIFFERENTIATE THE STORE OR SERVICE PROVIDER FROM ITS COMPETITORS?

"This programme differentiates the store or service provider from its competitors" (Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree)

Loyalty programmes are designed to attract, grow and maintain customers. They should not be considered as the primary driver of customer acquisition. Instead, the underlying customer proposition or product should be the primary source of differentiation for a company. Loyalty programmes can enhance the customer proposition and build on a company's competitive advantage – they can't always be relied upon to create it.

The ability for a programme to act as a source of differentiation (or add to it) is of course a function of the rewards offering, but the marketing, branding and positioning of the programme are also key. To explore this, respondents were asked if they agreed or disagreed with the following question for each of the programmes they are actively using, "This programme differentiates the store or service provider from its competitors".

With the exception of FNB eBucks and Discovery Vitality, very few loyalty programmes are acting as a source of differentiation for the programme owners. Is that because of limited significant innovation in other loyalty propositions? Is it a function of both the pioneering nature of both eBucks and Vitality coupled with their time in market (close to 20 years)? The disruptive force that eBucks and Vitality enjoyed from their outset and for many years that followed meant that their loyalty propositions were used strongly as an acquisition tool – positioning both parent brands as brand leaders. With the passage of time, and the emergence of challenger and follower loyalty brands in the retail banking and medical aid / insurance sectors, loyalty propositions have become more competitive and the market has become saturated. The focus has therefore shifted from an acquisition play to more of a retention and growth play.

COMPOSITE ENGAGEMENT SCORE

Note: *The average customer engagement score combines a programme's average score on the three measures: Rate the programme in terms of the value to you of rewards / benefits offered; Rate the programme according to how much influence it has on how and where you shop; This programme differentiates the store or service provider from its competitors*

Combining programmes' performance on the three measures outlined above provides us with an overall customer engagement score to compare programmes against, both within and across sectors.

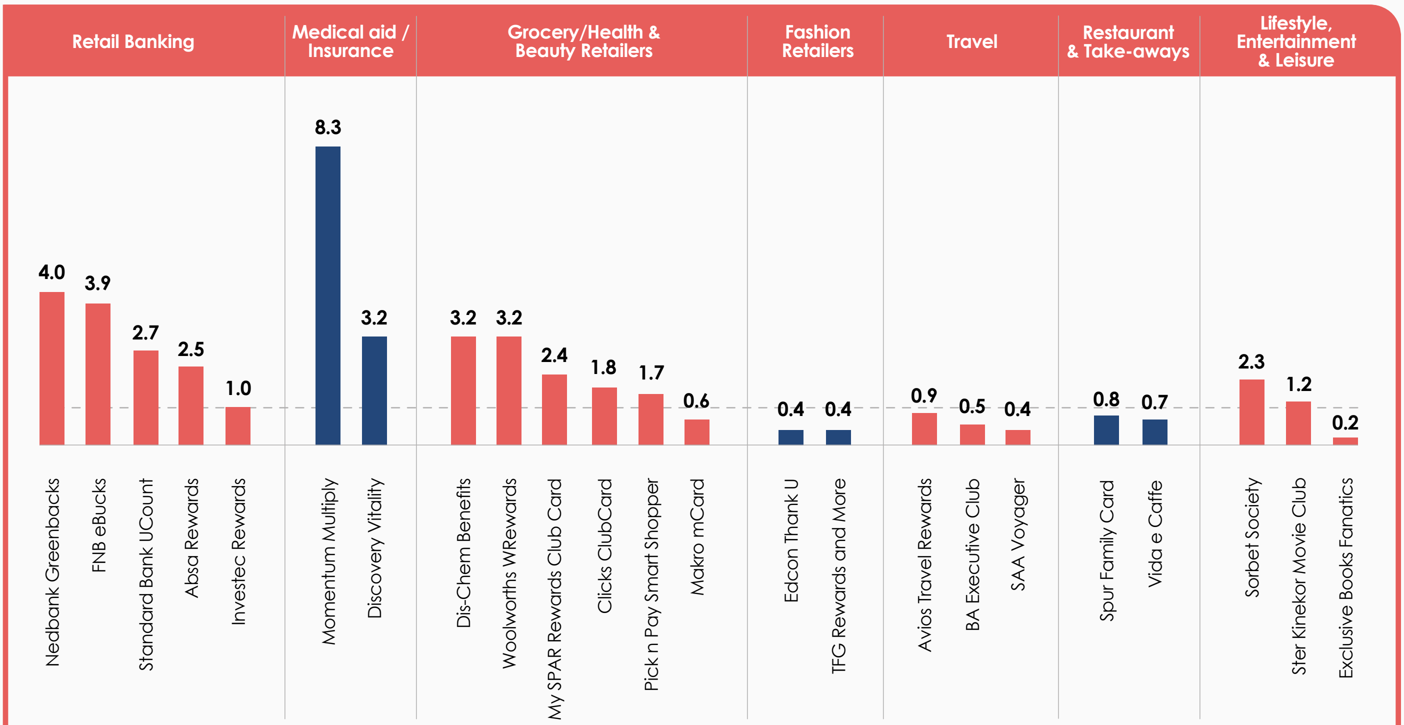
Based on these findings, there are several trends in the South African loyalty programme space that are worth noting. Firstly, across sectors there are clear differences in customer engagement levels with the medical aid / insurance programmes leading the way and the fashion and travel sector falling behind. The top banking programme and the top retail programmes are not far off the medical aid / insurance programmes' customer engagement scores, but the key difference is that banks and retailers typically interact with their customers frequently. Medical insurers don't (and when they do it's typically not at the members' choosing). Given the inherent infrequent 'touch' medical insurers have with their customers, it is remarkable that their loyalty programmes have some of the highest customer engagement scores in South Africa. This is highly unique in the global loyalty programme market.

Another key trend emerges in the grocery and health & beauty sector. Among the six programmes in this sector, the top four all appear to be doing equally well. In this situation, how does one retail programme stand out from the rest? And, will any programme changes yield sufficient return to make the investment worthwhile? One mistake programme owners should avoid is thinking that they should throw more monetary rewards at the (potential) problem.

In a highly competitive sector like FMCG, programme owners should be thinking more about how to incorporate their loyalty programme into the whole customer experience and less about "out-rewarding" their competitors.

CHANGES IN PROGRAMME ENGAGEMENT LEVELS

Ratio of increased engagement to decreased engagement



Note: *The survey asked: "For each programme that you actively use, how does your current use / engagement with the programme compare to a year ago?" The ratio was calculated as the number of members who have increased their engagement for every one member who has reduced their engagement over the last year*

It is also useful to understand how engagement levels have changed over time. The survey tested this through a self-assessment question, "For each programme that you actively use, how does your current use / engagement with the programme compare to a year ago?"

The results to this question defined two key take-outs. Firstly, the growth in new customers to the business (this becomes harder as market share grows) and secondly, the engagement from new and existing programme members.

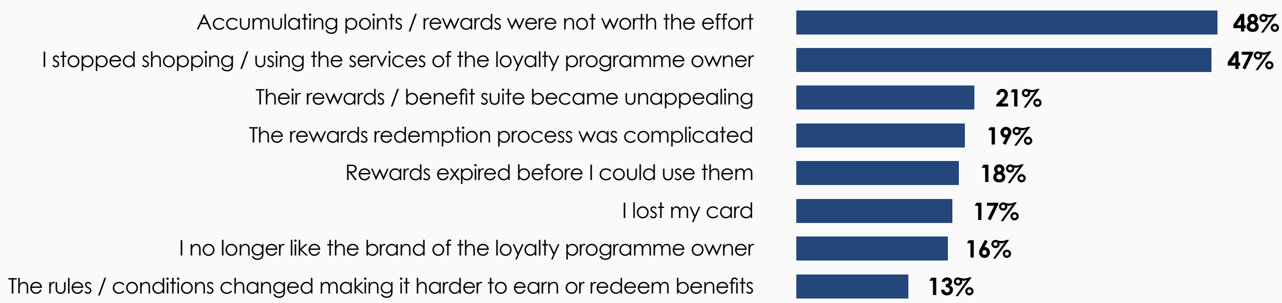
As noted earlier, Momentum Health has grown strongly in recent years which can explain Momentum Multiply's stand-out performance on this measure. In our sample base, for every one person that decreased their engagement level with Multiply in the past year, eight people increased their engagement. This is a far higher ratio of engagement relative to other programmes. Nedbank Greenbacks and Sorbet Society are also highlighted as achieving improvements over the last year, whilst established programmes with somewhat static propositions in the fashion, airline and restaurant sectors could do with a sprucing up.

Discovery Vitality's performance on this measure also shows the power of enhanced customer value propositions and clever marketing efforts. The app-based Vitality Active Rewards offering is centred on gamification to help members understand, track and achieve weekly activity targets. They have managed to keep the programme fresh and hence their engagement levels up.

For several programmes, our survey revealed a net disengagement with the programme in the past year. This was primarily isolated to the travel, fashion retail and restaurant / take-aways sectors, but it is cause for concern. But what drives members to disengage with a programme?

UNDERSTANDING THE REASONS FOR DISENGAGEMENT

“What are the main reasons you are no longer active on this programme?”



Note: *Only asked to those who are currently registered for the programme, and not actively using it at the moment but have actively used the programme in the past. Top 8 reasons included in the chart.*

The survey revealed that the main drivers of disengagement are members losing affinity with the programme owner and their rewards; 48% of respondents found that accumulating points / rewards was not worth the effort, and 47% of respondents stopped shopping / using the services of the programme owner. Other key drivers of disengagement include limited reward appeal and complicated reward redemption processes.

This speaks directly to the point that loyalty programmes can never be the silver bullet for a poor or failing customer proposition.

> **“In general, programmes where rewards expire are a turn-off.”**

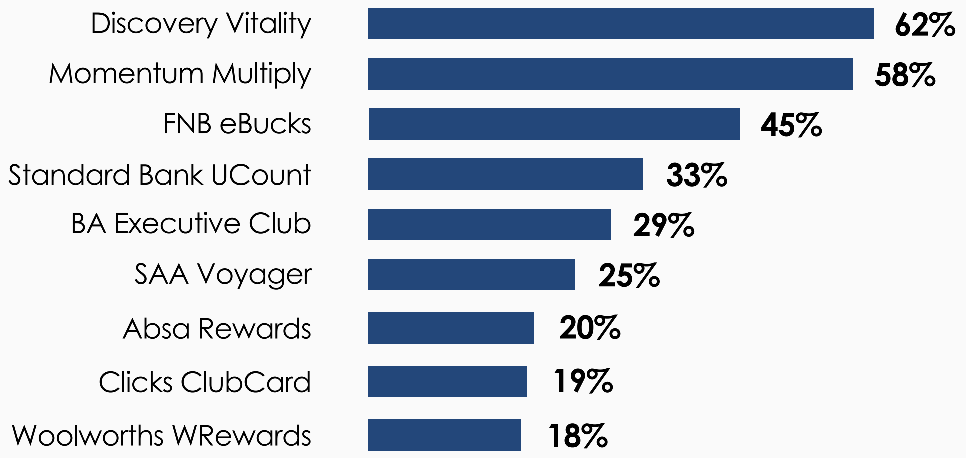
> **“There are probably too many programmes with too many rules to really maximise the benefits as an individual. I have chosen to focus on a couple and make them work for me and forget the rest.”**

OTHER STRATEGIES FOR INCREASING ENGAGEMENT

In addition to the insights just mentioned, there are a range of additional interventions that programme owners have deployed to boost the proposition and drive improved engagement with their programmes.

INCREASING ENGAGEMENT THROUGH THE DEPLOYMENT OF A TIERED PROPOSITION

"The increased benefits / rewards associated with a higher tier level are worth the effort / cost it takes to move up a tier" (Strongly agree or Agree)



There is extensive debate in the industry at both practitioner and programme owner level on the role that tiering plays in enhancing the value of proposition. Proponents argue that it facilitates a richer and more targeted and/or personalised offer – and allows optimal resource allocation and alignment of reward to the value that the customer brings to the programme owner, i.e. it rewards those that "matter more" with a more meaningful reward. At the same time, it provides programme owners with the ability to reward members who behave in a desired manner richly. In other words, it dispenses with the notion that all customers are equal and therefore all warrant, by way of an example, an identical earn rate or redemption value or benefit set. Detractors argue that it significantly complicates the proposition and that it defies customers' expressed needs to keep everything simple. Furthermore, detractors argue that the more complex the proposition, the more engagement levels will suffer. We believe that the optimal solution to maintain (and improve) engagement levels lies not in avoiding a tiered proposition, but rather in getting the communication elements right around what it means to achieve a higher status. Winning programmes in our market have excelled at this.

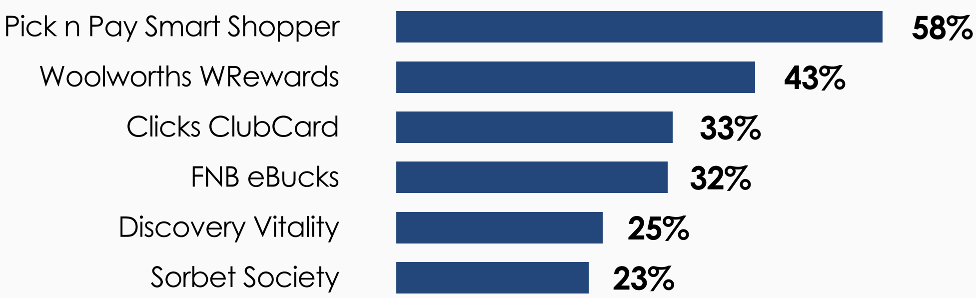
The benefits and rewards associated with a higher tier should encourage members to increase their engagement with the core proposition of both the product or service offering, and in addition, the programme. This only works if members believe the effort to move up a tier is commensurate with the gains. In the medical aid / insurance and retail banking sectors, programmes focus strongly on their tiering strategy and it is central to their programme structure. It's therefore good to see this appears to be working for them with around 60% of medical aid / insurance loyalty programme members saying the increased benefits / rewards associated with a higher tier level are worth the effort.

Tiering can also only work if members know about it, and more importantly know what they need to do in order to move up a tier. With regards to knowing how to progress up the tier construct, Woolworths WRewards (at 15%) and Clicks ClubCard (at 13%) would be well advised to revisit their tiering and / or their communication of tiering strategies. Momentum Multiply (at 46%) and Discovery Vitality (at 54%), on the other hand, appear to be doing a better job with a large majority of respondents indicating that they "know exactly" what they need to do to move up a tier.

INCREASING ENGAGEMENT THROUGH THE DEPLOYMENT OF PERSONALISATION

Another strategy to increase engagement, and arguably the key strategy all programmes should be focussing on, is personalisation. A sure way to win over customers is to make them feel understood; at the very least programme owners can make their members feel like they understand what they want, like and need. Programme owners have the data, they just need to use it effectively and leverage that knowledge to build better relationships with their customers. To quote The Harvard Business Review[4], we have moved from the "mass-market era" of the '60s and '70s and we are now in the "era of relevance".

"Which programmes do you receive personalised rewards / benefits for?"



Note: *Asked to all those who are currently registered for the programme. Top 6 included in the chart, all other proportions were less than 20%*

We tested the degree to which members believe the programmes they are registered for have incorporated personalisation. Interestingly, many respondents indicated that they received personalised rewards and benefits from programmes that do not currently offer (truly) personalised rewards. This result could largely be due to good programme communication or programme experience that makes members feel like their rewards are "personalised".

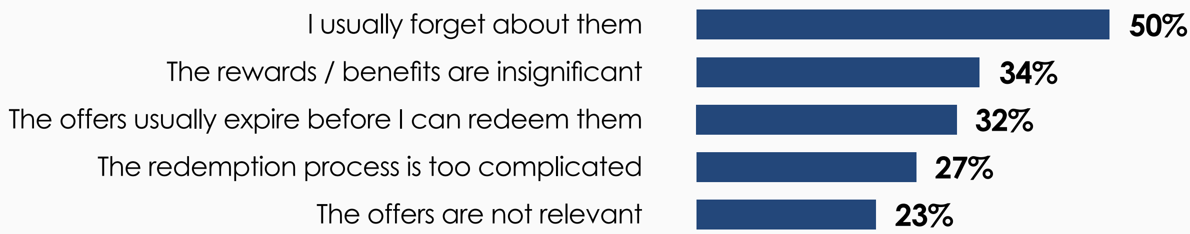
[4] https://hbr.org/2018/03/marketers-need-to-stop-focusing-on-loyalty-and-start-thinking-about-relevance

> **"The loyalty programmes that appeal to me most, are ones that are tailored to my interests (receiving info on deals based on my purchase history). It limits the amount of clutter I have to read through before getting to what I want. I also trust a rewards programme more when it's clear how I can move up from tier to tier (I'm likely to put in more effort for points if I know how)."**

> **"Loyalty schemes focus on extrinsic rewards. What I really want is to be heard, valued and recognised. Great customer service is way more important. Loyalty is earned not bought."**

INCREASING ENGAGEMENT THROUGH THE ENCOURAGEMENT OF BENEFIT UTILISATION AND POINTS REDEMPTION

"Why do you never redeem the personalised rewards / benefits that you receive?"



Note: *Top 5 reasons included in the chart*

Whether truly personalised or not, the true measure of relevance is redemption. We asked respondents how often they redeemed the personalised rewards / benefits they received and most said either "always" or "often". Where respondents said they "never" redeem the rewards, we probed further to uncover why.

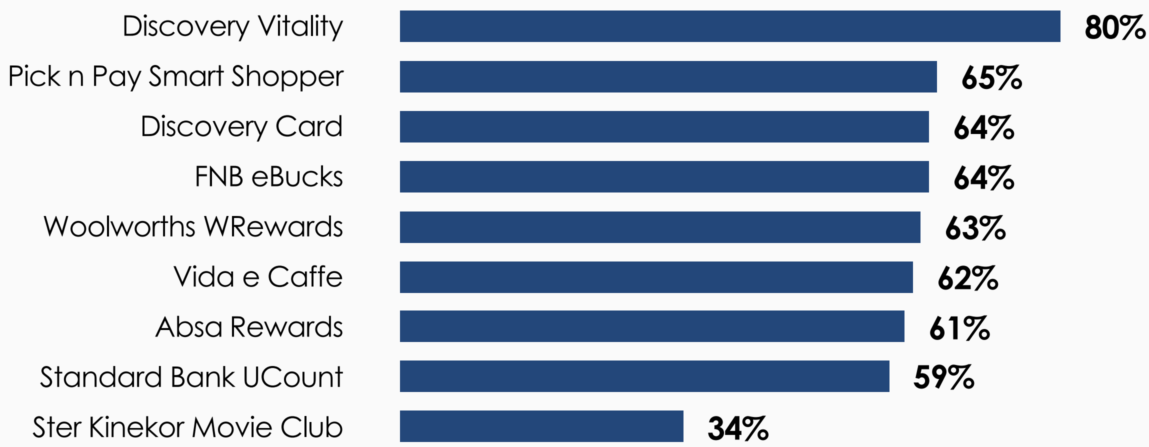
For the most part, the main reason for non-redemption is a simple one to fix – members forgetting about the reward or benefit. Retailers, for example, could easily remind members to redeem through low-tech solutions such as in-store reminders either on the shelf or at the point of sale, or via leveraging their mobile app with push notifications.

> **"I prefer a loyalty programme that works in the background, that doesn't make me jump through hoops within a specified timeframe. No-one has time to work it out or remember what needs to happen when; give me the discount or don't."**

> **"Retailers especially need to do a better job of personalising their loyalty programmes as well as making it digital. The days of printing vouchers are over."**

INCREASING ENGAGEMENT THROUGH THE DEPLOYMENT OF A SMARTPHONE APP

"Using the smartphone app has improved my experience with the loyalty programme"
(Strongly agree or Agree)



Given the shift towards digitisation, a move highly demanded by customers, it was important to understand members' perception and experience of programme smartphone app usage. The overwhelming response from members was that using a programme's smartphone app improved their experience with the programme. Despite this, it appears that the key challenge for programme owners is to get members to download the app. Around half of those registered for Discovery Vitality and FNB eBucks said they have the smartphone app. For both programmes this is higher for the younger segment (< 35 years old) than it is for the 35+ age group.

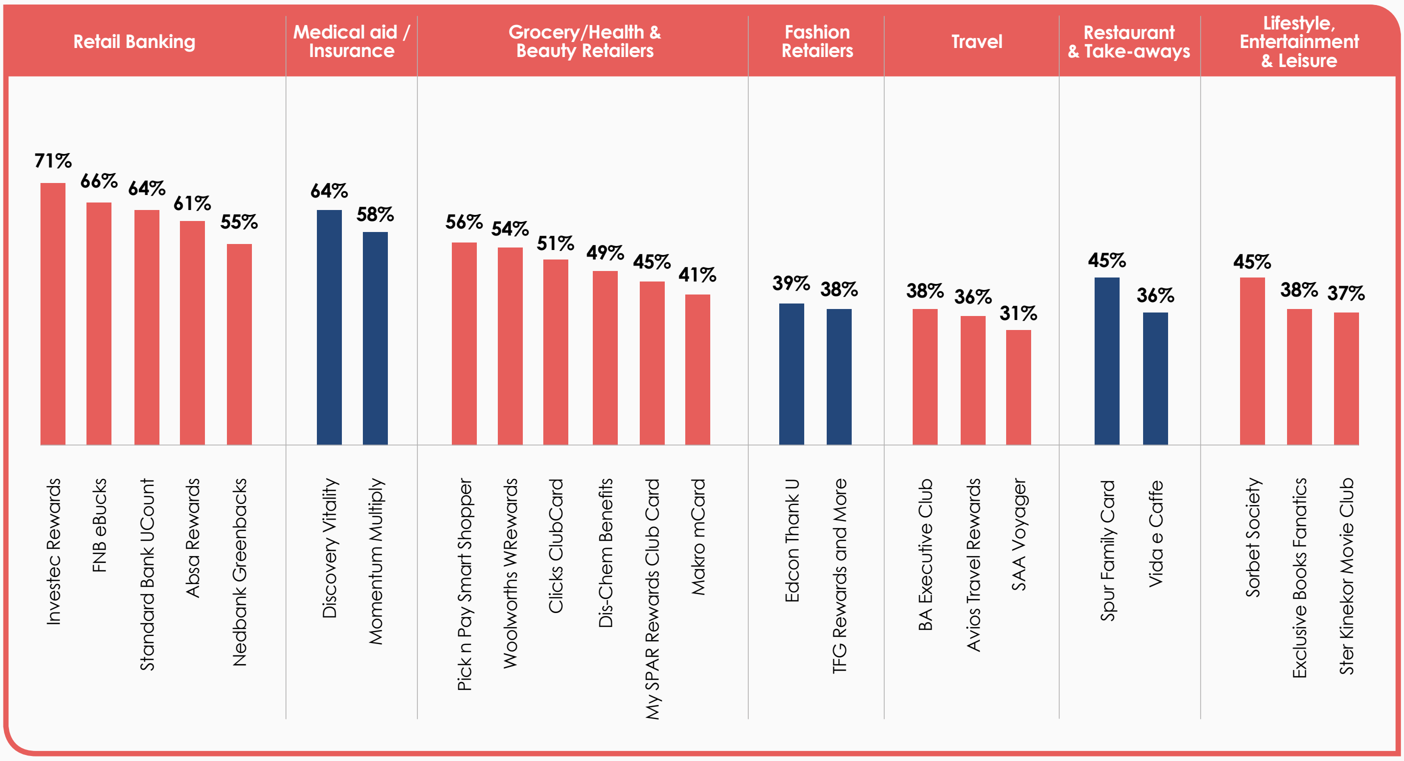
For the other programmes, only around one third of respondents registered for the programme or less, have the smartphone app. Clearly, programme owners need not only be concerned about wallet space but also smartphone storage space. Apps have to offer customers a seamless digital experience (read: they need to work) and provide tangible value in order for customers to download and use it.

> **"I really don't know if the apps add any extra value. They just clog up your phone memory."**

> **"We are always on our phones... linking loyalty programmes to an app is a great idea to stay in touch. Otherwise it's out of sight out of mind."**

DATA PRIVACY

"I trust that this loyalty programme uses my data responsibly" (Strongly agree or Agree)



Data security and privacy is also a key consideration for the future. Based on our survey findings, members appear to be almost too trusting of programmes. Many respondents indicated that they have not read any of the data privacy policies of programmes they belong to. Despite this, when asked if they trust the loyalty programme with their data, the majority of respondents said yes.

Members can't be blamed for not reading data privacy policies, they are typically not user friendly, but many people appear to be blindly trusting programmes. This does not let programme owners off the hook. Members may be trusting them with their data, but if that trust is abused then programme owners can expect huge backlash. Scrutiny of the Facebook / Cambridge Analytica scandal (and Zuckerberg's hearings at the US Congress and EU Parliament), together with the recent implementation of GDPR in the EU and POPI in South Africa, have sent a very clear signal to data owners.

With an increasing focus on data privacy concerns, businesses will need to work hard to balance compliance, customer expectations of personal experience, and going beyond what may be deemed appropriate.

KEY INSIGHTS

It is fair to assume that all the programmes we have researched were designed with the intention to drive customer loyalty to their brands, yet some are clearly achieving this and others not. What sets these winning propositions apart in an increasingly loyalty saturated market? Unfortunately, there isn't a simple answer or a straightforward recipe. Instead, here are some important principles worth noting:

Member **engagement is key**, without it you don't really have a loyalty programme. Instead, you have an expensive programme that rewards customers for behaving in the same way they always have.

Measuring and tracking member engagement should be a central component of any loyalty programme performance management.

Everything comes down to how members **perceive the value offered** by your programme relative to the effort they have to put in. If this balance is off, members won't engage. Members will judge your proposition relative to others (both inside and outside of your market sector). If it doesn't match up, they'll disengage.

Simpler is not always better. Some market sectors require more complex designs to ensure that programme costs align to the value being added, and yet their programmes appear successful. While at the same time, other simpler programmes are not capturing the attention or driving the engagement of their members.

Members expect to be **recognised for who they are** and the value that their loyalty brings to the brand. They need to be rewarded accordingly. The focus has moved way beyond just rewarding monetary behaviour, other key levers like longevity and the breadth and depth of their relationship are equally important.

Technology is an enabler of deeper engagement and is being used effectively by some programmes to deliver a more relevant and well-rounded customer experience.

Powerful partnerships with complimentary product and service providers is key to success. This is especially relevant to brands who have a shallow core product or service offering. The future belongs to those who share customers and co-develop mutually beneficial enhanced offerings.

Data privacy concerns do not appear to be an issue (yet) for South African loyalty programme members. But we expect this to change in the near future and programme owners need to be prepared for this.

Above all and more than ever, loyalty programme owners need to remain customer centric in their thinking and innovative in their approach.

ABOUT EIGHTY20 & TRITECH MEDIA

The 2018 Loyalty Programme Member Engagement Survey is a joint initiative conducted by Eighty20 Consulting and Tritech Media.

Who is Eighty20?

Eighty20 is a data driven consultancy specialising in delivering customer centric strategies and solutions to corporate clients. Eighty20 uses the power of strategy, research and analytics to help our clients understand their customers better and implement customer centric solutions that drive value to both customers and shareholders.

As part of our offering, Eighty20 specialises in the design, optimisation and tracking of loyalty programmes and the resultant customer behaviour. Eighty20 has worked on loyalty programmes for large national banks, insurers, retailers, telcos and hospitality firms.

Who is Tritech Media?

Tritech Media is a media technology innovator that embraces the new era of digital media. We are a strategic holding company for a range of well-established service providers that deliver customised content through their proprietary technologies. Our platforms enable advertisers and marketers to scientifically target their campaigns ensuring optimal return on investment by creating highly focused customer acquisition and retention solutions.

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