

Value<sup>+</sup>network  
South African  
Loyalty and Rewards  
Survey  
2014



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# Foreword/Introduction

In May 1981, American Airlines launched the world's first Loyalty Programme, AAdvantage in the United States. Within a few years, the phenomenon had taken off – largely in the travel and hospitality industries. What followed was a global roll-out across all Market Verticals. Initially in banking & financial services and thereafter in all sectors of retail. Five years after the launch of AAdvantage, in 1986, Protea Hotels launched their PROKARD offering, which signalled the birth of the Loyalty Marketing industry in South Africa.

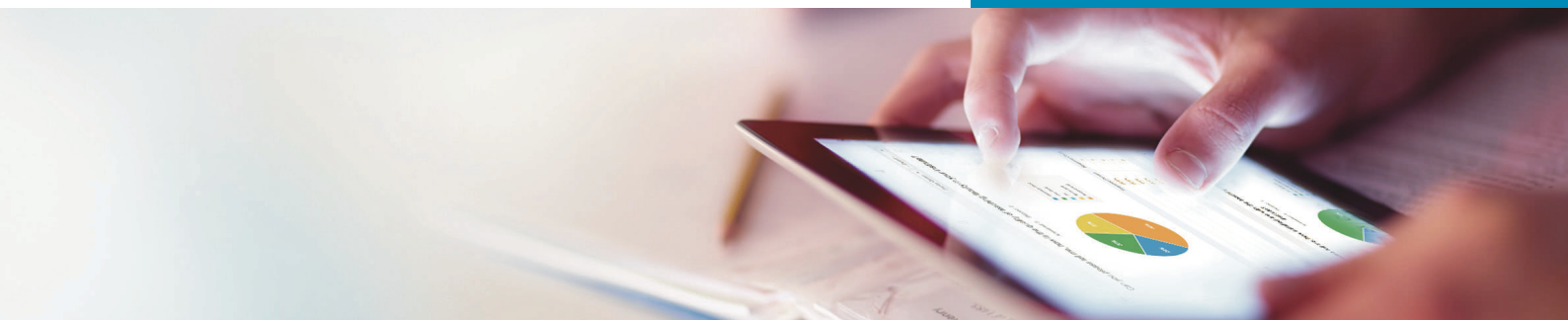
Fast forward 28 years to 2014, and our research shows that there are at least 101 Programmes that operate on a NATIONAL basis in South Africa today. It is safe to say that South African consumers and businesses alike are no strangers to Loyalty and Reward Programmes. This survey seeks to form the basis of a South African Loyalty and Rewards Programme register which up until now has not existed.

The insights gathered from our Survey expose a well-structured industry that has shown significant growth over the last 5 – 10 years. The industry appears to still be in its growth phase in certain Market Verticals and in the mature phase in others. It has created value propositions that are of a world-class standard. This industry has (willingly or not) established a Loyalty Programme as a marketing intervention that has become a price-of-entry in many market verticals.

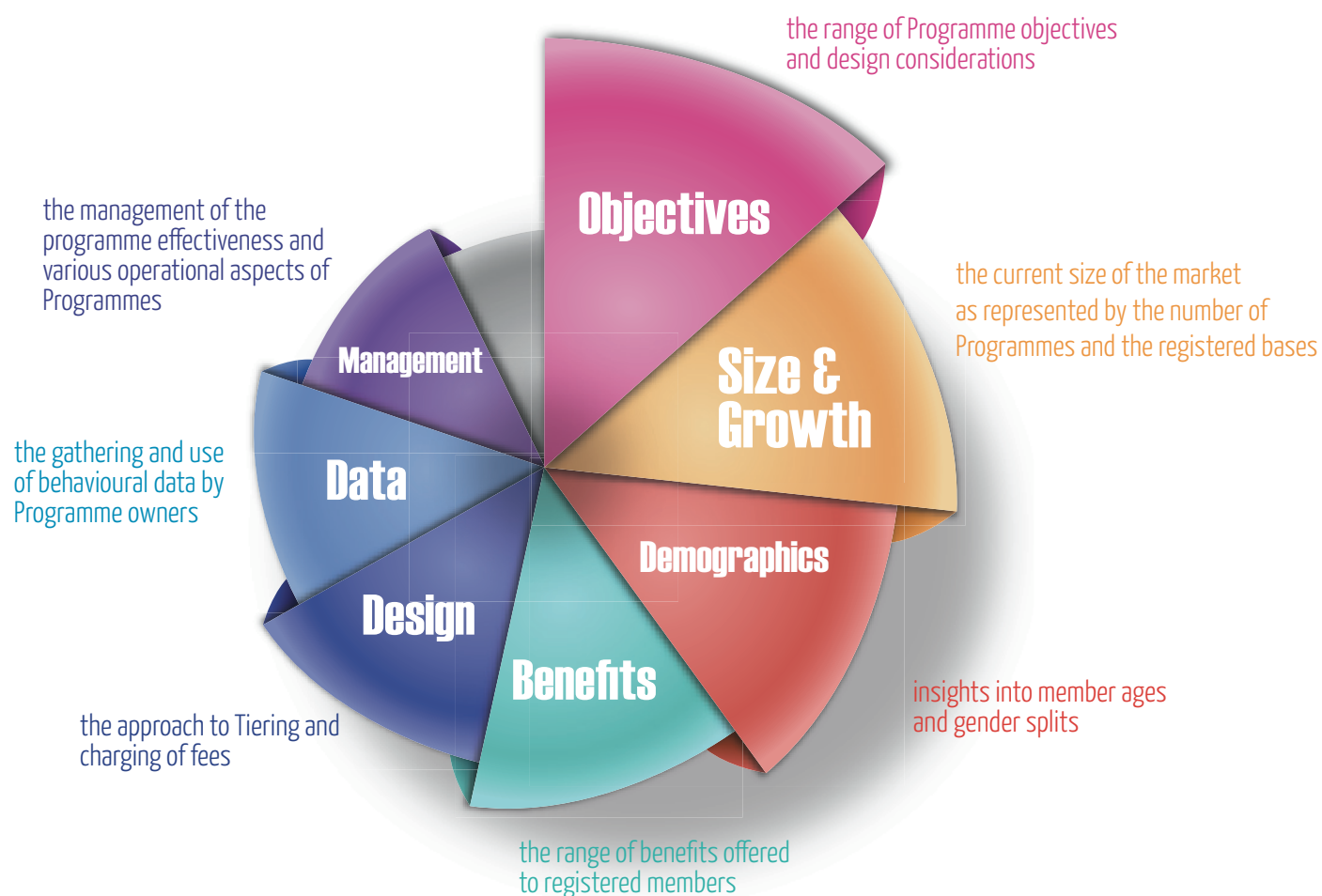
Global insights gathered and formulated in developed markets outside South Africa have defined a range of key trends for 2014 and beyond. These primarily focus on 4 key areas namely: the growth of Personalisation, deeper Customer Behavioural Analysis, Mobile Integration and the use of Multi-Tender Loyalty offerings (as published by the American Marketing Association). The US market (as reported by COLLOQUY, a leading source of Loyalty Marketing IP) pegs the US market at 2.65Billion registered members, averaging out at 18 members per US household (as at the end of 2012 – growing by almost 100% from 1.3Bn at the end of 2006). This massive penetration into every US household, underpinned by the unrestricted growth in the number of Programmes on offer and the number of memberships has led us to conclude that the South African market still has significant opportunity to grow and is far from saturated.

We believe that the growth will be driven from second tier businesses in the SMME market segment. In addition we see growth potential from businesses that do occupy first tier and operate on a national basis, who up until now have resisted the opportunities presented from launching and managing a Programme.

## Loyalty and Rewards Survey 2014



When we conceptualised our inaugural Loyalty and Rewards Survey of the market, we decided that the first part of our focus should be on gaining more accurate insights into:



The second part of our Survey involved the interpretation, collation and presentation of the Survey findings together with our considered conclusions of where the market could be heading over the next couple of years.

It is important to stress that our Survey was not designed to define the detailed customer value propositions of each and every Programme in the market as this content is freely available on well-defined Programme websites. Our Survey was not designed to rate or rank Programmes and to create a so-called beauty contest. This would be unfair and presumptuous and an over-simplification of the realities facing Programme owners.

Our methodology involved drafting a battery of questions and submitting these to representatives of each Programme that operates within the South African market. We are most grateful for the time taken by all participants in providing us with insights into their Programme's performance and key statistics. We recognise the sensitivity of certain content and therefore thank each and every one of them for assisting us in developing this body of knowledge. In cases where content was not forthcoming, we relied on information in the public domain. We look forward to working with Programme owners and other industry experts in future Surveys in order to continue to supplement the findings of this Survey, optimise the quality of information it contains, and to contribute to the IP in the Loyalty space.

# Classification: Rewards Programmes vs Customer Clubs

Our study started off by drawing a distinction between two key Programme Types:

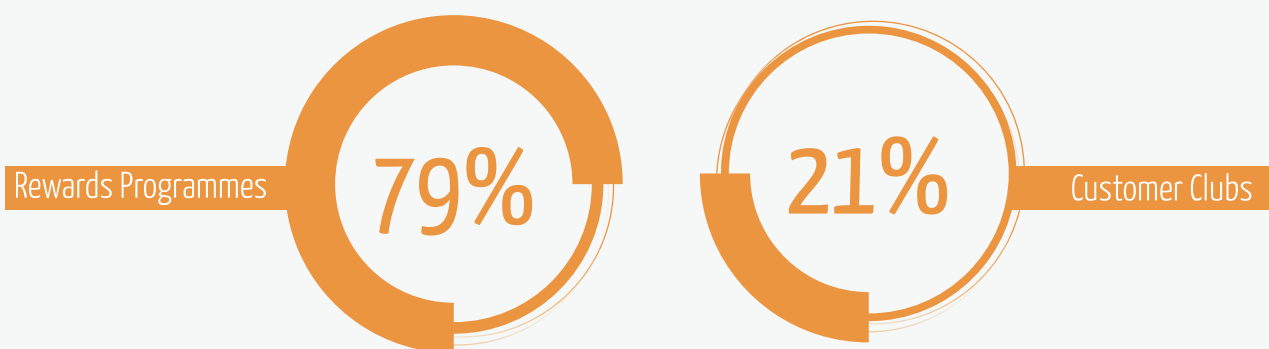
## Rewards Programmes

A Rewards or Loyalty Programme, defined as a structured marketing intervention that rewards and encourages specific customer behaviour (transaction value, purchase frequency, basket spread/product cross-holding and tenure) which is beneficial to the Programme owner or sponsor. The Programme member is either entitled to a discount on the current purchase, or an allocation of Loyalty points that can be used (i.e. redeemed) for future purchases (i.e. for future rewards) or even used to purchase products and services not normally sold by the Programme owner/sponsor. In addition to the benefit of discounts or points, members may have access to membership privileges, which is determined by their relative value (as evidenced by their tier level). For example, access to an airport lounge or special checkout queues or preferential access to sales or pre-season events and launches. Since the rewards to Rewards Programme members are often directly linked to specific behaviours, the income derived by Rewards Programmes is created from either sustained levels of customer behaviour or shifts in customer behaviour.

## Clubs

A Customer Club, defined as a structured marketing intervention that offers registered members a range of benefits and typically charges a membership fee. In contrast with Rewards or Loyalty Programmes, Clubs do not reward members for specific transactional behaviours, but rather focus the value proposition in the form of retail discounts and value-added benefits and / or peace of mind benefits. Since the rewards to Club members are not directly linked to any form of behaviour which directly drives up revenues or down costs, the income derived by Clubs is dependent on subscription fees collected from registered members.

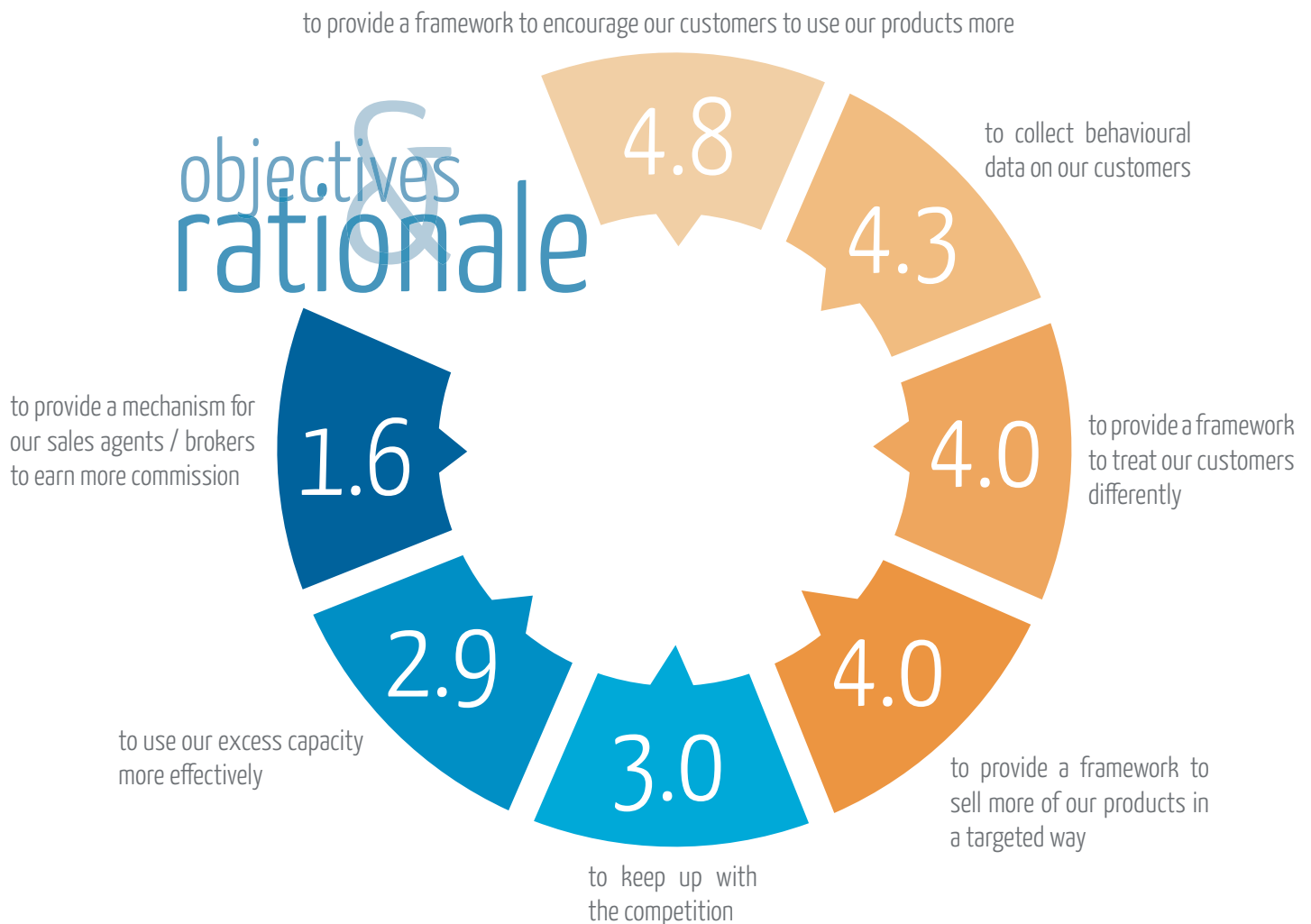
There are a total of 80 Rewards Programmes and 21 Customer Clubs operating in South Africa



## GATHERED INSIGHTS

### Programme objectives and rationale

Embarking on a journey to develop, launch and maintain a Rewards or Loyalty Programme requires a long term commitment. The significant investment required to bring an innovative proposition to life requires Executive Support at the highest level of the organization. It is therefore key that the Programme's primary aims are well defined early in the process and then revisited along the execution timescale. Our respondents were asked to rate their key aims by ranking them on a 5 point scale (where 1 was the lowest and 5 was the highest). The results revealed the following:





The vast majority of South African Rewards Programmes offer their members a redeemable Loyalty currency or Loyalty point as a basic benefit. The redemption of the Loyalty point has become known as the “moment of truth” for registered members. The focus of Programmes is on maximizing the:

- **rate at which members accrue Loyalty points:** *This has given rise to, in some instances, the introduction of Tiering which allows higher valued members to accrue points at a faster rate than lower-end members. In addition the existence of multi-partner Programmes that allow registered members to earn from multiple sources/different partners has added fuel to the velocity of points accrued.*
- **rate at which members redeem their Loyalty points (evidenced by the frequency and the recency of redemption):** *This is driven in turn by the nature of the product or service offered as well as the ease of channel redemption.*
- **perceived value of the redeemed product:** *This has given rise to the establishment of innovative partnerships with complementary product and service providers which facilitate the transfer of incremental benefit to the redeemer.*



our insight:

There is no doubt that there will be a continued focus by Programme owners on not only developing robust Programme objectives, but ensuring that the stated objectives remain current and relevant. At the same time, we believe that many Programme owners will embrace the benefits of driving up benefit utilisation and points redemptions in order to deliver REAL value to the customer – through innovative partnerships and varied product offerings.

## The size and growth of the market

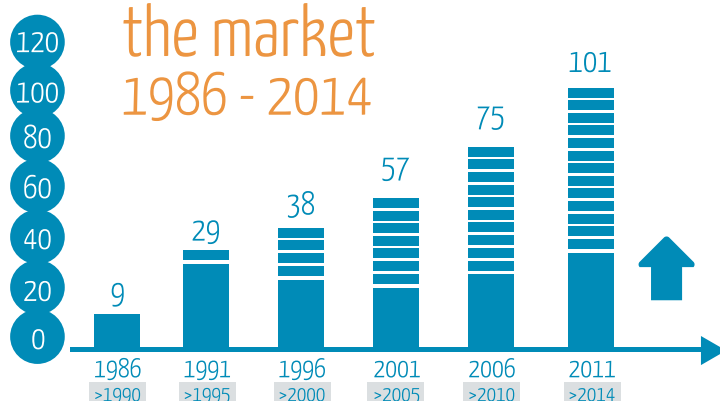
We have identified a total of 101 Rewards Programmes and Customer Clubs that operate in South Africa today. This has grown significantly over the last 28 years. The last 8 years (2006 to present) has seen the largest annual growth rates, with the number of Programmes and Clubs

growing from 57 at the end of 2005 to 101 in 2014.

29% of Programmes have been around for less than 5 years, and 51% of Programmes in the market today, have been around for less than 10 years.

Cumulative number of Programmes in

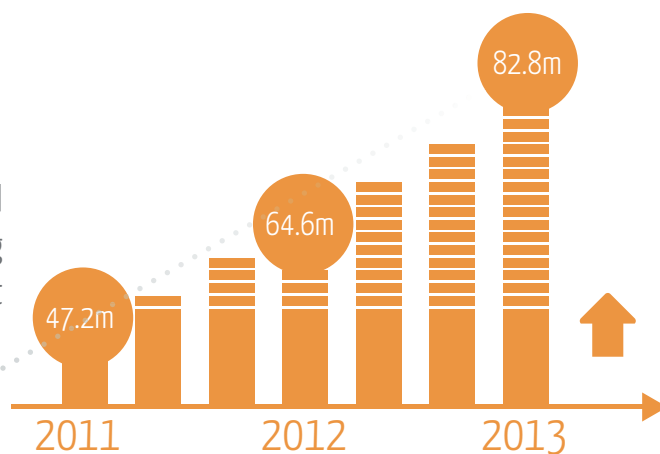
the market  
1986 - 2014



Period	New launched in period	Cumulative number at end of period
1986 to 1990	9	9
1991 to 1995	20	29
1996 to 2000	9	38
2001 to 2005	19	57
2006 to 2010	18	75
2011 to 2014	26	101

# The last 3 years

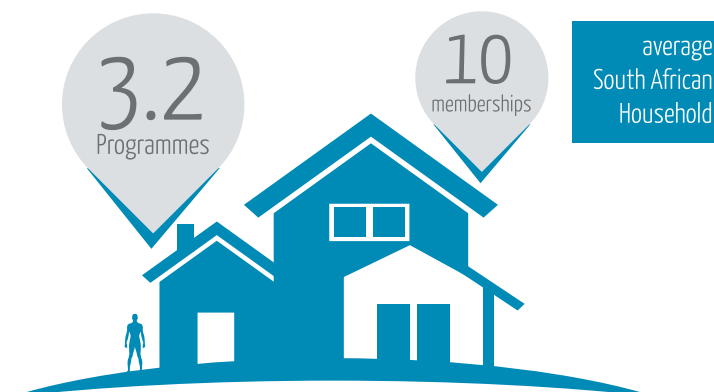
have seen phenomenal growth in the number of registered members, with the number of members almost doubling since 2011. This growth driven largely in the Retail Market Vertical:



Market Vertical	No. of programmes	2011	2012	2013
Retail including Multi Partner	47	34.1m	48.9m	64.0m
Travel & Hospitality	16	4.8m	5.1m	5.5m
Lifestyle & Entertainment	10	1.6m	1.9m	2.2m
Financial Services	15	4.5m	5.5m	6.9m
Restaurant & Take Aways	13	2.3m	3.3m	4.3m
<b>TOTAL</b>	<b>101</b>	<b>47.2m</b>	<b>64.6m</b>	<b>82.8m</b>

Expressed differently, this growth in the number of Programmes and the registered member bases has resulted in the average **South African adult** consumer being registered on at least 3.2 Programmes (assumed that the target market is 25m adults), and the average South African Household having 10 memberships (assumed that the target market is 8m households).

Approximately 5m of the total number of memberships are related to Customer Clubs.

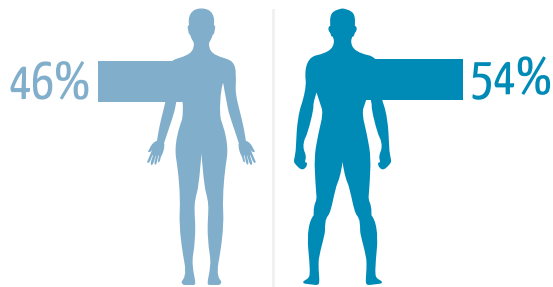


our insight:

Research surveys conducted in other Global markets into customer's attitudes towards Loyalty and Reward Programmes have highlighted the fact that despite bulging wallets and purses, customers will continue to enrol for new Programmes that enter the market – which will be driven by the new Entrant's ability to innovate and offer high perceived value.

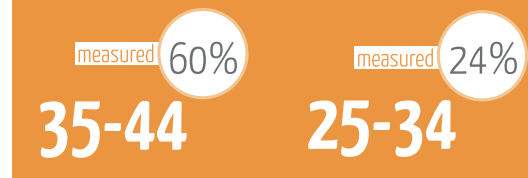
# The Demographics of the market

We found that the 'Restaurant & take-away' industry has the youngest base (30 years old). Retail has the second youngest membership base (38). Travel and hospitality has the oldest members at 42. We also see that Club members tend to be younger, with an average age of 35. Loyalty programme members have an average age of 40.



We also found that younger programmes tend to have younger members. The average age of members in programmes that have been around for less than 5 years is 36. For programmes that are more than 20 years old the average age is 44. It appears that the vast majority of Programmes have a base that aligns with the economically active adult population split: 60% of the base is in the age bracket 35-44, and a further 24% in the bracket 25-34.

Traditionally, Reward Programmes and Clubs have targeted and achieved greater membership penetration from females over males (this is especially true in the retail sector). Our respondents indicated that they have a female base of 46%.



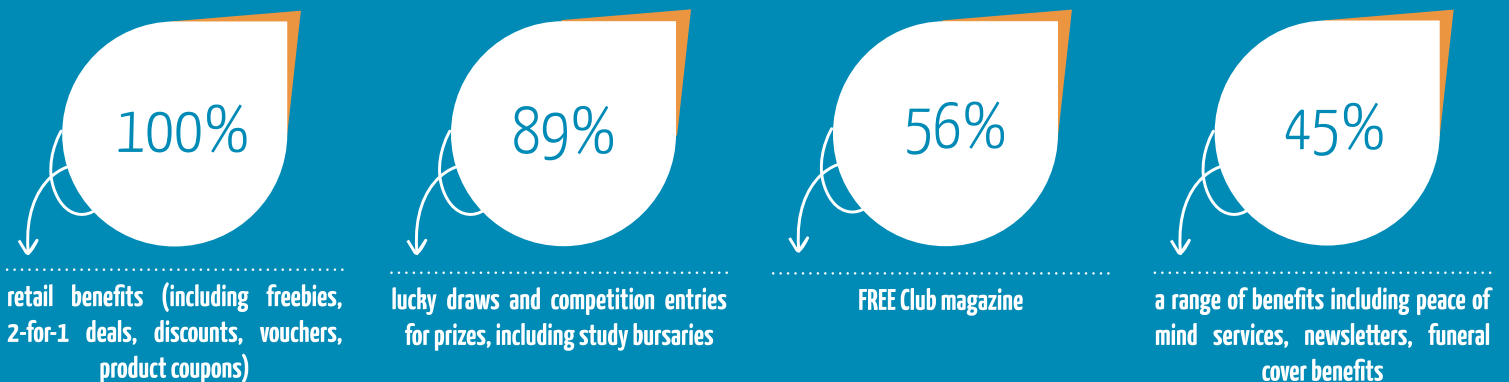
our insight:

Programmes no longer focus on the top end of the market and don't discriminate between young and old. This is evidenced by the phenomenal growth in the number of members in the retail sector. Our view is that Loyalty and Rewards Programmes are seen as a necessary value-add to differentiate between competing service providers

## Benefits offered to members of Rewards and Loyalty Programmes

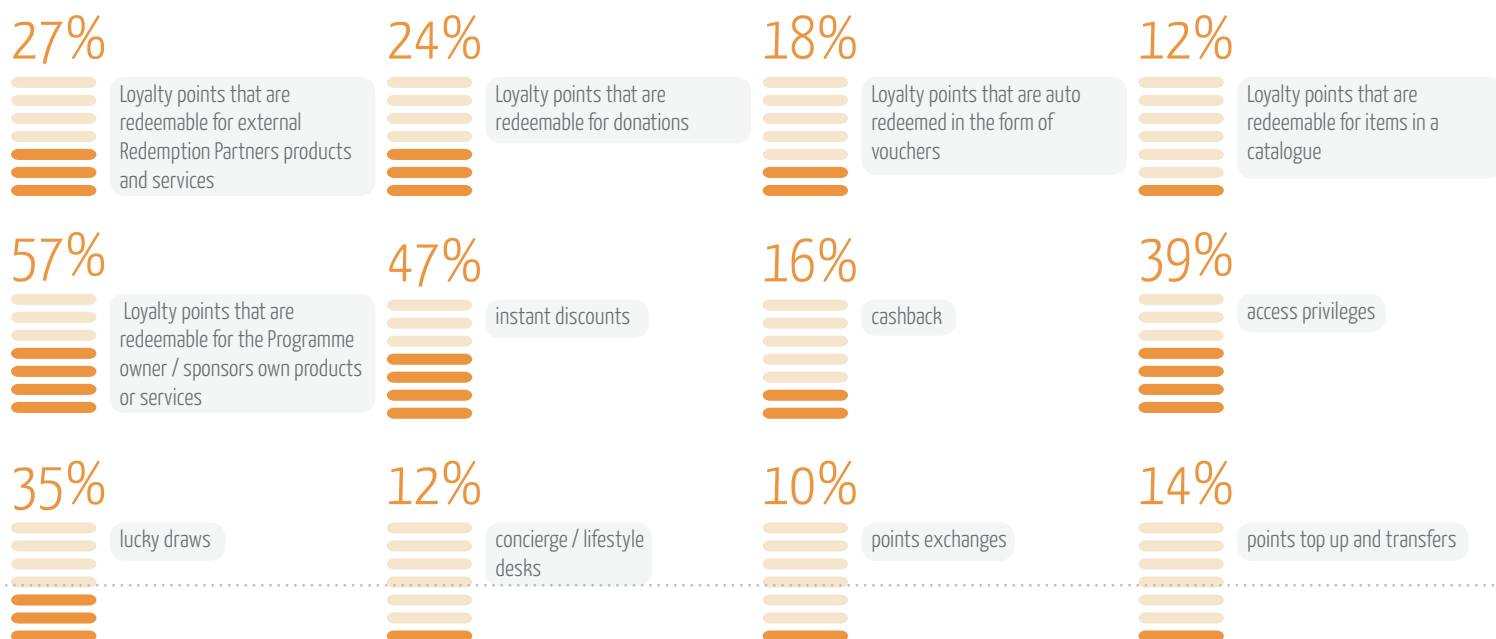
### Benefits of Clubs

Club owners and operators were asked to define the nature of their BENEFITS offered to registered members. The following were identified as the key attributes:



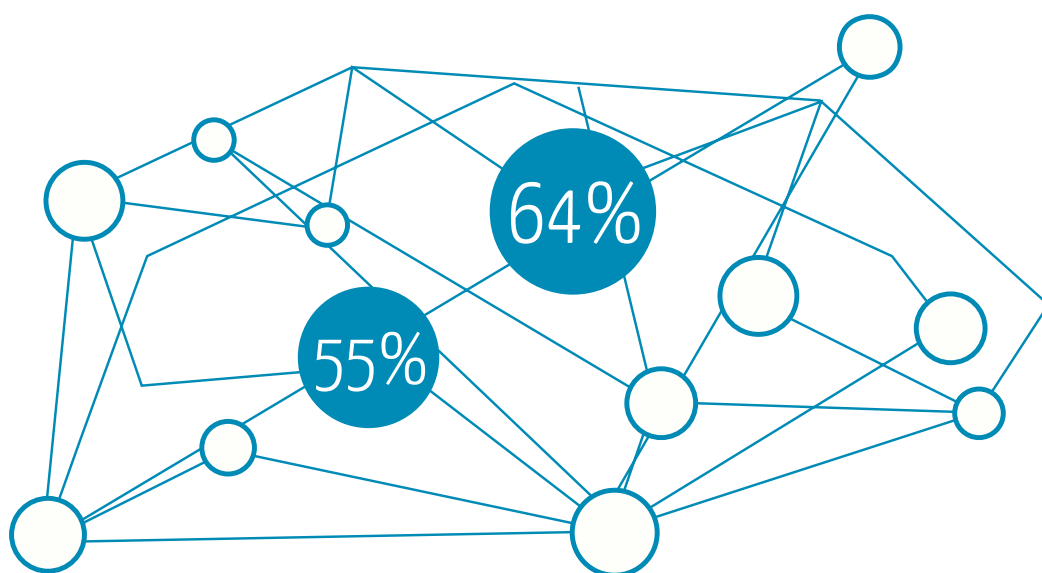


## The nature of benefits offered to registered Rewards Programme members includes:



**64% of respondents**  
have changed or re-launched their Loyalty programme

while 55% have made their benefit suite richer



our insight:

The fact that Programmes have become richer is indicative that the industry is highly competitive and customers are becoming more and more demanding.

# The design approach to Tiering and the charging of membership fees

## Charging a membership fee

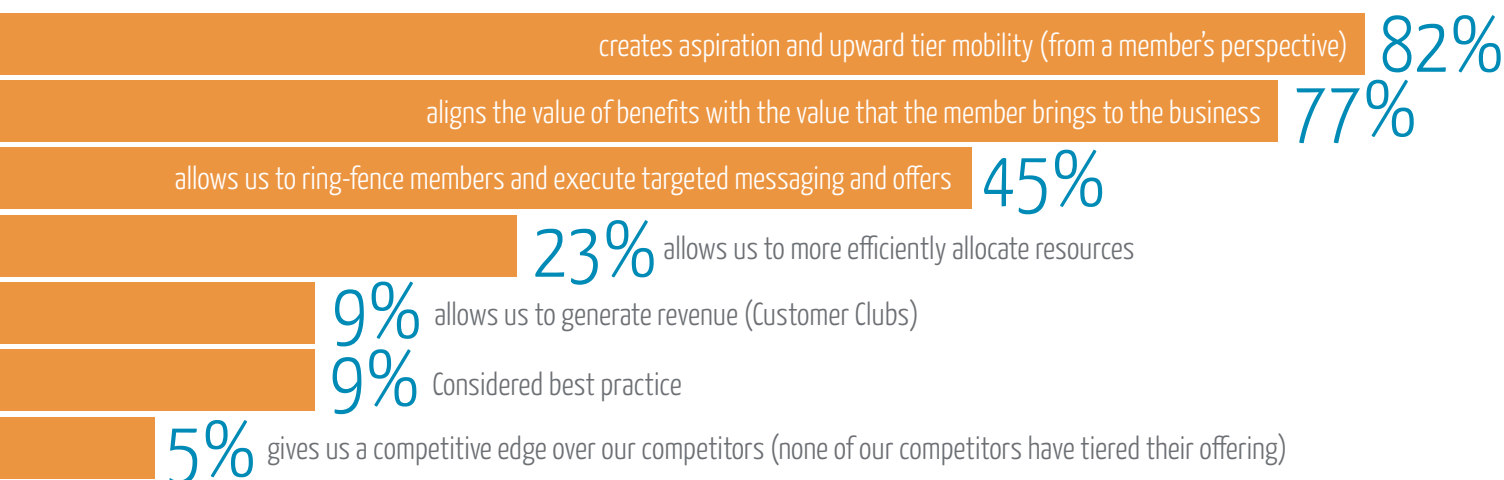
In terms of our key classification defined previously, Customer Clubs typically charge a membership fee. This is levied as a monthly subscription. Subscriptions vary in price, but typically range from under R20 to as high as R100+ per month. On the basis that the average subscription for a Customer Club is R25 per month, this income amounts to an approximate R1.5Bn per annum for the Club owners.

As a general rule, Rewards Programmes do not charge a membership fee, although there are exceptions. Historically banks and insurance providers in the Financial Services sector have charged monthly fees and it is relatively convenient for them to do so because they have a billing relationship with their customers, which retailers don't have. Furthermore, banks compete with banks and tend to fit in with their competitors. The advantage of charging monthly fees is that it enables a company to reduce the net cost of its Loyalty Programme by cross-subsidizing other elements of its Loyalty offering.



## Tiering the customer value proposition

Not all offerings have elected to tier their value proposition. In our gathering of information, we asked respondents to indicate whether their proposition is tiered or not, as well as (for those that have elected to tier their Programme), why they chose to do so. Respondents were asked to specify the reasons for Tiering their offerings (where applicable), and in order of priority these included:



## The following additional insights were gathered:

- in the case of some Customer Clubs, members have the option of moving up a tier by paying a higher fee. In other words, the ability to move from a lower tier to a higher tier is not earned.
- in the vast majority of cases the tier levels and how members can earn the right to progress up the tiers, are made public to registered members, but in a limited number of instances (typically in the case of some Rewards Programmes) the tier levels are not published.



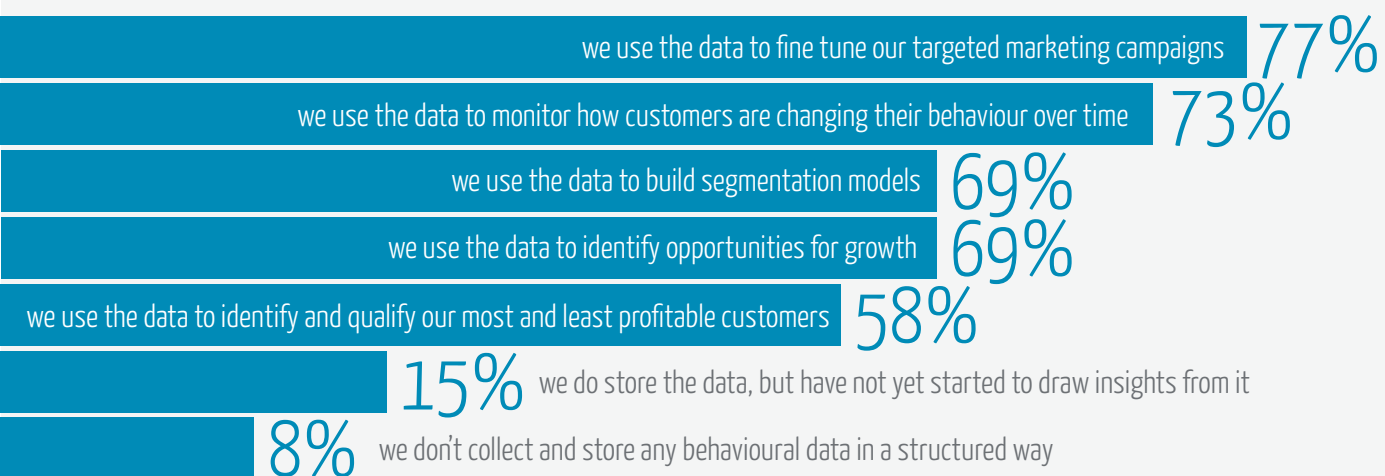
our insight:

We are firm supporters of the concept of Tiering a proposition. Fundamentally, this allows Programme owners to allocate resources and funding where it is most deserved (on high value customers first, and at a disproportionate level to all other customer segments). We foresee a growth in tiered offerings over the next few years – this in spite of the fact that Tiering adds to Programme complexity.

## The gathering and use of behavioural data

It has been suggested that winning organisations are those that most effectively gather, collect, store and use customer information and data. A well designed Rewards Programme has the ability to deliver on that mandate. Gaining and keeping the custom of key consumers hinges on the ability to develop highly customized offers that generate world-class returns. As stated previously, and as qualified by our respondents, one of the primary aims for having a Programme lies in the objective to collect behavioural data. Our respondents were asked to confirm what they do with the data they collect.

Programmes that use their data in more sophisticated ways tend to be younger (started in the last 5-10 years). By definition, this includes detailed customer segmentation, behavioural monitoring and utilising data for targeted campaigns. Additionally we found the following:

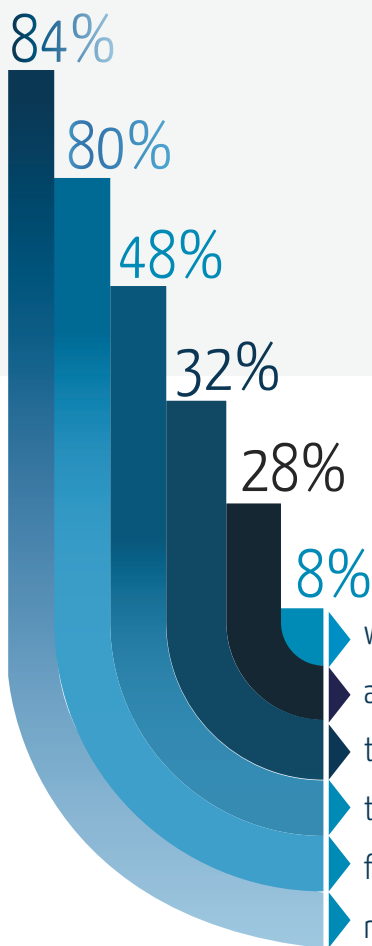


The constant demands by members to receive greater benefits and the resultant pressures on Programme owners to innovate (and at the same time manage their cost of operations and their investment in the cost of benefits) places significant focus on the performance management of a Programme.

# Measurement is a key

aspect of any ongoing checklist. Our respondents were asked to confirm what procedures they had in place to ensure that performance is closely tracked. The results revealed the following:

## Programme performance management



we don't measure the Programme's impact on a regular basis in a formal way

ad hoc studies are commissioned as and when deemed necessary

the effect of the Programme is measured using rigorous statistical techniques, including a control group

the reports attempt to quantify the monetary value created by the Programme

formal reports are produced on a regular basis

reports show the key metrics for various segments of the customer base

## Operational management

The implementation and ongoing management of Loyalty Programmes appears to be a collaborative effort with no function being performed purely in-house. Per definition we gauged the mix of in-house versus outsourced service provision across the full value chain including: Programme design and redesign; creative elements; communication elements; website and APPS; programme management; inbound and outbound call centre; reward fulfilment; IT and data warehousing; data analytics; campaign management and partner management.

The South African Loyalty space has historically been managed on an in-house basis. This appears to be changing with service providers offering a broader range of specialized services to Programme owners. The move to outsourcing allows the two parties to focus on their key strengths and gives Programme owners the opportunity to access best practices that these specialized service providers can offer. This is evidenced by the responses received from Survey participants:

Key services are either fully outsourced or a mix of in-house and outsourced: Programme design and redesign; creative elements; communication elements; website and digital; outbound call centre services; reward fulfilment; data analytics.

Services predominantly run in-house: programme management; inbound call centre; IT and data warehousing; campaign management; partner management.

43% of Programmes that measure their Programme well started in the last 5 years (by definition this includes interventions to quantify the monetary value created by the Programme as well as measuring the effect of the programme using statistical techniques). Programmes performed in line with expectations or over-delivered against expectations for 84% of respondents. 16% performed below expectations or under-performed. For many new Programmes, it was too early to confirm whether their Programme had delivered against expectations.



Programme owners are recognising the fact that in order to offer a best practice solution in a changing world, it is essential to form partnerships with suppliers who are able to deliver in line with the best practice that they would expect. The experience, skills, IP and enabling technologies offered by Service Providers will enable them to build a strategic platform that will generate value into the future.

# PART 2: OUR CONCLUSIONS AND PREDICTIONS

We do not believe, based on our collective experience and the insights gathered from the results of this Survey, that the South African Loyalty market has reached an overall level of saturation. Whilst it is true that in certain Market Verticals (most notably Financial Services), the vast majority of companies provide some form of Customer Club or Rewards Programme, this is not the case in other Market Verticals (Retail, Travel & Hospitality, Lifestyle & Entertainment, Restaurant & Take Aways).

In our assessment of what the future may hold, we have done so from two critical perspectives: firstly from the perspective of the customer / the registered member and then from the perspective of the Programme sponsors or operator.

**The customer perspective:** we believe that the next few years will present the following opportunities and challenges to the target market of South African consumers:

- continued offers for Programme enrolment:

*especially in the Retail Market Vertical*

- bulging wallets and purses:

*incapable of carrying all the membership identification cards*

- information and content overload:

*made worse by the scarcity of time required to fully understand the offers being made*

- self-selection of Programmes that warrant the best return on effort/price:

*and de-selection of Programmes that cannot capture and retain the interests of the target market (these membership cards being discarded or left in the bottom drawer at home)*

- a sustained demand on Programme sponsors to offer more value at a lower cost and lower effort:

*pushing Programme sponsors to either invest more or innovate faster*

- expectations to receive truly customized offers and benefits that demonstrate key behavioural insights:

*and a movement away from so-called spray-and-pray offers*



**The Programme sponsor perspective:** the pressure on Programme sponsors will increase significantly in years to come:

- for those not “in the market”: pressure to consider entering the market with an offering at least comparable with, or better than, their competitors
- for those “in the market”:
  - continued pressure on optimizing and even reducing the cost of benefits and the costs of operating their Programmes (in some cases made worse or accelerated by regulatory changes that affect their ability to continue to reward or the nature of the economic environment in which their Programme operates)
  - continued pressure on innovation (not just at a benefits suite level, but also at a channel access level)
  - the collaboration with non-competing Brands to deliver a multi partner proposition that not only enhances the benefits to members BUT ALSO reduces the cost of the Programme
  - the outsourcing of non-core functions of defining, running and optimizing the Programme benefits and operational support elements to best-of-breed service providers
  - continued pressure by Executive Committees to demonstrate sustained behavioural shifts and Programme profitability in line with core Programme aims and objectives
  - the use of data will improve and we will increasingly see targeted offers, personalised real-time rewards etc. The benefits of accessing, managing and analysing data will not be restricted to marketing, but also for pricing optimisation, new product development and channel optimisation

## CONCLUSIONS AND PREDICTIONS



# The Authors

## Deon Olivier



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Deon has been an active member of the South African Loyalty Marketing community since 1999 and has worked for and on behalf of many South African clients across a diverse set of verticals including retail banking, insurance, telecomms and retail. Deon's Loyalty career began in 1999 at cellular network MTN. In 2001 he joined FirstRand Bank, where he was an integral part of the team that developed eBucks. In 2005 Deon joined Achievement Awards Group in Cape Town as Director of the Loyalty Business Unit. Deon operated under the Woodstock Loyalty Marketing brand between 2007 and 2012, an independent Cape Town based agency focused on developing and implementing customer Loyalty marketing strategies. In 2010 he joined the **Value+network** Group as an Executive Director and head of its Consulting Unit. Deon has presented Loyalty marketing presentations both locally and internationally – in Portugal, Spain, Malaysia, Dubai and the USA. He is also a regular contributor to leading Loyalty studies and publications including TheWiseMarketer and COLLOQUY and is an active partner of a global body of Loyalty marketing practitioners called CSN established to share Loyalty marketing best practices amongst industry leaders.

## Steve Burnstone



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Steve is the CEO at Eighty20 Consulting and a qualified actuary. As a consultant, he specializes in strategic analysis, business case development and financial and behavioural modeling work. Typically this work looks at solving business problems or aiding strategic decision making by helping quantify future certain and uncertain events. It is these sorts of techniques that are essential in accurately developing and costing, amongst others, new business opportunities and marketing strategies. Over recent years he has focused his skills in the area of customer analytics. He has advised national retailers, banks and media houses on their customer rewards programmes and consumer centric marketing strategies.

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- analytics and content assimilation: Simon Rigby and Philip Stallkamp (Eighty20)
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