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Beyond the coupon: How to win in the new loyalty landscape

Developing a loyalty model to meet the modern consumer with personalization, convenience and purpose

The New Rules of Loyalty

The rules of loyalty are being rewritten – and consumers hold the pen.

Where once loyalty was a matter of routine, in today's fast-moving, always-on world, it is very much a choice... and an ongoing one at that.

Consumers are no longer impressed by rigid reward structures and one-size-fits-all programs. Instead, they seek out brands that connect with them on a more emotional level, driving value through criteria that can't be measured in points or printed on a coupon. Convenience, personalization, community, recognition, and purpose: These are the elements that drive the new era of loyalty. This is the currency that brands need to deal in.

For retailers, airlines, and hotels these changes are especially pronounced given their close connection with the consumer and staggering levels of competition within the sector. **For even the most established brands, continued growth and relevance depends on their ability to draw customers in with an emotional connection and keep them coming back through an experience that delivers deeply human interactions through an expanding array of touchpoints.**

In this ebook, we invite you to join us as we explore the evolving loyalty landscape as it pertains to three sectors
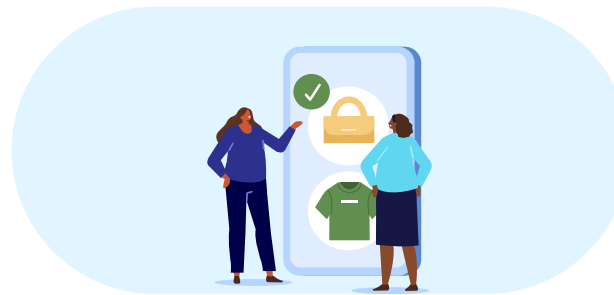
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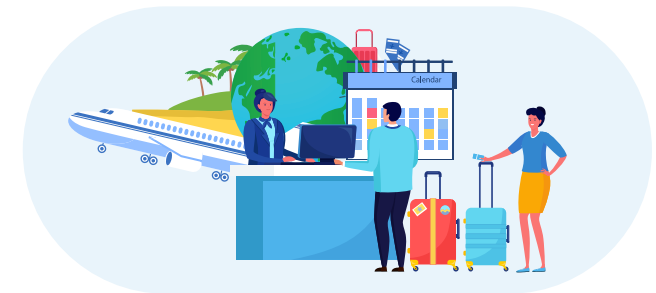
Airline

Hotel

and take inspiration from brands that are leading the way in redefining loyalty, not just for their industry, but for the category as a whole. No matter your sector, we hope these insights and best practices can help jumpstart your organization's journey to creating an engaging, personalized, scalable loyalty program of your own.

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Retail

The changing face of retail loyalty

We explain how to forge an emotional connection through a personalized experience, a commitment to sustainability and shared values.

Covid-19 prompted consumers to fundamentally change their shopping habits. But while many shifted channels and explored new brands out of necessity, their preferences and behaviors continue to evolve today by choice. As a result, loyalty is up for grabs—and the traditional, points-based, transactional programs of the past are no longer resonating with the modern consumer.

This leaves retailers with a fundamental question: Do they need to rebuild their loyalty program to meet the needs of this new landscape—or create an experience that builds loyalty organically?

How loyalty has changed in retail

| From | To |

Traditional loyalty

- Transaction-oriented, impersonal
- Focus on building short-term connections with shoppers
- Brand-centric
- Rewards anchored in points, discounts and offers

New loyalty

- Relationship-based, highly personal
- Focus on the lifetime relationship with the customer
- Values-centric
- Personalized discounts and offers, as well as an expended rewards catalog

Why loyalty is important?

Acquiring new customers is an important part of the retail model, but retention is where margins are made.

it is **6-7x** more expensive to acquire new customers than to keep existing customers
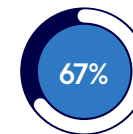
67% of exsting customers spend more than new customers

3 ways the retail loyalty model is changing

1. Shoppers are loyal to the experience

For many shoppers—especially younger consumers—experience matters as much as or more than the product itself. This shift is raising the stakes for retailers and brands since they must now compete and win on two fronts: product and experience.

For example, in the grocery sector loyalty traditionally has been defined by convenience. People usually visit the store that is physically closest to them. However, what happens when consumers have an experience that stands out—through helpful staff, a unique product selection, and a commitment to the community? Most Trader Joe's shoppers will tell you: They go the extra mile to support that brand – literally.

Quick take: For many consumers, especially younger shoppers, the shopping experience is becoming as important as the product itself.

As loyalty becomes more experience-based, retailers need to rethink how they create a personalized, engaging and relevant shopping journey for individual consumers. This means reinventing many tried-and-true tactics, such as updating the traditional discount and offer model to make it more relevant and timelier for each person. It could also mean expanding the core business to include new value-added services that add simplicity or increase convenience.

For example, in the apparel segment, footwear retailer DSW successfully increased footfall by incorporating relevant services, such as a nail bar and shoe repair, in their stores. The brand also has a robust data strategy to determine which products should be stocked in physical locations in each market.

Because customer expectations are constantly evolving and increasing, brands and retailers need to continually level-up their experience and provide higher levels of personalization, based not on the needs of a segment but those of the individual. For example, some athletic and outdoor retailers are incorporating sensor-based treadmills that perform gait analysis for runners and walkers. By measuring the impact of the person's stride, the retailer creates a highly personalized shopping experience through a value-added service.

Is it time for retailers to cut the coupons?

The days of building on or winning back a once-loyal consumer through a generic discount code may be a thing of the past. However, many shoppers still value coupons, offers and rebates—especially if they've been a long-time feature of the loyalty program.

The key to an effective offer strategy today is to ensure that the discount is meaningful. Retailers can leverage data to determine what type of coupons the shopper would value and the manner in which they should be delivered.

2. Sustainability needs to be easy

One recent study found that 9 in 10 consumers say they want "more commitment" to ethical and sustainable behavior from brands and retailers. Meanwhile 50% of consumers globally are choosing to buy from brands with a clear commitment to sustainability.

Quick take: Retailers that make sustainability easy are on their way to driving loyalty with 90% of today's consumers.

Many consumers will be loyal to brands that make it easier to fulfill their desire to be more sustainable. That means retailers' sustainability efforts—whether through business practices, product selection or social responsibility programs—must be transparent, simple, seamless and accessible.

For example, beauty retailer Ulta offers a "Conscious Beauty" product category that allows shoppers to easily identify products that are cruelty-free or vegan, as well as brands that use sustainable packaging and clean ingredients.

To make sustainability easier for consumers, brands need to reconsider how the company:

- Categorizes and merchandises products in-store and online
- Incorporates new services to reduce waste and help customers shrink their carbon footprint
- Determines which products to stock
- Influences suppliers to become more sustainable
- Trains employees
- Builds out the customer experience to include ways to share information like the traceability of products with the end consumer

3. Consumers become brand advocates through shared purpose and values

Retailers that forge an emotional connection with shoppers don't just create loyal customers; they generate brand advocates.

For example, when Apple launched its "Shot on iPhone" ad campaign featuring jaw-dropping imagery captured via phones, the brand didn't just promote the quality of their built-in camera—it spurred everyday users to make their device choice public.

For many brands, this is what modern loyalty looks like: consumers sharing and promoting the brand because they love the product, agree with the company's values, and see themselves reflected in the corporate mission. Driving this emotional connection is based on two related elements: Feeling seen and understood by the brand and understanding and supporting the brand's purpose.

The importance of values and mission is new for many retailers. In the past, consumers rarely thought about the core purpose of the brand. However, as newcomers made brand story a core part of their offering, that began to change. TOMS, which donates a pair of shoes for every pair that is bought, has pushed the fashion industry to rethink what it can deliver beyond the product itself.

Quick take: No matter how well-intentioned a retailer can be in their purpose, it needs to be accessible for the consumer in order to drive impact and differentiate the brand.

Purpose-based loyalty is not exclusive to niche brands or new entrants. Major retailers like Walmart are making it easier for shoppers to support causes that are important to them through a wider product selection. For example, the company's e-commerce site features a "Communities to Support" section featuring products from black-owned brands, halal beauty brands, LGBTQ+ brands, and more.

Building an engaging, personalized loyalty program

Here are key best practices for building an experience that drives loyalty

Identify the optimal metrics

As the loyalty model changes, so should the metrics used to measure success. Once aligned solely to sales-related indicators such as conversion rates and store revenue, the modern program places equal emphasis on customer satisfaction and engagement, as measured through such key performance indicators (KPIs) as net promoter score, customer satisfaction score and customer health score. Another metric that is increasing in importance is the customer effort score, which measures how effective the retailer is across all aspects of the experience, from product placement to education of staff, to purchasing and delivery.

Embed metrics within store and staff performance evaluations

With the right metrics in place, retailers then need to adapt how these KPIs are embedded within the sales teams across all channels. Loyalty is no longer solely sales-focused; retailers must communicate this change to staff and evolve how employees work with customers to drive the metrics that are important. These changes should be part of how staff is measured and evaluated on an individual basis, helping brands reinforce the new model of loyalty and how it is calculated.

Prioritize data security, privacy and transparency

For many consumers, data security and privacy are real concerns. When they sign up for a loyalty program, they want to understand how their data will be used, who will have access to it, and how it will be protected. Brands need to build and maintain robust security and privacy controls and actively communicate any potential issues to the customer.

Follow through with a hyper-personalized experience

As brands and retailers redefine the terms of their loyalt y program and collect more data, the value should become apparent to customers over time. This value can take many forms: personalized offers and communications; value-added services in stores; new or refined products to meet buying patterns; and exclusive events or special access. The common thread here is personalization. Brands and retailers should leverage customer-centric data to better understand who their target customer is and drive repeat purchases through both the rational and emotional elements of loyalty.

Looking Ahead:
A technological revolution

Reimagining loyalty in the world of Web 3

As companies reinvent their loyalty models to meet consumer demands for personalization, convenience and purpose, they must not lose sight of the seismic technological revolution taking place. We're talking, of course, about the metaverse and Web 3.

As these emerging platforms become mainstream, retailers and brands are faced with a world of new possibilities to connect with new customers and build deeper, more meaningful relationships with their existing base. Experiences created within the metaverse offer new and enhanced opportunities for hyper-personalization, exclusivity and recognition – the hallmarks of every loyalty model.

But just as retailers should not replicate the traditional in-shopping experience within the world of Web 3, neither should they simply expand their existing loyalty program to digital shoppers. Instead, they must consider the innovative and exciting engagement opportunities available only via the metaverse.

3 ways brands can engage in the metaverse

Leverage blockchain to create a tiered system of NFTs to replace existing membership programs and recognize valuable customers

Expand and deepen the shopping experience, adding elements of entertainment, education and advocacy to delight the customer and deepen awareness of the brand and its values

Create a digital collection of goods that can be sold and owned as NFTs offered exclusively to loyalty program members

Quick take: No matter how retailers and brands engage consumers within the metaverse, they need to remember that loyalty in this emerging medium must be earned, nurtured and maintained – just as it is in the physical world. As organizations simultaneously build and test their Web 3 engagement strategy and refine their loyalty model, the end goal should be that eventually the two will meet, creating a differentiated, value-driven experience for modern shoppers, wherever they may be.

Airlines and Hotels

The 4Rs to rethink travel loyalty programs

The new customer loyalty loop for airlines and hotels

As in retail, the pandemic fundamentally changed how and why people travel. With business travel lagging 2019 levels by about 20%, and hybrid business/leisure trips increasing, it underscores that airline and hotel brands now need to rethink who their loyalty programs are designed to serve.

Once focused on attracting frequent and lucrative business travelers, programs have become broader, targeting a wider cross-section of people that includes leisure and hybrid travelers. As a result, many airlines and hotels now realize that how they reward loyalty will not only need to evolve, but also expand to meet the needs and preferences of a variety of individuals and still create a long-term value stream for the business.

How loyalty has changed for airlines and hotels

Traditional loyalty

- Rewarded frequency with established perks
- Primary focused on business travelers
- Transaction-oriented
- Focused on short-term connections with members
- Brand-centric
- Limited partner ecosystem
- Limited opportunity to personalize rewards

From

To

New loyalty

- Relationship-based
- Inclusive design for travelers of all types
- Broader set of rewards
- Focus on lifetime relationship with the customer
- Wider integration with partner network and affiliate programs
- Opportunities to personalize rewards
- Diversified reward product portfolio

How airlines and hotels are evolving loyalty programs

If airlines and hotels want to build loyalty among a broader set of travelers, they need to fundamentally change how traditional loyalty programs are designed, managed and monetized.

In the airline industry, we're seeing a shift to co-branded credit cards that reward people for any purchases made with that card. American Airlines has been an early adopter of this strategy, simplifying its Advantage rewards program so that members earn loyalty points any time they use a company-branded credit card. The benefit is two-fold: members earn rewards faster, while the company unlocks a new revenue stream through its credit card partner.

On the redemption side, hotels are providing more opportunities for guests to customize their rewards and are including a wider range of options, including some that can be redeemed instantly. IHG's new loyalty program, for example, lets guests choose a reward that appeals to them in the moment— be it free breakfast, food and beverage credit or lounge access. On the other hand, they also have the option of saving for a bigger reward later.

Transactions are out; relationships are in

While the goal of the modern loyalty program remains the same as that of the traditional model, the method differs. Brands today aren't singularly focused on trying to spur a purchase; they aim to reach travelers on a deeper, more personal level to build a long-time relationship.

Put another way, traditional loyalty programs were transactional, while the current version is more emotional. It's no longer solely about the economic value the consumer gives or gets from the brand. It's about whether the experience matches the consumer's expectations, wants and needs. For example, Alaska Airline's loyalty program includes a unique feature that grants new parents an extra year of Elite status. This forges a deeper connection with existing customers in the moment and likely strengthens their loyalty in the future.

At the same time, an effective rewards program must offer a range of benefits that will appeal to a wide cross-section of travelers. To that end, brands need to leverage data and technology to identify the correct value drivers for each member, and to personalize and promote the most relevant aspects of the rewards program. By understanding consumers and what matters to them, brands can build a relationship that lasts a lifetime.

In addition, brands should ensure that their data strategy extends beyond immediate transactions and direct monetization. For example, companies can use data to develop new insights about customer behaviors, motivations and preferences to identify gaps within the current program. Comprehensive data, when used in conjunction with artificial intelligence and other technologies, can also help brands evolve and personalize offerings more quickly and fluidly.

The modern loyalty program is a loop—not a line

For many travelers, the brand experience begins with booking and ends with deboarding. Aside from travel time itself, the touchpoints are infrequent, limited to reminder emails and occasional update texts. What's missing is the personalization and personification required to build a true relationship.

To that end, airline and hotel brands should think about their loyalty programs as less of a line and more of a loop—an ongoing cycle that establishes the brand as a presence in the traveler's life and allows them to engage with the brand before, during and after a trip. For example, brands can play a bigger role in the pre-journey experience by offering members exclusive access to content about their destination. They can also consider ways to lengthen the journey by offering travelers access to in-flight or in-room entertainment once they return home.

In hotels, if a guest prefers a certain special cocktail or beverage, the brand might share personalized instructions at checkout on how to make the beverage at home, so the experience continues beyond the doors of the hotel itself. Airlines can cross-reference the member's recent destination with similar locations they may find interesting and help them plan their next trip. As travel becomes more expensive, airlines and hotels can partner with banks or financial planners to help people understand how to effectively budget for that next big trip.

Disney has been making use of this value loop model for almost a century. Beginning in the 1940s, the brand creator mapped an elaborate multi-touch consumer journey that was anchored by films and extended by theme parks, music, merchandise, comics, publications and more. This model was likely considered complex at the time, but today it serves as a good example of how a brand can effectively branch off from its core business to create a multifaceted experience. Disney is now reportedly considering a new Amazon Prime-style membership program that would offer customers discounts and perks. In doing so, the brand's primary goal is to create a program that encourages members to spend more on its streaming services, theme parks, resorts and merchandise—while collecting information on customers' purchasing habits by reviewing data about shows they watched, trips they took and merchandise they purchased to better understand their preferences.

In a value loop model, consumers come to see the brand as part of their lives—an integral piece of their long-curve plans—rather than a one-time service provider.

4 best practices airlines and hotels can embrace to design the loyalty program of the future

Here are four best practices brands should embrace as they rethink their loyalty programs for the modern traveler:

Recognize: Know members better than they know themselves

Provide guests with a system that grows and flexes with them through their long-term travel journey. Give them the tools to build a relationship with a true travel partner, rather than simply completing a transaction.

React: Empower interactions in real-time

Create a happiness cycle with technology and tools that empower guests and staff. Whether guests are online or onsite, brands need to have the right digital tools to create a personalized journey.

Reward: Provide members with personalized and aspiraational experiences

Increase the ways you reward loyalty by offering members the option to personalize rewards. Ensure that the program includes a mix of instant gratification and long-term benefits.

### Retain: Move to virtuous cycles and integrated ecosystems

Shift to a value loop loyalty model that offers members relevant and timely ways to engage with the brand beyond the traditional travel period. Reconsider what assets the brand has that can generate new touchpoints with travelers.

The final word
on loyalty

As retailers, airlines and hotels face new levels of volatility and disruption in a post-pandemic world, loyalty becomes even more important to ensuring the company's long-term viability and market position. For many, the success of the modern loyalty program hinges not just on the products and services they offer, but the experience they deliver.

With that in mind, as companies reconsider how they engage and serve the modern customer, the question to consider is not how to reinvent the loyalty program, but how to create an experience that builds loyalty naturally and drives the deeper, more emotional connection that matters to today's consumer.
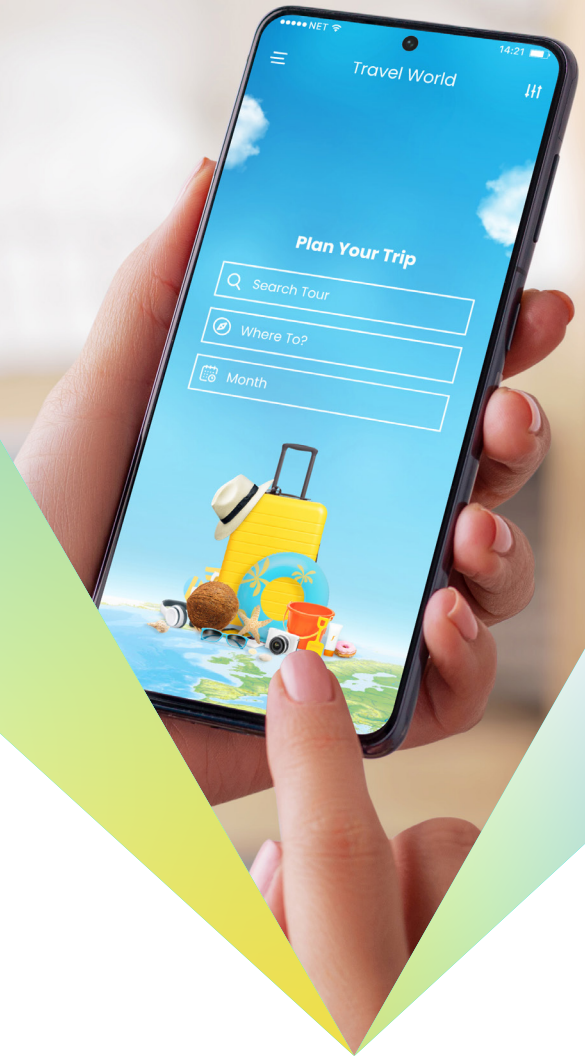
About the authors

Scott Headington

VP, Industry Solutions Group
Retail, Consumer Goods, Travel & Hospitality

Robert Johns

Senior Director of Merchandising, Planning and Store
Towers, Industry Solutions Group
Retail, Consumer Goods, Travel & Hospitality

Emily Fridman

Strategic Growth Studio Leader
Retail, Consumer Goods, Travel & Hospitality

Matthew Robinett

Commercial Leader
Retail, Consumer Goods, Travel & Hospitality

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Visit the Travel and Hospitality section of our website or contact us.

Visit the Retail section of our website or contact us.

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World Headquarters

300 Frank W. Burr Blvd.
Suite 36, 6th Floor
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll Free: +1 888 937 3277

European Headquarters

1 Kingdom Street
Paddington Central
London W2 6BD England
Phone: +44 (0) 20 7297 7600
Fax: +44 (0) 20 7121 0102

India Operations Headquarters

#5/535 Old Mahabalipuram Road
Okkiyam Pettai, Thoraipakkam
Chennai, 600 096 India
Phone: +91 (0) 44 4209 6000
Fax: +91 (0) 44 4209 6060

APAC Headquarters

1 Fusionopolis Link,
Level 5 NEXUS@One-North,
North Tower Singapore 138542
Phone: +65 6812 4000