

Fixing the Cracks: Reinventing Loyalty Programs for the Digital Age



Are Traditional Loyalty Programs Broken?

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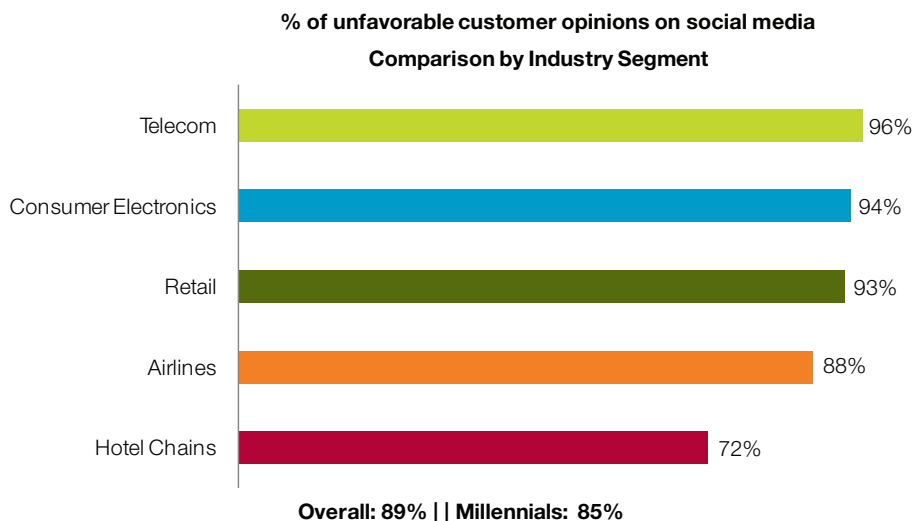
Launching a loyalty program is expensive and it's complex. In the US, companies spend a staggering \$2 billion on loyalty programs every year¹. But does this translate into increased customer engagement? Research suggests the answer is “probably not”. The average household in the US has over 21 loyalty program memberships. But, the household only actively uses 44% of these². More than half of consumers in a 2013 survey admitted they had abandoned at least one loyalty program in the past year³.

Our own analysis of customer sentiment on social media revealed pronounced dissatisfaction (see research methodology at the end of the paper). Almost 90% of social media sentiment on loyalty programs was negative. And this negativity extends across industries (see Figure 1). Among Millennials, who are expected to spend more than \$200 billion annually by 2017⁴, negative sentiment stood at 85%.

This is a worry. Loyalty programs are meant to engage. But they're not. Key reasons for the negative social media sentiment on loyalty programs include lack of reward relevance, rigid reward structures, user experience issues with online channels, and poor customer service quality levels (see Figure 2). Organizations clearly need to do more to address these issues.

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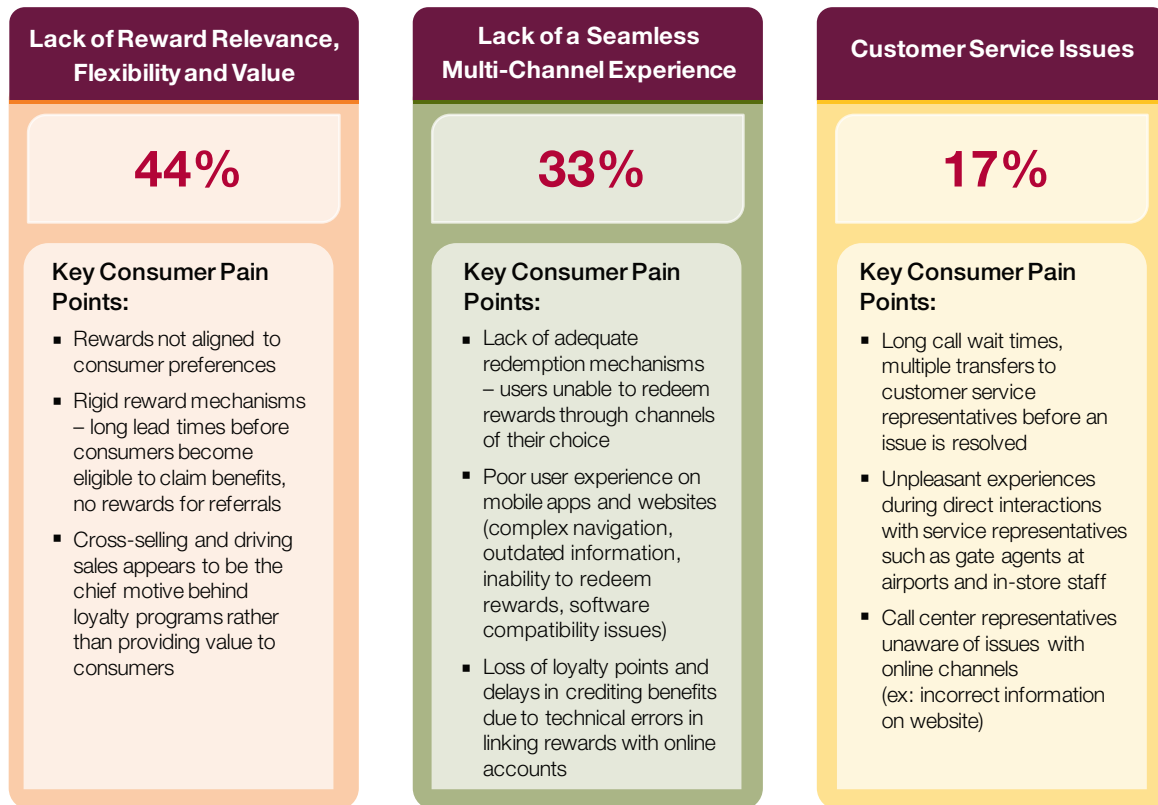
Figure 1: Loyalty Programs - Social Media Sentiment



Source: Capgemini Consulting Analysis, Social Media Scan conducted in December 2014

Note: The objective of the scan was to assess how satisfied or dissatisfied customers are with current loyalty programs. Consequently, we focused only on opinions expressed by users, rather than on neutral comments and questions.

Figure 2: Key Reasons for Negative Social Media Sentiment on Loyalty Programs



Source: Capgemini Consulting Analysis, Social Media Scan conducted in December 2014

“
44% of the negative sentiment towards loyalty programs was due to the lack of reward relevance, flexibility and value.”

French cosmetics retailer Sephora is using digital technologies to improve matters and deliver a superior and connected customer experience. Members of Sephora’s “Beauty Insider” loyalty program can sync their loyalty accounts with Sephora’s mobile app as well as the Apple Passbook mobile wallet⁵. This gives a more seamless purchase experience. Using mobile devices, customers can track their purchases, view offers, and

redeem reward points on the go. The strategy has worked. Sephora’s Passbook users have double the annual spends and purchase twice as often as the average Sephora customer⁶.

Sephora is a stand-out example. But where do most organizations stand when it comes to revamping their loyalty programs for the digital age?

Loyalty Programs Out of Step with Digital

We assessed loyalty programs on a number of parameters. These included their central objective, their use of digital channels, and their ability to provide a seamless experience across channels (more detail on the approach is at the end of this paper). We found, in short, that companies have a lot of catching up to do.

“*Customers today are actively engaged with the brand. They want to be asked about how to design the new loyalty program, or what items should be sold in the store.*”

- Leading Online Book Retailer

Transactional Mindsets Dominate

Most companies have basic transactional loyalty programs, where rewards are based primarily on purchase. The customer makes a purchase and takes their points in exchange for gifts, merchandise or cash. Our research shows that 97% of loyalty programs still use this basic philosophy (see Figure 3). This continued reliance on transactional rewards-only programs is sub-optimal. 77% of programs like this actually fail in the first two years⁷.

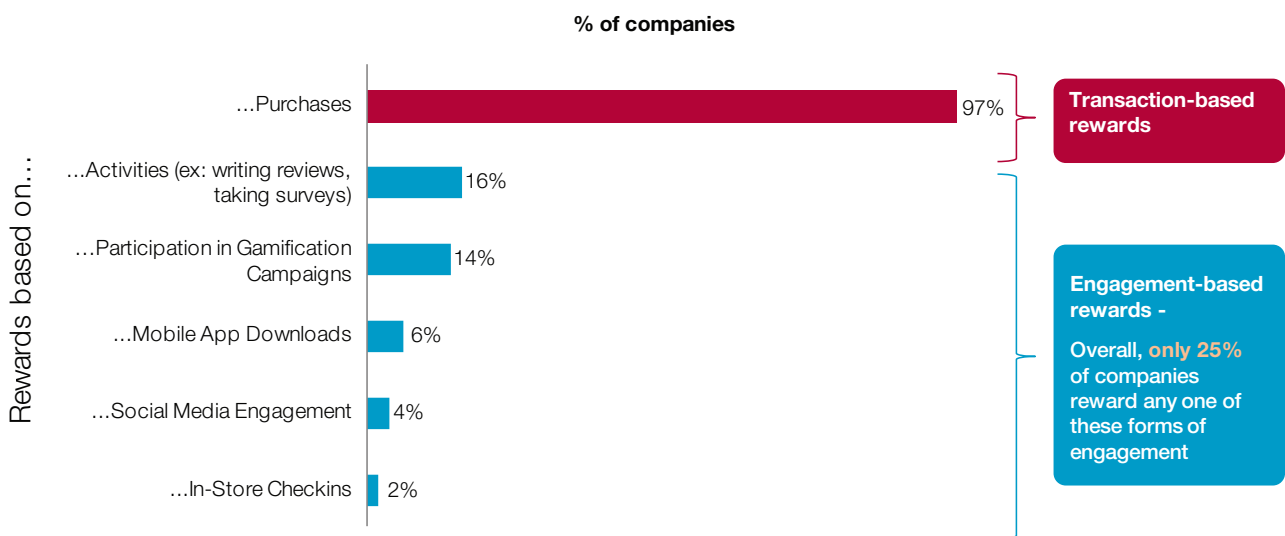
Companies are struggling to break out of the narrow transactional mindset. According to our research, only 25% of loyalty programs reward customers for some form of engagement. For instance, only 16% of loyalty programs reward customers for activities such as taking online surveys, rating and reviewing establishments or referring friends to the program. Similarly, only 14% employ gamification techniques to reward

customers (see Figure 3). Companies don't yet have their finger on the pulse of the digital consumer.

A VP responsible for Loyalty at a leading online book retailer stressed to us the criticality of connecting with the customer. “Customers today are actively engaged with the brand. They want to be asked about how to design the new loyalty program, or what items should be sold in the store,” he explained. “So, there is a growing need for two-way communication between the loyalty program and the customer.”

“*Most companies have basic transactional loyalty programs, where rewards are based primarily on purchase.*”

Figure 3: Reward Mechanisms in Loyalty Programs

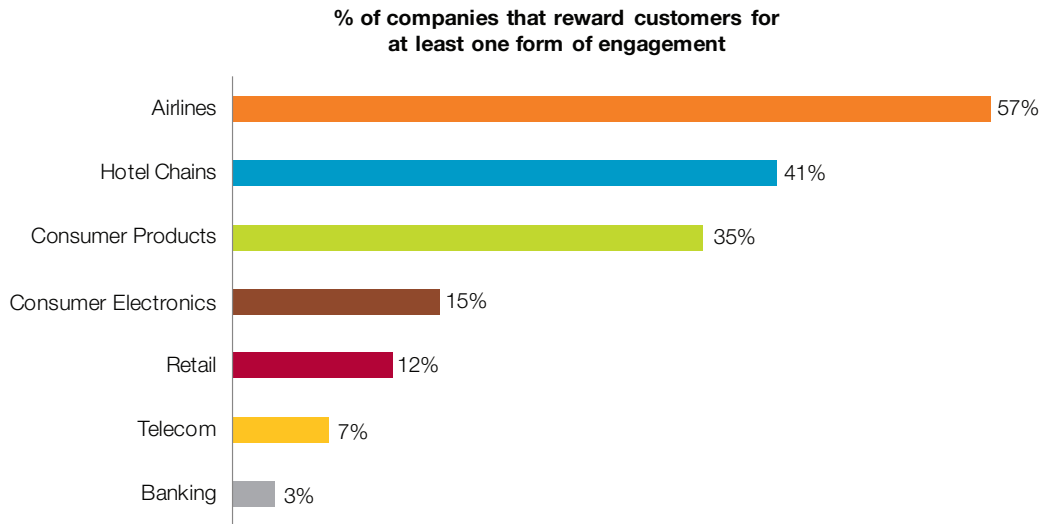


N=160

Source: Capgemini Consulting Analysis

Note: Percentages do not add up to 100 as a company may reward customers in multiple ways

Figure 4: Industry-wise Adoption of Engagement-based Reward Mechanisms



N=160

Source: Capgemini Consulting Analysis

Note: Our research focused on 5 ways in which loyalty programs reward a customer for engagement – activities (ex: writing reviews, taking surveys), participation in gamified campaigns, mobile app downloads, social media engagement, and in-store checkins.

An industry-wise comparison shows that some industries are ahead of the curve. 57% of airlines and 41% of hotel chains reward consumers for a range of behaviors that reflect engagement, other than transactions (see Figure 4).

“**Personalization needs to become much more nuanced, going beyond the broad tier-based approach.**”

- Leading Consumer Products Company

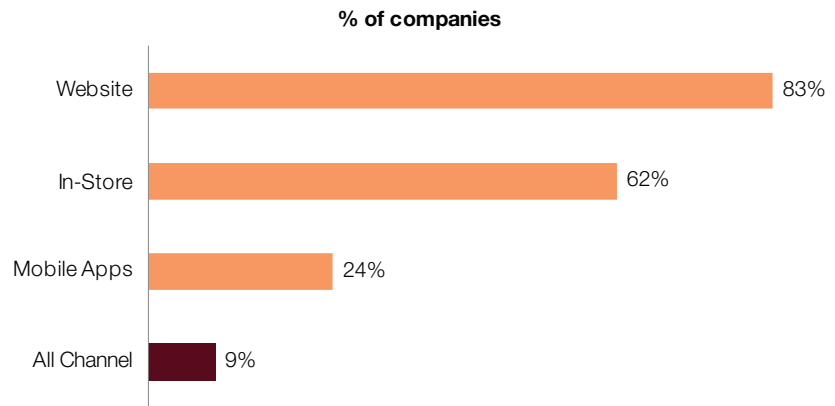
Seamless Cross-Channel Customer Experience Has Gone AWOL

Companies deliver their loyalty programs across offline and online channels, but do customers get an integrated experience? To answer that question, we focused on a specific aspect of this question – redemption of loyalty rewards. We found significant room for improvement (see Figure 5). Although a significant 79% of loyalty programs use the mobile

channel, only 24% allow redemption through it. Most importantly, only 9% of loyalty programs offer points redemption across all channels. Clearly, cross-channel redemption is far from being complete. The Global Head of Consumer Insights at a leading F&B major told us that organizations need to strengthen redemption mechanisms. “Consumers are becoming more and more demanding,” he said. “The entire redemption and reward mechanism, and everything associated with it, needs to become much sharper.”

“
Only 16% of loyalty programs reward customers for activities such as taking online surveys, rating and reviewing establishments or referring friends to the program.”

Figure 5: Support for Reward Redemption across Channels



N = 160

Source: Capgemini Consulting Analysis

Customization and Personalization: Could Do Better

Companies segment their customers but customization is still very basic. A typical approach uses Platinum, Gold and Silver tiers. Tier-based programs are characterized by “classes” assigned to members, typically based on purchase volumes. Loyalty offers are customized based on class. Our research shows that as many as 45% of loyalty programs follow a tier-based method.

Where loyalty programs are lacking is advanced personalization, such as offers based on location or purchase history. Only 11% of loyalty programs offer personalized rewards based on a customer’s purchase history or location data. A senior marketing executive at a leading consumer products company acknowledged the need

for increased personalization in loyalty programs. “Personalization needs to become much more nuanced, going beyond the broad tier-based approach,” he explained. “Now, because you have much more data available, you can develop better and more targeted programs based on the history of the consumer.”

“
The entire redemption and reward mechanism, and everything associated with it, needs to become much sharper.”

- Leading F&B Company

What Good Looks Like

Integrate with the Overall Customer Experience

Integrating loyalty programs with the overall customer experience is essential. “My Starbucks Rewards” exemplifies this approach. Starbucks CEO Howard Schultz highlighted the intersection between a superior customer experience and loyalty when he said: “By integrating mobile loyalty, payment, and in-store digital experiences, we are creating game-changing technologies and experiences for our customers, and the opportunity to introduce new lines of business for our company³.” The firm integrated its “My Starbucks Rewards” program with the Starbucks mobile payments app. This allowed consumers to earn and redeem reward points directly from mobile devices. The seamless experience has accelerated adoption of the app and driven consumer engagement with the loyalty program. The Starbucks app has 12 million active users and accounts for 7 million transactions a week, while “My Starbucks Rewards” has 8 million active members⁹.

“*UK-based telecom operator O2 offers targeted location-based offers as part of its “Priority Moments” mobile loyalty program.*”

Deliver Personalized Customer Experiences

Tier-based customization is the norm. But, to differentiate, you need advanced personalization. UK-based telecom operator O2, for instance, segments customers based on their brand preferences, tenure and spending. It also offers targeted location-based offers as part of its “Priority Moments” mobile loyalty program. Eighteen months after launch, “Priority Moments” became the fastest growing loyalty program in the UK. It has delivered millions of pounds in savings in reduced customer churn¹⁰.

Innovate with Social Media Channels to Build Intimacy

Reward Members for Social Media Engagement. Social media channels, when used effectively, can significantly enhance the impact of loyalty programs. Multi-partner loyalty program BalticMiles launched a highly successful crowdsourcing initiative on Facebook – called “BalticMiles Brainstorm”. The initiative encouraged members to contribute ideas on the types of benefits that they desired from the program. Winning ideas – the ones that received the maximum number of Facebook “Likes” – were rewarded with 100,000 points. In addition, winners were invited to work with the BalticMiles team to develop their ideas further. The BalticMiles Brainstorm campaign generated over 420 new ideas and 6,000 comments that served as the basis for various improvements in the program¹¹. In addition, the campaign resulted in higher member engagement rates as well as a significant increase in transactions via payment cards linked with the loyalty program¹².

Use Social Listening Techniques to Understand Customer Needs. Turkcell – Turkey’s leading mobile phone operator – has used social listening to improve its loyalty program. One of its loyalty initiatives – called “Gnctrkcll” – is aimed at the youth segment. So, in 2012, it launched a Facebook campaign to elect youth ambassadors who could represent this segment and build Turkcell’s understanding of its needs. Five youth ambassadors were selected from among 17,000 candidates. Turkcell received thousands of comments as a result of these ambassadors’ one-to-one social media interactions with other consumers. This helped it create more targeted rewards¹³.

Use Gamification Techniques to Drive Deeper Participation

The introduction of game-based content into loyalty programs has helped organizations such as Air Canada. With

its “Earn Your Wings” campaign, Air Canada awarded badges to flyers when they completed specific ‘challenges’. For instance, members got the “Pacific Badge” every time they took off or landed at specified airports located on the Pacific coast, such as Sydney. These badges were then redeemable in air-miles. Top badge winners were showcased on a leaderboard on Air Canada’s website¹⁴. Air Canada reported an ROI of 560% for the program¹⁵ and saw registration levels that were double its initial forecast¹⁶. Such examples are powerful reminders of how game mechanics can be used to drive customer engagement.

Provide Value Beyond the Traditional

A number of programs stand apart by offering value beyond the traditional deals and discounts. US-based pharmacy chain Walgreens launched the “Balance® Rewards for healthy choices” initiative as part of its “Balance Rewards” loyalty program, to encourage its members to adopt healthy lifestyle practices. The program allows members to connect their digital health trackers with the Walgreens mobile app. Members are awarded points whenever they engage in a healthy activity¹⁷. The success of the Balance Rewards program is evident in its members’ engagement levels – 80 million of the program’s 103 million members are active participants¹⁸.

“*US-based pharmacy chain Walgreens rewards members of its ‘Balance® Rewards for healthy choices’ program for adopting healthy lifestyle practices.*”

How do **Successful Loyalty Programs** Differentiate Themselves?

Integrated with the Overall Customer Experience

My Starbucks Rewards

Integrates loyalty seamlessly with mobile payments



Hugely successful, with **8 million** active members

Deliver Customized and Personalized Offerings

O2 Priority Moments

Segments customers based on their profile, provides **location based** offers



Became **fastest growing** program in the UK within 18 months of launch

Leverage the Power of Social Media Channels

Turkcell Gnctrkcll

Actively employs **social listening** techniques to understand customer needs



Received **thousands of comments**, used them to improve rewards

Employ Gamification Techniques to Drive Greater Participation

Air Canada Earn Your Wings

Awards "**badges**" to flyers for activities such as checking in at specific airports



Reported an RoI of **560%** for the program

Look Beyond Transactional Rewards

Walgreens Balance Rewards

Awards points to members for engaging in **healthy activities**



Mobile app can **integrate** with digital health trackers

The Way Ahead: Reinventing Loyalty Programs

Engage your Customer, Loyalty will Follow

A customer who is highly engaged with a brand or company is equally likely to be loyal. A study found that “fully engaged” customers (those with a strong attachment to the brand, or brand ambassadors) deliver a 23% premium over the average customer in share of wallet, profitability and revenue. Conversely, “actively disengaged” customers (those who have negative feelings towards the brand, or spread negative word-of-mouth) represent a 13% discount in the same measures¹⁹.

Customer engagement is the sum total of specific, actual behaviors that can be measured in the immediate term. Customer loyalty is an outcome and measured by the quantum of repurchase over the longer term. Engagement is therefore a leading indicator of customer loyalty and financial performance, while loyalty by itself is a lagging indicator of financial performance. An excessive focus on loyalty comes at the

expense of healthy customer interaction. And it is exactly this interaction that could have been used to enhance engagement and drive brand preference. Consequently, loyalty programs need to be seen within the larger context of a marketing strategy that is focused on driving customer engagement. Developing an engagement-based loyalty program means looking at each step of the development process through the prism of engagement (see Figure 6).

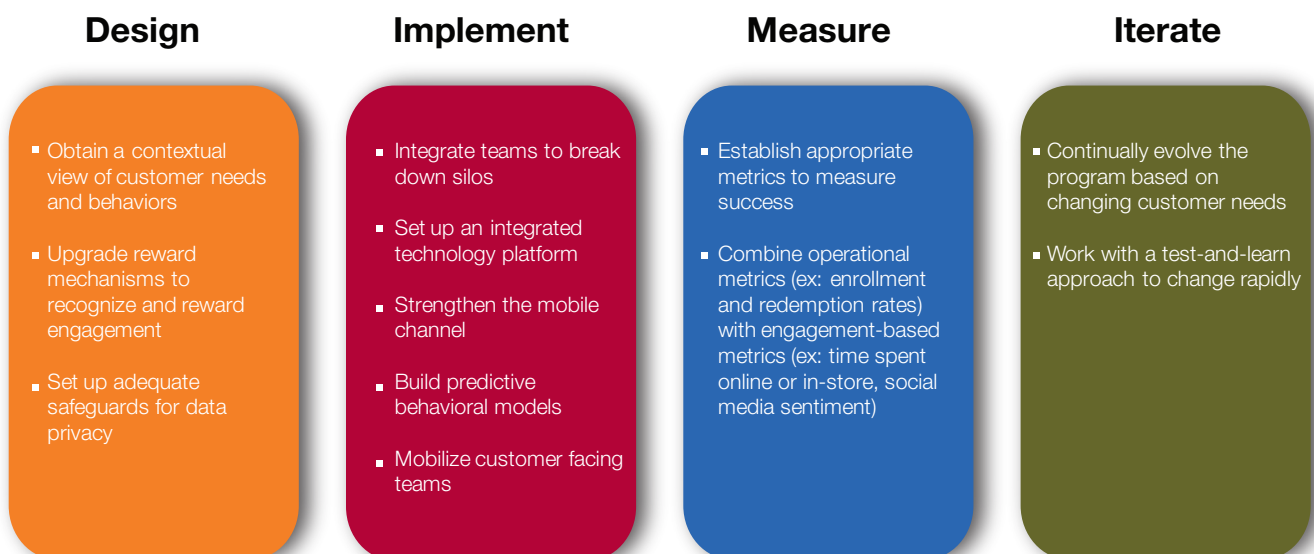
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Design Loyalty Programs in Line with the Needs of the Digital Consumer

Develop a Contextual View of the Customer. In order to have a meaningful dialogue with their most valuable customers, organizations need to understand the context of their needs and behaviors at different stages of the customer journey. Loyalty programs should be designed with a view to fulfilling these needs (see Figure 7). However, in order to develop such an understanding of customer needs, existing customer profiles must be enriched with relevant data on customer interactions across offline and online touchpoints. Point of Sale (POS) data must be augmented with social media and location data to create a more complete picture of a customer’s preferences and pain points. In addition, organizations will need to address persistent data management issues, particularly those arising from poor data integrity and silo-ed data sources. Rules and procedures will need to be established to ensure that data coming in from multiple

Figure 6: Developing an Engagement-Based Loyalty Program



channels is cleaned and formatted before it is ready for use. This a critical first step to designing loyalty programs that deliver relevant, engaging experiences.

Upgrade Traditional Reward Structures to Recognize Engagement and Incentivize Advocacy. Traditional reward structures must be upgraded. They need to ensure that customers are recognized and rewarded not only for completing transactions but also for engaging and interacting with the brand in other meaningful ways. Reward mechanisms should recognize customers for brand advocacy on social media, for sharing feedback and writing reviews, and for participating in game-based campaigns. Luxury cosmetics brand Lancôme’s Elite Rewards loyalty program, for instance, strongly incentivizes brand advocacy. While members receive 10 points for every dollar that they spend on Lancôme merchandise, they receive up to 25 points for sharing Lancôme’s product posts on their Facebook, Instagram, and Twitter pages²⁰. Incentivizing brand advocacy in this manner serves two significant

purposes. First, it conveys the message that the brand values the support of its customers. Second, it carries the brand’s messaging to a more receptive target audience, since consumers tend to trust word-of-mouth recommendations from people they know, more than they trust traditional advertising²¹.

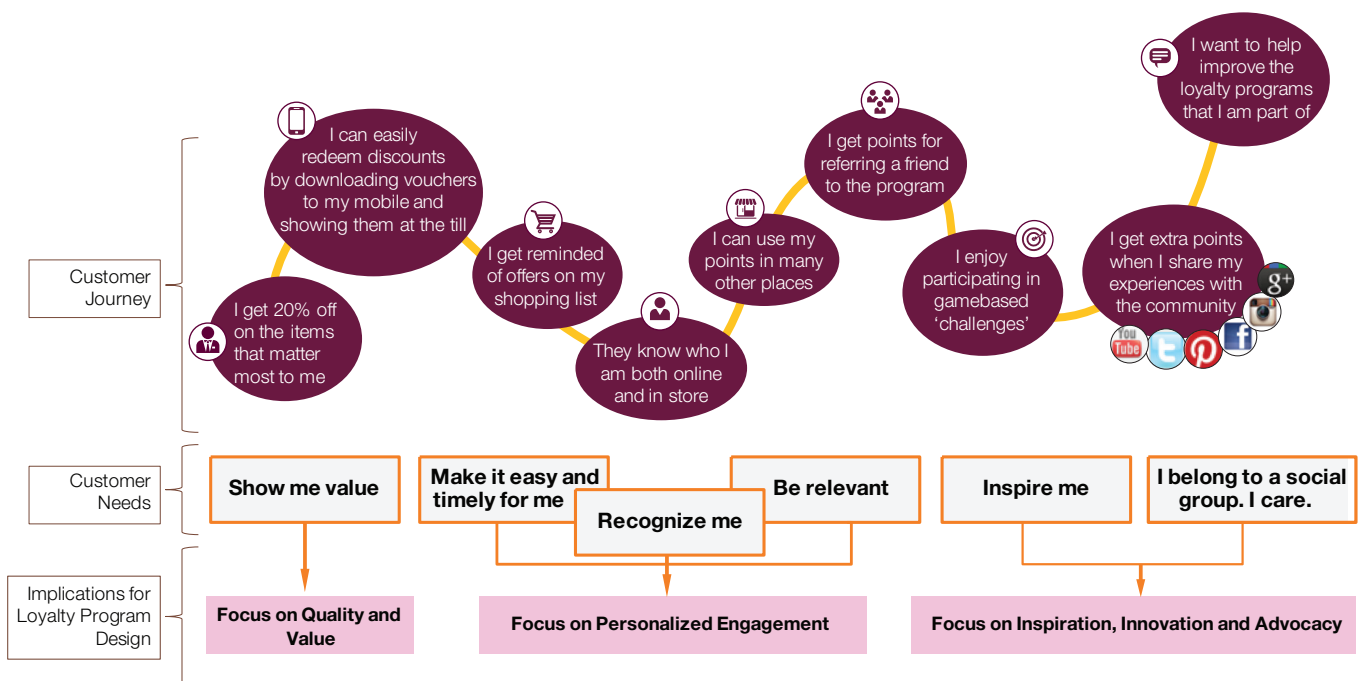
“
Loyalty programs should clearly communicate the types of data they collect and how the data is used.”

In looking beyond transactions and providing more avenues for consumers to earn rewards, loyalty programs will also be addressing a key consumer pain point – the long lead times for the accumulation of points. The Head of Loyalty and Rewards at a leading bank highlighted the need to revamp traditional reward structures:

“What we are finding is that when you reward customers for non-transactional behavior like following your brand on Facebook or Twitter, they start feeling emotionally invested in your brand. They start feeling like you understand who they are, how they see the world, and how they express themselves. This emotional investment is key to driving loyalty in the long term.”

“
In order to have a meaningful dialogue with their most valuable customers, organizations need to understand the context of their needs and behaviors.”

Figure 7: Customer Needs and their Impact on Loyalty Program Design



Source: Capgemini Consulting Analysis

Put Data Privacy at the Heart of Program Design. Organizations must take proactive steps to alleviate concerns about how personal data is used. Loyalty programs should clearly communicate the types of data they collect and how the data is used. This allows consumers to make an informed choice about participation. Loyalty programs should also incorporate opt-in and opt-out mechanisms so that people have full control over their personal data.

The consumer goods industry recently adopted a new set of guidelines to safeguard consumer information across digital platforms (see Figure 8)²². Organizations across sectors should adopt such guidelines in order to build great consumer trust. Such measures can also be a key differentiator for brands in an environment where privacy is often sacrificed at the altar of increased sales.

Getting Team Structure, Governance Mechanisms and Technology Infrastructure Right

Align the Organization on Delivering a Seamless, Multi-channel Customer Experience. To deliver a seamless customer experience, loyalty programs must be closely integrated with other elements of marketing and brand strategy. Organizations must break down internal silos to build greater collaboration between teams. At Starbucks, the digital marketing, mobile payments, and loyalty teams were brought together under the leadership of Chief Digital Officer, Adam Brotman. Articulating the rationale for this, he says: “We realized those were all one thing, they all work best together and if you listed the vision for where we wanted to go with digital, it was encompassing all those things²³.” Likewise, Walgreens set up committees comprising stakeholders from various groups that were affected by its “Balance Rewards” loyalty program. This was to ensure stakeholder alignment and engagement²⁴.

“*Reward mechanisms should recognize customers for brand advocacy on social media, for sharing feedback and writing reviews, and for participating in game-based campaigns.*”

Set up an Integrated Technology Platform. A seamless, multi-channel, personalized loyalty program requires the right technology platform. It needs to be fully integrated with internal systems, such as Point of Sale (POS), e-commerce, social media, CRM, ERP, financial, and customer service systems. The platform must support cross-channel rewards redemption, enable the aggregation of data and insights, and support advanced analytics for real-time rewards management and personalization.

Figure 8: Seven Principles of Consumer Engagement to Promote Data Privacy

1	Simple Communications	<ul style="list-style-type: none"> Communicate in a clear, simple and easy to understand language
2	Value Exchange	<ul style="list-style-type: none"> Inform consumers about the benefits and value that the use of their personal information provides to both businesses and consumers
3	Transparency	<ul style="list-style-type: none"> Inform consumers about what we do with the personal information they provide
4	Control and Access	<ul style="list-style-type: none"> Enable consumers to easily choose whether and how their personal information is used; and to have access to information on how their personal information is used, and the ability to correct it and/or have it removed
5	Ongoing Dialogue	<ul style="list-style-type: none"> Listen and respond to consumer feedback about the use of their personal data
6	Protection of Personal Information	<ul style="list-style-type: none"> Protect the integrity, reliability and accuracy of consumers’ personal information and be open about the status of their personal information
7	Integrity in Social Media	<ul style="list-style-type: none"> Preserve integrity through proper disclosure of commercial interests in social media practices such as ratings, recommendations, endorsements and work with regulatory agencies on alignment of practices and guidelines

Source: “Consumer Engagement Principles” developed by the Consumer Goods Forum [Capgemini is a partner to the initiative]

However, given that most organizations have highly complex IT landscapes, setting up such a platform can be a significant challenge. It is critical therefore, that organizations approach the implementation systematically, with careful planning. As a first step, marketing and IT teams should formulate a joint vision on the capabilities required to deliver an engagement-based loyalty program. This vision should serve as the basis for the platform architecture. Second, the platform should be implemented gradually and iteratively, to ease the process of integration. Finally, the choice of technology components should be based on the ease with which they can be integrated with the existing IT landscape.

“
At Starbucks, the digital marketing, mobile payments, and loyalty teams were brought together under the leadership of Chief Digital Officer, Adam Brotman.”

Focus on Strengthening the Mobile Channel. In line with the consumer adoption of mobile devices, organizations must pay specific attention to strengthening the mobile channel for their loyalty programs. Mobile apps should be designed with a focus on ease-of-use. They should provide easy access to up-to-date information on program policy, points balance, and offers. Crucially, the app should also act as a mobile wallet so that customers can instantly redeem their reward points. A senior manager for loyalty programs at a top global retailer underscored the significance of the mobile channel: “As smartphones increasingly become more widespread, we would reasonably expect to see everybody accessing their loyalty programs almost exclusively on a mobile basis.”

Build Predictive Behavioral Models to Improve Reward Relevance. In order to align rewards with a customer's individual preferences, organizations should use predictive analytics techniques to identify the offers that a member is most likely to prefer and also to dynamically create new offers in real-time.

Mobilize Customer-Facing Teams. Customer-facing team-members need to be on-side with an engagement-based approach to loyalty before a program is launched. Customer service teams must be trained in the nuances of the new program. Walgreens began a campaign to enroll employees in its “Balance Rewards” loyalty program. This measure was to make sure they understood first-hand how it worked and could act as ambassadors. As part of the campaign, Walgreens conducted webinars and created blogs to educate employees on the program²⁵.

Define Metrics to Measure Success in an Engaged World

Traditional operational metrics, such as enrollment and redemption rates, offer useful insights into the health of a loyalty program. However, you also need to define additional metrics that measure the level of customer engagement generated. Operational metrics must be complemented by engagement-based metrics, such as time spent online or in-store, social media sentiment, and purchase recency²⁶.

Loyalty is a Journey, Not a Destination

“
Organizations should prepare themselves to continually adjust their loyalty programs so that they keep pace with changing customer needs.”

“
As smartphones increasingly become more widespread, we would reasonably expect to see everybody accessing their loyalty programs almost exclusively on a mobile basis.”

- Leading Global Retailer

Designing a loyalty program should not be a one-off event. Organizations must continue to listen to customer feedback and monitor changes in behavior. This will keep them in tune with changing customer needs. Organizations should also prepare themselves to continually adjust their loyalty programs so that they keep pace with these changing needs. This requires a test-and-learn approach where organizations rapidly experiment with new ideas, measure the incremental benefit, and then conduct full-scale rollouts.

Companies spend millions of dollars on loyalty programs. Unfortunately, the returns are often elusive. We live in an age of information overload and are saturated with loyalty programs. Inevitably, customers are unlikely to be impressed by another me-too offering. Organizations need to think beyond points, discounts and offers, and forge real relationships with customers. A well-designed, engagement-based loyalty program will create a virtuous cycle: stronger customer relationships, greater advocacy, and enhanced loyalty.

Research Methodology

Our research focused on three aspects – an extensive web-based research on current loyalty program initiatives, a social media scan to gauge customer sentiment towards loyalty programs, and focus interviews with senior managers and heads of loyalty programs at leading organizations.

Analysis of Current Loyalty Programs

Our research covered 160 companies across 7 sectors including Retail, Banking, Consumer Products, Telecom, Airlines, Hotel Chains and Consumer Electronics. We analyzed leading companies within each sector to understand their approach towards loyalty programs.

We studied the following aspects of each program:

1. Do loyalty programs utilize new digital channels to reach customers?

We analyzed whether loyalty programs use new channels such as Twitter, Facebook and mobile apps besides traditional channels such as e-mail, contact centers and websites, to connect with customers.

2. What is the current approach to awarding loyalty points – is it primarily transactional or is it engagement-based?

We assessed whether companies are rewarding customers purely for transactions or for engaging with the brand in various ways (ex: social media interactions, reviews, ratings and referrals).

3. Do loyalty programs offer seamless cross-channel rewards redemption?

We tested whether loyalty benefits are redeemable through offline as well as online channels.

4. What is the degree of personalization or customization offered by loyalty programs?

We analyzed two levels of customization:

- Basic customization: Involves a tier-based method of personalizing loyalty programs.
- Advanced customization: Involves personalizing the loyalty program based on the customer's purchase history and location (geo-spatial) data.

Assessment of Social Media Sentiment on Loyalty Programs

We conducted a scan of close to 40,000 consumer conversations on social media to gauge sentiment towards loyalty programs. Customer sentiment, as expressed on social media channels such as Twitter, Facebook, blogs and discussion forums, was analyzed using sophisticated sentiment analytics tools. The objective of the scan was to assess how satisfied or dissatisfied customers are with current loyalty programs. In order to get an accurate view of the sentiment, we focused only on opinions expressed by users, rather than on neutral comments and questions.

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With almost 145,000 people in over 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2014 global revenues of EUR 10.573 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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