

Earn, Burn and Yearn: A New Paradigm for Loyalty Marketing

Building loyalty along the “earn, burn, yearn” continuum leads to lasting relationships

By Barry Kirk

Overview

Loyalty marketing is stale. That’s not to say programs no longer work, or consumers aren’t loyal. Today’s consumers have simply come to demand more from loyalty programs. Customers want to be courted and rewarded by every significant brand experience they choose. They want more immediate rewards. Meanwhile, the social media revolution is driving loyal consumers to expect brands to give insider information, special privileges and offer the opportunity to engage in a brand community.

The challenge is that loyalty programs are not keeping up. In many industries, traditional loyalty programs are fast becoming table stakes. Basic points programs are expected, and one pretty much looks like another. However complex the design, most loyalty programs can be boiled down to a “do this, get that” formula. And because the brand’s connection to these experiences is often tenuous, too many companies run the risk of building program loyalty rather than brand loyalty.

Here’s the problem: the prevailing view in business is that consumer loyalty is singularly created at the time points are redeemed for a reward (the “burn”). If you aren’t convinced of that, just look at how many loyalty programs use the word “reward” in the program name. Yet, research is beginning to show us that there is much more going on in the minds of consumers, and marketers who expand the opportunities for consumers to interact with their brand will increase the likelihood of loyalty-driven behavior. In fact, the most successful loyalty programs will be those that widen their focus from offering the “perfect reward” to providing value-added benefits to their relationships.¹ Ideally, relationships should become the focus of any loyalty program, with rewards in a supporting position.

To understand where we should go, we need to consider where the industry has been.

The Evolution of Loyalty

Redemption-focused loyalty programs create clever points systems and offer gifts or discounts in return for a purchase. This is a model that has remained virtually unchanged for more than a quarter of a century and is the foundation of the loyalty marketing industry. Founded on reciprocal relationships, these programs give customers reward points or certificates in exchange for each transaction. They assume best consumers will “burn” what they’ve earned, be satisfied with the reward and come back to the brand in the future.

Over time, rewards-based programs evolved to be more sophisticated than the incipient precursors of the 1930’s – the Betty Crocker rewards catalog and Green Stamps books. Program rewards have grown from small-scale necessity items such as groceries and flatware, to luxuries, exciting experiences and preferential treatment. “Burning” the earned reward media in exchange for the rewards of your choice is both enticing and satisfying.

The added value to customers leads to increased customer spending, retention, referrals and ultimately, bottom-line profits. Historically, redemption-focused loyalty programs successfully keep customers and increase the frequency and amount of spending. A successful program may see as many as 40 percent of customers enroll.

However, the reward itself is often the only factor driving the redemption-focused program. In this model, customers have a relationship with a company based on what additional equity they can get out of the transaction – if they spend enough money, the company gives them enough points to redeem for a reward. Essentially, it reduces the brand-customer relationship to a zero-sum game.

Modern loyalty programs must begin to differentiate themselves from this foundational model, primarily because the rewards given by most loyalty programs offer far less competitive

advantage in the age of the Internet and global commerce. Competitors can replicate each others rewards and consumers can find almost any product imaginable on the Web. The constant re-upping of rewards to either stay ahead of the competition or appeal to jaded customers is a Sisyphean task for loyalty marketers.

The Psychology of Points: Maximizing the Earn Experience

In order to break this cycle, successful loyalty programs will require that all of the elements (not just the rewards) work together to convey meaning in the minds of consumers. This brings us to re-examine the “earn” aspect of the loyalty experience.

The Core Psychology of Loyalty Programs



In the past decade, breakthroughs in neuroscience have established the importance of emotional psychology, an aspect of the consumer experience that has been downplayed in the industry in favor of more purely rational models.² Findings in this space point us to an understanding that the earn experience can be, and should be, just as captivating as reward redemption.

In evaluating the earn experience, consider the work of Karen Horney and Abraham Maslow on “Third Force” psychology, which combines aspects of behavioral, cognitive, and emotional psychology, and accounts for the impact of culture and society on behavior.³ In particular, this work points to the power of “intrinsic” motivators, particularly the power of thinking and feeling, as more powerful than extrinsic rewards in driving human behavior.⁴

So, where does that leave “points” as the staple of most loyalty programs? First and foremost, it helps us recognize that points themselves can be more than simply a means to an end. Accumulation of points can be a psychologically rewarding experience in itself, and can trigger a host of intrinsic human emotions and behavior as identified by Horney and Maslow. Because program points are essentially an abstract concept, the mind is free to subjectively assign value beyond the financial benefit. Consumers can perceive points in ways that are most relevant to their personal goals.

For example:

- The simple act of earning points can have value without program members having redeemed or even having any idea of how their points might be used. This is similar to the intrinsic value many people put on having money in the bank, even if they don’t immediately plan to spend it. The reality of saved equity (even in the form of loyalty programs points) psychologically can represent security, future undefined reward potential, progress toward a goal, or even mastery of one’s own finances. Each had the potential of representing an intrinsic reward that a consumer could identify with the program experience well before reward redemption has occurred.
- Amassing points also can lead to a build-up of anticipation that can enhance the redemption experience, but also be experienced as an intrinsic reward.⁵ In many human experiences that involve delay in experiencing what is assumed will be a pleasurable event, participants begin to look forward to the next stage. Delaying the reward can also intensify the consumer’s reaction and build up additional anticipation.⁶
- The points approach is also built on a strong underlying psychology that values personal achievement. Earned recognition that’s based upon genuine achievement is highly rewarding and reinforces self-esteem. The intrinsic feelings of achievement after reaching 100 points, then 1,000, then 10,000 can be just as influential as the redemption. Earning points leads to a sense that the reward is deserved, thereby elevating the value of self as well as for the reward.⁸
- Earning points mimics the elements of a game, including competition and the pursuit of a goal. Fun, compelling and addictive game play generates exciting emotions that add to the player’s experience, whether the competition is solitary or

involves others. An effective loyalty program views the entire earn experience as a game, one wherein the “play” is just as fun as the “winning” experience. Adding leader boards and tiered-achievement levels will enhance the gaming aspects because people often desire the challenge of working for a reward.⁹ Essentially, the right level of challenge arouses and excites the brain. Setting and hitting milestones result in a repeated sense of accomplishment and boosts self-worth, leading to the ultimate satisfaction of reaching the goal and “winning the game.”

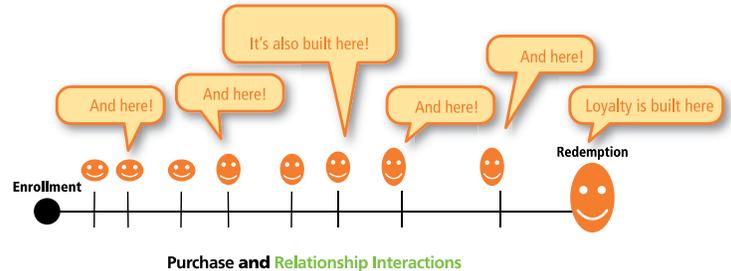
Game-like components can also add novelty and intrigue. Because the brain is always aroused by novelty,¹⁰ loyalty programs can take advantage of the earning process by devising and incorporating multiple formulas that engage customers in accumulating points.

Given what’s been learned, the definition of “reward” should expand to include psychological gratification, not just tangible items or cash. Instead of focusing solely on redemption, recognize that a consumer interacts with the brand every time points are earned. Points can act as immediate mini-rewards, building the delayed gratification that is fulfilled by ultimately earning a considerable amount of points that can be turned into a bigger reward. Marketers now know that any psychological feeling of satisfaction actually amplifies consumers’ perceived value of material rewards. For this reason, loyalty programs need to be designed along a continuum that allows more earning opportunities, offers a greater variety of fulfilling earn experiences and links earning experiences to achievement.

Understanding the Yearn

As the industry reframes rewards in the context of an ongoing relationship between a consumer and a brand, marketers also need to challenge the traditional thought that every consumer will respond to a loyalty program in the same way.

With redemption-focused loyalty programs, there is a fundamental assumption that all consumers view rewards in the same way: as an economic exchange based on long-term interaction with the brand. This paradigm, which is based on a dominant persona we call “The Analytical Expert,” assumes that all program participants are calculating the return on their investment



with the brand and are weighing the value of rewards against the value of their transactions. This approach ignores a large number of consumers who could become active ambassadors for the company, if only marketers understood their motivation for brand loyalty.

At its core, true loyalty begins with a desire for relationship. This relationship can exist with the brand image, but consumers also want relationships with a community that shares values. People want to belong to a group with common interests.¹¹ People also yearn for opportunities to grow, express themselves and make a difference. If loyalty programs can give people opportunities to pursue intellectual, artistic, wellness, spiritual, cultural and social endeavors, both earn and burn experiences become profoundly personal.

To do this, marketers need to look beyond the dominant persona, “The Analytical Expert,” and explore additional frames for loyalty relationships. Loyalty programs should be tailored according to what an organization learns about their target customer. Maritz has begun to identify some potential alternative personas, but many others are possible:

- **The World Changer:** A socially conscious group, these consumers wish to do business with brands that are politically active and are fiercely loyal to those brands who share their values. They’re fulfilled knowing they’re part of a cause greater than themselves. Positive feelings associated with having an impact on the world spill over to the brand.
- **Competitive Extroverts:** These consumers are driven to excel and eclipse their peers, primarily in the earning experience. Large accumulations of points are status symbols for these

customers, and they enjoy talking with others about how their mastery of program rules has enabled them to earn in such quantities, as well as to enjoy special brand perks.

- The Club Kid: Interested in having fun and being up on the latest trends, the Club Kid only joins programs for brands to which they already have a personal attachment. For these consumers, the program is less about driving loyalty than it is about offering an opportunity to move deeper into the brand relationship. End rewards and redemption are much less important to them than is the feeling that the brand is an extension of who they are as people.

Just as advertising has evolved to address multiple consumer segments, loyalty marketing's approach must also adapt to multiple customer personas. To make a loyalty program work today (when consumers have more choices than ever), brand stewards need to understand a variety of customer frames before creating a program design.

Likewise, program messages and communication should be tailored and segmented to reach these specific personas, and the value proposition of the rewards needs to appeal to enrolled participants. With this approach, a one-size-fits-all loyalty program instead becomes an authentic customer engagement program that's based on relevance and relationships.

By recognizing that loyalty is best generated along a continuum—in relationships that allow for creative ways to earn, burn and yearn—brands can begin to focus on the unique characteristics of their consumers to build dialogue, engagement and long term profitability. It's a new paradigm with tremendous opportunity.

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