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Pledging Allegiance to the Modern Consumer

Decoding Modern Loyalty Programs

Contents

3	Introduction
4	Evolving consumer expectations
5	Modern loyalty programs' building blocks
8	Navigating loyalty strategies across industries
11	Key themes to prioritize for building sustained loyalty
13	Conclusion

Introduction

In today's dynamic marketplace, where consumer preferences, economic factors, and advances in technology constantly evolve, marketers face the dual challenge of attracting and retaining consumers. In this landscape, establishing consumer loyalty has become a strategic necessity across various industries. A well-designed loyalty program goes beyond simply retaining consumers; it enhances the overall consumer experience.

Over time, loyalty programs have evolved from simple punch cards to sophisticated digital platforms that offer personalized rewards based on consumer behavior. Understanding these modern loyalty programs' core components and how they synergize to drive desired outcomes is essential for businesses.

However, the efficacy of loyalty programs varies depending on industry dynamics and consumer preferences. Tailoring loyalty initiatives to specific industry contexts and consumer needs is paramount.

To ensure loyalty programs remain effective amid changing consumer expectations and technical disruptions, businesses must integrate forward-thinking strategies that can help loyalty initiatives stay relevant and sustainable amid evolving consumer priorities and advances in technology.

In this report, we examine loyalty programs' vital role as an indispensable tool for marketers. It offers actionable insights for enterprises to thrive in a competitive market where consumer expectations continually redefine loyalty strategies. Additionally, the report will empower providers to assist enterprises in crafting bespoke loyalty programs that address their unique needs and challenges.

Evolving consumer expectations

The pandemic and economic downturn, along with the rise of digital platforms, have shaped a new type of consumer: the modern consumer. These consumers expect personalized experiences, seamless interactions, and value-driven propositions from businesses. They care not only about products or services but also about the overall brand experience.

In today's climate, several consumer expectations stand out:



Value drives purchase

The current economic climate is challenging, with high inflation and recessionary pressures leading to increased uncertainty. Many economists predict a weaker global economy than in 2023¹. As a result, consumers are feeling the pinch, facing financial constraints and contemplating ways to reduce expenses. This includes switching brands or channels and focusing more on essential spending to manage their budgets effectively.



Personalization becomes table stakes

Personalization is now a basic expectation among modern consumers throughout their purchase journeys, often taken for granted. Research shows that 71% of consumers anticipate personalized interactions from companies, and a significant 76% feel frustrated when they do not receive them². In the current landscape, personalized communications are essential not only for attracting consumers to a brand but also for fostering brand loyalty and retention.



Emotional trumps transactional

Today's consumers seek more than just transactional relationships with brands. They are drawn to brands that resonate with their values, such as sustainability and social responsibility, forming emotional connections with them. Research indicates that 83% of consumers prefer brands they feel emotionally connected to³. This emphasizes the growing importance of building deep, personal connections with consumers to earn their trust and loyalty.



Experiences become seamless and integrated

Today's consumers expect seamless experiences that integrate every step of their journey, from initial intent to post-purchase support. They do not view interactions in isolation; rather, they perceive them as part of a seamless experience. With high expectations, consumers seek brand accessibility across various platforms and channels. Research shows that 73% of consumers prefer engaging with brands through multiple channels⁴, including social media, e-commerce, and physical stores, throughout their purchasing journey.

¹ [Business Standard](#)

² [McKinsey](#)

³ Iterable's Holiday Shopping Trends survey

⁴ [Harvard Business Review](#)



Generational divides

There are notable generational differences in consumer behavior: Baby boomers and Gen X exhibit greater brand loyalty, prioritizing transactional benefits and clear value propositions. In contrast, Gen Y and Gen Z consumers have higher expectations, preferring personalized interactions and displaying a higher propensity to switch between products and brands. To gain the trust and loyalty of each generation, marketers must understand their unique preferences, communication styles, values, and experiences.



Privacy becomes paramount

Privacy has become a top concern for consumers, even as they seek more personalized experiences tailored to their preferences. Advances in technology have heightened awareness about the complexities of data privacy. With the introduction of AI and the exposure of high-profile data breaches, consumers increasingly demand greater transparency and control over their digital information. In fact, a significant 87% of consumers state they would not engage with a company if they had concerns about its security practices⁵.

The combination of these factors has prompted marketers to reconsider traditional marketing approaches and explore innovative methods to meet the evolving demands of today's consumers.

Modern loyalty programs' building blocks

A widely accepted marketing principle, still relevant today, highlights that acquiring a new consumer costs about five times more than retaining an existing one. In this shifting landscape of consumer priorities, loyalty programs have emerged as vital tools for marketers to meet the evolving demands of the modern consumer.

Loyalty programs serve a dual purpose: they help enterprises retain their existing consumers while boosting their lifetime value by fostering emotional connections with the brand. Moreover, the rise of social media and virtual communities has opened avenues for brands to create immersive experiences. These experiences go beyond mere rewards, allowing consumers to actively engage with the brand and connect with fellow loyal consumers. Additionally, loyalty programs offer solutions to address challenges posed by dynamic privacy regulations and the diminishing effectiveness of third-party cookies.

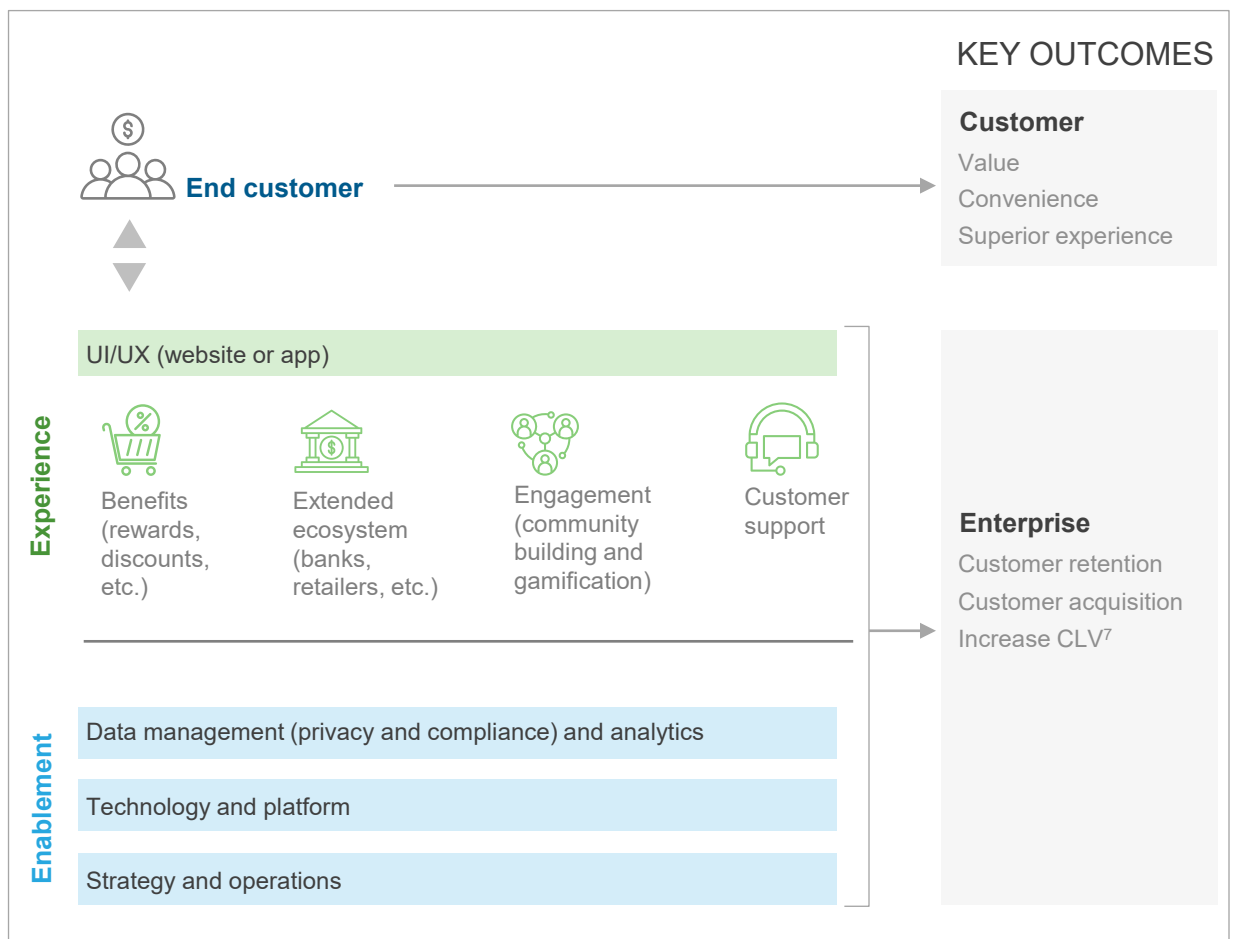
⁵ [McKinsey](#)

The loyalty programs market, encompassing both software and services, was valued at approximately US\$10.2 billion in 2023, with a projected CAGR of 17.5% over the next five years⁶.

Exhibit 1 explores the fundamental components that constitute a modern loyalty program. It highlights how these components interact and collectively contribute to enabling marketers to attain their objectives.

Exhibit 1: Anatomy of the modern loyalty program

Source: Everest Group (2024)



⁶ MarketsandMarkets
⁷ Customer Lifetime Value

The modern loyalty program comprises two key components:

Experience layer

This member-facing facet includes all touchpoints through which members interact with the program. Its effectiveness directly impacts members' perceptions of value, convenience, and overall experience. Key components of the experience layer include:

Benefits

Tangible incentives such as rewards, discounts, cashback, and free products or services



Extended ecosystem

Partnerships between loyalty programs and other brands, facilitating cross-brand collaborations that leverage co-marketing efforts and establish frameworks for shared rewards



Engagement

Strategies to enhance member involvement, such as gamification, community building, and tiered reward systems



Customer support

Robust support activities for resolving queries, gathering feedback, and building trust



An intuitive UI/UX integrates these components, offering brands a competitive advantage by delivering differentiated user interaction.



Enablement layer

Serving as the operational backbone, this layer orchestrates key operational components to ensure a smooth and effective loyalty experience.

Data management

Foundation for personalized interventions, emphasizing data privacy and regulatory compliance



Technology and platform infrastructure

Facilitates integration between MarTech and CRM solutions, omnichannel implementation, automation, adoption of emerging technologies such as AI and blockchain, and performance measurement



Strategy and operations

A diverse team ranging from C-level executives to program managers and IT specialists, oversee all loyalty activities from ideation to implementation. They ensure program success through data-driven insights, performance analysis, and cross-departmental collaboration



The success of modern loyalty programs hinges on industry-specific factors, delivery models, and consumer preferences. Enterprises must adopt a tailored approach, identifying and addressing the unique needs of their consumers when developing loyalty strategies.

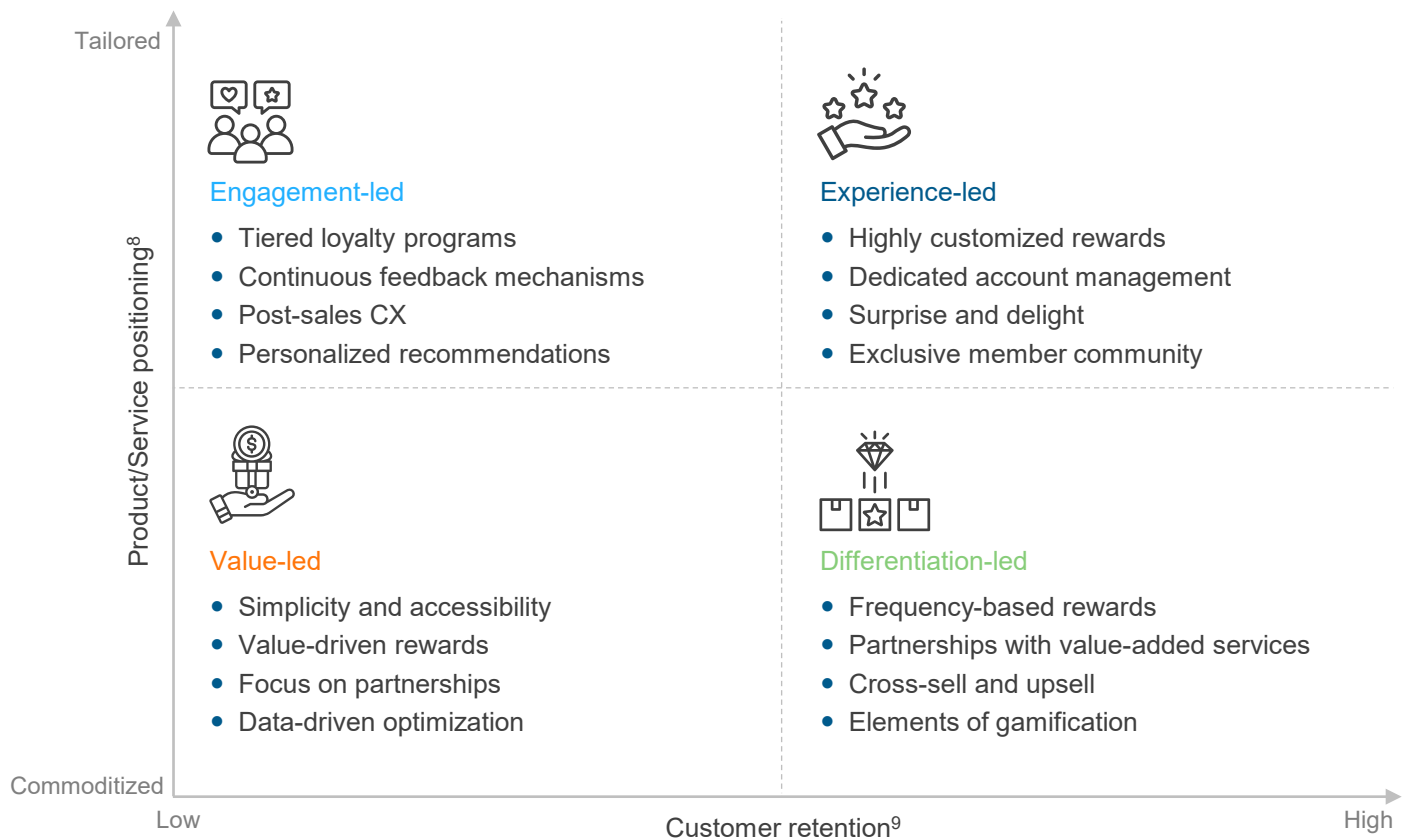
Navigating loyalty strategies across industries

Loyalty programs have proliferated across industries, ranging from airlines with frequent flyer miles to coffee shops rewarding daily purchases. However, their significance extends beyond offering perks and discounts. In today's highly competitive environment, the decision to invest in loyalty programs requires a deep understanding of an enterprise's target segment and overall goals.

Exhibit 2 offers insights into the nuanced strategies that enterprises can employ to build or enhance their loyalty programs, considering their unique product/service offerings and customer retention rates. By aligning these strategies with their objectives, enterprises can maximize the impact of their loyalty initiatives and achieve optimal results.

Exhibit 2: Loyalty program strategy framework

Source: Everest Group (2024)



⁸ Product/Service positioning varies along a spectrum from high customizability to high commoditization, reflecting the extent of personalization and differentiation available

⁹ Customer retention refers to the rate at which customers stay with a business over a given period of time

Below we discuss the framework in detail:



Experience-led

These programs are vital for enterprises in industries such as insurance, telecommunications, and luxury goods, where high customer retention and customizable offerings are key. These programs aim not only to retain existing customers but also to enhance their overall brand experience. Incorporating customizable benefits, dedicated account management, and community building can be integral to achieving this goal.

Example: Hugo Boss Experience

The Hugo Boss Experience loyalty program distinguishes itself with its immediate rewards for members. It offers an array of exclusive benefits, including personalized promotions, tailored deals, private styling sessions, and access to VIP events.

The program's VIP perks prioritize convenience and superior consumer experience. Members can enjoy complimentary door-to-door Uber delivery for purchases, hassle-free returns without a receipt, and free standard alterations for items bought online or in-store.



Differentiation-led

These programs are essential for enterprises in industries such as automotive and media, where retention rates are higher, but offerings may be commoditized. These programs focus on driving market differentiation through strategic partnerships, frequency-based rewards, and gamification to enhance overall engagement.

Example: Nissan Visa Card

Nissan offers an interactive one-to-one rewards program that enables members to earn, redeem, and save. Members accrue points for vehicle servicing and can redeem them for service, parts, and accessories. Additionally, Nissan provides a cross-branded Nissan Visa Card, allowing members to earn points for transactions at Nissan dealerships, gas stations, dining establishments, and other purchases. These points can be redeemed toward purchases or leases of new or certified pre-owned Nissan vehicles and for parts, service, and accessories at Nissan dealerships. The program is designed to engage members while offering various opportunities to earn points for exciting perks and cashbacks.



Engagement-led

These programs are vital for enterprises in industries such as travel and hospitality, where retention rates are low despite highly tailored offerings. These programs focus on driving high levels of member engagement through tier-based programs, personalized benefits, and robust post-sales support, among other initiatives.

Example: Marriott Bonvoy

The Marriott Bonvoy™ program enables members to convert points into a wide range of rewards, including hotel stays, flights, car rentals, charitable contributions, and entertainment experiences. The program's tiered structure gives members a clear path to greater rewards. As they progress through the tiers, they unlock valuable perks that enhance their Marriott experience. These perks may include guaranteed room availability, personalized customer service, extended checkout times, exclusive lounge access, and more. This approach encourages ongoing engagement and loyalty among members.



Value-led

These programs are essential for enterprises in industries such as retail and Consumer Packaged Goods (CPG), where customer retention rates are low, and products are highly commoditized. These programs prioritize user-friendliness and accessibility, deliver tangible benefits, and leverage partnership ecosystems to provide added value to members.

Example: IKEA Family

IKEA Family, the brand's loyalty program, focuses on delivering maximum value to consumers from the outset. Members enjoy discounts at IKEA's restaurant and food market, regardless of their purchasing frequency. The program adopts an omnichannel approach, rewarding in-store shoppers with an extra 5% off select items. Additionally, the unique Buy Back & Resell feature allows members to exchange old IKEA furniture for store credit, enhancing the program's appeal and reinforcing IKEA's commitment to consumer satisfaction and sustainability.

Traditionally, consumers were satisfied with simple earn-and-burn points systems for loyalty programs. However, their expectations have evolved, and they now seek more customized and individualized experiences. Enterprises must adapt to these changing expectations and the evolving loyalty landscape to enhance consumer lifetime value and ensure sustainable growth. Thorough analysis and consideration of a loyalty program's potential before implementation are vital in achieving these objectives.

Key themes to prioritize for building sustained loyalty

Consumer loyalty is indeed challenging to earn and easy to lose, and loyalty programs have evolved to prioritize personalized and engaging experiences. To fully harness the potential of loyalty programs, enterprises should consider investing in future-focused themes and strategies, such as sustainability-driven initiatives. Here's how:

Sustainability-driven loyalty initiatives: aligning the brand with consumer values

Sustainability, once considered a mere buzzword, now significantly impacts consumer perceptions and overall brand performance. More than half of consumers believe that the importance of sustainability has increased over the past few years¹⁰.

Everest Group take

While individual perspectives on sustainability may vary, enterprises are expected to assist consumers in taking sustainable actions, particularly among younger generations.

By incorporating sustainability into their loyalty programs, enterprises meet consumer expectations but also contribute to meaningful societal and environmental change, ultimately strengthening brand loyalty and enhancing long-term relationships with consumers.

The data dilemma: personalization and privacy paradox

A vast majority of consumers today want personalized interactions with brands, but they are cautious about sharing excessive data. For marketers, achieving a unified view of consumers is akin to finding the Holy Grail. Amid restrictions on consumer data use and the decline of third-party cookies, enterprises are leveraging loyalty programs to collect valuable first-party data and create a unified consumer identity. This enables a more targeted and personalized marketing approach.

¹⁰ [iSteaz](#)

Everest Group take

While data can facilitate enhanced hyper-personalization, enterprises must prioritize data transparency through practices such as:

- Obtaining explicit consent from users/consumers before collecting their data and providing clear communication about what data is being collected, why it is collected, and how it will be used
- Ensuring compliance with relevant data protection regulations such as General Data Protection Regulation (GDPR), California Consumer Privacy Act (CCPA), or other regional laws governing data privacy and consumer rights_x

Harnessing generative AI's power

Generative AI plays a vital role in modern marketing, particularly when it comes to enhancing consumer experiences. Generative AI empowers marketers to deliver personalized experiences, optimize processes, and stay ahead in a competitive landscape. Companies that embrace this technology will be better positioned to meet consumer needs and drive innovation.

Around 70% of CMO's stated that their organizations are already using generative AI to tackle various marketing challenges¹¹.

Everest Group take

Generative AI offers valuable assistance to enterprises in enhancing their loyalty programs through initiatives such as:

- Personalized and real-time experiences at scale: By efficiently generating personalized messages for program members and using ML models to analyze large datasets, generative AI enables real-time contextual interactions
- Fraud detection: Generative AI plays a vital role in fraud detection within loyalty programs by analyzing extensive data to identify patterns indicative of fraudulent activity

While generative AI presents numerous opportunities, it is essential for enterprises to establish a framework that ensures equity, transparency, security, and confidentiality in their AI endeavors. This ensures that the benefits of generative AI are realized while mitigating potential risks and upholding ethical standards.

¹¹ [BCG](#)

Gamification amid shrinking attention spans

Gamification is among the top five reasons for consumers to sign up for a loyalty program¹²; highlighting its ability to create an engaging user experience. Many enterprises leverage gamification in their loyalty programs, but some loyalty leaders take a more advanced approach by using member data to design personalized challenges that encourage specific behaviors, such as exploring new product categories or increasing trip frequency.

Everest Group take

Gamification taps into human behavior drivers such as accomplishment, avoidance, empowerment, and scarcity.

Enterprises can introduce various forms of gamification including member challenges, gamified surveys, quizzes, badges and achievements, and leaderboards/rankings. These strategies can enhance interaction, capture additional member data for personalization and encourage habitual engagement with the brand.

Conclusion

As the consumer landscape continues to evolve, loyalty programs emerge as indispensable tools for marketers to navigate these changes successfully. They provide a dynamic platform for deeper consumer engagement, fostering brand connections, repeat purchases, and consumer advocacy. Given the changing preferences, behaviors, and consumer expectations across industries, enterprises must continually adapt and innovate their loyalty program strategies.

Looking ahead, the fusion of personalization and technology, alongside stringent data privacy laws and an intensified emphasis on sustainability, will amplify the significance of these programs. Marketers are tasked with a vital role: to navigate these changes with agility and foresight. The continuous evolution of loyalty strategies, aligned with shifting consumer expectations and advances in technology, is not just beneficial – it is imperative. The future belongs to those who invest in comprehensive, consumer-focused loyalty programs, ensuring their brand not only adapts but thrives amid the flux of market demands.

¹² [McKinsey](#)

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