The Current State of Loyalty in South Africa
The 2016 Truth Loyalty Whitepaper explores consumer attitudes towards loyalty programmes and factors influencing loyalty programme usage in the South African market place. Furthermore, it unpacks how these attitudes influence how companies or brands should re-think their approach to developing customer loyalty programmes.

The 2016 Truth Loyalty Whitepaper was born out of the collaboration between Truth, South Africa’s renowned loyalty and CRM consultancy and WhyFive, one of South Africa’s leading online research companies, ensuring both a scientific and holistic approach to loyalty.

For this specific whitepaper, results from WhyFive’s BrandMapp 2015 survey, together with Truth’s loyalty experience, were used to drive insights about the current state of loyalty in South Africa. BrandMapp is an annual data set built on a sample of more than 25 000 respondents who answer 200 questions relating to brands, income, age, gender and spend behaviour in a comprehensive online survey across 500 brands, 380 media and 70 category filters.

The result is a unique landscape study of what we describe as ‘economically active’ South African adults, (i.e. those living in households with a monthly gross income in excess of R 10 000) who are in a position to be influenced by loyalty programmes in one way or another.

The 2016 Truth Loyalty Whitepaper is brought to you by the Truth Customer Academy. This is where we share our expertise and learnings in the fields of loyalty and CRM through various channels, such as the Truth Whitepaper series, internship and mentorship programmes, online courses, professional speaking events, client focused workshops and business networking sessions.

We incorporate compelling global and South African case studies to bring to life strategies and theories to help the industry simplify the relatively complex world of loyalty and CRM.
The expansion of loyalty programmes both internationally and locally has made the loyalty playground a very cluttered and competitive one. Whilst customers are overwhelmed by choice in the market place, companies are grasping for share of wallet.

South Africa is on the same level playing field as our global peers in terms of the number of programmes in existence. However, where South Africa still lacks focus is in the execution, communication and differentiation of its programmes. We have seen the demand for loyalty grow year on year and as the demand grows, we realise the need for companies to differentiate their loyalty offering. By understanding customers’ perceptions and attitudes towards loyalty programmes and which factors influence their decision to join and actively participate in your programme, you will come to realise where the real opportunities lie to differentiate your business in the cluttered market place.

In this whitepaper, we explain the difference between a short term sales campaign and long term strategic customer focus. Offering customers a loyalty programme, because everyone else has one, will not fix any misalignment in your marketing mix. Therefore, a loyalty programme alone does not create customer loyalty. However, when used to gather customer data, combined with powerful data analysis and innovative engagement strategies, it has the ability to influence all facets of your business.

This report explores the importance of understanding how demographic factors, such as age, income and gender influence how you should build your loyalty strategy. It has become apparent that businesses need to shift beyond the traditional loyalty programme structures of points and discounts. Whilst these incentives still play a big role in the uptake of loyalty programmes, they do not equal long-term customer loyalty to your brand. It’s time to move beyond the traditional structures and start rewarding customers for positive engagement with your brand that goes way beyond transactions. Think social media engagement, customer surveys, good payment behaviour and product reviews, to name just a few.

We make recommendations that are key to creating a successful loyalty programme, that include understanding your distinct market segments within your customer base, creating differentiation and designing a programme that services the “omni-present” consumer in an innovative way, yet remaining simple and transparent.

In this whitepaper, we have combined the research findings with global loyalty trends and Truth’s first-hand experience in developing South African loyalty programmes to bring you crucial considerations to take into account when designing a loyalty programme launch or re-assessing a current programme. By understanding your customers’ perception and attitudes towards loyalty programmes and which factors influence their decision to join and actively participate in your programme, you’ll come to realise where the sweet spots and opportunities lie.

In our research, we have found some interesting insights on how customer behaviour and attitudes towards loyalty programmes are influenced by customer demographics. We have combined our findings with global loyalty trends and Truth’s first-hand experience in developing South African loyalty programmes to bring you some interesting considerations to take into account when designing a new loyalty programme or assessing your current programme.
LOYALTY PROGRAMMES VS CUSTOMER LOYALTY
We all know that a loyal customer is up to twenty times more valuable to a business than an uncommitted customer. But have we taken into consideration that a points collecting customer may still be uncommitted to your brand? This is one overriding and majorly significant point of differentiation, which leaves our South African industry with the opportunity to play catch up.

True loyalty isn’t achieved through a few loyalty points and prizes. True loyalty is achieved through the long-term customer focus on all aspects of your product and service offering and communications engagement strategies.

Your business relies on the successful execution of all elements of your marketing mix: product, price, place, promotion, process, physical evidence and people. Consider the following analogy where your customer value proposition is a delicious, attractive, moreish cake. Your 7 P’s of marketing form the core ingredients of this cake. If one of them is missing, the cake will flop or at least leave a less exciting taste in your mouth.

Loyalty is the icing on the cake. Icing is now the expectation and offering your customers a sense of acknowledgement for their loyalty to your brand is the expectation too. A cake without icing may not be that appealing. However, if you have a magnificent loyalty programme, but can’t deliver outstanding products or services, then you actually have nothing. No amount of icing can fix a half baked cake.

Some of our colleagues call this “putting lipstick on a pig!” i.e. no matter how enticing the loyalty programme, if your customers do not genuinely connect with your brand, then your programme will never succeed in driving customer loyalty.
“A loyalty programme is a mechanic. A loyalty programme alone, doesn’t create customer loyalty.”

- AMANDA CROMHOUT -
  FOUNDER & CEO - TRUTH
Why loyalty?

So, if a loyalty programme is simply a mechanic and does not necessarily create long-term customer loyalty, why bother?

Many of our clients ask us why they should be creating a loyalty programme and the answer is simple: to gather customer data. A loyalty programme allows a business to capture customer data and combine it with internal business (e.g. product) data to really start understanding customers’ behaviour patterns and preferences. The key lies in the way that a business then analyses the data to drive key business decisions.

We like to illustrate the real impact of effective customer-led strategies with the Iceberg Effect.

Above the waterline represents the customer-facing loyalty programme value proposition.
This can be easily accessed by the public and copied or tweaked by competitors for their own programme.

Below the waterline is where the magic happens by capturing customers’ behavioural data. In a retail environment, for example, loyalty programmes normally require customers to swipe their loyalty card - every swipe captures point of sale data. How this data is used, is where the real power and competitive edge lies.

Competitors cannot see what a business does with the customer data. Even if they subscribe to the loyalty programme, they cannot see how data is being analysed, how often direct marketing is being sent to different target customer segments, with different tailored offers and communications.

If the customer data is analysed to its maximum potential, the insights gathered can be used to drive the entire business strategy, way beyond just marketing. And none of the benefits yielded from applying customer data to retail business decision-making can be seen by competitors.

Customer data therefore forms the basis of your customer centric business strategies, which is why a loyalty programme cannot be run in isolation to overarching business strategies.

Loyalty programmes enable brands to gather immense customer insights about what, when, how and how often they buy, bank, travel and what their preferences are. Combining the loyalty programme data with innovative engagement strategies will enable a business to truly differentiate themselves from their competition.
THE SOUTH AFRICAN LOYALTY LANDSCAPE
ACCORDING TO THE BRANDMAPP SURVEY 2015, ECONOMICALLY ACTIVE SOUTH AFRICAN CONSUMERS CURRENTLY BELONG TO AN AVERAGE OF 4.6 LOYALTY PROGRAMMES, A NOTEWORTHY INCREASE FROM THE PREVIOUS YEAR’S AVERAGE OF 3.6 LOYALTY PROGRAMMES

When customers were asked if they are using loyalty programmes more, the same or less than a year ago, 26% of consumers stated that they are using loyalty programmes more compared to 34% who are using the same. One third (33%) of the economically active respondents state they do not use loyalty programmes at all.

Figure 1: LOYALTY USAGE:
Are you using loyalty more, the same or less than a year ago?

[BrandMapp Survey 2015]

With 26% of economically active consumers using loyalty programmes more than the previous year, the loyalty market is clearly still growing. Just as interesting is the 33% of consumers who do not use them at all. Herein lies an opportunity, an untapped pool of consumers who have the likelihood to convert to using loyalty programmes and further engage with brands.
Understanding the motivation behind why people join loyalty programmes will help drive loyalty programme uptake. What motivates one consumer to the next to join a loyalty programme may differ due to age, income and other demographic reasons (which we unpack later on), however, we’ve seen that, in general, most consumers join loyalty programmes for the following reasons:

- To save money or receive discounts. This is particularly true for those who make more frequent, every day grocery purchases where smaller discounts and savings matter.
- To receive a reward for “longevity”, racking up points or reaching milestones which can be redeemed for a bigger reward, deeper discount or free gift.
- To earn recognition and a sense of belonging through VIP status or exclusive member benefits and perks.

There are however many other factors influencing loyalty programme usage by customers and we unpack this later in the report.

The loyalty industry is diversifying

Traditionally, loyalty programmes were largely limited to airline frequent flyer, retail and financial services industries. However, the demand for loyalty continues to grow across other sectors of the market, including health and wellness, leisure, B-2-B and even corporate social responsibility.

In South Africa, the most popular loyalty programmes lie within grocery/clothing retail programmes and financial services/banking categories and have often been born out of the credit relationship with customers. In the U.S, loyalty statistics show a similar pattern; however, a study conducted by Colloquy Loyalty Consensus\(^1\) 2015, shows how retail store card loyalty programme memberships have, for the first time, exceeded the frequent flyer programmes membership (totalling 434 million) with retail banking loyalty programmes deemed most popular, accounting for 578 million members within the USA.

\(^1\)2015 COLLOQUY Loyalty Census delivers insights on loyalty programmes in the following categories in USA: financial services, speciality stores, airlines, hotels, drug stores, department stores, grocery, mass merchants, gaming, restaurant, car rental and cruise, fuel/convenience stores and emerging programmes.
The survey shows that 68% of respondents belong to the Pick n Pay Smart Shopper programme. 59% belong to both the Edcon Thank U and Clicks Clubcard programmes with Woolworths WRewards placing 4th at 45%. Spur’s Family Card is the only restaurant chain to make it onto the list with an impressive, 28% of respondents being a member of this programme.

These numbers are in line with the size of their programme in terms of customer volumes.²

²Loyalty programme membership numbers for Edcon Thank U programme, Pick n Pay Smart Shopper, Spur Family Card, Woolworths WRewards and Clicks Clubcard were accessed via each companies’ 2015 Annual Financial Report made available on their websites.
The continuing price wars continue to impact customer purchase decisions across the airline, supermarket and telco industries among the big players in South Africa making customers seemingly less loyal to one brand.

It seems the perception out there to attract new customers is to continuously slash prices (further eroding margins), offering the “best price on the shelf”.

So many companies boast EDLP = Every Day Low Price. The majority of their customers are of a lower income bracket and find true value in heavily discounted products. That in itself may be seen as providing loyalty without a programme.

And while price seems to be a ‘quick fix’ to attract customers, you have to ask yourself, what will happen to those customers once the war is over?

This brings us back to the point we made earlier.

**SHORT TERM CAMPAIGNS TO ATTRACT OR WIN BACK CUSTOMERS, WILL ONLY LAST UNTIL YOUR COMPETITORS OFFER THE SAME OR SIMILAR OFFERING OR UNTIL THE CAMPAIGN IS OVER**
These campaigns do not provide you with customer data for you to drive insights about your customers, nor do they encourage a two way conversation with your customers through relevant and personalised communication. We’ve seen this for many years. Retailers find ways to attract parents of young children, using freebies and collectables as a way to lure them to their stores.

A few years ago, Engen ran a short term campaign enticing parents of young children to spend R20 to receive 1 stamp. Once you collected 70 stamps (i.e. spent R1400) you received a reward, a cute fluffy toy dog.

More recently, Pick n Pay launched their infamous ‘Stickeez’ campaign. A short term campaign which ran from from 3 August 2015 until 20 September 2015 allowing customers to collect 1 Stickeez figurine for every R150 spent at the store. There were 24 different Stickeez figurines to collect sending kids (and some young adults) into a complete frenzy to collect, swap and barter their way to gathering all 24 by the end of the campaign.

It had the impact Pick n Pay was hoping to achieve which was to drive up sales. Press reports indicated an impressive 15% increase on sales (although this is not an official Pick n Pay statistic).

This meant that customers who usually bought their weekly/monthly groceries from other retailers, found themselves going to Pick n Pay instead. However, the question is, once the Stickeez campaign was over, how many customers continued their shopping at Pick n Pay? Pick n Pay also missed the opportunity to collect customer details (unless they were Smart Shoppers) to form an on-going marketing relationship with them.

As previously mentioned, to create long term relationships with your customers you need to fully engage with them on an on-going basis, with relevant offers and communication.

Your customers need to see the value of your offering over time, not on a short term basis. Long term strategies are required, that will yield the necessary interaction and engagement with your customers to position your brand top of mind, so they consciously choose your brand over another.

**TRUTH TIP:**

We strongly advise companies to start thinking beyond competing on price and short term incentives only. Some companies have already started shifting their focus beyond price. They have turned their attention to delivering value, great customer experience through the astute use of their customer data, allowing them to personalise and target their customer communication. By knowing their customers that much better through their loyalty programmes, brands have a competitive edge above their competitors.
Innovation and engagement are key

Figure 3: **LOYALTY IMPORTANCE**

Q. How important are loyalty programmes to you?  

![Bar chart showing importance levels](chart.png)

<table>
<thead>
<tr>
<th>Importance Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>3%</td>
</tr>
<tr>
<td>Not very</td>
<td>35%</td>
</tr>
<tr>
<td>Quite</td>
<td>39%</td>
</tr>
<tr>
<td>Very</td>
<td>23%</td>
</tr>
</tbody>
</table>

*n = 17 039 (shown in percentages)*

We probed a bit further in order to understand not just the usage of the programmes, but also their importance to consumers. The study revealed that 23% of people see loyalty programmes as important, while 39% rated them as quite important. However 35% of respondents don’t find loyalty programmes very important and only 3% said that they don’t find them important at all.

Approximately one third of the respondents indicated that they do not use loyalty programmes and an equal amount of those using programmes don’t find them very important. This presents an opportunity on 2 levels: Firstly, there is a sizeable but untapped market that hasn’t been captured by current loyalty programmes. And secondly, over one third of respondents don’t rate loyalty programmes as important, which means that there is a great opportunity for innovation in the market place.
At Truth, we created a simple 7 step model to help our clients move from focusing on product-led communication to customer-led communication. It also helps to pinpoint the key customer engagement opportunities in the customer lifecycle. Each step has its own purpose and objectives. It allows brands to identify the different communication message and timing to be sent to different groups of customers.

For example, welcoming new members to your programme by sending welcome emails is a great example of how something so easy can yield impressive results. Welcome emails generally receive x2 the open rate of other emails. They help you engage and activate a customer early in the lifecycle and present an ideal opportunity to convey your message, introduce them to your product/service/subscription and get them started on the right track. Welcome messages, in the form of printed packs, emails and letters, have provided many companies with a positive impact on first payments, greater engagement, increased spend, better length of tenure and decreased churn rates.
03

HOW CUSTOMER DEMOGRAPHICS INFLUENCE LOYALTY PROGRAMME USAGE
According to a study conducted in 2014 by Blackhawk Engagement Solutions, Inc, USA, income is the most indicative factor of customer loyalty, even more influential than age, gender or geography. We see a similar trend in South Africa. According to our findings, customers who earn more than R30K per month are significantly more likely to use more loyalty programmes (on average 5.2 programmes) compared to someone who earns less than R30K per month and on average uses 4.4 programmes.

The table below shows this trend in more detail. The percentages shown are again a comparison to loyalty usage from the previous year. The highest users of programmes, at 78% of respondents are those within the R50K – R100K per month segment. Interestingly, as the salary increases the “non-usage” goes up from 14% to 21% and similarly on the lower income groups with no-usage at 24% and 39% respectively.

Figure 5: LOYALTY USAGE BY INCOME GROUPS
What is the percentage of loyalty programme usage by personal income segments?

[BrandMapp Survey 2015]
Edcon Thank U also sees a high penetration from both ends of the market. This programme has the largest loyalty membership base in South Africa. A large proportion of this base has access to the Thank U credit facility as part of their Edgars & Jet account offering, a facility that was launched prior to their loyalty programme. The credit facility, gives access to a large amount of low to middle income groups to shop at Edcon stores. The Thank U credit account automatically enrolls you as a Thank U loyalty member increasing the numbers of the overall membership.

Not surprising, is Spur’s loyalty programme’s popularity amongst both segments. Spur, regarded as South Africa’s leading family restaurant, has successfully attracted South Africans across age, race and income for many years. The Spur Family Card has 1.85 million members who spend on average 29% more than non-loyalty members. In 2014, their loyalty programme accounted for a massive 44% of total restaurant sales.

**Figure 6: LOYALTY USAGE BY INCOME GROUPS**

How does personal income level influence loyalty usage?

<table>
<thead>
<tr>
<th>Programme</th>
<th>Less than R30k HHI p/m</th>
<th>R30k plus HHI p/m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pick ‘n Pay Smart Shopper</td>
<td></td>
<td>67%</td>
</tr>
<tr>
<td>Edgars Thank U</td>
<td></td>
<td>61%</td>
</tr>
<tr>
<td>Clicks Clubcard</td>
<td></td>
<td>58%</td>
</tr>
<tr>
<td>Woolworths WRewards</td>
<td></td>
<td>57%</td>
</tr>
<tr>
<td>FNB eBucks</td>
<td></td>
<td>58%</td>
</tr>
<tr>
<td>Dis-Chem Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discovery Vitality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spur Family</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Bank U-Count</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABSA Rewards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAA Voyager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive Books Fanatics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MTN 141</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nedbank Greenbacks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jet Thank U</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TFG Rewards &amp; More</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>67%</strong></td>
<td><strong>61%</strong></td>
</tr>
</tbody>
</table>

The research shows that as salary increases to over R100K per month, customers potentially don’t see enough value from loyalty programmes, or don’t “need” the rewards as much, due to their financial standing. Reversely, the lower income groups (R20K and less) where 39% of respondents do not use loyalty programmes at all, may not see enough benefit in participating in programmes as most of SA’s programmes are based on a “spend and get” principle, which means that the more you spend, the more get out of it. With retail rewards typically sitting at 1% of spend, the lower income groups may not see the benefit of programme participation fast enough, where the upper income group may not “need” it.

Is there a correlation between income and the types of programmes customers belong to?

While both segments are likely to be members of ‘rewards’ programmes, “Top-enders” seem more likely to embrace ‘spend and get’ programmes. Figure 6 shows the split between the income and types of programmes consumers belong to within those income groups.

Higher income groups tend to skew toward programmes where they can “spend and get”. They also tend to belong to loyalty programmes that offer special treatment rewards or experiences. These typically refer to financial services programmes such as FNB’s eBucks that offers exclusive entries to airport lounges or travel programmes, such as, Avios and SAA Voyager that may provide upgrades on flights or other travel related rewards.

On the other end of the scale, lower income groups tend to belong to loyalty or club programmes that provide discounts and everyday savings for day-to-day needs such as airtime and groceries. The use of loyalty in financial services and any leisure related programme amongst lower income groups drops significantly.

The middle to lower income segment also tend to use loyalty as a savings mechanic on their “everyday” purchases such as groceries, pharmacy and clothing.

What’s also interesting are the programmes that service both ends of the market. For example, Figure 6 shows 67% of those respondents earning less than 30k per month use Pick n Pay Smart Shopper as well as 69% of respondents earning more than 30k per month. This shows that the Pick n Pay Smart Shopper programme appeals to both ends of the market and offers rewards that are relevant to both. Smart Shopper allows you to switch and redeem your Smart points for various things such as airtime, Avios, Ster-Kinekor movie tickets, Primi Piatti meal vouchers, etc. thus servicing their customers on different levels. Those more cash strapped customers may redeem their Smart points for cash to use on electricity or airtime, while others may not be too concerned about daily savings and accumulate their points until they are worth enough Avios to travel abroad.

TRUTH TIP:
Herein lie 2 distinct opportunities:
1. For the top segment there is an opportunity to develop a “money-can’t-buy” experiential rewards offering.
2. For the bottom segment there is an opportunity to offer ways in which to earn points faster that go beyond earning for just transactional behaviour e.g for social media engagement with your brand, updating your details, referring a friend and taking part in surveys to mention a few.
Does loyalty programme usage change as customers’ financial circumstances change?

One of the questions asked in the survey was: “How are you feeling, financially, compared to two years ago?” Overlaying this question with loyalty programme usage brought out some interesting insights.

When looking at the importance of loyalty programmes in conjunction with how customers feel financially (better or worse off) versus last year, we see that there seem to be two distinct ends of the market as shown in the graph below. i.e. customers feeling financially much better off and customers feeling much worse off are both more likely to be using loyalty programmes more and are the most likely groups to view loyalty programmes as important, e.g.

26% OF CUSTOMERS, WHO ARE FINANCIALLY MUCH WORSE OFF THAN THE PREVIOUS YEAR, RATE LOYALTY PROGRAMMES AS VERY IMPORTANT. SIMILARLY 25% OF CUSTOMERS, WHO ARE FINANCIALLY MUCH BETTER OFF, RATE LOYALTY PROGRAMMES AS VERY IMPORTANT

Figure 7: **IMPORTANCE OF LOYALTY USAGE BY FINANCIAL STANDING**

Q. How important are loyalty programmes to you?

[BrandMapp Survey 2015]

<table>
<thead>
<tr>
<th>Financial Standing</th>
<th>Not at all</th>
<th>Not very</th>
<th>Quite</th>
<th>Very</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much worse off</td>
<td>4</td>
<td>33</td>
<td>37</td>
<td>26</td>
</tr>
<tr>
<td>A bit worse off</td>
<td>3</td>
<td>36</td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td>The same</td>
<td>3</td>
<td>38</td>
<td>40</td>
<td>19</td>
</tr>
<tr>
<td>A bit better off</td>
<td>3</td>
<td>36</td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td>Much better off</td>
<td>3</td>
<td>32</td>
<td>40</td>
<td>25</td>
</tr>
</tbody>
</table>

*n = 17 041 (shown in percentages)*
Again we wanted to interrogate if there is also a correlation between financial standing and the programmes that are being used by either end of the income scale and found the following:

Figure 8: **LOYALTY USAGE BY FINANCIAL STATUS**

*Q. What programmes are you a member of?*

![Bar chart showing loyalty usage by financial status](image)

It seems true that respondents who feel financially worse off are looking for savings on “every day essentials” programmes, such as Pick n Pay, Clicks and Dis-Chem.

For the better off segment, the lifestyle programmes that reward them for being big spenders seem to be where they have a greater usage, e.g. SAA Voyager, eBucks and Discovery Vitality.

**TRUTH TIP:**

So the big question is how to service these customers differently? Understand your customers’ lifestyle needs. You cannot be everything to everybody but you can start to understand what your customers would find relevant and appealing by analysing data a lot better. Understand that you may very well be servicing two, three or more distinct groups of customers. Every customer wants to feel special and feel that a brand knows them.
Rewards options to service all customers

From an income perspective and based on this research, here are some options on how to service different ends of the market. The research above and our experience in the South African market place also indicate that the lower income groups want and need different things from a loyalty programme.

It’s not to say customers are less loyal or less valuable to your business because they contribute less, they may simply just not have any more disposable income to spend with you. This is particularly true for retailers such as Pick n Pay and Checkers who service both ends of the income scale.

Loyalty and rewards programmes are typically associated with the traditional points-based loyalty model whereby members earn “points” (a loyalty currency) for their purchase behaviour and redeem those points for spend back in store or discounts. However, in order to reap the rewards from points based programmes, patience is key.

Points based programmes usually have a minimum redemption threshold, whereby customers need to earn a minimum amount of points before redeeming their points towards a reward. Cash strapped customers only buy the bare necessities and may frequently redeem their points for a discount off their purchase (even if it only gives them R2 off). On the flip side, customers may choose to not always redeem their cashback to get cash off a purchase and prefer to let it accumulate so that they can spend it on something they really like, such as a personal treat.

a) Club Concept

A particularly popular and effective offering to service the lower income groups in South Africa is the customer club concept. A club concept offers members a wide range of benefits across various categories. Clubs typically charge a low monthly subscription fee either charged directly to the customer or absorbed by the company as a cost of sale. They offer instant rewards and do not require customers to accumulate a loyalty currency making it an attractive alternative to a traditional loyalty programme. The main “hook” for customers when joining a club and what is often deemed the most attractive offering, is the access to affordable insurance such as funeral cover. A club concept aims to service the customers overall lifestyle needs by providing access to rewards and discounts at a variety of providers.

The club concept in South Africa is very popular and has been for many years with brands such as Edgars, Jet, Ackermans and TFG dominating the market place with an estimated minimum of 10 million members signed up collectively. For a minimum monthly fee ranging between R14.00 and R49.00 per month, the types of rewards offered by clubs and deemed favourable and attractive to lower income groups include:

- 2 For 1 dining, movie, or spa deal
- Local transport discounts (bus/train)
- Club magazine subscriptions
- Legal and tax advice
- Airtime vouchers
- Funeral plan benefits
- Medical assistance
- Trauma counseling
- Pregnancy, HIV, depression counseling
- Emergency home assistance
According to the South African Loyalty and Rewards survey 2014 by the Value+ Nettwork, it’s estimated that there are over 21 clubs running in South Africa, and we expect this to continue to grow over the next few years.

**b) Non-Transactional Rewards**

A second approach we recommend to offer all customers (regardless of financial standing/income status) is to reward for non-transactional behaviour. The foundation of loyalty is rewarding members for transacting with your brand, however, you can drive greater consumer engagement by incentivising members for taking specific actions. These non-transactional actions can drive certain behaviours you seek from your customers that are imperative to your business processes such as rewarding customers for updating their details in order to reduce your email bounce rate. It is up to you to identify the behaviours important to your business and reward customers accordingly.

Creative ways to reward members beyond transactions include:

- Visiting the brand’s website
- Updating contact details
- Social media activities such as sharing brands posts, retweeting, liking, commenting and check-ins
- Completing a survey or attending a focus group session
- Being active outdoors, taking part in sporting events
- Referring friends to join the programme
- Completing product reviews
- Making healthy food and lifestyle choices
- Proactive account or bill payments
A great example of how a retailer includes non-transactional earning opportunities for their members is “The Locker” loyalty programme by Foot locker in Australia. The loyalty programme encourages their members to update their online profiles, become socially active on their social media channels and write product reviews to earn bonus points towards their Locker tier status.

In financial services, Bank of America rewards customers for good payment practices. They reward customers for their timeous payment practices, with up to $100 annually for responsibly managing their monthly credit card payments. Customers can choose to have their cash rewards automatically credited to their card balance or deposited into a Bank of America cheque or savings account.

Offering other ways in which to earn points will motivate your members to interact with you on a more regular basis. It will make them feel included and part of the loyalty programme ethos and not “penalised” for not spending more money they can’t afford. Simply, rewarding customers for activities other than spending!

Because the more focus you put on the overall customer relationship, rather than monetary exchanges, the stronger the bond between your brand and your customers.

84% OF CONSUMERS WOULD SPEND MORE WITH A BRAND THAT OFFERS POINTS FOR ACTIVITIES OTHER THAN SPENDING - COLLOQUY
Top spenders want rewards money can’t buy

How do you create a loyalty programme for top-end customers who are not influenced by discounts and saving money?

We believe, for long-term loyalty you need to connect with your customers through unexpected moments of delight, on an emotional level. People crave the unexpected and are attracted to moments that money can't buy.

Because loyalty gives you permission to engage with customers, track their behaviour and interactions with your brand. You now have the power to use the data beyond what customers expect from your day to day interactions with them.

Surprise and Delight

One of our recommended strategies is to create a surprise and delight campaign. These campaigns do not always require a large time investment or budget to make it work. It should be a relatively easy yet effective way to say “Thank you” to your existing customers. It can be as simple as a phone call from a CEO to your most valuable customers to say “Thank you” or “Happy Birthday”.

A medical scheme provider wanted to show some of their top members that they were thankful for their loyalty to the brand. In 2014, they partnered with Truth, to surprise and delight a group of their members with a choice of a coffee, dining or clothing voucher. This created much excitement for the recipients because it was so unexpected. The response was well received by their members and saw a 26% response rate and 11% redemption of vouchers. These campaign results were way above the average industry response rates.

Another great example of how a company successfully uses their communication strategy to surprise and delight their customers is South African online retailer, YuppieChef. Their entire customer communication strategy, whether it is your first or one hundredth time shopping with them, is clever, personalised and innovative. One of the customer experiences worth mentioning is their wedding registry process. The entire registry journey has been thought through with their customers’ best interests, top of mind. Their communication throughout the entire process continues to surprise you with messages such as a countdown to the big day, a reminder about how your registry can be updated, a summary of what has been bought by guests and their personal messages to you, to mention a few. However, what is most impactful, from a surprise and delight point of view, is after you have closed your registry, received your gifts and YuppieChef's well wishes, they send you a personalised voucher to thank you for choosing them for your registry. The unexpected voucher is worth R150 to spend on something in celebration of the couples’ first Christmas together. With such a well thought out and innovative communication plan, YuppieChef will continue to surprise and delight their customers and get them to talk about their experiences with them, keeping them top of mind.

TRUTH TIP:

We encourage you to get creative and add some fun to your loyalty programme and engagement programmes by finding unique ways to recognise and reward your loyal customers.
Another loyalty technique to employ to get the attention of your top spenders is by offering them something that no one else has... In some global loyalty programmes, especially those that are tier-based, the highest tier is the most elusive and exclusive level. To gain entry into this tier is by invitation only and is only open to a select few.

A great example of a loyalty programme with an invitation-only tier is Australian retailer, Myer. Myer’s loyalty programme, Myer One, has 3 main tiers with the highest being the platinum tier (by invitation only). In order to reach platinum tier status you must have spent over $20,000 (Australian dollars) per annum. This tier is only available to the top 2000 members.

The benefits include:

- Platinum card
- Ability to leave your shopping at the store and collect later or have a team member walk your shopping to your car
- Can be expected to be called by your name by staff - VIP treatment
- Free online delivery
- Free gift wrapping and delivery of the gift purchased
- $30 birthday gift card
- Exclusive night shopping experience with latest fashion designers, drinks and snacks and personal shopper for the evening

However, when further probing the benefits of the Platinum tier, we discovered that, not only does the Platinum tier allow you access to the benefits listed above, but, also includes a surprise and delight element that is not publicly advertised on their website.

Through research, we found that MyerOne treat their top platinum members to unexpected moments of delight by granting access to a shopping night at Myer for one day a year for friends and family only. A Myer store is opened after hours just for its top tier members. To arrange this evening, members call Myer and arrange for them to open the store just for them. Light snacks and drinks are served to members during their night-time shopping experience.
Gender and loyalty programme usage – it’s a woman’s world

It may not be surprising to see that women are members of more loyalty programmes than men, and that the type of loyalty programmes they belong to are skewed towards grocery and clothing, versus men who seem to gravitate towards the ‘financial’ loyalty offerings. On average, women are members of 5.7 different programmes vs. men who are members of 4.3.

Figure 9: WHAT DIFFERENCES ARE THERE IN LOYALTY PROGRAMME USAGE BETWEEN MEN AND WOMEN?

Q. What programme are you a member of?

[BrandMapp Survey 2015]

n = 17 039 (shown in percentages)
Are we as marketers using this to communicate to customers differently? When it comes to loyalty programmes, do men respond differently to women? Here some tips of how to speak differently to a female and a male customer.

A study by Melnyk and Osselaer in 2012\(^4\), looked at gender differences in responses to loyalty programmes. The study compared two different kinds of loyalty programmes:

a) Programmes that provide “high status” (e.g. tiered loyalty programmes offering VIP status)

b) Programmes that provide personalisation (e.g. sending a personalised birthday card or gift to members)

The study found that men responded more positively to high status loyalty programmes, but ONLY if their status was going to be visible or noticed by other people. Simply put,

**MEN TYPICALLY CARE ABOUT REACHING OR BELONGING TO THE TOP TIER IF PEOPLE ARE GOING TO NOTICE IT AND ARE (MORE THAN WOMEN) INTERESTED IN SHOWING OFF THEIR HIGH STATUS**

Secondary to status, the survey set out to understand if men or women prefer a personalised experience when engaging with a brand and their loyalty programme. The results showed women were more likely to prefer a service that was personalised and tailored to them and did not show any interest in having their personalised experience open for display.

**WOMEN WANT PERSONALISED LOYALTY, BUT VALUE THEIR PRIVACY**

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**TRUTH TIP:**

Men are more interested in loyalty programmes that offer “status” (high levels, rewards, etc.), but only if it is clearly visible to others.

Women are more private when it comes to “showing off” their tier status and prefer a personalised experience.

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\(^4\)Study by Melnyk and Osselaer, 2012: “Make me special: Gender differences in consumers’ responses to loyalty programs”
Age and loyalty programme usage – the generation gap

When looking at the data with an age filter the insight that stands out is that while 33% of all respondents do not belong to any loyalty programmes, the percentage is significantly higher when looking at the under 25 year old customer segment.

47% OF CUSTOMERS UNDER THE AGE OF 25 YEARS DO NOT BELONG TO ANY LOYALTY PROGRAMME

Figure 10: LOYALTY USAGE AND AGE
Q. Are young people using loyalty less than older people?

[BrandMapp Survey 2015]

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Use More</th>
<th>Use the Same</th>
<th>Use Less</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25s</td>
<td>22%</td>
<td>26%</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>26%</td>
<td>7%</td>
<td>34%</td>
</tr>
</tbody>
</table>

n = 25 599 (shown in percentages)
The largest penetration is within Pick n Pay, where 60% are still Smart Shoppers as well as Edgars, with 60% of under 25s being Edgars Club members. This can be explained by the low entry requirements to join these programmes (free and easy to join) and in Edgars’ case, offering a credit facility provides more purchasing options to customers.

Besides these 2 programmes, usage drops significantly against the averages, except for Spur Family cards where 29% matches the 25-34s, and Jet and MTN 1-4-1 where, with 15% and 18% respectively, they are the highest users. If you were to put a label on it – it would be fashion, cell phones and fast food.
Young people (under 25) are far less likely to use loyalty programmes – why is this?

In the following section we explore the unique characteristics of the youth segment (particularly Millennials and Gen Z) in order to better understand their loyalty behaviours and attitudes.

Both Millennials and Gen Z have grown up with electronics, the internet and social networks. Their lives have been shaped by innovation and technology and they are pioneers in challenging the status quo of mass marketing, and expect brands to stand out from their competitors. Knowing this, it becomes clearer to marketers that traditional, mass communication marketing does not grab their attention.

There are distinct characteristics of this younger segment which clearly define who they are and why we need to treat them differently when it comes to loyalty programmes:

- They are highly informed due to access to the internet and social networks
- They are heavily influenced by brands with social media presence
- Their purchasing cycle is highly influenced by peer recommendation, research and convenience
- They are conservative when it comes to spending
- They expect more than points and discounts from brands, they demand engagement
- They expect real time response and an excellent customer experience
- They want to be rewarded for non-transactional interactions
Due to the fact that the younger generations are so comfortable with technology, they expect the same from the brands with which they interact. It is important for marketers to understand that this generation multitasks and interacts with brands across various channels at any given point in time of their purchasing cycle. For example, they may start searching for a product on their mobile phone, add it to their shopping cart and later on, complete the transaction on their desktop at home. Once the product has been delivered, they may wish to exchange it in-store. It is therefore key that brands ensure a holistic customer experience by considering and integrating all possible customer touchpoints into an omni-channel approach.

**TRUTH TIP:**

Loyalty programmes are not innovative enough to capture the attention of the youth. Brands will have to offer differentiation when it comes to their rewards offering. The characteristics listed above play a vital role when creating a loyalty programme, especially if your customer base is predominantly younger.

Being “omni-present” is hereby also key. An omni-channel approach will not only meet the demands of the younger customer, it will also allow your business to combine intelligence on shopping, search and web behaviour history to assist you in identifying when to offer an in-store promotion, extend a seasonal offer or make a product recommendation through the appropriate channels.
The research conducted in this whitepaper has unveiled that the South African loyalty landscape is growing and diversifying. It is therefore becoming a much more competitive market place and brands have to work much harder to engage and retain the loyalty of their customers.

Offering customers a loyalty programme, because everyone else has one, will not fix any misalignment in your marketing mix. A loyalty programme will also not succeed by providing the results you seek if you treat it as a short term sales campaign. Instead, it requires a long term strategic investment with the customer at the centre of your business strategy. Therefore, a loyalty programme alone does not create customer loyalty. However, when used to gather customer data, combined with powerful data analysis and innovative engagement strategies, it can become the key differentiating factor in a competitive market place.

In order to create a programme that stands out, it is therefore important to take into consideration how demographic factors such as age, income and gender, discussed in this paper, influence how you should build your loyalty strategy.

Some of the key insights uncovered in this report are:

- **Understand your customer base:** You cannot be everything to everyone, but you can start to understand what your customers would find relevant and appealing by analysing data a lot better. As an example your data may tell you that you are in fact servicing two, three or more distinct groups of customers… and every customer wants to feel special and be treated as if they were the most important asset to your brand, so ensure that you create a strategy that can service both ends of the scale.

- **Create differentiation:** Especially if you are running a national and sizeable programme you may be serving several distinct markets. Firstly, ensure your programme can service the top end of the base by rewarding them with “money-can’t-buy” experiential rewards. On the other hand, the lower end of the market should be afforded the opportunities to earn “points” for other activities not only when transacting with your brand. Secondly, even just by considering gender you can become more targeted by knowing that men are more interested in loyalty programmes that offer “status” while women prefer a personalised experience.

- **Focus on engagement:** One of the fundamental mistakes loyalty programme owners make is the lack of communication to their members once they join the loyalty programme. You have gained permission to talk to your customers and created the opportunity to collect enormous amounts of valuable data. Use this to your advantage by creating meaningful and relevant engagement initiatives and communications across your customers’ lifecycle.

- **Be omni-present:** In order to be innovative and relevant in today’s world, your programme will have to integrate all touch points your customers use to interact with you. These touch points include how and where they transact with you, and how they engage with you across in-store, social, digital (mobile) as well as ecommerce (if applicable). Be sure to understand all the channels your customers use to interact with you and become “omni-present”.

- **Get innovative:** In the cluttered loyalty landscape we encourage you to be creative and add some fun to your loyalty programme by finding unique ways to recognise and reward your loyal customers. Especially when it comes to the younger market, loyalty programmes often do not create enough innovation. Give your customers the opportunity to earn points in different ways by going beyond earning for just transactional behaviour, e.g. reward for social media engagement with your brand, updating your details, referring a friend or taking part in surveys.
Keep it simple: Many businesses have developed loyalty programmes that are too complicated for the average man on the street, who can never reap the full rewards of these programmes, simply because they do not understand what is on offer. The programmes have become too complicated and programme rules change too often for anyone to remain interested and engaged in the programme. Make sure you keep it simple and transparent.

By applying the above strategies and continuing to analyse your customers’ data to understand perception and attitudes towards your loyalty programmes and which factors influence their decision to join and actively participate in your programme, you will soon come to realise where the real opportunities lie to differentiate your business in a cluttered market place.
About Truth

Truth is a boutique consultancy business specialising in customer centricity and loyalty programme strategy and design. Truth has proudly delivered loyalty programmes and customer centricity strategies for many of South Africa’s best known brands, including Pick n Pay, Edcon, TFG Rewards & More, Virgin Active, Distell, Nedbank, Avios, Absa, Massbuild, Fedhealth, Cape Town Tourism, Sorbet and many more.

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AMANDA CROMHOUT

Amanda is the founder of Truth. Amanda’s extensive experience in the field of loyalty and CRM has put Truth at the forefront of loyalty in South Africa. She spent many years at British Airways leading sales and marketing teams across UK, Africa, Middle East & Asia. She has also spearheaded the Customer (CRM) division at Woolworths, South Africa’s no.1 premium retailer. At Woolworths, she led the department encompassing customer insights, research, customer strategy, loyalty/MySchool, direct marketing and financial services marketing.

Amanda is invited to speak professionally, as a keynote speaker and thought-leader in her field, both in South Africa and internationally. Her international conferences span USA, Hong Kong, New Zealand and Europe. She is featured frequently in South Africa’s business media.

LISA REID

Lisa Reid joined Truth as Managing Director in July 2014. Prior to Truth, she worked for Virgin Active South Africa. After 2 years as National Marketing Manager, Lisa took up the role as Head of Customer Relationship Management in 2012. Her key focus was to drive the business towards customer centricity by setting up a department that aligned internal and external stakeholders around all member centric communications and initiatives.

Preceding Virgin Active, Lisa was the Communications and PR Manager for adidas South Africa, specifically supporting the business during the 2010 FIFA Soccer World Cup. Lisa holds a Masters degree in Marketing Management. She was born in Germany and moved to South Africa in 2001.

ROS NETTO

Ros is Truth’s loyalty consultant and marketing manager. Ros has successfully developed & implemented loyalty solutions for many of Truth’s clients, coupled with social media rewards.

Ros also manages all Truth’s client research, which includes global/local loyalty and CRM trends, insights & analysis. Ros joined Truth from Woolworths in 2010. She holds a BA degree, majoring in Industrial Psychology, from Stellenbosch University.
About WhyFive:

WhyFive is an innovative consumer insights business specialised in online research. Whether it is quantitative or qualitative research, WhyFive use proven methodologies and technology to help companies mine the wealth of insights locked in their customer data. WhyFive's client base includes leading South African companies such as Edcon, Shoprite Checkers, Standard Bank, Lexus, Sanlam, Pick n Pay, DSTV, Virgin Active, Nando's and FNB to mention a few. For this specific whitepaper, results from WhyFive’s BrandMapp 2015 survey were used to drive insights about the current state of loyalty in South Africa.

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