

MARKETING

What loyalty programs look like in a post-GDPR world

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In exchange for occasional perks such as discounts, exclusive brand access or advanced notice on sales, customers regularly and gladly surrender their personal information to luxury brands. In today's data-led world, this information is like gold dust and the key to brand advocacy.

But then the General Data Protection Regulation (GDPR) came into effect. On May 25, the European Union's greatest shakeup in privacy legislation came into full effect. It redefines how and to what extent the personal information of E.U. citizens must be protected and is applicable to all organizations – wherever they are in the world, if dealing with European customers.

In light of the dust settling post-GDPR, now is as good time as any to reflect on what the new loyalty gold standard looks like.

Loyalty 1.0: Points and rewards

At this level, a common one for many brands, there is no end user differentiation.

All customers get the same earn-and-burn opportunities – customers are rewarded for a certain number of visits or spend. The “earn” could equate to discounts, credit or early entry to sales. The main limitation to 1.0 is that it typically only rewards you once you have spent money with a brand, so is driven purely by transactions.

Unfortunately, this points system is also easy for consumers to forget when it comes to how many points they have, when they expire and what exactly they get for them.

Loyalty 2.0: Individualized marketing

Loyalty 2.0 is defined by its use of multiple channels, for example an application and a Web site. But the separate channels are just that – separate. They do not talk to each other, and the loyalty program works in isolation.

All loyalty is points-based, and again the points are based only on the transactions that consumers have with the brand.

More advanced loyalty initiatives such as gamification may play a role in loyalty 2.0, but they are likely generic in nature.

For example, the brand may proactively encourage customers to spend their loyalty points, keeping front of mind, but the reward or benefit for doing so may be generic and impersonal.

We also find loyalty 2.0 is indicative of limited channel potential – for example, the brand might use direct mail (DM) as a marketing medium, but they do not encourage sharing of the program on other channels because of the siloed structure of the loyalty program.

This is where loyalty 2.0 falls down.

Typically, one of the most expensive channels that a luxury brand will use is direct mail – these brands need to maximize return on investment (ROI) from mailers through interaction encouragement such as social sharing. Then they can increase ROI from the consumer advocacy.

Loyalty 3.0: Engaging customers

In stark contrast to loyalty 2.0, loyalty 3.0 relies on two-way, cross-channel communications.

Again, in more practical terms, this would normally mean that a customer uses a social media platform to initiate contact with a brand that then responds via another channel.

A more common example is the customer starting the communication with a complaint – for example, a flight delay. Then, the next time she logs into her account, she has discounts on future flights to her favorite destinations waiting as compensation.

One-to-one segmentation is required for loyalty 3.0, but this comes with technical challenges and requires data integration to form a single customer view (SCV) of every customer.

Brands often struggle with too many data buckets within their organizations. They have particular trouble pulling information from online and offline buckets to build their single customer views.

Data layer products ease this headache as they are designed to pull data from different systems.

The bigger luxury brands invest in data management platforms specifically to address this issue. These platforms also help with data latency, which is a must if you are aspiring to loyalty 3.0.

You cannot work with outdated customer data, as purchasing behavior often changes. You need a dynamic system that updates customer preferences as the customer updates them in real time.

Rewarding engagement and interaction is required for loyalty 3.0.

Rewarding for interaction is about valuing their time as much as valuing their money. If they spend time on your channels then you should identify, recognize and reward them.

You can benefit from the additional data and insight created by engagement with your brand long before a purchase, and brands should be using loyalty to encouraging more meaningful interactions earlier in the lifecycle.

Abercrombie & Fitch does this well with rewards for app interaction, friend referral and profile completion.

Personalized rewards are also required for loyalty 3.0.

A good example of this in action is the cosmetics company that built a preference center enabling customers to identify their favorite lipstick colour and hair color. The brand gets a fantastic marketing resource and their customers get personalised rewards in the shape of hair products and cosmetics ideal for them.

In a post-GDPR world where it is more difficult than ever to collect and store data, luxury brands can win the loyalty battle by offering hyper-personalised rewards.

Data is a transaction, but consumers are still happy to part with it if it enhances their brand experience and personally benefits them.

Future: Loyalty 4.0

A lot of loyalty programs are about points systems designed to encourage users to purchase again. But luxury loyalty is often focussed as much on advocacy as it is revenue. This is simply because a lot of luxury brands sell through resellers which makes it harder to offer post purchase rewards.

SO, WHERE NEXT? What does loyalty 4.0 look like?

Ultimately, it will be defined by individualization, not personalization.

Personalization is focussed on combining two or three data sets, whereas individualization is about combining hundreds of them.

Loyalty 4.0 is entirely individualized. All data will be correctly and legitimately captured, and every user journey personalized.

But luxury loyalty is not an all-or-nothing scenario, and huge gains can be made as brands level up.

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