

## Banking on Total Relationships: Paving the Way for Customer Loyalty

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## Executive Summary

The concept of a loyalty program is shifting away from frequency schemes to true customer engagement and affinity. Loyalty marketing is not a discrete function separated from the rest of the business; it’s part of an integrated business strategy. We call it Total Relationship Loyalty (TRL). TRL sets forth the foundation to create a comprehensive program based on three customer dimensions: customer value and tenure; product ownership and usage; and desired channel behavior.

Total Relationship Loyalty puts into action the idea that customers should be rewarded for their entire relationship with a bank. It enables banks to establish a complete view of the customer by looking holistically across these three dimensions.

This white paper will examine the Total Relationship Loyalty concept, share best practices from around the world, and provide a framework for banks to get started on changing the way they operate their loyalty programs.

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# The Power of Total Relationship Loyalty

Competition for loyal customers is high in the banking sector. Every bank is trying to be the “ideal bank” for their customers in exchange for profitable and committed relationships. They are trying to meet customer needs by providing an ideal set of products and an ideal level of customer service quality across an ideal combination of channels. Many banks use loyalty programs to reach that ideal state. However, most of these programs operate as single streams, and don’t take into account the different products, services, or channels customers use in their relationship with the bank.

The secret to success is to build real relationships and provide “hook” products for each segment across the customer lifecycle. A bank that wants to focus on customer profitability will need to combine the right set of products with the right service levels. But that’s not enough. There is one more essential ingredient: the right channels. Adoption of alternative channels throughout the customer lifecycle is a key lever in the profitability game.

Popular anchor product-based rewards programs are important, but don’t go far enough to build real customer loyalty. Banks should adopt a wider perspective and comprehensive strategy to reach their ideal state. Progressive banks have innovated to consider and reward a customer’s entire banking relationship portfolio. Their loyalty programs are designed to grow and nurture loyal customers, looking at loyalty through a customer lens.

The concept of loyalty is shifting away from frequency schemes to true customer engagement and affinity. Loyalty marketing is not a discrete function separated from the rest of the business; it’s part of an integrated business strategy. We call it Total Relationship Loyalty (TRL). TRL sets forth the foundation to create a comprehensive program based on three customer dimensions:

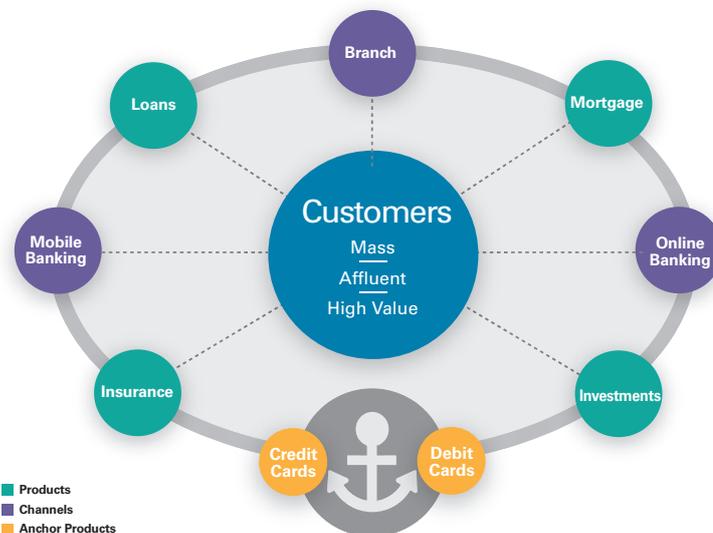
- Customer value and tenure
- Product ownership and usage
- Desired channel behavior

Total Relationship Loyalty puts into action the idea that customers should be rewarded for their entire relationship with a bank. It enables banks to establish a complete view of the customer by looking holistically across these three dimensions (see Figure 1). In short, Total Relationship Loyalty increases a bank’s bottom line by offering customers highly attractive and relevant rewards for

**Total Relationship Loyalty puts into action the idea that customers should be rewarded for their entire relationship with a bank.**

**Figure 1: Total Relationship Loyalty Program**

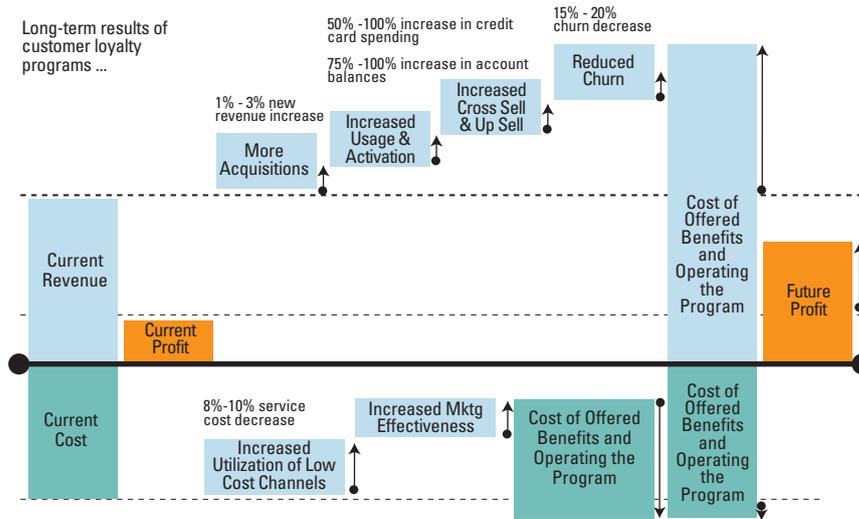
The Total Relationship Loyalty Program covers multiple customer, channel, and product dimensions to change customer behavior and generate loyalty, which may be anchored by the bank’s already existing credit / debit card rewards schemes.



Source: Peppers & Rogers Group

**Figure 2: Financial Mechanism of Total Relationship Loyalty**

There are many opportunities for higher revenue and profitability from customers using a TRL approach.



building up their product and service portfolio through the right channels. Banks that already run the credit / debit card rewards schemes can effectively leverage this as the anchor portfolio to build a profitable TRL program.

The TRL model allows banks to reward customers based on many different aspects of their relationship with the bank. Customers can earn rewards when they use banking products and services such as debit or credit cards, open new checking or savings accounts, bank online, or get approved for a loan. In addition, they are rewarded for their retention and lifetime value in the form of number of years as customers, number of accounts, and combined balances.

However, banks should keep in mind that customers won't stay loyal if they are not provided with good rates and efficient service. "I don't care whether you celebrate my five-year anniversary; I will gladly leave you for better rates or more bonus points elsewhere!" Customers are self-interested, and a bank can't save the relationship by just giving flowers on anniversaries. Banks need to be proactive. Longer customer tenure will be a result of their smart actions.

A Total Relationship Loyalty program takes action to change customer behavior and generate loyalty. Customer loyalty can be an integral catalyst for sustainable growth in the form of increased revenue and decreased costs. However, a traditional campaign-based approach is not enough. The goal of an efficient loyalty program is to grow the customer portfolio, influence retention, and maximize customer value extraction. This is not a one-off endeavor. Rewards programs are longer term investments than basic campaigns, where positive return is expected within one-to-three years.

And that long-term investment pays off. Taking a TRL approach has a number of financial benefits. It creates revenue drivers like higher acquisition, cross – and up-sell activities, retention, and increased sales and resource efficiency. It also positively impacts costs through transaction migration to cost-efficient channels and increased marketing effectiveness through better targeting, more unique offerings, and leveraging merchant communications. All of these have a net positive impact on profit, as shown in Figure 2.

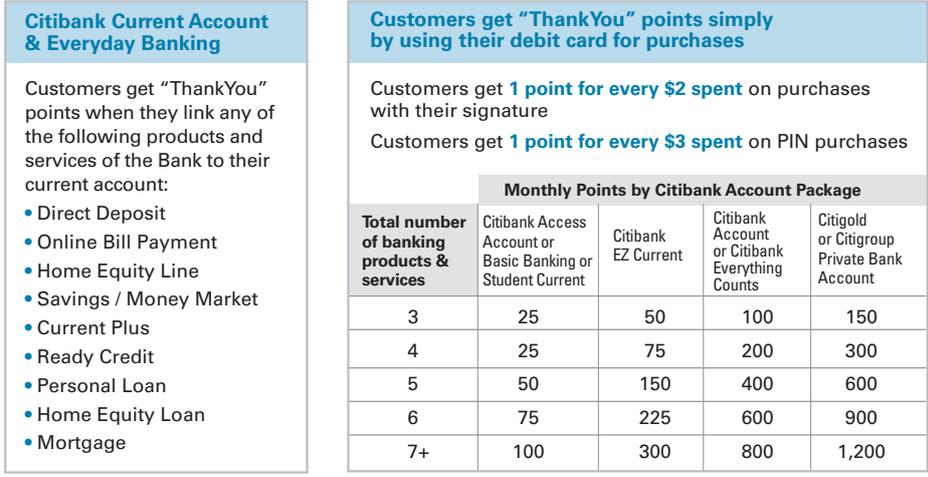
### Total Relationship Loyalty in action

Banks around the world have begun to implement certain aspects of a Total Relationship Loyalty strategy. For example, Citibank's "ThankYou" program is one of the most successful and internationally acknowledged total relationship loyalty programs in the global retail banking business. Customers earn "ThankYou" points each month based on their activity across the bank's network of products and

**A Total Relationship Loyalty program takes action in order to change customer behavior and generate loyalty.**

**Figure 3: Total Relationship Loyalty Best Practice: Citi's "ThankYou" Network**

Citi's customers earn and redeem rewards points based on their activity across the network of products and channels, including the breadth of their debit card portfolio.



Source: Peppers & Rogers Group



channels. Members earn and redeem "Thank You" points through credit card, checking and savings account activity, or when they visit partners like investment firm Smith Barney, travel site Expedia, or online shopping partners. Customers can also purchase points to reach certain earning milestones. Members' points are collected into a central account where they can be redeemed for products or gifts divided into categories such as products, travel & experiences, gift cards, or cash, savings & charity. It also offers a "make a wish" option, where members can ask for specific rewards beyond the standard rewards in the program.

In addition to a comprehensive credit card rewarding scheme, Citibank has engineered its program to also focus on the debit card portfolio (see Figure 3). Points are based on customers' current account packages combined with the number of products and services they own. Customers also earn additional points for using their debit card for purchases. In 2010, Citibank's "ThankYou" program won COLLOQUY's Master of Enterprise Loyalty award for its integration across the enterprise.

Other players are beginning to focus on TRL as well. In the MENA market, both ADCB Touchpoints and Mashreq Salaam now link customer behavior and value to their rewards programs across the enterprise. ADCB Touchpoints members earn points based on product usage, such as cards, investments, savings and loans, and channel behavior like online banking or bill payment. The company also offers a customized website with program information and an earning calculator, and points can be redeemed in a wide range of merchants.

Mashreq's Salaam program allows members to earn points for existing and new product usage, as well as how much and how often they use their credit and debit cards. Its Mosaic financial simulator shows customers how they can best earn monthly relationship points, and customers can redeem points through an online gift boutique or by exchanging points for case equivalents in their accounts.

Such examples are right now few and far between. But these companies know that building and deploying a TRL program means adding a competitive advantage with current customers that is hard for others to challenge. It's an endeavour that is worthwhile in the long term, though can be complex in the making. Making the leap to a relationship-based program can be a complex undertaking, however.

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**Tips from the Best**

Looking at some of the most successful loyalty programs in the region, a few best practices have emerged:

- Focus on the total customer relationship with the bank
- Implement user-friendly processes for the customer
- Earn rewards via different product and channel usage
- Create top-of-mind awareness via consistent, strong branding
- Provide transparency in program details and rules
- Provide a wide range of flexible redemption options
- Build a selective and comprehensive partner network for redemption
- Leverage your partner network to increase the effectiveness of marketing communications

# Total Relationship Loyalty Framework

A Total Relationship Loyalty program requires a multi-pronged strategy across internal divisions and stakeholders. It cannot be a single initiative in a single department. It must be aligned with corporate strategy and other loyalty initiatives. Peppers & Rogers Group has created an end-to-end framework to help banks develop and manage their new loyalty strategy. We propose taking the bank through its loyalty program journey by deploying three distinct, fully interconnected, project phases: program design, implementation, and ongoing management.

**Figure 4: Building a Total Relationship Loyalty Program**

An end-to-end framework for loyalty development and management establishes a sound loyalty program.



Source: Peppers & Rogers Group

**We propose taking the bank through its loyalty program journey by deploying three distinct, fully interconnected, project phases: program design, implementation, and ongoing management.**

**Program design:** The objectives of the program design element are to ensure alignment with the bank's corporate strategy, design the building blocks of the loyalty program, and identify customer interaction methodology. The design covers all end-to-end aspects, from the high-level components to the blueprint for implementation and operation.

Each bank is different, with its own organizational structure, culture, and customer considerations. First, we recommend banks start with an overall loyalty program vision. Define the vision, mission, and operating guiding principles for the loyalty program. Next, create the value proposition and differentiation of program tiers based on customer value and segment strategies. Why would customers want to enroll? What is the business case for creating such a program? What types of rewards will be offered?

Then, create a blueprint design. Devise how and in which channels customers will be enrolled in the program, as well as how many points customers will earn from which products and transactions at which channels; and define a wide range of flexible redemption options. Look at customer value and decide how customers with different values will be treated differently when it comes to earning and redeeming points.

With the nuts and bolts of the operation designed, the focus can then move outward. Decide which loyalty partners to align with based on what customers want. Create a partner network model, with specifics on how they will integrate with the overall system.

Finally, design how the program will be branded and communicated, both internally and externally. Define elements and channels for program communication campaigns, and create a communication plan for specific customers and parts of the program that are priorities.

**Program implementation:** The implementation phase of the project is divided into two parts – planning and support. In the planning stage, it's necessary to develop operational requirements of the loyalty program and develop a thorough plan for implementation.

We recommend banks define specific aspects of the program, such as the customer lifecycle, the process map and organization, and who is responsible for different pieces of the program. In addition, set detailed KPIs and metrics to align everyone to the vision and mission of the program.

To keep momentum in the implementation phase, we also recommend banks prioritize quick-wins and initiatives based on urgency and difficulty of implementation; develop an implementation road-map; and design a project management office (PMO) structure for ongoing management once the program launches.

Implementation support is comprised of organizational support, system implementation support, and campaign management. Depending on the organization, that may mean restructuring internal resources to incorporate loyalty management and monitoring progress on the technical side. And this new approach to loyalty means a customer-focused approach to campaigns and customer communications, as well. Changes may be needed in marketing materials, messaging, campaigns, employee scripts, and in how the resulting data is collected and analyzed to make appropriate changes.

**Ongoing management:** After the program is launched, ongoing management is crucial to keeping the program relevant and valuable to both the bank and its program members. Someone's got to manage the customization and delivery of rewards, as well as monitor and make adjustments to the rewards or partners. There is also a wealth of insight generated by the Total Relationship Loyalty program that must be managed, in the form of performance metrics and individual customer insight about reward preferences, popular channels, and more. Finally, customer interactions are a crucial part of a successful loyalty program and overall business success. Proactive and helpful customer care, marketing programs, and campaigns are the lifeblood of most companies, and require consistent focus.

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## Elements of Success

Besides KPIs, revenue targets and news media coverage, there are a few common best practices we have gleaned from companies doing it right:

- 1. Garner Support for Long-Term Strategy:** Remember that this is a long-term project that might not bring immediate returns. Incremental revenues will recover initial investments in the long run.
- 2. Be Attractive to Customers:** Rewards must be attainable and affordable, and relevant to customers and cater to their needs. The redemption process must be simple, and programs benefit from a wide range of strategically meaningful program partners and benefits.
- 3. Be Profitable:** The cost of the program must be recoverable. The cost of running operations plus redemptions should be significantly less than incremental revenue generated.
- 4. Focus on Operational Excellence** – Every detail in operations is well thought out and taken care of to make a smooth process. Internally, the roles and responsibilities are clear and the organizational structure is well-prepared.
- 5. Use Customer Intelligence Effectively:** Customer data is collected and analyzed regularly to discover market opportunities, campaigns, etc.
- 6. Get Committed Partners:** Partners in the program must fully on board and committed to the program objectives and design to make it a success. When possible, give them a financial stake to solidify their commitment.
- 7. Focus on Branding and Marketing Communications:** Simple branding works best. Extensive awareness creation is critical. And don't forget the importance of transparency.

## Food for Thought

As channels and products move to the background in the evolution of the company-customer relationship, so too must loyalty programs. Peppers & Rogers Group's recommendations and framework provide the starting point for companies looking to take their loyalty programs and customer relationships to the next level. After all, real loyalty comes from a customer's total relationship with your bank. Shouldn't your loyalty program reflect that? ■

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### About the Authors

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### About Peppers & Rogers Group

Peppers & Rogers Group is dedicated to helping its clients improve business performance by shifting focus from transactions to managing relationships. As products or services become commodities and globalization picks up speed, customers have become more demanding and harder to satisfy. They hold the keys to higher profit today and stronger enterprise value tomorrow. We help clients achieve these goals by building the right relationships with the right customers over the right channels.

We earn our keep by solving the business problems of our clients. By delivering a superior customer-based business strategy, we remove the organizational barriers that stand in the way of profitable customer relationships. We show clients where to focus resources and efforts to optimize customer experiences, reduce attrition, increase loyalty, create customer advocacy and mitigate risks.

For more information, visit [www.peppersandrogersgroup.com](http://www.peppersandrogersgroup.com)

*Peppers & Rogers Group: Customers First, No One Second.*