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The Power of Points:

An Interview with Richard Schenker, Founder, Loyalty Strategy Consulting

Richard Schenker:

Richard Schenker is a leading expert on loyalty marketing and the original architect of Canada's most popular points program PC Optimum.



“Open, Shop, Scan, Earn” shouts the banner headline on Shopper Drug Mart’s promotional email, listing all of the latest “exclusive” opportunities to rack up points in its famously popular PC Optimum Program.

Click on the “Get My Offers” button and you’re immediately taken to a web page where you can scroll through a list of bonus points offers on a wide range of promoted products. At the very top of the page is a running tally showing the total points accrued over the lifetime of the membership along with the sum of actual dollars saved. For an avid collector those savings can amount to a couple of thousand dollars per year, a big enough incentive to turn point collection into an obsessive habit.

Shopper’s Drug Mart is owned by Canada’s grocery conglomerate Loblaw and is the leading pharmacy retailer in Canada. PC Optimum members can earn points at all of the Loblaw-owned stores as well as at program partner Esso. A savvy program member is able to maximize points by stocking up on select

promoted items at Shoppers as well as by taking advantage of “20 times points” events which they can then redeem for big food savings at any of Loblaw’s banner stores. In times of rising food inflation, those savings can make a substantial difference in the grocery budget, giving members a powerful reason to stick with the program and consolidate their grocery shopping.

Loblaw inherited the Optimum program when it bought Shoppers in 2014. The program had been launched 14 years earlier to great fanfare and success. Within six weeks of its launch in January 2000 the program blew past its first-year enrollment target of six million members. In 2018 Loblaw chose to merge its own PC Plus loyalty program with Optimum to form Canada’s largest points program. Since then it has become one of the world’s most successful loyalty programs with 17 million members (equalling about 40% of the Canadian population).

The question, of course, is whether the Optimum program – like any points program – should even be thought of as a “loyalty” program. It does very little to instill feelings of true brand loyalty. Mostly it serves as a barrier to exit. A lot of Loblaw customers ridicule the store (especially on Redditt) for its perceived price gouging and accuse it of profiteering at their expense – but at the same time they love the points program because of the money it saves them. As one member who is in the top one per cent of Optimum points earners says, “My biggest incentive is to avoid being ripped off”.

Ever since the airlines first began their frequent flyer programs in the early 1980s, points programs have become pervasive across many different consumer sectors - retail, travel, hospitality, gas stations, quick serve restaurants, food delivery and much more. Today almost all Canadians belong to one or more programs – the average

is around 14 – although they may only be active in half of them. Although these programs can be very pricey to operate and can lead to a pretty hefty balance sheet liability due to deferred redemption, they do deliver results. Every shopping metric is boosted through the halo effect of points currency: basket size – share of wallet – cross-category buying - average receipt size - churn – and, most importantly, incremental recurring revenue. In other words, the member base grows more valuable each year due to higher spending without having to give away margin on mass flyer promotions or needing to compete directly on price at the shelf level. The discounts go only to loyal shoppers, not to bargain hunters sniffing out the best deal.

Yet despite the power of points to influence where and how often customers choose to purchase, these programs, for the most part, foster strictly “give-to-get” relationships. The customer has agreed to terms of membership that are entirely based on their spending behaviour. The opportunity these programs are missing, according to loyalty expert Richard Schenker, is to deepen the emotional bond with customers by encouraging ongoing engagement beyond point collection. Members would love to get more than cash savings. What they really pine for is special treatment: entitlements, privileges, status recognition, access to one-of-a-kind events– anything that can turn the tedious chore of shopping into an experience they can actually look forward to. That way the program becomes a more meaningful part of their lives and not simply a “way to avoid being ripped off”.

Richard was the principal architect behind the original Shoppers Drug Mart program. He later went on to serve at Loyalty One, where he worked on the Air Miles coalition program, and most recently was Managing Director at Bond Brand Loyalty. Today he runs his own loyalty consultancy practice.

Richard began his career at the now defunct Hudson’s Bay department store where he looked after the credit card portfolio and launched and managed the company’s “Bay Dollars” loyalty program. I began by asking him how he felt about the recent demise of the Bay which in its heyday was the crown jewel of Canadian retailing.

RS **Richard Schenker (RS):** Very painful to see the demise of the Hudson’s Bay Company. I’m not alone in this matter. But, when you think about the demise of the Hudson’s Bay Company, I think it’s primarily because the organization as a whole really did not innovate. As we know the department store business is not a business that is as attractive as it used to be, when you and I sort of started off in this industry. There have been a number of changes. Certainly, you know,

the younger demographic does not shop department stores.

I think HBC, unfortunately, was late to the e-commerce game. And I think, quite frankly, the private equity organization that owned them at the time I was more interested in the leases and how they could sort of flip those and extract equity out of that. So it sort of had a combination of the wrong level of innovation and intensity against the organization, which I believe led to the demise of the organization. And it’s really sad, you know, if you think about an institution that’s 355 years old and see it just rot away so quickly. It’s a really sad commentary on the state of commerce in this country, and I would say, you know, worldwide, as it pertains to a company of this great heritage.

SS

Stephen Shaw (SS): Well, certainly you, me, and a lot of other people of our generation grew up with HBC. And I certainly did a lot of shopping at HBC. I would have called myself a loyal customer. And there was an emotional undercurrent to that relationship for sure, which you must have saw at the time when you were working there, right? There was a strong foundational connection to the institution. Not just because it was 355 or 400 years old, but they kind of got the retail experience pretty right at the time, as I recall.

RS

They did. And, you know, certainly in the 90s when I worked there, The Bay was the department store. They were kicking Eaton’s in the chin. You know, unfortunately, Simpsons had to sort of sunset into the Bay. But the Bay had its, uh, formidable years. You know, I think about, you know, the strength of the Bay Card, the Bay Card Dollars program that I was fortunate enough to bring in as their first loyalty program. I think about their strong merchandising, their price guarantees, the iconic scratch and save - they were hitting all the marks with the shopper and they were definitely a destination for Canadians for all of their shopping needs, whether that be soft goods or hard goods. But that all did change.

SS

Well, it’s rather dramatic and as you say, somewhat of a reflection of the decline in department stores generally, but certainly a sad day when they, when they shuttered the institution. So you left the Bay to join Shoppers Drug Mart in 1997, is that correct?

RS

That’s correct, that’s correct.

SS

And when you made that move, what were plans already underway to launch a unified points based loyalty program? I know they had some clubs and loyalty programs on a sort of a niche basis, but did they bring you in to lead that or did you lead the charge and convince them that this was the right thing to do, right way to go? (9.47)

RS

Actually, what's interesting about that role was I was in a very coveted role at Hudson's Bay Company. I was there for almost nine years and I had to make a tough decision to leave the organization. Not necessarily to a role that provided certainty that there would be a loyalty program or at least an enterprise wide loyalty program, but really to come there to determine whether the organization needed a unifying loyalty program. Because as you mentioned, they had three different programs. They had the Cosmetics Club, which was a very valued program, and beloved program. They had a seniors program, they had a baby program. So they had these sort of disparate programs working in the store. And of course in the back of the store they had Health Watch, which was not a loyalty program, but engendered a tremendous amount of loyalty, with patients and customers. But they had nothing to sort of unify that whole customer experience. So my role was to determine A, do they need a unified loyalty program and B, if so, what would that look like and what is the strategy behind that? What is the design? What's the value proposition? And most importantly, what are the financials to substantiate the need for that type of investment?

SS

So out of the gate, were you thinking a points based program or was it a blank slate at that point and you had to look at the market competitively and assess whether this made sense or not.

RS

It was a blank slate, quite frankly. But you know, I would say back then in 1997, point programs were quite ubiquitous. So there certainly was a leaning towards points. But what was most important in terms of the actual design of the program was to deliver value and deliver instant gratification to customers in a very simple manner. Because if you took a look at most of the programs of the day, they were fairly complicated. You know, Air Miles was a fairly complicated value proposition with varying earn rates at partners and varying redemption rates. So Shoppers was looking for something that was simplistic and unified

and that really led to the actual, you know, foundational thinking around how we bring Optimum to fruition.

SS

I was an early member, I just can't recall: but it was an earn and burn program though from the start.

RS

It wasn't an earn and burn program. And the way the program worked was once you hit a certain spend threshold, you'd redeem instantly at the point of sale. And keep in mind, back in the day, not all programs were sort of instant. You didn't see your points update right away. Even with Air Miles with partners yet to wait 24, 48 hours. With Optimum, that technology was built in. The beauty was at the time Shoppers was actually doing a complete overhaul of all their point of sale equipment. They had about 14 or 15 different point of sale vendors and, you know, it was fairly complicated to build a loyalty program that integrated with all those different point of sale systems.

So it was the right time to build a unified loyalty program with one, you know, IBM point of sale system so customers could actually see what they're earning in the moment, whether it was base points, bonus points, or other types of initiatives and they could redeem in the moment. So that was really the hallmark of the program. It was probably a program that didn't emulate other programs. Most of the programs sort of had some level of delay in terms of sort of earn and burn. Whereas we had customers coming in and their first transaction redeeming by their second transaction because there is this ubiquitous number of bonus points right across the store.

SS

So you, you wouldn't have looked at CVS in the U.S. or any other – Tesco - or any other at the time would have been regarded as best in class loyalty programs as a model? Were you basically inventing this from scratch?

RS

It's interesting you mentioned those two retailers. So in fact the executive group at Shoppers actually went over the pond to visit Tesco and Sainsbury and some others, as well as Boots the Chemist. And Boots was actually a leader in the industry and they came back sort of evangelical around the whole notion of proprietary loyalty and the need to build sort of instant gratification and that helped to sort of, you know, lay the foundation for that. CVS was actually running a pilot at the time when we were, you know, conceiving the Optimum program. Many years later, actually Walgreens came up to Canada to really look at the Optimum program

and sort of emulate what was built by Shoppers Drug Mart in the way of Optimum to design their actual program. So they took a lot of inspiration from the Optimum program and we took inspiration from Boots and Tesco, who were leaders in loyalty design in the U.K. at the time.

SS

That's interesting. And just go back prior to the launch: how much of your time was spent, because it took a couple of years, right, to get this program off the ground. How much of that time was actually spent planning, conception versus the program mechanics, logistics, the deployment aspect of it before you actually went live with the program, I think in 2000. What was the division of time there, the effort span? (15.15)

RS

Yeah, good question, Stephen. So I joined in '97. In '99, we actually piloted the program in three cities, Kingston, Halifax, and Calgary with different dividend rewards. Those pilots went on for about 16 months. And then we launched in September 10, 2000, which is 25th anniversary of the program. There was a lot of tension around whether Shoppers should build their own proprietary loyalty program or actually, you know, take the easier route and join the Air Miles reward program or another coalition program like Aeroplan. But I think the sentiment of the day was that Shoppers really wanted to own the data because the value, as you well know and your listeners know, is in the data and utilization of the data. And that was going to afford them the opportunity to do that.

But getting back to your question, in terms of sort of division of labour, there was a lot of time spent educating and convincing the executive group around the merits of loyalty simply because at the time Shoppers was very much an operational merchant. It was a matter of bringing the goods in, piling as high as you can at the right price and moving them out the door. And they were masters at that. So they were merchants, but they weren't necessarily front store customer centric merchants. And really teaching the, and sort of schooling the executive group around customer centricity was a lot of the work that was done to get them to buy into the whole notion of loyalty, and the power of loyalty, and the utilization of data. And then of course a disproportionate amount of time was put into the actual strategy, the design, the value proposition, and of course a lot of rigour around the financial, you know, efficacy, projected efficacy of the program. So I would say the vast

majority of the time was around the actual strategy and design and financials of the program.

SS

Fascinating. And was there a moment, a eureka moment, where you thought, you know, coming out of a C-Suite meeting or even a boardroom conversation where you said, okay, I think they've got it, or was it basically a slow, gradual build to convince them?

RS

I would say it was a slow, gradual build. But I think the turning point was when the executive group came back from the U.K. and had the opportunity to meet with their counterparts at Tesco and Boots. They were drinking the Kool-Aid when they came back, it was like, okay, green light, let's go ahead, let's build this, let's pilot this. You know, having said that, there were a lot of check ins with the executive group. You know, myself and Neil Everett, who was the CMO at the time, we spent a lot of time with the executive group and the board every step of the way. The late CEO David Bloom, may he rest in peace, was very, very hands on and for the right reasons because this was a huge undertaking for the organization. You get into these loyalty programs, once you're in them it's very hard to get out of them.

So you want to make sure you're making the right decisions and the right investments. Because, you know, with the money that was spent building out all the technology, because most of it was all homegrown and building sort of the empire of people around the program, you know, that money could be used to, you know, open new stores and you get a very, you know, certain return on investment on new stores. Whereas loyalty is a little bit more murky in terms of what you're going to get. So yeah, it was a very intense period of time.

SS

Fascinating. Now, I mean, this is in the history books. You launch it in 2000. It was almost an instant hit with customers. In your gut at the time, you'd done the test markets, I realized that. But still, with all that amount of planning, you still have this moment, queasy feeling of is this going to really work or not? Did you envision that kind of immediate success or was that a surprise? And were there a few, kind of, nervous moments along the way that caused you some sleepless nights?

RS

Oh, I think we had lots of sleepless nights, anytime you launch something because all eyes were on the pilot or at least the three different pilots. And we knew that they had

to succeed. And we actually established some very, very lofty goals in terms of enrollment rates and scan rates and increases in sales and basket size and all the usual loyalty metrics. But we also had control stores. And we did this in a very methodical way. So all eyes of the company were on these pilots. And we made sure that we spent a lot of time in the pilot markets. We didn't just launch the program and let it go. We were in the stores constantly making sure that we were fine tuning the program and also creating conviction by the associate owners of the pilot market that, you know, the whole company is riding on the success of this program. And needless to say, we overshot all these lofty goals.

And when the program was launched nationally, there was such an incredible inertia because, you know, from the top down, the executive group was completely behind this. In fact, I remember, you know, the executive bonuses were actually tied to the success of the program. You know, some of the compensation at store level was actually tied to the success of the program. So when this program was launched, the entire company was behind it. I remember the late CEO David Bloom took all other initiatives off the table for the first eight weeks of the launch to make sure that everyone was solely focused on this program. And the results that we expected to get in one year were achieved in six weeks. It was quite miraculous. And this really speaks to the power of getting an entire organization around a major initiative to achieve such incredible success. (21.29)

SS

Well, you would have been deemed a hero by the organization for that. Wow, that's actually really impressive to hear. What do you think were the three main factors in the success of this launch? Obviously the due diligence that you did, but you just alluded to it, I think, is getting the organization fully supportive and behind the initiative so that no one had doubts that it was the right thing to do.

RS

I think there are three things. First of all, Neil Everett, who was the CMO, assembled a great team. So I happened to be the ringleader, but I had, a very mean and lean team working with me as well as a lot of cross functional people within the organization from IT, technology, operations, merchandising. We were all focused on this and we all sort of worked together. And the key here was bringing all facets of the organization together. This was not just the loyalty team building the program. We brought merchandising into the fold to listen to what their concerns are, make them part

of the solution, not the problem. And once they provided solutions to problems, they bought into this. They stood behind the solution itself. So that was very, very critical.

I think the passion of the executive group was unwavering and their support of the program was critical to the actual success of the program. And then I would say at the store level the associate owners' conviction around the program because they saw in the pilot markets what this program can actually achieve. And I would say lastly the front line store employees. And Shoppers did a wonderful thing. They included employees in the program which was a costly decision to make. Because think about it, they were getting a staff discount. Now they're getting, you know, a discount with Optimum Points.

But it was the best thing that Shoppers ever did because these people became evangelical about the program. We didn't really need to train them even though we went through formal training. But they were experiencing the program firsthand and they were telling the customers which with such passion and excitement about you know, the first time they redeem, they would explain certain hacks that you can achieve to get to your reward levels quicker. It was really incredible because it fostered such strong bonds between cashiers and customers who would otherwise rarely talk. So it was almost infectious in terms of, you know, the enrollment and participation of the program. So I would say those were critical operational factors.

SS

So let's fast forward a bit. So I think 2018 Loblaw's had by that point purchased Shoppers and amalgamated the organizations, decide that they need to bring together your loyalty program together with their own PC program and renamed it PC Optimum, launched it in 2018. Some snafus, obviously it occurred at the time, maybe you have a perspective on that. But today it's acknowledged as the number one loyalty program in Canada. What makes it so popular with shoppers? Why is it the same factors that made it popular when you launch the program? It just seems to have gotten bigger and more engaged in shoppers' lives, going by my wife's perspective, who's in the top 1% of earners as a member. (25.07)

RS

Well your wife is not alone. It's interesting. I think one of the things that Loblaw's did a really good job at was keeping the essence of the program intact. And that's what people love about the program. It's simple to participate in, easy to

understand, provides value, instant gratification. They run a whole host of promotions I would say perhaps sometimes too often around redemption, bonuses and then store wide bonuses and, you know, SKU bonuses. So people get to the rewards very quickly and they save money. And, you know Shoppers Drug Mart is not the cheapest retailer in town. When they run a sale they actually have great prices. But when they don't and you want to redeem your points, you can walk away with a lot of free product. So that's great.

The value proposition is slightly different at Loblaws and their associated companies, where they don't have a base offer, but they have primarily bonus offers. As I said, the essence of the program was retained, but they've also done a really good job around personalization in terms of offers, getting customers to buy things that they normally buy, but also stretch them into other adjacent categories, which I think is great for sort of, you know, providing value, introducing new products to customers, private label products, and I think customers appreciate the value that they get. And I think it's great for the business as well because it expands customers.

And now you got to remember when this program was acquired by Loblaws, it represented probably the largest female database in the country. So this was a real strategic asset for Loblaws. You know, think about, you know, Shoppers Drug Mart customers who may have not shopped at Loblaws. This is a great opportunity to port over those customers, or there were customers that were in both programs. So there's some efficiencies there bringing the programs together. So it was a win, win situation for Loblaws to one, acquire Shoppers Drug Mart, but two, to acquire the Optimum program because it was a very valuable database. And as, you know, the primary shopper of Loblaws is a female shopper.

SS

So I want to move on, because you left Shoppers and went to, I think, Loyalty One, which is better known as the owner of the Air Miles program. And I think you, you moved there in 2003. We all know what's happened to it since. And in its heyday, back in the early 90s, around the time you were at HBC, it was maybe the most popular loyalty program in Canada at the time, but went into a spiral in the last number of years. And we all know Bank of Montreal, which is one of the major sponsors, has acquired the Air Miles program. I'd like to get your perspective. You were there

at Loyalty One for many years. What's your opinion on the reasons that it went into that tailspin and ultimately it was turned over, or BMO ultimately acquired it? What's your perspective, having worked there?

RS

Yeah, so I was very fortunate to be there for about 10 years in several leadership capacities. And I was there during the heyday, so I was very fortunate to be there during the good days. The program was growing, had lots of sponsors in the program. It was adding sponsors. It was a real force to be reckoned with. And as I mentioned and you know, I would hear the stories when I came over to Loyalty One about how they wish Shoppers Drug Mart would have joined their program. At the time they had Safeway in the program that presented a bit of a conflict for Shoppers Drug Mart.

I think what happened was a number of things. The program became less customer centric and more focused on financials. The organization did a couple things to sort of mitigate some of the financial risk. They broke up sort of the mile into cash miles and dream miles to sort of manage their liability. And I don't think that was greeted really well with customers. You know, coupled with putting expiry dates, that created sort of an uproar in our loyalty industry where all of a sudden the government of the day on the provincial level came in and started putting mandates around what you can and you can't do around expiry. So they unfortunately got a lot of negative press.

There were some allegations around potential manipulation of what rewards customers were seeing or not seeing. You know, whether that's fact or fiction, I don't know. I wasn't there at the time. But needless to say, you know, perception is reality when it comes to customers. And I think customers started to really feel the pinch on the program and not see the value in the program. And when customers don't see the value, sponsors and partners don't see the value. So all of a sudden you see an attrition of partners, you know, from the LCBOs of the world, to the Sobeys, and the Metros and, you know, others leaving the program. And there was a bit of a, you know, a destruction quite frankly in the program.

Fast forward, BMO, you know, was a founding partner of the program. They probably had the most to lose because they had a large installed customer base of credit card holders and they decided to buy the program over. And they're actually doing some really good things with the

program right now. I like the direction they're going in with the program and I think there's future viability with this program. You know, I think Sean Stewart, the new CEO or President, has really done great work and his team, but they have some work to be done still. You know, build back some of that credibility.

I think the challenge with Air Miles, and I hear it quite often, is it's always referred to as your parents' program and it doesn't necessarily appeal as much to that sort of GenZ consumer. Having said that, I think the organization is taking steps to become more relevant, more hip. They've created different ways of partnering, not sticking to the old ways of partnership. So they're looking at modernizing the program and I hope that they continue to be successful with that. (31.38)

SS

Well, you mentioned some of the things that you like, what they're doing. What would be some of those things?

RS

Yeah, you know, as an example, you know, where they lost partners, they introduced card linking. And I think that's, you know, a great substitute to, you know, getting categories where you can actually earn points that, you know, unfortunately are absent now. So as their grocers left, they said, you know what, we're going to think out of the box. We're going to find ways to, you know, still fill the category, perhaps not to the same, you know, level, but make sure that our customers are still earning in those categories. So they're doing things a little bit differently. They're doing deals with CPG companies where you can do sort of automated receipt scanning so that you can actually earn points very easily, whether you're shopping at a partner location or not.

SS

I think one of the downfalls during that period where there was a lot of cost management, if I can put it that way, was a decline in customer service. Because I remember my wife who is a points maven, you will recall, was a big Air Miles user, but she got so frustrated with dealing with corrections on points that had not been allocated, trying to get through to customer service. And then redemption was a whole another issue. So to your point, if you make the member experience lousy, then there's not much in it for, for anybody else. So it's interesting.

I want to talk about the other program, the granddaddy of them all really in terms of Canada anyway, Air Canada,

the Aeroplan program launched in 84 I think, which really created the wave of loyalty programs that followed, as it did in the U.S.. They've recently announced - and there's been some obviously toggling back and forth, you know, Aeroplan spun off at one point and then repurchased from AIMIA, as we all recall - but today they've made some changes in how points are run by members. What are your thoughts on the changes they've made and the future of that program?

RS

Yeah, good question. Thank you for asking that because that's very topical. And just for full disclosure, when I was at Bond Brand Loyalty, I had the privilege of actually working with Aeroplan and helping them redesign their program prior to them relaunching it during COVID - interesting time to relaunch a program. I, just for the record, was not involved in the most recent sort of reimagination of the program. But I do have some perspectives on it.

I think what they are trying to do is, you know, they've readjusted the program to provide accelerators to their highest value customers, their Elite, Super Elite customers. And you know, most good loyalty programs are going to invest heavily against your very best customers because that is where profitability is coming from. So they've created a bit of a realignment. The challenge with that is you still have the masses at large who participate in the program. Because of the nature of the changes that they've made, those customers are going to see perhaps in some cases, some diminished value.

The challenge we have in Canada, as you well know, is we don't have a lot of carriers here. So, even if you're upset with Air Canada because of changes in the program, you don't often have many options. You know, obviously you can go to WestJet or, you know, maybe an international carrier, or find a different mode of transportation, or whatever the case may be. But, you know, I think they've taken a little bit of a gamble here because at the end of the day, I think the focus is on building profitability at the high end. And this is not uncommon in the airline industry. We've seen others before them do this type of thing. These loyalty programs are extremely valuable to the airlines, you know, it just, just read an article the other day where airlines like Delta and United, you know, their programs are valued around, you know, \$24-\$25 billion. (35.42)

SS

More than the airline.

RS

More than the airline in many cases. So they have to really take care of these assets and, you know, grow these assets as well.

SS

Let's just talk generally about the loyalty market in Canada. It's sizable, as we all know, and it's still growing. I've read some projected growth estimates that over the next few years it's going to grow at a rate of 12% annually - something like 95% of Canadians belong to a loyalty program - most to more than one. I think the average is 14. How can it possibly grow any more than it already is?

RS

Yeah, you know, it's a good question. I think there are a few forces at play. One would be immigration. We've seen some significant immigration in Canada. A lot of these programs are targeting new Canadians. You know, you think about the banks as an example, you know, they've got very specific programs. Retailers, you know, at all levels, whether that's discount retailers or traditional retailers, are targeting new Canadians as well. But I also think that many programs that are starting to get more, I would say, clever around their value propositions and trying to entice customers away from sort of the me-too loyalty programs, and, you know, acquiring new customers to the brands, so to speak. But you're absolutely right.

I think, you know, a recent study I saw that Bond Brand Loyalty published, was that, I think about the average Canadian has about 16 or 17 loyalty programs in their wallet or in their digital wallet, but only participate in half of them. And I think the challenge with that is there is still a lot of program apathy where people sign up for programs but don't participate in all the programs because they're not demonstrating relevant value to them. And I think that's something that I think loyalty operators really need to take notice of. It's not necessarily about acquiring more members. It's about optimizing the relationship with existing members and creating greater stickiness to the brand proper. I always say that the role of a loyalty program is to build loyalty to the brand, not to the loyalty program. And I think it's important that you know, as loyalty operators we heed that advice.

SS

Well, and I'm going to reference my wife again because she is a customer. Her loyalty is to the program, not to Loblaw's or Shoppers for that matter. And I'll leave it there. Now, just in terms of some of the key trends that you're seeing in

loyalty marketing, the evolution of programs today, and you made a really good point I think, is that the loyalty program should be a gateway to the relationship. That's where a lot of companies seem to fall down. They don't quite understand that - now they have the opportunity to manage that relationship in other ways they couldn't do before. Are you seeing companies start to appreciate that fact and move more in the direction of making this really part of their customer experience strategy?

RS

I would say that the biggest challenge with many loyalty programs out there is that they are too transactionally focused. And I'll take a little bit of a deep dive with your liberty. I am a real student of neuroscience behaviour. I have been following this for quite a while, this movement. And there's a great book for your listeners. And by the way, I get no, attribution as a result of this. But it's a book that I read called *Driven*. It's about how human nature shapes our choices. And it's written by two professors at Harvard, Dr. Paul Lawrence and Dr. Nitin Nohria.³ And what it advocates is as human beings we have four biological drives. The drive to acquire things, stuff, status, you know, just collect things of value to us, points, discounts - then the drive to defend, you know, when we get these things we want to hold them near and dear to us and defend them.

So you know, status in a program as an example, we'll jump through hoops and do silly things like you know, take a trip between Toronto to Montreal, to keep our status. We've all done that before. Those are all very transactional loyalty mechanics and they're embodied in most loyalty programs out in the marketplace. And they're all good and they all work, they're very transactional. What most loyalty programs don't do a good job at are sort of appealing to the human emotional biological drives. And there's two drives. There's the drive to bond as human beings. We are people who are like minded, want to come together and bond with each other over things that matter to us. And loyalty programs by and large don't do that. There are some great examples of programs that do that, but most of them don't. And then there's this whole drive to learn and create betterment for ourselves, betterment for our families, our communities and the world at large. Loyalty programs need to take that on as a role as well.

So I'll give you an example of um, two loyalty programs actually do a good job at that. But I would say most loyalty programs are not appealing to the emotional drive. So as an example, Sephora, a brand that I used to work with when I was at Bond Brand Loyalty, helped them redesign their program. They have something called a Beauty Insider forum where members can come together to share tips and tricks about beauty regimens, get advice, do virtual try-ons with their friends and peers and get advice from beauty advisors. Maybe there's some discounts in there too, but that's not the purpose of the forum. What a great way to make the loyalty program a hub to bring like-minded people together to immerse in the brand proper.

You know, another example is Starbucks. Starbucks actually, not even inside of the loyalty program. They have something called My Starbucks Idea. And this brings like-minded people together who are immersed in the brand to share tips and tricks about how they can create a better branded journey or experience. Believe it or not, the pumpkin spice latte and the green little stopper that goes into your cup that stops it from spilling were all conceived by members inside of My Starbucks Idea. So they're creating that drive to learn and create betterment for themselves and betterment for the community at large. These are all things that should be enshrined in a loyalty program.

What I would love to see is loyalty operators having more of a balance across all four biological drives. I'm not saying you have to be completely transactional, you have to be completely emotional. But in Dr. Paul Lawrence and Dr. Nitin Nohria's model, called the Four Drive Model, they advocate that as human beings, we have four biological drives that consumers expect to be appealed to, and brands need to take notice of this. (43:00)

SS

I particularly like your reference to this idea of building community amongst sort of kindred spirits, for sure. The idea of linking fandom into it, for sure. I agree with you. A lot of programs seem to miss the boat on that. You referenced Sephora as a best in class example, totally agree with you. Are there others that might fall into that category? I'm thinking of the SAQ in Quebec seems to do a pretty good job of understanding its audience and helping them in terms of learning more about wines or catering to their

particular tastes. Are there other programs that come to mind in Canada that represent best in class examples of what you're talking about?

RS

Yeah, I would look even beyond Canada. I think there are a lot of good programs in Canada that do that. But, you know, even internationally, I'll give you an example. I was recently on a KLM flight to Africa. They do something really interesting around what I call sort of rituals and symbols. Not necessarily a loyalty program, but they use a ritual as a mechanic to engender loyalty. And it's really interesting. What they do is, when you finish your flight, the stewardess or the flight attendant will come around with a tray of little houses that look like the little houses that are on the canal in Amsterdam. And inside each one of those little houses, which each are different and are numbered uniquely, there's a little bit of gin in there and it's a little gift from KLM to take away and sort of bring home, maybe put in your office, put in your kitchen, and you'll always remember sort of that flight, and you can actually go on their app, all these homes are numbered and each time you come on a KLM flight.

Now, again, this happened to be in business class or Premium Economy, where you're eligible to get this. It's something that is endearing, it's something that creates a memory, it creates a connection between the land and the airline. And I found that to be really interesting and unique. You know, it sort of falls under that whole sense of creating betterment, creating that emotive connection between a brand and a customer. It's not enshrined in their loyalty program, but to me it's a loyalty mechanic, which is really interesting. (45:23)

SS

But this, to some extent, goes back to the question I asked earlier about loyalty strategy versus loyalty program. But even above that, the concept of a CX strategy, a relationship strategy - is there a hierarchy here? Like, does the loyalty program really fall under, under the umbrella, if you will, of CX management. And therefore the loyalty program can perform a very clear role transactionally, as we've been talking about, but certainly be this enabler of a more direct relationship with the customer.

RS

Yeah, and I agree with that observation. I feel, as I said earlier, that a loyalty program has to be in service to the

brand. You talked about sort of a survey of one of your wife being loyal to the program. That can actually be very dangerous because if that program goes away, the loyalty to the brand goes away. And I won't mention which partner this was, but when I was with Air Miles, there was a partner that was thinking of leaving the Air Miles program. And unfortunately their customers got so hooked on the Air Miles reward program that it would have been psychologically painful for that brand to get rid of the Air Miles reward program. In fact, we did a ton of research and we saw, I think at the time, about 78% potential defection of customers if that program went away.

So you never want to be in a situation where the program trumps the brand. The brand needs to be, sorry, the program needs to be in support of the brand and actually has to encompass the CX strategy. When I'm working with clients that actually build a loyalty program from scratch, the first thing we do is we look at the existing customer journey and the various different milestones in the journey to really unearth what are the pain points, what are the opportunities, what are the things that are working well? And how might we reimagine that customer journey through the infusion or the embodiment of loyalty mechanics that will help drive transactional stickiness, but emotional stickiness to the brand proper.

SS

So that job, I say, that you're involved in, brought in on, is really about designing a CX strategy, not as much a loyalty strategy, is that fair to say?

RS

That is fair to say because at the end of the day you need to look at the customer CX journey to determine how might a loyalty program play a role. Many organizations unfortunately go out and say, I need a loyalty program because my competitor has a loyalty program and I need a points program, I need a discount program. The challenge with doing that is there's nothing new about that. Getting into a point discount program is a bit of a zero sum game. And we've seen this, Stephen, in so many industries, whether it's in fuel, whether it's in banking, you know, all it does is it drives margin erosion. The key is to really understand what your core customers' needs are.

And I often refer to the whole notion of some of the different currencies of loyalty. You know, how might I infuse compassion into the experience? How might I save

my customers' time? How might I impart knowledge? How might I celebrate memories? How might I create peace of mind for customers? What access can I give them? How might I motivate them or inspire them to create betterment for themselves and the community at large? Those are the sort of, the different currencies of loyalty that sort of transcend the discount, which is easy to do. Anyone can offer a discount. There's nothing complicated about it, you know, it just becomes a bit of a me-too, eroding, you know, fallacy to go down that path.

SS

Well, it's a promotion in disguise, really.

RS

It's a promotion in disguise. And the second that the discount is gone, so is the loyalty. So, you know, I always advocate, you know, think well beyond the discount. Be creative, think about what your customer needs are and how might you serve those needs.

SS

So let's talk about building a loyalty program from scratch. Because obviously you're brought in a lot of the time to do exactly that. What are the - you've mentioned some of them - but what are the key considerations when some, when a company is, is deciding, oh yeah, we need something here, either our competitor has it or we're experiencing attrition and we need to find some way of reversing it and/or we need to increase the incremental value of a customer over time. So where do you start with that? What are you saying to the company to say these are the things you absolutely need to think about before we decide just how much we want to invest in all of this? (50:19)

RS

Stephen, I go through a pretty rigorous process of sort of discovery with the organization to really understand why do they even want to get into loyalty? What are they trying to solve for? And, you know, we go through a lot of executive interviews across the spectrum of the organization because, you know, a loyalty program should not be in service just for the marketing team. It should be in service to all of the facets of the organization. I'm a firm believer in sort of enterprise loyalty. So really understanding what the underpinnings are, what are we trying to solve for, what are the objectives of the organization, what are the outcomes that you're seeking customers to do, your partners, so a pretty rigorous process if there is no loyalty program.

Also want to get a sense of what's happening within the competitive set to understand where the white space

opportunity is. That's very critical. And then, you know, we sort of get into a deep dive around the existing ecosystem of assets within the organization to see what might we be able to bring into a loyalty solution that will engender interest by customers that, you know, the organization might already have. These could be underutilized assets that they already have that they're not getting credited for. Or new assets that they need to bring into the program, such as partnerships. So really, you know, understanding the underpinnings of the business and making sure that the value proposition that's being designed is addressing all of the needs within the organization - that's very, very critical.

Voice of customer is absolutely paramount. Really understanding, you know, the customer's perspective on, you know, what impact this program will have on them, both from a transactional and emotional perspective. When I'm working with clients, I often run co-creation sessions with customers to actually help design the ultimate loyalty solution. We can spend a half a day going through a customer journey, understanding what their pain points are. How might we mitigate some of those pain points or create new experiences and engender greater sort of love for the brand. So, you know, infusing all those key ingredients into the design is very, very critical.

SS

But I imagine you must also have to set some baselines around the level of loyalty. Whether that's an NPS score or a loyalty score, what current spending is, what the potential upside to that might be, the potential cross-sell opportunities, all leading up to a business case which ultimately you won't get a green light until, until you can prove that as you talked about at the start of this conversation with Shoppers, right? So is part of what you do to establish those baseline measurements, KPIs.

RS

You're absolutely right. What I didn't get to was all of this work is underpinned by financial rigour. So understanding, what is the baseline today of the organization? What is the propensity for changes across various different metrics? Whether that's frequency, basket size, you know, lifetime value, you know, all those important metrics. And, you know, we also look at not just the quantitative metrics but also look at the qualitative metrics. You know, how might that change net promoter score, you know, customer satisfaction, emotional loyalty index, you know, brand

affinity. Like there's a whole host of metrics that we look and project out as a result of designing a loyalty program because everything needs to be sort of underpinned around a financial viability. I always advocate that a strong loyalty program is one that is aligned with the brand proper, is relevant to customers, is operationally and technically feasible, and financially accretive to the business.

SS

Well, and calculating what the potential value of a one point increase in the loyalty score would be a big part of this as well, right?

RS

Absolutely, absolutely. And that's why we look at both the qualitative and quantitative elements. So they'll be the behavioural components, blended with the financial components, blended with the emotional levers.

SS

I want to do a deep dive on one particular aspect of program design because it can be complex. And we again talked about this earlier in the conversation, which is, a company's decided it's in its best interest to have a rewards based program or frequency marketing program, of some kind. You've got to decide a bunch of things, right? You've got to set a reward type structure, currency, accrual and redemption rules, the right expiry policy,...

RS

Yes. (55.10)

SS

...there's just a whole bunch of math behind all of this too. How do you even go about figuring out all of that?

RS

This is something I've been doing for about 30 years now and it is complex because when you go into an organization and have these discussions there's varying points of view on should it be points or not points? That's usually the first hurdle you get into. Should it be transactional vs experiential? How are we going to cost this out? Is it truly incremental? The beauty is I've been fortunate to be around long enough to have a lot of use cases up here locked away across various different sectors. I've been fortunate to work with so many different brands. So there's precedent around this.

But ultimately organizations have to take a bit of leap of faith. But there is a real defined discipline to doing this. You build the baseline financials, you look at the potential incrementality, you project that out, you do some litmus testing against customers. You know, the beauty when I was at Shoppers, we piloted all of this so we were basically able

to, you know, sort of ratify that. Yes, we're going to get this kind of lift. We're going to get this level of, you know, scan rate in the program. You don't always have that luxury of doing it. Shoppers did it the right way.

Some companies are, you know, rather impatient and just want to get into market, but they want to have that level of certainty. So you need to bring that level of confidence. And you know, there are industry benchmarks out in the marketplace for some of these. Loyalty is not a new discipline. It's been a discipline that's been around for many, many decades now.

SS

Well, I just think of, you know, the difference, say between an Optimum program where you're, you know, cashing in on your points on a really regular basis as opposed to a tiered program where it's aspirational, you're trying to hit that next threshold of spending and it becomes a bit of a longer term play. Those got to be tough call to make. Which, what direction you'd go.

RS

They're very tough calls. And you know, even deciding, you know, what the tier level is going to be, that can have a very demonstrative impact by those decisions. You know, one of the things that I typically do with a client is who's building a tier program is, we take their data, their customer data, and we break them down by deciles and we look at each one of the deciles to determine, okay, well, where's the first break going to be? You know, is it going to be decile one, is it going to be halfway into decile two? You know, what is the propensity to move a portion of decile 2 up to decile 1? You know, is the middle of the pack going to be sort of, you know, decile three to five and then the bottom of the row going to be sort of, you know, anyone, you know, up to, you know, decile 6 to 10. You know, those are some of the critical decisions that are made.

You know, I've worked with clients who already had tiered programs in place and they were questioning whether the tiers were right. And to change tiers with an existing program, as you well know, that can have a pretty demonstrative impact on, you know, customer appeal when you make those changes. So you better be pretty darn right about that. So a lot of rigour goes into that. Now I have to say with the advent of AI, it can actually make it a lot easier to run a lot of this modeling right now because it can be considerate of a lot of data that was very more difficult, I

would say in the past to actually, you know, amalgamate and get a clear view on.

SS

Well, and to some of the discussion earlier around the merchandising piece of this, which is how many points is it going to take to incentivize somebody to buy so much of this product that it's going to have a payback on it. Those are Byzantine calculations that I have to imagine today requires a team of statisticians to kind of figure out. AI may be certainly the answer to some of that.

One other question on the mechanics of this, which is the corporate structure around the program and given its complexity, if you take it to its end like you did with Shoppers or PC Optimum, what's the optimal structure for that? I mean, I think under Shoppers, you referenced the CMO leading the charge. Does it belong in marketing or does it need its own business unit or does it report into the CX leader? What is the optimal structure to manage a loyalty program? Because it calls on so many parts of the company.

RS

It does. And that's a really interesting question. I've been asked that many times by clients. You know, where should it reside? I think there's good arguments across the board. There's very positive and historical arguments for it to sit inside of the marketing, under the CMO. If there's sort of a CX professional within the organization, I think there's also a good argument there. I've seen it sit actually in areas that you wouldn't expect. You know, way back in the day when I was dealing with A&P4, it was actually sitting in the technology team, which is very bizarre. But you know, at the end of the day they the ones who are sort of operating the program and I wouldn't advocate that. But, you know, now with data and data scientists, it could sit in, sort of, business strategy as an example. There are organizations who are using data to inform all decisions across their business. And one could argue that maybe it should sit under business strategy as an example.

I would revert back to two areas. I think it should sit in marketing because at its core it is a marketing tool, but it has to be a conduit that is used across the organization in a very enterprise manner. So if I'm a retailer I want to make sure that the loyalty program is not just being used to sort of spit out offers, to drive basket size and frequency. It should be used in CX to make decisions around, or operations, to make decisions around how do I staff my store, when do

my best customers actually come into the store, what sort of experience should I be providing? Now, CX may be part of marketing, it may not be part, it may be a separate sort of entity within the organization. I would also want to make sure that, you know, loyalty data is being used to make decisions around real estate. You know, where should I put my next store? These are all valuable pieces to the puzzle, but I would say by and large, and historically it's set in the marketing department, but it doesn't mean it has to sit there. (1:01:48).

SS

So we're almost out of time and I do want to take a moment to look forward. Lots going on in the marketplace. We talked about 12% annual growth year over year. There are trends, as you talked about, toward moving away from this being strictly transactional relationship to being a gateway to a broader customer relationship. How do you see loyalty programs evolve? AI is obviously going to have an impact here. How do you see loyalty programs evolving over the next five years?

RS

I think loyalty programs are going to get smarter and smarter and I think because of the advent of AI. So if you think about AI, this whole notion of hyper personalization is going to be driven by AI. You know, today most brands are doing what I would call sort of mass segmentation personalization. I think brands that are leveraging AI and we're already seeing some of this stuff, you know, Starbucks is already doing it to provide a different offer to me than it is to you as an example. So I see hyper personalization. I see dynamic rewards. You may be offered different types of rewards at different, you know, reward thresholds than me based on optimization of a program, measuring emotional sentiment and reacting to that using AI is going to be something that we're going to see - fraud detection and mitigation of fraud. You know, loyalty has a currency and especially in, you know, airlines where there's, you know, a pretty substantial amount of money there, organizations are going to be able to not just detect but mitigate, you know, all kinds of hacking that's going on very, very quickly. And it is very big problem in the industry.

We're going to see, you know, AI chatbots and agents really playing a much more demonstrative role in terms of, you know, proactively managing the customer relationship

with the brand, and negotiating offers, and recommending rewards, and ensuring maximum value for both customers and businesses. So I see so many changes coming as a result of AI. I think we have to be careful about them. They have to be very managed. Because what AI can't offer is that human to human touch that I worry that we are going to lose if we become too reliant on AI to manage our programs.

SS

Well, given the complexity of this business, it's a good thing there are people like you around with enough experience to direct people in the right way. So thank you so much for the time today, Richard. Actually that was revelatory, hearing you talk about your experience with Shoppers and the success you had with that program, but also just the general state of the industry. It's, you know, I don't think any loyalty marketer has to worry about losing their job to AI. I think this whole industry seemed poised for even faster growth as, as you've been describing it today, so.

RS

Yeah, thank you very much. I really appreciate being on your podcast, Stephen. And yeah, I do concur with you. I think that we need to use it as a tool to help us, not to replace us.

SS

Right, Exactly. Enough said. Okay. Thanks so much, Richard. Really appreciate it.

RS

Thank you.

That concludes my interview with Richard Schenker. As we learned, points programs are a powerful way to lock in customers and influence their shopping decisions. They help companies avoid margin killing price wars. They provide valuable analytical insight into shopping patterns and buying behaviour which enables smarter category management decisions. They help identify the really valuable customers. And despite the high cost of operating them they have proven to be worthwhile investments by increasing incremental recurring revenue over time. But a loyalty program by itself is not a loyalty strategy. Points programs fail to make members feel special or appreciated. Customers crave recognition and "white glove" treatment. They don't simply want yet another program that delivers cash savings – they want one that makes shopping a better experience (or at the very least, less onerous). A loyalty program should not be simply a promotional program in disguise. It should serve as the entry point to a broader, richer, more personalized, and reciprocal relationship. A modern loyalty program should make

customers feel valued and connected to the brand. It should not simply be seen as yet another card in their wallet or app on their phone. And it definitely should not be seen as a way “to avoid getting ripped off”.

¹ American real estate investor Richard Baker’s firm, NRDC Equity Partners, acquired HBC in 2008 and took it public in 2020.

² BMO acquired the AIR MILES Reward Program in 2023 after its parent company, LoyaltyOne, filed for bankruptcy.

³ “Driven: How Human Nature Shapes Our Choices Paperback (2002) by Paul R. Lawrence, Nitin Nohria

⁴ In 2005, Metro acquired A&P Canada from its U.S. parent company and rebranded it under the Metro banner.



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