

Customer  
first  
thinking.



## True Loyalty:

An Interview with Aaron Dauphinee, Partner, The Wise Marketer Group

### Aaron Dauphinee:

Aaron Dauphinee is a Partner in The Wise Marketer Group and a recognized authority and popular speaker on loyalty marketing.



The knock on most loyalty programs is they've never really been about loyalty at all. Certainly not in their earliest incarnation as trading stamp programs in the mid-20th century. Not even when the airline industry dreamed up the idea of point collection based on miles flown in the 1980s as a way to lock in frequent travelers. And not even today, when "earn-and-burn" programs are the prevailing model, in whatever industry you name.

The fact is, loyalty programs just about everywhere are designed to serve one purpose: maximize customer retention by incentivizing repeat purchase. Which is really just another, more targeted form of promotional discounting. The benefit to the customer, of course, is getting rewarded for purchases they might have made anyway. And that can be meaningful in this time of financial duress, when so many inflation-weary households are struggling to make ends meet. Most people are willing to stick with a brand if it offers discounts, freebies and perks. After all, they have nothing to lose. But no marketer should ever misconstrue habitualized purchases for loyalty.

Yet marketers love their loyalty programs. Whereas once upon a time these programs were only affordable if a company was large enough to have sufficient computing capacity, today every business, no matter how small, can run a templated, out-of-the-box program for a fraction of what it used to cost. And because APIs make it easy to connect loyalty platforms to the various internal systems of record, the member profiles are made up of high fidelity first and zero party data, making precision marketing possible. Theoretically, that should benefit the customer through more personalized offers. And while personalization at scale is finally achievable thanks to the alchemy of AI, the payoff for the customer is dubious. That's because it opens the door to sleight of hand on the part of marketers who can be tempted to engage in deceptive practices.

For instance, one growing trend is to use AI-driven dynamic pricing and offers to maximize profit margins (called surveillance pricing): Higher pricing for some customers, lower for others, based on their behavioural footprint. Or points might be restricted to specific eligible offers. Points might also be arbitrarily devalued – redemption thresholds bumped up – or expiry limits suddenly imposed. All this goes on because the overhead costs of running a rewards program are a perpetual concern of the accountants who fret over unredeemed points. And since there is no offsetting line item for making customers feel good, marketers are pressured to do whatever they can to reduce point liability.

This lack of transparency and fairness is what undermines trust in a brand. And trust is a prerequisite for true loyalty, defined as an unwavering emotional commitment to the brand. Today's loyalty programs only give customers a reason to stay – not a reason to believe. It is a contract the member agrees to knowing the terms are one-sided and can be revoked at any time. And that makes it a

lost opportunity to develop a more reciprocal and trusting customer relationship over time.

The trouble with almost all loyalty programs today is that they are run by standalone business units outside of strategic planning. At best they are an operational extension of the performance marketing team, there to support membership growth and demand generation. The membership base is seen as an addressable target audience – a source of “value extraction” – sometimes even a lucrative ad channel for partners - rather than a relationship building platform.

So the time has come to revamp today’s one-dimensional loyalty model which is not much more than an archaic carryover from a bygone era, according to Aaron Dauphinee of The Wise Marketer Group, which is dedicated to the advancement of the loyalty industry. He believes a more holistic approach is needed which makes true loyalty an outcome of a superior overall customer experience. The loyalty program should be integrated into a broader customer management strategy that encompasses customer appreciation and recognition, voice of customer, community management and brand advocacy as interdependent pillars.

Aaron has spent almost his whole career as a loyalty practitioner, gaining a solid grounding in the financial planning and modelling of programs through his experience with both Alliance Data (which once owned the Air Miles program in Canada) and AIMIA, the former operators of Air Canada’s Aeroplan program. Today he is a partner in The Wise Marketer Group which is a global information resource and media hub for the loyalty industry, as well as offering the only certification course for loyalty professionals.

SS

**Stephen Shaw (SS):** You were a Science Major in university. How did you end up in loyalty marketing?

AD

**AARON DAUPHINEE (AD):** I was introduced to the loyalty marketing world in 2000 at Shell. I was a local area marketer using the Air Miles currency. If we renovated a Shell station I used geolocation data to take individuals who shopped at that location and pushed them to the next two or three nearest locations and then brought them back once the site had been refreshed and refurbished.

SS

A formative part of your early career was doing planning and analysis at Alliance Data Systems. Did the development of business cases for potential Air Miles sponsors give you a strong schooling in the basic math of loyalty?

AD

Yeah, for sure. I initially joined ADS to take the coalition construct into the United States in the early 2000s. But once the program shut down after September 11th [2001], I went into the analysis and planning side of the business. And from there I moved into corporate development, so mergers and acquisitions.

SS

I remember Brian Pearson<sup>1</sup> telling me that to make the business case for coalition loyalty you needed to prove the potential lift and shift in consumer spending that might result from a sponsor joining the program.

AD

Yeah, on the business development side in the US, we were doing analytical models that projected five years out because you get a big push in year one and then it starts to stabilize and normalize over years two through five. So that’s how we were doing the modeling to show the lift that you would get from your existing customers in a coalition program. Those first two metrics were core to creating a P&L view of the program’s benefit to the retailer or partner that we were selling to. And we sold on the facts. We also had conjoint research that put together the right combinations of brands in a coalition and then said to the retailer, we know you’ll get this much incremental growth because we’ve asked clients how much more they’d spend. So we were very, very analytically driven.

SS

Then you went to AIMIA, which ran Air Canada’s Aeroplan program, and you were put in charge of coalition strategy, is that right?

AD

Well, first I did a little stint in their knowledge development team. We were building out a version of what Alliance Data had with their Colloquy<sup>2</sup> business. But at AIMIA the intent was to plant seeds and not necessarily be seen as just hawking our wares. And we could do that because there were two lines of businesses. There was a coalition set of businesses with Aeroplan in Canada and Nectar in the UK and then also the Middle East as well and then some stuff in Asia. And then there was also the old Carlson Marketing business<sup>3</sup> which had proprietary business programs. And so we had to be able to talk holistically about loyalty as a discipline, as a marketing principle.

SS

You were really ahead of the content marketing curve at that point.

AD

Yeah, I appreciate you saying that. At AIMIA we were one of the first to use actual content marketing platforms to support knowledge development at what we called the AIMIA Institute. And it's just unfortunate that senior management started to de-emphasize the focus on thought leadership. Which is when I hopped over to the core Aeroplan business, working with John Boynton<sup>4</sup> who was the CMO at the time, a really well known marketer here in Canada, very successful at Rogers, and was also at the Toronto Star for a period in between. John brought me on to the team specifically to help build up the small business strategy because I have small business expertise from my time at Warrilow, which eventually was bought by the Corporate Executive Board which is now owned by Gartner. Then both John and I - within days of each other - decided to move on to different things. He eventually went on to Arterra Wines. I decided to go into machine learning at Rubikloud<sup>5</sup>, which was an early AI performance decision making operation. I was there for a brief period to get them through a bit of a raise.

That's when Bill [Hanifan] said to me, "Hey, I just bought this business called The Wise Marketer. Would you like to come and do some strategy work? Because I'm not quite sure what to do with it." Coincidentally, when I was at AIMIA, I was actually looking at The Wise Marketer as an acquisition to enhance our thought leadership capabilities.

SS

What a perfect fit given your loyalty and content marketing experience.

AD

I would be remiss if I didn't mention my time at Bond Brand Loyalty where I helped to build and deliver their "Loyalty Report", still the longest tenured research report in the loyalty industry. I think it's 15 plus years in some markets now.

SS

What is The Wise Marketer's mission?

AD

We're in the business of evaluating the discipline of customer loyalty marketing. The Wise Marketer Group exists because the loyalty industry historically has lacked a trusted independent voice. And so The Wise Marketer, which is our media platform, is in fact the media outlet for the industry. It's probably one of the very few, if not only one, without a vendor agenda. That independence is

a meaningful differentiator in a space full of sponsored content. So that's our number one line of business, the media side.

Then we have the Loyalty Academy. We built our Certified Loyalty Marketing professional designation, CLP for short, on the premise that credentialing loyalty professionals raises the floor for the entire industry. So that's having a common taxonomy, jargon, level of understanding, a baseline. We thought the industry needed that and we built it with a "practitioner for practitioners" mindset. So it's not "up in the clouds" academia. It's meant to be applicable when you take it back to the office. So that's the second line of business.

And then Bill and I got the idea that we should start to build out an unbiased source of truth that's fact-based consumer research. Similar to COLLOQUY, similar to Bond, similar to other studies that are in the market but which are beholden to the industry. And so, we announced just last year the WMG advisory and research arm which includes our Wisser Research and Wisser Forum products. People can subscribe to our research through Wisser Research and then we hold in-person smaller get-togethers that we call Wisser Forums because we believe the real nuggets of information and insight come from smaller, more bespoke conversations. Those three lines of business really give WMG a 360 view of the loyalty industry ecosystem.

SS

And you have about 15,000 members or so?

AD

Our subscriber base is up to 12,000. I would say the other asset that we have is our community of CLPs. We have nearly 1,300 around the world now in 59 countries and that is continuing to expand and grow. We cover I think 180 different countries. There's a very long tail to that - won't lie. But probably the top 20 countries are the largest producing GDP countries.

SS

So you're not getting any revenue from sponsors?

AD

We have a mix of editorial content that we produce ourselves as well as paid sponsorship components. The media business is very active in terms of content development and content distribution. We are involved more and more on the brand side through our consumer research because brands want to know what consumers are thinking. Certainly on the education side, we have

probably a 50/50 split, I would say, of brands who have the CLP designation through to marketing vendor teams

SS

The word loyalty tends to be a bit of a misnomer as it applies to the industry today. When you're talking to students of the Loyalty Academy about the concept of loyalty, what's your definition?

AD

I'm really glad we're called The Wise Marketer and not the wise "loyalty marketer", because we do view this as large "M" marketing. Loyalty is about changing consumer behaviour. And so we look at it holistically. We use the terms big "L" loyalty versus little "l" Loyalty. "Big loyalty" is looking at how you can grow affinity for a brand. It's not about building a better mousetrap by issuing points that can be redeemed for trinkets and trash.

SS

The entire global loyalty industry is growing at double digit rates. What explains this growth rate? The market already seems to be oversaturated. Are we approaching Peak Loyalty?

AD

I do think there is a lot of me-too. There's not a lot of revolutionary thinking. The industry feels stuck - too common, too familiar, too similar. How do we get loyalty unstuck? We just need to think about how we translate the impact and influence of loyalty on the business. And so one of the key paths to that - and we've been saying this for a number of years - is to talk less about loyalty KPIs and more about business successes. How is loyalty impacting business growth and revenue targets? How do we as loyalty marketers start reframing the conversation?

I think the average loyalty enrollment today is upwards of 15 or 16 programs but people are only active in less than half of that - seven or eight programs, right? They're just trying them out. And I think Bond's definition of active is something like a 12 month period. For an inactive member, maybe it was just a trial or a moment in time engagement and that's just not true loyalty. Engagement velocity matters. Programs that create a meaningful earn or experience moment in those first three months of membership dramatically outperform those that wait for a natural purchase cycle.

And so there's some things that you can start to do in your program design that are less about getting a transaction and more about what you can do for the mindset of the customer. Are they status oriented? Do they care about

the social interaction and connection to community? Or are they habitual which is just a function of convenience and familiarity? All these mindsets can exist at the same time within one program. And where we've made a mistake as an industry is we've designed our programs to be primarily focused on the monetary side. So it's not surprising that 60% of customers will say that they're monetary oriented because we built the mousetraps that way.

SS

The industry has indeed trained a whole generation of consumers to be points mavens. It is still remarkable to me the organizational divide that persists between marketing, which sees itself largely as demand generators, and the CX world, which really sees itself in charge of customer retention.

AD

There's this gap between what the program is actually promising to a member and what the member actually feels. There's always a disconnect. Marketers always overplay that they are doing much more for the customer. And so I think that's where we're falling down. And programs, to your point, invest heavily in the earn side and underinvest in emotional resonance.

I think another challenge that we have is that we as an industry are the ones defining loyalty and who we think is the most loyal, when in fact, if you ask a consumer, it's very, very different in their mind. We did a research study for one of the fuel companies here in Canada where we asked consumers, how do you define loyalty? And they defined it as three out of every four fuel visits in a given month. But the fuel operator said, no, they're not our most loyal unless they're visiting us once a week - so four times a month. So that gap right there already creates a disconnect because the brand is not recognizing a group who feels they're loyal. Customers want that "forgiveness week", if you will, to go elsewhere for a variety of reasons when they're shopping for fuel, which is a commodity. But the brand is saying, no, we need you at this level in order to validate and justify the amount that we're spending on you as a loyal customer.

Oftentimes I just don't think there's enterprise alignment. Loyalty programs often live in one department, whether it's marketing or CX, or more often on their own. They lack the internal authority to really have any influence or drive the operational changes that would actually make the program better.

SS

In terms of how programs are designed and operated today, what are some of the trends that you're seeing?

AD

The first is, emotional loyalty is back on the agenda, but only for those programs that are sophisticated enough to segment for it. I think that's the critical thing. Status mechanics, community features and purpose led programs do generate outsized engagement. That's a good thing but it's just not scalable without the data infrastructure to identify those members. However, I believe this will change over time. Right now we're over invested on monetary. Those programs that can start to design for multiple archetypes will win through an emotional appeal.

The second thing is, sector specific dynamics. I'll give you some examples. Fuel programs are navigating EV transition right now. There's shrinkage of the in-store dwell time. So they've got to figure out the fuel loyalty versus the C-store versus EV coming in. Home improvement means dealing with project cycle frequency gaps. How do we keep customers engaged between projects? The hospitality industry is rebuilding post pandemic. So a one size fits all strategy no longer works. You need to understand the behavioural nuances and certainly the specific headwinds that are impacting your own sector in order to best solve for customer loyalty.

The other hot one that we're seeing is paid loyalty is maturing faster, templated by Amazon Prime. That certainly is one thing. And so the question is no longer, should we consider paid loyalty, but it's more about what's the right entry price and benefit architecture for this segment?

SS

Let's just take the hotel industry. The emphasis now is on experiential awards, stretching the value proposition beyond the free room and perks that you might get into unique, once-in-a-lifetime experiences as a redemption opportunity, right?

AD

I think experiential has a role to play for a small number of customers. The key thing to think about, is there a definite archetype for whom this works? I think Hyatt has done a great job, where they realigned their brand positioning for the entire organization to be about lifestyle and experiences. So you could have a redemption with a superstar chef to teach you how to make one of the items that's on their menu. But that's aligned to their brand

promise and that's why it works for them.

Do you want experiential for your CPG program? I don't think so. But you want it for a financial services product like American Express's Cobalt card which targeted millennials who are really into experiences and exclusive access. Millennials and Gen Z feel if they can't go but their friends can, they're going to have FOMO. But by and large I don't think the majority of programs need to emphasize experiential rewards. They need to have a component of it for only for the smaller group that want that.

SS

You've made reference to these different archetypes. Can you explain what or who they are?

AD

There are four in total. First, three out of five customers, or 60% of loyalty members, are what we call the "monetary" archetype. That's the nature of the programmatic beast that we've created.

Another is the "reciprocity" archetype. That's someone who's very focused on service excellence, strong product quality, and also personalization. So, you know me as a person and I feel like the brand is as loyal to me as I am loyal to it.

The next one is habit, which is really about just convenience and familiarity: I go here all the time, it's routine for me, it's good, I'm familiar with it. I always buy Colgate or always buy Crest as a product because our family always has. That's a "habitual" archetype.

And then the fourth one is the "status" archetype. This is the interesting one because this group is 1.9 times higher on seeing themselves as "very loyal". Yet they're the smallest group at about 6%. But they really align to social identity and personal identity. Often, they have a values alignment with the brand. It's about community for that group.

And so you have to be aware of these four mindsets, understanding the mix today, and also what type of customers you want. It's okay to actually fire some of your customers if they don't fit in with the brand promise because they're going to be the squeaky wheel that just costs you a lot over time. And if they only ever come and purchase occasionally, you don't have to treat them the same way as someone who is purchasing and engaging and advocating and talking and referring - all of these other behavioural attributes that are equally as important as someone putting dollars down.

We put so much emphasis on the ROI only being around hard green dollars. There are soft yellow dollars that come from different interactions and that comes down to not measuring the right things in the industry. And we just need to think about what are the behavioural changes we want to induce from the best customer that we think is loyal. And it might not always be hard green dollars. It might be softer yellow dollars.

SS

It seems to me the big missing element in most loyalty programs is managing the full customer lifecycle, from first-time buyer to lifelong advocate.

AD

Advocacy needs to be integrated into our thinking as loyalty practitioners. And I don't think we give it enough credit. We're seeing brands, particularly in the health and beauty category, really winning on this. Superdrug<sup>6</sup> was an early adopter in the United Kingdom. They had analytics that showcased that when a certain influencer talked about a particular product, they would sell out within a week. And so they then brokered a relationship with that influencer and reconfigured their merchandising and inventory programs to make sure there was enough product in the stores so that when the influencer went live talking about that product they did not run out of stock when the run on it occurred.

SS

We know AI is going to make program management and personalization more efficient. But how will AI impact loyalty? Is loyalty almost a lost cause when you can do all your shopping and buying through a brand-agnostic agent?

AD

A year ago I would have said this was all BS but today there are practitioners sharing successful AI use cases who are realizing a high level of one-to-one personalization. So personalized emails, dynamic offer copy, conversational interfaces like chatbots -it's changing the economics of member communications. All of that is increasingly within reach now for even mid-market programs. It's no longer just enterprise -level. So we're seeing a leveling of the playing field.

To me the real missed part is curation of rewards – so curation at an individual level. If AI can help there I think that's going to be a strong, strong win. The other near term use case is in predictive churn modeling. Those programs with sufficient trans data can identify members approaching the disengagement threshold

before they go dormant and intervene with far more precision than a blanket reactivation campaign utilizing an attrition model. That's the place I'd try first. But, it's not without risk, right? AI can just showcase the patterns. It really doesn't set strategy. You need a human to set the strategy. But we'll be able to do it much faster, quicker.

SS

AI might be capable of delivering strategy if you feed it enough information, but it won't be able to bring the empathy and imagination and inspiration that only humans are capable of, at least for now.

AD

There's got to be someone still at the wheel. Those people who have critical thinking competencies will be the ones that leverage the technology appropriately and not just trust what it outputs.

- <sup>1</sup> Bryan Pearson was the President of the Air Miles Reward Program for 15 years.
- <sup>2</sup> COLLOQUY was a publishing, research, and education business dedicated to loyalty marketing that was initially owned by Frequency Marketing Inc.. Alliance Data Systems (ADS) acquired COLLOQUY in 2002 and later moved it to ADS's loyalty division, LoyaltyOne.
- <sup>3</sup> Groupe Aeroplan (later renamed Aimia Inc.) bought Carlson Marketing in 2009. In its heyday Carlson Marketing, founded in 1938, was one of the world's largest and oldest loyalty marketing agencies.
- <sup>4</sup> John Boynton spent 12 years at Rogers Communications, serving as the Chief Marketing Officer, before joining AIMIA in 2014 to modernize their marketing infrastructure. In 2017 he was appointed President and CEO of Torstar Corporation. Three years later he joined Arterra Wines Canada as the President and CEO.
- <sup>5</sup> Rubikloud is a Canadian technology company that built artificial intelligence (AI) software for large retail and consumer goods brands. Founded in 2013, it was acquired by the supply chain software firm Kinaxis in 2020.
- <sup>6</sup> Superdrug is a leading health and beauty retailer in the UK. which sells cosmetics, skincare, toiletries, and over-the-counter medicines.



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