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Are loyalty programmes a bubble set to burst?

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It is difficult to imagine any serious marketing strategy without a loyalty component these days. But more and more professionals wonder whether the loyalty programme is a sustaining business model or maybe the next bubble, which will burst. And even more members of programmes around the world perceive a permanent devaluation of the programme attractiveness, leading them to consider things such as exit strategies, what was absolutely unthinkable a few years back.

Indeed, figures are frightening at first sight. Recently, Etihad Airways paid more than €180 million (about Dh867 million) for a 70 per cent stake in Air Berlin's Frequent Flyer Programme top bonus, putting the overall value of the programme, with its less than three million members, at around €260 million euros.

Was this payment excessive? To make it simple, each member is valued at roughly 100 euros. It will indeed take some time until the average member achieves that threshold to contribute to the profit of a loyalty programme, neglecting the indirect impact on sales figures as the programme investor won't benefit of them. This investment might hence position anywhere between a good share of optimism and a long-term strategic view at Etihad. But it definitely helps to reassure loyalty programme members that seriously managed companies such as Etihad get involved into the game to that point.

However — and unfortunately for Etihad — the picture is not as straightforward since this model presumes that loyalty programmes continue to strive for success as in the past. There is a fair chance that this will happen, just as there is a realistic risk that it won't. But most likely both will occur at the same time: all will depend on the individual ability of each operator to find again a balance between its own business objectives and the critical acceptance of the programme by customers.

The judges are hence the customers. Only programmes managing to attract the attention of customers will survive. In whatever sector, it is no longer enough to offer a programme for the sake of offering one. Only putting forward aspirational and achievable rewards while creating that special emotional relationship will ensure a bright future for programmes. But the majority of loyalty programmes fail miserably in all these areas today: who cares about some boring gift catalogue with prizes you may achieve after two or three years of uncountable transactions in an unemotional retail or banking business? Such loyalty cards have only limited chances to survive in the wallets or minds of customers.

Businesses operating a loyalty programme are well advised to conduct a due diligence process of their programmes, asking themselves critically whether any investor would buy into them. If not, it might be time to reconsider some of the basics of the programmes to ensure their survival and relevance for the business. Whatever the size of the bubble to burst, measured by the number of programmes to disappear, it is worth remembering that the last big bubble, the internet, didn't lead to an elimination. Much more, it has even enabled the rise of some of the most profitable and ingenious companies in the world such as Google.

And customers? The perspective they face is either a failure of weaker programmes or a continued slow devaluation of the surviving programmes as they become more managed, like stand-alone businesses maximising their benefits. In both cases it is worth remembering that loyalty programmes were made to reward loyalty, but not as an investment plan over ten or 20 years. By playing the game and cashing in rewards on a continuous basis, we can all enjoy the party.

— *The author is Managing Director, Global Flight*