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THE POWER OF LOYALTY IN A RECESSION

Mary English, senior director of Strategic Services at The Lacek Group, delves into how loyalty strategies can boost brand affinity—and, ultimately, companies' bottom line—even in a down economy.

Today's uncertain economic landscape is plagued with high inflation and perpetual supply-chain issues, and experts predict a 70% likelihood of a U.S. recession in 2023.¹

Those factors combine to keep personal finances a primary concern for U.S. consumers. In fact, most Americans (70%) say they believe a recession is coming, and 62% are already cutting their spending.²

While consumers prepare for a potential downturn, your brand could be finely tuning your loyalty program to take advantage of one of its greatest benefits: connection to customers. Developing a plan to keep loyal customers engaged as you weather the impending economic storm will help you nurture them quickly back to pre-downturn spending with your brand when the economy rebounds.

Factor in these three primary areas to stay connected to your brand's customers:

- Leverage data to understand what they want and need.
- Prepare to meet customers' emotional and rational needs.
- Maintain engagement with a motivating mix of financial value and emotional benefits.

Following these key tenets is good business no matter the financial landscape. But in a potential recessionary environment, these staple approaches enable your brand to pivot quickly and effectively.

Loyal customers are the most likely to stick with your brand during a downturn, and a loyalty program is the primary vehicle for keeping those relationships strong. Let's look at how you can best prepare your loyalty program for a potential recession.



CONSUMERS ARE ALREADY CUTTING BACK

According to a 2022 study, American consumers are reducing spending in these areas:

Nonessential travel

48%
of respondents



Out-of-home entertainment

48%
of respondents



Clothing

47%
of respondents



Holiday shopping

46%
of respondents



Home goods

44%
of respondents



NURTURE EMOTIONAL CONNECTIONS



During a financially challenging time, it's crucially important to maintain an emotional connection with your customers and remind them that brand loyalty is rewarded. Lead with empathy and grace in your messaging and policies to remind customers of the social and emotional connections they have with your brand. Acknowledging difficult times can even strengthen your connection with customers.

Small demonstrations of care can solidify emotional bonds with customers and build lasting loyalty.

Sephora's loyalty program, Beauty Insider, is built on emotional connections. By inviting members to interact with the brand—and one another—across social platforms, Sephora has created a connected community of over 17 million Beauty Insiders who drive 80% of sales.³ Beauty Insider community members explore products, ask questions, and encourage conversation by commenting on other member posts. The social bonds between community members strengthen their emotional connection to the brand.

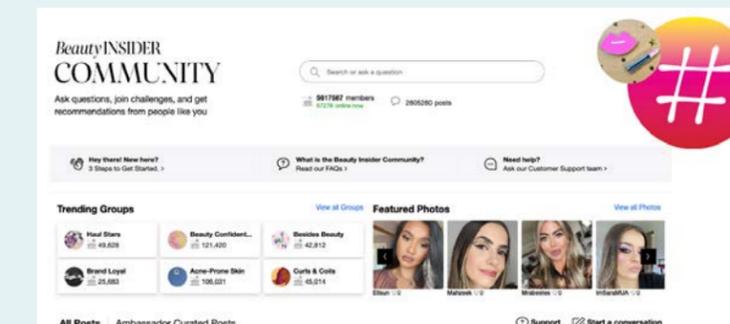
Sephora Beauty Insider members also benefit from personal and meaningful reward options that further entrench their emotional connection with the brand. Recognition goes beyond free samples and gifts on their birthdays to curated exclusive experiences, member-only events, and beauty master classes with well-known makeup artists.

Furthermore, to align with the brand's values and support members' personal causes, a charity redemption option has been added to the program. Members may donate points to various organizations; past charities have included the National Black Justice Coalition and Project Glimmer, which helps at-risk teenage girls.

Here are a few examples that may inspire how your brand nurtures customer relationships in a challenging economic atmosphere:

- Extend expiration dates on earned rewards.
- Allow members to maintain status levels an extra year.
- Surprise members with unexpected perks such as shipping upgrades or bonus points.
- Delight members with special events or personalized experiences.

"Loyalty is at the core of everything we do," said Allegra Stanley Krishnan, former vice president and general manager of loyalty at Sephora. "We know rewards that provide greater emotional and memorable experiences are the most meaningful for our clients, and we want to continue to deliver personalized experiences where our clients can choose what works best for their needs."⁴



INVEST IN YOUR MOST VALUABLE CUSTOMERS

A successful loyalty strategy aligns with the brand's financial objectives. If your loyalty budget is impacted by recessionary cutbacks, look for ways to focus content and prioritize spending on high-value members—the 10% of members who statistically account for 50% of loyalty program revenues.

HERE ARE SOME STRATEGIES TO DO THAT:

Assess your economic models and budgets per tier

to identify opportunities where your brand might shift dollars to add value to your program's top tiers—when and if financial circumstances warrant the move. Retaining a customer is far less costly than acquiring one, so reward and incentivize your highest-value customers to remain engaged with your brand.



Elevate interactions with high-value members now.

Recognize and reward the importance of their relationship with your brand before economic conditions shift. Strengthening their connection with your brand will encourage high-value members to quickly return to purchasing from you when economic circumstances allow.



Assess how well your program communications reflect your brand's marketing plan.

That will help you identify opportunities to consolidate your content—including promotional offers and discounts—to reduce potential cannibalization and to increase member engagement by highlighting your program's value proposition.



Loyalty programs are responsible for an

18%–30%
increase in spend
and visit frequency.

(Loyalty Report 2022, Paytronix.)

Top-performing loyalty programs can

boost revenue
from customers who redeem points **by 15 to 25 percent** annually, by increasing either their purchase frequency or basket size or both.

("Next in Loyalty: Eight Levers to Turn Customers into Fans," McKinsey & Company.)



LEVERAGE DATA TO LEARN MORE NOW



Do a deep dive of your customer data before a recession hits. With consumers listing “frustrated,” “annoyed,” and “anxious” as the top three words to describe their feelings about inflation, it’s imperative to know your customers’ motivations, pain points, and preferences.⁵ That way, you’re ready to meet them with the content and benefits they’ll value most if the economy declines.

Go beyond standard demographic data to consider how psychographics—a person’s interests, values, and opinions—impact your customers during a recession. According to *Forbes*, customers often fall into three psychographic segments during an economic downturn.⁶

FINANCIALLY FEARFUL

group is more vulnerable to financial setbacks and the most likely to reduce spending; unexpected expenses or loss of income impact them more than others.



CAUTIOUSLY OPTIMISTIC

group may cut back in the short term but they believe the economy will bounce back.



DEVIL-MAY-CARE

group is confident they’ll withstand a recession and are unlikely to change spending habits.



Consider your overall value proposition and how minor tweaks—or major changes—could improve customer engagement and satisfaction during a recession. Customer data is the fuel for ongoing, meaningful interactions with your brand. It’s essential to keep consumer data and preferences current, and then use insights gleaned from them to continuously fine-tune your customer loyalty proposition. Embracing that strategy will keep your brand delivering personalized, relevant content and benefits during all phases of an economic downturn.

Remember to treat your brand’s customer data with care. When consumers enroll in a loyalty program, they’re giving your brand permission to use their personal data to engage with them. In return, they expect that information will remain

secure and be used only to provide personalized, relevant brand communications and experiences. That’s particularly key in times of economic strife, when the appeal of personalized offers and benefits is elevated.

73%

of global consumers report it’s critical for a brand to know who they are and understand their preferences.

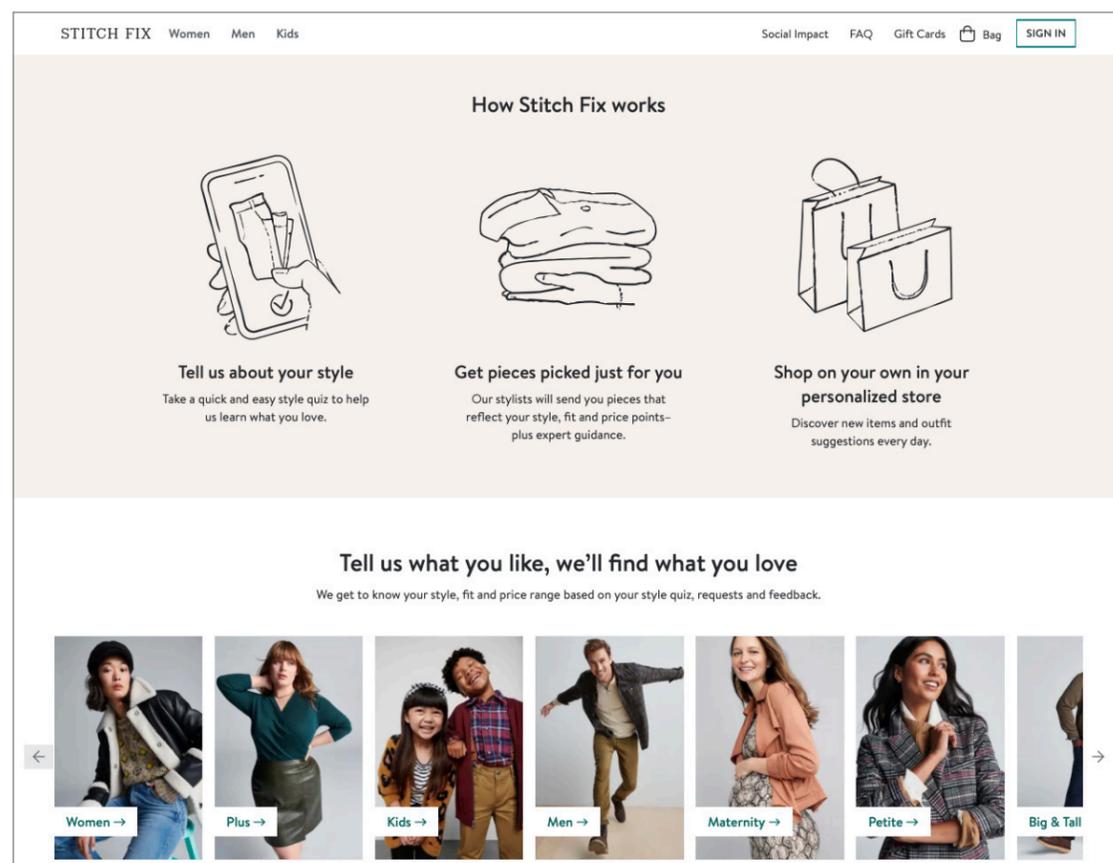
62%

say personalized communications and experiences are a must for brand engagement.

Source: “The Changing Look of Loyalty,” The Lacey Group, 2022. <https://thinking.lacek.com/blog/2022/4/7/changing-look-of-loyalty>.

Stitch Fix, for example, an online personal styling service, excels at using customer data to create personalized benefits and experiences. The retailer's extensive customer onboarding survey gleans key demographic details and lifestyle preferences needed to curate the best possible items for each customer. Stitch Fix stylists benefit from algorithms and data that deliver recommended clothing and accessories based on customer profiles and preferences. Additionally, follow-up surveys (part of every

delivered package) gather ongoing feedback, ensuring stylists stay up to date on a customer's changing preferences. The result? Customers can rely on expert stylists to do the shopping for them. Meanwhile, the company continues to strengthen customer relationships with innovations like Freestyle, a service introduced in 2021 that offers consumers the efficiency and convenience of shopping in their own curated feed of recommended products without waiting for their next Stitch Fix shipment.



Source: stitchfix.com.

CAN LIPSTICK SALES PREDICT A RECESSION?

These may be unconventional, but they can offer insights into where the economy is headed.

THE LIPSTICK INDEX:

increased sales of lipstick and other small luxuries signal a recession

THE HEMLINE INDICATOR:

the higher hemlines rise, the stronger the economy

THE CARDBOARD BOX INDEX:

more cardboard boxes produced indicates a strong economy

THE CHAMPAGNE INDEX:

the more celebratory bottles popped, the better the economy is performing

THE RV INDEX:

high sales of recreational vehicles indicate a high-performing economy



LOYALTY CURRENCY OFFERS BOTH EMOTIONAL AND FINANCIAL BENEFITS

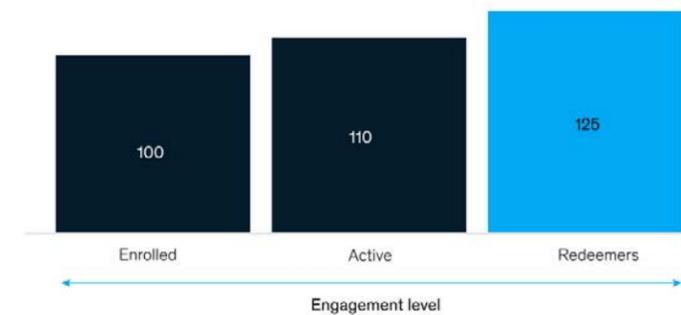


Give members a reason to stay engaged with your brand and remind them to redeem their accrued points and rewards. After all, reward points are another form of currency when discretionary income is tight. Redeeming points helps members treat themselves to little luxuries they may otherwise forego. And that can provide

an emotional lift while maintaining positive engagement with your brand. According to a McKinsey study, members who redeem rewards spend 25% more than enrolled but inactive members.⁷ Currency or point redemption accelerates the loyalty loop as customers are incentivized to earn more rewards or benefits.

Redeemers can unlock disproportional sales.

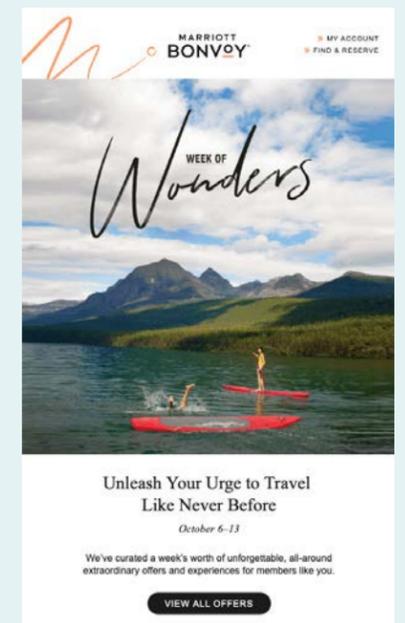
Customer revenue per engagement level, indexed



Source: José Carluccio, Oren Eizenman, and Phyllis Rothschild. "Next in Loyalty: Eight Levers to Turn Customers into Fans." McKinsey, Oct. 12, 2021. <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/next-in-loyalty-eight-levers-to-turn-customers-into-fans>.

MARRIOTT BONVOY DELIGHTS MEMBERS WITH A WEEK OF WONDERS

Marriott Bonvoy, the travel loyalty program of Marriott International, shows appreciation for its members and celebrates the love of travel with curated, personalized offers and experiences during the popular Week of Wonders promotion. Additionally, the company leverages Week of Wonders to encourage members to book future travel by igniting a sense of urgency with a time-sensitive promotional period.

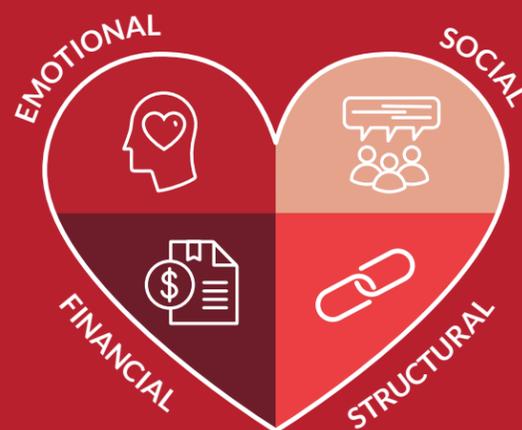


INSTILL BRAND DEVOTION THROUGH FOUR TYPES OF BONDS

The four bonds that drive brand devotion are more important when budgets are tight as companies extend their value and differentiate their loyalty proposition.

Experiences that make people feel personally recognized and involved, such as personalization, exclusive access, and surprises.

Experiences that give a financial benefit to loyalty—for example, points for purchase, coupons and exclusive offers.



Experiences that give a social benefit to loyalty, such as access to networks and group benefits.

Experiences that make it harder to leave the brand or easier to keep buying, such as subscription programs or free shipping.



U.S. RECESSIONS SINCE THE GREAT DEPRESSION

NAME	PERIOD RANGE	DURATION	TIME SINCE PREVIOUS RECESSION	PEAK UNEMPLOYMENT	GDP DECLINE (peak to trough)
Great Depression	August 1929–March 1933	3 years, 7 months	1 year, 9 months	21.3% (1932)–24.9% (1933)	-26.7%
Recession of 1937–1938	May 1937–June 1938	1 year, 1 month	4 years, 2 months	17.8%–19.0% (1938)	-18.2%
Recession of 1945	February–October 1945	8 months	6 years, 8 months	5.2% (1946)	-12.7%
Recession of 1949	November 1948–October 1949	11 months	3 years, 1 month	7.9% (October 1949)	-1.7%
Recession of 1953	July 1953–May 1954	10 months	3 years, 9 months	6.1% (September 1954)	-2.6%
Recession of 1958	August 1957–April 1958	8 months	3 years, 3 months	7.5% (July 1958)	-3.7%
Recession of 1960–1961	April 1960–February 1961	10 months	2 years	7.1% (May 1961)	-1.6%
Recession of 1969–1970	December 1969–November 1970	11 months	8 years, 10 months	6.1% (December 1970)	-0.6%
1973–1975 Recession	November 1973–March 1975	1 year, 4 months	3 years	9.0% (May 1975)	-3.2%
1980 Recession	January–July 1980	6 months	4 years, 10 months	7.8% (July 1980)	-2.2%
1981–1982 Recession	July 1981–November 1982	1 year, 4 months	1 year	10.8% (November 1982)	-2.7%
Early 1990s Recession	July 1990–March 1991	8 months	7 years, 8 months	7.8% (June 1992)	-1.4%
Early 2000s Recession	March–November 2001	8 months	10 years	6.3% (June 2003)	-0.3%
Great Recession	December 2007–June 2009	1 year, 6 months	6 years, 1 month	10.0% (October 2009)	-5.1%
COVID-19 Recession	February–April 2020	2 months	10 years, 8 months	14.7% (April 2020)	-19.2%

Source: "List of Recessions in the United States." https://en.wikipedia.org/wiki/List_of_recessions_in_the_United_States.

ENGAGE MEMBERS VIA GAMIFICATION



Entice members to interact with your brand, even when they're not spending, with fun and games. You can introduce various forms of gamification through member challenges and quizzes to increase interaction, capture additional member data to enhance personalization, and encourage habit-forming behaviors with the brand.

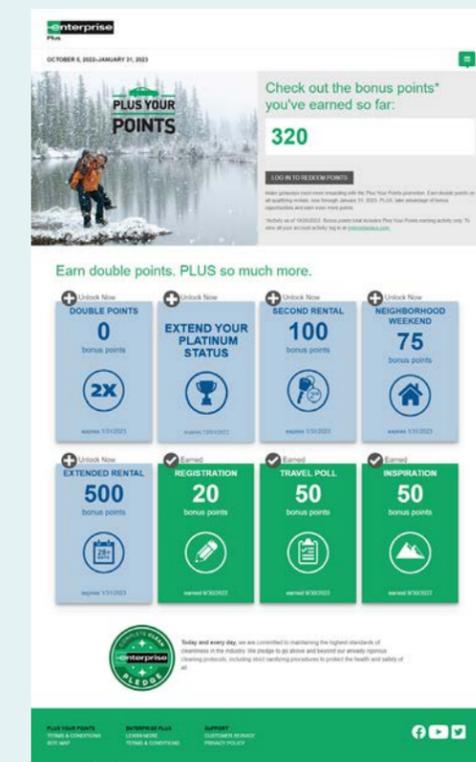
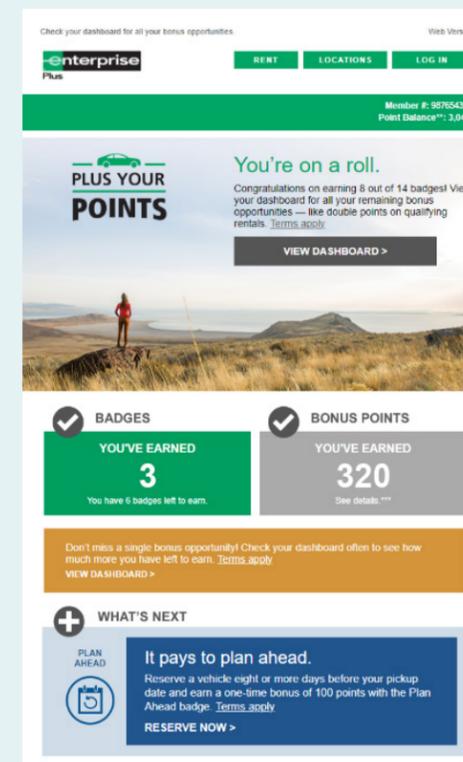
Brands that incorporate gamification into their consumer loyalty strategy report impressive results: 47% rise in consumer engagement, 22% rise in brand loyalty, and 15% rise in brand awareness.⁸

Enterprise Rent-A-Car successfully drives member retention and incremental spend by leveraging gamification for Plus Your Points, a promotion for members of its Enterprise Plus loyalty program.

Here's how it works. Registered members earn double points on rentals during the promotion period. They can earn additional bonus points by unlocking various "badges" for rentals and other

activities, e.g., clicking through to partner offers or opting in to email communications.

Plus Your Points has a proven track record in driving incremental revenue—resulting in a 175% return on investment in its most recent iteration. In addition, more than 20% of dormant members registered and made a transaction during the promotion, and one-quarter of these registrants continue to engage with the loyalty program after the promotion.



EXTEND AND MULTIPLY PROGRAM VALUE WITH PARTNERSHIPS



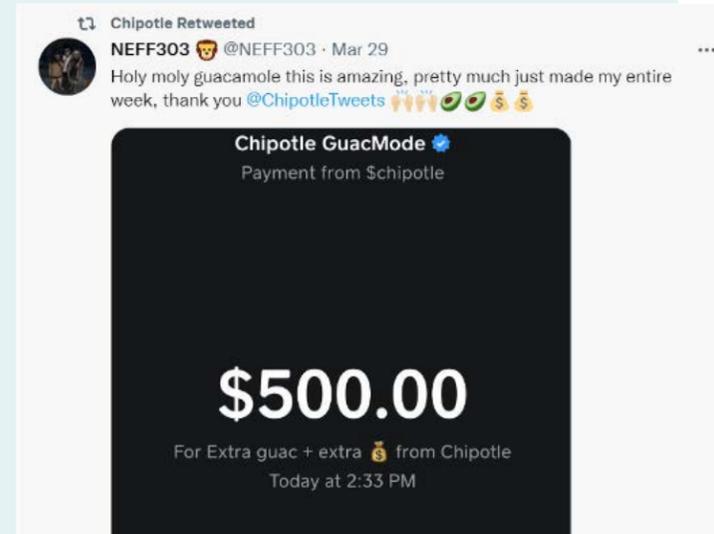
Strategic partnerships play a key role in a brand's loyalty program strategy—especially as discretionary spending diminishes. It's wise to review existing partnerships and consider how new partners might extend your brand's reach and value during an economic downturn. Partnerships can multiply your brand's benefits, lifting the member experience in tougher times and elevating consumers' perception of your brand.

When evaluating a potential partnership, consider:

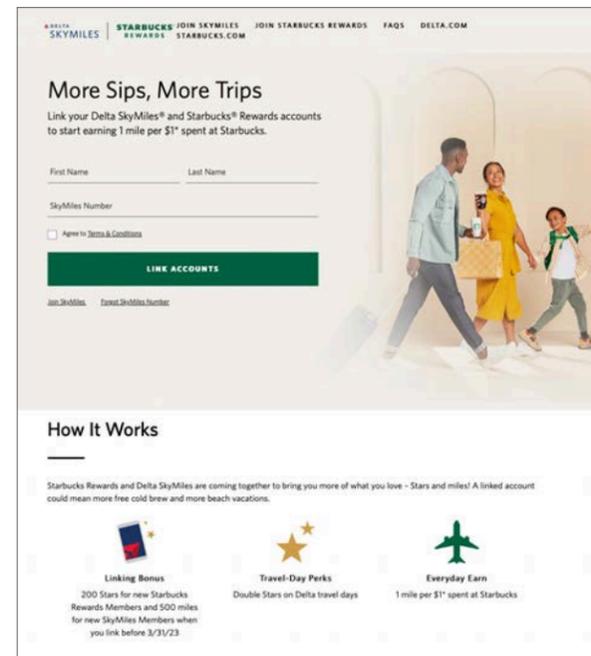
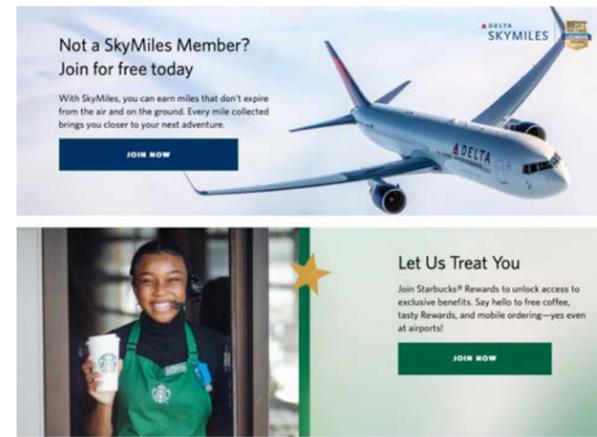
- Do your brand's values and the values of the potential partner align?
- Do the partner's products and services provide added value for cross-marketing opportunities?
- Do your brand and the potential partner have complementary customer segments?
- Would it be easy for members to engage in cross-brand program benefits, including linking both accounts for earning opportunities?
- Would the potential partnership enable recognition of elite tier members by both your brand and the potential partner?

Savvy brands recognize the importance of strategic partnerships to extend their loyalty proposition. While such partnerships often begin as short-term engagements, they can turn into long-term partnerships if the value proposition mutually benefits both brands.

Last year, for example, Chipotle relaunched "Guac Mode," which offered surprise free guacamole rewards to Chipotle Rewards members. In its relaunch, Chipotle partnered with Cash App on a \$GuacMode Giveaway, which offered surprise cash drops in its app and opportunities to win delivered through tweets that tagged both brands.⁹ Cash App and Chipotle benefitted from high engagement and a positive brand perception.



Another illustrative partnership example is Delta Air Lines and Starbucks. Their partnership, which began with serving Starbucks coffee on Delta flights, now invites members to link their Delta SkyMiles and Starbucks Rewards accounts to earn one mile for every dollar spent at Starbucks and double miles on the day of travel on Delta. This partnership, and the value it offers, drives member retention and provides an additional stream of revenue for both brands.

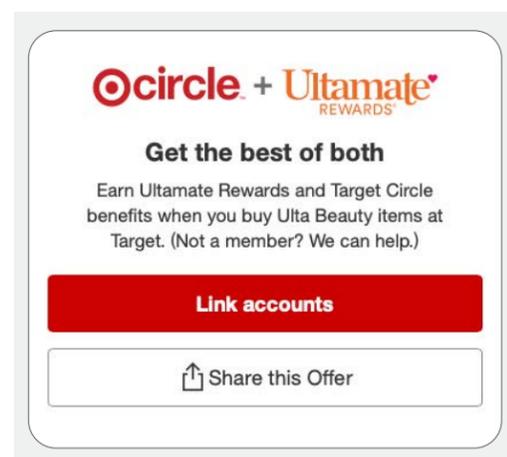


FOLD PARTNERSHIPS INTO THE GAME

United Airlines and Chase launched the Mile Badge Promotion using gamification to create multiactivity engagement with members while driving incremental spend during the peak holiday travel season.



Target and Ulta Beauty's strategic partnership allows customers to shop at mini Ulta Beauty stores inside Target; these shops help create an immersive and fun beauty experience for customers while extending the Ulta footprint. The partnership is especially appealing to young, diverse Gen Z consumers, who are recognized as super beauty enthusiasts.¹⁰ To further instill customer loyalty, members can link their Target Circle and Ultamate Rewards accounts to take advantage of both programs' benefits.



CONCLUSION

Recessions are stressful and unpredictable for consumers and companies. The old proverb "an ounce of prevention is worth a pound of cure" resonates with how brands can best prepare to weather the unknowns while maintaining strong loyalty bonds with their customers.

As we witnessed during the unusually fast paradigm shifts in consumer behaviors during the pandemic, a loyalty program can be the catalyst for continued connection with customers—even resulting in retention and growth despite market or situational challenges.

Now is the time to ensure your brand's loyalty program offers the right mix of emotional connection, relevant experiences, and rational benefits to keep customers close during tough times and create long-lasting customer loyalty.



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The Lacek Group

An Ogilvy Experience Company

The Lacek Group is a Minneapolis-based, data-driven, loyalty, experience, and customer engagement agency that has been delivering personalization at scale for its world-class clients for more than 25 years. The Lacek Group is an Ogilvy Experience company.

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Mary English—senior director, Strategic Services, at The Lacek Group—is an accomplished global leader in CRM-driven loyalty marketing and customer experience. Mary has achieved measurable, meaningful results for clients in travel and hospitality, retail, and luxe beauty, among other fields. She began her career with Carlson Marketing Group, where she successfully led the global expansion of British Airways Executive Club. More recently, Mary led initiatives for Optum, a subsidiary of United Health Group, and managed the CRM and loyalty division for Collinson's Asia Pacific clients.



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