

Getting to the point of loyalty in a cost-of-living crisis

Contents

3	Foreword
4	Executive Summary
5	Getting to the point of loyalty in a cost-of-living crisis
6	A golden age for loyalty
7	Are you rational or emotional?
8	Treats and holidays leading the way
9	Loyalty Top 10 in a cost-of-living crisis
10	A complex loyalty picture
11	Getting to the points
12	Gifted vs Saved
13	Where next?

Foreword

Loyalty

is a vital thread which stitches together the different layers of our everyday lives. It's a word that means so much to so many.

But what does loyalty look like in a cost-of-living crisis? As a business that exists to create rewarding experiences for millions of Members all over the world, we wanted to discover more. So, we commissioned a behavioural experiment, speaking with more than 1,000 people from the UK to understand how they really feel about loyalty at this time.

The experiment revealed a fascinating balance of rational and emotional loyalty, significant variances by age, gender and region, and an insight into what consumers may prioritise in a cost-of-living crisis with treats and holidays top of consumers' list despite current economic challenges.

These findings can help us better understand our Members as we work together with partners to harness the power of loyalty and shape the loyalty programmes of the future. The pandemic has shone a light on loyalty with more and more companies putting loyalty programmes right at the heart of their business and consumers looking for more ways to boost their everyday spending. Armed with today's transformational technology

and a clearer picture of what the public want and need, we're in a stronger position to help brands and customers weather challenging times ahead.

This is a very difficult time for many across the UK and if loyalty programmes can play even a small part in helping people's money go a little further then that is something to be welcomed. I hope you find these insights engaging and thought-provoking and I look forward to working with you over the year ahead.



Adam Daniels
Chief Executive Officer
IAG Loyalty

Executive Summary

It's difficult to define such a rollercoaster year, but from a UK perspective perhaps the phrase which best represents the collective experience of 2022 is 'cost-of-living crisis'.

Triggered by the easing of COVID-19 financial aid measures and accelerated by the current conflict in Ukraine, price inflation has cast us into a cost-of-living crisis that shows little sign of going away.

As a global leader in loyalty, we wanted to better understand the impact of all these converging factors and see what role loyalty programmes can play to help consumers during this challenging time.

So, we asked the UK public. Here are our top six findings:

Right now, loyalty programmes are front of mind for consumers with 92% of respondents stating they're using them to provide additional value during this cost-of-living crisis

When redeeming, **80% of people consider themselves rational decision makers** and **20% emotional decision makers** which supports our view that customers have become more rational when collecting in order to maximise the amount of points they can get. The split varies hugely by age with rational decision makers rising from 63% for 18-24-year-olds to 93% for the 65+ age group

Given an option of three choices, respondents told us that if they could, **they would prioritise their spending on treats (65%)** and an annual summer/winter holiday (53%) ahead of birthdays (42%), streaming services (40%) and live entertainment (34%)

We have **most loyalty to family/partner and friends** but more loyalty to holidays than employers; women over-index on people, products and pets, whereas men over-index on sports teams, their home town and country of birth

More than half of us are finding new ways to collect loyalty points, whilst allegiance to brands that offer loyalty programmes will increase for one in five people

Emotional decision makers are more likely to prioritise more indulgent rewards, which are also more popular when points are gifted rather than saved

We hope you enjoy reading this report and that the insights contained within it can help us collectively maximise the value for consumers and our partners in 2023 and beyond.



Getting to the point of loyalty in a cost-of-living crisis

Although it feels like the cost-of-living crisis has been with us for quite some time, it's important to remember the journey that has taken us to where we are today.

The impact of the global pandemic continues to reverberate, geopolitical tensions rumble on and the war in Ukraine shows no sign of abating.

A golden age for loyalty

Against this backdrop, uncertainty is the new certainty and IAG Loyalty Chief Commercial Officer Rob McDonald is keen to highlight what this means for the loyalty sector: “The Number One trend is customer centricity – the ability to respond to the chaos and uncertainty around customers, whether that’s economic, political or other. More than ever, loyalty brands need to understand their customers’ behaviour and adapt really quickly with the right messaging, tone and communication style. If I consider the last two years, I can categorically say that I’ve never seen anything move so quickly in my entire time working in this sector.”

“We are entering a ‘golden age’ for loyalty where many brands and companies have moved it right to the top of their agenda. We are seeing more and more brands using the loyalty lever – from coffee to trainers, from the high street to streaming services – all competing in the same space. As a result of this, these brands need to either create a strong emotional pull or a distinctive offer, or they need to re-think customer loyalty.”



Given this context, it’s encouraging that one of the headline findings of our experiment reveals that 92% of people believe loyalty programmes are providing extra value for them during this time. As the loyalty market matures, more and more people are getting involved in more and more ways.

IAG Loyalty Chief Strategy & Proposition Officer Silvia Espinosa de los Monteros elaborates on this point:

“What we’re seeing is that customers are realising that the better companies understand them, the better they can tailor their offer for them. As a result, this is making people increasingly open to loyalty programmes, a trend which is amplified even further in a cost-of-living crisis where customers are keen to get the best value available to them.”

Loyalty programmes have never been more essential, with

9 out of 10

respondents stating that they are providing extra value for them during this cost-of-living crisis



Are you rational or emotional?

To understand the mindset of the 2023 customer, we need to understand what motivates their decision making. So, we asked our respondents whether they felt they were a rational or an emotional decision maker.

Our research revealed that when redeeming, 80% of people consider themselves rational decision makers as opposed to 20% who classified themselves as emotional decision makers. But this doesn't tell the whole story. The proportion of rational decision makers hits a peak of 93% for the 65+ age group and 92% for 55-64-year-olds, before dropping to 64% for 25-34-year-olds and 63% for 18-24-year-olds.

Perhaps unsurprisingly, the experiment also highlighted that rational decision makers prioritise essentials (e.g., groceries or fuel) over buying consumer goods (e.g., clothing or technology) with a score of 79% versus 64% for emotional decision makers, whereas emotional deciders live more 'for the moment' and focus more on indulgent rewards. The second point is reinforced by numerous pieces of [existing research](#).

Espinosa de los Monteros isn't surprised by the high number of rational decision makers: "There's clearly an emotional element to points redemption but in the last

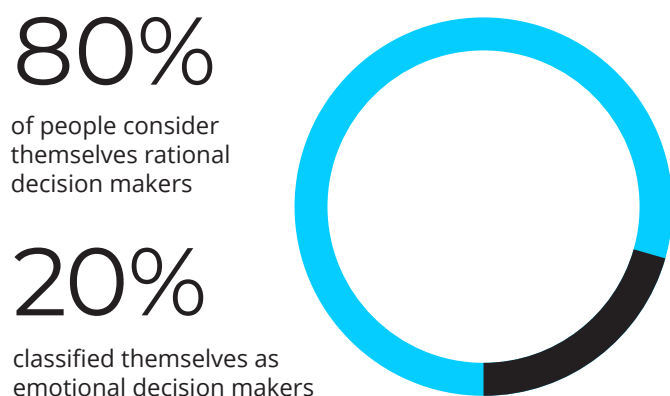
few years, we're seeing customers adopt a much more professional and rational approach to loyalty programmes as they try to maximise the amount of points they can get. This approach used to be fairly niche but now it's becoming mainstream and people are starting to consider loyalty rewards as an additional currency that they often treat as an entirely separate 'pot of money' to their day-to-day currency."

Behavioural scientist Dr Zac Posada-Baynham is clear how the rational/emotional wheel is turning: "We are not always 'rational' or always 'emotional'. Instead, when we treat ourselves or our loved ones, we recognise that as an inherently emotional decision. Put simply, we go on holiday to make fun, not to make sense."

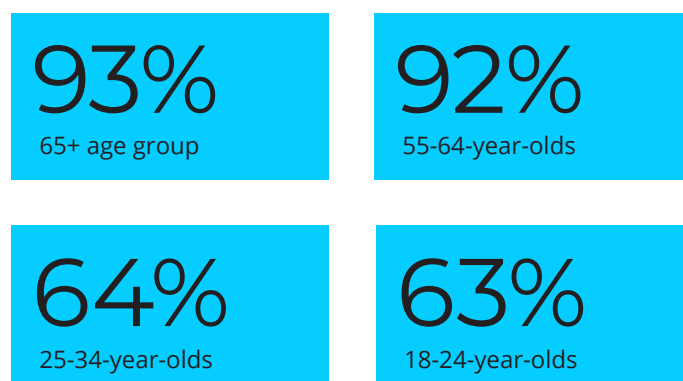
That is probably why [other studies also find](#) people don't cut back on holidays as much as 'rationally' expected during economic downturns.

"Ultimately, people collect points rationally in order to spend them on emotional purchases – maximising your efforts around the former will ultimately bring even more of the latter and that's arguably even more valued when times are tough."

Rational and emotional decision makers:



Rational decision makers by age group:



Treats and holidays leading the way

As part of the survey, we asked respondents which of the following options they will be trying to prioritise over the next twelve months.

Given an option of three choices, treats (65%) and an annual summer/winter holiday or trip to spend time with family (53%) finished ahead of birthdays (42%), streaming services (40%) and live entertainment (34%). Women would find it harder to give up birthdays than men do (71% v 61% and 45% v 39% respectively), whereas men would find it harder to give up live entertainment (42% v 26%).

There are significant regional differences too – treats are a higher priority in the North-East (71%) than Northern Ireland (54%), birthdays are more valued in Northern Ireland (50%) than they are in the North-East (34%), and live entertainment scores higher in the East Midlands (43%) than the South-West (27%).

Espinosa de los Monteros assesses the findings: “The data suggests that people don’t want to give up their annual trips, which could be a holiday or to spend time with family, especially on the back of the global pandemic. People have had three very tough years, so they value their holidays more than ever and this is a behaviour trend that is here to stay and something loyalty programmes can really help with.”

This is an insight reinforced by the significant surge in travel in the immediate aftermath of the global pandemic. Even when people physically couldn’t travel, they collected and saved Avios for when they could – our data consistently shows this to be the case in times of crisis, whether it be financial, health or geopolitical.

Posada-Baynham highlights the importance of coming together when times are tough: “It is perhaps not surprising that after three years of disruption, people want to be together and numerous [recent studies](#) have shown how people are now valuing time away with their family more.”

The research also showed that people are now prioritising small trips (66%) over annual holidays (34%), though this is likely to be a legacy of the global pandemic.

Given an option of three choices, top of the list was:



65%
treats



53%
annual holidays



42%
birthdays



40%
streaming services



34%
live entertainment

Loyalty Top 10 in a cost-of-living crisis

We also wanted to know more about people's loyalty priorities in a cost-of-living crisis. Unsurprisingly, when given three options, family/partner was top of the list with a score of 95% for women and 90% for men – this was closely followed by friends (86%/82%) with favourite brand/shop/product next with 84% for women and 72% for men in the next choice-set.

Interestingly, favourite holiday destination (77% women/70% men) ranked much higher than loyalty to employer (53% women/43% men) and favourite musical artist (51% women/48% men). The biggest gender variances were across favourite sports team (68% men v 34% women) and pets (63% women v 46% men). Men also over-index in loyalty to their home town and country of birth.

From a regional perspective, pets were valued most in the North-East with a score of 63% compared to just 50% in Northern Ireland whilst country of birth scored 39% in Scotland versus just 20% in the North-East with home town recording a high of 50% in Northern Ireland as opposed to a low of 30% in the South-West.

McDonald provides a summary: "The experience of the last three years has sharpened our focus on the important things in life and that is clear from this data – we hold our relationships dearer than ever and it's interesting to see brands and holidays score so highly which for me tells a strong story about our loyalty to the things we love in life, from products to places.

"From a business point of view, we're expanding into retail because we know customers want even more for their spend and that the brands that offer truly rewarding loyalty programmes that genuinely help people are the ones that are going to do well. Again, loyalty needs to be at the heart of not just a marketing strategy but a business strategy."

Posada-Baynham adds a further reflection: "Loyalty clearly means different things to different people, but what is consistent from our results and elsewhere is that people share the tendency to think that other people think more like them than they actually do."



"The experience of the last three years has sharpened our focus on the important things in life and that is clear from this data"

A complex loyalty picture

As we saw earlier in the report, 92% of people surveyed believe that loyalty programmes are providing extra value for them during this cost-of-living crisis. But what does that actually look like?

Understandably, given the economic conditions, 63% of people see the value of loyalty programmes in saving on everyday essentials, but this picture looks markedly different when talking to 18-24-year-olds, 38% of whom prioritise reward flights or upgrades over essentials and retail. This figure is only slightly lower (31%) for the 25-34 age group and shows how young people in particular don't want to give up travel rewards once they have them.

Posada-Baynham analyses this finding: "This difference in travel loyalty value by age is striking and best explained by younger people simply wanting to travel the most right now which highlights a trend amongst younger audiences who feel that the pandemic has deprived them of formative travel experiences."

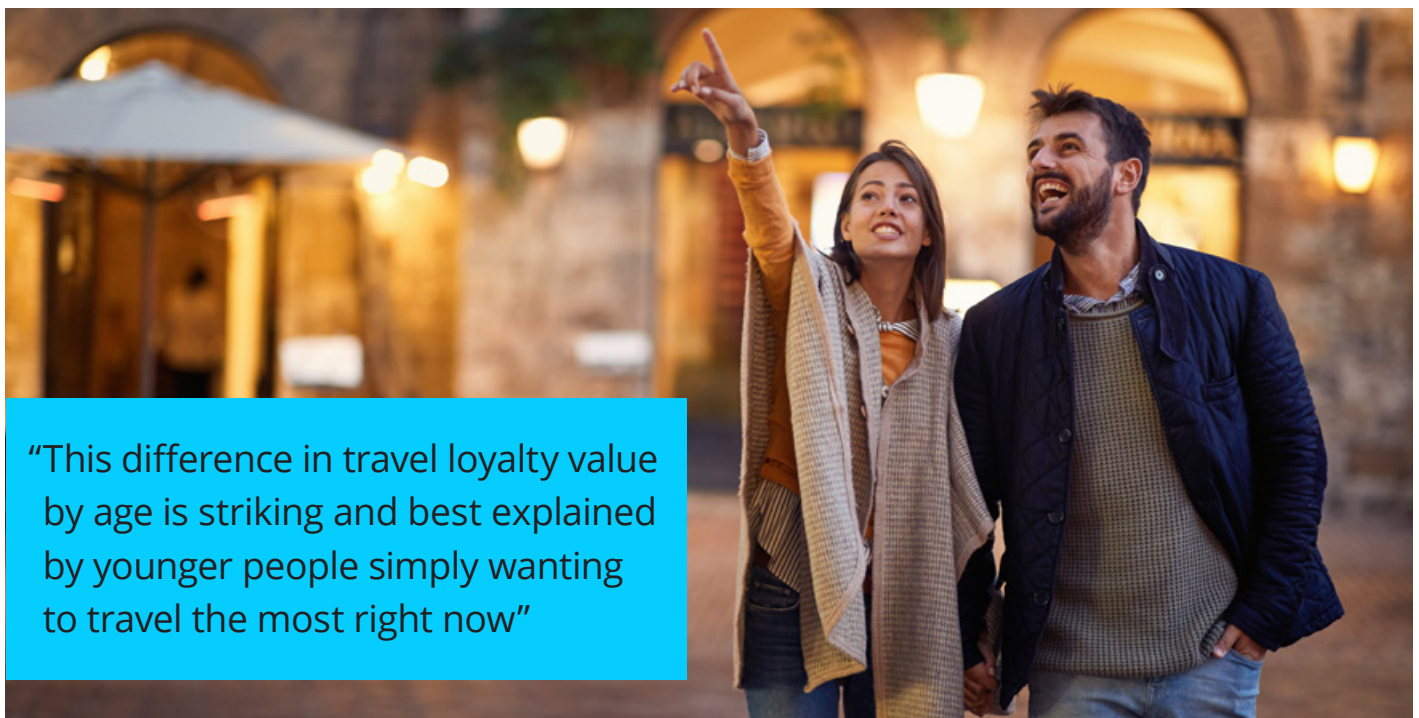
Across the board, we're also finding time to reward ourselves and others – the second highest response when

asked about the current value of loyalty programmes was to 'save money for small treats' with a 30% score, followed by a sizeable 18% who cited saving for gifts for others. Saving towards future travel clocked in at 14%. It's also worth noting that travel loyalty is more important for younger respondents with 27% of 18-24-year-olds selecting this option as opposed to just 7% for the 65+ group.

There are some notable variances by gender, namely the fact that women over-index on saving on everyday essentials (68% v 58%) but also on treats (36% v 23%) and gifts for others (21% v 15%). Men score significantly higher on 'one-off experiences' with 15% compared to 9%.

As McDonald says:

"It's a complex loyalty picture where customers clearly have a strong focus on essentials but at the same time, during this difficult period, they are keen to reward themselves and others. Brands that offer competitive prices and reward customers with truly rewarding experiences are going to win when things are tough."



"This difference in travel loyalty value by age is striking and best explained by younger people simply wanting to travel the most right now"

Getting to the points

Espinosa de los Monteros has a clear view of how we collect points today:

“When it comes to loyalty, we’re seeing two types of people – those who take loyalty seriously and really study loyalty programmes through blogs and other channels, and those who don’t spend as much time as that but will talk to friends and family so that they make more informed choices. In both cases, those running loyalty programmes should ensure they make them as user-friendly and rewarding as possible. As people understand the value more, they’ll make more effort to unlock that value and social media has definitely played a role in this upskilling process too.”

This insight was borne out by our findings. When we asked people how they were collecting loyalty points at this time, we found that more than half (55%) are finding new ways to do so.

Interestingly, the options to stick to current brands/shops ‘because I can collect loyalty points with them’ and shopping around to gain more points recorded almost exactly the same score with 21% citing the former and 20% quoting the latter. In addition, 17% said they would join additional loyalty programmes to collect points with more brands/shops.



Gifted v Saved

Another pattern which emerged from the research was a difference in behaviour where points were saved as opposed to being gifted, for example, when someone joins a new loyalty programme.

The headline is that people spend on the more indulgent options when points are gifted rather than saved and this 'gifting effect' is bigger for men and for emotional decision makers. Retail was more popular in the gifted scenario, recording 26% compared to 22% when saved.

McDonald reflects on the findings: "The gifted/saved analysis is interesting and we're seeing really differing behaviours with people's attitude to spending. Many people reward themselves by spending it all

when they've got it – we give people different options of payment such as 'use some' or 'use all' so as a result we see a massive spectrum from those who will save the maximum they can versus those who save a little bit continually."

Posada-Baynham concludes:

"Rationally, a point is a point – it shouldn't matter where it came from. Instead, this result elegantly shows how we allocate funds to separate mental 'buckets' and adapt our spending licences accordingly. Our 'gifted effect' is backed up by previous research showing that when we receive cash windfalls, we spend more on luxury."



People spend on the more indulgent options when points are gifted rather than saved

Where next?

The insights we've gathered from this experiment can help shape the loyalty market as we progress through 2023 and beyond. And with all the indicators suggesting the cost-of-living crisis will be with us for some time, those of us with a stake in the loyalty sector need to plan with that in mind.

As we highlighted earlier in the report, loyalty brands need an emotional pull, a distinctive offer, or both. McDonald examines this in more detail: "You have to create a proper brand loyalty strategy, whether that's an amazing service proposition that keeps you loyal, or a programme or a mechanic that keeps you coming back. More and more companies have got to this point, and I can only see this increasing in the immediate future.

"Connected to this, we're seeing customers deepen their relationships with loyalty programmes – so, for example, with us we're seeing people not just joining and flying British Airways, but also using one of our credit cards, using one of our shopping partnerships and using our online shopping portal or app – it's a real step change."

Espinosa de los Monteros is keen to stress the importance of balance: "On the one hand, we're seeing loyalty companies make a really concerted effort to help customers with better deals and other initiatives but on the back of the global pandemic we're now seeing airlines and hotels limiting customer tier status as demand returns. These two things are not correlating and it's critical now that loyalty companies find the right balance between them."

Two growing trends that look sure to roll on in 2023 are charitable giving and personalised experiences. Our new research revealed that one in five of us would donate points left over from a trip to charity and we saw powerful evidence of this in action at the height of COVID-19 with our 'Avios Thank You Appeal' which recognised the incredible

efforts of NHS frontline workers during the pandemic. Thanks to the generosity of our Members, our fund raised enough Avios to reward over 5,000 NHS staff with 60,000 Avios each.

On the back of this, we have just launched a new initiative to enable British Airways Executive Club Members to donate Avios to numerous worthy causes, supported by the [BA Better World Community Fund](#). It's something we expect to see more of in 2023, as Posada-Baynham explains: "As with our desire to cling onto holidays even when times are tough, our instinct to support others burns brightly, so where we feel we can help, we do."

When it comes to personal experiences, Espinosa de los Monteros makes the point that this is no longer a 'nice to have' for loyalty brands, it's a 'must-have': "The experiences of the last three years have accelerated this trend exponentially and understanding this really needs to be right at the heart of any future-fit loyalty programme."

As we said at the start of the report, the convergence of major global events over three turbulent years has brought us to a tipping point for the loyalty sector. The brands best placed to do well in a downturn are the ones that deliver loyalty programmes that are easy to access, truly understand their customers and offer them meaningful rewards.

Armed with the power of today's technology and a clearer picture of our customers, we are well placed to unlock the opportunity to redefine loyalty. Let's do it together. Starting today.

**WITH OVER 30 YEARS' EXPERIENCE
AND OVER 40 MILLION MEMBERS
WORLDWIDE, WE KNOW WHAT IT TAKES
TO SCALE LOYALTY PROGRAMMES.**

**[GET IN TOUCH](#) TO JOIN US FOR AN
INFORMAL IDEATION SESSION TO
DISCUSS YOUR LOYALTY NEEDS.**

