

Rewards Programs Are Undergoing Revamps

Younger consumers are more willing to pay for perks

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The concept of loyalty and rewards is shifting, despite supermarkets still scanning key fob cards and the ubiquity of credit cards that earn points.

Retailers like [Amazon](#) have popularized the "pay to get perks concept." It might have been hard to imagine a decade ago that consumers would pay \$99 up front for a year's worth of "free" shipping. But consumers — especially younger ones — are amenable to fee-based rewards.

According to a January 2018 [Bond Brand Loyalty](#) survey of US internet users worldwide, 37% of respondents were willing to pay a fee for more benefits. And younger customers were more open to this value exchange than their older counterparts. Close to half of Gen Z (47%) and millennials (46%) said they would pay more for enhanced benefits. Boomers (23%) and seniors (16%) were far less interested. Meanwhile, Gen X predictably bridged the youngest and oldest segments, with 37% saying they would pay more.

Younger US internet users are more avid members of rewards programs like Amazon Prime and Sephora's Beauty Insider, according to "The eMarketer Ecommerce Insights Report," conducted by [Bizrate Insights](#) in March 2018. Overall, 31.3% of respondents had bought a product through a rewards program in the past month, but this figure swelled

to nearly half (47.1%) for those ages 18 to 29. Usage dipped to 39.0% for respondents ages 30 to 39, and slipped to 35.3% for 40- to 49-year-olds. The rate slumped to around 25% for those ages 50 and older.

When it comes to loyalty programs, a one-size-fits-all strategy is not the answer. Some retailers go the tiered route. For example, Sephora has a free Beauty Insider program that gets members a free birthday gift and access to periodic sales. Shoppers that spend \$350 per year jump to Very Important Beauty Insider (VIB) status with more perks. And big spenders (those who spend a minimum of \$1,000 annually) become Rouge members and get monthly gifts, bigger discounts on sales and other freebies.

Others go down a different route, like a flat-rate one similar to **Restoration Hardware**. Its members pay \$100 a year for 25% off any full-priced purchase, a move intended to wean shoppers off discounts and reduce spikes in promotion-driven purchases, and the consequent returns and cancelled orders. In a Q3 2017 earnings call, Restoration Hardware chairman and CEO Gary Friedman said members were responsible for 95% of the company's sales, and membership fee income was up 37% year to date.

Target is one of the latest retailers to shake up its loyalty program. This week, the company announced a new pilot program that's going to be tested next month called Target Red. Unlike the current REDcard credit card, this program is free. Members will get a 1% credit on purchases that will be used on future purchases and receive half off Target's new \$99 same-day delivery membership powered by Shipt, a recent acquisition.