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Loyalty Programs

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A Bit about Loyalty Programs

Loyalty programs are often used as a weapon to escalate the war in securing new customers and keeping the ones you have. The huge investment required to develop a successful loyalty program and compete with escalating competition would rival a major military operation. For every successful new product launched in Canada, approximately 15,000 products fail; consumers are extremely fickle as their moods and needs change without warning. New products are often successful at the trial stage but fail when consumers are enticed for that all-important repeat purchase. Canadian marketers believe that it takes an army of tacticians, suppliers, designers and marketing gurus to create the perfect product. Often overlooked in the equation is the consumer. Emerging demographics and lifestyle trends continue to impact demand at the expense of promotions. Understanding current needs is not enough you must understand the evolution of their needs. Effective marketing of a product must send a strong message that emphasizes quality and value in addition to reinforcing brand position and equity. Quality is defined as the absence of variation therefore you must consistently deliver value to your target customer. Consistency in your offering and value proposition is an integral part of your success. You must consistently create and offer products that your customers' need and want at a price and level of involvement that delivers value. Understanding the key factors that impact your customer's decision tree will also impact success. Understanding why a consumer buys is just as important as what a consumer is buying. Promotions will give your sales a lift but loyalty will deliver profits. Consumer loyalty will be realized if you consistently deliver against your customer's expectations and evolving needs.

There has been a geometric explosion in Loyalty Programs as companies' flock to anything that will enhance or strengthen their relationship with a customer. Consumer's today want service, value and rewards; competitive prices are not enough they expect to be paid for their patronage. Increased competition has forced numerous industries to validate their marketing strategies in the name of attracting and retaining valuable customers. Almost every major retailer or national chain offers a reward program of some kind or another with the average consumer's wallet constantly challenged by the growing number of loyalty cards. Interestingly I have yet to see a single wallet that can handle the explosive growth in loyalty cards. Maybe we are evolving into consumers who need a separate wallet for every shopping occasion.

Customer Loyalty has emerged to be the defacto standards for measuring the strength of a relationship as numerous companies flock to loyalty programs as their salvation. Numerous variations of loyalty programs have come and gone in the last decade or have evolved as a selective confluence of rewards. Companies have learned the hard way that customers' retention is as important as customers' acquisitions in delivering outstanding financial results. When you dissect the key microeconomic focus that link loyalty to profits you learn about the enormous growth potential and profitability of loyalty. Despite the fact



that numerous sooth sayers position reward programs as short-term fads, they are gaining popularity and unprecedented success. American Express, General Motors, Diners Club, Air Miles, Shoppers Drug Mart, AMC Theaters, HBC Rewards, and many others have proven these naysayers wrong. Loyalty programs are here to stay and when positioned and managed correctly will play a pivotal role in attracting and retaining valuable customers. For a loyalty program to be successful it must share the value it earns in proportion to the value the customer receives. To be successful a rewards program must be aligned with the company's objectives and capabilities while simultaneously taking into account the true elements that determine value to a customer. It must recognize that all customers are not created equally. A loyalty program is designed to retain current customers by rewarding current behavior while simultaneously enticing new customers to change their behavior. A combination of effective communications, promotions, perceived reward value and convenience are often the catalyst in predicting a programs success. The price/value equation will play a stronger role if the loyalty program has a participation cost assigned to it. It is also important to point out that consumers take more seriously things they have to pay for. (La Senza, Chapters, Costco)

The following elements must be understood from the consumer's perspective for a loyalty program to be successful.

1. Actual value of the reward
2. Perceived value of the reward
3. Relevance to the consumer
4. Attainability Levels
5. Convenience or ease of use

These elements should then be reconciled with the following principles.

1. Marketing synergy

What role does the program play in adding value to your market position? Does it strengthen your value proposition?

For example if you are a low cost player (EDLP) or have an established differential advantage (niche fashion or jewelry) there is less value to add with a loyalty program versus a highly competitive undifferentiated market (gas, grocery, and credit cards). In an undifferentiated market reward points can create hurdles for customers to price shop as there are benefits associated with loyalty and costs associated with leaving.



2. Advertising and Communications

Customers need to be constantly reminded of the benefits of the program by highlighting salient features and news worthy promotions. Real time media at point of purchase and checkout complimented by well-trained employees has proven to be an effective communication vehicle. Suggestive selling has also proven very effective in triggering an impulse purchase.

3. Customer relevance and appeal factor

You must offer a reward or range of rewards that is relevant to your target customer. You must also be able to offer these rewards at a lower cost than your competitors. Rewards in the form of merchandise or cash are often referred to as highest value by the consumer but costly to support. It is interesting to note that these programs while successful in the short term often lack the required differential between actual and perceived value. In the long run they will be costly to sustain unless offered by retailers with significant profit margins.

4. Reward levels must be realistic and attainable

Participants must have enough opportunities to accumulate rewards without drastically changing current behaviour. Numerous studies indicate that incremental shopping behaviour will occur over time rather than at enrollment as consumers reap the benefit of the loyalty program. In order to be successful you must have a critical mass of sponsors at launch to gain an early majority with first movers. Too often consumers become impatient and frustrated as with reward thresholds set too high. You can avoid collector's remorse by offering more rewards at earlier collection stages. The Shoppers Drug Mart program has been very successful with the early rewards program by offering \$5.00 at a very attainable level.

5. Cost Effective

Loyalty Programs must be designed to positively impact performance and profitability. Proper costing and redemption estimates are essential as you cannot take away rewards once they have been offered. Critical to profitability is establishing a program with a perceived value higher than actual value. The cost of



running and maintaining a loyalty program can also be prohibitive if not managed correctly. Technology upgrades at POS must also be reflected in cost estimates and not hidden in the IT budget.

6. Easy to use

The offer should be hassle free and easy to understand in order to make collecting and redemption easy. The population is aging, demanding more and impatient with a growing affluence. Customer service reigns supreme and will not be overlooked in the face of any loyalty program.

The old mantra, which states that customer reward programs are no more than cheap promotional gimmicks, or short-term fads designed to fool customers are constantly being challenged by the success of current Loyalty Programs. Reward programs have been around for more than a decade and more companies, not fewer are throwing their hat in the ring. From airlines offering frequent flyer programs to telecom companies lowering their fees, companies are spending millions identifying, developing and implementing these programs. Loyalty programs are also cyclical in nature and must adapt and modify rewards to meet changing client needs. The Air Miles program recognized at an early stage that customers wanted more than travel rewards for their patronage and responded by offering a suite of targeted rewards. Loyal customers remain the anchor and continue to play a pivotal role as brand builders, buying more, paying premium prices and bringing new customers through referrals.

Unfortunately for many companies, loyalty programs are widely misunderstood and misapplied. Rewards are not and should not be positioned as short-term promotional gimmicks with immediate gratification. But rather a strategy that will entrench and enhance the relationship you have with your customers. Loyalty programs are therefore akin to a good marriage, benefits accrue over time and there is a cost associated with leaving. Loyalty programs launched with a short term view will only motivate customers with a short term view and will return a mere fraction of their potential value.

Critical to the success of any loyalty program is the ability to share value with your customer in proportion to the value your customer brings to the equation. Successful programs will constantly educate customers about the rewards of loyalty as a key motivator in adoption. A rewards program must be planned and implemented with a focus on your 10 year versus 1 year customer as well as encourage 1 year customers to participate in the long term. A loyalty program that will result in a sustainable and competitive advantage should



be measured in years not months and will require a concentrated and dedicated commitment. Too often large companies competing for market share or responding to escalating competition will try to compensate for declines in customer satisfaction using databases or sophisticated market research tools for a quick loyalty fix.. Unfortunately there is no such thing as a quick loyalty fix as consumers are fickle informed and unforgiving.

The following rules will assist you in developing loyalty programs that will result in attracting and retaining the right customers.

1. Do not treat your customers as equals
2. Do not reward your customers as equals
3. Communicate relevance not noise
4. Create more value for your customer than yourself
5. Be creative and differentiate your value proposition
6. Focus on the long-term relationship and not a quick fix
7. Target customers with a high equity value
8. Keep your promises