

HOW TO CURB CUSTOMER PROMISCUITY

CHRIS KNEELAND

CULT

GOAL: OFF THE CHART CUSTOMER ENGAGEMENT

3.3 BILLION USERS IN THE UNITED STATES ARE ENLISTED IN AN AVERAGE OF **29** PROGRAMS
 BUT
60% DON'T ACTUALLY PARTICIPATE

RESEARCH IS CONSISTENTLY CLEAR THAT MEMBERS BECOME DISENGAGED WITH PROGRAMS THAT :

- ① ARE TOO COMPLEX
- ② HAVE DELAYED GRATIFICATION
- ③ LACK PERSONALIZATION OR RELEVANCE
- ④ HAVE MINIMAL TANGIBLE VALUE

7 KEY CONSIDERATIONS TO EFFECTIVE LOYALTY PROGRAMS

BRAND DIFFERENTIATION	CUSTOMER ANONYMITY	TRANSACTION FREQUENCY	ASSORTMENT	PROMOTIONAL SENSISIVITY	CUSTOMER-CENTRIC CULTURE	INFRASTRUCTURE
NEED SOMETHING EXTRA TO STAND APART?	TURN BEHAVIORAL INFO INTO MEANINGFUL INSIGHTS	HOW MANY TRANSACTIONS DOES YOUR CUSTOMER MAKE?	FOCUS ON CROSS-SELLING AND UP-SELLING	WHY AREN'T YOUR CUSTOMERS SHOPPING WITH YOU MORE?	MANDATORY: WELL VERSED AT CRM & LOYALTY MARKETING	LAST BUT NOT LEAST MAKE SURE YOU CAN PULL IT OFF
<p>DISCOUNT CARD</p> <p>MORE THAN SAVING \$\$\$</p> <p>ASPIRATIONAL BENEFITS  EMOTIONAL CONNECTION</p>	<p>THE GOAL IS NOT JUST  ENROLLMENT</p> <p>ACTIVE ENGAGEMENT & TRUE CUSTOMER LOYALTY</p> <p>HOW?</p> <p>GET THE RIGHT INFO IN AS FEW QUESTIONS AT POSSIBLE</p> <p>GET TO KNOW THEM  MAKE FRIENDS</p>	<p>WHAT'S YOUR GOAL?</p> <p> CUSTOMERS OR VISITS?</p> <p> SPEND / VISIT</p> <p> WORK OF MOUTH</p> <p></p> <p>YOU ARE READY FOR A LOYALTY PROGRAM</p> <p>.... IF</p> <p>YOUR AVERAGE CONSUMER TRANSACTS 5-10 TIMES ANNUALLY</p>	<p>THE 4 WAYS TO MAKE MONEY:</p> <ol style="list-style-type: none"> ① GET MORE CUSTOMERS ② TO BUY MORE ③ MORE OFTEN ④ AT A HIGHER MARGIN <p>PROCEED WITH  CAUTION IF...</p> <p>YOU HAVE LIMITED NUMBER OF PRODUCTS OR DO NOT HAVE A GOOD/BETTER/BEST OPTION</p>	<p>IS BUSINESS GOOD?</p> <p>YES NO</p> <p>NEED EXTRA INCENTIVE?</p> <p> NON-MONETARY LOYALTY PROGRAMS</p> <p> SAVING</p> <p> MEMBERS-ONLY EXCLUSIVITY</p>	<p>USED TO BE JUST BASED ON ECONOMIC LEVERS</p> <p>LOYALTY SYSTEMS</p> <p>DATABASE MANAGEMENT</p> <p>NOW IT'S FAR MORE COMPLEX</p> <p>EMOTIONAL LEVERS + BRAND ATTRIBUTES + CUSTOMER INTIMACY = LOYALTY</p> <p>P.S. ALL THIS EFFORT THEREFORE REQUIRES ENTERPRISE-WIDE ALL-HAND-ON-DECK </p>	<p>BEFORE BEGINNING YOU NEED TO HAVE:</p> <p> ADJUTICATION ENGINES</p> <p> CRM & ANALYTIC SOFTWARE</p> <p> POINT-OF-SALE HARDWARE & SOFTWARE</p> <p> HUMAN BANDWIDTH</p>

THE ULTIMATE GOAL OF ANY BRAND LEADER should be achieving off-the-charts customer engagement. Unfortunately, far too many marketers spend the majority of their time and money on awareness or acquisition-based advertising. Their resources would be far better used crafting and implementing strategies aimed at increasing customer advocacy.

Advocacy-based marketing (which we affectionately refer to as Cult branding) has six core tenets. Several of those tenets can be enhanced with a formal loyalty program. However loyalty programs are tricky because there are so many good, and so many bad, examples. Also, many beloved cult brands, like John Deere, Apple, Nike and Coca Cola, do NOT rely on loyalty programs to achieve their success. Yet other adored, iconic brands do employ forms of membership-based programs, such as Starbucks, Amazon, and Costco. So it begs the question, "Who's example should I follow?"

We have invested much of our careers helping big brands think through loyalty solutions. We believe loyalty programs can be very powerful tools if executed properly. We also believe most brands that have them, do not need them. And, that most brands who have them are using them very poorly.

Across all industries, loyalty programs have become so prevalent that there are now 3.3 billion U.S. members enrolled. The average North American household is enrolled in 29. While enrollment is high, engagement is disappointingly low. A recent Colloquy research study found that nearly 60% of members registered for any given program don't actively participate.

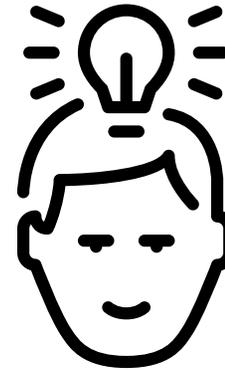
The simple truth is loyalty programs made the most sense when only a few businesses offered them. Their novelty and uniqueness contributed to their success. Now many brand leaders feel obligated to maintain or implement a program simply because everyone else in their category has one. Whereas loyalty offerings used to give consumers an added reason to choose a brand, now marketers fear that the absence of not having a loyalty program is giving their consumers a reason to deselect them. This is especially true in mature loyalty categories like hospitality, retail, and financial services. Those industries have bastardized loyalty solutions in such a manner that they are now hyper-promotional and give

consumers a heightened “what’s in it for me” attitude, expecting unreasonable value above and beyond the core propositions delivered by the brand’s actual product or service.

SILVER LINING

If there is any silver lining to today’s overly saturated loyalty landscape, it is that we now know exactly which program attributes customers like least. Research is consistently clear that members become disengaged with programs that:

- Are overly complex to understand
- Offer delayed gratification of rewards
- Lack personalization or relevant communications
- Provide minimal tangible value (either fiscal or social currency)



These four known customer disappointments serve as a great jumping off point for brand leaders considering loyalty program solutions. Simply don’t do any of those four things!

However, if you need a bit more direction, the following pages describe seven key considerations to effective loyalty programs based on our work with over a dozen best-in-class loyalty marketing solutions, such as Macy’s Star Rewards, Hyatt Gold Passport, Best Buy Reward Zone, Pita Pit MORE, and Albertsons’ Preferred Card. We have also relied upon over a dozen 3rd party North American loyalty research studies evaluating how corporate executives and consumer users view loyalty programs today. Our intended audience is one of two people:

- 1) Brand leaders who have an existing program, but wish they didn’t. This group probably believes their programs are very cumbersome and expensive to maintain, or the points

liability is so large it's scary, or their program's performance metrics are underwhelming and it seems like they're spending a lot of money with minimal incremental benefit.

- 2) Or, conversely, brand leaders who do not have a current program but are feeling pressure to create one. This group is wondering if now is finally the right time to launch one. This group is in a more enviable position than the first because they do not have any legacy investment to justify. However, they must proceed with caution. Doing something because everyone else is doing it is the worst possible reason to do anything, and as we said earlier, most brands should not pursue a formal loyalty program. There are far easier, less expensive options to gain customer loyalty.

Let's get started...

1) BRAND DIFFERENTIATION

Does your businesses need something 'extra' in order to help it stand apart? Or do you already possess sufficient brand equity to cause people to prefer you? How you conquer commoditization is critical to your loyalty program considerations.

FOR EXAMPLE, DO PEOPLE SHOP WITH YOU MAINLY BECAUSE YOU ARE CHEAP OR CONVENIENT? If so, loyalty programs must first and foremost provide cost savings and/or enhanced speed. They must also avoid becoming simply a discount card. All loyalty solutions must tap into a greater emotional connection by offering something more substantive than savings. For example, imagine you run a chain of local sports bars catering to men looking to relax after work or enjoy a ball game on the weekend. Rather than the equivalent of a 'punch card' that provides transactional incentives like happy hour drink specials or discounted appetizers during games, your



loyalty offering could help make your bar more desirable amongst avid sports fans. Perhaps your loyalty currency could be redeemed for special access to preferential seating at big games, or discounted game tickets, team merchandise, chances to vote on and/or nominate favorite teams or athletes for special prizes, entries to win trips to college bowl games or professional sports.

DO PEOPLE SHOP FROM YOU BECAUSE YOU PROVIDE ENHANCED SERVICE OR GREAT CUSTOMER CARE? Some brands, such as 5-star hotels, high-end grocery stores, luxury apparel or jewelry stores, are winning in their categories because they offer more service and/or aspirational benefits. For these brands, loyalty offerings must be far more engaging than just earning points. For example, if you run a high-end hair salon, your program should assist stylists in providing customers with tips and tricks to keep their look current. Experiential rewards, gifts with purchase, and surprise and delights help members feel special and allow brands to lower everyday monetary incentives in order to provide more aspirational rewards that create greater buzz and affinity. For example, host after-hours events at flagship locations, or feature celebrities who provide members with inspiration and advice via password-protected online communities. They could also forge strategic partnerships with noncompetitive brands catering to the same audience and do some clever cross promotions.

Before embarking down the loyalty program path, be honest about what it is your brand does best, and then ensure 100% of your loyalty benefits amplify your known strengths or over-compensate for your known weaknesses.

2) CUSTOMER ANONYMITY

In many ways a loyalty program is just a Trojan Horse designed to coax customers to part with their data so that marketers can use CRM strategies to do most of the heavy lifting in regards to changing customer behavior. The upfront effort and expense required to entice people to enroll is just a fraction of the resources required to maximize a loyalty program. The bigger challenge is figuring out how best to use analytics to turn the behavioral information captured into meaningful insights, and then to develop marketing, merchandising and promotional strategies that exploit those insights. The goal of loyalty programs is not just high enrollment; it is also to have active engagement. And to achieve that, brands need to have metrics like share-of-wallet, customer segmentation and migration strategies tied to value tiers, customer investment strategies tied to upsell, cross sell, and win-back programs, and measure the ROI of various marketing communication efforts.

True customer loyalty requires a level of intimacy where customers feel like brands know them and understand what they like. It always demands brands make it easier to interact with them how, when and where members prefer. And most importantly, it obligates brands to provide more engaging experiences for more devoted customers.

Customer intimacy comes at a great cost. Proceed with eyes wide open because customer data is expensive to collect and maintain. Always ask yourself, **"HOW LITTLE INFORMATION DO I NEED IN ORDER TO MAKE THE MOST IMPACTFUL DECISIONS?"** It is recommended that every customer provide at least four pieces of information:



**"THEY'RE NOT FALLING FOR IT...
LET'S TRY A HORSE!"**

• First Name • Last Name • Phone Number • Email

With those as a core customer record, brands can append dozens of insightful fields from 3rd party sources. The whole purpose of understanding demographic, psychographic, and behavioral data is to treat different customers differently. Loyalty programs help brands understand which customers want different things from you, and which customers are worth more to you. The brands operating the best loyalty programs are incredibly discriminating and save their best benefits for customers displaying the most desirable behavior.

Brands that already benefit from being able to tie customers to transactions, such as airlines, hotels, and e-commerce sites, do not suffer from anonymous users; therefore, they likely do not need a loyalty program as much as they need great CRM strategies.

3) TRANSACTION FREQUENCY

A general rule of thumb is if the average consumer transacts in your category 8-10 times annually, or if your best customers transact with you more than 5 annually, your business is ripe for a loyalty program. If frequency is lower than that, consumers tend to ignore loyalty offerings. So automobile or appliance manufactures, mattress companies, homebuilders and furniture stores are poor candidates for traditional loyalty programs, while hair salons, sandwich shops, frozen yogurt stores, are great candidates.

Most loyalty programs are based on a 'spend more, get more' philosophy, but better programs are designed to change consumer behavior rather than just reward it. The best programs find ways to incentivize incremental behavior while ignoring less desirable behavior that is already happening.

If your primary business challenge is to increase the average number of customer visits, a frequency-based reward structure, coupled with CRM strategies, is most effective.

If your most significant growth opportunity is getting existing customers to spend more per visit, than implement a spend threshold-based loyalty program.

If your ultimate aim is to increase word of mouth and brand advocacy so you can reduce mass advertising spend, a loyalty program with rich experiential rewards, social media content, branded events, sponsorships, strategic partnerships, etc., is most effective.

Many business leaders are tempted to try to achieve all the above, although prioritizing everything means you've prioritized nothing. Apply sound business math to different scenarios to determine which of the options above will result in the greatest impact to your business.

4) ASSORTMENT

There are only four ways to make money: (1) Get more customers (2) to buy more stuff (3) more often at (4) higher margin. Loyalty programs are poor solutions to "get more customers". However, they have obvious appeal in regards to getting customers to buy "more often" and buy "more stuff." Less leveraged, yet equally as powerful, is their ability to improve margin.

If you have a limited number of products and services, or do not have a good/better/best product mix, proceed with caution into the world of loyalty programs. Demonstrated ability to cross-sell and upsell is critical to how most programs justify their existence. But, if you're intent on pursuing a loyalty program regardless, focus instead on improving order size and finding creative ways to make it worthwhile for people to buy more than they ordinarily do.

5) PROMOTIONAL SENSITIVITY

Have you ever really evaluated why your customers are not shopping with you more? Is it really because you are too expensive, or are there other obstacles associated with why you're being deselected? Loyalty programs are effective tools at satisfying your customer's appetite for deals and instant gratification;

savings are a core element of nearly every loyalty program in existence. The richness and type of offer can vary, but programs based solely on non-monetary benefits rarely prove worthwhile.

If you have a great business, and customers just need extra incentive to increase their usage of your products or services, assess how easily persuaded they are to choose you over your competitors by offering discounts. If that works really well, loyalty programs can be effective tools by administering those savings in a manner far more constructive than carpet-bombing everyone with coupons or printed flyers. The challenge is knowing up front that you're committing to a lifetime of margin-eroding stimuli. Business owners must come to terms with their pricing and promotional strategies. Of critical importance is accepting the fact that loyalty program members must enjoy richer/better benefits than non-members. This means brands must be careful not to create a costly game of one-upmanship where mass advertising promotes a deal to everyone and then loyalty members receive an additional discount. Consider limiting advertised promotions to 'members only' and then use the appeal of the promotion to encourage loyalty program enrollment in order to qualify. That trick avoids the costly expense of customers' double dipping.

Also consider that loyalty programs involving franchise organizations sometimes fail because the franchisee is burdened with the additional cost of funding the lion's share of expenses for member rewards. Best practice is for Corporate to fund the majority of loyalty expenses out of the co-op dollars already contributed by the franchisee. Placing the expense on their shoulders usually suppresses overall participation and creates customer disappoints.



6) CUSTOMER-CENTRIC CULTURE

Perhaps better than any other device, loyalty programs can reduce customer attrition and reverse the downward migration of key customer segments. But your organization must be well versed at CRM and Loyalty Marketing best practices, and mastering those disciplines comes with a steep learning curve. Understanding the intricacies of point-of-sale loyalty systems, data hygiene and database management,

calculating customer lifetime value, defining value tier segmentations and developing customer investment strategies is far more complicated than traditional advertising and media strategies.

A few years ago, brands could get away with treating loyalty as a 'program' within the organization. That's because most programs were based largely on economic levers, not emotional levers tied to brand attributes or customer intimacy. Today, however, loyalty programs are ubiquitous, customers are jaded and competition has reached parity; the old approach to managing loyalty no longer works. Gaining loyalty from savvy 21st century consumers requires an enterprise-wide effort. Programs now require a fully integrated, all-hands-on-deck approach, meaning branding / advertising / operations / IT / customer care / store associates – EVERYONE has a key role to play.

As you consider your company culture, plan carefully for these three audiences who can hinder success:

- Senior executives must believe in the premise that loyalty programs can positively influence buying decisions. Pessimistic "snipers" within the C-suite looking for every missed projection or customer complaint will sabotage your efforts, especially as points liabilities and administration costs rise.
- Front line employees are arguably your single most important audience because they encourage (or discourage) members to participate. They must understand the program advantages and possibly even be incentivized to fully participate.
- Franchise operators are too far removed from the epicenter of the customer engagement team, and lack understanding of the loyalty program benefits. Instead, they usually orient themselves to short-term sales and do not appreciate that a loyalty program is a slow rising tide that eventually raises all ships. As such, franchisees require access to a lot of information in order to believe, and a successful pilot program with overwhelmingly positive results helps get them fully on board.

7) INFRASTRUCTURE

Enabling loyalty offerings requires significant infrastructure, and likely enhancements to current systems or adding complementary systems is required. In our experience, most brands lack the necessary in-house capabilities to support more innovative, customer-oriented program offerings, such as:

- Adjudication engines to properly administer loyalty currency and rewards
- CRM and analytic software to facilitate personalized/curated communications
- Program tools, such as point-of-sale hardware/software, members-only websites, membership database, customer care (online and call center), mobile app, and social pages

In addition to daunting technical requirements, businesses often lack the necessary human bandwidth to maximize loyalty-marketing activities. Sufficient staff is needed to manage the program, oversee effective implementation and compliance, and provide financial reporting, projecting incremental lift, etc.

CONCLUSION:

Loyalty programs are a big bet. You're betting on your company's ability to create something so compelling that your customers will take notice and willingly choose to actively participate in it. You're betting that you can execute well enough to keep people engaged year after year. And your betting that this level of effort will produce a better ROI than other alternatives you can do with that money. However, if done well, loyalty programs are a great way to improve customer engagement. According to hot-off-the-press research by Bond Brand Loyalty, **66% OF LOYALTY PROGRAM MEMBERS WILL INCREASE THEIR SPENDING** in order to capitalize on loyalty benefits, and **73% ARE MORE LIKELY TO RECOMMEND BRANDS WITH GOOD LOYALTY PROGRAMS**. It is a high stakes gamble, although we believe it can absolutely be worth it if you have proper expectations and don't make the same mistakes so many others are making.