How To Design and Build An Effective, Customer-Centric Loyalty Program

Michael Lowenstein, Ph.D., CMC
Thought Leadership Principal

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About the Presenter

- Thought Leadership Principal at Beyond Philosophy
- Formerly EVP at Market Probe, SVP at Harris Interactive (Nielsen), SVP at GfK/NOP World
- Over 35 years of training, research, and consulting experience; passionate about stakeholder behavior and brand measurement
- M.B.A. in marketing, organizational management
- B.S. degree in economics and marketing
- Ph.D. in strategy, program development, and program management
- Author of 200+ articles and white papers, and several customer-centric marketing books, including –
  - *Customer Retention* (1995); *The Customer Loyalty Pyramid* (1997); *Customer WinBack* (2001), *One Customer, Divisible* (2005), and...
  - New ebook/soft cover book on customer-centric research, culture and analytics - *Customers Inside, Customers Outside* (2014)
  - Advisor/#2 Content Contributor – *CustomerThink* portal
  - Advisor, Customer Value Creation International (CVCI)
  - Named among World’s Top 30 Customer Service Professionals by Global Gurus
Who Is Beyond Philosophy?

Customer Experience is all we do.. Since 2002!

We work globally with offices in London and North America; with partners in Africa & Asia.

Thought leadership is our differentiator

We focus on the emotional side of customer experience

‘Secrets of a Successful Global Customer Experience Program’ – Palgrave MacMillan 2013

Evidence based consulting, research & training
Some Organizations We Have Worked With…
Defining the Current Customer Loyalty Behavior and Program Landscape

Today’s B2B and B2C customer is more mobile, content-seeking, impatient, and independent than at any time in history. Even with all of these new decision dynamics, the fundamentals of trust and perceived value have become increasingly powerful drivers of customer loyalty and bonding behavior.

Between 2008 and 2012, U.S. loyalty program memberships increased by 10% per year, reaching over 23 memberships per household.
What Loyalty Programs Should Be Designed To Accomplish

- Generate customer profile data that can be used for targeted – even micro-segmented – marketing, promotion, and communication initiatives
- Extend the perceived value customers find in the vendor experience
- Leverage long-term loyalty (purchase, cross-sell, upsell) behavior of the customer base
- Reduce the consideration of competitive products and services
- Offer a unique array of components created to drive the perception of personal and targeted benefit, especially among the vendor’s most valuable customers
- Be consistent with the overall product/service value proposition
How Loyalty Programs Can Impact Customer Behavior

- Through community and informal offline/online communication, which impacts both individual and group actions
- Through ability to represent added and distinctive value, which results in greater wallet share, increased purchases, cross-sell
- Through (potential) ability to keep customers, and attract new ones
- Through customer response to vendor communication (customized and personalized promotions, etc.)
- Through offer of special, differentiated service to best customers
- Through ability to provide recognition as well as reward
- Through leveraging of insights for targeted, personalized value delivery
How Well Are Loyalty Programs Accomplishing Their Objectives?

• CMO Council study
  - Only 13% of marketers feel their programs have been effective at leveraging customer behavior;
  - 20% have no strategy to do this;
  - 30% of marketers feel customers see little or no added value to becoming a program member
  - 54% of loyalty program members were considering leaving the program or defecting from the brand (irrelevant messages, impersonal treatment, etc.)
Other Consultants and Researchers Weigh In About the Value of Loyalty Programs

- **McKinsey** – Though market capitalization for companies with loyalty programs has outpaced those that don’t, sales growth rates have been about the same (somewhat higher for hotels, but lower for car rental, airlines, and food retailers). Companies must:
  - Integrate customer loyalty into the full experience
  - Use the data from these programs
  - Build partnerships
  - Solve customer pain points
  - Emphasize difference between perceived value and actual cost
  - Invest and reinvest heavily toward most valuable customers

- **Ipsos Mori** – U.K. study found that only 23% of customers said loyalty program influenced their purchase decisions

- **Colloquy** – 50%+ of Americans are not satisfied with reward offerings of loyalty programs; customers expect loyalty rewards to be part of the offer, more of a price discount than a distinctive membership benefit
What Effective Customer Loyalty Programs Are...And Are Not

• **Are**
  - Opportunities to deepen relationships with, generate more of an emotional/bonded connection, and provide more value, for customers through experiential rewards
  - Opportunities to learn more about customer needs and wants and what drives loyalty behavior
  - Opportunities to tap into program member profile data for more effective and efficient marketing and communication
  - Opportunities to build sales through engagement of new, current, and high potential customers
  - Opportunities to build community, and advocacy behavior, among customers

• **Are Not**
  - Panaceas, substitutes, or surrogates for building an emotional, value-based relationship with customers
Leveraging Desired Program Behavior: Increase Satisfaction and Loyalty, Move To Advocacy
Designing A Loyalty Program That Is Consistent With Customer Value Proposition

• Just as the value proposition should be straightforward and easily understood by customers, so should the loyalty program components.
• Build in a balance between achievable and desirable benefits, through a tiered system, coupled with points, to a) reward both initial and long-term participation and b) encourage more purchase activity.
• Make a VIP benefit more special (and more profitable) for members by considering a fee for these benefits (example is Amazon Prime).
• Ensure that the program is completely consistent with the values of the organization, as understood by customers.
• Where appropriate, build programmatic partnerships, or coalitions, to enhance program value for customers (American Express has Whole Foods, Zappos, Staples, etc.).
• Utilize gamification and community techniques to retain, and build, active customer involvement in program.
• Consider the possibility of a no-program program (Walmart and Apple).
How to Support Loyalty Programs and Keep Them Fresh and Distinctive: **Create Advocacy**

- Identify customers within the program who are most likely to advocate, i.e. positively amplify their experience.
- Enhance relationships through personalization, message targeting, and greater relevance (more than two-thirds of the strongest advocates will recommend the brand within a year).
- Build community communication through social media (referrals, references, product reviews, posts), member events, etc.
- Offer points, and other benefits (including recognition, access to content, early product releases, etc.), for members who participate in advocacy marketing/communication programs.
- Gather insights and intelligence about member preferences; give members the opportunity to directly guide program direction.
- Encourage points redemption for experiential rewards (30% more likely to be advocates than those who use the program for discounts and bounce-back offers).
- Add new and unique member benefits and incentives.
Qualitatively and Quantitatively Driving Value From Loyalty Programs

- **Qualitative**
  - Deep insights (forums, events, online bulletin boards, community text analytics, etc.) from customers about the program overall, and the value of its components
  - Enable members to help shape and guide program direction, and new elements through direct participation

- **Quantitative**
  - Customer retention rate should increase over time
  - Increased share of customer/share of wallet
  - Negative churn, i.e. upgrade or purchase at higher levels
  - Positive change in metrics like satisfaction, NPS, CES, loyalty indices and customer advocacy
  - Reduction in complaints; increase in referrals, ratings, positive comments
  - Program should generate a Pareto effect, then spread to remainder of customer base
Examples of Leading Customer Loyalty Programs – And What Makes Them That Way

- Bloomingdale’s Loyallist
- Walgreen’s Balance Rewards
- Best Buy Reward Zone
- Safeway Rewards Points
- Starbucks My Starbucks Rewards
- National Car Rental Emerald Club
- Sephora Beauty Insider
- Business-to-Business Customer Loyalty Programs
Bloomingdale’s - Loyallist

- Open to all shoppers based on a rewards system; strong branding and site, with program graphics consistent with Bloomingdale’s image
- 1 point for every dollar spent;
- 2 points for cosmetics and fragrances;
- 3 points if Bloomingdale’s card is used;
- 4 points for Bloomingdale’s Top of the List “Reserve Card” holders (spend $3,500 per year on Bloomingdale’s card) plus perks (free shipping, gift wrap, discounts on shoes and dining, invitations to special events)
Walgreen’s – *Balance Rewards*

- With new Steps initiative, Balance Rewards takes members beyond the standard points-per-purchase program, and encourages/rewards members for healthier life style
- $5 for every 5,000 points; can redeem all, some or roll up for higher rewards
- 500 points for each prescription filled and also for immunization
- 250 points for setting a healthy goal, linking a digital fitness device, miles logged on walks/runs, tracking weight, checking in at physical activities like yoga or spin classes
- Mobile apps for iPhone and Android
Best Buy – Reward Zone

- 1 point for every $1 spent
- $5 reward certificate for every $250 spent
- Mobile app for iPhone and Android (track points, redeem Reward Zone Points, check weekly ad for sales and deals)
- $2,500 spent qualifies for Premier Silver membership
  - 25% more points per $1 spend
  - Free expedited shipping and delivery
  - Free house call from Geek Squad agent
  - Special event invitations
Safeway and Dominick’s – Rewards Points

- 1 point for every $1 spent on groceries or at the pharmacy
- 4 points for qualifying gift cards
- Principally for use as gas station rewards
- Conversion of points into discounted fuel fill-ups: $.10 off per gallon for 100 points, $.20 off per gallon for 200 points at Safeway, Mobil, and Dominick’s gasoline station
- Periodic special 2X gas Rewards Points periods
- Gas for cash, debit, or credit card all same price
Starbucks – *My Starbucks Rewards*

- Online Starbucks Card registration; free Starbucks mobile app
- Scan-and-go payment feature
- GPS Starbucks location service
- 1 star per purchase = 1 free drink or food on your birthday
- 5 stars = free refills
- 30 stars in 12 months earns Gold status
  - 1 free drink for every additional 12 stars
  - Exclusive offers and coupons via mail, email, and text message
National Car Rental – *Emerald Club*

- Executive Travel’s Leading Edge Award – speed, simplicity, choice
- Counter bypass; Drop & Go service with eReceipts
- Update texts or emails – key information (arrival and departure dates/times), availability of specific cars, alerts about members-only discounts
- After reservation, pick whichever car you’d like from their Emerald Aisle and drive off the lot
- Choices for redeeming rewards – free rental days, free hotel stays and rewards, or conversion of rewards into frequent flyer miles
Sephora – Beauty Insider

- For every $1 spent at Sephora or at Sephora inside JC Penney stores, receive 1 point for Beauty Bank
- Redeem points for sample sets of products, access to special products, and free limited-edition handpicked sets
- 100 points = choice of one Beauty Insider deluxe sample
- 500 points = limited edition set for Beauty Insider members only
- Membership also qualifies for a free birthday gift, free in-store Sephora University beauty classes, select seasonal promotions, access to special products, and invitations to VIB or VIB Rouge events, with exclusive access to new products
Business-to-Business Customer Loyalty Programs: A Somewhat Different Animal

- What works: Proactive, extended, and personalized service (free shipping, off-hours or off-days deliveries, etc.)
- What typically isn’t effective: Rewards, points, and price promos because they can quickly become expected, non-differentiating
- Maximizing regular relationships, communication, and contact at a human and emotional level, so that the customer perceives value and is resistant to insider pulls or competitive threat
- Segment and profile potential, best (and defected) customers, and generate in-depth insights about what makes them that way
- ‘Loyalty’ programs are often about ‘valet-level’ customer treatment
Some Retailers Either Never Had, Or Have Eliminated, Loyalty Programs

• Walmart has long claimed that a loyalty program isn’t needed
  - Loyalty programs considered expensive; Walmart relies on low prices
• Asda, a Walmart-owned supermarket chain in the U.K., has no loyalty program
  - Execs say they offer a “great multichannel retail experience”, with focus on price, quality, convenience, consistency and service
• U.S. supermarket chain Publix has no loyalty program
  - Discounts available online; BOGO program for store brands; accepts competitors’ coupons
• Cerberus Capital Group (Supervalu stores Shaw’s, Acme, Star, Jewel-Osco, Albertsons) eliminated their loyalty programs post-acquisition
  - Adopting a ‘card-free savings for all’ philosophy; use of games
• Airlines are reducing the benefits associated with loyalty programs
  - Higher miles for redemption rates, especially on international flights
Case Study:
Building A Loyalty Program That Generates Customer Advocacy Behavior

Wine Lovers Club

- Representative of programs offered by wine retailers and wineries, add-ons by other programs, and coalitions with multiple retailers
- Introduced in 1999
- 50,000 members (all in U.S.)
- $100 fee for first year, rebate in second year based on amount of wine purchased in previous year
- Components built over time, now numbering 20 elements, with most ‘borrowed’ from other loyalty programs; no information generated on what elements are most successful at driving behavior
- Club membership has remained static for several years
- Program rarely mined for customer profile data
- Advocacy framework research conducted to optimize loyalty program value proposition and elements
Advocacy Impact of Loyalty Program Components

Critical to Reducing Alienated
- Personalized winery visits: 33%
- Points earned for every purchase: 6%
- Special events: 11%
- Free shipping on wine purchases: 9%
- Instant discount or rebate offers: 0%
- Access to pre-release, specialty and limited edition wines: 18%
- Members-only catalog with program logo items: 9%
- Catalog accessories... also available for points: 9%
- Discounted wine storage rates: 0%
- Free personalization of wine labels for gift-giving: 6%
- Referral benefits: 23%
- Tier levels, with higher points as purchases increase: 28%
- Discounts on wine purchases as tier levels increase: 14%
- Points, tier levels and credits accounted for automatically: 8%
- Benefits earned never expire: 4%
- First priority ordering and exclusive wine selections: 4%
- Online Wine Lovers Club community: 3%
- Exclusive "ask the expert" online and telephone availability: 4%

Critical to Building Advocates
- Personalized winery visits: 2%
- Points earned for every purchase: 4%
- Special events: 6%
- Free shipping on wine purchases: 6%
- Instant discount or rebate offers: 7%
- Access to pre-release, specialty and limited edition wines: 25%
- Members-only catalog with program logo items: 29%
- Catalog accessories... also available for points: 10%
- Discounted wine storage rates: 10%
- Free personalization of wine labels for gift-giving: 18%
- Referral benefits: 9%
- Tier levels, with higher points as purchases increase: 9%
- Discounts on wine purchases as tier levels increase: 5%
- Points, tier levels and credits accounted for automatically: 8%
- Benefits earned never expire: 13%
- First priority ordering and exclusive wine selections: 31%
- Online Wine Lovers Club community: 23%
- Exclusive "ask the expert" online and telephone availability: 23%

BEYOND PHILOSOPHY
Building Great Customer Experiences
Principal Wine Lovers Club Program Advocacy Research Insights

- Only **12%** of Wine Lovers Club members were identified as program advocates; **30%** were identified as alienated, likely to leave
- **38%** of members were identified as allegiant, positive but relatively silent and who could potentially become advocates
- Some program components – benefits that never expire, discounts, free shipping, and discounted storage rates – were found to have minimal leverage on member behavior or retention
- Tier levels, instant discounts, points awarded for each purchase, referral benefits, and availability of accessories in catalogue were actually undermining the program, compromising exclusivity image
The Wine Lovers Loyalty Club of The Future

- Communicate that belonging to the loyalty program is distinctive and valuable, and available to a select few, similar to American Express’ classic “Membership Has Its Privileges” campaign
- Increase direct involvement in the club as an extension of members’ life styles; utilize engagement methods such as gamification
- Actively promote no more than five or six key program components identified in member advocacy research:
  - Access to pre-release, specialty and limited edition wines
  - First priority ordering and exclusive wine selections
  - Special events (wine tastings, introductions to wineries)
  - Personalized winery visits
  - Exclusive ‘ask the expert’ online and telephone availability
  - Free personalization of wine labels for gift giving
Top 10 (Out of 30) Things That Will Make Customers Come To Your Loyalty Program (And Stay)

- Focus on acquiring data about customers, not just generating repeats
- Target (new) customer acquisition more accurately
- Find creative ways to move customers to higher spend levels
- Find creative ways to de-select least profitable customers/members
- Win back profitable former members who have defected
- Increase customer lifetime value (CLV) through accurate profiling
- Build real relationships with members based on emotional connection, trust and relevance
- Set fairer pricing policies, in part by allowing customers to use points
- Intelligent, customer-targeted response to competitive challenges
- Improve product assortment (promotional and ongoing) and stock availability for members
Key Summary Perspectives
(per Colin Shaw)

• Customers like to be rewarded and made to feel special, but for something they feel they earned
• Points are important: At a subconscious level, people like points, and they perceive more value with receipt of large numbers of points
• Customers like the engagement associated with unusual, fun, and less traditional or mainstream rewards
• Customers desire, and tend toward, brand loyalty so they don’t have to disrupt their lives
• At the end of the day, loyalty doesn’t need a card or a program (although they can be useful), but experiential benefit and perceived value should be consistently demonstrated
• In designing a rewards program, ask these questions:
  - What are the strengths of your product or service value proposition?
  - What do your customers truly value about your goods or services?
  - What makes customers come back?
  - How can a program be built around these questions?
Concluding Advocacy/Bonding Value Message

“The benefits of building advocacy can’t be ignored. Satisfaction and loyalty are important, but they’re old news. It’s a new dawn in customer experience strategy, where the customer controls over 50 percent of the overall brand message. Forward thinking companies will be the ones that can identify and work with their customer advocates to genuinely build trust in the brand, the customer base, and the bottom line.”

Cultivating Customer Advocates: More Than Satisfaction and Loyalty
2011 Peppers & Rogers Group White Paper
Customer-Related Publications and Contact Information…

Michael Lowenstein, Ph.D., CMC
Thought Leadership Principal
Beyond Philosophy
www.beyondphilosophy.com
Michael.Lowenstein@beyondphilosophy.com
856-283-1182