BUILD A LOYALTY PROGRAM

That Actually Creates Loyalty

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Enabling Customer Engagement

DESIGNING AN EFFECTIVE LOYALTY PROGRAM: AN OVERVIEW OF 5 KEY REQUIREMENTS FOR A LOYALTY PROGRAM THAT MOTIVATES APATHETIC CUSTOMERS AND FOSTERS TRUE LOYALTY

Loyalty programs are everywhere. According to a recent Accenture survey, consumers have more than 3.3 billion[1] loyalty program memberships in the United States, which works out to 29 programs per household. Industry statistics also suggest loyalty programs regularly fall short of producing loyal customers. In the same Accenture study, 71% of consumers state that "loyalty programs do not engender loyalty" and 61% of "loyal" consumers purchased from competitors within the previous 12 months. More alarming is the number of consumers who are quick to retract their loyalty (77%) along with the ones who are indifferent or "negative" to loyalty programs (23%). With so many programs and such limited enthusiasm from members, the question we hear most often is: *How do I actually create loyalty with my loyalty program?*

At 89 Degrees, we get asked this question a lot. We get asked this question by companies for which we conduct evaluations of their current program and by our loyalty program clients (who want to be sure we and they are doing everything possible to make these programs standout in a crowded marketplace). And while the answer always varies depending on a company's objectives and overall market positioning, we have found the following truths can and should be applied to create loyalty programs that result in active, loyal customers:

- Show some understanding
- Motivate the outcomes you seek
- Keep customers engaged through good communication
- Show appreciation
- Keep it easy

SHOW SOME UNDERSTANDING

Your members share a lot with you. They share an email address, a phone number, and sometimes even their credit card number. With their purchases and browsing, they tell you what they like and even when they are looking. Great programs use this information – use what's shared – to show some understanding.

At a practical level, companies show understanding by using shared data to personalize messaging. Ideally this personalization permeates all contacts, from triggered outreach and regularly scheduled campaigns to in-store interactions. Trigger responses that get best results not only relate to the activity that caused the trigger, they also take into account what's already known about the customer. For example, if a customer who normally attaches a warranty is looking at dishwashers, the messaging back should feature dishwashers and the warranty. Similarly, scheduled promotions (e.g., weekly deal emails) should highlight products or brands that are likely to appeal to each recipient. Generic messaging is just not as likely to generate interest!
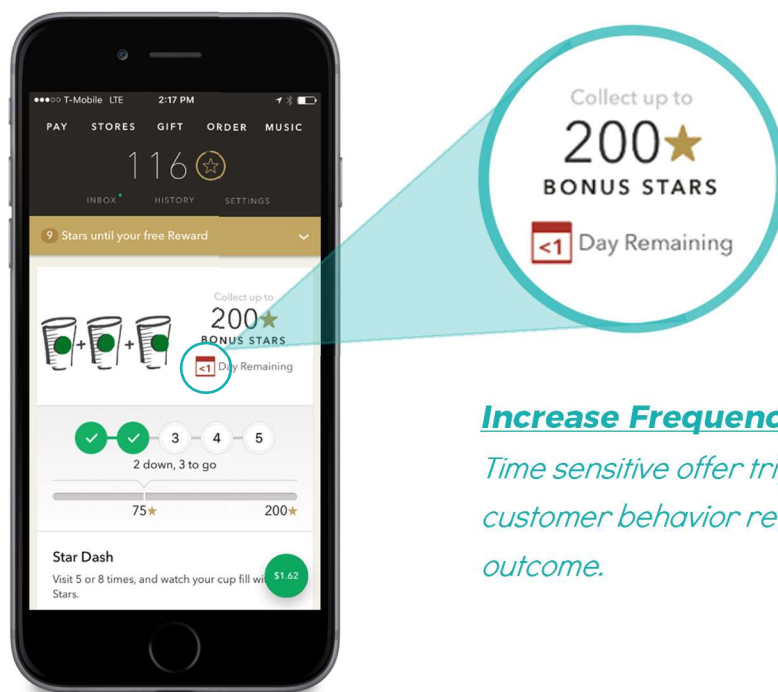
MOTIVATE THE OUTCOMES YOU SEEK

Most loyalty programs offer incentives to purchase. This is essentially table-stakes, and is an important part of many programs. It motivates consumers to enroll in the first place and gives them another reason to buy. However, if the incentive strategy stops there – if the benefit is uniform and used strictly as a purchase quid pro quo, the program is probably falling short of its potential.

Better programs do more to motivate their customers. Common practices today include tiers and badges, both of which encourage (and generally reward) desired behavior. More advanced programs look at consumer behavior and create offers in response to specific actions (or inaction) from the member. In other words, advanced programs personalize the incentives.

PERSONALIZATION IN ACTION – STARBUCKS REWARDS

Starbucks' loyalty program does a great job of utilizing actual customer activity and preferences to personalize incentives. In this example, Elena had the opportunity to collect bonus stars if she increased her visit frequency. Her visit frequency had in fact trailed off, so the offer was in direct response to a change in her behavior. And notice the offer was time-bound, also a characteristic of advanced program design.

Increase Frequency of Visits

Time sensitive offer triggered by customer behavior rewards desired outcome.

KEEP CUSTOMERS ENGAGED THROUGH GOOD COMMUNICATION

Welcome to Warby Parker

Now that we're buds, here's a little more about us.

In business, as in life, loyalty is built on good communication. Companies that recognize the importance of good communication map out customer journeys that keep customers engaged throughout the relationship. In my household, we recently got the chance to experience excellent relationship building with Warby Parker, the online glasses retailer.

In this case, Warby Parker helped us to understand each step of the process, made us feel good about the company, and good about moving to the next step. While this example is not from a loyalty program per se, the quality of their work makes it an excellent example of effective communication.

Let's start with their first email, with the subject line: *Welcome, welcome, welcome.* The email features a series of short explanations, which balance practical information (*Getting Reimbursed, How our frames are made*) with feel good news about the Company (*Our Story, Buy a Pair/Give a Pair,* and *Fun facts about Warby Parker*). We read it, knew what to do, and felt good about continuing on to the next step.

The remaining emails did much the same:

- Email 2 kept us informed – *Received! Your order is on its way*
- Email 3 kept us engaged – *Picking a winner is easy*
- Email 4 kept us moving forward – *Signed, Sealed, Delivered*

The email communication – and optional phone and chat support – made us comfortable they were taking good care of us throughout the entire process.

It's also important to remember good communication is a two-way street. It makes perfect sense to ask customers for their opinions (especially reviews) and to reward them for taking the time to comment. To say the obvious, reviews are a critical component of business today (especially for customer acquisition), so to fail to engage loyal customers in reviews is to miss a tremendous opportunity to grow your business.
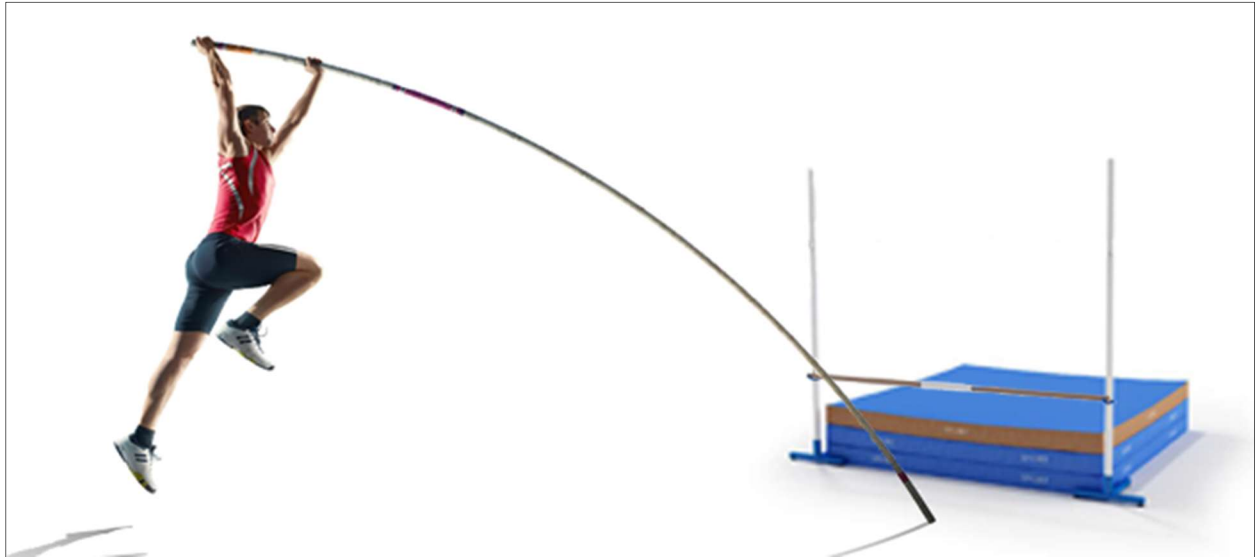
SHOW APPRECIATION

According to Forrester[2], negative brand experiences that lead consumers to feel "disgust, anger, or neglect" are eight times more likely not to forgive the offending brand. It doesn't take much effort to extrapolate what that means in terms of lost revenue due to decreased frequency of purchases and lower retention rates. Corporate missteps are sometimes hard to avoid and good loyalty programs purposely build goodwill in part to offset the negative. Showing customers appreciation is a key part of this effort.

Loyalty marketers need a means to show they value their customers that strengthens their connection to the brand. These areas of appreciation are what truly differentiate the customer experience and solidify a preferred vendor position.

Appreciation takes many forms and has one goal: to connect emotionally with members. Appreciation can range from a "thank you for being a member" acknowledgement from front-line employees and random surprise and delight gifts to recognition on your birthday or membership anniversary. Similarly, member-only benefits that are always available (e.g. IKEA Family's in-store extended playtime for kids) provide a mechanism to make members feel special. The good news about appreciation is it is operationally easier than some other program success factors. The other good news is it will help make your program stand out from the crowd.

MAKE IT EASY

In our research and our client work, 89 Degrees finds that loyalty programs that are easy to understand and easy to participate in generate the best results. While this may seem (and is) obvious, it actually takes a lot of vigilance (to avoid layering on too many "enhancements" without offsets) and technology know-how to make program understanding and participation easy.

Two constituencies[3] to have in mind when designing or refining a loyalty program are customers and customer-facing employees. For customers, the basics of the program should take no more than two or three sentences to describe and in that description customers should understand why they would want to enroll. Equally as important, it should take a minute or so to enroll. Even if you think the program would benefit from more information, enrollment is not the time to ask. There will be other opportunities.

Best-in-class programs deploy an array of technology to make participation easy. As a standard, the technology should allow members to access program information across a variety of platforms (app, mobile wallet, website, in-store, in-vehicle, etc.), with the data updated and in synch, ideally in real-time or worst-case, daily.

Loyalty programs must also consider customer-facing employees in the design and especially the execution of the initiative. These employees often have a myriad of responsibilities and ever-changing priorities. For loyalty truly to take hold, it's important to go beyond routine training and ingrain loyalty practices in the everyday processes and procedures. For example, we recommend to our automotive clients that they visibly promote

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loyalty programs using mirror hangs and the like on new vehicles. This direct promotion makes consumers aware and thereby "forces" sales associates and Finance & Insurance managers to become familiar with the program in order to address questions from prospective buyers. Similar efforts are done in the service area, so with every customer interaction there is an explicit call-out about the loyalty program. This approach – part of Customer Journey Management, really – helps keep the program front and center, which is critical especially given high staff turnover and the relatively low interaction between vehicle owners and the dealership.

BRINGING IT ALL TOGETHER

With the abundance of loyalty programs it's at once harder and more important than ever to make your program stand out. 89 Degrees can help. We offers years of loyalty experience and partner with clients in the design and deployment of dynamic, high-value programs, guiding clients through the key stages of:

- Market research and competitive analysis
- Benefits ideation
- Differentiating value proposition
- Pilot implementation and program roll-out

We work with clients across a broad range of industries to create or elevate loyalty programs that drive real loyalty. We put into practice the ideas outlined above, and from that build programs that attract and retain more active customers, generate higher levels of engagement for greater spend and frequency, and nurture customer advocates to best achieve quantifiable business results.

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ABOUT THE AUTHOR

Jeff Caplan, *Partner and VP of Strategic Marketing Services*

Jeff has focused on the use of information and technology to improve marketing performance throughout his career. Prior to 89 Degrees, Jeff held senior positions in analytics and client management at Harte-Hanks, served on the Executive Management team of Verbind (a venture-backed real-time decisioning software company that was sold to SAS), and worked as a management consultant in the Strategic Services Practice Group of Andersen Consulting. Industry experience includes retail (h.h. gregg, CVS Health, Vitamin World), financial (MBNA, Visa, Wells Fargo), and automotive (Jeep, Hyundai, Toyota, Kia). Jeff has an MBA in Marketing & Entrepreneurial Management from the Wharton School of the University of Pennsylvania and a BA in Political Science from Claremont McKenna College.

[1] Accenture, Seeing Beyond the Loyalty Illusion

[2] Forrester, *2017 Predictions: Dynamics that Will Shape the Future in the Age of the Customer*

[3] There's actually a third constituent, the CFO; but that's a topic for another day.

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