

Five critical success factors for planning and launching a loyalty program

Five success factors for planning your new customer loyalty programme, and five more for launching it

by Malcolm Fowler, EVP Products and Marketing, Ernex, Inc., Canada (July 17, 2003)

Getting Started

Creating a successful loyalty or electronic marketing programme that works for your organisation and your customers requires careful planning and execution. While it is difficult to dispute the benefits of attempting to do something good for customers, there are some tried and tested practices that cannot be ignored.

Without these practices even the most well-intended customer loyalty programme could fail to meet internal expectations, external expectations, or both. Before kicking off any loyalty programme, there are five critical success factors an organisation should consider:

1. Ground the programme around a core brand: your business.

Although it sounds simplistic, any loyalty programme should reflect the same values, beliefs, and core business benefits on which the company prides itself. Most companies have a mission statement. Take it out, dust it off, and be certain the mission is met in the programme's positioning.

Are there corporate beliefs you expect your employees to live by, or specific key differentiators that you offer your customers? If so, let them guide the loyalty programme too.

If the challenge lies in determining some simple rewards to provide for customers, look to your top selling items and provide a reward that is similar in meaning and value.

The beauty of a loyalty programme is that it allows you to be creative and dream a little – provided you keep it grounded in the reality of what customers want and expect from you. After all, customers are the ones who decide which stores they will frequent (whether that is your store or the merchant down the street), based on both product offerings and the way they are recognised and treated once there.

2. Rally management and organisational support, then make it happen, both in the stores and behind the scenes.

As important as the loyalty programme is for customers, it is also critical to take into account the back-end support of your management and staff. If the store managers and/or the company president don't care about how it works, or if they have no idea how to make the programme into a company-wide practice, it will fail.

Without broad organisational support from the start, and without creating internal excitement and buzz around the up-coming launch of a loyalty programme, a merchant runs the risk that shop staff will not understand the programme's benefits, how it works, and how to sign up members.

It's important to remember that loyalty programmes have the power to generate interest right at the point of sale, giving store staff a way to immediately interact with customers, demonstrating that they are indeed valued.

A well thought-out and executed loyalty programme has the ability to provide information about a store's best customers – something you can take advantage of and use throughout the organisation, and at every customer interaction.

3. Adapt messages and offers to keep customers coming back for more.

Once the loyalty programme has identified the company's best customers, those that are up-and-coming 'best customers', and those that are 'laggards', it's time to get down to the real nuts and bolts of the programme: Motivation - learning what motivates customers, whether it's a spring promotion for your best customers, or a special incentive geared toward those who haven't visited for a while. It's an unparalleled opportunity provided by a loyalty programme.

More importantly, the results can be measured to determine what worked and what did not. The bottom line is this: don't be afraid to learn. While sticking with tried and tested practices, carry on testing (and then test some more). The results may be surprising!

With loyalty programmes, ongoing testing and adjustments are cost-effective, immediate and almost completely pain-free. With a few minor tweaks, today's test just might be tomorrow's standard practice.

4. By all means, keep it simple!

In loyalty programmes, complexity is not an asset. If your customers or staff struggle to understand the benefits of it, the programme has already failed. By designing a programme with easily communicated benefits and with realistic, identifiable, and attainable rewards, customers will be more likely to sign up - and your staff will be more likely to promote it both internally and externally.

But don't stop there. Once everyone has caught on to the programme's basics, be sure to provide continuous support for ongoing awareness efforts, adding promotions that can become progressively more targeted at specific members within your programme over time.

5. Use 'face time' and implement a strong point of sale strategy.

When rolling out a your programme, it is important to take advantage of the point of sale location - where interactions take place with your top customers and others. According to a recent *Point of Purchase Advertising Institute* (POPAI) consumer buying habits study, over 70% of purchasing decisions in mass merchandisers and supermarkets are made in the store. Perhaps as much as 70% of your opportunity to have effective communication with your loyal customer base occurs there as well.

Adopt a strong strategy that expedites the introduction, and promotes the over-all customer benefits and ongoing programme enhancements, right in the store. Customers will take notice.

But the benefits don't stop there. By extending the same promotional practices to non-loyalty shoppers, you can take advantage of the in-person 'face time' to help encourage additional programme memberships and to press home those company differentiators.

Now you've started

Those five steps represent a good way to plan a loyalty or electronic marketing programme

strategy. Brainstorm the programme components, be creative in your delivery, and be flexible enough to make adjustments to implement a loyalty programme that works for both you and your customers.

When implemented properly, a loyalty programme can be the single most successful way for you to differentiate yourself from your competition. By focusing on these five critical success factors, you can optimise your customer loyalty programme and increase your return on investment - all while improving customer communication, brand loyalty and over-all customer satisfaction.

The first two years... and the next five steps

One of the greatest challenges to a loyalty programme usually occurs between the 6th month and the 24th month of its operation. It is during this period that the excitement and anticipation created by the programme's launch starts to decline. The customers - and the company's CFO - start to measure the programme and its results. There are five more critical success factors that you must consider during the first two years of operating a loyalty programme:

1. Communicate, Communicate, Communicate.

It takes a great deal of planning to create a loyalty programme, including thinking of ways to educate staff about the programme, and ways to garner customer participation. Once the planning is over, the key messages of keeping staff informed and customer participation need to be continually reinforced.

Create a 'presence' for the loyalty programme by thinking of it as an asset. When advertising, include information about the programme. Create an area on the company's web site devoted exclusively to it. Continue its in-store presence and point-of-sale promotion, and reinforce its message to customers. If e-mail addresses are collected as part of the programme's enrolment, they should be used to communicate with members (but only for those that have opted-in for this type of communication).

Let your employees know some very simple information about loyal customers. Facts such as "40% of in-store purchases are made by loyalty programme customers" and "The top 10% of loyalty customers have spent more than US\$500 and made an average of 7 purchases" will demonstrate the value of the programme. That goes a long way toward fostering good employee attitudes to the programme.

2. Time is your friend - for a change.

There's a reason why the first two years of a loyalty programme are critical. When a programme is launched, better customer retention is almost always at the top of the list of objectives. Better retention of customers has a direct tie to profits.

Bain and Company reports that, with respect to increasing retention, "The impact of retaining 5% of your customers can result in a 25% - 85% increase in profit over time." The two key words in that quotation are "over time". Seeing the results of improved retention requires time: Time to establish a baseline performance, and time to be able to measure year-over-year performance.

Be very careful of using the first six months of programme data to start formulating year-over-year activity. Because most loyalty programmes sign up new members when they make a purchase, the first few months of a programme show high levels of enrolment and high levels of spending.

The critical success factor here is for organisations to continue to believe in the reasons that dictated the creation of the loyalty programme, and allow the programme to perform. There are lots of opportunities to meet short-term objectives: Knowing who your customers are, beginning to communicate with them more often, and planning special promotions. To measure the longer-term objectives takes time.

3. Build a strong database management team.

Because loyalty programmes are successful through the information they gather, they require large databases. The customer knowledge represented by those databases is usually the reason why the loyalty programme was created.

It's important to have the expertise available (whether internal or external) to leverage the value inside the database. Building a strong database management team is necessary to demonstrate and prove increased retention, and the success of campaigns carried out under the banner of the loyalty programme.

4. Measurement is all about control.

When planning promotions for your most loyal customers there is a great tendency to want to include everyone. However, without creating a control group, the results of the promotion will not necessarily drive good business decisions.

For instance, if a company planned and executed a promotional campaign for all customers and created an average incremental spend of US\$10 per customer at an execution cost of only US\$2 per customer, what would the result be? The business would be thrilled, of course, because the net profit of US\$5 (this lucky business has a 50% gross profit margin) for a cost of only US\$2 is a great business return!

Or is it? Now suppose we included a control group in the above example, and members of the control group spent an average of US\$6 incrementally during the same period. The difference of US\$4 can be attributed to the promotion, and at an execution cost of US\$2 per customer, the company actually broke even.

Be sure to include a control group. Accurate promotional measurement will help drive better business decisions. To address the common concern about excluding any loyalty members from the promotions, settle on tracking which members have been excluded from a promotion in the past (because they were in a control group) and ensure they are included in the next few promotions. Everyone gets a turn.

5. Protect the customer's trust in you.

In launching a loyalty programme and asking customers for personal data (their name, address, telephone number, e-mail address, and so on), the company will have to make some privacy promises. Even if no promises are made, there is likely to be an implicit trust in place.

Companies must never break the trust between themselves and their best customers - the strongest asset of the business. That simply means: do not sell or rent customer lists to third parties, and allow customers to opt-out of various forms of communication (e-mail, promotional distribution, and any others you may have planned). Better still, present them with the choice to opt-in to those channels, rather than forcing them to opt-out - if you're offering something that will genuinely benefit them, and explain the proposition clearly enough, there's no reason why loyal customers would not want to opt-in.

And for the future...

Those second five factors are critical considerations for anyone operating a newly launched loyalty programme. Keeping them in mind as you work with your loyal customers will help you maximise the value of your loyalty programme.

During the first months and year of the programme, a profile of your company's best customers will emerge. That profile, and those individual customers, will help the business build retention and become more profitable, and the critical success factors discussed here will help ensure active, positive participation.

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About the author...

In 1989, Malcolm Fowler co-founded a high-tech company focusing on value-added transaction processing technology. Six years later, in 1995, the company's technology was used to bring value-added marketing programmes to businesses. The result was the launch of Ernex's current real-time marketing product line in 1996.

Fowler serves as Executive Vice President of Products & Marketing at Ernex, and has been closely involved with the vision and growth of the company's innovative solutions, helping it to be named a "Top 100 E-Business Practitioner" in 1999 by InformationWeek magazine, also winning Verifone's 2002 "Innovation Award".

Having senior-level management experience in the loyalty and electronic marketing fields, Fowler has also provided professional consulting services to industry-leading corporations including Eddie Bauer, Nike, Levis Strauss and Co., and the Royal Bank of Canada.

Fowler has a Bachelor of Applied Sciences degree in Engineering Science, a minor in Communications from Simon Fraser University, and a Western Executive Marketing Programme Diploma from the Richard Ivey School of Business.

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