

What's Wrong With Loyalty Programs?

***There's no consensus on what defines a Loyalty Program.
Or, for that matter, Loyalty Marketing...***

by Brian Woolf (December 1, 2014)

The opening page of the *2013 Colloquy Loyalty Census* had this amazing statement: “Even though the average number of loyalty programs per US household has grown to 21.9 (up from 18.4 in 2010), only 9.5 of those memberships—less than half—are currently active.”

So where's the loyalty in loyalty programs?

What's the issue?

Very simply, “loyalty program” is a misnomer. It has become a misleading generic term that is used for almost every customer program.

If each of those 21.9 loyalty programs was truly focused on engendering and rewarding loyalty, almost all, not half, would be currently active. But you and I know that most loyalty programs are, in actuality, customer identification programs. Take high frequency food retailers for example. Their customer card programs, however you describe them, identify which customers shop, and when, along with details of their transactions. In exchange, they usually offer an immediate (eg, two-tier prices) or delayed (eg, points) reward. In essence, is this much different from banks offering a free toaster or some other enticement to open an account? Like retailers with “loyalty cards”, banks also use customer activity data to make targeted offers to their customers. Yet we don't call bank accounts “loyalty programs” even though, in essence, they are if we use the same vernacular and definitions of retailers.

Why do I say this? Because retailer “loyalty programs” are really identification vehicles that provide basic customer information that other business sectors, such as banks, credit card companies, manufacturers, wholesalers, and on-line businesses automatically gather because that information is built into their transactions. Retailers' “loyalty cards” are simply a catch-up mechanism with these other business sectors. Like these other businesses, customer cards allow retailers to have customer accounting enabling them to understand who provides their sales, what they buy, and how different customers react to differ general and targeted offers.

Is Loyalty Marketing Often Just Targeted Selling?

Part of the confusion that has been created is that many actions based on information from customer accounting are automatically included by retailers under the generic label of Loyalty

Marketing. For example, when an offer is sent to a set of customers, shouldn't that activity be more realistically described as Targeted Selling rather than Loyalty Marketing? It may be the latter if the offer is to the Best Customers, but most likely the former for all others.

Confusion also occurs because Marketing Departments are usually charged with running the Loyalty Programs. Already charged with advertising and communications the Marketing Department adds the promotions and direct customer offers of Loyalty Programs. Merging the old with the new, an amorphous term, Loyalty Marketing, emerges.

But do Marketing departments really market loyalty? They may remind customers what makes the company special and, therefore, worthy of continued patronage. And they may communicate offers to customers causing them to visit more often and spend more during the term of the offer. Are either or both examples of Loyalty Marketing? This question currently has no correct answer because there is no consensus as to what defines Loyalty Marketing.

Attitude or Action

Another confusing element is that some describe Loyalty as a customer's attitude, ie, how he or she thinks or feels about us. It's a great concept but how do you measure attitude? For unless you can readily measure it, how can you manage it? In contrast, a quite different definition emerges from those who consider that a customer is loyal if she or he keeps returning. It's a more tangible definition but it doesn't reflect how a customer feels about you. Does or doesn't that matter?

So what's the point?

We have built an "industry" around the term Loyalty Marketing, yet there is no broad agreement as to what it actually means. I am not suggesting we discontinue our activities, but I am suggesting it would be helpful if we could develop more descriptive terms of what we are actually seeking and doing.

It's a fascinating challenge and I shall return to it in future articles. In the meantime, I hope you will think about what you really mean the next time you talk about your company's Loyalty Marketing, Loyalty Program, and Loyalty Card.

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About the author...

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, *Measured Marketing: A Tool to Shape Food Store Strategy*, *Customer Specific Marketing*, and *Loyalty Marketing: The Second Act*. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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