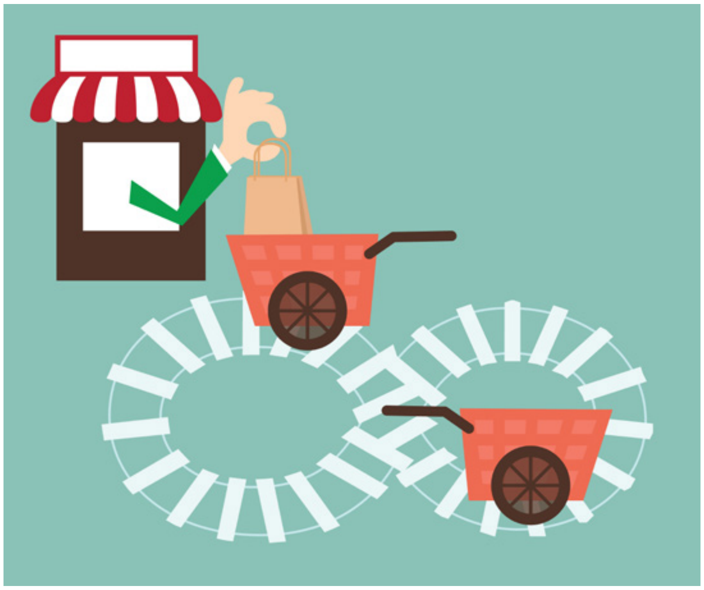
Loyalty and Retention Closely Intertwined

Several retail industry reports show how much more leverage companies achieve from investing in customer retention rather than on new customers.

"Our data indicates retailers should shift spend to returning and repeat purchasers, to existing customer segments that drive a disproportionately high share of revenue, exhibit higher conversion rates, and really step up in the Christmas holiday season and tough economic times. Migrating just 1 percent of shoppers to returning purchasers could generate as much as $39 million in additional revenue per retailer," Adobe Digital Index, the research arm of Adobe Systems, Inc., said in its 2012 report, *The ROI from Marketing to Existing Online Customers*.[1]

Typically, 40 percent of revenue comes from returning or repeat purchasers, who represent only 8 percent of all visitors. Most of the revenue improvement in purchaser segments can be attributed to increased conversion rates which are up to nine times those of new shoppers, according to Adobe.

Seventy-nine percent of marketing executives cite improving customer retention/loyalty as the most important business issue to address," Accenture added in its 2010 report, *Don't Buy Your Customer's Loyalty, Earn It.*[2]



A loyalty program, if it's managed properly, can be the critical element in enhancing customer retention.

"If data collected through the program operations is leveraged well, then customer attrition can be forecasted and steps taken to reduce it before it happens," said Bill Hanifin, founder and CEO of Hanifin Loyalty.

"This is all about recognizing patterns in customer behavior and being smart about putting value on the table in the form of offers to customers who seem to be at risk of leaving."

In order to recognize that pattern, companies need to make use of the data available from the loyalty programs.

It is so important to commit to the discipline of program measurement. By including funding for data analytics and modeling in the loyalty program budget, a project office can be sure to track actual performance against forecast and make the needed adjustments to keep the program on track and to ensure a better ability to deliver on goals. This applies to all aspects of program performance, whether enrollment or retention.

Yet simply offering a loyalty program is not enough.

“A program launch is equivalent to the start of a new relationship with the customer,” Hanifin said in a blog on his website, 10 Most Common Mistakes by Loyalty Marketers.[3] “While marketers talk about the importance of customer engagement, they need to remain engaged themselves with the program. Continuing to innovate and deliver new and exciting rewards, while measuring for success will help you meet your objectives.”

Hanifin and Brian Woolf, President of the Retail Strategy Center and former Food Lion executive, stressed the importance of accurate measurement of customer engagement, customer retention and other metrics to ensure that the loyalty program is delivering the expected results.

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“It is critical for companies to transform customer insights into innovative propositions and relevant customer experiences in order to solidify loyalty and engagement along the entire lifecycle,” the Accenture report added.

Avoiding Loyalty Program Mistakes

There are some very successful loyalty programs that truly help companies with their customer retention efforts. But other programs do nothing to move the needle in terms of customer retention or the benefits that they provide to the company don’t outweigh the cost of running the program.

Such was the case with grocery store chain Albertson’s and its subsidiaries, which dropped their loyalty program in 2013 in favor of “card-free savings.”

> “Each of us responds differently to ads and promotions, as well as to loyalty programs in general. Personalization is key in 2015 and should be made a priority,” Hanifin pointed out. “Marketers need to stop talking about personalization and start executing better in this area.

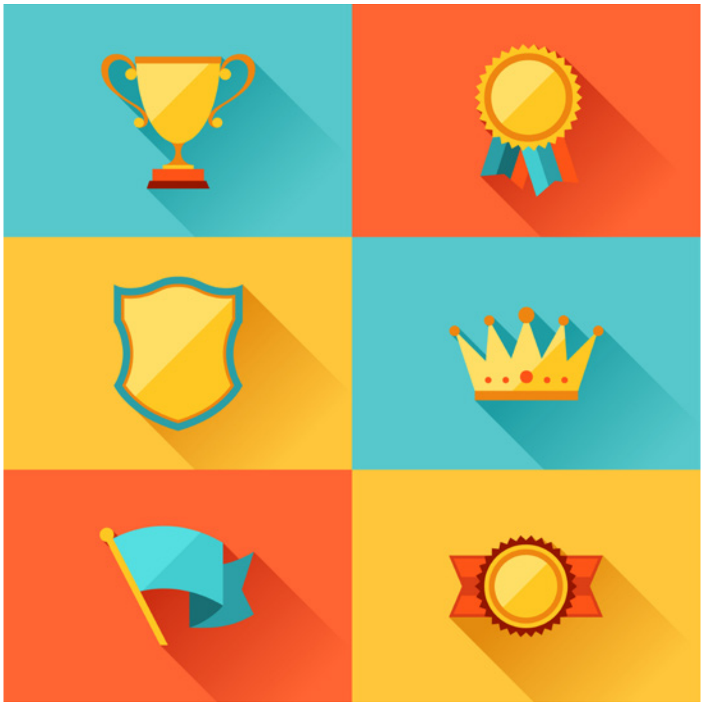
The selection of gift card brands is important in terms of matching compatible brands to the loyalty program sponsor OR to the customer base, according to Hanifin. So the program needs to include those gift cards and other rewards that the prospects will want to earn, not just low-level incentives that are valued little more than store coupons.

“Taking a holistic view of customer incentives will help to fit your loyalty offers into the sweet spot it is meant to fill,” Hanifin said in discussing the 10 mistakes. “Make sure rewards earned from purchases are worthwhile.”

There are other elements that separate successful loyalty programs from unsuccessful ones, Woolf added. The top three factors in a successful program, Wolfe said, are:

1. Top management believes in, and supports, the program, its goals, and its execution
2. They focus on increasing the number of “Best Customers” (in food retailing, these are the customers who spend over $50 week on average in a quarter)
3. The program is integrated into the core of the merchandising and promotional programs of the company

In food retailing, Woolf said, “companies segment customers in a similar way to Frequent Flier programs: they use 100,000 miles, 50,000 miles and 25,000 miles. Many food retailers use a quarterly DROP’N segmentation of average weekly spending of over $100 (Diamonds), $50-100 (Rubies), $25-50 (Opals), and under $25 (Pearls). All new customers in the quarter are placed in the new segment. As the retention rate of Diamonds is about 97 percent and Pearls about 50 percent, the average retention rate is increased



by offering programs that increase the number of higher spenders which, in turn, increases the overall retention rate.

So in order for a loyalty program to meet or exceed the expected customer retention benefits, it must provide the rewards that prospects will value and aspire to while also avoiding the assumption of “launch it and they will come” and other mistakes that cause many loyalty programs to fail outright or to underperform expectations.

About GiftCard Partners

GiftCard Partners is a marketing and sales consulting company in the payments industry that provides B2B gift card program management and value added services for retailers and merchants. GiftCard Partners increases top line revenue, strengthens brand awareness and drives new customer acquisition for our clients. We provide B2B domain expertise, utilizing marketing and technology tools with a proven track record of success.

We place our clients' gift cards in customer reward and loyalty programs, Medicaid and Medicare programs, worksite wellness employee recognition, motivation and sales incentive programs.

We serve businesses in their selection of our client's gift cards matching the brand to their program. As a result of our deep brand and industry expertise, we recognize that in order for a program to be successful, the congruency of the reward must match the program, e.g. The "Right Brands for the Right Programs".

GiftCard Partners' goal with our clients and customers is to deliver long term profitability and stability for each company we do business with while building on the strength of every brand we touch.

References

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3- Hanifin Loyalty, "10 Most Common Mistakes by Loyalty Marketers", Accessed April 19, 2015, http://hanifinloyalty.com/10-most-common-mistakes-by-loyalty-marketers/

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