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Build successful loyalty programs

Boost customer retention

Loyalty and retention are 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% 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 report, The ROI from Marketing to Existing Online Customers.

Typically, 40% of revenue comes from returning or repeat purchasers, who represent only 8% 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.

40%

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79% of marketing executives cite improving customer retention/ loyalty as the most important issue to address, Accenture added in its report, Don't Buy Your Customer's Loyalty, Earn It.

"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.

He added, "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."

A KPMG survey found that when a customer is loyal to a brand:
- 86% will recommend the company to a friend or family member
- 66% are likely to provide a positive review after a good experience
- 46% will remain loyal even after a bad experience.

LEVERAGING DATA FROM LOYALTY PROGRAMS

Companies need to make better use of data from their 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.

"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.

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 elp 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."

TOP 3 FACTORS IN A SUCCESSFUL PROGRAM

TOP MANAGEMENT SUPPORT

INCREASE # OF 'BEST CUSTOMERS'

PROGRAM IS INTEGRATED INTO CORE PROGRAMS

There are other elements that separate successful loyalty programs from unsuccessful ones.

The top three factors in a successful program, 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.

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% and Pearls about 50%, 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.

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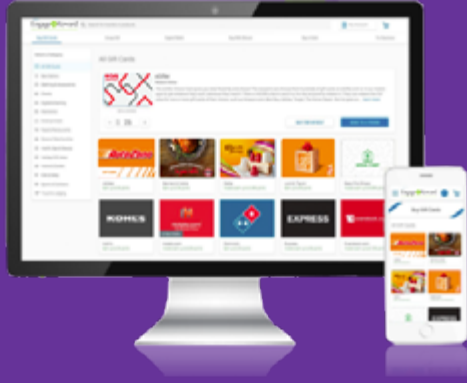
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PREPAID CARD OPTIONS
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Access print and email-friendly advanced reports instantly. This helps increase transparency and visibility with your order data.

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