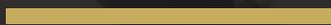# KERN
AN OMNICOM AGENCY

LOYALTY PROGRAM TOP 10 DOS & DON'TS

Fighting for your best customers may be more complicated than you know. Today, informed customers know they have choices. What they want are personalized experiences that are relevant to their lives. If your loyalty program isn't firing on all cylinders, your customers will find something better.

It doesn't mean you have to outspend competitive programs. But it does mean you have to outthink them. These do's and don'ts will help your loyalty program deliver the value your best customers demand. And, that's good for your brand.

TOP 10 DO'S

01

PUT YOURSELF IN YOUR CUSTOMERS' SHOES TO ENSURE YOUR LOYALTY PROGRAM MEETS MEMBERS' NEEDS.

If you don't understand your customers and why they're buying your products and services, you won't keep their business. Consider that these customers want to feel—and be treated as if they're important to you. They've given you personal information and you can use that data to provide them with a better experience. For example, if you have the member's birthday, use that information to surprise him or her with a birthday message or complimentary service. If they bought a product or service, consider what you can do to help them get the most value from that purchase. Or, do they need to replenish or service the product? Strive to anticipate member needs and they'll love your brand for it.

02

DESIGN YOUR PROGRAM TO BUILD LOYALTY TO THE BRAND, NOT JUST THE PROGRAM. INTEGRATE IT WITH YOUR BRAND'S INITIATIVES IN COMPLETE ECOSYSTEM.

76% of members believe that a loyalty program is part of their relationship with the brand.[2] A well-designed loyalty program makes the overall brand experience better for the customer. The loyalty program should be an extension of the brand. A great example of this is *Seventh Generation*, a company that creates powerful plant-based solutions for people who want ecologically conscious cleaning and personal products. Their program, *Generation Good*, has created an information sharing community. Here, *Seventh Generation* customers share tips, try new products, get great offers, and take part in the Seventh Generation mission of leaving the world a better place than we found it. Through it all, *Seventh Generation* is part of the conversation and is enjoying real sales growth.

03

THINK BEYOND DIVIDENDS. SOLVE PROBLEMS FOR THEM WITH INFORMATION OR TOOLS LIKE AN APP THAT REINFORCES AND SUPPORTS THEIR BRAND EXPERIENCE.

As mentioned above, you have data that you can use to do more than sell. As an expert in your industry, you can support your customers with useful ideas they had not considered. A handy tool for doing this is the recommendation list. Just be sure the list is designed to compliment recent purchases and does NOT include items they've already purchased. Many companies, like *Nike*, provide multi-functional lifestyle apps. Their *NikePlus* app that unlocks member-only gear and expert advice, plus a range of features on the Nike app that are only available to members. In this way, their program encourages members to modify or change the purchases they buy to receive more benefits from the program. For members and the brand, the *NikePlus* program is a win-win.

04

HAVE A PLAN FOR PUSHING CUSTOMERS UP THE LOYALTY LADDER THAT RUNS FROM SUSPECTS TO ADVOCATES.

It's simply not enough to attract customers. Your loyalty program should transform buyers, wherever they are in the spectrum of relationships. Here's what the ladder looks like:

1. **Suspects**
   Will they ever buy? It's too early to know.

2. **Prospects**
   They need your products or services and may know much about you.

3. **Disqualified Prospects**
   These people are not a good fit for your offerings and you don't need to target them.

4. **First-time Buyer**
   They bought from you but may also be customers of your clients.

5. **Repeat Buyer**
   They buy from you but are not exclusively your customers.

6. **Loyal Clients**
   You now have strong, on-going relationships.

7. **Advocates**
   Good news! You've gone from being a vendor to a trusted advisor.

By understanding where your customers are on the ladder you can better help them move up to the next rung.

05

RESEARCH COMPETITIVE LOYALTY PROGRAMS TO AVOID CREATING A "ME-TOO" EXPERIENCE.

Many of the most common features and benefits of these programs have the least impact on satisfaction. In particular, financial incentives like cash-back deals, promotions and discounts yield below average important. If you're unable to match richer dividends offered by other programs, there are still opportunities to attract members. It turns out that less common program experiences score much higher in member satisfaction. Add special perks or personalized offers to ensure your members feel special. *Sephora's Beauty Insider* program is a great example of personalization done right. It leverages member preferences to personalize the member's experience through product recommendations and beauty tips, and also uses their information to create curated product sets for rewards. Members can also select a free birthday gift and enjoy access to beauty classes. Members can also earn *VIB status* and *VIB Rouge status*, which unlock the door to exclusive events and additional merchandise tailored to their preferences.

06

BE VERY CLEAR ABOUT YOUR KPIS AND WHAT GOALS MUST BE MET TO DEMONSTRATE THE SUCCESS OF YOUR LOYALTY PROGRAM.

Building brand loyalty pays for itself in a big way. In fact, it costs four-to-six times more to convert a customer than to retain one. Another source says it costs five times as much to replace a customer as it does to retain them. Customer defections also have a surprisingly powerful effect on the bottom line. Customers can boost profits by almost 100 by retaining just 5% more of their customers.[1] What business value will you get, and will it be worth the investment. While there are worlds of KPIs, here are three you should closely monitor:

MEMBER ACTIVATION RATE

If you acquired 100 new members in your database during the past two months and 20 place an order within the same time frame, your member activation rate is 20 percent. These new members are prime to be cultivated into high-value customers. A high Member Activation Rate sets the tone for a well-populated funnel later on.

EARLY REPEAT RATE

If 20 of your new purchasers members make purchases within 60 days of signing up and then five of those new members make another purchase during the following 60 days, your Early Repeat Rate is 25 percent. Early Repeat Rate is a measure of your brand's "stickiness" with new customers. They also have great potential for becoming high-value customers.

ORDERS PER ACTIVE CUSTOMER

This is the average monthly order rate for customers who have made two or more purchases while they are "active." To boost your customers' repeat rates, try segmenting your customer base by personas. You also can test out affinity campaigns that target customers with a high likelihood of purchasing certain products, categories, or brands.

07

OPTIMIZE NEW LOYALTY ASSETS THAT ARE NOT BEING FULLY UTILIZED.

What is the state of your CRM capabilities? What marketing, sales, and service data management technology will help you reach your goals and pinpoint capabilities gaps? Focus on improving business capabilities and isolate your least developed people, processes, technology and strategies. Start with your vendors and cloud solutions for managing data and define your future state. Then, decide on what do you need to do to fix these issues. Whenever possible, make sure your new changes link and support each other.

08

USE ANALYTICS TO IDENTIFY WHITE SPACE THAT CAN BE OPTIMIZED.

Gone are the days of trial and error marketing within loyalty programs. Every click of a customer's mouse gives you more data to work with. Review performance data like revenue generated, members who joined, points issued, member churn, and everything in between. Then look for patterns in these numbers over time and use them to make predictions for future strategies. What's the seasonal ebb and flow of your member engagement? Is engagement impacted by news or current events? If you can identify behavioral trends in particular types of members, you can take your brand from good to great!

09

MEASURE EMPLOYEE'S USE OF THE NEW CRM SYSTEM AND INFORMATION.

Use metrics to guide employees. Clear metrics help employees know what success looks like and it will tell you if your new CRM program is working. You can use process metrics as proxies for business outcomes. The right KPIs can help measure and predict business outcomes. Measure how important the metrics are to customers and don't spend a month on things that annoy customers. Customer surveys or social posts are great ways to ask customers what is important to them.

10

HAVE A PLAN TO DEVELOP A LOYALTY-DRIVEN CULTURE IN YOUR COMPANY.

This means making sure everyone from the technology side to customer service is focused on earning customer loyalty. Start by reviewing every contact with the customer, from cradle to grave, and add empathy to your customer analytics and communications design. Pay attention to revenue from a communication, whether it brings in twice the revenue or twice the unsubscribes. Gather internal information on their experiences and use feed back loops that provide insights into customer journeys. Post their quotes and stories to empower marketing and sales when they reach out to potential customers. Reframe your personalization to drive customer benefits first, then business outcomes. And be patient. Customer loyalty takes time to grow but it's worth the effort. Here's what happened when some companies reduced their defections by just five percent:

• 85% more profits on bank's branch system[1]

• 50% more profits in an insurance brokerage[1]

• 30% more profits in an auto-service chain[1]

• Increased the average customer value rate by 125%.[1]

TOP 10 DON'TS

01

DEMAND CUSTOMERS TO CARRY LOYALTY CARDS.

A recent loyalty survey states 43% of shoppers view this as a major pain point. Look to *Google Wallet* or *Apple Passbook* to mobilize your loyalty program or simply base your customer accounts on phone numbers. According to Equation research firm, 85% of consumers saw a benefit in using the non-payment side of mobile wallets.[3]

02

HAVE COMPLICATED RULES & POINT CONVERSIONS.

Consumers want to know the exact worth of their points in clear and simple terms. If they can't quickly see their worth, they will lose interest and trust in your brand. *Walgreens Register Rewards* are an example of how to confuse members. If you've seen their lengthy coupon receipts, that's just part of the problem. Here's another jaw-dropping rule: *A coupon and a Register Reward cannot be used towards the purchase of one product, only one will count. Two separate purchases are required to benefit from both.* What where they thinking?

03

FORGET TO TREAT YOUR VIPS SPECIAL.

One top customer at the top of the pyramid generates as much profits as 16 customers at the bottom end. Treat them accordingly. Only 22% of members believe their experience with the brand is better than the brand's non-members. Meaning, 78% of the members, your best customers, feel like they're treated like everyone else.[4] These numbers could doom your program ROI.

04

PRETEND TO TREAT TOP CUSTOMERS DIFFERENTLY.

Your best customers are not stupid. If your program has tiers, be sure to treat your VIPs better than other members or they may not see value in your program. An example of this is *Emirate Airlines*: They have 3 tiers in its Skywards program. To reach their top gold tier, their top fliers have to take up to 30 flights, and the rewards include a little extra luggage space, priority check-in and lounge access in Dubai, which is far less than what Turkish Airlines offers as the best-in-class example.

05

CHANGING THE RULES AND ANNOYING MEMBERS.

The last thing you should do is make changes that degrade the customer experience. Yes, you can make changes, but the overall value of the program must improve. If you fail to relaunch effectively, look out. Starbucks got significant backlash from its members for offering such weak awards. One free drink for purchasing 15 drinks. If you make changes, make sure there is some benefit to your customers.

06

PRESUME A SMART PHONE APP IS THE SAME AS A MOBILE LOYALTY PROGRAM.

Members should have full access to the program via their preferred mobile channel. If they prefer self-service via your site, or they respond to email and coupons, give them the opportunity to interact with your loyalty program through any platform.

07

OFFER A NARROW REWARDS EARNING PERIOD.

Members deserve enough time to accumulate and redeem benefits essential. A program will only succeed if members feel appreciated. If the program is rigged against them, it will create more anger than loyalty. The frequent flier miles in *JetBlue's TrueBlue* program expired after only one year, making it very difficult for even frequent fliers to earn a free flight. After considerable backlash, they changed their rules allowing members to keep their miles if the member makes at least one flight per year.

08

OFFERING CHEAP PAYOUTS.

Companies need to be generous as possible when it comes to their loyalty programs, especially in light of competitors' practices. *Starbucks* is again the poster child for how not to run a loyalty program. They based their program on transactions rather than cups of coffee. In response, angry customers created dozens of blogs and Facebook pages to organize a boycott against *Starbuck's My Rewards* program.

09

NOT PROPERLY SEGMENTING YOUR CUSTOMERS.

Either not collecting the right data or collecting useless data can result in all your customers having the same loyalty program experience and that can be bad. Imagine you are a 43-year-old male construction worker and you received an ad in the mail for women's high heels from your local mall. Most likely, even though they may sell your favorite brand of jeans, you'll never visit their website or their store. Every lost sale is a costly mistake. Segment your customers, not just by how much money they have spent, but also by gender, education, age, past purchase habits, and other relevant and meaningful information.

10

HAVE TOO FEW REWARDS CHOICES.

A well-designed loyalty program needs to offer rewards that members truly want rather than force limited options onto them. Just as customers are different from each other in regards to their value, needs, and behaviors, so too are they different when it comes to the rewards they would like to obtain from their loyalty program. The *Marvel Insider program* made this mistake and compounded the problem. On their home page, they showed a range of cool stuff members could get. In fact, they could only get digital comics. Bait and switch is not a loyalty tactic.

For more details on **do's and don'ts** that can dramatically impact and support an effective loyalty and CRM program, contact Russell Kern, President of Kern, an Omnicom Agency.

KERN STRATEGY

Curt Kaneshiro, VP of Strategy
ckaneshiro@kernagency.com

Arturo Gutierrez, Director of Strategy
aguitierrez@kernagency.com

Nicole Riley, Strategic Planner
nriley@kernagency.com

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