5-Step Guide To Successful Loyalty Programs

Combining Technology And Service To Bridge The Loyalty Gap
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Introduction

As the economy improves and retail competition steepens, customer loyalty is delivering impressive bottom-line results. From discounts and rebates to cash-back and points, loyalty programs of all types are boosting customer spending, shaping purchasing behavior, building brand awareness and increasing market basket size.

In fact, according to a new study by Nielsen, nearly 60% of global respondents said that loyalty programs were available where they shopped, and of those, a whopping 84% said they were more likely to visit those retailers.

While it’s true that if consumers are being rewarded, they are more likely to shop at a particular store, maintaining consumers’ long-term loyalty is a more efficient strategy than continuously chasing new customers. After all, studies show retailers spend five to 10 times more to acquire a new customer than to retain a current one.

In addition to retaining valuable shoppers, retailers must not only guarantee that their loyalty programs pique interest but that they are used consistently by consumers, according to The 2013 Colloquy Loyalty Census report. Consider this statistic: While loyalty program memberships across retail categories experienced a surge between 2010 and 2012, only 9.5% of members are actively using their accounts and redeeming offers. This somewhat lackluster participation “suggests some staleness in the value propositions of retail programs,” the report stated.
“We have to attack customer loyalty in a completely different way than we ever have before,” noted Shep Hyken, best-selling author and Chief Amazement Officer of Shepard Presentations, in an interview with Retail TouchPoints. “Ultimately, the goal is to make price less relevant. But currently, when looking at loyalty programs, it is evident that many consumers are loyal to some programs, but not necessarily the retailers.”

To win the battle of long-term loyalty while consistently engaging consumers, retail organizations must plan an effective strategy supported with data, analytics, customer segmentation and targeting. This strategy begins with a best-in-class solution and is brought to life with world-class consulting services.

This white paper will analyze the current loyalty scenario in retail and explain how to drive results in five steps. Real-world examples will show how to cement long-term loyalty related to different types of industry challenges.
Membership cards aren’t of any benefit to a retailer as long as they remain in a shopper’s wallet. That’s why retailers must focus on building and fostering member relationships to achieve success. According to the 2013 Retail Industry Outlook Survey from KPMG, 37% of retailers believe “retaining customers” will be the number-one contributor to revenue growth in the next three years.

So how can a retailer determine which customers are the most valuable to their business and should be encouraged to engage in a loyalty program? Analyzing data gathered via loyalty and gift card programs can help. In fact, the combined information flowing from POS, e-Commerce systems and loyalty providers contains treasure troves of consumer insights — revelations that can enable retailers to increase basket size, shape marketing campaigns and identify their most valuable loyalty members based on spending habits and preferences.

**RETAIL EXAMPLE**
Consider a 65-store pharmacy chain that has recently launched a loyalty program. Although gaining some traction among customers, the pharmacy chain wishes to drive greater results by building a strong relationship with its top customers.
The first goal is to identify their most loyal members via data collection and analytics. After all, as the old business adage goes, about 20% of customers generate 80% of sales. For retailers such as the pharmacy chain, this means making sure the handful of customers responsible for generating the greatest amount of profit remain fully engaged, active loyalty program members.

The right customer data also can help pharmacy chains and the like avoid expending too much time and energy on acquiring new customers. A far more cost-effective plan is to work on engaging existing customers with great shopping habits by encouraging them to spend more and visit more often.

For smaller retailers, however, the tools and talent needed to analyze data and implement data-driven marketing initiatives may not be readily available. A best-in-class loyalty solution provider will offer consulting services to help drive important business strategies and identify sustainable sales growth opportunities based on loyalty program data.

In the end, by focusing on retaining loyal customers, the pharmacy chain can drive greater same-store sales for a long-term impact on its bottom line.
Determining a customer’s value should never be a guessing game. Fortunately, data accumulated from loyalty program members can offer enormous insight into customer segments and how to strategically allocate marketing dollars to each group. It’s one of big data’s most important uses as evidenced by a recent Maritz Loyalty Report. The paper reveals that 94% of loyalty members prefer to receive communications from their programs, yet only 53% describe the communications they receive as relevant.

**RETAIL EXAMPLE**

Consider how hypothetical retailer Food4U recently learned the value of creating customer segments based on big data. The mid-size grocer adopted the simple RFM (recency/frequency/monetary) model to segment its customers based on the data it collects. The grocer now identifies customers based on the following specific parameters:

- **Recency** — the time between customer visits;
- **Frequency** — which customers come very often, regularly, once in a while or not anymore; and
- **Monetary** — which customers have high spend, medium spend or low spend.

Using this marketing technique to determine quantitatively which customers are most valuable, and scoring them accordingly, Food4U is now able to identify its loyal customers and create promotional activities and outreach strategies tailored for each customer segment. Moreover, for mid-size retailers such as Food4U that lack a large in-house team dedicated to loyalty initiatives, professional consulting services can help shape customer segments and bolster the RFM model with best practices.
Once a retailer has created customer segments, the next step is to develop a more customized approach to engaging each of these loyalty member groups. Imagine being able to deliver personalized discounts based on purchasing habits. Or individualizing incentives and promotions using a range of metrics including demographic, region and buying behavior.

**RETAIL EXAMPLE**
A hardware chain called Ladder has been running a loyalty program for three years using RFM parameters and now wants to adopt a more customized approach to better address customers’ needs. To do so, Ladder adopts a “Protect, grow, acquire and reactivate” strategy that involves:

- **Protecting** its most loyal customers, typically from the top two segments, by rewarding them for positive buying behavior.
- **Growing** each segment, particularly those in the top tiers, with tailored promotions that encourage customers to spend more. For example, spend X amount of money to earn 3x points is one offering that can drive growth, especially among the most loyal members.
- **Acquiring** new customers is a critical component of any loyalty program strategy. The key here is to create as much buzz as possible around a program’s key benefits.
- **Reactivating** members that appear to no longer be active is the final stage in Ladder’s loyalty program strategy. Although it’s important to attempt to reactive accounts, remember that it’s only worthwhile pursuing customers who used to be loyal and then became inactive rather than customers regardless of previous status. After all, a customer who was once a loyal and active member is far more likely to become reactivated than any other non-loyal customers.

Using this “Protect, grow, acquire and reactivate” strategy, retailers can set clear and attainable goals for each of their loyalty programs.
Like any marketing initiative, a loyalty program needs to be tracked, measured and benchmarked to determine whether an organization is reaping a return on its investment. However, many organizations struggle to decide which metrics should be used to properly gauge a loyalty program’s success. In fact, in a recent Forrester report titled *The State of Loyalty Programs*, 30% of respondents cited “measuring the results of a loyalty program” as one of the greatest challenges facing loyalty programs today.

**RETAIL EXAMPLE**
To address this challenge, let’s review how an 80-store sports clothing chain might gather its management committee to discuss the Key Performance Indicators (KPIs) that need to be part of its loyalty dashboard.

While KPIs vary from one organization to the next, there are some standard metrics that can be very pertinent to track overall program performance. These include:

- **Sales penetration** – Percentage of sales that are generated by loyalty program members.
- **Transaction penetration** – Percentage of transactions for which a loyalty card was swiped.
- **Sales and transactions uplift** – Group of 10 stores vs. group of controlled stores.
- **Activation rate** – Percentage of registered members who have made a minimum of one transaction over a particular time period.
Of course, the metrics needed to gauge program performance may expand beyond these basic parameters. For example, the sports clothing retailer may decide to apply an operational measurement to determine how much it costs to enroll and activate members. Engagement measurement is also a key indicator of how effectively a retailer is attracting customers to its brand via a loyalty program. And some retailers rely on a corporate measurement to determine how loyalty programs are satisfying their overall business goals and strategies.

Regardless of the loyalty marketing KPIs preferred by a retailer, one thing is for certain: Digital media, from social media channels to mobile POS systems, are making it easier than ever for retailers to measure the performance of their loyalty marketing initiatives.

Just ask Patrick Simon Bouaziz, Chief Visionary Officer at mobile POS solutions provider ILoveVelvet. In an interview with Retail TouchPoints, Bouaziz noted: “The beautiful thing about interactive POS tools is that through customization and the incorporation of customer loyalty data, a retailer can achieve a markedly higher level of personalization that actually gets noticed and appreciated by the consumer. This data can be used to continually improve the customer experience and, as a result, brand loyalty.”

Better yet, because KPIs tend to vary, many retailers opt to retain consulting services from experts that can help them determine the best metrics and strategies for gauging program performance.
By carefully planning and developing a loyalty strategy, a retailer can set the stage for a highly profitable, customer-centric marketing initiative.

**STEP 5**

**Build and successfully launch a winning loyalty strategy**

Every great loyalty program begins with a well-hatched plan.

**RETAIL EXAMPLE**

A mid-size convenience store chain has been toying with the idea of a loyalty solution for some time but lacks the management and direction needed for a successful launch. Here’s how the convenience store chain can get started:

1. Create a loyalty program where the objectives and benefits will be clear to customers and where the mechanism to earn and burn points is simple.

2. The first four to six months of any loyalty program launch are critical, so be sure to let new members collect lots of points as quickly as possible for excellent traction.

3. Don’t be afraid to be over-generous so that members can start collecting and redeeming points rapidly.

4. The first redemption for a member is a milestone, so make sure it’s a simple and user-friendly process.

5. Create a customer experience around a loyalty program that’s memorable enough to encourage members to stay engaged and active.

6. Never lose sight of the value an engaged customer can deliver to a retailer’s bottom line over the long term by rewarding customers for the behavior they seek.

By carefully planning and developing a loyalty strategy, a retailer can set the stage for a highly profitable, customer-centric marketing initiative.
Behind every successful loyalty program is a partner with the ideal combination of best-in-class solutions and world-class consulting services. Here are the top 10 questions you need to ask to identify a loyalty program partner that can deliver the technology and training you need to succeed.

1. What technology solutions do you offer and do they support cloud-based computing, thereby eliminating the risk of purchasing outdated software?

2. Does the implementation process include training sessions so that loyalty team members are fully acclimated and brought up to speed on any new loyalty program solution?

3. Does your consulting team possess the high level of knowledge and industry best practices required to map out a profitable loyalty program strategy that’s tailored for my business?

4. Can you help determine the KPIs for my loyalty program?

5. Can you provide the necessary tools and services needed to measure and analyze the profitability of a loyalty program on an ongoing basis?

6. How easily can your technology solutions be integrated so that programs and enhancements can be added seamlessly over time?

7. Which services do you offer in terms of managing and understanding data so that it’s organized and ready to analyze for strategic business decision-making?

8. Can loyalty programs be enhanced with custom promotions, a member portal website or even mobile apps for greater engagement?

9. Do you offer tools for generating personalized in-depth, real-time reports?

10. How easily can your loyalty and gift card platform integrate with today’s leading POS and payment processors?
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Conclusion

Using a potent combination of cutting-edge technology and personalized service, retailers are discovering the positive impact a customer loyalty program can have on the bottom line. But winning over loyalty program members takes more than tools and training. Retail organizations must plan an effective strategy supported by five simple steps:

1. Define a loyalty customer base via data collection and analysis
2. Create data-driven customer segments
3. Identify loyalty program goals and strategies
4. Establish KPIs for each initiative
5. Launch a winning loyalty strategy
About DataCandy
DataCandy is a North American leader in loyalty and gift card software solutions for the retail and hospitality sectors. Since its inception in 2002, DataCandy has led the way in providing customer engagement solutions to more than 2,000 locations across Canada and the United States. The company’s technology has achieved global demand for its ability to obtain the realtime customer and product level data needed to generate targeted promotions. The DataCandy platform is simple interface, scalable for growth, secure for financial transactions and provides omnichannel capabilities. To learn how unwrapping customer insights can drive customer relationships, email getinfo@datacandy.com, call 514-903-DATA or visit www.datacandy.com.

Sources:
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Luc Garneau, VP Strategic Consulting Services, DataCandy