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Making Loyalty Simple

Asked
and Answered

The Benefits of a
Consumer Loyalty Program

Table of Contents

Asked and Answered: The Benefits of a Consumer Loyalty Program

How a consumer loyalty program can grow your business, and the key elements you'll need to launch a successful program.

Introduction

Loyalty programs are one of the most powerful key differentiators in today's market as they help organizations attract and develop key customer segments, influence their behavior and drive lasting brand loyalty. As such, well-crafted programs have become a strategic imperative for many leading organizations.

You may have questions about why you should implement a loyalty program, what benefits they can provide to your company, the current trends in loyalty, and how you can demonstrate the business impact of a program. Here, we provide answers to those questions, along with advice for implementing your own consumer loyalty program and positioning it for long-term success.

What are the Primary Benefits of a Consumer Loyalty Program?

Companies typically see three tangible benefits after implementing a consumer loyalty program:

1. Full Visibility Into Customer Data.

One of the most powerful benefits of a consumer loyalty program is end-to-end visibility into your customer data. Every time a customer registers for your loyalty program, makes a transaction or completes a pre-defined action, your company receives critical data points. This data provides you with highly granular insight into your customers' purchasing habits, consumer preferences and the overall performance of your loyalty program — allowing you to improve the efficiency of your overall sales and marketing efforts. With this data, you can:

a. ***Create customer segments.*** With demographic and geographic data, combined with historic purchase patterns and customer preferences, you can divide your customers into accessible, marketable and profitable groups.

b. ***Generate actionable insights.*** With insight into each customer segment's purchase patterns and communication preference, you can create highly customized rewards and promotional efforts, tailored directly to your customers' needs.

c. ***Optimize performance.*** With data-backed decision making, you can optimize your inventory management, pricing and promotional planning strategies — making your loyalty, sales and marketing efforts more efficient and profitable.

2. Increased Brand Equity and Reach.

Brand equity is defined as the "set of brand assets and liabilities linked to a brand name and symbol, which add to or subtract from the value provided by a product or service."[1] But brand equity not only adds value to a product or service, it adds value for customers as well: because customers place more trust in a brand with high equity, they enjoy a better customer experience and create more meaningful relationships with the company. This results in more loyal, active customers. With greater brand equity, you grow a larger base of loyal customers who are more willing to purchase from and recommend your brand.

3. Increase Sales and Company Growth.

With the ability to make smarter, data-led decisions, you can better motivate key customer groups and drive desired behavioral changes — improving your overall sales and revenue growth. For example, a loyalty program can result in:

a. More frequent customer purchases

b. Cross-selling: customers make related purchases alongside their main purchase

c. Up-selling: customers purchase upgrades in addition to their main purchase

d. Referrals: greater customer acquisition, at lower cost

e. Bigger baskets: customers make larger purchases with a brand they trust

f. Premier customers: by identifying highly profitable customers....

g. Engagement: Get customers to fill out surveys, use social media more frequently, etc., reducing operational costs for the company

These behavioral changes, driven properly, will result in direct revenue increases, either through increased sales or decreased marketing spend. However, customers will only adopt these behaviors if the company delivers valuable, targeted offers and content on an on-going basis to the right customer segments, at the right time. When customers find that a loyalty program is valuable, you will increase your customer retention levels and, consequently, see a direct revenue uplift.

What Information do I Need to Collect From Customers to Launch a Successful Program?

To support a successful loyalty program, it is critical to collect information surrounding the customer's journey with your brand. The idea is that a loyalty program will, in some way, extend this journey. By providing customers with benefits through a program, you are incentivizing them to engage more frequently with your brand, over a longer period of time. As such, there are a few critical customer touchpoints where you can collect valuable data.

For example, when customers sign up for your program, you can access their demographic and geographic information, along with their preferences for receiving communications (email, mail, text and so on). As the customer begins the buyer's journey and starts purchasing your products or services, you can collect further valuable information, such as their lifestyle habits, purchase preferences, interests and consumer behavior — allowing you to understand what truly makes your customers tick.

However, when considering the extent and depth of information to collect, consider what data you actually need to deliver offers and provide valuable content to customers. There is no advantage to retrieving information that is not relevant or will not provide any benefit to your users. Moreover, there are international laws, such as the GDPR, that mandate the protection of personal information and privacy. Enforced in the European Union since May 2018, GDPR requires companies to have permission to use customer data, and companies can be fined if they withhold unused customer data.

When asking for customer information, you have to ensure that you're operating within the limits of any relevant regulation and have the explicit consent of users to use their data. When you ask for a customer's personal information, they have high expectations that you use that data in a positive and valuable way for them. Should you break that trust, consumers will be disappointed and start looking for other products that better meet their needs.

How Can I Drive Desired Customer Behaviors?

A fully functional loyalty program should be able to offer any and all of the above mechanisms to effectively drive desired customer behaviors. Such rewards are essential for making customers feel valued and important, and as such are critical elements of any well crafted program.

To incentivize desired behavioral changes in customers through a loyalty program, companies must offer appropriately compelling benefits and rewards. For example, a loyalty program can offer:

- Rebates or cashback: When a customer makes a purchase, you can give back a fixed or fractional amount of the total purchase. Cashback is commonly offered as a prepaid credit card benefit.

- Points: Points are awarded for behaviors like purchases, loyalty program registration, engagement in the customer portal or engagement on social media. These points can be redeemed for rewards.

- Referral discounts: Customers receive discounts or coupons for bringing a new customer to the business.

- Recognition/badge mechanisms: Customers are recognized with badges for being top participants in your program.

- Specialized or Tiered Benefits: Highly active or profitable customers can receive special benefits or treatment, such as unique "qualified" participation in special promotions. For example, a retail store might offer an exclusive fashion show to special customers or solicit their input on specific pieces to be sold during a given season.

How Can I Gamify My Consumer Loyalty Program?

But the above rewards aren't the *only* tool at your disposal to motivate customers. Loyalty programs also increasingly leverage gamification strategies to add fun and competitive elements to improve program participation and drive desired outcomes. Defined by Gartner as, "the use of game mechanics and experience design to digitally engage and motivate people to achieve their goals," gamification tools can include:

- *Challenges* or *Missions*: Members are rewarded for achieving select goals or objectives.

- *Rules*: A clear set of regulations establishes a game that loyalty members can win.

- *Competitions*: Two or more people vie for the same goal.

- *Ranking*: Customers achieve status and recognition for their performance, experience or seniority.

- *Teams*: Two or more people work together to achieve the same goal.

- *Leaderboards*: A place where members can visualize their position relative to other members or teams.

Gamifying your loyalty program helps to accelerate its success — increasing member engagement, stimulating behavioral changes and motivating customers to achieve both short and long-term goals. This also gives customers the option to choose various ways to win points.

Why Is It Important to Segment Customers?

There are a number of reasons why it is important to segment customers in a loyalty program. First, segmenting customers makes it easier to study each segment and get valuable insights on their behavior and performance. This helps you make smart business decisions on what to deliver to each segment to better retain them as customers in the long run. Secondly, by studying your existing segments, you can identify the most accessible, actionable and profitable customer groups — allowing you to direct your resources and marketing efforts most efficiently. Third, you can create personalized benefits and rewards to each customer group, allowing you to better motivate customers to change their behavior. What you will deliver will depend on the segment data you obtained from each group. Segmentation is vital as it helps you manage customers with more ease, drive behavioral changes, and support customer retention, leading you to achieve your business objectives.

How Can I Tailor Benefits to Different Customers?

The goal of a loyalty program is to drive better business outcomes by creating value for your customers. To do so, you have to understand the types of incentives that your customers value and how much they are willing to give back to your company, based on those offers.

For this reason, we recommend calculating the customer's lifecycle value (CLV), which is defined as "The present value of the future cash flows or the net profit attributed to the customer during his or her entire relationship with the company."[2] By calculating what you expect your customers in each segment to spend with you during their customer lifecycle, you can determine what benefits and perks you can give each segment and how much you can afford to spend. Ideally, you will spend more on your most profitable and highly engaged customers, while relegating smaller rewards to customers in lower tiers. This will make your highly engaged customers feel loved and appreciated, while incentivizing your less profitable customers to move upwards in the hierarchy.

How Can I Create a Successful Customer Contact Plan?

The success of loyalty programs hinges on your ability to create strong, positive relationships with customers. To foster such relationships, you must have frequent communications with your members, both online and offline, in ways that constantly communicate the value of your program. Your communication strategy has to exceed members' expectations — making their customer journey as smooth, quick, and easy as possible. When implementing a loyalty program contact plan, it is therefore necessary to track data from every point of contact that customers currently have with your brand — learning from those experiences and constantly optimizing your loyalty program communication strategy. While the kind of communications you share with your program members will vary, your loyalty program, at a minimum, should communicate:

- Key updates around the development and launch of your program

- The services and benefits you will provide to customers

- Program improvements as you implement them over time

- Customer support channels available for access

- New promotional launches

- Feedback requests for new features, new promotions, members' overall experience, and the like.

If you set the right expectations with your customers and communicate with them frequently and positively, they will be more than willing to engage with you and participate in your program.

Which Metrics Should I Use for Success?

To ensure ultimate program success, there are a number of key metrics that you should track:

1. Key Loyalty Program Metrics:

a. Percent Sales or Transactions Uplift vs. Control Group: The percentage of incremental sales or number of transactions of the members that have enrolled in the loyalty program compared to the control group (a sample of non-members with the same characteristics of the members).

b. Sales to Direct Cost Ratio: The ratio between the amount of direct sales generated in the loyalty program and the amount of direct costs (platform, rewards, communication channels, etc.) expended in the program.

c. Long-term Loyalty by Segment or Tier: The incremental increase in time that an active customer remains in the loyalty program, compared to a control group of non-members but active brand customers.

d. Customer Acquisition Cost : The total cost of acquiring a new customer.

e. New Member Growth: The percentage growth of new program registrants over specified increments of time.

f. Reward or Coupon Redemption Rate: Accumulated percentage of points redeemed against points given in a specific date.

g. Average Reward Value (redeemed): The average value of all rewards redeemed over a specified period of time.

h. Net Lift of Members by Segment or Tier: The net percentage (in/out flow) of new members by segments/tiers.

• Points Given: The total number of points awarded over a specific period.

2. Customer Behavior and Experience Metrics

a. NPS: Net Promoter Score, or the level of a customer's brand loyalty, based on their likelihood of recommending the brand, on a scale from 0-10.

b. CSAT: Customer Satisfaction and it represents the level of customer satisfaction with a brand's products and/or services, on a scale from 1-5.

c. CLV: Customer Lifetime Value, or the present value of future cash flows or the net profit attributed to the customer during his or her entire relationship with the company.

d. [3]Engagement Rate: The level of engagement from program members over a specific period of time.

e. Advocacy Measures: The number or frequency with which your brand is recommended by customers.

f. Retention Rate: The percentage of customers that remain customers over a specific period of time.

g. Churn Rate: The percentage of customers lost over a specific period of time.

h. Department or Category Spend: The amount that your customers spend in each department and/or category, along with the points received for their purchases.

i. Points Redeemed across Categories: The total amount of points redeemed in a specific department/category of products.

j. Pacing Time between Redemption: The average amount of time between redemptions.

k. RFM (recency, frequency and monetary value): The value of a customer, determined by the recency, frequency and monetary value of their purchases over a specified period of time.

3. Customer Lifecycle Marketing Metrics

a. Active/Inactive Member: Number of members that are active in the program based on the concept of active members defined by the brand, compared to number of members that are inactive in the program based on the concept of active members defined by the brand.

b. Activated Member: Number of members that, in the member lifecycle, moved from activation stage to the bonding stage.

c. Member to Retain: Number of members that, in the member lifecycle, moved from the bonding to the retention phase.

d. Member to Recover: Number of customers that, in the member lifecycle, moved from the retention to the churn phase.

e. ROMI (return on marketing investment): It is the gross revenue of the loyalty program divided by the direct costs of keeping it running.

f. Success Rate: Percentage of users who successfully completes a call to action.

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1. GDPR Enforcement.

Because of GDPR, companies will have to adapt their loyalty programs and communication strategies so that customers are willing to give their personal information. Going forward, to obtain insights on customers, companies have to make sure to respect all regulations that might exist in their geographical region, understand the limits on customer information use, and, more than ever, deliver value to customers so that they can obtain their data.

2. Behavioral Incentivization.

Loyalty programs are rewarding multiple and diverse actions (behaviors) rather than just rewarding the purchase itself. As each segment is unique, giving customers the option to choose how they want to earn points gives them the liberty to go through the sales cycle (the customer journey) the way it best suits them. Incentivizing different behaviors simultaneously will increase engagement, purchases and redemption.

3. Simplification.

Going for short-term satisfaction and redemptions rather than the long-term accumulation of points makes sense, as customers are looking for more immediate rewards and because longer sales cycles are harder and more costly to administer.

3. Gamification.

Gamification makes the loyalty program more fun and engaging, and if done properly enhances the user experience. Program members do not want to have to deal with complex solutions during any stage of their customer journey.

5. Premium Loyalty Programs.

Customers are willing to pay for a loyalty program if they perceive great value in what they get in return. If satisfied they will become brand advocates and stay with you even if there are other cheaper prices out there.

Why Should I Leverage a Technology Solution When I Can use Spreadsheets?

For one, a consumer loyalty solution is scalable. It is possible that your program will have to handle millions of registrations, actions, calculations of points received and redeemed, and more, on a daily basis. Moreover, your solution must not only handle such big data, without errors, but provide a seamless, real-time user experience for the benefit of your customers. A loyalty and incentives platform solution handles these challenges adeptly, while spreadsheet-based solutions fall apart at scale.

Loyalty platform solutions are also cloud-based, which offers a number of advantages. For example, more security: as information is stored in a remote server — in Fielo's case, on the secure Salesforce platform — there is no risk of power outages or computer malfunctions. Moreover, with your data housed securely in the cloud, you can automatically backup and sync your information, ensuring you never lose your data and can access it from any device, at any time. A cloud-based solution also offers better integration with other channels and platforms, providing you with access to a host of additional functionalities and data.

Gamification is also a key component of successful loyalty programs — and gamified layers can easily be added with a platform solution. This provides for a more engaging member experience, with better results, and gives the company more options on how to deliver valuable content.

Finally, an ideal consumer loyalty platform solution incorporates a model comprised of 4 essential components inspired by Don Peppers' and Martha Rogers' IDIC model for managing customer relationships: [4]

- ***Target*** - The loyalty program can segment company's customers into identifiable groups. This makes customers more manageable, and allows the company to obtain valuable customer data that will be used to make targeted business decisions.

- ***Incentivize*** - A loyalty program must offer a variety of distinct tools that incentivize customers to change their behaviors, in a way that achieves company objectives. Technology platforms offer a host of out-of-the-box tools that effectively incentivize behavioral changes by offering customers genuine value.

- ***Communicate*** - A constant stream of communication has to exist between a program to set the right expectations. Customers have to know what to expect when they sign in to the program, what is expected of them, and must stay apprised of any updates. This builds trust which, in the long run, drives loyalty. Platform solutions come equipped with readymade channels to facility clear and consistent communication.

- ***Measure*** - Loyalty programs must have powerful analytics capacity to measure program performance and enable ongoing optimization. With this information, companies have clear feedback about how to better retain existing customers and acquire new ones, in addition to an ability to calculate their return on investment to justify spend. Platform solutions provide these abilities, and more.

Conclusion

Consumer loyalty programs have become key differentiators for companies in competitive markets. With this ebook, organizations are equipped with the information they need to launch successful loyalty programs, drive productive consumer behaviors, and increase both customer loyalty and overall revenue.

If you want to learn more about how a Salesforce-native loyalty platform can help you win new business, drive lasting consumer loyalty, and capture new market share, visit our [learning center](#), check out [customer success](#) stories from our partners around the globe, or request a [free demo](#) at [fielo.com](#).

At Fielo, we're making loyalty simple.

Endnotes

1   David Aaker, Managing brand equity

2   https://economictimes.indiatimes.com/definition/customer-lifetime-value

3   https://economictimes.indiatimes.com/definition/customer-lifetime-value

4   The IDIC acronym stands for identifying customers, differentiating customers, interacting with customers and customization.