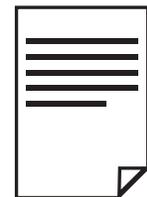




Innovations in Loyalty: 10 Key Questions You're Probably Asking



Whitepaper

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There's been a lot of talk about the evolution of loyalty — from traditional programs with yesteryear's “me-too” customer experiences resulting in negative corporate ROI, to the kind that uses Big Data and analytics to deliver exciting, engaging customer experiences leading to positive corporate ROI. Here are 10 key questions you might be asking about these new types of innovative loyalty programs and answers to help you navigate the hype:

1.

Should I launch a loyalty program (if I don't have one)?

This is not the right question. The question you should be asking is: should I be trying to deepen my customers' level of engagement? The answer to that question is unequivocally 'yes', and there are lots of ways to do this: for example, creating a great product, offering great customer service, and building a strong brand. Another way is to reward customers for their “loyalty”. While traditional loyalty programs have provided customers with mass or tier-based rewards for historical activity, innovative loyalty programs put customer engagement at the core and thereby deepen your customers' affinity to your company.

2.

Can I really make money on a loyalty program?

Yes, in fact, lots of money! The traditional way to think about a loyalty program is as delivering “rewards” or “thank yous” to a customer for something they have done in the past (and are likely to do again). But rewarding customers for something that they were likely to do anyway is merely a cost to the business. A different way to think about your loyalty program is as providing an “incentive” for a customer to do something valuable that they are not showing a high propensity to do. Innovative loyalty programs focus on understanding and attaching incentives to these customer “behavior gaps” at an individual level. In doing so, companies can ensure their investments in customer loyalty delivers a profitable ROI. The great news is that almost all customers — even the most loyal — have something new and valuable they can do for you. So, there are opportunities to incentivize every customer to undertake more valuable behaviors. The key is incenting each customer individually, for their specific behavior gaps, using targeted incentives that each customer will find uniquely valuable.

3.

Should I kill my loyalty program (if I have one that's underperforming)?

No. Existing loyalty programs can be re-invigorated by using a data-driven customer engagement approach, that focuses on incentivizing incremental (vs. existing) customer behavior. In order to do this, companies must have or create three key capabilities: 1) the ability to access customer-specific behavioral data, 2) the ability to use that data to model each customer's individual behavior gaps, and 3) the ability to execute in real-time, through any point of customer interaction, with individualized messaging and incentives designed to close those behavior gaps. While these capabilities might seem intimidating or futuristic, particularly for organizations with legacy IT systems, siloed data or other institutional challenges, they do exist today and can be purchased as a service.

4. Can I really ever know if my loyalty program is working?

Yes. Like any marketing program, a loyalty program's performance can be measured, and regularly optimized. You just have to know how to go about it. Traditionally, marketers have either shied away from measuring the ROI of their loyalty programs (treating it a little bit like brand marketing: a cost of doing business) or they've applied a time series approach, meaning they look at the performance of a sample group of customers before and after a particular marketing treatment to see if their marketing activities created lift. Innovative loyalty use robust test versus control approaches to measure performance. Using this method, a sample of control customers is held aside and not exposed to the loyalty treatments and compared to test customers that are. Only in this way can you truly normalize for seasonality and other time-series biases and measure the effectiveness of customer engagement-based incremental lift.

5. Do I need to create a currency for my loyalty program?

No. There are a lot of ways to incentivize customers to change their behavior. Traditionally, "currency" equated "points". But there are a lot of other kinds of currencies companies have at their disposal that they can use as incentives to change customer behavior. For example, discounting is a form of currency. Status and recognition are forms of currency. Company credit and gift cards are also forms of currency. Gifts and give-aways designed to "surprise and delight" are too. In fact, anything that has perceived value to customers can be considered a type of currency. Innovative loyalty programs re-imagine the idea of "currency" by thinking of all of these things as potential tools that can be exploited. As well, they recognize that some of these currencies are more valuable to some people than others. So, in addition to being able to understand each customer's individual "behavior gaps", companies also need to understand their individual benefit / reward preferences. The ultimate goal of a loyalty program with customer engagement at the core is to leverage these two types of insights — behavior gaps and benefit / reward preferences — to create an outcome that is unique to each customer and is a win-win for the customer and your company; an incentive that adds to that customer's experience while at the same time creating positive ROI for the company.

6. Should my currency be points, cash or some other type of benefit?

Use the "keep it simple" rule here. Increasingly, customers have been voting with their feet towards more transparent vs. opaque types of currencies. Traditionally, companies deliberately used "opaque currencies" in two ways: either they would issue fewer points for the same behavior (devaluing the "earn" side of the equation) or charge more points for the same benefit (devaluing the "burn" side of the equation). By focusing on delivering real and transparent value, innovative loyalty programs can become more meaningful to the customer and increase engagement. By attaching incentives to incremental customer behavior, companies don't need to devalue their currencies to make a return on their loyalty investments. Because the return is "baked-in" to the process, the company only issues an incentive if the customer performs a value-adding behavior.

7. How much should I reward my customers?

Know your economics. Companies need to know, down to the individual customer level, what each behavior is worth and, what circumstances make that value go up or down. Understanding this data and insights allows companies to target each customer with individualized incentives that are commensurate with the value of the desired behavior. For example, an online company that collects product reviews from its customers may value some types of reviews (the ones for products where they have no reviews to date) vs. other types of reviews (for products where they already have plenty of reviews). Targeting higher incentives to customers who have the capacity to write the more valuable reviews and lower (or no) incentives to customers who have the capacity to write low value reviews is an example of this strategy. By using this strategy you ensure that your investment in customer loyalty always results in a positive ROI for your company.

8. What should my customers be able to use their currency for?

Recycle it! Traditionally, companies have created broad-based redemption “malls” where customers can redeem rewards points for everything under the sun, ranging from electronics to outdoor furniture. There are many instances where wide choice and incentive options are preferred, particularly with airline and credit card programs. An innovative loyalty program looks at the redemption process as part of the customer engagement cycle (not a separate, after-the-fact activity). Getting someone to “redeem” means you get them to come back to your website or store or call center. That’s a good thing. And, by encouraging them to redeem for your own products and services vs. 3rd party products and services, you can keep the value you’re doling out inside your own ecosystem, lowering marketing costs and driving deeper customer engagement.

9. Should I sell my currency (to make money from it)?

Maybe. There are two opportunities here. One opportunity involves letting other companies use your currency with their customers. This makes sense if you have a strong brand and other companies want your currency. There are a lot of examples of this – frequent flyer mile programs, gift cards, etc. – and these have created a multi-billion dollar market. A second opportunity involves letting your customers and / or suppliers buy your currency. Examples include gaming sites: their business model is, in part, based on letting their members buy and use currency to have stronger weapons in a game. Similarly, an eCommerce company might allow its suppliers to “buy” its currency to be used to promote their products to that online retailer’s customers, leveraging the supplier’s wholesale economics (vs. the retailer’s retail economics).

10. Can analytics help make my program better?

Yes. Whatever choices you make regarding your loyalty strategy, Big Data and analytics needs to be a part of the design. The only constant is change: your customers will forever be evolving in terms of their relationship with you. As a result, their behavior gaps will change and their benefit preferences will change. That means you need to constantly be optimizing. “Set it and forget it” programs are no longer sufficient to keep up with evolutionary trends. Loyalty programs need to be evergreen and continuously evolving.



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