

Whitepaper

**Executing a Loyalty Program Checkup is not just about updating the Program Design – A Plea for Considering the Internal Hygiene Factors of a Loyalty Program.**

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## Introduction

Once implemented and launched, each marketer responsible for a loyalty program needs to answer these challenging questions: How is my program actually performing, and does the program meet the business's objectives? After investing significant financial and human capital into the program, how can its performance be optimized? The budget is tight and program devaluation is not an option. What other opportunities do I have? Not only to help answer these questions, but also to keep your program up to speed, it is necessary for each marketer to recheck your loyalty approach and program on a regular basis.

With 3.3 billion US loyalty program memberships and an average of 29 loyalty program memberships per US household, companies need to consider that loyalty programs are too powerful as a marketing tool to be missed and too expensive to be executed badly. Currently, 77% of American consumers participate in a retail loyalty program which is a 9% increase compared to 2016. Marketers know that the probability of selling to an existing customer is much higher compared to a new prospect. (60-70% probability to existing customers compared to 5-20% to new prospects).

Research also shows that 77% of members say that loyalty programs make them more likely to continue doing business with brands, 63% modify spending to maximize loyalty benefits, and 70% are more likely to recommend brands with good loyalty programs. 73% of Millennials say loyalty programs are an important influencer on their purchases.

In this whitepaper, I would like to share my thoughts and ideas on what I believe is important - and often underestimated - when performing a program checkup. To get a better understanding, let's take a deeper look into the challenges of existing loyalty programs to familiarize ourselves with the situation.

## Existing Programs and their Challenges

An existing program has gone through design, pilot and rollout. So far it is being used to reward loyal customers, to generate more information about customer behavior, to influence consumer behavior, or to acquire new customers. Now, the program is getting in a phase of stagnancy, meaning member activity and retention is declining, new customer acquisition is hard to improve and members don't see enough value in the benefit structure offered. The risk is member fatigue and inactivity.

Reports show that on average members were enrolled in 14.3 programs (+31% over the last 4 years), but the activity rate of 47% remains unchanged. Clearly, there is a need for the marketers to react to this situation.

This leads to my first challenge of **keeping customers engaged and the program relevant after launch.**

Keeping customers active and giving them a reason to come back as well as maintaining program attractiveness on a high level is a topic which becomes more important for companies running a loyalty program. The retail, grocery and travel industry have been dealing with this issue for some time, but other sectors such as telecommunication, restaurants or banking services are experiencing the same development. The focus used to be on customer acquisition and transaction volume, but now companies are facing the situation on needing to work on their customer retention and activity through improved loyalty concepts and customer experience.

The second challenge is **the perpetual change of the loyalty landscape**.

The number of shopping and communication channels as well as customer touchpoints are steadily growing, customer behavior and expectations are continuously changing, new technologies and payment solutions are available and social media is strongly influencing customers and companies at the same time. Loyalty programs need to adjust to these developments and evolve constantly in order to meet customers' expectations and to keep consumers loyal. It's all about customer experience and how to emotionally bind the members to your program and brand. Companies need to understand that customer loyalty is not just based on a loyalty program, but is the result of delivering a differentiated and positive customer experience to their customers.

My third challenge - **program setup and execution** - is part of the solution.

Whereas the first two challenges are mainly influenced externally, the third challenge is of internal origin. I have seen several existing loyalty programs which missed crucial internal program elements during implementation, e.g. proper data management, integrated IT infrastructure or defined KPIs to measure success just to mention some examples. These elements were missed simply and mostly due to time or budget constraints, lack of internal alignments or capabilities during launch. The missing of these elements is not obvious in the beginning or shortly after launch; their influence rises after the program has been implemented and running for a while. Marketers start seeing themselves confronted on delivering proof of performance and results.

The reason I would like to emphasize these internal factors is that they have a strong potential to be low hanging fruits, which means, once they are located and identified, their changes have a strong impact, can be executed with internal resources and have less external dependency.

For a holistic approach, I will give an overview of the different internal as well as the external factors that need to be considered when executing a loyalty checkup, but will concentrate in detail on the internal factors.

## Influencing Factors for a Loyalty Checkup

Determination of the loyalty strategy and objectives is fundamental and needs to be aligned with the overall company strategy. The internal **hygiene factors** and external **market factors** represent the areas of program execution and customer value proposition. (see figure 1: Influencing Factors)



Figure 1: Influencing Factors

All elements which represent the structure and backbone of the program can be identified as internal factors, as they are relevant for execution and delivery of customer experience - I call them "**Hygiene Factors**". Why hygiene factors? Because missing these factors can have a large negative impact on the program performance and internal acceptance. Companies often underestimate their importance by putting the primary focus on the external market factors.

"**Market factors**" are customer facing and influence the customer value proposition. There is no doubt that companies need to realign their loyalty approach and program design continuously, in order to keep up with the changes of consumers and loyalty landscape. It is also key to avoid complicated program structures and mechanics, large amount of time to redeem rewards and the lack of varieties or restrictive terms and conditions, to mention a few. However, having seen existing loyalty programs in different industries and experiencing their successes as well as their struggles, I can say that most companies wanting to improve their program put their main focus on updating their program structure and value proposition instead of first analyzing and optimizing the internal program setup and execution. This priority may lead to an investment which does not deliver the desired financial return.

Even the best and richest loyalty concept is not worth the paper it is written on if it is not executed and delivered to the customer in the right manner. Perfectly combined, all factors deliver a best-in-class loyalty program and customer experience.

Putting my focus on the hygiene factors, I would like to go more into the details of my approach and give ideas on how marketers can move forward when redesigning their program.

## #1 Financials

All loyalty marketers know and have experienced the burden of having to prove that loyalty programs and their initiatives have a positive impact on the ROI and are not just a cost factor. Therefore, it's crucial to align on program KPIs, metrics and key success factors, as they are the key to proving the success of the program. Further, marketers need to be able to measure the effect of each loyalty campaign and activity and to gain flexibility through measurement on the cost side as well. For example campaign response measures to identify high performing campaigns or redemption metrics. The set-up of a constant reporting system allows the marketer to identify cost-saving potential as well as to react quickly to changes.

Additionally, being able to access the respective financial data, as well as having a common understanding of the budget planning process, results in a less vulnerable loyalty program. Too often, senior management seeks fast short-term results, whereas it is important to remember that setting up loyalty can take time.

A dedicated loyalty budget is one of the elements which allows the loyalty team to execute and develop the program and all loyalty initiatives to its best. Having experienced the opposite, with decisions leading to negative program performance or even worse, resulting in a program execution "just ticking over," I am a strong supporter of loyalty programs with an independent budget.

## #2 People & Capabilities

For customer-facing industries, your frontline employees make the difference. Every point of contact between an employee and customer is the opportunity to positively influence the member's experience. It is your employees who generate positive emotions with program members, but in most companies, there is room for improvement. Research shows that only 21% of members are prompted by brand representatives to use the program, only 20 % get help to make the most out of their membership and only 19% feel special and recognized by brand representatives.

Make your staff your best advocates because they represent both the brand and your program. They need to be provided with all the necessary trainings, information and participation. There is nothing better than having an employee participating in your loyalty program and knowing it inside out. Reports show that when representatives make members feel positive emotions, there is a higher likelihood of member retention. These are critical competitive advantages.

Make sure to provide back-office people with the right capabilities in order to manage and develop a program successfully. You need experts in the different loyalty functions such as program strategy, design & execution, marketing automation & campaign management, analytics & segmentation, and the loyalty platform.

### #3 Loyalty Platform & Processes

Customer loyalty ventures often start off as basic loyalty programs containing an earn-burn-structure and possibly other beneficial elements. In most cases, the implemented loyalty platform is either developed in-house, or an external loyalty solution is being used. Whichever solution is implemented, it is crucial that there is an alignment with the necessary company IT infrastructure and objectives in order to allow best program usage and the program growth.

Companies need to understand that there is the strong need to invest in the right technology as loyalty initiatives are not isolated from the overall technology strategy of the company. A companywide loyalty approach guarantees involvement and support of your technology stakeholders.

Further, I often experience that the definition of business processes is underestimated and neglected when implementing a loyalty program. This can result in complex and frustrating customer processes; e.g., for program sign up or point redemption which can lead to lower activity and, even worse, a negative customer experience. At the same time, the missing of process definitions leads to internal miscommunication, or lack of information and understanding, especially with your frontline staff e.g. claims handling. Getting your processes right and defined is another low hanging fruit that can have a huge impact on program performance.

### #4: Data Management

Your customer data tells the story and is the foundation for the continuous successful management and development of your customer loyalty program. One might say it is the reason marketers are operating loyalty programs.

Those programs leveraging information to build lasting customer relationships through relevant communications, rewards, and other personalized perks will win the race for customer loyalty. Since the launch of each program, customer habits and expectations might have changed. It is a company's challenge to continue engaging these customers. Your consumer data will stay on top of these trends and allow you to use this knowledge to adapt program design accordingly. Marketers who develop a holistic, 360 degree, analytical view of customer relationships by linking data from loyalty, CRM, web, social, and mobile channels are seeing the full customer picture.

But there is more to data than getting to know your customer. A successful loyalty strategy consists of the right set of metrics based on the overall business objectives. As already mentioned, marketers often struggle internally to isolate the impact of their loyalty efforts, but, on the other hand, need to prove effectiveness. Therefore, it is crucial to keep measurement at the forefront to ensure that all your loyalty initiatives can be effectively measured and you have efficient and complete data access.

Companywide data access also encourages other departments, e.g. sales or product development, to use the available customer data in their daily business. This has another charming aspect as it improves the reputation of the program from being a sole cost factor toward a profitable marketing asset.

## #5 Communication Channels

Integration and alignment of loyalty and marketing initiatives is necessary in order to deliver a relevant and consistent customer experience. There are too many examples where customers receive two emails a day from the same company because they signed up to the regular email list and because they are members of the loyalty program. A successful omni-channel loyalty program will connect customers to a brand across all touchpoints with the right content at the right time. Research shows that 95% of members want to engage with their program through new and emerging technology (e.g. wearables, chatbots).

In order to prove the effectiveness of your communication and loyalty initiatives, automated measurement is important. It saves a lot of internal resources and time having to prove the actual contribution of each activity if the objectives and KPIs are defined in advance and the current data is available and accessible.

Integrated communication also includes internal communication. Knowing that especially in the retail and service industry, frontline staff (e.g. sales staff and call center) deliver the brand and customer experience, it is important to involve these employees early and on an ongoing basis. They are the first to get feedback from your customers; therefore, they need to be heard and valued. It is too often that this valuable input is not being recorded and used for future development and changes.

Aligning all five factors with each other guarantees a customer centric approach and culture within the company. Customer centricity means taking customer loyalty seriously and executing loyalty companywide. Loyalty cannot be seen as a silo initiative: It is as important to secure executive commitment as well as alignment with all relevant departments in order to leverage loyalty across the entire company. Loyalty needs to be a corporate initiative where everyone is held accountable for its success.

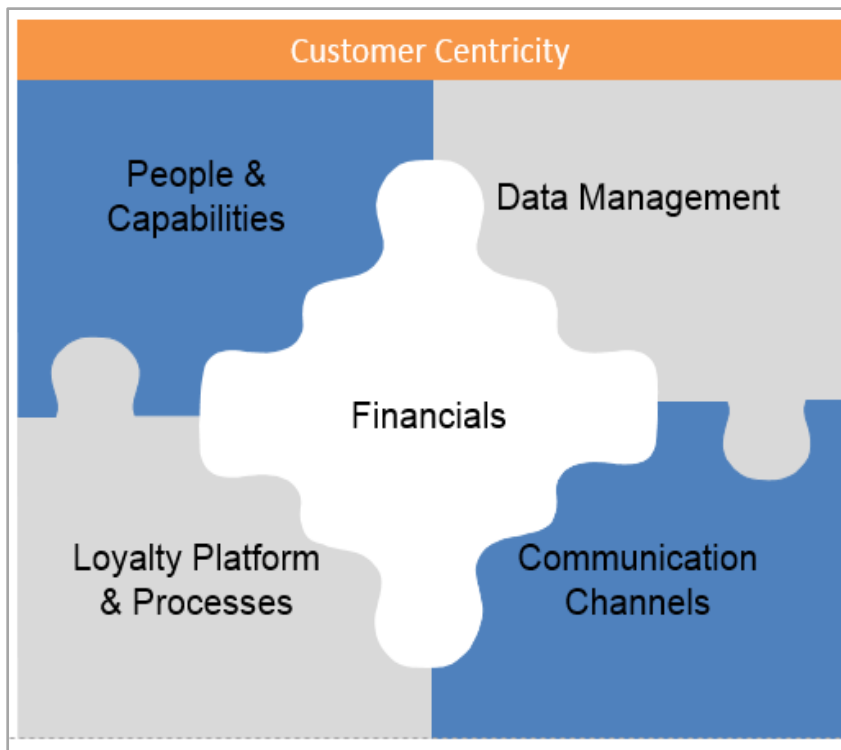


Figure 2: Hygiene Factors

## **Key Takeaways**

- Marketers responsible for a loyalty program mostly struggle with
  - Underperforming loyalty programs that need to deliver results
  - Undefined program objectives and unclear program performance
  - A program that is internally on the watch or seen as a cost factor only
- On top, they encounter the following program challenges
  - Battle against program stagnation and member fatigue
  - Need for growth and development with the changing loyalty landscape
  - Analysis and resolution of missed opportunities when program was launched
- To counter these issues, a program health check is necessary to setup the program for success
- Avoid focusing on market factors (program value proposition) only when restructuring the program as this can result in larger financial long-term investment
- Consider to check hygiene factors (program execution and customer experience) which are often failed during implementation.
- Companies and marketers should not miss this opportunity for low hanging fruits when redesigning their program.

## **Sources**

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