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The Essential Guide to Loyalty

Gain an overview of loyalty

Look at the different kinds of loyalty business models

Explore big data and global trends

Produced by

terrapinn TRAINING

Introducing Mr Mike Atkin

Mr Mike Atkin is a highly respected, industry recognised expert with twenty five plus years' experience within the Loyalty/Customer Management Market, with specialist knowledge in all aspects of Loyalty Programmes, including strategy and operations. This has included working across most vertical markets including Retail, Finance and Banking, FMCG, Speciality Retailers, Airlines, Telco, Fuel Retail and Utilities.

Mike says "Nearly every business has an increasingly global footprint or is facing new competitors both locally and from outside their home territory. Customer loyalty has been identified as the top non-financial business challenge facing companies in 2012 (Protiviti). The sum of these challenges has led to my belief that while not every business needs a loyalty or rewards programme, every business does need a thoughtfully created and well executed Customer Management Strategy.

Customer Management and Loyalty programmes have become the Key Marketing Tool for those businesses that want to survive and grow in today's highly competitive environment. Loyalty is a much bigger, broader, richer and growing ever more complex idea than it has been in the past and is no longer about points, discounts, miles, rewards; it is about the way the processes, technologies, ideas, interactions engage an individual with the brand.

I believe there will be a renewed (and well-needed) focus on customer retention and loyalty vs. customer acquisition and brands will increasingly use the rich information about customer buying patterns generated via loyalty programmes to create more targeted marketing/messaging. Gathering and tracking data amassed in the loyalty programme will be used to help marketers with segmentation, messaging, for acquisition and retention.

This eBook, the **12 hour MBA in Loyalty** and the **3 day MBA in Loyalty** have been designed and created to highlight and explain the various components of designing, developing, launching and managing an efficient and effective customer loyalty programme that will drive incremental growth for your business."

The essential guide to Loyalty

In this essential guide to loyalty you will:

1. Discover what loyalty is and how loyalty marketing helps solve a number of problems

2. Look at the different kinds of loyalty business models

3. Understand the reasons for failure and the best practices

4. Explore how to account for unredeemed liability

5. Understand what big data is

6. Discover how generation Y influence marketing policies

7. Look at how social media has been applied to loyalty

8. Gain an understanding of global trends and look at some predictions for the future

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Contents

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Module One: Loyalty, The Story So Far

Customer Strategy Network monitors over 20 billon members in over 2000 programmes. Of these they found:

- 85% of households participate in programmes
- 40% actively engage with the programme (rather than just join it)
- 14.8% are working (driving incremental growth)

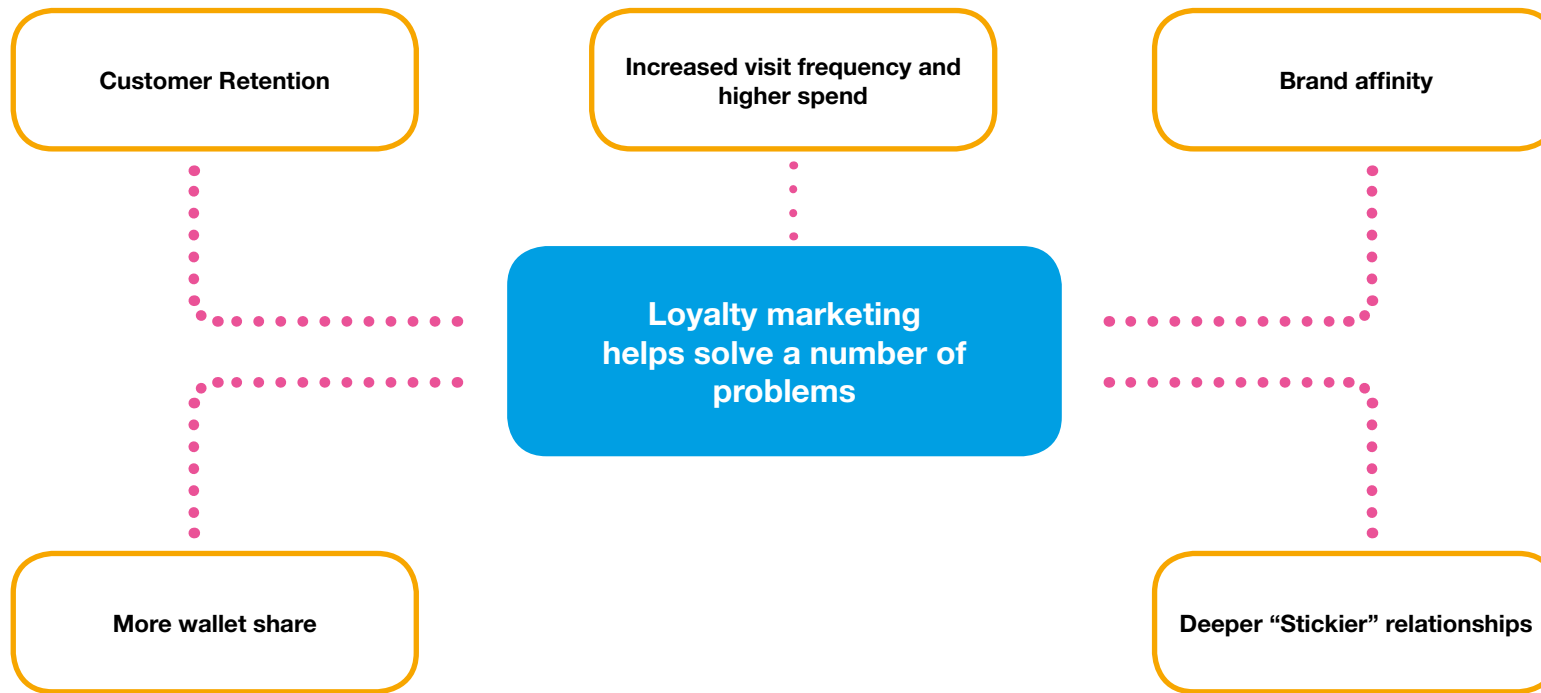What is loyalty? Loyalty comes in many forms including:
- Points
- Miles
- Cash Back
- Deal of the Day

There are many meanings of loyalty. The Oxford English Dictionary defines it as:

"To be true and faithful in one's commitment to one's friends, beliefs etc. True to allegiance: devoted to Sovereign, Mother Country etc."

Tesco 'Scoring Points' 2003 defined loyalty as:

"…an unselfish belief in institutions, or unswerving fidelity in marriage, commitment to friends. Loyalty also suggests monogamy: one choice above all others."

Customer Retention

Increased visit frequency and higher spend

Brand affinity

Loyalty marketing helps solve a number of problems

More wallet share

Deeper "Stickier" relationships

What is Loyalty in Business?

Sheth and Parvatiyar (1995) said loyalty is 'the ongoing process of engaging in cooperative and collaborative activities and programmes with immediate and end-user customers to create and enhance mutual economic value at a reduced cost'.

Successful loyalty programmes send the right message, to the right customer, at the right time, through the right media. It's all about having a relationship with the customer. Two way dialogues are key! Customer focused companies are usually the winners.

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Module Two: Loyalty Business Models

Promotional Model – this model involves giving away points and vouchers.

Pros: it's inexpensive. Vouchers can be emailed, mailed, sent as a text to customers.
Cons: they are short term, there is no continuity and it takes creativity to sustain it.

Player Model – this model rewards your customers with someone else's promotional currency i.e. you participate with an existing program and partner with a company that has an established brand.

Pros: it's inexpensive (there is no infrastructure) and recognition is immediate.
Cons: this model is self-selecting, motivation is suspect and the "relationship" is second-hand.

Proprietary Model – this model rewards your customers with your own promotional currency based upon their spending with you i.e. you run your own program.

Pros: you can track and reward individual behaviour, create value far in excess of actual cost, establish a continuity relationship and they are flexible.
Cons: this is the most expensive model to operate and maintain and poor design/implementation can be costly.

Coalition Model – this model rewards your customers with a promotional currency shared between two or more partners.

Pros: you can track and reward individual behaviour, plenty of potential to create value, great customer acquisition vehicle and expenses are shared.
Cons: it is extremely difficult to implement and multiple brands are competing for loyalty.

Did you know, coalition programmes are the most successful in the global market?

Module Three: Why Do Programmes Fail and Best Practice Solutions

The reasons for failure:

- Flat funding rate or no targeted bonuses – even if you spend more you don't benefit more
- Members restricted to payment options – you are only rewarded when you are using a certain type of card to pay
- No dialogue with members – members cannot communicate
- Weak or no soft benefits (perks)
- Poor or little use of data – presenting relevant offers
- Irrelevant rewards offering – rewards that aren't attainable for the customer
- Cash or discounts (transparent) – most programmes shouldn't give cash/discounts. Rewards should be gifts if the company is to drive business and create loyalty
- Poor communications
- Programme costs
- Loyalty is not part of the business culture

Best Practices:
- Enrolment Strategy
- Manage customers
- Create and enable dialogue

Module Four: Accounting for Loyalty

Loyalty programme costs are allocated by category:
- Onetime costs
- Ongoing costs
- Benefits

Accounting for Unredeemed Liability
The value of unredeemed reward currency is known as breakage. This is a key driver of loyalty programme profitability. Many companies rely on customers who do not redeem their currency to fund those that do, as well as the cost of the programme.

Reserve methods vary by organisation but adhere to general practice. Most companies determine income from breakage based upon historical redemption patterns.

Canadian banks with FFP co-brand credit cards reserve between 80-90%. Actual redemption rates are in the 40-60-% range. Some suppliers with "point issuance" models reserve ~ 30%. Many retailers reserve closer to actual rates once loyalty programme activity is seasoned with time and predictable with accounting authorities.

Module Five: Big Data

Data is the "new oil" in business today.

What is big data?
Big data is data that exceeds the processing capacity of conventional database systems. The data is too big, moves too fast, or doesn't fit the strictures of the database architectures. To gain value from this data, you must choose an alternative way to process it.

Organisations have lots of data, which is often not used to its potential. Sometimes it's too expensive to get it out and sometimes companies don't recognise the power of the data. This issue will get more complex as social networks and communication activity increases.

Businesses have limited resources to manage Big Data efficiently and effectively and this must be addressed. Data is at the heart of customer insights!

"Data is at the heart of customer insights!"

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Module Six: Loyalty Marketing to the "Y" Generation

The "Y" generation are totally immersed in technology and they are also connected to many different communication channels.

A survey of 19-29 year olds compared to 30+year olds in Canada, the USA and UK gave the following results:

Technology	19-29 year olds	30+year olds
Own a laptop	86%	66%
Own a Desktop	52%	67%
Own a Smart Phone	59%	36%
Use email	93%	94%
Send Text Messages	86%	59%
Use Facebook	77%	38%
Use Twitter	28%	8%

These numbers keep changing but are useful to show some initial differences in age ranges and suggest that perhaps there is a new breed of consumer.

Most CMOs recognise the need for change but are yet to embrace the challenge and define a customer strategy for Generation Y. Generation Y are strong influencers on marketing policies and these policies and offers need to be more effective and relevant to create loyalty. The difference is how companies communicate effectively with this generation and the impression they make.

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Module Seven: Social Networks and Loyalty

Social media has been applied to loyalty in the following ways:

- Offer delivery channel – make offers through websites and social networks/media
- Loyalty club acquisition – links to register or "like"
- On-going loyalty club engagement – customers are members and engage through social networking and sign up to page through Twitter/Facebook etc
- Customer care channel – customers can give feedback on their services

Amex has launched a loyalty approach for their card that delivers savings via twitter. Customers receive customised #hashtags that they can turn into e-coupons. Customers synch their cards to their twitter account and when they tweet a certain special offer the coupons are loaded directly onto their cards. Customers require no coupons or print-offs; savings are credited to the customer's accounts within a few days.

A number of programmes are incentivising loyalty members with points to interact with them by checking through mobile devices. Virgin America offers 25 points to share a photo, check in using Foursquare and share that information with Facebook friends and Hilton Honours gives 50 points for sharing their location or photo at their hotels. Programmes are also incentivising loyalty members with points to interact with them through competitions.

Module Eight: The Future of Loyalty Programmes

Global Trends 2012-2015

Loyalty is no longer about points, discounts, miles, rewards; it is about the way the processes, technologies, ideas, interactions engage an individual with the brand.

Brands also need to recognise customers at all touch-points, especially the call centre, to deliver a quality customer experience. A recent poll by Loyalty 360 found that 78% of respondents believe that having a great customer experience makes them loyal.

Some predictions for the future...

- The only way to achieve loyalty is through deeper engagement.
- There will be a renewed focus on customer retention and loyalty vs. customer acquisition. It is very expensive to get a new customer!
- We will see a focus on social media ROI.
- Brands will increasingly use the rich information about customer buying patterns generated via loyalty programmes to create more targeted marketing/messaging.
- Worthy causes will continue to influence consumer brand loyalty.

Loyalty is a journey, not a destination!

We'd love to hear your views on all of this...

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Wondering if you know all there is to know about Loyalty?

Why not try our 12 Hour MBA in Loyalty.

The 12 Hour MBA in Loyalty will take you through the 8 modules (and more!) covered in this E-Book in much more depth. Mike will walk you through the fundamentals of loyalty in an easy to manage online training course.

For more information contact Evon Wong on: +44 (0) 207 608 7028
Or visit: http://www.terrapinntraining.com/training/12-Hour-MBA-in-Loyalty

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We'd love to meet you too...

We also run a 3 day MBA in Loyalty in various locations across the globe.

Alternatively, we can come to you. We can tailor the course to your needs and deliver the course for you and your team.

For more information contact Evon Wong on: +44 (0) 207 608 7028

Or visit: http://www.terrapinntraining.com/training/3-day-mba-in-loyalty

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