



## Your Loyalty Guide to BEST PRACTICES

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## Best Practices Guide to **CUSTOMER LOYALTY**

It is clear around the world and in every industry that loyalty program members continue to do more business in return for recognition and rewards. Not only do customers benefit, but also brands benefit as well with financial performance that more than returns the cost of their overall loyalty effort. This especially is the case with a well-crafted strategy that targets both retention and incremental behavior.

In today's world, successful loyalty strategies must assume a more comprehensive role in the overall marketing plan—one that seeks to identify and leverage the current relationships between a company and its customers, then extends that equity to achieve a competitive advantage based upon that relationship.

The following “Best Practices Guide to Customer Loyalty” outlines what it takes to establish loyal customer relationships—*identification, permission and dialogue*. Identify who your best customers are...invite them to engage in the relationship...initiate continuous dialogue with them...and you're on the way to improved customer loyalty.

## 1. Multi-tender Program

**Offer a multi-tender program.** Customers rarely pay for everything using one method, so why should you recognize them for only one type of payment? Businesses have learned that allowing invisible customers to escape undetected because of their choice of tender makes it impossible to track all their best customers. By not acknowledging our multi-tender world, you fail to maximize customer spend or share of wallet among these crucial customer segments. This issue has prompted a growing number of companies to expand their loyalty programs to include transactions from multiple tender sources.

Offering a properly designed multi-tender loyalty program could be the key to revitalizing transaction volumes and gaining deeper understanding of your customers' purchasing behavior.

The goal of your loyalty program should be to identify your best customers, regardless of their tender preferences, and to create a value proposition that encourages repeat purchasing. If you limit their method of spend, you're also limiting their allegiance to your brand.

Imagine a loyalty program that could build business with all of your customers—and create a significant opportunity to heighten their allegiance to you and to your brand.

## 2. Customer Scoring

**Understand your customers' value.** Loyalty is about more than purchase behavior. Loyalty is really about a consumer's engagement with your brand and service. To measure engagement, your loyalty program needs to do more than track when purchasing occurs. Your loyalty system needs to track and score your customers' overall activity and involvement with your offering. In other words, evaluate the relationship as a whole. A tracking system set up to pay-out solely when a designated purchasing threshold is met and then restarts is a system that overlooks valuable customer information.

If your loyalty system provides a measure of a customer's overall engagement with your brand, then the program is an asset to your business. It's a visible expression of brand loyalty and customer goodwill.

The true value of a recognition and reward tool, therefore, lies in its ability to acknowledge customers who support and adopt your brands and service. Your customer engagement strategy should be designed to:

- Keep score of your customers' value.
- Separate those customers who really support your brand from those who “cherry pick” it.
- Project customer lifetime value.
- Communicate value to customers.
- Retain brand loyalty as an asset.
- Identify cross-sell opportunities.

Design your program to keep score as well as reward the desired behavior of your customers. An effective customer-scoring structure enables strategic partnerships, separates price from promotion and functions as the ideal behavioral lever. The scoring tool sets the stage so you are able to accurately express your relationship to your customers and participate in a mutually beneficial exchange of value.

### 3. Hard Benefits

**Offer compelling hard benefits.** What's a hard benefit? Simply put, a hard benefit is a tangible reward that is available to your members for free. A good hard benefit is irresistible in perceived value. A great hard benefit is something to be aspired to.

Remember, you're offering an economic award that lets customers know their purchasing behavior is well rewarded. Avoid dollar-denominated benefits or straight discounts. A compelling hard benefit is one that engages the imagination and carries high-perceived value in the eyes of the consumer.

When designing your reward strategy, it's important to also remember that a good balance of practical and “aspirational” rewards is important. It lets your customers know that you understand both their needs and their desires. For example, a customer base of small business owners may need a fax machine but want Super Bowl tickets.

Craft your hard-to-attain rewards to be experiential in nature so each and every best customer views your reward offering as unforgettable and highly valued. In addition, offering creative experiential rewards tied back to your brand and service has added advantages—the experience gives you another opportunity to build the relationship with your best customers.

The ideal hard benefit has a higher perceived consumer value compared to its actual cost. Consider the frequent-flyer mile—airlines have a winner because the actual cost of a free flight is far less than the perceived retail value. Free hotel rooms, free restaurant meals and free movie rentals—all are tangible, effective rewards. Create a compelling hard benefits structure with your own product or service as the primary reward option and consider introducing an array of supplemental options.

A hard benefits structure is affordable if it's designed to pay for itself by improving customer retention or increasing customer share. Those can and should be quantifiable measurements in your business.

*One rule of thumb:* Don't mistake discounts for hard benefits. Discounts are not rewards. They are soft benefits—economical, certainly, but privileges available to members, requiring the customer to spend in order to realize them. Discounts are easy to copy, lack memorable impact and only increase the customer's focus on price.



## 4. Soft Benefits

**Offer defining soft benefits.** Soft benefits are intangible. They focus on recognition, appealing to customers' emotions. Soft benefits are essential in a loyalty program so members feel "important." Soft benefits separate those programs that just pay lip service to customer loyalty from those that are committed to engaging their members with experiential, lifestyle-driven or convenience benefits that bestow an unquestionable sense of status. An "elite" member checkout line, free shipping or any other advantage not available to other customers can be priceless because each acknowledges customer importance without excessive program costs.

Soft benefits are critically important to your most valuable customers, whose loyalty demands legitimate evidence of their special status. Special status means special treatment, special deals, special access or special events—whatever it takes to reinforce the sense of importance of those top-tier, high-value customers. Defining soft benefits sets apart your relationship with your best customers, offering experiences unique to your store and unavailable to non-members.

In most situations, reward without recognition is insufficient to create and to sustain incremental purchase behavior over the long term. Usually, such "rewards only" programs suffer from a lack of creativity. They often fall short by failing to create a truly defining soft benefit—some aspect of members-only exclusivity that is distinct and intrinsic to both the brand and the category, and is especially valued by the target customer. Without such defining soft benefits, the reward elements offered are easily copied by competitors or ignored by customers after the initial curiosity.

Soft benefits help drive loyalty because they take aim at the emotional, more intimate side of the customer relationship. They add depth and uniqueness to a loyalty program and make it hard to duplicate. The customer who has joined a loyalty

program for a 15 percent discount may leave when another program offers a 20 percent discount. True loyalty is earned when unique, personalized soft benefits tell customers that they are part of a special group by the benefits they receive—especially if the benefits aren't available elsewhere.



## 5. Customer Tiering

***Vary your recognition and reward according to customer classification.*** Referred to as “tiering” your program, varied combinations of recognition and reward are a necessity for maximizing the return on your loyalty investment. Don't over-reward or under-recognize. Never forget...all customers are not created equal.

Tiering your recognition and rewards according to customer behavior allows you to show your appreciation to your higher-spending customers. Make those top customers feel valued. With a tiered program, you create an opportunity to promote the benefits of the different tiers. When your customers understand the behavior that elevates them to the next level, you have created added incentive for them to become even better customers.

Establish the criteria that defines good, better and best customers. Then, tell your customers what being good, better and best means and reward the specific behaviors you want replicated. Clear, open and mutually understood metrics for what constitutes good, better and best set up a program that delivers efficient and effective customer retention results.

With a tiered program, you have the capacity to make educated spending decisions. You know how to allocate your loyalty marketing dollars because you know which customers have profitable behavior patterns. Your tiered recognition and reward strategy equips you to show your appreciation according to customer profitability. There is no need to equally recognize every member registered in your loyalty program. You can spend your money where it counts. Those active members spending more time and more money in your store deserve to feel more important, because to you, they are more important.



## 6. Strategic Partnerships

**Build strategic partnerships.** Loyalty programs evolve by means of partnerships. They help spread the program cost and allow you to add enough value to the program to fund special events. Establishing strategic alliances may even provide a source of acquisition, bringing new customers to your brand.

Strategic partners are essential to the long-term health of your program—adding vitality, relevant and aspirational rewards, and greater earning opportunities to your program. Partner relationships can evolve with the portability not only of currencies but also soft benefits. In essence, these partnerships feature community benefits. Members can carry their relationship with Company A into their dealings with Company B. Creative partnerships take the concept of “other people’s money” and turn it on its ear by emphasizing the opportunities delivered by other people rather than focusing solely on the money.

The right program partners can provide your program diversity and opportunity. They enhance the value proposition of the program as well as reinforce the brand association. The right program partners should be established based on the objectives you define. The objectives you identify should be based on measurable terms. Ask yourself: How can your program benefit from using partners? Do you want to...

- Increase geographic utility (including teaming up with other like-sized companies in a different geographic area to compete more effectively against a national competitor)?
- Generate revenue by selling your program points to partners?
- Provide customers with complimentary products and services?
- Demonstrate the power of your brand based on how it aligns with other brands in the category?

Often the strategic partnerships can help ensure that your objectives are met. Take a look at your own program and see if a few—or a few more—well—chosen partners might make your efforts even more effective.

## 7. Multi-Channel

**Integrate your physical and virtual worlds.** You can’t throw a rock without hitting a marketing guru talking about the importance of a “click, flip, and mortar” strategy. Don’t let the chorus of voices drown out the essential truth: Your members want seamless interaction with your loyalty program no matter where they are or how they contact you. Multiple distribution channels set the stage for a strong and flexible program. No matter which channel your customers choose to engage in your program, each transaction needs to be a user-friendly, simple-to-understand experience.

Are you sure you’ve integrated your channels of interaction? Is there a members-only section of your Web site? Can members order from one channel and return at another? Are you tracking all of this interaction? Offering products and services through multiple channels has become common across many industries; however, orchestrating all channels to work hand-in-hand with your customer retention strategy is the secret sauce.

Technology has led to many strong and flexible loyalty programs. Most of these dynamic programs have design features that let customers select options from literally hundreds of choices. While highly technological programs are appealing and impressive, use caution and don’t overwhelm your members with too many bells and whistles. Analyze your active customers and design your channels around their behavior to avoid a program that may fit the times, but not match your customers.

*Keep in mind:* Loyalty is built around an organization’s products, services, and people, not a specific medium of interaction. Your loyalty program channels need to be based on prior relationships with customers and not viewed as an acquisition tool to get new customers. Model your program after what you know about current customers. It’s important to target your resources to those customers whom you know bring value.

## 8. Real- or Near Real-Time

**Be realistic about real-time.** Some industries—especially retail—consider real-time processing of earning activity the “Holy Grail” of loyalty. After all, the closer you can align recognition and reward to the desired behavior, the better your results will be. And, certainly, being responsive to an evolving on-demand culture is important; however, there are limits. Be cautious of rapidly diminishing returns and illogical approaches that could lead to member confusion.

In a sense, real-time loyalty has been around as long as punch cards. If you offer a frequent-buyer card that gets punched after each purchase and the customer can redeem it for free merchandise immediately after the last hole is punched, isn't that a real-time reward? So why invest in sophisticated technology to respond to your customers' need for immediacy?

Advocates of real-time loyalty have an easy answer: It's all about segmenting. By combining the punch card model with state-of-the-art data mining, the sky's the limit. Not only can you reward a customer on the spot, but you can also tailor the reward based on the customer's spend. You can target rewards based on purchase history and demographics, and you can do it all within the framework of the transaction, without the delay of monthly statements.

Competing technologies—some based on smart cards, others on mag-stripe cards with POS readers, and even cellular phones—are starting to bombard retailers with enticing real-time loyalty solutions. Envision the day when a customer, while walking by a particular store, will get an instant message on his/her cell phone with that retailer's specials of the day. Don't be surprised—it's already being tested in other parts of the world.

## 9. Brand Support

**Reflect the value of your brand.** A loyalty program is about your brand and the qualities it delivers to your customers. Your program can help articulate the qualities of the brand to your customers. The more relevant the brand becomes to each customer, the less focus the customer will have on price and sporadic promotions.

The overall design of the loyalty program should be a reflection of your brand and work to help each customer internalize the brand's value. A “me-too” approach to customer loyalty gives the impression that your brand is the follower, not the leader. Additionally, copy-catting can cause confusion in the marketplace, ultimately weakening your brand.

Start with the brand, its equities and strengths—those valuable attributes that differentiate your brand from the competition. With these in mind, design a program that reinforces the brand through communication, recognition, and reward. Of course, you may have tactical elements that are similar to those in other programs, but how they are presented and executed should be linked directly to your brand. The result: minimal confusion and the opportunity to demonstrate the full value of the brand.



## 10. Customer Dialogue

### ***Cross the two-way street of interactive communication.***

Dialogue is all about the give and take of information—a two-way flow, in which you receive customer information and respond with relevant information in return.

By having an ongoing conversation with customers, you can build a relationship. If you build a relationship, you can gain the customer's trust. And if you gain trust, you can increase retention and generate additional sales.

Begin or continue a dialogue with each piece of communication you send out. Ask a few questions. The valuable information returned is the start of a dialogue. From there, always be sure to wisely use the information you receive. Using this information shows that you value each member's input and helps encourage dialogue in the future.

Establishing a dialogue with your best customers is a key element in your loyalty marketing program. This direct line of communication with members tells you what you're doing right and wrong. It makes customers feel important, more loyal, and more interested. And it adds a new "relationship" dimension to your brands or service.

Where program communications costs are concerned, there are opportunities to generate offsetting revenue streams. Membership fees, for instance, can contribute significant funding. Also co-sponsors, or promotional partners, will pay a fee for exposure in program newsletters and other program materials. In addition, they'll donate valuable special offers to enhance the impact of their exposure.

Marketers should view their loyalty communications strategy as an opportunity to boost their entire marketing agenda. You should be creative and aggressive in developing a dialogue with program members. It must be a two-way communication channel. You must listen, learn, and be prepared to respond. It all comes down to individualized

relationships with customers, based on listening as well as selling, and on responding to what you hear. Your dialogue initiatives will result in sales today and also increase the lifetime value of your customers.

## **In Conclusion...**

Working hand-in-hand, the "10 Best Practices" highlighted in this booklet form a solid foundation of a successful customer loyalty program. Putting the right tools in place to execute these initiatives is where the work begins. Many businesses collect data about their customers in order to improve customer retention, but when it comes to using the information, it usually doesn't drive actionable and measurable strategies. Effectively tracking customer purchasing behavior and understanding why you are collecting it, puts you in the position to have strong, loyal relationships with your "best" customers.

Keeping your loyal customers happy ultimately leads to increased ROI. The economics of marketing to your loyal customers can be more efficient than focusing your complete marketing budget on acquiring new customers. Your loyalty program brings great opportunity to increase customer share, and spend and track your marketing dollars more effectively than ever.





## Frequency Marketing, Inc.

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