

White Paper



Programming Loyalty

Getting the Loyalty Program Game Right

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Abstract

Customer loyalty is every marketer's dream. With rising competition among providers, wider choices on offer and greater awareness among customers today, loyalty has never been as difficult to cultivate and sustain. A tactical approach to customer retention will not suffice to build lasting loyalty. A loyalty program that creates genuine value for both the customer and the company helps build continued relationships, thereby minimizing churn while increasing profitability.

Loyalty programs have been around for a while, yet very few companies get it right when it comes to running a successful and sustainable program. The loyalty program journey should start with a clearly defined objective, a well-defined plan of execution to achieve the same, a means to measure the signals along the way and a system to incorporate course corrections back into the program for optimum performance.

Why loyalty?

In business parlance, customer loyalty refers to the repeated purchase of the company's offerings by the customer, despite having easily available replacements.

Rising competition is turning differentiators such as low cost and quality service into hygiene factors; high exit barriers have given way to wider choices of easily replaceable substitutes. Advances in technology have not only made offerings more sophisticated but also led to short product lifecycles. Factors such as these have increased the complexities of doing business and sustaining market share. Many companies react by stepping up on their customer acquisition efforts, spending billions of dollars in research, product development, advertising and promotions, sales presentations, negotiations and a whole variety of overhead activities such as legal, IT and customer service. Despite the efforts, the span of an average customer relationship remains short and the returns per relationship low.

On the other hand, loyal customers who repeatedly pick a company's offerings (products or services) over other competitive offerings are hugely profitable and cost much less to maintain, thereby presenting a significantly higher return on investment. This is over and above the steady contribution to cash flows from these repeat purchases. Retaining existing customer relationships costs only a fifth of the spend on new customer acquisition². In short, keeping loyal customers loyal and encouraging loyalty in the yet-to-be-converted, makes perfect business sense.

What is a loyalty program?

A loyalty program invites existing customers to become members, encourages regular repeat purchases over long periods of time and distributes the benefits of the continued relationship with both parties. Unlike a core offering designed to meet a particular need, a loyalty program does not offer new solutions. Instead it is a meta-offering that can lead to longer and more profitable relationships with customers.

Loyalty programs are based on a win-win theme where the company benefits from the customer's repeat purchases and the customer in turn gets rewarded for her loyalty. The programs are designed to work like a positive feedback loop encouraging the members to spend more duration and dollars in the program. Nevertheless the need for customer loyalty is greater for the companies and hence enrollment into the loyalty program is push driven.

In a loyalty program, each purchase by the customer is a discrete transaction where the customer had same or similar choices prior to each purchase and yet chose to stick to her favorite brand and therefore makes herself worthy of a reward. A loyalty program is not an ad campaign or a facade for market survey/research. Likewise, volume discounts and promotional offers are also not loyalty programs either, as they offer incentives which are limited to that transaction only.

The high returns...

Customer retention: In saturated markets, a dollar spent with a competitor is a dollar less for the company. Loyalty programs can provide the necessary incentive to keep the customer coming back.

Profitability: Retaining current customers is far more cost-effective than acquiring new ones, and loyal customers are a key driver of profitability³.

Customer insights: Loyalty programs present opportunities to understand their customers by collecting information on their buying habits, preferences and lifestyles. This information can also be used for cross selling, up-selling and other targeted campaigns. Feedbacks from customer surveys can be used to ensure that the program stays exciting and relevant.

Enhanced customer experience: To the customer, being a member of a loyalty program can mean an upgraded end to end shopping experience. Loyalty programs and previous positive experiences can lead to an automatic decision to shop at a location saving hassles of evaluating options prior to each purchase. Program membership can bestow instant privileges such as special check-in/check-out queues, rewards for purchases and better customer service.

...and high risks

However, the following factors make loyalty programs a high risk strategy.

Raising expectations: The launch of a new program raises the customer's expectations regarding the value she receives from continuing her relationship with the brand, and these expectations have to be lived up to.

High visibility: The nature of loyalty programs is such that they are viewed as being representative of the brands. While a successful program may incrementally add to the brand equity, a failure would be magnified, potentially causing massive damage.

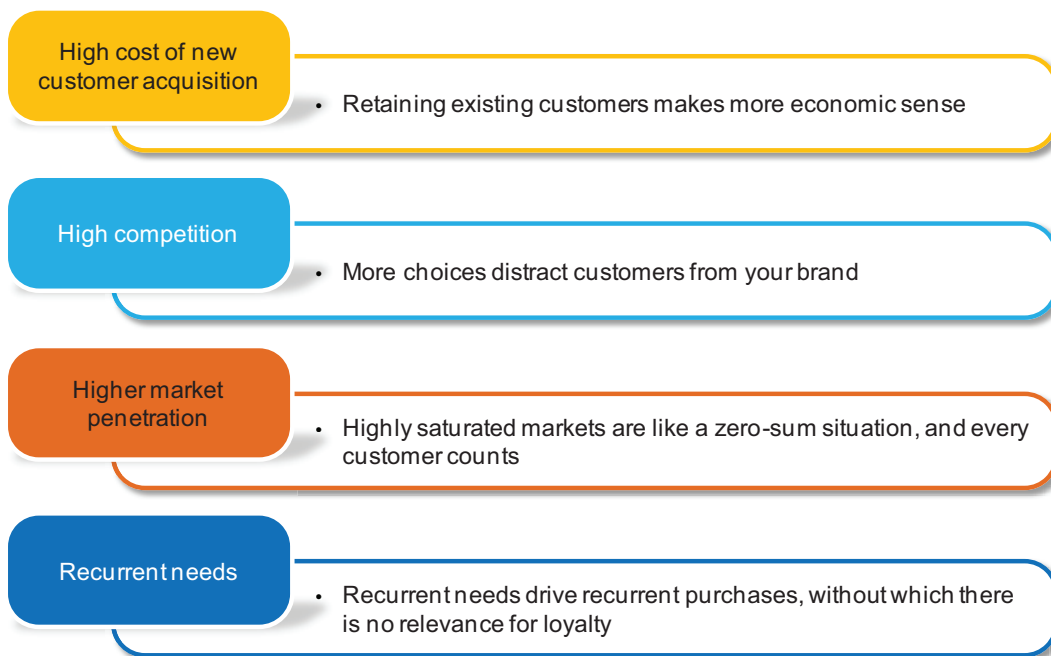
Program execution: Efficiently managing key activities such as member enrollment, partner management, member services and communications, while ensuring program profitability.

Difficult to integrate: Loyalty programs are customer facing, and hence would need to be well integrated with other activities such as marketing, sales, service, order management and execution in order to present a single face to the customer and also to have a 3600 view of the customer. Therefore, plugging in a loyalty program when these other parts already in motion would require meticulous planning and execution as the implications of a slippage are enormous.

Staying relevant and differentiated: The program should continue to remain attractive and relevant both to existing and prospective members, despite competitors' loyalty programs.

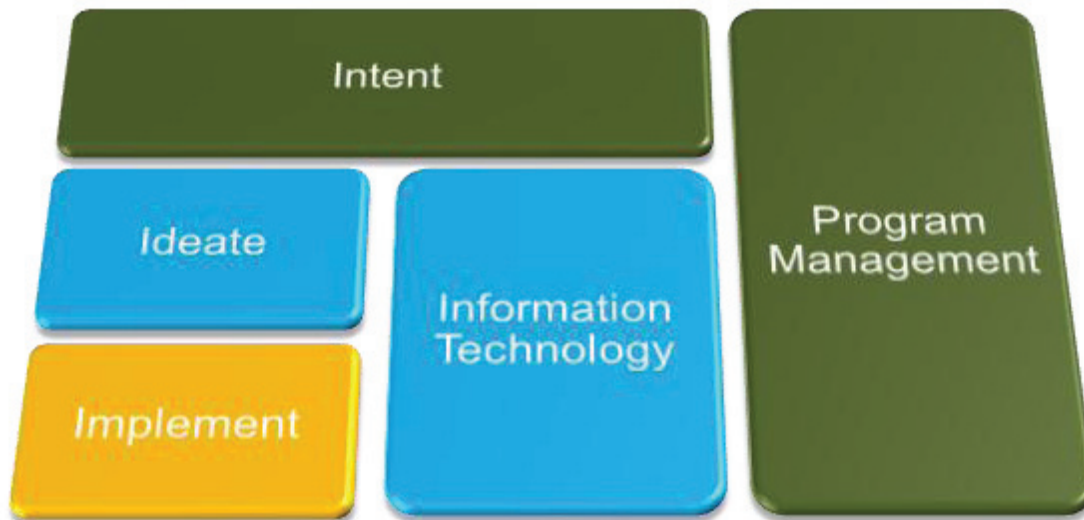
When do you need a loyalty program?

Loyalty programs are not a panacea for customer retention. Rather, they are most relevant under the following circumstances.



Charting the course

A loyalty program is not a plug and play solution; instead, it has to be designed specifically to fit the context of the enterprise while integrating seamlessly with existing activities. The roadmap includes a clearly defined objective, a well-defined plan of execution to achieve the same, a means to measure the signals along the way and a system to incorporate course corrections back into the program for optimum performance.



Intent

The first stage sets the direction of the program in clear terms. The following aspects need to be defined to address what is to be achieved through the loyalty program.

- Need for a loyalty program
- Value the program would add to the company and the customer
- Measurable and time bound goals for the program

Ideate

Having defined the intent of the program, this stage moves on to address the “how” aspect of achieving these goals. Ideate is at the heart of program design, covering the various ingredients and stakeholders as below:

Members

- Identify target members of the program
- Create member acquisition strategy
- Create member maintenance strategy

Program ingredients

- Define the currency of the loyalty program (reward points, airline miles etc.)
- Framing business rules for calculation, rewarding and transaction of the currency
- Define the tiers of the programs and the benefits they offer
- Define program promotions

Partners

- Identify, evaluate and select program partners
- Define details of the operations of the partnership
- Engage and strengthen partnerships

Strategies for

- Pilot programs
- Rollout of the program
- Cruise mode
- Roll backs (in case of failures)

- Change Management

Metrics to track the program

- Average revenue per member
- Average value of transactions
- Return on investment

Implement

The actual implementation of the program is a natural progression from the destination set in Intent and the roadmap crafted in Ideate. The implement stage consists of the execution of a series of interconnected activities such as:

- Pilot programs, Rollouts, Cruise mode
- Roll backs (in case of failures)
- Continuous monitoring
- Change Management
- Incorporation of customer feedback

Information Technology

Information Technology is not a stage in the process flow; rather it cuts across the spectrum of program ideation and implementation in order to effectively leverage technology in achieving program goals.

The various aspects that need to be addressed from an IT standpoint are:

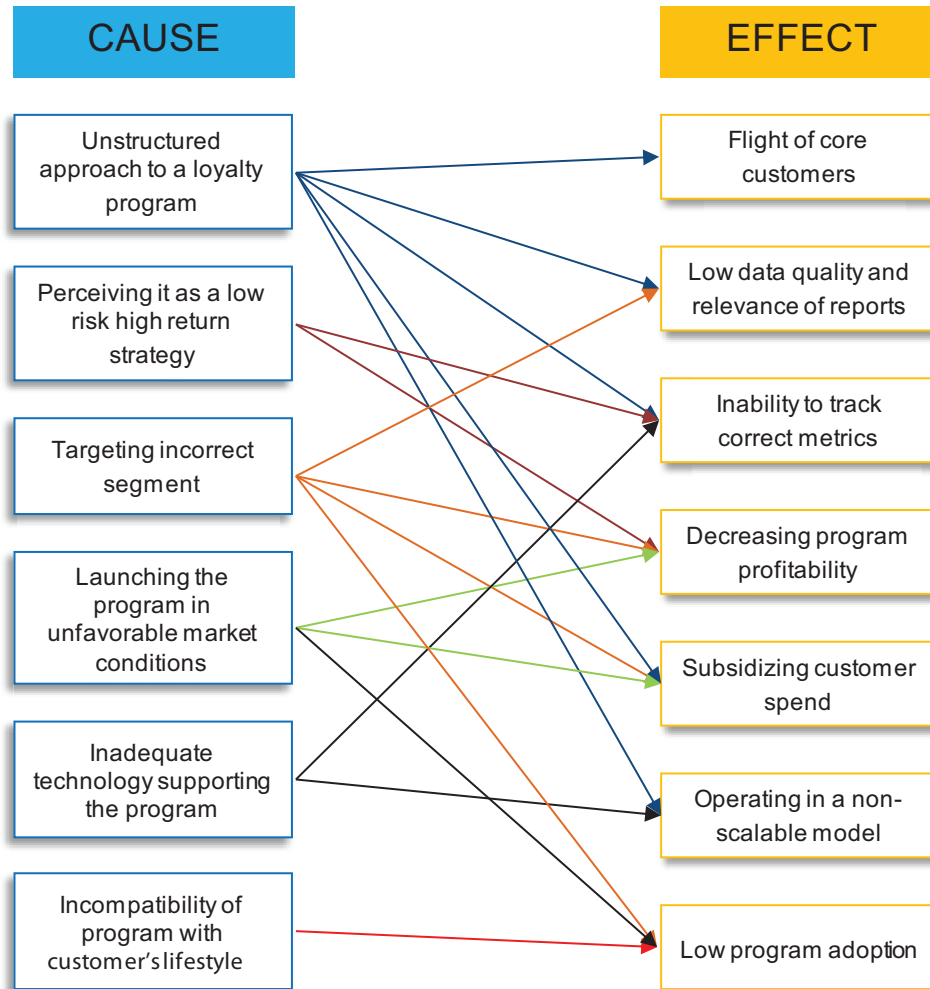
- Processes
- Business process harmonization
- IT Landscape
 - Identify gaps in current IT landscape to implement the loyalty program
 - Define desired business capabilities
 - Define an IT roadmap to the desired future state
 - Define strategies for
 - New application implementation
 - Existing application enhancement
 - Sunsetting redundant applications
 - Maximizing return on IT investments
- IT Partners
 - Identify, evaluate and select IT partners
 - Engage and strengthen partnerships

Program Management

A loyalty program is not a series of discrete phases that can be stacked together to make it work, and program management is critical in holding the various stages together and facilitating feedback from one stage to the others. The following functions are necessary for the entire loyalty program strategy to translate into operational success:

- Oversee program operations
- Program fine tuning per feedback
- Continuous program evaluation

A few turns to avoid on the way



And a few things to keep in mind

A loyalty program is not a solution that once put in place continues to fulfill the objectives endlessly. Like all strategies, loyalty programs are subject to various environmental forces, some more predictable than others.

- Program differentiation: The program managers must ensure that it continues to provide differentiated value to the customer at all times, to prevent it from slipping into an industry standard.
- Program relevance: Value to the customer is in itself a function of several macro-economic factors. In a recession it could be monetary savings and at other times it could be a wider range of options.
- Share of wallet space: It is common for customers to be members of several competing loyalty programs- thereby having choices as well loyalty rewards. Therefore the share of wallet that the company captures is going to be limited by the share of 'wallet-space' that its loyalty card will get with each customer. In other words, it is key to remain in the consideration list throughout.
- Social media: Social media is altering the equation between customers and companies. Customers can now voice their positive and negative comments in forums, thereby influencing other potential customers and market watchers. To the program managers this can be an opportunity to integrate social media into the loyalty program to promote awareness, facilitate two-way communication, listen to customer conversations, gauge reactions of program members and to source positive and constructive ideas to keep their programs fresh and relevant.
- Technology upgrades: Loyalty programs cannot go any faster than the technology powering them. Programs based on outdated technology that cannot keep pace with change, can neither meet the objectives of the company nor enhance the customer experience. Rapid advances in cloud-computing, the rise of smart phones and the proliferation of

applications that run on them imply that the technology driving the program must be scalable, easy to plug and play, efficient and cost-effective, in order for companies to offer unique customer experiences and run profitable loyalty programs.

Conclusion

A lasting relationship is beneficial to both the company and the customer on many levels. To the company, it means an engaged customer base, profitability and steady cash flows. To the customer it means greater value from her purchases, more personalized services, and higher predictability and standardization in the entire purchase experience.

In our opinion, loyalty programs are a high risk-high returns approach to cultivate customer loyalty. When done right, loyalty programs can create a true win-win scenario, creating genuine value both for the company and the customer.

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