



SEGMENTATION, TARGETING, AND POSITIONING – CORNERSTONES OF A SUCCESSFUL LOYALTY PROGRAM

Abstract

Stiff competition and multiplicity of options in today's marketplace are compelling marketing strategists to focus on customer loyalty more than ever. While many innovative loyalty programs are being created and implemented by enterprises, the success rates are not always encouraging. This paper revisits the winning combination of segmentation, targeting, and positioning in the light of today's challenging business environment and shares some insights on creating a successful customer loyalty program based on this model to ensure sustained loyalty in the present commercial space.

Today the average consumer is likely to be a member of several loyalty programs. A 2013 study on loyalty marketing by Colloquy estimates that there are approximately 2.647 billion loyalty program memberships in the United States. An average US household participates in 21.9 programs. The numbers may suggest that marketers are on the

right track, but more statistics reveal otherwise. Approximately 56% of these memberships are inactive, which means that on an average only 6.6 memberships can be considered active. So where are marketers falling short? One of the main reasons behind this lackluster participation can be the lack of clearly defined objectives at the point when loyalty strategies are

formed. In addition, the importance of truly understanding the customer as the first step in devising any customer-centric program cannot be stressed enough.

By adopting the segmentation-targeting-positioning (STP) model, marketers can plug the loopholes in their loyalty strategy and achieve better results. Let us look at each element of this model in more detail.



Overview of the Segmentation-Targeting-Positioning Model

Segmenting the customer base

The principle of segmentation is to understand the various customer segments present in the market space and to select the segments that are most likely to bring the best results to the specific loyalty program. Let us look at some key methods and technologies used in the industry today to segment or classify customers.

Recency, Frequency and Monetary value (RFM) method

Developed by catalogue marketers, this method assigns a three-digit score to each customer. The customer database is sorted based on: recency or time of the latest purchase, frequency of purchase by the customer, and the average size of the purchase. For each of these three parameters a score ranging from 1 to 5 is assigned. So the best score in this segmentation can be 5*5*5.

A typical customer segmentation using the RFM method may look like this:

Average Customer Spend	Frequency	Latest Purchase	Score
Above \$2000(5)	More than 4 times a month(5)	Less than 3 days back(5)	555
Between \$1000 and \$2000(4)	More than 4 times a month(5)	Less than 3 days back(5)	455
Less than \$1000(3)	More than 4 times a month(5)	Less than 3 days back(5)	355



Decile or Quintiles method

This method is based on dividing the customer base into ten equal segments called deciles. So if 'customer spend' is used as a parameter to divide the customer base, decile 1 would contain 10% of the highest spending customers and decile 10 would include 10% of the lowest spending customers.

Data analytics technology

In today's age of new technologies, data analytics plays a key role in customer segmentation. **Predictive analytics** is a big leap in the direction of analyzing the customer data for forecasting trends, sales, customer response, and stocking requirements among many other parameters of retail. Uplift modeling is a

technique based on predictive analytics which helps define the most profitable segment as well as the most positive and most negative groups. For instance, if the objective of a loyalty marketing campaign is to check the response of the customer to a future product launch then uplift modeling can help segment customers into four probable segments:

- **Group 1** "Hard core brand loyalists": These customers are likely to buy the product without any extra marketing efforts
- **Group 2** "May respond positively": This group resembles what brand marketers call a "split loyalty group"
- **Group 3** "Unlikely to buy regardless": These are "shifting brand loyalists"
- **Group 4** "Will react negatively": These are brand switchers in the segment

Traditional predictive analytics techniques include: decision trees, rule induction, and neural networks. Other descriptive analytics techniques available are visualization, clustering, association, and sequential association.

Targeting the right customer

Targeting the right customer is the trickiest part of a loyalty program. To keep their focus intact on the most profitable segment and to convert the second most profitable segment into the most profitable segment, loyalty marketing companies must keep their innovation engines on. Here are some new methods and strategies that are catching on fast in the marketing space.

Social-local-mobile (SO-LO-MO)

According to a recent research by an event promotion company, 61% of young Americans use social media to decide on their hangout places, and 78% of small businesses get at least a quarter of their new customers using social media. Innovations in mobile technology, coupled with the growth in numbers and popularity of smartphones, have acted as a game changer in targeting loyalty campaign customers. A UK-based marketing technology firm Instant Discounts, for instance, offers a mobile coupon solution 'Loyalty Anywhere' for smartphones including Blackberry, Android, iPhone, and iPad. The solution transforms the customer's device into a mobile wallet to deliver loyalty rewards, including merchant coupons and promotions, directly to the smartphone.

The deeper penetration of social media allows marketers to target the right customers instantly with direct discounts on certain items when the customers are in the vicinity of a shop. Most users keep their status updated on social sites like Facebook which lets marketers know when the customer to be targeted is around their brick-and-mortar store. As more and more consumers are joining the social media bandwagon, its power and potential to effectively target customers is growing rapidly. Companies like Foursquare send personalized information to their users' smartphones wherever they are.

Apart from monetary rewards like discounts and offers, non-monetary rewards can be a complete paradigm shift where customers can earn reward points by clicking a website, following a company on Facebook, Twitter and other social media websites, watching a video, etc.



Personalization

While customers can be targeted using social media and mobile loyalty programs, the vital element for success is the personalization of the communication. When customers sign up for a loyalty program and provide their personal data, they expect to be treated in a special manner using that data. E-gift redemption coupons around a birthday or a marriage anniversary or special weekend packages to a place near their hometown are a few examples of personalized marketing offers.

Positioning the loyalty program for the customer

With growing competition, marketers need to differentiate their loyalty program. Correctly positioning the program in the eyes of the customer is the beginning. Some examples of program positioning are: Air Miles: "Help collectors enjoy life more, everyday"; Tesco: "Every Little Helps"; Hilton HHonors: "Rewarding Experience".

The key consideration in deciding the positioning strategy is to choose the **value proposition** the program will offer the customer. Is it points, discounts, rebates, or a combination of all these?

A new idea which is catching on fast is to position the program based on the brand image of the customer. The **brand image** of Southwest Airlines customer, for instance, can be a "middle-income group individual of 25-45 years". The positioning communication should present the loyalty program as a one-stop-shop which rewards this customer for using the airline services incrementally. A similar example is the time-based rewards program of Starbucks. Starbucks has identified through analytics that their ideal customer profile portrays a person who loves to go on holidays and enjoys spending time with family and friends. Starbucks' recent holiday campaign was designed to run in the month of December and it offered incremental reward points for coffee consumption during this period.

A case in point – Payback India's loyalty program

Payback, one of India's largest loyalty programs, pools loyalty benefits from multiple partners. Payback India offers a single loyalty card which allows the members to earn loyalty points with a wide range of merchants and brands, online as well as in-store. In June 2010, following the German coalition loyalty program, Payback acquired the i-mint program of Loyalty Solutions and Research Limited (LSRL) with founding partners including Airtel, HPCL, ICICI Bank, Indian Airlines, Lifestyle, and MakeMyTrip.com. Let us examine their loyalty program on the parameters of the STP strategy.

Segmentation

With a list of founding partners like Airtel, HPCL, and ICICI Bank, identifying and segmenting the customer was not a challenge for i-mint. The initial target segments included urban customers banking with ICICI bank who had Visa or MasterCard debit /credit card. This was the initial breakthrough. The company even linked the ICICI rewards program with the i-mint program. Then i-mint devised its program based on the following segments:

- Young pass-outs from good colleges with a high disposable income looking for deals on fashion apparel, electronics, and lifestyle products (This is the largest segment for i-mint)
- Middle-aged couples looking for deals on lifestyle and grocery products
- Frequent fliers

Targeting

The i-mint loyalty program provided a platform to thousands of merchants who interact with millions of loyal customers. This program analyzed all the customer data through a single database and provided inputs to the merchants about their customers. By using customer data effectively i-mint was able to expand and merchants were able to receive useful information about the purchase behavior for their customers in exchange for rewards.

The customers were targeted using co-branded cards at merchant outlets and supermarkets like Big Bazaar and Lifestyle. With 3000 merchant outlets across 29 cities in India, point-of-sale (POS) marketing by giving free co-branded cards turned out to be a successful strategy in targeting the retail customer.

Customers were also targeted on online shopping websites like mytra.com and the company was able to successfully target them by creating a web of mobile, internet, and POS communication channels.

Positioning

The value proposition of i-mint was simple – a points program to reward customers for the number of points in their kitty. The brand image of the i-mint customers falls in two major segments:

- Young college pass-outs looking for deals on fashion, electronics, and lifestyle products: For this segment, i-mint was the one-stop-shop to utilize their reward points. It gave them the flexibility to choose from a wide range of products based on their needs and the availability of reward points.

- Middle-aged couples looking for deals on grocery and lifestyle products: i-mint realized that this customer is not very dynamic on social media and web communication. So the company followed its POS marketing strategy and expanded its customer base by rewarding them on their regular monthly purchase.



In our view

The main objective of a loyalty provider company is to ensure that customers not only earn points by engaging themselves in the program, but they must also utilize the points. This scenario reduces the liability of the points on the loyalty points provider companies. Following the STP best practices can be useful in this regard. The key best practices are:

- **Effective communication**
Members should be aware of their reward points and should be regularly engaged in communication about what rewards can be redeemed with their available balance.
- **Efficient program design**
Interesting reward catalogs, easy redemption process, longer period of point expiry, rewards availability in all point ranges (from low to medium to high) are some features that can make the program more effective.
- **Clarity in branding**
Clear brand communication about the value proposition of the program and effective targeting tools suitable for a particular brand are absolutely necessary. POS communication, for instance, holds a lot of value in case of grocery products, but not for other products.

STP can help immensely in engaging the customer in a loyalty program, but keeping the customer engaged meaningfully on an ongoing basis is the key part.



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