

# LEARN THE THREE Rs OF CUSTOMER LOYALTY PROGRAMS

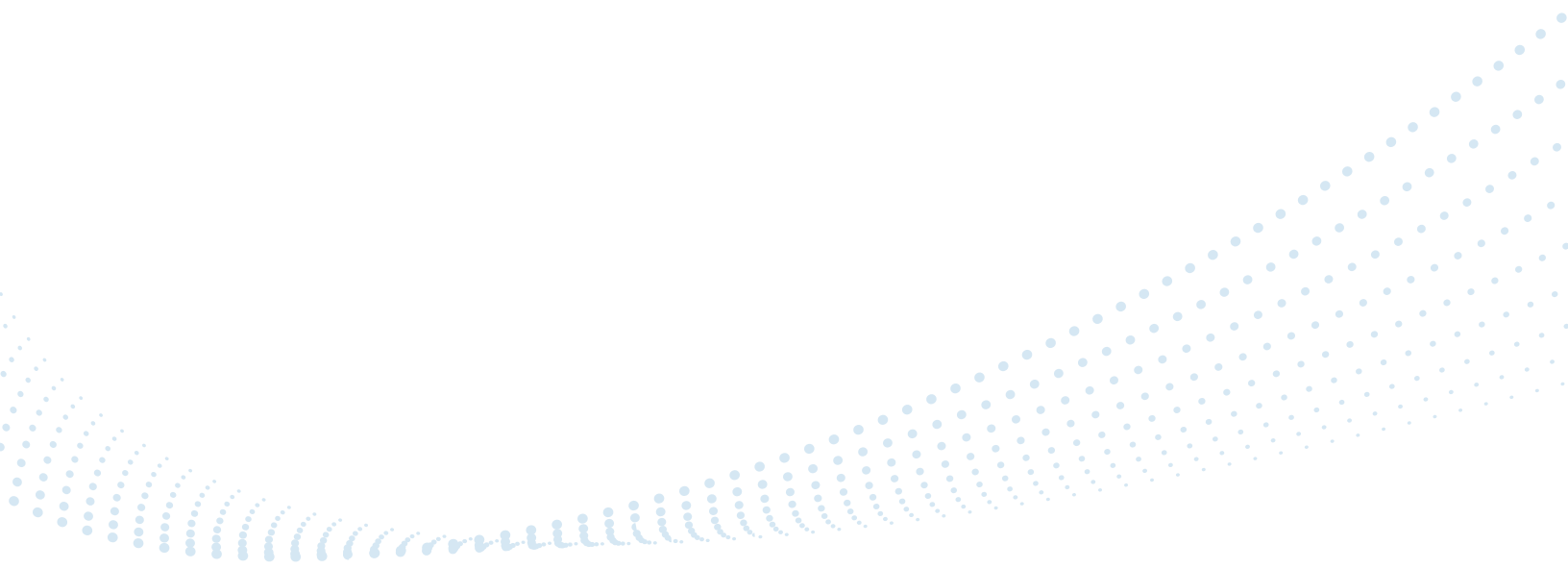
Rewards, Relevance, and Recognition  
Are Keys to Success!



# INTRODUCTION

According to the *Harvard Business Review*, it costs a business 5-25 times more to acquire a new customer than it does to sell to an existing one. On top of that, *Inc. Magazine* notes that existing customers spend 67% more than new customers. Clearly, customer loyalty pays off. Yet many retailers fail to build loyalty programs which adequately capitalize on these valuable customers and behavior patterns. Fact is, coupon offers are no longer enough to drive brand loyalty and repeat business. Instead, brands need to find ways to make emotional connections with customers and stand apart from the competition.

Here we explore the “Three Rs”: *Rewards, Relevance, and Recognition*, a mnemonic coined by marketing executive Paulo Claussen, that can help brands understand key elements of strong and effective loyalty programs.





## At a Crossroads

Mr. Claussen defines the loyalty program “as a strategic mechanism used to create profitable long-term relationships with a brand’s customers.” It offers a form of currency available for trade between the customer and the brand. The earliest loyalty programs were pioneered by airlines, where dollars spent or mileage traveled equaled reward points.

Today, we are at a crossroads, says one retail executive. “Certain retailers have been reinventing what loyalty means to make their customers more “sticky” or more loyal. Think back to traditional airline programs and compare them to what happens now. For example, if you fly without being a loyalty program member or not using their app, the airline will want to charge you \$30 for a better seat, or \$30 to check a bag, or \$30 to board early. Yet all these charges get waived if you’re a member. That’s a change from how programs used to function. Customers quickly realize the downside of not being a member.”

Program types have also evolved to include fee or subscription-based options like Amazon Prime and the Beyond+ program from Bed Bath & Beyond. The result is that customer expectations have also changed.

“Customers want to feel good about their relationship with a brand,” says Mr. Claussen. “It’s not just about offering a fair price for products or services. Customers want to have experiences with the brand, feel good about their relationship to it, talk about the brand with friends and family, and feel part of a select group or community.” And that’s where Three Rs come in.

## Rewards

At the most basic level, rewards are the transactional part of the program. All loyalty programs must offer some type of reward to those who join. The key, says Mr. Claussen, is to offer tangible rewards customers understand and which provide true value. That may involve discounts, coupons, gifts, points, or access to special events and experiences.

One common challenge for brands is to create an easy-to-understand program.

“Retailers often overcomplicate the rules structure. First you have to do this, then you have to do that, and then something else before you’re rewarded or recognized,” says sales and marketing professional Fred Bendaña. “When it gets confusing to the customer, they’ll quickly back out. It’s important to keep things simple, especially at the onset of a new program.”

Another complicating factor can be the organization’s own internal goal of using the program as a method for collecting customer data, explains Ms. LaNae Rowe, Retail Integration Marketing Lead at Harley-Davidson. “In addition to offering rewards, loyalty programs are also used to gather critical data, making it possible to see shopping behaviors, what customers purchase and how they engage. But if the program requires a lengthy application, customers will question, ‘Why do you want my information?’” A less intrusive (though effective) approach is to request only a name and email address.

Then, “Find that sweet spot, where you help the customer know how to get a reward, determine how many rewards they’ve earned, and how to use them. They shouldn’t have to work too hard to get that reward,” she advises. So, make it simple to join your program and reap its benefits.



## Relevance

According to The Loyalty Report 2017, the average consumer is involved in 14 loyalty programs, but has the capacity to engage with only 7 of them. Since every program offers rewards, the key is to be customer-centric, says Mr. Claussen, and to move the program beyond merely transactional.

“Look at the entire customer journey or lifecycle with your brand,” he says. “Then weave in rewards that give customers a different experience. It’s not just about saving money or providing coupons. Allow your customers to deepen their engagement or relationship with the brand over time.”

Relevance personalizes the reward experience. It involves leveraging customer data in meaningful ways. We’re accustomed to this when we receive product recommendations on Amazon, or movie suggestions by Netflix. Loyalty programs can achieve the same. In fact, customers now expect it.

“If you know I am a man, don’t offer me coupons for women’s shoes” Mr. Claussen stresses.

Another option related to relevant rewards, according to Ms. Rowe, is to “Give them choices. Millennials and Gen Z especially don’t want to be told what they get. They want what they want. And they’re very status oriented, so it’s important that the program offers them the ability to share on social media or to accrue more rewards when they share.”

Offering choice may not always be about getting people back into the store. Freebies, concert tickets, or local charity donations may resonate more strongly with customers and better complement a brand. To determine what customers might want and expect from the brand, consider online customer surveys, focus groups, or looking through common themes on social media posts and customer service calls.

“Customer-centric brands really listen and do something about what they hear,” Mr. Claussen says.

The best place to begin, says Mr. Bendaña, is to isolate core customer behavior. “You can tell customers who return again and again. How often are they coming? What does their experience look like? Pause, analyze, understand what is taking place. Get the tools you need to identify specific activities and make decisions accordingly.” That will help you avoid the danger of overgeneralizing behavior, like treating all Millennials as if they are the same.



## Recognition

The third R involves recognizing your best customers. This can be done through better deals, tiered rewards for increasing loyalty, and by welcoming them as part of a special community.

How a brand responds to and recognizes customers from the moment they join a program can be critical to building long-term loyalty.

“You’ve got to go above and beyond to show you appreciate them for taking that step,” one retail executive says. “Peet’s coffee is an example. I downloaded the loyalty app but not much happened until I scanned my first coffee purchase. Then I got a coupon and survey and started to get push notifications for dollars off coffee beans purchased in the store. They are nurturing my customer journey. Many programs fail, in that they only talk to their high value customers. But how do you get people to that level? You have to bring them along.”

Recognition also fosters that important emotional connection with the customer.

“I want to be proud of being in that select group and to be recognized as one of your best customers. A tiered program allows for that. You have to think about how you can allow customers to aspire to certain levels and to deepen their engagement. Maybe you have options for them to become silver, gold, or platinum members,” Mr. Claussen says.

Most important, customers don’t want to be a number. They want the brand to know who they are, what they like, and to receive value for being loyal to the brand. Sephora has a well-designed program one executive notes. It provides special gifts based on what the customer purchased in the past that is comparable in terms of price.

“If I buy a \$100 face cream, I’m not going to get a \$5 face cream sample. The gift will match my preferences and buying patterns,” she says. “It’s not 100% rational, why we shop where we shop. We want to feel unique and understood. We’re all savvy shoppers who can look up the price of any product; we’re aware of the deals. Loyalty programs should look at the lifetime value of a customer. Otherwise they’re selling their programs short.”

In this way, the customer feels in control and sees the power of their loyalty to the brand. They also feel as if the brand is being generous, and not just attempting get customers to spend more money.

When customers are proud of their relationship with the brand, that’s when they share their passion for its products and become natural brand ambassadors. There’s an even higher level of passion that Mr. Bendaña refers to as “fanatical loyalty,” that can be celebrated with bonding experiences among brand enthusiasts – and shared on social media. Ultimately, perhaps that should be every program’s goal: to inspire long-term customer loyalty that not only leads to more excitement, engagement and sales, but also new like-minded customers.



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### According to Balance Everyday:

- 73% of loyalty program members are more likely to recommend brands with loyalty programs they like and use. (source: Bond)
- Recipients of restaurant loyalty rewards are twice as likely to refer a new customer immediately following a reward redemption. (source: Thanx)
- 77% of smartphone users say they are more brand loyal to companies that send points, surprises, exclusive content and birthday surprises via their mobile device. (source: Vibes)
- 64% of the affluent middle class belong to a grocery store customer loyalty program to save money. (source: Collinson Group)
- 48% of loyalty program members say they would be willing to pay a membership fee to continue receiving the rewards club benefits. (source: Maritz)

### Just Getting Started?

For brands hoping to launch a loyalty program, Ms. Rowe recommends these 5 tips:

1. Outline your objectives (and focus on your customers' wants).
2. Go digital (it's not as expensive to launch).
3. Capture and manage the right data.
4. Refine the program over time (flexibility is key to meeting changing needs!)
5. Start small and make it scalable.

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