

Loyalty Programs

Informative Essay

Acquiring new customers is costly. Compared to maintaining existing customers, acquiring new customers can cost anywhere from 5 to 25 times more (Bernazzani, 2018). Not only that, but existing customers spend 67% more than new customers (Bernazzani, 2018). In an effort to maintain these existing customers, many companies have implemented a loyalty program to keep their customers coming back. In the U.S. alone, consumers hold 3.8 billion memberships in customer loyalty programs (Autry, 2017), but how effective are these loyalty programs?

You probably have a number of customer loyalty cards in your wallet or purse, and several more stored on your smartphone. From Delta's SkyMiles, Kohl's Yes2You Rewards, and Hilton Honors, all industries are taking advantage of customer loyalty programs, and consumers are stacking up. The average consumer is a member of 14 loyalty programs, but is active in only about half of those, leaving 54% of loyalty memberships inactive (Autry, 2017).

Loyalty Program Types

According to the 2017 Loyalty Report published by Bond Brand Loyalty, 70% of shoppers said they belonged to between one and five non-grocery loyalty programs. With so many loyalty programs available, how do retailers make their loyalty program worthwhile? HubSpot Academy offers numerous methods that companies use to help their customers remain active and engaged by using a loyalty program with a simple point or tier system, charging an upfront fee for benefits, or structuring rewards around consumers values.

1. **Use a simple point system.** Have you ever been a part of a loyalty program that was just plain confusing? *"Fourteen points equals one dollar, and twenty dollars*

earn 50% off your next purchase in April!" It's no wonder 28% of consumers abandon loyalty programs without redeeming any points (Autry, 2017). While a point system may not work for every business, it is a straightforward, intuitive system.

2. **Use a tier system to reward initial loyalty and encourage more purchases.** A tier system offers small rewards for being part of the program and encourages repeat customers by increasing the value of the rewards as the customer moves up the loyalty ladder. Many airlines implement tiered loyalty programs. Delta, for example, has their base level loyalty program, but members can gain exclusive benefits at each Medallion Tier of Silver, Gold, Platinum, and Diamond.
3. **Charge an upfront fee for VIP benefits.** It may seem counterintuitive to charge a fee for VIP benefits, but it can be beneficial for both the business and customer. Amazon, for example, charges Prime members a fee up front that gives the customer free two-day shipping for the rest of the year. While analysts estimate that Amazon loses \$1-2 billion per year on Prime, members spend 2.4 times that of non-Prime members (Bernazzani, 2018).
4. **Structure non-monetary programs around your customers' values.** Depending on the industry, customers may find more value in non-monetary or discounted rewards; 81% of Millennials favor loyalty programs that do more than offer rewards for purchase (Autry, 2017). For example, TOMS provides shoes to communities in need. Their One for One initiative donates one pair of shoes to a child in need for every pair purchased, and has grown to help ensure clean water

access, improving maternal health care, and supporting other organizations through themed products.

Measuring Success of Loyalty Programs

With so many options when it comes to implementing a customer loyalty program, it is essential to measure the success of the program by analyzing customer retention rates, negative churn, net promoter score, and customer effort score. Customer retention is an indication of how long customers stay with a business. With a successful loyalty program, this number should increase as the number of loyalty program members grows. Not surprisingly, 81% of consumers agree that loyalty programs make them more likely to continue doing business with a brand (Autry, 2017). A second measurement is negative churn. Customer churn is the rate at which customers leave a company. Negative churn, therefore, is a measurement of customers who do the opposite and upgrade or purchase additional services. Negative churn is an important metric to track, especially for tiered loyalty programs. If however, you are finding high customer churn, it may be time to evaluate if your loyalty program is straightforward and easy to use. Third, the net promoter score is a customer satisfaction metric that measures the degree to which people recommend your company to others. This metric can be used to establish benchmarks, measure customer loyalty, and calculate the effects of the loyalty program. The final measurement to consider is the customer effort score which measures experience rather than the emotional delight of the customer. A Harvard Business Review study found that 48% of customers who had negative experiences with a company told 10 or more people (Toman, 2015). In this way, customer service impacts both customer acquisition and customer retention.

Conclusion

I am a member of 13 loyalty programs and am active in only 3-4 of these. Like many people, I initially joined many of these loyalty programs to take advantage of a sign-up offer while making a purchase (i.e., 10% off today's purchase for joining), but have found that it takes too long to earn rewards or that I don't shop at the store often enough to make the loyalty program worthwhile. While approximately half of loyalty program memberships may go inactive, Amazon Prime has capitalized upon their loyalty program and increased purchase frequency through Amazon Prime by offering free two-day shipping to members (Bernazzani, 2018). While customer loyalty programs may be expensive for a company to maintain, it is even more costly to attain new customers, making these programs a more sustainable option for the company. While some may view it unethical to encourage customers to spend more money through a loyalty program, companies need to find innovative ways to compete in today's competitive retail environment.

With one out of every four Americans believing that brands should do everything possible to earn their loyalty (Autry, 2017), it is more important than ever for companies to acquire and maintain their customers' loyalty. While providing excellent customer service and engaging experiences, a well-designed loyalty program will keep customers engaged and coming back to spend more.

References

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