

Building A Customer Loyalty Program

Know The Buyer And Prosper

By Mike Lewis

If you're like most customers, you're easy, and not in a good way from a retailer's perspective. You're easy because your loyalty can be bought cheaply, by whomever's doing the best job of wooing you today. This wooing comes in many flavors, but the biggest box of candy suitors can bring to the table is a relationship based on connections, emotions, and value.

While customer loyalty programs won't save relationships and are a dime a dozen (but can cost a hell of a lot more), if they're designed correctly, and executed superbly, they can make a huge difference in keeping your customers from pledging their affections to competitors.

Build It (Well) And They Will Come (Back)

The first step in creating a loyalty program is figuring out what you want it to do. "You've got to start at the end and understand what the end goal is," says Phil Sugar, CEO of Smart Button, which provides Web-based loyalty platforms and helps businesses create and customize their programs. "People say keeping your existing customer is three times as profitable as growing a new one." The trick is figuring out who your valued customers are, what they value, and how you can tie into that. "Loyalty programs can very quickly become 'spend 100 dollars and get 10 dollars off,'" continues Sugar. "If you're doing that, why don't you just lower your prices? You have to figure out why this makes sense for you."

Perhaps even more critical is finding what makes sense for your customer. "Loyalty is an easy word to say and a hard concept to define," says Mike Bishop, director, business development for Retail Pro, whose POS systems have over 12,000 clients around the world. "[It's] something that's very proprietary for a retailer. There are a lot of different ideas of how it ought to be done."

An ideal system will be tailored to your specific market segment and to individual groups within it. Start by thinking of your different demographics. Do you deal with seasonal traffic, locals, moms, groms, college kids, surfers, skaters, et cetera? Each of these different groups is going to be motivated by slightly different things, and a well-honed system, backed up with solid customer information, can allow you to target your program and marketing to each of these groups.

"You can tailor your message as specifically as anyone who wears a size fifteen boot, lives in Los Angeles, hasn't been in your store in five years, and likes Rossignol," says Sandy Malaney,

CEO of Big Hairy Dog, an information systems company and reseller of Retail Pro, which focuses on action sports. "You want to have a system that's flexible. Maybe what you're trying to accomplish now is different from what you'll want to accomplish next year."

Customer loyalty programs are increasingly spliced through e-mail promotions, bounce-back coupons, Twitter, and other interactions. "Lately we have started using Jittergram, a text-based system where a customer signs up and gets discount codes, promotions, or freebies sent via text," says Eastern Boarder's Herb Grignon. "They show the text in the store and get the deal."

This not only allows retailers to fine tune programs based on customer response, but more importantly to promote loyalty programs. "The other key piece is making sure people know about it, are excited about it, and sign up for it," says Eoin Comerford, VP of marketing at Moosejaw, whose Moosejaw Rewards program has over 400,000 members accruing points that offer anywhere from ten- to twenty-percent back. "It's integrated into pretty much everything we do."

Once you get a good idea of what you want to do and reward, there comes the all-important function of how you're going to track it. You can go for the low-tech, low-cost version of a punch card, and this makes sense for a lot of small retailers, but these can often be counterfeited, and not storing information about your customers leaves a lot of marketing opportunities on the table.

"The first step is knowing who your customer is at the time you're checking them out and tying sales to them," says Bishop. Most POS systems can do the job of tracking the necessary data for a program like this.

"The most important piece is the system to track [your loyalty program]," says Comerford. "You have to have the back-end system that ties to the account, accrues all of the awards points, and that basically needs to be integrated into your process. It has to be automated based upon purchases."

An automated system is becoming evermore important as retailers cross over between brick and mortar and online sales channels. California's Killer Dana launched its KD Rewards program—which gives customers ten percent back in points—around ten months ago in order to "try and retain online customers as our vendors become our competitors," says CEO Steve "Lounge" Price. "Say [for instance] a guy who buys a board in the store

[and] picks out a new Channel Islands for 600 dollars. He can enroll in our KD Rewards program just by giving the guy at the register his e-mail address. He can then go home and redeem his point on kdrewards.com to get a traction pad and leash using points. That is a stoker—does that mean he only buys boards from us? Probably not, but he might look at us first."

The Heartaches Of Loyalty

Launching any new promotion or program comes with its own set of headaches, and one of the first pitfalls that can throw up a barrier to a loyalty program is cost. According to information-technology analyst Gartner, U.S. companies spent more than \$1.2-billion on customer loyalty programs in 2003, and that number has been steadily growing. Punch cards are very low cost options, but if you choose to purchase a POS system and then hire a consultant to design a loyalty program that works with it, you're looking at thousands of dollars. But the ROI on these programs can be substantial and while having a system that works well can inspire loyalty, a poorly designed one can just as easily piss off your most valued shoppers.

Collecting customer information at retail can also be very difficult and annoying for shoppers. You have to provide the customer with a compelling reason to share this with you, ask for just enough to identify them, and not too much that they don't want to deal with checking out. This is why many companies try to get a loyalty card in people's wallets. The next easiest ID tends to be an e-mail address. "You need an e-mail address to set up a rewards account," says Comerford. I think a lot of retailers struggle with how do I effectively e-mail my retail buyer, this really allows us to give them an incentive to give us their e-mail."

Another potential danger is rewarding the wrong types of customers. "The last thing in the world you want to do is make an unprofitable customer loyal," says Nick Wreden, managing director of FusionBrand Inc., a brand and customer loyalty consultancy, in an interview with SearchCRM.com. "Don't do a loyalty program unless it's going to be profitable. They're expensive and it's a long-term commitment."

Profitability boils down to looking at overall revenues and profit margins from sales related to loyalty programs and ensuring that you're encouraging the right customer behavior. "[Our] loyalty program is very successful," says Carol Chrisman, co-owner of McHenry, Illinois' The Trend Cellar, whose shop has taken a low-tech, low-cost approach. "We have cards that we mark. If they buy ten pairs of shoes, not on sale, the eleventh pair is half price. If they buy ten decks, graphic, they can have a shop deck for free. As far as [generating] more revenue... it really does work great!"

Killer Dana's Steve Price says that it's still too early to know the exact impact of his program. "As we go along, more and more people are realizing that they are accruing points and starting to use them," says Lounge. "[Loyalty programs] have an impact on margin—potentially a very big impact—so to be successful, they need to increase revenue far beyond the amount of redemption."

Many companies, especially large ones including Moosejaw and REI, take the tact that this is less about margins than it is about marketing. "We don't look at our membership as its impact on margins," says REI spokesperson Megan Behrbaum. "Membership is a way for us to develop a relationship with an individual and the communities where we have stores."

At the end of the day, retention programs are just one variable in the loyalty equation. "Loyalty is ultimately driven not by price or points, but

by how stoked your customers are on you," says Price. "I think that the best retention programs are probably ones that don't just focus on the 'hard rewards'-like points or cash back, but instead emphasize some 'soft rewards,' like being able to hang out in the United Airlines Captain's Lounge. Sure, you get points for flying on a particular airline, but it's the 'feel special' stuff that really makes you loyal." ■■■

Loyalty In Action

Shop: Killer Dana

Dana Point, California

Program: KD Rewards, launched ten months ago offers customers ten percent back in points redeemable at killerdana.com.

"If you launch such a program, make sure you have the resources to manage it—that is a new dimension of customer service for you. You don't want to lose a customer because your loyalty program sucks or is poorly managed. Realize that once you go, it is difficult to turn back."



Steve "Lounge" Price, CEO

Shop: REI

Program: REI Membership. Launched in 1938, members pay a \$20, one-time enrollment fee. Members receive ten percent of their purchases back as a year-end dividend that can be used in stores or online. REI gave its 3.7-million members around \$73-million back last year, or around \$20 each. This equals \$200 per member in purchases over the year, or nearly three quarters of a billion dollars in sales to members.

Shop: The Trend Cellar
McHenry, Illinois

Program: Punch cards that reward specific category purchases, like shoes and decks, with discounts and free product.

"We only count full-price shoes towards the program. Customers may come in for sale shoes but will end up buying full-price shoes so they can get to their amount. [Shop decks don't count towards a free one], so they buy graphic ones and get a shop deck free."



Carol Chrisman, Co-owner

Shop: Moosejaw

Program: Moosejaw Rewards. Launched five years ago, new members get ten percent back in points that can be redeemed online. If they spend a certain amount each year, they can get up to twenty percent back and free shipping.

"It gives us an internal currency to incentivize our customers to interact with us. You can get 100 points for writing a review, or a gear in action photograph. We got a ton of feedback [using] that internal currency. Also for customer appeasement."



Eoin Comerford, VP of marketing

Does your business currently have a customer loyalty program in place?

YES
53%

NO
47%

Results from transworldbusiness.com poll.