

How to build a loyalty program

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It's estimated that there are around 200,000 loyalty programs operating in Australia, which makes it extremely difficult for a business to stand out from the crowd.



But there are ways to ensure your program stacks up against the rest – as long as you're prepared to put in some hard yards during the set-up phase.

There's a misconception among Australian businesses that creating a loyalty program will instantly boost the bottom line. But this isn't necessarily the case. Without a huge amount of foresight, a loyalty program can be cumbersome, costly and ultimately a huge liability.

There are examples of this everywhere. Even blue chip companies with a seemingly endless marketing budget can get it wrong, with airlines, supermarkets and retailer reward programs all coming under fire in recent times for loyalty programs that appear nothing more than a big rip-off.

Research backs this up. According to Roy Morgan Research, an average shopper spent \$156 a week in supermarkets in the 12 months to July, 2009. But the points awarded would take almost seven years to save enough points for a Sydney to Melbourne return flight with Coles' loyalty card, FlyBuys – and that's without taxes and fees. And the points expire after just three years.

But well run programs have the power to garner huge sales for a business. Department store Myer has turned its loyalty program around in recent years, introducing the Myer One loyalty card, which has 3.4 million members and contributes an enviable 66% of sales.

Brett Tucker, managing director of Ipsos Loyalty advises businesses to make sure the program motivates the behaviour you want among customers.

"The starting point has to be research, no matter what sort of business you're running. You've got to very clearly understand what you're setting out to achieve," Tucker says.

James Atkins, director of Vantage Marketing says too many businesses set unrealistic deadlines and rush to put a loyalty program into place in a bid to beat its competitors.

"Take the time to consider what you're setting it up for. Are you trying to acquire new customers, retain current customers, or reward your best customers? Only then can you design the program that will best suit your business objectives," Atkins says.

And the cost? A loyalty program should cost no more than between 0.5-2% of your marketing budget to run, according to Atkins.

Do your homework

The set-up phase is a good time to consider what other data you might want to capture about your customer base, with customers more willing to give some personal information to a business if there's something in it for them, according to expert Jeremy Ellett.

He says loyalty programs provide a great opportunity to understand consumer behaviour. And Ellett should know. He was the loyalty manager at Coles Myer Source Mastercard for five years before leaving in June

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Ellett says reports published overseas estimate that as many as 70% of rewards programs don't add any sort of incremental sales to the bottom line, which mean they're not working effectively for the business.

"The ideal program will increase sales and redemption. But people will only go to your store if they like what you're offering, so make sure you take stock of the entire business before you set the wheels in motion on a new loyalty program," Ellett says.

A customer with a \$100 voucher will actually spend a further \$30 in your store, on average, he says.

"It's worth remembering that customers talk much more about their experience in your store than they do about the discounts you're offering. So you've got to make sure the in-store experience counts."

The corporate side of Red Balloon consists of a team of specialists who implement loyalty programs. It recommends that businesses don't try to solve 800 problems with one program, instead choosing a few behaviours you want to influence to create long lasting change.

"It's not what you tell them, but what customers tell you that propels your program," James Wright, corporate account director at Red Balloon says.

But be warned. A loyalty program isn't something that should be created without a huge amount of planning. They can take a lot of effort to run, even for a small business, Ellett says.

"You've got to be careful, because loyalty programs can take on a life of their own. You should be aiming to spend more on your best customers. It's important to remember that one size doesn't fit all. You need to be segmenting your customers and offering them different rewards," Ellett says.

Relevant rewards

Australian loyalty programs offer everything from discounts, cheap petrol, freebies, invites to VIP nights and buy-one- get-one-free offers.

Whatever you decide to offer, make sure it represents value to customers and works in your favour.

"If you're giving away a trip to Fiji, then you need to keep in mind that the offer won't get people spending back in your store. That might be OK for some business objectives, but for others it might be defeating the purpose. The offer needs to give customers something to aspire to."

Wright from Red Balloon suggests keeping the rewards range as broad as possible, saying not everyone wants to skydive, for example.

"Be authentic and honest about why you are running the program and what your objectives are. And keep it consistent. People get disconcerted when you change the program and the rules too often."

Keep it simple

A lot of businesses fall into the trap of creating complex offers or tiered discounts, which people are unlikely to bother taking the time to understand.

Complex offers can be counter-productive and cause frustration, Ellett says.

"You want to make sure you're offering something consistent so people understand that if they spend a certain amount, they're rewarded in some way. Simplicity is the key."

And while outside companies can be a great resource when setting up a loyalty program, a business needs to run it in-house if it's to succeed, Ellett says.

Get some advice on how to run a program from a few different providers but to make sure you've got control of the reins from the outset.

"You've got to be in charge of your own program or you'll end up struggling," he says.

But loyalty programs aren't for everyone. If your business offers consistently low prices or great service, a

loyalty program may not be necessary, according to Atkins.

Bowled over by the results

AMF Bowling launched a loyalty program in September last year in a bid to better understand its customer base, their behaviour and usage. Already, more than 215,000 customers have signed on to the loyalty program, which extends across the company's 42 bowling centres across the country.

The scheme was established by customer interaction agency Global Red, which suggested benefits such as 10% discounts on full-priced bowling and food.

Julie Fitzpatrick, CEO, Global Red, said the brief was to develop an engaging customer loyalty program to grow the AMF Bowling customer base and recognise and reward customers with relevant offers and experiences.

Jennifer Laycock, general manager of marketing and sales, AMF Bowling says the information gathered is being used to improve the customer offering across the business.

"Setting up a loyalty program was a big business decision. We had to make sure it was integrated with our business strategy and marketing activity for it to work this well.

"The key has been making sure the effort and time spent on setting it up makes it easy for customers to sign up," Laycock says.

A cheaper alternative

But if a business doesn't have the finances to set up a loyalty program, other steps can be put in place to engender loyalty, according to Ellett.

"You can create loyalty much more cheaply than you may expect. Simply using your customer's name when they come into your store is a great place to start," he says.

"Customers love that, and will often bring their friends into your store for you to greet them by name so they feel special."

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