



# Loyalty: Getting Back to Basics

# There's a big difference between a satisfied customer and a loyal customer.

# Never settle for "satisfied"



# Contents

About	Page 4
Chapter 1 - The Fundamentals of a Loyalty Programme	Page 5
Chapter 2 - The 9 Loyalty Programme Models	Page 10
Chapter 3 - Define, Create, Implement	Page 24
Chapter 4 - Best Practices	Page 28
About the Authors	Page 30





# About

Loyalty is about providing personal experiences that create a long lasting relationship with your customers..., but knowing where to start can be a bit of a minefield.

Why should you even run a loyalty programme?

What type of loyalty programme would suit your business?

Can you test loyalty before jumping in?

#### How do you ensure that you get a real return on investment from your loyalty programme?

#### Does a loyalty programme really change behaviours?

These are all common questions that people ask when starting to navigate the loyalty landscape.

Loyalty is much more than just points and rewards – it's also about data, insights, analytics, personalised experiences and above all it's about relationships. Often, it is far too easy to jump straight to the rewards and what customers should be given for their loyalty. It's essential to build a loyalty strategy from the foundations up; understanding the motivations of the customers and the behavioural changes you wish to see, before you get too much into the detail.

This paper provides you with a guide to the foundations upon which you can build your loyalty strategy, starting with the basics of loyalty, the types of loyalty programme available and how to define the measures that will assess the performance of the programme.



Chapter 1

# The Fundamentals of a Loyalty Programme





**67**%

Existing customers spend on average 67% more year on year than new customers

**10**X

It costs up to 10 times more to attract a new customer than it does to sell to an existing customer

### Why run a loyalty programme?

We want to take you right back to basics. A loyalty programme isn't for everyone, so before you dive in, let us take you through the fundamentals of what and how a loyalty programme could work.

The ultimate goal of any programme is to create a loyal customer base who, as advocates of your brand, are willing to refer and promote your services or products. Loyalty programmes can also provide a wealth of data that enables you to refine your offering and the value that you can provide to your customers.

Loyalty programmes can and should drive loyal customer behaviours that in turn increase revenue, but, when executed well, they should also have an impact on other areas of your business particularly efficiency, engagement and profitability.

#### See it in action...

A loyalty programme that we implemented for a blue-chip client resulted in value that had a profound and far reaching impact on their business.

In this recent programme, our client was not only able to change buying behaviours, but they also gained a wealth of data, allowing them to further analyse and understand customer acquisition, loyalty, behaviours and relationships. This led to the introduction of a Customer Insights Module which enabled internal teams to better engage with their customers, drive footfall to their showrooms and provide a better, more personalised service.

Interactive dashboards gave management clear visibility of their performance against targets, highlighting areas of improvements and providing them with actions which they could implement to improve those areas. At the same time the dashboards highlighted areas of strength within teams that created an environment where best practice could be shared amongst peers.

# Before implementing a Loyalty Programme there are many things to consider

# Is your company going to benefit from a loyalty programme?

Loyalty programmes work best for companies that engage with customers on a frequent basis, whether they be Business to Consumer (B2C) or Business to Business (B2B). Many of you will be part of a number of B2C loyalty programmes. In B2B, loyalty programmes excel where brands are selling consumables at a high product margin.

Loyalty programmes also work well for customers who purchase infrequently but at specific lag intervals, for example car manufacturers who have customers on a hire purchase contract. In this instance data shows that contacting customers to take a new contract out approximately 6 months before their existing contract ends delivers the best results.



## TOP TIP:

Providing customers with a loyalty programme that increases their likelihood to connect with you at the right time interval can have a huge impact on your bottom line.

# What should you offer?

This is going to be different for every company. Firstly, you need to consider your market and spend some time working out what you are trying to achieve and who your ideal customer is. Once you know what your perfect customer looks like, and what their behaviours are, you can work out what that customer type would value the most.

Your rewards could take the form of discounts, free products, business services, personal rewards or education and training.

Make sure when designing your programme that you also consider what your competitors are doing and how your programme stacks up. This is what your customers will be comparing you to, so you need to either provide a unique differentiator and/or mirror key points.

Whatever rewards you offer, you must ensure that they are going to change buying behaviours, whether that be turning customers onto new products, increasing spend or referring your brand. It is pointless creating a loyalty programme that just rewards existing behaviours as that will not increase loyalty or drive revenue up.



### **TOP TIP:**

Redemptions need to be frictionless:

Reducing any friction in the redemption process will improve engagement and increase customers' motivation to change behaviours. Allow customers to choose where and how their reward is delivered.

# How should you communicate?

There are numerous ways to communicate with your customers and in today's connected world you must make sure that your marketing and sales channels are aligned. Communications can take the form of emails, websites, landing pages, social, SMS, face to face - even newsletters.

Customers need to see and hear the same message wherever, whenever and however they are interacting with your brand.





#### How can you use the customer data?

Loyalty programmes provide you with a wealth of data. How you use that data is what will make your brand stand out.

Interrogating the data accurately enables you to segment your audience, identify future trends in your business and get a clear vision of the value you can deliver to your customers.

Not every brand needs a loyalty programme, but if you do, then you need to make sure that the rewards you are offering are ones that your customers want.

If you have not currently segmented your audience it may be best to run some short term tactical incentives to get a feel for what your customers engage with before implementing a long term strategic programme.

By gathering insight into your customers' purchasing habits and engagement with your brand, you can shape your future business strategy. You can understand your customers pain points, whether that be product information, customer service or communication, and you can then learn from those and make improvements where necessary.



A long term loyalty programme should not be seen as a quick fix.

It must be an intrinsic part of your business strategy in developing customer loyalty and improving efficiencies and service.



Chapter 2

# The 9 Loyalty Programme Models



# 9 Loyalty Programme Models



Simple Points System



**Tiered Loyalty Programme** 



Milestones



Charge an Upfront Fee



**Build Partnerships** 



**Engage a Community** 



Gamification



Surprise and Delight



Use No Programme at All!

#### Find the combination that works for you

Although we are going to provide you with information on 9 loyalty models that we know work, you must ensure that your loyalty programme has been tailored to suit your audience and your brand. One size definitely doesn't fit all when it comes to loyalty.

In this section you can see real life examples of what these loyalty models have achieved for existing brands and understand how you could best use these in your environment.



# Simple points system

This is probably the most utilised loyalty programme. Your customers will quickly be able to understand how the programme works as long as you keep the metrics simple – *with an emphasis on simple!* 

Choose which behaviours to reward, whether that be increased spend, total spend, specific spend on products or categories, referrals or engagement. Choose whether to display points as points or as a monetary value depending on what your customers will value most.

A simple points system works well when customers are engaging frequently with your brand. Rewards could take the shape of free products, discounts, extra service items or retail products or experiences. The type of rewards you offer will depend on who is purchasing and therefore who holds the reward account. In a B2B environment if it is not the Business Owner then free products or discounts may not be seen to be of value.

Points systems must be simple to understand. Where most programmes fail is that the metrics for awarding points and/or redeeming points is too confusing or complex.

The three biggest players in the UK loyalty landscape- Tesco Clubcard, Nectar and Boots Advantage Card- all remain strong advocates of points based programmes. However, all have introduced additional metrics to further motivate and reward customers.

See it in action...

Dentsply Sirona's key challenge was an industry market dynamic where the distributor channel controlled the customer relationship and thereby all market intelligence.



The strategy for Dentsply Sirona was to drive end customers to the Dentsply Sirona Rewards website where they could place orders and earn points, that are redeemable against products and services. A range of personalised promotions encourages customers to register and the loyalty points mechanic boosted sales and drives brand loyalty. To further motivate spend, Dentsply Sirona introduced some gamification with an accelerated rewards scheme (Rewards Plus) aimed at increasing customer spend and, importantly, the number of different brands purchased (brand stretch).

Dentsply Sirona Rewards aimed to shake up the market; in Year 1 the programme exceeded all expectations engaging over 60% of the target market, reversing a decline in market share in key brands and increasing orders. The Rewards Plus accelerator scheme changed buying behaviours with a 36% increase in brand stretch.

# Tiered loyalty programme

With a tiered loyalty programme you are able to provide initial benefits to new customers, as well as providing enhanced benefits or rewards to remaining loyal customers or for those who change buying behaviours. A tiered programme can also be overlaid onto a simple points system, as seen in the previous example.

A tiered programme can provide additional earning potential for your top customers or open up access to different rewards.

#### This type of programme also emphasises to your customers that you appreciate their loyalty to your brand.



British Airways Executive Club is free to join and provides members with four different tiers. The first tier (Blue) provides a range of member only offers and rewards members with Avios and tier points for each flight they take with British Airways and their oneworld<sup>®</sup> airline partners. The more tier points a member collects allows them to move up the programme to the final tier (Gold), which provides members with VIP services such as access to First Class Lounges before travel. Customers also select their preferences when first registering on the programme which allows British Airways to create personalised rewards to suit their customers.

This level of personalisation alongside the value that they are providing their customers has resulted in a long standing established programme that rewards loyalty and keeps their customers returning to them.

#### See it in action...

In 2017 Sky launched Sky VIP, a loyalty programme designed to reward existing customers through the My Sky app. The programme places you within a tier based on the length of Sky membership you have held, so rather than rewarding spend or product stretch they are focusing in on the ultimate loyalty goal: the longevity of the customer's relationship with them. As customers memberships continues, rewards are unlocked automatically.

Rewards relate to everything from preview screenings, prize draws for Sky related experiences and sporting events as well as additional benefits like jumping to the front of a customer service queue.

# Milestones

Milestone metrics go back to the heart of where loyalty programmes started. Loyalty has arguably been around for years – it is said to have started in the 1700s when American retailers gave copper tokens as rewards against future purchases. In 1891 stamps began to be used instead of coins as a less expensive form of loyalty. This started with Green Shield stamps which awarded points at select retailers to redeem against a catalogue of products.

Milestone programmes, often run as stamp or sticker based programmes, are a simple programme to quickly implement and understand, rarely need staff training and are a 'quick win' demonstration of loyalty to customers. Often used by independent retailers, milestone based programmes tend to focus around smaller, attainable goals such as McDonald's McCafe Rewards Loyalty Scheme in which you get a free hot drink for every 6 purchases (stickers collected).

In recent years, there has been a significant shift to take milestone programmes digital, via app platforms.



In addition to their McCafe Rewards, McDonalds also runs the successful tactical Monopoly campaign which provides customers with 3 ways to win:

- Instantly by uncovering a winning item on the packaging
- By uncovering a code and entering it online to win
- By collecting the Monopoly game piece stickers which are fixed to the packaging

Introducing gamification to the Milestone programme allows McDonalds to interact and engage with their customers at different points in the relationship and provides the ability to boost interest in the prizes. Not only does it enable customer acquisition through content sharing, it also monetizes the gamification by encouraging extra purchases in order to participate.

# Charge an upfront fee for VIP benefits

Charging an upfront fee (subscription) for VIP benefits will only work for existing customers that already see the benefit in your service or product.

People enjoy feeling part of something, but to pay for VIP benefits, customers must feel confident that the rewards they receive outweigh the initial cost.

Charging for VIP benefits has become a popular trend in recent years, with UK programmes such as Tesco and Boots introducing their Clubcard Plus and Advantage Plus programmes.



#### See it in action...

Amazon Prime members have been proven to spend up to 2 times more than non members.

The number of Amazon Prime members also allows Amazon to predict the level of future sales for the business.



Amazon provides an online retail service to millions of users across the globe. They constantly innovate with extra value options for customers willing to pay for those services such as Prime membership, 1 hour delivery times and video and TV streaming services.

In today's busy world Amazon's innovation, personalisation and added value services instil a level of trust and peace of mind to their customers that is hard to match.

Amazon Prime is offered to customers for approximately  $\pm$ 79 a year. They have up to 150 million members across the world and benefits include access to their streaming service, free delivery and quicker delivery times. In 2020, Amazon Prime declared sales amounted to an estimated \$10.4 billion worldwide.

## See it in action...

2020 brought huge changes to a lot of companies; the way people did business, their working locations and meeting arrangements were all uplifted and disrupted. In response Pret a Manger launched their 'YourPret Barista' subscription bringing the joy of coffee to consumers for just £20 a month.

The 'YourPret Barista' subscription lets subscribers enjoy Pret's full range of barista-prepared drinks, up to five times a day – a bold commitment. The small print: redemptions are limited to one drink per transaction, up to five per day, with 30 minutes interval between each transaction... sounds too good to be true!

### Partner with other companies to offer an allinclusive service or offering

If your customers have to shop with more than one provider to complete their purchases, you could find that by partnering with other non-competitive companies in your sector to provide an all-inclusive service offering, you are able to provide more value to your customers. We have seen this work particularly well for manufacturers.

By partnering with another company your customers' could purchase everything they need through one site making their buying process more efficient, easier and more rewarding.

Another way of partnering with other companies is to provide the ability for customers to redeem their points with other companies rather than just with your brand. Mando-Connect and YouGov research found that on average, across key loyalty sectors in the UK, 58% of Britons want rewards from brand partners with 19% finding partner rewards more appealing than a brand's own.

## TOP TIP:

The partners that you choose to invite onto the programme must be noncompeting and add real value to your customers.

### See it in action...



In the mid 2000's, following an aggressive store opening strategy, Next realised that the demand for the brand would inevitably reach a maturity and a saturation point.

Next decided to stock external brands which achieved three thing: it extended customer choice; it allowed Next to utilise and exploit capacity in its supply chain, by handling the distribution of additional brands; it provided Next with an additional revenue stream.

By adopting this strategy Next was able to gain several major advantages:

- 1. The business was better able to attract new customer segments.
- 2. The new business provided Next with access to market intelligence and insight about the buying preferences and behaviours of these new customers.

During more recent years, Next have succeeded in developing their online offering and become a 'go to' virtual department store whilst high street alternatives like Debenhams have crumbled. Their stockist expansion of partner brands (such as Dorothy Perkins and Wallis) has enabled brands to remain accessible to customers when their high street presence has otherwise disappeared.

#### See it in action...

Tesco Clubcard has an extensive partner programme offering members up to 3 x the value of their rewards if they redeem their points with partners. Customers are able to redeem their rewards for Reward Partner codes which are valid for 12 months from the original order date.

Reward Partners allow Tesco Clubcard customers to find their perfect experience: from days out, eating out and travel to lifestyle and home essentials.

As part of their Reward Partners programme, Tesco have selected 5 top charities (British Heart Foundation, Cancer Research UK, Diabetes UK, FareShare and The Trussell Trust) to whom customers are able to donate their Clubcard vouchers. The inclusion of charity and good cause partners has an increasing importance for many Britions – 41% want partner rewards from brands that help the environment, charities or good causes.

# Engage a community by promoting experience

Depending on your industry and your audience, your customers may see more value in extra service than financial benefits.

Airlines and hotels are doing this effectively with their tiered loyalty programmes in that the more loyalty a customer displays, the more services they are able to open up. This could be in the form of a personal concierge service or lounge access.

A non-monetary programme could simply be one where customers always receive an upgraded room when they have stayed at a hotel for the required number of nights, or free porterage.



#### See it in action...



In 2020, Boots boosted their loyalty offering by introducing Boots X, where beauty fans become part of the 'Boots X Tribe' – giving them the opportunity to experiment, discuss and explore beauty in new ways. As part of a digital community supported through Instagram, the hashtag #BootsX and email communications, Tribe members receive Boots 'beauty freebies' with latest launches, brand competitions, free products, exclusive offers, beauty tips and more sent directly to them.

Boots use Influencers and beauty experts to advocate product tests via social channels to support the Boots X experience and create a buzz around the latest products available in store and online.



#### See it in action...

To improve their reach, relevance and personalisation, TripAdvisor introduced TripCollective badges. These badges recognise users for their unique contributions which make the TripAdvisor travel community stronger, smarter and better.



A quote from TripAdvisor states that "the benefits to community engagement of awarding our regular contributors with status designations and levels cannot be over emphasised". It is an incredibly successful and powerful programme put in place to fuel and recognise customers' desire to come back onto TripAdvisor, keep up their status and be seen to be contributing.

In our experience, when organising overseas sales incentives, we always check TripAdvisor reviews. We know that is what our audience are doing and we need to make sure that we have the same information available to us.

TripAdvisor has also given a platform to venue managers to be able to respond to feedback and it is their responses, seen by the whole community, which help them build their own loyal customers.





# Gamification

People enjoy healthy competition!

We see that on fitness apps from the likes of Fitbit, Apple Activity and Strava etc...; in friends' leaderboard and badge awards; internally with customer service software; on LinkedIn with the AllStar profile; in Dropbox with their offer of more space.

Gamification does not have to be linked to traditional rewards in terms of customers receiving points or money. Gamification can create loyalty just by providing customers with motivating, personalised messaging and communications; with recognition when they have achieved success and pointers; and with motivation when they need that little extra push.

#### People enjoy recognition and competition if it is executed in an engaging manner.

See it in action...

Autodesk won the Integrated Marketing Award for their implementation of gamification into the trial version of their 3DS Max product.

Through a process of analysis they worked out that trial users were more likely to convert to customers if they used the software at least three times during the trial.

Autodesk designed a series of missions (tutorials) which allowed the customer to walk through the software learning how to get the most value out of it. Customers collected points to advance up the leader board with top users being awarded a prize for their efforts.

This short term tactical campaign increased engagement during the trial phase by 54% and conversion rates by 15%.

There was a 29% increase in revenue per trial meaning that customers were purchasing more expensive products or more licences.

# Surprise and Delight

'Surprise and Delight' loyalty is a strategy that gives customers unanticipated benefits and rewards to re-ignite interest in products or services whilst nurturing customer relations – it is far more than offering a discount code for the next purchase. According to CrowdTwist, 67% of customers say that surprise gifts are a very important part of a loyalty programme.

A Surprise and Delight strategy is ideal where you are able to target behaviour for specific customer segments rather than a mass audience. With the key to Surprise and Delight being the anticipation of not knowing when or how they will happen, it makes them an ideal metric to be able to rapidly deploy and freeze based on market dynamics.

With the #BeKind movement that has been happening over the past couple of years, empowering your staff to offer customers instant surprise and delight loyalty will not only make the customer feel good, it will also generate staff goodwill and positivity. Plus it gives the added bonus of being something your teams are now actively engaged with and therefore more likely to talk about to their peers. They are now supporting and referencing your brand in a positive way as brand advocates.





### See it in action...



Pret a Manger's strategy for customer loyalty is widely supported with 'Surprise and Delight'. Staff are actively encouraged to give away free coffees or free food each week through random acts of kindness.

In 2015, Pret gave away over one million free coffees – making them a talking point and increasing their brand profile. The chance to get a free coffee encouraged customers to repeat visits and allowed for relationships with staff to be built, giving local level insights into the customer base.

# Use no programme at all!

There are companies out there whose product is so unique, or service so good, that there is no need for a loyalty programme. Unfortunately the number of companies that fit into this last category is very small.

One company immediately springs to mind, but unfortunately we can't all be like Apple, so the likelihood is that you would be looking at one of the other 8 loyalty programme mechanics discussed above.







In our experience successful strategic loyalty programmes normally combine a number of these loyalty models.

We don't believe in creating programmes for companies unless we are confident they will deliver the required results. Programmes must adapt and develop across their timeline in response to customers' attitudes and behaviours.

A loyalty programme has to deliver value to the customer and be part of your business strategy moving forward.





Chapter 3

# Define, Create, Implement



# Define, Create, Implement.

To get your loyalty strategy right first time, and to keep it on track, you need to ensure that the cycle of 'define', 'create', 'implement' and 'measure' is consistently revolving. Definition of objectives and customer understanding at the outset is essential to ensure that you are monitoring and measuring the right things.

## Defining your loyalty programme

To implement the right loyalty programme there are a number of steps which you need to go through:



#### Segment your customers and define desirable behaviour.

Identify your top performing customers based on the strategy you are aiming for as a business. Create a brand touchpoint wheel to see where customers are interacting with your brand.

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## Research what value looks like to the customers already displaying those desired behaviours.

This could be through questionnaires, telephone interviews, one-to-ones or focus groups.



#### Create a loyal fan base from the outset.

Involve your top performing customers in the development of the new programme and reward their feedback and suggestions for improvement.



#### Define what budget is available to reward customers.

Make sure that you are accruing for rewards in your accounts. Agree the terms around the earning and redemption of rewards.

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#### Align your business against the goals and objectives of your programme.

Make sure that everyone within the business is delivering the same message. Check back on your brand touchpoint wheel to ensure that every touchpoint has been covered.

# Implementing your loyalty programme

To implement the right loyalty programme there are a number of steps you need to go through:



Define the programme metrics for awarding and redeeming rewards.

Remember, keep it simple.



## Define how the programme will be communicated to new and existing customers.

If you have an existing programme agree how rewards are going to be transferred over to the new programme or how long customers are going to be given to redeem their rewards if it is not.



#### Train internal teams on the new programme.

Ensure that everyone can answer questions and promote the programme to new and existing customers.



### Launch the programme across all customer touchpoints.

The message needs to be consistent although it must be tailored to the relevant media through which it is disseminated.

# Measure, Measure, Measure.

#### **Measuring Effectiveness**

Once you have agreed on the best programme to suit your brand and audience, the next step is to ensure that you are measuring its effectiveness and refining it over time.

There are four key ways of measuring effectiveness, all of which should be looked at together and not in isolation to truly measure the success of any programme.



#### **Customer Retention Rate**

This is the measure of how long a customer remains with your company. The number should increase over time as the number of loyalty programme members grows. A customer retention strategy begins with the first engagement a customer has with your brand and continues through their lifetime.

According to studies done by Bain & Company, increasing customer retention by 5% can lead to an increase in profits of between 25% to 95%, and the likelihood of converting an existing customer into a repeat customer is 60% to 70%, while the probability of converting a new lead is 5% to 20%, at best.

#### **Negative Churn**

There is always going to be natural churn in any business. By measuring negative churn you are assessing how many members have started increasing their spend or purchasing additional services.

A successful programme should discourage customers from leaving you because they can see more value in their relationship with you than they do with your competitors.

#### **Net Promoter Score (NPS)**

This is a customer satisfaction metric that measures the degree to which people would recommend your company to others.

A successfully loyalty programme will help drive customer acquisition by getting your loyal customer base to introduce their network to you. This type of activity can be rewarded using one of the programmes mentioned above.

#### **Customer Effort Score**

This is a preferred measurement because it measures actual experience rather than emotional delight. It is the measure of how much effort a customer has to undertake to solve a problem with your company.

In today's frantic world customers will often pay more if they feel that they are getting a quicker and better service from you. How you respond to and solve a customer's problem is the key to retaining them as a loyal customer despite their poor initial experience.



Chapter 4

# **Best Practice**



# **Best Practices**

#### **Loyalty Programme Best Practices**

With the average consumer being a member of at least 14 loyalty programmes, 7 of which are considered active, you need to make sure yours stands out from the competition. Here are some best practices you should make sure you follow:





# **About the Authors**



#### **Melanie Parker**

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Passionate about all things loyalty, Melanie cuts through the technical jargon and gets to the real business issue. Melanie loves to develop engaging digital solutions that appear simple whilst creating long lasting partnerships that add value to all.



#### Laura Lloyd

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Laura's goal is to develop partnerships with clients, seeking to understand their challenges in order to provide creative, value add solutions. Laura always seeks to provide a 'no challenge is too big, no problem is too small' attitude and aims to always exceed expectations.

### We love talking about all things loyalty

If you fancy a loyalty chat, we'd love to hear from you!

# There's a big difference between a satisfied customer and a loyal customer.

# Never settle for "satisfied"

# **About Stream**

Stream are passionate about loyalty – we are the experts after all!

As a tech-enabled consultancy, we seek to understand your business challenges and your audience and work with you to craft a loyalty solution that delivers value. We are both consultants and implementers and use our extensive expertise and software capability to deliver proven, lasting results.

Loyalty is not 'one size fits all' and our team of commercial experts work to ensure that your loyalty strategy is right for you.

Whether you need to increase revenue, grow breadth of spend, or create a referrer programme, we have the experience to help sculpt the right solution. Our proprietary loyalty software-LoyaltyStream<sup>®</sup> helps to: retain customers, change buying behaviours, build brand loyalty and drive referrals.

Our LoyaltyStream<sup>®</sup> software is deployed globally, helping our clients to build trust that delivers brand loyalty and commercial rewards.

We guarantee to be able to help you Keep, Grow and Win customers for life.



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