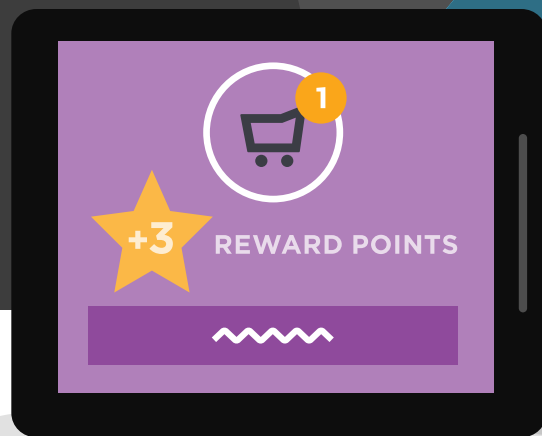


# SETTING THE STAGE FOR LOYALTY INNOVATION

4 Essentials to Build a Strong Loyalty Future



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## 4 ESSENTIALS TO BUILD A STRONG LOYALTY FUTURE

U.S. households on average are members of 29 loyalty programs, yet are active in only 12.

– COLLOQUY, 2015 COLLOQUY  
*Loyalty Census*



Retailers are often tempted by the flash and sparkle of new industry crazes and emerging technologies, and too quickly convince themselves to embrace what's trending for fear of being left behind. When it comes to customer loyalty programs, there is a danger in rushing to implement the next big thing — particularly if the program's foundational pillars are in any way shaky.

To effectively maximize customer engagement, retailers need to build loyalty programs on a solid foundation of best practices and proven tactics before exploring new apps or becoming an early adopter of developing strategies. Retailers that invest time and money chasing the hottest trends in loyalty put the brand's core mission of long-term customer retention at risk. For example, loyalty members who are actively using programs to earn rewards slipped from 44% in 2012 to 42% in 2014, according to the *2015 COLLOQUY Loyalty Census*. To put this into greater focus, COLLOQUY reported U.S. households on average are members of 29 loyalty programs, yet are active in only 12.

While innovation and progression are, of course, required and encouraged when it comes to shopper engagement technology and customer loyalty programs, this white paper will outline four essentials that retailers should consider as prerequisites to newer concepts gaining traction and hype.

## ESSENTIALS FOR BUILDING A STRONG LOYALTY FUTURE

To set the stage for loyalty innovation, a rewards program must first be built on four essential pillars that have withstood the test of time and passing trends.



## 1

## CONSISTENTLY MEASURE AND ANALYZE YOUR LOYALTY PROGRAM SUCCESS

The ability to gather, measure and analyze a host of KPIs will enable retailers to understand loyal customers more effectively and, in turn, generate better engagement strategies.



TWEET THIS!

As the old adage goes, you can't manage what you don't measure, and this holds true in the customer loyalty arena. Possessing tools that measure and analyze the success of a loyalty program is critical for several reasons. Senior executives will expect insight into the program's ROI, while management at the store level will benefit from understanding membership statistics and the program's overall effectiveness. The ability to gather, measure and analyze a host of Key Performance Indicators (KPIs) will enable retailers to understand loyal customers more effectively and, in turn, generate better engagement strategies.

Retailers can and should regularly monitor a plethora of data sets to maintain the health of a loyalty program. A best-in-class loyalty solution should provide retailers with the ability to quickly and easily segment and view a variety of KPIs in visual dashboards and reports.

Here are specific benchmarks to maintain, and KPIs to track, to ensure a loyalty program is performing effectively:

- Sales penetration of loyalty members should be at a 60% threshold; anything less is a red flag.
- Transaction penetration of loyalty members in the 40% to 50% range can contribute significant insights to the data pool.
- Breakage, the reward points accrued but not redeemed, is a figure to keep on the low side as the cost of redeeming rewards far outweighs the value of member data.
- The members' promotion participation rate allows retailers to track how many loyalty members download coupons or enter a contest.
- Members' coupon/offer redemption rates enable retailers to ensure effective promotion execution.



## 2

## PROVIDE A CONTINUAL FEEDBACK LOOP BETWEEN LOYAL CUSTOMERS AND RETAILERS

“Retailers’ top opportunities revolve around gaining a better understanding of what will please their best customers, allowing them to deliver relevant products, services and marketing messages.”

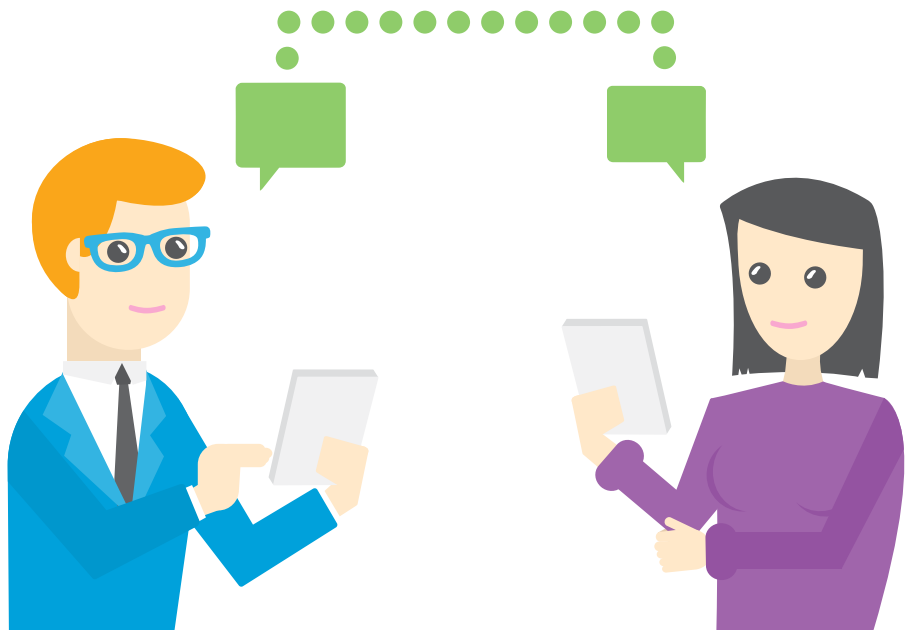
– Retail Systems Research,  
*Advanced Analytics in Retail:  
Retailers Fixate on the Customer*



TWEET THIS!

A well-executed loyalty program will enable retailers to both identify and communicate with its most valuable customers. As stated in the March 2015 Retail Systems Research report *Advanced Analytics in Retail: Retailers Fixate on the Customer*, “Retailers’ top opportunities revolve around gaining a better understanding of what will please their best customers, allowing them to deliver relevant products, services and marketing messages.”

The impact of truly knowing a brand’s best customers will generate informative data that can be used to wisely impact a range of business decisions, including merchandise and assortment. For example, if a grocer is looking to narrow its cereal assortment to make room for a new product, it could simply eliminate the lowest-selling product. However, if many of the grocer’s high-value customers frequently purchase this low-selling cereal, eliminating it from the shelf may have a negative impact — not only on sales among loyal customers but to their perception of the retailer itself. In this case, another low-selling brand (one that is not a favorite among top customers) would be a better candidate for elimination.



## 3

## CRAFT PERSONALIZED MESSAGING TO EXCITE AND ENGAGE CUSTOMERS

The key to using loyalty data to support personalization lies in customer segmentation. After determining overall value using the industry-proven RFM model, retailers can create segments based on a variety of data points.



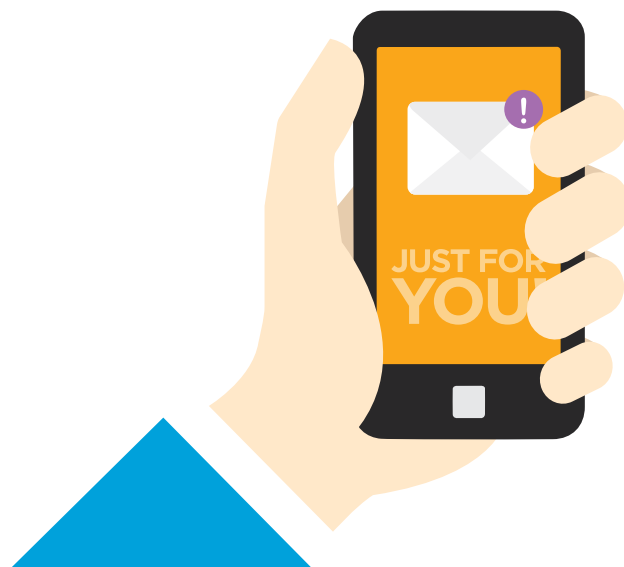
TWEET THIS!

The demand for personalization reaches far beyond using programs that insert the customer's first name at the top of a generic email offer. Today's consumers receive a continuous stream of marketing messages. These shoppers, who are frequently pressed for time, quickly learn to ignore the communications that do not speak to their particular needs.

The key to using loyalty data to support personalization lies in customer segmentation. After determining overall value using the industry-proven Recency, Frequency, Monetary (RFM) model, retailers can create segments based on a variety of data points. Retailers can slice and dice loyalty member information based upon preferred store location, average weekly spend, product preferences, price sensitivity, website activity and coupon redemption.

After careful segmentation and analysis, retailers can then customize and personalize marketing messages in numerous ways. For example, retailers could:

- Segment bargain hunters from big spenders and personalize digital coupons in relation to a customer's proven price sensitivity.
- Provide best customers with special opportunities to earn bonus points by signing up for an e-newsletter or participating in a survey.
- Send tailored promotions via snail-mail to those shoppers who do not usually respond to email or text messages.
- Craft direct-mail and email messages based on a customer's lifestyle choices to ensure that vegetarians don't receive coupons for hamburgers.



## 4

## CREATE A SIMPLE AND CONVENIENT LOYALTY PROGRAM

Retaining loyal customers with sweet rewards that are convenient to earn will strengthen the retailer/customer relationship and increase share of wallet from brand loyalists.



TWEET THIS!

To ensure longevity and customer participation, loyalty programs must provide easy, frequent and visible ways for members to accumulate points. This means retailers should focus on creating a loyalty program synchronized across multiple channels and touch points to ensure that customers accumulate and redeem rewards faster. Loyalty members should be able to accrue points online, in-store, via social media outlets and on mobile applications.

It is also vital that loyalty programs generously reward members — particularly high-value customers. Retaining loyal customers with sweet rewards that are convenient to earn will strengthen the retailer/customer relationship and increase share of wallet from brand loyalists. This also creates additional opportunities for retailers to learn even more about their best customers, creating a virtuous feedback loop that allows for enhanced personalized promotions in the future.

There are multiple ways to reward high-value customers, as well as those that might become high-value customers with a little push. Retailers can attach reward points to specific products that top customers already prefer or implement a tiered membership strategy such as gold, silver and bronze to encourage members to aim for higher tiers that come with bigger rewards.



## THREE NEW TOOLS TO TRY ONCE YOU'VE MASTERED THE BASICS

Once the four foundational pillars are in place, retailers can begin maximizing loyalty by exploring more advanced customer engagement strategies. Here are some of the latest trends for retailers to try when the time is right.

### LOCATION-BASED TECHNOLOGY

An effective way to sharpen communications with loyalty program members is to utilize technology designed to interact with a customer's smartphone or wearable device as he or she makes purchase decisions inside the store. Retailers including Macy's, Tesco and Neiman Marcus have piloted a range of location-based initiatives that include geofencing applications using RFID and Wi-Fi, as well as strategically placed beacons. In addition, data from loyalty programs, including past purchases and shopping behaviors, can help retailers target in-store interactions and empower loyalty applications to deliver new value such as store maps to find a desired product.

### GAMIFICATION

One of the fastest-growing tactics in retailing is gamification, which can stimulate customer engagement by offering opportunities to amass loyalty points in fun, exciting ways. According to the *2015 CRM/Unified Commerce Survey* from Boston Retail Partners, the use of gamification within loyalty programs grew from only 6% in 2014 to 31% in 2015. Respondents predict the percentage will reach an impressive 87% within the next five years. In addition, the Boston Retail Partners survey noted that "by rewarding users with points or badges in exchange for store visits, purchases or watching product videos, retailers have further information on shopping and purchasing habits to fuel future sales."

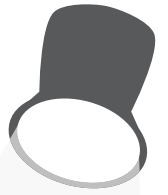
### LEVERAGING SOCIAL NETWORKS

Social networks offer numerous opportunities for retailers to amplify a loyalty program's ability to engage customers. A *Retail TouchPoints* blog authored by Dr. Rado Kotorov discussed a New York City apparel store that took advantage of customers sharing dressing-room selfies on social media to gather instant feedback and buying advice. Following a post, the customer receives a sharable offer from the store with a built-in discount contingent on his/her friends' advice. The retailer is gaining valuable data about which products appeal to today's technologically sophisticated consumers, and clues about specific paths to purchase.

The use of gamification within loyalty programs grew from 6% in 2014 to 31% in 2015.

— Boston Retail Partners, 2015  
*CRM/Unified Commerce Survey*





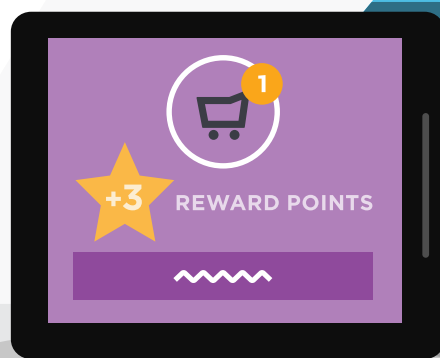
## CONCLUSION

It is vital for retailers to limit distractions by implementing and mastering the basic building blocks of a loyalty program.



TWEET THIS!

A well-run loyalty program can be one of the most valuable tools in a retailer's marketing arsenal, not just for rewarding and retaining customers, but also for gaining valuable customer insights that can't be obtained in any other way. That is why it is vital for retailers to limit distractions by implementing and mastering the basic building blocks of a loyalty program. Carefully analyzing your existing loyalty program's operations, and correcting any weaknesses that you find, will be time and money well spent. Once retailers accomplish this, it makes sense to explore up-and-coming tools and shiny new technologies to enliven a well-functioning loyalty program.





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DataCandy is a North American leader in loyalty and gift card software solutions for the retail and hospitality sectors. Since its inception in 2002, DataCandy has led the way in providing customer engagement solutions to more than 2,000 locations across Canada and the United States. The company's technology has achieved global demand for its ability to obtain the real-time customer and product level data needed to generate targeted promotions. The DataCandy platform is simple interface, scalable for growth, secure for financial transactions and provides omni-channel capabilities. To learn how unwrapping customer insights can drive customer relationships, email [getinfo@datacandy.com](mailto:getinfo@datacandy.com), call 514-903-DATA or visit [www.datacandy.com](http://www.datacandy.com).



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