The Loyal Treatment

By Meg Mitchell Moore

In the early 1980s, American Airlines launched what is widely considered to be the first mega-successful customer loyalty program. The airline let customers accrue points for every trip they took on American, and those points were good for free flights. Today the concept seems obvious and rather pedestrian—every airline now offers something similar—but American was a pioneer.

Two decades later, customer loyalty is a coveted asset among businesses of all shapes and sizes, and businesses go a long way to garner it. Grocery store chains dispense rewards to customers who use their loyalty cards. Credit card companies offer points toward purchases from a variety of merchants to customers who plunk down their cards frequently. The rewards can be great for customers and businesses alike, but so, too, can be the challenges, especially for small and mid-size businesses.

Lacking the resources of enterprise companies, which can afford to launch a massive loyalty program or develop several and filter out the ones that don't work, smaller companies must ration their dollars. Even so, failure to reward customer loyalty is no longer a viable option. "We know that repeat business is more profitable than new business," says Greensboro, North Carolina-based retail consultant Wally Bock, who specializes in small and mid-size businesses. "We know that the longer people stay, the more they order. With loyalty programs that happens faster." Statistics vary widely about exactly how much more profitable a loyal customer is than an occasional one, but few experts disagree with the basic premise that it's much more rewarding to keep a customer around than to acquire a new one.

With that thought in mind, we've compiled a few "do's" to help smaller companies get with the loyalty program.

Do understand loyalty programs. It's important to remember that loyalty is not just another word for customer relationship management. "CRM is about treating customers appropriately. Loyalty is a component of that but not the entire thing," says Liz Roche, vice president of technology research services at Stamford, Connecticut-based Meta Group. She points out that satisfied customers may leave and loyal customers may not always be satisfied. Because customer loyalty, and the loyalty programs it begets, is a specialized area that requires particular attention and planning around customer behavior, organizations need to think carefully about what they want to accomplish when rewarding their best customers. And more and more, businesses need to learn to integrate loyalty programs with CRM initiatives. According to Roche, a good place to start understanding the particular nature and potential of loyalty programs is by dividing them into three areas:

- Discount-based, where customers get a certain percentage off of items (think grocery stores that offer discounts to customers who hold a loyalty card)
- Points- or equity-based, which rewards customers for frequent visits (think about a hotel chain that offers a discounted stay or free night after a customer has stayed 10 nights)
- Service-based, where organizations offer specialized service or pricing to make customers feel special (think about a Honda dealership that keeps a customer up-to-date on when her Civic needs an oil change, then regularly mails coupons for her to use toward that service or others)

Do ask yourself who are your best customers, and be prepared for the answer to surprise you. "The biggest challenge is to create the decision criteria," says Roche, who contends that it's important to differentiate between two types of customer value—financial and strategic—and to remember that just because a customer is immediately profitable that doesn't mean he or she fits

into your company's wider strategic plans. For example, a women's clothing store that is looking to branch into men's clothing has not yet received any profit from men in the 18-to-35 age group, but that group may represent untapped strategic value that deserves a loyalty program unto itself.

According to Roche, one problem with loyalty programs in the past has been the fact that many businesses outsourced them, making it difficult to integrate them with in-house CRM systems. But CRM vendors are beginning to recognize and respond to that disconnect by offering loyalty program management technology, which lets businesses create loyalty programs, enroll members and manage loyalty transactions. More and more, that technology comes as a module in a CRM solution. In addition, there are ways for businesses to use technology they already have, such as Microsoft® Outlook® with Business Contact Manager, to sort customer lists and prepare loyalty programs. (See Related Links.)

"Most SMBs aren't very sophisticated when it comes to systems that support customer loyalty," says Benjamin Holz, president of Green Beacon, a Boston-based provider of CRM business solutions to mid-size customers. "Vendors like Microsoft have developed sophisticated tools for small and mid-size business so that customer loyalty programs can be a reality instead of just a dream."

Once you've identified your premium customers, it's critical to figure out how to recognize them when they come calling. "When one of those premium customers calls or e-mails or visits, you'd better know it," says Holz. Amazon.com, of course, has perfected this art, but smaller business (and those that exist strictly offline) can do it as well, with a little imagination.

Do be creative—but logical—when designing rewards. "Businesses need to go well beyond the usual 'buy 10, get one free' kind of thing," says Shel Horowitz, a marketing consultant and author based in Hadley, Massachusetts. "That doesn't create loyalty, only price-based repeat shopping. Those who buy on just price are rarely going to be your best customers." Instead, retailers might consider cross-promotions or special evenings that offer first crack at new products, such as a new furniture line from a hot designer. Online retailers can offer the same thing via e-mail.

At the same time, be sure promotions make sense. "I once noticed a promotion where a Cadillac dealer was giving away a free Yugo with any Cadillac," Horowitz recalls. "That promotion didn't address the same segment of the population. I didn't understand it." On the other hand, Bock cites a mid-size supermarket chain in Charlotte, North Carolina, that has linked a frequent shopper program to its products' barcodes and sends e-mails to customers to offer specials on certain items.

One advantage of a smaller customer list, says Bock, is the opportunity it affords to comb over customer information—manually, if necessary—to design a perfectly appropriate loyalty program. A specialty men's clothing retailer, for example, can use relatively unsophisticated technology (like a spreadsheet) to sort its customers into categories (like businessmen or sporting goods fans) to target them. A local toy store chain can easily keep track of the ages of its customers' children and send them age-appropriate gift ideas, with a special coupon to use on their birthdays.

Perhaps most important: Keep it simple. "There's no evidence that making a loyalty program more sophisticated makes it any better," says Bock. A store that offers double points on Thursday coupled with special offers that can be redeemed only on Tuesdays, and only between certain hours, and only when there's a full moon expected in the next week, risks alienating customers rather than attracting them.

It's difficult to measure the ROI of customer loyalty, but experts say the potential is too great to overlook. "ROI is in the long-term value of a customer," says Horowitz. "If you convert a single-time buyer into one who has to return nine more times in order to claim a freebie, you've just multiplied the overall value of your initial marketing by nine." Beyond that, he adds, once a customer had become loyal to a company, he or she will start referring others. "That's where the real power stems," Horowitz says.

Consider Alex Mendoza, the owner of Stay n' Touch, a Los Angeles-based company that runs a loyalty program for real estate agents. His program—and the technology behind it—is elegantly simple: Once agents sign on with the service, Mendoza compiles a database of their past clients and mails greeting cards to those clients a few times a year to keep them top-of-mind when family members or

neighbors are looking for an agent, or when they themselves decide to resell. One real estate agent estimates that 70 percent of his new business in the past year has come as a result of the program. Multiply that by just one commission fee, and you've got yourself a loyalty program that has paid for itself many times over.

If loyalty programs are evolving ever more quickly, that's partly because the customers they serve are evolving, too. "As customers become more sophisticated, they expect loyalty programs," says Roche. According to Meta Group, 75 percent of all Americans belong to at least one loyalty program. That means customers are more willing to sign up for loyalty programs. Now it's up to companies to deliver them.

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