

# Loyalty Program 2012

## 12 Rules to Design them Today



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## Understanding where loyalty programs and its marketing are headed based on changing customer dynamics and an evolving marketplace

The importance of Loyalty Programs has been proven. According to a recent survey by the CMO Council 61% believed that program members are the best and most profitable, while 65% viewed loyalty program investments as an essential part of the marketing mix.

However, the effectiveness of loyalty programs is in question. For instance, Forrester reported 40% admitting that loyalty programs underperform or produce erratic results, or do not know how they perform<sup>1</sup>. With lack of differentiation and promotional clutter considered the main culprits, it is imperative that to address the needs of the empowered customer and to keep up with a constantly evolving marketplace, brands should follow broadly twelve rules to ensure everyone wins: itself, its partners and the customer.

These rules have been derived based on analysis of present day loyalty programs, the forces shaping the business environment, and innovations that are moving past the point of being experiments & are emerging as critical trends. And importantly, we will look at specific steps brands can take in order to begin their journey to the Loyalty Program of 2012.

### Looking back & ahead

#### The Beginning

Since their inception 100+ years ago, Loyalty Programs have changed how customers & brands interact. They have been adopted into several B2B & B2C industries - for the value in cultivating a loyal customer has been proven, and is critical for the sustainable success of any business.

#### The Present

Loyalty programs have evolved from accumulating stamps, to coupons and now from a point-centric model to a process by which marketers use insights from all customer touchpoints to increase the efficacy of their marketing communications.

However, the basic principle behind a majority of loyalty programs remain the same today: reward buyers with discounts or provide offers on exclusive products & services. One has to note that this principle began 80+ years ago (Betty Crocker from General Mills – the first ever purchase based loyalty scheme). With the technological forces that have hit us over recent years and the need to create differentiation in a crowded marketplace, it is imperative for brands to change this principle to cultivate true, irrational loyalty.

The marketplace is beginning to address this, with the revamp of loyalty programs by brands across industries having taken place in the recent past (few examples: Best Buy, Carlson, Target, Southwest Airlines, Sears/K-Mart, Capital One, & TGIFriday's).

#### The New Frontier

The good news is that despite the challenges brands face today to improve the effectiveness of loyalty programs - it would continue to remain a strategic differentiator, with growing investments.

**F** 80% of marketers to maintain or further fund loyalty programs; 34% to significantly increase & 46% to maintain current commitments<sup>3</sup>



## Guiding Principles for the 12 rules

The rules listed are derived based on the following four design principles, an evolution from the single principle discussed earlier.

Loyalty programs will need to:

1. Reward: Deliver the 'perfect reward' to the customer
2. Relate: Build a 'trusted' relationship with the customer
3. Recognize: Provide 'value added' benefits as perceived by the customer
4. Enrich: Enhance the life of the customer

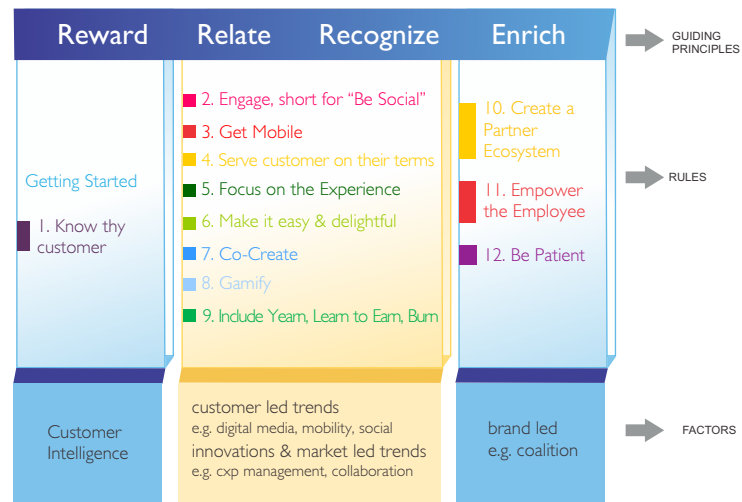
To elaborate, a brand needs to realize how to: reward customers with the right hard benefits; relate with customers, demonstrating that it understands & empathizes with them; recognize what soft benefits that customers look for, that say "we appreciate your choosing us for your business"; and finally enrich customers lives, support their passions, desires & values.

These four principles would determine the proposition, construct and marketing of loyalty programs for not just 2012 but for the upcoming decade as well.

## “The Rules” – An Overview

### Defined based on Guiding Principles & Factors Identified

All brands need to follow the rules provided - however the extent of adoption and the context within which they are applied will determine their sustained success. And their adoption & context will be based on the target customers of the brand, which leads us to rule # 1 – “Know thy Customer”.



To understand where we are headed, we need to consider where we have been and now to the rules...

## I. Know thy Customer

### a. Unified View

Brands have been aware of the importance of having a unified view of the customer for a long time, but the reality is that only a handful are actually delivering it (refer facts). On a positive note, this activity of creating an unified view is increasing and those trailing behind have no other choice but to follow suit.

Therefore, adopting an enterprise wide CRM initiative to integrate customer data across all touchpoints is of paramount importance: to define not only a loyalty strategy, but also the brand strategy. Also with the consumerization of technology and the fast changing social web - customer data now extends well beyond traditional sources thereby requiring organizations to constantly adapt how they capture, integrate & manage, analyze, and apply insights about their customers, in real time.

**F** 80% of marketers to maintain or further fund loyalty programs: 34% to significantly increase & 46% to maintain current commitments<sup>3</sup>

**F** Only 11% of laggards have implemented enterprise wide CRM application, and best in class retailers stand at 43%<sup>2</sup>

**F** Only 37% of retailers surveyed that captured customer data at the point of service, process that information to a loyalty offer, with laggards at 11%<sup>2</sup>

**F** A majority still aggregate & analyze only limited customer data sets - only 73% collect basic demographics. Also critical insights are not leveraged - Advocacy rates (14%), Brand loyalty & attachment (27%), personal preferences (31%), satisfaction levels (33%)<sup>3</sup>

## b. Relevant Messaging

The importance of relevant messaging & intelligently using insights to dial up customer connections has been known for long but the reality is far from it (refer facts). Several studies have reiterated how relevant and personalized messaging across touchpoints, based on customer insights, leads to higher wallet share.

This also improves the efficiency of marketing communications - which when applied to the loyalty strategy will enable marketers to execute marketing programs that generate greater brand engagement, along with additional data to continuously refine the relevant messaging. Brands should therefore implement a database marketing solution to generate personalized communications.

Brands also need to note that the messaging preferences of the customer are changing, so they need to keep up with new communication platforms and customer behaviors to be relevant. For instance - Customers now prefer short polls over lengthy surveys, also prefer new platforms that provide real time/location based messaging.

**F** Only 32% of consumers rated the relevance of loyalty program communications as 8 or above on a 1-10 scale<sup>4</sup>

**F** 78% & 54% of laggard, best in class retailers do not utilize DB marketing<sup>2</sup>

**E** Kroger US continuously mines data from its My Kroger Plus loyalty card to define highly customized offers and coupons

## c. Embrace Digital

With the customers' channel preferences changing, it is imperative for brands to embrace digital ('Social' & 'Mobile' has been detailed out separately). The reality is that only a few are actually delivering on the expected basic capabilities (refer fact). Some of these capabilities include account management, quick delivery of rewards/points and making online purchases using rewards. Brands need to go further by providing

customers - access to their transactions, relevant content to get the most out of their products & services, forums to connect & share, options to purchase/donate points, options to customize, and personalized offers.

**F** Only 6% of laggards have self service loyalty kiosks or portals that allows members to check their status, preferences and offers<sup>2</sup>

**E** GameStop's PowerUpRewards.com serves as a dashboard that members maintain to run & customize their experience with the program. E.g. A 'game library' feature set comprising of 'I Have, I Had, and I Want' capabilities

## d. Predict Behavior

With data in hand, we can build capabilities to spot behaviors to predict customer's future needs and behavior. Brands therefore need to leverage predictive analytics and apply it across all facets of their operations. In loyalty's context, few example use cases include - promotion execution based on most likely points of purchase, messaging to get customers to act, improving engagement and predicting customer churn and ways to arrest it.

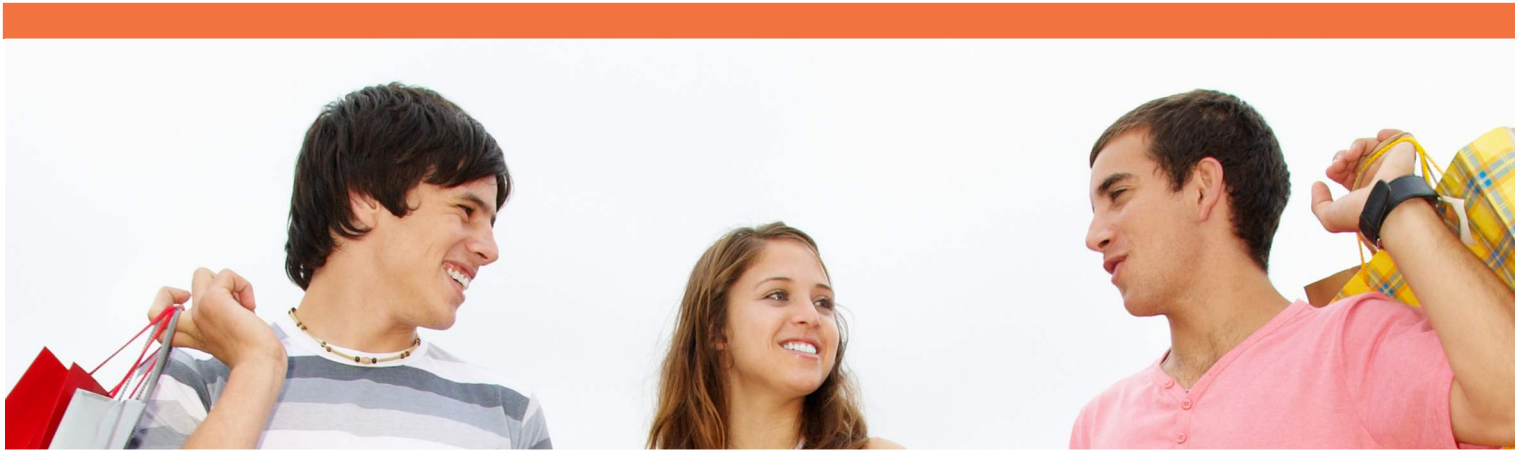
## e. Refine Value Proposition

Customer insights, especially gained from the Loyalty Program, helps brands create effective and meaningful touchpoints. These touchpoints are not just restricted to the marketing vehicles, but can also inform brands to refine all the value propositions they have on offer - from pricing, store layout, assortment to signage etc. With fast changing customer dynamics, it is therefore necessary for brands to constantly adjust and refine their value propositions that match the customer's needs and desires. Making it easier for the customer to decide from the abundance of choice on offer therefore rests entirely on the brand.

**E** Tesco UK uses its loyalty data to redefine assortment, redesign store layout, and even to launch new store formats (Tesco Metro mini mart)

## f. Apply Judiciously

It's critical to realize that the great amount of data that is collected must be used sensibly, judiciously, and to the customers' benefit. With privacy and trust concerns evolving from hidden/implicit techniques to visible/explicit ones, brands need to provide their customers the control of - choice of marketing content, channel preferences and customer contact rules. With this, brands get a permission based "opt in" view of customers' wants and needs, while also addressing customer concerns over their data.



## 2. Engage, short for “Be Social”

### a. Connect where they are

The numbers are heavily in favor of the social web. Forrester estimates >80% of US online adults participate socially, and spend nearly a quarter of their online time on social networking sites and blogs. Loyalty marketers are finally reacting to this shift in customer dynamic, by tripling their social media budget tied to their loyalty efforts<sup>15</sup>. However this is still not enough as the facts given below indicate. Brands have no choice, but to embrace the social web.

Marketers need to incorporate “social” into their cross channel loyalty program efforts and ensure it is given due attention from all channels.

**F** Only 62%, 32% and 22% of best in class, average and laggards utilize social media as part of their cross channel loyalty program<sup>2</sup>

**F** Nearly 65% acquired information about the loyalty programs in retail environments (POS, service representative interactions) compared to 4% from social networks, and 3% from blogs<sup>3</sup>

### b. Develop a Strategy

Social web provides the ideal platform to foster higher engagement and advocacy. The need for the evolution of a dialogue to a ‘Triologue’- where the members’ social networks become a part of the brand conversation, is of enormous significance today and going forward. Most brands already have some sort of social web presence, but it is not an integral part of their loyalty program.

Marketers need to begin their efforts by setting up a fan page; an online community; and provide access to relevant information, promotional offers, exclusive online only events/contests. This should then evolve as follows –

#### 1. Set up a Facebook Store

- Allow earn, burn, purchase & donate

- Integrate loyalty & brand fan pages
- Have exclusive offline events facilitated via the FB Store
- Give specials to fans

**E** I-800-Flowers uses a Facebook widget to track interactions on FB. Members also have access to specials, e.g. users can buy real flowers when they purchase virtual flowers

**E** General Mills subsidiary partnered with FarmVille to package virtual item codes with fresh Green Giant products, with each code redeemable online for small amounts of virtual currency, Farm Cash. Ann Taylor adopted a different approach by giving free shipping codes to their Facebook Fans on Valentine’s Day

### 2. Reward Social Interactions

- Give members status points for social interactions, in addition to reward points
- Social interactions that would be rewarded could include - posts on social networks (members can pre-select brand-specific message options), check-ins, reviews, asking /answering questions, commenting on discussions
- Status points can be translated to social currency (like Facebook credits) or converted into “money can’t buy gifts”, e.g. lunch with the founder of the organization
- Reward specific behavior with awards (badges, trophies) & digital content (ringtones) - that can be unlocked by customers at a specified point or visit level; & enable automatic sharing of awards messages

**E** Members of Best Western Rewards & I-800-Flowers earn bonus reward points for using popular social media channels and for customer referrals

**E** Boden rewards some of the social interactions listed above. Warner Bros gives out status points for social and brand interactions (such as brand videos viewed)

**E** Tasti D-Lite rewards customers for purchases when they promote the brand through earned media once the customer has synched their Foursquare and Twitter accounts with their loyalty card

### 3. Create a Closed Community as part of “Co-Create”

- Develop a 3-way dialogue where the brand has easy access to the best customers, the customers have easy & direct access to the brand, and the customers can talk to each other from which both customers and the brand can extract value

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IHG has 3 invitation-only online communities, each having 300 rotating members from their 52 million-strong Priority Club membership. More-active members are invited to stay on longer and each group contains a mix of customer segments. IHG explores strategic goals with this community, creating a 3-way deep dialogue between the members and the brand

#### c. Groom Brand Advocates

With transactional and social interaction data available, loyalty marketers can spot brand advocates to take their help in spreading their positive brand experiences. With quantification of ROI on social media initiatives being a challenge for all marketers, it is important for loyalty marketers to begin connecting in measurable ways with their best customers.

Marketers thereby should identify their brand advocates, take them seriously (because they can exalt or tear down a brand), and engage with them continuously to groom them as brand advocates.

F

48% of Champions (Connectors + Advocates) said they used social media to recommend or discuss products or services - a jump of 77% from 2009. And Facebook is the Champions' platform of choice with 85% adoption<sup>16</sup>

## 3. Get Mobile

#### a. Embrace the Next Frontier

Customer adoption of mobile is mindboggling, with forecasts suggesting it will only grow exponentially. Consider this - 40% of all U.S. adult consumers have downloaded at least one mobile app, >2 billion app downloads in just over 2 years<sup>7</sup>, ~80 million US mobile web users & expected to surpass 135 million over the next 4 years<sup>8</sup>.

Considering how smartphones are expected to become the largest segment amongst cell phones this year<sup>9</sup>, it is clear that smartphone users have to be embraced by marketers. That does not mean that the feature phone users have to be ignored, but smartphone users take priority considering their usage behavior.

#### b. It's Personal, Make it Count

A smartphone is the ultimate personal device, it presents marketers with opportunities to connect in meaningful ways in real time and most

importantly on an one-on-one basis. However, the adoption of mobile initiatives remains abysmal (refer facts).

Marketers need to increase their “connect” with customers, something that mobile inherently provides, by acting NOW - the specifics of which are provided in the next section

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92% of Best in class retailers do not have an mobile loyalty platform<sup>2</sup>

F

94% & 46% of laggards, best in class retailer don't have mobile marketing as part of loyalty program<sup>2</sup>

F

> a third interested in a mobile loyalty program but only 9% participated<sup>10</sup>

#### c. Execute, Now

Whether it's mobile couponing, mobile apps or the mobile web – marketers need to be agile and adapt to rapidly changing technologies; while at the same time be judicious decision-makers and experimenters as trends emerge, evolve and mature. Loyalty marketers are getting into the smartphone game, typically with a branded app or a mobile website. However it is imperative for marketers to develop a full fledged mobile strategy, utilize a mobile loyalty platform & incorporate “mobile” as a key part of their cross-channel loyalty solution.

Marketers will need to adopt a phased mobile strategy as follows:

**Basic:** Replace traditional loyalty cards/key tags and provide means to accrue and redeem rewards - SMS couponing, Online enrollment

**Progressive:** Provide customers' access to their transaction history, member-only games/events/content; deliver rewards via apps/2D barcodes; deliver promotions; provide ability to redeem offers

**Advanced:** Connect with members in real time & with greater efficiency via push notifications (instead of snail mail, email); location-specific services and 2 way comm. vehicles regarding program updates, upcoming rewards/perks/events; & collating customer preferences/insights

E

Starbucks tested a loyalty program based on 2D barcodes deployed through SMS, Best Buy's loyalty iPhone app allows members to access their account and what are on offer, Hilton tracked how its loyalty members used its mobile website to determine how to best develop brand-specific apps



## 4. Serve Customer on their Terms

### a. Prepare for AC/DC

We are moving to an AC/DC world. An easy to remember acronym which stands for Access, Connect/Device, Content coined by Colloquy – meaning customers will want to 'access' their network anywhere, 'connect' with everyone, where the 'device' can be anything and the 'content' will be everything.

Consumers are embracing connected devices like never before - in the US >105 million consumers own 2+ devices connected to the Internet & 57 million having 3+<sup>11</sup>, and spending more time online than watching TV<sup>12</sup>. With the number of connected customer touch points expected to grow exponentially, loyalty marketers should be constantly revisiting how they are making it easy for the customer to access their programs across important touch points.

For 2012, marketers should be looking at tablets (iPad to be specific, and not the 100 other tablets launched at CES2011) and for 2013, consider Android tablets, Internet TVs, NFC technologies on mobile & the 'Internet of things' (connected car, appliances)

**F** Multiple platform usage is the key trend affecting business and having the biggest impact (54%) for the next 4 years<sup>13</sup>

**F** Cisco forecasts 15 billion network-connected devices by 2015

### b. Forget Multi Channel

Customers don't interact with brands from a 'channel' perspective; therefore brands will have to continuously optimize their people, processes, & technology to serve customers across a rapidly evolving set of customer touch points.

Loyalty marketers will need to build platforms that will identify/integrate/reward members across all touch points providing a seamless experience thereby making the program real and tangible (a prerequisite for this being the "unified view" aspect of rule #1 discussed earlier, along with rules #2 & #3 "social" and "mobile").

They also need a clear strategy for how to engage with customers along the different stages of the customer life cycle and deliver compelling value across each stage. For this, marketers need to invest in an offer optimization solution for creation, delivery & execution of loyalty marketing across all touch points and stages.

**F** Only 24% of all retailers have a centralized cross channel loyalty platform, which consisted of customer insights collation, offer creation, redemption and performance metrics<sup>2</sup>

**F** 77% of even best in class retailers do not have offer optimization solution<sup>2</sup>

### c. Go Local

'Locasumers' are a relatively niche but growing category of consumers, who apply "going local" to all facets of their lifestyle. They support their own community & local businesses by purchasing handmade products, goods sourced and produced on the premises, items produced and transported from nearby sources and more.

The focus on 'Local' has been accelerated with companies like Groupon who have given a tremendous impetus to local commerce. Loyalty marketers can play a role here by helping members discover and try cool things in their neighborhood. Brands have been lately experimenting with empowering store GMs with tools to create hyper-local campaigns which would involve partnering with the local community for mutual value creation. Loyalty marketers need to also explore providing 'local' rewards where points can be exchanged for discounts, special access to events in the member's locality.

## d. Watch Out for Geo-Local

The customer adoption of location based platforms such as Foursquare (with Facebook and Google not far behind) and its embrace of coalition loyalty is worthy of notice for it harnesses the fundamentals of loyalty in innovative ways & is inherently social, the flavor of the times.

Loyalty marketers will therefore need to experiment with location based services such as Geo-Deals (Geo targeted offers based on member location, with the customer's permission of course) while watching out for these platforms for they are leading this trend.

**E** **Foursquare:** Partnered with AmEx to build its loyalty program where a user would check into a venue, tap a "Load to Card" button for that venue's special, swipe their AmEx card, which then gives the user a \$ reward cash back to their card. Pepsi/Vons went a step further by allowing users to link their Vons loyalty accounts to Foursquare. Retailer Sports Authority used Foursquare to great effect during Black Friday 2010 with a successful marketing campaign

**E** **Shopkick:** Customers using its app will be rewarded simply for walking into 250,000 stores across the US incl. any Best Buy, Target, Crate & Barrel store

**E** **Facebook Places:** Jet Blue Airways gives out special offers, and reward points, and exclusive badges for checking into official JetBlue terminals

# 5. Focus on the Experience

## a. Give Experiential Rewards

Showing the customer what it means to be part of the loyalty program is of significant importance in this crowded marketplace of programs. To this effect, a shift of emphasis from what the member earns to what they can experience has begun – from the hospitality industry and slowly being embraced by the others.

By providing Experiential Rewards – brands need to enable & facilitate experiences that their customers might not otherwise have access to or may not be able to take advantage of. Loyalty marketers also understand now that it is not the status/tier that drives loyalty, but the continual special experiences that are enabled. It is therefore required for marketers to depict the results of the program participation for it increases the customers' perception of the loyalty program value proposition, and also make the experience more valuable by facilitating its sharing.

**F** Only 32% of U.S. consumers rated reward program communications as an 8 or higher on a 1 to 10 scale for measuring relevancy to their personal needs<sup>4</sup>

**E** Gamestop's PowerUp rewards offers experiences: At Comic-Con, a trip to Rome to visit the sites referenced in a game etc – to stay true to its members, as part of its Epic Reward Giveaways value proposition

**E** Costa cruises 'ViceVersa' allows members to train as shiphands. Not only is this an unique brand perk that gives the member a sense of brand ownership, the staff being replaced gets the perk of being the customer giving them a better customer centric view

**F** \$287 mn of additional revenue can be achieved for a retailer with \$1 Bn annual sales over 3 years from a modest improvement in customer experience<sup>8</sup>

## b. Elevate Loyalty to the Board

In order to orchestrate loyalty & brand experiences across the different customer touch points, all the CXOs need to work together - from program & campaign strategy (CMO), business case development for the value propositions (CFO), to employee engagement (COO) etc. It is thereby required that brands elevate loyalty to the Board (a Chief Customer Officer – played by the CMO or the CCEO in some organizations, who would be responsible for loyalty and all customer centric programs) to ensure collaboration across functions with strong buy-in from the top, and the decision making powers to constantly experiment and innovate.

**F** 92% of Industry average retailers do not have a designated person in charge of customer experience who will oversee and manage all customer centric programs incl. loyalty<sup>2</sup>

## c. Get Back to Basics

Focus on the basics by delivering products/services that meet the customer expectations. Being responsive to questions & complaints is of utmost importance for research suggests that an upset customer whose problem is addressed with swiftness and certainty is turned into a highly loyal customer. With the explosion of customer touchpoints, brands need to deploy listening platforms to respond, track responsiveness and infer actionable insights that can improve/transform the customer experience.





## 6. Make it Easy & Delightful

### a. Remind & Remember

The loyalty industry needs to transition from a culture of accumulation to one of reward realization, meaning brands should make it easy for their customers to redeem their rewards as it is to purchase and accumulate points. This is important since studies<sup>17</sup> prove that greater redemption leads to greater satisfaction & customer engagement, increasing loyalty & its associated benefits.

**F** One third of rewards (of value \$16 billion) earned in a given year go unused<sup>5</sup>

Brands also need to remind/help their customers to 'get to the next level'. Auto top ups or setting up campaigns to encourage members qualify are simple measures to achieve this, for these give the notion that the brand wants the member get to the next level and show that loyalty is a two-way relationship where the brand is loyal to the member as well. Proactively re-engaging when the customer drops back a level is also important.

Also remember the important things – like birthdays & personal preferences (places, hobbies), for they show that the brand cares.

### b. Deliver Instant Gratification

With loyalty marketers equipped with customer analytics technologies that deliver real time insights, brands need to deliver experiences that are relevant that instant and not on what the customer had done in the past. With customer behavior trends leading to instant gratification experiences, delivering them while making it easy for the customer, will be a necessity going forward.

### c. Give Special Treatment

To delight, marketers need to give members 'first' class treatment: that means providing them access to -

- The 'first' products - Exclusive preview and preorder of new products, first trade-ins, sneak peeks at design and beta products, Q&A opportunity with designers
- The 'first' service - Priority Scheduling, priority staff, free shipping, extended returns policy, exclusive access to special events

### d. Surprise

Showing a human aspect to the brand is important for it builds trust, and therefore loyalty. Loyalty marketers should hence plan to regularly surprise customers with small signs of appreciation, distributed at random for this guarantees customer delight.

**E** KLM's "how happiness spreads" campaign was a viral success for it randomly surprised travelers with gifts as they stepped off of the plane. The gifts were customized based on information the passengers had shared on social-networking sites. E.g. A voucher for iPad apps was given to a passenger who mentioned he was excited about using his new iPad on his KLM flight

**E** Best Buy's RZ program gave few randomly selected members access to a private shopping event before Thanksgiving. The experience included one-on-one service, exclusive offers, specials, & giveaways. The event generated >\$17 million in sales, >20% incremental lift in sales & margin

## 7. Co-Create

### a. Start with Passive

The first step loyalty marketers need to take is to get their members to participate in a dialogue on the program - from the value proposition (discussed earlier) to even the definition of rewards. This will ensure that brands are always on top of what it means to be part of the loyalty program.

Different approaches are available and can be determined based on the brand's targeted segment - from a crowd-sourcing portal (where ideas are submitted by customers, get thumbed up or down by other

customers, and ultimately by the brand itself) to exclusive online communities (discussed as part of Rule #2 – “Be Social”).

## b. Collaborate Actively

Brands need to start developing a Co-Creation platform that attract members & gives them the tools/structure to actively collaborate effectively with their organization. For example in retail, customers would be working with private label designers, suppliers, the experience design group etc. This trend is emerging in the automobile sector - where Co-Creation platforms are used to design telematics interfaces in high-end cars, a shift from dependence on Product Lifecycle Management (PLM) systems for it fails to enable the experiential dialogue required between customers & designers.

Customer insights today rely on traditional market research (giving input about what they like/don't like - VoC), analytics (based on past behavior and preferences shared) & crowd sourcing. However these do not allow future experiences to be designed since customers cannot imagine what they have not seen. Therefore, we need a Co-Creation platform that allow members to become actual designers, and give them the right to participate in the design of their own experience.

This platform will be able to discuss abstract items such as lifestyle or qualitative design themes, provide the ability to exchange conceptual designs, & the capability to co-design concrete objects. Marketers need to embrace this for this has the potential to attract the most effective design ecosystem for creating customer centric products/ services/ experiences.

# 8. Gamify

## a. Provide Fun with Games

This is a new trend whereby brands & loyalty marketers are providing ‘fun’ benefits to their customers by integrating games into their initiatives. The popularity of games like Farmville & Angry Birds for instance are an indicator that marketers have a sizeable demographic in millions who enjoy spending time playing games, and have an opportunity to make an impact on business metrics and customer engagement.

Brands need to use games to augment & elevate their core brand principles, creatively reward accomplishment, and have fun doing it.

**E** IHG launched an online game “Win It in a Minute” for their Priority Club Rewards members, who compete against one another in the travel themed trivia contest and earn points for their participation

**E** State Farm's Facebook app “Car Town” allowed users to earn points while they customize virtual cars, build their dream garages, & encourage their friends to participate. Points earned could be redeemed for insurance discounts

**E** MGM Resorts launched an iPhone slot game “Cleopatra” for their new M life Players Club members to keep members engaged with the brand

**F** 84% of US interactive marketers have no plans to use games in their 2011 marketing strategies, as per Forrester – making this a large untapped opportunity

## b. Apply Game Mechanics

Game mechanics are “rule-based systems/simulations that facilitate and encourage a user to explore and learn...”<sup>14</sup> and is a tool that has been deployed by loyalty marketers thus far for the design of the “burn”/ reward redemption experience, i.e. “earn x points get y”. However marketers are now learning that the “earn” experience should be as fulfilling in order to provide psychological gratification, one wherein the “play”/“earn” is just as fun and rewarding as the “win”/“burn”.

Marketers are also beginning to understand that any psychological gratification provided amplifies consumers' perceived value of the loyalty proposition. Therefore from an earn perspective - loyalty programs need to be reworked continuously to allow more earning opportunities and offer a variety of fulfilling earn experiences. For this - marketers need to begin by adding leader boards & tiered achievement levels because people desire the challenge of working towards a reward, and eventually explore other game dynamic elements as supported by the brand principles/objectives.

**F** Market for gamification will grow to \$1.6 billion in 2015, from \$100 million in 2011 as per eMarketer, & Gartner predicts that by 2015, >50% of organizations that manage innovation processes will gamify those processes

**E** 20th Century Fox leverages gamification (e.g. offering badges, virtual goods and featuring members on leader boards) to drive greater engagement

## 9. Include Yearn, Learn to Earn, Burn

### a. Begin Cause Marketing

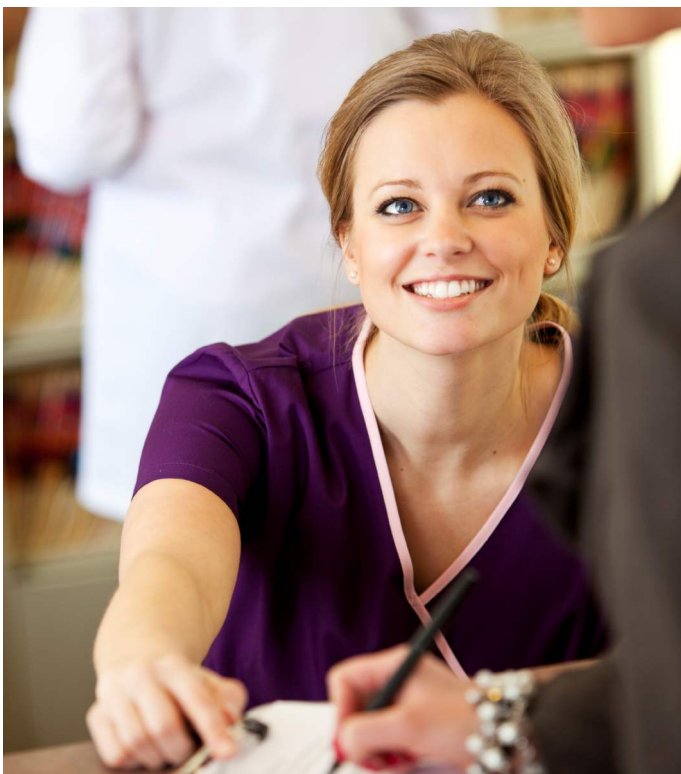
Human beings yearn for opportunities to grow, express themselves and make a difference. Brands are fortunately in a position to provide their customers these opportunities to pursue their intellectual, wellness, and social endeavors. Recent breakthroughs in neuroscience that have established that “intrinsic” motivators are more powerful than “extrinsic” rewards for influencing human behavior, should give loyalty marketers the required push to pursue initiatives that add a “Yearn” and “Learn” dimension to the existing “Earn, Burn”.

For the “Yearn” aspect, marketers need to move beyond their loyalty “value proposition” to the brand’s “cause” and take efforts to understand what causes are important to their customers while staying true to their brand values. These “cause marketing” initiatives not only improve the brand’s image but also cultivate deep irrational customer loyalty. Marketers need to ensure it is easy for customers to participate and reward them for doing so.

**E** LoyaltyOne’s WellQ program provides customers tools & incentives to set and attain “wellness” goals and is currently being tested at pharmacies

**E** RadioShack’s #28 campaign, one of the largest Twitter trends ever - got them followers, impressions, and credit for supporting the fight against cancer

**E** DailyFeats, a NY based online community gives away points for doing simple but meaningful feats. Points can be redeemed for real-world rewards at local businesses or national brands like Best Buy, Staples and many others



### b. Help Members Help Others

Loyalty programs are perfectly poised to facilitate the urge to help, and by doing so they actually do what they were developed to do — provide customers with exactly what they want at the moment. This is especially true when a disaster occurs, when members want to do their bit to support relief efforts.

Loyalty marketers should thereby help their members help others.

**E** Best Western, Hilton, American Airlines, AIR MILES offered members the opportunity to convert points to cash donations as relief after the natural disasters in Japan

**E** Some programs took the donation one step further, offering incentives. American, awarded AAdvantage members a one-time bonus of 250 points for a minimum donation of \$50 to the American Red Cross

### c. Be Authentic

Customers today are savvy and can easily recognize if any initiative taken does not come across as authentic & genuine. Therefore while ensuring brands support causes, it must not just be a campaign but something that is central to the values of the brand.

### d. Communicate Brand Values

While being authentic is non negotiable, it is also important for marketers to make sure that the loyalty initiative reflects the values of the brand. Marketers need to ensure loyalty programs articulate the qualities of the brand to their customers so that they are sold on the brand instead of the better prices found elsewhere.

The design of the loyalty program should represent the brand’s strengths (those intangibles that differentiate the brand in the marketplace) & reinforce the same through effective communication so as to help each customer internalize the brand’s value & its values. Obviously there are elements that are similar with other programs, but how they are presented and communicated should be linked directly to the brand.

There is also an increasing awareness & social consciousness in today’s consumer, thereby requiring brands to be prepared for the reality of corporate transparency. A case in point would be Nike who took a beating to their powerful brand status in the 1990s when reports citing child labor & factory conditions came out. Since Nike understood the link between their reputation & customer loyalty, they took steps to address the situation but more importantly communicated extensively on all the measures taken. They continue to do so even today, resulting

in the reinforcement of the perception of Nike's values & its customer loyalty.

Brands need to ensure that this is a continuous process, resulting in customer "yearning" to be part of the brand's ecosystem.

### e. Encourage Learning

Marketers need to provide tools that encourage/teach customers and make it easy for them to make responsible choices that benefit themselves, the community, and the world.

**E** Market leader/maker Recycle Bank, rewards people for taking environmental actions such as recycling, saving energy and reducing water consumption. The "learn" aspect is delivered through an educational web portal where members get additional points to learn ways to take "green" actions, track their environmental footprint by seeing their consumption, & trees saved as a result of their recycling efforts. Recyclebank uses discounts and deals from >3K local and national businesses to provide people an incentive to make these environmental pledges

**E** CVS Pharmacy's Rewards program includes a "ExtraCare Advantage for Diabetes". This offers videos on topics related to diabetes management, a monthly electronic newsletter with articles and tips on living a healthy life with diabetes and tools to help manage the disease, in addition to savings on products

## 10. Create a Partner Ecosystem

### a. Choose the Right Partners

Loyalty partnerships or coalitions are important from both customer and business perspective. For the customer, they have a wider variety of touch points to choose from making the loyalty value proposition more attractive and for the business, they help spread the program cost and provide a source of acquisition to the brand. Although partnership loyalty programs are popular in Europe & emerging markets – the US is beginning to embrace this proposition. Marketers are partnering with other industries — from Fuel & Grocery to Restaurants & Non-Profits, creating faster & innovative ways for customers to earn rewards and benefits.

The right program partners should be chosen based on the objectives defined by the brand. The objectives can be defined on the following dimensions:

- **Increase Revenue:** Create a stream of additional revenue by selling program points to partners
- **Increase Profitability:** Share costs of the program and improve long term health of the program

- **Increase Value Proposition:** Provide customers with additional value with benefits that are complementary to the existing program
- **Increase Program Brand Equity:** Provide supplementary brand equity based on the other brands that the program aligns with
- **Increase Geographic Utility:** Gain prominence in other geographic areas where the brand has little presence

### b. Create a Capability

It is important for brands to invest in creating a separate capability for Partner Management to ensure they have the right people, processes & technology to manage partnerships. This capability would also focus on pursuing innovative business models with the partners.

Creating this capability would require energy to be focused on the following fronts:

- **Technology:** Creating a platform that would make partner onboarding simple; automate processes such as contract management promotion management & partner performance analytics.
- **New Business models:** Pursuing new business models with partners. Few examples include:
  - **Bidding:** Space on various brand touch points (corporate, loyalty websites, newsletters, promos, sale events, stores, private shopping events etc) are made available to the partners
  - **Deals:** Although a crowded market, this is a lever used to boost advertising revenue in addition to getting referral kickbacks. An innovative way to incentivize partners to feature deals is to assure repeat business (a challenge faced by the deal sites). Brands can allow partners to keep 100% of the revenue generated by their 'Level 1' deal & take say 25% of the revenue at Levels 2 & upwards
  - **Online Mall:** Virtual mall that features participating brands' products & services with special benefits (additional points, discounts)
  - **CLO:** Card Linked Offers wherein coupons can be associated to credit cards used (e.g. Clovr, Offermatic and Cardlytics)

## 11. Empower the Employee

### a. Engage

The most important and visible core asset for an organization is its employee. Creating engaged employees is not simply an HR issue, because employee engagement is a vital force that can transform a brand through bottom-up insights and ideas. As a retail practitioner once said, "People don't put their trust in brands; people put their trust in people."

The emerging field of "Gamification" (the application of game mechanics to non-game environments) is gaining traction with marketers for creating greater engagement. We looked at how this applies to the customer under rule #8, marketers need to embrace this field for their sales associates as well.

**F** Within the next three years >70% of Global 2000 organizations will possess at least one gamified application as per Gartner

### b. Incentivize

Loyalty marketers need to incentivize employees for customer loyalty, whether through a rewards structure or a bonus plan, for that gives an added thrust to a brand's loyalty initiative.

**E** Al Tayyar Group, the largest luxury retailer in the Middle East, where store managers are rewarded for both customer loyalty redemption and sign up rates



## 12. Be Patient

### a. For Loyalty is for Life

A loyalty strategy will pay its dividends over years not quarters, hence brands need to give it time to deliver. Like any relationship, which requires ongoing dialogue and trust, the success of the loyalty program can be ascertained only over a period of time.

Loyalty marketers, and in fact the entire organization needs to live and die by rule #1 "Know thy customer", continue to build capabilities & experiment, and apply the other rules listed here holistically based on customer insights.

## Recap

### 1. Know thy Customer

- a. Unified View
- b. Relevant Messaging
- c. Embrace Digital
- d. Predict Behavior
- e. Refine Value Proposition
- f. Apply Judiciously

### 2. Engage, short for "Be Social"

- a. Connect where they are
- b. Develop a Strategy
- c. Groom Brand Advocates

### 3. Get Mobile

- a. Embrace the Next Frontier
- b. Its Personal, Make it Count
- c. Execute, Now

### 4. Serve Customer on their Terms

- a. Prepare for AC/DC
- b. Forget Multi Channel
- c. Go Local
- d. Watch Out for Geo-Local

### 5. Focus on the Experience

- a. Give Experiential Rewards
- b. Elevate Loyalty to the Board
- c. Get Back to Basics

## 6. Make it Easy & Delightful

- a. Remind & Remember
- b. Deliver Instant Gratification
- c. Give Special Treatment
- d. Surprise

## 7. Co-Create

- a. Start with Passive
- b. Collaborate Actively

## 8. Gamify

- a. Provide Fun with Games
- b. Apply Game Mechanics

## 9. Include Yearn, Learn to Earn, Burn

- a. Begin Cause Marketing
- b. Help Members Help Others
- c. Be Authentic
- d. Communicate Brand Values
- e. Encourage Learning

## 10. Create a Partner Ecosystem

- a. Choose the Right Partners
- b. Create a Capability

## 11. Empower the Employee

- a. Engage
- b. Incentivize

## 12. Be Patient

- a. For Loyalty is for Life

The reason why “Know thy customer” is Rule #1 is because loyalty programs need to be tailored according to what a brand learns about their target customers. For instance, a brand has to design their program focusing a lot on cause marketing (Rule #9) if their target segment is socially conscious. Likewise, loyalty marketing’s approach and the value proposition must adapt to the different personas of the target customer segments. This approach transforms a previously one-size-fits-all loyalty program to a relevant customer engagement platform.

Predicting the future has never been easy, however the underlying needs of customers and the drivers of loyalty will continue to hold true. These were summarized in this document as the “guiding principles” – to be able to ‘Reward, Relate, Recognize & Enrich’. The derivative of these guiding principles are the twelve rules listed in this document, which loyalty marketers will need to apply as appropriate to their customer in order to create a relevant, successful and a benchmark Loyalty Program of 2012.

## Conclusion

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It is imperative for marketers to stop taking a tactical view of their loyalty marketing efforts. This can be done only if loyalty is made a key component of the brand strategy and an enabler of a consistent brand experience with a compelling value proposition. Only then can marketers hope to achieve irrational customer loyalty. Also, the question around effectiveness of loyalty programs can be put to rest once loyalty metrics are linked to business outcomes - such as shareholder returns, sales/margin, customer/employee churn and market share.

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## About the Author

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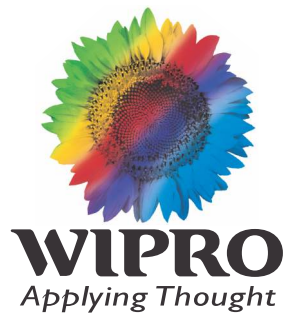
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*"The best way to predict the future is to invent it." – Alan Kay*

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