

A woman with glasses and a red shirt is smiling while using a credit card terminal at a checkout counter. A shopping bag is visible in the foreground. The background is a blurred retail store.

Build a Loyalty Program That Transcends the Transaction

How Retailers Can Create an Experience-Driven Credit-Based Customer Retention Strategy

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CONTINUUM

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CONTINUUM'S APPROACH



As the traditional credit card market has stagnated and new qualified customers are harder to come by, issuers are turning their focus to retail loyalty programs. Retailers, sensing opportunity, are welcoming this shift by negotiating favorable contracts and designing programs around these cards to drive customer engagement.

These loyalty programs have two major profit drivers. From the credit card itself, retailers see savings in interchange fees and revenue from a portion of the credit fees and interest. From the loyalty program built around the card, retailers can drive incremental spend and increased customer retention. While they are difficult to properly design and execute, good loyalty programs centered around a credit line can help increase customer capture, retention, share of wallet, and create long-term fans of your brand.

A loyalty program is an extension of your core brand. It is, in essence, a more personalized brand experience for your best customers. As an innovation design consultancy, we believe you must have a deep understanding of what your brand stands for and why your target customers shop with you to drive profitable growth. Empowered by these insights, you can create a loyalty program that not only captures the revenues outlined above, but also engenders the emotional loyalties that bond you with your customers throughout their lifetimes.

Continuum has extensive experience working in the financial services and retail sectors designing customer-focused loyalty programs. This background led us to develop six key principles to consider when creating your loyalty program.

1: Make it a component of your customer experience (CX) strategy

Properly designed and executed loyalty programs enhance and amplify loyalty that customers already feel.

When you have a strong brand, loyalty programs can be a valuable part of your overall customer experience strategy. The best programs operate in a virtuous cycle. Because your program members are by definition some of your most committed customers and they produce an additional revenue stream (credit), you have flexibility to fund benefits and rewards that will be meaningful to them and strengthen the bond they already feel.

It is important to note that loyalty programs are not well suited as vehicles for overcoming existing shortcomings in the CX. It is tempting to over-rely on a new program because it offers a 'clean sheet value proposition' for your customer. If your brand is not resonating with consumers at an emotional level, or your CX has glaring issues, then your loyalty efforts might be put to better use addressing these core challenges.

2: Align it with the needs of your customers and the essence of your brand

Consumers choose brands for a reason—such as innovation, convenience, value, quality—so your loyalty program should serve to enhance and amplify your brand's key attributes.

A loyalty program is an opportunity to strengthen your existing brand in the minds of your best customers and retain them long-term.

Contextual research, a pillar of design thinking, is the best way to ensure that your brand and your loyalty program reflect these customers' values. They will welcome experiences and tools that help them do the "jobs to be done" that draw them to your brand. Loyalty programs are the perfect tool to capitalize on this.

For example, if your brand stands for value, you should give loyalty program members an experience through which they get an even better value. If your customers prize fashion, the program should help make them fashion authorities. If your products are luxurious and exclusive, the program experience should similarly provide access to on-brand luxuries. High-spending members of Neiman Marcus' InCircle program enjoy a fitting room experience with heightened personal service and hors d'oeuvres.⁽²⁾

3: Appeal to the customer—rationally and emotionally

A loyalty program needs clear monetary benefits. Points, reward dollars, airline miles, discounts—today’s consumers need to be convinced that a credit card or purchased membership is a smart financial decision before they’ll sign up. However, many businesses miss the opportunity here to connect with customers emotionally as well. ⁽³⁾ A customer signing up for a co-brand or store credit card is making a clear commitment to that store.

A loyalty program offers a unique opportunity to enhance the connection they already feel by speaking directly to them and offering experiences that appeal specifically to their needs.

An excellent example of emotional loyalty in action is Walgreens Balance Rewards program. Members earn points for spend as well as lifestyle choices like exercising, getting immunizations, and quitting smoking. Through their loyalty program, Walgreens effectively communicates that the company truly cares about its customers and invests in their health beyond just operating a drugstore. ⁽⁴⁾

4: Make your loyalty program a profit center

And evaluate it as such. It can be challenging to create an accurate, comprehensive financial model for your program, but this is a necessary step to ensure that the program works for the business.

Resist the temptation to think about your loyalty program as just another marketing cost.

To offset the costs of rewards and benefits, consider not only credit revenue sources, but also the incremental spend that the program will drive among members. Choose the most appropriate metrics to represent this—visit frequency, basket size, retention rate, new customer referrals for instance—and connect them to the program’s structure. Furthermore, think creatively about other potential revenue sources such as selling customer trend data to vendors and vendor-funded promotions to loyalty members. Including all revenue sources in your financial model allows you to evaluate and recalibrate as needed in the design phase before you make the program real.

5: Ensure that you can execute

There is no such thing as a good strategy with poor execution. If the execution is too difficult for the organization, then it is a bad strategy.

A successful loyalty program is designed with an eye towards feasibility and implementation.

Loyalty programs require that many parts of your organization, including—but not limited to—IT, consumer insights, finance, human resources, and marketing work together to bring customers a completely new experience. Make sure that the internal champion of your new program has sufficient integration skills to connect all the pieces in a timely manner and bring the program to life. Pay particular attention to stores and frontline employees; they will be tasked with making the program compelling enough for customers to sign up.

6: Design an elevator pitch and back it up

Ultimately, you have to sell customers on your loyalty program. But you also have to sell your associates since they are best positioned to deliver the pitch. If customer-facing employees don't see the value in your new initiative, they will be less inclined to promote it. Or worse, they'll promote it half-heartedly, tarnishing an otherwise delightful customer experience.

Prepare your employees with a brief and compelling explanation of the program and its benefits, but also involve them in the creation of the loyalty customer experience.

Undoubtedly, associates will field questions about credit, rewards, digital tools, etc., and should be equipped with resources to assist customers. Especially in a retail environment with high employee turnover, these resources must be simple and make it easy to deliver consistent great service.

Loyalty programs hold tremendous promise for their ability to drive multiple revenue streams, draw your best customers even closer, and engage with new ones. Creating a program may seem daunting, but the best way to guide the process is by developing a deep understanding of your customers. Then you can envision the ideal solution that will support their needs and work in concert with your business objectives.

A loyalty program designed with this level of care and attention is sure to be a sustainable and profitable marketing effort. Furthermore, this process will allow you to infuse it with the targeted “soft” benefits and broad appeal to show customers that your brand supports their goals, lifestyles, and values. From there, you can build a long-term relationship with your customers that will ultimately turn them into fanatic supporters of your brand.

THE POWER OF PERSONALIZATION



When customers join your loyalty program, in their minds they're committing to a tradeoff. They're volunteering certain personal information, opening another credit card (that will occupy wallet space and require additional time to manage), and accepting higher switching costs. In return, customers expect not only to realize financial value, but to receive a loyalty experience tailored to the things they care about.

As we've seen in our research, customers accept data collection if it's used to improve their experiences. Your CRM tools are equipped to identify a customer's favorite brands or styles, purchase timing, and most utilized benefits, so capture this opportunity. A thoughtfully designed digital backend can help to automate and simplify much of this work, but remember the analog component too—you can employ this information to help associates identify the best customers and customize the shopping experience for

them. Create a structure that puts this data to work for the customer and drives sales.

For example, if one of your customers picks up four pairs of pants every year, send him a sample from your just-released line of belts. If another purchased three pairs of sandals last week, follow up with a certificate for a free pedicure from one of your spa partners. Use caution, however, to ensure that you get it right. Shipping that sandal enthusiast a free pair of tube socks is the kind of marketing miss that can alienate a great customer.

Creating an experience that feels personalized to each customer is critical for building emotional rapport, and the structure of a good loyalty program is well-suited to deliver such an experience. Once you develop the right system, you can harness the data collected on program members to bring them benefits and surprise-and-delight moments that are curated just for them.

A woman with blonde curly hair and black-rimmed glasses is smiling warmly. She is wearing a bright red top. In her left hand, she holds a smartphone, and in her right hand, she holds a brown paper shopping bag. The background is a blurred indoor setting with warm lighting. The entire image has a soft, reddish-pink color overlay.

**While loyalty programs are—
at their core—financial tools,
they must be designed with the
interests of the business and
its most profitable customers
in mind. Applying Continuum’s
six principles to the design of a
loyalty program, after spending
time learning your customers’
values and determining the brand
attributes that engage them, is
a proven method to engender
emotional loyalty and drive your
business goals.**

Citations

(1) <http://wsj.com/articles/credit-card-firms-reap-rewards-of-consumer-brand-loyalty-1431551439>

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(4) <http://www.walgreens.com/topic/balancerewards/balance-program-details.jsp>



Continuum is a global innovation design consultancy.

We partner with clients to discover powerful ideas and realize them as products, services and brand experiences.

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