



## INCENTIVES FOR LOYALTY

### THE RIGHT STRATEGIES CAN TURN YOUR NEXT-BEST CUSTOMERS INTO TOP TIER LOYALISTS

There is often a preconceived notion that a loyalty program—using points, catalogs, exclusive access and other incentives—will keep best customers happy so they remain loyal and spend more with their favorite brands.

But the truth is that best customers are important. They must be carefully monitored and managed. But they are already dedicated brand fans and offer minimal incremental volume increases. Most often, the greatest opportunity lies in next best customers.

Typically, there are significantly more next best customers than best customers. The next bests are heavy category consumers; they just aren't particularly loyal to your brand. To convert these people to become your best customers, it is essential to identify their key loyalty drivers—meaning the incentives they value most.

Start by identifying customer macro segments based on buying habits and preference commonalities. Be sure to measure how much or often they consume your product. These segments can be drilled down further to identify

the specific incentives that will motivate them to purchase more frequently or in greater quantities.

Several rounds of research (or in-market testing) can identify the most powerful incentives. Then, appropriate strategies can be developed to change behaviors to your benefit. Core loyalty drivers often include:

**Acknowledgements:** “Thank You” communications and exclusive incentives—such as rewards, values, and access to special events—are designed to make your best customers feel special and appreciated. As a result, they stay loyal and happy.

**Time Compression:** Incentives can increase the number of average purchases during a calendar period. For example, a loyal customer should earn a special reward when buying twice during a month (as opposed to currently purchasing once per month).

**Increase Average Purchase:** Loyalty incentives can also reward shoppers for spending more per transaction. For example, give consumers rewards when they buy greater quantities or more products at one time. If an average purchase is \$20, incent and reward to make it \$30.

**Status Perks:** Offer exclusive rewards for being a higher-status customer. These incentives often involve a special form of currency (such as points) associated with redemption.

**Product in Kind:** Often co-mingled with other tactics, “free” products can be powerful incentives for customers. Plus, these rewards typically cost you less than any other reward, thanks to a customer’s perception of your product’s value.

A national study by Parago that found 55% of consumers shop where they find value from loyalty and rewards programs. The same study found consumers are much more sensitive to price, due in large part to significant decreases in their spending power.

In fact, in every income level under \$200,000, price is rated as significantly more important than brand. These trends identify a seismic shift in consumers’ path-to-purchase behaviors: They

### Back in Vogue: Price Incentives

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#### How do you rate your price sensitivity?

	2013	2012
More Sensitive	75%	50%
Unchanged	22%	26%
Less	4%	4%

Source: Parago

want to receive greater value for being recognized as loyal customers.

Identifying the segments that hold the most promise for growth can also reveal the most powerful incentives to change consumer behavior in your favor. Initially, you can provide rewards based on insights, using various proven, effective marketing innovations.

For example, one marketing innovation is an action-triggered prepaid card; these cards are delivered directly to consumers with a zero- or small-value load. Additional cash value is automatically loaded when consumers complete specific behaviors. Another tactic is to offer exclusive rebates for fulfilling time and quantity requirements. And online redemption stores loaded with appropriate rewards can also drive behavioral changes.

Understanding customer segments, the incentives that drive their loyalty, and the opportunities to change their behaviors can grow your baseline. Even if you don't plan to launch a traditional “loyalty program,” the right reward strategies can still be a key, leading differentiator in a market sector.

Sure, competitors will take note of these incentive-to-loyalty initiatives. But unless they invest in the research to truly understand their own customer segments, they will never fully understand the impact that a data-driven, sticky program makes on the market.

—RODNEY MASON, CMO, PARAGO





## PUT IT IN CONTEXT

### USING DATA TO GIVE EXPERIENCES AND ENGAGEMENT MEANING

Despite all the complexities of omnichannel message creation and deployment, demand-side publishing, big data and technology, the modern world of marketing is fundamentally simple: More emphasis needs to be focused on customers' wants, needs and desires.

#### All Data

To say this is an easy task, however, would be a gross understatement. There is often a disconnect between what consumers say and what they actually *do*. Therefore, we must bridge the dissonance between the two in order to fuel our marketing models.

As business leaders, we are fortunate to live in a time of big data, or what I like to call "all data." All data is the combination of digital data, such as the more than 1 trillion indexed URLs by Google; physical data, such as the 6.7 billion mobile accounts available globally; and interaction data, including 127 daily application minutes logged by U.S. smartphone users.

From all data we are able to ignite hyper-personalized connections at scale to meet the demands of our complex customers. It's up to us as marketers to create a powerful experience, one that is fundamentally useful in consumers' lives, provides the information and messaging that they demand, inspires them to share and is culturally relevant.

#### TXU Powers Up

But to be successful, brands need to use all data to integrate consumers' positive experiences and engagement with the brand, to close the gap and create a relevant context. One brand that is hitting this mark is TXU Energy, a leading retail electricity provider.

The state of Texas represents the largest electricity market in the United States. Over the last several years, the majority of the market was deregulated, allowing for competition and spurring the entry of more than 60 competitive electricity retailers. TXU Energy, one of the two incumbent

providers prior to deregulation, is the current market leader. It is also among the higher-priced retailers.

As a premium cost provider of a commodity product in a now highly competitive marketplace, retaining current customers and attracting new ones presented an ongoing and difficult challenge. Because the company decided not to compete based on price, it needed to explore other relevant ways to differentiate the brand.

TXU Energy had to radically shift how it perceived and related to its customers—from the traditional "utility" mindset of "buying power from us," to a more customer-centric model, where the retailer empowers its customers with information and tools. The company shifted perception and strengthened its relationship with customers with the launch of a new website, interactive online tools and a mobile site and app. Real-time energy information was now within the customer's fingertips, delivering on an overarching strategy of customer empowerment and control.

TXU isn't alone in its approach to engagement and experience. When it comes to leaving a lasting, emotional effect on a consumer, what could be more important or personal than your health and the well-being of those closest to you?

#### Walgreens' Healthy Plan



Walgreens embarked on a journey to create a loyalty platform designed to better engage consumers and encourage them to take better care of their health. The program is designed to leverage the com-

pany's goal of helping its customers "Get, Stay and Live Well." Every element of the program—from how members earn points to what they can spend them on—connects to that concept. Within months of its launch, more than 72 million customers had enrolled in the Walgreens Balance Rewards program.

The program is highly relevant to its customer base, because it focuses on three core tenants: ease—customers want a program that is easy to join and use; value—customers want a program that enables them to save and earn meaningful rewards; and wellness—customers need access to information on how to get well, stay well and live well.

The complexity is not in our tools or capabilities. The complexity in marketing is that our customers are ahead of us and many brands don't know how to catch up. If you build the right experience—transformative ideas—and you engage your customer through relevant and personalized channels—distributed by big data, or all data and technology—your business and brand will gain exponentially in returns. At the very least, you will meet the demand of your beloved customer. —MICHAEL MILLER, CMO,

EPSILON AGENCY SERVICES

