

Good Outcomes

The only thing more ubiquitous than loyalty programs is the debate about them.

by

Spencer L. Hapoienu
President and Co-founder
Insight Out of Chaos

Why are loyalty programs propagating like kudzu in the south? Two reasons: 1.) Companies in highly competitive categories like grocery and drug launch loyalty programs because competitors have them. 2.) Companies thinking strategically about ways to compete more effectively use loyalty programs to distinguish and segment their customers in order to learn how to serve them better.

But loyalty programs invariably spark debates. Will the loyalty program cost too much? Should we charge to participate in the program? How do we compensate customers if we drop the program? Is the loyalty program more or less profitable than other marketing?

Because these debates focus on the mechanics, operations and costs, companies lose sight of the goal—to learn more about the customer than the competition. Often, more time is spent on adding gimmicks to the program than is spent on mining the data and using it to serve customers smarter.

As Frederick Reichheld, director emeritus at management consultant Bain & Co. and author of several books on loyalty marketing (*The Loyalty Effect*, 1996) said, “Loyalty marketing has gotten pretty far off track. I’ve been frustrated that a powerful concept and powerful tools that could have brought the loyalty proposition back into the center of the strategic dialogue have instead become hijacked by promotion programs.”

Database marketing is really what it’s all about. What can be learned that will help the business improve customer satisfaction and loyalty, that manifests itself in higher sales through increased visits or purchase amounts? The objective of a loyalty program is not to increase the amount of money spent on one type of media or marketing versus another; it is to identify how to best satisfy the customer, to understand how different customer segments behave and to learn from measuring how customers react to each marketing activity.

The most overlooked advantage of using loyalty program data is the improvement in customer relationships. In a world dominated by technology and distant connections, customers respond to something that speaks to them, (provided it is not a hackneyed attempt at personalization but a real acknowledgement of their interests and behavior).

The customer story—what they like, what they buy, what they spend, when they visit—is in the data. Using the data smartly through marketing, customer service or merchandising will result in a *good outcome* from the customer’s point of view. It’s not the loyalty program rewards that drive the business—it’s the attention, the personalization, the customization, the recognition, the consideration, the customer service and the thanks that create success.

As Mike Linton describes it in his cover story interview in this issue of the *HUB*, the objective of Best Buy’s Reward Zone loyalty program is to generate a *good outcome* when judging the customer’s response: “Over time, we communicate what makes sense to each customer versus presenting a giant brand with thousands of SKUs. We wanted to reward our best shoppers, and we also wanted to reach them in a way that made sense to them, in a one-to-one, or at least a segmented way.”

“Loyalty” is different for every customer. A customer who buys the brand four times per year may be just as loyal as the customer who buys or uses the brand 10 times per year. Each customer may be devoting 75% of his or her usage occasions to the brand. In each case, there is a significant upside to adding one more purchase. Knowing how to distinguish the different customer segments is what makes using data more profitable. Exposing the customer to generic marketing, whether they visit four times per year or 10 times per year, is going to be less effective and generate a lower R.O.I.

It doesn’t matter which marketing tools are used to demonstrate customer recognition—more often than not, it’s less about marketing and more about the experience the customer has with the brand that makes the difference. That experience is formed through interaction in the store, in the dealership, on the phone, in the mail, on the web and in the home.

Are businesses *without* a loyalty program more profitable than those *with* a loyalty program? Some are, some are not. Obviously the brand efficacy, pricing, location and distribution have a great deal to do with the profitability of any business. But all other things being equal, what’s it worth to know who the best customers are and how they are voting with their disposable income on a day-to-day basis? What’s it worth to know the profitability of each customer? What’s it worth to know which customers are buying which products? What’s it worth to know which marketing programs create a *good outcome* and which fall flat?

At any level of success, knowing more about customers and reaching them in a way that resonates and results in a *good outcome* can only improve the business and increase overall profitability. ■

Spencer L. Hapoienu is president and co-founder of **Insight Out of Chaos**, a New York City database and direct marketing company. He can be reached at spencer@iooc.com or 212.935.0044.