

7-D Loyalty

Marketers often say that creating loyalty means always knowing what your customers want, when they want it, and making sure they get it.

That's fine, but it's not enough. Companies that are looking for loyal customers also should expect a *profit* from their investment in that loyalty. If you want profitable loyalty, you need to determine the frameworks for profitable customer definitions.

Building profitable customer loyalty means driving brand purchase behavior with the "right" customers. Loyalty programs can never profitably develop customers who do not value the brand proposition. The loyalty program costs required to tip the scales of an individual who does not value the brand in favor of the brand is typically excessive.

So, concentrating your loyalty marketing investment with *satisfied* customers is vital to profitable loyalty. Only those customers who are pleased with your brand represent your greatest opportunity for delivering a greater share of category spend.

Finding new customers who value the brand can be accomplished by careful comparison of your "best" customers to all individuals in the marketing footprint. Let's start by dispensing with the "absolute" view that it's more profitable to keep a customer than to acquire a new one.

This is only true if you know precisely which customers will attrit. Without such knowledge, companies spend blindly in attempts to retain

broad swaths of lapsed customers, but succeed only in retaining a few who otherwise would have canceled their relationships with the brand. The ROI for acquisition actually can exceed the ROI for retention efforts, because converted prospects are 100 percent incremental.

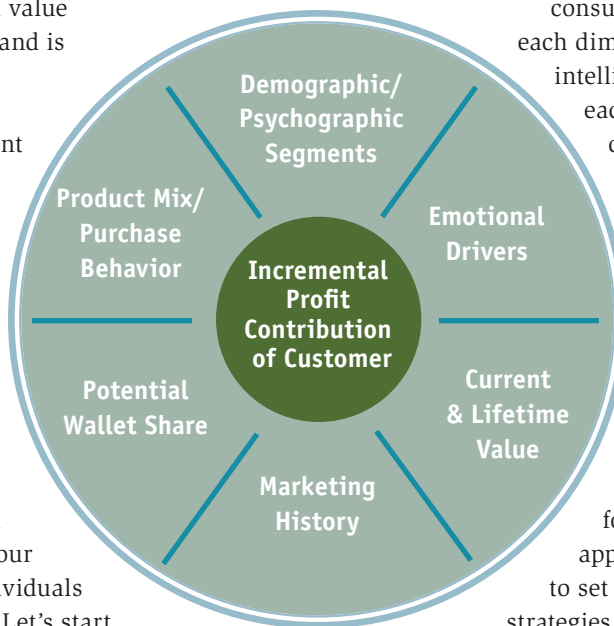
Once an individual has made an initial purchase, effective loyalty management requires a complete understanding of all aspects or dimensions of a customer. In general, there are seven key dimensions (*see sidebar*). The best-practice approach is to explore and develop each dimension independently.

This enables the development of a clear, undistorted view of consumer behavior/preferences for each dimension, so that marketing intelligence is very specific to each dimension, and a relevant contact strategy can be developed accordingly.

The customer knowledge framework fuels the analytic engine built from existing customer data, which, in turn, drives the measurement of incremental profit for each marketing communication for each customer. This approach provides the basis to set more effective contact strategies because it allows companies to determine:

- Which loyalty communication should be assigned to which customer.
- The increase in profitability that can be expected from each aspect of the loyalty program.

The seven dimensions of profitable loyalty management.



Seven Dimensions of Loyalty

1. Incremental Profit Contribution. Financial estimate of the incremental profit to be derived from each customer from each marketing communication.

2. Emotional Drivers. The *why* behind the buy. Information that identifies the primary purchase motivational factors for each customer. The primary factors include price, service, rewards and convenience.

3. Demographic/Psychographic Segments. Customer segments based on demo/psychographic and/or attitudinal information.

4. Current and Lifetime Value. Identifies the current and also the long-term, lifetime value of the customer

beyond promotion periods. Lifetime value is used to understand and measure loyalty.

5. Marketing History. The recency, frequency, and offers made in prior customer marketing efforts.

6. Potential Wallet Share. The value of a customer if 100% of the category purchases could be secured.

7. Purchase Behavior/Product Mix. Differentiates and defines the customer's depth and type of relationship that drives the customer's current value to the organization. Provides behavioral segmentation. Identifies what products and product categories the customer is buying.

- If loyalty expenditures should be increased or decreased for the current period, given the expected profitability from each customer for each program.
- Which loyalty communication(s) should be eliminated for a time-period, given expected performance.
- What new loyalty touch points should be tested/added.

For example, suppose a restaurant chain implemented a new marketing communication program based on the dimensions of incremental marketing communication profit, current and lifetime value, and wallet share. Repeat customers are targeted with a goal of increasing visits.

We would determine a current threshold of visits on an individual level and provide an incentive to increase the number of visits over their existing threshold. By targeting the precise number of visits and delivering a cost-effective offer, the restaurant will increase the number of visits and improve profitability. In our experience, this type of approach can yield a 3:1 ROI.

In the travel industry, we have used the framework of purchase history to determine key purchase activities that correlated positively with high current customer value. These activities included specific travel activity such as yield and frequency, as well as certain partner activities.

Using this framework, we employed a strategy of delivering a relevant offer that encouraged repeat

behavior, which linked to increased value. This type of program can yield in excess of a 4:1 ROI.

Effective loyalty management is based on an analysis of existing customer data. Like all good business strategies, it is dependable to the extent that the data are accurate. One of the most significant barriers to effective loyalty marketing is the use of loyalty advertising or tactics without the benefit of dependable customer data analysis.

Loyalty marketing is marketing first, and advertising second. Unless marketers demand rigorous *pro-forma* analyses of their programs, loyalty will remain, for some, just another buzzword in the ad-game lexicon. ■



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