

Designing & Implementing Your Altus Premier Gift/Loyalty/Rewards Program

Loyalty Program Definition:

A customer loyalty program is a structured and long-term marketing effort which provides incentives to repeat customers who demonstrate loyal buying behavior.

Successful programs are designed to motivate customers in a business's **target market** to return often, make frequent purchases, and shun competitors. In **retailing**, these programs generally reward loyal customers with discounts, special offers, rebates, points, or prizes.

The days of opening the door and waiting for business to POUR IN may be gone. Successful businesses will find ways to “PULL” business in.

Considerations in setting up your Rewards Program:

Largely, the creation of a successful loyalty program boils down to three important steps:

1. **Setting a goal for customers to achieve** - Without a finish line (or multiple finish lines) for customers to cross, customers may lose interest.

Humans are typically “creatures of habit” and once we establish a habit, they are **HARD** to **BREAK**. We typically go to the same doctor, convenience store, dry cleaner and so on. We do so because it is familiar and **EASIER**, we don't have to think about where to go, how to find it and we know where everything is in a particular store.

To gain (or keep) market share, we **MUST** establish your business as “the habit”. Your gift/loyalty/rewards program can help establish that habit or **HELP BREAK** a previous buying habit. This is especially important for new businesses, slow periods or when a new competitor moves into your target market area.

The goals of your Rewards Program should be **OBTAINABLE** and **WELL COMMUNICATED**. It is a well recognized theory that **7 consecutive visits ESTABLISHES A BUYING HABIT**.

MAKE SURE to communicate to your customers about your Rewards Program. Some methods to consider:

- Encourage your employees to let each customer know about your gift/loyalty/rewards card program. Set-up a contest or reward them in some way for selling the most gift cards in a month or registering the most new loyalty program customers. The rewards can simply be recognition – everyone likes a “pat on the back”.
- Spend a few dollars and have an attractive, bright and informative poster created and placed that all customers will see it and have a **CONSTANT REMINDER** about your program. Explain what the rewards are and how they are obtained.
- Utilize some of the Point-of-Purchase (POP) materials from EMS Arizona, such as employee buttons and displays. Show your cards on the counter.
- Advertise your program on your web site and Social Media.

2. **Deciding what the action will be to progress** – How do they EARN rewards? You have to be careful about choosing which behavior you want to reward.

In a perfect world – what is it you want your customers to do? Yes, you want them to “buy”, but there is MUCH more to it than that. Some customer actions to consider:

- Do you want them to “upgrade” their purchase?
- Do you want them to buy higher margin items?
- Do you want them to come back more often?
- Do you want referrals?
- Do you want them purchase additional products or services?
- Do you want them to buy accessory items?
- Do you want them to routinely use your business for service?
- Are you after a “high-ticket” one-time purchase?

Different types of business use “loss leaders” and other ways to attract new customers and retain existing customers. How many auto repair services use the “low cost oil change” to get customers in the door? What they REALLY want is the maintenance and repairs. Retailers will use “sale items” to get customers in the door. Once they get them, how do they keep them?

Your rewards program should encourage the desired action. There is an old saying that you “get more flies with honey than vinegar”. We teach children with positive reinforcement. Use positive reinforcement with your customers.

Make a big deal when a customer hits a trigger and RECEIVES a reward. This is ESPECIALLY effective if other customers (and potential customers) hear this. In the Altus Premier Program, your business and your customer get a receipt that indicates their status. If a customer is close to reward, it’s indicated. Look at the receipt and see where the customer is and let them know WHAT THEY NEED TO DO to get a reward.

Different business types want their customers to do different actions. For instance:

- If I have a low average ticket (sale), like a coffee shop – I want MULTIPLE VISITS. I might design my Rewards Program to encourage key return visits (visit 1, 3 5, and the important visit – number 7).
- If my customers have the opportunity to upgrade quality – like a flooring store, I might set-up tiers so they are encouraged to move up in quality and spend more.
- Maybe I am looking for a long-term relationship (over years) with my customers. I might want to set-up a tiered program that as they stay with me for a long period they are rewarded. Two GREAT examples of this are the airlines and grocery stores. The more I spend and the more LOYAL I am, the greater I am rewarded.

Define YOUR Target Market:

Not every customer or prospect fits your target market. Your market may be defined by items such as:

- Proximity to your business
- Age/gender/ethnicity
- Their economic status
- Specific interests/hobbies
- The job they have
- Other factors

An example: Auto Repair - The target market could be defined as anyone with a car – but that just isn't accurate.

- Almost nobody drives 10 miles to get their car fixed. There are repair shops seemingly on every corner. So, this business' customers probably live/work within a 5 mile radius.
- They drive older cars. Cars that are 3 years old or less – probably go back to the dealership because of warranties.
- People that drive older cars probably aren't Millionaires; they likely are more modest incomes. Cost MATTERS.
- Age wise, they probably are older than 25 years old. At this age, Mom & Dad no longer pick up the bill.
- A HUGE target for this type of business is local FLEETS. Take the dry cleaner or landscaper or pizza shop owner that has multiple vehicles that usually need lots of repairs. Getting this type of customer is a BIG WIN for an auto repair business.

Use your Gift/Loyalty/Rewards Card Program ON THE TARGET MARKET. These customers have the highest chance of being repeat and loyal customers. Handing a potential customer, that meets your target market, one of your cards IS AN EXTREMELY EFFICIENT WAY TO MARKET.

Growing & REWARDING Referrals:

All businesses love referrals – but very few actually ENCOURAGE them. In the Altus Portal, businesses can reward referrals and communicate with their customers.

EX: I I walk in to business and say that Joe Smith referred me, that business owner can go into the Altus Portal, pull up Joe Smith and add 10 points (\$10.00, whatever) to Joe's card. They can then send Joe a text or email, thank him and let him know the referral was appreciated and that they have rewarded Joe. Joe feels great and sends more referrals. EASY.

3. **Give them a HEAD START** – Provide an *artificial advancement as a bonus* - **It's simple:** In the race to win the loyal customer, you should *give them a head start*.

Studies have found that artificial advancement only had a noticeable effect when there was a clear reason why people were receiving advancement at all.

In other words, artificial advancement won't work as a tactic if you just hand out points for no reason.

But the reason can be quite simple. For example, you could position advancement as a reward for Registering Your Card. This works for every customer loyalty program, regardless of the industry. So when new users sign up, a simple message explaining that you're giving them some bonus points to help get them started is all you need to justify the process.

No matter what you choose to do for advancement, make sure the reason for the bonus is clear. People won't be swayed by artificial advancement if they don't know why they've received the extra boost forward.

Social Media:

Social media is growing in importance for many businesses. Coupling your Altus Premier Rewards Program incentives with Social Media may bring added benefits.

Good reviews on Yelp, Google and other media sights can also help grow your business. Getting customers to endorse your business and write favorable reviews is sometimes a daunting task. Consider offering an incentive to your customers through your Rewards Program.

EX: If your customers write favorable review, let them know that you will add 10 points (\$5.00 or whatever) to their card. Your customer now has an added incentive to do and the favorable review is GREAT for your business. A WIN WIN!

Head Starts, A Case Study:

A breakthrough piece of consumer research by professors Joseph Nunes and Xavier Dreze entitled "The Endowed Progress Effect" analyzes how artificial advancement affects customer effort when it comes to loyalty programs.

Nunes and Dreze began their study with the assumption that customer loyalty programs could persuade customers to stick around—if customers were given a comparative head start in reaching their "payoff milestones."

In their first study, the researchers gave 300 loyalty cards to customers at a local car wash. All of the customers were told that each time they returned to have their car washed they would be given a stamp on their card.

A clear incentive was laid out for those that got their car washed regularly; upon the completion of their card, they would receive a free car wash.

In truth, two different types of cards were handed out to customers.

The first group received a loyalty card that had eight slots to be stamped before a free car wash was awarded.



The **second** group received a loyalty card that had 10 slots to be stamped, but this time two of the stamps were *already filled out*, meaning customers only needed eight more purchases to get their free car wash.



With such a similar setup, one might expect very similar results. However, that definitely wasn't the case: The second group had a nearly double rate of loyalty card completion!

Only 19 percent of customers in the eight-stamp group (the first group) made enough visits to complete their card. However, 34 percent of the 10-stamp group (the ones given a head start) came back enough times to finish their loyalty cards.

Why Did This Happen?

At first glance, the results don't seem very logical. Since the first group had eight slots to complete and the second group had 10 slots to complete (but with a two-slot head start), both groups needed eight purchases before they could get a free car wash.

So why weren't the results the same?

According to Nunes and Dreze, the head-start loyalty card helped customers mentally reframe the completion process; the fact that they didn't have to start something from scratch played a huge role in their motivation to complete the card.

The researchers also highlighted other studies in their paper that emphasize the finding that the closer people get to completing a goal, the more effort they exert toward achieving that goal. So even artificial progress has an impact on consumer motivation because it gives customers the feeling that they have already surpassed the most challenging aspect—getting started.

Both cards in this car wash program required the same amount of effort by customers. But the mental block of getting started was eliminated in the second card, leaving more customers able to complete it.

The Role of “Ego” in Loyalty Programs - Tiers (like Bronze, Silver, Gold & Platinum)

Nunes has done some other interesting studies on customer loyalty. In fact, he discovered that in many instances the reward could be worth nothing and still create the same effect!

According to Nunes, consumers get excited about amassing points—even if the points have no currency value. To reinforce his findings, Nunes looks to points systems on sites like Yahoo Answers and Reddit:

You can't exchange these points for real-world goods and services, yet people still spend enormous amounts of time accumulating them just to beat others in a list of top point-getters, or simply to compete with themselves.”

In other words, it's the competition and the feeling of superiority that is driving the success of many loyalty programs, especially when they aren't offering a tangible reward.

While this method may work for a social site like Reddit (where the use of the site is the reward, because it's entertaining), how does this apply to small businesses?

Nunes says that loyalty programs “need to be designed to offer differentiated products and services to customers based on their purchasing patterns and profitability.”

That means most loyalty programs benefit from having different classes.

You've likely seen these classes before: “Gold” members get better deals than the “Silver” class. We are wired to want to maintain our status when we know that we are beating other users. The data from Nunes' study shows that these premium classes can and do encourage people to spend more.

So if you do decide to implement a long-standing customer loyalty program, be sure to consider your “Platinum” users and how you might differentiate their program to reward their ideal spending on your business!