



State of the LOYALTY INDUSTRY™

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Driving Efficiencies Out Of Loyalty Programs

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Driving More Out Of A Loyalty Program

This economy has caused many companies to look at their budgets and find areas to cut. While there may be some fat in loyalty programs, this is a time to look for opportunities for growth. Loyalty programs are often the richest source of data.

As such, companies should be looking at opportunities to leverage loyalty program data to drive profits. There are a number of objectives managers of loyalty programs must keep front and center:

1. Understand how your program drives a relationship – There are many elements to any loyalty program. Marketers consistently utilize marketing mix models to understand how the various components of the marketing mix drive sales. However, few understand how the various components of loyalty programs drive increases in relationship strength and ultimately business outcomes. Understanding how loyalty programs drive relationships enables loyalty marketers to understand where to invest in their loyalty programs.
2. Build out a profile for each customer – How does a company become more relevant in how they interact with their customers? They understand what attributes make customers different and know those attributes for each customer. Then utilize those attributes to be smarter in how you interact with your customers.
3. Get smarter in investment decisions at a customer level – Companies should be using their data to understand the current profitability of a customer, estimate share of wallet and determine potential of a customer. Not all customers are equal. Many in the industry believe this but few actually act on this. If you as a marketer understand the value of a customer and the effectiveness of your marketing, you can quickly show management the impact of cutting costs.

By getting smarter and using insights, loyalty marketers can drive sales and be more efficient with their budgets. If this economy has taught us anything, we need to make sure what we do drives sales otherwise we should not be doing it.

Loyalty Marketing Is About Building A Relationship With Your Customer

If you have not heard, a points program by itself has little impact on sales. It is what you do inside the points program that increases sales. Customers remember each interaction you have with them even if you don't. And it is the combination of those events that determines whether you have a strong or bad relationship. A loyalty program should be integrated into the entire experience with your brand. Actually, there should be no difference between your loyalty program and your brand. The loyalty program should be the avenue that your customer interacts with you when they are not buying. For example, using the data from the loyalty program you should recognize the customer when they call your customer service line and any direct communications should be in the context of recognizing their past transactions and interactions with your brand.

Think of it as this way, mass advertising should be used to reach your customers when they are not interacting with your brand and the loyalty program should be the rest of your marketing.

With this, it is important to understand how effective what you do from a marketing standpoint is in building relationships. Many companies build marketing mix models and the dependent variable is short-term sales. But a loyalty program is more than the short-term. It is about building a long-term relationship. So we should all start to understand how effective our loyalty marketing tactics are in terms of building relationships. Once we know this, we can then make investment decisions.

Decide How Much To Invest At A Customer Level

Many marketers believe that not all customers are worth the same. However, few actually put this into practice. If you need to cut budget, you need to do this by identifying the right members of your loyalty program to divest in. There are many factors you need to consider when making these decisions. The first is how much are they worth to you today and how much more could they be worth (potential). You also need to understand how much at risk that individual is to stop shopping with you. There are many ways to do this and the point is and the point of this article is not to debate which way is best. But the point is to simply use information you have on a customer to decide how much to invest.

Build Out A Profile Of Your Customer

Those in customer analytics like to build predictive models. You have a business issue, give an analytics person 6-8 weeks and they can build a predictive model to identify the customers to interact with to tackle that business issue. However, as this has shown sometimes we as marketers need to react overnight. If we as marketers are smart in understanding our business and our customers, we can have a profile on each customer on hand that allows us to quickly identify customers who fit certain attributes. Predictive models are needed when a persistent campaign is used but if you have a rich profile on your customers in your loyalty program you can react quickly to that phone call you get from the corner office two weeks before the end of the quarter.

So while many companies have been cutting back in marketing over the last year, most companies are thinking about spending more soon in anticipation for the market recovery. Even

if your company is not prepared to invest more, you can get more impact out of your spend by understanding how effective the individual tactics in your loyalty are in creating relationships, making investment decisions at a customer level and using profile data to enable quick decision making.

About the author: Taylor Duersch leads the Decision Sciences group at Carlson Marketing. It is a team of decision sciences professionals who develop and deliver world-class quantitative strategies involving customer valuation, marketing research, segmentation, predictive modeling, econometric forecasting, risk analysis and optimization, with a particular focus on marketing accountability and ROI analysis.

Taylor has more than 10 years of experience leading customer analytics, and managing and evaluating marketing solutions in the B2B and B2C space. Prior to joining Carlson, Taylor led the customer insights team in Small Business Financial Services at JP Morgan Chase. He managed the creation and delivery of the market research and customer strategy insights required to support sophisticated CRM strategies for small businesses. Taylor holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Statistics from Utah State University.