

## 10 Steps for Setting up a Customer Loyalty Program

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### Step 1: Evaluate the Product

The first step is always to answer the following questions honestly:

- Is my product good enough?
- Is my product worth the investment?

If the product does not sell because of a significant quality, distribution, design or price problem, then the customer loyalty program will not be able to salvage it. Only if the product is already competitive does a customer loyalty program make sense. If the objective of the customer loyalty program is to support a whole product line or even the entire company, then of course these questions must be answered on a corporate rather than a product level.

To conduct a product analysis, you must clarify how sales have developed to the current level, and why they have developed that way. You must know the value of the product in the customers' eyes, and what features drive its sales. You should also conduct an analysis of your competitors' products in order to know the position of your own products.

After you have done your product analysis, you will be able to know if your product is competitive or not. If your findings are that your product or company does not have a significantly competitive product, you can apply the framework from W. Chan Kim and Rennee Mauborgne's book *Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant* to your product and company.

## **Step 2: Identify the Value Proposition**

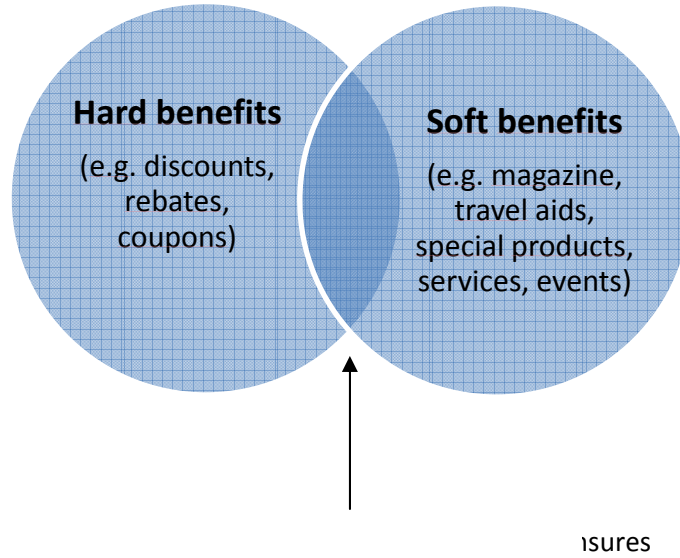
One can argue if “Program Goals” should come before “The Value Proposition”. However I believe it is important to know what to offer customers before a company identifies the program’s goals.

This part is one of the absolutely most important steps before implementing a Customer Loyalty Program. What to offer customers? What is the value proposition? If the value is not well received by customers, the program will not work at all. Therefore use extra time to develop your value proposition.

The right value proposition differs from industry to industry and from product to product. It also depends on high involvement or low involvement products. However here are some general guidelines:

1. The value, reward, benefits have to be of “high value” in order to make the membership attractive. The benefits must meet the expectations of the target groups.
2. It is not enough to think that a benefit offered are of high value. The benefit must also have a high “perceived value”. If customers perceive it differently because it is not the benefit they desire, the program will not work.
3. Selection of benefits. Benefits can be “Hard” or “Soft” (See Figure 1).
4. Timing of benefits or rewards (i.e., instant or delayed reward) needs to be considered. If a customer wants immediate rewards while a company prefers delayed gratification to build exit barriers, there might be a conflict of interest between the customer and its sponsor. As immediate rewards cannot distinguish between short-term promotion and long-term loyalty program, Yi & Jeon (2003) modified Dowling and Uncles’ (1987) reward scheme by adding repeated reinforcements to immediate rewards (See Figure 2).

**Figure 1: The right mixture of loyalty program benefits**



**Figure 2: Modified Framework of Reward Schemes**

Type of Reward	Timing of Reward	
	High	Low
Direct	Instant Scratchers, Membership Program (product-related Reward)	Airline Frequent-Flyer Clubs, Coupon & Token (GM Card)
Indirect	Instant Scratchers, Membership Program (Product-related Reward)	Multiproduct Frequent-Buyer clubs (Fly Buys)

### Step 3. Create Program Goals

Clearly identify your program's goals and target groups. More importantly, the choice of target groups should be directly linked to the benefits your loyalty program must offer, as each target group has its own preferences and demands different benefits. Goals can be divided into core, primary and secondary loyalty program goals (See Table 1). The ultimate goal of every customer loyalty program is to increase profit, revenue and market share. However a loyalty program's primary purpose is to build a relationship with customers that turn them into long-term loyal customers.

**Table 1: Goals of a Customer Loyalty program**

<b>Core Goal</b>	<b>Primary Goals</b>	<b>Secondary Goals</b>
Increase in: <ul style="list-style-type: none"><li>• Revenue</li><li>• Profit</li><li>• Market share</li></ul>	<ul style="list-style-type: none"><li>• Customer loyalty</li><li>• Win new customers</li><li>• Build up a strong database</li><li>• Support other company departments</li><li>• Create communication opportunities</li></ul>	<ul style="list-style-type: none"><li>• Increase visit frequency at point of sales</li><li>• Increase usage and purchase frequency</li><li>• Develop problem solutions</li><li>• Support public relations of company</li><li>• Add customer support capacity</li><li>• Support dealer network</li><li>• Improve product, brand and company image</li></ul>

### Step 4: Determine the Financial Cost

Of course, the cost of a loyalty program will differ from case to case, depending on the industry, the customer structure, the competitive situation, the set-up of the program, and so on. Most companies are very reluctant to give out financial information on their loyalty programs, or do not even measure the cost. But on average you can estimate the cost per member per year in the range of US\$20-60 for B2C loyalty programs and US\$100-300 for B2B loyalty programs

(Barlow, 1992 p. 37; Wiencke and Tribaian, 1996, p.156). In addition, there is the initial cost of developing and establishing the program, which can easily reach six figures. This does not include the cost of advertising and promoting the program during its launch, or larger investments in the infrastructure such as CRM tools and database.

The main costs you should consider are:

- Technical, organizational and personnel infrastructure
- Program service centre
- Development, storage and shipping of the rewards
- Communication measures
- Initial development and constant improvement of the program concept

#### **Step 5: Develop a communication platform**

One of the main goals of a customer loyalty program is to create opportunities to communicate. In order to achieve this goal, the customer loyalty program concept must include communication methods that reach its members with themes that are of interest to them. You must further bear in mind that the program has to communicate in three different environments, each with different interests and goals. The first group is the loyalty program members; the second group is the company's employees, management and stakeholders; and the third group is the external loyalty program environment, which includes the media, the industry in which the sponsoring company operates, external partners, and so on. For each of these three groups, different means of communication must be developed to send the appropriate messages. In addition, program members will, in many cases, want the program to serve as a platform to communicate with one another. Communication through new media channels such as text messaging and social networking are strongly advised.

### **Step 6: Determine program organization and management**

In order to guarantee a smooth development of the loyalty program concept and its implementation, your company should put together a project team made of people from different departments (marketing, sales, IT, research, finance and so on) and management levels (from top management down to customer service representatives). Developing a customer loyalty program is impossible without a focus. By including different departments in the team, a one-side approach can be avoided. This diversity also ensures the acceptance of the final concept throughout the company, for every department's view will have been included. By involving different management levels, you make sure that top management supports the final concept, that the people who have to manage it are satisfied with the program for which they are responsible, and that the employees at the customer interface who have to promote and sell the loyalty program support the idea. A steering committee should be set up whose members are from a higher management level of all relevant departments. Finally, if there is diversity in the team, it will be easier to integrate the loyalty program into the company organization and the existing marketing plan. Instead of representing a top-down decision, the loyalty program will be supported on all levels. (John P. Kotter has done extensive research on how to create urgency in implementing new programs into organizations. His work can be recommended.)

### **Step 7: Set up a database**

A database that contains detailed and correct information on your customers is a strategic weapon that will greatly influence your success. Not only since the advent of Customer Relationship Management (CRM) must databases be seen from a strategic rather than a tactical viewpoint, but without detailed knowledge about its customers no company will be able to compete. CRM is more commonly used in the context of technology solutions and has been described as "information-enabled relationship marketing" (Ryals and Payne 2001). Zablah, Beuenger, and Johnston (2003) suggest that CRM is "a philosophically-related offspring to relationship marketing which is for the most part neglected in the literature", and they conclude that "further exploration of CRM and its related phenomena is not only warranted but

also desperately needed". I don't think this is the place to describe CRM. However before implementing CRM one should take below into consideration:

Research shows that CRM can fail; companies trying to implement CRM have lost customers and money (Rigby, Reichheld, & Schefter, 2002). Examples include the high turnover rates of staff in call centers, and the frequent cost blowouts associated with constructing a data warehouse etc. CRM often fails when the customer strategy is put in the back seat and CRM in the front. In the article "Avoid the Four Perils of CRM" (Rigby, Reichheld, & Schefter, 2002), the authors argue that a company can only achieve success with its CRM program if the company first creates a customer strategy, which should start with identifying which customers the company wants to build a relationship with. Dowling (2003) further argues that the first step is to conduct an audit of the market in which the brand competes. Other researchers argue that company fails with implementing CRM if CRM is used to transform the entire business (Rigby & Ledingham, 2004). In contrast, companies with CRM success all take a pragmatic, disciplined approach to CRM, launching highly focused projects that are relatively narrow in their scope and modest in their goals (Rigby & Ledingham, 2004)

### **Step 8: Research on other loyalty programs**

To develop a customer loyalty program from a broad perspective, it is worthwhile carrying out some research. You need to consider the following questions:

- How do competitors organize their customer loyalty programs?
- How are loyalty programs set up in other industries or in other countries?
- What can we learn from other successful customer loyalty programs?
- What can we learn from loyalty programs that have failed?
- Is there any specific literature (for example, case studies) on the subject?
- Are there external specialists whom we can consult?

This research will allow proper benchmarking and inspiration in "best practice".

### **Step 9: Implement the loyalty program**

In general, the development of a customer loyalty program from the moment of the first idea to its full implementation will take six to twelve months. One of the questions that need to be addressed is how to implement or integrate the program into your company's organizational structure. There are a variety of alternatives, from founding a totally independent company to manage the loyalty program, to integrating the loyalty program into an existing department, to outsourcing the entire loyalty program management to an outside agency. There is no best solution, so this decision depends on the individual situation of your company. It is more important to ensure that the customer loyalty program's enormous support potential is fully exploited within the company. In most cases companies should wait six to twelve months before seeing the results of the program.

### **Step 10: Prepare a strategy for program defectors**

A loyalty program should be able to identify program defectors in order to try to win the customers back. Customers who leave can provide a view of the business that is unavailable to those inside, and whatever caused one individual to defect may cause many others to follow (REICHHELD & Jr, 1990). In most businesses, 60 % - 80 % of customer defectors say that they were "satisfied" or "very satisfied" on the last satisfaction survey prior to their defection (Reichheld, 1994). The reasons for satisfied customers defecting are often due to competitors changing offerings and/or the customer developing new requirements or buying habits and beginning to look for alternative products or the customer simply moving to another location. A proper strategy should be put in place to identify the exact reasons and determine how to address each.