

contents

| | |
|---|----|
| loyalty under the microscope | 3 |
| customer data – the foundations of a loyalty approach | 7 |
| customer insight – what we have to understand | 12 |
| customer experience – driving behavior | 15 |
| how to make your loyalty program work for your loyalty approach | 21 |
| summary | 27 |

foreword

Edwina and I founded dunnhumby just over twenty years ago. Right from the beginning, the company has been based on a single idea:

If companies put their customers first in every decision, they become their customers' first choice – which improves their brand value and business performance.

It's a simple idea, but it has proven incredibly successful as the companies we've worked with see the value of being relevant to their customers. It is the understanding that customers – the people in the store taking the product off the shelf – make decisions every day based on a changing set of wants, needs and desires. That means the 'customer loyalty' expected and sought by some companies is actually a rarity.

I'm proud to introduce this paper on a new concept of loyalty – the loyalty of companies to the idea of putting the customer first. In it we use our experiences of working with some of the world's biggest brands to outline what we believe and know to be a successful way of doing business.

I hope you enjoy it and by the end you will understand that if you want to grow your business, you should be loyal to your customers. It is about using the data to make your business as relevant as possible to your customers. If you enter the process with the belief that by having some sort of program customers will become magically more loyal to you, you are likely to be disappointed.

We have a well worn saying here: "if you want loyalty, get a dog."
But with dunnhumby's loyalty approach, the dog chooses its owner.



Clive Humby
co-founder and chairman
dunnhumby



UNDERSTANDING
DATA IS ONE THING,
KNOWING WHAT TO DO
WITH IT IS ANOTHER

loyalty under the microscope

Loyalty is a much-abused word in marketing. That might be a strange thing to say for the company behind the successful Tesco Clubcard program. But while many companies strive to achieve that much-vaunted goal of customer loyalty, the vast majority of brands do not engender true loyalty amongst their customers.

Yes, there are exceptions, such as football teams and their ardent supporters. Some brands like Harley Davidson even define an entire lifestyle, where customers sport a tattoo of the brand logo. Truly innovative brands such as Apple also inspire real fans who await their latest offering.

Therefore, perhaps the first question you should ask is, do your customers show their loyalty to your brand, in the truest sense of the word, and brand themselves? Do they have a tattoo of your logo on their bodies? If they do, you can stop reading now – you are way ahead in the loyalty game.

Very few customers will brand themselves with your brand; true customer loyalty is a rarity.

The rarity of true 'customer loyalty'

For the most part, customers make rational decisions based on their needs, wants and desires and 'customer loyalty' is incredibly rare. As customers exercise choice every day, most brands have to face the reality that customers will not support them when they are in trouble. The brand is only as good as the customer's last experience.

So for most brands, the best place they can hope to be is a part of a customer's repertoire or consideration set. This might include anything from three to ten brands that the customer might consider and evaluate when making their next purchase decision.

Someone may claim to be loyal to Nokia because they have always used its devices and believe that their next phone will be another Nokia. But when a revolutionary competing product appears, like the iPhone, then many such customers make the switch. What seemed like loyalty to Nokia was nothing more than a strong preference and habit.

Inevitably, some brands do have a very small percentage of customers who are truly loyal in purchase choice. But these are the exception rather than the rule, such as the fans of Apple or Coke drinkers that would never buy Pepsi under any circumstances.

In fact, while brand loyalty is elusive for many, brand rejection is much more of a reality. We all know someone who has had such a bad customer experience that they vowed **never** to buy a brand again, be it a bank, insurance company or airline.

So the way you treat customers is central to your success.

It's all about being **relevant** to the needs, wants and desires of the customer.

And that's why it is time to put our understanding of loyalty under the microscope.

Focus on your best customers

The current approach of businesses to so-called 'customer loyalty' is often linked with customer acquisition. Too many companies focus on winning new customers while ignoring their current best customers. It is common to see companies taking this approach – bribing new customers while relying on the inertia of the existing good customers.

But it's a dangerous tactic and a disastrous long-term strategy. Customers are observant – they realize that in many cases it is better to be disloyal and long-term frequent customers might feel alienated as they are taken for granted. At that point it's inconvenient for the customer to switch to another product, but it's worse for the company, which has to find and win over another customer – a much more

difficult and expensive trick to pull off than keeping an existing customer.

It typically takes 12 to 20 new and uncommitted customers to make up for the loss of just one highly committed customer. That means acquisition costs for brands are driven up to unsustainable levels and you risk alienating that long-term frequent customer because they dislike being taken advantage of.

So it is customers who already show a strong preference for a brand who need to be protected and nurtured, while those who use a repertoire of brands can be developed and market share gained. Delivering an offer that is increasingly relevant to those customers' changing wants, needs and desires is a sustainable long-term strategy for improved business performance.

And at its heart is a shift in focus – from customers who don't already show a preference for your brand to those who already do.

A new understanding of 'loyalty'

Once companies realize the importance of focusing on existing customers, their whole understanding of loyalty changes. Customer loyalty is not about customers demonstrating their loyalty to a company, but rather the company demonstrating its loyalty to its customers.

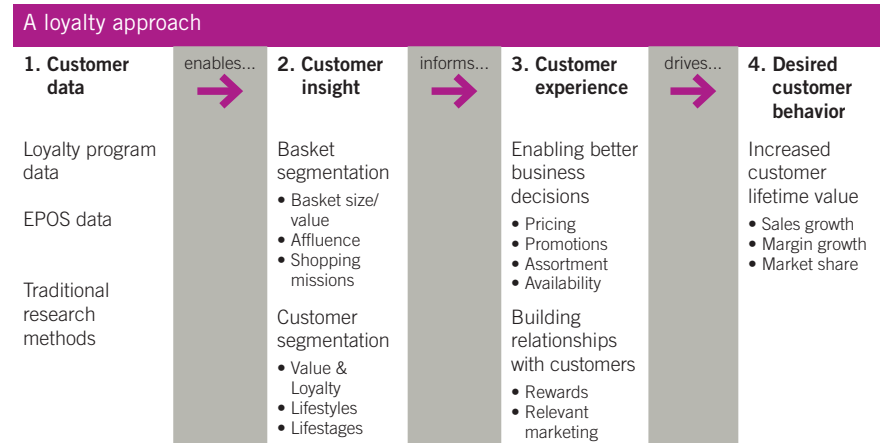
Companies do this when they take a **'loyalty approach'** in which they commit to rewarding and delighting their customers with products and experiences that meet their wants and needs. By doing so, they start to become a more prominent part of the customer's consideration set. It's not a tactic – it's a long-term strategy that makes the customer the focal point of your business decisions and objectives.

All companies should have an approach to business that is loyal to the practice of putting the customer at the heart of the way the company's people, processes and systems work.

We describe a company's true **loyalty approach** as a four-stage cyclical process. The first stage sees the collection of *customer data* (1) from a variety of sources. That data enables the company to develop *customer insight*

(2) that allows the company to fully understand its customers – to divide them into segments by the type of behavior they exhibit as well as understanding the motivations behind the behavior.

Such a deep level of understanding informs decisions that can improve the *customer experience* (3) across the entire business, from price and promotions to assortment and availability. Understanding the differences between customers also means that the company can communicate and reward customers in a relevant way. Improving the *customer experience* ultimately drives *desired customer behavior* (4), which sees customers buying one more product, one more time – or put simply, improving the company's business performance.



customer data – the foundations of a loyalty approach

The difference between a loyalty approach and a loyalty program

We are often asked “Should I have a loyalty program?” You may think that the answer would be an automatic ‘yes’ – but it’s not. People often confuse a **loyalty program** with a **loyalty approach**. The latter describes an all-encompassing approach to business. A **loyalty program** can be a key part of the **loyalty approach** for those companies for which it is suitable.

We define a **loyalty program** as one in which the company gains participation in a mechanic where the customer identifies themselves on each purchase occasion and there is some form of ‘exchange of value’ as a result. This constitutes the first part of the **loyalty approach** – the collection of *customer data*, which enables other dimensions of the **loyalty approach** to happen.

A loyalty approach is a way of doing business where you put the customer first; a loyalty program is a mechanic that can help you do it.

As well as providing the information on which the rest of the **loyalty approach** is based, **loyalty programs** can also be a key part of building stronger relationships with customers as part of improving the *customer experience*. **Loyalty programs** are often ‘collection’ programs, where transactions and purchases lead to points and points mean rewards, be they financial offers or rewards from a catalogue. In the US and some other markets, the benefits can be instant discounts, such as two-tiered pricing, where a product is \$1.79 for cardholders and \$1.99 for non-cardholders for example.

But a **loyalty program** is not appropriate for all companies. For example, some brands, such as consumer packaged goods, might be completely remote from the transaction because an intermediary like a retailer or distributor makes the transaction on their behalf or as part of a wider purchase set. These brands may not have a **loyalty program**, but may still have a **loyalty approach** by working with their retail partners to differentiate benefits to customers in a range of ways or encouraging brand participation in collection schemes like Campbell’s ‘Labels for Education’ program.

This paper discusses the different dimensions of a **loyalty approach**, focusing especially on the role a **loyalty program** can play within that for suitable companies.

Do you already have customer data?

It is easier to give people what they want when you know what that is. Therefore knowing your customers is a key component of a successful **loyalty approach**. Many companies already have in-depth customer data, especially where a service is provided or an account is managed.

In these cases, the fact that you can already harness a lot of understanding about your customers from existing data means you may not need a defined **loyalty program** and all the collateral that accompanies this, but you can harness the data you already have to develop different engagement strategies with customers.

A good example is in the mobile telecoms arena where several businesses have developed benefits and privileges linked to usage of the phone and the account. For example, O2’s advance access to concert tickets. This does not need a **loyalty program** to execute because it is directly linked to account longevity and payments but is a clear **loyalty approach** to the issue of stickiness when decision time for contract renewal comes around: “Am I happy losing the privileges I have gathered from my behavior to save a few pounds a month?”

One of the challenges facing companies that are data-rich is to be able to harness that data across the business to inform a **loyalty approach**. In our experience, many organizations who do know all their customers still suffer from a silo mentality, normally imposed by their operational IT systems.

For example, in financial institutions, different accounts are often managed by separate systems and companies do not have a single view of the customer. The customer is left wondering whether it is really too complex to link their credit card, their insurance and their checking account in a meaningful way. In these cases a **loyalty program** may be a key component in overcoming the lack of stickiness that such fragmentation imposes on the business and create a point of differentiation for a key group of customers.

Is a loyalty program suitable for my company?

If most of your customers are anonymous to you, such as for a retail store, then a **loyalty program** that can link multiple transactions together or link online to in-store behavior can be a powerful part of the arsenal in providing that vital *customer data*.

One of the key determining factors for whether or not a **loyalty program** is suitable is the type of business it is: is it a ‘**share of wallet**’ or a ‘**supplier of choice**’ organization?



IT'S NOT THE
SHAREHOLDERS,
IT'S THE CUSTOMERS
WHO FUEL A BUSINESS

1. Share of wallet

This involves companies where the customer is making a choice between brands at every purchase and where the aim is to increase the frequency and amount of spend with the specific brand thereby increasing the share of wallet. Consider the water brands Evian, Vittel and Spa. Their aim is to get the customer to choose them more often than the competition.

Likewise, a customer may pass three different grocery stores on their way home and visit different stores dependent on the occasion. The aim of each retailer is to increase the **share of wallet** of that customer.

2. Supplier of choice

Customers of such companies choose one supplier for a period of time as in the case of mobile phone contracts and utilities like gas and electric. Unlike **share of wallet** companies, they are not continuously competing for customers at each transaction but are instead fighting to retain the customers' business and minimize churn when a contract comes up for renewal.

Share of wallet businesses need to constantly give their customers that extra reason to buy one more product, one more time, whereas **supplier of choice** businesses need to create real stickiness and a sense of loss of benefits or privileges if a customer chooses to cancel a contract and select a new supplier.

Where do loyalty programs make sense?

| | | Best suited to loyalty programs | |
|--------------------|--------------------|---|--|
| Supplier of choice | Share of wallet | Examples Manufacturer of one brand of a transaction-poor product – e.g. mayonnaise, shampoo, a major appliance brand Retailer of transaction-poor products – e.g. a wedding boutique, car dealer, sofa store | Examples Retailer of transaction-rich products – e.g. a supermarket, pharmacy Travel – e.g. airline, hotel chain Manufacturer of a broad range of transaction-rich products (e.g. baby products) |
| | Supplier of choice | Examples Utilities – water Gas & electric Insurance company | Example Telecommunications provider |
| | | Transaction-poor | Transaction-rich |

Loyalty programs are most effective for companies that are 'share of wallet' and transaction-rich. Among the richest for transactions are grocery retailers where a customer has many transactions for many different types of products.

Loyalty programs are often an appropriate solution for **share of wallet** businesses with a high degree of variety and frequency of transactions, and headroom in customers' choices.

For supermarkets and other companies where a customer has many transactions related to many different types of products, **loyalty programs** can be used to gather *customer data* on a regular basis. Once data is effectively turned into insight, they can also provide a vehicle for tailored rewards and communications to create a competitive advantage. The insight can also inform processes such as assortment, new product development and promotions strategy to get a better return from marketing and promotional investments.

Loyalty programs for companies 'once removed' from their customers

Manufacturers often are remote from their customers – the people who pick their products off the shelf or webpage. They rely on retailers or other distribution channels to serve their consumers. Some larger brands have developed successful engagement programs with their consumer communities, for example mycokerewards.com. These rely on engagement from the customer and an explicit contract of what is in it for the customer as well as for the brand.

Manufacturers should only consider developing their own **loyalty program** under certain circumstances (see right).

Probably the largest opportunity for manufacturer brands to develop a **loyalty approach** is in partnership with their retail partner channels, as many are now coming to realize. The *customer data* and the *insight* that stems from those channels can provide a common base for closer collaboration between retailers and manufacturers – the same fact-based insight and the same approach to putting the customer first.

Where a loyalty program makes sense for manufacturers:

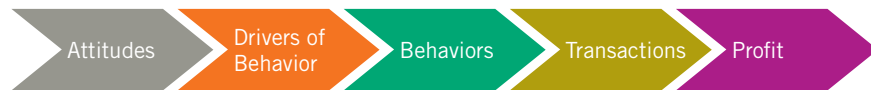
- Where brand engagement is strong – such as Coca-Cola with its 'My Coke Rewards'.
- Where the economics are viable – for single-product manufacturers the business case for having a **loyalty program** is weak.
- Where other emotional and functional reasons are in evidence – such as a baby products maker that creates a 'mothers' club' offering advice.
- Where there is a wide range of products that appeal to potential communities – such as mothers and pet owners where a club could be created to help develop appropriate offers and communications.
- Where there isn't the potential for negative press that will outweigh the benefits of the program. For example, for a chocolate brand, rather than promoting frequent consumption of fatty foods amid obesity concerns, a program could be more about a community or a theme.

customer insight – what we have to understand

Knowing what you have to know

In order to be relevant to your customers, you have to have the right *customer insight*. The process of your customer's interaction with your brand can be defined as customers' attitudes drive their behaviors, which in turn lead to the transactions that generate the profit of the business.

Making sure you understand the entire process is key to creating a successful **loyalty approach**.



The problem with focusing on money

Today, in too many boardrooms, the focus is purely on understanding the profit, not on the behaviors that drive the profit.

For example, is a customer who visits an electronics retailer once in two years and buys a large TV on special offer for \$1,999 more or less valuable than a customer who visits a dozen times during the same period buying a range of DVDs, a PS3 console, games and satellite decoder for \$950? Chances are that the first customer will not need another large TV in the near future and he exhibits no real loyalty to the store. The second customer however, despite seemingly being half the value, has regular contact and is likely to choose the retailer again when he has the cash to take the plunge on major purchase.

That's why profit is a crude measure of a customer.

I do as I do, and not as I say

At the other end of the scale, our ability to measure and understand attitudes is very limited. We can certainly apply ethnographic techniques to samples of customers and this might influence our advertising and other elements of our strategy, but it is next to impossible to get these measures for all customers.

For many years it has largely involved companies asking their customers questions about the things they do, what their preferences are, and their views on different products and services. For this, they turned to traditional market researchers.

The quantitative firms used panels and sampling methods to provide sales and market share trends while the qualitative types have placed customers behind two-way mirrors in focus groups where they have been asked questions about a product or service.

Such techniques have centred on asking people what they do, rather than watching them in action. The big problem is that we now know there can be a big difference between what people say they do and what they actually do.

Choosing the right insight

If we start with just revenue and profit as principal drivers, we find it hard to analyze the attitudes that our marketing and **loyalty approach** should seek to enhance to generate additional value. It is for this reason many customer activities backfire. They start with a good intent of driving a more profitable relationship, but the focus on pure profit means they miss the point for the customer.

Conversely, if we start at each customer's attitudes gathering attitudinal data can be difficult to travel all the way through to a profit focus. Indeed, just getting at attitudes for thousands of customers is an expensive and ultimately futile task.

However, behaviors are a great place to start. Using analytical methods we can understand the motivations for the customer – were they driven by price, brand or other factors? How do they visit us and how do they like to pay? Are they dedicated to us or do they appear to spread their spend with others? The data can tell a rich story if well applied, giving you a complete view of the customer and their retail DNA.

Similarly, behaviors help us really understand profit. Which customers are making the most of our promotional expenditure and which ones have a high cost to serve?

The power of behavior is that we can link attitudinal measures of customers and profitable behaviors and understand how we can constantly be relevant to customers' wants and needs – therefore improving our business.

Using that *customer insight* to inform and improve the *customer experience* – making stores a better place to shop, running a better promotional mix and having more successful new product development – actually has a much bigger effect on customers' behavior than a **loyalty program** directly.

STOCKING THEIR FAVORITE BREAD MAY NOT MAKE ANY PROFIT, BUT THE REST OF THEIR BASKET DOES



customer experience – driving behavior

Understanding current behavior to define desired behavior

With profit margins squarely rooted in behavior, companies should aim to change the behavior of their customers to make them as entrenched as possible with the brand – by improving the *customer experience*.

Before you can define what actions to take to improve the *customer experience*, you have to understand where customers currently are on the scale of customer behavior (see below), which is based on a number of rational and emotional factors.

| Non User | Uncommitted | Repertoire | Preference for the brand | Respect – Strong Preference for the brand | Devoted – true customer loyalty (rare) |
|--------------------------------|--|--|---|---|--|
| Does not buy the brand at all. | Buys the brand occasionally but often switches between brands for deals, improved services, etc. | Buys the brand some of the time, using an alternative product or has a repertoire of several products to meet a specific need. | Buys the brand most of the time, using an alternative product occasionally. | Always buys the brand, but would switch if there were repeated service failures or product issues where they become disillusioned by the brand. This respect may be due to consistent performance in functional areas such as price, value, etc. | e.g. a football fan. Would never buy another brand or consider a substitute except under extreme circumstances such as the brand no longer being available. |

Putting the customer first is not a sound-bite. It's a way of doing business. A loyalty approach from a commercial and a customer perspective is one and the same; you cannot divorce the two. There is no hidden agenda: if customers like it, it makes good business sense.

Most companies naturally have customers at different points along this scale, with only a small number typically located at the 'devoted', truly loyal, end of the spectrum. The aim of any company is to continually move its customers to the right on that scale.

However, those movements require different things depending where on the scale the customer is, so before deciding exactly how to improve the *customer experience* companies have to consider their business objective – what is the *desired customer behavior*.

Deciding the objectives

Companies aiming to increase customer 'loyalty' will likely have different objectives depending on their business or brand characteristics. But the underlying objectives typically involve a combination of:

- Increasing their customers' **share of wallet**.
- Increasing their customers' frequency and spend with their brand.
- Maintaining and continuing to grow share of wallet over a long period of time.
- Increasing customer advocacy for the brand.
- Increasing customers' emotional attachment to the brand.

Moving different brands along the customer behavior scale

1. Soap brand – A customer may show a strong preference by always buying a certain brand when they have run out of the product, if that brand is available. A key aim therefore for the brand is to ensure that their product is available to keep that customer's **share of wallet**. However, the brand is less likely to get the customer to buy more soap more often due to the customer's ingrained habits and family size.

2. Electronics retailer – A customer may buy all of their major appliances and electronics goods at a specific retailer but buy their smaller appliances, DVDs and games at a grocery store. The aim for the retailer therefore is to try to get an even greater share of the customer's wallet across all of its departments.

3. Restaurant brand – Achieving increased **share of wallet** for the brand versus a rival is one result of successfully encouraging loyalty but this is not the primary aim of all brands. For a restaurant increasing advocacy among an influential customer can have a bigger impact than increasing that customer's **share of wallet**.

4. Juice brand – Many customers may have a wide repertoire of drinks that they enjoy. We describe this as a Repertoire customer. Winning with these customers is gaining a higher share of consumption occasions or indeed moving perception of when the product is most suited, for example not just comparing my fruit juice brand to other fruit juices but winning against carbonated soft drinks or other refreshments. This is about redefining the headroom available for each customer and adopting the right approach to win a higher share.

customer experience to drive the desired customer behavior

- Customer insight can lead to better business decisions:
- Decisions will be reliable, because they are based on facts, not speculation.
- Decisions will be targeted, because you know who your customers are.
- Decisions will be consistent in the way they are made – always based on customer insight.

Once you have decided on your objectives, you move customers along the scale by getting to know them and then treating them in a way that is relevant to them. It is vital that the greatest rewards are given to those customers who show the most 'loyalty'. It could be argued that for those 'devoted' customers at the extreme end of the behavior scale, it is not necessary to incentivize them at all because they will likely buy the product anyway.

This would be a serious mistake as it is still important for a company to recognize and reward them for being their best customers. If they have a 'strong preference' for buying the brand then it is imperative that they are fully engaged with the **loyalty program** and its rewards as this will reduce the risk that they will ultimately be tempted away by rivals.

Beyond immediate rewards

A **loyalty program's** rewards are not a cure-all initiative for increasing a customer's preference for your brand. More importantly, it is how you use the *customer insight* to improve the overall *customer experience* that will see you drive the *desired customer behavior*.

Customer insight means you can treat them

- with a **great shopping experience**
- with **relevant marketing**
- with **meaningful innovation**

There is no substitute for a **great shopping experience** to change customer behavior. Knowing your customers means that you can create the right retail presence based on your customers' needs and wants: the right offer in the right store with the right environment. You're only ever as good as your customers' last experience, so this is an ongoing challenge for all companies.

If the shopping experience is right, customers will keep coming back, which benefits both retailers and manufacturers, who can use a common customer understanding to collaborate by making shared decisions that make sure everyone wins.

The decisions made by companies have to speak directly to individual customers. Having a complete view of the customer means you can produce **relevant marketing**. Communicating directly with those who matter, you can deliver the right offer with the right message using the right form of media. You can increase customers' preference for your brand through a targeted mix of rewards and incentives. And because customer understanding is continuous and dynamic, marketing will be measurable – so you can respond to changes in customer behavior.

The use of *customer insight* also means you can look for potential gaps in their basket and treat them with **meaningful innovation**, developing products based on their needs and wants. This way

of working makes sure your product delights your customers and therefore delivers for your brand.

The right customer experience drives the desired customer behavior

So once your entire offer is relevant to your customers, their attitude towards your brand will improve, consequently driving their behavior towards that which you desire.

So by putting the customer first in a **loyalty approach**, your company becomes the customer's first choice – meaning they buy one more product one more time – driving up revenue and profit margins. And because the process is continuous and cyclical, you will have the data to truly understand the behaviors that drive your profit and how they change and improve over time.

You're only ever as good as your customers' last experience of your brand – so you have to deliver an offer that meets their needs, wants and desires.


how to make your loyalty program work for your loyalty approach

Some companies might just initiate a **loyalty program** without truly focusing on what will help make this, and therefore their **loyalty approach**, successful. Here we look at some of the key dimensions that in our experience you have to consider when investing in a **loyalty program** for it to be a wise investment for your business.

It needs to be embraced across the entire business

Over and above every other factor it is vital that a **loyalty program** is loved by the whole business. Unless it is regarded, and managed, as a core component of the company's proposition then it is likely to be at best ineffective and at worst doomed to failure. Treating **loyalty programs** as marketing initiatives that are held in silos would represent a fundamental flaw.

Be under no illusion, **loyalty programs** require considerable investment and therefore need the full commitment from right across an organization – from the board down to the shop floor.



INSIGHT ISN'T
ABOUT SHORT TERM
SOLUTIONS, IT'S ABOUT
SUSTAINED GROWTH

Do not underestimate the role of frontline staff because they are the face of the company. If they fail to embrace the program and do not communicate its benefits to customers, the overall effect will be muted.

It is fair to say that without the required vision, strategy, investment and relevant employee training along with accompanying incentives, companies are unlikely to see much success from their **loyalty programs**.

Customer rewards should include a combination of hard and soft benefits

The ideal combination for the perfect **loyalty program** is a mixture of both hard and soft benefits that can complement each other.

Hard benefits – these are of a more functional nature, largely with a financial bias, which appeal to customers' rational side and include reward vouchers, discounts and cash-back.

Soft benefits – these rewards appeal more to customers' emotional side and can take a variety of forms:

- **Privileges and 'aspirational' rewards** – exclusive rewards such as those found in tiered frequent flyer programs where customers receive rewards like priority check-in when reaching certain levels.
- **Services** – special services such as free gift wrapping or free delivery.
- **Surprise and delight rewards** – such as a free birthday or anniversary gift that members were not expecting.
- **Experiences** – including invitations to members-only events such as previews of new products.

The mix of hard and soft rewards should be influenced by whether a company's customers' buying decisions are generally predicated on rational or emotional reasons.

Care must be taken in also seeking to understand 'irrational' customer behavior. For example, a reward that appears more valuable is discarded by customers in favor of another less appealing looking reward.

Offering a choice of rewards is extremely beneficial as it not only helps the company better understand its customers' needs and preferences, but it is also perceived by consumers as being generous.

Loyalty programs should always be open and attainable for all customers

Loyalty programs should be inclusive and open to all customers but should clearly have a specific focus on appealing to and rewarding the target customers.

A key question to ask when designing programs is whether to include tiers, which are exclusive to customers who have achieved a certain level of spending.

Tiered programs are commonplace in the travel sector including soft benefits such as airline lounges. Tiers may be unsuitable elsewhere such as the grocery industry where there can be negative associations with status elements and a lack of soft benefits.

The key to rewards is relevance. Only by understanding customers' behavior, interests, needs and preferences can it be ensured that rewards are kept relevant and well targeted.

Companies have to beware the challenges of tiering. For example, top tiers may become too large, making it difficult to deliver tangible benefits to them meaning that the best customers no longer feel recognized. Just think of check-in areas for 'gold tier' passengers that become more crowded than the general check-in areas.

Although tiers may not necessarily be the relevant mechanic, it is very important that **loyalty programs** incorporate ways to recognize top, long-standing customers. These valuable customers must be provided with exclusive special benefits, privileges or experiences.

Caution is recommended with tiering because when customers drop a tier and no longer receive privileges, this can lead to negative word-of-mouth that may outweigh positive aspects from the program.

The need to evolve

To maintain their appeal to customers and achieve the desired business results, **loyalty programs** will have to continuously evolve. They must continue to engage with customers and this inevitably means embracing new and adapted technologies that appeal to consumers and have been embraced by the mainstream.

These technological changes have led to the requirement for **loyalty programs** to include more interactive community elements and a desire for companies to link in with their customers' chosen social networks. If a brand is making an offer to a customer then that individual may wish to share it with their friends – and the company will then look to benefit from this.

Having a grasp of this type of activity will be essential if companies are to successfully incorporate interactive community elements within their **loyalty programs** as a way to connect with their customers and provide the platform for them to interact with each other.

How will technology impact the future of loyalty programs?

What is certain is that new technologies will continue to emerge and that these will drive companies to incorporate new mechanics into their **loyalty programs**. Only then will they retain appeal and relevance to customers.

- **Card-less programs** – since mobile phones are now ubiquitous and always carried by their owners, they are ideal as identifiers and as vehicles to receive rewards and communications. The convenience of using mobiles instead of loyalty cards also makes it easier for retailers to sign-up groups that are generally not engaged with **loyalty programs**, such as young males and customers with smaller basket sizes. The development of NFC (Near Field Communications) technology will also make it possible for payments to be made directly from phones.
- **More digital communications** – not only will this help companies keep costs down but it will also boost relevance because customers will be reached at the right time, with the right messages.
- **Integration across technologies** – allowing access through the customer's choice of device will allow a **loyalty program** to work across multiple channels as part of the shopping experience. As technologies integrate, care must be taken to ensure customer messages across different channels are similar in tone and message.
- **Augmented reality** – smarter mobile phones are making it possible for customers to receive a personalized offer on a specific item when they arrive at the relevant aisle in-store. This technology is being used or trialed across a variety of countries including the US, Japan, India and Korea.
- **Customers control their own data** – customers are becoming more aware of their data and the benefits it can generate. Having declared a preference, they now expect it to be acted upon, so people who have a fear of flying expect travel firms to find them non-flying routes.

The adaptation of mobile phones into smart devices and the emergence of social media have dramatically raised expectations of how a brand is required to better understand its customers and how it interacts with them.

summary


True loyalty of the customer to a brand is rare. Customers actually usually exhibit varying levels of preference for a brand through their shopping behavior rather than complete 'loyalty'. So the challenge for companies is to actually change that behavior, so that their customers buy one more product, one more time.

It's a different type of loyalty that will help them move their customers along the scale of preference – the loyalty of the company to putting the customer at the heart of their business to deliver an offer relevant to the customer wants, needs and desires.

All companies should adopt a **loyalty approach** that enables them to do this. This is a cyclical four-stage process: *customer data* enables *customer insight* that informs an improved *customer experience* that drives the *desired customer behavior*. That desired customer behavior sees customers exhibiting an improvement in their preference for the brand, but this can change over time, which is why a **loyalty approach** must be continuous and part of a company's long-term strategy.

A **loyalty program** can be a vital part of this for the companies for which it is suitable. Getting both the **loyalty approach** and the **loyalty program** right is not easy and there are many dimensions that have to be considered.

But if companies get it right, they will reap the rewards of their investments as customers respond to the fact that they are no longer viewed as statistics, but as individuals with individual wants, needs and desires.



BUSINESS DECISIONS
CAN BE A STAB IN THE
DARK. DON'T GUESS
WHEN YOU COULD
KNOW FOR SURE

profiles



Clive Humby
co-founder and chairman,
dunnhumby

After co-founding dunnhumby in 1989, Clive has concentrated on building solid relationships with the company's clients through the development of their marketing and communications strategies.

This is combined with his other key role as the main strategist within dunnhumby that requires him to call on his vast experience of analysis and mathematical modelling, which when applied to its growing number of global clients is the bedrock of dunnhumby.

Prior to forming dunnhumby he was chief executive of a major market analysis business as well as being responsible for the development of a number of pioneering innovations in marketing segmentation and retail marketing (including the ACORN system) that have all helped to set dunnhumby apart from other analysis businesses.

In addition to his role at dunnhumby Clive holds a number of positions within education including the Visiting Professor of Integrated Marketing at Northwestern University in Chicago and Visiting Professor at Cranfield University Business School in the UK.



Valerie Popeck
global loyalty solutions director,
dunnhumby

Valerie joined dunnhumby in 2007, bringing with her over 12 years of CRM strategy consulting and marketing experience with large organizations in government, automotive, delivery services, travel, technology, retail and financial services.

As Global Loyalty Solutions Director for dunnhumby, Valerie plays a central role in enabling the implementation of our solutions all over the world.

Prior to joining dunnhumby, Valerie was the Marketing Director for Carlson Marketing, EMEA. She also spent five years as a consultant for Peppers & Rogers Group, where she managed consulting projects. Before Peppers & Rogers Group, Valerie worked in segment marketing at FedEx, and held other marketing roles at IBM and Tenax Corporation.

Valerie has an International MBA from the University of South Carolina, and a Bachelor of Science in Business Administration from American University in Washington, DC.

dunnhumby
essential customer genius

The internal pages of this book have
been printed using FSC approved
materials and processes.

© dunnhumby 2010

dunnhumby is a global company with
offices in Europe, Asia and the Americas

visit www.dunnhumby.com for details