

## **Retail Loyalty: Focus on Success by Putting Common Assumptions to Rest**

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Loyalty marketing was born in retail, a concept that started with S&H Green Stamps back in the 1930s and has been around so long that by now much of the practice is steeped in myth. Retailers often tend to side with historic “best practices” even when research points in the other direction. Using data to demystify the reality of loyalty, however, can give retailers a clearer picture about the true value of loyalty programs instead of the historical fiction that may be clouding their minds.

When it comes to consumer behaviors and preferences, there are numerous retailing myths that don’t hold up to current research. Here are five:

### **Myth 1: Discounts are more compelling rewards than loyalty currency**

**Fact:** Sales and discounts can be popular, but the rewards from loyalty programs keep high-value customers coming back. According to a recent Points loyalty survey, “From Everyday to Extraordinary,” program members spend more per purchase (54%) when they are rewarded with loyalty currency, and 69% will switch brands to earn their favorite currency. While sales and discounts can lure customers away from other retailers, they also exert continuous pressure to keep prices low, which in turn erodes profits.

Rewards programs are structured to stream revenues back into the business by attracting the activity and word-of-mouth influence of a loyal customer base. As author Fred Reichheld noted in his book *The Loyalty Effect*, loyal customers spend more, buy higher-margin products and cost less to serve, and a 5% increase in customer retention rates can boost profits anywhere from 25%-100%. Moreover, when retailers attract a steady stream of loyal, eager-to-buy customers, the data and information that can be unearthed from their transactions and preferences lead to further success. Loyalty data creates a more personalized shopping experiences for customers, and a data-driven blueprint for continued growth for retailers.

### **Myth 2: Consumers want cash back, not travel rewards**

**Fact:** Consumers treasure extraordinary opportunities and memories as much as they like cash. Convinced that consumers will always choose cash over points/miles, some retailers have abandoned rewards programs in favor of cash-back strategies. Yet studies have found that while consumers will select cash when given a choice, they are more *satisfied* with rewards programs that result in a luxury item or experience. Experiences they otherwise would not have purchased for themselves, like concert tickets or an exotic vacation, will foster the loyalty that brings consumers back again and again. As early as 2004, marketing professor Xavier Dreze of the Wharton School of the University of Pennsylvania described the phenomenon within the context of frequent-flyer miles and memories:

Cash-back represents money that is used to buy everyday items or pay bills, while frequent flyer miles buy trips that create lasting memories, and those memories make miles a special form of currency.  
*Tip for retailers: Make customers feel appreciated with rewards that create special moments and memories.*

### **Myth 3: Loyalty programs only work for high-priced items**

**Fact:** Bigger is not always better. Consumers like earning loyalty currency (points and miles), whether the earning rate is in big chunks or small increments. Points' survey of 1,500 members in North American and the UK found that 68% appreciate the ability to earn small amounts of points and miles, while 48% set long-term goals for which they plan to earn incrementally.

The more flexibility programs offer, the more consumers can do with smaller points/miles balances. Offering options ensures that program members see strong value in earning with the lower purchase amounts of everyday spend.

*Tip for retailers: Offer consumers opportunities to do more with points/miles so that smaller balances have higher value.*

### **Myth 4: Consumers don't want more marketing communications**

**Fact:** The personalized messaging from loyalty programs actually helps eliminate communication clutter. Members of loyalty programs behave like bank customers: they check their accounts frequently, keep tabs on balances and are constantly looking for ways to bolster their accounts with more points/miles. In fact, offers mailed to loyalty program members have an open rate of 41%, compared to a 19% industry average, according to findings from SpotOn Data.

A personalized outreach deepens members' affinity and loyalty toward a retailer. Remember, loyalty members appreciate rewards programs that keep them informed, motivated and engaged.

*Tip for retailers: Keep communications relevant by providing key information like limited one-time offers or bonus earn opportunities.*

### **Myth 5: Loyalty programs are too expensive**

**Fact:** It is true that creating a loyalty program is a huge financial endeavor that requires more marketing, technology and financial infrastructure than many retailers are capable of managing. This is why establishing a partnership with an existing program is a viable alternative with retailer benefits. It gives customers the miles/points they crave and allows them to build up their balances in their favorite airline, hotel or financial services programs. It can boost a retailer's brand equity via affiliation with a name-brand partner. Another key benefit for retailers is that a partner program brings with it a new and potentially large customer base for visibility, marketing and outreach.

*Tip for retailers: Search for partners that enhance your brand image and also extend your brand into high-potential customers segments.*

Loyalty programs can help today's retailers struggling with stiff competition, empowered consumers, the constant pursuit of more customers, and need for increased revenue. Consulting data to demystify the common assumptions about loyalty programs is the first step toward loyalty program success for

retailers of any size. That will ensure that you build your loyalty strategy on sound business principles rather than gut feel.

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