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Rules to Make Loyalty Programs Work Harder in the "New World"

Insights from Steve Georgeou and John Grace

With the softening of the economy and the pressing need for companies to retain customers, there is a realization that loyalty programs need to work even harder. In the "New World", traditional rewards are merely table stakes, and marketers must find ways to build a deep and sustaining relationship with customers beyond simply trying to buy their loyalty for the short-term. Price incentives are one strategy to stay afloat in today's economy, but they rarely create a long-term relationship and customers will easily trade from one company to another. So the end game of competing on price alone could be that your customers leave you anyway.

Add to this today's technology that is making it easier to switch brands with a just few clicks. Loyalty on the Internet is far more fleeting than traditional channels, and this "age of disloyalty" will continue with social networks taking control of brand reputation for better or worse. Just look at the viral spread of Dell laptops and the "exploding batteries". To address this twenty-first century public relations crisis and other customer service issues, Dell committed to spending $100 million to improve the brand's tarnished reputation for service.

The consequence is that the most efficient way to build loyalty is to leverage the equity of the brand into a loyalty program. But it is important to understand that branding goes beyond a name and a logo. It is the ability to imbue brand attributes into every part of the loyalty equation. This spans a wide range of elements that together build the business, including the value proposition, customer communications, customer care and the loyalty program mechanics. Simply stated, *brand* must be appropriately integrated into each and every customer touch-point.

Strengthening loyalty
Here are five things we have learned that will help strengthen loyalty programs and make them work harder, both in the short and long-term:

1. Shift from a "Loyalty Program" mindset to one of building "Customer Loyalty". For many companies offering loyalty programs, this could be a significant shift in how they think about the business. It means literally looking at the business from a customer's perspective. The consequence is marketing from the point-of-view of building long-term loyalty. The benefits can be quite profound and will accelerate when the economic slowdown reverses. Harrah's *Total Rewards* has evolved from a fairly standard loyalty program to a new way of doing business incorporating CRM, rewards, recognition based on customer value, and employee incentives for increasing customer profitability. *Total Rewards* is more than a way to earn points, it's a way to earn enduring customer loyalty. Today, Harrah's engenders greater loyalty and discretionary spending at its casinos that exceeds its competitors by fifty percent.

2. Connect the value proposition of a loyalty program to the brand. Too often there is a separation between the teams building loyalty programs and those responsible for the brand-building. This leads to programs that are an expensive appendage to the business and do not build longer-term relationships with customers. However, most brands today have enormous value that can be unleashed within the context of a loyalty program. Think of the power of Starwood, TESCO and American Express as assets used to strengthen loyalty of their customers.

3. Name a rewards program clearly so that customers understand what it is. Using descriptive language and names that clearly indicate that a program is about rewards takes away a major communicative barrier. For example, which name is closely tied to the brand and is easier to understand: "*Membership Rewards*" or "*WorldPoints*"? The first name is simple and clear and we know exactly what it is. It also ties nicely to the basic brand promise of American Express.

The second name requires a level of explanation. This is the difficulty of marketers today… finding names that most immediately telegraph what an offer is so that consumers can easily act upon it. At the end of the day, you want to make it easy for prospects to understand and customers to do business with your brand.

4. Shift to the basics in terms of rewards. The nature of rewards is changing. What is commonly termed "basic rewards" are perceived as being more valuable in the "New World". Cash back, restaurants gasoline and grocery discounts are more relevant than ever in today's environment. As one would expect, there is balance between "aspirational" and "essential" rewards and that balance is dramatically shifting. Finding basic rewards that are helpful in today's economy can go a long way to more deeply engaging customers. The shift to basic rewards is evidenced by the explosive growth of gift cards that allow program members to choose from hundreds of merchants offering the basics of food, clothing and furnishings.

5. Drive home the brand attributes in every offer. Because there is positive equity in the brand, don't miss the opportunity to integrate the brand into every offer. This means building much more than just the logo into communications, but truly embracing the brand attributes in every aspect of the offer. While Westin Hotels, a luxury brand, may offer free nights and other discounts, they haven't lost sight of their brand attributes because they also promote the Heavenly® Bed, Heavenly® Spa and other indulgences that are the hallmark of the Westin brand. For loyal guests, Westin is more than a hotel experience… they actually take the brand home with them, as evidenced by the multi-million dollar sales of Heavenly® Beds and Heavenly® Bath products. This is a strong indicator of the strength of the Westin brand in contrast to many of their competitors.

Customer loyalty can be managed far more effectively, even in today's challenging economic environment. In fact, if properly constructed, marketers can actually build stronger brand loyalty over the long haul, while also meeting short-term goals. The challenge is to look at loyalty in a new light.

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