

## **The Loyalty Planning Process: Five Questions to Think Through Before You Launch**

Let's assume for a moment – which, actually, is probably the case – that you are a senior marketing executive for a specialty retail chain. Imagine for a moment, if you will, that you are engaged in a discussion with an industry colleague ... a marketing leader of your acquaintance from another brand. The topic of discussion is the loyalty program recently launched by your colleague's retail chain.

What would your response be if, in answer to your question concerning the level of planning that went into getting ready to launch the initiative, the executive with whom you were speaking replied, "Well, we felt as though we had better have some kind of program since a number of our competitors have them. We don't have 'in house' expertise in "loyalty" ... so we looked at what was "out there," took what we liked from this one, got some ideas from that one, found a low cost provider of loyalty cards, were careful not to promise anything too specific in terms of program rewards, printed up enrollment forms ... and off we went."

Presumably, you'd feel that what you had just heard was a recipe for failure on all possible fronts... ranging from the absence of much of anything to create customer interest right on through the inability to perform useful measurement of results. And yet, while this kind of approach to launching a new loyalty program is unquestionably a bad idea, it's not, in varying degrees, particularly uncommon.

So here's a suggestion: If you are exploring the viability of launching a loyalty program – whether it is your intention to work with a resource partner or manage the program internally – you will be well served to carefully consider the types of questions posed in the balance of this article. And by the way, if a potential expert loyalty solutions partner doesn't raise them, just move right on to one that does.

### **1) Is a formal, card-based loyalty program what you really need?**

Assuming your POS system has the basic capability of linking a customer identity number (email address, or even phone number) to a specific transaction, you are in a position to begin the process of gaining insight into all the important aspects of your customer's purchasing behavior ... shopping frequency, locations visited, departments shopped, what items are purchased, transaction value, etc.

Being able to collect this type of data, the question becomes ... do you have internal resources to optimize its usefulness? Do you have experts on staff to create behavior based segmentation models and to perform the intense analysis that will enable you not only to develop ROI producing customer contact strategies, but also to make profit enhancing decisions relating to in-store product placement and/or special offer product combinations?

If not - and most retailers don't - find an expert partner. Allow that partner to help you learn about your customer base. Engage in insight-driven data base marketing and in the process you will (in all likelihood) also reduce your direct marketing expense. And, incidentally, while allowing yourself time to contemplate whether or not you really do need to offer a formal card based loyalty program, you will avoid various significant costs associated with creation and distribution of program materials, maintaining a program web-site, providing program related customer service and, of course, issuing hard dollar rewards.

### **2) What are the primary objectives associated with offering a loyalty program?**

But let's say you have determined that you want to offer a formal customer membership rewards program. Thoughtful determination of specific, clearly identified program objectives will result in a more meaningful planning process: what, for instance, designed into the program will most effectively encourage customer retention, bring about overall increases in shopping visit frequency and improve average transaction value? How will the program be used as a tool to aid new customer acquisition? What will constitute overall success ... and what measurements must be in place from day one?

**3) How will a new program impact (or be impacted by) other marketing initiatives already in place?**

If, for instance, there is currently a private label or co-branded credit card program in place how will it be impacted by the introduction of this new initiative? Will your new program incorporate and encourage card usage ... or is it to be targeted at non-card holders?

And don't forget to consider the extent to which discounting and couponing already factor into promotional out-reach to the customer base ... and how that promotional out-reach will have to be adjusted once the program is launched. Will rewards issued in the program be "in place of" or "in addition to" the discounts customers have been trained to expect ... and how will margin be affected?

**4) What kind of program structure will be most consistent with your store brand image? For instance...**

• **What's the right membership reward model for your customer base?**

Various reward models offer points based on spend, a combination of frequency and spend, a members only standard discount, or permanent discounts for members after achieving a proscribed level of spend...and there are other options, as well. The important question is, what reward model will be both attractive to your customers ... and affordable to the brand? Of course there are a host of other reward related considerations such as how often rewards should be issued, how to deal with returns, expiration of rewards, method of reward delivery, etc.

• **Can program costs be offset by charging for membership ... or by offering tiered participation?**

Well, will your clientele accept the notion of paid membership? Or, if a higher tiered, paid membership option is offered, what will the consistently experienced "special benefits" associated with paid membership be? There had better be some. One foolproof technique for arousing customer anger is to sell a promise, then fail to deliver.

• **What will ensure a successful enrollment process?**

What will your system allow? What enrollment method will be most acceptable to your customers, e.g., will they respond happily to a request by the store associate for name and e-mail address or phone number? Can we ask them to complete an enrollment while on site for data entry at a later time? And let's not ignore the matter of how much training will be required of your store associates to prepare them to appropriately present the program so that customers want to join.

And, oh yes ...

**5) How will you know your program is working?**

No one wants to be the person who is unable to respond to the CEO's enquiries at the end of year one as to whether or not the program is a success. That is why it is of the utmost importance to have determined what measurements you will have in place during the testing phase of your program and, of course, subsequent to full program roll-out. And that is also why it will be helpful to engage personnel from the finance group early in the planning process for purposes of establishing what ROI model to use for ongoing evaluation, determining how program liability will be accrued for, and making sure that there is a clear understanding from day one that program costs will be readily evident well before any measurement of longer term benefits can be performed.

**To briefly summarize ...**

Determine the loyalty cultivation approach that is right for your brand ... either on your own by devoting necessary time and attention to the effort ... and/or by engaging with a loyalty solutions provider who, in addition to offering the technical, analytical and marketing expertise you need, seeks to understand your business and, above all, is first and foremost interested in assisting you in the achievement of the customer relationship marketing objectives associated with **your** business vision. That is the path to success.