



## Capturing customers with loyalty programs

The most fundamental question you as merchant ranging from a mom-and-pop store to a nationwide multi-store retail chain ponders is how best to attract new customers, retain the existing ones, and grow year over year revenues and profits.

Meaning, what should your business do to create a loyal customer base who will experience an inseparable brand or service affinity they can get with a merchant.

It all boils down to how well your company creates an unmatched experience with your customers in the process of interacting with it. How is loyalty defined and how this affinity is created among your customer base?

Industry experts define loyalty as:

When a customer feels so strongly you best meet their relevant needs, your competition is virtually non-existent within consideration

One who values the relationship enough to make your company a preferred supplier or the only supplier

Both definitions indicate that loyalty has a very high degree of emotional connection with your business, brand or service among your customer base. This emotional loyalty is what your business strives to instill among customers so that they return and give back to the business.



Building emotional loyalty is a complex process, one dependent on the analysis of your customs behavioral patterns and narrowing down the parameters they consider invaluable. Enhancing the customer's experience focused on the emotional value contributes directly towards increasing the switching cost from a customer's perspective. If by switching to a new vendor, supplier, or company, your customers tends to lose that emotional connection, then loyalty is retained irrespective of the common price differentials or routine benefits.

Another important aspect of building customer loyalty is developing knowledge relationships. This aspect involves gathering as much knowledge as possible about your customer based on the behavioral patterns and carving out a personalized marketing and promotion program to reward their loyalty.

Knowledge relationships will yield satisfying results as customer engagements grow with the business and more data is gathered to tailor the promotions and increase the customer's switching cost as well as enhance the emotional loyalty.

### Loyalty programs prevalence and effectiveness

Loyalty programs have been in place in some fashion or other for a few decades now and have seen their ups and downs in their effectiveness. In the recent past, there is a huge resurgence of loyalty programs as businesses are utilizing advanced technology solutions to evolve towards creating experiential rewards and building closer knowledge relationships with their customers.

A study Nielsen study reported 60% of global respondents said there was a loyalty program where they shopped and 80% said they would visit the same retailers. Adding to that, 37% of the retailers acknowledge that retaining customers will be the foremost contributor to revenue growth. It is also true that 30% of the businesses cited that measuring the results of a

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loyalty program is a challenging and a daunting task.

As per Colloquy's survey, it showed membership in US loyalty programs had surpassed 1.8 billion and the average US household had membership in at least 14 loyalty programs.

It has been a time tested debate whether the cost sunk by a business into a loyalty program yields measurable benefits or growth to the company's bottom-line. Companies invest in loyalty programs as they perceive it as a win-win scenario and a source of sustainable competitive advantage. It has been shown that companies with big loyalty spend have seen a reduction of up to 10% in their EBITDA margins, however at the same time, it is also a proven fact that companies spend five to 10 times more in capturing new customers compared to the spend on loyalty to retain existing customers.

These data points are startlingly contrasting. It goes to indicate that while loyalty programs are extremely prevalent, the connection between enduring loyalty and business growth is a complex ecosystem, but yet not having a loyalty program in today's environment, will cast a negative impact on the business' interest in building a lasting customer relationship.

### **Blueprint for action — Leveraging the right technology for loyalty**

An effective loyalty program has to leverage the right mix of technology to provide the necessary tools and solutions for merchants and loyalty members. Neither an overly complex technology stack nor the shortage thereof is helpful in drawing the optimal results. Our team recommends a phased approach, wherein your business would leverage a pre-built loyalty framework that supports basic models of loyalty such as a coalition program, a partner based program or a single brand program capable of supporting additional custom business layers over it.

FocusLOYALTY, from ThoughtFocus, is one such framework which offers an extensible customizable and private label ready loyalty platform. Merchants with cautious IT budgets can leverage a hosted platform, to begin with, that operates as a standalone platform supporting standard ISO 8583 or XML based POS terminals to perform loyalty transactions. As the program gains traction, a mobility component would be introduced for POS operations at your locations as well as a mobile app for loyalty members to keep track of their program engagement.

The introduction of a mobility component can then lay the foundation for introducing location-based marketing for members, pushing offers and promotions based on behavioral analysis, event based offers and so on. In parallel, on the merchant side, a loyalty portal analogous to an eCommerce platform to allow online redemptions of rewards for their loyalty currency eliminates paper-based redemption methods such as vouchers and coupons. Further enhancements such as integration with your POS infrastructure and card processing solution will open doors for Omni-channel initiatives to bundle shopping and loyalty program interaction for a more engaging customer experience. A suitable solutions partner able to lay out a technology roadmap that takes the loyalty investment on a smooth ramp will be able to create a very positive return for your investment towards a loyalty program.

ThoughtFocus is a US based, privately held consulting, software engineering and business process management firm with offices in the US, India and the Philippines. We help clients in avionics, education, financial and insurance services, manufacturing, payment and loyalty solutions industries with their key business and technology challenges.

ThoughtFocus is a Blackstone Innovation Fund portfolio company.