

Loyalty Promotions

What is loyalty?

A consumer is loyal to a company (or brand) if he or she frequently purchases products from that company. The consumer develops an emotional bond to that company. An actively loyal consumer is the only long-term and profitable customer.

Loyalty promotions are designed to identify individual customers and their purchasing behaviors.

Loyalty promotions can have a beneficial outcome for companies that are looking to retain customers and boost sales. The **main objective of loyalty promotions** is to encourage repeat purchases by rewarding customers for their loyalty and continued support. Loyalty promotions not only change the customer's lifestyle, but also their attitudes to be more in line with that particular company.

Where it all began

- **1950s** – S&H Green Stamps begin rewarding grocery store and gas station customers with stamps that are redeemable for merchandise
- **1981** – American Airlines track frequent customers' miles flown and reward them with free tickets and upgrades

Facts about Loyalty Promotions

According to the Center of Retail Management at Northwestern University:

- **12%-15%** if customers remain loyal to a single retailer
 - This percentage of loyal customers account for **55%-70%** of the company's sales.

In the United States, there are:

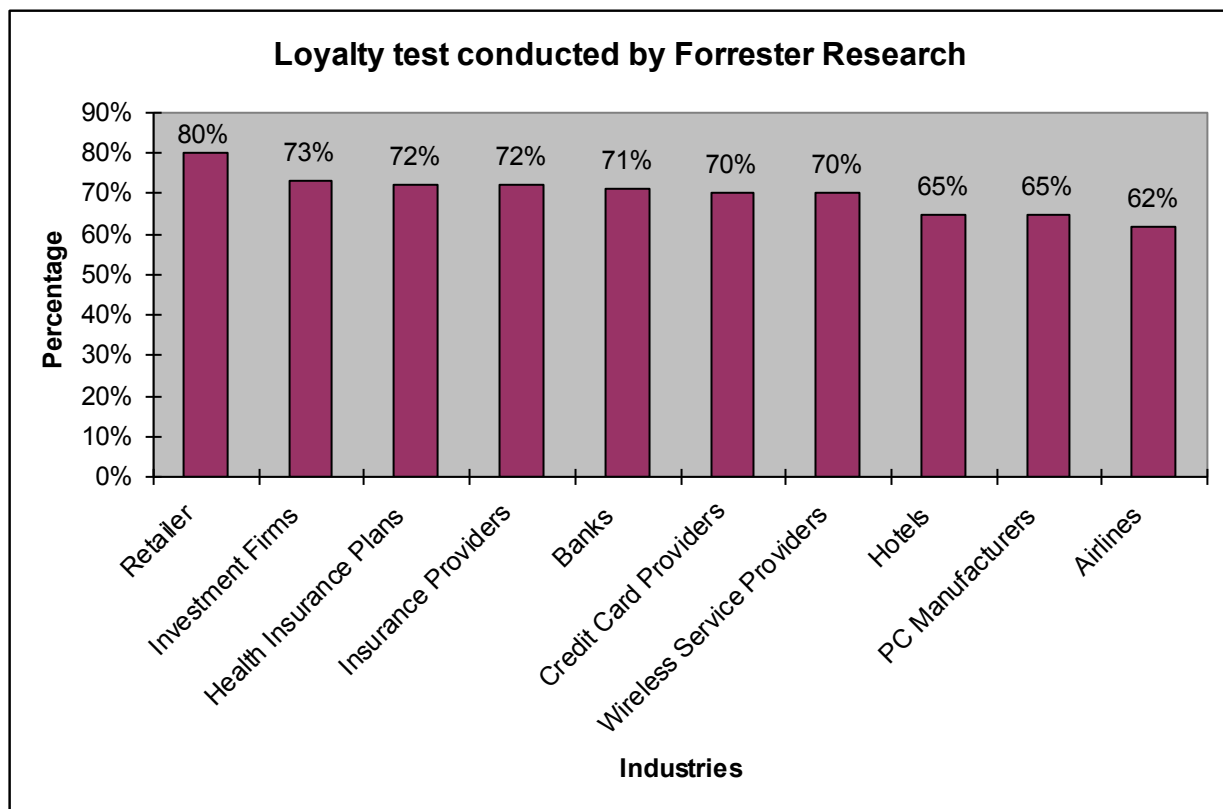
- **1.807 billion** loyalty programs/promotional memberships
 - This membership has increased 25% since 2006
- Average household actively participates in **6.2** loyalty programs/promotions

Food retailers:

- **53%** of food retailers offer loyalty promotions
- **75%** of loyal customers use their loyalty card at least once a week
- **88%** of loyal customers use their loyalty card at least once a month

Varies industries that participate in loyalty promotions:

- Loyalty test conducted by Forrester Research identifies industries in which customers are reluctant to switch



Survey conducted by Maritz Loyalty Marketing:

- **70%** of customers leave loyalty promotions/programs because they become impatient waiting for points to accumulate
- This percentage increases to **79%** for customers 18-24 years of age
- On average, it takes customers **6-9 months** of purchases to accumulate enough points for redemption.

Variety of Loyalty Promotions

Many loyalty promotions are conducted through various means including points, rebates, discounts, or a combination of these to reward loyal customers. Recently, companies are offering experiential rewards to distinguish themselves from other promotions.

- **Points Promotions**
 - Customers accumulate points with each purchase
 - Allows companies to offer partnership opportunities and bonus points
 - Simple for customers to understand details of promotion
 - Offers a competitive advantage over other companies
 - Customers can use points to receive discounts on brands/products that do not typically offer discounts
 - Allows for more targeted and flexible promotions to be developed

- **Rebate/Cash Back Promotions**
 - Financial benefit that is reward to customer after certain amount of money is spent over a specific time period (either one month or a quarter)
 - Customer is typically rewarded a designated percentage off their total purchase
 - Simple program to communicate and understand on the customer end
 - Rebates drive customers back to the store
 - Allows hierarchy of rewards for higher valued customers

- **Discount Promotions**
 - Specified percentage offer purchase price
 - Customers can use discount for a specific product/brand or overall purchase
 - Able to apply benefits to customers at point of sale
 - Instant gratification for the customer
 - Easy to administer on the part of the company
 - Simple for customers to understand details of promotion

- **Experiential Rewards**
 - Customers have been desiring experiences and services as rewards since the early 1990s
 - This reward differentiates itself from others
 - Reinforces brand value
 - Strengthens member relationships
 - Increases engagement with members
 - Increased spending on the part of the customer

Objectives of Loyalty Promotions

- Retain best and most profitable customers
- Make good customers better and more valued
- Acquire customers with potential to become best customers
- Reconnect inactive members with the company
- Revitalize the company's relationships

Principles of Loyalty Marketing

- Relevance is the key to loyalty marketing
- The perceived value of the reward by the customer is more important than its magnitude
- Unexpected rewards can be more effective than regularly scheduled distribution of rewards
- Special treatment and recognition of loyal customers
- Can reduce the complex decision-making process of customers
- Loyalty marketing is information-driven and reinforces the customer's choices

Development of Loyalty Promotions

There are several important factors to consider when companies decide to develop loyalty promotions. The loyalty promotion should support the customer experience and be adaptable to the changing economy and customers. Loyalty rewards should be based off the analysis of customer purchasing behaviors – **is this reward what customers want?** Companies need to be aware of their responsibilities to its customers in fulfilling the redeemable rewards to retain the trust of the customer. Clearly stated objectives and goals for the loyalty promotion will allow the promotion to function effectively once launched to customers. These objectives and goals should keep with the organizational culture, organizational resources, and target groups for promotion. Advertisements and direct consumer communication of the promotion is a vital part in the successful implementation of the loyalty promotion.

Factors to consider during development:

- **Simple** – keep information short and to the point
- **Benevolence** – be considerate of customer issues
- **Trust** – honor fulfillment of promotions

- **Transparency** – rates, fees, and eligibility requirements are clearly stated

Loyalty programs should stay away from the “**one product fits all**” mentality, and recognize that not all customers are alike and have the same needs. Loyalty promotions should offer a hierarchy of valued customers (example, gold, silver, or bronze memberships) which allows the program to cater to certain types of individuals based on their level of membership. Do not underestimate customer recognition. Customers like to be reminded of their membership, especially if they are a highly valued member, by offering special rewards or additional benefits.

The Future of Loyalty Promotions

Loyalty promotions have become more prevalent in today’s society resulting in customer’s viewing loyalty programs more as an entitlement than a reward. Loyalty marketers need to continuously come up with new and innovative ways to develop loyalty promotions.

- Continually searching for ways to differentiate company from others
- Loyalty promotions are likely to become more segmented and tiered
- Gain more holistic view of customer by focusing on customer relationships that will result in the retention of customers
- Develop ways for instant point redemption at the time of customer’s purchase
- Emergence of coalition programs
 - This type of program allows customers to redeem points across 2 or more partner companies
 - Currently not popular or done much in the U.S. because of competition between companies to gain customer loyalty

Case Study: Hasbro Littlest Pet Shop



The Client: Hasbro

Hasbro, a world leader in children's & family leisure time products & entertainment properties, provides some of the highest quality & most recognizable play & recreational experiences globally. A consumer-focused company, Hasbro brings to market a range of toys, games & licensed

products, from traditional to high-tech, including TRANSFORMERS, PLAYSKOOL, TONKA, NERF, MILTON BRADLEY, GI JOE, FURREAL FRIENDS, and more. Its LITTLEST PET SHOP is the fastest growing girls brand in the toy industry.

The Objective:

1. Build Brand Loyalty.
2. Increase Sales and First Purchase.
3. Create Brand Awareness.
4. Generate buzz and excitement.
5. Maximize retail traffic.
6. Drive collectability.
7. Create promotion that can be adapted globally.

Marketing Overview:

Littlest Pet Shop Brand faced strong competition from girls' toys & lack of store display. The brand was getting old. Reaching their target (girls 6-12) & building upon a strong customer base by adding a new product SKU, a Collector Journal, was on-target strategy to attract new girls, reward current consumers, create in store merchandising, and engage a "collectability" strategy. Promotion supported online, TV, print, POS displays, on-pack cross-sell, LPS website & Shutterfly website/email blast.

Strategy & Tactics

Girls spend a lot of time playing with their friends, and are very loyal to LPS. They influence each other. Hasbro built upon this loyalty and leveraged the collectability strategy across the entire LPS brand by offering a LPS Collector Journal at retail. The Journal was a new product that allowed girls to complete information about themselves, their favorites, quizzes, games, etc., and offered a limited, Special Edition Koala to anyone who collected 6 stickers found on specially marked LPS packages. This limited edition LPS toy was not available at retail. The first sticker was included in their journal. Girls collected LPS pets, showed them to their friends, and later, their special edition koala to them, and the promotion became viral in nature. Everyone wanted one!

Summary

The LPS Collector Journal was successful because it didn't ask the girls to do anything they wouldn't normally do. Instead of exerting totally new energies, the promotion caused them to shift their energy behind LPS' objectives. They could have played with other toys but the price points and collectability aspects that Hasbro leveraged rewarded them with a Special Edition Pet that was not available anywhere but through this offer. It was quickly communicated and readily understood. It incorporated 2 key ingredients to successful promotions: Involvement & Playability. Kids & parents alike sent new pet ideas, pictures of collections, invites on Facebook, handmade artwork, pictures of themselves, thank-yous, fan letters & asked how they could further engage with the brand. Everyone who participated could get the reward. Competitors could not respond quickly,

guaranteeing competitive advantage over the promotion. And the primary audience acted as Brand Ambassadors for LPS

Check out the **Littlest Pet Shop Collector Journal** loyalty program by visiting www.littlestpetshop.com – Winner of the Bronze Reggie & Global MAAW Awards!

The more a customer purchases, the greater their reward!

Source: CRMTrends.com