

CONTINUITY

(Also see “Performance Programs,” Chapter 12)

INTRODUCTION: THE DATA MAY BE WORTH MORE THAN THE SALE

Over the past few years, continuity, or loyalty programs, as they are sometimes called, have been one of the fastest growing forms of sales promotion. Yes, the number of coupons has exploded. The number of price discounts continues to expand. The volume of point of purchase seems to grow exponentially, but continuity programs are really the hottest ticket today. Whether you’re talking about airline programs or supermarket customer cards or frequent “stayers” or “visitors,” or whatever, continuity programs are the thing most every marketer believes he or she needs to do.

Much of the interest has come from a number of books and articles written by such “loyalty” gurus as Frederick Reicheld, Earl Sasser, Frederick Newell, and others. In his work *The Loyalty Effect* (Harvard Business Press, 1996), Reicheld demonstrates convincingly that loyal customers are more profitable customers. Therefore, every marketer is chasing customer loyalty, and continuity programs are one way to build, or at least encourage, that loyalty.

The only problem is that continuity and loyalty programs often carry a hefty price tag (e.g., getting sign-ups, maintaining the records, funding the reward programs, etc.). And as most marketers have learned to their chagrin, once you start a continuity program—at least one where customers expect to generate rewards over time—it's really difficult to stop or withdraw from the scheme. Customers who are halfway to a trip to Hawaii fight like tigers to keep the program going until they can redeem their trip.

The advantages and disadvantages of continuity programs follow in the chapter so we cover that later. It is important to know, however, that a continuity program should not be evaluated simply on the continuing sales it generates or even the increased loyalty it can engender with ongoing customers. Sure, there are returns, but the real value of a continuity program is the customer data that come along with it. A continuity program may provide more value in helping marketers understand their customers (i.e., what they buy, when they buy, what products they buy individually and together, and a whole host of other information about customer behavior) than do the increased sales it might initially generate. It's the data that count in continuity as much as the sales increases.

Much customer marketplace understanding comes from the ongoing capture, storage, and analysis of purchase data that come from customers' continuous use of the loyalty or continuity card. The card is the basis for the demonstrable data that commonly show that a relatively small number of customers account for a disproportionate amount of a marketer's or a brand's business. The 80/20 rule some call it. Indeed, it is more important to know who the most valuable customers are than it is to know market share, sales volume, or a host of other traditional measures.

The key ingredient in continuity programs is the willingness of the customer to use the card or identification number or whatever is used to connect the customer to his or her purchases. That means there must be some reward for the customer—more than just “happy faces” at the till—for customers to agree to let the marketing organization capture information. The key question from the customer is always: “What am I going to get in return?” Thus, continuity programs require meticulous planning if they are to succeed.

Many marketers don't know very much about their customers. Oh, they can make guesses or estimates about them, such as that they are generally between the ages of 18 and 34 or they live in upscale suburbs or they seem to be better educated than is the general population. But beyond that, unless they have some way to capture data or information through something like a frequent shopper card or a continuity program, marketers are generally guessing or, worse, assuming that customers are the types of people they want to serve. So the data from continuity programs become invaluable. They can be used to sort out which customers are most valuable, whether in terms of sales or of profits; which ones respond to promotions and to which promotions; which ones are "promotion-only" buyers and which are full-price purchasers. In other words, the data that flow from a continuity program, if properly managed, can be a gold mine of information that can make the organization a better marketer and you a more successful promotion manager.

But many argue they can't develop a continuity program. Customers pay cash, or they won't carry a card, or we can't keep the necessary records, and on and on. All of those are fine excuses, but they are just that—excuses. Any marketer can build a successful continuity program if he or she wants to, and it can often be done fairly inexpensively. Just look at what Starbucks has done with its Starbucks Card. Why would a company like Starbucks, one of the most successful retailers and brands in recent history, launch a continuity program? It already has a very loyal core of customers for most of its stores. The reason: to learn who their customers are, where they live, how often they visit the store, their migration patterns, and all the other things that make a good marketer a *great* marketer. Sure, Starbucks expects to sell more cups of latte or cappuccino or bags of coffee beans. And it likely expects that having a frequent-shopper card helps build more brand loyalty among the customers who carry it, assuming those customers will not be as likely to stray into other, competing coffee emporiums. But the real value to Starbucks is in knowing who its customers are, how often they visit, how much they spend, and all the other data that come along with card usage. That's probably worth more than the customer loyalty that the continuity program may build.

Clearly, one of the key things successful marketers know better than do their competitors is their customers. And continuity programs are a great way

to learn about customers on an ongoing basis. Indeed, the data may be worth more than are the results of the promotion. —Don E. Schultz

OVERVIEW

If there's anything better than a customer, it's a repeat customer. A rule of thumb: *It costs five times more to get a new customer than it costs to retain a current one.* A good continuity program generates more sales from each customer. And loyal customers spend more. One supermarket study revealed that a loyalty card based on customers' transaction size was about four times that of noncardholders' transactions. There's also the 80/20 rule of thumb: 80 percent of a company's business is generated by 20 percent of its customers.

Shorter-term programs, like a collector card, can establish a usage pattern. Convenience stores cite that it takes three to five visits to establish a visiting pattern.

Sophisticated programs can build customer relationships by utilizing data on personal preferences, birth dates, purchase patterns, and the like, and then customizing programs to a customer's profile.

Some continuity programs are profit centers; for example, airlines sell miles to tie in partners for additional continuity programs. In business-to-business applications, retailers, distributors, office supply managers, and others may earn rewards or rebates for ongoing orders.

This chapter helps you evaluate and implement various programs to retain customers as well as to increase their purchases.

COMMON CONTINUITY OBJECTIVES BY TACTIC

TACTIC	OBJECTIVES (Beyond purchase and those cited above)
Collect and get	<ul style="list-style-type: none"> Shorter-term, immediate motivation to repurchase Build sustained or increased usage behavior Lock in a key sales period Combat new competitor or competitor's activities
Loyalty	<ul style="list-style-type: none"> Establish long-term customers Discourage switching Build customer relationship through database profiling Foundation for short-burst, opportunistic promotions (like double points) Value perception for premium-priced product

TACTIC	OBJECTIVES (Beyond purchase and those cited above)
Relationship (database)	Establish long-term affinity and sales with customer Build knowledge of individual customer profile and promote specifically to that profile Increase purchase frequency Leverage profiling asset for tie-ins Provide easy, electronic-point accumulation for customer Value perception for premium-priced product
Club/contract	Establish immediate loyalty commitment Exceptional number of full markup purchases over extended period May collect up-front membership fees
Collector series	Engage consumer with collectible mystique Suspend, then continue, program opportunistically Reinforce icon or logo (holiday ornaments, steins, etc.) Enhance image and value perception Performance reward for sales and distribution
Collect and win	Economical motivation for continued purchases Increase excitement and awareness Motivate retail participation through sweepstakes excitement and sales Communicate product attribute through creative theme
Business to business	Motivate sales performance and customer purchase with incremental goal Establish long-term commitment, such as year-end refund; become part of customer's budgeting in the process Sales training, buyer education vehicle

ITEMIZED TACTICS

65. COLLECT AND GET—REFUND

<i>Definition</i>	Shorter-term program rewards series of purchases with refund; a tiered structure increases the value per purchase with increased purchases (Business applications may be long term.)
<i>Advantages</i>	<ul style="list-style-type: none"> • Encourages series of purchases with short-term, easily achievable reward goal • Slippage—customers purchase for reward but never do paperwork (see “Rebates/Refunds,” Chapter 4, page 106) • Establishes usage pattern

- Can lock in sales during key period
- Can combat competitive offers once consumers are vested in collecting
- Can increase average purchase rate
- Easier to administer than merchandise
- Accountable
- Business-to-business incentive for prolonged, increased purchases and simultaneously discouraging returns

Disadvantages

- Proliferation of card/collect programs
- Delayed reward lowers participation—vulnerable to competitor’s instant gratification program
- Considerable costs and executional details—collector vehicles, verifications, consumer and staff instructions, fulfillment, etc.
- Cash less economical than merchandise (see “Sweepstakes,” Chapter 2, “Prizes,” page 34)
- Too many requirements, such as save, circle prices, fill out data request, etc., discourage participation
- May upset customers if deadline expires
- Misredemption—wrong product proofs, insufficient proofs, erroneous calculations, etc.
- In business-to-business applications, returns (consignment) may negate benefits while adding reconciliation difficulties

66. COLLECT AND GET—MERCHANDISE/SERVICE

Definition

Shorter-term program rewards series of purchases with merchandise; reward value per purchase may increase with increase of purchases

Advantages

(See “Collect and Get—Refund” above)

- Merchandise/services can cost less than their retail value versus cash refund
- Partners can offer economies
- Can be a fun, involving, game format (and sweepstakes overlay)
- Merchandise rewards are far more memorable than cash-sustained gratitude.

- Disadvantages* (See “Collect and Get—Refund” above)
- Merchandise more difficult to administer than is a refund—shipping, stocking, warehousing, etc.
 - Merchandise is subject to quality flaws, missed deadlines, etc.
 - Merchandise offering may not have universal appeal
 - Relies on high-premium demand to succeed
 - Additional retail staff tasks—may require incentive
 - Retail execution can be sloppy with unaccountable collector pieces
 - Possibility of underordering or overordering merchandise

67. COLLECT AND GET—FREE/DISCOUNTED PRODUCT

Definition Program rewards series of purchases with free or discounted products

- Advantages* (See “Collect and Get—Refund” above)
- Economical rewards—cost of goods
 - Desirable reward—more of what shopper already purchases
 - Reward easy and economical to administer
 - In business to business, provides incentive for prolonged, increased purchases—no costs until products are purchased

- Disadvantages* (See “Collect and Get—Refund” above)
- May cannibalize sales by consumers who would have purchased free product
 - May exclude less-frequent-purchasing consumers
 - Consumers may prefer competitor’s more exciting reward alternative, such as a movie ticket instead of a widget

68. COLLECT AND GET—ESCALATED PLAN

Definition Collect and get reward escalates with more purchases at a greater proportionate rate (Buy three, get \$3, buy four, get \$5, etc.)

- Advantages*
- Escalating value encourages more purchases
 - Can increase incremental purchase levels per consumer
- (See “Collect and Get—Refund” and “Merchandise” above)

- Disadvantages*
- Escalating value also reduces margins
 - More complex and difficult accounting and redemption process
 - Complexity may discourage participation and cause mistakes
(See “Collect and Get—Refund” and “Merchandise” above)

69. LOYALTY—FREQUENT BUYER

Definition Reward values accumulated over prolonged period/usage and redeemable on an ongoing basis (Frequent Flyer or Frequent e-tailer Buyer programs); often tied to database relationship program

- Advantages*
- Builds long-term loyalty
 - Increases purchases
 - Discourages switching
 - Can build relationship with customer
 - Foundation for short-burst, opportunistic promotions (like double points)
 - Value perception for premium-priced product, such as high-interest credit cards or premium-priced e-tailer
 - Potential profit center, selling points (like airline miles) to partners
 - Convenient for customers—electronic point accrual
 - Breakage economies—leftover, unredeemed points
 - Once in place, administration can be economical with electronic and database efficiencies

- Disadvantages*
- Limited to applications with dedicated, sophisticated billing systems and to frequently purchased products with high transaction sizes
 - Costly setup with new database, administrative and fulfillment systems, and communication programs for both consumers and personnel
 - Major up-front commitment regardless of future success; requires exit plan
 - Future program operations may rely on original system’s integrity and flexibility
 - May be less effective than immediate reward programs
 - Competitors may have more flexible and opportunistic options

- Consumer perception of inflated pricing
- Difficult to implement in independently owned franchises
- Requires trained question and complaint call-in center
- May be a parity program with competitor
- Requires broad appeal reward selection
- Corporations may require lower-priced alternative suppliers
- Unforeseen market and technology shifts can jeopardize long-term goals and investment

70. LOYALTY—ELECTRONIC CARD

<i>Definition</i>	Frequent buyer program in which an electronic card is used as the point collection or instant savings device
<i>Advantages</i>	<ul style="list-style-type: none"> • Basically the same as “Loyalty—Frequent Buyer” above, with a card, allowing more flexibility in purchases, visits, offers, and customization • May cost less to set up than “Loyalty—Frequent Buyer” • Easy for consumer
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Limited to applications with frequent purchases (more appropriate for retailer than for a single manufacturer) • May require advanced system capable of capturing and manipulating transaction data • Proliferation of card programs • Requires major up-front commitment, regardless of future success; have an exit plan • Future operations and flexibility may rely on the original system’s integrity • May require extensive communication materials for consumers and staff • Magnetic cards have limited data storage capabilities • Consumer may forget or lose card—backup required • May give competitors more flexible and opportunistic options • Difficult to implement with independent franchise operators

71. LOYALTY—PREMIUM CATALOG PROGRAM

<i>Definition</i>	Consumers choose reward from a catalog selection for achieving purchase (or performance) goals; sustained but not a permanent program—often low-tech or with Web site alternative
<i>Advantages</i>	<ul style="list-style-type: none"> • Allows sustained loyalty program without the extreme frequent buyer program costs • Flexible for promotion extensions, double points, and reward specials • Diverse reward appeal • Merchandise has economies over cash and is memorable for sustained gratitude • Tiered reward values allow heavy and moderate users to participate • Builds product usage pattern • Vested participants may ignore competitor offers • Unlimited reward potential can increase purchases and performance • Accountable • Breakage economies—leftover points • No overordered or underordered reward concerns • Reward costs not incurred until products are purchased • Catalog vendors provide proven tracking, ordering, and fulfillment services
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Requires sufficient margins and sales frequency to motivate and pay out • Prone to human error, both with consumer forms and administration personnel—requires policies • Competitors may have more flexible and opportunistic alternative programs • Materials cost—catalogs, stamps, how-to communication, etc., for both staff and consumers • Rewards <i>may</i> need to be purchased up front and incur warehousing expenses and liability • Merchandise subject to quality flaws, missed deadlines, etc. • May upset customers if deadline runs out • In business-to-business applications, returns (consignment) may negate benefits while adding reconciliation difficulties • Corporations may not allow buyer incentive programs (See “Performance Programs,” Chapter 12)

72. RELATIONSHIP (DATABASE)

<i>Definition</i>	Frequent-buyer program that also tracks and profiles consumer behavior and then markets according to each consumer's personal profile
<i>Advantages</i>	<ul style="list-style-type: none">• Builds more effective marketing programs, addressing individual profiles, purchase cycles, reward preferences, aspirations, etc.• Shows appreciation for continued patronage• Can build lifelong consumer relationship recognizing changes in consumer's lifestyle and behavior over time• More effective motivation through individualized rewards and timing• Discourages switching• Platform for additional promotions, like double points• Tie-in programs (leverage profiling for partner contributions)• Value perception for premium-priced product• Convenient for customers—automatic point accrual• Breakage economies—leftover, unredeemed points
<i>Disadvantages</i>	<ul style="list-style-type: none">• Limited to applications with sophisticated billing systems and to frequently purchased products with high transaction sizes• Extremely costly setup with sophisticated, custom hardware and software, ongoing programming, continuous analysis and updating, and administrative and fulfillment systems, as well as communication programs for both consumers and personnel• Major up-front commitment regardless of future success; requires exit plan• Future program operations may rely on original system's integrity• May be less effective than immediate reward programs• Competitors may have more flexible and opportunistic options• Consumer perception of inflated pricing• Requires trained question and complaint call-in center with hardware and custom software investment• Requires broad appeal reward selection• Unforeseen market and technology shifts can jeopardize long-term goals and investment

73. CLUB/CONTRACT

<i>Definition</i>	Reward given up front in exchange for long-term commitment for continued purchases (book clubs, bank account, magazine subscription reward, free cell phone with service, etc.)
<i>Advantages</i>	<ul style="list-style-type: none"> • Immediate generous reward lures consumers • Commitment to purchase products for extended period, possibly at full markup • May lock out competition • Economical cost per sale • Appeals to most profitable frequent users • Promotes higher-volume purchase levels • Accountable • Simple administration <i>after</i> initial setup • Can build ongoing customer relationship
<i>Disadvantages</i>	<ul style="list-style-type: none"> • May suffer exploitative image • Long commitment to unspecified pricing discourages prospects • Eventually susceptible to price competition • Many consumers default, requiring remedial actions and jeopardizing profits • Consumers may jump to next offer at earliest possibility • Expensive direct and telemarketing setup and maintenance • May require advertising and media • Unforeseen market shifts can jeopardize expensive commitment (CDs to mp3s) • Major initial commitment and expense

74. COLLECTOR SERIES

<i>Definition</i>	Free or value-priced series of premiums offered with ongoing visits/purchases—fast-food-licensed toy characters, in-pack baseball cards, holiday ornaments, etc.
<i>Advantages</i>	<ul style="list-style-type: none"> • Immediate <i>and</i> sustained purchase incentive • Premiums cost less than cash value

- Can be self-liquidated
- Builds excitement and awareness, especially with popular property
- Can target specific profile
- Can become a yearly equity event with a following
- Can establish or refresh an icon for the brand
- Collector aspect enhances value perception
- Provides performance reward for sales and distribution

Disadvantages

- Financial risk in producing, warehousing, shipping items that may not prove popular
- Extensive cost and lead time to manufacture exclusive items, especially imports, which also require a reliable on-site monitor
- Merchandise consumes valuable retail space
- Redemption can hold up customer lines
- Licensed properties are costly and can be risky (may not prove popular)
- Limited offering may have limited appeal
- Requires staff and customer communication
- Near-pack items frequently stolen (see “Near-pack” section in Chapter 10, “Premium Programs,” page 279.)
- Occasional users less motivated—can’t collect all items
- May be vulnerable to competitive price promotions

COLLECT AND WIN

See description in Chapter 2, “Sweepstakes and Contests,” page 25.

BUSINESS-TO-BUSINESS APPLICATIONS

Although the above descriptions apply primarily to consumers, they can also be applied to salespeople, retailers, or distributors. However, many companies don’t allow employees to participate in vendor reward programs. In these cases, consider rewards for the business itself—free product, training, equipment, or even a donation to its favorite charity. Some chains may authorize a promotion at headquarters and then leave it up to each store manager whether to participate.

It may be difficult finding out whom you really want to motivate—the corporate purchasing agent or the end user. The computer personnel may use your media products, but the corporate buyer actually places the order. You may need to advertise to the end user and promote to the buyer. Take advantage of your target’s trade magazines.

(See also “Performance Programs,” Chapter 12.)

BUDGETING

Designing a program and budgeting for it go hand in hand. Determine how much you can spend to increase your sales, say 3 to 10 percent, and then divvy up that money between reward cost, communication, fulfillment, and administration. After that, start calculating point values that ultimately fund both. (See below.)

Materials Checklist

Check off what you need to budget for from the list below (your company’s various departments may already have cost histories for some):

- Advertising media
- Advertising creative
- Advertising production
- Point-of-sale signage, flyers, instructions, etc.
- Collector pieces (stamps, game pieces, etc.)
- Collection devices (like point tally boards)
- Point statements (for direct billing applications)
- Rewards
- Reward catalogs, folders, flyers
- Submitting and reporting redemptions for accounting
- Warehousing—rewards, point of sale, collateral, etc.
- Fulfillment costs for mail-in programs—processing, pick and pack, packages, cartons, postage, etc.
- Rain checks or other kinds of deferral forms for out-of-stocks
- Ongoing communication to sustain momentum:
 - New reward offers
 - Newsletter

- Regular flyers
- Letterhead (including design and several applications)
- Program instructions—for consumers, field managers, store managers, employees, etc.
- Motivational programs for managers, staff, etc., if needed—including rewards, communication, break room posters, etc.
- Promotional novelties—caps, buttons, etc.
- Program administration—order taking, processing, etc.
- Handling, verifying, fulfilling, and filing redemptions
- Customer service for questions and problems—for consumers, regional managers, retailers, etc.—800 numbers, mail-back replies, retailer hot lines, etc.
- Database, including what you want to capture—how it's reported, how it's retrieved, and how often
- Program tracking and overall monitoring
- Program reporting—from field to warehouse shipping to database
- Contingency fund—consider 10 percent for the unforeseen

(See “Shipping and Handling and Much More” in Chapter 4, page 108.)

Some Budgeting Criteria

Answering the following questions can be a guide to budgeting:

- How much of your current discounting can this program replace?
- Will your rewards cost less than discounts through tie-in partners or wholesale versus retail value?
- What and how much are all the communication and operation costs?
- Who are the target customers and what are they worth? You may gain big with a few heavy users and lose with lots of lesser users as a result of processing costs.
- Less frequent users may prefer the competitor's simple discounts; is that a bad thing?
- How will a loyalty program impact your discount practices? Good riddance to cherry pickers. Will couponers switch without coupons? Will you lose margins rewarding heavy users or increase purchase levels?
- How will your new Sunday newspaper ad compare with that of your couponing competitor's ad? For example, if your competitor boasts

“Up to \$10 in savings this week,” can you advertise “Up to \$780 in savings this year—\$15 a week!”? Because enrollment makes or breaks some continuity programs, consider launching yours with a generous offer.

- How much does it cost to offer and redeem a 55¢ coupon compared with 55¢ worth of points—communication materials, fulfillment costs, and so on? (See topic of redemption costs in Chapter 3, “Coupons,” page 82.)

Budgeting Benchmarks

You may want to first divide your budget into three areas: (1) rewards; (2) communication; and (3) administration.

Rule of thumb: Consider 50 percent of your budget for rewards; 25 percent for communication; and 25 percent for administration.

Another rule of thumb: Loyalty marketing agencies often allocate 5 percent of their total budget for developing the plan.

Gross reward budget formula. Amount you can spend per purchase × projected purchases *by participating consumers* (heavy and moderate users) minus cost of communication minus cost of implementation equals reward budget. However, this assumes 100 percent redemption.

Collect and get reward formula. This is for the short term, such as asking consumers to purchase a few items and receive a premium in the mail. Following is the formula:

Number of purchases per person you desire* × Amount you can spend for those per-person purchases = Reward budget per person

Reward budget per person (above) × Projected number of people who will qualify with that purchase amount × Projected percentage of actual redeemers** = Total projected reward budget

(Use this number to negotiate your bulk reward purchase.

Purchase quantity: Projected number of people who will qualify for reward × Projected percentage of actual redeemers.*)

*Base projected purchases on incremental sales gains—not average sales. Otherwise, you’re paying for a flat performance. If average sales per person are five, go for six.

****What percentage of customers will actually save wrappers, fill out forms, address and stamp an envelope?** Base your slippage on previous similar offers. (See Chapter 4, “Rebates and Refunds,” page 106 for example. Also see “Coupons,” page 83.)

Incremental sales! Retaining current customers is crucial, but if you don’t increase sales and profits, you’re treading water. Your total budget may come solely from a percentage of incremental profits.

Incremental volume requirements. See “Discounts,” “Budgeting Guidelines,” page 146.

Motivation threshold. If the reward doesn’t motivate meeting the purchase requirement, forget it. Refer to past promotion history, interview focus groups, and study similar programs by other companies. If you can’t afford a merchandise reward, consider a free product, a discount offer, a tie-in partner offer, or a refund (with potential slippage).

Calculating a Point

The value of a point is up to you. First, structure your reward system so that rewards are desirable and attainable for consumers. Giving high quantities of points adds perceived value to your program, such as 1,000 points for every dollar purchase. It also provides flexibility, so you can offer double-point promotions on occasion (e.g., preseason items or overstocks). High-point-per-dollar numbers can also establish milestones for consumers to strive for (by purchasing more). Your reward plateaus can be 50,000, 100,000, 200,000, and so on. Consider all factors that influence the overall margins and bottom line, for example, promotional discounts to distributors and retailers.

Note: See discussion of budgeting in Chapter 12 (“Performance Programs,” page 331) for an example of how to calculate a point to pay for a performance program. Use the same math for purchases-to-earn rewards.

Close-Ended or Open-Ended

In an open-ended program, there’s no limit to potential redemptions. Project worst-case redemption levels and make sure the sales can pay for the

Insight

Don't just talk paradigm shifts; look out for them! Some loyalty program providers were caught off guard when mobile phone services began competing on price instead of with premiums. Bye-bye frequent caller programs!

redemptions. Otherwise, you can suffer major losses. Base your projections on past promotions or run a few tests. Or run your promotion one market at a time to limit risk.

A close-ended program sets a limit on liability. If you know you can afford \$2 for every required purchase, you aren't at risk no matter how many redeem. Downside: Your no-risk offer is a lower value and less motivating as you aren't factoring in nonredeeming purchasers. You can also stipulate "Offer limited to first 0,000 respondents," "One reward per household," or limit the collection vehicles you distribute.

REWARDS

Rewards versus awards: A *reward* is merchandise, service, cash, and the like. An *award* is a plaque, trophy, certificate, or other token of achievement.

Make rewards desirable and attainable. Participation in a reward program hinges on the consumer's desire to earn and the ability to attain the reward. Target heavier users to gauge your purchase requirement, and raise their average purchase level to qualify. Different reward levels encourage more consumers to participate.

Focus on "aspirational" rewards. Rewards are more appealing when they're items we would really like to own but wouldn't splurge on self-indulgently. What's more, if the reward is too popular or utilitarian, chances are your target already owns one.

Premiums or cash. Premiums deliver more bang for the buck. (See this topic under "Prizes" in Chapter 2, page 34.)

Stretch reward dollars. Consider tying in with a manufacturer, retailer, direct mailer, or e-tailer partner for rewards. Swap out what each of you has to offer. (See the discussion of tie-ins in Chapter 11 for extensive information.)

How will you redeem your partner rewards? You'll need to devise a system that does the following:

- Delivers a valid redemption vehicle to your customer (like a certificate)
- Provides a redemption vehicle your partner's staff recognizes and responds appropriately to
- Has security systems—that vehicle is like money!
- Has efficient accounting procedures
- Reconciles both partners in a timely, accurate manner

You may save by offering your own product as a reward, though you may be giving away a sale and delaying the next purchase. Consider your own product reward (or a discount) for lower-level purchasers, which may even increase their usage rate and loyalty. If you have several different products, consider one that isn't moving well at the time or needs trial.

Consider a single, major name partner with a variety of value levels and product types, such as an electronics manufacturer/retailer or a recreational products company.

Soft rewards. Make program members feel privileged—for example, with sneak product previews, members-only offers, extra services, a special fast lane, newsletters, and the like.

Merchandise. (See Chapter 10, “Premium Programs.”) Merchandise delivers greater economies than does cash and fond memories. You may also negotiate price and fulfillment in exchange for the big order and exposure. (See “Tie-ins,” Chapter 11.)

Most major brands already have systems in place for other companies' reward programs, whether it's a retail cataloger or a sporting goods manufacturer. However, you can probably beat their discount with your own research and negotiation efforts. Try bypassing the corporate reward department and go directly to the sales department, which may be more motivated and resourceful. (See Chapter 10 for details.)

Insight

Your e-mail announcements are getting trashed! Both Internet service providers and software programs are blocking more and more, mistaking them for spam. Most consumers prefer direct mail.

DON'T USE THE *FREE* WORD TOO FREELY

Your lawyers may not allow you to print the word *free* because you may be requiring extended purchases.

What's more, research reveals consumers don't like the word *free* because they know it isn't. Consumers respond more favorably to the word *earn* and the fact that they're entitled to the rewards.

LOYALTY, CONTINUITY, RELATIONSHIP, ONE-TO-ONE, PERMISSION—WHICH?

These terms overlap. Generally, *loyalty* is longer term than is a *continuity* program, even lifelong. A loyalty program may also be a *relationship* marketing program, using extensive data capture and profiling analysis to identify and predict each consumer's individual purchasing behavior. These programs attempt to build a long relationship with the consumer, even through lifestyle changes.

One-to-one marketing, *permission marketing*, and other trendy terms basically mean the same things as relationship marketing, motivation, and other established practices.

RELATIONSHIP MARKETING

Four Relationship Program Phases

The first phase of a relationship program is the most crucial: *enrollment*. It requires extensive communication, motivation, and simple enrollment procedures. No enrollment—no program, so give prospects a reason to enroll.

The next phase is *gathering and processing the data* to begin profiling consumers. These data come from enrollment forms and surveys (which should reward participation). Organize profiles into various "buckets"—light users, heavy users, sports lovers, travel lovers, birthdays, business members, purchase dates, average point redemption levels, and so on.

The third phase is *communication*. Make this a two-way process to learn what your target really wants and responds to. Build the relationship and sales insights in the process.

The final phase never ends: *evaluation and improvement*. Relationship programs are a constant learning curve, dropping ineffective practices and building on successful ones.

What Data to Track

Data gathering can be as simple as a sweepstakes entry or a warranty form questionnaire. Or it can be a sophisticated relationship marketing system. The sophisticated database approach has four major considerations:

1. Hardware requirements
2. Software requirements
3. Data transmission (how data are gathered and transferred to your host computer—and in some cases relayed back to the consumer)
4. Profiling (the preprogrammed, computer-processed interpretation of the data—output based on your input)

What data to track boils down to four basic questions:

1. What information can you actually use?
2. Exactly how will you use it?
3. How will you organize the data you need to create manageable data buckets?
4. How much will your budget allow?

Profiling and Modeling

Profiling assembles various lifestyle and behavioral attributes of each customer. For example, your data (from surveys, purchases, redemptions, address changes, etc.) may indicate Seymore Sample likes sports and music, is middle income, just upgraded to a \$200,000 suburban home, has elementary age kids, redeems points monthly at a 1,500 point total, and so on.

Modeling uses the cumulative data for all customers combined to analyze and then *predict* behavior, such as future purchase occasions, family graduations, upgrade timing, and the like.

Following are suggested profiling data for extended relationship programs:

- Value of the customer (seasonal, yearly, and lifelong)
- Tenure of the customer
- Volume the customer represents
- Customer's profession

- Likelihood to purchase competitor's product
- Response to various incentives and levels
- Demographics and psychographics
- Personal insights—kids, ages, college, and the like
- Interests—cooking, sports, fashion, travel, etc.
- Lifestyle—hobbies, family activities, vacations, clubs, etc.
- “Touchpoints”—favorite TV programs, periodicals, Web sites, affiliations
- Business insights—profession, company, product, role, title (and promotions), business travel, airline preference, hotel preference, even trade magazines
- Services/products used
- Purchase cycles
- Income
- Usage behavior
- Reward preferences
- Retailer preferences
- Key dates: purchase anniversaries, program enrollment anniversary, birthday, point plateau achievement, major redemption dates, etc.
- Points accumulated (a lot of points means a customer may be ready to redeem *and* defect so a reward to continue may be in order)
- Contract-ending dates (and alerts)
- And much more

Key: Your system shouldn't just collect data—it needs to *act* on the data. It must be programmed to detect and flag behavioral changes and opportunities. For example, someone who's just redeemed all of his or her points is at risk of defecting, so vest him or her again with bonus points.

The trunk of the tree. In the initial design, it's crucial to determine what data you want to access and how you want to manipulate the data, because once the software foundation is laid, it may become difficult to alter. Purchase behavior may be valuable but may also require significant up-front programming to capture and analyze an individual's purchasing cycles, spending levels by cycle, product preference, and so on, *plus* changes and trends. Imagine yourself once a quarter saying, “I would like to send a mailing to a group of customers who _____. I would also like to contact people who haven't purchased in the past _____. And my heavy users should receive a letter from me, saying _____.” And so on. Start hanging out with programmers.

Data warehouses—“data schmata.” Major companies have huge data warehouses detailing endless sales, customers, seasonality, regionality, retailers, and other information. Most of those data can't be applied to relationship programs because they're too general, and the system isn't configured to manipulate the data properly. Consider an outside agency or supplier system.

Direct Survey

Direct, a direct marketing trade publication, published the following results of a 2000 survey:

Maintain your own database

83%	Yes
18%	No
1%	Don't know

Functions for which database is used

Total

Cross-selling	55%
Customized mail offer	63%
Modeling	39%
Profiling	39%
Provide information to direct sales staff	48%
Provide information to telephone sales staff	32%
Promotion	76%
Regression analysis	22%
Revenue through sale of names	28%
Upselling	48%
Other	3%

Business to business

Customized mail offers	52%
Modeling	15%
Profiling	70%
Providing information to direct sales staff	58%
Regression analysis	4%

Consumer

Customized mail offers	58%
Modeling	63%

CONTINUITY

Profiling	75%
Provide information to direct sales staff	38%
Regression analysis	31%
Type of information maintained in database	
Total	
Individual dollar amount of purchase	75%
Number of annual purchases	77%
Dollar value of annual purchases	74%
Recency	61%
Frequency	68%
Age/date of birth	34%
Length of time has been customer	73%
Source of original lead/contact	63%
Competitive products used	32%
Sociodemographic information by overlay	33%
Standard industrial classification code	41%
Promotional history	48%
Company information by overlay	33%
Company information by survey	34%
Track nonrespondents	35%
Names of prospects	74%
Business to business	
Individual dollar amount of purchase	67%
Number of annual purchases	67%
Dollar value of annual purchases	67%
Frequency	52%
Length of time has been a customer	63%
Consumer	
Individual dollar amount of purchase	81%
Number of annual purchases	88%
Dollar value of annual purchases	75%
Frequency	81%
Length of time has been a customer	81%

What happens to warranty forms? Valuable warranty information often gets filed forever. Track it down and ask the IT (information technology) department how you can turn it into an actionable database.

Lists. Database companies evaluate lists by how current they are, how many consumers are on it, and how much marketable information your list includes—from birthdays to purchase behavior. List companies may have a starting price of \$75 per thousand, moving higher the more data the list contains. The homework's easy. Look up direct marketing in your local listings and invite a sales rep.

Relationship Program Cost and Execution Considerations

Before you contemplate your “one to one future,” consider the expense and effort you're about to take on and how much it will really move the sales needle. Here's a shopping list:

- Program plan
- Program database—design, hardware, software, and the like, ongoing plus major setup cost
 - Load and update billing data
 - Track point earnings
 - Point statements
 - Identify and track all new enrollments plus new member correspondence and rewards
 - Generate monthly reports
 - Complete reward fulfillment processing
 - Accept, process, store, and manipulate data
 - Custom software and information technology department requirements
- Service center materials and operations—phone system, computer tracking system, Web extension, 800 number, automated voice response system
- Service center staff, training, and materials
 - Program eligibility status
 - Inquiries—point balance, reward details, program rules, promotional program, the program itself
 - Handling special requests
 - Receiving, verifying, and processing reward requests: normal requests and rush rewards
- Sales education materials and training
- Predictive model to benchmark current behavior and establish program goals and parameters

- Enrollment materials
 - Including incentive to enroll
 - Including processing and responses
 - Including point(s) of introductory consumer contact
- Consumer communications—ongoing
- Point-of-sale materials—ongoing
- Point statements—ongoing processing and mailings
- Rewards—ongoing
 - Fulfillment materials, shipping, processing, etc.
 - Rewards program administration
- Postage—ongoing
- Program administration and management—ongoing
- Tracking and monthly reports
 - Membership counts
 - Volumes
 - Mail count and response rates
 - Communication materials inventory
 - Reward information and inventory (including any partner status)
 - Survey response information
 - Ongoing evaluation, profiling, recommendations, etc.
 - Budget and payout

CONTINUITY GUIDELINES AND CAUTIONS

Three Hallmarks

Insight

Don't forget two of the most valuable customer contact resources: product registration forms and customer service centers. In fact, take the customer service people out to a long lunch or even bowling—and sit, listen, and learn.

Successful continuity programs are built on three foundations:

1. Rewards: Desirable and achievable for all target customers
2. Communication: Frequently, clearly, and prominently communicate the rewards, simple requirements, and easy participation. Where applicable, keep participants informed of their point progress
3. Participation: A must. Make it easy, even rewarding to sign up

Turn and Profit per Target Customer—Cost

The bottom line is how much you can spend per customer per sale, and how much motivation that figure adds up to once you subtract all the program costs.

Participation: How Many or Who?

Again, the 80/20 rule. If you have 20 percent participation, and it's the heavy user 20 percent, you've probably hit gold! The February/March 2000 issue of *Your Money* reported that heavy users can use as much as ten times the amount of product as average users. It also reported that 8 percent of the population consumes 85 percent of Diet Coke. So it's not necessarily *how many* participate in your program, but *who!*

Advertising Campaigns Don't Have Continuity

Don't tie a long-term continuity program's name to the advertising slogan. Chances are your continuity theme will outlive the advertising slogan. Consider Coca-Cola: "Coke is it," "It's the real thing," "Always Coca-Cola," "Give the world a Coke," and many more.

Do It Yourself versus Outsourcing

Continuity programs range from investments in paper and postage (refunds) to massive systems and equipment. Vendors range from refund clearinghouses to huge loyalty marketing firms. If your ambitions are simple, use this chapter as a how-to helper. For a major undertaking, use this chapter as a foundation to review and direct vendors.

Program Duration—Increased Consumption

A key criterion for program duration is how long it takes your target to reach your purchase goal. You may consider purchase volume instead of program duration. If your target's average purchase is eight in a given season, go for ten. Another approach is peak selling periods—summer, Thanksgiving

through New Year, and football season. Remember any newcomers halfway through your program—consider a low-level reward.

Get Personal

Give your correspondence a personal quality, such as your member's name. Include his or her current personal point balance, and romance the rewards the member can attain. Make special mailings for birthdays and include a reward or discount.

Overstocked/Understocked

Be prepared for overwarehoused or underwarehoused product. Can you return it to the manufacturer, liquidate the stock, use it for employee incentives, give it to trade managers, use it in field promotions, and so on? If consumers overrespond, can you restock quickly or substitute a product? (Provide a second backup gift choice on the form.) Have communication materials in place for out-of-stocks. Use the policy and the wording "equal or greater value."

Questions and Complaints

Have a call-in question and complaint service available and post the number clearly. There will definitely be mistakes, misunderstandings, misdirected mailings, and more. Use the Web, but always allow for personal contact (you can economically hire a service).

Have a Return Policy

Perhaps your vendors' policy will cover you. Consider broken product, customer dissatisfaction, exchange requests, and the like.

Have a system to track and verify reward shipments, including who signed for the package.

Budget up front for misredemption, damaged goods, and dissatisfied customers who need "make-good" rewards.

Insight

Just cashed out! When a club member suddenly “cashes in all his chips,” he may be defecting to a competitor’s program. Lure him back *immediately* with some free bonus points.

Encourage Participation While Reducing Reward and Fulfillment Costs

Review the information in this book about slippage, partners, your own product rewards, and more. In some cases, you might even charge for membership.

Review Vendors’ Advantages and Disadvantages

Review the advantages and disadvantages listed in the above tactic description matrixes. Discuss them with the vendors to evaluate their policies and capabilities.

And review “Performance Programs” (Chapter 12) and “Premium Programs” (Chapter 10), where you’ll find more budgeting and execution details.

EXIT PLANS

What if your program isn’t panning out, and you’ve enrolled many valuable customers expecting rewards? Before you enter a loyalty program, have an exit plan. Determine how to close the system while still offering some consolation to those who participated. Determine how to communicate the exit plan, and make it easy for your faithful consumers. Consider the following:

- Have customers redeem all their points at once when closing out their accounts.
- Have a closeout special that may offer even higher value rewards to appease participants, while it gets you out of the plan fast.
- Consider giving discounts or free product (cost of goods) to replace the original items you may have offered.
- Consider having a retailer partner accept the points, driving traffic to his or her business and building goodwill for both of you.
- Give sufficient warning, make the program’s end date very clear, and allow a grace period even after the program’s end date.