

# *Loyalty & Co Branding*



BIJU K T

DEPT.OF MULTIMEDIA

# What does loyalty mean to businesses ?

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Reality .....could be all of the above !!!!

## ***How did it all start – the Loyalty Program way***

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- ***Trading stamps***

- Accumulate stamps every time you shop for groceries, petrol, etc
- Redeem them for “ free “ gifts



- ***Airline Frequent Flyer Programs***

- Fly and earn points
- Redeem points for free flights



- ***Plethora of loyalty programs in different forms across industries***

Frequent buyer, frequent flyer, frequent player, frequent dining, points-at-pumps

### ***Interesting though not surprisingly.....***

1. Initial objective was to collect data on customer purchase patterns
2. Simple proposition – Earn Points for future value hence loyalty

## **What's the Good News ?**

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- 90 % Americans are active participants in atleast 1 program ---- 75% have atleast 1 loyalty card
- 82% customers think Loyalty program marketers are more in touch with their customers
- 66% of Loyalty program members do not mind sharing extra information about themselves
- Unconventional industries also bitten by loyalty bug
  - **Starbucks Card** to store information of the Card members preferences.
  - **Nike Smart card** allows them to design their own shoes

### **Loyalty programs are**

1. Key drivers for enhancing customer experience.
2. Active point of differentiation
3. Help pinpointing individual buying patterns and predicting future customer behavior.

## What's the Not-So-Good News ?

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- *Do customers perceive reward programs making a difference ?*

A lot of difference	12%
Some difference	23%
Little difference	13%
Dont make much difference	24%
Dont make any difference at all	16%
Don't Know	11%

- 48% customers did not have any serious intention of repurchasing the brand
- 55% customers accumulate points because they anyway come along with their purchases

***Do Loyalty Programs work -- Not as well as they are intended to***

## ***Some successful US programs – e-Bay***

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- Launched in in 2003,
- Teemed up with American Airlines, Hilton Hotels & eight other companies to offer called eBay Anything Points:
- Points can be earned from one business & swap them for points at eBay.
- e Bay has more than 135 million registered members across the globe
- Program has 44 mln items listed for sale with 4 mln added daily.
- ***Success of e Bay Anything points*** is attributed to
  - Linking online purchases with Travel & Airlines purchase.
  - Enabling customers to redeem high ticket size points against lower value purchases
  - Choice of redemption options.



## ***Some successful UK programs – Nectar***

- Coalition & database-driven loyalty program --- launched in Sept 2002.
- UK's largest Customer Reward Program -- > 50% of all UK households participating in the program.
- Launched with 4 partners, today it has 17 & Over 6,000 retail locations
- Nectar customers can earn points on 40% of their household expenditure.
- It has given back over 450m pounds worth of rewards since launch.
- Sainsbury's, Barclaycard, BP and Debenhams, Thresher Group, Vodafone, Adams, Ford, e-Energy, all:Sports, Winemark, Hertz, Magnet, Brewsters, Brewers Fayre, ebookers UK, and Beefeater.
- ***Success of Nectar*** is attributed to
  - Availability & Wider choice for redeeming points across relevant segments.
  - Enabling customers to earn rewards more quickly
  - At higher value than if they collected points from only one company.

## **Some insights --- Customer & Company perspective**

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### Customers new perspective of Rewards ( Loyalty )

- |                       |                                     |
|-----------------------|-------------------------------------|
| 1. Cash value         | ---- <b>Immediate gratification</b> |
| 2. Redemption options | ---- <b>More Choice</b>             |
| 3. Aspirational value | ---- <b>Feel Good factor</b>        |
| 4. Relevance          | ---- <b>Does it make sense</b>      |
| 5. Convenience        | ---- <b>Ease of availing reward</b> |

### Loyalty initiatives are not short term marketing tools. They should

- deliver **tangible** value in proportion to the value the customer brings to the company
- offer **right mix** of Product, Price, Service Delivery & Relationship benefits
- **Communication** to be transparent, timely and focussed
- **Consistent** across all customer touch points

### Loyalty initiatives must also be profitable

- Treat profitable and unprofitable customers differently
- Get your metrics in place ---- measure costs & returns



# What does loyalty mean to the customer today ?

Complete Customer  
"Relationship" Experience

Customer cost of  
using your product

Customer  
Perceived value

Primary  
drivers

Price

Product /  
service\*

Brand\*\*

Relationship

- Purchase price
- Effort
- Time

- Physical product
- Service product
- Service delivery
- Service environment

- Ethics
- Image
- Reputation
- Positioning

- Loyalty Programs
- Co Brands
- Alliances
- Special treatment
- Affinity
- Customer community

Customers want an end-to-end relationship experience

# Customer Relationship experience – Banking illustration

## Customer Value Perception

- Life Time Free
- Transparency in charges
- Value for money
- Ease of availability
- Relevant Features
- Wide service range
- Easy accessibility
- Speedy service
- Customer empathy
- Resolution of query the first time
- Aspirational value
- Flash Value
- Inspires confidence
- Understanding needs
- Processes & Service Knowledge
- Preferential offers

### Price

### Product / Quality

### Customer Service

### Brand

### Relationship

- Fee Income
- Simplified product offering
- Bottom line
- One stop Shop for all financial needs
- Network availability
- Best in class
- % returns /cancellations
- # service calls/repairs
- # customer inquiries
- # billing queries
- Strengthening Brand image
- Advertising costs
- Customer touch time
- No. of product training hours

## Organization's translation of Value

# ***Ask yourselves.....are you truly Customer Centric?***

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- ***Do you measure your customers .....***
  1. Lifetime Value & Cost to the business
  2. Preferences, Dislikes, Usage Patterns
  3. Satisfaction levels
- ***Can your Products & Delivery systems provide .....***
  1. End to end solutions / Address future needs
  2. Competitive & flexible pricing plans
  3. Ease of access / acquisition --- Options to use most appropriate services / channels
- ***Are your business processes geared up for .....***
  1. Settling customer issues, with 1 phone call or web-site visit?
  2. Responding immediately & appropriately to "moments of truth" when customers' business is on the line?
- ***Do you monitor your Loyalty programs to see .....***
  1. Address the right customers
  2. If they are profitable?

# ***Enterprise approach to Loyalty***

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## ***1st : Have a clear articulated Customer Loyalty Strategy***

- Covers the entire customer experience during his lifecycle
- Covers all customer touch points
- Addresses his existing / potential relationship with the company

## ***2nd : Must be in sync with Business Objectives***

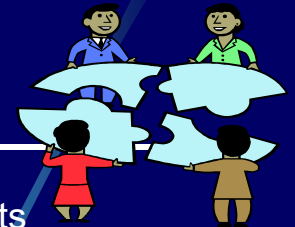
- Customer / Segment profitability
- Customer Contact strategy

## ***3rd : Business Process to be customer centric***

- Risk, Underwriting, Operational processes
- Acquisition, Customer service, Marketing

## ***4th : Design Customer centric & Profitable Loyalty programs***

# How do you do it .....



## Loyalty Strategy

- **Lifecycle Experience** ---- Define value proposition to customer segments
- **Dynamic** ---- Ability to react to changing customer needs and behaviors

## Business Objectives

- **Targets** ---- Program objectives clearly communicated
- **Metrics** ---- Measurement capability in line with objectives

## Process Changes

- **Seamless** --- across all Channels, Business Functions and touch points
- **Flexible** ---- Ability to accommodate changes without compromise

## Loyalty Programs

- **Value & Choice** ---- Value based on Customer Profitability & offering relevant choice ( Bought-out or Co-Branded )
- **Personalised** ---- to the customer's unique profile based on Analytics
- **Branded** ---- Bought-out or Co-branded to address emotional needs

# ***Role of Partnering & Co Branded Programs***

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## ***Addresses the new customer need of***

- Offering wider choice of involvement platforms
- Accrual / Redemption of Rewards across several relevant involvement categories
- Faster value accumulation compared to stand-alone programs
- Branding association to address aspirational & emotional needs

## ***Addresses the companies need to***

- Lower costs of loyalty through sharing
- Access partner customer touch points
- Access additional customer databases
- Improve Brand image

# ***Partnering or Co branding --- which option to choose ?***

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## ***Success in Co-Brand partnership is higher, if***

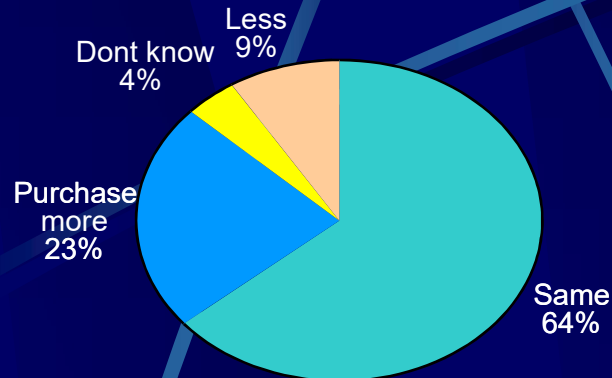
- Core value of the two partnering brands are related.
- Partner Co brand objectives are in congruence
- Each activity has consequent benefit to both partners
- Availability of Partners

## ***Bought out approach works when***

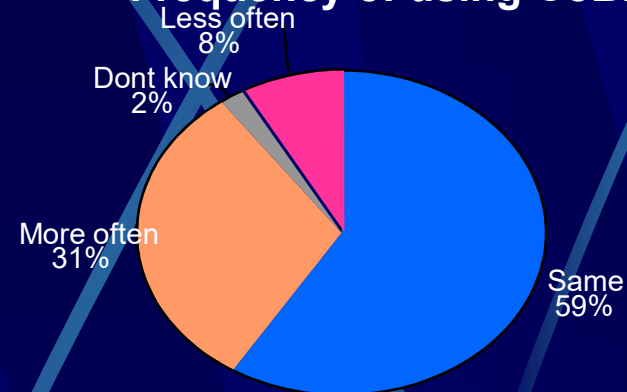
- No feasible Co Brand partners are available
- Feature / Service is commoditised
- Cost of feature low
- Partner not interested in Co branding

# Co-Branding in Credit Cards – Is it Profitable?

Purchase amount from Co-Brand Partner



Frequency of using CoBranded-Partner



- **Yes ..... by a factor of 1.2 – 1.5 times**
- **Yes ..... If you can get customers to aggregate all their usage on the co branded program**
- **Yes ..... If you can the relationship needs of the customer and show value**



## ***To summarise***

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- Loyalty is'nt created by a program.....it can at best strengthen it.
- Loyalty is not about short term rewards.....it is about end-to-end customer experience with your products / services
- Companies need to have a enterprise wide loyalty strategy backed by customer centric processes to deliver value
- Co branded programs work --- Ensure you get the value proposition right

***Loyalty has to be earned.....its hard work....but at the end you have a profitable customer***

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Thank You Very Much

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# Are all loyalty programs successful?

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- The success lies in identifying the right kind of program that suits your Industry as well as your customers
- Not all loyalty programs are profitable.
  - The correlation between loyalty programs & profitability is as less as **0.2 - 0.45**. This varies across industries.
- Decide when to send a customer 'out' of the loyalty program as well.
  - Event history model can be used here - - T
    - T= Time period between the first purchase and last purchase
    - n = No. of purchases made in the time period
- The profitability of customers varies across industries & so should the investment on a Loyalty program.

Source: 'Mismanagement of Loyalty, HBR,  
July 2002

# *Technology in Loyalty Marketing*

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- Loyalty marketing today goes hand in hand with technology
- Some latest technology breakthrough's:
  - Radio Frequency identification (RFID) -Similar to Barcodes, RFID is a technology that captures all possible data on customers in one chip.
  - Transaction databases - This is helpful in industries low on customer data like retail.
- Technology also aids in collection & assimilation of data, helping in
  - Niche customisation.
  - Predictive modelling for future customers.

# Jet Privileges

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- **Objective:** Ensuring stickiness of every customer who boards a Jet Flight.
- **Eligibility:** Any customer who has flied once on a Jet flight can register in the program.
- **Modalities:** The program revolves around five tiers, with increasing Privileges. Tier upgrade and retention done through unique multi-criteria based **DTR System**, which allows JP to periodically review its best customers & move them up.
- **Results:**
  - **Data yet to come in**
  - In its first year of inception, JP Miles has been awarded the Freddie Global Awards 2005 for its unique DTR system

# Shoppers Stop - First citizen

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- **Objective:**
  - Ensure stickiness by increasing rewards to customers on every purchase they make at the shop.
- **Eligibility:**
  - Any customer who purchase goods worth a predetermined amount.
- **Modalities:**
  - Earn points which can be redeemed against their bill amount.
  - Three tiers with increasing value per point at each level.
  - Members are given special sale previews, birthday gifts & unique focussed offer.
- **Results:**
  - Has generated a database of over **4 lakh members** who contribute to nearly **50% of the total sales** of Shoppers' Stop