

SURVIVAL OF THE FITTEST: A CUSTOMER SERVICE STORY

THE DMA

Winter 2004

INSIDER

INTELLIGENCE, INFORMATION, INSIGHT



WARNING!
REGULATION
AHEAD?

*An exclusive Insider
roundtable discussion on the
future of direct marketing*

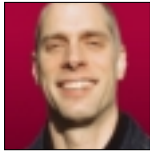
IN THIS ISSUE:

Dave Batista
Matt Blumberg
Jerry Cerasale
Kelly Hlavinka
Richard Hochhauser
Peg Kuman
Randy Spurrier
Phil Terry

THE
DMA
Direct Marketing Association

Who's Inside *The DMA Insider?*

DAVE BATISTA is cofounder of Circle, now part of Euro RSCG Circle – Boston, to which he has brought his unique perspective to bear for clients such as Mini, IKEA, and the Campbell Soup Company. Batista's teams have also led Internet and/or broadcast creative development efforts for truth, the Cartoon Network, Talbots, Dow Jones, and ING. His work, and the work of his teams, has received awards from a wide range of advertising, interactive, and business organizations and publications.



RANDY SPURRIER is CEO of Nimblefish Technologies, a San Francisco-based software company that develops the Individual Direct Marketing System — technology that automates the deployment of integrated, individualized marketing across print, Web, and e-mail media. Nimblefish customers include companies such as Lowes Home Improvement, Kodak, Leo Burnett, Hewlett Packard, and Adobe.



KELLY HLAVINKA is practice leader at The COLLOQUY Group. She joined COLLOQUY's parent company, Frequency Marketing, Inc., in 1996, serving clients such as Verizon, Exxon-Mobil, and General Electric in both account management and business development roles. Her knowledge of loyalty marketing is supported by expertise in direct marketing, consumer research, and customer analysis.



PHIL TERRY, CEO, leads the consulting and research efforts of Creative Good, where he has been since 1999. Previously, Terry was with McKinsey & Co., where he focused on the impact of technology on marketing and organizational strategy. Earning his MBA from the Harvard Business School, Terry graduated with academic honors. He is an active philanthropist and highly sought-after speaker. Terry serves on The DMA's Catalog Conference and net.marketing Advisory Board.

The DMA Insider thanks all the participants of this issue's roundtable on privacy regulation. These industry leaders include:

Matt Blumberg, CEO, Return Path

Jerry Cerasale, senior vice president, the Direct Marketing Association

Richard Hochhauser, president and CEO, Harte-Hanks, Inc.

Peg Kuman, president, PDS Anchor

Best Practices in Loyalty Marketing

How to establish loyal customer relationships

By Kelly Hlavinka



Kelly Hlavinka

In every industry around the world, loyalty program members continue to buy more in return for recognition and rewards. Successful loyalty strategies must therefore assume a more comprehensive role in the overall marketing plan — a plan that identifies and leverages the current relationships between a company and its customers, and then extends that equity to achieve a competitive advantage based on those relationships.

The following seven tips outline the steps required to establish loyal customer relationships:

1. Understand a Customer's

Value: Loyalty is about more than purchase behavior; it's about a consumer's engagement with your brand. To measure engagement, your loyalty system needs to track and score a customer's overall activity and involvement with your brand. In other words, effectively monitoring customer engagement means evaluating the relationship as a whole. A tracking system set up only to monitor transactions as they relate to designated purchasing thresholds overlooks valuable customer information. An effective loyalty system should track brand engagement activities such as a customer's interaction with your Web site and call centers, redemption activity, survey data, and other elements of customer dialogue.

2. Offer Compelling Hard

Benefits: Compelling hard benefits are tangible rewards, irresistible in perceived value, and available to your customers for free. These economic rewards let customers know they get exceptional value each time they shop with you. Avoid monetary benefits or straight discounts. Discounts are not rewards — they're easy to copy, lack memorable impact, and only increase customers' focus on price.

Golf clubs, for example, make nice rewards — but imagine a customer's gratification when those clubs are bundled with an invitation to attend a golf clinic at a reputable course. Design your hard benefits to be experiential, so each and every best customer views your rewards as memorable and highly valuable.

3. Develop Defining Soft

Benefits: Soft benefits focus on recognition by appealing to customers' emotions. Soft benefits are essential in a loyalty program so customers know that your brand acknowledges their importance. They help drive loyalty because they take aim at the emotional side of customer relationships; they add depth to a loyalty program and make it hard to duplicate.

Soft benefits are critically important to your most valuable customers, whose loyalty demands legitimate evidence of their special status. This means special treatment, exclusive deals, and insider events — whatever it takes to reinforce the sense of importance of top-tier, high-value customers. Soft benefits set apart your relationship with these customers, and offer experiences unique to your brand and unavailable to nonmembers.

4. Create Customer Tiers:

Never forget, all customers are not created equal. Tiered loyalty programs, which vary combinations of recognition- and reward-based customer potential values, are a necessity for maximizing the return on your

loyalty investment. Establish criteria that define good, better, and best customers. Then, tell your customers what being good, better, and best means to reward the behaviors you want them to exhibit.

A tiered program allows you to allocate marketing dollars to shift customer behavior. Tiered program strategies also ensure that you don't over-fund customer segments that may already be spending as much as they can with your brand. Instead, consider showering those highest-value customers with soft benefits. Reserve the greater portion of hard benefits (delivered via targeted bonus offers) for medium-value customer segments where you can tap into a greater portion of their potential value.

5. Identify "Invisible" Customers with Multi-Tender Programs:

The goal of your loyalty program should be to identify your best customers, regardless of their tender preferences, and to create a value proposition that encourages repeat visits. Many programs limit participation to proprietary payment vehicles like co-branded credit cards and private-label credit cards (PLCCs). But eliminating certain payment vehicles from your tracking system means that you're missing out on the opportunity to uncover those valuable customers who choose to pay by check, cash, or a general-use credit card. It also means that you are not systematically cultivating incremental behavior with wide segments of your customer base.

If you have a co-branded credit card or a PLCC, you can position it at the apex of your loyalty structure as the "gold standard" to which best customers can aspire. This way, you can increase the enrollment and usage rate of those preferred tender

types without neglecting the rest of your high-value customers.

6. Build Strategic Partnerships:

Loyalty programs capture customers' imaginations and interest through reward and benefit partnerships. To create innovative value propositions, explore blending partner reward content with internal certificates and cash-back awards. This issue becomes even more important if your product or service is in the "everyday spend" categories of drug stores, hypermarts, and grocers, among others, and you need partner content to differentiate yourself from your competitors. In-store certificates are really masked discounts; they're easy for a competitor to copy, and hold little motivational appeal to members. Strategic alliances may provide a source of customer acquisition, as new customers find your brand through your partners.

7. Initiate a Dialogue: Establishing a dialogue with your best customers is a key element in your loyalty marketing program. This direct line of communication with members tells you what you're doing right and wrong. Dialogue makes customers feel important, more loyal, and more connected.

Ongoing conversations with customers help build relationships. Building relationships helps gain trust. Gaining trust helps increase retention and generate additional sales. Those goals will make a decisive impact on your bottom line. ■

Kelly Hlavinka manages strategic loyalty marketing consulting services for The COLLOQUY Group, operated by Frequency Marketing, Inc. She teaches the DMA/COLLOQUY loyalty marketing workshop. Reach her at kelly.hlavinka@colloquy.com.