Smart customer loyalty and how you can achieve it

In today’s challenging economic environment, executive teams are increasingly expected to deliver sustainable growth by transforming their customers’ experiences. 90 percent of executives we surveyed said they are worried about customer loyalty, and 32 percent said building and sustaining customer loyalty was a top ten priority [1].

We have codified how organisations can deliver great customer experiences through The Six Pillars™ of Customer Experience Excellence, and KPMG’s research tells us that it is the ability to deliver personalisation and empathy to customers whilst minimising the time and effort expended by the customer that are the key drivers of loyalty. While many businesses understand the need to build and maintain a sustainable and loyal customer base, few do this successfully. Leading brands understand this and that to drive loyalty the overall delivery of memorable customer experiences must be placed at the very core of their customer strategy, creating innovative, novel, and personally meaningful experiences to consistently bring consumers back again and again.

One of the important enablers to support the creation of a loyal customer is a compelling loyalty programme. This is a crowded space where on average the typical household is enrolled in 29 loyalty programs across various sectors with active usage in only 12 [3]. In an age of changing customer expectations and rapid technological change, if brands persist in offering undifferentiated, one-dimensional programs that offer predictable discounts and points that are difficult to redeem, levels of engagement will only continue to decline, leaving customers disinterested and unsatisfied.

What do modern customers expect from loyalty programs?

Customers now require a different relationship with brands they interact with, and loyalty programs can no longer consist of formulaic, transaction-based exchanges between brands and customers. Instead, loyalty programs are a tool that allow businesses to manage and reward customers as part of an on-going relationship with the customer at the centre.

In order to appropriately address the individual needs of customers, brands must go beyond offering purely economic rewards, and instead develop a deeper understanding of their customers to provide broader benefits and lifestyle applications. It is the brands that harness their customer data to deliver a personalised loyalty experience that is seamlessly accessed across channels, offers clear progression opportunities and allows tangible redemption opportunities for customers, which achieve what we call Smart Loyalty.

How can brands achieve Smart Loyalty?

As competition increases in the marketplace where brands selling similar products are always trying to develop direct relationships to customers, loyalty programs enable organisations to break through the ‘noise’ to achieve differentiation.

The following Five Drivers of Smart Loyalty enable brands to propel their current programs from schemes that simply reward customers for purchases into flexible, multi-faceted customer engagement platforms.

**Multiple channels** – Loyalty programs of the past involved customers having to carry a plastic card with them at all times, which was scanned on payment, coupons would then be sent via email or post. However, technological advances means that customers are now always connected, and therefore expect seamless integration of loyalty programs across online, mobile, and in-store incorporating communication, rewards and payment.

Starbucks Rewards enables customers to collect “Stars” for rewards, using either a loyalty card or mobile app when making purchases in-store, or when purchasing Starbucks branded products in grocery stores. In addition, customers can top up their Starbucks account and in turn use both the card and app as quick and easy payment methods, and the collected “Stars” can be redeemed for free drinks and food in-store.

**Personalisation** – To develop a greater understanding of customers’ needs, brands can leverage advanced analytics to understand customers’ changing behaviours and motivators across their lifecycle journey to deliver personalisation at an emotionally meaningful level. Using customer data enables brands to identify and target individual loyalty drivers, and not only meet but exceed customer expectations. Once customers can see that the loyalty program is providing useful, personalised offers and incentives this creates a
mutually beneficial relationship whereby the customer will be prepared to provide more data to brands and allow more sophisticated analysis to even better target rewards.

MacDonald Hotels and Resorts ensure that their loyalty scheme members are treated in a personalised manner. They encourage staff to address customers by name, administer personalised gifts or have a priority queue system at check-in. They also tailor and personalise marketing and communications to their loyalty scheme members based on their behaviour, whether that be when they last stayed with the brand, their birthday, or which loyalty rewards they are most interested in.

**Status and community benefits** – Next generation loyalty schemes should provide a sense of belonging and community amongst its members, and non-monetary symbols of this relationship should be present at each stage of the customer lifecycle. Broader lifestyle benefits also serve to reinforce a sense of community. As customers continue to engage in the scheme, there should be clear incentives to motivate the most valuable customers to reach the next membership tier to unlock more rewards.

**Gamification** – Incorporating gamification elements creates a diverse experience for customers and boosts engagement, especially during the early stages of their membership in the program. Gamification enables brands to set clear achievable goals and milestones for customers, and choose the specific behaviours they want to reward. The most effective games are social, encouraging customers to play regularly and spread the word about the game and program. Of course, games also need to be fun, and customers will enjoy winning rewards over simply receiving them.

McDonald’s Monopoly, whereby customers receive and collect stickers from their food purchases in order to potentially win prizes such as cars, holidays and cash prizes, has proven to be one of the brand’s most engaging annual promotions. In 2010, McDonald’s Monopoly played a key role in increasing its sales by 5.6% during the game period.

**Accessible redemption** – Breakages in loyalty programs most frequently occur at the point of redemption, with almost £6 billion worth of points going unredeemed across the top ten loyalty schemes in the UK. A major contributing factor are onerous redemption processes, which often have many restrictions, such as airlines placing strict limitations on when and how their customers’ can redeem. Coupled with the devaluation of points over time, this creates a negative cycle where customers no longer feel engaged in the scheme as their desired rewards become increasingly unattainable. Instead, brands should ensure their redemption process is clear, simple, and transparent, with personalised rewards that provide value to customers. Additionally, when brands partner with other companies such as airlines or hotels to offer a wider range of reward options, it is essential that brands use their understanding of their customer base to ensure the partner network provides rewards they actually want.

Hilton Honors allows its over 50 million members to easily and seamlessly redeem their points on stays or room upgrades during the booking process, either online, by phone, or through their mobile app. Additionally, Hilton Honors points can also be used by customers for other parts of their holiday, such as airline miles, car rentals, cruise certificates, and dining and shopping.

Another example of a successful loyalty scheme, Waitrose has over six million members enrolled in its myWaitrose loyalty program, and 70% of Waitrose’s sales are to customers enrolled in this scheme. Well known for the accessible redemption of complementary hot drinks on a daily basis (recently evolved to redemption only with a purchase), the scheme also introduced a “Pick Your Own Offers” scheme, an innovative approach to allow their customers to personalise and tailor the offers and savings they receive when shopping at Waitrose. These offers can be viewed and selected across online and mobile, at a time of the customer’s choosing, before being redeemed in store, to provide a scheme across multiple channels. Over a million customers signed up in less than a year of the scheme launching.

**What are the benefits of customer loyalty?**

It is much easier and more profitable for brands to sell to their current customer base, compared to acquiring new customers. In fact, the probability of converting a new lead to a sale is merely 5-20% percent, whilst the likelihood of converting an existing customer is 60-70%. These repeat customers have also been shown to spend 33% more compared to new customers, and their behaviour is more easily predicted and managed, as businesses can analyse behavioural patterns and use this to drive more effective business planning.

Getting the loyalty programme right is a critical enabler to recognise, manage and encourage the loyalty of customers, and ultimately drive commercial benefits through loyalty. A winning loyalty programme becomes part of the DNA of a business and can manifest through an organisation’s brand, propositions, people and culture, as well as delivering the right cost versus benefit equation.

Most importantly, an engaging loyalty program has the power to enable influential brand advocates. When a brand satisfies not only their customers’ basic expectations, but also fulfils their unrecognised needs and desires, they become brand ambassadors. These ambassadors will go out of their way to promote the brand, and in turn the loyalty program, to their colleagues, friends, and family, enabling the brand to build their following without requiring any additional effort or financial outlay. No amount of advertising can replace the recommendation of a trusted friend; an individual who is directly referred will also likely turn into a loyal customer and advocate, continuing this positive cycle of advocacy.

“Brands who truly understand their customers, reward behaviours over activity, and target the right customers at the right time in a personalised way will be the ones who will win loyalty in the long term” – Nathan Beaver, Partner, Customer Advisory, KPMG in the UK
How can brands deliver Smart Loyalty?

To maximise the benefits of Smart Loyalty, it must be viewed as more than simply a responsibility of the Marketing function, and instead be engrained throughout the business functions. The understanding and support of Smart Loyalty at all levels of an organisation is integral to the program’s success. Senior executives at the top of the organisation should act as advocates of Smart Loyalty, communicating its benefits throughout the business to ensure it is culturally embedded. Front line staff should be advocates and enablers of the scheme, and should have an in-depth understanding of all aspects of the loyalty scheme in order to deliver it, and promote its benefits to customers. These employees also act as key agents of delivering novel and outstanding experiences to customers in order to create unforgettable memories and drive loyalty.

With personalisation of customer experience playing the largest contribution to advocacy and loyalty, brands should use advanced analytics to hone their segmentation of customers and deliver personalised experiences tailored to each customer’s unique needs, desires, and circumstances. By improving their understanding of their customer base, specific experiences and rewards can be provided to tailor every customer interaction across their lifecycle into a valuable opportunity to target drivers of loyalty.

As the loyalty playing field continues to change with evolving customer expectations, increasing competition and advancing technologies, brands will need to re-evaluate their approach to encouraging loyalty amongst its customers. Loyalty leaders will be the brands who elevate their programs beyond transaction-based schemes, create long-term, personal relationships with customers to maximise the value from each customer interaction, and use loyalty as a strategy to deliver their wider brand promise.

How will you restructure your loyalty programme and your underlying business model to deliver Smart Loyalty?

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4 [https://www.learndash.com/successful-gamification-case-studies/](https://www.learndash.com/successful-gamification-case-studies/)


7 John Lewis Partnership plc Annual Report and Accounts 2016; [https://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/financials/annual-reports/jlp-annual-report-and-accounts-2016.pdf](https://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/financials/annual-reports/jlp-annual-report-and-accounts-2016.pdf)

8 [http://www.cmo.com/features/articles/2013/7/18/customer_retention.html#gs.s9khPcc](http://www.cmo.com/features/articles/2013/7/18/customer_retention.html#gs.s9khPcc)