

Introduction

Source: TIBCO Software Inc.

#1: Define Success First

There's little debate about the efficacy of customer loyalty programs — they simply work. Whether your goal is retention or brand affinity, customer loyalty programs have repeatedly shown a very strong return on investment (ROI). Yet many sophisticated loyalty programs lack the clarity of purpose to answer the simple question: "When we look back in a year, what needed to happen for us to say we succeeded?" Without a clear definition of success, even the most effective program is at risk of being undervalued, and as a consequence, underfunded. When goals aren't clear, loyalty programs simply waste valuable time and scarce resources. Success needs to be clearly defined with achievable objectives, and that takes planning. A good definition of success — whether it's retaining customers, increasing shopper frequency, preventing customer erosion, increasing basket size, or any other target — is foundational to everything else you do. So know your targets, document the current situation clearly, and choose a definition of success that directly addresses your issues or goals.

#2: Determine Desired Behaviors

Customer behavior should be your primary focus. Before you plan future customer interactions, first try to narrow down the specific things that truly move the needle and directly contribute to customer loyalty success. across the wide spectrum of possible customer interactions, identifying and defining the behaviors that matter most isn't always obvious. In mobile, for example, these behaviors could include downloading an app, opting-in to notifications, or opening the mobile app near a retail location.. Focusing on the most important behaviors will help you use your resources wisely and help you avoid wasting time chasing lower-value outcomes that aren't critical to achieving your goals. In fact, every marketer should write down a list of the five to ten of these important activities or behaviors and keep it constantly in view — even tacked to the wall. That way you'll always know your desired customer behaviors and can put the most energy into making them happen more often.

#3: Invest Disproportionately

Don't spend your customer loyalty budget evenly across all channels or programs — simply spreading funds evenly across channels may lead to missed opportunities. Similar to other business initiatives, better ROI can be achieved by spending disproportionately higher amounts in particular areas. When it comes to high-value customers, we know that spending more to develop relationships not only creates stronger brand connections but also provides much better knowledge of preferences, propensities, and other insights. A better relationship with a high-value customer has significant benefits that can result in a higher lifetime value. You can more easily identify important signals, including an increase or decrease in visits, or even life-changing events like a new home or the birth of a baby. If a high-value customer's normally stable signals change, there can be an opportunity to solve their problem to your mutual benefit. Quick response to these signals can prevent the relationship from devolving, preserving brand loyalty and stemming attrition. So disproportionate spending is the only way to be sensitive to the relative value of different channels and programs.

#4: Never Underestimate the Power of Inertia

"People maintain habits until they don't." - American Economist Richard Thaler is the customer loyalty marketer's credo and underpins one of the core tenets of resource allocation: To stay on the winning side of customer habits, you need to nudge and encourage incremental growth and develop relationships whenever possible. When it appears that customers have changed their habits in ways that aren't mutually beneficial, you also need to sound the alarm and swarm. Some marketers coined the term "satisficing," which perfectly explains this idea. "Satisficing" means making decisions that are good enough given the constraints. Studies consistently show that people tend to select the



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#4: Never Underestimate the Power of Inertia (cont)

first option that meets their needs rather than searching around for the optimal solution. So by providing every customer need with a solution that's good enough, you maintain customer relationship inertia. Keeping a customer can sometimes hinge on simply making it easier for them to stay your customer than to look elsewhere for potentially better alternatives. That's the power of inertia in customer loyalty success.

#5: Remember First Impressions Are Crucial

These days, a first impression can be made in as little as 50 milliseconds. Simply put, brands that focus on first impressions have a significant advantage over competitors who don't.

#6: Choose Defaults Wisely

When offered a number of choices, humans often choose the "default" option. This unconscious tendency points to the importance of very intentionally setting your default offering, because there's just no easier way to influence behavior. While the importance of choosing defaults is well known in retail, it applies everywhere responses can be influenced. So if you haven't arranged your customer options with the power of default settings in mind, you're missing out — the results from restructuring customer choices can be significant.

#7: Be Aware How You Set Expectations

When people evaluate your business proposition, an expectation is set in their minds. This "anchoring" is a very powerful concept that affects your brand's value in the mind of your customer. For example, airlines are currently shifting from distance-based rewards to spending-based rewards. Their goal is to make their program more fair by rewarding those customers who spend the most money, not just those who fly the furthest. This shift will align them with nearly every other loyalty standard and is ultimately good for business, but airlines are facing steep resistance because they've firmly anchored distance-based rewards in their customers' minds over the past several decades. This "anchoring" effect reaches well beyond loyalty programs. It applies to any promise you make to your customers, from free shipping to carrying upscale merchandise, to friendly service. Anything promised sets an expectation that will become a problem when not met. To avoid this problem, begin with commitments that are somewhat lower than your capability or cost ceiling and add incremental value over time.

#8: Become An Expert in Framing

The best retailers are very experienced in a practice known as "framing." That is, guiding customers through purchasing options such as Good, Better, and Best pricing to steer them to the most profitable item. But it's not as simple as it sounds, because a lot of factors come into play. The influence of framing depends on whether the customer is in a rational or experiential mode. It also varies with age, experience, and cognitive ability. Likewise, different ways of framing can elicit very different responses. Results often depend on the way options are presented as much as the objective features of the choices being offered. When and how you frame also affects earning and keeping your customers' trust. Few people are going to think favorably of your brand if you attempt to frame in ways that aren't coherent and believable. As we said, airlines are currently trying to shift their loyalty programs from miles flown to dollars spent, effectively reducing passenger benefits by approximately 20 percent. To reduce customer backlash, they're carefully framing the shift as a positive change. But framing something positively when it's really only favorable to your brand is a recipe for distrust and customer attrition. So think carefully about how you set up decision-making for your customers.

#9: Avoid Accidentally Invoking Loss Aversion

According to behavioral studies, people hate losing much more than they like winning. This idea has been repeatedly proven in the stock market where investors react more strongly to losing \$100 than they do to gaining that same amount. It's known as "loss aversion" because the negative effect of losing can be two to three times stronger than achieving gains. Loss aversion is also well accepted as the prevailing consumer sentiment. If a consumer thinks they've earned something of value, like points in a loyalty program or progress toward a status level, the loss of that value will cause disproportionate displeasure. In many cases, a consumer's ultimate perception of something's value depends on how it's framed. That's why you should test various ways of framing negative news to avoid accidentally invoking loss aversion from something as simple as points expiration. Testing messages such as "Buy now and keep all of your points!" against "Buy now and get bonus points!" can have very different results. Loss aversion is a key tenet of program design, and is a big part of understanding how a program will progress over time.

#9: Avoid Accidentally Invoking Loss Aversion (cont)

Consumers need to perceive a program as improving value for them over time rather than decreasing it.

#10: Learn from the Gaming Industry

Study after study shows that human brains love small, predictable rewards more than occasional, large rewards. Gaming companies know that frequent, small, predictable rewards with unpredictable timing are precisely what our brains crave. Known as a variable ratio schedule of reinforcements, this is partly the allure of Facebook and other social media sites. With a critical mass of active people providing frequent, yet unpredictable bits of content, users feel rewarded for continually checking in. These sites delight consumers when rewards are provided n times on average and not always on the n th time. This "predictable unpredictability" is equally successful in marketing. By continually varying the level or frequency of a promotion or benefit so that it still averages out over time, you appeal to your customer's love of small, predictable, yet unpredictable rewards. In an increasingly noisy world, this practice very effectively draws attention and encourages repeat visits to stores or kiosks, as well as web and mobile sites.

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