

CUSTOMER EXPERIENCE PARTNERS

Why So Many Loyalty Programs Fail - Part 2



Businesses have learned their lesson; keeping customers (specifically profitable ones) is the ticket to survival. Yet we all see loyalty programs launched and re-launched, often in a period as short as one or two years! In this posting we'll continue to discuss some of the reasons for this poor success record.

What's Your Currency of Loyalty?

Following Part 1 (Nov. 28, 2012), another reason so many loyalty programs fail is the failure to identify an attractive "currency of loyalty". To see for yourself, randomly select 10 'loyalty programs'. We'll bet at least four of these programs reward loyalty with a dollars-off coupon for either the merchant's own products or something as far-removed as an auto oil change. Such rewards are neither *adequate* nor *compatible* incentives. To be effective, loyalty currency must offer reasonable: **magnitude, attractiveness; immediacy and relevancy.**

Let's consider the role of a reward. Implicit in the formulation of a loyalty program is an exchange of values; the customer's continued business is a value to the marketer, in exchange he/she is willing to offer the customer something extra; a reward for their patronage. If this conjures up Pavlovian conditioning you're understanding part of the role rewards perform. They should be impactful enough to reinforce the sought behavior: brand repurchase. But when the "reward" is insufficient; lacking magnitude, attractiveness, immediacy and/or relevancy, the loyalty program becomes nothing more than an ineffective extra cost.

Loyalty as Emotional Glue

We have often visualized customer loyalty as "emotional glue" – an emotional bonding that "sticks" customers to brands and companies. The strength of this glue is increased in proportion to the value of the benefits and rewards a customer perceives she/he is deriving from maintaining a relationship with a company or brand. Benefits can be classified into four categories:

- **Functional Benefits** – how well the business, product or service "works" or performs;
- **Service Benefits** – the treatment and servicing the customer receives in transacting with the business, product or service;
- **Transactional Benefits** – how easy it is to conduct business with a company/firm/brand; and
- **Emotional Benefits** – the emotional satisfaction a customer derives from 'affiliating' with a company/firm/brand through continued purchases.

The first three benefit categories fall largely in the realm of the core product/service and its accompanying services. But a well-designed loyalty program can make a significant contribution to the fourth benefit, the **emotional** component. That's because a good loyalty program is about, what Feargal Quinn means in his concept of "crowning the customer". The structure and benefits of a successful loyalty program are less about discount coupons and more about "value added". The things a company can do to make desired customers feel appreciated and special.

True, such programs are harder to conceive and perhaps to execute. But, they're also much harder for competitors to match because they're structured from keen insights into what will really please a cherished segment of customers. To discuss this further contact us at:

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