

SPEAKING OF LOYALTY....

As a card-carrying pedant, this writer is often uncomfortably aware that not everyone shares his concern for “correct” English.

In fact, many would argue that as long as the sense is clear, it doesn’t matter in the slightest where, for example, the apostrophe falls. But it’s surely a worry when, by using words wrongly, we mislead.

And that’s the case with loyalty.

From the very outset, practitioners spoke of loyalty programmes. In calling the company that created Air Miles UK and its overseas siblings Loyalty Management International, Sir Keith Mills set a trend which has been followed by his imitators around the world – and the academics and observers who comment. He at least had the excuse that he was creating something entirely new, which needed a new name. A quarter of a century later, we should know better.

It’s the norm now for marketers to speak of “loyalty programmes” when what they really mean is “rewards programmes”. But they are absolutely not the same thing.

As a start, let’s define what we mean by customer loyalty. A Google search throws up a multitude of approaches but, at least in the business to consumer world, it’s likely to involve a number of different behaviours:

- A preference for buying from you when competitors are available, and perhaps even more convenient
- A willingness to recommend you to others
- A tolerance for a certain degree of non-price competitiveness
- Openness to buy other products or services from you
- Confidence in the quality and value for money you provide

If this definition is broadly correct, it’s clear that customer loyalty is not generated solely from earning and redeeming points or frequent flyer miles.

To earn this kind of loyalty, the basics have to be right. And by basics, for starters we mean our old friends, the Four P’s: product, price, place, and promotion. But to these, we should add another: personal service. If these components are working well, a business can reasonably expect to generate the customer behaviours and attitudes which make up loyalty. Without them, all the points in the world won’t create it.

What points will do is reward. All too often, this is where the analysis stops. The decision is taken, create a loyalty programme – note the likely misunderstanding built into the phrase – one is expensively built and launched and again all too often fizzles out.

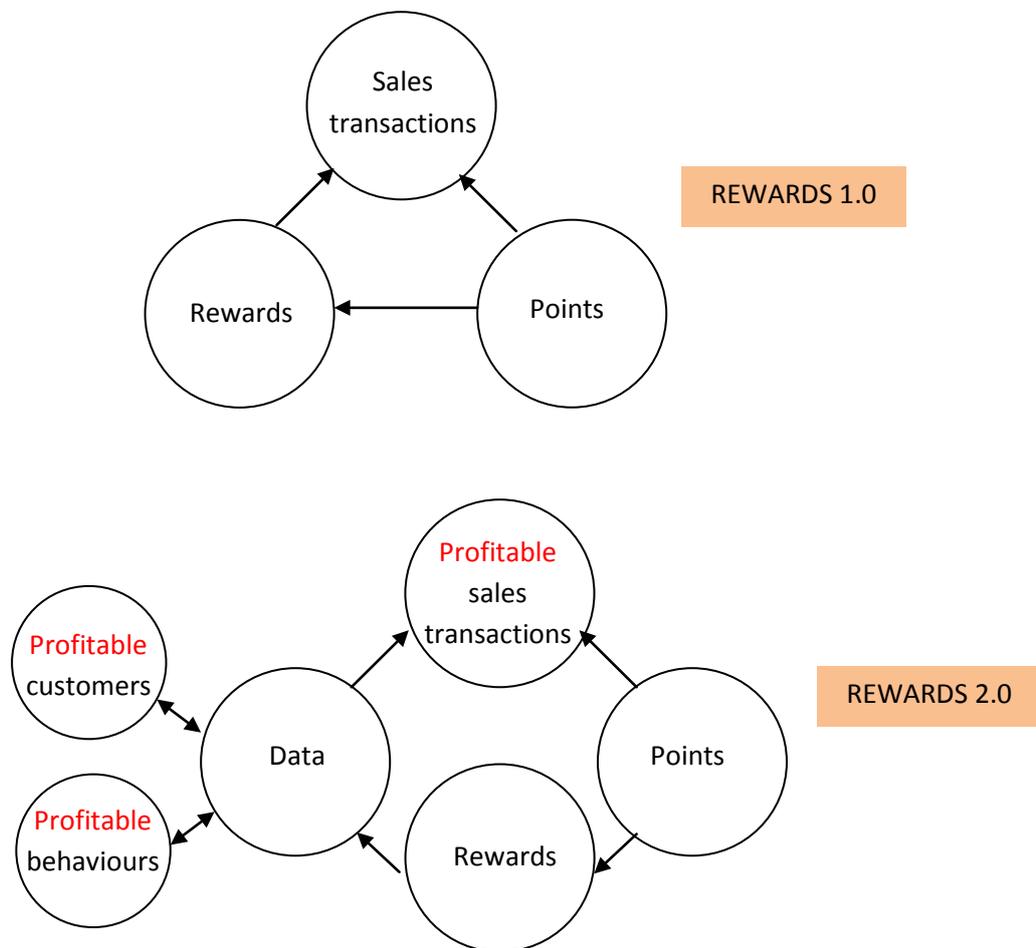
What goes wrong?

Usually, it's a belief that a rewards programme will fix basic business weaknesses. It won't. Again, it happens that, in the excitement of creating the programme, the tedious but essential business of defining the objectives has been skimmed. One example that comes to mind is of a very well-known institution that spent 80% of its generous marketing budget on a rewards programme – but couldn't point to a single business benefit, because none had been targeted in the first place.

And here again, we have to think carefully. What do we want to reward? Who do we want to reward? And, having thought this through, what form should the rewards take?

Here, there has been an evolution: while early programmes sought simply to use points and rewards to build sales – The Lift and Shift idea – more recently, there has been an understanding that not all sales are equal, and by extension that not all customers are equal either.

What makes the difference? Data.



Well, that's the theory, at least.

But the uncomfortable fact is that the primacy of data is honoured at least as much in the breach as the observance. Experience shows that for every Tesco Clubcard working the data for all it's worth, there is an awkward squad of programmes that don't. Server farms out there are groaning with information which rarely if ever is accessed in any meaningful way.

At the same time, there has been a curious lack of focus on the rewards themselves.

Once the budget airlines torpedoed the value offered by classic Air Miles programmes, many operators seem to have been at a loss to know what to offer instead. The obvious response would be for them to find a way to include the low cost carriers but, again with honourable exceptions, that seems to have proved difficult. As a result, all too many programmes offer a range of rewards that are failing to capture customer interest, either as short-term incentives or valuable treats that they're prepared to save up for.



In fairness, some operators have been more imaginative. Drawing on a tradition that goes back at least to its mid 80s Home Town programme, American Express has shown the way by building a suite of as many as 16 reward packages from which customers can choose according to personal preference or even location.

Common sense suggests, and experience confirms, that different customer groups will respond to different awards. For example, recent reports¹ have found that Western buyers of super-luxury goods like to get discounts from the fashion houses they patronise, while their Chinese counterparts prefer exotic VVIP pampering.

So rewards may mean tiering, it may mean selections driven by spend patterns, it may mean soft benefits as well as hard, it may mean instant redemption at POS, it may mean “You name it, we’ll get it” rewards – it may mean whatever customers want it to mean. Diversity and responsiveness to customer needs have to be structured right into tomorrow’s successful programmes.

But there’s still another step that well-run businesses take: they recognise their best customers. When you go into your local pub, it’s rather pleasant that the landlord greets you by name – maybe even knows what you like to drink. It can’t be emphasised enough that customer recognition is just as fundamental to the biggest global corporation as it is to the village pub – and because it’s so unusual, probably even more welcome. In the airline business, it’s well-known that gold tier frequent flyers set a really high value on checking in at the first class counter. Why don’t supermarket chains take a leaf from the airline book and have dedicated check-outs for high value customers? Again, a colleague who travels regularly with Emirates speaks often of the flight attendant who, seeing him looking for magazines, gave him the golf ones, as she knew that’s what he liked. One action, but it’s made him a vocal Emirates fan.

So: Loyalty? Rewards? Nit-picking pedantry? Or is there an important difference between the two? One thing’s certain: your customers know the answer.

¹ *The Economist*, 12 May 2012