

Setting Up a Loyalty Program on the Web

By BNET Editorial

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Merchants set up loyalty programs to reward customers who spend more and/or stay longer on their Web sites. As with many trends on the Internet, loyalty programs were a trend that crashed pretty severely. Much of what went wrong does not reflect an inherent fault in the loyalty model itself, however; but rather in the over-hyped expectations of what loyalty programs can deliver. If you are considering setting up a loyalty program on the Web, keep the following in mind:

- Implement loyalty programs on the Web only after your e-commerce fundamentals are solidly in place
- Loyalty programs are long-term projects: It can be disastrous to discontinue a loyalty program after only a short period
- The level of incentive is critical to success—too high and your profits will be hurt; too low and you won't attract members

What to Do

Establish E-commerce Fundamentals First

Consumers value service, comprehensive information, appropriate returns policies, and good customer support. Unless these fundamental practices are fully established, a loyalty program is of no use to a business; customers will see loyalty points only as gimmicks.

Plan for the Long Term

Loyalty programs, by their very nature, must be available for an extended period of time. Loyalty programs ask two key things of consumers—to collect points that will be redeemed at a future date and to give their loyalty. Don't start a loyalty program unless you're prepared to continue it. There is no better way to antagonize a customer than to offer a loyalty program and then six months later, as the member has collected half the points required for a reward, to stop the program.

Understand Your Customer

If you don't know why your customers are loyal, then you cannot develop a program that will enhance their loyalty. Marketing research can reveal what is most important to your customers. The focus of

a loyalty program should be on your most profitable customers in order to enhance their relationship with your company and encourage them to spend more.

Offer Appropriate Rewards

There are a number of loyalty program approaches:

- Points systems—a popular approach that awards points to customers based on the amount they purchase
- Premium customer programs—special status is awarded to customers who spend predetermined amounts of money and are repeat purchasers of a product or service. Those who achieve this status may receive special service offers, discounts, exclusive offers, gifts, and so on. The objective is to make customers feel special and that they are receiving attention and rewards that others are not
- Buyers' clubs—special volume discounts are offered when a certain number of consumers get together to buy a particular product

Assess the Costs and Benefits

If the rewards in your loyalty program are too high, your margins will be squeezed, and you will have achieved little from a profitability point of view. If your incentives are too low, then your customer has little to lose by leaving you, and the very purpose of the loyalty program will have been negated. Many loyalty programs on the Web, fueled by venture capital, offered major incentives in the hope of attracting large numbers of members, but the cost of these incentives was too high to justify continuing the loyalty programs.

Make the Advantages Obvious

Customers can take loyalty programs and their subsequent rewards very seriously. Some consumers consider it important to have a “Gold Card” or be seen as a “Premium Customer.” Clearly communicate the advantages of your program to tap into this sort of loyalty psychology. It should be obvious to customers that the more they spend and the longer they stay with you, the more rewards and better treatment they will receive.

Communicate with the Customer

Customers need to be able to check on their status easily—to see, for example, how many reward points they have accumulated. Maintain frequent communications with your program members. Send out a regular bulletin that creates a continuing buzz about the loyalty program, announcing competition winners, new competitions, special offers, and so on.

Where to Learn More

Books:

Griffiths, Andrew. *101 Ways to Really Satisfy Your Customers: How to Keep Your Customers and Attract New Ones*. Allen & Unwin, 2007.

Meisner, Chet. *The Complete Guide to Direct Marketing: Creating Breakthrough Programs That Really Work*. Kaplan Business, 2006.

Web Site:

Malcolm Fowler's "Five Critical Success Factors For Real-Time Customer Loyalty—Getting Started":
www.ecustomerserviceworld.com/earticlesstore_articles.asp?type=article&id=1861w