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# Loyalty Programs

Insights from recent academic research

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# Summary

Conclusions and recommendations





# Loyalty programs are popular

Loyalty programs (LP) are very popular among companies and consumers in the Netherlands and abroad.

- Loyalty programs are more often used by companies in industries with a high level of customer contact, a homogeneous product and large differences between customers.
- Privacy concerns are only a problem for a very small fraction of the consumer population.





# Success depends on the design

The success of a loyalty program (LP) depends on the design:

- The design of a good LP combines hard benefits (points, discounts) and soft benefits (magazines, etc.). Good edge conditions are crucial: take care of convenience and reliability.
- Collecting points is in particular useful for products and services with a high level of involvement. When there is a low level of involvement: immediate discounts or other benefits will have a better result.





# LP design in practice

## *In practice:*

- Saving points: a combination of large presents (long term collecting targets) and smaller presents (short term stimulations, because the customer wants to accomplish this goal fast) works better.
- Combine common, useful gifts with more luxurious gifts (reward the customer for his effort). Connect rewards to the regular assortment, for example: a coupon for new purchases.
- Consider the possibility of letting the customer combine money and points. Customers don't make a rational and correct evaluation on this.
- Customers value the points. They really collect the stamps/points and appreciate this over and above the financial value!







# Design of a LP in practice

## *In practice*

- Use tiers such as gold-silver-bronze: benefits (points and discounts) do not have to be the same for everybody. Danger: gold members develop higher expectations which will result in less satisfied customers at the same service level.
- Women prefer personal attention in communication (special rewards or points at their birthday); men are more sensitive to status aspects (gold membership) and visibility (others have to see they are gold members).





## Loyalty programs work!

- Results of research on effectiveness of LPs vary strongly, but in general there is a positive effect of LPs on ‘attitudinal loyalty’ and ‘behavioral loyalty’ of customers.
- Participants of a LP are less sensitive to promotions and other benefits offered by a competitor.
- The more LPs are in a certain market, the less effective a new LP will be, because customers are participating in other LPs already.
- LPs are able to expand ‘behavioral loyalty’ more effectively for medium/light users than for heavy users.
- Discontinuation of the LP by the company may have a negative effect.







# LP data are not used effectively

- I. Collect consumer data:
  - During the moment of subscription,
  - During the registration of consumer behavior (purchases, response on promotions, etc.).
- II. Use the data on your consumers to support marketing-decisions, like:
  - Cross-selling (other products to the same consumer),
  - Address selection for direct mail,
  - Customized promotions and coupons,
  - Customized product assortment,
  - Segmentation,
  - Location decisions.
- III. The opportunities of the LP-data are not used enough





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# 1. Introduction

