



HOW TO USE

Customer Loyalty Programs

for Your Business



According to [Inc.](#), it costs a business about 5-10 times more to acquire a new customer than it does to sell to an existing one --

and on average those current customers of yours spend 67% more than a new one. So, what are you doing to keep your customers coming back to your business? If you're like 65% of marketers, your company has implemented a loyalty program.

But is it working? According to the [2011 Colloquy Customer Loyalty Census](#), of the \$48 billion worth of perceived value in reward points and miles distributed by American businesses annually, one-third goes unredeemed by consumers. Companies lose money on time and effort, and customers get no more value from the businesses to which they are "loyal."

So how do you keep your business out of that one-third segment? How do you convey enough additional value in your programs to keep your customers coming back? It's time for marketers to look beyond convoluted rewards systems and offer actual value to customers using their loyalty program. To get you started, this ebook will offer some ideas for customer loyalty programs that might work for your business, dive into ways to inspire customer loyalty (with or without a program), and teach you how to measure loyalty so you can track your progress.

CUSTOMER LOYALTY PROGRAM IDEAS FOR YOUR BUSINESS



USE A SIMPLE POINTS SYSTEM

This is the most common loyalty program methodology.

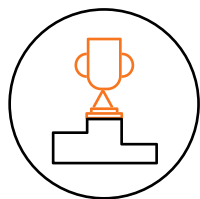
Frequent customers earn points, which translate into some type of reward. Whether it's a discount, a freebie, or special customer treatment, customers work toward a certain amount of points to redeem their reward. Where many companies falter in this method, however, is making the relationship between points and tangible rewards complex and confusing. Fourteen points equals one dollar, and twenty dollars earns 50% off your next purchase in April! That's not rewarding, that's a headache. If you opt for a points-based loyalty program, keep the conversions simple and intuitive.

One example of a company using a points-based loyalty program well is Boloco. They speak the

language of their audience by measuring points in dollars, and rewards in food items. Customers swipe their stylish **Boloco card** at every purchase and the card tracks the amount of money spent. Every \$50 spent earns the customer a free item. Doesn't matter if they choose a super jumbo burrito or an extra small smoothie - it's free after \$50. This is an example of a company simplifying points with an accessible customer reward system.

Although a points system is perhaps the most common form of loyalty programs, it isn't applicable to all business types -- this type of loyalty program is most appropriate for businesses that encourage frequent, short-term purchases.

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USE A TIER SYSTEM TO REWARD INITIAL LOYALTY & ENCOURAGE MORE PURCHASES

Finding a balance between attainable and desirable rewards is a challenge

for most companies designing loyalty programs. One way to combat this is to implement a tiered system. Offer small rewards as a base offering for being a part of the program, and encourage repeat customers by increasing the value of the rewards as the customer moves up the loyalty ladder. This helps solve the problem of members forgetting about their points and never redeeming them because the time between purchase and gratification is too long.

Virgin Airlines' **Flying Club** inducts members at the Club Red tier, then bumps them up through Club Silver and Club Gold. Club Red members earn miles on flights and get discounts on rental cars and hotels. Club Silver members earn 50% more points

on flights, expedited check-in, and priority stand-by seating. Club Gold members get double miles, priority boarding, and access to exclusive clubhouses where they can grab a drink or get a massage before their flight. The key is to offer benefits in the early stages to hook the customer into coming back. Once they do, they'll realize that "gold" status isn't unattainable, and offers really cool benefits.

The difference between points and tiered systems is that customers extract short-term versus long-term value from the loyalty program. You may find tiered programs work better for high commitment, higher price-point businesses like airlines, hospitality businesses, or insurance companies.

CUSTOMER LOYALTY PROGRAM IDEAS FOR YOUR BUSINESS



CHARGE AN UPFRONT FEE FOR VIP BENEFITS

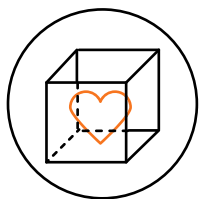
Loyalty programs are meant to break down barriers between customers and your business --

are we seriously telling you to charge them a fee? In some circumstances, a one-time (or annual) fee that lets customers bypass common purchase blockers is actually quite beneficial for business and customer alike. By identifying the factors that may cause customers to leave, you can customize a fee-based loyalty program to address those specific barriers.

In 2011, **ecommerce shopping cart abandonment** hit a record high of 72%, and is still rising. This abandonment is often caused by “sticker shock” after tax and shipping prices have been applied. Ecommerce giant Amazon found a way to combat this issue in their loyalty program called Prime. For \$79 annually, Prime users get free 2-day shipping on millions of products with no minimum purchase, among other benefits.

This program is innovative because it charges loyal customers while providing enough in return for those frequent shoppers to realize the benefits. Analysts estimate that *Amazon actually loses about \$11 annually for each Prime subscriber*, but makes up for it in increased transaction frequency that would not have otherwise happened without their exclusive benefits. Clearly this system is most applicable to businesses that thrive on frequent, repeat purchases. For an upfront fee, your customers are relieved of inconveniences that could impede future purchases. Amazon has mastered this for ecommerce, but this loyalty program model also has potential to work for B2B businesses who deliver products to businesses on a regular basis.

CUSTOMER LOYALTY PROGRAM IDEAS FOR YOUR BUSINESS



STRUCTURE NON-MONETARY PROGRAMS AROUND YOUR CUSTOMER'S VALUES

Really understanding your customer means understanding their values and sense of worth.

And depending on your industry, your customers may find more value in non-monetary or discounted rewards. Every company can offer promotional coupons and discount codes, but businesses that can provide value to the customer in ways other than dollars and cents have an opportunity to really connect with their audience.

Patagonia, an eco-friendly outdoor apparel company, realized that their customer needed more than just points and discounts from a loyalty program. Late last year, the company implemented its Common

Threads Initiative. In it, they partnered with eBay to help customers to resell their highly-durable Patagonia clothing online through the company website.

This program builds on their brand of sustainability and creating a high-quality product, and it matches perfectly with the company's customer persona by providing a value that they really care about. So before implementing a loyalty program of this nature, be sure you've researched and designed an in-depth customer persona!

CUSTOMER LOYALTY PROGRAM IDEAS FOR YOUR BUSINESS



PARTNER WITH ANOTHER COMPANY TO PROVIDE ALL-INCLUSIVE OFFERS

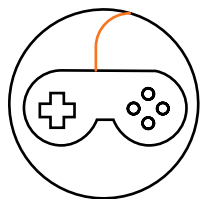
Strategic partnerships for customer loyalty, also known as coalition programs, can be extremely effective for customer retention and company growth.

Again, fully understanding your customers' every-day lives and their purchase process will help determine which company is a good fit as a partner.

American Express has a huge partner base with companies across the country. Their [Twitter Sync campaign](#) rewards customers for tweeting about them by syncing discounts and deals with Twitter #hashtags. According to [Visibli.com](#), cardholders have redeemed over \$2,000,000 in rewards. Participating companies that are benefitting from their coalition with Amex include Whole Foods, Staples, and Zappos.

For example, if you're a dog food company, partner with a veterinary office or pet grooming facility to offer co-branded deals for mutual benefits for your company and your customer. The target audience obviously owns a dog, so any services that dog will require offer added value from your company. Providing customers with value beyond even what your company can offer will show that you understand them, and grows your network to reach your partners' customers, as well.

CUSTOMER LOYALTY PROGRAM IDEAS FOR YOUR BUSINESS



MAKE A GAME OUT OF IT

Who doesn't love a good game, right?

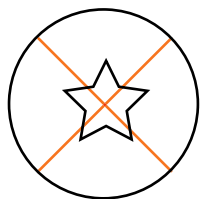
Turning your loyalty program into a game is a fun way to encourage repeat customers and, depending on the type of game you choose, help solidify your brand's image.

GrubHub, an online food ordering and delivery website, started **Yummy Rummy**. Once customers place three unique orders through GrubHub, regardless of price, they get to play a game for a chance of winning free stuff. Players choose one of four cards and have a 25% chance of winning a free dessert, drink, gift card or other cool stuff.

It's important that customers understand you're not duping them out of rewards, though. *The odds should be no lower than 25% and the purchase requirements to play should be attainable.* This type of loyalty program has potential to backfire if customers feel like your company's jerking them around to win business. Executed properly, however, this type of program could work for almost any type of company, even an off-the-beaten-path B2B company. If your audience enjoys having a little fun and purchases frequently, this type of program can make the buying process fun and engaging.

OR SHOULD YOU SCRATCH THE 'PROGRAM' COMPLETELY?

HOW TO INSPIRE CUSTOMER LOYALTY, WITH OR WITHOUT PROGRAMS



Considering how many marketers are offering loyalty programs (whether they are effective or not is another story), one innovative idea is to nix the idea all-together.

Build loyalty by providing first-time users awesome benefits, hooking them, and offering those benefits with every purchase.

The concept sounds simple, but one of the most innovative companies on the planet implements this strategy: Apple. Even the most loyal Apple customers don't get special rewards or discounts ... because they don't offer them to anybody. Apple "enchants" customers by delighting them with a product or service the first time. The loyalty is voluntary and long-lasting, according to Apple evangelist [Guy Kawasaki](#). Apple has plenty of supporters, both online and off, ready and willing to rave about their product. For them, loyalty happen organically.

This minimalist approach works best for companies whose products or services are unlike any other. That doesn't necessarily mean that you offer the lowest price, or the best quality, or most convenience -- I'm talking about redefining a category. If, like Apple, your company is pioneering a new product or service, a loyalty program may not be necessary. Customers will be loyal because there are few other options as spectacular as you, and you have communicated that value from your first interaction.

For a more defined approach to inspiring customer loyalty, without the programs, consider these 5 components to a customer-loyalty-friendly marketing initiative:

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ORIENTATION

If your customers are actively using your product or service in the most advantageous ways from the very beginning, it's more likely they will stay with you for the long haul.

Consider the moment after purchase the honeymoon phase of your relationship -- they are excited about your company and how it will help their organization. Use that momentum to ensure they actually use your product or service, and use it in the way that will make them the most successful. Active use that drives results is the first step to making your company a fixture in their organization.

These principles should extend beyond the honeymoon phase, too. If you have current customers who are inactive, wake them up! Don't abandon customers, whether new or old, after the point of sale and leave them to figure out how to use your products or services. They're new to this stuff...you're a pro! Share your knowledge so they can become pros, too.

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ONGOING EDUCATION

Which brings us to the importance of education.

Be the company that continually provides value and shows you're invested in their success. When you're first orienting customers, there's probably plenty of functionality about your product or features of your service from which they would benefit -- but it's too early to overwhelm them with everything. Education should come in stages. It not only makes adoption more likely when information comes in bite size

chunks, but it also makes you look like the gift (or company) that keeps on giving.

Create content that highlights new and underused features of your product or service, or educates them about their industry. Videos, webinars, workshops, customer-centric blog content, and use cases are particularly effective content formats for this type of information.

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COMMUNICATION

Effective education goes hand in hand with great, open communication. In fact, communication is one of the most important components to customer loyalty,

and also one of the hardest to successfully execute. Remember, you're not communicating with one customer -- it's an entire organization of people that you must continually impress. That means you need to communicate with not just your point of contact, but also the influencers, decision makers, and other employees involved in executing your solution -- with not all of whom you'll necessarily have a personal relationship.

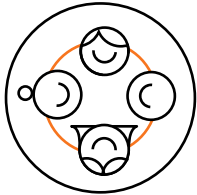
Keep communication channels open, and provide multiple places for people to talk with one another and provide feedback to you. The more opportunities for dialogue, the more likely you'll hear from employees of all levels -- especially those C-suite decision makers you likely aren't actively engaging with on a consistent basis. In fact, [MarketingProfs](#) reported that after *Oracle began actively engaging with decision makers of a particular client, its customer retention rate was more than 20% greater.*

Provide forums and customer-focused social media accounts, and send out email surveys to solicit feedback, and make sure employees are actively moderating and following up on these discussions so your brand's presence is felt.

Open communication of this sort not only helps strengthen the ongoing education process as customers learn from one another, but it also gives you the critical feedback you need to improve your product and service offerings, and your sales and marketing processes. Marketers need to understand customer preferences and buying habits so they can continue to deliver value in their pre- and post-sale marketing content. You'll also begin to identify patterns around the types of customers who stick around the longest so you can better target them in your lead generation efforts and prioritize them in the sales process.

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COMMUNITY BUILDING

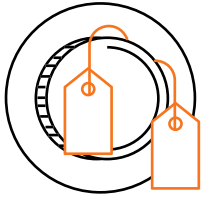
The dialogue that comes with this open communication between your organization and your customers will build a community that's crucial to illicit feelings of loyalty

from your customers. Active members of your community will be more active users of your product or service. Encourage activity on forums and social media sites, host local, in-person events, and hold workshops that let customers discuss how they're leveraging your product or service in their company. When customers have ownership over others' success with your product, they become far more invested in your company, and are less likely to churn.

It's important to build a strong community with your employees, too. They are on the front lines with your customers every day, and as such, customer culture will inevitably overlap with employee culture. If your employees show enthusiasm for your products and services, those feelings will extend to your customers.

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PRICING

To say pricing is a complicated beast is an understatement.

But if your organization is facing a pricing change, it's crucial to execute it with tact to ensure you don't turn loyal customers into angry exes. All pricing changes should be approached with clear, frequent, and gracious communication. If you have the authority to do so, offer to grandfather in customers for a period of time on your old pricing structure. There will sometimes be penny pinchers, sure, but if you've effectively built the value of your product or service to their organization, you should find you've built enough value that those customers can't justify

switching to a competitor that isn't tried-and-true like you.

Ultimately, none of this will help you retain customers if you don't already have an amazing product or service backed by amazing service. Continue to invest in acquiring top talent to manage the development of your product and service offerings, and hire amazing front-line employees that serve as the helpful and intelligent face of your business to customers.

MEASURING THE EFFECTIVENESS OF YOUR LOYALTY PROGRAM



*As with any initiative you implement, there needs to be a way to **measure your marketing success**.*

Customer loyalty programs should increase customer happiness and retention; and there are ways to measure these things besides in rainbows and sunshine. A lot of ways, actually. Different companies and pro-

grams call for different analytics, but here are a few of the most common metrics companies watch when rolling out loyalty programs.

CUSTOMER RETENTION RATE

Customer Retention Rate - This metric tells you how long your customers stay with you. Start by establishing this as a baseline metric so you know whether your efforts are improving your retention rate over time. How you calculate this number will depend on your business model -- [CRM Trends provides a great breakdown](#) of how to go about determining this number for your business if you haven't done so already; [click here](#) and scroll

to the section titled 'Retention Rate' for its formula and explanation.

There is such a thing as negative churn, too, which is actually a good thing, despite the name's implications. Negative churn is when a current customer upgrades or buys additional services from you, and it can offset any other churn you see from customers leaving.

MEASURING THE EFFECTIVENESS OF YOUR LOYALTY PROGRAM



NEGATIVE CHURN

Churn is the rate at which customers leave your company; negative churn, therefore, is a measurement of customers who do the opposite -- upgrade, or purchase additional services. These help to offset

the natural churn that goes on in most businesses. Depending on the nature of your business and loyalty program, especially if you opt for a tiered loyalty program, this is an important metric to track.

NET PROMOTER SCORE (NPS)

- This is a customer loyalty metric that can be used to gauge the loyalty of a company's customer relationships. On a scale of 0-10, customers respond to the question "How likely is it that you would recommend [Company X] to a friend or colleague?"

Their answers get them placed into one of three categories: Promoters (those who give a response of 9-10), Passives (those who give a response of 7-8), or Detractors (those who give a response of 0-6).

'PROMOTERS'

can be interpreted as customers who are your loyal enthusiasts, will keep buying from you, and will refer others. 'Passives' are satisfied but unenthusiastic customers who are vulnerable to competitive offerings. 'Detractors' are unhappy customers who could

cause damage to your brand. You can calculate your NPS score by taking the percentage of customers who are 'Promoters' and subtracting the percentage who are 'Detractors.'

MEASURING THE EFFECTIVENESS OF YOUR LOYALTY PROGRAM

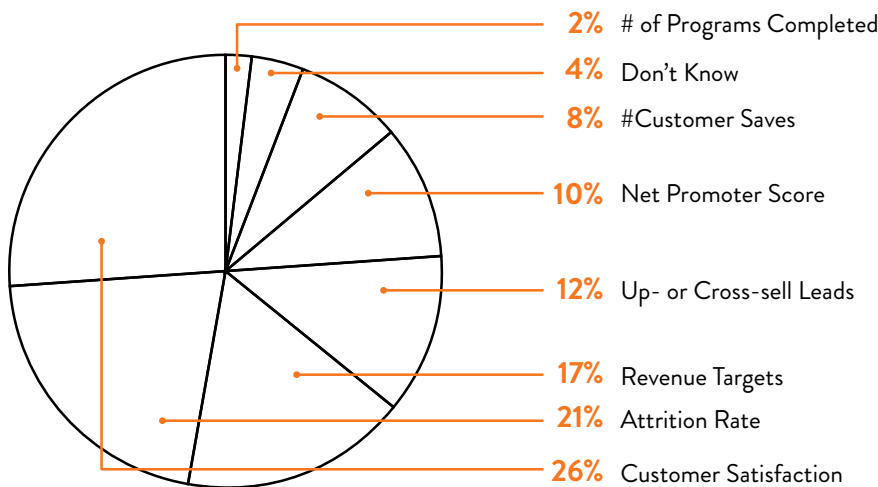


CUSTOMER EFFORT SCORE

Customer Effort Score: CES asks customers, “How much effort did you personally have to put forth to solve a problem with the company?” Some companies are vying for this metric over NPS because it measures actual experience rather than the emotional delight of the customer. A [Harvard Business Review study](#) found that 48% of customers who had negative experiences with a company told 10 or more

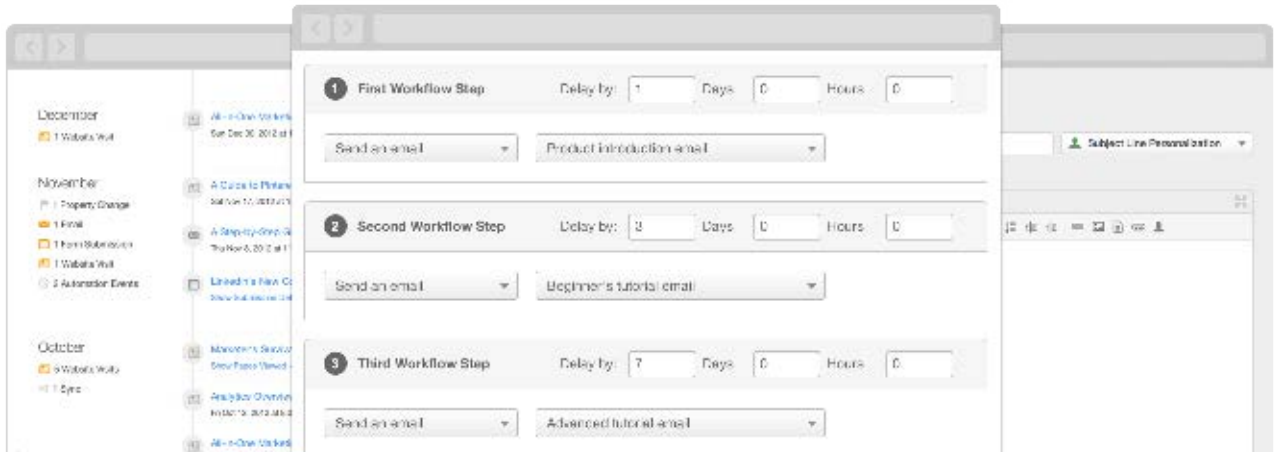
people. In this way, customer service impacts both customer acquisition and customer retention. If your loyalty program addresses customer service issues, like expedited requests, personal contacts, or free shipping, this may be one way to measure its success. To see what other businesses are doing to measure customer loyalty, review this chart:

METRICS COMPANIES USE TO MEASURE SUCCESS OF RETENTION EFFORTS



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HubSpot brings together all of the tools you need to attract, convert, close and delight customers, including marketing automation. See all of our tools, learn more about inbound marketing, or talk to a specialist today.



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