And while participation in loyalty programs has been growing over the past six years, usage of them hasn’t. (Exhibit 2) Most loyalty cards never actually get used at all. American households are active in less than 50 percent of the programs they have signed up for. What’s worse, most of these programs, even when used, are not driving sales or boosting customer satisfaction. Fewer than 20 percent of loyalty members say their memberships are influential in purchasing decisions and only 33 percent of loyalty customers feel that those programs are addressing their needs. Such irrelevance represents a significant loss of opportunity for marketers. Loyalty programs are one of the best means companies have for collecting information about their customers and, if done right, for enhancing customer satisfaction and generating new purchases. Not long ago, we did an analysis of U.S. retailers that yielded stunning results: Companies with loyalty programs posted a 2.28 percent comp sales increase, while those without loyalty programs saw 4.26 percent gains. There are a number of possible reasons for this ironic disparity, but marketing leaders see a big warning sign: Just because you have a loyalty program doesn’t mean it’s working. Too many companies have built loyalty programs that don’t actively engage their customers or give them compelling reasons to want to use them. To fully take advantage of the promise loyalty programs hold, marketers need to first design everything...
they do with a crystal clear sense of purpose. For instance: What do you want your loyalty program to do? Win new customers? Increase wallet share? Save money? The first step to any loyalty program is concrete objectives.

This may sound obvious but, in our experience, most ineffective or value-destroying programs lack this basic discipline and thus end up adopting too many “me-too” approaches. Knowing your goal will help you move beyond just points and rewards – by targeting the right customers, designing the right benefits, and analyzing the right metrics.

Through our research, we have identified several innovative approaches to making loyalty programs yield results. Here are six strategies, along with examples of companies that have found ways to keep their loyalty programs engaging and relevant. As with all of our publications, all references to individual companies are based entirely on publicly available information.

1. **Use data to personalize customer offers:**

   Effective utilization of data is crucial to the success of any loyalty program. Amazon.com CEO Jeff Bezos once said, “If we have 66 million different customers, we want to have 66 million different stores.” To this end, Amazon has crafted its email offers based on the information it glean from customers’ browsing behavior on the web site. They use item-based collaborative filtering to figure out what items customers might be interested in.

   Similarly, Best Buy uses data from its Rewards Zone program to power targeted and timely cross-sale emails. For instance, a customer who visits a Best Buy store on a Sunday and uses his loyalty card to buy a new Play Station 3 will receive a targeted email on Wednesday for the PS3. Games featured in the email will also consider the customers’ previous purchases.

2. **Keep your offers fresh:**

   Customers want to feel like they’re getting something of real value, not just the same old accumulation of points that will be forgotten and ignored. Amazon offers its Prime members unlimited streaming of a free Kindle book each month and thousands of movies and TV shows. And a variety of brands are now offering deals to consumers who check in at their establishments via Foursquare. This app-based company sees itself as a modern version of the ‘Marauder’s map,’ becoming a recommendation engine for places and brands. More than 20 million people have checked into Foursquare over 3 billion times.

3. **Turn your loyalty program into a multichannel experience:**

   To leverage multi-channel opportunities, Neiman Marcus is testing a new iPhone app that enables sales associates to interact directly with customers. If a customer with the app loaded on her smartphone passes within range, a sensor automatically prompts NM Service to act (e.g., it provides purchase history and a Facebook photograph). Once the app is engaged, the customer is alerted to which of her preferred sales associates are currently in the store. It also indicates upcoming store events, new product arrivals and sales, and emerging fashion trends.

   Caesars has leveraged its loyalty program, called Total Rewards, to create a true multi-channel journey for customers. By leveraging proprietary technology, Caesars can identify where customers are within one of its properties based on where they have swiped their card (e.g. at a particular slot machine). Caesars then targets those customers with special offers based on their play behaviors, or it highlights specific customer events, such as a birthday, by dispatching individuals to greet them or sending the customer offers directly to the machine. Caesars has also expanded its reach outside its properties, partnering with a range of digital companies, such as Facebook, to deliver marketing messages and offers to specific individuals based on their behavior at Caesars properties.
4. Expand beyond your initial focus:
The right partnership can give your loyalty program a whole new level of appeal. The grocery chain Kroger, for instance, has teamed up with Shell to give customers a discount on another staple just about everyone can’t live without — gas. Kroger loyalty customers can use their points for a per-gallon discount at Shell gas stations. For every 100 points at Kroger, you get a 10 cent per gallon discount at the pump.

In another example, Starwood Hotels and Delta recently announced they were teaming up to give their best customers reciprocal elite-level benefits. Called Crossover Rewards, the program will offer some Delta frequent-fliers enhanced perks when staying at any of Starwood’s hotels — perks such as priority check-in, 4 p.m. late checkout, free in-room Internet access and the ability to earn Delta miles for every dollar spent on room rates.

Likewise, top members of Starwood’s loyalty program will get priority boarding and check-in on Delta, one free checked bag, and one Starwood point per dollar spent on eligible flights. Besides enhancing the offer for its customers, the arrangement gives both Delta and Starwood an opportunity to target frequent travelers who aren’t already part of their programs.

5. Understand which offers are really working:
There’s no point in continuing to promote offers people aren’t interested in or that don’t drive sales. When the U.K. grocery giant Tesco set out to analyze its promotions, it found that 80 percent of the discounts utilized by customers came from 20 percent of the offers. This prompted a reduction in the number of offers from 750 a year to 300, allowing for a £300 million savings in promotion expenses while increasing market share.

It also helped double the average coupon redemption rate to 20 percent.

There are several analytics shops that can effectively measure the ROI of marketing programs across all channels, both online and offline, and to a great level of detail — ad impressions, page views, clicks, leads, sales, opportunities, closed deals and revenue.

6. Identify who your best customers are and provide them with enhanced offerings:
Many companies get a large chunk of their profits from a small percentage of customers. At Starwood, for instance, their top 2 percent of travelers are responsible for 30 percent of the company’s profits. And while forging an emotional connection with your customers is critical across all segments, it is even more valuable when it comes to these big spenders.

One technique for rewarding these customers is “badging,” which involves a mark of public recognition, such as becoming “mayor” on Foursquare or getting “Elite Member” baggage tags from airlines. This approach provides valuable social recognition by highlighting a customer’s loyalty and value in front of their friends, family, and peers, to create a multiplier effect on top of the emotional connection.

Starwood, for instance, awards its “mega-travelers” with tiered levels of pampering. Anyone who stays 75 nights a year at a Starwood hotel, such as Westin, Sheraton or W Hotels, can check in and check out any time, day or night. And those who stay 100 nights are awarded the ultimate luxury of being assigned a personal Ambassador, a personal concierge who is available 24 hours a day, even sometimes when the guest is not staying at a Starwood hotel.

The Ritz-Carlton uses its CRM database, coined “Mystique,” to track information on preferred guests, such as their frequency of visits, issues that have come up for them during their previous stays, and their favorite snacks, magazines, movies and music. Such recognition goes beyond lip service, and can be a powerful influencer of customer behavior.

Loyalty programs are one of the most important tools marketers have to connect with customers on both an emotional and rational level. Yet like all marketing efforts, they require a good deal of creativity and innovation to make sure they stay relevant and in sync with consumers and the market.

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