

Viva Media Whitepaper 0001

December 14, 2008

Title: Why a Loyalty Program?

Introduction

In 2006, Americans participated in 1.319 Billion rewards programs¹. That is roughly 12 programs per American household. At least 70% of Canadians participate in a rewards program of some kind². The popularity of rewards programs is unquestionably high. While the benefits to the users of these programs are obvious, tangible rewards through frequent purchases of a specific brand, the benefits to the providers of these programs are a bit more ambiguous.

There are two main reasons companies engage in a rewards programs:

1. To influence a purchase decision.
2. To collect data.

Influence a Purchase Decision

In its simplest of forms, a rewards program is offered to help influence a customer's purchase decision towards a specific product or brand, numerous times over a long period of time. This is the process of building customer loyalty. We use the words "help influence" because undoubtedly there are numerous factors that a consumer will take into account when making a purchase decision. A rewards program is one of these factors. Customer service, product quality, value and other operational factors will in most cases be the main factors in the purchase decision. A rewards program is offered to add value to the purchase. This is especially important where the purchase decision involves selecting from two or more competing products or brands whose main factors are deemed equal by the consumer, and the added value can sway (influence) the consumer toward a particular product or brand.

Example 1:

The Jones family is deciding to go out for dinner on a Wednesday evening. In the area of their home are two restaurants that will meet their budget criteria for the outing. Both restaurants serve a similar menu and are generally regarded as equal in terms of speed of service, quality of food, cleanliness and other factors pertinent to the dining experience. One difference though is that Restaurant A offers a rewards program in which the Jones family is enrolled. Restaurant B does not. Further, the Jones family has already collected quite a few "points" from Restaurant A's program and is almost eligible for a free dinner for four. Restaurant A is hoping that by having a rewards program that offers a desirable,

¹ Quo Vidas – Sizing up the US Loyalty Market. April 2007. By Rick Ferguson and Kelly Hlavinka. Colloquy Publication

² CBC News Article June 14, 2001.

tangible benefit, the Jones family will be influenced to choose their restaurant over the competitor, more often than not.

Data Collection

In the hands of a competent marketer, data reflecting consumers' buying habits is gold. It allows the precise targeting of promotional material to groups of consumers most likely to be affected by its content.

Carol Kruse, Vice President of Global Interactive Marketing for Coca Cola, states that there are some 400 pieces of data obtained from one membership enrollment in their iCoke Rewards program³. This data includes information right down to the store it was purchased at, received from the SKU on the bottle of Coke purchased.

The data allows a company to direct market to their consumer base. The geographical information provided by a rewards program membership gives a company the ability to design specific promotions, tailored to multiple target audiences based on both the company's current needs and the customer's current needs.

Example 2:

Air Canada uses the email address of a member of their Airmiles Rewards Program to deliver specific flight promotions based on the geographic location of that member. An email is sent to the member with information on flight specials with specific pricing based on the closest airport to that member's geographic location. Further, they have the ability to cater the destinations based on time of year. When Canada's cold winter arrives, Air Canada can supply information directly to their members containing flight pricing to warm southern destinations.

The 'Other' Benefits

Earlier we wrote that there are two main reasons companies implement a rewards program. There are many others benefits such as:

1. Rewards Members spend 1.5 times more on average than Non-rewards members.⁴
2. Reward Members are 20% more likely to make a purchase after a bad experience with the same product or brand than non-members.⁵

³ Loyalty Leaders Tell All – Innovation in the Age of Ubiquity. October 17th, 2007. Session transcript from the 90th Annual DMA Conference and Exhibition

⁴ CBC News article. June 16, 2001

⁵ The Chronicle Herald – June 14, 2007

3. 12-15% of customers are loyal to a single retailer but that small portion of customer base often generates 55-75% of company sales⁶. Efforts to increase the population of loyal customers will lead to higher sales.
4. It is generally accepted that it is 10 times more costly to obtain a new customer than to retain an existing one. ⁷ Growing sales by building customer loyalty will impact the bottom line less than marketing to new customers.
5. A 5% increase in customer retention can lead to a 75% increase in enterprise profitability.⁸

CLTrack V2.0's Role in Your Rewards Program

CLTrack V2.0 was designed specifically to allow smaller operations to implement rewards programs similar to what larger companies employ. The bulk of marketing research done on the effectiveness and implementations of rewards programs looks at the programs operated by large companies such as Air Canada, Aeroplan, Hilton Rewards, iCoke, etc. The statistical data obtained from this research applies to small business the same as larger companies as economies of scale are in effect.

The challenge in the implementation of a rewards program for a small business resides in the fact that most small retail, hotel and restaurant operators utilize Point Of Sale Systems that maintain local databases for the storage of information. This creates a problem for the operator of a small chain of locations because the data at each location is not shared amongst them, thus sales at one location could not be acknowledged by other locations. CLTrack V2.0 acts as a consolidating database for one to multiple local databases, allowing points (revenue) to be gathered from all locations, consolidated and reported upon. For more information on this challenge please refer to Sysitrex White Paper #WP0003 – Building a Rewards Program for Small Business, Challenges and Obstacles.

In addition to serving as a database consolidator, CLTrack V2.0 also adds features to help track rewards inventory, manage rewards customer database, and provide rewards customers with statements just as a rewards program from a large corporation would.

⁶ crmtrends.com

⁷ Dr Kerrie Bridson, Australian Center for Retail Sales. March 14, 2007

⁸ Allegiant On: Customer Loyalty. An Executive White Paper. February 1st 2006 – Allegiant Group Inc.