The Wellness Prescription

Well, well, well. After years of wielding only the “stick” (fear, uncertainty and punishing fees) to drive healthier behavior, the nation is waking up to the effectiveness of offering the “carrot” to motivate consumers. Stick tactics didn’t deliver enough immediate WIIFM (what’s in it for me) to make a noticeable impact. Add a big ol’ health care bill, mix in the wisdom of loyalty marketers, and suddenly the metaphor of an apple a day resurfaces. Join COLLOQUY as we raise a toast to your health.
The most respected minds in loyalty.
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It will challenge conventions, test theories, and incite new directions. Join us for 2 full days and meet the most powerful people in our industry, face to face.

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An apple’s the way...

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Discovering and preserving new worlds of loyalty

BY KELLY HLAVINKA

IF YOU TRACK NEWS within the scientific community, you were likely as surprised and captivated by the implications of a recent study as physicists have been. Research shows that a bubble—burst is not a finite event, but instead the initiation of a cascade effect that creates a series of smaller, less-stable bubbles. And yes, you guessed it, the chain seems to continue to unfold and multiply repeatedly.

Maybe—if you’re like me—this all sounds hauntingly familiar, resonating with the popping we hear in the global economic universe. The savings-and-loan bubble is followed by the internet bubble is followed by the housing bubble is followed by the . . . you get my point.

Is this phenomenon really so different within the microcosm that is the loyalty industry? For instance, it wasn’t so long ago that we were captivated by programs like Beenz and Flooz that rewarded customers for simply reading online ads or taking online surveys—until that bubble burst in the cascade resulting from the internet bubble’s collapse. Now, we have a new generation of “engagement strategies” that reward customers for a myriad of word-of-mouth activities, healthy behaviors, ecologically-responsible activities, and much more.

As I talk with loyalty practitioners about their newest ventures into cultivating non-transactional behaviors, it’s easy to get dazzled by the scope and diversity of the new options and platforms available to engage best customers. But, when digging into the conversation a bit further, I’m struck by familiar themes that will determine the sustainability of this new movement. Here are a few of those themes:

• And, we will monetize this how? If you can’t show the CFO the money, can you really expect your initiative to last? Some leaders in this space are working quite hard to show that activities like program engagement or healthy-living behaviors connect directly with an economic pay-off for corporate stakeholders. But, I lament the much greater number of vendors and start-ups that seem to have lost sight of the loyalty lesson we learned soundly in the late 1990s during loyalty’s “internet start-up bubble”—without a correlated economic benefit to rewarding non-purchase behavior the business model falls apart.

• WIIFM (What’s In It For Me) is the key to success. All marketers dream of the day when they can, without spending money, entice customers to “act now. But deep down, we know that’s a fantasy. Some current initiatives recognize the lessons learned from systematically cultivating purchase behaviors. And, I applaud those who blend economic and emotional benefits to drive non-transactional behaviors. Yet, a surprising number of initiatives seem to assume that messaging alone can cut through the clutter and drive new behaviors. I say: Good luck with that.

• Participators are worth more than non-participators. A loyalty truism is that the bottom-line impact (customer retention and increased spending) correlates with the percentage of customers who engage in such non-transactional behaviors. Cultivating participation and repeated engagements in which customers delight in rewards and recognition pays off. The COLLOQUY Relationship Chain™ documented the evidence of this years ago. Instead of recreating the wheel, trust in its continued relevance as you cultivate other types of word-of-mouth, healthy living, and environmentally responsible activities.

• Success requires continual communication and promotional zest. The avid early adopters are easy to reach and sway—for now. But, what about the rest of us? A solid, multi-channel communications plan to entice customers to act and repeat desired non-transactional behaviors is mandatory for success. If your latest engagement strategy lacks a strong communications component, now is the time to institute one.

Is this new generation of rewards and incentives for non-purchase behavior here to stay? Or are we witnessing the rapid inflation of the next loyalty “bubble” that will burst when practitioners fail to make a direct-enough link to the underlying economic motivation for encouraging such socially responsible behaviors?

The opportunity we face today is clear. To influence non-transactional behavior, sincerity is imperative. Mix that with rewards, recognition elements, and relevant communications, and yes—it is possible to influence customer behaviors outside of the check-out line. I expect that more than a few loyalty leaders have studied past failures and will take their lessons to heart, and these prescient loyalty physicists will find themselves not on the bubble, but on the solid ground of entirely new loyalty worlds.

Kelly Hlavinka is Partner, COLLOQUY, and a budding astrophysicist.
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STRATEGY AND ANALYTICS / TARGETING / CREATIVE / TECHNOLOGY / DIGITAL
The second iteration of COLLOQUY’s Retail Loyalty Index demonstrated that while respondents continue to view a long-time relationship with a retailer as the most important behavior indicating loyalty, those who viewed dedication to sale shopping as indicating loyal behavior jumped 25% in the U.S. and 22% in Canada. This clearly shows the impact of recent economic challenges. Despite different recessionary impact on the two economies, across the board, U.S. and Canadian perceptions of loyal behavior mirror each other.

The chart to the left compares the 2010 rankings of what demonstrates loyalty to a grocery or personal care retailer. Overall, the categories’ mean scores are remarkably similar—and in the case of Sale Shopper, perhaps alarmingly similar.

### Red Flags (With Some White and Blue in the Mix, Too)

The airline industry is primed to add a frequent-flyer tier above Gold. Platinum and even Diamond: The Knighthood tier.

U.K. actor Patrick Stewart is well-known for playing Capt. Picard on Star Trek: The Next Generation, but his career is so well-rounded that he was honored with investiture—the official word for being knighted (which he was in a ceremony on June 2, 2010). Back in January, Stewart was asked his reaction to the honor. Among his eloquent and humble comments (with quotes from Shakespeare), he also wryly noted, “I can tell you it got me an upgrade on British Airways, and, with my American girlfriend, fast-tracked through immigration, which she was grateful for.” How fast was the fast-track? We suspect Warp Factor 8.

Certainly Capt. Picard deserves such treatment many times over, given the number of interstellar miles he’s racked up in the Where No One Has Gone Before Rewards program.

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Huh?

A recent survey of 3,000 consumers sponsored by Subway U.K. asked questions about loyalty program use and seemed to get questions in return. And those responses tell us in the loyalty-marketing world that we have some work to do in educating consumers about programs and their value, and in encouraging greater activity in programs.

The Personal Touch

The cliché that marketers need to put some skin in the game is coming to fruition in some interesting ways. For instance, the world is all agog at Lady Gaga, including some of the fan connections that she and other musical artists are making. The Guardian reports that purchasers of her GaGa Super-Deluxe Fame Monster Bundle received—in addition to the album and some goodies like a poster—a lock of hair and a personal note. And Nine Inch Nails drummer Josh Freese included in his Since 1972 album bundle a personal phone call to the buyer.

This isn’t a call to set up a company barber chair to snip some locks from your CEO or the leader of your product design team, but do consider how your company might be able to delight your best customers with the compliment of an exclusive insider touch. An apparel company can have members-only previews of product lines, for instance—but take the concept one step further. Perhaps a mailing to best customers who might not be able to attend such an event: send them a sample material swatch previewing that soon-to-be-unveiled line of fine silk blouses. Make the personal touch literal. Your best customers may, too, be all agog.

Insights into Insights

The February 2010 CMO Survey conducted twice a year by Duke University’s Fuqua School of Business in conjunction with the American Marketing Association asked 612 marketing executives to rate their firms in “Developing and using customer insights.” The responses:

The verticals that rated themselves highest as “Excellent” or “Good” (1-5 scale) include communications/media (82.6%), transportation (75.0%), retail/wholesale (64.7%), and consulting services (53.6%). Less kind to themselves were CPG (47.8%) and banking/finance/insurance (38.6%).

Initial Reaction

Specifically, a reaction to an initial: M.

COLLOQUY cheers a recent program name change for the philosophy it communicates not only to the customer but to those who operate the program as well. MGM Mirage in late June changed its name to MGM Resorts International, which “positions us to move forward under a unified brand strategy,” says MGM’s CEO Jim Murren. At the same time, MGM announced that its Players Club would subsequently be rebranded as M life. This change to a broader, more-encompassing name helps solidify the benefits of loyalty to the entire MGM enterprise instead of just one brand, service or flagship property. Says CMO Bill Hornbuckle: “It was simply time to go on the offensive and unleash the total power of our unmatched assets by better recognizing customer play and total spend with a more impactful program.” M—pressive.
**Touch Points**

**A Thirst for Learnings**

Lessons in the development of CPG loyalty initiatives

By Sol Zia

When Coca-Cola launched its landmark My Coke Rewards program in February 2006, the fizzy, thirst-quenching leader was at the front edge of an emerging, bubbling trend: the rise of CPG efforts in the loyalty space. Consumer packaged goods companies had long harbored “data envy” toward their retail counterparts, who could easily gather consumer transactional data. And with some retailers beginning to use increased analytics capabilities to gain new insights into shoppers through loyalty and other data, CPGs realized they needed to build their own consumer databases and leverage them to foster customer relationships.

Just a few months later, COLLOQUY reported on the mounting evidence of CPGs using loyalty-marketing principles and practices in the July 2006 white paper, *CPG Talk: The Total Package*. The white paper delved into two huge challenges CPGs faced in developing loyalty initiatives: The lack of a direct-to-consumer loyalty mechanism, and an inability to track transactional data on individual customers buying product at various retail outlets (creating a world of “invisible” customers). CPGs were just beginning to recognize two central possible models if they wanted to join the loyalty party:

A relationship model, in which the CPG engages with consumers directly, and a retail-centric model, in which they leveraged retailers’ purchase measurement ability.

Since the publication of *The Total Package*, there have been significant shifts in the world of CPG loyalty, particularly regarding the relationship model—thanks in large part to the success of My Coke Rewards, as well as the challenges the program has faced and the learnings it has acquired over the past four years. My Coke Rewards has led the way as an incubator of learning, while other CPGs have observed what the program has gone through and apply its lessons to their own efforts.

Another wave of CPG-based programs are now in the market, at the gate, or in the pipeline. I believe many of them will enjoy a permanent place in consumers’ hearts, minds and wallets thanks to what they’ve learned from the CPG pioneers before them.

**Two steps forward, one step back**

At the time of its launch, *My Coke Rewards* was the largest program ever debuted at Coca-Cola—and its code-based program issuing points redeemable against an extensive rewards pool was ground-breaking. By 2007, however, weaknesses in the program’s design began to become public, including consumer confusion; code-entering fraud; a constantly-changing value proposition; and significant liability on the company’s books.

Coca-Cola stuck with the program, however, and revamped it considerably. Today, it continues to succeed thanks to clearer and more relevant communications, more easily accessible redemption options, and online practices that reduce potential for fraud.

I’ve seen other CPGs clearly take the experiences of *My Coke Rewards* to heart and develop programs that work more smoothly right from the start. For example, I admire *Tropicana Juicy Rewards*, which launched early this year, for their careful work on the process of on-pack consumer code entry. And programs such as *Huggies Enjoy the Ride Rewards* have built long-term, equity-based relationships between the CPG and the consumer. These programs and others are building a permanent presence and becoming best-in-class examples that can guide the rest of the industry in the way that *My Coke Rewards* does.

**New opportunities—and current challenges**

One of the most drastic changes since 2006 has been the meteoric rise of digital, mobile and social media initiatives. Offering promotions on Facebook fan pages, posting videos on YouTube, offering quick connections on Twitter, and participating in Foursquare have opened up vast opportunities for CPGs to engage consumers directly and, at least in some cases, to gather data on those interactions and measure those relationships.

Those exciting options in social media, however, come with possible pitfalls that must be carefully considered. Consumers are savvier than ever and will talk about the problems or the disappearance of loyalty programs—so while no

Continued on page 27
Employee dialogue is a three-way street, with a personal touch

BY DAN RIBOLZI

I JUST SPENT A COUPLE of invigorating weeks on the road training front-line employees about an upcoming loyalty program launch. I say invigorating because I was able to engage in a critically important element of corporate communications—what I call the Feedback Triologue. I came away from these exchanges with ideas, energy, and confidence that because of the triologue itself, the front-liners were eager and prepped to bring the new program to life.

Marketers employ a number of customer feedback sources, but many likely don’t leverage employee feedback sources as aggressively. In the Feedback Triologue, employees become another voice of the customer to the corporate management team, while learning to better serve as the voice of the brand to the customer. And though employee observation of customer experiences can’t replace the customer view, combining both perspectives can lead to tremendous insight.

One of the most basic geometric shapes and one of the strongest structural components, the triangle is a model for building effective line of sight into customer needs. The Triologue pivots on front-line employees and their ability to move information and advice up to corporate. To empower that employee pivot point, consider these thoughts on striking up the conversation.

Exploit opportunities for triologue. Training—whether for existing, changed or new procedures—offers excellent opportunity for feedback both formal and informal. Another of my favorite activities—store visits—can facilitate this employee-input pipeline. Formal suggestion-box-type programs have their place, but direct engagement is efficient and powerful. Personally encouraging questions and brainstorming turns training lectures, for instance, into useful conversations.

Be there. Sending trainers and executives into the field to meet employees isn’t purely a matter of saving the cost of flying groups of employees into headquarters. Your physical presence on your employees’ turf demonstrates that you take the employees—and what you’re asking them to accomplish—seriously. And recognize that you are indeed a guest on their turf to avoid a heavy-handed “We are corporate and you are not” impression that stifles ideas and conversation.

Get everyone into the conversation. Gather the principals of a different triologue: Employees, corporate and the pivotal component—the individual store’s leadership. Work to understand and address the challenges facing that leadership. To the front-line employee, directives come from the onsite back office. I’ve given training sessions where attendees would glance around the room looking for the manager, and if that person was there, would look over occasionally to check his or her level of engagement. As effective as your training might be, everyone knows you’re about to get on a plane and disappear. But the store’s leadership team remains behind.

Get tactile. Make the discussion real instead of theoretical. For instance, don’t just flash big pictures of new wallet cards, promotional collateral or possible redemption items on the screen in PowerPoint. Hand out samples. Engage the senses and let the employees imagine customer actions viscerally and not just theoretically. Prime them for using these materials in customer interactions. Then explore their opinions of how they might be most effectively used—or what other tools would aid them.

Anticipate the hard questions. Now that your skin is in the game, prepare to let it take a few scrapes. Prepare answers, for instance, to such common challenges in training for new procedures or initiatives as: “You’ve just given me three more things to worry about in an already busy day. What are my priorities? What will you move off my plate?” Some concerns about change will be similarly common—including the “Yeah yeah yeah we’ve heard this all before” attitude. But some questions, specific to particular working groups, aren’t so common yet are equally important. Exhibit due diligence in learning likely concerns before inviting questions, and, once again, have satisfactory answers in your hip pocket.

Respond to the feedback—to both employees and customers. Without return feedback, there is no Feedback Triologue. Your employees want to learn about results as much as you do. Make them part of the win.

Paving the three-way street

The key to the Feedback Triologue is listening to front-liners as if they are the customers themselves. Their customers’ pain is their pain. Given the opportunity, your colleagues won’t hold back opinions on your value proposition, will correctly anticipate the top customer complaints, and are guaranteed to find a loophole in your terms and conditions faster than you can say “conference call with the legal department.”

Dan Ribolzi is a Loyalty One consultant and a COLLOQUY contributing editor.
IN BRIEF

Flying Higher With Employee Rewards

BY SHARON M. GOLDBERG

American Airlines uses incentives to improve the customer experience across touch points

BACK IN THE EARLY PART of the post-9/11, financially-strapped world of U.S. airlines, American Airlines saw its customer-service ratings erode in a perfect example of what happens when corporate decisions to reduce costs can impact customer loyalty, no matter how successful a frequent-flyer program it has.

"American avoided bankruptcy, but while we tried to survive financially, we missed some opportunities by ceasing some investment in technology and reducing customer spending," admits Mark Mitchell, Managing Director of Customer Experience at American Airlines. Mitchell is quick to say that the airline is not the one you might remember from a few years back. "If you haven’t flown us in a while, you might not realize all the great things that are going on now."

A key shift in the company’s customer-service direction included creating Mitchell’s position in the Fall of 2007, when American Airlines fielded a team dedicated to integrating new customer-focused programs, systems, products and services. Since then, Mitchell says the company has focused on using research and data to improve customer satisfaction in such key areas as delays and delay management; gate and boarding interactions; on-board interactions; baggage handling and baggage resolution.

One of the most important elements to move the dial toward happy American Airlines customers? Engaged, motivated and customer-service-focused employees. According to Mitchell, two forms of employee incentives and rewards have played a big part in increasing customer loyalty across the enterprise:

Team rewards. The Customer Cup is a recognition competition between more than 250 front-line employee teams around the world. Determined by data from more than 50,000 customer satisfaction surveys each quarter, cities in five categories that improve the most in the above-cited key areas receive a four-foot, Stanley-Cup-like trophy that the staff keeps and displays for the next quarter, complete with bragging rights and a day-long celebration. A second trophy, the Chairman’s Cup, rewards the best of all the Customer Cup winners.

"One of the most important things about the Customer Cup is that it gets our senior executives out in the field with employees," says Mitchell. "These are the teams that are doing the work, and we wanted a way to bring light and visibility to what these teams are doing in terms of moving the dial with customers."

Individual rewards. In the Customer Experience Rewards facet, employees are grouped into categories and financially compensated according to three high-arching metrics: customers’ reported “likelihood to recommend.” overall customer airport experience, and overall onboard experience. If results show continued quarterly improvement in the category an employee has the most impact on, employees can receive up to $100 per month in extra compensation.

"The great news is that five quarters into this program, Customer Experience Rewards has paid 100% of the time, and customers are noticing the improvement," says Mitchell. "It has averaged $150 per quarter per employee, in excess of $45 million across our system."

The entire American Airlines customer experience effort, says Mitchell, is more than an employee-incentive program. It’s tied to driving loyalty across a variety of metrics throughout the organization—including links to the AAdvantage frequent-flyer program and to the company’s website, AA.com, and its mobile app.

"We have around 35 different domestic and 36 international attributes relevant to moving the dial in customer loyalty," says Mitchell. "Eleven of those metrics are specific to the airport driving satisfaction, but then there are also key values in, say, offering a differentiated experience to premium travelers, through our AAdvantage program."

Data, Mitchell explains, drives efforts to meet all of those customer-service attributes—including deeper customer segmentation that differentiates.

Mitchell points out that the customer experience endeavor he’s focused on for the past two years may never be perfect, but the journey continues. American has seen good progress, he says, in the consistent delivery of the basics, but challenges remain, particularly in handling delay management and baggage resolution.

"We’re pleased our customers are noticing an improvement," he says. "It’s a long-term work in progress that we will continue with a reinvigorated culture."
Staying Power

BY CHRISTOPHER MINK

How Kampgrounds of America brings the small-town personal touch to its guests

IN BRIEF

KOA’s Chris Mink: you gotta admit that a logo that skewers a campfire marshmallow is fun indeed.

WE LIKE TO SAY that we believe KOA is one of the last small towns in America. Kampgrounds of America is the world’s largest system of open-to-the-public family campgrounds, with small-town atmosphere and camaraderie.

But we realized that our small town had room to grow comfortably. Each year in the U.S. alone, nearly 100 million nights are camped. With 475 locations in nearly every state and Canadian province, KOA accommodates millions of faithful campers, yet receives only a 6% slice of the entire camping night pie.

KOA was founded 48 years ago on the banks of the Yellowstone River in Billings, Montana. For nearly half of the time since then, campers have been able to purchase an annual discount card to save 10% off the cost of camping. Discount cards are pretty much the norm in the camping industry, offered by many camping organizations—and KOA wanted something more, something to set us apart. In March 2008, we added camping rewards points to KOA’s Value Kard Program, renaming it Value Kard Rewards. This made KOA the first camping provider to follow the lead of many airlines and hotel chains.

The new program still provides an immediate 10% discount on daily rates, but it’s the Value Kard Rewards points that are getting the attention of more and more campers. To explain why, join us on a tour of our small-town loyalty principles:

Best-customer recognition. KOA’s Value Kard Rewards points are tied to both the nights stayed at a KOA, and the rate paid for those nights. As guests camp more with us, they can reach Bonus and VIP tier status, which offers accelerated earnings potential. For instance, a camper in the VIP program earns at a 25% bonus level over the base member. And as long as members maintain their VIP status, the membership fee is waived. Combining rewards with recognition at the campground creates win-win. In 2009, KOA campers saved nearly a million dollars in camping fees by belonging to the program.

Getting to know our neighbors. Value Kard Rewards provides us with data variables that allow our campground owners and managers to anticipate and respond to guests’ needs and preferences—the site locations they like, the type of camping equipment they use, and even if they travel with a pet. We can employ that individual knowledge to arrange for quicker check-in, and for personalized service and accommodations at arrival. In addition to enabling the personal touch on site, this information allows us to broaden the camping experience through communications tailored to tenters, RVers, and those who stay in lodges.

Fun. Camping is a lifestyle choice, not just a means of travel. We incorporate pictures and stories of real people having fun in all of our marketing materials. Making the points part of the memories created on the campgrounds helps promote a return stay or a future stay at another KOA down the road. And because camping is a communal activity, we extended the social aspect into the social media world. Sharing camping experiences, recommendations, recipes, product reviews, and more, we continue to build memories and emotional ties.

Consolidation of tech. Having developed our proprietary computerized campground operating system called KampSight, we were able to tie individual reservation systems together to bring more value. All records of discounts, point accrual and redemptions are linked, providing an efficient and easily administered program.

Consistency of experience. To smooth customers’ transition to our new program, we retain the discount aspect that was both familiar and widely accepted. In fact, though a physical membership card isn’t needed because of our new technology, we still provide one because some campers want to “show their card.” They take pride in their citizenship in our small town.

Rate of return. Today, we’re seeing the desired shift in increased camper nights among our Value Kard Rewards members. “Stays per household” are up 9% from the previous year, and “nights stayed” are three times greater than for our non–Value Kard Rewards campers. Now that’s a program with “staying power.”

Chris Mink is manager of KOA’s Value Kard Rewards.
This powerful, nearly foolproof “if this, then that” reward-based tactic has nudged children toward healthy behavior for centuries. After all, parents have long offered relevant, personalized incentives—dessert, toys, sweets, or, for today’s tots and teens, extra TV or videogame time—to children who eat their veggies, drink their milk, and wear a hat in the snow without a fuss.

Well, it turns out most adults could also use a health-related reward or two—a healthy piece of carrot cake, if you will. For most of us, changing habits can be tough, whether the goal is to exercise more, eat better, lose weight, stop smoking, or take medication regularly. With people facing busy lives, a million excuses, and, worse yet, no incentivizing offers of tempting treats—or even useful information—behavior change can seem discouragingly out of reach, no matter how good our intentions may be.

Of course, figuring out how to inspire consumers to stay healthy has been a health care industry conundrum for years, thanks to skyrocketing health care costs ($2.3 trillion in the U.S. in
Increased awareness 34.4%
Free support programs 39.6%
Health points program 34.6%
More convenient health activities 33.8%
Gym/sport equipment discounts 33.4%
Worksite wellness programs 25.4%
None of these options 17.6%
Increased cost of unhealthy products 14.6%
Unhealthy products are banned 11.6%

Source: PricewaterhouseCoopers’ Health Research Institute 2009 Global Consumer Survey, U.S. Data

2008, more than three times the $714 billion spent in 1990. These costs, in large part, result from treating the consequences of chronic, mostly preventable conditions such as heart disease and diabetes. Higher health costs, in turn, affect both employers and consumers: Health care premiums for employer-sponsored family coverage have increased 87% since 2000, and projections based on current trends estimate a 42% increase in cases of the seven major chronic diseases over the next 20 years.

That’s why experts constantly chew over the “carrot” and “stick” debate: Should companies punish consumers for bad health behavior—using the “stick” approach—through increased health insurance premiums or other disincentives? Or should they use a positive “carrot” approach that offers encouragement through incentives? At the moment, the crunchy orange root vegetable seems to be winning out, through the increased use of reward strategies such as premium discounts, gift cards, loyalty points, and even such non-monetary incentives as communications and educational information. These tactics, typical of traditional consumer loyalty programs, are meant to encourage participation in everything from health-risk appraisals, health coaching programs, and fitness and nutrition campaigns, to medication adherence efforts.

“The strategic process of creating initiatives designed to get someone to be more proactive about their health or work on reducing health risks is not unlike the process of a manufacturer marketing and advertising their brands to target consumers,” says Frank Hone, Director, Sustainable Engagement at Healthways, a wellness program provider that works with top national health insurers and employer health plans. While few industry-wide statistics are available yet, he says that providing rewards to consumers can truly impact behavior, if it is done in a strategically relevant way—with the right incentives, consumer insights, business objectives and effective communications in place. “It needs to be more than a ‘pay for performance’ type of idea,” he says. “An incentive program must serve as positive reinforcement for purposeful behavior change.”

COLLOQUY first reported on this trend in 2007, at a time when more and more insurers and human resources departments were turning to these incentive-based models. Three years later, those in favor of incentives have just received a huge pat on the carrot top: The new health care legislation signed by President Obama in March, the Patient Protection and Affordable Care Act, has put a firm stamp of approval on and support behind the use of incentives and rewards by health and wellness programs. In effect, loyalty marketing tactics are becoming a more important tool than ever in health care reform. Most noticeably, beginning in 2014, employers will be able to offer their workers an increased amount of rewards, worth up to 30-50% of their health coverage costs, for participating in a wellness program and meeting health benchmarks. In addition, health insurance companies will be required to implement health and wellness promotion activities.

Beginning in 2011, the Act authorizes wellness-program startup grants, under the administration of the Department of Health and Human Services, to companies with fewer than 100 employees that institute wellness programs. Such programs, targeting controllable initiatives like nutrition improvement, increased physical fitness, stress management and smoking cessation, must be launched after March 23, 2010, the date of the legislation’s enactment. The grants total $200 million over five years.

Carrots improve customer line of sight
"There is a lot of excitement surrounding the legislation," says Dr. Punam Anand Keller, Professor of Management at the Tuck School of Business at Dartmouth University, who describes herself as a "social marketer" and "behavior change specialist." Keller recently joined The Behavior Change Research Partnership launched by drugstore chain CVS Caremark, a research effort designed to help health care providers encourage patients to make effective health care decisions, particularly in terms of prescription medication adherence. "I think there
**A Clockwork Carrot**

*Keeping consumer health on track with technology*

Gadget use in our everyday lives has leaped exponentially over the past few years, with the explosion of smartphones, social media, iPods, Kindles and TiVo. So it makes sense that the health incentives space would ride the technology wave, using various online tools and portable applications to communicate and educate, and to encourage consumers to track their health. The technology, in a sense, becomes an incentive in itself, bringing a wellness program to life—especially with apps and mobile tools that engage consumers and offer helpful content.

For example, Nike+ technology, in which a transmitter chip is put into shoes that support the tool, allows consumers to track such exercise metrics as distance run, time spent exercising, calories burned, and overall workout progress. After working out, users can sync the tech to their computers and monitor their progress and set goals online at www.nikeplus.com. The system includes digital coaching, a social media widget and an online forum.

Similarly, the Philips DirectLife activity program consists of a portable Activity Tracker which links to an online tool that tracks and evaluates activity levels, offers assessments and provides coaching.

“We have become a very tech-savvy and engaged society,” says Greg Soderberg, Director of North American Sales and Business Development at Philips New Wellness Solutions, which offers DirectLife in a business-to-business format as well as directly to consumers. “Making wellness solutions personal through technology is key, but it’s also about keeping it fun, engaging and easy to use. The technology part of our solution, for example, is very plug-and-play. You simply carry the monitor, then sync it to your computer to chart your progress automatically.”

WellIQ, a wellness program run by LoyaltyOne, uses text messaging to mobile phones to help educate and motivate consumers—and offers an online tool featuring a personalized web page, lifestyle resources and in-depth health articles related to the text messages a patient has received.

“I think you’ll see explosive growth in these types of applications, in terms of how to access patients about their health both on a day-to-day basis but also educating them in pill-size bits of content,” predicts Peter Meyers, VP of Product Development and Innovation at LoyaltyOne, who led WellIQ’s rollout. “It’s part of what will save the whole system a lot of money if you can get patients more in the driver’s seat and motivated to make a difference in their own health.”

The idea behind these technologies is also to embed behavior-change patterns as consumers continue to use them, adds Soderberg. “What we really want to make sure is that this is about sustainable behavior change—that it’s very personal and gets people engaged and excited so that even if there isn’t a financial or gift reward the behavior change continues because it’s encouraging and motivating people to take responsibility for their own health and well-being.”

Practitioners in the health care incentives space wholeheartedly agree. Tom Abshire is Senior Vice President of Marketing and Customer Engagement at Virgin HealthMiles, which works with employee wellness programs to provide rewards and incentives in exchange for meeting physical fitness goals. He says it was gratifying to hear prevention come up as a significant concept during the health care debate. “We were also excited to see that the kind of premium discount strategy that employers can set up would increase,” he says. “That means we can continue to help people achieve better levels of health and provide more and more incentives.”

The health legislation’s provisions tied to incentives have drawn some fire from several prominent lobbying groups, such as the American Diabetes Association and AARP. Voicing their objection to incentives that reward health outcome success, these groups argue that issues of discrimination might be involved if all members of the population aren’t equally suited to be proactive about their health and to achieve outcomes. According to these organizations, the idea of “shape up or pay a price” should not be encouraged.

The incentives industry must be careful about such a delicate balance, admits Healthways’ Hone. “Selective provision of incentives can be problematic,” he says. “Ideally, everyone in an organization should be eligible for a relatively equal value in the incentive pool.”

For health insurer CIGNA, which launched the innovative Incentive Points program in 2009, targeting individuals across the health continuum and avoiding the pitfalls of penalizing some consumers are essential. “We were very conscious about setting up the program so that there are no winners and losers within the employee population,” says Will Giaconia, Vice President for...
are influenced by a variety of incentives—including financial, education and communication. The company works with Dartmouth’s Professor Keller, as well as with academic leaders from Carnegie Mellon University, the University of Pennsylvania’s Medical School and the Wharton School of Business, to study the health challenges presented by consumer behavior, and develop insights by applying the perspective of behavioral economics and social marketing.

“It’s a partnership where everybody is focused on the same thing—if we can identify and learn more about what consumers want and what’s getting in the way and how we can help them, then there are good testing opportunities for the academics and great information, insights and actions for us,” says Bari Harlam, Senior Vice President, Pharmacy Marketing and Customer Experience at CVS Caremark. “It’s very deliberate that the partnership academics are from a variety of disciplines that we think are central to the world of loyalty marketing and constructing the right kinds of benefits for consumers.”

As with any loyalty marketing effort, the idea of providing incentives for healthy behavior change means figuring out how to encourage people to shift their behavior voluntarily, explains Professor Keller. “Just like you have a process to design a new product that appeals to buyers, we go through a process so that the behavior-change package offered to employees or communities is appealing—it’s not something you’re required or forced to do,” she says. “The fact that you can empower people to voluntarily change their behavior is very exciting to me.”

A healthy dose of loyalty tactics
As more and more companies have taken these disciplines to heart and implemented loyalty tactics to encourage healthier behavior, the health care industry has matured and become more experienced in the latest loyalty marketing techniques and benefits.

“The biggest excitement surrounding all of this is the learning and information being applied to the health care world from a variety of other disciplines, including marketing,” says CVS’s Harlam. “It’s not as if this is an area of some completely unknown white space that nobody has looked at. The idea of helping people do things they want to do is central to loyalty marketing.”

Healthways’ Hone agrees: “There’s a whole blank slate that must be filled in terms of learning from CPG marketers, airlines and auto manufacturers in terms of how they market to consumers,” he says. “Too many folks in our industry look next door to see what the other

Continued on page 16
Engage Your Customers Throughout the Loyalty Lifecycle

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Healthy Loyalty Lessons

Six ways loyalty marketing tactics help to change consumer behavior— for the healthier

Changing consumer behavior is never an easy task, whether a marketer hopes to sell more clothes, fill more hotel rooms or sign up new subscribers. But the principles and best practices of loyalty marketing have helped companies across verticals and industries drive behavior shifts toward a wide variety of goals, from customer acquisition and retention to increased sales and data gathering. The health care industry, of course, is no exception, and companies are using tried-and-true loyalty tactics to help reduce health care costs, prevent chronic disease, and encourage healthy behavior change.

Here are a few of the most important loyalty marketing truisms that are currently—or soon will be—driving the health care “carrot” renaissance:

1. **Short-term incentives can mean long-term payoffs.**

   Staying healthy, whether by losing weight, exercising more or preventing disease, is all about the benefits of long-term thinking. But when it comes to changing behavior, without some kind of short-term incentive or reward, staying motivated becomes difficult. Reward programs across a variety of verticals, though, face the “What’s in it for me” challenge: Airlines, for example, must build in easier-to-reach benefits, such as business-class upgrades, for those who may not earn a free ticket any time soon. For a wellness program, you might offer incentives for completing short-term goals such as filling out an assessment form or going to a doctor appointment.

2. **Understand your objectives if you want to offer the right benefits.**

   All of the top rewards programs have something in common: They’ve done the prep work and research to truly understand their goals. For example, are you trying to get consumers to adopt certain annual habits? Are you trying to reduce costs in certain areas, such as medication adherence or smoking cessation? Do you want to spread the word about your wellness program to more people? Are you looking to build community? Without a deep understanding of your program’s objectives, as well as your target groups and their specific needs, it will be tough to build the right assortment of benefits, communications and incentives that will move the needle towards healthy behavior change.

3. **Communicate. Communicate. Then, communicate some more.**

   Regular communication and reinforcement of that communication—in the channels that consumers want to receive it—is one of the most essential elements of any successful rewards program. You simply can’t expect to influence consumer behavior without putting into place the right communication, done well and done often. The need for relevance and frequency may require you to go beyond email and snail mail to text messaging, iPhone apps, social media and word-of-mouth. Naturally, the health care industry’s issues with privacy present more challenges than other verticals experience; still, strategically aligned and integrated communications must form an integral part of your incentive program.

4. **Strike a balance between hard and soft benefits.**

   In the world of health care incentives, financial benefits—in the form of lower premiums, product discounts and freebies—are key tools for encouraging healthy behavior change. After all, everyone loves getting a deal on their health insurance or health care products. But don’t forget about soft benefits, which can serve as small ways to recognize and incent consumers so that they will feel good about wanting to feel good—and about your offers and services. Economic rewards are great motivators, but only to a point—sometimes a non-financial incentive will spur going that extra mile. Such nonfinancial rewards might include a special privilege, access to something not everyone else can get, an exclusive discount, or special communications such as a members-only magazine or newsletter. The best loyalty programs strike a balance between hard and soft benefits to keep the consumer interested.

5. **Stay relevant if you want consumers to stay motivated.**

   In health care, staying relevant is particularly important. After all, each consumer may be dealing with different health and wellness challenges and issues, so different types of rewards and incentives appeal to different people at different times. Staying relevant to a wide variety of consumers can be challenging, which is where research and analysis come in. What has a consumer’s past behavior been like, and what will reinforce good behavior? What do consumers say they want when it comes to incentives, versus what really gets them to act?

6. **Raise the bar.**

   Reward small successes with the chance to reach greater goals and bigger benefits. Just as many successful loyalty programs employ tiering structures, wellness programs can motivate increased activity and improved health with achievable rungs. A weight-loss program might provide one level of insurance-premium discount with certain measure of weight loss, and a promise to increase that discount after another specific loss. Motivation to increase engagement leads to increased activity which leads to better health.

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For health insurers such as CIGNA, improving programs offered to clients to increase overall engagement has become a key goal. “A couple of years ago, it became very clear that from an industry perspective, while we were doing a great job once we engaged people in those programs, there was room for improvement in engaging them in the first place,” says CIGNA’s Giaconia. He says his company began to look outside the health care industry at a variety of incentive-based programs. “We really wanted to do something that had a proven ability to work outside the industry and then figure out a way to make it work within our industry,” he says. “That’s how we landed on a points-based program, which at the end of the day helps power some of our other tools and incentives by encouraging individuals to complete a health-risk assessment, for example.”

The results, Giaconia says, have been encouraging. To say the least. “For example, we had customers who were offering health-risk assessments prior to the incentive...
points program being administered and got single-digit usage rates—but afterward easily get into the 70-80% range of HRA [health-risk assessment] completion.”

Virgin HealthMiles, created by Virgin’s famed Sir Richard Branson in 2006, says it continues to expand the types of incentives it can provide and the other motivators it can offer. “What we like about physical activity is that it’s a pretty simple guideline,” says Abshire. “It brings together that whole notion of motivation, measurement and incentives.” The company says it has seen roughly a 6% increase from its baseline of motivation for about every $100 of additional incentives offered in the form of premium discounts or gift cards.

Today’s successful incentive programs, Abshire adds, aren’t just about “walking for two weeks and getting a water bottle”—instead, providers have learned how to present an intricate balance of benefits that leads to lasting behavior change and allows consumers to decide how to spend what they earn.

“We offer a way to accumulate value and then allow members to translate that value to what makes sense to them and what makes sense to the program’s sponsors,” he says. “We are less about forcing people down the path in terms of how they spend their incentive and more about trying to encourage them to go down the right path in terms of the behavior that generates those incentives.”

As with any loyalty program, gathering, measuring and analyzing data is an important goal of providing health incentives. However, digging into the data is a particularly delicate dance when it comes to health care, due to stringent privacy regulations—in the form of HIPAA privacy and individual state laws—that set clear guidelines as to what and with whom personal information can be shared. Therefore, most employer groups can only see aggregate data that helps understand trends at a macro level.

Still, with companies making a sizable investment in health “carrots,” Virgin HealthMiles’ Abshire says real data—even at the aggregate level—is an important part of incentive programs. “We were launched with a focus on measurement,” he says. “A core part of our program has always been verifiable data—so the devices we use get real-time reporting of how active people are and the shift in key tracking biometrics such as weight or blood pressure.”

**Beta-carotene**

While much of the recent movement towards health incentives has focused on the employer/employee relationship, there are also growing efforts to bring health incentives and rewards directly to the consumer, whether through a consumer’s interaction with a pharmacist or through digital tools.

For example, drugstore chain Rite Aid’s new wellness+ loyalty program, which launched in April after a pilot process, considers a focus on wellness incentives to be a key deliverable of its entire brand strategy, which it calls “wellness empowerment.”

“There is a big sense of relief that wellness programs can still do the things they were doing and have more leeway to do even more. There is a new level of motivation to get creative and think outside the box.”

— Dr. Punam Anand Keller

**Tuck School of Business, Dartmouth University**

“Through wellness+, members immediately gain everyday wellness benefits such as 24/7 access to a pharmacist, and members accrue points to get free health screenings. A tiered benefits structure also offers access to a mix of other wellness rewards as well as traditional straightforward discounts.

After months of testing, the company ended up with a package of benefits that tested “through the roof” in terms of appeal and motivation, according to Learish. “We needed to have something that rewarded customers financially but had a structure of benefits that also rewarded their wellness,” he says. “We really wanted it to reward loyalty and wellness and not just be a transactional discount.”

CVS, too, says it has invested deeply into helping consumers achieve maximum behavior change. For example, specific incentives it offers include “first-fill” counseling, which helps ExtraCare plan participants stick to medication regimens by offering pharmacist counseling and customer care representatives.

“We know there is a significant drop-off between the percentage of people who fill an initial new medication for chronic conditions and the percentage who come back for a second fill, third fill, etc..” says CVS’s Harlam.

“We recognize that establishing new patterns of behavior is just not easy, so we’ve said, ‘What can we
Bridge to Value

With the right questions—and the right answers—Finance and Marketing can build common bridges

While they don’t always take the same approach to reaching common goals, Finance and Marketing must work well together for any loyalty effort to take off. Here’s how two often-opposite teams can collaborate to build a bridge toward program value for the greater loyalty good.

A loyalty truism is that buy-in is critical with a capital C—the C-suite must be fully on board if a loyalty program is to succeed. One of the toughest tasks, however, is ensuring that the finance department is supportive of what is typically a marketing department effort. The challenge often results from the fact that the financial wizards and the marketing gurus don’t evaluate programs the same way—they aren’t necessarily on the same page when it comes to viewing program value. It is, however, possible to build a bridge of understanding between the two sides to create a business case that encourages support of the loyalty program across the organization.

We asked COLLOQUY contributors and enterprise bridge-builders Nicolle Scavuzzo and Ken Kuschei to weigh in on both sides of this issue—with Scavuzzo speaking from the loyalty–marketing perspective and Kuschei from the financial perspective.

NICOLLE SCAVUZZO: As the seeds of loyalty begin to take shape, marketing and finance must form a strong union... from day one. This partnership, leading to a collaborative agreement on the key metrics we’ll both be proving through the loyalty program’s infancy, is critical to the program’s success. However, sometimes talking to finance feels like an episode of Law & Order: I’m sitting at the table and finance has just arrested me and is grilling me about the inputs in my model and what my test-and-measure plan is—even though my plan is clearly well-prepared.

KEN KUSCHEI: The reality is that both finance and marketing want to succeed in driving revenue, but the biggest challenge is that the cost side is almost always certain, while the return side is not. Everyone understands that marketing is important, but its benefits are very hard to measure. Companies that take the time up front to sit down and agree to financial and measurement plans begin to understand how different marketing campaigns benefit the company and to what extent. Even better—when both groups can focus on the probability of achieving certain assumed behavior shifts, they can recast the dialogue to how to manage the downside risk and maximize the possible upsides. Historically, though, the true partnering of the two groups has been fairly rare.

SCAVUZZO: Well, you do feel exposed when sitting in a room with finance asking questions. But it’s a good rigor to make all the cross-functional contributors, and definitely the marketer driving the overall initiative, commit to the key metrics. We should always look at cost benefits and other ways to drive value from a program we’re investing heavy dollars in. For example, maybe we can develop soft benefits to make the program resonate and drive engagement with members versus investing in heavy bonusing programs. Finance and marketing don’t always see eye to eye, but it’s important to sit both parties in the room at the beginning. When I was working with one retailer, finance challenged my program assumptions, and this forced an active conversation and a stronger collaborative plan that formed the key metrics and go-to-market value proposition for testing and measurement.

KUSCHEI: Finance people like challenging assumptions—that’s what we do. But the finance people also recognize that you have to spend money to make money. The finance team’s constant challenge is making sure they weigh all the ways they can invest their money to make back money, which may be in other parts of the business. But to your point, when you have a lot of people at the table at one time, you more quickly start...
Q Marks the Spot

**COLLOQUY** tackles the tough questions facing marketing and finance

**Finance:**

Q. What is the maximum cost exposure?

Q. What is the probability of breaking even—and the probability of making my desired ROI?

Q. How much new net liability will the company assume?

Q. How do I ensure that this forecast isn’t “double counting” incremental sales benefits that are also forecast in business cases for other new initiatives?

Q. How else could the company use that same amount of monetary investment—are other options more of a “sure thing” in terms of risk?

Q. How will this initiative move our overall corporate metrics (same store sales, and so on) that Wall Street pays attention to?

**Marketing:**

Q. What value proposition will compel my customers to cultivate the desired shift in behaviors?

Q. How can I manage expectations for driving incremental results—yet still ensure that the business case is attractive enough to get funded?

Q. How will this long-term investment in customer relationships position us for the future (measuring the “intangible assets” that result from this strategy, in addition to the hard-core bottom-line impacts)?

Q. How can new knowledge of customers through data transform the overall business—our pricing strategies, our merchandising mix, our store layouts, etc.?

Q. How can I differentiate this effort in the marketplace?

Q. How will my competition respond?

to come to consensus about the benefits of investing in loyalty, of having conversations with your customers. And by that, I mean having loyalty data aside from the marketing, knowing who your customers are and the products they want to buy, and using that information to inform the other decisions within the company. For example, the finance people can then go and say to the merchandising people, “This data will be useful, and make you more successful.”

**SCAVUZZO:** Finance ultimately helps marketers develop the story that the broader organization can buy into—the story being how deeper customer relationships equate to increased sales and profits. The loyalty program’s goal is building more-relevant customer relationships and securing “loyal” behavior measured in long-term length, lift in spend, and expanded breadth of the basket—that is, more categories shopped. All of this translates into incremental customer value. Marketing’s job is to conduct due diligence, respond to finance, and educate them on the qualitative, intangible factors that loyalty and deeper relationships ultimately deliver—all so that finance can play its key support role for the loyalty investment.

**KUSCHEI:** But the bottom-line question that every CFO will ask is, “How much will it cost?” This comes before all else, including ROI, because many variables can impact the return.

**SCAVUZZO:** True, but relevant communication and deeper knowledge of the customer is the future—and must be valued as cost-effective. The retailer now has the chance to improve its percentage of marketable customers and can create relevant, essentially real-time communications—and can help the retailer redirect
mass-marketing dollars. Over time, a loyalty program provides an in-depth and holistic view of the customer’s behavior and engagement. It’s knowledge that is power—the retailer can tap into knowledge by grouping customers based on their value, life stages, solutions, and so on, to make better business retail decisions using customer data. Customer data can transform business decision-making, and with time—as well as a structured plan of action—incremental sales, profits, and strategic growth decisions will reap the benefits.

“When talking to finance feels like an episode of Law & Order: I’m sitting at the table and finance has just arrested me and is grilling me about the inputs in my model.”

KUSCHEI: Still, from a CFO’s point of view, ROI is about what the company gets in return for the money it’s spending, and how that return compares to what can come from other opportunities. Marketing also must be aware of and be ready to respond to other issues a CFO will demand to know about: There’s net present value—NPV—which is like ROI but takes the future cash flows and converts them into today’s dollars so that different opportunities can be compared across the company using a common denominator. There’s stock impact—what benefit will shareholders see as it relates to a company’s stock performance—the impact to earnings per share? And, for any program that requires a currency, there’s liability—whether points, miles, bucks or cash back. How much liability will be generated by introducing this program? This will be net new liability for the company. While same-store sales are important, they roll up into the overall financial metrics of a company. There are many metrics companies use to measure success. CFOs are held accountable for the big picture; they need to see the overall numbers move in a positive direction.

“Finance people like challenging assumptions—that’s what we do. But the finance people also recognize that you have to spend money to make money.”

SCAVUZZO: This “new” way of thinking requires a change in the lens that finance typically uses to evaluate the impact of loyalty programs and loyalty-marketing efforts. Typically, 30% of customers represent approximately 75% of sales. When you break out these best customers as a whole or even at a more granular level and measure the positive changes in their behaviors, you’ll see high incremental per-customer value. But because the “best customer group” may constitute only a small portion of the customer base, its total impact may not look as dramatic as what’s seen in typical mass-marketing yardstick measurements. On the flip side, this deeper insight into customer behavior helps the organization identify and eliminate poor operational behaviors—like creating expensive promotions that drive only cherry-picking customers to take advantage of.

KUSCHEI: A loyalty program is a big investment. To realize full potential you must go beyond the program itself. A loyalty-based effort must touch every part of a company, its operations and its thinking. The focus should be on maximizing the investment dollars. In some companies, that may mean retaining the best customers while not investing in those people who accidentally walk off the street. In other companies, the focus may need to be on trying to up-sell or cross-sell a customer because that is where growth comes from. Every company will be at a different stage in its life cycle. For an industry in decline, retention may be the end game. For a company that’s growing, the focus is likely acquisition and awareness.

SCAVUZZO: Frankly, this is a tough tightrope to walk. Marketing must continually secure organizational support—so it’s best to be a friendly neighbor with finance. If you oversell the program’s forecasted benefits upfront, you can get in trouble quickly—this is where finance is so key in the partnership. So marketers must build a few case scenarios into the model. Be both conservative and aggressive—and then be clear on how you will evaluate the key metrics and be ready to tweak the levers with revised action plans based on the situations that start to take shape from launch. Finance is on the hook for measuring the liability as soon as the program launches, whereas the rewards and benefits that marketing will drive require some elapsed time, so a measured amount of patience is imperative to allow marketing to deliver.

KUSCHEI: When finance and marketing work together just like in a marriage, you can appreciate the value that each side brings to the relationship. The challenge has been, and I believe will continue to be, that marketing requires trial and error to find out what works the best. Each one of those attempts costs money. The faster and more controlled that process is executed, the quicker finance and marketing will see how much each benefits from the other. For that process to take place you need data—data that’s best supplied through a well-designed loyalty program.

Nicolle Scavuzzo is Director of Client Services of Precima, a shopper-driven insight and strategy firm operated by LoyaltyOne. Ken Kuschei is a LoyaltyOne consultant. They will next face off in 10 rounds of Wii boxing.
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or service that gals go crazy for) can slack in its efforts to increase customer loyalty and deepen one-to-one consumer relationships. In fact, it may be even more important within a product category where customers crave—and therefore expect—a deeper and more personal connection.

"Loyalty marketing is a very big deal for us," says Derek Ungless, Chief Marketing Officer at Columbus, Ohio–based shoe retailer DSW, which boasts more than 300 stores in 39 states, with each oversized, typically 25,000-square-foot store displaying over 2,000 different shoe styles (and 30,000 pairs). Ungless adds that loyalty has played a large role in the company’s growth over the last few years (DSW went public in 2005, the year Ungless joined the company)—specifically, a 12-million-member-strong program that has begun to dive deeper into its large database than ever before.

The revamped DSW Rewards, which replaced the fairly robust Reward Your Style program, has increased its use of segmentation models; developed robust offerings with multiple tiers and special benefits for select customers; and invested significant time and effort in the social media space. The original program was an effort Ungless describes as “essentially the old RFM model,” on which the current program is still based. But when he came on board at DSW, he immediately knew that he wanted to take the loyalty program to the next level, he explains, by emulating other companies’ success at utilizing data. "One of the first things we did in my first year here was do research and engage people to help us think about all the things we might need to do."

For example, thanks to analyzing the existing data, Ungless’s team realized the current program had some limitations—for example, DSW realized that, on average, members were earning rewards certificates only once every 2.2 years, not nearly enough for proper loyalty motivation. When the program was re-launched as DSW Rewards (“which is what people were calling the program anyway,” he says), the company was therefore able to tie the program back to the master brand.

To take these steps, the company needed someone who could delve more deeply into that data—and bring the program to the next level in terms of a deeper understanding of customers. In 2009, Ungless brought on Kelly Cook, who had previously worked in CRM roles at Waste Management and Continental Airlines, as Vice President of Customer Strategy and Engagement. "On top of her experience with data, she is a shoe lover," says Ungless. "’An addict’ would probably describe her better.”

Upon arriving at DSW, Cook said she was "amazed" by the success DSW was already having with rewards and its existing data efforts. "Even though they had not completely fulfilled Derek’s vision, a substantial part of DSW’s revenue was coming from rewards members,” she says.

One important head-start, she says, is that DSW had already made significant investments in data analytics technology. "It was easy to come in and just with a little guidance start to see the fruits of that labor quickly—the team was energized by that,” says Cook. "It usually takes companies three to five years to get their data in the shape it was in the day I walked in.”

Segmenting the “customers”
According to Cook, having customers already excited about a product combined with employees and executives who don’t have to be convinced that data is a core asset was a big relief. "There was executive buy-in, good data, good strategy, great team alignment, change management, all of those things on top of the value of data. That’s not normally something

FROM COLORFUL STILETTO HEELS to comfy ballet flats and knee–high leather boots, few products inspire women’s breathless affection as much as spankin’ new shoes. An addiction immortalized in television shows such as Sex and the City (where the central character, Carrie Bradshaw, purportedly owns more than 400 pairs of designer shoes), this passion for pumps gives footwear loyalty marketers an audience of consumers who already feel a strong passion for the product—perfect targets for a fruitful two-way loyalty-based relationship.

That doesn’t mean, however, that a company that sells shoes (or chocolate, or ice cream, or diamonds, or spa services, or any other product...
that happens—you usually have to convince people that data is a core asset, but DSW is already there.”

With such a large target demographic—DSW offers shoes for those 18-80—segmentation tools are key, and Cook adds that while all the tools and processes are not yet optimized, the infrastructure to segment such a large population is already there. “We slice and dice in a lot of different ways,” she says. “We are in the process of building models that allow us to automate that segmentation, to map to them, and activate a campaign off of those business rules.” The company is also beginning to be more relevant in personalizing such communications as email and direct mail.

From an enterprise loyalty standpoint, DSW had also connected internal employee engagement with customer engagement, she says. For instance, “The customers already identify themselves as shoe lovers,” says Cook. “We work here because we are shoe lovers. There’s an automatic connection, which is fantastic.” DSW also invested in social media (Cook runs a Twitter account with the handle “DSWKelly”). “You cannot imagine how much response we get from those things,” she says. “The thing about social media that’s exciting is that it’s a carry-on of the passion already built into the product.”

Such a breadth of customer presents challenges within the DSW market, admits Ungless. “Providing one-to-one marketing is certainly a challenge when you’ve been used to working at the brand level,” he says. “In those places you’re essentially pushing out a single brand message as opposed to people having a conversation. We’ve got to try to be highly relevant to all kinds of people who really like their shoes.” That’s where the hard work with the data comes in, he explains—sliding and dicing it to reach relevance for specific segments. “I started calling them ‘clustomers,’” he says.

Cook adds, “We are very excited about the next phase of precision marketing; segmentation. Through our clustering and statistical modeling, we have identified clear, unique segments of behavior which link directly to purchase patterns, social influences and shopping occasions. This will propel our relevance strategy to the next level by providing an interaction road map which is timely, relevant, and personal—just like we were talking to our best friend.”

Next, the company hopes to tie its successful data-driven loyalty efforts into individual store customer-service efforts. “For example, a customer coming in with a rewards certificate for their birthday is a wonderful way to tie all the things that are happening in the store to one of our internal shoe lovers at the register,” says Cook. “That can be a remarkable experience for a customer and there’s a tremendous amount of support from the operational organization for that to happen. The customer service model that they have is directly in line with the intent of the loyalty program, so there’s a great partnership there and we will continue to make it even better.”

For both Ungless and Cook, the goal of DSW’s loyalty effort is the same: 24/7 customer-centricity. “If we line up all 14 million of our DSW Rewards members in a straight line, we would want them all to say that we treat each one as if they are our only customer,” says Cook. “We want them to feel like it’s all about them. You do that in a variety of ways with a variety of tools, processes and products. Whether or not we get there in 12 months, this is where we want to be.”

Sharon M. Goldman, COLLOQUY’s Senior Editor, admits that she owns fewer shoes than Carrie Bradshaw, but has the same number of feet.
U h, that would be now. Put a sound exit strategy in place as soon as possible, preferably when designing the program in the first place. An exit strategy is like a pre-nuptial agreement: You write it, agree to it, and seal it away in the vault never to be seen again (hopefully). Regardless of why you decide to end a loyalty program or one of its major components, your single objective must be to do so without alienating your best current members. And that means planning program exit assumptions from the beginning. Know how to get out before you get in.

**Same-Ol’ Sam e-Ol’ Sam e-New**

How do we make our program stand apart from others in market?

Don’t wander too far away, now. Got unique brand assets? Use them in your program design and in your program communications: Allow your program to mirror your brand, speak with your voice, and stand for what you stand for. Use your unique brand promise to create a compelling benefit structure and let those rewards and recognition benefits make that promise tangible. In a really competitive sector, your company brand is often the one unique asset to set you apart—so fully employ it in crafting your loyalty strategy.

**The Conscription Prescription**

To auto-enroll members or not to auto-enroll?

Boy, could we bore you with tales of many, many head-to-head tests on this topic. But, the short answer lies in your patience for measurable results. Should you bestow an automatic membership on those who you think are your best customers, or allow your best customers to identify themselves? Active self-identification itself signals strong potential for continued engagement. With auto-enrollment, it will take 12-18 months before members...
become aware enough of the program’s value proposition to start changing their behaviors. As in the military, volunteers are usually more responsive and enthusiastic about participation than draftees.

**Every Loyalty Marketer Is a Control Freak**

How do I definitively prove the incremental impact of my program?

Yes, Virginia, you do need a control group. Accurate measurement not only helps drive better business decisions, but also delivers the only defensible way to prove the incremental impact of your program. Save yourself the distraction of an endless stream of quarterly meetings with your CFO and adopt the most rigorous test and measurement strategy early in your program’s lifecycle. When you test a new program or initiative, you’d be wise to compare the results to that of a control group.

**It’s a Hard Fact: Marketers Gotta Be Softies**

Members are already getting discounts and freebies. What more do they want?

A soft smile. A blend of hard benefits (tangible rewards like free products, merchandise or services) and soft benefits (perks, special attention, recognition, communications and partner offers) will generate as much as 10% higher lift in annual customer value than just a discount or rewards. Hard benefits, of course, play a critically important role, but blending the soft with the hard will help create significant customer commitment and involvement and lay the foundation for enduring customer loyalty.

**Unlike Dogs, Don’t Let Sleeping Assets Lie**

We’d expand our loyalty efforts, but Finance is afraid of our growing liability account.

As we’ve commented over the years, marketers must remove the “lie” in liability—because the perception of program liability as a financial burden can lead to some false impressions. Yes, you’re distributing a promise or a currency that consumers can cash in later, creating an obligation that must be accounted for financially. But liability, ironically, is an asset. Loyalty programs generate liability through positive customer behavior and transactional encounters with your brand. If a customer makes a purchase that results in points or miles accrued to a loyalty account, for example, then the resulting liability represents an investment in that customer and a method of scoring the value of the relationship—not to mention a trace of an already profitable interaction. Program engagement also generates important behavioral and psychographic data that enables you to build customer value through dialogue, promotions, and targeted offers. In its redemption potential, liability likewise entices future positive interaction with your brand. Put simply, well-structured points programs deliver value though their investment in customer relationships. Discard lie-ability’s “ability to lie,” and embrace it as the asset that it is.

**Happiness Is Not Shedding Tiers Why should we structure our program to include tiers?**

If COLLOQUY’s said it once, we’ve said it a thousand times: practice sound resource reallocation to drive the best bottom-line results. (Just don’t get us started on the merits of targeted bonusing, too!) Best-of-breed companies often deploy programs that promote customers into richer, more-rewarding tiers defined by customers’ increasing value, spend or tenure. Consider tiers a segmentation strategy that helps your brand determine and reward your best customers, and allows customers to see, quite visibly, the value you place on their loyalty to your brand.

Additionally, tiers provide clear goals for your customers, motivating further spend and motivating further loyalty. Step up and tier up. It will make you happy.
Cover Story
Continued from page 17

do to identify and assist those who drop off?”

In addition, she says CVS recently completed a 35-store pilot that provided incentives, in the form of a game, to consumers who went online or called in each day and said they remembered to take their blood pressure medication. “We provided rewards not simply for filling or purchasing prescriptions, but just for raising your hand and saying I took my medication,” she says, adding that the fun nature of the game increased its popularity. “We absolutely will be doing more of that.”

Digital tools are also being used to create a handy consumer-direct link and motivational boost to the consumer-pharmacy relationship. WellQ—a wellness behavior-change program developed by LoyaltyOne in partnership with the American Pharmacists Association—seeks to help patients shift their own behavior around their medications and health care, with the help of their retail pharmacy, where consumers sign up and provide a profile of medications and current health habits. Through WellQ, they then begin to receive mobile text-based reminders as well as bite-size educational and motivational content around self-care delivered to their cell phones.

Currently in the pilot stage, the WellQ program is being tested with patients at a number of pharmacies in Kroger grocery locations, and at Duane Reade and independent pharmacies across the U.S., says Peter Meyers, Vice President of Product Development and innovation at LoyaltyOne, and leader of the WellQ rollout. Meyers says the pharmacy connection is key.

“We also plan on creating an avenue for consumers to talk to other patients like themselves through social communities,” Meyers says.

Once WellQ is integrated into pharmacies, he adds, the plan is to include other incentives—including benefits for refilling prescriptions on time, setting and achieving wellness goals, interacting with pharmacists, and participating in clinical services such as screening programs.

Diagnosis: the future of health incentives

Because of the support of the new health care legislation, as well as a growing sense that health and wellness incentives, both financial and non-monetary, represent the industry’s future, there’s no doubt that incentives are here to stay. Still, say experts, more research must be done and more data gathered to understand how incentives work with different segments of consumers and what benefits work best.

“There is so much opportunity in this area because we just haven’t thought of people as consumers of health and wellness in the same way as other consumer products,” says Professor Keller. “We are so brilliant at marketing products and using promotional tools in loyalty programs, so why aren’t we measuring the attitudes and beliefs about different health benefits and incentives? Why aren’t we asking them what new benefits they want to see in ways we normally ask consumers? By applying these commercial marketing techniques to employee, individual and collective well-being, we can accomplish that.”

On the other hand, the health care space harbors unique challenges and perspectives that incentive and rewards marketers must keep in mind, says Healthways’ Hone. Such challenges and perspectives include knowing that consumers aren’t necessarily willing “buyers” of health and well-being improvement—so the decision pathway and barriers to change may be different than in other industries. In addition, the health care incentive space, because it’s still relatively new, may lack in-house expertise and have access to a limited number of vendors, metrics and outcome-sharing. “The rate of growth and sophistication will vary widely by customer, based on their objectives, strategy and deployment approach,” Hone says.

As well, incentives can lead to positive behaviors, but can also promote expectations that can be hard to remove: “If a company offers $100 to complete a Health Risk Assessment in Year 1, than ups it to $150 in Year 2 and then raises it again because they see increases in participation, it becomes difficult to go back to a lower incentive because ‘pay for play’ expectations have been created,” Hone says.

Still, it’s clear that a shift in the responsibility of health and wellness to the consumer will continue, says Rite Aid’s Learish—both financially and in terms of staying healthy.

Rewards and incentive programs, he maintains, will continue to grow in response to that shift. “I think you are going to see these programs evolve more and more strongly—and the retailers that are able to respond first are going to win.”

Over time, the industry will also see increased personalization of incentives, such as offering different incentive values depending on where someone is in the behavior-change process, predicts CIGNA’s Giaconia.

“I think we’re still at the beginning stage of all of this,” says Giaconia of the future of loyalty and rewards tactics in the world of health care. “The market is responding strongly to the idea of incentives to keep people healthy, and I think there is going to be a lot of room for incentives to continue to move the needle.”

And get consumers closer to that scrumptiously healthy carrot cake.
A Thirst for Learnings
Continued from page 6

CPG wants to be left out of the relationship-building game through loyalty, it’s more important than ever that the game is played well.

Playing it well means building teams that can handle the challenges of this new CPG loyalty territory. For example, most CPGs may not have data and loyalty-focused experts already on their staff, since a merchandising, product-driven model has been in place for most of these companies’ histories. Today, CPGs are creating new teams and acquiring experts from the loyalty space to guide them in pursuing these long-term, relationship-building, data-gathering opportunities—as well as to make sure sustainable financial models are developed carefully.

No matter what strategies CPGs employ, however, loyalty success boils down to mastering the basics—what I call the 3Cs of CPG loyalty:

Craft. It all goes back to planning. Management buy-in is essential, the right value proposition must be fully developed, and program/system set-up must be developed carefully.

Commit. CPGs shouldn’t be afraid to establish the direct relationship with their consumers. Years ago, many CPGs feared disrupting relationships with retailers. However, there is a much stronger acceptance of the CPG direct relationship now. CPGs should make sure they’re in loyalty for the long haul so their campaigns aren’t perceived as promotional flashes in the pan.

Communicate. CPG loyalty marketers—as those in other industries such as travel, financial services and retail have learned over the past two decades—must make their program rules and value proposition perfectly clear. This includes developing a well-designed, well-communicated exit strategy.

The CPG loyalty crystal ball
In my mind, there’s no question that CPG loyalty programs will continue to emerge forcefully at a fast pace—the space has grown since the 2006 publication of CPGTalk: The Total Package, and as mentioned previously, CPGs have taken learnings of early programs to heart regarding issues such as liability and availability. I believe membership numbers will continue to grow as we head toward the conclusion of 2010.

The question we asked in CPG Talk: The Total Package, was, “Do you really want a relationship with your beverage brand?” The answer is a resounding yes—if it’s the appropriate product with a program developed with the above 3Cs in mind.

Sol Zia is a LoyaltyOne consultant and a COLLOQUY contributing editor.

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We’ll see you there (hiking boots optional).
Creature of Habit
Bill changes a habit and calls himself William to make a point

BY WILLIAM BROHAUGH

I WOULD VENTURE TO SAY that “habit” is my middle name, except that W.H.B. isn’t exactly as elegant a monogram as the one resulting from my true middle name: Edward. W.E.B. sounds so prophetic given that when I was born, webs were for spiders and spiders weren’t for search engines.

Whether or not it’s inculcated into my monogram, habit rules much of my life. I’m human, after all. As an extreme example, both my home and my workplace near Cincinnati are within easy access to two freeways. Heading north in the morning, I take the I75 route that travels the western part of the city; in the evening, I slip east and take I71 home.

Am I loyal to those routes, or am I a habitual driver? By the same line of thinking, am I loyal to the gas station where I fill my tank before hopping on those freeways, to the grocery that’s near one of the off-ramps near home, to the card I use when making purchases at either—or am I just W.H.B.?

I ask these questions as I look at a couple of new loyalty initiatives that are designed—consciously or not—to develop consumer purchase or usage habits, one in high-frequency retail, and the other in credit card use. In each case, I was offered an attractive reward if I reached a certain level of spend, a level that clearly would involve a switch in spending patterns over a period of time—time enough to establish, yes, a habit. And given the habit-shattering times we live in, the situation is ripe for grabbing a share of consumer behavioral shifts.

With proper segmentation and identification of specific patterns in my activities, I might have received an offer that would reward me for a 5 or 10% increase in spend, instead of the (I’m not kidding) 500%+ goal placed in front of me.

The structure of each offer I recently encountered required a certain level of spend (a step-up increase, in each case), tallied on a per-month basis—not annually (as is typical with, say, retaining frequent-flyer elite status), not even quarterly. Such a requirement establishes a top-of-mind incentive to repeat performance until it becomes so ingrained that it doesn’t need to be top-of-mind anymore; it becomes an unconscious “decision.” I applaud the two efforts, particularly because one is clearly attrition defense after noticing that my spend with that brand slipped over recent months. I was losing the habit. But with habits come dangers—particularly if something jars the habitué into realizing the lack of value in doing—just—for—the—sake—of—doing.

To counter such dangers, be innovative, and consider these suggestions to avoid jarring your beloved creatures of habit:

Design for foundation of value, not simply habit. In each of these cases, the additional reward for increasing my activity a notch or three (and more about that in a moment) took the form of hard cashback, which was one of several benefits of the programs. I suspect I would have been even more receptive to an offer that refreshed more of the brand’s original foundation of value. I also suspect that I would have happily accepted a more complimentary reward by achieving the step-up—a recognition element that would create a memorable moment.

Devise relevant thresholds and goals, not out-of-character challenges. One of the two initiatives I describe here required not a step up, but a quantum leap that I doubted I could fulfill—and fulfill repeatedly, given the monthly requirement. The offer, shall we say, “didn’t know me.” Perhaps I had fallen into a large segment where most would view the increased activity as a step and not a leap. With proper segmentation and identification of specific patterns in my activities, I might have received an offer that would reward me for a 5 or 10% increase in spend, instead of the (I’m not kidding) 500%+ goal placed in front of me. Even more important than setting achievable goals is the matter of avoiding off-putting irrelevance.

And now that I think about that gas station and that grocery near my travel routes and the card I use in transacting with them, I realize that I am indeed a creature of loyalty and not habit. Elsewhere in the city, or when traveling, I seek those specific brands because I’m familiar with them and the goals and foundations of value they have supplied me—and with the way they have recognized and encouraged my allegiance. Simply put, when working to reclaim attrition-risk customers, increase the frequency of existing customers, or land the repeatable transactions of new customers, don’t simply ask consumers to change their habits. Make sure you go a bit further—with relevant goals, reminders of your value, and the occasional surprise—and ask them to make a habit of being loyal.

W.H.B. is the H.M.E. (Habitual Managing Editor) of COLLOQUIY.

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