Customer loyalty strategies

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Introduction

The emphasis is on loyalty

There is a worldwide trend toward loyalty marketing. Companies in most industries are studying, evaluating or implementing loyalty strategies and programs aimed at cultivating strong relationships with their best customers. The reasons for this emphasis on loyalty are varied. Certainly, the proliferation and fragmentation of media options make it more difficult to reach and acquire new customers, placing an inordinate burden on companies to keep current customers happy. Beyond the media reach challenges, customer audiences are more busy and, as a result, less inclined to consume and interpret all the messages they receive. More households now have both adults working, leaving less time for the consumption of marketing messages. More managers in business are working long hours for a variety of reasons, leaving less time for the consumption of marketing messages aimed at their business.

Loyalty marketing is a popular topic among marketers. The Direct Marketing Association, the world's largest and foremost organization for direct marketing professionals, reports that the most heavily attended sessions at their annual conference and exhibition in 1997 were those sessions described as customer relationship management[1]. Marketers are searching for insight, solutions, examples and guidance. The problems they seek to solve are all the same: improve customer retention and maximize share of customer.

Structuring customer loyalty strategies

In this article I will explore the various approaches to structuring customer loyalty strategies. I will also use some real-world examples to illustrate different approaches; but ultimately, what the reader will derive from this article is a consistent framework for developing a loyalty strategy and program.

Terminology

There are countless terms used to describe loyalty marketing. There is relationship marketing. There is frequency marketing. There is one-to-one marketing. There is customer-centric marketing. Every year there will be a few more terms, but I embrace loyalty marketing. Here is why.

I ask companies this question. "What do you want to achieve?" The answers vary. Here is a sample dialog:

> Duffy, "What do you want to achieve?"
>
> Marketer, "Well, I want to build stronger, deeper relationships with my customers."
>
> Duffy, "Why?"
>
> Marketer, "Because I want to build loyalty."
>
> Duffy, "Aha! That's it. What we seek to achieve here is loyalty. Loyalty is the business objective. Relationships, one-to-one, customer-centric and all the other terms are merely a means to an end. The end we seek is loyalty."
>
> Marketer, "Exactly."

That is why I embrace loyalty marketing as the best term to describe the strategy, regardless of the industry. I hear marketers say things like, “I don’t need loyalty in my business, I need frequency”. Well, frequency is often a function of the category. I rent videos frequently. I shop at the grocery store frequently. I buy a new vehicle infrequently. I take a vacation infrequently. Yet marketers in all these industries are chasing the same thing: maximized share of customer.

Share of customer

Important ground rules

Let us define this share of customer thing. I will not belabor this point, but there are some important ground rules that the reader should embrace before proceeding.

Let us use gasoline purchases as a category to explore the concept of share of customer. Let us assume that I spend about $50 per month on gasoline for my vehicle and my expenditures are distributed among the following brands. Figure 1 illustrates my share of customer split in the category.

In Figure 1, Citgo has 60 percent of my purchases or 60 percent share of customer in the category. Exxon has 20 percent, Shell 10 percent and 10 percent of my expenditures go to other brands.

Let us consider another example. Let us assume I spend $120 per month on gasoline and it is distributed as illustrated in Figure 2.

What is the difference in the way marketers often interpret these two situations? Traditionally, marketers have focussed on customers that spend the most with their brand. So Citgo would think that the customer in Figure 1 is better than the customer in Figure 2, because the first customer spends $30 per month with Citgo while the second customer spends just $24 per month with Citgo. But the greater growth opportunities exist with the customer in Figure 2. Does that mean that the customer in Figure 1 is less important? No. But it does suggest different objectives and perhaps different strategies. We seek to retain the customer in Figure 1, we seek to increase the share of our business with the customer in Figure 2. That is what share of customer is all about.

Where are the opportunities to increase share of customer? Is it with customers you have very little business with – 5 percent to 10 percent of the customer’s business in your category? I do not think so. If a customer uses your brand on such a limited basis there is probably a reason, and that reason

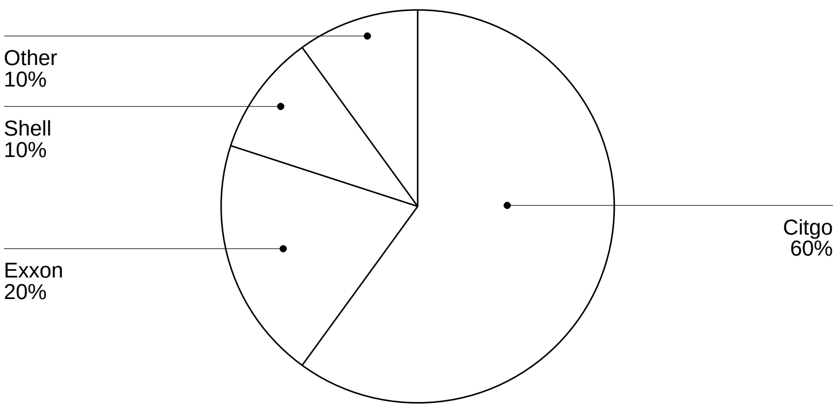

Figure 1. Share of customer example

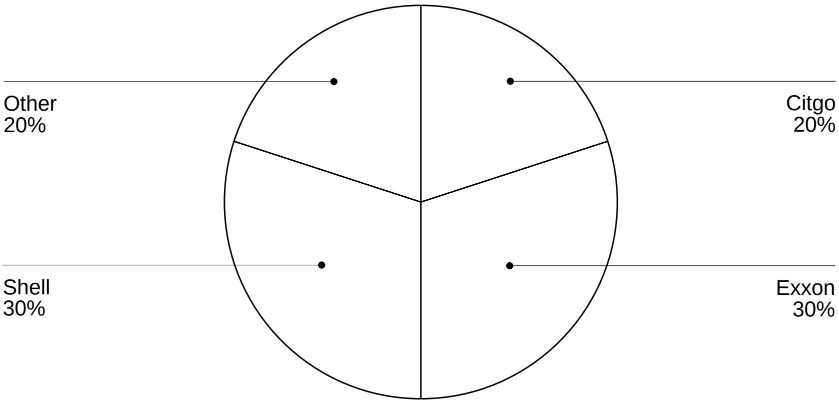

Figure 2. Share of customer example

is probably outside of the realm of marketing and more fundamentally tied to your product and its value proposition.

Is the opportunity with customers you have a great deal of business with – 85 percent to 90 percent of the customer's business in your category? Once again, I do not think so. How much more can you get? The challenge with this kind of customer is retention.

The best opportunity for growth

The opportunity for growing share of customer is in the middle. Customers from whom you get 20 percent to 80 percent share represent the best opportunity for growth. These customers already have some affinity for your brand. You know they find your product and its value proposition reasonable. The effort required to boost share of customer in the middle is considerably less than at the low end and high end of the share-of-customer scale.

Table I shows a summary of the ranges of customer share and the strategic implications on your marketing efforts:

Background on loyalty programs

It started in the airline business. Congress passed the Airline Deregulation Act of 1978, phasing out federal control of domestic air service and marking the beginning of the era in which market forces determine fares and levels of service (GAO Report, 1996).

Airlines struggled for a point of differentiation. In many cases fares, selection and service were, for the most part, equal. In 1981, American Airlines introduced its frequent flyer program – AAdvantage, offering free travel in exchange for some level of loyalty. United Airlines followed shortly afterward with its Mileage Plus program and soon every company in the travel industry created or participated in one or more loyalty programs.

Segment	Share of customer	Implications
Low	Under 20 percent	Product, value proposition Acquisition, branding efforts
Medium	20 percent to 80 percent	Share of customer building Opportunity for growth
High	Over 80 percent	Retention Opportunity cost of defection

Table I. Share of customer implications

Earning extra miles

Loyalty programs in the travel industry have evolved. What started as a fairly straightforward proposition – “fly with us and eventually fly free” – has become much more sophisticated. Every airline program allows travelers to earn extra miles with hotels, car rental companies and credit card companies. Many allow three different credit card options. In the US Airways Dividend Miles program, travelers may earn miles on a Visa Card issued by NationsBank, or they may earn miles on an American Express Card through Membership Rewards, or on a Diners Club Card through Club Rewards.

A new generation of innovative award options has emerged over the past few years. Every major domestic airline offers options to earn miles for dining, long-distance phone service and flowers. American Airlines allows members of its AAdvantage program to earn miles for things like mutual fund investments and mortgages, as well.

All these options and enhancements evolved over time and they evolved because the basic proposition to the traveler was compelling. The idea of earning free travel was motivational and achievable through the eyes of the business traveler. That is why frequent flyer programs have become so powerful and in fact have become an integral part of the airline product. In fact, it has been said that frequent flyer programs have played a significant role in the demise of many post-deregulation airline start-ups (GAO Report, 1996).

Promotional currency

The model employed in the travel industry is known as the promotional currency approach. A promotional currency – miles or points – is earned as the member spends. The promotional currency is redeemed for something of value – in this case free travel. There are certain characteristics of the travel business, and especially the airline business, which have made the promotional currency approach successful:

(1) High fixed/low variable cost structure and idle capacity. When an airplane takes off with an empty seat there is no longer a chance to sell that seat. It is a lost opportunity. If an airline can influence choice between carriers with its frequent flyer program and fill a seat that would otherwise be empty, the revenue is virtually all profit. Similarly, when an airline gives away a seat on an airplane and does not displace a paying passenger, the cost of the free trip is inconsequential.

(2) Large relationship. Business travelers influence the spending of thousands – sometimes tens of thousands – of dollars on their own individual air travel. A survey of frequent travelers revealed that only 28 percent are required to use a particular airline by their employer (*OAG Frequent Flyer Magazine*, 1997). Therefore, 72 percent have the latitude to redirect spending on their own individual air travel. So each individual traveler has a powerful position with the ability to control a significant revenue stream to the airline. Yet it is not the traveler’s own money. Where else does such a situation exist? Nowhere. These are also some of the most profitable relationships. Business travelers often have unpredictable schedules and do not have the flexibility or predictability to make advance reservations. As a result, business travelers are often paying full fares, which are much more profitable to the airlines.

These characteristics are overwhelming in the airline industry and exist nowhere else in such magnitude. The promotional currency model has pervaded the travel industry quite successfully. In the 1980s, marketers started developing loyalty marketing programs in a variety of industries, seeking to replicate the successes in the travel industry. However, often the natural tendency was to mimic what has happened in the travel industry. That approach has been proven not appropriate for all industries. Each situation requires careful consideration and analysis before the prescription of the best loyalty solution.

Loyalty marketing principles

A business strategy

Loyalty marketing is more than just a program. It is a business strategy. It is a state of mind.

When properly embraced, developed and implemented, loyalty marketing strategies become integrally linked to the product. Consider airline frequent flyer programs. Frequent flyers board the airline first, have special toll-free phone numbers for service, special check-in desks and get access to first-class upgrades which help endear the traveler to the brand. Some airlines have gone even further, developing programs which reward the business for its loyalty on top of the rewards provided to the individual traveler (see Delta SkyPrivileges Plus case study). The frequent flyer programs are genuinely integral to the product. You cannot experience the product without seeing the loyalty strategy.

Consider a retail example from Harris Teeter, a regional grocery store chain based in Charlotte, North Carolina (see Harris Teeter VIC case study). This retailer embraced a best customer strategy (VIC stands for Very Important Customer) over a year ago and every cashier prompts every customer at checkout, “Do you have your VIC card?” The retailer’s advertising is full of messaging which points out special discounts available only to VIC cardholders. Once again, a customer cannot experience the brand without experiencing the loyalty strategy.

Durable relationships

Conceptually, loyalty strategies seek to build stronger and more durable relationships with customers. Durable relationships help encourage customers to do something about a problem they have had with a product or service rather than quietly defecting from the brand. Airline frequent travelers take it upon themselves to call their exclusive toll-free customer service numbers to talk about problems with the airline. They know that their status as frequent travelers makes the airline listen carefully and act on any issues or concerns. And the traveler feels that he has a stake in the future of the airline because he has equity in the form of miles. Ultimately, customers that feel good about the brand and feel they have a say in the delivery of the brand experience become advocates for the brand (see the loyalty hierarchy in Figure 3).

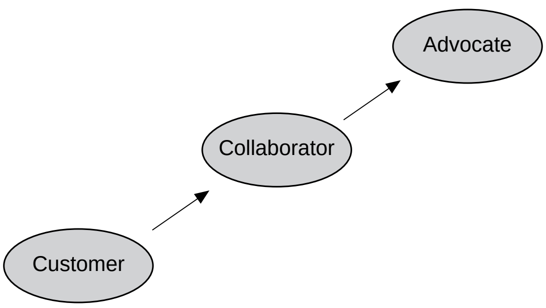

Figure 3. The loyalty hierarchy

A reluctance to defect

Loyalty programs are not magic. But carefully crafted and diligently executed, a loyalty strategy can create a reluctance to defect on the part of customers. Sometimes it is an economic reluctance to defect because the customer feels he loses something by defecting to another brand. Sometimes it is a psychological reluctance to defect because the customer feels engaged with the brand and feels that a mutually successful relationship is lost if he defects.

Typical approaches

Consider Figure 4 and Figure 5. These illustrations demonstrate the differing strategies based on the size and frequency of transaction for various products. Frequency and size fit more on a continuum than in quadrants, but I have used quadrants for clarity of illustration. In general, infrequent represents at least one year between purchase of a product or service and frequent is less than a year. Low dollar represents under $100 per transaction while high dollar represents over $100. Each of these examples may be debated and certainly there are some customers that spend less than $100 on an item I have put into a high dollar category. But these examples are intended to make a point about the varying strategies based on a particular segment of customers in a particular industry.

Promotional currency model explored

The promotional currency approach to loyalty marketing is the more logistically complicated approach which takes more time to plan and develop. It is not universally right or wrong in any industry, but this section explores some of the important considerations regarding promotional currency.

	Infrequent	**Frequent**
High $	Boat Vehicle Disney World Vacation Appliance	Airline tickets Credit card transactions Apparel White tablecloth dining Groceries Phone service
Low $	Baking soda Toothpicks Ketchup	Apparel Casual dining Oil change Gasoline Music purchase Video rental

Figure 4. Transaction velocity and size

	Infrequent	**Frequent**
High $	Gauge customer satisfaction Ensure brand presence Reinforce brand characteristics Anticipate readiness to buy	Recognize/reward status Develop/deliver soft benefits Communicate special values Maximize share of customer
Low $	Co-op programs Brand building Distribution Promotion Communicate new uses	Recognize/reward status Communicate special values Promotion Maximize share of customer

Figure 5. Transaction velocity and size

First some elementary background on the model. Customers (or "members") earn a promotional currency based on some behavior. Members redeem the currency at certain levels or intervals for free or discounted goods and services. It sounds simple and it is.

Currency

Name your promotional currency

The currency might be referred to as "points" or "miles". It is important to name your currency. Some companies have attempted to run programs which attempt to communicate the concept without a name. Typically, companies try communicating it in percentages ("you'll earn 1 percent on all purchases, but on Tuesdays you'll earn a 50 percent bonus, or 1.5 percent"). It gets confusing. Especially when you are attempting to introduce a bonus ("you'll earn 1percent plus you'll get an extra $5.00 credit on Fridays").

Select an appropriate unit of measure

Not too large and not too small. As a rule of thumb, a promotional currency should be worth $ 0.01 on the redemption side of the equation. That unit is large enough so that members are not throwing around tens or hundreds of thousands of points for $25 in value. But it is also small enough so that bonuses or partnership deals may be worked out without splitting points into fractions.

For instance. Consider a program with a 5 percent funding rate. Customers will earn one point for every dollar spent and each point is worth five cents. Introduce a partnership with another company seeking to buy the promotional currency. The partner company cannot afford 5 percent, but can afford 2 percent. The dilemma is this: members will earn 40 percent of one point for every dollar spent. Put another way, members earn one point for every $2.50 spent. Either way it is confusing and messy.

If the currency is worth $0.01, the proposition is much cleaner and simpler. Members earn five points per dollar spent with the primary brand and two points per dollar spent with the partner.

The use of tiers

Select the right tier structure

The use of tiers in a promotional currency program may help stimulate behavior among members. There are two approaches to tiers. The first approach is tiers based on spending (see Table II).

This approach is "the more you spend the faster you earn". It motivates spending but does not necessarily motivate saving. A promotional currency represents an economic cost of defection for a member. If a member has a great deal of currency in the bank, the member is less likely to defect. This tier structure provides more flexibility for members but it may not satisfy retention objectives. The second approach is tiers based on balance (see Table III).

Annual spending	Earning rate	Bonus
First $500	5 points per dollar	None
$501 to $1,000	5 points per dollar	20 percent
$1,001 to $1,500	5 points per dollar	40 percent
$1,501 to $2,000	5 points per dollar	60 percent
Over $2,000	5 points per dollar	100 percent

Table II. Tiers based on spending

Point balance	Value ($)	Value per point ($)
2,500	25.00	0.0100
5,000	55.00	0.0110
7,500	90.00	0.0120
10,000	130.00	0.0130

Table III. Tiers based on balance

This approach is "the more you save the more it's worth". It motivates spending and saving. It creates a cost of defection which grows at an accelerated rate as the member's balance grows. If the redemption options are strong enough, this structure can do a great deal to create a powerful economic cost of defection.

Require redemption in fixed units

Members should virtually always be required to redeem their currency in fixed increments. This guarantees that members will almost always have a balance remaining after redeeming and, therefore, will be reluctant to defect because there is always something to lose. Having this structure will ensure that all of the promotional currency in a program can never be redeemed.

Use redemption to drive sales

Redemption option

Most promotional currency programs have several options on the redemption side. A few years back, many companies – regardless of the industry – offered a catalog of merchandise and some travel-related options. That was the basic redemption offering which evolved from the incentive and motivation business. But most marketers (especially on the consumer side) found it expensive offering the same redemption options in customer marketing programs. Most programs now offer a redemption option for the marketer's own product (for instance, most retailers that try promotional currency offer redemption in the form of gift certificates).

The redemption should be used to drive incremental sales. After all, the primary objective of all this is to improve retention and increase share of customer. Those objectives are measured in terms of larger average sales per customer as compared to a control group. Sometimes, a gift certificate displaces paid sales because the customer would have shopped anyway. But with some careful analysis regarding average time between purchases, you can set an expiration date on a redemption gift certificate which will help ensure that, on average, the sales are incremental.

For instance, if research shows that the average time between purchases is 60 days, a redemption certificate should have an expiration date at 30 days. When a customer shops and clears the necessary plateau, an award should be generated and mailed to the customer. Since the customer just shopped to reach the plateau, the 30-day expiration date ensures that if the certificate is used, the sales are incremental.

Some say this approach is manipulative. But mechanisms must be built in to ensure that loyalty programs build business.

Program accounting

A promotional currency program requires a 100 percent accurate accounting system behind the scenes (it looks a lot like an accounts payable system except you pay customers instead of suppliers). Do not confuse this with a marketing database. This is an accounting system with debits, credits and an audit trail. When members earn points, you incur an expense on your income statement and set up a redemption liability on your balance sheet. Those are the fundamentals; behind the scenes there is a great deal of complexity. Just do not forget about all this complexity. Involve some smart people in your accounting or finance department to help you assess this and do not overlook the cost of redemption in your economic models.

Summary

A business strategy

Building customer loyalty is a business strategy, not just a marketing program. All businesses should seek to boost loyalty and maximize share of customer. The pursuit of customer loyalty is a perpetual one. It is more of a journey than a destination. There are no clearly-defined guidelines to make loyalty marketing approaches easy in any given industry. But understanding the background and evolution of loyalty marketing can help make the strategy definition process a bit easier. Reviewing some real-world examples of loyalty marketing approaches can help reduce the amount of time required to develop a loyalty strategy and can help marketers avoid some classic mistakes.

Delta SkyPrivileges Plus™

Delta Air Lines SkyPrivileges Plus is aimed at small- to medium-sized businesses. This program represents the beginning of the next generation of frequent traveler marketing, augmenting traditional frequent traveler benefits with extra benefits for businesses in exchange for loyalty to Delta.

The value proposition

SkyPrivileges Plus rewards companies based on their quarterly spending on Delta. The core benefits are the following:

- Domestic flight certificates (up to four per quarter). Good for travel within the 48 contiguous United States, Canada, Mexico and the Caribbean. The certificates may be used for business travel to help keep travel costs down or they may be used for leisure travel, to reward employees. One caveat: tickets issued from these certificates may not be used in conjunction with any upgrade.
- Domestic upgrade certificates (up to ten per quarter).
- Medallion and Gold Medallion Appointments (up to six Medallion and three Gold Medallion per quarter). These are a nice touch. They allow the business to essentially award élite frequent traveler status to employees.

There are some other, softer benefits that are not a function of travel expenditures but still provide some benefit to the member. Those benefits include 5 percent off a Delta Vacation and 40 percent off Delta Priority 3rd day cargo rates.

Individual benefits

Beyond the benefits to the company, there are some benefits which accrue to the primary individual within the company that is attached to the SkyPrivileges membership. By responding to the travel profile, the individual earns 500 SkyMiles. Once the membership has been activated with the first flight, the individual earns 1,500 SkyMiles. This benefit goes to just one individual within the company, not each traveler. It will most likely be the owner, principal or whoever makes these choices on behalf of the company.

Table IV shows a schedule of rewards. The maximum amount eligible for rewards is $100,000 in a quarter.

Appeals to business travelers

Based on dollars not miles

SkyPrivileges Plus is built on a different framework than most frequent flyer programs that award individuals based on miles flown. Instead, SkyPrivileges Plus is based on dollars spent on Delta air travel during the quarter. This program will better align the reward system with Delta's business strategy and will appeal to companies with business travelers that do not have the time or the flexibility to buy many discounted fares.

Program logistics

The program is built around a SkyPrivileges Plus Identification Number (SPIN). The SPIN code must be provided to Delta when reservations are made. Travel agents have been instructed to insert the SPIN code in the Tour Box Code when issuing tickets.

Announcement package

The announcement package for SkyPrivileges Plus includes the following components:

(1) A personalized letter from Delta Air Lines. The letter summarizes the program and includes a discount certificate for up to $200 toward Delta air travel.

(2) A program brochure, explaining SkyPrivileges Plus in more detail and including the obligatory rules.

(3) A membership card and Rolodex card with membership number.

(4) A travel profile (survey) with eight questions about the company. The questions relate to company revenues, number of travelers, quarterly travel expenditures and most frequent destinations.

(5) A business reply envelope to use when returning the profile.

An easy program

The effectiveness of SkyPrivileges Plus

This program is a sure thing for any business that lives in a city in which Delta travel is a possibility. The program is free. It does nothing to diminish the personal SkyMiles benefits that individual travelers earn. The program is easy. Give your SPIN code to your travel agent and your employees. They have all become passionate about making sure their own frequent traveler

Quarterly flight expenditures on Delta ($)	Domestic flight certificates	Medallion appointments	or	Gold Medallion appointments
10,000-24,999	0	1		0
25,000-49,999	1	2		1
50,000-74,999	2	3		1
75,000-99,999	3	4		2
100,000+	4	6		3

Table IV. Delta SkyPrivileges Plus™ Schedule of Rewards numbers are in the reservations, make sure they do the same with the SPIN code.

Helping to reduce travel costs

This program does a nice job linking individual frequent traveler motivations and benefits with company motivations and benefits. This will not appeal to larger companies since many of them already have overly aggressive and suspicious travel departments that would go ballistic about a program based on dollars rather than miles. But the concept works well in small- to mid-sized companies that do a lot of traveling. Some benefits (upgrades, Medallion appointments) make nice perks while the domestic flight certificates help reduce travel costs. It makes good business sense.

This program will not motivate any business to spend more money or purchase higher fares or travel more. No program can do that. But when everything else is equal and in markets which are well served by multiple carriers, SkyPrivileges Plus will become the tie-breaker for many companies.

Harris Teeter's VIC program

Grocery store frequent buyer programs have been around in various shapes and sizes for years. One could argue that stamp programs were a basic form of frequent buyer program, although easy to copy and somewhat blind in nature since the retailer did not know who was shopping and when. Electronic programs have been around for over ten years. Many have started and stopped and I have been skeptical about them in the long run for two reasons:

(1) The grocery retail business is subject to short-term pressures that make it difficult to sustain a marketing strategy that requires patience.

(2) The grocery retail business suffers from weak margins which make it difficult to fund a program with significant value.

Harris Teeter is a regional grocery chain in North Carolina. Just less than a year ago, Harris Teeter launched a program called VIC – very important customer. At least one other chain in the market (Food Lion) already had a program, known as the MVP program. The MVP – like many other programs – seems to have drifted into retail obscurity. It is difficult or impossible to find a brochure or enrollment application, there is little or no store signage and no store associate ever asks for your card at point of sale.

The Harris Teeter VIC program started with a bang. That is not terribly surprising. Most retailers kicking off a program like this make a lot of promotional noise up front but have a hard time keeping it up. Harris Teeter has sustained it and made it better.

A mystery theme

Here is how it started. The retailer used a mystery theme to get customers intrigued. Store signage and local market advertising encouraged customers to watch for the VIC card, coming soon to Harris Teeter. The mystery campaign developed a healthy dose of curiosity and interest among shoppers.

The VIC program launch was impressive. The store was well covered with signage and Harris Teeter employed hostesses to greet customers as they entered the store and encouraged sign up. The amazing thing about the enrollment push is that there was no clear articulation of specific benefits associated with the card. All of the promotional materials pushed "money saving offers" and "special benefits" but nothing specific. The retailer offered promises to customers that they would always ask for the VIC card at checkout. Some promotions offered free products to customers if the sales associate failed to ask for the VIC card.

Shelves and displays were well marked with special discount offers for VIC members. The retailer's newspaper flyers also included VIC labels for special deals available exclusively to customers presenting the VIC card. Radio advertising delivered specific VIC offers.

Staying focussed

Implementing a program like this requires tremendous support and faith from the top of the organization to the bottom. Staying focussed on such an initiative, week in and week out, requires a great deal of patience. It is more than just a marketing program. It is a business strategy which must pervade the organization and become part of its culture. The program's mission over time is to create a financial and psychological barrier to customer defection. The financial barrier becomes formidable over time as customers recognize that the value they receive, in the form of exclusive discounts, is better than the value they receive at other grocery retailers. The psychological barrier becomes stronger as customers experience a sense of exclusivity reinforced by excellent customer service. Retailers that focus a great deal of attention on such a customer-oriented strategy inevitably benefit because associates provide better service.

Even today, Harris Teeter associates promote and ask for the VIC card. The integration of this program with all their retail merchandising and marketing efforts is impressive. They have recently taken one more step to make carrying your VIC card even easier by distributing barcoded key ring devices for identification.

This program appears successful and has become an integral part of Harris Teeter's business.

Belk Selects

Department store retailers have struggled to develop the optimum loyalty program for years. There is no shortage of programs in the marketplace which seek to reward loyalty or recognize best customers. This case study will explore different approaches in retailing and use an example – Belk Selects – to make its point.

Soft benefits programs

Retail programs take two general forms. There are promotional currency programs which reward customers commensurate with their spending, and there are soft benefits programs which deliver exclusive services and offers to best customers. Most commonly applied in retailing is the soft benefits approach to loyalty marketing. Many retailers find soft benefits programs to be cost-effective and easier to manage and adjust than promotional currency programs. Furthermore, the exclusive services delivered in a soft benefits program are more relevant to the customer's relationship with the retail brand.

The majority of retail loyalty programs are tied to private label credit cards. The reason is simple. Private label credit cards represent the only way for most retailers to track behavior at the customer and transaction level. Although some forward-thinking retailers are breaking from this traditional approach and developing non-credit loyalty strategies, most are still stuck with the private label credit approach.

Belk Selects is a program from Belk Stores of Charlotte, North Carolina. Belk operates about 265 department stores in 18 states and has sales of just under $2 billion. Belk Selects is a soft benefits program linked to the Belk private label credit card. The program is clandestine (not promoted in stores or in advertising). Belk decides who will be a member of Belk Selects and welcomes members to the program based on prior year spending of at least $800. Members are issued a new credit card with the Belk Selects brand to replace their standard Belk credit card. Members are entitled to the following benefits:

- One 15 percent off certificate to be used on regular or sale merchandise. The credit card must be used to take advantage of the discount.
- Free basic alterations on all purchases.
- Free shipping and delivery on any purchase over $50.
- Free de luxe gift wrap.
- Skip-A-Payment coupon.
- Special cardholder events.
- Personalized customer services.

Standard works

This is a fairly standard value proposition for a soft benefits retail credit program. There is nothing wrong with standard. Standard works. This retail value proposition is time-tested-tough. Let us look at each benefit and how it works. Each benefit aims to make members feel special while generating profitable incremental sales.

15 percent off certificate
A classic. Give the member flexibility to decide when to create a sale. This technique will typically deliver a nice profitable boost.

Free alterations
Why do retailers provide alteration services in the first place? To sell more apparel. They are not in the alteration business. They are in the apparel business. The extent to which they can provide apparel well tailored to customer needs they will keep customers coming back. Customers get annoyed with some alteration charges and will often accelerate the purchase of a new suit or outfit because of free alterations. Or, they will make the purchase at Belk instead of someplace else.

Select groups

Free shipping and delivery
This applies to purchases over $50. Once again, what business is the retailer in? They are not in the shipping or delivery business. Providing free shipping and delivery removes a significant barrier and facilitates more purchases. It is just that simple. Remember, this is a select group of customers that have proven their value to the retailer in the past, so it is not like they are just giving away free services to anyone who walks in the door. It is selective, and with this group, it generates incremental sales and builds a stronger customer relationship by creating a psychological reluctance to defect.

Free deluxe gift wrap
The same story. They are not in the gift wrap business. But with this feature, guess where the member will go first when it is time to buy gifts?

Skip-a-payment
This one is a no-brainer. It provides the option of payment flexibility to the member and the retailer is making money on the revolving balance because interest continues to accrue in a skip-payment program.

Special cardholder events and personalized customer services
These are good claims but they are incomplete promises. Under special cardholder events the program states that members will be notified during the year of the events. Under personalized customer services it explains that a special group of customer service agents handle questions for Belk Selects members. Members like to know more specifically what they are going to get. A program like this is stronger with specifics. Members who qualified the previous year probably have some recollection about what these things entail, but a new member might be clueless.

This example illustrates a typical clandestine soft benefits program in a retail environment. These programs continue to appear and operate because they work. The basic model is sound, although this example can be made a bit better with a more specific and compelling promise for cardholder events and personalized services. Beyond that the big opportunity for retailers is in the non-credit segment of the population: customers that do not want the private label credit product but are still great customers. Retailers need a value proposition to leverage relationships with this huge segment that pays in other ways.

Making members feel special

Outside of retailing, the opportunity lies in developing a value proposition that achieves the same result. Make members feel special while generating profitable incremental sales. It is not easy and each industry and company has its own formula which must be developed. But look at the side benefits. A company which goes through the process of developing special value for good customers benefits in three ways:

- Customers stay customers longer. If they have a problem along the way and they feel that you care about them, they will call and complain and fix their problem rather than quietly defecting.
- Customers buy more. They consolidate their purchases in your category with your brand.
- Employees stay longer. Yes, it is true. When you focus more on the customer, all employees think about how to ensure a delightful customer experience. Employees enjoy treating customers well. It is human nature. As a result, employees feel better about their jobs and themselves.

Note

1. The source for this is internal DMA documents which I am privy to as a member of their program advisory committee (PAC).

References

GAO Report (1996), “Airline deregulation: barriers to entry continue to limit competition in several key domestic markets”, October 18.

OAG Frequent Flyer Magazine (1997), “Results of 1997 frequent flyer poll”, December.

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