Gaining Competitive Advantage Through Effective Retail Loyalty Programs

An Oracle White Paper
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INTRODUCTION

Loyalty programs are everywhere in the retail industry. Customers interact with them multiple times almost every day—whether shopping at a grocery store, buying a cup of coffee, or purchasing a new DVD. In other words, retailers have become convinced that it is possible to buy customers’ loyalty. Do loyalty programs really work, or are these companies just wasting their money? Can a loyalty program change how people behave and get them to spend more money with that company? Can loyalty programs reduce the likelihood that customers will move their business to a competitor?

This white paper examines specific industry and market characteristics that make retail loyalty programs popular. It also explores the reasons why, despite these characteristics, few retailers have implemented truly successful programs. In addition, this white paper will explain how to design and implement effective retail loyalty programs, presenting a series of best practices that retailers can adopt to create effective loyalty programs that establish competitive advantage and generate measurable return on investment over the long term.
INDUSTRY AND MARKET CHARACTERISTICS THAT MAKE RETAIL LOYALTY PROGRAMS POPULAR

As shown in Figure 1, several characteristics make loyalty programs an attractive option for the retail industry.

<table>
<thead>
<tr>
<th>Retail Industry Characteristic</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity product</td>
<td>This is especially for grocery and hardlines.</td>
</tr>
<tr>
<td>Low switching costs</td>
<td>It is easy to drive down the street or walk across the mall and go to a competitor.</td>
</tr>
<tr>
<td>Minimal customer information</td>
<td>Without a loyalty program (or an in-house credit card) companies have virtually no information on their customers—who they are, what they buy, their demographic characteristics.</td>
</tr>
<tr>
<td>Service potentially a differentiating factor</td>
<td>The service provided is a key component of the customer's overall shopping experience and satisfaction, and companies differentiate themselves by proving different types and levels of service.</td>
</tr>
</tbody>
</table>

Figure 1: Industry characteristics drive the need for retail loyalty programs.

In addition, several recent business trends drive the need for loyalty programs:

- Declining consumer loyalty
  - “Big box” retailers have conditioned consumers to shop on price alone, so consumers will jump to the retailer offering the lowest price.
  - Eighty percent of casual apparel shoppers and 70 percent of grocery shoppers are always seeking alternatives to their current retailers of choice.\(^1\)
  - Shoppers generally split their spend between multiple grocery stores.\(^1\)
- Hyper price competition
  - Large retailers (such as Wal-Mart) stay competitive by offering very low prices. Other retailers, if they cannot match these low prices, need to compete in ways other than price alone.
- Multibrand synergies
  - Companies such as the Limited, Gap, and Williams-Sonoma need to increase their share of wallet by increasing customers' purchases from multiple brands/stores within their empire.
Loyalty programs help retailers by

- Decreasing price competition
- Increasing switching costs
- Decreasing marketing costs
- Building trusting and positive customer relationships
- Strengthening the brand
- Increasing the share of wallet (share of expenditures)

Many retailers have implemented loyalty programs. The retail loyalty market is fairly broad. In some segments—such as grocery, for instance—loyalty programs have become ubiquitous. For example:

- Seventy-six percent of all U.S. grocery retailers with 50 or more stores have a loyalty program.
- Almost 50 percent of the top U.K. retailers have loyalty programs.
- Eighty percent of primary grocery shoppers use at least one grocery loyalty card; 54 percent use two or more.
- Eighty to 90 percent of all grocery purchases in the U.S. are made with loyalty cards.
- Loyalty coalitions are especially popular in Europe: Payback by Loyalty Partner in Germany has 25+ million members and Nectar in the U.K. has 20+ million members.

While retailers have lagged other industries in terms of implementing customer relationship management (CRM) systems and strategies, loyalty is a hot area. Of retailers expected to spend money on CRM in 2005, 68 percent said they will invest in loyalty programs. Retailers that can develop and sustain distinctive loyalty programs that change customer behavior will create a true competitive advantage.

THE PARITY DEADLOCK

While retail loyalty programs are popular, the current crop of programs has only generated limited success.

The goal of a loyalty program is to create competitive advantage and increase profits by increasing

- Switching costs
- The return on marketing campaigns by reducing their costs and increasing their effectiveness
- Customers’ expenditures and share of wallet
However, outside of the programs offered by high-end softline retailers, most retail programs are remarkably similar and do little to generate long-term loyalty or increase profits. Retail grocery loyalty programs are particularly ineffective. These loyalty programs generally allow anyone to join, offer vendor-funded discounts to everyone, and have no incentives for increased spending (for example, no “tiers” like those offered by airlines and hotels). If grocers do any form of targeted marketing, it is generally to only a small percentage of members (for example, the top 10 percent), leaving the other 90 percent of members with an untargeted, low-value-add relationship with their retailer. Grocery retail loyalty programs have been proven to increase loyalty only when one company in a particular geographic area offers them. However, as soon as local competitors launch their own loyalty programs, their effectiveness drops to virtually nil and “become(s) no more than a value-destroying mass discount vehicle with high expenses and no incremental sales or profit.”

In general, consumers will sign up for all loyalty programs offered by their local grocers and then shop at whichever grocer is offering the best deal at a particular time. For example, as shown in Figure 2, less than one-quarter of all shoppers say that a store’s loyalty program has a major impact on their decision to shop at that store, rather than at one of its competitors.

**Figure 2: Less than 25 percent of retail shoppers claim loyalty programs have a major impact on their decision to shop at a particular store.**

**HOW TO REDESIGN RETAIL LOYALTY PROGRAMS**

There is a clear need for loyalty programs in the retail industry. However, rather than simply mimicking current programs, which will only lead to a competitive stalemate and increased costs all around, retailers—both those planning to introduce a loyalty program for the first time and those wanting to tune up their existing program—should design loyalty program offerings to yield true competitive advantage.

When designing the program, retailers should decide which

- Exact behaviors to encourage
- Groups to target

“Successful programs deliver a clear value proposition to target customers without trying to be all things to all customers.”
—McKinsey

“Today’s undifferentiated grocery shopping cards don’t create consumer loyalty.”
—Christine Spivey O’Herby, Forrester
Incentives to offer to each of these groups in order to change their actions

The loyalty strategy should be holistic and address how each of the key levers—marketing, rewards, and service—should be targeted at and provided to each member segment. In addition, a company must design its loyalty program to create competitive advantage both today and in the future.

CREATE HOLISTIC CUSTOMER PROFILES

At its base level, the loyalty program is a way for retailers to understand their customer base beyond the faceless transactions that normally occur. Retailers should enhance the simple profile that most current programs store, which generally only includes a member’s name, address, and transaction history, in order to provide a more comprehensive understanding of the customer. This inclusive profile should track:

- Contact information (such as name, address, marketing channel preferences)
- Demographics (such as household members)
- Shopping preferences (such as customer-stated preferred items/categories/stores)
- Past transactions (such as past purchases and redemptions)
- Status (such as tier)
- Service history (such as calls and e-mails to customer service, in-store interactions)

Retailers can then use this information to segment the members (for example, moving beyond tiers to even more narrowly segment the members by lifestyle, purchase patterns, life stage, and so on). For example, as shown in Figure 3, Forrester used a grocery chain’s loyalty program data combined with demographic and income data from third-party sources to segment customers into four groups based upon profitability and loyalty.

![Profile of Four Grocery Shopper Types](image-url)

*Figure 3: Profile of four grocery shopper types based upon profitability and loyalty.*
Retailers can also create a “customer value score” (CVS). The CVS is the predicted lifetime value of a member, and it is used to perform targeted marketing and service. For example, based on their CVS, high-value members could be extended more lenient return privileges in special situations, and low-value members (such as discount cherry pickers) could be removed from all marketing and discount promotion campaigns.

PERFORM TARGETED MARKETING

Targeted marketing is an important component of retail loyalty programs. Some of the key benefits retailers will realize from their loyalty program, such as increased sales and profits as a result of more effective up-selling and cross-selling, are achieved via targeted marketing. Unfortunately, very few current retail loyalty programs deliver these benefits.

If grocers do any form of targeted marketing, it is generally only to the highest-value members (generally defined by total spend), despite the fact that research has shown that loyalty marketing promotions are often more effective at changing low- and mid-value members’ behavior because there is more upside with the low- and mid-level members.1, 3, 11 Beyond that small percentage of promotions that are targeted, by offering blanket discounts to all members, retailers are giving money away to everyone, including unprofitable shoppers and those who would have otherwise paid full price.3 Retail loyalty leaders do a much better job at targeted marketing. For example, one retailer sends out 80,000 variations of a loyalty offer.7 All retailers should strive to match this level of targeted marketing.

Retailers should use targeted promotions tailored for each customer segment’s needs and desires. How this is accomplished will vary by types of items sold, the value of each customer, and customer segments serviced, among other things. For example, high-end softline retailers (whose loyalty program strategy is generally called “clienteling”), do extremely targeted marketing aimed at their best customers based upon the loyalty program and sales associates’ personal knowledge of the customers’ shopping preferences.8

Most retailers cannot justify the high cost of the clienteling approach, so more modest, but still targeted approaches, such as targeted direct mail and e-mail, are needed. Personalized promotions are sent to customers based upon their preferences, purchase history, manufacturer-funded discounts, inventory levels, and so on. These offers can be sent to predefined customer segments, or an analytics tool can be used to identify groups of members for one specific promotion. These promotions often have two goals: (1) encouraging members to purchase more of a good they are already purchasing, and (2) purchasing a new item that they have not previously bought.8

Some retailers claim that targeted marketing is too expensive and that retail customers are not technologically savvy enough to use cheaper forms of marketing, such as direct e-mail. Research refutes these claims:
Twenty percent of loyalty members change their address annually.\textsuperscript{8} The issue is not that members move; it’s that current loyalty programs do not provide enough value to members for them to update the retailer with their new contact information. Airlines and hotel loyalty programs are the exception—their members ensure that these companies have their correct address. Thus, the solution is to provide a loyalty program whose members find it so valuable that they want to update the retailer when they move.

Loyalty members are active internet users: cardholders are more likely than noncardholders to use the internet to identify deals and specials.\textsuperscript{4}

The greater a customer’s use of the internet, the more likely the customer is to belong to a retail loyalty program. Seventy-four percent of customers who had gone online three or more times in the past three months belong to two or more retail loyalty programs.\textsuperscript{3}

Retailers can and should use targeted direct mail and e-mail to generate increased profits by more effectively cross-selling and up-selling selected items to targeted customers.

**FORMULATE A BENEFITS AND REWARDS STRATEGY**

Loyalty programs are designed to change members’ behavior by providing an interlocking series of benefits and rewards. Companies can provide a variety of incentives, from special discounts to improved service to free items. The main rewards currently offered by retailers are

- Discounts (such as 25 percent off)
- Value/frequency promotions (such as spend $200 and get a free ham, or buy five deli sandwiches and receive the sixth free)
- Special sale times

All of these rewards are geared toward cost savings for the member.

Discounts are an important part of the loyalty reward structure. Ninety percent of shoppers say that their initial reason for joining a loyalty program was to save money.\textsuperscript{3, 11} Discounts can be especially important for specific member segments that the retailer would like to keep as customers (such as frugal families). Discounts are also valuable in specific situations, such as increasing the purchasing frequency of an infrequently purchased item.\textsuperscript{10}

However, discounts cannot be the only benefit offered by a retail loyalty program. Giveaways and discounts, unless they are vendor funded, are incredibly costly for retailers; the cost of goods sold is generally 60 to 70 percent of the retail price.\textsuperscript{7} This is in stark contrast to airlines, which can provide rewards that members value highly—airline tickets—but that cost very little to provide due to airlines’ high fixed, low variable cost structure.
A loyalty program must generate both competitive advantage for the retailer and switching costs for the member. Discounts generate both, but only if no other retailer is offering them. Most retailers operate in an environment where their competitors already offer, or soon will offer, a loyalty program and discounts. Thus, a loyalty program that only offers discounts becomes just an added expense and a complex form of matchable price competition.

To create an effective loyalty program, retailers need some kind of discount to lure customers into the program, but then they also need to create other means of locking the customers in (ensuring long-term loyalty) once they are part of the program. Retailers create these switching costs by moving beyond discounts to delivering an array of targeted benefits and services to their loyalty program members.

Many high-end softline retailers have successfully moved beyond providing discounts to providing targeted benefits and services to targeted loyalty program members. Recognizing that their profits are driven by the largest spenders and that loyalty programs can increase these members’ spend, high-end softline retailers have created programs with stringent requirements (for example, spend more than $3,000 a year). They then offer benefits that deliver value immediately to the member (such as unique sales, a personalized shopper) in addition to rewards that encourage members to unify their spending by increasing in “richness” as they spend greater amounts. For example, some of these benefits include unique artwork and island vacations.7

The challenge is to adapt the approach that high-end retailers use—targeted, cost-effective benefits that increase purchases and create significant switching costs—and apply it in lower-margin segments of the retail industry. Retailers can do this by implementing a rewards strategy that uses a variety of coordinated and targeted incentives to cost-effectively change specific behaviors. Retailers should follow these guidelines for creating specific rewards offerings:

- Provide benefits that appeal to each targeted group’s unique needs and desires.
- Focus on rewarding desired changes in behavior, not just giving members benefits for taking actions they would have taken anyway.10
- Maximize vendor participation in order to offer larger rewards at lower cost.
- Encourage members to unify their purchases by offering increasingly valuable rewards the more they spend.
- Offer rewards that are cost-effective and provide both immediate and aspirational incentives.
- Influence customers at multiple points in their purchase decision-making cycle (for example, at home, when they enter the store, while shopping, and when they leave the store).
As shown in Figure 4, Forrester took the four consumer segments it created and identified the rewards that met each group’s needs:

<table>
<thead>
<tr>
<th>Satisfied Shoppers</th>
<th>Product Enthusiasts</th>
<th>Frugal Families</th>
<th>Deal Junkies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decide Where to Shop Based on:</td>
<td>Convenience</td>
<td>Product assortment</td>
<td>Loyalty program</td>
</tr>
<tr>
<td>Preferred Rewards/Services</td>
<td>Improved service (such as faster checkout)</td>
<td>Product information and location assistance</td>
<td>Discounts, colleges savings</td>
</tr>
</tbody>
</table>

Figure 4: This chart gives examples of rewards by customer segments.

It is important to note that not all benefits need to be visible to members. For example, by analyzing loyalty members’ purchase data, retailers can identify which items high-value members prefer and then ensure that these items are located prominently in the store and are always kept in stock. Also, retailers can increase service levels at the times and in the departments favored by high-value members. These types of “behind-the-scenes” benefits create “invisible” switching costs; if a member visits another store, the member will not find the same targeted product selection and service. Another example of a “behind-the-scenes” benefit is a targeted promotion based upon a member’s stated preferences, and more important, purchase history. Members benefit by only receiving promotions for items about which they truly care, and switching costs are created because the accuracy of the promotions improves over time. If the member goes to a new store and joins its loyalty program, the member will only receive mass, nontargeted, low-value promotions. An additional benefit is that targeted promotions make it more difficult for other retailers to price match.

The benefits that each retailer decides to offer will depend upon a variety of factors, such as the retailer’s cost of goods sold, customers’ needs and desires, and cost-benefit ratio of different incentives. Some of the different types of benefits that retailers can offer are identified in Figure 5.

Figure 5: This chart shows examples of benefits that retailers can offer.

<table>
<thead>
<tr>
<th>Benefit/Reward</th>
<th>Description</th>
</tr>
</thead>
</table>
| Discounts      | • Use vendor funding to increase the size of the discounts and decrease their cost.  
• Offer simple discounts (such as 50 percent off).  
• Offer value discounts (such as spend $200, receive a free product).  
• Offer frequency discounts (such as buy five, receive the sixth one free). |

(Continued)
<table>
<thead>
<tr>
<th>Benefit/Reward</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Targeted Promotions</td>
<td>• Include both accrual promotions (earn points) and redemption promotions (use points to purchase an item).</td>
</tr>
<tr>
<td></td>
<td>• Offer promotions based upon customer-stated preferences, purchase history, tier, and segment.</td>
</tr>
<tr>
<td></td>
<td>• Exclude “deal junkies” from promotion mailers.</td>
</tr>
<tr>
<td></td>
<td>• Up-sell and cross-sell members based upon purchase history.</td>
</tr>
<tr>
<td></td>
<td>• Sell aggregated data and the ability to run targeted promotions to manufacturers.</td>
</tr>
<tr>
<td>Personalized Online Shopping Lists</td>
<td>• Use loyalty card data to prepopulate online shopping lists both for use on the Web and to be printed out and brought to the store.</td>
</tr>
<tr>
<td></td>
<td>• Update shopping lists.</td>
</tr>
<tr>
<td></td>
<td>• Auto-populate lists based upon what the customer is likely to need based upon purchase history (such as buys paper towels every three weeks).</td>
</tr>
<tr>
<td></td>
<td>• Conduct up-sell and cross-sell promotions by placing new items on the list.</td>
</tr>
<tr>
<td>Personalized Shopping Lists Printed at</td>
<td>• Enable members to print out a shopping list at a kiosk at the front of the store.</td>
</tr>
<tr>
<td>the Store</td>
<td>• Provide location assistance (for example, organize the items by aisle number).</td>
</tr>
<tr>
<td>Front Door Promotions</td>
<td>• Offer targeted promotions at the front door (for example, by enabling members to print them out at a kiosk) so that members are influenced immediately before they begin shopping, receiving personalized, “just-in-time” promotions that are difficult for price-based competitors to match.</td>
</tr>
<tr>
<td>Preferred Checkout Lines</td>
<td>• Provide checkout lines for preferred customers, rather than for those with fewest items (who are often the least valuable customers), to deliver additional value to already “satisfied shoppers” and maintain them as steady customers.</td>
</tr>
<tr>
<td>Targeted Service Levels</td>
<td>• Staff the store’s departments and positions based upon high-value members’ shopping preferences and times.</td>
</tr>
<tr>
<td>Invitation-Only Events</td>
<td>• Conduct member-only sales (for example, open the store early for members on the morning of a sale).</td>
</tr>
<tr>
<td></td>
<td>• Offer events as appropriate (for example, fashion shows for softline retailers).</td>
</tr>
</tbody>
</table>

(Continued)
<table>
<thead>
<tr>
<th>Benefit/Reward</th>
<th>Description</th>
</tr>
</thead>
</table>
| Manage Product Offering           | • Stock products based upon high-value customers’ preferences (for example, highlight items these customers want and ensure they are always in stock; do not eliminate slow-moving items if high-value customers are the few people purchasing them).  
• Keep areas valued by high-value customers (for example, costly departments such as fine china), even if those departments individually do not turn a profit. |
| Personalized Shopper ("Clienteling") | • Provide a private shopper who chooses products based upon the member’s stored preferences and transaction history (for example, for high-end softlines retail).                                                |
| Free Gifts                        | • Provide rewards such as a free birthday cake or a free Thanksgiving turkey, which often appeal to “frugal family” shoppers.                                                                                     
• Implement an attention-grabbing free rewards program, such as the “car-a-day” summer promotion offered by one supermarket chain.                                                                         |
| Sweepstakes                       | • Allow customers to use their points to “purchase” a sweepstakes ticket (for example, 1,000 points per entry) and then be eligible to win a large bundle of points (for example, 50,000 points) and then be eligible to win a prize.  
• This benefits members because they can win a large number of points, and benefits retailers because fewer points are given away to the winner than are used by members to participate in the drawing, thus reducing the retailer’s liability for outstanding points. |
| Valet Parking                     | • Provide free or discounted valet parking for high-value members (for example, for department stores in malls).                                                                                           
• Charge nonloyalty customers and low- to mid-level members.                                                                                                                                          |
| Personal Involvement              | • Make members feel valued by including their feedback in the business planning process (such as via focus groups and online surveys).                                                                     |
| Shipping and Handling             | • Provide discounted or free shipping and handling for high-value customers.                                                                                                                                  
• Apply target marketing to shipping and handling incentives (for example, if trying to motivate customers to expand the categories of products they purchase, offer free shipping on a whole order if they purchase any of products X, Y, or Z). |
CONTINUOUSLY EVOLVE LOYALTY PROGRAMS TO MAINTAIN COMPETITIVE ADVANTAGE

The purpose of the loyalty program is to provide competitive advantage for the retailer. To maintain that lead, a retailer must continuously adjust and revamp the program over time as customers’ needs, business requirements, and competitors’ offerings change.

There are important lessons on the value of loyalty program evolution to be learned from the hotel and airline industries. In the early 1990s, airlines and hotels built their own customer loyalty systems because no packaged applications met their needs. These systems reflected their views at that time of how their programs should operate. However, as a result of competitors offering copycat programs, the value of their loyalty offering diminished over time. The airlines were unable to adapt because their systems were too expensive to maintain and modify. Thus, these airlines were stuck with outmoded, expensive systems that did not truly differentiate them from their competitors. They lost their competitive advantages and increased their costs.

Therefore, when choosing a loyalty application, it is important that retailers select a system that provides the flexibility to cost-effectively and quickly make the continuous changes required to ensure long-term competitive advantage.

HOW TO REAP BENEFITS AND ACHIEVE MEASURABLE RETURN ON INVESTMENT FROM RETAIL LOYALTY PROGRAMS

Customer loyalty programs provide retailers with such “soft” benefits as improved reputation and brand equity. They also provide concrete, measurable benefits. This section describes the types of returns that retailers can expect from their customer loyalty program investment:

- Decreased price competition
- Increased customer retention
- Decreased marketing costs
- Greater share of wallet (share of expenditures)
- Improved inventory management and turnover
- New revenue streams

Decreased Price Competition

One of the biggest threats retailers face is direct price competition. In hardlines and grocery, price competition comes in the form of companies, such as Wal-Mart, that use their supply chain efficiency and huge buying to beat their competitors’ prices. This competition can occur when a retailer advertises generic, “available-to-everyone” discounts. Targeted loyalty promotions can offset this price competition. When a retailer provides targeted discounts to individual customers based upon their unique buying preferences, and the information is only available via a
personalized means of communication (such as direct mail, loyalty Web site, or an in-store kiosk), competitors cannot effectively beat these prices because this price information is not available to them. Instead, competitors are forced to offer poorly targeted, across-the-board discounts that fail to match the greater discounts cost-effectively offered to each customer on those few items about which the customer cares the most.

**Increased Customer Retention**

An effective program encourages customers to be loyal to a particular retailer now and in the future by providing additional benefits based upon a customer's spend and value over time. Customer retention will increase because customers know that if they go to a new retailer that knows very little about them, they will suffer a lower level of service and often higher prices on the items important to them.

**Decreased Marketing Costs**

Although it's one of the most cost-effective mailing media, many retailers shy away from targeted direct mail due to the high cost of having 20 percent of their messages returned because of incorrect address information. An effective loyalty program will reduce the level of incorrect addresses to less than 5 percent, allowing the retailer to use this valuable marketing tool cost-effectively.

In addition, retailers can gather e-mail addresses as part of their loyalty profile and then use these addresses to conduct targeted e-mail campaigns. This is one of the most cost-effective types of promotions. But without a loyalty program that the members find valuable, most shoppers have been unwilling to give accurate e-mail addresses to retailers. Thus, an effective retail program both reduces the cost of traditional direct mail marketing and opens up new, more cost-effective means of reaching out to targeted customers.

**Greater Share of Wallet**

Retailers can significantly improve their profitability by generating more revenue per sale. Loyalty programs help generate more revenue per sale through more effective cross-selling. Because comprehensive customer profile and purchase history data are captured in loyalty programs, promotions can be targeted at members who are buying a certain portion of a bundled set of goods (for example, dog food but no pet toys, or film but not photo finishing services). These types of promotions are cost-effective ways of giving the member a reason to unify purchases with a single retailer rather than parsing out purchases across several competing companies.

**Improved Inventory Management and Turnover**

Loyalty programs enable retailers to more effectively target their merchandising and service. For example, based upon the purchase preferences of its most valuable customers, CVS, a U.S.-based pharmacy and general merchandise retailer,
redesigned and resituated its cosmetics section, leading to an increase in cosmetics sales. Loyalty program data also allows retailers to more effectively manage labor costs by using the appropriate amount of labor to serve members based upon their value, versus providing across-the-board high levels of service to all customers, even the least valuable ones.

**New Revenue Streams**

A loyalty program can also create two valuable revenue streams via the sale of aggregated purchase data by group to manufacturers and the sale of points to partners. For example, a manufacturer pays to have a promotion targeted at all members who purchase the manufacturer’s cat food but not its cat litter. This is a win-win-win for the manufacturer, retailer, and customer. The manufacturer increases the return on its marketing expenditures, the retailer generates additional revenue from manufacturers and from customers who are up-sold, and the customers receive discounts and promotions on items that are important to them.3

If members highly value the retailer’s loyalty program, other companies (such as smaller “mom and pop” stores and small chain retailers) may want to host a retailer’s points rather than running their own loyalty program. The host retailer has thus created an entirely new revenue stream by selling points on a per-point basis to partners (for example, airlines sell them for approximately $0.02/point).

**CONCLUSION**

In summary, loyalty programs, while having been poorly implemented by most retailers to date, can create long-term competitive advantage for retailers if managed to ensure both their cost effectiveness and their continuous relevancy to members.
SOURCES


