Loyalty Programs
A complex ecosystem for capturing customer loyalty
Customer loyalty fundamentals

80% buy from companies who they are a member of.

55% will choose a company with a loyalty program.

46% feel more loyal to a company because of a loyalty program.

The most fundamental question every merchant; ranging from a mom-and-pop store to nationwide multi store retail chains ponders is how best to attract and keep new customers while and cross– and upselling existing ones.

Meaning, what should your business do to create a loyal customer base that will experience an inseparable affinity to your brand or the service they can get with any merchant. It all boils down to how well you create an unmatched experience for your customers in the process of interacting with it.

How is loyalty defined and how does your company and team go about creating this affinity among your client base? Industry experts defined loyalty as:

“When a customer feels so strongly your company, service, or product best meets their relevant needs, your competition is virtually non-existent within consideration”.
Customer loyalty fundamentals

Another definition states:
"A loyal customer is one who values the relationship with your business enough to make it a preferred supplier or the only supplier".

Both definitions indicate loyalty has a very high degree of emotional connection with a business, brand or service among its customer base.

This emotional loyalty is what every business strives to instill among its customers so they return and give back to the business. Building emotional loyalty is a complex process dependent on analysis of the customer’s behavioural patterns and narrowing down the parameters your current and prospective customers consider invaluable.

Enhancing the customer’s experience focused on the emotional value contributes directly towards increasing the switching cost from a customer’s perspective. If by switching to a new vendor, the customer tends to lose this emotional connection, then loyalty is retained irrespective of the common price differentials or routine benefits.

Another important aspect of building customer loyalty is developing knowledge relationships. This aspect involves gathering as much knowledge as possible about your customer based on their behavioural patterns and carving out a personalized marketing and promotion program to reward their loyalty.

Knowledge relationships yield satisfying results as customer engagements grow with the business, more data is gathered to tailor the promotions and increase the switching cost for the customer, and enhance the emotional loyalty.
It has been a time tested debate whether a business’ development costs into a loyalty program yields measurable benefits or company bottom-line growth. Companies invest in loyalty programs as they perceive it as a win-win scenario and a source of sustainable competitive advantage.

Interesting fact: companies with big loyalty spend have seen up to a 10% EBITDA margin reduction, however, at the same time, companies spend five to 10 times more in capturing new customers compared to the spend on loyalty to retain existing customers. These data points are startling.

It goes to indicate that while loyalty programs are extremely prevalent, the connection between enduring loyalty and business growth is a complex ecosystem; yet not having a loyalty program in today’s environment will cast a negative image of the your business’ interest in building a lasting relationship with your existing and prospective customer base.
In some fashion or other, loyalty programs have been in place for the past few decades and have seen their ups and downs in their effectiveness.

In the recent past, there is a huge resurgence in loyalty programs as businesses are utilizing advanced technology solutions to evolve towards creating experiential rewards and building closer knowledge relationships with each customer and customer type.
Leveraging technology for loyalty investments

An effective loyalty program has to leverage the right mix of technology in providing the necessary tools and solutions for merchants and loyalty members. Neither an overly complex technology stack nor the shortage thereof is helpful in drawing the optimal results.

ThoughtFocus recommends a phased approach, wherein merchants should leverage a pre-built loyalty framework supporting basic models of loyalty such as a coalition program, partner based program, or a single brand program capable of supporting the additional custom business layers over it.

Focus Loyalty, from ThoughtFocus, is one such framework offering an extensible loyalty platform that is customizable and private label ready. Merchants with cautious IT budgets can leverage a hosted platform to begin with that operates as a stand-alone platform supporting standard ISO 8583 or XML based Point-of-Sales (POS) terminals to perform loyalty transactions.

As the program gains traction, a mobility component should be introduced for POS operations at merchant locations and a mobile app for loyalty members keep track of their engagement with the program.
Leveraging technology for loyalty investments

The introduction of the mobility component will then lay the foundation for introducing location based marketing for members, pushing offers and promotions based on behavioural analysis, event based offers, and so on.

In parallel, on the merchant side, a loyalty portal analogous to an eCommerce platform to allow online reward redemptions for their loyalty eliminates paper based redemption methods such as vouchers and coupons.

Blueprint for action

Finding and working with a suitable consulting and solutions partner that can lay out a technology roadmap that takes the loyalty investment on a smooth ramp will create a very positive return when your business looks to implement and capitalize on your investment towards loyalty programs.

Further enhancements such as integration with your POS infrastructure and card processing solution will open doors for Omni-channel initiatives to bundle shopping and loyalty program interaction for a more engaging customer experience.

About ThoughtFocus

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