

Guide To Incentive/Loyalty Programs

“Loyalty marketing is an approach to marketing, based on strategic management, in which a company focuses on growing and retaining existing customers through incentives.”

At the 2008 Floral Summit in Toronto several shop owners got together to discuss the key aspects of a successful incentive/loyalty program. The goal was to come up with a plan that would allow them to implement a new (or improve an existing) program as soon as they returned to their stores.

What follows is a recap of the discussion.

What is an incentive/loyalty program?

Let's start with a very good definition from Wikipedia:

Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behavior — behavior which is potentially of benefit to the firm.

The loyalty business model is a business model used in strategic management in which company resources are employed so as to increase the loyalty of customers in the expectation that business objectives will be met or surpassed. A typical example of this type of model is: quality of product or service leads to customer satisfaction, which leads to customer loyalty, which leads to profitability.

Loyalty marketing is an approach to marketing, based on strategic management, in which a company focuses on growing and retaining existing customers through incentives. The discipline of customer loyalty marketing has been around for many years, but expansions from it merely being a model for conducting business to becoming a vehicle for marketing and advertising have made it omnipresent in consumer marketing organizations since the mid- to late-1990s. Some of the newer loyalty marketing industry insiders, such as Chris X. Moloney and Fred Reichheld, have claimed a strong link between customer loyalty marketing and customer referral. In recent years, a new marketing discipline called “customer advocacy marketing” has been combined with or replaced “customer loyalty marketing.”

Research shows that nearly 1/2 of all credit card users in the US utilize a points-based rewards program.

A more concise description could be something like:

A retailer rewards customer spending by awarding them points that can be redeemed for free product/services at a later date.

“Points are exciting. Pennies are not. Get your customer excited about the points they are accumulating and not the little bit of money they are actually worth.”

Why do customers like these programs so much?

Everyone likes to get something for free

No surprise here!

Everyone likes to feel special/appreciated

A points program isn't just about giving points it's about giving some back. You're telling the customer that you appreciate their business and their loyalty and that you are rewarding it. With a little salesmanship you increase the perceived value of your program even more - all you have to do is say something like “we're inviting a few of our best customers to participate in a special program. It's our way of thanking you for your loyalty.”

Makes spending less painful

As crazy as it seems receiving a bunch of points can make a customer feel a little better about the money that they just spent. Here is one example - my wife frequents a drugstore that runs it's own loyalty program. Whenever she starts carrying in bag after bag she always says the same thing: “I spent more than I wanted to but I got a TON of points!”

Why do retailers like them so much?

- Customers will spend more
- Customers will spend more often
- Customers will be more loyal
- Customers will be more likely to tell their friends
- It's a way to collect valuable marketing information
- It's a way to motivate customers & drive sales
- It gives them a competitive advantage

Designing A Successful Program: The Customer

For the program to be successful it has to work for both the customer and the florist. What works for the customer?

Engage your customer emotionally!

Points are exciting. Pennies are not. Get your customer excited about the points they are accumulating and not the little bit of money they are actually worth. Most incentive programs give rewards at the rate of about 2%. A 2% discount is not very exciting! 100 points are much more interesting. When they make a big purchase be sure to tell them that they just earned a lot of points. Keep them interested.

“Your program should be easy to administer/monitor. If you want to get beyond the “Buy A Dozen / Get A Dozen Free” program that uses some kind of card you are really going to need some kind of POS system.”

Make your program inclusive - on both ends.

Be flexible! Don't limit participation in the program to people who only spend on particular products and, when it is time for them to finally redeem their points, don't limit their options.

This is one of the issues with the typical “Buy A Dozen / Get A Dozen Free” program - they typically limit participation to customers who buy one type of qualifying product (usually roses!). What if a customer is not interested in roses? You have just excluded them from participating. The same thing goes for redemption - don't limit their choices too severely. They played by the rules and earned their points over time and they should be able to use them as they like.

Designing A Successful Program: The Florist

For the program to be successful it has to work for both the customer and the florist. What works for the customer?

Don't reward frequency alone

Another problem with “Buy A Dozen / Get A Dozen Free” programs. You don't want to encourage your customers to buy your cheapest, lowest margin items. You do want to encourage them to spend more money on your higher margin products. This means that the rewards should be based on the amount that they spend - not the number of times that they spend.

Reward marketing information

You want valuable marketing information - things like name, address, phone number and e-mail. Use your program to encourage the customer to give it to you by rewarding them when they do!

Watch your costs

Be aware of the long term implication of the points that you are giving away - at some point you're going to redeeming them for free product. Don't give away too much too quickly! This is another issue with “Buy A Dozen / Get A Dozen Free” programs - they reward at more than 8%. This is more than four times what a typical incentive program pays out.

Be Flexible

Your program should be flexible. You should be able to quickly and easily define the kind of sales that qualify and automatically award points on those sales. You should be able to control the rate at which points are awarded. Points should be redeemable for most anything that you offer.

Easy administration

Your program should be easy to administer/monitor. If you want to get beyond the “Buy A Dozen / Get A Dozen Free” program that uses some kind of card you are really going to need some kind of POS system.

FloristWare and other POS systems offer built in support for this kind of program. If you are shopping for a POS system and are interested in running an incentive program be sure to ask the vendor if it's included. If you already have a POS system see if it has the capability to run this kind of program. If it doesn't tell them that you want it!

“...remember - you want as much information as you can get for marketing purposes and you are giving the customer something for free. You are entitled to something in return!”

Designing A Successful Program: The Terms

Does the customer have to “enroll” in the program?

It's a good idea! You are giving them free product - or at least the chance to receive free product down the road - and you want some basic information in return. If they want to take part in your program they have to give you some information!

What information do you require of the customer?

Typically the bare minimum would be basic contact information like name and phone number just so that you can keep track of them. But remember - you want as much information as you can get for marketing purposes and you are giving the customer something for free. You are entitled to something in return! Try and get not just their name and phone number but full mailing address and e-mail address. You might also want to try for a few important dates (birthdays, anniversaries, etc.).

Do you offer bonus points?

You know how you sometimes see a credit card company promote something like “apply now and receive 500 bonus points”? That is what we're talking about here - rewarding customers with extra points for joining your program. There is good reason that a lot of the big guys do it - it works! You want to get a lot of valuable marketing information from your customers so give them something in exchange. They won't be able to do very much with those bonus points until they have spent a lot of money with you!

If you do offer bonus points choose the number carefully. You want to make it interesting but you don't want to give too much away - you want the customer to spend a lot of money before you give them anything for free! 20% to 25% of your average sale value should be the maximum you would consider.

Is there a minimum spend before receiving points?

Does a customer have to meet a certain minimum sale value before they are able to earn points? If for example the minimum was \$20 spending less than \$20 would get them no points while spending more than \$20 would get them points on the entire sale.

If you want to make your program as inclusive as possible the answer is “No”. However - having a reasonable minimum can help increase average sale value. If for example your shop sells a lot of a particular low-margin “loss leader” item a minimum can make it more profitable. Let's say that the product in question is \$17.95. You make your points minimum \$20 and keep a few small high margin items like cards or chocolates on the counter. When you are ringing the customer up you ask if they would like (for example) the \$2.75 chocolates. If they resist you tell them that it would put them over the \$20 minimum allowing them to earn points on the entire sale. It works! And it can help turn barely profitable sales into more profitable sales.

Are points only offered with certain types of payment?

This is a big one. Typically points would only be offered if you are receiving payment at the time of sale. In other words you would not issue points if the customer was charging the sale to an account - usually because you want to discourage charges. You might take it once step further and only reward points if the customer pays cash. This is another great benefit of points - you can use them to encourage customers to pay using the methods that you like best.

“A card says ‘you have to carry this card so we know who you are’. Doing it without a card can say ‘we know you, we care about you, and we’ll keep track of your points for you’”

Can customers do partial redemptions?

This is a tricky one. Let’s say your program gives the customers 2% - they get two cents for every dollar that they spend. Some programs allow the user to take that 2% as a discount on the current sale instead of accumulating the points.

Generally this is a bad idea because there is no loyalty component. The idea of points is that the customer will spend years buying from you as they slowly accumulate points. That points balance will encourage them to stay loyal. Just give them a discount on each and every sale and they aren’t invested in you or your program. You have not really engaged them.

What is your reward rate?

This is the rate at which you reward points. Values of points vary by program so to keep things simple let’s talk in terms of the percentage that you give back. A reward rate of 1% would mean that for each dollar the customer spends you give back one cent.

Typical credit card programs reward in the 1% to 3% range with 2% probably the average. A good number for most flower shops is 2% or 3% - this doesn’t give too much away and it allows you the option of running double (and possibly even triple) points promotions.

It’s worth noting that the “Buy A Dozen/Get A Dozen Free” type programs are rewarding at more than 8% - very high for programs of this type.

Will you vary points?

You should consider it as a possibility. What we’re talking about is periodically awarding points at a higher rate. Why would you do this? Usually to promote desirable spending patterns.

For example - Valentines pre-orders make life easier for you. So, in early January, you send all of your customers an e-mail explaining that any orders placed before the end of the month will earn double bonus points. You’re giving the customers a strong incentive to order in advance. Then at the end of the month you can e-mail them again to tell them that you are extending the special to February 7th - just for good measure!

You can also use this strategy during slow times during the year. For example you could promote double points for the months of July & August. You could try and drive sales to certain days of the week - maybe Wednesday is “Double Points Day” in your shop.

Is a card required?

No. There are some aggressive people selling card packages and a lot of retailers feel it puts them in the “big leagues” but the reality is customers are burned out on cards. They resent having to carry cards that they use once a week so they will really resent having to carry a “flower” card they will use a few times a year. And remember what was said about making your customers feel special! A card says “you have to carry this card so we know who you are”. Doing it without a card can say “we know you, we care about you, and we’ll keep track of your points for you”.

“Use the program to get the marketing information you want. If customers don’t provide it they don’t get the points!”

Make Your Program Work

Once you have defined a program that can work it's up to you to make it work.

Educate, Inform & Reinforce

Inform your customers at every opportunity. Your staff should reference points earned and accumulated every time they make a sale. Every receipt should show the customer their points balance.

Collect Marketing Information

Use the program to get the marketing information you want. If customers don't want to provide it they don't get the points!

Use The Program To Help Drive Business...

Encourage pre-order business before major holidays. Drive business during slow periods, such as the summer months, by promoting double or triple points. Introduce a “Double Points” day to help clean out your cooler before new product arrives.

Notes

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