



Don't Enter the Battle for Customer Loyalty Unarmed

Audit Your Loyalty Marketing Strategies

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1

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Contents

- 2** Executive Summary
- 3** The Challenge
- 4** The Opportunity
- 5** Loyal Customers Are Key to Profitability
- 6** Loyalty Marketing
- 7** Loyalty Audit
- 8** CIG Loyalty Dashboards
- 9** Driving Profitable Behavior
- 10** World-class Capabilities of Loyalty Leader
- 11** Applied Experience in Loyalty Marketing
- 12** Leaders in Loyalty Marketing





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2 Executive Summary

There's no denying it. Today's economic climate has been tenuous at best and its effect on retail loyalty has taken its toll. What worked in your loyalty program just a year or two ago, can now be flagging. And worse, the financial crisis is tempting some retailers back to classic price-slashing tactics that simply don't produce the long-term loyalty results that we're all seeking. Not in many years have retailers felt so desperate to improve their bottom line and get some kind of toehold on stabilizing ROI. The fight for loyalty and share of wallet has reached a fever pitch.

Rather than knee-jerk reactions as Wall Street sends out its dismal reports, now is the time to take stock in where you've been, where you need to go and how to be innovative in getting there. According to the Wall Street Journal, it is not enough for a company to merely know the number of customers it has ". . . *Investors on Wall Street now want to know the value those customers represent and what the organization is doing to retain them, especially most profitable customers.*"

Let Customer Insight Drive Fresh Ideas.

New perspective and innovative ideas are now the necessity in order to extend the customer relationship. What was considered an unconventional method yesterday, may now trend toward the norm. This is an all-new loyalty landscape that few will come out on the other side unchanged. With the influx of new technology, the time has never been more relevant to launch the next generation of your loyalty program. The necessary tools you need to develop a comprehensive view of your customers' needs, preferences and expectations are at your fingertips. Use survey questions to create a dialogue with your customers and discover what really matters to them. Tap into social networks to identify and engage customer advocates. Mine data to better evaluate rewards and offer redemption across customer lifecycle and segments; you'll find out what offers are the most enticing for key segments. At every level of your loyalty program, there are valuable new tools that can help take your program to a new level of success.

Value. Value. More Value.

Sure, getting consumers to join loyalty programs by offering incentives is a proven tactic in marketing. However, making the program consistently meaningful presents another hurdle altogether. After all, you want loyalty program members to activate and remain active over the long term. Creating a compelling program is a balancing act between low-cost, easily attainable short-term rewards that can be redeemed early in the program and more highly valued (and more costly) aspirational rewards that can be redeemed later in the program. While the short-term rewards are used to encourage enrollment and ongoing participation, the aspirational rewards serve as an incentive for your customers to consolidate purchases and, in turn award you with greater share of wallet. In addition, you need a blend of hard benefits that achieves the rational customer's need to receive a good value with soft benefits that will fulfill their emotional need for recognition and leave them with the feeling of being valued.

Everyone wants to feel special. When a retailer can achieve this with their customers, they create an emotional connection that translates into a loyalty currency that simply can't be beat, going far beyond a price point in defining customer loyalty. If your program today is failing to help your customers become emotionally invested in your brand, then you can't begin to bank on them being there for you tomorrow.



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3 The Challenge

Retailers Battle For Share of Wallet

The current strategy of aggressive price reduction is a consequence of consumers cutting back in spending, combined with companies needing to reduce inventory and improve cash flow. This short-term price-slashing strategy may drive sales and market share, but has a detrimental impact on margin and profitability in the long-term. In addition, with retailers discounting merchandise, as much as 80-90 percent some consumers have grown distrustful that merchant pricing is not a true reflection of brand value. This cannot be sustained in the long run.

Consumers Take Flight to Value

Consumers have taken flight to value across all retail sectors. This promiscuity is not exclusive to any demographics or brands. It's across the board. In addition, the focus on value does not stop at consumers switching stores. Today's value conscious consumers demand more value-added services that go far beyond discounts. They want convenience, a two-way conversation where they voice their wants and you deliver on the promise of one to one. Rob Price, Drug Store CVS Senior VP of Marketing and Advertising pointed out, "We have one-to-one marketing to millions of customers, where we can have a very personalized conversation," Price said. "In our media selection, we've been very careful to pick not only the right demographics, but also the right programming environment, so that our message resonates. We're not just advertising for awareness, but for activation." The 2009 Brand Keys Customer Loyalty Engagement study confirms that this strategy works and that consumers will remain loyal to brands, even expensive ones, if they perceive that the value is worth the price tag.



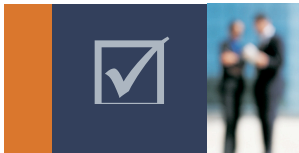
With budget cuts, reduced spending, and a less than sunny economic climate, both consumers and businesses are forced to look at maximizing value-added services and a more robust relationship with their customer.



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4 The Opportunities

- Keep score on a customer's engagement with your brand by measuring their value to the organization, as well as how they value your brand.
- Avoid mass markdowns that erode margins by focusing resources on identifying and rewarding profitable customer behaviors.
- Know that all customers are not created equal, so you need to tier your rewards and recognition to current and potentially profitable relationships, increasing share-of-spend, and reducing the risk of attrition and defection.
- Give customers a seamless interaction with your loyalty program regardless of purchasing channel, region or choice of communication method. Articulate the unique qualities of your brand with a differentiated program, the more relevant the brand becomes to each customer, the less focus the customer will have on price and sporadic promotions.
- Acknowledge that it is a multi-tender world, with loyalty being a level of currency. Create a holistic view of the customer relationship to maximize customers spend and share of wallet.
- Keep the value proposition valid in the new economy and a key differentiator from competitors.
- Engage new members from the beginning, then proactively manage their migration and lifecycle for the long-term.



More than ever, your loyalty program has an immeasurable opportunity to fortify your value proposition, build loyalty and differentiate themselves from the competition while increasing customer share, and effectively spending and tracking your marketing dollars.

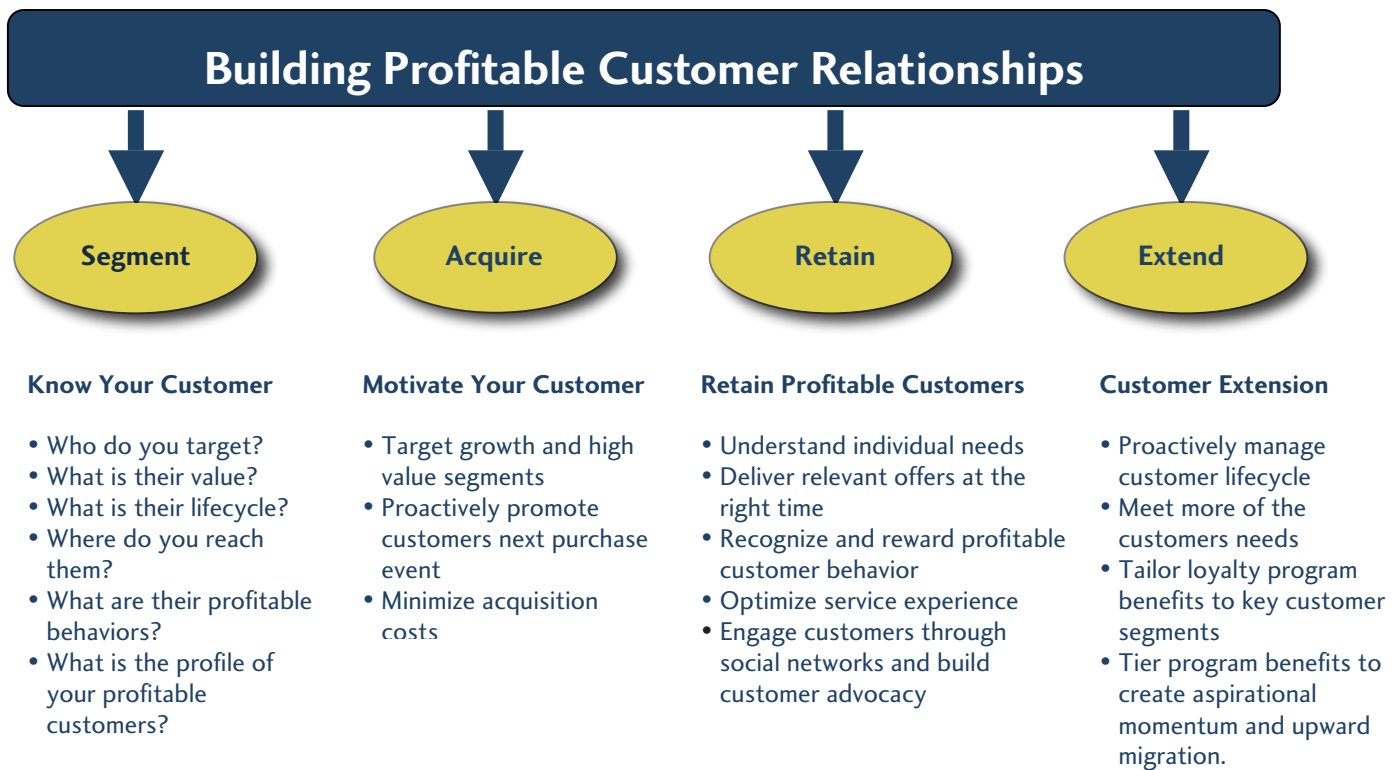




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5 Loyal Customers Are Key to Profitability

In 2006 the average U.S. household carried 12 loyalty program memberships — but only 39.5 percent of those memberships were active (made a purchase in last 12 months). In 2009, consumers' wallets are now stuffed with just over 14 memberships per households, while the activity levels have climbed to just 43.5 percent. It is apparent that consumers see a value in enrolling in the programs, but marketers have failed to keep them engaged and participating. The good news is that the potential is there, waiting to be tapped. Loyalty programs give marketers the data they need to identify potential growth and profitable customers, to gain a better understanding of customers' needs, preferences and purchase behaviors, and to acquire the insight necessary to proactively reconnect with customers. Retailers paying attention to their loyal customers could emerge from the recession stronger and more profitable than their competitors.





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6 Loyalty Marketing

Let's start with a definition. As a best practice we define loyalty marketing as:

The discipline of identifying and nurturing the yield of best customers through a long-term, reciprocity, value-added relationship.

The definition has four critical factors for success:

Discipline

Loyalty is not about short-term promotional tactics or a points program that is launched today and forgotten tomorrow. It requires a set of ongoing customer interactions that consistently exceeds the needs and expectations of the customers.

Nurturing

Companies need to proactively engage their customers to grow more profitable (or strategically improve) long-term behaviors of customers. Too often companies get sidetracked with old school sales promotion tactics and don't tailor the benefits and messaging to meet the needs of their customers.

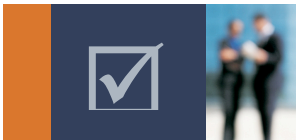
Yield

By cultivating the customer relationship we can expect that there will be a return for our efforts. This can be measured in customer satisfaction, retention, referrals, sales and profits.

Reciprocity

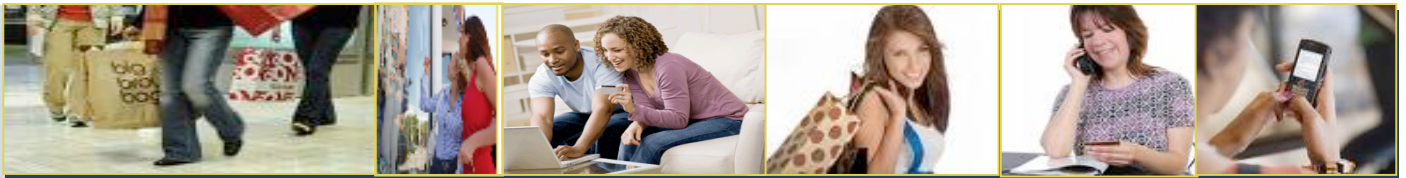
As with any relationship, it's a two-way street — a give-and-take relationship. A customer spends money, provides personal data and becomes a potential advocate of the organization. The company rewards the customer with recognition, using the information to better meet the customer's needs and ultimately cements their loyalty.

There's no argument that today's marketers clearly see the value of nurturing customer loyalty. However, in today's economic climate, many are experiencing significant challenges in implementing and optimizing their customer loyalty strategy. These challenges include: budget constraints, organizational resistance to change, lack of human resources to execute and meager use of customer insight to direct decisions, from marketing and merchandising to customer service and product development. The time to overcome these challenges is at hand. Increasing competition, tightening credit usage, declining results of traditional tactics and the current economic crisis leave no choice.



A successful loyalty program utilizes four critical factors for success: discipline, nurturing, yield and reciprocity. These four elements combine to create a unique value exchange between the customer and the company.





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7 Loyalty Audit

Customer Insight Group (CIG) provides comprehensive Loyalty Audits in order to assess and improve customer loyalty and achieve measurable business objectives.

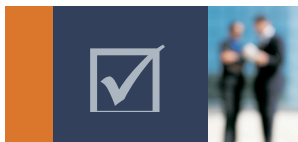
We help identify key loyalty-based customer segments. We do this by:

- Interpreting your sales data
- assessing the effectiveness of your current loyalty initiatives
- interviewing key internal stakeholders
- selecting specific customers to further understand the loyalty strengths and challenges within your organization

We then design and implement programs that identify opportunities and improve revenue, profitability and marketing ROI. The final stage of your audit is the formulation of actionable recommendations for improving loyalty among key customer segments.

You benefit from a Loyalty Audit when you need to:

- Clearly define opportunities that are guaranteed to improve the loyalty of your customers in key customer segments.
- Recognize emerging customer trends and adapt your program accordingly
- Understand the source of churn in your organization.
- Build a unique and clearly differentiated customer value proposition.
- Identify customers and behaviors that generate the greatest profit, rather than revenue.
- Differentiate between rewarding normal behavior and behavior that has been influenced by your loyalty program.
- Secure the loyalty of new customers by identifying potentially profitable customers, increasing share of their spend and reducing the risk of attrition or defection.
- Develop a comprehensive plan for acquiring, keeping and increasing your key customer segments.
- Innovate and freshen the program to ward off competitors and increase customer engagement.
- Create specific recommendations for each key customer segment.
- Implement a detailed plan to achieve your loyalty objectives.



Step up your loyalty program's results by taking it to the next level. Utilize a Loyalty Audit to see where those opportunities lie.





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8

CIG Loyalty Dashboard

It's critical that you continuously measure your loyalty program, so that ongoing strategy refinement can take place and results can continue on an upward climb.

Pinpoint Strengths and Weaknesses

Customer Insight Group has developed a number of proprietary tools to assess the performance of loyalty programs, by benchmarking them against a number of variables including best practices, business cases, competitive reviews and control cells.

Dig Deeper

Increased insight and a competitive edge requires the development of a holistic understanding of customer behavior and lifestyle that goes far beyond the relationship you've built or the transactional data you've collected thus far. That's why Customer Insight Group developed Customer Infocus. Used in conjunction with our advanced analytical techniques, this sophisticated customer profiling tool gains insight to identify new prospects, increase market share in existing markets, forecast future trends and develop a clear understanding of existing customers.

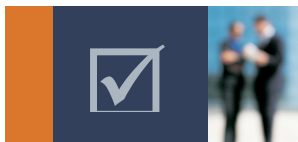
Evaluate Program Performance

All KPIs are assessed, e.g. average basket value, spend by category, frequency of visit, enrollment velocity of key customer segments, retention rate of key customer segments, earning and redemption rates and LTV. Customer Insight Group then develops a strategic plan to ultimately influence profitable and desirable customer behavior.

Customer Behavior

Our marketing strategists have worked with twenty-five of the nation's most successful retailers to help them optimize their loyalty programs and to increase incremental revenue and profit. Customer Insight Group can help you understand your customers, their needs, preferences, interests, attitudes and purchase behaviors and the hot buttons that propel them into action. Using our experience and insight, we develop customer strategies that have a direct effect on customer behavior:

- Price promotions become less important.
- Basket size increases.
- Reduced customer promiscuity.
- Increased shopping across categories and brands.
- Brand champions promoting your company to friends and family.

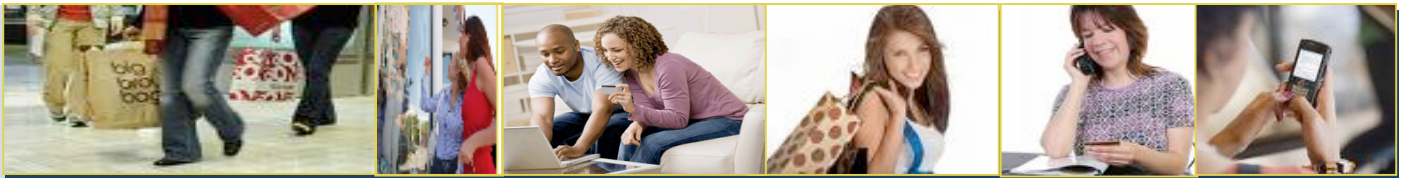


We turn customer insights into strategies that increase traffic, boost profits and sales, and create an enhanced customer experience that can't be duplicated.



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9 Driving Profitable Behavior

We relentlessly pursue more effective ways of maximizing the value of your customers — gathering intelligence, using out-of-the-box thinking, and wielding our extensive experience. We're pleased to share some of our insight with you here to help you extend your customer relationship and build customer lifetime value.

Cultivate Customer Value

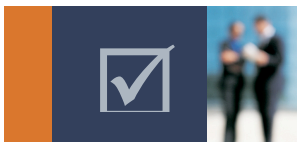
Many companies believe that once a prospect becomes a customer (or member of a loyalty program), the customer development process is complete. When in fact, it has only just begun. For every new customer acquisition strategy, it is critical to have a customer onboarding strategy that nurtures the customer relationship and cultivates long-term loyalty.

In the early phases of a customer's life, we help you leverage customer insight (e.g., behavioral data, demographic and lifestyle data, geography, channels, campaign and response information, etc.) to develop a customer's cultivation score. The customer cultivation score can be used to project customer value growth potential over time. Based on the score, you can then tailor the message, intensity and frequency to cultivate the customer relationship and optimize ROI. After a period of time, you'll be ready to migrate customers into your standard marketing programs. At this time, you will want to score your customers based on their level of engagement. By creating a customer engagement score, you will be able to leverage your robust collection of behavioral data, as well as demographic and lifestyle data, geography, channels, campaign and response information, etc. Your customer engagement score will guide your efforts to maximize customer profitability, minimize churn and assess each customer's ongoing needs and priorities.

Proactively Manage Customer Value Migration

One challenge for many marketers is knowing when the relationship is in trouble (as far as the customer is concerned). Typically companies monitor customer satisfaction and attrition, but look for telltale signs of a problem with the changes in customer value over time, or customer value migration. Customer value migration is a powerful indicator of positive changes in purchase behavior as well as a signal that allows you to catch customers before they are gone forever.

So how do we put migration analysis to work in order to create profits from your database and improve customer relationships? First, we quantify the opportunity to focus your efforts and resources on opportunities with the highest impact. Next, we develop a double-edged strategy that anticipates downward migration and addresses it at the onset. At the same time, we develop a strategy to migrate customers up the relationship ladder and increase spending, purchase frequency and share of wallet.



Building brand loyalty requires a deep understanding of your prospects and customers—what they want, what motivates them and what will keep them coming back for life.





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10

World-Class Capabilities of a Loyalty Leader

CHECKLIST

Creates a Framework

- Define business objectives
- Build financial models and business cases
- Identify controls and processes
- Delineate target segments
- Determine exit strategy

Understands Loyalty Value Proposition

- Mix of hard and soft service-related benefits
- Spend/earn rate, bonuses, capped/uncapped
- Process for redemption, burn rate, channels
- Tiers and requalification
- Liability management, breakage and stipulations
- Partners for earn/burn and special offers

Adept with Technology

- Loyalty database: points, bonus, online, redemption, partners
- Integration with other data repositories
- Vendor RFP management
- Management information, redemption, expiration, forecasts

Proven Innovator in Customer Engagement

- Customer interaction: store, online, call center
- Program branding, communication, lifecycle and migration plan
- Program refresh, updates (new benefits, new partners, terms and conditions)
- Tailoring products, communications, benefits, offers

Experienced with Enrollment Process

- Application: online, phone, store, catalog, automatic
- Terms and conditions, points, expiration, refunds
- Customer migration strategy and goals

Excels at Program Management

- Customer engagement strategies and tactics
- Incorporating industry best practices and emerging technology and tools
- Ongoing employee training and education
- Reporting, analysis and refinement



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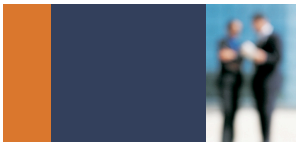
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11

Applied Experience in Loyalty Marketing

Make the most of your customer strategy with our loyalty know-how.

Customer Insight Group's marketing strategists have worked with over twenty five Fortune 1000 retailers to help them understand the drivers of loyalty and defection from the customers' point of view, develop a loyalty strategy focused on the right customers, systematically deliver value, create a rewards system that reinforces desired customer behavior and implement a methodical approach to measuring results.



We turn customer insights into strategies that increase traffic, boost profits and sales, and create an enhanced customer experience that can't be duplicated.

"Customer Insight Group provided invaluable guidance in the development of our loyalty program. From the hard and soft benefits of the program, to the financial impact analysis, to the development of materials and finally to the launch strategies, both internal and external, they showed why they enjoy the well-deserved reputation as experts in loyalty program development. We are extremely pleased with the end result of our work with Customer Insight Group."

Lincoln Cox
VP Marketing, Edwin Watts Golf, Inc.

"Customer Insight Group helped us develop and execute a customer retention strategy that scored on two levels: driving home profitable sales today while improving brand loyalty for tomorrow."

Rebecca Kane
Director of CRM, Dick's Sporting Goods, Inc.

"Not many consultants can come into the picture and immerse themselves in your brand like Customer Insight Group has for us. They helped us create a new loyalty program that is a seamless extension of our brands. They took us to the next level and poised the program for success."

John Gleason
SVP Corporate Credit, The Bon Ton Stores

"Sallie Burnett is expert at leveraging customer data to better understand the customer's future needs and wants, and developing communication strategies to engage the right customer with the right message at the right time. Her strategic insight is invaluable in defining and implementing customer relationship marketing programs that increase the conversion of the first time buyers to repeat purchasers, increase customer lifetime value and build profitable customer relationships. I highly recommend her as a strategic marketing consultant."

Steven Bellach
Proflowers, SVP Marketing



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12 Leaders in Loyalty Marketing

About the Author

Sallie Burnett, the president and chief executive officer of Customer Insight Group, Inc. and digital marketing professor at Daniels College of Business uses her 20 years of strategic, analytic, digital and creative marketing know-how to help clients grow profitable, long-term relationships with their customers. Representative sample of client experience includes: A&P, The Bon Ton, Dick's Sporting Goods, Einstein Bros. Bagels, Edwin Watts Golf, The Great Indoors, Gottschalks, Helzberg Diamonds, HSBC, Kohl's, La-z-boy, MCI, Mervyn's, Network Affiliates, NHFA, Payless ShoeSource, Pier 1 Imports, Proflowers.com, Regis University, Ruby Tuesday, S&K Menswear, The San Francisco Music Box, Spencer Gifts, Swiss Colony, Tommy Hilfiger, Ulta as well as various other leading companies.

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About Customer Insight Group, Inc.

Customer Insight Group, Inc. is a full-service strategic marketing firm helping companies develop and execute high-performing acquisition, loyalty, upgrade and retention programs by leveraging customer behavioral and attitudinal insights. Balancing strategy with creative execution, we create compelling customer-centric programs that reflect our clients brand visions. Explore how Customer Insight Group makes a difference for such clients as The Bon Ton Stores, Dick's Sporting Goods, Goldratt Consulting and Network Affiliates by visiting customerinsightgroup.com.

Together, we're taking loyalty marketing further, and creating remarkable stories of success.

Customer Relationships — Engage. Keep. Grow.



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