



A **win-win** approach to customer loyalty

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Companies today are launching customer loyalty programs at a record pace. It is estimated that the average American household is enrolled in 25-30 loyalty programs but only actively engaged in about four or five of them. So, why the disengagement?

Most loyalty programs you see today are focused solely on the financial transaction between a company and their prospective customer. The loyalty program is essentially a discount model, making price the primary consideration. When a better price is offered from a competitor, it is easy to see how customer retention becomes an issue.

While transactions are certainly important to a successful business, what can drive true customer loyalty?

Let's look first at getting customers to enroll in your loyalty program. That first impression with a new prospect is a critical step to developing ongoing customer engagement. Does your value proposition offer more than a price discount? Are there real rewards for the customer to enroll and continue to engage? And, most importantly, are the rewards you're offering commensurate with the effort and behaviors you're asking your customer to do?

We recently did a pilot test for a healthcare insurer. They had a program that would reward their members for participating in certain healthy behaviors, like getting a flu shot or seeing a primary care physician once a year. We split members into two groups. Both were offered the chance to enroll and earn rewards in the program so they might lead a healthier life but only one group was offered a tangible reward, a branded merchandise item, at the time of their enrollment.

The result? **Enrollment was nearly 15 times higher** in the group who received a reward compared to the group who didn't. That added incentive to enroll made a strong first impression with the customers and set the stage for them seeing a real benefit to becoming a participant in the program. It was a win-win scenario for our client and for their customers.

That upfront reward to sign up was what we call a "fast start" to begin earning immediately in a loyalty program. It is just one of many behavioral economics theories that can be leveraged in designing and implementing a true customer loyalty program. In a customer rewards program where points are earned, we usually recommend offering a significant number of points for enrollment to help get the customer off to a fast start in the program.

Another way to create a win-win scenario that drives customer engagement and true loyalty is to make sure rewards are





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commensurate with the effort required to do an activity. Let's say you're asking a customer to switch checking accounts. Banks often offer upwards of \$200 cash to make the switch. Switching checking accounts is not a small ask – the reward needs to be enticing enough to make it worth a customer's effort. On the other hand, let's say you have a new product to launch and you have a 60-second video you'd like a prospect to view and potentially want to learn more. Watching a video of a product you might be interested in is not a big ask or effort so the reward for watching doesn't have to be very significant.

We call this the **equitable value exchange**, where the reward is commensurate with the effort or behavior we are asking of someone. It is fundamental to what drives **true loyalty** and is part of building a real relationship with the customer beyond just the transaction.

Understanding where a customer is at in your product's lifecycle and tailoring your content or promotion to that customer prospect is your first step to creating a win-win scenario. How you treat a first-time customer, getting them to enroll in your loyalty program, should be a very different message than what you might say or offer to a customer who's been buying your product for years.

Next, using behavioral economics to understand what inspires or motivates behavior, and matching that with an equitable value exchange (the right reward), should drive real customer engagement and lead you down the path to true loyalty.

If your goal is true loyalty, build your customer relationships on more than transactions only. Look for ways to foster the relationship by showing you understand where your customer is at in your customer lifecycle, you value them, and you are willing to reward them equitably for what you're asking them to do. That's the key to a win for you and your loyalty program and a win for your most loyal customers.

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