Chapter 11
Building an Effective Customer Loyalty Program

Kumari Smriti
IIMB, India

ABSTRACT

Customer loyalty schemes is a practice, employed by retailers, to reward their loyal customers. It entails giving incentives such as loyalty cards, reward points, etc. These also serve as a repository of information about a customer which helps in targeted marketing. This chapter analyses some of the successful customer loyalty programs by companies, discusses some of the reasons of failures of such program and looks at what industry experts have to say in this regard. We then collate all this information to suggests a process to identify and choose the right customer loyalty programs for a company.

INTRODUCTION

Customer loyalty schemes are an effective way for retailers to improve their customer-retention levels. There is a high cost involved in bringing in new customers compared to retaining existing ones. So increasing the customer retention can significantly boost a company`s profits. And yet most companies lack a strong customer loyalty program. Customers now-a-days can easily switch to a new supplier. To build a loyal clientele, keeping the customer satisfied is not always enough. The fact that customers are satisfied does not stop them from moving to a competitor who offers them something extra. To increase loyalty, retailers need to recognize and reward their best customers. A loyalty scheme can be used to incentivize and delight the most valued customers. That in turn can do wonders for the company`s profitability.

Retail is the earliest industry to adopt the practice of rewarding their customer through loyalty incentives. They brought in different card systems such as loyalty cards, reward cards, points and advantage cards. These cards often have barcodes which aid in further identifying the buying behavior of the customers. Some companies even promote membership programs to reward customers with consistent buying patterns.

As the average customers are becoming smarter and aware, it is becoming difficult to cater to all their demands. Customers expect value for money, at all costs. They expect a hassle free experience

from sales and customer service. Moreover, they want to be appreciated for their loyalty. Hence, loyalty programs should be designed keeping these smart customers in mind. These programs keep the competition at bay and act as motivators for customers to continue using the same service or product. Customer loyalty programs also provides database for further customer relationship management. The whole point of rewarding a customer with better prices or services is to encourage them to repeat their behavior. If rightly executed, a customer loyalty program can dramatically increase profitability.

A BRIEF OVERVIEW

Broadly, the chapter has been categorized under the following subjects:

- **Overview:** This section describes what a customer loyalty program is in the context of the current retail landscape. It also attempts to understand how important it is for retailers to build a strong customer loyalty program in this day and age. The research methodology used in this study has also been explained in this chapter.
- **Analysis of Some Successful Customer Loyalty Programs:** Some of the most successful customer loyalty programs across the retail industry have been explored into and analyzed in this section. The way these customer loyalty programs operate and the primary reason for the success of these programs are also discussed in some detail.
- **Why Some Programs Fail:** The reasons why some loyalty programs have failed have been discussed in this section. Some of the surveys done by industry experts elucidating the reasons behind the failure are also cited in this section.
- **What the Experts Say:** In this section, the viewpoint of industry experts have been summarized in the backdrop of the success or failure of these varied loyalty programs.
- **How to Build a Successful Customer Loyalty Program:** This section describes various suggestions to build a strong and rewarding customer loyalty program, based on the expert opinion, literature, and on the premise of having already understood what works for customers and what does not. All these suggestions have been categorically identified and listed out.

Research Methodology

Research was based on the following aspects - an extensive web-based research on current customer loyalty programs, analysis of customer`s sentiment through social media data, and analysis of interviews of industry leaders on loyalty programs of leading retail organizations.

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