Overview of Loyalty programs

Consumers have shifted, to some extent, away from a desire for possessions to a desire for experiences - partly due to changing demographics. Overall, consumers are looking for the meaningful (which includes value and relevance).

In 2015 there is an estimated three billion loyalty program memberships in the US (a 26% increase from their 2013 census) - with the average US household participating in 29 programs. Approximately 58% of those memberships were inactive (defined as no engagement within a 12 month period), bringing the average household active participation to 12 programs.

Forrester Research found that across 12 industries, retailers inspire the most loyalty.

The Main question is will it grow the profitability of our customers.

**The benefits of a loyalty program**:

* Acquire new customers
* Increase the spending of existing customers
* Retention, improve the churn rate of customers
* Shift spending to higher margin products

**Requirements of loyalty program**

* Easy to understand and manage for the customer
* The relationship between points (discounts, contests vip access, etc.) and rewards must be attainable, desirable and tangible.

**Basic objectives for Loyalty Programs:**

* Retain best, most profitable customers
* Make good customers better
* Acquire customers with potential to become best customers
* Reconnect lapsed users with the brand
* Revitalize the brand’s relationship with its core customer

Principles of Loyalty Marketing

**Relevance is the key to Loyalty Marketing**

* + The magnitude of the reward is less important that the perceived value of the reward
		- Benefits - Intermittent scheduling of rewards (“surprises”) can be more effective than regular scheduling
		- Special treatment
		- Recognition
		- Loyalty Marketing reduces the consumer’s decision-making complexity
		- Loyalty Marketing reinforces the rightness or wrongness of the consumer’s choice
		- Loyalists represent an incremental sales force
		- Loyalty Marketing is information-dependent

**The consumer is not necessarily desirable if:**

* You have to subsidize their purchases
* They buy from you because of inertia or absence of an alternative

Types of programs

**Discount Programs**

Discount programs are programs that offer a specified percentage off (or a dollar amount for large purchases. The way it is different from rebate programs is rather than accrue the benefits; discount programs typically apply instant benefits to participants at the point of sale.

Pros

* Simple to customers
* Instant gratification
* Deeper discounts can be used tactically
* Usually easy to administer

Cons

* Discount implies that regular prices are too high
* Difficult to exit the program
* Can be easily duplicated by other stores
* Can alienate infrequent shoppers
* Discount affect margins

**Rebate Programs/Cash Back**

Similar to discount programs, which are immediate rebate programs that allow participants to accrue financial benefits from purchases that are saved up and redeemed after a set threshold or time period. These benefits can be tracked over time but often involved a rebate of a percentage of total purchases over a month or quarter. The rebate is often in the form of a gift certificate to drive customers back to the store. Rebates can be in the form of a dollar value or a percentage value.

Pros

* Relatively simple to communicate and understand, depending on the offer structure
* Although discount based, it avoids the "discount on every purchase" mentality
* Rebates in the form of gift certificates can often drive customers back to the store
* Does not require much administration
* Cheaper to administer than a points based scheme (although difference can be marginal dependent on size of rebate/cash back
* Can allow tiered offers for highest value customers

Cons

* Does not provide instant gratification
* Rewards profitable and unprofitable customers alike
* Can be expensive depending on the rebate thresholds
* Disguised discount program affects margins
* Can alienate infrequent shoppers
* Easily emulated by competition

**Rebate/Cash Back**

Rebate/Cash Back programs have become increasingly popular because while avoiding immediate discounts, consumers often feel they are accruing value. Although the program can be expensive, the rebate dollars often drive customer back to the store.

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**Points Programs**

To avoid the negative connotations of discounting, many loyalty programs us a points "currency" to allow participants to keep track of their earned benefits. Typically, consumers earn additional points by buying goods and services from the issuing retailer and can include bonus products, bonus thresholds and partner opportunities. Filling out surveys, leaving feedback or reviewing products, could also award points.

Pros

* The basic premise is simple for consumers to understand
* Can be difficult to match because earning and reward thresholds can be easily adjusted - therefore can offer greater competitive advantage
* Can allow more targeted, flexible and imaginative promotions e.g. points for special purchases
* Avoids price discounting
* Can use points promotions on brands that do not allow discounting
* Can use to reward employees
* Currency can be resold to vendors to help support the program
* Enable the collection of customer data to put in place targeted promotions and cross-selling opportunities
* Breakage (The difference between points issued and points redeemed)

Cons

* The proliferation of points programs is confusing for consumers
* The "halo effect" of programs where thousands of points are required to earn a benefit devalues all points programs
* Depending on the community, loyalty program fatigue can be an issue
* Requires investment in redemption opportunities
* More complex to put together and manage an attractive customer proposition - requires management of the currency including customer service
* Need to put a contingency on the balance sheet for outstanding points
* More expensive than cash back

**Private Label Tier system**

A loyalty program designed with more targeted rewards. They communicate differently with different groups of members based on value; and they need to provide greater value at higher customer value tiers, by rewarding best customers to encourage higher spending levels.

Gold = Great Member

Silver = Special Member

Bronze = Good Member

Lead = Member

Pros

* Customer recognition – “I’m a Gold Member”
* Benefits not necessarily monetary – express checkout, special customer service, one on one lessons or special videos online
* Higher perceived value
* Experimental awards; consumers have shifted from "bigger," "better," "faster," "easier” to a desire for experiences or services that enhance their experiences.

Cons

* Difficult to implement
* Takes time to build up to the different tiers.
* Might alienate first time buyers

**Gameification**

Gamification is the process of using game dynamics and mechanics to engage an audience and solve problems. It is not social games like Farmville or console games (xBox) or casual games like Angry birds. It is not a gimmick like adding random badges or creating an arbitrary points system.

It is leveraging innate human motivators in a manner that they want to be engaged. Gamefied loyalty programs focus on a steady diet of amazing rewards, scaled back over time to increase efficacy.

With any contest or sweepstakes, though, you run the risk of having customers feel like your company is jerking them around to win business. To mitigate this risk, it's important to make customers feel like you’re not duping them out of rewards. The odds should be no lower than 25%, and the purchase requirements to play should be attainable. Also, be sure your company's legal department is fully informed and on-board before you make your contest public.

Pros

* Games work because success generates pleasure
* Increase engagement
* Gather more data about users for further analysis and use
* Use of both, internal and external motivation
* Immediate feedback
* Building relationship with user

Cons

* Possible negative emotion as frustration and unfriendly competition
* Doing gamified activity for sake of game, not activity itself
* In some cases of implementation need of complex change management
* Gamification don't match the target audience

**B&H Inherent Advantage**

B&H photo has an advantage over many other retailers. As a retailer we don’t just sell products, we sell dreams. Our customers are passionate about what they do and we help them fulfill their dreams. We also sell to a consumer base that naturally shares what they do and where they got it.

**Alternative programs that only work with B&H customers and takes advantage of our benefits as a retailer.**

**Combine Points with Tiers and Special Benefits**

Enroll and you’ll start earning 1 point for each $1 spent, with every 250 points = $5 reward certificate. Should you end up spending $2,500 in a year in their program, you’ll automatically become a Premier Silver member. Premier Silver membership grants you 25% more points (1.25 points for each $1), free overnight shipping and delivery, and 5 free phone calls from an agent to help you with everything from setting up your camera to an hour of personalized training with any devices you purchase.

If they have a social media following or a certain amount of equipment they bought then they can be upgraded to a higher level with different benefits. For instance if they have a Instagram following of 10,000 or more and post a certain amount of times about B&H then they can move to the next level which gives them a greater discount, news about products before they are announced.

A pro level for people who can show they work in the field. They get all the benefits above with the possibility of testing out certain equipment like the affiliates. Many people would love the ability to have gear to test like Steve Huff does.

We could create a lending library where professionals can borrow equipment to test with the intention that they write about it and share on their networks. A new company has emerged as the Netflix of Photography. The name is Paracût and for $150 a month you can rent out unlimited gear like Netflix. http://www.diyphotography.net/paracut-netflix-photographers-endless-amounts-gear-150month/

We can create an app to track the rewards. If someone buys something for your birthday off your wish list get extra rewards. To increase profitability we can reward more points for high margin/preferred brands (Gradius Group).

**Funding Platform**

Something that is related is something similar to a Kickstarter or funding platform where people create budgets and wish lists on B&H and people can donate money or buy the equipment for them. If people pledge money to the project, the photographer would get a gift card to spend at B&H to buy what they need.