In the following report, Hanover Research reviews Customer Relationship Management (CRM) systems and loyalty programs, outlining best practices as applied across a range of industries. In addition, it provides solutions for identifying key customer segments: Brand Loyalists and Brand Advocates.
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EXECUTIVE SUMMARY AND KEY FINDINGS

INTRODUCTION

This report examines best practices in CRM and loyalty programs, offering examples where appropriate. As a rule, successful CRM initiatives are founded on the principles of strategy and organization. The selection of IT-based systems is secondary to the questions of scope and objective. Certainly data collection today requires IT systems, but more critical is how the company employs data and what it does with its information. In this regard, the age-old function of customer segmentation remains critical to CRM programs.

Overall, the goal of this document is to provide companies with insights so that they might design and then successfully implement CRM initiatives, which may include a loyalty component. The report does not provide an exhaustive list of best practices. But it does list the most important ones which have broad implications.

Structurally this document has three parts. The first section provides context for a discussion on CRM and then outlines CRM best practices. The second examines best practices in loyalty programs and looks at company examples. Finally, the third discusses actionable segmentation, focusing on identifying Brand Loyalists and Brand Advocates.

KEY FINDINGS

- CRM is best deployed in narrowly-focused increments, with clear business objectives. The idea is to initiate a quick victory, which can set the stage for further successful CRM initiatives. Thus CRM involves long-term commitment and requires the dedication of leadership, not to mention a place in strategic planning.

- Best practices in CRM involve brass-level sponsorship; a narrow approach with modest goals; cross-functional collaboration; proper use of data; close monitoring of the CRM initiative; an understanding that CRM solutions are investments which require cost-benefit analyses; and an acceptance that customers are not of equal value.

<table>
<thead>
<tr>
<th>BEST PRACTICES - CRM</th>
<th>EXPLANATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brass-Level Sponsorship and Coordination</td>
<td>Top management must back CRM initiatives because it involves cross-departmental efforts.</td>
</tr>
<tr>
<td>Narrow in Scope, Modest in Goals</td>
<td>Companies that succeed with CRM take a highly focused approach, with feasible goals.</td>
</tr>
<tr>
<td>Inter-Departmental Collaboration</td>
<td>CRM often involves collaboration across multiple departments such as marketing, sales, and IT.</td>
</tr>
<tr>
<td>CRM Solutions Are Not Created Equal</td>
<td>The spectrum of CRM solutions involves costs, ROIs, and probabilities of success that differ. Analyze accordingly.</td>
</tr>
<tr>
<td>BEST PRACTICES - CRM</td>
<td>EXPLANATION</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Customer Segmentation</td>
<td>Customers bring different amounts of value in revenue, loyalty, and advocacy. Invest in them appropriately.</td>
</tr>
<tr>
<td>Data Management</td>
<td>With data analytics, companies can determine key customer segments. But it must use data discriminately.</td>
</tr>
<tr>
<td>Monitoring CRM</td>
<td>Without proper monitoring, CRM flaws can go unnoticed and become too expensive or too entrenched.</td>
</tr>
</tbody>
</table>

- Best practices in loyalty programs involve effective program design; the ability to “fire” a customer; and recognition that controlling costs is critical. Furthermore, breakage must be monitored, which requires collaboration between finance and marketing, due to its impact on financial statements. It can also convey the success of a loyalty program. Finally, companies must always anticipate a failed loyalty program and create an exit strategy.

**Figure 0.2: Best practices - loyalty**

<table>
<thead>
<tr>
<th>BEST PRACTICES - LOYALTY</th>
<th>EXPLANATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design Effective Loyalty Programs</td>
<td>Companies must exclude the typical flaws and include positive components, focusing on the program’s purpose.</td>
</tr>
<tr>
<td>Know When To Lose a Customer</td>
<td>Some customers may not be worth the investment and should be discarded.</td>
</tr>
<tr>
<td>Control Costs</td>
<td>If a loyalty program is not returning enough of a payback, it is a waste of money.</td>
</tr>
<tr>
<td>Monitor Breakage</td>
<td>Breakage (points issued – points redeemed) has implications on financial statements and can convey a program’s success. Monitoring it is crucial.</td>
</tr>
<tr>
<td>Exit Strategy</td>
<td>Given the competition, there is a likelihood that a loyalty program will fail. Plan for the worst.</td>
</tr>
</tbody>
</table>

- Companies can identify their Brand Loyalists and Brand Advocates – two crucial customer segments in the CRM context – by either (a) monitoring these customers’ interactions with e-blasts or other online activities that track user responses, or (b) deploying well-designed surveys. Each of these “types” tend to cluster around the same area on the Likert scale and share the same behavioral traits and values.

**Recommendations**

- **Companies should create a shortlist of CRM problem areas and narrowly define each of them in terms of scope and possible solutions.** For an illustration of these problem areas, companies may consult Fig. 1.1, which lays them out by segment and function. The graphic may help to identify which departments to involve and what stage of the CRM cycle the problem affects.

- **Companies should check the shortlist with Fig. 1.3, which provides a way of assessing whether a problem qualifies as a “strategic pain point” and is truly worth**
fixing. At some point, it should also determine which “CRM fix” promises the highest return on investment while offering a reasonably high probability of success.

- Following the prioritization process, companies should identify a single problem area and develop specific solutions to resolving it. This stage of the process calls for meticulous preparation and planning, which may require customer segmentation, identifying high-potential brand advocates, brainstorming on possible program solutions, and decided on which customers to “fire” and which customers to prioritize. Whatever the case, companies must outline the necessary measures, alter operations if necessary, establish clear business goals for the CRM initiative, and hold key personnel accountable for its delivery.

- During the CRM-program implementation, companies should monitor the program for feedback and signs of failure and/or success. It must do so before a flawed initiative becomes too expensive or entrenched, and it must use feedback to tweak its approach so it can deliver a successful initiative in a reasonable amount of time.

- Upon successful implementation of a CRM initiative, companies should communicate the success to the entire company. It can then use the momentum to enact further improvements along the CRM cycle, most likely in an area adjacent to the one that has just been improved.
SECTION I: CRM

OVERVIEW

Since IT firm Siebel popularized CRM in 1993, industry executives have operated under the misconception that CRM is at heart an IT-centric function. This misconception played a key role in disrupting CRM programs across industries, as firms underemphasized the strategic and organizational elements of CRM and overemphasized CRM tech-based systems.

Today the truth remains that businesses must understand CRM as an inclusive process. As a broad term, CRM highlights initiatives that firms can implement to win over customers for greater profit. In sum, the goal of CRM is to align “business processes with customer strategies to build customer loyalty and increase profits over time.” Fig. 1.1 shows the multifaceted CRM cycle, segmented to indicate the tools at a company’s disposal.

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Figure 1.1: CRM cycle divided by segments

Source: Harvard Business Review

3 Ibid.
Subsequently the goal of this document is to equip companies with an outline of best practices in CRM and also in Loyalty programs. Where relevant we provide anecdotes, drawing from a variety of industries. Finally, we examine the implications of CRM and loyalty programs on customer segmentation, specifically so that companies might better identify brand loyalists and advocates.

**BEST PRACTICES – CRM**

The more successful CRM programs shared some key traits in common. We list a selection of them below.

**BRASS-LEVEL SPONSORSHIP AND COORDINATION**

Successful CRM implementation requires collaboration across departments and functions in view of CRM’s broad influence. Consequently support from management is critical to breaking down silos. Moreover a compelling vision and strategy would diminish the effects of organizational myopia and indifference.

**Example.** In wanting to boost sales, the new CEO at Aviall identified daunting obstacles in unreliable IT systems and an inadequately-trained and overly-burdened sales team. The cumbersome IT system required sales reps to input order information, thereby increasing their workloads and preventing them from maximizing the number of sales calls.

For their part, the passive sales team did not work to solve specific process-related problems which had roots in IT and operations. Nor did they have the authority to make system-wide changes. In addition the company did not train “the sales reps in proper time and territory management,” leading to “inefficient phone call routing and haphazard calling schedules.”

**Takeaway.** Solutions to such problems require cooperation from a variety of departments. In the above example, company leadership enlisted the support of the head of sales and marketing and the chief of technology. Finally, the company included the relevant stakeholders and considered people, process, and technology in laying out CRM objectives.

**NARROW IN SCOPE, MODEST IN GOALS**

Purchasing a license to deploy a single all-encompassing CRM system may seem tempting enough, especially to busy executives. But the introduction of large-scale measures with
wide intended effects runs contrary to best practice. Such an unrefined approach disrupts business activities and leads to wasted technology capacity,\(^7\) even the problems of “too many passwords or log-ins for users” and “inconsistent guidelines for entering data in different units.”\(^8\)

The better idea is to take a more disciplined and focused approach with modest ambitions. Successful companies seem to begin by solving “clearly defined problems within their customer relationship cycle” (see Fig. 1.1).\(^9\) By extension, this calls for leadership to identify clear business goals that minimize complexity and cost.\(^10\)

**Example.** Continuing with the above example, management at Aviall decided to install only sales-force, order-entry, and call-center applications to achieve the desired efficiencies in sales. The focused approach minimized costs and allowed sales reps to learn the new system without being overwhelmed. Moreover the quick victory gave momentum to the cause of CRM. Such successes often light “the way to subsequent projects.”\(^11\)

**Takeaway.** Taking inches instead of leaps allows the company to identify flaws or problems before they become too expensive or entrenched. This approach also allows employees who are most familiar with new systems to provide useful feedback, and for management to alter the implementation as necessary. As illustrated in Fig. 1.2, input plays a role in the successful implementation of CRM. So does the gradual introduction of modules – i.e., launched at intervals.

*Figure 1.2: CRM success relies on more than just software*

<table>
<thead>
<tr>
<th>Successful CRM implementations call for solutions that have well-defined problems and clear, achievable business objectives.</th>
<th>Cultural shift required by adoption of new system addressed</th>
<th>Modules launched at intervals that promoted adoption by users</th>
<th>All affected business units provided input during planning</th>
<th>Users appropriately trained when/how to use new system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies reporting successful CRM implementation</td>
<td>59%</td>
<td>79%</td>
<td>69%</td>
<td>67%</td>
</tr>
<tr>
<td>Companies reporting failed CRM implementation</td>
<td>33%</td>
<td>33%</td>
<td>32%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: McKinsey

**INTER-DEPARTMENTAL COLLABORATION**

The need for collaboration across departments is critical to boosting returns on CRM. Globally, firms spent $35bn on CRM applications in 2005, with good results. The returns may have been even greater if more companies enhanced coordination across channels and product groups, providing uniform and actionable data to employees across the company.\(^\text{12}\)

**Example.** A wireless company recorded five million unique visitors to its website each month. Of this total, only 10,000 purchased mobile phones. Untapped opportunity lay in the 27,000 customers who placed products in their shopping carts but did not finalize the transaction. The company’s new case-management system collected data from these customers and distributed them to sales teams, which followed up and generated 8,000 more subscribers a month. Further, the ones who did not place products in their shopping carts were treated as lower-priority leads and received the attention of the sales force.\(^\text{13}\)

**Takeaway.** Automation of the right pieces of data, sent to the right people for further action, can be highly valuable. In other words, knowledge sharing can raise revenues.

**CRM SOLUTIONS ARE NOT CREATED EQUAL**

The laws of resource scarcity suggest that companies must pick their solutions wisely, based on anticipated return on investment (ROI), feasibility, and probability of success. The graphic Fig. 1.3 allows managers to question whether a CRM solution is necessary, or whether it might prove too costly. It distinguishes between “routine aches,” which are the normal costs of doing business, and “strategic pain points,” which may require CRM initiatives.

<table>
<thead>
<tr>
<th>Routine Aches</th>
<th>Strategic Pain Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>The problem is well known but minor, even though it affects some vociferous customers.</td>
<td>The problem has a critical impact on the satisfaction and loyalty of the most valuable customers.</td>
</tr>
<tr>
<td>Solutions are quickly and easily copied by any competitor.</td>
<td>Solving the problem creates a substantial and sustainable competitive advantage.</td>
</tr>
<tr>
<td>The problem could have been fixed long ago without a CRM system.</td>
<td>Solving the problem cost effectively requires the speed, accuracy, and effectiveness of CRM technology.</td>
</tr>
<tr>
<td>Solving the problem is not vital to firm or its culture.</td>
<td>The solution will become a rallying point for firm.</td>
</tr>
<tr>
<td>Solving the problem would fix one immediate problem.</td>
<td>Solving the problem would create important new capabilities that would open up more opportunities.</td>
</tr>
<tr>
<td>Solving the problem would deliver soft, unquantifiable benefits.</td>
<td>Solving the problem would deliver tangible financial returns that justify further investment.</td>
</tr>
<tr>
<td>Solving the problem would not make much of a splash in the organization.</td>
<td>Solving the problem would represent a highly marketable success, both inside and outside company.</td>
</tr>
</tbody>
</table>

Source: Harvard Business Review

https://www.mckinseyquarterly.com/Connecting_CRM_systems_for_better_customer_service_1831

\(^\text{13}\) Ibid.
CUSTOMER SEGMENTATION

Customers do not bring equal value and should not receive equal status. In other words, companies should “treat different customers differently.” Segmentation should thus account for customers’ level of engagement with a company; the amount of dollars they bring to the company; and the costs of appealing to them through CRM programs. Companies should treat customers as assets and group them according to their value.

In Fig. 1.4, hypothetical customer segment A shows stability while segments B and C indicate significant growth opportunities for the company. Hence the company should try to retain the loyal customers of segment A through a well-designed loyalty program. Its other CRM programs should be geared to exploiting segments B and C. At the low end of the spectrum, segment E may hold promise in percentage terms, but in absolute terms may not survive the cost-benefit analysis.

But that is only the first step. At a more granular level, further segmentation can reveal the needs and values of subgroups of customers. The company can then design a variety of CRM programs to support the necessary changes, meet customer needs, and align company offerings appropriately. Fig. 1.5 expresses these concepts.

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**Figure 1.4: Actual value of customers vs. potential value of customers**

Source: Peppers & Rogers

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DATA MANAGEMENT

Standardizing data and data systems allows people to input and extract information with a useful degree of efficiency. In addition, the “integrated set of analytical data” can allow management to make informed decisions about how much to invest in certain initiatives.

The collection of meaningful data should occur in line with legal requirements, and ideally with each customer interaction, as these pieces of information help companies to identify behaviors, attitudes, and needs toward creating accurate up-to-date customer profiles. Still, companies should treat data with sensitivity and concern for individual privacy.

Example. As one company indicates, it never shares the data it collects. Moreover, it uses the data to get customers to share their insights about the company’s software products, its services, and processes. Its overall goal is to improve company offerings and the general customer experience. Consequently, according to the company’s estimates, 10-15 percent of revenues are either won or retained from this exercise.

Takeaway. Used with the customer’s best interests at heart, the acquisition and use of data can help a company refine its CRM programs without risking its reputation. But it must take the necessary precautions to safeguard customer data.

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17 “CRM.”
**Monitoring CRM**

Data produced by a narrowly-focused CRM program can provide actionable insights for further refinement. Assuming continued support from top management, this may mean implementing CRM initiatives in the next segment of the CRM cycle or addressing other functions within the same segment (see Fig. 1.1). In other words, often opportunities “lie in activities adjacent to the customer relationship cycle.”

**Example.** In implementing CRM, Kimberly-Clark trained its focus narrowly on trade promotion management to understand which promotions were producing retailer loyalty, shelf space, and sales, and which promotions were going to waste. So they implemented a modest CRM system to collect and analyze promotion data. Following its successful execution, the company then expanded its CRM scope moderately to include total retailer customer management. Later still, they turned their focus on consumer management. Monitoring each initiative was critical to the long chain of successes.

**Takeaway.** Given the best practice of enabling incremental progress in CRM, monitoring CRM for insights can eventually help a company to establish competitive advantage – one step at a time.¹⁹

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SECTION II: LOYALTY

OVERVIEW

While only 12-15 percent of customers “are loyal to a single retailer,” this small group of customers generates 55-70 percent of company sales. This is crucial, because the true test of a loyalty program is not whether it will increase retention rates, but whether it will raise profits from customers. As such, we suggest these constraints on 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 franchise

More broadly we see loyalty currencies move toward an “open economy,” which facilitates the “open exchange of rewards for consumers across programs and merchants.” With the above in mind, we explore the best practices in loyalty programs in the next subsection.

BEST PRACTICES – LOYALTY

In this category of best practices, the principles of customer segmentation apply. Knowing customers well, determining their needs and values, and predicting the levels of their purchasing activity are all variables that should shape the nature and cost of a program.

DESIGN EFFECTIVE LOYALTY PROGRAMS

79 percent of customers in casual apparel say “they are always seeking alternatives to their current retailers.” Perhaps one reason they opt to leave may be due to ineffective loyalty programs at the current retailer, or a more effective one at the next retailer. McKinsey Quarterly finds that ineffective programs are often guilty of four flaws:

- **Free riders.** As many as 50 percent of loyalty-program members enjoy benefits without spending more money. Consequently the sales from the other members must cover program costs for themselves and for free riders.

- **Slim margins versus attractive rewards.** A two-percent rebate on $500 in total annual purchases yields $10, a trivial amount. In contrast, the solution of offering items of higher perceived value at lower cost would fortify the program. Industries

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21 Ibid. Powerpoint presentation by Wunderman.
with fixed-cost structures and excess capacities (e.g., airlines, hotels) or with excess inventories (e.g., retailers) can take advantage of this alternative.

- **Failing to track expenses properly.** Retailers must recognize that an increase in sales does not necessarily equate with profit. The costs of launching the program—which includes those related to IT, training, marketing, and service support—and the program’s maintenance costs are variables that demand attention.

- **Competing on unequal terms with e-commerce.** The low overhead and massive reach of e-retailers puts them on a different level of competition from traditional brick-and-mortar retailers. Further, e-retailers can implement programs based on alliances to “encourage customers to consolidate their spending and rebate points across several sectors.” The brick-and-mortar retailer cannot match this so easily.

While avoiding the typical flaws of loyalty programs, companies should also determine **program objectives**, which provide focus. According to *Harvard Business Review*, the company should decide on the program’s purpose based on the following options:

- **Discourage defections.** At Sprint, customers earn an airline mile for every dollar spent. The miles are redeemable at five different airlines. The gradual acquisition of miles which can later go toward airfare is a large enough incentive to continue spending money with Sprint and maintain membership in this loyalty program, which acts as a moat, preventing customers from leaving Sprint.

- **Motivate spending in customers.** Amazon offers a credit card that yields a penny to customers for every dollar spent, distributed as Amazon gift certificates. This program encourages spending through a credit card which yields numerous benefits to Amazon (late-payment fees and interest in particular) and encourages further spending at Amazon through a steady stream of gift certificates.

- **Encourage additional purchases.** A car-wash chain (unnamed in the report) implemented a program featuring a free wash for every eight purchases. Consequently drivers washed their cars at this company more often in order to reap the benefits of the program, finding gratification more quickly if they washed their cars with greater frequency.

- **Gather customer data.** Tesco collects data from customers who use its club cards. Then it uses the data to customize its magazine, sending them to customers every quarter with product promotions “tailored to at least four million different types of customers based on their purchasing habits.”

- **Ensure Profitability.** American Airlines sells miles to other businesses that can deploy them as rewards incentives in their own loyalty programs. While the airline

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company suffers from many obstacles in the business environment, this particular mile-selling program is profitable.\textsuperscript{25}

Inferring from the successful loyalty programs above, one might infer the following \textbf{program-design components}, which a company can use to develop a loyalty program:

- a \textbf{sense of momentum}, which the buy-eight-and-get-one-free deal at the car wash delivers;
- a \textbf{rewards system}, which literally rewards customers for their continued patronage;
- an \textbf{expansion of the customer-company relationship}, which a company should use if it expects that the customer does not need further incentive to make subsequent purchases and may need introduction to a whole new line of company products.

In this last scenario, instead of rewarding a loyal customer with a free cup of espresso, a coffee shop would offer a free pastry – chiefly to introduce a loyal customer to a new \textbf{product}, hopefully generating new long-term business in the process.\textsuperscript{26}

Amazon indirectly accomplishes this through its gift certificates, which provides customers with the possibility of buying a variety of goods at its online store.

\textit{Know when to lose a customer}

Loyalty does not necessarily drive profits, in part because companies devise crude methods to “decide whether or not to maintain their customer relationships.”\textsuperscript{27} Accordingly, \textbf{companies must know when to stop investing in certain customers.}

Only by monitoring data via CRM systems can a company profile customers accurately. Upon collection of data, the company can proceed to next steps. The following framework (Fig. 2.1) provides a method by which a company can classify customers and tailor strategies accordingly.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|l|}
\hline
\textbf{Category} & \textbf{Profitability/Loyalty} & \textbf{Loyalty Strategy} \\
\hline
True Friends & Profitable and loyal; buy regularly but not intensively & Approach softly: Do not communicate too often, or they will ignore everything. Reward their loyalty with exclusive access to special events and high-quality, limited-supply products. \\
\hline
\end{tabular}
\end{table}


\textsuperscript{26} Ibid.

**Category** | **Profitability/Loyalty** | **Loyalty Strategy**
--- | --- | ---
Butterflies | Profitable but disloyal | For the short time they buy, milk them with short-term, hard-sell offers. After their purchasing drops off, stop investing.
Barnacles | Unprofitable but very loyal | If you determine they have more money to spend, offer them products related to those they've already purchased.
Strangers | Neither profitable nor loyal | Identify early. Invest nothing.

Source: Harvard Business Review

Taking a step further, we provide a two-by-two matrix that (1) accounts for the degree of profitability promised by a customer and (2) provides actionable suggestions on what a company can do with each particular customer category.

**Figure 2.2: Choosing a loyalty strategy**

<table>
<thead>
<tr>
<th>High profitability</th>
<th>Low profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Butterflies</strong></td>
<td><strong>Barnacles</strong></td>
</tr>
<tr>
<td>Good fit between company's offerings and customers' needs</td>
<td>Limited fit between company's offerings and customers' needs</td>
</tr>
<tr>
<td>High profit potential</td>
<td>Low profit potential</td>
</tr>
<tr>
<td><strong>Actions</strong></td>
<td><strong>Actions</strong></td>
</tr>
<tr>
<td>Aim to achieve transactional satisfaction, not attitudinal loyalty</td>
<td>Measure both the size and share of wallet</td>
</tr>
<tr>
<td>Milk the accounts only as long as they are active</td>
<td>If share of wallet is low, focus on ups- and cross-selling</td>
</tr>
<tr>
<td>Key challenge is to cease investing soon enough</td>
<td>If size of wallet is small, impose strict cost controls</td>
</tr>
</tbody>
</table>

**CONTROL COSTS**

Loyalty programs are expensive. According to a study, 16 major European retailers had liabilities of $1.2bn in annual discounts to customers, with several supermarket chains surrendering $150m to this cause. Costs are similar in the United States. Especially in view
of high volumes, a one-percent rebate can effectively reduce overall profit margins. So companies implementing loyalty programs should take note of financial implications.

In particular, **loyalty programs entirely based on discounts** creates a situation in which a company pays people for their money, which runs contrary to sound business practice. Customers in this case do not bring higher profit margins to the company, failing a crucial test in effective loyalty programming. Accordingly, we stress the importance of designing a loyalty program that minimizes costs while raising the perceived value of items.

**MONITOR BREAKAGE**

\[
\text{Breakage} = \text{points issued} - \text{points redeemed}
\]

Breakage is important because it relates to finance and affects accounting. Points not redeemed are liabilities on the balance sheet; points redeemed are not always synonymous with full profitability. Further, **overprovisioning** for breakage can result in a paralysis of funds that could be better invested elsewhere. **Underprovisioning** can yield deficits.

As a benchmark, breakage rates in retail hover near 25 percent. It is unlikely for any program to be so engaging that customers redeem all points issued. Hence companies budget for a reasonable amount of breakage, trying to locate the sweet spot that optimizes their finances and supports the program’s goals.

**EXIT STRATEGY**

Colloquy estimates that there are 1.8bn loyalty-program memberships in the United States, with the average household participating in 14.1 programs. Half of those memberships were inactive, bringing the effective average figure to 6.2 programs per household. This promises robust competition in the field. Hence any company preparing to implement a loyalty program must prepare an exit strategy. Customers can react negatively in the event a loyalty program fails, even though they may not have engaged in it actively. This may have negative ramifications and can pose reputational risk.

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31 Ibid.
To prepare for a program’s exit, the company can observe these four considerations:

- **Sunset clause.** The company can build an expiration date into a program, which if articulated in fine print can always be extended as circumstances dictate.

- **Time for redemption.** The company should allow members to redeem outstanding points before terminating a program. Many customers may have invested considerable effort into acquiring loyalty points and deserve this accommodation.

- **Exit communications.** The phrase “promotion” instead of “loyalty program” communicates that the program has reached the end of its natural lifespan. Overall, the termination notice must also focus on facts and deliver them with diplomacy.

- **Be generous.** The company can announce an increase of redemption points in member accounts or provide coupons that draw customers back to the store in the future. The goal is to develop goodwill that will minimize customer backlash.

**Examples of Loyalty Programs**

In this section, we include a shortlist of loyalty programs to provide examples of successful implementations. Drawn from various industries, they may spark creative thinking in program development or provide models for deployment. The recurring features worth highlighting include **multiple tiers of membership**, reasonable emphasis on **mobile devices**, more **convenient access to redemption**, and intangible **lifestyle-based rewards**.

**Neiman Marcus InCircle**

Now close to 20 years old, Neiman Marcus customers earn two InCircle points for almost every dollar charged on Neiman Marcus or Bergdorf Goodman credit cards. Upon the accumulation of 10,000 earned points, Neiman Marcus sends a $100 gift card as a token to demonstrate its gratitude.35

In addition, Neiman Marcus offers five levels of prestige – “benefit levels” – based on a customer’s annual spend. Moving from Circle One through Circle Four adds incremental benefits to one’s membership. The highest level, branded the President’s Circle, delivers five points for almost every dollar spent.36

http://www.incircle.com/store/catalog/templates/F0.jhtml?itemId=cat103410&parentId=cat000001&siloid=cat103410

http://www.incircle.com/store/catalog/templates/Entry.jhtml?itemId=cat103411&_requestid=966
Harley Owners Group brings added value to its loyalty program in that it enriches the lifestyle of its members the Harley-Davidson way. No company can mimic that.

All of the offerings seem well aligned to the needs and values of the average Harley-Davidson customer. Further, these offerings enrich the lifestyle of customers the Harley-Davidson way, bringing added value that no competitor can duplicate.

American Express Membership Rewards

The financial-services company pursued a focused digital strategy that would deliver information, on-the-go offers, and redemption possibilities through mobile devices. Previous to this point, American Express had already mastered the lifestyle-and-prestige-based loyalty program. This latest implementation accommodated the mobile device to ensure continued convenience for members.

Through the new app, customers can locate personalized content such as nearby airport club lounges, local events, and the like, allowing them to engage more frequently in their membership.

In addition, members can use the app to “scan barcodes, compare prices, and instantly redeem for the item,” increasing the chances of engagement.

American Express pursued a digital strategy to accommodate the major trend of mobile devices, increasing levels of engagement.

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**Express NEXT**

The clothing retailer Express brought forth a multi-tiered, multi-channel loyalty program meant to reward its best customers, which was shaped according to input received from these same customers.

The mobile-focused customer segment encouraged the company to reward activities such as “checking into the store via mobile app, signing up for electronic rewards, and retweeting company communications.” Every member earns points at the same rate, but top-tier members earn higher-denomination rewards, and Express NEXT cardholders earn additional points per dollar.  

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Express increased membership through a multi-tiered, multi-channel program premised on mobile devices.

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41 Ibid.
SECTION III: ACTIONABLE SEGMENTATION

OVERVIEW

The spread of distribution channels and media vehicles as well as data analytics improves the ability of companies to identify and target customers.\(^{42}\) But developing a variety of value propositions to suit many customer segments depends on company-wide collaboration. This poses its share of challenges in view of differences in geography, weaknesses in communication, and/or departmental silos. This is ultimately a problem of management, process, and organization and must therefore be resolved in these functional areas.\(^{43}\)

The earlier Fig. 1.5 illustrates a segment-based approach to the matter. It underscores the importance of actionable segmentation, formal mechanisms, and organizational accountability. This section focuses on topics related to actionable segmentation.

Typically segmentation must be able to:

- Segment all customers in five to eight primary segments in a line of business;
- Draw clear distinctions between segments, based on customers’ current and potential value and their behavior and needs;
- Express the relationship between these segments and alternative segmentation approaches (such as demographic or attitudinal ones).\(^ {44}\)

KEY CUSTOMER SEGMENTS

In this subsection we examine how to define and identify two key customer segments which are critical to CRM strategy.

BRAND LOYALISTS

In a digital world that offers convenient price-comparison tools, it is critical to cultivate relationships with loyal customers. In other words, companies must “keep the best customers committed to the brand,” which is what many loyalty programs set out to do. The question is how to identify these loyal customers, i.e., Brand Loyalists. They often:

- Open a large proportion of company communications;
- Click through frequently, consume content, and make purchases;
- Connect with a company through social networks.\(^ {45}\)

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\(^{43}\) Ibid., p. 86.

\(^{44}\) Ibid., p. 88.

One other way to identify them is by first examining where Brand Loyalists differ from the overall U.S. population. The charts Fig. 3.1 and 3.2 illustrate their key characteristics.

**Figure 3.1: Brand loyalist mindset**

<table>
<thead>
<tr>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not buy unknown brands merely to save money</td>
</tr>
<tr>
<td>I usually only shop at my favorite stores because I know they have...</td>
</tr>
<tr>
<td>I enjoy owning good quality things</td>
</tr>
<tr>
<td>I like to share my knowledge with others</td>
</tr>
<tr>
<td>I usually read the information on product labels</td>
</tr>
<tr>
<td>I always look out for special offers</td>
</tr>
<tr>
<td>I’m always looking for new ideas to improve my home</td>
</tr>
<tr>
<td>When buying toiletries, the brand I choose is very important to me</td>
</tr>
<tr>
<td>I ask people for advice before buying new things</td>
</tr>
<tr>
<td>Price isn’t the most important factor - it is getting exactly what I want</td>
</tr>
</tbody>
</table>

Source: Experian

**Figure 3.2: Brand loyalist mobile and social network attitudes**

<table>
<thead>
<tr>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am likely to purchase products I see advertised on my cell phone</td>
</tr>
<tr>
<td>I would be interested in receiving advertisements on my cell phone</td>
</tr>
<tr>
<td>My cell phone is an expression of who I am</td>
</tr>
<tr>
<td>I would be interested in a service that would let me use my cell phone to</td>
</tr>
<tr>
<td>make purchases in a store</td>
</tr>
<tr>
<td>Tablet (non pc/laptop) -- brands owned: iPad (Apple)</td>
</tr>
<tr>
<td>I am more likely to purchase products I see advertised on a social</td>
</tr>
<tr>
<td>sharing/networking website</td>
</tr>
<tr>
<td>I trust product information that I get from social sharing/networking</td>
</tr>
<tr>
<td>websites more than other sources</td>
</tr>
<tr>
<td>I like to follow my favorite brands or companies on social sharing/</td>
</tr>
<tr>
<td>networking websites</td>
</tr>
</tbody>
</table>

Source: Experian
Based on the information above, a company can design a survey with similar questions and deploy it to current customers at the check-out counter to gain critical insights about their degree of loyalty. Then it can market its loyalty programs accordingly.

**BRAND ADVOCATES**

Brand Advocates promote a product by word of mouth, communicating in a variety of ways to potential customers about the strengths of that product. They are characterized by the following:

- 2.5x more likely to use social media to expand their social circles;
- Produce 2x more online communications about brands;
- 50 percent more likely to influence a purchase.

**Figure 3.3: Brand advocates tend to influence opinions and purchases**

More so than the average web user, Brand Advocates tend to influence opinions and purchases, as indicated in Fig. 3.3. They also:

- Lead frequent discussions about brands;
- Use social media to help others;
- Like being recognized for their insights;
- Prefer to share product information on social networks;
- Turn to Amazon and social networks to learn about new products.

Keeping in mind the above tendencies, a company can identify its Brand Advocates by deploying a survey that asks questions relevant to each tendency category.

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46 Kessler, Shelley. “A spotlight on brand loyalty: understanding brand loyalists and how to effectively market to them.” http://www.experian.com/blogs/marketing-forward/2012/11/28/a-spotlight-on-brand-loyalty-understanding-brand-loyalists-and-how-to-effectively-market-to-them/


48 Ibid.
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