

Using Loyalty Programs to Attract Consumers to Value-Added Businesses

Using Loyalty Programs to Attract Consumers to Value-Added Businesses. Differentiating themselves from the competition is necessary for retailers to become and remain foremost in their customers' minds.

Increasing market share is a retailer's primary goal for their business. The more customers shop at their store, the more likely sales and profits will increase. Consumers, however, have many choices as to whom they purchase from, how they purchase (e.g., Internet, catalog, retail store), and where they purchase goods. Differentiating themselves from the competition is necessary for retailers to become and remain foremost in their customers' minds.

Over the past couple of years, smaller, independent retailers have begun to develop and implement 'customer loyalty programs' as a means to increase their customer base. This promotional tool can be used regardless of the type of business. Farmers who produce and sell cheese, wine, breads, plants, or who offer services can develop and implement a program. Customers who enroll in the program, and who are 'loyal,' in the form of repeat purchases, receive benefits (coupons, discounts, or invitations to special sales or events) as a thank you for their patronage.

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Fruit or vegetable growers, who have road-side stands or sell through farmers' markets, can encourage sales by offering a free item once a certain amount is purchased. A landscape maintenance service can offer to weed a particular garden, based on a square foot basis, after a client has hired the company to mow their lawn a minimum number of times. Customers understand the basic function of loyalty programs and rewards redemption, as they most likely belong to another program already. Regardless of the type of program that is offered there are a few key concepts that should be considered: how customer purchases will be recorded, benefits offered, and whether loyalty has really been established.

What are examples of loyalty programs offered?

A loyalty program can be created around any number of principles and customer benefits. Basically, retailers should strive to develop a unique and appealing program, and one that is easy to implement and maintain. Though not an exclusive list, some loyalty programs include:

- Rewarding customers with coupons/discounts/special offers based on the dollar value of goods and services they purchase;
- private label credit cards, issued by the retailer, that offer benefits based on purchases and/or provide favorable financing terms; and
- major credit-card companies (Visa, MasterCard, etc.) that have partnered with businesses to not only offer store-specific discounts, but also allow customers to use their rewards to purchase products from partners or affiliate companies.

How loyal are program members?

The basic goal of offering a loyalty program is to encourage consumers to spend as much of their discretionary income as possible at a particular retail outlet. It is very possible that customers will only choose to shop at the retail outlet when a discount is offered or when bonus points or rewards need to be spent. There is a particular question that retailers might ask: how many consumers are members of at least one loyalty program?

- 85% of consumers age 18 to 35
- 78% of consumers age 35 to 45
- 85% of consumers age 55 and older (Anonymous, 2003)

Other sources indicate that at least one-third of consumers have two or more loyalty cards (Young and Stepanek, 2003). Income level is a key determinant of whether someone is likely to be a loyalty program member. Membership is greater for consumers with an income higher than \$50,000. Specifically, those with an income of \$50,000 to \$100,000 have an 84% participant rate, while consumers with even higher incomes, greater than \$100,000, participate at a 93% rate. Those with income levels less than \$50,000 participate at a 76% rate (Anonymous, 2003).





Industries with the greatest participation rate and whose cardholders use the card during each visit include supermarkets (58% and 84%, respectively), drugstores (27% and 79%, respectively), and travel industry (23% and 68%, respectively) (Anonymous, 2003). Observing how these programs are implemented and how customers can use their rewards is a good strategy for any retailer considering this venture. By becoming a member of several loyalty programs, retailers can see firsthand whether a program's benefits are appealing, if it is easy to redeem rewards, and if, overall, signing up for membership produced the outcome they expected.

Though consumers are signing up for memberships, not all may be classified as loyal. Seventy-five percent of survey participants said that they were satisfied with the businesses they most recently patronized. In regards to whether survey participants were "truly loyal" to businesses they patronize, 34% responded with a 'yes' (Young and Stepanek, 2003). Another source indicated that 55% of consumers are not loyal to the stores they frequent (Yin, 2003). Considering the supermarket industry alone, it is not unreasonable for consumers to belong to several loyalty programs offered by food retailers in their area and choose where they shop based on which one offers the best discount or greatest rewards for the week.

Program administration does have costs, typically between 2% and 5% of revenues (Beal, 2004). Costs depend on software and hardware that needs to be purchased, what customer information will be recorded and who will analyze the data, and how customers will be informed about their rewards. Prior to implementing any program, retailers need to determine whether potential costs are reasonable and if a realistic return on investment can be expected.

Who should be invited to join the program and how should benefits and rewards be offered?

Retailers can ultimately decide who will be invited to join their loyalty program, and as expected there are pros and cons for every option. Programs may have few restrictions, used primarily as a tool to encourage all customers to join, even those who make infrequent purchases or just visit the store to browse. Hence, discounts available to all loyalty program members are identical regardless of how much they spend. A potential outcome is that the program won't necessarily encourage loyalty. Rather, casual customers will wait until each store offers benefits and then shop only at that time. Remember that the goal of a loyalty program is to increase profits. Based on this design, foot traffic and the number of transactions may increase, but purchases are made at a discount. Programs can also reward customers based on the amount they spend over a period of time. This type of program has a greater chance of increasing profits and can give a better indication of which customers are actually loyal. Advertise the program through all possible methods: newsletters, circulars, Internet site, and using in-store displays. Also, announce that anyone can join but stress that rewards are based on accumulation of purchases. Several options are possible for reward redemptions:

1. Coupons issued once a certain amount is spent in the store. For example, once customers have spent \$100.00 on merchandise they would receive a coupon for 10% off their next purchase.
2. Discounts issued in incremental amounts or percentages. For example, with each \$50.00 purchase the customer is eligible for a 5% discount. If customers spent \$100.00 a 10% discount coupon would be issued; if \$500.00 is spent a 25% discount coupon would be issued. Each retailer would determine the maximum discount allowed.
3. Discounts available on specific products. Based on stock available or the desire to promote sales of certain items, retailers can provide discounts on certain specific products d) Invitations to special events. Retailers can use the program to develop a guest list for special events and advance notice of sales and promotions.

The use and value of a program can deteriorate quickly if program participants feel that their purchases are not being correctly accounted for.

Even if a retailer chooses a selection of product that a discount can be applied to, benefits offered should still appeal to members. Also, it should be convenient for customers to redeem their rewards and the program should be tailored to meet their needs and interests. If, for example, the business is a winery and a loyalty club member only drinks white wines, it doesn't make much sense to offer him/her discounts on red wines or varieties that are not appealing. A similar example

can be presented for garden centers or retail nurseries. If loyalty members live in apartments or in areas with limited lawn space, discounts that apply to trees and shrubs may not have much value. Consumers who visit a bed and breakfast could receive advanced notice of special rates or offered 'advance reservations' during peak season. In addition, customers could indicate their preferences for pillow type and other amenities when they sign-up for the loyalty program. The proprietor could then prepare the guest's room prior to their arrival and make sure that they have a memorable experience. Customers will be more inclined to participate in such programs and make purchases if they are rewarded in a manner that appeals to them.

Two methods provide the basis for recording purchasing activity. In the first, a computerized point-of-sale system is used to record customers' purchases. The system records purchases via an account linked to a bar-coded loyalty card that is 'swiped' or customers are asked for an identifier, such as a telephone number, that is 'keyed in' during the transaction. Point-of-sale systems can tabulate purchases and generate reward certificates once a certain amount of merchandise is purchased. In addition, a point-of-sale system can record and categorize purchases, allowing retailers to learn about what their customers have purchased in the past, how often, and in what quantity.

A more realistic system for a value-added agricultural business, due to reduced costs and management necessary for administering the program, is to transfer the record keeping to the customer. Purchases are not recorded electronically or tallied by the retailer; rather the customer is responsible for the safe keeping of the loyalty card. Several programs are commonly used:

- Purchases are recorded on a business card-sized piece of paper using a 'punch,' rubber stamp, salesclerk's initials, or gummed stamp, with each 'mark' representing the purchase of one item. After a quantity of 12 items is purchased, for example, the card can be traded in for a free, identical item.
- Customers collect coins or tokens, each representing a certain amount in dollars purchased, for example each token represents a \$10.00 purchase. Coins can be redeemed, up to a certain value, on future purchases.



An Example of a simple punch card.

How can customer purchases be tracked? One of the most important components of the loyalty program is keeping track

of how much customers purchase. This factor will be just as important to members as it is to the retailer. The use and value of a program can deteriorate quickly if program participants feel that their purchases are not being correctly • Customers collect their sales receipts and once a certain pre-tax amount has been purchased, for example \$100.00, the customer is entitled to a free gift or discount. When signing-up for membership, customers should be told that they need to keep track of their purchases and that if the loyalty card, coins/tokens, or receipts are lost or damaged then they, unfortunately, lose any accumulated benefits.

What might you consider before changing or ending a loyalty program?

Before introducing the program, retailers should consider all program aspects and ask employees for their input. All involved should review loyalty programs to which they belong and incorporate features that they like and believe their customers will value. Once a program has been implemented changes should be avoided since this can cause confusion and frustration. Customers may be discouraged from buying from you if they believe that the program isn't delivering what was promised.

If it is necessary to discontinue a loyalty program, every effort should be made to contact customers about changes or cancellation and to also announce the information in the store, in newsletter articles, and on the retailer's Internet site. Be sure to inform members several weeks or months in advance and offer compensation comparable to benefits or discounts that can no longer be redeemed. Offer a coupon with an open-ended expiration date so that customers understand that the retailer is sincere in efforts to help members adjust to the change.

An example of a simple punch card. Compensatory coupons could be based on several factors: an actual discount based on past amount purchased; an award amount that is slightly greater than the actual amount owed (a good faith effort); or an entirely new type of reward system that the retailer is interested in implementing. Whatever option is chosen it is imperative that customers will find it has value and that it is worth visiting the store to redeem the reward. This will ensure that customers are not further upset as they may become even more dissatisfied if the offer is seen as a half-hearted attempt.

How else can you increase consumer loyalty?

For certain industries, loyalty programs do encourage members to spend more money on purchases. Supermarkets report that loyalty program members spend, on average, 48% more than nonmembers. For the clothing industry, the average is an 18% increase in spending over customers who are not loyalty program members (Keiningham, et al. 2005). Even though it appears that these programs have succeeded, merely offering a loyalty program and investing little else into the business may produce positive responses for only a short period of time.

When a retailer does not improve the shopping experience, beyond offering select discounts, loyalty cannot be won and customers can become trained to only shop when sales or promotions are offered. Retailers need to make certain that customer service, product availability and selection, and other “experiential” factors (e.g., aesthetics and educational opportunities) meet customer expectations and persuade them to return to the retailer again and again.

To the extent that they apply, the following questions should be considered and revisited frequently:

- What is offered that makes the shopping experience convenient and easy?
- Are all staff members, regardless of position or rank, friendly and knowledgeable?
- Are an appropriate number of checkout stations provided and staffed?
- Is the product selection appealing and in stock, even during sales and special events?
- Is the store layout easy to navigate and are goods stocked according to usage?
- Are displays attractive and do they promote ideas for customers to replicate in their own home/garden/property?
- Is technical service provided so that customers can call and ask questions and inquire about assembly, maintenance, and repair to goods they purchased from the store?

The bottom line is that a loyalty program alone does not guarantee repeat purchases; rather it is only one component that successful retailers implement. It is equally important to make sure that all staff members treat customers well, that customers have a positive shopping experience, and that they feel the retailer values their patronage. The resulting outcome can be a lasting relationship that is beneficial for both parties. A continued series of positive experiences further encourages the customer to shop there; hence the customer truly becomes loyal.

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by Kathleen M. Kelly

Contact Information

Kathy Kelley

Professor of Horticultural Marketing and Business Management

KathyKelley@psu.edu

814-863-2196

extension.psu.edu

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