"The Loyalty Leap" by Bryan Pearson

Building Customer Engagement
Through the Three R's of Loyalty

By: Bryan Pearson, President and CEO, LoyaltyOne and author of *The Loyalty Leap: Turning Customer Information Into Customer Intimacy*

To evolve beyond merely identifying and rewarding great customers, recognize all of the critical touch points where you can connect with them, in ways that show you understand who they are and what they care about. This is *relevance*, and it represents the most powerful opportunity for companies to create deep emotional loyalty from their customers.

Think about relevance in terms of context plus content. Content for targeted segments is easy, but content alone won't win the day. Offers and

messaging should be framed in a contextual environment that makes sense and actually engages customers and gets them to pay attention. Our work with high-frequency retailers has shown us that placing the same offer in a relevant contextual environment can more than double the incremental margin generated from each customer.

But What Will Put Relevance to Work? How? And for Whom?

The most sophisticated and successful loyalty programs are organized around a relevance strategy. But in this case contextual relevance is managed across the continuum of multiple customer interactions, spanning a few years or more. Like most customer-management strategies, the process starts with segmentation, to define the target audience. Creating this kind of multilayer segmentation strategy involves a delicate

balancing act. It must be sufficiently granular so that the goals will be achieved but not so complex that campaigns become too onerous to execute reasonably.

The first step in implementing this strategy requires exploration of the question: **Who are my customers?** This segmentation should identify not only the customer's current value to the enterprise, but also his potential value in the future. Customers should be segmented based on their

observed shopping behavior, including everything from the products they purchase to the channels and store formats they frequent. When this

analysis is combined with demographic information, a meaningful picture of those customers who are strong potential targets will emerge.

Understanding "who" will naturally lead to the exploration of "how." The **how is about creating the contextual environment** for the company's messages so that the target consumer will pay attention to what he or she is sent. We must find messages that strike consumers as relevant to their own needs and desires versus generalized communications that are geared to the masses. The analytic results could focus the company's attention on demographics (for instance, mothers with children), purchasing behaviors (organized around healthy eating or product profiling), specific ethnicities, or perhaps a combination of all three. Once we recognize the who, we can begin to understand how best to communicate with our customers.

The last segmentation element to consider is the "what." **The what defines the key motivators that will influence consumer behavior** by

answering several pertinent questions: Will discounts work better than points? Which channels of communication are most effective? And are there special benefits or opportunities that will be more motivating to the consumer than others?

The formula for creating relevance exists in combining these three forms of segment marketing in such a way that the consumer responds favorably to the message, resulting in a more profitable and effective campaign.

No Doubt About It: Loyalty Is a Matter of Trust

Loyalty programs offer companies a flexible and powerful way to cultivate customer intimacy. Unfortunately, surprisingly few companies are doing a good job at it. There is a significant difference between the experiences executives think they are delivering and the perceptions of those encounters among their customers. A recent study from Accenture measured this gap, providing quantitative evidence that supports our theory. In the study, 55 percent of executives rated their ability to target consumers and provide them with relevant experiences as either "ideal" or "very good." When consumers were asked whether the same companies were good at providing them with tailored, relevant experiences, only 21 percent agreed. The Accenture study involved interviews with eight hundred directors and senior managers at blue chip companies across multiple industries in the United States, Canada, China, Brazil, and other countries.

If these companies aren't getting it right, and it's pretty clear they're not, then very few are. The research also found that more than half the

companies surveyed didn't take advantage of analytics to help them target, service, or interact with customers. When the most successful companies are falling short in this way, it seems to me we have a critical gap that can be turned into a significant opportunity. Everybody talks about it, but few are doing it, and those who are aren't doing it very well.

The opportunity, of course, is to use data to deliver the kind of service or product proposition that sets the company apart from all the others. Doing this will build trust, gain relevance–which is not that easy–and finally realize customer loyalty and intimacy. The real strength of relevance as an engagement strategy is that it encourages customers to stay, sharply increasing market retention and staving off competitors.

Consumers implicitly understand that there is value in the data and history that they choose to share with companies. In an environment where this data is used to create a relevant experience, it would be a challenge for any competitor to replicate what that consumer has shared with the company over time, and to offer the resulting customized experience. It gets back to building emotional loyalty to support long-term, sustainable revenue streams from these customers, to evolve the long-term value and equity of the business.

The preceding is an adapted excerpt from The Loyalty Leap: Turning Customer Information into Customer Intimacy by Bryan Pearson, available now from Portfolio. For more information, visit the book's web site at www.pearson4loyalty.com