

Research and Analysis: Viability of a Loyalty Program for the Magnolia Neighborhood

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I. INTRODUCTION

In March 2021, the Magnolia Chamber of Commerce engaged a team of Foster MBA students via the University of Washington Service Corps program in order to increase efforts to better support member businesses. While the Magnolia neighborhood of northwest Seattle is an affluent area with a wide mix of retail, restaurants and professional services, previous study has found that many residents prefer to shop elsewhere, and that those who do shop locally tend to frequent the same few establishments. The study also suggests that this low buy-in results from a lack of awareness regarding the diverse array of offerings within the Magnolia neighborhood. Given the severe economic downturn due to the COVID-19 pandemic and its disproportionate impact on small businesses, the Magnolia Chamber of Commerce has focused on identifying effective ways to stimulate traffic into businesses and generate long-term customers.

A demographic of keen interest in these efforts is the one-third of the Magnolia population represented by high-income, young professional local residents who currently choose to shop elsewhere, yet who are mobile enough to visit the breadth of Magnolia's businesses. The Chamber of Commerce's mission is to foster connections between Magnolia businesses and residents and support the local community. Aligning with the launch of a cooperative marketing campaign to highlight local businesses, students were tasked with examining the viability of an additional chamber-wide loyalty program in an effort to encourage this target demographic and other locals to patronize member businesses.

II. BACKGROUND

Foster students conducted a nine-week-long study with the objective of examining the evidence behind loyalty programs for small businesses, evaluating whether such a program could be a good fit for the Magnolia Chamber of Commerce, and if so, suggesting a specific loyalty program structure with which to proceed. An extensive literature search yielded resources regarding the general principles, benefits, and efficacy of running loyalty programs and considerations for structuring programs to fit the businesses they serve. Students researched ready-made digital platforms for loyalty programs and the application of those for Magnolia small businesses. They also communicated via phone and email with other coordinators of other groups of small businesses both locally and further afield who have implemented such programs, gaining their feedback and insights about the implementation costs and financial impact of loyalty programs in their settings.

Previous research on neighborhood demographics was analyzed and applied toward the novel research conducted by the students. A close examination of the business mix within Magnolia and neighboring areas was performed to evaluate potential loyalty program members and their likelihood of participation as well as maximum financial impact.

Following the secondary research phase, primary research was designed and conducted by the team. A survey was created and released to two separate groups: Magnolia merchants and University of Washington MBA students. The first survey, intended for merchants, was designed to capture attitudes toward participating in loyalty programs; the second survey, targeting Foster MBA students in the 25-40 year old age group, was intended to understand consumer attitudes and practices surrounding adoption of a local loyalty program for the target demographic.

Through group analysis and weekly check-ins with the Magnolia Chamber of Commerce team, the evidence for consolidated small business loyalty programs was continually evaluated and weighed against the goals, objectives and constraints expressed by the Chamber. With all of these factors in mind, the Foster MBA team was able to come to a final recommendation and provide ongoing resources for Chamber members.

III. SECONDARY RESEARCH

Perspectives on and Benefits of Loyalty Programs

A review of literature revealed a number of clearly established tenets of marketing research. The first was that the American population is primed to participate in these incentives. According to Berman (2006), Americans embrace loyalty programs, with nearly 90% of the population enrolled in at least one. In addition, the average adult is enrolled in 14.8 loyalty programs and is active in 6.7 of those.

Loyalty programs benefit customers by generally allowing them to accrue some level of financial savings through participation in the program, while participating businesses experience advantages on multiple fronts. According to Karunaratna & Kumara (2018), customer retention is vital for a firm, because acquiring a new customer is far more expensive than keeping an existing one. Loyalty programs enable stores to increase customer retention and profitability, create a touchstone for contact with customers, and gather customer data (Berman, 2006) for future segmentation and targeting. Interestingly, spending per visit is not proven to be impacted by these incentives (Gopalakrishnan, et al., 2020). Loyalty programs that satisfy customers are important, because a highly satisfied customer stays loyal longer, talks favorably about the

company's products and services, pays less attention to competing brands, and is less sensitive to the prices and offers of competing brands (Berman, 2006).

The second major consensus is that loyalty programs were generally a positive investment for businesses. Loyalty programs are better suited to products than services (Faramarzi, 2021). The positive financial impact was stronger if the company were able to host a more complex, tiered program, but the positive impact on average extended to all business and loyalty program types, even if they were the simpler, non-tiered variety (Gopalakrishnan, et al., 2020). Loyalty programs are found to be effective for both large businesses as well as small retailers (Karunaratna & Kumara, 2018).

Evidence-based determinants of customer loyalty include customer satisfaction, perceived value, trust, corporate image, service quality, loyalty programs, and switching costs (Karunaratna & Kumara, 2018). Further customer preferences are detailed below:

- 73% of consumers said rewards must be relevant; 68% said they must be easy to redeem; and 55% said the program must be easy to understand and use (Morgan, 2020).
- 79% of customers say they are more likely to join a rewards program that doesn't require them to carry a physical card (Morgan, 2020).
- Common consumer complaints associated with loyalty programs include: a lack of supply of advertised rewards, the difficulty generating sufficient points (due to purchase volume or expiration periods), promised rewards having little value, and privacy issues (Berman, 2006).

Loyalty Program Types

Loyalty programs are generally grouped into four categories (Berman, 2006):

Program Type	Mechanism	Requirements	Pros & Cons
<p>Type 1: Discount at register</p> <p>(Example: Most supermarket loyalty programs)</p>	Members receive pre-arranged discount when checking out	<p><u>Customer:</u> Sign up for and present loyalty card or app at check-out</p> <p><u>Business:</u> Offer price reduction on qualified items</p>	<p>Pros:</p> <ul style="list-style-type: none"> - Easy option for small businesses - Ability to use across wide range of businesses <p>Cons:</p> <ul style="list-style-type: none"> - Doesn't collect customer data
<p>Type 2: Receive gift/reward based on purchase of set number of items ("Punch card-type")</p> <p>(Example: Ballard Brewery Passport Program)</p>	Members are eligible for rewards after signing up and making a set number of purchases	<p><u>Customer:</u> Sign up for and present loyalty card or app at check-out</p> <p><u>Business:</u> Give away products or services to customers who redeem after chosen # of purchases</p>	<p>Pros:</p> <ul style="list-style-type: none"> - Suitable for small businesses - Low-cost - Encourages frequent visits <p>Cons:</p> <ul style="list-style-type: none"> - Must rely on customers to remember card - Can be prone to fraud - No customer data
<p>Type 3: Cumulative rewards</p> <p>(Example: Delta SkyMiles, Starbucks Rewards)</p>	Members receive a percent of their purchase amount back as rebate via points or cash	<p><u>Customer:</u> Sign up and utilize membership to qualify for increasing benefits with spending</p> <p><u>Business:</u> Maintain database with purchase info; provide free or discounted products/services as customers redeem</p>	<p>Pros:</p> <ul style="list-style-type: none"> - Incentivizes higher spending - Easy to create tiers - Ability to collect customer data <p>Cons:</p> <ul style="list-style-type: none"> - Can be expensive and resource-intensive to implement
<p>Type 4: Targeted offers and mailings</p> <p>(Example: REI Co-op member offers)</p>	Customer is sent personalized offers via mail or email	<p><u>Customer:</u> Provide email or physical address</p> <p><u>Business:</u> Maintain strong database, segment customers and send out targeted offers</p>	<p>Pros:</p> <ul style="list-style-type: none"> - Easy to gather customer data <p>Cons:</p> <ul style="list-style-type: none"> - Typically not a standalone strategy - Must be personalized based on segments to succeed

Digital vs. Physical Loyalty Programs

Long-term loyalty programs can be conducted in two forms: physically or digitally. Loyalty programs with a physical component require a customer to keep a paper or plastic card in his or her wallet and reveal it in-store to receive rewards. Digital loyalty programs are run via software application; one or both parties need to download or install and then interact with the app at the point of purchase. Below is a sample of the software application platforms for loyalty programs.

App	LP Type(s)	Cost	Operational Burden	Features
StampMe	Type 2	\$20 per month*	Low	Customer analytics included; can use for short or long-term programs
Square	Type 1,2,3	\$29 per month* (loyalty application only)	Medium	Enrolled customers spend 37% more and are 2x more likely to return; easy enrollment by providing phone number only; no additional hard/software, provides customer analytics. *Must use Square POS system.
FiveStars	Type 1,2,3,4	\$147 per month*	Medium	Requires POS integration and in-store tablet, gathers and presents customer data. One overarching program, but rewards only accrued within individual businesses. In use at 100+ Seattle small businesses.
Perkville	Type 1,2,3	\$99 per month*	Medium	Partners with Yiftee for gift card rewards; many case studies with positive impact
Saltwater	Type 2, 3	2% of gross store revenue	Low	Customers register their credit card/s in store and receive rewards for shopping at designated stores with these card/s

*Prices listed are per storefront per month

Small Business Loyalty Programs: Case Studies

One of the constraints of the literature review was the dearth of case studies on loyalty programs serving groups of independent small businesses. Perhaps intuitively, most literature on loyalty programs focuses on the high-volume, complex, tiered programs run by large companies (for example, Delta SkyMiles or REI Co-op). At the same time, due to lower levels of resources, programs implemented by small businesses often do not build in metrics for measuring efficacy of their loyalty program in the first place, limiting ability to evaluate later. In order to eliminate a bias toward research with irrelevant takeaways for the Chamber of Commerce's purposes, students only included data on small and medium-size businesses. Additionally, there exists very little publication regarding loyalty programs encompassing *groups* of many small businesses as envisioned by the Magnolia Chamber of Commerce; as such, research on both groups of businesses as well as individual business programs was included in this analysis.

Loyalty programs for individual businesses provided strong support in favor of utilization. Case study details are outlined below:

- Businesses with non-tiered loyalty programs experienced an average increase in lifetime value of 29% over five years; 80% of this impact was due to reduced attrition, while 20% was due to increased frequency of visits (Gopalakrishnan, et al., 2020)
- A non-tiered customer loyalty program for a hair salon chain increased customer value by nearly 30% over a five-year period, mostly through attrition reduction; this did not impact spending per visit (Gopalakrishnan, et al., 2020)
- In City of Hobart (AUS), 50% of participating StampMe businesses experienced increased foot traffic (Stampme.com)
- One business experienced a 2% revenue increase (Lewis, 2004)
- Another business experienced revenue increase of 4% (Leenher, et al., 2007)
- Loyalty programs rewarding customers for meeting a set spending threshold saw increase of sales by 6% in 8-week promotion period and 1.8% in the following 7 weeks (Taylor & Neslin, 2005)
- Stores experience 3x Return on Interest (ROI) on "buy one get one" loyalty programs (Yiftee.com)

Loyalty programs for *groups* of businesses were more mixed in their financial impact. Data was gained directly from loyalty program managers. Case information provided on these

below:

- **Fortuna, CA Loyalty Cards** (Discount at Register-type program with physical cards) Cards can be purchased for \$25 (or \$15 for chamber members); when presented, customers have access to a wide range of discounts from a diverse group of local businesses. On the implementation side, the physical card Type 1 option was easy for this Chamber to execute and maintain, as it cost less than \$1,000 to design and print cards and no additional money to update their existing website with the latest discounts. Also, they found that this option was easiest for a wide array of businesses to be involved in (i.e. a bank could offer a free bag of branded merchandise, a design consultant could offer a free trial, etc.). However, this program was still relatively new, and post-COVID, they had some struggles getting off the ground. The economic impact is still uncertain, and the administrator stated that it was taking longer than expected to sell the cards.
- **Foster City, CA Stamp Me Loyalty Program** (Punch card-type program with digital app) The City of Foster City utilized a budget of \$50,000 to set up and fund a loyalty program to generate business for local restaurants during the COVID-19 pandemic. Launched in March 2020, customers sign up for the app at no cost and then receive digital “stamps” upon purchasing food from one of the 15 participating establishments. Once they fill their stamp page, customers receive a \$10 reward voucher (funded by the City) toward further purchases at member restaurants. The City of Foster City does not have metrics regarding financial impact for participating businesses; however, membership for the program has grown 10x in the last year, stamp accrual has grown 12x, and reward redemption has grown 650x, indicating significant revenue generation via this program. Despite this seeming success, the City is planning to discontinue the program upon the termination of previously allocated funds. The City Economic Development Manager stated, “I think most of these programs are cumbersome to use and add cost for the business or consumer or both...other staff implemented this program, which was time-consuming. When there were technical problems with the program, staff emailed questions, but the program provider was in Australia, and the response was delayed by time zone differences.”
- **Seattle Neighborhood Passport Program** (Punch card-type program with digital app; full name not disclosed for privacy) Printed passports and stamps and gave to neighborhood businesses for distribution to customers - these generate interest but are

not used in program data tracking. Monthly “challenges” are posted on the neighborhood group website; customers undertake a challenge (ex. taking a photo with an ice sculpture and using promotional hashtag, or taking a photo of a receipt from a purchase at a participating retailer and emailing in) and are entered into a raffle of donated items or experiences from participating businesses. The neighborhood group has spent \$11,000 on promotional materials and has engaged approximately 10% of local businesses in the program. Customer participation has been low at less than 10 participants per challenge. The group is not currently measuring financial impact and the goal seems to be more focused on increased awareness than economic benefit.

Initial Insights for Magnolia

Based on the above data, one may draw several major insights as to the viability of a loyalty program in Magnolia.

- **Little evidence exists to validate the financial impact of loyalty programs for groups of small businesses.** Thus, if deciding to proceed, the Chamber and merchants must be satisfied with other qualitative achievements (customer and merchant enjoyment, insights from experimentation) or must at least be willing to proceed with an ambiguous expected ROI from the project.
- **“Discount at register” and “Punch card-type” loyalty programs are the best for small businesses** (Berman, 2006). Students took this into consideration when analyzing the results of primary research on customer attitudes toward loyalty programs and detailed logistics of rollout.
- Even in the good times, **loyalty programs can be costly to administer.**
- **Physical elements such as loyalty cards or brochures provide an opportunity to recognize the Magnolia Chamber of Commerce.**

IV. MAGNOLIA BUSINESS MIX ANALYSIS

A fundamental component of the research process to recommend a loyalty program was a deep and accurate analysis of the Magnolia business landscape. Students proceeded to evaluate the types of businesses in Magnolia as well as the likelihood that these businesses would participate in a neighborhood loyalty program. This was primarily accomplished through two research exercises: 1) a firsthand survey of the area by car and foot, and 2) an analysis of the online footprint of local businesses.

Step 1: Magnolia neighborhood survey

On April 9, 2021 the Foster team drove across all commercial areas in the Magnolia neighborhood and walked through the Magnolia Village and Fisherman's Terminal commercial strips. We came away with a few initial impressions:

- While the Village and Fisherman's Terminal provide some areas of business concentration, businesses in the neighborhood are quite fragmented and spread out. Even in areas of business concentration, there is a substantial mix of "business to business" (B2B) and "business to consumer" (B2C) businesses, making it difficult to know what one's destination should be as a consumer. For example, the Ballard neighborhood to the north has a well-defined Ballard Ave area with significant numbers of restaurants and consumer establishments that make it a desirable destination for consumers.
- Apart from the Village, many areas of Magnolia where businesses are concentrated feel quite industrial and uninviting to consumers. Fisherman's Terminal has a heavy commercial maritime feel and layout; Thorndyke is a busy street with spread out businesses; and Interbay is industrial with its railroads and major thoroughfare connecting Northwest Seattle to downtown. The main takeaway is that these areas are not ideal for business discovery by consumers who are on foot, and as a result will not enjoy the pedestrian foot traffic of a well-defined consumer shopping area.
- Even though some businesses in Magnolia may be difficult to find due to a lack of defined shopping areas, there are many attractive restaurants, shops, and consumer service businesses (salons, bike shops, etc) to be discovered in the neighborhood. This indicates that Magnolia doesn't lack desirable and interesting businesses - rather, the issue is more likely that some residents and visitors lack awareness of their existence due to the fragmented locations throughout Magnolia.

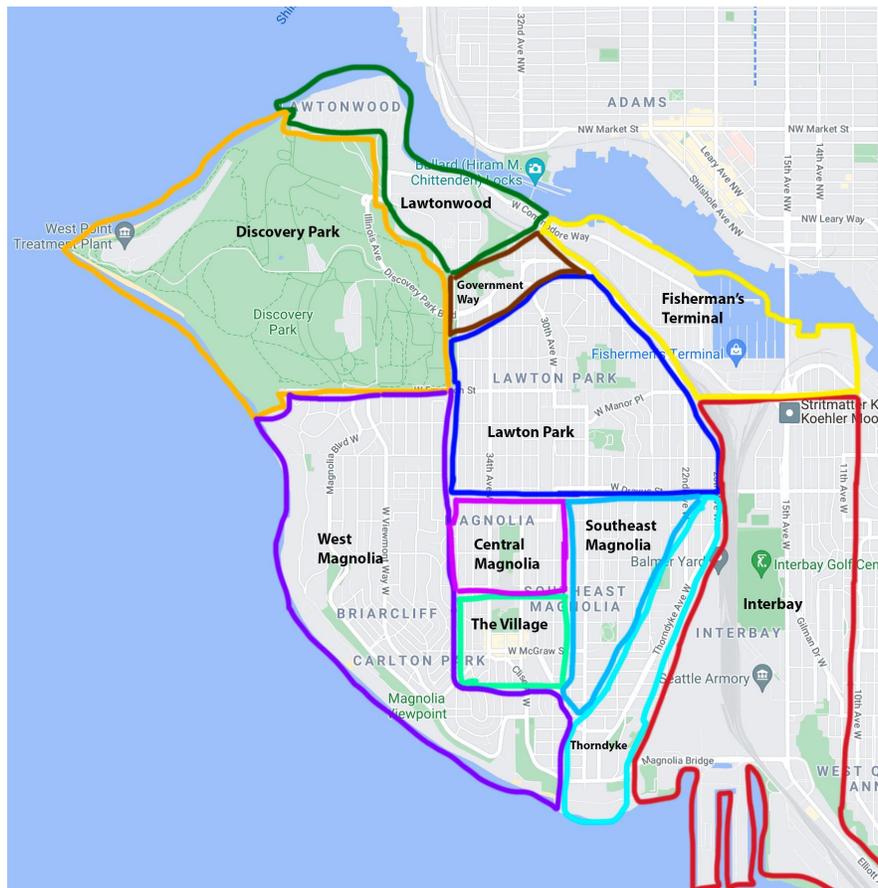
Step 2: Analysis of neighborhood businesses to evaluate suitability for and likelihood to participate in a neighborhood loyalty program

After the initial survey, the team utilized digital resources to understand the characteristics of neighborhood businesses and evaluate the likelihood of their participation in a loyalty program. Given that a potential loyalty program would be launched and managed by the Magnolia Chamber of Commerce, students elected to use the Chamber's business directory as the source for a comprehensive list of businesses in the Neighborhood.

This analysis purposely excludes businesses that are Chamber members but are located outside the bounds of the Magnolia neighborhood. Since the stated goal of a loyalty program was to incentivize a greater number of purchases at Magnolia businesses, it did not make sense to include member businesses in locations such as Ballard or Bellevue. While the businesses outside Magnolia's bounds don't represent a significant proportion of Chamber members, they would have potential to skew data and therefore overall analysis.

This initial filtering resulted in a list of 200 businesses to analyze. In order to adequately evaluate their candidacy for a neighborhood loyalty program, students analyzed these businesses along a number of parameters¹:

- Location within Magnolia area (see map below)
- Industry
- Secondary industry segment (as applicable)
- Customer focus (B2C vs. B2B)
- Foot Traffic
- Presence of pre-existing loyalty programs or promotions

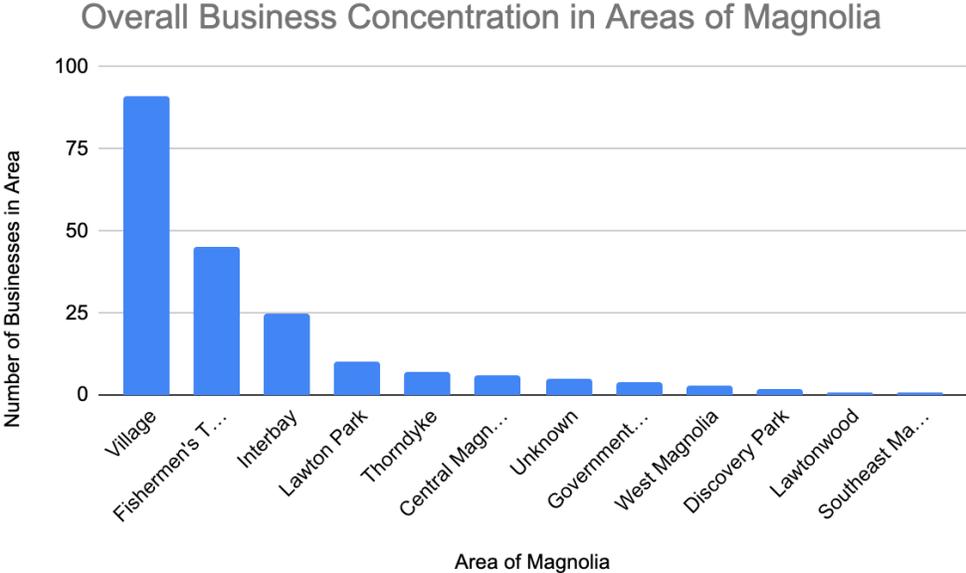


¹ See Appendix 1 for further detail on each category

Students generated a ranking for each business representing the likelihood of its adoption of a neighborhood loyalty program, based on an assessment of the results from the categories above; scores ranged from 1 (“very likely”) to 5 (“very unlikely”). The full Excel data set of this analysis was submitted to the Chamber at the conclusion of the project in conjunction with this report.

Location within Magnolia

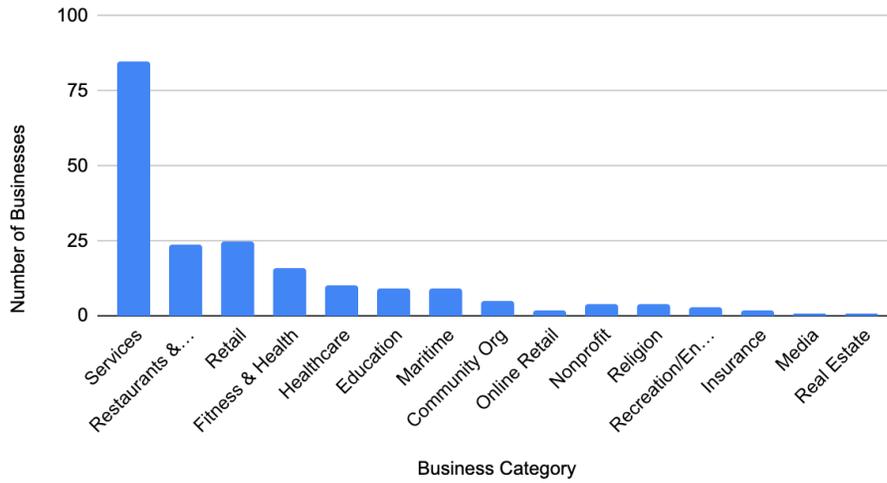
All 200 Chamber member businesses within the area above were categorized by the smaller neighborhoods in which they are located. The research confirmed an initial assessment that businesses in Magnolia are widely distributed throughout the neighborhood, with strong concentrations in the Village, Fisherman’s Terminal, and Interbay.



Business Categories

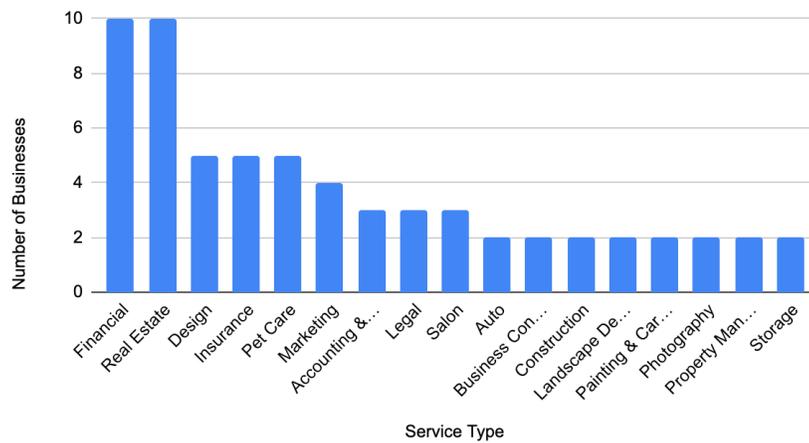
Businesses were subsequently categorized by the industry in which they serve. Services and Restaurants & Food were found to be the most common industry types. 42.5% of companies were shown to be services companies (rather than retail, restaurants, and other industries).

Magnolia Business Mix



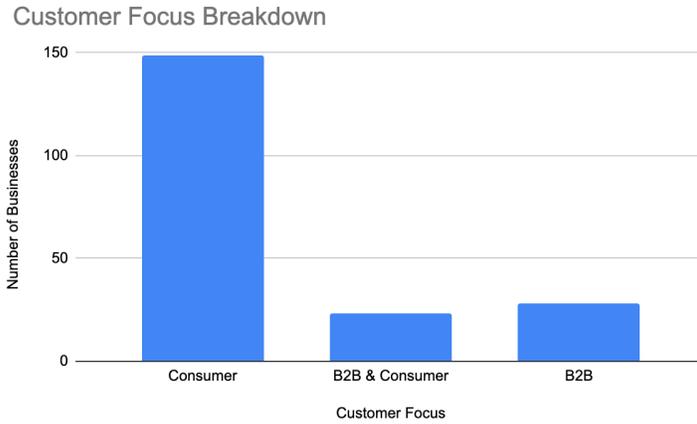
Service businesses range widely in their specific industries; a closer look at the services provided by these companies is shown below.

Top Subcategories within Services



Customer Focus

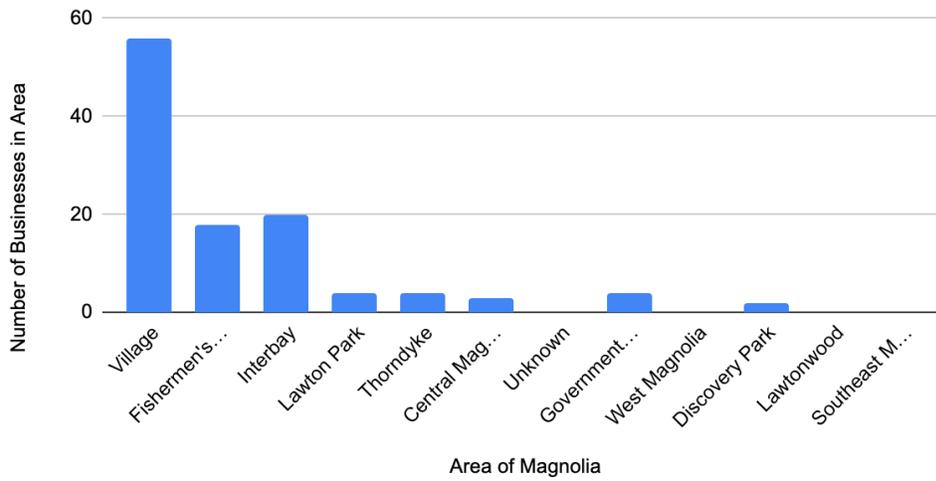
Of note, 86% of businesses in Magnolia are consumer-focused (B2C). This number includes the 11.5% of businesses that serve both individual consumers and other businesses (B2B).



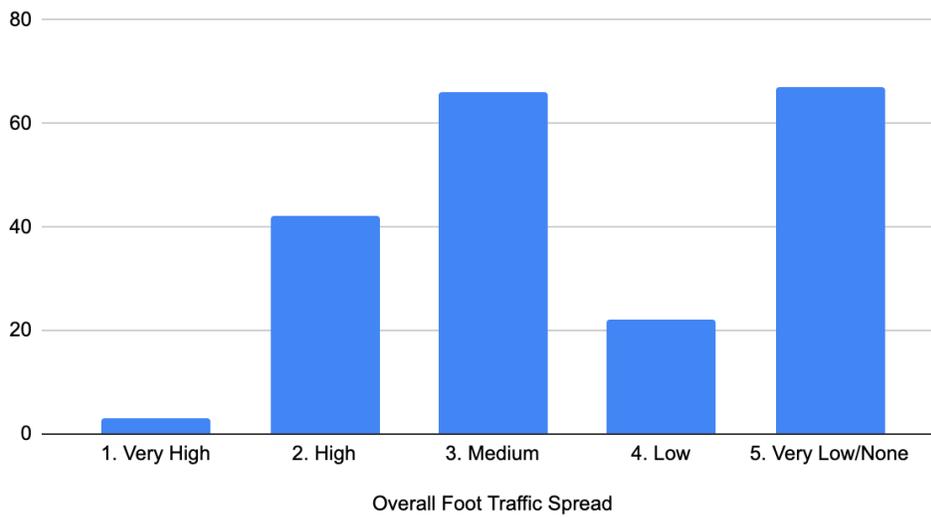
Foot traffic

High-foot-traffic consumer businesses enable smoother initiation and maintenance of loyalty programs due to their greater consumer visibility. Foot traffic was forecasted under non-pandemic circumstances, as a mixed measure of business type (more heavily weighted) and geographical location (less heavily weighted).

Foot Traffic Concentration in Magnolia | Sum of Medium, High, and Very High Foot Traffic Businesses



Overall Foot Traffic Spread



Results indicate that foot traffic may be a challenge facing Magnolia when it comes to implementing a loyalty program. Most foot-traffic-prone businesses are located in Magnolia Village, with a smaller presence in Fisherman’s Terminal and Interbay. There are 3 businesses in the very high and 42 businesses in the high foot traffic categories, representing 22.5% of the Chamber’s members in the Magnolia neighborhood.

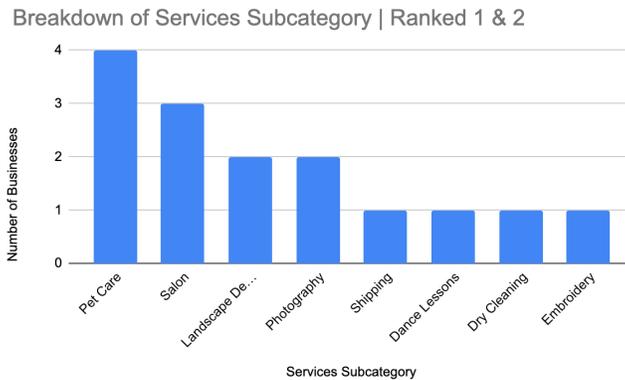
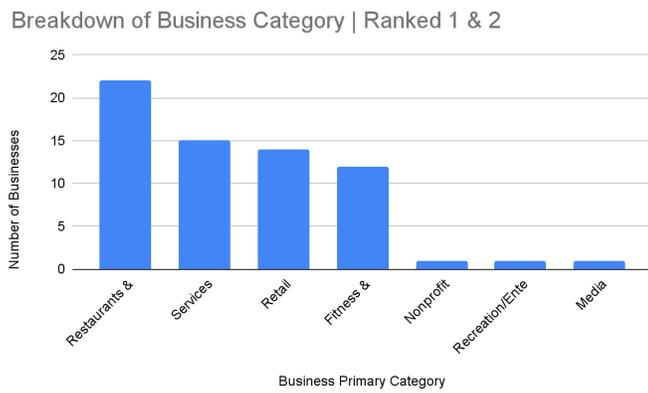
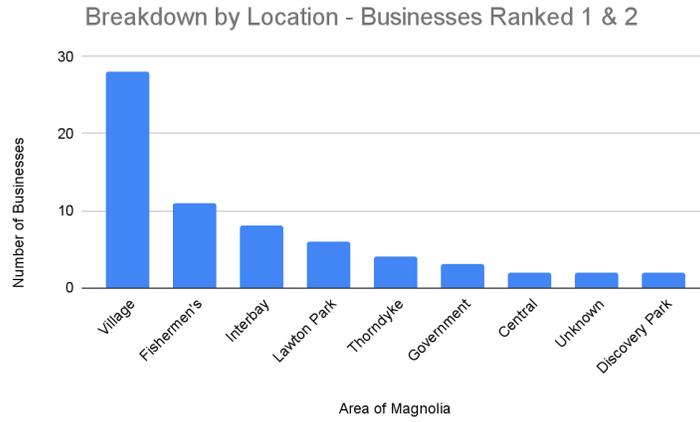
Overall candidacy for loyalty programs

Research findings validated the existence of a wide range of business types in Magnolia. While many are not suitable candidates for a consolidated loyalty program - for example, financial services, real estate, and insurance businesses, or B2B businesses with very low walkability - there is a group of businesses which stood out as stronger candidates. In line with the mission of the Magnolia Chamber of Commerce, there appears to exist a sufficient quantity of businesses across a range of industries and neighborhoods. Businesses were ranked from 1 (“very likely”) to 5 (“very unlikely”) with regards to the likelihood of their participation in a loyalty program. Of the 200 businesses studied, 35 were “very likely” to participate; 31 were “likely”; 14 were “neither likely nor unlikely;” 25 were “unlikely;” and 95 were “very unlikely.”

Analysis of businesses ranking as strong candidates for loyalty programs

The businesses classified as “likely” and “very likely” to participate in a loyalty program share some common traits. The 66 businesses that fit this criteria were analyzed again to understand the location and industry breakdown for program design consideration. They are primarily

high-foot-traffic businesses with a consumer focus, are concentrated in the Village, Fisherman's Terminal, and Interbay, and are Restaurant & Food Businesses, Services (especially Salons and Pet Care stand out), Retail and Fitness & Health (Gyms, Massage Therapy).



Interim conclusions from neighborhood study

Initial findings indicate that the Magnolia Chamber of Commerce member pool is host to many potential candidates for a loyalty program. In conjunction with the literature review, there are several takeaways regarding business viability:

- Businesses in the Magnolia Village, Fisherman's Terminal and Interbay should be the first anchors for a local loyalty program. These groups of suitable businesses can take advantage of the network effects of their locations, including sharing in promotion and ease of use for customers.
- The vast majority (86%) of businesses directly serve consumers, who are typically better candidates to engage with loyalty programs than B2B customers.
- Loyalty programs are more successful with products than with services, and while services make up the majority of Magnolia's businesses, there are some services businesses that lend themselves to frequent usage (ex. salons, dog grooming) as well as a selection of restaurants and retail which are a more natural fit for a loyalty program participant.

This study establishes that there are dozens of attractive participants for a loyalty program, validating the initial hypothesis of the Chamber of Commerce. Next, the team evaluated merchant and consumer attitudes toward adopting such a program, as buy-in from these parties would be critical for success.

V. PRIMARY RESEARCH

Magnolia Merchant Perceptions of Loyalty Programs

Methodology

In order to evaluate the willingness of local business owners to participate in a loyalty program, the team designed a survey which was released to over 70 Chamber members by Executive Director Jason Thibeaux. Students subsequently followed up with most of the members via telephone to maximize survey engagement. In total, 15 businesses responded to the survey².

Analysis

Due to the small sample size, it was challenging to draw many conclusions from the results or trust that trends were representative of the larger group, though a few insights emerged. First, the egift card was by far the least popular of the surveyed loyalty program options. Second, about 40% of the survey respondents already offered some type of loyalty program. Lastly, a response rate of less than 20% potentially indicates a lack of enthusiasm or interest for a new solution that businesses would have to implement, and also might be due to current struggles as businesses recover from COVID.

From those who did fill out the survey, there was no clear preference between the three loyalty program options presented. In general, the survey confirmed our hypothesis that some merchants are worried about the effectiveness of loyalty programs and ROI as they consider paying monthly fees with limited funding and maintaining the resources to launch and maintain a loyalty program. There were several merchants who already had independent loyalty programs in place who had concerns about how a consolidated program would work for them and appeal to customers.

Customer Perceptions of Loyalty Programs

Methodology

The Magnolia Chamber of Commerce indicated a particular interest in retaining the purchasing power and loyalty of the young professional demographic (in their 20s/30s, relatively new to the neighborhood, roughly a third of the Magnolia population). As a proxy to this demographic, the team sent a survey to their fellow Foster classmates regarding interest in neighborhood loyalty

² See Appendix 2 for merchant survey results.

programs. Thirty-three students responded, with a breakdown of 19 students between 26 and 30 years old, 13 between 31 and 36 years old, and 1 between 36 and 40 years old³.

Analysis

Within this demographic, there was strong preference shown for a digital app (or simple use of a phone number at register) over a physical card. Additionally, people within this demographic showed some preference for non-economic benefits such as discovery of new local businesses and the knowledge that shoppers would be supporting local businesses, which may help with future marketing efforts and act as supplements to any financial analysis around loyalty programs.

V. RECOMMENDATIONS

After careful consideration of the above information, the Foster MBA team recommends *against* the introduction of a consolidated Magnolia neighborhood loyalty program by the Chamber of Commerce at this time.

There are several reasons for this recommendation that stem from both primary and secondary research findings. Due to the wide range of products and services and large geographic span of merchants, it will be difficult to design a consolidated loyalty program that truly serves this breadth of businesses while increasing foot traffic and revenue for most or all of them while limiting promotional spend. The low engagement from both merchants and customers, in combination with the potentially confusingly broad range of products and services, indicates that current conditions are not supportive of a consolidated neighborhood loyalty program. Due to limited resources from the merchants and the Chamber, a digital solution (which is the preference of the customers), is not feasible.

The team recommends a two-pronged strategy: Magnolia should provide resources to small businesses regarding loyalty programs and simultaneously pursue other strategies to attract foot traffic to the neighborhood. Many merchants already have loyalty programs in place, and research studies showed much greater success for programs serving only one store or chain of multiple store-fronts under the same business. The resources developed by the Service Corps team⁴ can help merchants better allocate their resources if and when they decide to initiate such a program independently. Magnolia is known for some of its outdoor spaces (such

³ See Appendix 3 for customer survey results.

⁴ See Appendix 4 for Small Business Loyalty Program Guide.

as Discovery Park), so the team believes that it could be beneficial to draw residents and non-residents to businesses via summer events such as outdoor street festivals, where customers can stroll on pedestrian-only streets and develop awareness of local businesses. Independent retailers should continue to seek out opportunities to participate in Seattle-wide campaigns to increase visibility (eg. Seattle beer passport, restaurant week, etc). It is also recommended to continue the current Love Local program at Magnolia, as studies have shown the success in these programs increasing customer spend.

Secondly, developing a strong marketing strategy is critical; two important aspects of success for neighborhood business are promoting the neighborhood brand and leveraging social media. The team believes that Magnolia can further clarify their brand via a branding exercise consisting of developing a positioning statement, brand strategy, and a brand narrative to attract the target audience of young professionals. Individual businesses should also consider co-marketing on popular blogs and accounts such as Eater and the Seattle Met, as this is where the younger audience, both in Magnolia and around Seattle, looks to for guidance on where to shop.

VI. CONCLUSION

Over the course of nine weeks, the Foster Service Corps team put together a body of novel research, both secondary and primary, as well as an in-depth analysis of Magnolia's business mix, in order to provide the Magnolia Chamber of Commerce with a recommendation on a neighborhood loyalty program to stimulate foot traffic and purchases at local businesses. Secondary research demonstrated that loyalty programs could be very successful with the right businesses and the right support.

The business mix analysis demonstrated that Magnolia is capable of hosting such a program. However, primary research involving Magnolia's own businesses and the main target demographic for Magnolia indicated that the time may not be right for implementation of a loyalty program across the community; businesses are still recovering from COVID and are wary of further upfront costs or complicated logistics, while consumers want digital options more than ever, which tend to be more costly and complex. Despite this, the students have provided the Magnolia Chamber of Commerce with their full body of work for future reference in hopes that the Chamber will be able to benefit from it for other marketing purposes, and potentially for future loyalty program efforts. The team is grateful for the opportunity to work with the Chamber and thanks them for all their support.

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APPENDIX 1: Business Mix Evaluation Methodology

The following are the parameters used in analyzing the Magnolia Chamber of Commerce member businesses and their fit for a loyalty program. The list of businesses was generated from the Chamber's [online directory](#). Further analysis was conducted via the businesses' websites, social media channels, Google maps, and observation from traveling around the neighborhood. Note that the student team only included businesses in this analysis that are located within the reasonable realm of what is considered the Magnolia neighborhood (some Chamber members are in Ballard and as far away as Bellevue, and they were not relevant to our study).

- Directory Number - Where the business falls in the order of the Magnolia Chamber of Commerce [online directory](#). Designed to make comparing our list and the online list easy.
- Location - A best attempt to assign the business to a neighborhood within the Magnolia. See below for a map of designated areas. A combination of Google Maps and understood colloquial area naming (i.e. Thorndyke) were used to determine the names and boundaries of these neighborhoods.
- Primary Segment - The high-level industry category in which the business operates. This category is kept broad to enable some meaningful initial groupings of businesses in the data set. The segment options are as follows:
 - Community Organization - An informal community group specific to Magnolia
 - Education - The organization is a school, either nonprofit or for profit, requiring application and enrollment
 - Fitness & Health - The business is a gym, fitness, massage, or wellness center
 - Healthcare - The business is a doctor's office, dentist, etc
 - Maritime - The business serves or is a member of the maritime industry (commercial fishing, shipping, etc)
 - Nonprofit - The organization is a nonprofit serving the community in Magnolia and beyond
 - Online Retail - The business operates primarily an online store only (no storefront)
 - Recreation/Entertainment - The business provides a service with leisure/entertainment value
 - Restaurants & Food - The business sells prepared food for consumers, often with a dining area
 - Retail - The business operates a storefront where hard goods are sold
 - Services - At a high level, the business provides a traditional consumer or B2B service. For this category the secondary segment is important to analyze. The vast number of different industries/categories falling under this category is the reason for the quite general "Services" label.
- Secondary Segment - A secondary description for business to provide more context about their industry. Due to the wide range of businesses in the neighborhood, we

created many different secondary segment categories in order to not unduly misrepresent a businesses industry/function.

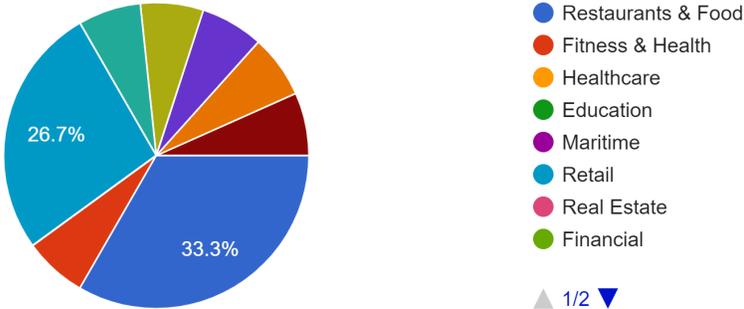
- Focus (Consumer/B2B) - A description of whether the business' primary customers are consumers or other businesses.
 - "Consumer" means that the business' primary customers are consumers
 - "B2B" means the business' primary customers are other businesses
 - "B2B & Consumer" means the business' customers are a significant mix of both other businesses and consumers
- Foot Traffic - Our best assessment of how many customers physically enter the business on a given day. Rather try to identify the true number, which would be quite challenging, we have ranked the businesses on our best assumption. A few examples are below:
 - 1. Very High - A grocery store
 - 2. High - A restaurant, cafe, or standard retail outlet
 - 3. Medium - A gym, doctor's office, school, or bank branch
 - 4. Low - A financial services business, real estate broker, or other niche business
 - 5. Very Low/None - Typically the office for an online store or a business where clients rarely visit the office, meaning it either has insignificant foot traffic or none at all.
- Website - The business' website that was used for research in this project
- Existing Loyalty Program/Promotions - Whether or not the business has an existing loyalty program and/or if it runs promotions on its products. This provides some initial indication of whether a business would be willing to adopt a Magnolia loyalty program and offer a discount on its services. It also indicates whether integration with an existing program may prove a challenge.
 - None visible online - Given that the research team is conducting online research, we visited the businesses' website and/or social media accounts to determine the presence of a loyalty program or promotions. If we did not observe any, we indicated the business as "None visible online." Note that it is possible the business still has some type of loyalty program or promotional campaigns that are only observable in-person. For example, because we visited Petit Pierre in-person, we know that it uses a loyalty program integrated into its POS, but this is not advertised anywhere online.
 - Yes - If the business does have a loyalty program or promotional campaign (current or previous) observable through online research, we marked it yes and provided further context on what it was.
- Other notes - Anything else relevant about the business to this project we thought worthy of note
- Ranking for Magnolia Loyalty Program - Our best assessment of how likely the business is to adopt a Magnolia Loyalty Program based on the research conducted.
 - 1 - Very Likely
 - 2 - Likely
 - 3 - Neither likely nor unlikely
 - 4 - Unlikely
 - 5 - Very unlikely



APPENDIX 2: Results of Merchant Survey

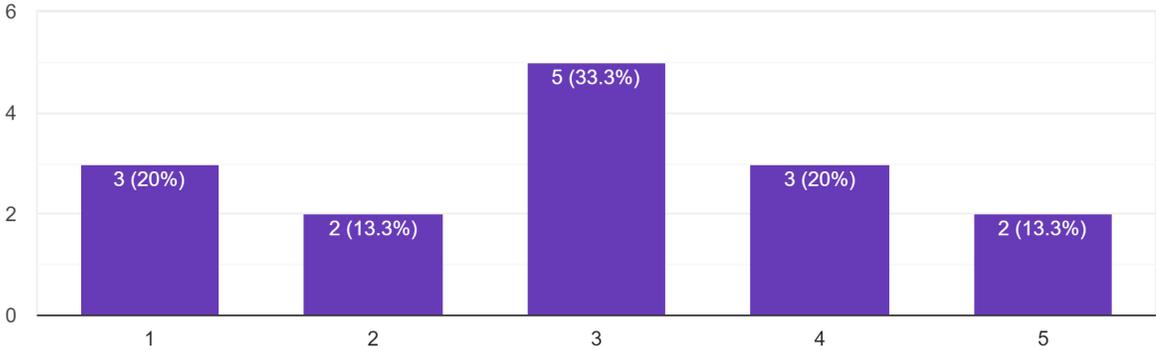
What segment category best represents your business?

15 responses



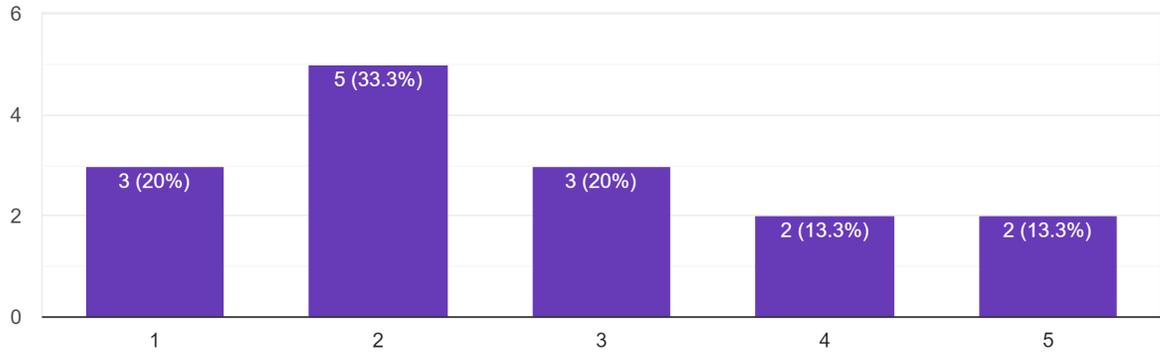
On a scale of 1-5, what is your perception of the financial benefit of offering loyalty rewards to your customers?

15 responses



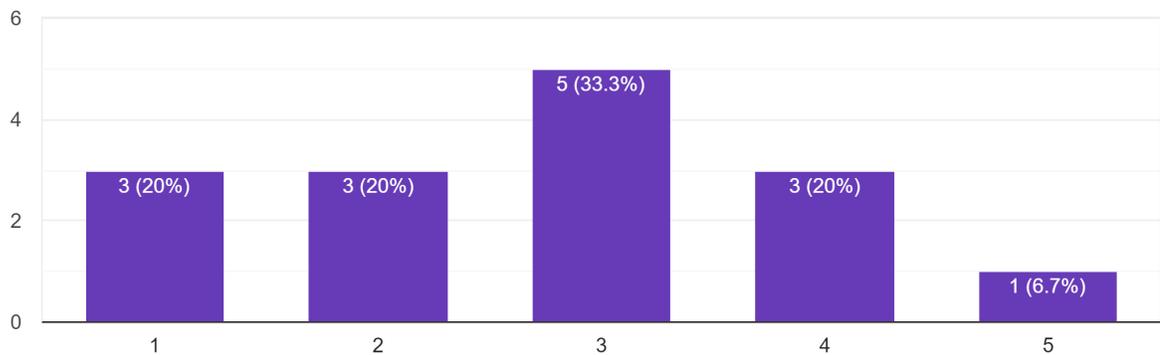
OPTION 1: Your business would get to decide a discount or free offering to provide to any customer holding the loyalty card or app (free coffe...n a scale of 1-5, how likely are you to participate?

15 responses

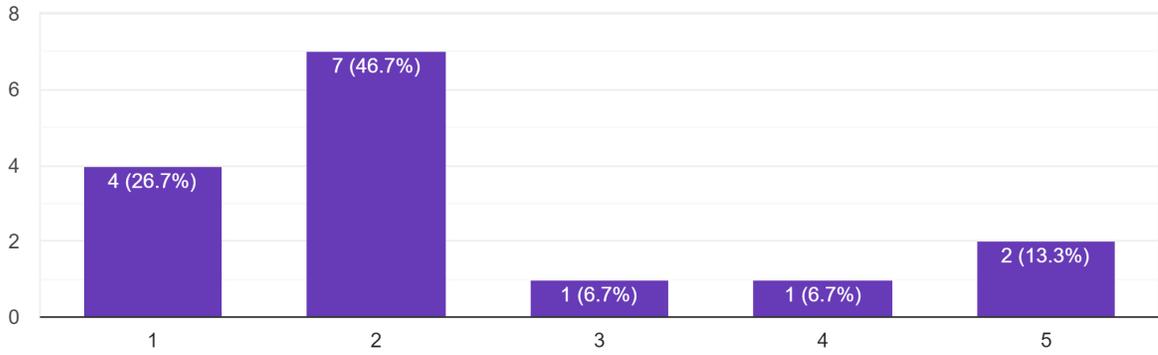


OPTION 2: Your business would participate in a consolidated punchcard (digital or physical), which would allow customers to receive a reward after a nu... a scale of 1-5, how likely are you to participate?

15 responses



OPTION 3: Your business would participate in a consolidated eGift card that customers could use to purchase across different Magnolia businesses, wi... a scale of 1-5, how likely are you to participate?
15 responses



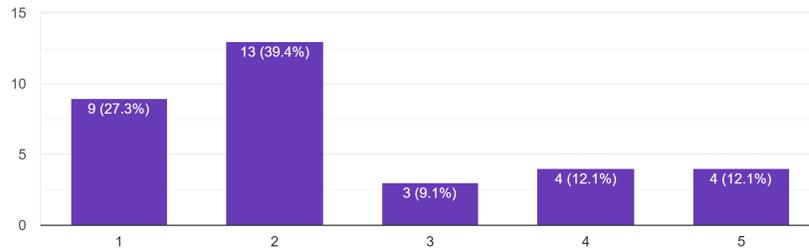
See detailed results in the embedded excel sheet

APPENDIX 3: Results from Customer Survey

From a scale of 1-5, how likely are you to join a small business loyalty program that...

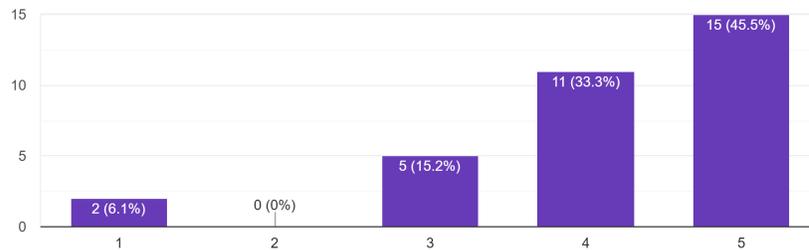
...Requires you to carry a physical card?

33 responses



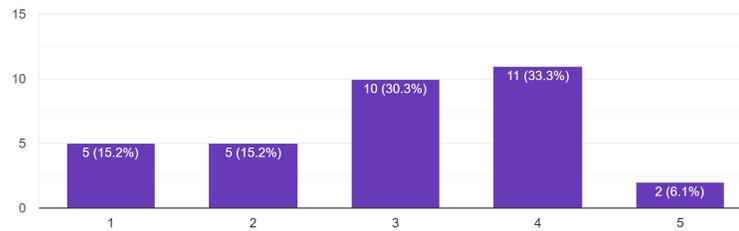
...Only requires that you provide your telephone number to the cashier when you check out?

33 responses

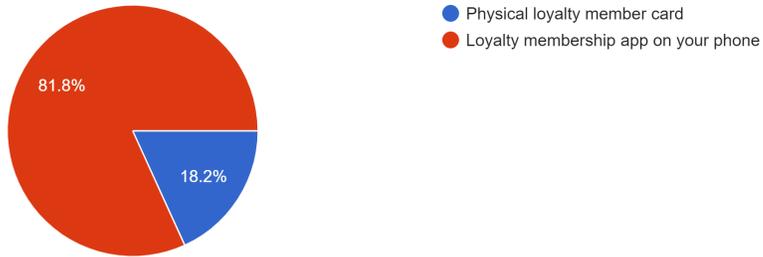


...Requires an app on your phone?

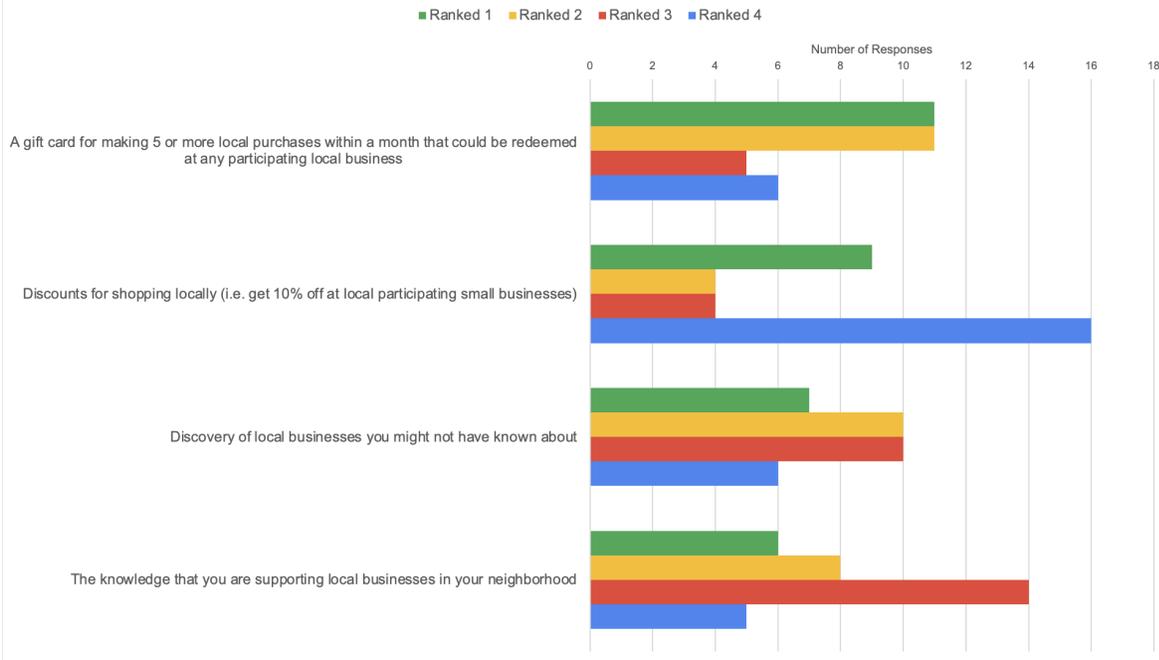
33 responses



For a local neighborhood loyalty program (i.e., the program would provide regular discounts at participating small businesses in your neighborhood to show to a cashier when redeeming rewards?)
33 responses



What aspect of a neighborhood loyalty program would be most appealing to you? Please rank your answers from 1 (most appealing) to 4 (least appealing):



Appendix 4: Loyalty Program Options for Small Businesses



LOYALTY PROGRAM OPTIONS FOR SMALL BUSINESSES

June 2021



PREPARED BY
FOSTER MBA
SERVICE CORPS

FOSTER
SCHOOL OF **BUSINESS**
UNIVERSITY OF WASHINGTON



WHY USE A LOYALTY PROGRAM?

Loyalty programs retain customers, improving their lifetime value to a business.

Businesses of all types and sizes leverage loyalty programs to improve customer satisfaction and deepen their relationship with their clients. In fact, loyalty programs have become so popular among businesses and consumers that the average American adult is enrolled in 14.8 loyalty programs and active in 6.7 of those.¹

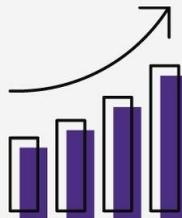
Among the many reasons to use a loyalty program is the simple fact that **acquiring a new customer is far more expensive than retaining an existing one.**²

Small Business Case Study: A Hair Salon grows Consumer Lifetime Value by 30%

Even a simple program can impact your bottom line. Olin School of Business, University of Washington in St. Louis academics studied a hair salon that offered a simple \$5 reward for every \$100 spent. Through this simple program, the salon grew Consumer Lifetime Value by 30% through lower attrition over a 5-year period. Customers chose to stay loyal to business when previously they would have left, and this made the average customer more valuable to the business.³

\$5 REWARD

For every \$100 Spent



**+30%
Consumer
Lifetime
Value**

Breaking down the benefits



Retain Customers and Grow Revenue

- Businesses have a 60-70% probability of selling to a loyal customer, vs a 5-20% probability of selling to a new customer (Marketing Metrics)⁴
- A 5% increase in customer loyalty can increase profits by 25-95% (Bain & Company)⁵



Extend Your Marketing Reach

- Digital loyalty programs where customer information is collected offer targeting and relationship building opportunities through digital marketing (e-mail, social media, web ads, push notifications)
- Word of mouth and bystander effects grow exposure to your business and the program. Those who hear about the program or see it in action will want to be a part of it. (Prof. Rob Palmatier, UW Foster)



Build Strong Relationships

- Emotional consumer processes (ex: gratitude) outweigh cognitive (ex: perceived value) in loyalty programs. The fact you are offering your customer a reward is more important than the value of that reward—the customer will look favorably upon the action first. (Prof. Rob Palmatier, UW Foster)
- Loyalty programs show you are willing to invest in your customer, inspiring gratitude and cementing a relationship (WashU Olin Study)⁶

TYPES OF LOYALTY PROGRAMS

There are four main types of loyalty programs to consider for your business. For small businesses, we recommend pursuing a Type 1 "Discount at Register" Program or a Type 2 "Punch Card Style" program for the following reasons:

- Relatively easy to implement and maintain
- Low upfront cost
- Easy for customers to understand

While a small business may want to pursue a more advanced Type 3 or 4 program once they've enjoyed success with an initial loyalty program, in most cases we do not recommend these programs as a starting place due to their complexity.

Program Type	Mechanism	Requirements	Pros	Cons
Type 1: Discount at register	Members receive pre-arranged discount or offer when checking out	Customer: Sign up for and present loyalty card or app at check-out Business: Offer price reduction, free samples, etc on qualified items	<ul style="list-style-type: none"> • Easy option for small businesses • Low cost • Ability to implement across wide range of businesses 	<ul style="list-style-type: none"> • Must rely on customers to remember physical card if program is not app-based • If program isn't app-based, doesn't collect customer data
Type 2: Receive gift/reward based on purchase of set number of items ("punch card" - style)	Members are eligible for rewards after signing up and making a set number of purchases	Customer: Sign up for and present loyalty card or app at check-out Business: Give away products or services to customers who redeem after chosen number of purchases	<ul style="list-style-type: none"> • Suitable for small businesses • Low cost • Encourages frequent visits 	<ul style="list-style-type: none"> • Must rely on customers to remember physical card if program is not app-based • Can be prone to fraud • If program isn't app-based, doesn't collect customer data

TYPES OF LOYALTY PROGRAMS (continued)

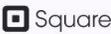
Program Type	Mechanism	Requirements	Pros	Cons
Type 3: Cumulative rewards (used by airlines for their rewards programs)	Members receive a % of their purchase amount back as rebate via points or cash	Customer: Sign up and utilize membership to qualify for increasing benefits with spending Business: Maintain database with purchase info; provide free or discounted products/services as customers redeem	<ul style="list-style-type: none"> • Incentivizes higher spending • Easy to create tiers • Ability to collect customer data 	<ul style="list-style-type: none"> • Can be expensive and resource-intensive to implement
Type 4: Targeted offers and mailings	Customer is sent personalized offers via mail or email	Customer: Provide email or physical address Business: Maintain strong database, segment customers and send out targeted offers	<ul style="list-style-type: none"> • Easy to gather customer data 	<ul style="list-style-type: none"> • Typically not a stand-alone strategy • Must be personalized based on segments to succeed

DIGITAL LOYALTY APPLICATIONS

Loyalty programs can use either a physical element (like a punch-card or membership card with a QR code on it) or an app-based platform to facilitate offer discovery and redemption. While cost might play a role in which option you choose, our research shows that young professionals in the 26-35 age range overwhelmingly prefer an app-based loyalty program solution over a physical (non-digital) one.

Why target a younger demographic? About 1/3 of Magnolia residents are young professionals—a digital native demographic that is newer to Magnolia and could be spending more in the neighborhood if targeted with the right incentives and awareness campaigns.⁷

Below we highlight a few of the top digital loyalty applications you may want to consider for your businesses. There are many solutions out there however, so this consider list this as a starting point.

App	Program Type(s) Supported	Cost	Operational Burden	Features
 StampMe	Type 2	Starts at \$29/month	Low	Customer analytics included; can use for short or long-term programs
 Square	Type 1, 3, 3	Starts at \$45/month (Requires Square POS)	Medium	Enrolled customers spend 37% more and are 2x more likely to return; easy enrollment by providing phone number only; no additional hard/software, provides customer analytics
 FiveStars	Type 1, 2, 3, 4	Starts at \$147/month	Medium	Requires POS integration and in-store tablet, gathers and presents customer data. Benefits from network effects—users of the app can easily discover any other local businesses using FiveStars. In use at 100+ Seattle small businesses.
 Perkville	Type 1, 2, 3	Starts at \$99/month	Medium	Partners with Yiftee for gift card rewards; many case studies with positive impact

LAUNCHING A LOYALTY PROGRAM

Once you decide on which loyalty program you'd like to implement and are ready to launch, you need a plan for how you'll get it set up for success. A loyalty program is like any other product—it needs to be marketed so your customers know it exists. At a high level, there are two stages you'll want to consider: Introduction and Engagement.

1. Introduction Stage

To successfully introduce your program, here are a few crucial steps to execute:

Define Goals and Metrics: What is the goal of your loyalty program and how will you track its success? Your goals should be based on metrics you are able to track and be aspirational but realistic. The goals and metrics you establish are largely dependent on the type of program you choose and your type of business, but here are some common key performance indicators to consider: ⁸

- Loyalty program participation rate
- Redemption rate of program rewards
- Growth in Number of purchases over a given period
- Growth in Revenue over a given period
- Growth in repeat purchases by a customer over a given period
- Growth engagement and positive sentiment on social media
- Reduction in churn rate (the rate at which customers stop purchasing from you)
- Growth in Customer Lifetime Value (how much revenue does a customer generate before they stop purchasing from your business)
- Return on investment of your loyalty program
- Improvement in Ratings and Reviews - are your customers more satisfied with your business?



LAUNCHING A LOYALTY PROGRAM (continued)

Get the word out: Ensuring that your customers (and prospective customers) know about your program and sign up for will be critical for success. Consider the following for your launch kit:

- A page on your website that explains the benefits of your program, how it works, and how customers can sign up (include a form/app link that enables sign up or at least captures the person's name, email, and other relevant information to enable follow up).
- A full digital marketing campaign to drive traffic to that webpage, including emails and social media posts announcing the launch.
- If you have a physical storefront, print posters, plaques, handouts, and other pieces of collateral to advertise the program to visitors.
- Offer a gift or benefit as an immediate reward for folks who sign up—this will provide a strong incentive that grows membership.

2. Engagement Stage

Your program is launched and you have an initial membership base. Now what?!

There are a lot of companies competing for the attention of your customers. Your members might forget that they signed up for your program, even though they'd love to be shopping and redeeming rewards with you. **Make sure you stay front of mind and engaged in an ongoing conversation with your membership base about the value of the program.**

Your loyalty program is an element of your overall marketing strategy. Just like any marketing initiative, it will require ongoing commitment to succeed.

- Be sure to showcase your program regularly in emails and social media posts.
- Most digital loyalty program apps allow businesses to communicate directly with their customers via text, email, or the app itself. If you have an app-based program, utilize this function to engage customers with short-term offers and promotions and drive traffic into stores.
- Include a short reminder about your program and sign up link in all of your email communications and social media pages, so customers can easily discover it even when it's not part of the core messaging of an email or social media post.
- If your programs allows for it, change the reward you offer each month or provide an extra perk for program engagement. Keeping the program fresh and exciting is key.
- Encourage your customers to share their rewards experience on social media and tag your business.
- Offer exclusive discounts or early product access to rewards program members. Host a members-only event.
- Partner with other businesses or organizations to co-market your loyalty program. Offer a limited time reward to members of a complementary business' loyalty program for signing up for yours, and vice versa.

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