



# LOYALTY PROGRAM OPTIONS FOR SMALL BUSINESSES

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## 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.<sup>1</sup>

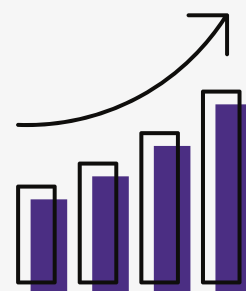
Among the many reasons to use a loyalty program is the simple fact that **acquiring a new customer is far more expensive than retaining an existing one.**<sup>2</sup>

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

Even a simple program can impact your 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.<sup>3</sup>

**\$5 REWARD**

For every \$100 Spent



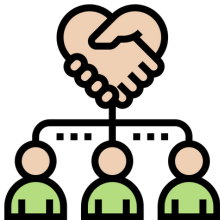
**+30%  
Consumer  
Lifetime  
Value**

# 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)<sup>4</sup>
- A 5% increase in customer loyalty can increase profits by 25-95% (Bain & Company)<sup>5</sup>



## 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)<sup>6</sup>

# 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:<br>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<br><br>Business: Offer price reduction, free samples, etc on qualified items                             | <ul style="list-style-type: none"> <li>• Easy option for small businesses</li> <li>• Low cost</li> <li>• Ability to implement across wide range of businesses</li> </ul> | <ul style="list-style-type: none"> <li>• Must rely on customers to remember physical card if program is not app-based</li> <li>• If program isn't app-based, doesn't collect customer data</li> </ul>                                  |
| Type 2:<br>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<br><br>Business: Give away products or services to customers who redeem after chosen number of purchases | <ul style="list-style-type: none"> <li>• Suitable for small businesses</li> <li>• Low cost</li> <li>• Encourages frequent visits</li> </ul>                              | <ul style="list-style-type: none"> <li>• Must rely on customers to remember physical card if program is not app-based</li> <li>• Can be prone to fraud</li> <li>• If program isn't app-based, doesn't collect customer data</li> </ul> |

## TYPES OF LOYALTY PROGRAMS (continued)





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

# 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. They are primarily renters in the eastern part of the neighborhood who are well-educated, pursue healthy lifestyles, and enjoy eating out.<sup>7</sup>

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  |
|--|---------------------------|--|--------------------|---|
| <b>StampMe</b><br>       | Type 2                    | Starts at \$29/month                       | Low                | Customer analytics included; can use for short or long-term programs  |
| <b>Square</b><br> 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  |
| <b>FiveStars</b><br>    | 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. |
| <b>Perkville</b><br>     | 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.

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## 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: <sup>8</sup>

- 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.





# LAUNCHING A LOYALTY PROGRAM (continued)

## 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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