

How Savvy Business Owners are Leveraging Reward Programs



Current State of Marketing with SMBs

The advent of digital marketing has brought about new opportunities and challenges for SMBs. With more reliance on online presence management like SEO, social media, and content marketing opposed to traditional methods of customer outreach, the average SMB faces a dilemma when it comes to allocating marketing resources between customer retention and acquisition.

As the methods used in digital marketing strategies continue to evolve, so do peoples' expectations. In an increasingly noisy world where people are inundated by ads and efforts by brands to get to know them, people have come to strongly dislike the feeling that they're being sold to. This definitely poses a challenge when it comes to new customer acquisition and the UPS State of Small Business Report found that a majority (60%) of small businesses see major value in establishing new customer relationships¹. With 64% of SMB decision-makers looking to social

media for business advice and insights², several decision-makers are finding that both prospective and existing customers don't like the feeling that they're being sold to. They want to see demonstrable value in their interactions and relationships with brands.

Subsequently, the customer experience and finding ways to appeal to emotions are how SMBs are seeking market advantage that aligns with trending consumer behaviors. Business leaders are adopting a "less is more" approach with a stronger emphasis on providing a stellar and memorable experience, helpful content, and a means to incentivize customers to both sign up and return: reward marketing is at the helm.

Current Trends & Industry Insights

There are four basic types of reward or loyalty programs that are also utilized as a form of marketing:

- Rebate programs
- Points programs
- Frequency/club programs
- Discount programs

Generally, rebate programs work as a percentage of past purchases. There may be time-sensitive bonuses during holidays or low sales periods, often with store credit but sometimes with cash, gift cards from partners or other retailers, or promotional gifts. This is opposed to discount programs where the discount is only available to members to get a certain percentage or fixed dollar amount deducted from purchases immediately at checkout. A points system program can work similarly to rebate programs except that a new "currency" is created for customers to accumulate and decide how to redeem instead of immediately assigning a dollar value. Frequent buyer programs that use physical or digital punch cards only provide a payout to the customer after a certain number of purchases or visits, but are relatively economical to implement compared to the other methods.

Historically, there have been difficulties with controlling the cost of these loyalty programs which today's technology has made much easier to manage for both managers and customers alike. For instance, while frequent buyer programs are among the cheapest option for SMBs to institute, they typically haven't provided the kind of insights and personalization that is possible with the other reward programs where the customer's purchase history is visible. Thanks to apps like LevelUp and Belly, SMBs can use an existing API and tailor it to their branding and offers so that customers don't have to rely on printed cards. Their purchase history data isn't forgone either, and CRM solutions like Salesforce and Sugar CRM can easily integrate with pre-built or proprietary technology for loyalty programs.

Having that data close at hand is particularly important going forward as personalization is becoming increasingly dire in retaining customer loyalty and achieving success through reward programs. Drugstore giant Walgreens' derives 70% of its sales from the 88 million active users³ in their Balance Rewards Program, a points accumulation loyalty program that pays out store credit rewards, due to personalization. Sales are personalized where bonus points are offered

for previously purchased products, and the customer also gets personalized content based on their purchase history regardless of their level of engagement with Walgreens.

Combining different aspects of the four basic types of reward programs is very on-trend and expected to keep evolving. Gamification is putting a new spin on classic points-based programs or frequent buyer rewards to give customers a sense of accomplishment and instant gratification when they participate. A successful example is the "Yummy Rummy" program GrubHub instituted initially as a test, discontinued⁴, then brought back after strong demand from their user base. Designed to be a fun feedback loop lasting about 10 seconds and played about five times a month for frequent users, Yummy Rummy drove engagement up for multiple reasons. By providing users with about 10 seconds of chance-based gameplay by picking a card that could result in rewards like waiving the delivery fee or free items with a 25% chance of winning, it gave them something fun to look forward to after ordering food. And even if they lost, users would still get a guaranteed delivery fee waiver every fifth order regardless of how often they won Yummy Rummy.

While innovating on both frequent buyer and discount types of loyalty programs, GrubHub had to rise above the challenge of getting new users interested in playing the game as a result of placing orders. Subsequently, they also included fun GIFs, pictures, and memes for users to share on social media after a round of Yummy Rummy which provided additional exposure to potential new customers. GrubHub, like many other food delivery apps, also makes sufficient use of its existing customer base by offering them \$7 redeemable for any food order for each new customer they bring in who places at least one order totaling at least \$15 in addition to a \$7 incentive for that new customer. This type of instant gratification is what drove their success with Yummy Rummy and what other types of businesses have also begun to experiment with in order to cultivate loyalty and incentivize new sign-ups.

By working with a hybrid of reward program types that elicit an emotional response such as the happiness or frustration GrubHub users experienced, costs can also be controlled more easily while providing being more mutually beneficial. Rebate programs are often the most expensive to institute and hold less appeal for casual buyers, unless the product is for an infrequent purchase (such as a car or vacation package.) The rise in mobile app usage has made point-based programs easier to manage since they notify customers when their balance is about to reach a certain threshold, as well as give push notifications for sales and personalized offers.

Benefits of Reward Programs for Business Owners

SMBs may have been locked out of investing in loyalty programs in the past with cost-prohibitive technologies or production costs. The mobile app realm has made loyalty solutions and partnerships easily accessible to SMBs, so they can offer competitive perks and innovative twists on classic reward schemes. SMBs can also differentiate themselves with the types of rewards available through partners formerly only open to larger companies. Simple mobile solutions and CRM integration haven't replaced loyalty program management like proprietary software and mass-printed punch cards, but they have now enabled SMBs to easily institute rewards programs. Owners and managers of SMBs must become aware that rewards programs not only deliver an enviable ROI, but also offer many other operational benefits.

With more brands competing for peoples' attention let alone dollars, SMBs can't afford to sidestep customer loyalty programs: 66% of customers enrolled in a rewards program will modify

their spending habits⁵ in order to maximize point accumulation or other incentives that are easy for them to understand. When customers are happy and engaged with your brand and feel that the reward program offers good value for their money, this has a measurable impact. 73% of customers are also more likely to say positive things about brands with good loyalty programs and refer other customers to the business as a result.⁶

One of the foremost benefits in loyalty programs is its impact on marketing spend. It's far less to retain existing customers than it is to gain new ones but reward marketing is a selling point in and of itself if positioned as a status symbol such as the Starbucks gold card or Sephora VIB Rouge membership. This makes loyalty programs a very effective use of marketing budgets.

By taking advantage of the numerous channels in which customers communicate and receive offers such as texting, social media, and email, rewards programs can also improve customer communications. However, the way that a customer perceives a loyalty program or other reward or incentive is integral for that program to succeed. Only 22% of customers enrolled in a rewards program say that they receive better treatment than customers who are not participating.⁷ Just 29% of reward program members feel that the program has improved their experience with the brand.⁸ As customer experience is becoming the most prominent issue for business leaders moving forward, it is especially important to take note of these perceptions. The redemption experience is also just as important, if not more so, than the experience that the customer has in participating in the program.

Reward marketing also makes incredibly efficient use of not just personalized offers, but each customer's total lifetime value. Unlike marketing campaigns, reward marketing is a long-term and ongoing marketing strategy that specifically encourages spending through a stellar experience that appeals to the customer's emotions. Success with a loyalty program ultimately comes down to providing both value and a memorable experience that the customer personally finds rewarding at every step from purchases to redemption.

Changes and Subtle Shifts

In a global economy where SMB customer bases are looking to get the most value out of their money with an appealing rewards program, brands can be switched in a matter of seconds if one offers a better experience, value, or price. By shifting to a focus on the customer's perspective and looking at what their common pain points are, long-term loyalty is easier to foster than a rewards program by itself. Customers want to be recognized for the value brought to your business, as do employees who contributed to the brand's profitability by taking a customer-centric approach that resulted in repeat visits and purchases.

In keeping a loyalty program sustainable, planning and implementing it needs to be done in conjunction with brand-building. By treating the customer rewards as a siloed concept from the overall branding efforts and customer experience design, it doesn't help build long-term relationships with customers. The stronger the long-term loyalty there is among your customer base, the less volatile that reward marketing becomes. This entails depicting the attainable rewards and other attractive aspects of your brand in a manner that is consistent with branding and customer experience, but makes the program itself appealing enough to market to prospects and existing customers.

With social media becoming more prevalent for brand-building as well as being a public-facing demonstration of how a brand interacts with customers, it's become an integral component of reward marketing. People that discuss brands on social media may be vocalizing displeasure or sharing a great experience they had with the reward program. In addition to demonstrating how customer grievances are handled in public, social media should also serve to embrace brand attributes that make the reward program attractive to the people reading the posts.

For marketing to Millennials in particular, they are interested in seeing more transparency from brands regarding both their offerings and how reward programs work. There has been a major shift from "aspirational" rewards to "essential" rewards, with the latter entailing gift cards that can be redeemed at retailers that make day-to-day life easier like grocery stores and restaurants. However, 72% of Millennials prefer experiences over material goods⁹ when it comes to more aspirational rewards. With many prioritizing travel and excursions over attaining the more traditional success markers in light of the economic reality they face, Millennials are more interested in travel rewards, VIP concert experiences, and other rewards that can be lived and remembered than more physical goods.

Landscape of Reward Programs

Key Elements of a Successful Reward Program:

- Focus on customer experience
 - Customer experience will be companies' main competitive advantage going forward, with 86% of customers willing to pay more for a better experience¹⁰
- Foster loyalty through personalization
 - 44% of customers likely to become repeat buyers after a personalized experience, with only 5% wanting to return impulse purchases that were sent via personalized offers¹¹
- Offer rewards that the customer values
 - Customers have to want to redeem rewards, and redeemers are twice as satisfied with loyalty programs as the 20% who never redeem. 66% of customers have a redemption goal for rewards they value.¹²
- Smooth user experience, easy to use and understand
 - 38% of loyalty program participants don't know what their points' value is while 57% do not know their balance. A program that is easier to use correlates with higher satisfaction rates.¹³

Pillars of Building a Reward Program:

- Positive emotional association from earning to redemption
 - 95% of purchase decisions are made unconsciously with a stronger appeal to emotions, since conscious thought is often subject to information overload.¹⁴
- Branding and customer loyalty teams work together
 - Branding is a separate element from planning and implementing a loyalty program, requiring two different skill sets.
- Understand, and reward, all steps of the customer journey

- The pre-purchase, purchase, and post-purchase stages all represent touchpoints that can make the customer feel valued and non-transactional activity should also be rewarded.

Types of Reward Programs:

- Rebates
 - Cash or store credit back
- Point-Accumulation
 - Gaining points that be redeemed at one or various tiers
 - Points that do and don't expire
- Frequent Buyer
 - Rewarded after X purchases
 - Can be tiered
- Discounts
 - Immediate or earned discounts
 - May devalue products
- Hybrid
 - Uses multiple elements of reward systems
 - Can be based on tiers or frequency
 - Gamification more likely

Differences Between Approaches, Uses, and Types

- Casual participants
 - Infrequently purchases or just trying brand out
- Frequent buyers
 - Purchases 3-4 times a year initially
 - Purchases more frequently over time
- Only participates in sales
 - Personalized sales
 - Site-wide promotions
- Changes buying habits to maximize rewards
 - 66% of customers do this

Opportunity in Today's Landscape

- Mobile apps
 - 28% of smartphone users made mobile payments, expected to steadily rise¹⁵
 - Phones make loyalty programs easier to organize and manage than physical cards
- Gamification
 - Narratives, progress, and tasks that make customers feel like they're playing a game
 - 27% of Millennials would frequently use loyalty programs with competitive or gameplay-like aspects¹⁶
- Basic rewards over aspirational
 - Rewards that take care of basic needs more popular with Millennial generation
 - Other demographics prefer aspirational rewards they might not otherwise purchase on their own
- Leveraging omnichannel reward programs

- Multiple channels of communication equal more opportunities for sales
- Makes it easier for customer to manage points

The Business Case for Leveraging Reward Programs

Loyalty programs need to be part of both cutting-edge marketing strategies and long-term customer retention plans. With robust CRM solutions that offer a 360-degree view of the customer's purchase history and lifetime value, they can be easily synced with loyalty programs in order to encourage purchases more effectively through personalization. Given that just 13% of customers¹⁷ are extremely loyal to brands to the point of never shopping around, retaining this subset of customers still remains a more efficient use of marketing resources than trying to gain new customers.

In achieving the highest efficacy in a loyalty program, personalization plays a major role. However, personalization becomes an even more powerful tactic when employing an omnichannel reward system strategy that is interconnected. For frequent buyer programs that utilize physical cards, this can cause a business to essentially compete with itself if this card isn't integrated with online purchases. By connecting the two systems, personalized offers are easier to create and customers don't get upset if they lose cards or forget to bring it with them. Simply having an email or phone number given online or in-store at checkout can also provide a wealth of valuable data as well as greatly simplify the accumulation and redemption processes for customers.

The omnichannel approach enables customers to easily check on their reward status while also receiving personalized offers and communications that foster loyalty. Personalization is a powerful form of leverage that can reasonably predict future actions for each customer and provide the kind of memorable experience and satisfaction that will put them in that coveted 13%. By making it part of the loyalty program strategy, customers will have a better experience and more positive association with the brand.

29% of customers feel that the loyalty program improves their experience.¹⁸ With customer experience becoming one of the primary drivers of competition in the near future, leveraging reward programs as part of the customer experience will become inevitable.

Core Principles of Marketing a Reward Program

In getting the most traction possible out of reward marketing, it needs to integrate with the customer journey. The entire marketing lifecycle needs to be accounted for all the way from the consideration stage to post-purchase. By simplifying the customer journey into pre-transaction, the transaction, and post-transaction where the time customers spend in the pre and post stages should be minimized, an effective rewards program can actualize this. Generating, accelerating, and repeating sales is the primary goal of any marketing campaign or strategy but a reward program is intended specifically to keep this loop going by engaging the customer and giving them something to look forward to aside from the purchases themselves.

The post-transaction stage has garnered more attention in the digital age as unboxing videos became popular and both internal and external reviews morphed into another form of marketing. For example, Webstaurant Store, a restaurant supplier open to the public, offers customers up to \$16 in store credit for product reviews. Customers must create an account in order to participate

but are given a simple incentive with an immediate payoff to create different types of reviews like text-only and video. Offering bonus points, or store credits or discounts that can be immediately used, are ways to incorporate this stage of the customer journey into the loyalty program.

The pre-purchase stage can also be rewarded a non-transactional way such as an auto dealer enticing a car buyer to test drive a car with a restaurant gift card. Customers being given rebates or other rewards for watching a commercial or just walking into a store can seem counterproductive, but by rewarding them in the pre-transaction stage it can serve as a means of delivering instant gratification to encourage imminent purchasing to keep up the momentum.

In marketing a reward program itself to new customers or existing customers who haven't signed up yet, the customer needs to see the value in signing up more than the actual value of the products themselves. What do they get aside from points or rebates for their future purchases, or a one-time discount code for signing up for the email list? Are both the transactional and non-transactional ways of earning rewards communicated clearly? Most of all though, what are the possibilities if the customer signs up today and starts accumulating points or visits? That sense of anticipation is a powerful motivator.

Reward Program Checklist:

- Offer an instant reward upon sign-up such as a discount, bonus points, or free gift.
- Provide incentives for customers to refer other customers.
- Keep the language in the reward program easy for customers to understand and clearly communicate how the program works.
- Display how the reward program works at points of sale both in-store and online.
- Provide customers an easy means to track their reward status through both self-management and omnichannel communications.
- Reward non-transactional aspects of marketing such as watching commercials, coming to a store, or writing reviews.

Reward Programs in Action

- **Examples**
 - Beauty industry giant Sephora boasts 10 million members in its highly effective tiered points-based loyalty program. The highest tier, VIB Rouge, requires \$1,000 in annual spending and is coveted among the brand's followers.¹⁹
 - With 7 million members, Starbucks has had a strong advantage with the mobile version of Starbucks Rewards. It gives gold-tier customers the ability to order and pay ahead of time by phone and usage of the Starbucks app constitutes over 4 million mobile payments per week.²⁰
 - Panera Bread grew from a small chain to 1,700 stores using the element of surprise with the MyPanera rewards program that quickly grew 40-45% of transactions being processed through MyPanera cards.²¹
- **Stats**
 - The average repeat customer spends 67% more in the 31st-36th months of their relationship with a brand than months 0-6²²
 - 75% of American companies that use loyalty programs generate an ROI²³
 - 56% of SMBs have concerns about getting more sign-ups while 53% are more concerned with personalization²⁴

- 57% of SMB repeat customers driven by relationships, 10% by loyalty programs²⁵

Roadmap for Leveraging Rewards Enabling Customer Loyalty

For SMBs in particular, building a loyalty program can seem like a daunting prospect but it one not as expensive or complex as often perceived. Launching a loyalty program can be as simple as having frequent buyer cards printed or developing a captivating set of reward tiers utilizing both physical and digital tokens. While an omnichannel approach is definitely preferable due to the mutual benefits and valuable data tracking, there are inexpensive ways to commence.

In creating a rewards program, decision-makers need to analyze what the end goal is aside from increasing sales. Possible goals include reducing customer churn rate, increasing order size, increasing the number of orders placed in a year, or other measurable metrics with a timeline attached. Determining reward structure that furthers these goals while making the customer feel appreciated can pose a challenge that needs to be overcome by increasing perceived value, engagement level, or both by employing gamification or simply finding out whether the target audience values rewards that help with their basic needs or are more aspirational.

In the planning stage, it's best to think of this target audience. The average customer belongs to 14 loyalty programs but only actively engages with about half of them.²⁶ There are numerous reasons for this such as your particular demographic not seeing enough value in the rewards offered or a lack of VIP options for the big spenders who don't feel recognized for their engagement. By having detailed personas of your desired reward program participants and determining what they are seeking in a reward program, this can make planning run more smoothly and produce more effective results.

One of the primary challenges is simply not knowing what your customer base is seeking in a reward program and would get them to stay engaged as a result. Surveys and focus groups that demonstrate customers' time and money is highly valued is an effective means of getting feedback on implementing a reward program. It can guide decisions regarding structure that will keep customers constantly returning out of genuine enjoyment as well as seeing value in participation. The customer experience all the way from earning points to redeeming them is also a challenge in that customers should be able to easily understand program rules and have a smooth user experience when interacting with digital components to determine their rewards balances. Having an omnichannel rewards program that makes smart use of spending data to create personalized offers through automated contact can surpass these challenges as well as ensure that customers have a great experience.

However, one of the most foremost challenges remains with simply getting customers to opt into the program in the first place. To get customers to opt in, they need an incentive to do so. A discount, free gift, or personalized offer may not be sufficient depending on your target audience. Forming partnerships that offer tangible and/or immediate value can encourage strong attachment that makes customers eager to participate, such as getting airline miles upon sign-up that enable them to take that trip they always wanted.

Beyond Rewards

As the digital marketing landscape and customers' expectations constantly evolve, so will reward marketing in turn. Starting and maintaining a rewards program should be a priority for SMBs who aren't already doing so and making the most of their CRM data in the process.

With the Millennial generation at the helm of these shifts, it's a generation that values experiences over tangible belongings. By offering more experience-based rewards such as travel, as well as making participation in the loyalty program more experiential through gamification and/or combining different types of traditional reward programs, appealing to Millennials becomes less of a challenge. Millennials also aren't the only generation that dislikes the feeling of being sold to in the modern landscape: demonstrating the value of participating in the rewards program and using it as a means of marketing is also paramount for sustainability.

Reward marketing isn't constrained to a specific marketing campaign but is a long-term holistic strategy that needs to be updated over time as consumer culture shifts. In striving to make SMBs more sustainable and offer the kind of customer experience that will highly differentiate them from the competition, the rewards program needs to become part of that experience and brand going forward.

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