Reward Strategies for Engaging Your Customers

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Loyalty Group
The Future of Engaging Rewards™

Roundtable discussion: The panelists

In October 1017, Hinda Loyalty Group (HLG) executives Theresa Thomas, Gregg O'Neill, and Adam Levy convened for a Wise Marketer Insight Series webinar hosted by Wise Marketer Editor in Chief Rick Ferguson. During this insightful discussion, the HLG roundtable participants delivered best practices, case studies, and compelling ideas on the topic of leveraging rewards to engage your best customers. What follows is a transcript of that conversation. But first, here's a closer look at the HLG team:

Theresa Thomas | VP Strategic Solutions

Theresa leads Hinda's Strategic Solutions team, which is responsible for ongoing development and positioning of the market strategy for both B2C and B2B product and service solutions as well as for successful presentation and implementation of the company's solution set. She works with Hinda's partner network and internal resources to develop the most appropriate solution for each client's needs.

Gregg O'Neill | Business Development Director

Gregg's background is in consumer loyalty and promotions, employee engagement and sales channel incentives. He has deep experience working with numerous vertical markets, including travel and hospitality, manufacturing and tech, and is recognized as one of the leaders in the financial vertical, where he has more than 25 years of experience. He has worked for large companies, startups, and VARs.

Adam Levy | Account Manager

Adam has proven expertise in developing and nurturing customer relationships, effectively communicating business requirements and goals, as well as managing multiple events, projects, and programs concurrently. His Project Management Professional (PMP) certification brings added value to every interaction and as a pivotal member of Hinda's internal project management team.

Topic: Physical versus cash rewards

O'Neill: We don't see cash rewards in conflict with other reward types. Cash definitively has place in certain rewards scenarios; we view the discussion more around using cash rewards to complement, rather than replace, physical rewards. When you ask customers if they prefer cash, many consumers will say they do—but cash is tied more to short term compensation than it is to longer-term relationships. Also, there is no transparency in the value of cash rewards, and that limitation can impact program economics. You also don't get the emotional connection from cash rewards that you do with other types of rewards offerings. No one goes to a cocktail party and says, "Look at my cash-back coupon," but they'll talk all night about the flat screen TV they just earned.

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Thomas: While cash may be a redemption option, using an alternative currency than cash provides the program sponsor with more flexibility over the life of the program. It allows the program sponsor to award for many different types of metrics, engagement activities, and milestones. Most importantly, flexible currency allows members to connect with the program is a more meaningful, personal way than a cash distribution might provide.

Using points allows members to connect their earning journey to rewards of their choice, and to then share those rewards—whether cash, gift cards, experiences, or merchandise—with their family and friends. Flexible currency also creates a lasting memory, because there is action required for redemption versus an automatic payout of cash or discounts. For program sponsors, points and alternative rewards create an opportunity to build program relevance, and also to create breakage benefits from non-engaged segments, which can reduce program costs. Cash rewards, meanwhile, can often be one of the higher cost-per-point rewards options.

Levy: Program operators derive two primary benefits from physical rewards: First, the emotional connection with program participants; and second, the post-redemption trophy value from these rewards. The emotional connection begins with the member's excitement about earning enough currency to choose a reward from a strategically and scientifically-curated catalog of reward items. The most successful catalogs are those that include top brand names like Apple, Amazon, BOSE, Coach, Samsung, YETI, and many more.

The post-redemption trophy value is equally important, as the reward item may be used as a gift, shared amongst the family, and then displayed and cherished into the future. Each time the member plays online games from their Apple device, makes dinner in their Le Creset pots and pans, listens to music on their BOSE speaker, or watches the big game on their Samsung TV, he's reminded of how his loyalty program participation helped make this great moment possible.

Topic: Employee versus consumer loyalty

Thomas: From a rewards perspective, motivating employees and consumers requires a pretty similar skill set—that's because essentially, employees *are* consumers. Especially within the growing Millennial employee population, we're finding that experiences, personal services, and rewards that make life easier are very much on trend. Millennial program participants are more interested in luxury rewards than they have been in the past, and we see them saving points towards those big redemption items.

On the employer side, our employer clients are focused on total engagement strategies, and they're using levers including employee loyalty programs to drive cultural change within their organizations that delivers employee retention and bottom-line growth. Most employers prefer to not use cash rewards, as some employees might confuse cash rewards with compensation. On both the consumer and employee side, ease of reward redemption is also an area of critical focus. One-click redemptions, auto-redeem rewards, instant-chat customer service tools—all of these techniques increase program engagement, and are therefore great ongoing program strategies.

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O'Neill: There's an interesting dynamic going on in the financial space in which investors are now looking at the financial performance of loyalty programs and the value they represent to the company and their stockholders. Our friends at rDialogue have demonstrated that phenomenon quite brilliantly, and are actually able to conduct ROI analysis on the financial performance of loyalty programs.

Also, Hinda is a member of the International Center for Employee Engagement, and we see that companies are looking at the value of their workforce. "Human capital" is a concept we see being considered more frequently by many organizations. The International Organization for Standards (ISO) is preparing certification standards for human engagement processes, so there is growing interest in Total Engagement solutions.

When we look at both consumer and employee loyalty, the lifecycle activities of Acquisition, Engagement, Retention, and Growth are really identical, but the strategies for how we reward and recognize in each category will differ. Communications and engagement strategies, however, will really look similar. Traditionally, there has been a separation, if you will, of Human Resources speaking to employees, and Marketing speaking to consumers—so the concept of coordinated and compatible approaches and messaging is still a new one to many organizations. Most companies rely on their employees to deliver on the brand promise, so it's really intuitive that companies should look to pull these different messaging strategies together. The concept of Total Engagement solutions is fairly new and cutting edge, but it is absolutely timely.

Topic: Creating the emotional connection

Levy: There are several strategies that merchandising teams can use to put together a reward catalog. We recommend a focus on top brand names, as this focus establishes confidence in members that they can use their currency for the things they really want. Equally important is to communicate member access to these items both on and off-line, and to keep the program fresh and exciting by always looking for the next hot brands and rewards. We drive thought leadership in this area through daily trend research, attending industry trade shows, and then negotiating partnership agreements that help maximize value for suppliers, clients, and program members.

It's also important to be smart and scientific about the types of rewards you include. Work closely with client administrators to understand members' average points value so that you include the right rewards. For example, if the average member point value is $100, members won't be very engaged if your redemption site features a ski boat. On the other hand, including too many low-value items may likewise cause members to lose interest absent those higher-level rewards that inspire spending more to earn them. The science of reward design comes in balancing these options to facilitate both rational and emotional redemption decisions.

Another consideration in catalog design is striking the right balance in reward options. In a recent article, Harvard Assistant Professor Ashley Whillans said, "Rewards should be strategic, based on scientific insight. People will make sub-optimal choices. If you provide too much choice, and people make a bad choice, your effort won't have the same impact."

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O'Neill: We're not just a rewards fulfilment supplier; we're an engagement agency. We understand how to use rewards at each step in the customer journey: Acquisition, Engagement, Retention, and Growth. Your promise of meaningful rewards is the reason customers join your program, and it's what keeps them coming back.

Here is the most important point: Redemption is the moment of truth for both members and for the brand. When a member finally takes the plunge and redeem, the redemption experience must be flawless: From item selection, to checkout, to confirmation, to delivery, and acknowledgement. Many companies focus on redemption as a singular process, but each one of these steps are important to the consumer, especially reward delivery. When redemption works flawlessly, we set up the member for her next redemption journey. We want multiple redeemers in our programs—because they become long-term brand advocates.

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Topic: Designing rewards on a budget

Thomas: When building a rewards catalog, it's important to know your customers, and understand who you're targeting. Understand how they want to you to communicate with them, and ensure the communications are timely and relevant. To build a compelling rewards portfolio, you must understand the earning velocity for each target group, and your program strategy for redemption. We know from many years of research that it's important for members to redeem within the first 90 days of program participation. That said, you don't have to be everything to everyone; you'll still target your most valuable customers to ensure that the program drives financial impact.

In marketing your rewards program, the inclusion of aspirational items is critical. Even if a member ultimately redeems for a vacuum, we want to put aspirational items in front of them for which they'll work hard to accumulate points. Finally, the program must include hot retail items—consumers today expect that your rewards catalog will feature the latest models and most desirable items for a fair price, and with quick shipments. We're all online shoppers today, and we expect that same quality of product selection and service in our rewards programs.

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O'Neill: Curating a compelling, relevant and engaging rewards catalog starts with understanding your program goals. Is it a short incentive program or long-term loyalty program? Is it a brand new or a mature program? Member demographics and their economic performance also play a vital role. Evaluating past member performance via historical redemption data is also critical.

Designing rewards on a budget isn't about slapping random items in a catalog and pushing it out to your program website. Rather, it's about knowing which product categories are hot, and in which brands consumers are interested. Rewards design is both an art and a science, and building a compelling rewards portfolio takes considerable thought and effort. A rewards portfolio is a dynamic tool, one that changes constantly, because variety and novelty in rewards choices are what today's engaged consumers expect.

From an economic standpoint, the details of the reward portfolio control program economics. High-end travel rewards, for example, can take your Cost Per Point (CPP) to over 200 basis points. If your program economics require rewards to remain under 80-100 basis points, then the key is to select recognizable brands for which you have negotiated deep discounts from MSRP. Gift cards can also be a great tool, and the same methodology applies. You can also mange program redemption costs through different promotions and campaigns such as auctions, sweepstakes, and other point-burning activities that reduce program liability at significantly lower program CPP, while at the same time helping you engage lower-balance members.

Topic: The latest reward trends

Thomas: Surprise-and-delight programs are at the top of many loyalty marketers' lists. How do you create a compelling loyalty program that will take members or employees by surprise, create meaningful connections, and reinforce their value to the organization? Surprise-and-delight programs allow companies to control program budgets while reinforcing program value. We advocate a systematic approach to this tactic that includes such detailed touches as personal notes to members and branded gift boxes to reinforce that deep emotional connection between a customer or employee and the company.

For one client, we've even integrated the call center in the surprise-and-delight program to allow customer service agents to elect to send personalized surprise-and-delight gifts, complete with personal notes, to create those emotional bonds with customers. The company has found that not only do customers appreciate this program, but it has also created a stronger bond with employees—no one feels better about their employer than when they're provided tools to reinforce the importance of their role within the organization.

We're also seeing many programs begin to feature brand stores. This tactic allows programs to feature highly visible brands as redemption options, including one-click redemption. Branded stores can also feature in program promotions—and, with volume, brands will often provide marketing funds to support the promotions.

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Levy: Successful reward programs are always implementing behavior-driving campaigns that leverage program data and performance results, as well as tools like Google Analytics. By understanding how members behave within the program, you can implement engagement and redemption campaigns that build engagement.

For example, for one client we were able to identify the brands for which members searched, and push those brands to members early in their browsing sessions via dynamic menu displays and customizable marketing banners. For another client, we ran a pilot email program in which we pushed targeted merchandise to members who don't log into the reward site that allowed them to redeem for rewards without logging in. The response was very positive, and we're expanding this tactic.

Member journey analysis likewise helps identify opportunities to increase member performance. Raffles and sweepstakes, for example, incent member participation by segmenting these offers based on historical experience and currency balance. Leveraging tools such as Google Analytics to track the and streamline the member experience can also increase redemptions.

Topic: The future of customer engagement

O'Neill: Personalization, customized packaging, and branding are experiential reward tactics that deepen the bonds between customers and the brand. Personalization means more than just including the customer's name; it can also mean recognizing a member's program status, or referencing a recent purchase. In the call center, it can mean a personal note that references a specific customer service interaction. Personalization reinforces the idea that you know your best customers and understand their value to the brand.

A recent Bond Brand Loyalty study revealed that, while one in two members agree that loyalty program personalization is important, only about one in five are very satisfied with the level of personalization in those programs. Successful personalization requires strategic alignment among the program's design, value proposition, and redemption experience. With such a strong correlation between personalization and member satisfaction, programs can see an eight times higher dividend when they're highly personalized.

> **"With such strong correlation between personalization and member satisfaction, highly-personalized programs can see an eight times higher dividend."**

Thomas: The opportunity today is to connect consumers with the sponsoring brands via email campaigns that include personalized content. The future will include chatbots that recognize everyday language and converse with members, as well as omni-channel, personalized program experiences that meet and exceed customer expectations. The key to success is to utilize the wide range of data marketers have available to build and market to personalized customer profiles.

Levy: More than any prior demographic, Millennials have a unique set of preferences and needs. As "digital immigrants" who have grown up with technology, Millennials crave two-way communication. They enjoy conversations with brands that include the ability to provide feedback and reviews, and they enjoy social sharing. As loyalty marketers, we must take advantage of this activity by rewarding members for engaging in activity such as creating reward wish lists, posting reviews, and more. Social listening can also drive engagement by collecting and using data to create engaging content.

Having grown up with instant access to information, Millennials also expect a frictionless program experience in which interactions are fast and easy. Millennials also love status, which loyalty marketers should reinforce whenever possible via dialog and gamification tactics. Finally, Millennials want the brands they choose to reflect their personality—and they consider loyalty programs a core part of the brand image. Millennials will be much more likely to join a loyalty program if the program reinforces their self-image.