

COMMENTARY

Building customer loyalty gradually and through an omni-channel programme more effective

By Zhang Yan

LOYALTY programmes are big business in Asia. Most of us have at least one loyalty card, and often a wallet-full of dog-eared stamp cards and the like from supermarkets, retailers and airlines.

Back in 2000, McDonald's Singapore made headlines worldwide with its Hello Kitty promotion, which sparked long queues and customers jostling to get their hands on the collectibles, limited to four toys per customer.

Starbucks is also well-known for creating a loyal following with its popular rewards programme, where members can earn stars redeemable for a cuppa or drinks.

Loyalty programmes like these work on the idea that a company will reward your consistent patronage and loyalty with discounts, offers and other goodies to make you feel like a valued customer. And the more you feel valued, the more you will spend with that company.

Yet despite their popularity, not all programmes result in increased loyalty.

So what is it that makes a loyalty programme successful?

As firms seek more creative ways to boost engagement and drive sales, we wanted to explore what makes a loyalty programme worth pursuing from a customer's perspective.

What we found revealed that while the rewards need to be appealing, the way the rewards are earned is also key to increasing loyalty.

In a study at NUS Business School with a colleague from the Chinese University of Hong Kong, we analysed whether giving rewards gradually engaged people more than giving the same rewards all at once.

VALUE OF EARNING REWARDS GRADUALLY

Many loyalty programmes give customers a number of points for each purchase. For example, to earn money-saving vouchers, some supermarkets give you 1,000 points worth \$10 after you have visited their store 10 times; others provide 100 points of \$1 after each visit.

So which is better?

Through a series of experiments involving participants in Singapore and Hong Kong, we found that people are more engaged with a piecemeal rewards programme. This allows them to earn rewards gradually rather than gaining the same rewards all at once after a long-term effort.

In the example above, for instance, giving shoppers 100 points per visit is a better approach than giving shoppers a bigger reward of 1,000 points after 10 visits. Once they see how easy it is to earn 100 points, they will be motivated to reach the next 100.

We found that this sense of achievement depends on people being able to accumulate their rewards and see their total rewards gradually increase. So in our supermarket example, if shoppers are forced to use the rewarded \$1 after each visit and cannot save their points to earn \$10, then the piecemeal programme will be no more motivating than gaining a lump-sum reward.

Similarly, rewards provided need to be moderately similar with rewards already earned. For the piecemeal approach to have an advantage, it is also important for rewards to be earned rather than simply received without any effort. That is, giving a consumer 100 points without requiring him or her to do anything would not be as motivating as giving the same consumer 100 points as a reward for his or her purchasing behaviour.

Interestingly, our experiments showed that the motivating power of receiving rewards gradually was diminished when people become satiated with a reward. Many companies use points and mileage, as these schemes do not create a strong sense of satiation and people stay enthused to earn more rewards.

Our findings shed light on how marketing professionals can design loyalty programmes to keep customers actively involved. Ultimately, it is about making it easy for members to earn rewards gradually and making sure the rewards earned offer continuous value, whether they take the form of collectible toys, points for money-off vouchers or air miles for free flights.

CREATING AN ENGAGING JOURNEY, NOT A RACE

As competition for share of wallet intensifies, friendly customer service and fair prices will not stop customers going to another business. To encourage people to stay loyal, companies need to create rewards programmes that tap into our human instinct of striving for more when we're being rewarded for our efforts.

Airlines, in particular, have mastered loyalty programmes that keep members motivated to earn more rewards. They have discovered that travellers can be encouraged to build allegiance with their brand if they're provided with the right rewards earned gradually through a sustained effort.

By earning miles for anything from booking a flight, paying bills with a credit card or taking out a mortgage, members see a growing trend in line with their efforts and become motivated to accumulate more. The rewards – which include free flights, upgrades, hotel stays, car rentals and premium gifts – are of great value to customers, so they remain loyal to the airline even if lower cost alternatives are available.

Earning rewards gradually can be particularly powerful when adopting an omni-channel-based loyalty programme, which connects customers to a brand across all touch points and rewards members for their spending across all channels, whether it's in-store, online, over the phone or at events.

Our study suggests that developing customer loyalty programmes in this way can elevate a business and empower customers. When small rewards are accumulated gradually, they add to an ongoing journey rather than a race to the finish line. This keeps customers engaged with the brand and creates experiences that turn customers into brand advocates – the ultimate reward for marketers.

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