

# 4 Tips to Build an Effective Customer Loyalty Program

Prepared by:  
Kate Russell  
*Clutch*



**LORMAN**<sup>®</sup>

Published on [www.lorman.com](http://www.lorman.com) - September 2020

4 Tips to Build an Effective Customer Loyalty Program.pdf, ©2020 Lorman Education Services. All Rights Reserved.

# LORMAN<sup>®</sup>

Lorman Education Services is a leading provider of online professional learning, serving individuals and teams seeking training and CE credits. Whether you're looking for professional continuing education or an enterprise-wide learning and development solution, you will find what you need in Lorman's growing library of resources.

Lorman helps professionals meet their needs with more than 100 live training sessions each month and a growing collection of over 13,000 ondemand courses and resources developed by noted industry experts and professionals.

Learn more about Lorman's individual programs, economical All-Access Pass, and Enterprise Packages:

[www.lorman.com](http://www.lorman.com)

## 4 Tips to Build an Effective Customer Loyalty Program

An end to the pandemic remains out of sight but financial support from the government's small business rescue program stagnates. The future remains uncertain, and businesses aren't immune.

The Payment Protection Program offered temporary relief to small businesses. A majority of businesses (56%), encouraged by the conditions of forgiveness, spent their loan. The remainder of businesses aren't far behind according to a National Federation of Independent Business survey.

Beyond government programs, there remain opportunities for businesses to access greater financial security. A customer loyalty program may help businesses to navigate this precarious moment.

A customer loyalty program rewards customers who purchase or engage with a brand on a recurring basis. The goal is to transform a consumer into a regular consumer or brand promoter through the use of rewards, discounts, and freebies.

Businesses may be wary of offering freebies or discounts given the economic climate. However, members of customer loyalty programs tend to spend up to 18% more than other customers. It's also six times more expensive for businesses to acquire a new customer than to maintain an existing one.

A customer loyalty program may result in a significant return on investment. To activate the program's benefits, consider the following tips:

1. Assess your options for loyalty programs
2. Build engagement by offering a range of rewards
3. Reward various customer actions
4. Consider partnerships to encourage exposure

Businesses should [build an effective customer loyalty program](#), which may help them to conquer this economic contraction.

### **Assess Your Options for Customer Loyalty Programs**

Businesses should review their options for a customer loyalty program to implement a version that fits their customer base.

Prior to implementation, you should consider the various forms of customer loyalty programs. Certain programs may better serve different industries and types of organizations. These differences may impact the success of the program.

#### **1. Points-based programs**

This is the most recognizable form of a customer loyalty program. Customers earn points from purchases to redeem for credit toward their next purchase. This encourages customers to keep making purchases.

#### **2. Tier-based programs**

Points-based programs establish a foundation for tier programs. Once customers spend a certain amount, they reach a new loyalty level that offers greater benefits. Tiered programs encourage customers to increase their engagement to access the next tier. As you increase the exclusivity of benefits at each tier, you increase the customer appeal.

#### **3. Value-based programs**

If your company has a notable social mission, you could implement a value-based program. Instead of spending tiers, you reward customer purchases through contributions to a nonprofit. For example, the purchase of a certain product is donated to a charitable organization related to your company's mission.

#### **4. Spend-based programs**

Spend-based programs reward customers who spend more in shorter periods of time. These programs reward your company's highest paying customers. Customers who spend higher amounts access greater benefits to encourage their continued engagement.

#### 5. Gaming programs

Another option is to gamify your customer loyalty program, which makes spending fun. For example, Starbucks transitioned from a points program to a gamified loyalty program.

The coffee retailer offers a mobile app that customers access via their smartphones to access games that provide them with opportunities to earn bonus stars in addition to those earned through purchases.

Whereas their previous program rewarded customers one point for each purchase, customers now earn stars based on their purchases and engagement with the games. This added feature incites excitement with purchases.

### **Build Engagement by Offering a Range of Benefits**

Businesses should provide a variety of rewards to encourage customer engagement in their loyalty programs.

Discounts, free products, and store credit may help to build transactional loyalty. While these benefits encourage customers to enter into a loyalty program, monetary rewards may not sustain long-term loyalty engagement.

Once a customer enters into a loyalty program, leverage the opportunity to offer the following non-monetary benefits:

1. **Experiential rewards:** These rewards may include free tickets to events such as concerts and access to limited edition products or services. This may delight customers, which builds emotional loyalty.

2. Charity rewards: In addition to monetary rewards, you could offer customers opportunities to donate to a charity of their choice. For example, Lyft enables customers to round up the cost of their ride and donate the difference to the charitable organization of their choice through their Round Up & Donate Program.
3. Contests and prizes: You could also provide customers who spend at a certain threshold or accumulate a certain amount of points with a chance to win an exclusive prize. A contest may motivate customers to spend their points. In return, you give away only a few high-value products.

An expansion of your rewards provides loyal customers with more value. By offering more than monetary benefits, you not only add value but also encourage emotional loyalty.

This form of customer loyalty promotes growth. A majority (70%) of emotionally engaged consumers spend twice or more on brands to which they feel loyal compared to consumers with low emotional engagement.

According to a study by Forrester, a majority of consumers (80%) with emotional loyalty also promote the brand. Word of mouth marketing is valuable. Over all other forms of advertising, a majority (92%) of consumers believe recommendations from friends and family.

To facilitate growth, you should offer a range of rewards to customers engaged in your loyalty program.

### **Reward Various Customer Actions**

Businesses should also reward customer engagement beyond purchases to demonstrate your commitment to their loyalty.

More than a third (38%) of consumers state their greatest challenge with customer loyalty as an inability to earn points beyond making purchases. This limitation reinforces a transactional relationship with customers.

To better satisfy consumers and build their loyalty, you should reward more of their actions. Consider rewards for the following activities:

1. Watching product videos
2. Engaging an online platform
3. Following social media accounts
4. Sharing digital content
5. Subscribing to a blog or newsletter

If using a point-based program, you could assign points to each activity. The higher the effort required, the greater the points a customer acquires. This encourages their continuous engagement.

The actions listed above demonstrate brand engagement. As a goal of a customer loyalty program, it's sensible to reward them too.

By offering more ways to access rewards, you not only show an appreciation for but also build deeper loyalty with customers.

### **Consider Partnerships to Encourage Exposure**

Businesses should also research partnerships with brands to augment rewards for customers engaged in loyalty programs.

For example, T-Mobile and Netflix partnered to provide added value to loyal customers. Customers with two or more lines receive a Netflix subscription on T-Mobile.

A co-branded partnership not only allows you to provide more value to customers. The partnership also increases your brand exposure through access to your partner's audience.

If partnered with a company in a different market, co-branding presents an opportunity for you to extend your visibility and attract previously inaccessible consumers. As a result, the partnership may help to increase your revenue.

Another benefit of a co-branded program is the ability to split the cost.

Depending on the industry, businesses may spend between 4%–24% of their annual budgets on marketing. Co-branding enables you to split the cost of the campaign and double your marketing budget.

You should investigate opportunities for co-branding to expand your customer base to encourage greater sales.

### **Build an Effective Customer Loyalty Program**

During this period of economic instability, a customer loyalty program may be a valuable investment.

You should review the different types of loyalty programs. By making an informed decision, you increase the likelihood of generating a return on your investment.

A variety of benefits attends to a broader range of customers and adds value to the program, which further encourages participation.

To better satisfy your loyal customers, reward them with perks that aren't financial. This may help to build deeper loyalty to activate greater returns.

A partnership with a brand outside of your industry enables a customer loyalty program to capture a greater audience cost-effectively.

*Kate Russell is an Editorial Associate for Clutch – an Inc. 1000 private company that helps decision-makers determine the best B2B service providers to solve business challenges. She leads accounting research and content initiatives.*

The material appearing in this website is for informational purposes only and is not legal advice. Transmission of this information is not intended to create, and receipt does not constitute, an attorney-client relationship. The information provided herein is intended only as general information which may or may not reflect the most current developments. Although these materials may be prepared by professionals, they should not be used as a substitute for professional services. If legal or other professional advice is required, the services of a professional should be sought.

The opinions or viewpoints expressed herein do not necessarily reflect those of Lorman Education Services. All materials and content were prepared by persons and/or entities other than Lorman Education Services, and said other persons and/or entities are solely responsible for their content.

Any links to other websites are not intended to be referrals or endorsements of these sites. The links provided are maintained by the respective organizations, and they are solely responsible for the content of their own sites.