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Research: How to Design Loyalty Program for Affluent Consumers

Schedule

By Sallie Burnett

A recent Unity Marketing survey among C-suite and marketing executives, as well as entrepreneurs, identified finding new customers as their chief concern. But while attracting new customers may top marketers' to-do lists for 2016, customer retention strategies are ultimately the most profitable and most effective ways to grow.

What do Affluent Consumers Want from their Loyalty Programs?

This new independent study reveals that affluent consumers are highly engaged in brand loyalty and rewards programs, with more than 80% of the 1,300 affluent consumers surveyed (avg. income \$258.7k) active in one or more such programs, including pay-for-service programs like Amazon Prime or buyer clubs, like wine clubs.

Key findings from the research:

Developing the Potential of Existing Customers Is More Important to Businesses than Finding New Customers

Study after study has found that new customer acquisition strategies cost more and produce less than existing customer engagement and retention strategies. The cost of acquiring a new customer is many times more than keeping and developing an existing customer, with most studies finding customer acquisition costs 4 to 10 times higher. A Bain & Company study found a mere 5% increase in customer retention can increase a company's profitability by 75%. Further, Bain research found that the average amount spent by a repeat customer was two-thirds more than a new customer. And the Gartner Group reports that 65% of a company's business comes from existing customers.

All this adds up to the critical importance of [customer retention and development](http://www.customerinsightgroup.com/systematic-new-loyalty-program), not at the expense of new customer acquisition strategies, but as a part of a company's overall marketing strategies.

Brand Loyalty Programs Are a Key Strategy for Developing a Loyal, Engaged Customer Base

One of the chief tools in marketers' arsenal for developing a [loyal customer relationship](http://www.customerinsightgroup.com/why-loyalty-marketing), is reward programs that deliver added value to repeat buyers. Brand loyalty programs keep customers from defecting because customers that have accumulated rewards feel connected to the brand because they have 'skin in the game.' Such programs encourage existing customers to continue to do business and not defect to a competitor. They entice customers to spend a bit more to achieve higher level rewards. Rewards programs give businesses new insights into who their customers are, what they buy, how much they spend and how often they shop which helps businesses achieve greater focus and efficiency in new marketing efforts. And such programs can help attract new customers, since by offering added-value reward benefits through an existing reward program, brands can differentiate themselves and capture business that might go to competitor.

The Reward Program Challenge: Delivering Real and Meaningful Value to Customers

While most companies with existing brand loyalty programs have a lot of data about their existing customers and what they want, they lack detail data about potential customers and what they can do to attract them to their individual programs. Unity Marketing's new study looks across the range of affluent consumers engaged with brand loyalty programs, including airline and hotel rewards, credit card and bank card rewards, retailer rewards and dining rewards, to identify what specifically they value most in such programs. The results are revealing: Added customer service to members is something affluent consumers want most, yet few programs actually deliver.

Danziger explains, "With existing programs' focus on points, they miss a benefit that can greatly improve true brand loyalty from existing customers and differentiate one brand from all the rest to attract new members— Giving members added-value services and experiences.

Key Opportunity: Build Connection with Young HENRYs on the Road to Affluence

In the research one customer segment pops as under-represented in traditional brand loyalty programs: Young HENRYs (high-earners-not-rich-yet). These young HENRYs represent the best potential customers of the future, as most Ultra-affluents, the top 2-3% of U.S. consumers and the traditional target for luxury brands, start on their road to affluence as HENRYs. While these consumers due to lower levels of income would appear to be the most responsive to rewards programs that offer points to redeem for discounts, they are more likely to pay-to-belong and thus gain access to a wider range of more customized services and exclusive access. Danziger concludes, "The latest Unity Marketing research finds key differences between the reward programs that attract the more mature affluent consumers from the young. Yet young HENRY affluent consumers are the key to the future for brands seeking to develop a loyal, growing customer base not just for today, but for tomorrow."

Justifying a Loyalty Program

Is a customer loyalty program right for your marketing strategy? Customer loyalty programs are designed to retain customers and improve the overall customer relationship — and for that they work very well. A recent Experian study shows, [75% of U.S. companies with loyalty programs generate a return on their investment](http://www.customerinsightgroup.com/loyaltyblog/what-are-the-benefits-of-a-loyalty-program), and how they can work for you.

Get More Customers and Improve Customer Retention

When new customers see a customer loyalty program they will often be more inclined to engage with the company. Even the act of exploring the customer loyalty program and finding out more information about the program benefits can build up customer trust, interest and excitement. Customers will be more likely to make an initial purchase and — critically — will be more likely to come back. As you know, 45 to 50% of direct, new, one-time purchasers don't make a second purchase. A loyalty program, maybe something that creates a point of differentiation between you and a competitor and brings them back.

Every marketer knows that customer retention costs are far lower than customer acquisition costs. Every customer that you retain rather than having to obtain is a cost savings benefit to the business. In five years, a firm with a 70% customer retention rate will have lost two to three times as many customers as a firm with a 90% retention rate. In addition, companies with successful loyalty programs follow Pareto's Principle and target the top 20 – 30% of customers that generate 70-80% of revenue. These are the customers you want to provide a great experience and ensure they will keep coming back. A focus on retaining your top customers will have a significant impact on your bottom line.

Build Customer Relationships and Increase Sales

A customer loyalty program makes customers feel valued. It improves the customer relationship by increasing engagement and showing that the company does care and value the customer relationship. As customers shop, they will be inclined to purchase more each time because they will want to gain their rewards and because they will find the company more trustworthy overall. In a 2015 loyalty study, [34% of customers say they would not be loyal to the brand if it weren't for the brand's loyalty program](http://www.customerinsightgroup.com/loyaltyblog/what-are-the-benefits-of-a-loyalty-program), and programs are seen as an extension of the brand as affirmed by the 76% of Americans who think that loyalty programs are part of their relationships with brands.

Creating a customer loyalty program also creates a level of "gamification" to the purchase process, where customers will be trying to achieve a goal through their purchases. They may also feel justified in spending more with a company because they know that they will be "getting something back." A 2015 loyalty study by Bond reports that 64% of members agree that they'd modify what brands they purchase in order to maximize the benefits received from their loyalty program.

Keep Customers Coming Back for More

It isn't just about increasing transaction amounts — it's also about increasing transaction frequency. A customer loyalty program will remind customers to come back and continue purchasing so that they can pursue their rewards. In the Bain and Company report, The Value of Online Customer Loyalty, found that repeat purchasers spend more and generate

larger transactions.

In our study, the longer their relationship with an online retailer, the more customers spent in a given period of time. In apparel, the average repeat customer spent 67 percent more in months 31-36 of his or her shopping relationship than in months zero to six. And in groceries, customers spent 23 percent more in months 31-36 than in months zero-to-six. Higher spending levels were due in part to more frequent shopping and in part to larger transactions.*

In addition, repeat purchasing not only builds trust (so a customer will more likely consider purchasing other products), it also provides more cross-selling opportunities. In a recent study, 49% of loyalty program members recognize they spend more with brand now vs. pre-membership.

With a loyalty program, businesses are also able to identify unprofitable customers and separate them from their more profitable customers, thereby focusing their marketing efforts on those customers that are valuable and growable.

So is a customer loyalty program the right choice? The benefits are clear. A customer loyalty program will help you acquire customers, retain customers, and sell more to your customers.

Need help developing your loyalty program? You need look no further than Customer Insight Group's proven proprietary [systematic new loyalty program development](http://www.customerinsightgroup.com/systematic-new-loyalty-program) (<http://www.customerinsightgroup.com/systematic-new-loyalty-program>) process to help you build an optimal program that is financially viable, sustainable and achieves your business objectives.

Sallie Burnett is the president of Customer Insight Group, Inc., a strategic marketing company that helps companies improve the return on their marketing investment by developing and executing high-performing acquisition, loyalty, upgrade and retention programs. Explore how Customer Insight Group can help you increase sales and build profitable customer relationships by visiting www.customerinsightgroup.com (<http://www.customerinsightgroup.com>) or call 303-422-9758 today.

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