

How To Create A Tiered Loyalty Program



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Many companies have loyalty programs — membership programs that grant customers exclusive benefits for specific actions. At their simplest level, loyalty programs offer rewards per dollar spent or frequency of purchase. A tiered loyalty program goes a step further and offers increasingly attractive benefits at higher levels of spending, brand engagement or a combination of the two.

Hotels, airlines and banks are not the only industries to find success with tiered loyalty programs. Among companies that offer tiered programs are Sephora, The North Face, Uber and Nordstrom. In this article, I'll look at these successful loyalty programs and share with you actionable takeaways on how to create a tiered loyalty program that is equally successful.

The Value Of Loyalty

A successful tiered loyalty program benefits the company while offering value to the customer, encouraging customers to continue spending and to remain loyal to the brand. Top customers are significantly more valuable to a company than new or one-time customers. This does not mean that brands should neglect the recruitment of new customers, who may themselves become top customers eventually, but that it is important to direct their efforts toward retaining and rewarding the best customers.

According to findings by Adobe, the top 10% of your customers are spending three times as much as your typical customer, while the top 1% is spending as much as five times more. You have to bring in five to seven shoppers to equal the revenue that you get from a repeat shopper, who becomes even more valuable when the economy slows down. Finally, even though returning customers may be just 8% of all the visitors you get, they are responsible for around **40% of revenue**. The best loyalty programs engage and reward these customers.

Experiential Rewards Create Emotional Connections

Experiential rewards create an emotional connection that goes beyond what transactional rewards, such as points for dollars spent, can offer. Experiential rewards provide members with access to experiences that are unique to the brand and can't be replicated. The customer is fully immersed in the brand experience, and this strengthens the customer relationship.

Successful loyalty program examples of experiential rewards at the highest levels are Nordstrom's annual in-home visits from a stylist and The North Face's offer of access to **exclusive global expeditions**. Even less extravagant experiential rewards, such as Sephora's exclusive event invitations, can build on this emotional appeal and drive loyalty.

Tiers Create Exclusivity

Many tiered loyalty programs start participants at a free level. This allows everyone to participate and gives the brand the opportunity to collect valuable data on participants. But a hurdle to the next tier ensures that only the most loyal customers get the next tier and earn elite status and privileges.

For example, Nordstrom's customers can advance from a Nordy member to the next level, Insider, by spending \$500. But to reach the prestigious top tier of [Ambassador](#), customers must spend \$5,000 annually at Nordstrom.

Engage Customers To Create Aspirational Momentum

The comparative ease of marketing to the upper echelon of customers compared to trying to incentivize and reward a much larger audience means marketing dollars go further and there is less impact on the sales margin. Progress bars, milestones and other gamification techniques help keep customers engaged. Customers aspiring to move to higher levels can encourage loyalty even when other factors might discourage it. For example, higher-level Uber Rewards, such as priority airport pickup and complimentary upgrades, can keep riders with Uber even when the rider might have a longer ETA or pay a little more at times than they may have with a competitor.

Five Tips To Create A Tiered Loyalty Program

As a marketer looking for how to create a tiered loyalty program, you can employ these five best practices immediately.

1. There should be value at every tier with rewards that are unique and desired by your customers. However, there should also be a clear distinction between tiers. For example, Sephora offers points for money spent at every level, but its top-tier customers also have access to a private beauty advisor hotline.
2. Avoid complications. Earning and redeeming rewards as well as moving to the next level should be simple, straightforward and easy for your customers to understand. Think in terms of designing a program for members with the shortest attention spans, who may turn to other programs if they find yours too confusing.
3. Brand your tiers to make them more prestigious. One of the most successful loyalty program examples is that of Nordstrom, where customers move up the levels from Member to Insider, Influencer and Ambassador. These titles are not just distinctive but suggest a close and collaborative relationship between customer and brand.

4. Use experiential rewards. Loyalty programs have traditionally used transactional rewards, offering discounts for spending. Experiential rewards can build loyalty, while the prospect of receiving them can encourage customers to work toward higher tiers. Experiential rewards could include celebrity meet and greets, invites to product launches and other private, exclusive events.

5. At upper program levels, offer diversified rewards. Data on these customers are likely to be more granular, so this enables you to provide rewards that are of particular value to the individual customer. The reward should also be reflective of the value the customer provides to your brand. Two of the experiential rewards, Nordstrom's in-home stylist and The North Face's exclusive expedition opportunities, are both excellent examples of this type of reward.

The best loyalty programs create win-win opportunities for customers and brands alike. With a tiered program, brands have expanded opportunities to increase loyalty, engagement and spending with customers who have already shown themselves as willing to spend substantial amounts. These tiered loyalty programs drive retention among the most desirable customers.

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