



## An Overview of Retail Customer Loyalty Programs

The 7 Key Areas Leading Retailers Need to Focus on

*"In coming months, survival in retail will be directly related to the ability to understand, precisely, the shopper's state of mind, deliver solutions that serve their interests and effectively execute shopper marketing programs." – **Millerzell Research***

Reward programs are intended to exactly deliver this – be able to track and reward customer behavior. Statistics also indicate that consumer participation in rewards programs is on the rise across all demographic segments.

With more customers choosing to do coupon and bargain shopping in the store, the reward programs that provide personalized rewards will prove to be differentiators if implemented with a laser sharp focus on targeted customer segments.

Below, we explore some of the key aspects successful loyalty programs. Based on our experience of having delivered innovative customer engagement solutions for our retail clients, and on available industry research, the article is intended to be a comprehensive source of actionable Best-Practices that can help retailers take their customer loyalty program to the next level.

## 1. Segment Based Personalization

*Carrefour's program enables its marketers to design sophisticated and targeted promotions for a subset of customers who are most liable to respond to the offer.*

The key to winning the loyalty game is to be able to rightly segment customers, and make offers based on the segments' profiles. Retailers are doing this in multiple ways – enrolling customers in different tiers with customers getting to sign-up on less premium tiers and retailers having control on upgrading to the high premium tiers (with better benefits). The segmentation is typically based on current/perceived ROI and/or the customer's propensity.

Retailers leverage these segments and/or tiers to design customer-specific promotional marketing suite that delivers personalized offers. Customers receive promotional offers based on past visit patterns, consumption behavior and other customized offers.

*Washington State retailer TOP Food & Drug uses its loyalty program to provide benefits such as recall notifications, refunds of prices that drop following a purchase, and refund credit for items that shoppers were dissatisfied with.*

## 2. "Value" Driven

Today's loyalty programs cannot afford to remain a 'discount card' and need to extend beyond plain rewards. Retailers are moving from points and discounts to personalized services, transferring rewards to charity programs, green initiatives, after-hours shopping, access to product manuals, recipes, articles, "how to" guides and newsletters.

*Food Lion offered its MVP loyalty cardholders a \$1 coupon for every four private label SKUs bought in a single trip.*

Similarly, customers are rewarded for their "contribution to community", "long term loyalty" etc. E.g.: Tesco's Clubcard loyalty program members are rewarded for making 'green' lifestyle changes - earning points for reusing plastic grocery shopping bags or by recycling used inkjet cartridges.

*Best Buy's "most elite" loyalty tier members receive benefits that include free shipping from BestBuy.com, a 45-day return policy, point-banking, a premier-only awards catalog, and special Geek Squad services.*

## 3. Allow Customers to "Personalize" Rewards

*Shoppers visit the Safeway website to browse available coupon offers. After selecting the ones they want, they can transfer them to their loyalty card; at checkout, the POS recognizes and automatically applies all eligible coupons on the card*

Customers want to be able to accumulate and redeem reward points the way they want. The common trend that is emerging is to allow the customers to load discounts/offers that they consider of value to them, load them at their own convenience to the card and use them while shopping.

*Tom Thumb, a US based grocery retailer allows loyalty card members to view coupons on the web, select them and download them to their reward card and/or mobile phone.*

Certain retailers create "clubs" that reflect customers' interest in specific categories and allow the customers to derive tangible and intangible benefits by being members of these clubs. Some examples of clubs promoted by retailers are "Baby Clubs", "Home Décor Clubs", "Organic Foods Club" etc. This is another way for the customers to tell retailers about their unique interest in certain categories.

*"65 percent of consumers are making a shopping list before leaving the house, and that 60 percent of the time they are making the decision about which brand to buy when they are IN THE STORE" – Survey "Gone in 2.3 seconds"*

*"..converting POS into an effective consumer marketing tool at an affordable cost that continues to provide a sustained level of customer focus is a dream come true for any C-level executive in retail,"*

**Greg Belkin,**

*Research analyst, Aberdeen*

*A leading retailer introduced a new discount card that automatically deducts all discounts the customer is entitled to, at the point of sale, which means the customers are no longer required to cut out all relevant discount coupons before they head to their local store. Discounts offered inside the store are also automatically deducted. All discounts are immediately deducted, there and then, at the till*

*"Integration of in-store and out-of-store messaging will hold great importance for how retailers and manufacturers build brand image, drive demand and convert shoppers to Buyers" - Miller Zell, Inc. Research, "Are MEN from Mars and WOMEN from aisle 3?"*

## 4. Reward "In-store"

Instant gratification at the Point of Sale or In-store in terms of offers on products, instant coupons for next purchase, event based dialogues/messages (e.g. special events like birthdays or dropping an item in the online shopping cart), appreciation for a high net worth customer are some of the opportunity areas for retailers.

Retailers collect information about customers and their shopping habits and use it to build an accurate picture of consumer demand, design precise promotions based on data analytics and deliver it in-store. POS is evolving as a sophisticated tool capable of dealing with this enormous amount of customer and business intelligence.

Retailers are upgrading their point of sale to be able to do suggestive selling based on analysis of Customer Behavior and Basket. Though this mechanism is not a perfect fit for all flavors of retail (it does not suit a grocery store, for instance), it is very effective for most purchasing environments where queuing isn't such an issue, such as a high-end mall apparel stores, specialty stores like electronics, books, crafts etc

## 5. Cross-Channel "Common" Messaging

Large retailers operating multiple formats and interacting at multiple customer touch-points are focusing on integrating the loyalty program to ensure that the customer has access to the same offerings across the channels.

Retailers are also leveraging loyalty programs to motivate multi-channel interaction, for example if a consumer typically purchases in store, a coupon can be offered as an incentive to purchase online.

Customer preferences are analyzed and the likelihood of a customer responding to an offer is determined by a propensity score. Customized promotions are then sent to the targeted set of customers with a high propensity score. These promotions are then pushed across all the channels reinforcing the consistent multichannel experience provided by retailers,

*Home furnishings retailer IKEA has deployed customer loyalty-registration kiosks to offer customers the convenience of signing up for the IKEA FAMILY program in-store, print out a temporary card or update their customer profile. Loyalty customers benefit further by being the first to know of upcoming promotions, sales and events via on-screen information targeted solely at them*

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*Grocery retailer Niemann Foods is testing mobile text messaging to communicate store announcements and sales promotions through its customer program. This opt-in service provides instant access to customers, ensuring they never miss an opportunity to save as they are shopping.*

*Woolworths, Australia customers who link their Everyday Rewards Program and Qantas Frequent Flyer accounts will earn one Qantas Frequent Flyer point for every dollar spent above \$30 in one transaction.*

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*Retailers like Safeway and Starbucks are trying to acquire e-mail addresses of customers as part of a co-registration process through a reciprocal arrangement between partners*

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*UK's largest loyalty program, has been formed in collaboration with corporations such as Hertz, Ford, and Sainsbury's.*

## 6. "Just In Time" Customer Communication

These dynamic, paperless solutions come in handy when retailers want to reward customers both automatically and interactively but at a fractional cost. There is an increasing adoption of this trend with Customers opting to sign up for Real time promotional alerts from retailers and CPG companies

Replacing outdated coupon-based systems, Retailers are starting to communicate offers using methods better suited to the lifestyles of today's consumers, such as sending a text message containing details of an offer to a customer's mobile phone, or an email to their personal account or interacting using in-store kiosks. Retailers are exploring the use of SMS and Bluetooth technology to instantly alert customers to offers when they visit a store.

## 7. Break Boundaries for acquiring Customers

Retailers operating multiple formats are rolling out multi-format programs to ensure customer lock-in across different banners. Also retailers are looking to partner with other companies that have similar interests to get access to a newer and bigger customer base. Other means like auto enroll existing credit card holders, in store cards, gift registry customers, are also being explored. From an implementation perspective, retailers are evaluating the option of using either a proprietary card for loyalty or using one of the payment cards that the customer already has in their wallet.

## Summary

With an increasing number of factors influencing a customer's shopping decision, retailers are looking for every opportunity to creatively improve customer experience and boost customer loyalty. The agility in leveraging information to personalize customer experience and provide a consistent experience seamlessly across channels is the key to gaining a competitive edge.

Customers today are expecting personalized services and not just a 'discount card' when they enroll for the loyalty program with retailers.

TCS has extensive expertise in bringing business transformation and technology enablement in implementation of customer engagement solutions for leading global retailers, including partnering with a leading grocery retailer to implement its cross-channel loyalty solution and package implementation of Siebel customer data management for another leading US based retailer.

*TCS brings on-board its rich experience in customer program management through its Integrated Customer Program Management Solution. The key features of this solution include:*

- *Customer hub - "one view" of customer across channels i.e. Store, Web and Call centre*
- *Personalization Beyond Rewards*
  - *Personalized discounts configurable by Customer groups, Tiers etc*
  - *Special Services for Premium, High Value Customers, Surprise Discounts for upcoming customer events like Birthdays, Anniversaries*
  - *Mobile Coupons*
  - *Recognize customer at POS and offer instant personalized rewards*
- *Supports Clip-less Coupons that allow customer to load discounts to card and also supports coupons provided by retailer and manufacturer*
- *Reduce TCO and provides flexibility through:*
  - *Scalable solution built on Open-source technology requiring low investment.*
  - *Flexible deployment model to leverage existing hardware & IS stack*
  - *Flexibility of Hosted, Stand Alone Implementations*



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A part of the Tata Group, India's largest industrial conglomerate, TCS has over 143,000 of the world's best trained IT consultants in 42 countries. The company generated consolidated revenues of US \$6 billion for fiscal year ended 31 March 2009 and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

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