theorem SAILTHRU

6 Steps for Building a Loyalty Program to Engage and Retain the Modern Consumer

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A **loyalty program** is more than a series of feel-good gestures and displays of appreciation.
When done right, your loyalty program can serve as the very core of your customer retention strategy.
Not to mention, many happy customers take to social media to share about their favorite brands and best shopping finds, so loyalty members who become self-appointed brand advocates can simultaneously boost customer acquisition all on their own.

Loyalty Program Success
By the Numbers

90% of the Top 100 retailers offer loyalty programs

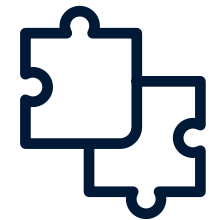**80%** of customers are willing to share personal data to earn loyalty program benefits

71% of consumers say they'll shop more with brands that personalize the experience

70% are willing to share their data to get special discounts and offers

53% of consumers say that they joined at least one brand/retailer's loyalty program

The Core of Successful Loyalty Programs? Value

Consumers need to be offered value in exchange for sharing their data to brands and retailers — and those benefits should be in the form of perks and incentives that your specific audience segment(s) values. When done well, loyalty programs can be instrumental in helping brands and retailers drive customer lifetime value and ultimately increase overall company performance.

In addition to savings, the most popular loyalty programs are the ones that are easy for the customer to use. One of the biggest inhibitors is the loyalty card. Instead of requiring a physical card, allow members to provide their email address and mobile number to earn and redeem perks and points.

> *The most effective loyalty programs build 1:1 connections with customers. They offer a requisite value exchange that supports effortless participation and that builds a relationship through shared loyalty. The shared aspect of that is important, because so many brands forget to share who they are as part of that 1:1 connection.*

Laura Carrier
Retail Advisor to Sailthru

Above all, retailers and brands should tailor their loyalty perks to their audience. How does your customer shop and how does your loyalty program accommodate them? And when it comes to your customer, what does "value" look like?

For example, in the health and wellness industry, customers visit drugstores 2x / week on average. Because of this, CVS modeled their loyalty program to support and encourage high vis- it frequency, offering both exclusive program discounts, as well as CVS-redeemable dollars that accrue with spend. It works because CVS customers shop at a high frequency, and their program follows the mantra, "the more you shop, the more you save." While it's a hit for CVS, this type of program would likely be ineffective for brands and retailers with different price points and spend frequency.

Another example is Bed Bath & Beyond. Instead of making the mistakes that JCPenney did when they tried to change their pricing model, when Bed Bath & Beyond decided to get rid of their ubiquitous 20% off coupons, they embedded that perk into their loyalty program.

Now, the customers who expect that 20% off can continue to get that coveted savings as loyalty members. Plus, they can opt for free shipping for the $29 annual fee, a good value given the AOV of Bed Bath & Beyond orders.

3 Popular Loyalty Programs
You Probably Already Love

These brands develop relationships with their customers by investing in their loyalty programs. Through perks, offers, and exclusive experiences, their program benefits enable them to thrive in an ever-competitive space.

THRIVE MARKET	SEPHORA	NORDSTROM
As a subscription-based service, Thrive offers high-value shoppers recurring delivery slots, grocery lists, and recipe ideas, as well as discounts on replenishment items like milk and cereal — a wildly successful tactic pioneered by ecommerce-focused brands like Amazon.	Not only does Sephora boast one of the most comprehensive loyalty programs ever launched, but the brand is one of the first to effectively use a loyalty program for its customer retention efforts. From sample-size freebies to VIP events, Sephora offers a variety of options that align with how shoppers connect with their brand, allowing them to choose how they want to engage as they rack up points.	The Nordy Club is one of the oldest loyalty programs in the retail sector, but what keeps it feeling consistently modern is the level of luxury and customization the program offers.

Build Your Own Loyalty Program

Ready to get started? Follow these steps to crafting a customer love initiative that can enrich your brand experience and promote long-term success.

Step 1: Decide Why You're Offering a Loyalty Program

Step 2: Choose Your Loyalty Program Model

Step 3: Brand Your Loyalty Program

Step 4: Choose Your Perks

Step 5: Create a Loyalty Program Launch Campaign

Step 6: Refine Your Loyalty Program Over Time

The approach to driving loyalty and retention through marketing varies across the industry. A common approach to building a relationship with consumers is the implementation of a loyalty program. Marketers can evaluate loyalty platform solutions, perhaps build a homegrown loyalty program or strategically choose to drive loyalty through customer lifecycle touchpoints to best engage their customers. Regardless of the approach to loyalty, the marketer's KPI is to drive customer engagement and lifetime value.

Monica Deretich

Marketing Advisor &
eCommerce Digital Leader

Step 1: Decide Why You're Offering a Loyalty Program

Before you begin creating a loyalty program, ask yourself what your goals are.

Do you aim to:

Retain and grow your relationships with loyal customers

Incentivize the growth of your customer base

Provide a meaningful experience for your customers (values-based, community-based, lifestyle-based)

Maximize customer data collection

Increase the value to your existing customer base

Your goals will determine the types of perks you offer, which define much of what makes your program tick.

Step 2: Choose Your Loyalty Program Model

Once you've identified a loyalty program as your strategy for executing your loyalty and retention goals, you're ready to select the type of loyalty program they want to provide to customers. While you have a number of options, keep your audience in mind as you evaluate which model will generate interest and engagement.

Points-Based Program (Gold Standard: Sephora)

Points-based loyalty programs are free programs that allow customers to accrue points for future redemption. Points are awarded both for spend as well as behaviors such as social shares, app downloads, and gamification. The goal with a points-based program is to encourage repeat engagement and purchases from your most loyal customers — i.e. earn 10 more points and you get a reward.

Loyalty program membership levels take the rewards-points strategy up a notch by giving customers an increased feeling of exclusivity and belonging by becoming a "member" that bears a special status. This strategy organizes perks under membership levels.
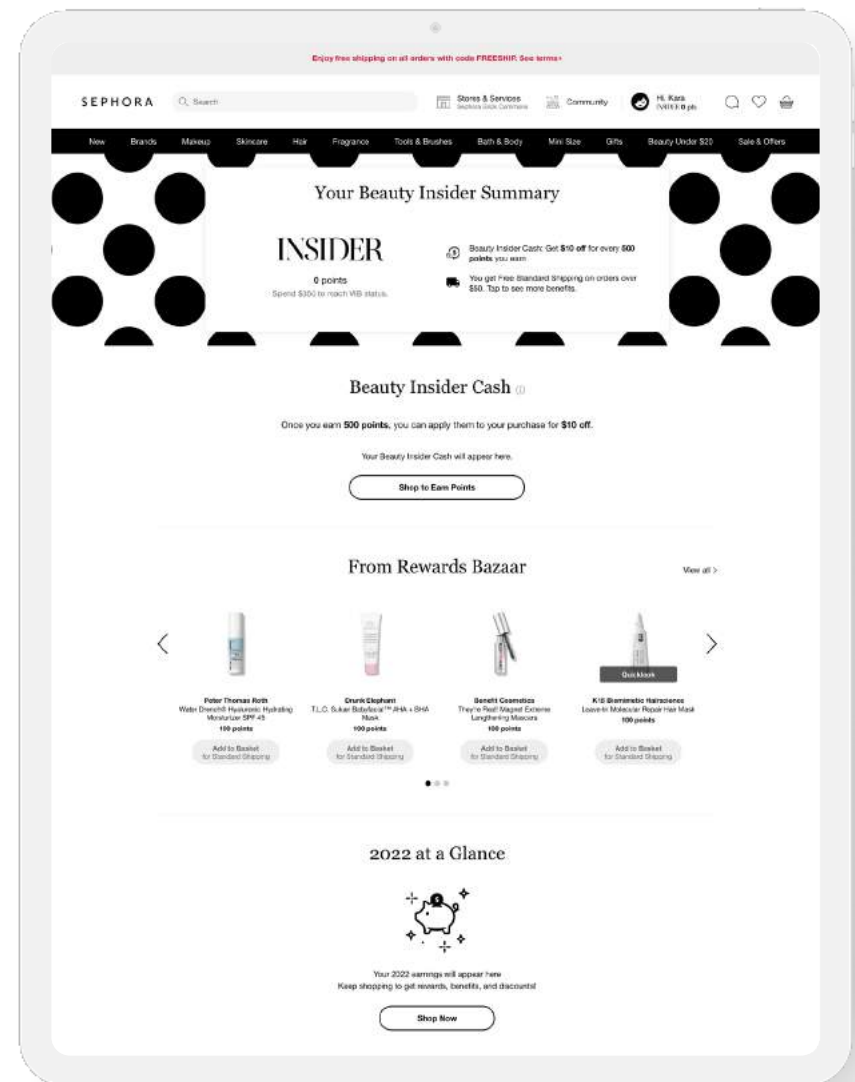
While some perks will be available to all members, they may be differentiated by level.

One of the most-famed loyalty programs, Sephora's tier-driven perks encourage members to splurge on their premium products to earn points that determine their membership level. Members start at the Beauty Insider level, gaining the ability to use their points for cash off future purchases and select beauty items from Sephora's well-stocked Rewards Bazaar. As members spend more and move up a level, they receive higher discounts during seasonal sales events and can use points toward exclusive experiences like in-store beauty tutorials.

Brands can leverage rewards points in a variety of ways. Think about the actions you want customers to take and offer points accordingly. Some rewardable actions like opting-in for SMS or following your brand on Instagram will happen once, while submitting a product review and inviting friends can happen across the lifetime of your relationship with a customer.

Some of the most popular rewards programs strike a balance between points for transactions and engagement. Here are just some actions to consider and curate for yours:

• Making purchases

• (Base points on the number of purchases or dollars spent)

• Downloading your app

• Attending live shopping events

• Referring their friends

• Submitting a product review

• Opting-in for text messages / SMS

• Instagram Follow

• Uploading UGC

The downside to points-based programs is that many don't offer enough incentive to keep loyal and high-spend customers motivated or engaged. Spend $10 and get $2 worth of points is motivating, but spend $100 and get $5 worth of points is not an attractive proposition, so brands must ensure that the points equivalents are high enough value to engage their most loyal segments. Plus, they should offer higher values and additional benefits at higher tiers in order to differentiate their offering.

Airlines and credit cards have excelled at the loyalty program points value proposition by adding in additional benefits for higher tiers geared towards those segments. For example, customers who fly less frequently might not care about fast-tracking through the airport, but frequent fliers are very motivated by this perk.

The most common way to create a connection with loyalty program members is to display relevant and personalized information to a shopper, such as their available points, rewards, and upcoming events directly in an email or a text message. Notably, brands that used loyalty point totals when communicating with customers skewed towards brands that appeal to Gen Z shoppers — DSW, e.l.f. Cosmetics, Skechers and The Body Shop.
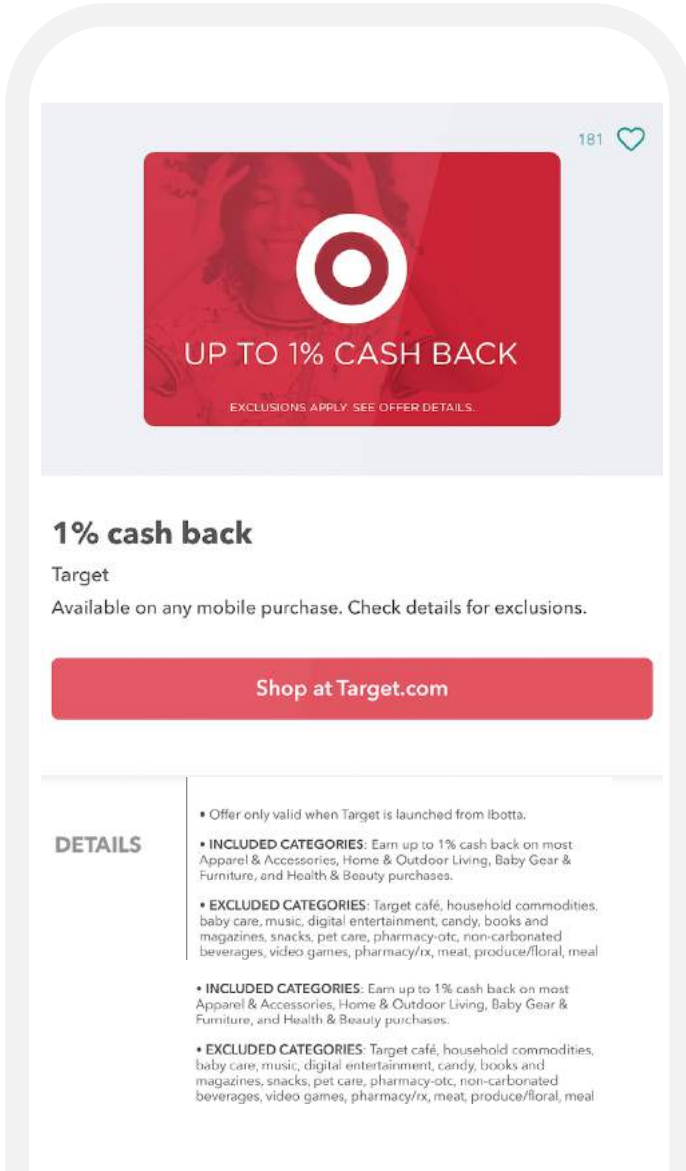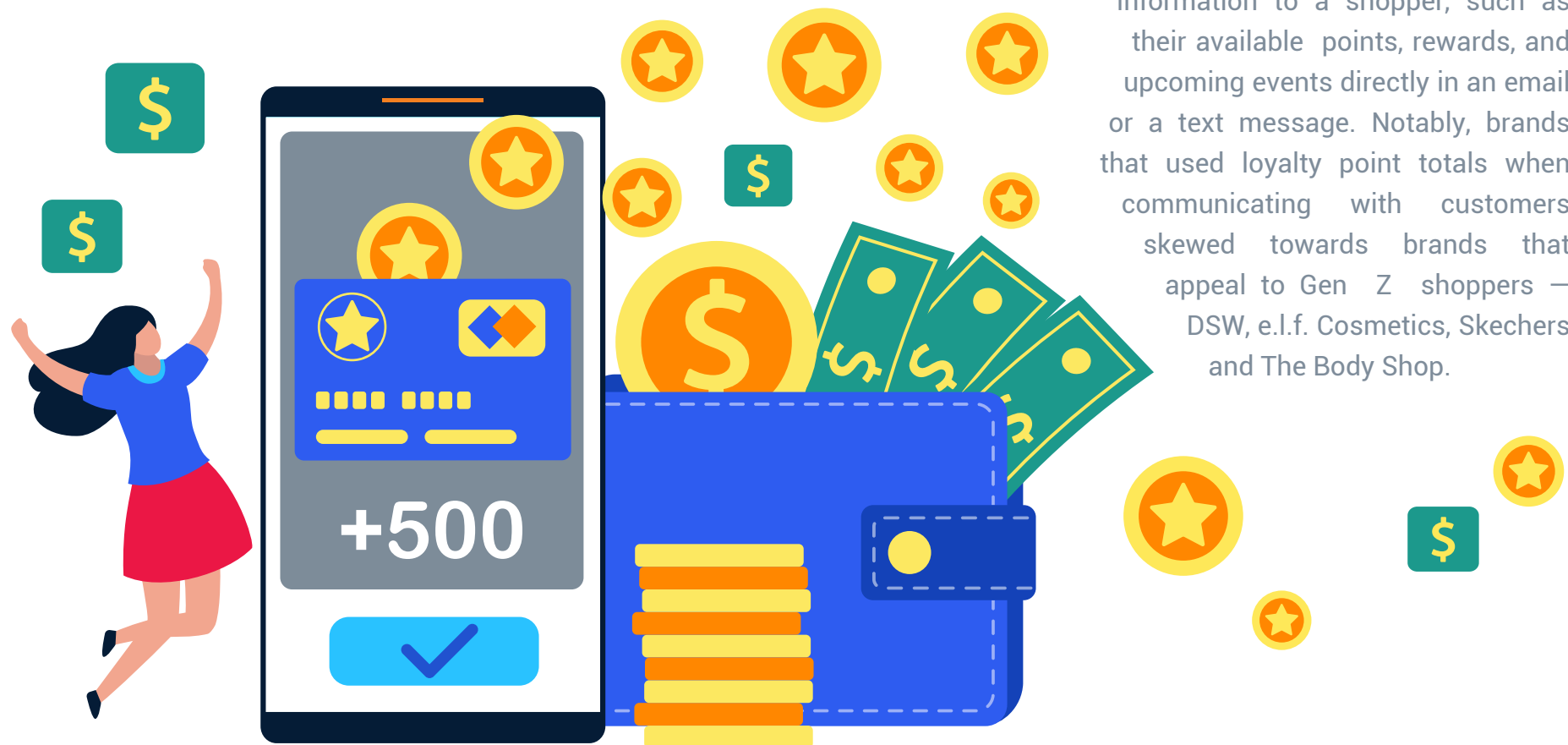
Cash-Back Program
(Gold Standard: Target)

Cash-back loyalty programs give customers cash back, primarily for purchases. The goal of these programs is to incentivize repeated spend through an ultra-appealing cash-in-your-pocket mentality.

While businesses bake cash-back programs into gross margins so they operate as a discount on purchase price, this model rewards all customers with the same discounts regardless of their profitability.

Wondering if cash-back is the right approach for your business?

Consider your customers' average spend and frequency. For high-spend categories, these types of programs make sense. For lower-frequency and lower-spend retailers and brands, the cash back model doesn't put enough cash into customer's wallets often enough to motivate them. Retailers such as Target get both high enough frequency and high enough share of wallet that cash back motivates their customers to join, spend, and redeem on repeat.

181 ♡

UP TO 1% CASH BACK

EXCLUSIONS APPLY. SEE OFFER DETAILS.

1% cash back

Target
Available on any mobile purchase. Check details for exclusions.

Shop at Target.com

DETAILS

• Offer only valid when Target is launched from Ibotta.

• INCLUDED CATEGORIES: Earn up to 1% cash back on most Apparel & Accessories, Home & Outdoor Living, Baby Gear & Furniture, and Health & Beauty purchases.

• EXCLUDED CATEGORIES: Target café, household commodities, baby care, music, digital entertainment, candy, books and magazines, snacks, pet care, pharmacy-otc, non-carbonated beverages, video games, pharmacy/rx, meat, produce/floral, meal

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• EXCLUDED CATEGORIES: Target café, household commodities, baby care, music, digital entertainment, candy, books and magazines, snacks, pet care, pharmacy-otc, non-carbonated beverages, video games, pharmacy/rx, meat, produce/floral, meal

Tiered Loyalty Program
(Gold Standard: American
Express Black Card)

Tiered loyalty programs afford higher spend and engagement with higher rewards. If the thresholds for the tiers are well calculated, these programs will motivate the highest behavior changes as customers work to move from one tier to another.

Determining tier thresholds requires a lot of data and good analytics to develop a foundational understanding of your customer spend patterns, frequency, and engagement. Retailers must also develop an understanding of customer motivations through analytics and surveys to ensure that the benefits for each tier are valuable enough to build desire to move up a tier hence spend and engage more with your brand).

In addition to the perks, customers also achieve a feeling of "status" by upping their tier and building on their connection with your brand. Credit cards and airline rewards offer effective tiered programs that build with spend – the more you spend, the more perks (points or cash back) you earn and the more bonus perks and "status" you gain. Think American Express black card or Delta Diamond Status.

Premium (Fee-Based) Membership Program (Gold Standard: Amazon Prime)

Premium membership loyalty programs offer key benefits for a fee. The key to success with this model? Make sure those benefits clearly outweigh the fees.

There are two ways to think about this type of program:

• A program for all customers that offers foundational perks such as free shipping (Amazon Prime members receive free and speedy shipping on millions of items throughout the platform)

• Segment-specific programs packed with perks that are geared towards a very specific audience (Best Buy's "TotalTech" offers extended returns, free ship-ping, and enhanced technical support even on items not purchased at Best Buy)

Start your 30-day free trial
prime
Learn more ›

Can't Decide? Mix Things Up with a Hybrid Program

Hybrid programs are a smart way to build loyalty among your customers.

A hybrid loyalty program mixes and matches some combination of the above models (for example, tiered points-based programs). Given the purely transactional nature of points-based and cash-back programs, combining them with other experiential benefits will not only motivate loyal customers, it can also deepen relationships with customers who aren't high or frequent spenders (yet).

Once you identify your loyalty program model, consider how customers will enroll into the loyalty program. For example, does providing an email address and subscribing to your email list make them a member or does membership require a separate opt-in? As for timing, when do customers learn about your loyalty program? Do you prompt them to join after their first-purchase or later down the line?

Step 3: Brand Your Loyalty Program

Treat your loyalty program like the brand experience it is. Name it something that embodies or piques the interest of your customers and emotes an air of exclusivity that drives signups. Here are some examples to inspire your naming brainstorm:
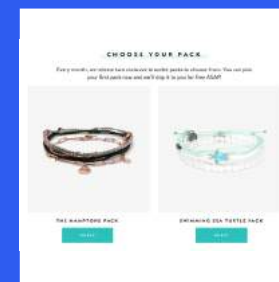
DSW VIP Rewards Program
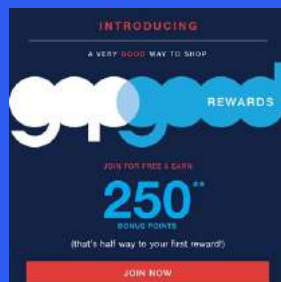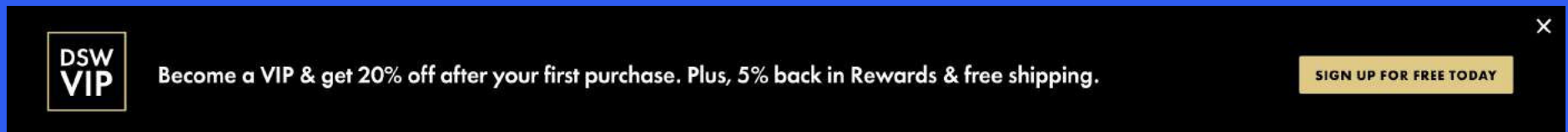
Gap Good Rewards

Sephora Beauty Insider Program

Pura Vida Bracelet Club

Step 4: Choose Your Perks

The appeal of loyalty programs lies in exclusive member perks. Your loyalty perks should include benefits that excite your customers and serve your business simultaneously. There's no need to pile on all of these perks at once. Instead, consider what your specific customers will value most, start small, and expand member benefits as your program grows.

Free Shipping and Returns

Offering free shipping and returns can encourage loyalty members to buy more frequently. If covering shipping costs for all members isn't feasible, consider this perk for a small group of VIP members. Alternatively, you can provide lower purchase thresholds for members at certain levels. For example, you may offer free shipping to entry-level members for purchases over $75, while mid-level members can enjoy this perk at the $50 mark.

Exclusive Discounts & Deals

Drive sales by giving your loyalty members the ability to buy and engage with your brand more often with exclusive discounts and deals only they can access. Deliver members-only promo codes and collections any time you like via email. You can also automate these types of rewards to trigger whenever members make a purchase.

D2C marketers can target discounts based on a variety of criterias that can both engage and re-engage customers, including discounts based on:

- Tier status or membership

- Lapsed status or last purchase date

- Most-frequented brands or categories

VIP Access to Sales & Limited Drops

Make your loyalty members feel good about being in the know. Give them an "in" on your biggest sales before the crowd gets their turn. When it comes to your sale of the season, consider sending members an email letting them know it's live a day or two early. For a lighter lift sales event like a limited drop, create a landing page for your one-and-done "drops" line and link to it in a members-only email.
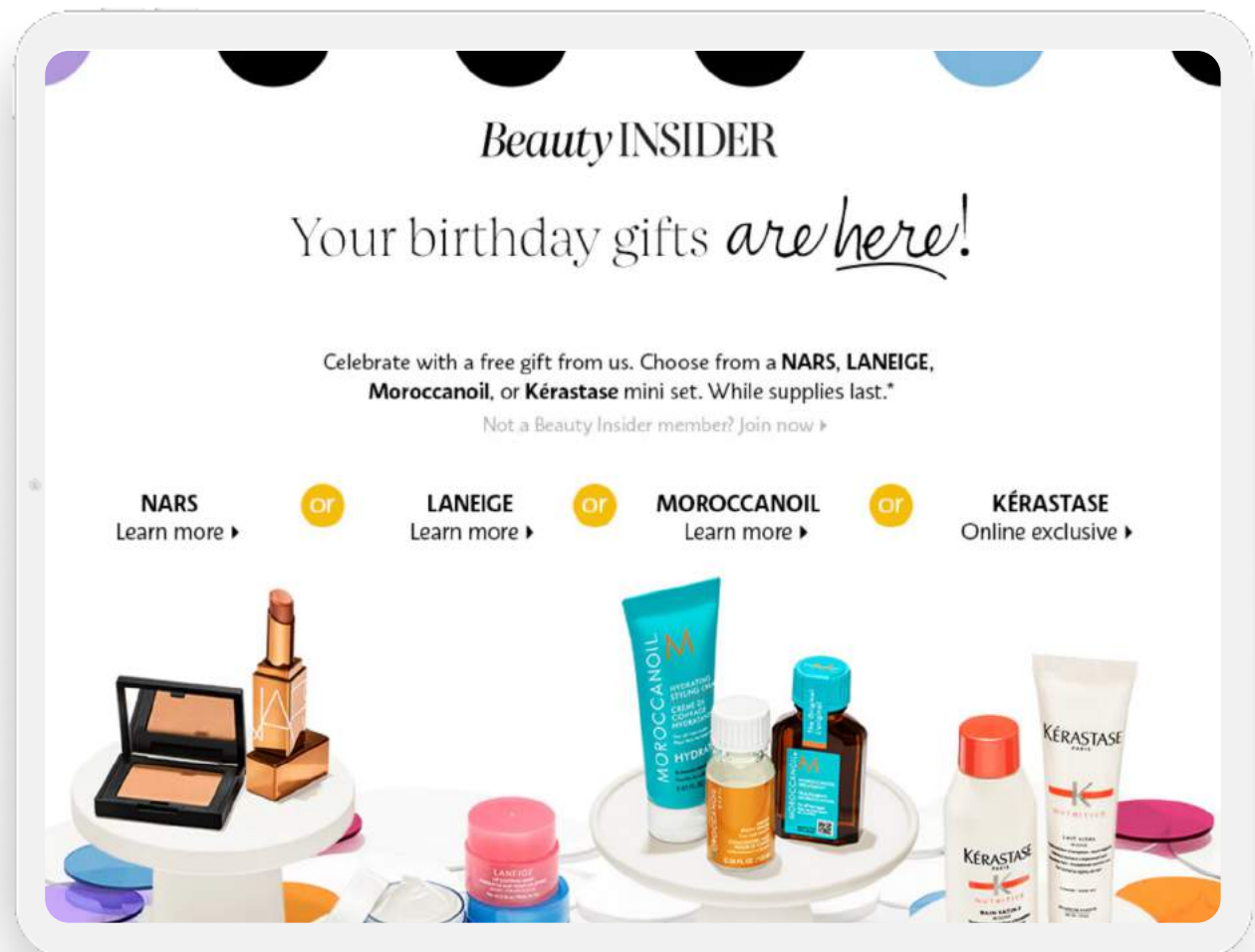
Beyond promotions, mix in access to products and services like Adidas does by granting three months of premium access to their running and training apps by Runtastic once members reach the Level 2 rewards tier.

Special Gifts

Loyalty programs aim to build relationships. So just like a friend remembers your birthday and celebrates the holidays with you, your loyalty program should make your customers feel acknowledged and appreciated on important days throughout the year.

Gifts don't have to be costly to be meaningful. A price-pointed item or $10 gift cer-

tificate paired with a heartfelt note will do the trick. You can also give customers the option to pick what they like from a selection of special gifts. And if you offer services, consider giving a free trial to get them hooked on a service they haven't tried yet.

Rather than being just about the transaction, loyalty programs like Sephora's Beauty Insider creates a close relationship with each member. One of the most beloved examples is Sephora's birthday surprises. Based on the preferences the member has chosen, Sephora sends cus-

tomized birthday gifts like mini-sets from premium brands like Drunk Elephant or Fenty Beauty.

But don't stop at birthdays. Gifts can mark a number of occasions including:

- One-year anniversary of being a member or customer

- Celebrating the achievement of a new membership tier status

- Surprising members with an exclusive discount to clear their abandoned cart

The key to a well-received gift is to put yourself in the customer's shoes. If you sign up for a birthday perk then you want to feel special on your big day. Is a $5.00 off discount going to make you feel that way? Absolutely not. but a personalized gift like a cookie or a skincare set from a brand you love will. Keep this in mind, along with the air of exclusivity that will make your customers feel VIP.

Members-Only Events

While traditional onsite events can be a challenge for brands that thrive online, the level of engagement driving social commerce can be a boon for online-only retailers when it comes to bringing everyone together. Not to mention, when your event is online, there's no limit to who can attend. Let loyalty members feel the excitement of landing on a closed guest list regardless of where they live.

As live-shopping experiences become more popular for brands, an invite-only event can allow your most enthusiastic customers the opportunity to interact with your hosts and purchase your latest line in real-time.

Values-Based Perks

Bond with customers over the causes you care about most with values-based perks that reward them for contributing to your brand's social impact initiatives. Look to DSW for inspiration. Their Souls for Shoes perk rewards program members with 50 points for every pair of used shoes they donate.

Referral Rewards

Your loyalty members can serve as excellent advocates. Prompt them to refer your business to their friends, family members, and social media followers with amped-up perks like cash to spend in your shop for every friend that signs up and buys or gifts they can earn based on how much their friends spend in their first purchase. You can also reward loyalty members for sending referral invites with reward points that acknowledges their advocacy regardless of whether or not their friend makes a purchase.

Step 5: Create a Loyalty Program Launch Campaign

Before your big launch, establish a sign-up strategy to foster organic growth. If your loyalty program sign-up form isn't meeting your customers where they are, it won't grow. Here are just some of many ways you can gain signups beyond your big launch:
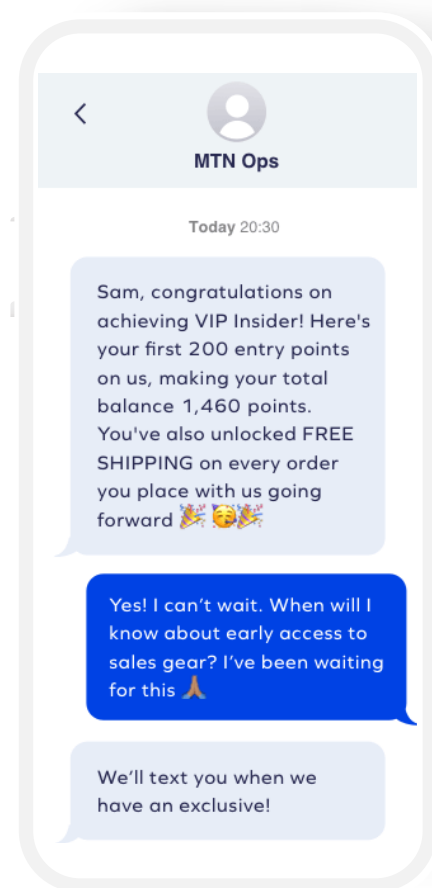
- Create a dedicated web page for your loyalty program

- Add a banner linking to your loyalty program page on your homepage and in the footer of select emails

- Integrate your loyalty program into your year-round campaigns and automated flows

- Leverage SMS to get the word out about your loyalty program

- Integrate loyalty program education into new customer onboarding emails

No matter how you choose to promote loyalty program sign ups, focus on the convenience factor. Many companies link to loyalty program information instead of the actual sign up page, but that doesn't lend to a seamless signup experience, and they risk missing out on gaining new members. Banners, buttons, and links should link directly to what the customer would want to do. For example, a sign-up banner should take them to an enrollment page, while a perks banner should lead to an informational page with member perks and tiers.

Once you're set on your sign-up strategy, kick off your loyalty program in a big way with an omnichannel campaign that ensures your customers know there's a new and better way to shop with your brand. In addition to spotlighting program perks, add some one-time-only benefits to being the first to join, like a joining bonus (Third Love's Hooked Rewards program gives new members $40 off their first purchase) or a welcome gift that includes free items, coupons, or gift cards.

MTN Ops

Today 20:30

Sam, congratulations on achieving VIP Insider! Here's your first 200 entry points on us, making your total balance 1,460 points. You've also unlocked FREE SHIPPING on every order you place with us going forward 🎉 🥳

Yes! I can't wait. When will I know about early access to sales gear? I've been waiting for this 🏹

We'll text you when we have an exclusive!

Step 6: Refine Your Loyalty Program Over Time

Keep tabs on relevant member engagement metrics (sales, average purchase price, referrals, etc.) to determine which perks customers value most. If you have space to experiment, send your loyalty members a survey asking them to rank program perks and even suggest their own ideas for how you can enhance and expand member benefits.

Leverage loyalty program benefits and offers to obtain valuable customer information. Brands like JustFab, DSW, and Grove Collective are tapping into this value exchange with continuous dialogues, sign-up quizzes, and live email polling with their customers.
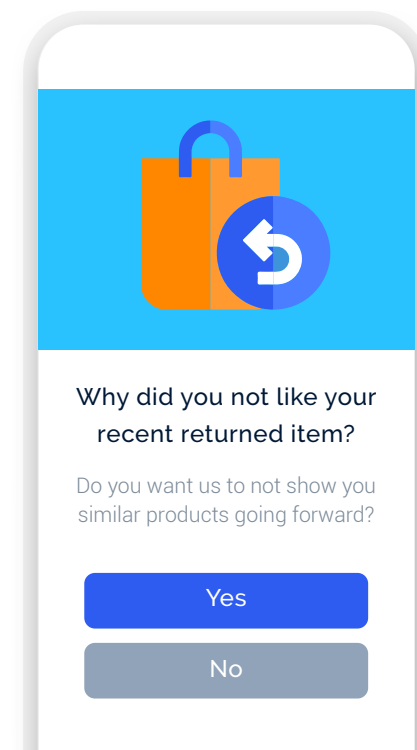
- Why did you not like your recent returned item? Do you want us to not show you similar products going forward?

- Tell us your primary skin goals. We'll be happy to share recommendations based on what you share!

- Does your weekly grocery list need updating based on your last order? We can remind you via email or text each week to update your shopping list, if you prefer.

This feedback, provided voluntarily by the shopper through zero and first-party data, is then used by the retailer in future offers and product recommendations to the very same shopper. Shoppers know: the more they share, the better the offers become.

The data collected from your loyalty program should be shared with all internal departments of your organization. Knowing that a shopper is more likely to act on an SMS message about their favorite sneakers being back in stock and including the closest retailer where the item can be purchased is customer-centric marketing.

Why did you not like your recent returned item?

Do you want us to not show you similar products going forward?

Yes

No

Get Started on Your Loyalty Program Strategy

Your loyalty program will cultivate and celebrate your customer relationships, so make its creation a community affair. Appoint your most passionately customer-centric employees to participate in a committee to design your program in a way that delights your customers and elevates your brand experience. As for naming your program, have some fun by launching an internal contest to pitch a name. Finally, remember that joy lives at the heart of every successful loyalty program, so begin with the messaging and perks that will make your customers smile.

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