

# The Strategist

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programme, My Starbucks Rewards. It is a reloadable payment card that awards customers with stars for their purchases. Customers get membership at different 'levels' depending on the frequency of purchase and get benefits that vary from complementary beverages to birthday treats, free customisation and so on. Think about it this way. The Starbucks programme is also a tool for customer engagement — the company's loyalty programme is designed to make tracking rewards fun and exciting, just like a game. This is what loyalty programmes should ideally be — more than "a point for a purchase".

**2 Go beyond points**

"Good loyalty programmes create incentives that are lucrative to customers," says Ankur Bisen, senior vice-president, retail, Technopak. Sadly, most Indian loyalty programmes are symbolic, say experts. Such programmes urge shoppers to collect points, but the spend-to-points ratio under such programmes are unattractive. "For the most part they are tools to attract customers while the true benefits are restricted or missing because of the many riders," says Chakraborty of TNS India.

In more mature consumer markets, loyalty programmes go beyond according points to purchases by engaging with consumers. Redeeming these points at times is a tedious process, diluting the objective of providing the customer with a great experience. "Loyalty points are only but just the glue that sticks together various activities that a company needs to undertake to create loyalty amongst their consumer base," says Bijal Jayaraj, CEO, Loyalty Rewardz Management.

"This means that the cards should be used to create the first level of connect with the customer. This, coupled with analytics and interactions outside the store, leads to a long-term relationship. When companies are able to engage customers, they can convert them into advocates of the company or the brand," says Rachna Nath, leader retail & consumer, PwC India.

Titan. This allows customers who shop from any of the Titan Company stores (World of Titan, Tanishq, Helios, Fastrack and Titan Eye Plus) to earn points while shopping which can be redeemed across all brand stores. "Customers are also getting personalised and relevant communication because of better understanding of customer behaviour. In our recent customer group analyses, cross-redemption of points has come out as the key differentiator," says S Ravi Kant, executive vice-president, Titan Company.

Now look at **Tata Starbucks'** loyalty

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Vantage point

Rethinking strategy



For a while, planning was the dominant approach in business strategy. But companies are stretched across a broader range of business environments that are increasingly diverse, fast changing, and more uncertain, according to Martin Reeves, head, BCG Strategy Institute. "One size no longer fits all. How do we rethink strategy in dynamic and diverse world?" he wonders. This is the question addressed in BCG's forthcoming book, *Your Strategy Needs a Strategy* (HBR, June 2015).

BCG proposes the strategy palette as a means to enable matching and mixing of optimal strategic approaches to specific business environments. The environments are classified based on their unpredictability, malleability and harshness, leading to five strategic approaches to win in an environment. For example, stable environments, like household goods, require classical strategy — analysis, planning and execution. The question which companies should ask is: which environment you are playing in and how do you go about winning?

## Making loyalty pay

How do you identify potential high-value customers and convert them into loyal consumers? Here are five steps to help guide your customer loyalty strategy

SONALI CHOWDHURY

EXPERT TAKE

### Building loyal customers

A business can make its loyalty programme more effective by first focusing on the customer buying experience and service standards and then layering the loyalty programme on top of it. Many businesses get this sequencing wrong. Unless there is a consistent customer experience across all the touch points of the business, loyalty will not be built.

Different sectors should focus on different aspects of the customer experience. For example, a restaurant should focus on the taste of the food, hygiene and ambience of its place for building loyalty. An apparel brand should demonstrate its knowledge of the customer segment and tastes by mining past purchase patterns and providing offers or discounts on relevant categories to make the customer buy more. A hotel should focus on addressing the need of the customer by providing complimentary upgrades and providing rooms to loyal customers during peak season.

Dispatch of welcome kits and cards have become redundant especially for lower tiers of loyalty programmes. Mobile numbers have increasingly started becoming the identifier of the customer at the point of sale. Similarly enrolling all customers has also been stopped in favour of enrolling customers who provide certain value to the marketer.

Loyalty programme execution normally subsumes all forms of below-the-line under it as brands engage their best set of customers. Hence, a company will get maximum bang for the buck if it were to bring in direct marketing, events and social media engagement budgets under the aegis of the loyalty programme and utilise these to build engagement. Mainline advertisements will be separate.

However, the rationale for spending on the loyalty programme is that over a period of time you will reduce the spends on above-the-line advertisements — where you are not able to measure the response. The metric to measure the effectiveness of the monies spent on the loyalty programme is to evaluate the average additional value that customers have contributed, post launch of the loyalty programme, vis-a-vis the money spent per customer. Hence the budgeting for loyalty programme should also be determined by cost per customer, assuming that the spends will be restricted to the best set of customers.

MS ASHOK  
COO, Accentv

Stop was able to garner incremental business of ₹100 crore in FY14 by simply activating insights gathered from the First Citizen data. To capitalise on the festive shopping spree, which people from West Bengal and outside indulge in during Durga Puja, it identified Bengal surmames from its First Citizen data base in Surmame and in other markets. It sent these short-listed customers a promotional offer linked to their festive purchases. This exercise led to an additional ₹1.5 crore to the company's top line.

As one of the early adopters of digital media, it has also launched its First Citizen mobile application recently.

"Our customers have to no longer lug around their plastic cards. The First Citizen mobile app (available on Android, Apple and BlackBerry platforms) takes the First Citizen experience mobile," says Vinay Bhatia, customer care associate and executive vice-president, marketing, loyalty and analytics, Shoppers Stop.

When Titan Company wanted to offer customers the best shopping experience with the widest selection of products it launched Encircle in 2013, which combines three of Titan's loyalty programmes — Vista for Eye Plus, Anuttara for Tanishq and Signet for the World of

Loyal customers spend more, purchase more profitable products and services, try other brand offerings, and are more likely to refer customers to their preferred brand/business. In other words, loyal customers are a company's most valuable asset. So why are Indian marketers so lackadaisical and slipshod in their effort to identify potential high-value customers and then cultivate them to become loyal consumers?

One reason is that, for the most part, Indian brands are focused on acquiring new customers. "In India there is a high admissible new customer base to be tapped into," points out Parijat Chakraborty, head, stakeholder management practice, TNS India. "So most corporate strategies are geared to do just that — enlist more number of buyers. The issue is, if they want to grow they need to devise ways to make their existing customers spend more."

Logically that makes sense but building customer loyalty is hard, especially when your competition is just a mouse-click away. The customer today has access to greater information and more control over the communication that reaches her and the channel through which she communicates with brands. She is exerting greater influence on other shoppers through online discussion forums, reviews, and ratings. These activities impact the marketer's brand and reputation, and yet are outside his ambit control.

So how do you identify high-value customers and convert them into loyal consumers? Here are five steps to help guide your customer loyalty strategy.

**1 Recognise and differentiate**

No two customers are the same, nor do they want to be treated as such. Customers want to feel special, and to build the right loyal customer base, you need to develop offers and rewards that are tailored to their individual needs and preferences. It is also a bad idea giving them points and making them feel like free-loaders when they come back to redeem them. Take a cue from Shoppers Stop, which starts by calling its loyal customers 'First Citizens'.

The Shoppers Stop Loyalty Programme is one the largest in the industry with over 3.4 million members who contribute to over 72 per cent of sales annually. Shoppers

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## Making loyalty pay

Louis Philippe is one brand that has been able to make the most of its loyalty programme membership. The brand has been able to build strong engagement with its core customers through customised red carpet events at its stores. These special events are designed to enable the company's management and field teams to interact with their most profitable set of customers to understand their needs and aspirations better and factor these into their products and store offerings. The repeat loyalty programme members (that is, members who have been in the programme for more than one year) contribute about 52 per cent to its total sales, according to Accentv, the rewards and loyalty brand of Edenred, which manages the brand's loyalty programme.

**3 Create a compelling offer**

Yes, retail is where most of the action is concentrated and this is where you will see the best experiments. Take Future Group's Big Bazaar. It launched the Big Bazaar Profit Club in 2012, a prepaid loyalty programme, which offers benefits against an upfront payment by the customer. Customers who pay ₹10,000 to sign up are entitled to shopping worth ₹1,000 every month over the next 12 months. Which means they get to buy goods worth ₹12,000 in the year. The value to the customer is apparent; what the company gains may not be so visible but is no less attractive. For the most part consumers end up spending more than ₹1,000 per visit, giving the company a far bigger share of wallet than they had planned for. The company claims to have added close to 1.7 lakh new customers by pushing this programme. "We are always looking at the changes in consumer buying behaviour to devise new strategies to grab their attention," says Sandip Tarkas, president, customer strategy, Future Group.

This brings us to the next point: mining consumer data that loyalty programmes have the capacity to throw up. By knowing who your potentially loyal customers are, you can more effectively define the products, services and programmes that create the value your customers seek to keep them coming back.

**4 Don't sit on data, mine it**

Not all customers are created equal. Some will be profitable, but a larger slice of the pie will not. Your ability to make the customer spend more hinges on your understanding of the customer. Begin by asking simple questions: What are the characteristics of customers that are likely to be profitable and loyal to your company? What are their likes and dislikes? What, when, and where do they buy what they want?

Once you are able to find answers to these questions, you can more effectively market, sell, and nurture the right customers. And the best way to do that is to sift through the data that the loyalty card holds. A bunch of companies is actually doing that. For one, Shoppers Stop, which has one of the oldest running loyalty programmes in the industry (started in 1994), has systematically invested in maintaining customer data and slicing



Cross-redemption of points can be a key differentiator

S RAVI KANT  
EXECUTIVE VICE-PRESIDENT,  
TITAN COMPANY



Loyalty cards are the first level of connect with the customer

RACHNA NATH  
LEADER RETAIL & CONSUMER,  
PWC INDIA

and dicing it for consumer insight. It is also experimenting with marrying social media data with its own card-data to target customers better.

**5 Enter into a coalition**

The idea of cross-redemption that the Titan Company has introduced can also work when linked across companies across sectors. This will, hypothetically speaking, enable you to buy things at Big Bazaar and redeem the points gathered at Indian Oil. Think it won't work? Bury that thought. There are already enough

examples of brands coming together to get access to a wider or newer set of customers. Think of banks offering freebies on credit card spends of customers in coalition with retail partners. The bank doesn't pick up the tab on behalf of the customer; it is the retail partner that offers the gift to be able to spread its message to a wider audience. In a coalition, the cost of technology and infrastructure also goes down for all the partners and since most of the brands that are represented in a coalition don't compete with each other, there is little chance of cannibalisation.

Experts feel loyalty coalitions can change the game and the best combination should have at least one major bank (credit or debit card), one petroleum company and one major retailer with a pan-India presence. The presence of these categories in the coalition is vital for the customer to see value as these are the categories that bring in high-velocity transactions. "We ran a joint promotion with Big Bazaar and Hindustan Petroleum where customers got a chance to earn loyalty points and redeem them at both the places. If the customer used an American Express or

ICICI Bank credit card then they could further bump up their points," says Rahul Rana, CEO, Payback, which offers multi-brand customer loyalty programmes, both online and offline.

Take Jet Airways. It is partnering with banks and adding retailers to attract retail shoppers. "The key difference is that a traditional frequent flyer programme attracts flyers and a coalition also attracts retail shoppers. To increase the base of shoppers and create a stronger economic engine, some airline programmes are going after both," says Caroline Papadatos, SVP of international R&D and corporate marketing, LoyaltyOne, a global provider of loyalty marketing programmes to retail, financial services, grocery, petroleum retail, travel, and hospitality sectors.

All said, building loyalty and developing relationships with customers who are worth keeping will not happen overnight. Careful planning and unflinching patience are vital in the journey. That apart, anticipating customer needs and consistently delivering great experience will go a long way in establishing a business relationship that is based on trust and respect. Seems like a humungous task, but remember, satisfied customers can go anywhere but only loyal ones want to come back to you.

Commemorating James Cameron's historic solo dive:

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