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What Drives Customer Loyalty?

An analysis on creating the ideal loyalty program to increase customer loyalty and value

Introduction

When approaching the register at Kohl's, the customer knows what is coming. "Will this be on a Kohl's charge? Do you have our rewards? Could I have your email address?" Even though some dislike repeatedly being asked to sign up for something they think they don't need, turning down a rewards program may actually reduce the value a customer receives from the store over the long term. However, customers who feel pestered or confused may express lower satisfaction levels. Although it may seem so, being a part of a loyalty program isn't always a clear "yes" or "no" situation. Having complicated or not clearly defined outlines of the program can confuse customers, causing them to question their involvement and participation in the program. This can lead to lower involvement and participation rates.

Loyalty programs have the potential to play a key role in customer retention, and have been continually evolving over the past decade, leading to an abundance of opportunities for both companies and their customers. Although loyalty programs have been proven to increase customer retention, and in several cases increase profits as well, there are many important aspects that need to be researched before creating a loyal customer database. The design and implementation of the program holds more importance than the physical presence of the program itself, since the overall goal is to increase customer participation and retention. Loyalty programs also increase customer lifetime value, which is a common goal for retailers. Several key factors of loyalty programs are Financial Rewards, Duration of Rewards, and Data

Privacy. In the retail apparel industry, companies should focus on the financial and special privilege attributes to increase loyalty program involvement and strengthen customer retention.

Background

Current Characteristics of Loyalty Programs

According to Colloquy.com, in 2014 loyalty membership was at 3.3 billion people, which is a 26% increase from 2012. The average household is enrolled in 29 different loyalty programs, but typically only active in twelve, and in a standard loyalty program, only 42% of members are active participants. These facts suggest the importance of maintaining a quality loyalty program because even though membership increased, it is more important to look at the participation. Getting customers to join is the easy part; there are several programs that offer sign-up perks and bonuses. However, it is the steps that come after that which are truly most important. If the loyalty program is not properly outlined and followed, customers will lose interest and involvement quickly. This is a key problem with current loyalty programs because focus and funds have been spent more on acquisition than engagement (Colloquy.com). Companies want to better retain customers in order to project and grow long term profits. Marketing campaigns and employee incentives to acquire more participants have been a large focus for many companies; however, in many cases, the customer involvement either stops or turns into emails that generally end up in a spam folder.

In addition to customer involvement in loyalty programs, there is also the confusion about what customers are specifically being rewarded for. Some programs reward true loyalty, while others are designed to reward high spending. At first glance, it can appear that these two traits go hand-in-hand, but it is not always the case. High spending can occur over several transactions across a long period of time, or it can occur in one high-volume purchase. The

second scenario does not show true customer loyalty, as according to Stathopoulou and Balabanis (2016), "studies indicate that higher rewards and monetary incentives by themselves cannot guarantee customer loyalty". The study used a scenario based survey to look at three main benefit categories -- Utilitarian, Hedonic, and Symbolic -- in order to predict how these benefits affected customer satisfaction and retention (See figure below). It was found that having benefits that best fit the customer and personalizing the program increases trust. This personalization shows that the retailer is invested in their customer and willing to put forth effort for a relationship, creating a bond between the customer and the company, and therefore increasing trust. A second research study, done by Omar, Che Wel, and Narzi (2017), found that utilitarian benefits appear to be related to satisfaction, and hedonic or symbolic benefits are more related to store loyalty. They also noted that hedonic benefits are preferred more by customers if the program involves high requirements. Strengthening all three of these types of benefits to fit specific customer's needs increases customer involvement and retention. When looking to create an efficient loyalty program, companies need to evaluate their customers to determine what the best balance of these benefits are, and how to appropriately promote and display them through their loyalty program.

Utilitarian	Hedonic	Symbolic
• Coupons • Discounts • Free/Reduced Shipping • Longer Return Period • Return without a Receipt	• Early Access to Sales • Express Checkout Line • Exclusive Customer Service Hotline • Tickets to Local Events • Personal Shopper Product Recommendations	• Feeling of Importance • Feeling of Superiority • Feeling of Satisfaction

There are two main ways loyalty programs are executed, by treating all customers the same, or by grouping customers and treating them differently. With the analytic tools available today, it can be very effective to create a more personal profile for each customer. By using sales and demographic data provided by the customer and their purchases, loyalty members can be segmented into groupings that are more applicable to their shopping experience. Businesses

can use this data to more effectively customize marketing techniques, such as loyalty program designs for different age groups. It would be inappropriate to treat a baby boomer the same way as a millennial. Both groups prefer different methods of communication and respond to different types of stimuli. Using these customer grouping techniques, loyalty programs can become levels, like a pyramid. A loyalty program with levels, or tiers, appears more fair to customers (Colliander, Söderlund, Szugalski; 2016). However, how the program is explained plays a key role in its success or failure. Customers who do not see the higher status within reach will be discouraged and prefer not to be seen at the lower status, which could potentially turn them away from shopping there. Whereas people who believe they are at, or can reach, a higher status will be more motivated to try and get there. It was shown that if companies with tiered loyalty programs avoid mentioning status and focus on benefits, the program will be more successful. This was discovered from a study that looked at effectiveness in advertising campaigns based on mentioning status, to affect a customer psychologically, against campaigns mentioning loyalty program benefits only (Mauricio, et al; 2016). Customers who did not see themselves as able to reach the higher tiers were discouraged when the focus of the program was having a status. However, if the concrete benefits were more of the focus customers would overlook the idea of status and were more motivated to be a part of the tiered program (Mauricio, et al; 2016).

Basic example of a tiered loyalty program. Each level receives different rewards.

Loyalty programs can be strengthened by creating partnerships with other companies. Several businesses partner with credit card companies for either a loyalty program that is based off the possession of a credit card or as a higher tier or level in the current loyalty

program. Combining programs with complementary companies or joining a coalition program are also ways to create meaningful customer interactions. One benefit includes lowering the effort level customers need in order to stay in the program. If one loyalty card or account works at several locations, both mental and wallet space frees up for the customer. With loyalty programs, there is "strength in numbers" (Colloquy.com, 2015 report), meaning the more data a company has to work with, the more specific and effective their loyalty program can be. Customer acquisition is also easier for the company in a multi-vendor loyalty program because customers can be easily gained from the partnering companies (Molinero, Reinares-Lara, Reinares-Lara; 2017).

General Loyalty Program Designs

According to Kumar and Reinartz in their text *Customer Relationship Management* (2012), there are several main design characteristics of a loyalty program that companies must consider. For purposes of increasing customer retention, the most important characteristics are: Reward Structure, Participation Requirements, and Sponsorship. Each of these characteristics are further broken down into subsections, and each play an important role in keeping customers active in the program.

The reward structure of a loyalty program sets the scene for how the program works and is key in a customer's decision to join. Companies provide both hard (tangible) and soft (non-tangible) rewards. Another aspect under reward structure is the rate of rewards. The rate of rewards is defined as "the ratio of reward value to transaction volume" (Kumar, Reinartz; 2012). This is the amount of money needed to be spent before a reward is offered. Customers expect a return for their loyalty, and companies can only wait so long before that expectation

becomes doubt, creating a delicate balance for the company to also remain financially realistic. A final aspect of reward structure is rewards based on specific criteria, such as the customer's birthday or anniversary. The goal of this would be to increase revenue and sales during a time that the customer may not normally be spending as much.

Participation requirements affect both customer acquisition and retention. The first important step to understand is if enrollment is voluntary or automatic. There have been studies in other fields related to enrollment in different programs. One example is enrollment in the organ donor program. According to a TED talk by Dan Ariely, a behavioral economist, effects in enrollment change when customers have to either opt in or opt out (Johnson, Goldstein;2004). He looked at enrollment in organ donation programs across several different countries in Europe, and found that the percentage of enrollment was drastically affected by whether citizens had to check a box in order to opt out of the program or check a box to opt in to the program. Countries where enrollment was automatic unless a box was checked had a much higher (close to 100%) enrollment total for organ donation, whereas countries with voluntary enrollment (checking a box to be in the program) had extremely low enrollment totals (as low as 4% some places). This demonstrates that consumers tend to do what is easiest; in this case it's to not check the box. According to the Kumar and Reinartz text, automatic enrollment is an appealing option for companies because it allows them to collect and track all consumer transaction data, which leads to better predictions about upcoming trends and future customer spending. The appeal of a voluntary enrollment program is that customers can self-identify as wanting to be a part of the program, providing more support customers becoming loyal.

Other participation requirements include an open versus closed loyalty program and automatic or manual point accumulation. Open loyalty programs are available to anyone,

whereas closed loyalty programs are only available to a certain group of people. This could be due to the need of paying a fee or acquire a credit card. The benefits of an open program are similar to that of an automatic enrollment plan, such as reaching more participants and having a larger data set, as well as making customer acquisition easier. Closed programs have a more specific group of customers with higher interest in the business, which can convey exclusivity of the program. Customers that feel as though they are in an exclusive program have higher satisfaction ratings (Mauricio, et al; 2016). Most companies use automatic point accumulation for customers in loyalty programs because it is more convenient and easier to track (Kumar, Reinartz; 2012). There are some companies that use manual point accumulation, such as "My Coke Rewards", where you are required to enter codes from Coke product caps online in order to earn points. Manual point accumulation can be more time consuming and cost effective in some cases, since it forces customers to do the labor of tracking their points. Automatic enrollment and point accumulation makes the program more convenient for the customer, causing them less work. This can increase customer retention. (Kumar, Reinartz; 2012).

The sponsorship aspect of loyalty programs incorporates where customers can use their benefits and accumulate points. In many instances, customers can only use their loyalty program with one specific company. In other instances, customers can use a loyalty program across multiple stores, such as with Sears. Sears owns several stores, including Land's End, Lombard, and their title company Sears. Sears loyalty program allows you to accumulate points and spend the benefits of these points across stores. The downside to multi-business loyalty programs is whether customers are actually building true loyalty to the main company or not. However, many customers enjoy the ease of keeping track of one loyalty program, and in some instances use it more frequently and stay a member longer.

Loyalty Program Benefits

Through the secondary research process, seven key attributes have been identified: Money Savers, Effort, Frequency of rewards, Transparency of the program, Special Privileges, Privacy and Security, and Social Status. All of these attributes classify a combination of rewards or perks that are offered by loyalty programs to their members. These attributes were identified by peer reviews of a variety of loyalty programs, as well from Kumar and Reinartz's text, *Customer Relationship Management* (2012).

Money savers are a wide spectrum of options and benefits. These vary from percent discounts on a purchase, buy one get one options, select coupons that only loyalty members receive, free shipping on online purchases, and free items in general. This type of attribute is one of the most commonly addressed when looking to acquire customers. However, it is also an important one for customer retention, and should be treated as such.

The amount of effort a customer needs to put into a loyalty program in order to reap the benefits can affect participation levels. Some programs make it a long and difficult process to earn points. For example, University of Minnesota Duluth (UMD) Stores has a very high point accumulation needed in order to receive rewards. For their program, $1=1 point. Once 1,000 points are reached, the loyalty card holder can trade the points in for a $10 gift card to be used at the store. Many participants are discouraged by these types of programs, because $1,000 is a lot of money that needs to be spent first before any reward is reached. Therefore, people do not believe it is worth the effort to accumulate points.

Some people, however, enjoy the aspect of collecting points. They think of it as a game and take pleasure in "winning" a reward. This gives them a feeling of intelligence and pride,

since they can receive the same product as another customer without paying the normal price (Omar, Che Wel, Nazri; 2017). The idea of playing a game increases customer retention, because no one wants to quit while they still have points to use. This leads into another area related to effort, which is membership cards and account information. Many consumers in the present day have full wallets, with multiple credit cards, bank information, state-issued IDs, cash, and more. The idea of having to carry around another type of loyalty card is not always appealing, especially if a new card is needed for each store. Some companies will combine their loyalty programs with other related businesses in order to allow customers to both accumulate and use points across different retailers, such as Sears' program that was mentioned above. Combining programs creates an incredibly large amount of data, which companies can also look to use as a source of revenue. In 2012, Sears began looking into this option, and found there was potential for a large financial gain by distributing the data they had collected.

Frequency of rewards leads to either satisfaction or frustration; there is typically not an in between stage. Customers like to know both how and when rewards occur. An example is Caribou coffee. Caribou rewards occur almost at random from the view of the customer. This is opposite of the Starbucks rewards program, which visually shows (using stars) how soon a reward will be available. In the opinion of the customer, it would be a waste of time and effort to be involved in a program that does not frequently reward loyalty and spending.

Transparency of the program is related to effort, and customers want to know exactly how the program works, without it being complicated. Being loyal to a company can create a sense of trust, which the company desperately wants to keep up. Therefore, loyalty programs should be straightforward and easy to understand. Simple loyalty programs not only attract customers, but retain customers as well.

Special Privileges encompass a wide variety of perks for loyalty program members. The ability to access accounts with past sales history is considered a special privilege. This allows the customer to know exactly what product and size they have purchased in the past when looking at similar or identical merchandise of interest. Also included in this category is the ability to preview upcoming sales and new arrivals earlier, and to have early purchase access to products. A good example of this is Victoria's Secret. Their Angel Card holders have the ability to shop special sales, including Black Friday, earlier than the general public. Customers continue to be loyal to this program, since they know the rewards are both consistent and worth their time and effort.

Data and Security are evolving aspects of importance as the world continually advances technologically. Customers don't want to be easy targets for fraud and identity theft, and are therefore reluctant to disclose personal information. There are several laws in place, both in the US and internationally, to protect consumer data. According to Stathopoulou and Balabanis (2016), "91% of consumers are concerned that they have lost control of how firms collect and use their personal information". This leads to the idea of building trust between the customer and the company, which can strengthen loyalty and increase retention. In late March of 2017, the United States Congress passed a law allowing internet service providers to sell customer's click stream data without consent. This means that companies will now be able to view all links and buttons that customers push on any electronic devices that have internet access. This survey was completed before this law passed, therefore the data collected does not reflect signs of concern that have recently followed this piece of legislature.

Social Status in a loyalty program is an emotional benefit to the customer. This aspect of the program makes the customer feel both like they belong and that they are important. In

reality, loyal customers are very important to a company, and therefore the mental state of the customer feeling important is logically correct. Companies who use terms such as "VIP" build off of this aspect, letting customers know how truly important they are. This also includes customers having a sense of special treatment within the company (Mauricio, et al; 2016).

A research study done by Omar, Che Wel, and Narzi (2017) found that utilitarian benefits, such as coupons, discounts, or other financial benefits, appear to be related to satisfaction. However hedonic or symbolic benefits, like special privileges or social status, are more related to store loyalty. They also noted that hedonic benefits are more preferred by customers if the program involves high requirements. Strengthening all three of these types of benefits to fit specific customer's needs increases customer involvement and retention. When looking to create a high-class loyalty program, companies need to evaluate their customers to determine what the best balance of these benefits are, and how to appropriately promote and display them through their loyalty program.

Method

Conjoint Analysis

For this study, a conjoint analysis was decided to be the best method in order to obtain the most accurate results. Conjoint analysis is a data analysis technique used when creating new products or services that have multiple attributes and options. In conjoint analysis, traits are split into categories, with a variety of options found under each category. The number of combinations possible is usually both too time consuming and too costly to have participants evaluate the full range of possibilities. Therefore, an orthogonal array is created and computes the number of combinations that fairly represent each trait. The participant then evaluates the selected amount of combinations. Each possible attribute is given a utility score based on the

responses, meaning how influential that specific attribute was in the participant's overall decision. When adding up the utility scores individually each combination has the opportunity to be evaluated, even when only a select number were directly observed. This allows the researcher to generalize the observed results to the combinations not tested, and can lead to building the perfect product or method.

A simple example of conjoint analysis is picking out a new car. In this example there are three attributes: Brand, Color, and Cost. Under each attribute there are two options:

Brand	Color	Cost
1. Chevy	1. Red	1. $15,000
2. Ford	2. Black	2. $20,000

The vehicle can have any possible combination of these options, with only one option from each attribute. For example, the vehicle can be a Red Chevy for $20,000, a Black Chevy for $15,000, etc. Since there are three attributes and two options for each there is a total of 2x2x2 possible combinations. If the researcher is building prototypes for participants to evaluate, 8 vehicles is too costly to build. Therefore, an Orthogonal Array would be created to determine how many combinations are needed to be able to create utility scores and generalize the attribute options to other combinations. Say in this case the orthoplan results in testing 4 combinations. These four combinations would be created and then evaluated by the participants. These evaluations would be used in a conjoint calculation to create to utility scores. These scores represent how much value a participant places on a specific option relative to the other options. In this example, the utility scores could be as followed:

Brand	Score	Color	Score	Cost	Score
1. Chevy	2.5	1. Red	1.75	1. $15,000	1.5
2. Ford	2	2. Black	1.9	2. $20,000	1

In this example, brand and color were more important to the participants than price, as can be seen by the utility scores being higher. It can also be noted that participants slightly preferred the color black, since the utility score for black is slightly higher than that for red. The utility scores can then be added up for each possible combination. Therefore the $20,000 Red Chevy would have an overall score of 5.25 and the $15,000 Black Chevy would have an overall score of 5.9. In this case, the second combination would be the preferred combination. Using this method allows combinations that were not evaluated by participants to receive a score.

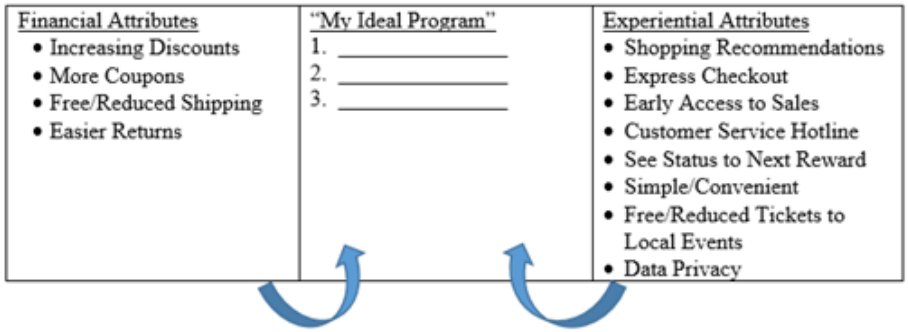
Conjoint analysis was the ideal technique for this Loyalty Program research project, because there were three main categories with different "levels" or attributes belonging to each, with eighteen possible combinations; evaluating all of these would be too time consuming for a survey participant.

Survey Design

The objective of this study is how loyalty programs can efficiently grow customer lifetime value, meaning gain loyal customers who continuously return. This means that an efficient loyalty program is one that encourages participation, not just acquisition. In order to determine what customers would value as the best type of loyalty program, a survey was conducted on shoppers who had purchased an apparel item in the last 90 days. There were several steps needed to be taken in order to design this survey and its method of distribution. There was a preliminary survey created to determine what traits would be most important to focus on in main study. There were also card sort tests completed in order to determine the best method to complete the main study. Questions on both pertained to traits in customer loyalty programs that have the potential to influence shopping behavior. Since there

are so many different aspects that go into a loyalty program, the first step is to identify the top attributes thought to be most important to customers.

The preliminary survey based questions off of utilitarian traits and hedonic/symbolic traits. Utilitarian traits are financially based promotions, hedonic traits are non-financially based, and include early access to sales and other special privileges, and symbolic traits are how a participant's emotions are affected by being a part of the program. Participants were asked to rank traits in each of these categories from most favored to least favored. Then they were asked to choose three of the traits from any of the categories (however only two of the three could be utilitarian) that they would value the most in a loyalty program. Participants were also given space to submit additional comments about loyalty programs and what they usually look for in a program. This survey was analyzed using basic percentages, by looking at what was rated the best, and most frequently, among the respondents. The results from this survey were applied to the development of the main survey.



The results of the preliminary survey showed that, as predicted, customers tended to view the idea of financial traits as better options when building their own program. The most important financial traits for participants were increased discounts and coupons, as well as free shipping. Some of the non-financial traits that were well supported in this survey were programs that were simple and easy to use, showed customers when they would get their rewards, and provided data security.

This influenced the main survey's design. A large part of the main study is giving customers scenarios of different loyalty programs, and having them rank them on a scale of one to ten. However we gave customers a background on general ideas of the loyalty program, before they ranked specific traits that would be incorporated. This is where the preliminary survey results came in. The overall structure of our fictitious loyalty program gave customers a simple program with automatic accumulation of rewards, secure account access to track orders and progress, and the knowledge that their data is securely stored. Since these were found to be key ideas in the preliminary survey, they were automatically part of the main survey, therefore narrowing down customer choices to be more specific on program design.

This base loyalty program also had a preset tiered structure. The survey explained to customers that there were four levels: bronze (all customers start here), silver (customers who spend $200 a year with the company), gold (customers who spend $500 a year with the company), and platinum (customers who spend $1000 a year with the company). The cut-off marks for these dollar amounts were found using Simmons OneView on an analysis of how much customers spent on clothing in the last 90 days.

In order to build an ideal program, participants need options within the main categories identified from the preliminary survey. The three main focuses in the study each had their own options that, when cut and pasted together, create one sample program. The three categories were financial attributes, duration of tier

time, and data privacy. The financial attributes had three different options, tier time had three options, and data privacy had two options. They were as follows:

Financial

1. Bronze customers receive random coupons throughout the year.
   Silver customers receive random coupons and 10% discount on every purchase. Gold customers receive random coupons and 20% discount on every purchase. Platinum customers receive random coupons and 30% discount on every purchase.
2. Bronze customers receive random coupons.
   Silver customers receive random coupons, early access to sales, free shipping, and 5% discount on every purchase.
   Gold customers receive random coupons, early access to sales, free shipping, and 10% discount on every purchase.
   Platinum customers receive random coupons, early access to sales, free shipping, and 15% discount on every purchase.
3. Bronze customers receive random coupons throughout the year.
   Silver customers receive random coupons and 10% discount on every purchase. Gold customers receive random coupons, early access to sales, and 15% discount on every purchase.
   Platinum customers receive random coupons, early access to sales, free shipping, and 20% discount on every purchase.

Duration of Tier Status

1. Once achieved, silver, gold, and platinum status will be maintained for a minimum of 36 months as long as the customer makes at least one purchase every 12 months.
2. Once achieved, silver, gold, and platinum status will be maintained for a minimum of 60 months, as long as the customer spends at least $200 every 12 months with the retailer.
3. Once a tier is achieved, it will be maintained for 12 months.

Privacy

1. Customer data and contact information is never shared with other companies.
2. Customer contact information is shared with partnering companies. In return for consenting, the customer receives additional discount or reward.

These categories and options create eighteen different possible combinations, but it would be unreasonable to have participants read and rank each one. Using a 3x3x2 Orthogonal Array SPSS, it was determined that asking participants to rank nine different combinations would be sufficient to interpret participant main effects, when using a conjoint analysis technique. Participants were asked to rank each of these nine combinations on a scale from 0 to

10. The first number correlates to the financial plan, the second to the tier time, and the third to the data privacy:

3 3 1
1 2 1
3 1 1
1 3 2
2 3 1
3 2 2
2 2 1
2 1 2
1 1 1

This survey received 162 results, with 110 of them completed accurately to use in the conjoint analysis. This means that the survey was fully completed and the standard deviation across all 9 scores for the different plans was not 0. To begin the analysis, the data was downloaded from Qualtrics into SPSS. From there, the data was cleaned, removing all incomplete surveys. Next, descriptive tests were run to get a preliminary idea of what the data looks like, before diving into a conjoint analysis. These test showed some important demographic information about the survey participants. 97% of all participants bought clothing for themselves in the last 90 days, with 25% also buying for a spouse/significant other and 18% for children. 37% of the participants identified as males, and 57% identified as females. 66% of the respondents were age 18-29, and 34% were 30+. When looking at a preliminary overview of the rankings of the plans, results showed them all scoring very similar based on means and standard deviations.

After this generalized first glance at the data, the conjoint analysis process was built and ran in SPSS. This analysis creates a utility score for each plan for each respondent. These utility

scores correspond to each possible attribute and are created based on how the respondent ranked each combination. In addition to utility scores, a constant is also calculated for each respondent. Then, the utility scores for each attribute in a possible combination and the constant can be added together to predict how a participant would rank a combination. These summations of utility and a constant can then be used to compare to a participant's observed rankings, as well as to predict what they would rank combinations that were not asked of them. After obtaining these values, average distributions can be calculated in order to determine the most favored option. This means that even if the most highly rated program is not feasible for companies, they can look at utility scores and determine an optimal program for both them and the customers that will still be effective.

Utility Score Predictions		
Financial Attributes	Tier Duration	Data Privacy
1. 2.5 2. 1.75 3. 1.5	1. 1.3 2. 1.25 3. 1	1. .75 2. .5

Note: In this Utility Score Prediction, it is predicted that Plan 111 is the most successful.

After assigning utility scores for each attribute for each specific person, a cluster analysis was run using these variables to better segment customers. The hierarchical clustering algorithm identified that five clusters would be ideal for the data. A k-means cluster was then ran to segment the five groups. They can be described as follows:

Cluster 1: 33 participants, even gender distribution, 22 participants age 18-29, buy for themselves only, 33% shop 2+ times a month, 50% spend more than $50 in last 30 days, 36% not in a loyalty program for apparel

Cluster 2: 12 participants, mostly women, even split on age, about half buy for children and 33% for spouse, 50% shop 2-3 times per month, 41% spent more than $100 on clothes in the last 30 days, 67% are in 2+ loyalty programs

Cluster 3: 7 participants, mostly women, even split on age, half buy for kids and half for spouse, 85% only shop 0-1 times per month, most spend under $25, 71% in 1 or fewer loyalty programs

Cluster 4: 35 participants, 60% women 40% men, 77% age 18-29, 34% buy for spouse 20% for kids, 60% buy 0-1 times per month, 60% spent $50+ in last 30 days, 42% in 1-2 loyalty programs

Cluster 5: 23 participants, even split gender, most age 18-29, 26% buy for spouse, 47% buy 2-3 times per month, 47% spent $75+ in last 30 days, 30% in 0 loyalty program

Results

After effectively completing the conjoint and cluster analyses, several findings are able to be drawn out of the data. This can be done by looking at the results of the data overall, hard coded segments such as gender and age, and at the different clusters. Many of the results across these groupings were very similar, however there were some differences across different groups that retailers can take into mind depending on their target audience. In order to determine the best plan for each of the different groupings and clusterings, the average of all utility values, predicted plan values, and observed plan values were found and analyzed. The raw results can be viewed in the Appendix (1).

It is apparent that for all groups keeping data private and not sharing with other companies, even if it means more coupons and discounts, was important. This was not only clearly noted by the results from ranking the plans, but also from comments. In general, the first attribute under financial was favored, which included an increasing discount level for each tier, up to 30%. In addition, the first attribute under tier duration was also favored by the overall data and gender categories. This attribute was maintaining tier level status for a minimum of 36 months as long as one purchase was made every 12 months.

When looking even more specifically into categories, there are important differences to note between genders and age groups. Women age 18-29 strongly preferred financial attribute 2. This attribute does not have as high a discount level as other options, however it offers free shipping starting at the silver tier. Younger women valued soft rewards such as free shipping higher than the possibility of a consistent 30% discount. Men age 18-29 also slightly favored the financial options with free shipping over the higher discounts. Women 30+ preferred the high discounts, and they also differed from younger women when looking at tier duration. Older

women preferred the second option under tier time, which was keeping tier status for a minimum of 60 months, as long as $200 were spent with that retailer a year. Older women were more willing to spend the necessary amount, or perceived themselves of being able to reach that mark, in order to extend tier status time.

After analyzing the clusters created, these groups can be identified as certain types of customers based off of demographic information and shopping habits the participants identified with.

Cluster 1 33 participants	"Young and Single" Preferred Plan: 121	• Shop for themselves • Slightly younger age group • Prefer higher discounts over soft rewards • Willing to spend more money to stay at tier level for a longer time
Cluster 2 12 participants	"Loyal and Consistent" Preferred Plan: 121	• Spent more money, made more trips • Already involved in some loyalty programs • Prefer higher discounts over soft rewards • Willing to spend more money to stay at tier level for a longer time
Cluster 3 7 participants	"Bargain Family Shoppers" Preferred Plan: 111	• Bought for multiple people • Spent less money, made fewer trips • Prefer discounts and coupons • Only willing to make one purchase a year to stay at tier level
Cluster 4 35 participants	"Younger Families" Preferred Plan: 221	• Spent less money, made fewer trips • Preferred soft rewards such as free shipping • Willing to spend more money to stay at tier level for a longer time
Cluster 5 23 participants	"Up-and-Coming Loyal Shopper" Preferred Plan: 111	• Spent more money, made more trips • Younger customers • Not yet involved in loyalty program • Prefer higher discounts over soft rewards • Only willing to make one purchase a year to stay at tier level

From the conjoint it was observed that 36% of participants had higher utility scores for financial attributes, followed by 32% for tier duration, and lastly data privacy. This means that the financial aspects of the program were most important for the participants when debating the different plans, followed by tier duration and then data privacy.

Also included in this survey were questions set to learn how frequently participants shopped, how much money they spend, and who they shop for, all in relation to clothing and shoes. A few questions asked customers their opinion on how a loyalty program would alter their shopping habits, if they prefer the idea of a tiered loyalty program over the traditional loyalty program, and some basic demographic questions.

The results indicated that the majority of participants would not be highly motivated to get a store credit card if the offer presented itself. None of the participants would feel more positive about a program with a credit card, but only about one third of participants felt negatively about it. It was also found that 70% of participants prefer the idea of a tiered loyalty program to a traditional loyalty program.

Conclusion

In summary, younger customers value rewards such as free shipping over other financial discounts, which was clearly noted through the data and participant comments from the survey. Older customers are more willing to spend money to stay at a certain tier level if they know they are receiving a high financial reward. Women over 30 are the group most willing to spend a minimum of $200 a year to keep the program benefits at their respective tier level. All customers prefer their data to stay private and not be shared with another company. Participants had mostly indifferent opinions on the involvement of a credit card in the program, and the majority preferred the idea of a tiered loyalty program over a traditional program layout.

One of the great aspects of conjoint analysis is the fact that the variety of results gained from the study can be easily applied to any company based on their target audience. Looking at utility scores, companies need only to view the results of their target audience to determine what aspects to use when building a program. The results of this study are not just 'what's the best loyalty program?' it's 'what's the best loyalty program for the customers my company is trying to reach?'. Whether it's preferred to look at just a specific gender, just an age group, a cluster based on shopping patterns, income, or anything else, a conjoint analysis study can be useful in leading the company to an accurate result.

Limitations and Further Research

This survey was conducted using a convenience sampling approach. The majority of the respondents were friends, family, or acquaintances of the researcher. Therefore, the results cannot be extrapolated to the broader population. Many of the respondents were college students, and 92% of the sample lives in Minnesota or Wisconsin. A random sample of shoppers from across the US would have been ideal, since customer loyalty programs in apparel retail are available in companies with chains across the US that sell clothing targeting a variety of age groups. Although there were an appropriate number of responses for a conjoint analysis to be effective, surveys can always benefit from an increase in participants.

Survey timing is a potential factor as well. This survey was conducted in the middle of February. This is a time that is after the holidays but before most people receive tax returns. It would be interesting to run this survey and analysis at different times of the year and compile the data in order to get a more accurate idea of the average retail apparel shopper. It would also have

been effective to ask participants to disclose their annual average income, as this would have been an efficient way to describe shopping clusters as well.

In addition, another weakness that would need to be addressed if further research were to occur is to have participants rank one or two more combinations that are not used to build the utility scores in the initial conjoint analysis. These combinations would then be used to test the predicted utility scores and program ratings for accuracy.

There are several more dynamics involved when building a customer loyalty program for retail apparel. It was not realistic to test all of these design characteristics in this study, however in a larger scale research setting, it would be important to include more possible characteristics and options in order to build a more accurate program.

Appendix

1.

Group	Observed Plan	Predicted Plan	Financial Attribute Utility	Tier Duration Attribute Utility	Data Privacy Attribute Utility
All Data	111	111	1	1	1
Men	111	111	1	1	1
Women	111	111	1	1	1
Ages 18-29	111	111	2	1	1
Ages 30+	121	111	1	1	1
Cluster 1	121	121	1	2	1
Cluster 2	121	121	1	2	1
Cluster 3	111	311	3	1	1
Cluster 4	221	221	2	1	1
Cluster 5	111	111	1	3	1
Women 18-29	211	211	2	1	1
Women 30+	121	121	1	2	1
Men 18-29	311	111	1	1	1
Men 30+	111	111	1	1	1

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