

differ.

Why an isolated
loyalty strategy
is pointless



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Author and journalist Marcus Birro interviews experts Peter Nordström and Lisa Hammar from Differ Strategy Consulting on modern loyalty. In this paper follows a transcript of the interview.

The way to achieve loyalty has changed

Birro: *I've noticed that when it comes to loyalty work, most companies seem to put a lot of effort into it nowadays. I'm a member of more loyalty programs than I can bear in mind, but I feel less loyal now than ever. Some have even spoken of the death of loyalty. What are your thoughts about this? Is this an era coming to an end?*

Differ: No, loyalty is still important. In fact, it's more important than ever. The competition is tougher than ever today. Loyalty can be a powerful solution to that problem. It is true that most businesses today struggle to keep their customers loyal. So, it is harder to achieve loyalty than ever. We're seeing that what worked before isn't working anymore. A lot of companies are stuck in an old paradigm.

Birro: *What has changed?*

Differ: Consumers have changed. The digitalization has changed their expectations and behaviors a lot. Their standards are higher. They know more. And they are constantly reevaluating their purchasing decisions. They will choose the brands that are the most relevant to them in the moment. The transparency today is so much higher than it has been before. Today's customers know everything all the time

What makes it even more complex is

customer needs are more situational than ever today. One customer can have completely different needs in different situations. All of this puts completely new requirements on loyalty work.

Birro: *Okay so you're saying that the consumers have become hard to please. But what are they actually demanding?*

Differ: They want context, relevance and individualized treatment. And they want to feel valued in all touchpoints with a company.

A loyal behavior doesn't mean true loyalty

Birro: *Okay, what is the problem with loyalty work today?*

Differ: All the time, we are being fed with new incentives and rewards in order to keep us as customers. You might be a loyal customer in the way you act. But you are not loyal in your head. For a company, these things can look the same until you suddenly decide to switch to a competitor. And that is a problem. You can be loyal in your behavior toward a company for a long time. But maybe the only reason for this is that you lack relevant options.

Maybe you have been a customer to H&M for many years, but do you really feel loyal to them? Or maybe you are loyal to your electric company, but it's

only because you don't really care and think that it will require a lot of effort to switch. For years, loyalty work has been synonymous with awarding points for your spending behavior. They try to buy your short-term loyalty. And as long as they are providing good offers all might be well and good. That's until someone else comes along and provides an even better offer.

These old strategies still work to some degree, and better in some industries than other. But if companies want long-term loyalty, they need to strive for true loyalty.

Birro: Okay, so true loyalty means that you're not loyal just to get the best prices, right? Or how would you define it?

Differ: True loyalty is when you feel an emotional connection and not only a rational. The benefits of this are enormous. It means is that you are willing to put in the effort to remain a customer. Loyal customers often prefer your business so much that they don't care about the alternatives. In their eyes, you don't even have any competitors. Many Mac users wouldn't even consider a PC as an option. And loyal customers tell their friends about their positive experiences, generating new customers at low cost. The highest form of loyalty happens when you start to associate a brand with your personality. Some companies have customers with religious devotion.

Birro: So, it sounds like you're saying that when people start tattooing your logo onto their bodies, you know you're on the right way?

Differ: Ha-ha, yes that's right.

From rational to emotional benefits

Birro: Okay, so customers are demanding more relevant experiences. What implications does this have on the way we do business?

Differ: Not too long ago it was all about products. The way to win in the market was to create the greatest products with the greatest features. You needed a unique selling point. A rational reason for why people should buy from you. But we have gone from standardized products to personalized experiences. We see today the rational isn't enough. When the competition is tougher than ever it's rational to switch between companies all the time.

Birro: Okay, so you're saying that we must move beyond the rational?

Differ: Yes, that's right. We have gone from standardized offerings to personalized experiences. We need to go from rational to emotional selling points. Making it feel better to use your products. When your customers are emotionally invested, it becomes harder to switch. Feeling are hard to copy. The new basis for loyalty is all about relevancy and engagement.

From winning to keeping customers

Birro: What more has changed?

Differ: The customer journey has changed. The journey is not linear anymore. Which means that there is not one customer journey but numerous. In this way, the customers journey is transforming into an ecosystem.

Birro: And when you say ecosystem, what do you mean by that?

Differ: In nature, ecosystems are dynamic. The inhabitants exist in symbiotic harmony. They benefit and interact with each other. And to survive, ecosystems adapt to change. Because of this, ecosystems are the perfect metaphor for how to create loyalty.

Birro: And what does this mean for businesses?

Differ: The ecosystem logic implies a paradigm shift in the way we approach loyalty. We are going from thinking “How can we win the customer back?” to thinking “How can we keep the customer within our ecosystem?”. Now we’re competing for the customers’ share-of-mind.

It also means that suddenly you have strong network effects. When more people use your ecosystem, it becomes more valuable. It also means that the more needs an ecosystem can

satisfy, the more valuable it becomes.

A classic example of this is cellphones. If you’re the only one with a cellphone, you can’t call anyone. But the more people that have one, the more people you can call, and the more valuable the phone becomes. And now when you can use your cellphone for a lot more than just phone calls, it has become a lot more valuable to you.

When the ecosystem becomes more valuable the bigger it gets, it results in first mover advantages. We will see more winner takes it all in many industries, where one or a few players have almost the entire market.

Birro: Okay, so the stakes are higher now?

Differ: Yes, exactly. And that’s why it’s important to build an excellent ecosystem now. Otherwise someone else will.

Customers are loyal to excellent customer experiences

Birro: Okay, let us dive deeper into how you build a great ecosystem. I would imagine that this is easier said than done. I mean, most companies don’t have their own ecosystem.

So how should you go about when setting up an ecosystem in practice?

Differ: You have to get the customer experience right. Without it, it's game over. Today when information is travelling at the speed of light, the effects of customer experience are exponential. People talk to others about things they find remarkable. If you find something amazing, you will tell 10 of your friends about it. But the same is also true for the opposite; if you find something truly terrible you will also tell your friends. If you are treated badly in customer service, more people will find out. That's why it's exponential.

We need to realize that customers are no longer loyal to companies but to excellent customer experiences. So, you have to be obsessed with your customers. Put them in the center. Listen to them carefully. And then respond by delivering a relevant, seamless solution in all touchpoints.

Birro: So, companies need to show us that they learn from our behavior?

Differ: Yes, exactly! The longer we have known someone, the more we should know about each other. Like a really good friend. So, after we have known each other for a while, you should know what I like and what I don't like. And personalize my experience based on that. Customer data is the new oil. And it must be refined to be valuable.

Traditionally, customer insight has been based on historical behavior. But now we are moving to real-time and prediction to differentiate the experience for customers depending

on their situational needs.

Birro: Okay I see. Which companies would you say treat their customers as really good friends then?

Differ: Spotify is one example. They have allowed you to create your own playlists and then share them with your friends. It takes advantage of all the data you have provided them and uses it to create personal recommendations for you. They are providing a lot of value for you by helping you find new music that you might like. Suddenly Apple launches a streaming service that you can try for free for three months. Would you try it? Maybe you would, but you would no longer be able to use your old playlists or listen to those of your friends. And the recommendations from Apple would not be as good since they know less about you. Spotify has managed to grow even though the world biggest company is trying to squeeze them. That's an example of some good ecosystem leverage at work!

Take Starbucks as another example. They combine customer insight with gamification in order to create engaged customers. They provide their customers with little challenges in order to steer them into the desired behavior. If they notice that you never buy from them on Tuesdays, you might get double points on that day. If they want you to try a new product, your challenged to buy 3 products - 2 of these they already know that you like, and the third one is new. Since they know you, they can provide these relevant challenges for you.

Create customer communities

Birro: *But let's pretend you manage to create an ecosystem that has a great customer experience. Would you then suddenly become immune to competition?*

Differ: Well you not immune for sure, but I would say you have certainly come a long way. When you have an ecosystem packed with great customer experiences, people will put up the effort to stay inside them. To make the ecosystem even more powerful, you should aim to create a community. When consumers interact with each other and partners, engagement shoots through the roof. Customers should feel like they are part of a family and not consumers of a company. The stronger the bonds between community members, the stronger bonds they will have to your brand.

Birro: *I'm thinking of Harley Davidson as a company that has this strong sense of community.*

Differ: Yes, Harley Davidson is a prime example of this. They don't build the best motorcycles - in many ways they are technically inferior to their competitors. But still people pay big premiums for them. Because it feels right. It's the feeling of freedom. Harley Davidson is not in the motorcycle business - they're in the lifestyle business. They offer a feeling of

belonging and helps you define who you are. That is loyalty nirvana. You're almost immune to competition.

Communities are great since it means that the company and its customers are creating the customer experience together.

Birro: *So, when customers start to create things together with you, they become more engaged, right?*

Differ: Yes, they start to invest emotionally in you. And the things they create will only exist in your ecosystem.

Or take Apple - opening up their App Store to third party developers is probably their most important decision ever. Now thousands of developers are investing their time and energy to make Apple's platform even more valuable.

Birro: *It sounds like a dream position?*

Differ: Yes, that is truly a dream position. And it works since the developers have their own incentives - making their app a hit and cashing in on it.

Birro: *What about Amazon? They surely have an enormous ecosystem?*

Differ: Yes, Amazon has achieved ecosystem excellence. Their Prime membership is pure genius. Members enjoy unlimited fast and free delivery for around a hundred bucks a year. They also get access to lots of value adding services like Amazon's video and music streaming services. So, Amazon provides their customers with a great

offer. For those that already buys a lot from Amazon it's a no brainer. Their membership will finance itself.

But what is interesting is that these customers are now incentivized to make most of their purchases from Amazon, instead of buying from competitors. So suddenly, the competition became a lot less relevant.

Birro: So, to me it seems like one of the biggest advantages of building an ecosystem is that you trap your customers inside of it?

Differ: Well I wouldn't say trap. When you get the ecosystem right, a side effect will be that it becomes much harder for your customers to leave. But that's not because you have taken cheap tricks to achieve it. It's because the experience is so good that your customers want to invest their time and energy. And that's to make the experience even better for themselves. And there is no way they can take the things they have created with them, since it's an integral part of your company. The longer you're inside of an ecosystem, the more you stand to lose by leaving.

Take Instagram as an example. Most of the things people value in Instagram are created by their users. Leave Instagram, and your content is gone. Leave Instagram, and your followers are gone. Leave Instagram, and your comments are gone.

Rewards must enhance the core experience

Birro: Okay, let's get back to what you talked about earlier. That many companies use their loyalty programs to reward their customers with lower prices. That's a rational reason. But you've talked about the importance of the customer experience. How must loyalty programs change?

Differ: That's a great question. When everyone does more or less the same in an industry, the loyalty program is not something that wins you customers. It's just something that you need to compete. And that something probably costs you a lot of money.

A lot of companies today are using isolated loyalty strategies – which is pointless! It's not enough to have a loyalty program and then consider the job done. A loyalty program should only be one part of your work creating a great customer experience.

Birro: Do you see any more problems related to traditional loyalty programs?

Differ: Yes. Today customers are providing value for companies in a magnitude of ways, but they are not rewarded for these behaviors.

Communities are great since it means

that the company and its customers are creating the customer experience together.

Birro: And what would these behaviors be?

Differ: It could be customers that write reviews on social media. Customers that recruits new customers. Customers that provide feedback on products and services. Companies need to start rewarding their customers for more than only their transactions.

They must set the incentives right for loyalty to happen. And overwhelming customers with discounts and offers are the wrong incentives. Redeeming points should never be a price experience. As a customer, I should know that things will be better for me if I am loyal. So, you must make sure that my experience will only become better the more I use your services.

Birro: Let's look at the companies that are best in class today on loyalty. It almost as they are thinking completely different from everyone else?

Differ: Yes, they have moved beyond pure transactional loyalty mechanisms. They think of loyalty at every stage of the customer lifecycle as integrated activities provided by the business model.

They have also developed their analytical capabilities, so they can use customer insights when developing their ecosystem.

Birro: What else do they do?

Differ: They adopt a customer centric approach to marketing, product development, and operations. You should really view any expense that improves the consumer experience as a marketing cost, since it will generate more customers through word of mouth.

The tipping point for success or failure seems to be whether the loyalty strategy is an integrated part of the ongoing value creation delivered within the business model, or if it is executed as separate initiatives. You can't have an isolated loyalty strategy – it must be strongly connected to your business model.

Birro: Can you provide me with an example of when this is done right?

Differ: Yes. The airline industry has implemented this successfully for decades. Frequent flyers get access to airport lounges and have fast tracks when checking in and boarding. All of these enhance the core company experience.

The benefits attained by being part of a loyalty program must be something that enhances the core experience that is provided by a company. If you are rewarded with a movie ticket, it's completely separated from the core customer experience. It decreases your relevance and creates confusion among your customers. So, you need to understand the customer ecosystem in relation to the business model. It's crucial for a company to figure out which of their capabilities they can leverage to achieve this.

Marcus' wrap up

- 1. Loyalty isn't dead but more important than ever. But the way to achieve it has changed.**
- 2. A loyal behavior doesn't mean true loyalty**
- 3. We need to move beyond rational benefits to emotional benefits**
- 4. There needs to be a shift in mindset, going from "How can we win customers?" to "How can we keep customers?"**
- 5. Customers are not loyal to companies anymore but to excellent customer experiences.**
- 6. Companies should create customer communities to achieve more engaged customers.**
- 7. An isolated loyalty strategy is pointless – loyalty rewards must improve the core customer experience and be integrated with the business model.**



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