Optimise return on customer loyalty

Effective customer loyalty predictors need to consider how the brand measures up to the consumer's category ideal

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The question of whether or not brands really need predictive loyalty metrics is only ever asked out of sheer frustration that such a thing exists. After all, what marketer wouldn't want to know what is coming at their category and their brand 12 to 18 months in advance?

Scepticism is especially understandable when one thinks of major brands, such as General Motors, which certainly had neither shortage of research on how to get consumers to consider its cars, nor short-spending on advertising – which tallied in the billions. Was GM making faulty automobiles? Not according to auto reviewers, some of whom thought they were 'gorgeous, fun to drive, well-equipped' cars, and even put GM models on a par with German engineering.

Yet, one of the largest brands in history was reduced to going cap-in-hand to the US government for financial assistance as it faced the truth – it did not know how to get more consumers to buy its product.

If you want to optimise loyalty, you need to be predictive – and truly predictive metrics are impossible to identify if you're relying on using historical data. Brands need to understand not what consumers have done, or even what they are doing, as much as why they are doing it. Brands spend a great deal of time understanding the personalities, habits and attitudes of those they believe are their customers, and often fail to understand the hierarchy of reasons – especially emotional ones – for why those consumers make the choices they do within the brand's category. Imagery abounds, but the category dynamics are rarely fused with real consumer expectations and desires, and brands are left knowing a lot about people, and even more about their products, but not the cross-hairs where they meet.

The understanding that comes from this meeting place of category and consumer is what predictive metrics are all about. The consumer carries an ideal in their heart and mind, and that ideal is category-specific. It is what consumers wish existed, whether buying mobile phones or cars. Properly configured, the ideal can tell you how consumers view the category, how they will compare offerings and, ultimately, how they will behave positively towards the brand. The ideal tells you what they really expect, unconstrained by either reality or articulation. And when that ideal is examined against what does exist – the brand and its competitors – it offers clear strategy for creating loyalty for the brand.

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Authentic, linked-to-profitability loyalty output can be described as follows:

- A breakdown of a category's loyalty drivers – the specific values, benefits and features that drive purchase, define a brand's equity, ie the degree to which a brand meets expectations consumers hold for the drivers of a category loyalty, and that emotionally bond customers to a brand.
- Bar charts that plot the precise hierarchy of loyalty drivers in the category.
- An analysis of a brand's core brand equity, derived from the relationship between your customers' expectations (as expressed by the category ideal) and the manner in which a brand meets or exceeds those expectations.
- An analysis of the brand's strengths and weaknesses versus the competition.
- An inventory of the specific product values and attributes that comprise each loyalty driver in your category, and the percentage contribution they bring to loyalty.

Thus, a strategy for optimising loyalty can be identified. Because these strategies have been configured on the consumer's ideal, they will correlate with – and be predictive of – consumer behaviour and profitability.

Your marketing efforts need to be measured in terms of how these non-transactional (but highly linked to purchase) efforts help to further engage the consumer with your brand. Knowing where the brand meets, or exceeds, the consumer's category ideal gives a measure of how the programme increases brand equity – its overall, weighted average as to how the brand does, compared with the consumer's ideal. This is a predictive indicator of strategic, loyalty-based ROI.

Whether you are one of the largest brands on the planet or a one-person shop, your company's financial position is judged

by its price-earnings (P/E) ratio, which links share capital with net profit. A higher P/E signals confidence and increased future business. Thus, using predictive assessments allows marketers to identify a version of a corporations' P/E ratio, as follows: ROI = Increase in brand equity due to initiative/ in-going brand equity.

For example, in the out-of-home coffee category (Figure 1), consumers have relatively high expectations for the ideal. There are possible strategic directions the Starbucks brand could take. Specific tactics aren't important for this example, but let's suppose there are two possible directions the brand might take, and could have been found in the marketing toolbox of any modern brand.

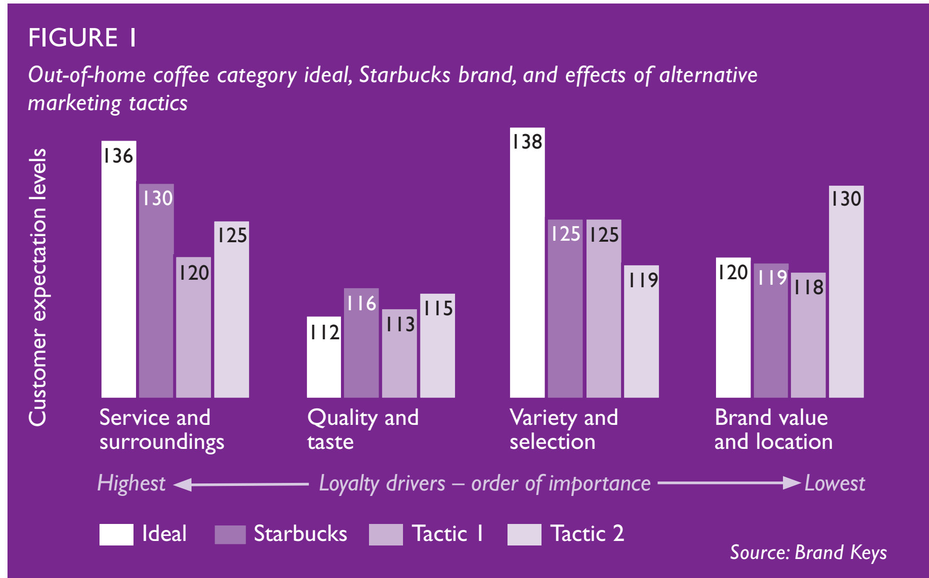
The Starbucks brand equity, absent of any marketing, promotion, or communication programme involvement, is 114. This is the weighted average of the brand on how it performs (versus the ideal) on the four category drivers.

Consumer assessments based on exposure to the two programme options revealed that the Starbucks brand was 'seen' as better meeting the category expectations as follows: Tactic 1: 127; Tactic 2: 121. A P/E formatted calculation of ROI reveals the following: Tactic 1: 127–114=13/114=11% ROI; Tactic 2: 121–114=7/114=6% ROI.

In which tactic would you invest your marketing dollars? This approach also helps to cut through the haze created by trying to configure the annual financial accountability of a brand by linking it to marketing functions and long-term growth. This approach addresses the dynamics of real loyalty and brand equity and provides yardsticks for current and potential strength – and earning power – of a brand.

But strategy alone is like a landscape painting. It gives brands a great view, but not a lot of detail. Once brands understand how the consumers' ideal in its category is organised and what drives decisions, it needs a close-up of how to get there – according to the consumer. In short, it needs tactics. Ultimately, it is the tactical execution that gets queried as to levels of ROI.

It is understanding the intersection of category and consumers, and both strategy and tactics, that enable a brand to predict what drives loyalty and respond tactically in the most effective way. Understanding how to create loyalty is the critical step that comes before keeping it. Regardless of the media or method of outreach a brand decides to use, one truth remains: an increase in customer loyalty will show up at the cash register.



OPTIMISING ROI

Once a brand deeply understands what drives loyalty in its category, it can move ahead with confidence to create loyalty programmes that capitalise on consumers' emotional involvement with the brand.

The Incentive Group, a specialist in designing programmes that optimise loyalty for continuance and profit, has identified one of the best ways to deliver against loyalty is to build brand ambassadors, and an accompanying deepening commitment to the brand. The programmes 'magnify' loyalty through each ambassador's creation of a unique relationship with the brand.

Each participant, allowed to configure exactly how they will be rewarded for their loyalty, becomes continually more emotionally invested with the brand. This offers the brand a higher ROI in the loyalty programme as engagement with the brand grows.

This ambassadorship is heightened by respectfully allowing consumers to establish and commit to personal goals. Brands use a specially designed Loyalty Dashboard platform to communicate, educate and motivate customers, forming an ongoing dialogue with the brand. Creatively coming up with ways to involve participants in the brand conversation is central to maintaining consumer attention and ongoing engagement. A well-structured customer loyalty campaign has the power to transform a casually indifferent customer population into one that is emphatically engaged.

The more customised a loyalty programme is, the better it can be at steering behaviour. This requires that relevant, aspirational rewards, based on the participants' demographic and choice, promote enthusiasm and a commitment to achievement of personal goals within the context of the category generally, and the brand specifically. The key is to truly understand the needs, desires, and expectations of the target audience and to thoughtfully and authentically inspire them to totally engage in the brand loyalty vision.

One of the many important challenges is to figure out how to motivate without paying for behaviours that would have naturally occurred, particularly if high degrees of brand loyalty either exist or can be engendered. Marketers can use control groups to isolate the variables in the loyalty programme and demonstrate how this alone has contributed to the uplifted results.

The days of brands being able to exist as category placeholders, with no real meaning to the brand, are short. In an ever-shifting marketplace, it is understanding what creates consumer loyalty, and fuelling that loyalty with personal relationships, that will determine marketing ROI and decide a brand's future.

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