



Online Loyalty Programs Can Increase Repeat Shoppers

TOOLS ARE AVAILABLE TO HELP IMPLEMENT A CAMPAIGN

BY DAVE YOUNG

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Online merchants want to find ways to increase revenues by encouraging customers to make repeat purchases. Using an online loyalty program will certainly help, but it must be done carefully and with the right tools.

There are many factors involved in creating a successful loyalty program. However, before you consider initiating a loyalty program of your own, start by focusing on delivering the best experience you can to your customers. Great experiences, like loyalty programs, will spur business from repeat customers.

Three factors you can implement right away to prompt your customers to return for subsequent purchases:

- Site usability.
- Quick fulfillment.
- Good customer service.

When your site's navigation and usability make it easy to find products and necessary information, they will want to return again and again. Put simply, the shopping experience must be enjoyable.

"There is a direct correlation between shipping days to the customer and repeat purchases — the longer it takes for a customer to get the purchase, the less likely they are to make a repeat purchase," said Jim Novo, author of "Drilling Down: Turning Customer Data Into Profits With A Spreadsheet."

Price is not the primary driver of loyalty. To generate loyalty, you have to go beyond price and offer customers an experience, and consider ways to improve the experience your customers receive when they purchase your products. "Think about your customers and what they would see as a 'better experience' and then find ways to deliver it," Novo said. Sometimes the nature of a product or experience can be confusing, and the experience

issue is not something that is obvious or what customers are complaining about. Thus, you should use your database to analyze the data to find specific areas that can be addressed.

Gift cards and other tools

Gift cards, frequent purchase programs and points programs are examples of loyalty programs. These types of loyalty programs may offer cash back, discounts and even free items. For example, if a regular customer purchases five items from your product list, a frequent purchase program would give them a sixth product free.

"Whether you offer cash back, rewards like gift cards and merchandise, opportunities, access, donations or the like, the key is identifying what would be valued by your customers that will ultimately motivate them to behave in a certain way," said Bram Hechtkopf, director of marketing technology at Kobie Marketing.

Hechtkopf suggests the following when determining the appropriate loyalty program for your business:

- A robust data analytics strategy that allows you to profile, identify and differentiate.
- A solid technology platform that supports the program with a points engine to keep up with loyalty rewards, a campaign manage-

ment system that can provide a comprehensive approach and a data warehouse to house a shopper's historical activities.

- Having a clear and consistent communications plan.

"Companies should offer customers a program that rewards them for all their purchases," said Greg Grunston, director of direct marketing at 1-800-FLOWERS.COM. Highly promoting the program throughout the entire shopping experience is also recommended.

Grunston believes loyalty programs motivate consumers to spend more and spend more frequently. "On average, customers enrolled in a loyalty program are twice as likely to make a purchase at that retailer than a customer that is not enrolled."

Implementing a program

There are many ways to implement and manage a successful loyalty program. In order for a loyalty program to achieve a high return on investment, a merchant must analyze the existing data and behavior of their customer base. If merchants do not feel comfortable analyzing their own data, there are service providers that specialize in helping merchants build, customize and deploy loyalty programs specific to their business model,

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For those merchants who want to build and implement a loyalty program on their own, many shopping cart systems offer add-ons to keep track of points or coupons sent to customers. One shopping cart software product, MIVA Merchant, offers the Membership SuperMod. The module is designed for smaller retailers without the ability to actively manage a program.

Many service providers manage automated online loyalty programs by inserting tags in your site's page or providing a "loyalty website" that is branded to your business. They collect all the data for you and manage the program. One drawback to this method is the ability to customize the program to your audience. Incentive Logic is one provider that can fully implement and manage an online loyalty program.

The most expensive, and the most profitable, route to take when implementing a loyalty program is to build a customized program to your specific business model. However, "you need at least 20,000 active customers to get into an area where a customized loyalty program could pay off because there are fixed costs for design and implementation," Novo said.

Since building loyalty is a long-term initiative, finding a marketing agency specific to a loyalty program is critical. "We believe there is tremendous value in working with a single agency with specific expertise in building and



↓ CALCULATING A CUSTOMER'S LIFETIME VALUE

When determining how much to invest in a loyalty program, an retailer should first calculate what a customer is worth to his/her business.

Getting a customer to purchase a single product isn't the goal of most ecommerce site owners. However, most owners fail to calculate the potential lifetime value of a customer when determining how much to invest in a loyalty campaign. So what is it worth to the bottom line to attract and keep a quality customer?

There are some complicated ways to calculate the lifetime value of a customer. However, a simple method is to multiply the average sale at your site by the number of times an average customer reorders. For instance, if the average shopping cart size at my scrapbooking supply store is \$40 and the average customer places an order six times per year, the "value" of the customer is \$240 per year and \$1,200 over five years. If you run a 20 percent margin of profit with your business, would you invest a year's profit of \$48 to capture and retain one customer that would stay for a lifetime?

A loyalty program hinges on the premise that it is cheaper to keep a customer than to attract a new one. Once you have a customer, building a relationship with them is critical. It's through that relationship that a bond is created between consumer and retailer. It's always great to generate new customers, but it's usually much less expensive to hold onto existing customers.

"You can start by the rule of thumb that it's seven times less expensive to maintain a customer than to find a new one," said Gail Goodman, CEO of Constant Contact, a permission-based email marketing solution used by more than 100,000 small businesses and associations. "Repeat business is always more profitable. You can drive repeat sales and customer referrals at a dramatically lower cost than you can generate new



managing loyalty programs, rather than multiple agencies performing independent services,” Hechtkopf said. This way, your emphasis can be placed on the customer and the customer experience, and not on coordinating various details with various suppliers, all of which can potentially lead to losing focus on the primary objective.

Hechtkopf offers a few tips for implementing a successful program:

- ▶ Evaluate what internal resources you currently have that can support the loyalty program. What resources will you need to complement these? Prioritize what is most important if budget is an issue.
- ▶ The technology platform is important. Make sure to evaluate functionality, the ability to scale (as the program grows) and the ease/cost of making changes since these programs evolve over time.
- ▶ Be sure to talk to the agency’s existing clients — anyone can make a system appear to be robust, but clients will provide you with real experiences.

Before you decide to start a loyalty program, consider what works best for your business based on the number of customers in your database, their behavior, your budget and your overall goals. ■

customers,” Goodman said. “That drives profitability.”

There’s no “magic number” for a business to spend capturing and retaining a customer. The important thing is to realize attracting a quality customer has significant value to your bottom line. You’ll probably want to spend more to get a quality customer knowing that customer’s true value isn’t tied up in a single purchase. When calculating how much an average customer is worth to your business, you’ll probably also discover what brick-and-mortar stores have long known: 80 percent of your revenue comes from 20 percent of your customers.

Loyalty programs are not a cure-all for an ecommerce business, and they must be thoughtfully operated.

“There are bad clubs out there, and you have to guard against trying to squeeze another nickel, short-term, out of that consumer,” said Ken Crites, director of Cafe Express, the loyalty program for Green Mountain Coffee Roasters. “But if you have a quality product and a nice offering, you can build loyalty. So, we do a lot of nice things, not just when you join, but throughout the year as well.”

Goodman notes that once an ecommerce business creates a happy customer, that customer becomes part of your promotion team as they are bound to spread the news.

“Enabling your passionate customers to spread the word about you easily is another piece of the profitability model,” she said. “Consumers interact a lot with those who have similar views and needs. Getting sales from a customer’s network of friends is all part of the formula for maximizing the lifetime customer value.”

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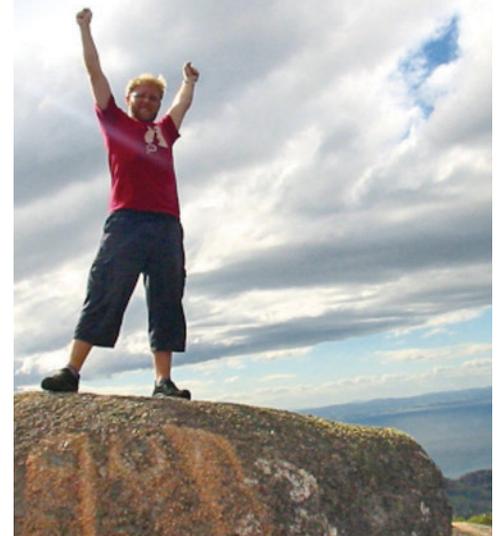
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