

Loyalty Schemes: Leveraging Knowledge for Strategic Advantage

Since American Airlines launched their 'Aadvantage' frequent flyer programme in the 1970s, many service providers have entered the loyalty scheme market. This movement has been compounded by the proliferation of multi channel retailing and advances in database and data capture technologies; as organisations look for other ways of achieving a deeper level of customer knowledge.

Loyalty schemes alone cannot engender true customer loyalty. It is virtually impossible to find a customer who will continually use the same service provider. Emphasis also needs to be placed on building one-to-one relationships between the customer and supplier, and personalising services to strengthen affinity and allegiance. The overall consumer experience, plays a significant role in engendering loyalty.

Loyalty schemes form only part of the 360° customer value lifecycle. However, the role they play can be invaluable in the emerging 'experience economy'. In order to deliver an acceptable and satisfying level of consumer experience, companies must 'know' their customers and enhance their experience at all levels of the interaction.

If used effectively, loyalty schemes can provide a valuable insight into the shopping habits, trends and tastes of individual customers – through collating, building and segmenting customer profiles. If the proposition is strong enough, they can be a significant factor in both customer retention and acquisition. However, before embarking on implementing costly loyalty schemes, organisations should first review their existing data and processes and improve these to capture strategic information.

Most service providers fall short in their ad-hoc storage, interpretation and strategic use of customer

data. To gain accurate customer profiles, companies need to aggregate and deposit data captured at each stage of the consumer experience, across multiple communication channels (e.g. phone, letter, email, kiosks or loyalty cards) into a centralised strategic data warehouse.

Furthermore, if data mining techniques and models are to be used effectively, organisations need to have a strong sense of what answers they are seeking, and the types of knowledge they need to extract to reap the greatest competitive advantage. The success of segmenting customers will depend not only on the accuracy and interpretation of the data collected, but also on how quickly service providers can put the information to strategic use. This report explores the loyalty scheme market of today and the future. It will:

- Examine how data warehouse and data mining techniques can be exploited to reap strategic value.
- Identify triggers and barriers for establishing personalised one-to-one relationships between the consumer and supplier.
- Offer a consumer view on data privacy and loyalty schemes.

Information is power and knowing your customers is key. Organisations need to know how to harness the benefits of IT and its capabilities to achieve competitive advantage, and bring them one step closer to engendering true customer loyalty.

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