Project Report

Enhancing Customer Engagement Through Loyalty Programs: Opportunities and Leading Practices for Online Retailers

Project Sponsor

American Girl

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Executive Summary

Customer loyalty programs are gaining prominence, especially in the retailing industry. Through loyalty programs, companies can increase data capture regarding customers, increase retention rates, and drive customer engagement. The aim of this project is to assist American Girl in defining their strategy for creating a customer loyalty program. To achieve this project objective, our team studied trends with loyalty programs and conducted a thorough competitive analysis of loyalty programs to gain insight into leading practices. Subsequently, we assessed American Girl's unique assets and capabilities, and formulated ideas and recommendations for creation of their customer loyalty program.

The loyalty market is expanding rapidly with a large increase in memberships in the U.S over the past few years. Although membership growth is strong, less than half of memberships are actually active. An average U.S. household will only redeem roughly one third of the rewards it earns. This provides evidence that the perceived value of a program is essential to its survival, as well as the customer engagement used to sustain the relationship with the customer. Businesses are drawn to loyalty due to the fact that acquiring a new customer is significantly more costly than selling to an existing one. Also, current customers typically spend more than a new one, and loyalty programs can provide an incentive for a customer to follow through with purchases and purchase more frequently. The engagement channels that companies choose to use with their customers are extremely important. Our group researched some of the leading engagement opportunities such as Omni-channel, mobile, social media and Gamification.

In the competitive analysis, our group researched 46 companies in different industries to find which loyalty programs were most popular, successful, and why. An initial scan was to categorize companies with or without loyalty programs. We found of the 46 companies, 42 companies did have loyalty. We concluded that many companies had program foundations either built from a credit card system, rewards card or paid loyalty, with credit card and reward card being the most popular. We also concluded that the main types of loyalty programs, or types of rewards offered can also be categorized as: simple percent off all purchases, buy n get one (or something) free, tiered rewards, and customer relationship with frequent special offers. We determined tiered rewards added the most value to a loyalty program, with Nordstrom being a leading example. During the competitive analysis, we dissected the lifecycle of a loyalty program into 7 key operational steps that the costumer goes through. Some overall key takeaways from this operational step analysis were simplicity is key, the program should be understood quickly, customers should see value in rewards, allow entry tier customers to receive some benefits to keep them engaged in program, and tiered loyalty programs engage customers and encourage frequent purchases. Then non-loyalty companies were analyzed to see how they engage with customers. Some findings included additional experiences like cooking classes, private parties, and charity lunch-ins. Once this analysis was done, another analysis was conducted from the American Girl point of view of the loyalty program operational steps. During this analysis, we were able make suggestions on how American should go about making their loyalty program.

Our recommendations were drawn the individual operational steps and the good examples we found during the competitive analysis. Overall recommendations for American Girl include a tiered loyalty program with a point based tracking system. We recommend offering an incentive for the lowest level tier to encourage initial users to sign up. The first specific recommendation we have is that American Girl should market their loyalty program through all channels (online and other channels), and highlight their program clearly at the top of the website. Then a colored and tier leveled chart should be used to show the benefits clearly and how to achieve them. In addition, American Girl should offer other channels for signing up and provide a special incentive or gift for signing up. Then after the sign-up process the user should be immediately identified and clearly indicate that they are indeed a member. We recommend that American Girl use the assets they already have and leverage them to build their loyalty program. Additionally, the rewards should be valuable to the customer so the customer sees value in joining. Many options should be available distributing rewards. Lastly, American Girl can take many steps to engage with customers like birthday parties, charms, online games, etc.

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