

Understanding Consumer Behavior as Basis for Creating Loyalty Programs

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1. Summary

Today, many organizations tend to analyze effectiveness in order to study their customers' preferences and behaviors. This analysis is usually done post-factum, after launching marketing campaigns and activities, in order to examine their success and the customer's response and reaction to these campaigns. The analysis is performed in many different areas, such as: campaign success, customer satisfaction, benefit offers, and others.

In this regard, a loyalty program is just as important, and the key to managing a successful loyalty program lies in analyzing effectiveness and customer preferences as a core stage of the strategy planning.

2. The Problem

The main problem in this process is the fact that effectiveness analysis of the program cannot be performed in retrospect, but should be performed prior to the launch of the program, as it is the basis for the entire marketing strategy.

3. The Solution

There are a number of ways to deal with this problem, the most common of which is to examine past consumer behaviors and analyze them. Attempting to understand such behaviors will eventually lead to the right solution, upon which the organization's loyalty program should be established.

It is important to remember that none of the ways we currently use for this purpose isn't perfect, and does not ensure the success of the loyalty program. Nonetheless, we attempt to understand the past in order to better plan the future, so that the optimal solution can be found.

Additionally, there are various micro and macro factors which are unfeasible at the analysis stage.

4. The Implementation

The most common means used for learning customers' past behavior in retail organizations is based on the analysis of customers' credit card transactions. It should be noted that as far as the organization, this is the only available resource to be analyzed, provided that the organization's systems support such analysis.

The Benefit: Enabling the organization to analyze continued behavior over time, that can relate singular activities and purchases in different times to one consumer.

The Difficulty: Distortion in consumer profiling, caused by the following factors:

- An inability to unify a number of credit cards belonging to the same customer/family.
- An inability to unify all the purchases made by the same customer using different forms of payment – cash, checks, coupons, etc.

The fact that the analysis does not include purchases and activities made in forms of payment other than credit cards, makes it unsuitable to organizations where the majority of transactions are made in other forms of payment.

5. The Method

The common method

There are a number of ways to analyze consumer behaviors, or as it is more commonly known – data analysis. We will focus on the most common method, "deciles analysis", which is a numerical division of the credit card database into deciles, each of which represents one tenth of the credit card customer database.

Key stages of analysis:

- Typifying each decile according to its consuming behaviors
- Calculating individual consumer basket size
- Calculating cumulative purchases
- Analyzing shopping frequency
- Calculating average item cost
- Preferred departments/categories
- Preferred seasons
- Contribution to profits
- Contribution to gains
- And more...

- In many cases, in order to simplify the analysis, deciles are united in order to focus on a smaller number of customer profiles.
- Deciding what are the customer profiles and which are the ones we wish to focus our loyalty plan on, according to the organization's objectives and needs.
- Adapting the optimal solution for motivating the behavior of customers who were identified as the target audience, according to profiles chosen.
- Based on the analysis, establishing a comprehensive marketing strategy for the loyalty program, which will apply the selected solution in order to support and create the consuming behaviors required to promote the organization's objectives.

Another recommended method:

In a more advanced stage, it is possible and even recommended to perform an additional "social networks" analysis. Like the deciles analysis, this analysis is based on data analysis and is an additional layer particularly suitable to this later stage, i.e. the stage of understanding the effectiveness of the marketing activities. This is done in order to improve future planning and focus on the audiences most suitable for the different campaigns.

This method is based on the fact that most shopping decisions are a result of recommendations from the social surroundings. It is unique as it detects social connections among the customers and discovers the degree of internal influence in each social network, and the individuals who are considered opinion leaders in it.

This information, in addition to the other consuming and behavioral analysis, helps us define our target audiences for each campaign of the loyalty program, and enables us to increase marketing effectiveness and future success.

6. Conclusion

The customers of each organization have their own unique characteristics, thus distinguishing them from those of competing companies and other organizations. An in-depth analysis focusing on the needs of the customers and adapting the right tools in order to encourage desired behaviors to promote the organization's goals, are the key factors for the future success of the loyalty program.

An effective loyalty program can become a solution for both the customers' needs and the organization's ones, promoting its objectives and implementing its business and other goals.

About Synergy

Synergy is a consulting company specializing in information based customer management, assisting organizations to maximize the business potential of their end customers, while providing them with tools of improving their marketing, service and retention activities.

Synergy's solutions revolve around customer management, and include Analytical CRM, Operational CRM, Loyalty and Web solutions, as well as Marketing Resource Management solutions.

Synergy was established in 2003 and operates from Israel, the UK and Poland, working with local and international organizations. Among our customers are the foremost industry leaders in the Israeli and international markets, in industries such as communications, finance and retail, among which are banks, credit card companies, insurance companies, mobile operators, internet service providers, international call providers and television networks, as well as large membership clubs in the food, fashion and aviation industries.

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