



## To Increase Sales to Boomer+ Customers Consider Developing a Customer Loyalty Club

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By Jim Gilmartin

### The Beginnings

Today many companies are spending significant dollars to develop relationships with their customers. CRM, one-to-one marketing, increased communications are but a few of the strategies companies are using to secure and retain customers. Another approach is to gain customers and their loyalty by providing them value beyond the intrinsic value of their product or service through Customer Clubs, commonly referred to as loyalty or affinity programs.

Customer loyalty clubs are a German invention. Currently, German law is extremely restrictive and makes it almost impossible to give different customers or customer groups different prices and discounts simply because they are members of a customer club. In most other countries, customer clubs are nearly entirely price based and offer their members special discounts and prices. German marketers, in contrast, are forced to develop customer clubs built primarily on non-financial benefits. The result was customer clubs. Several hundred clubs in Germany and now in other countries around the globe have proved that emotional benefits, services, and value added discount programs are the key to customer loyalty.

### What is a Customer Club?

We define a customer club as a communicative union of people or organizations, initiated and operated by an organization in order to contact these members directly on a regular basis and offer them a benefit package with a high-perceived value. The goal is activating them and increasing their loyalty by creating an emotional relationship.

A customer loyalty club is also an expression of your company's culture - of being close to your customer in a personal and caring way. It brings the hospitality of your business into the customer's home or office. Offering a loyalty program tells your customers or membership they are special ... and that you care.

Customer clubs are a synonym for value-oriented customer loyalty programs. Customer clubs have some special characteristics that make them particularly effective and differentiate them from frequency programs. The most important are as follows:

- Customer clubs are initiated, planned and managed by an organization and not by the customers themselves
- Customer clubs offer real and perceived value to their members by optimizing the combination of financial (hard) -and non-financial (soft) benefits
- Customer clubs provide opportunities for members and the sponsoring company to talk to each other
- Customer clubs can collect data that will help other departments of the sponsoring company improve their performance
- Customer clubs aim to activate customers by encouraging them to buy or recommend a product, take a certain action, communicate with the club and so on

There is a difference between loyalty and frequency programs. According to *Webster*:

1. *Loyalty*: 1. Faithful to one's country, friends, ideals and more. 2. Showing such faithfulness.
2. *Frequency*: 1. Frequent occurrences. 2. The number of times an event recurs in a given period.

Loyalty is being faithful. Frequency is how often you use a product or service. The two do overlap. They overlap because frequency of use of a specific brand increases when there is a high degree of loyalty. When there is a benefit for frequent use of a product or service, such as the airline, hotel and rent-a-car bonus programs, loyalty builds.

### **Securing New Business & Keeping What You Have**

The cost of acquiring new customers is expensive and usually much higher than getting more business that is new from existing customers because existing customers require less attention -- They already know you. They use your products. They know your people. They understand your services. Moreover, because of this understanding, they are likely to return to you and to buy from you repeatedly. It costs less to take care of what you already have than to find new markets. For these reasons loyalty programs work!

There are five keys to creating a successful loyalty program:

1. Integrate the program into your existing marketing plan. Further ... into your company culture. Personalized relationships with customers is not a here today gone tomorrow concept. The idea must become a part of you -- you the organization, your products and services ... and most importantly, your people.
2. Use the knowledge you collect about your customers to learn from them what they really want from you. Talk to them. Then listen! They will tell you how to gain a greater share of their business.

3. Target specific and appropriate messages to the right customers. Not all your customers are created equal ... some are worth more than others do. Some need more attention than others do. This includes making the right offer to the right customers -- and at the right time.
4. Set realistic achievement goals. Know you can expect some bumps in the road. Your expectations should be as high as you would like to make them ... as long as you provide the resources of people, money and time to make it all happen.
5. Plan from the beginning to measure all the results. All. Not just some. Moreover, not just every so often.

The best loyalty programs strive to obtain a greater "Share of Customer". By providing unique incentives, you encourage them so they visit your place of business -- they buy from you -- more often. They choose to visit to use your products and services, instead of your competitors.

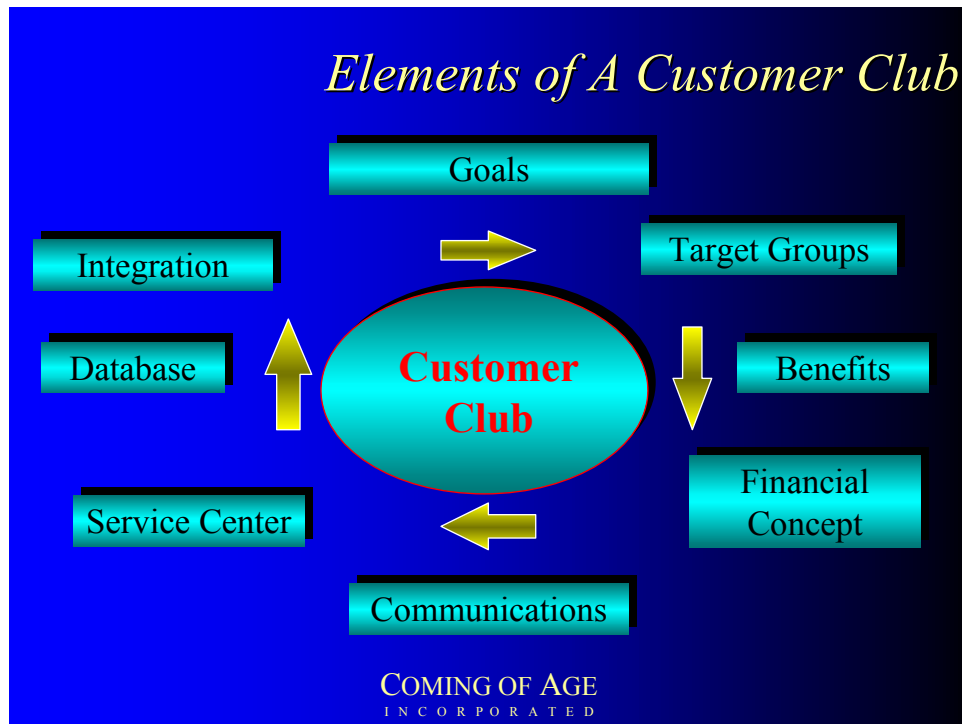
A loyalty program allows you to create a relationship with your customers by creating an interactive environment. It is not an event. It is a process for changing customer behavior. Changing it so they buy your products and/or use your services. In addition, they do it more often.

"Best customers" are easily identified with these programs. They are given special attention ... and they should receive special attention! Your best customers yield a higher unit volume ... the 80/20 rule goes into action, where 80% of your business comes from 20% of your clients. Your best pay the bills!

Members of loyalty clubs value their membership. They believe in the host company, their products, their services ... and the people who serve them. They feel a special sense of "belonging" to something. Communication to these "best" is read, saved and acted upon.

### **Steps to Establishing a Customer Club**

There are several steps involved in establishing an effective customer club. First, put together an interdisciplinary project team that is fully devoted to developing a powerful program. Creating a customer club should involve the whole organization and by having team members from different departments you avoid a one-sided approach. Moreover, before starting any work on a customer club, answer one question honestly: "Are our products (or services) really worth it?" If your products are inferior or out of date, any investment in a customer club will be a waste of time and money.



### Club Goals

At the outset, the goals for the club must be clearly defined. Only if they are will you be able to measure the club's success. The core goal of a customer club is of course to increase profit revenue and market share. Other important goals include customer retention, winning new customers, setting up a strong customer database, supporting other departments with information or access to information, and creating communication opportunities between the organization and its customers. A variety of subsidiary goals are added, such as improving public relations and customer support, increasing usage and achieving more frequent visits to your product or service.

It is important to be aware that customer clubs do not create quick results. They should instead be viewed as a powerful retention-marketing tool for building long-term relationships.

### Target Groups

The primary target group for your customer club should be your most important customers – those who constitute the major portion of your business, as securing these relationships is most vital for your future success. Smaller customers and potential customers should not be excluded from the club, but the primary focus should be on developing a program that fits the needs of the top customers. Other customers will still benefit from such a program, but you will want to target them with concepts that consider their particular needs.

The decision about whether to define your target groups narrowly or broadly depends largely on the goals of the club. If your goal is to establish a complete database of your customer base, then

a wide definition of target groups is necessary; if the goal is to secure business from current key accounts, then focus is more appropriate. Another factor to consider is how you approach potential customers or competitor's customers. Sometimes a club can create a wave of new customers for the sponsoring company, but that will depend on the value and attractiveness of the benefit package.

Further segmentation (e.g. concentrating on major customers in specific industries) only makes sense if the target groups are not sufficiently homogeneous to be approached through one program. Customer clubs are very flexible and can cover several target groups, so it is possible to remain in touch with customers even if their habits change and they move from one target group or segment to another.

## Club Benefits

The heart and soul of a customer club are its benefits. Choosing the right benefits will make the club successful. Benefits must have a high-perceived value to members. To find the right combination of hard (financial) and soft (non-financial) benefits, it is necessary to take a value-oriented approach that consists of three steps.

- In the first step, brainstorm a list of potential benefits focusing on the needs of the target groups. The only limit to developing interesting benefits is the imagination of the project team.
- The second step is small-scale pre-studies that aim to filter out the most and the least interesting benefits from this list by asking a small sample to rate the different benefits. The interviewees are asked to add new ideas of their own in order to make sure that interesting areas are not excluded.
- Some of these new ideas as well as the best-rated benefits are taken into the third step, a large-scale survey. Interview a sample of at least 250 people. Using methods such as ranking scales, constant sum scales or the more sophisticated and very exact conjoint measurement, the value of the remaining benefits is measured.

The result of this three-step approach is that the long list of benefits obtained in step one is split into three groups: a small group of top-value drivers, those benefits with a lower value to the customer, and those benefits with no value from the customer's point of view. Select the final benefits from the first two groups after taking into consideration cost, feasibility and competence.

These latter aspects should not be considered before this, as the value to the customer should be the primary decision criteria. If the value of a benefit is extremely high, it should not be knocked out of contention early on because it also carries a high cost; there are many ways of covering such benefits. Problems of competence can be overcome by cooperating with external partners. However, any partner has to be chosen carefully and must be equal to the club and the sponsoring company on factors such as image and quality.

## *Creating a Benefit Package – Highly Valued Benefits*

- Should be company related
- Reflect customer's point of view
- Preferred customer treatment
- Unique elements
- Pleasantly surprise the member
- Increase status/image
- Special offers/treatment
- Recognition/reward
- Long term exclusive advantage
- Provides differentiator
- Reflect company superiority
- Reflect importance of customer
- Special events
- Upgrades
- Advanced notice

COMING OF AGE  
INCORPORATED

A customer clubs benefits should primarily relate to the core products and services of the sponsoring company. Cooperating with external partners is good ways of expanding the club's range of benefits by including others that are not product related and increase the club's attractiveness. Other companies are often willing to pay commission so they can approach club members with their products in addition to those of the sponsoring company. However, if a club chooses to cooperate with external partners the communication should always be via the club and not directly between the external partner and the club member.

A customer club has a lifecycle and must be constantly improved and further developed. Therefore, you should keep some of the top value drivers in reserve. Facelifts are necessary to keep the club dynamic and to make sure it does not lose its attractiveness.

### **Type of Club**

Customer clubs can be split into two groups, limited and open clubs. The most suitable form depends on the club's goals, target groups and individual context. Limited clubs require a membership fee together with a completed application form and they try to channel membership towards the primary target groups. Certain criteria often have to be met in order to qualify for membership. This ensures a better focus on the primary target groups and helps to keep out freeloaders.

Open clubs have no entry conditions, but often as a result include many members who are of no benefit to the company. They are ideal if extremely wide target groups have been defined, or if potential and competitors' customers are also primary target groups. The lack of an entry condition will make membership more attractive and easier for a larger number of people. Clubs can be further split into end-user cuts and business-to-business depending on their primary focus and target groups.

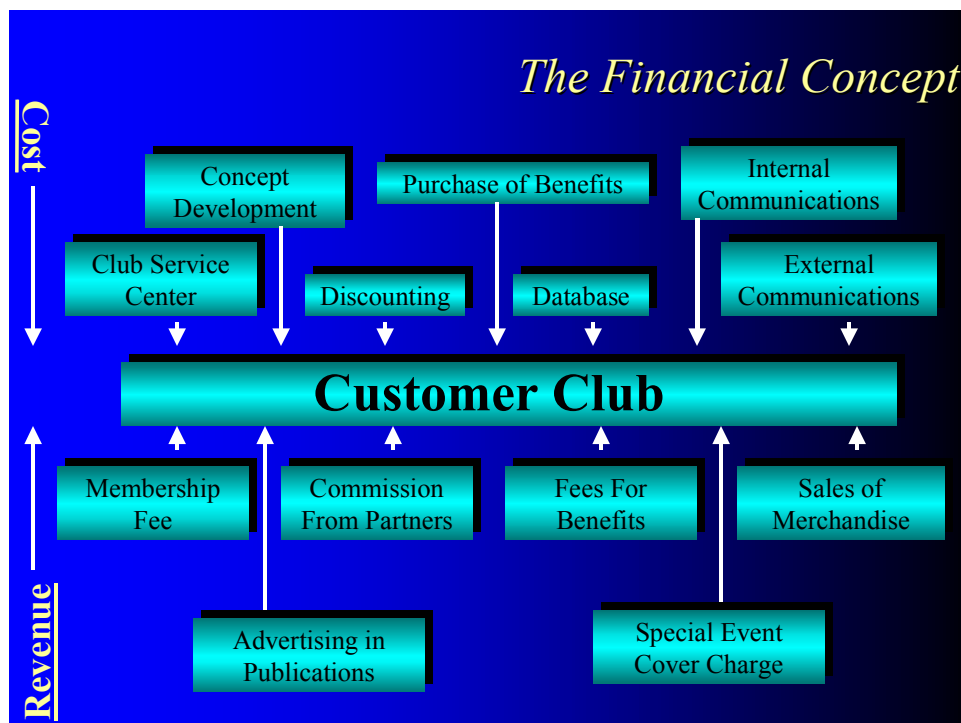
## The Financial Concept

After selecting the right club benefits, putting together a sound financial concept is the second most important step in establishing a customer club. The annual per-member cost of a club can range from \$15.00 to \$25.00 for end-user clubs and \$25.00 to \$85.00 for business-to-business clubs depending on type, size and concept. The cost largely depends on the quality and size of the club, but low quality, badly performing technology or poorly trained club service representatives will strongly limit the possibility of the club's success.

A club can cover most if not all of its costs by using all possible ways of generating revenue, such as an annual membership fee, sales of club merchandise and special products, commissions from external partners and or credit card, advertising in club magazines or charges for club events and. benefits. Better-cost control is obtained by limiting membership to a set number. Furthermore, because sales are increased through customer retention, the club has an effect on bottom-line profits, and this must be included in the equation.

In order to prepare for unpleasant surprises, it is recommended that you run through various scenarios concerning how large the club might become. These scenarios help to estimate the necessary investments caused by extraordinary developments, for example if membership reaches half - or double the expected number.

In general, expenditure on a club should not be seen as a cost, but rather as an investment in a marketing tool that is a strategic necessity in today's competitive environment.



## Communication

A customer club mainly communicates in three areas: with club members, with the personnel of the sponsor organization and with those in its external environment such as the media. There is a variety of communication methods, such as a club magazine, regular newsletters or mailings, a club hotline, a web page, club meetings and events, or club outlets. Communications with members should not be limited to sales information and special offer brochures. Members will want to know what is happening in the club, receive information on new products and read about topics of general interest.

Internal communication with the sponsoring company's personnel and management is important as they have to be informed about the club's existence and its goals in order to fully support the club. Internal support is very important and includes everybody from top management to those at the customer interface. Only if the club is supported at every level can it be a success. If, for example, a customer is repeatedly treated badly by service or sales people, then no club in the world can turn him or her into a loyal customer. In addition, a club member might expect special treatment at the point of sale. Therefore, all employees who deal directly with customers must understand the importance of the customer club, the loyalty effect it is trying to create and their role in this process.

Finally, the club has to communicate with those in its external environment to obtain press coverage and to increase awareness of its activities. A great deal of press coverage will not only attract new members, but also enhance the sponsoring company's image with its customers.

## How the Club is Organized

A customer club is a complex organization involving many different parties, including the sponsoring company, the club management, external partners, financial partners and the members. It also encompasses a variety of processes and tasks, such as communicating with customers, dealing with financial issues and handling problems. In order to manage the club properly and ensure a smooth operation, a club service center may be set up that forms the hub for all club contacts and activities. Because of the complexity and the general goal of increasing customer loyalty, the club service center must be of a very high quality. Therefore, choose the personnel, technology and other infrastructure carefully.

The question of whether to do all these tasks in house or outsource them to an external agency is difficult to answer, as both alternatives have their advantages. In general, it is a good solution to take care of core club tasks within the company, while outsourcing more administrative tasks. However, the final decision depends on the financial situation of the sponsoring company and the degree of independence it wants to have.

## Integrating the Customer Club into Your Organization

One of the questions that should be addressed is how to integrate the customer club into the sponsoring company's organizational structure. There is a variety of alternatives from founding a very independent company to manage the club, to integrating the club into an existing

department, to outsourcing the entire club management to an outside agency. There is no best solution, so this decision depends on the individual situation of the sponsoring company. It is more important to ensure that the customer club's enormous support potential is fully exploited within the company. Departments such as market research, product marketing or R&D can use the information in the club data- base and the members themselves to test new products, to discuss existing products in order to identify problems and areas of improvement to test new advertising campaigns, and for many other opportunities. Club members demonstrate more willingness than ordinary customers do to participate in surveys, as they have a stronger relationship with the products, expressed by their membership.

The club and the departments have to develop a cooperative attitude and the company's management has to make sure that both sides realize they are trying to achieve the same goals and should help each other. If the right procedures are implemented, retailers can also profit from the club, because it can increase store traffic and improve the relationship between retailers and customers.

### **The Club Database**

A database-marketing program is the most effective way to build loyalty, increase customer frequency, improve customer retention ... and boost sales! It gives you a large competitive advantage. Moreover, it offers your customers a strong reason to choose you over another.

A database that contains detailed and correct information on your customers is a strategic weapon that will have a great influence on the success of companies in the future. Databases should be seen from a strategic rather than a tactical viewpoint. Without detailed knowledge about its customers, no company will be able to compete.

A customer club is an ideal instrument for collecting data of the right quality and quantity on your most important customers. The greater willingness of members to provide information comes from their higher affinity with the club and the sponsoring company. This data can be used for club activities, but is a valuable source of information that should also be made available to other departments within the organization. A well-maintained database has the potential to move your company closer to one step marketing.

In order to reach its maximum effectiveness the database must be well planned and executed. It is necessary to decide in advance what information the database should contain, how the data should be collected, what technical and human resources are necessary, how the data should be used and for which purpose the data can be used.

### **Business to Business customer Clubs**

Customer clubs are successful not only with end-users, but also in business-to- business environments. The procedure for setting up a business-to-business club is the same as for an end-user customer club. The most important concern for both types of club is to offer benefits that have value for the members.

However, business-to-business clubs have certain specific characteristics that have to be considered. For instance, the target groups in a business-to-business environment are relatively small, consisting mostly of professionals or businesses. These target groups are very clear about what they expect from a customer club and are primarily looking for benefits that will help their business, rather than personal benefits. Club benefits must be designed accordingly.

Another special characteristic of business-to-business clubs is that they tend to resemble a partnership as club sponsor and club member join forces to reach mutual goals in the market. Particularly in the business-to-business area, personal contacts and relationships between seller and buyer are extremely important, because only they can build up the necessary trust and respect. The existing personal contacts between the sponsoring company and its business customers should not be replaced by the club, but should rather be integrated into the club concept. A customer club can build a supportive benefit package around these personal relationships and establish a further relationship on a company level. The business-to-business club members are often more involved in the club's management and development.

Business-to-business clubs can target either professional customers or other business partners such as dealers and distributors. Although professional clubs are more common, some companies have developed clubs whose main aim is support the retailers who sell their products.

### **How to Measure a Club's Success**

The success of a customer club must be measured, just as with any other marketing tool. Why is this important? Because, as you develop and grow your program you need to know what is happening. You will make changes. That is part of any business ... frequency/loyalty/retention programs are no different. Measure everything from day one so you make the right changes at the right time for your marketplace.

Therefore, indices must be devised for aspects of the club's performance that clearly define levels of success, average performance and failure. These indices must include clearly quantifiable factors that can be measured automatically, such as response rates to club activities, but also more qualitative factors such as brand loyalty.

The indices chosen depend largely on the importance of each different club goal. The more important the goal is, the more important it is to measure how far it has been achieved. Comparing the results for club members with those for a non-member control group can help isolate the effects of the club's marketing from other influences. Other indicators of the club's success are the level of utilization of its database, the savings achieved by other departments due to the club's activities, and the support it has given to other departments of the sponsoring company.

Empirical studies have shown that clubs can be very effective: increases in sales of between 6 and 80 percent have been achieved!

## The Future of Customer Clubs

The overall success of a customer club is dependent on several things:

- Commitment of the organization sponsoring the program
- The design and execution of its components
- Your program must be simple to operate by your marketing and operations staff
- It must be easy for your members/customers to understand how they benefit
- It must offer rewards that will motivate increased response and build retention.

These are basic components of a customer club. Yet, it is amazing how many organizations do not think through this list as they embark on a customer relationship-marketing program.

## Summary

The primary objectives of any loyalty-marketing program are these:

- To create measurable increases in sales & profits!
- To increase frequency of visits or use by your members/customers
- To improve customer retention -- to discourage defection to the competition -- by offering an incentive for loyalty. In addition, many companies use loyalty programs for at least two more reasons:
- To decrease reliance on mass marketing media tools, by doing these things:
  - Targeting specific offers or messages based on real, live usage history, and
  - Use the acquired database knowledge to target prime prospects. In these two instances, the database is being used to both keep what you have ... and to look for new.

In a market environment characterized by increasing competition, unpredictable and well-informed consumers and lack of growth, customer loyalty efforts are gaining in importance and might come to be one of the most important strategic success factors. It is essential for a customer club to function smoothly to achieve its goal of customer retention. When companies are gradually moving towards one-on-one marketing, overlooking the significance of customer clubs that help develop strong relationships with individual customers can become an organization's downfall.

The effectiveness of customer clubs is difficult to match. Set up the right way, a customer club can play an important part in your future success. The most important factors to consider are:

- Offering real perceived value to members
- Developing a sound financial concept
- Obtaining support from the whole organization - from top management to entry-level employees
- Utilizing the club's potential to provide data to support other company departments

Value-oriented customer clubs have been developed in several European countries, the US and Australia. Clubs can be effective in any industry, as their diversity in Germany proves.

How long will it be before you can say to your customer “*Welcome to the club*”!

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Note: this article was adapted from “*Customer Clubs and Loyalty Programmes – A Practical Guide*”, by Stephan A. Butscher, Gower Publishing Limited, 1999.

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*Biographical note:* Jim Gilmartin is president of Lombard, IL based *Coming of Age, Incorporated*. Established in 1991, the full service integrated marketing communications firm specializes in helping clients to increase market share and profit in Boomer+ customer markets. The firm provides clients' marketing communications, full advertising agency services, public & media relations' services, and sales communications planning and execution. The firm also provides clients sales and service improvement training and turnkey Customer Loyalty/Affinity Clubs.

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