



THE ROLE OF A LOYALTY PROGRAM IN CREATING CONTEXTUAL CUSTOMER EXPERIENCE



It is a red ocean

Ability to create and sustain a differentiated value proposition is at the core of a brand's competitive advantage. However, many brands, across industries, have eroded their once numerous positioning, either because they failed to prevent others from replicating their propositions or they failed to continuously create even transient advantages. When battle amongst brands are reduced to just incremental functionalities or additional discounts, replicating each other's proposition is not insurmountable for any! As a result, in any given industry, strategy of top 25% players don't seem to be markedly different. In many B2C industries, almost every strategic iterations seem to end with "mark-down"! According to an NRF study, retailers had lost about USD 200 Bn in markdown, last year!

This competitive convergence has lead many brands to direct their scarce resources towards umpteenth futile product iterations and as an aftermath significant shareholder value was destroyed. Unfortunately, in this obsession towards products and portfolio, many brands seem to have missed "customer" as a central component of their

strategy! However, the ones who did not, have generated disproportionate shareholder value, despite operating under similar environmental constraints.

So, what have they done differently? Successful brands craft their unique propositions around aggregate customer experience and not just around product's functional attributes. They constantly strive towards knowing their customers intimately and engineer a contextual experience, which is both a necessary and sufficient condition for inducing attitudinal loyalty in customers. Once created, attitudinal loyalty raises perceptual exit barrier for the customer. This "experience lead" differentiation is far more sustainable than any form of tactical differentiation!

Experience is Contextual

Every shopper is different in his own rights. Some are consistently looking for some great bargains, some are early adopters where price is not just a consideration, some need social acknowledgement and so on. Clearly, the expectations from the brand tend to vary quite significantly, depending on customer profile, persona or behaviour. Every shopper is broadly defined by both need and behaviour coordinates. While, **brand purpose broadly defines the user**



need segments, defining the behavioural segments is about interpretation of data and facts lying across the enterprise.

As the customer starts to engage with the brand, brands become increasingly more aware of his persona and behaviour. Translating those specific consumer insights into “engagement principles” and incorporating them into “everyday interaction” with the customer is contextualization. Needless to say, the higher the interaction, the higher is the potential of contextualization!

However, the scope and degree of contextualization tend to vary quite significantly depending on firm’s capability and industry in which it operates. Broadly, the scope of contextualization includes the following

- **Contextualized offer:** Brand makes personalized offers / promotions based on customer’s purchase history. Transactional data is leveraged the most for making contextualized offers.
- **Contextualized communication:** Brand makes personalized communications based on specific interest and characteristic attributes of various customer profiles. For example, a fashion

retailer might invite all early adopters for a fashion show, exhibiting its new collection etc. Or, brand might communicate the launch of its upcoming products to specific user groups, who have the highest likelihood of adopting them etc. Contextualized communication also includes exposing “contextualized content” to the customers at relevant touch points.

- **Contextualized entitlements:** Brand grants entitlements to its consumers based on brand’s understanding of their explicit (or even implicit) need. Some airlines, proactively offer a free wheel chair to a second time handicapped traveller, without he having to fill out a special service request etc.
- **Contextualized engagement:** Brand engages its customers in various capacities based on its specific insights of him. It can range from social engagement, affinity group formation to even co-creation! Contextualized engagement is fast becoming an important capability to create stickiness with the brand.

Sum total of all of these contextualization effort culminate in “customer centricity”.

Role of loyalty programs

At its core, contextualization is really about connecting the dots of various facets of customer behaviours! As customers engage, transact and interact with the brand through multiple touch-points, they tend to expose many facets of their behaviours. Following are some of the typical facets of customer behaviours which collectively represent a customer persona.

- **Explorative:** It broadly represents the specific interests of the customer. Explorative behaviour often indicates intent to purchase both implicitly and explicitly.
- **Consumptive:** It represents what, how frequently and how much products / services the customer consumes. It explains the intensity and affinity of consumption. To a large extent, consumptive behaviour drives underlying profitability of customer.
- **Inertial:** It represents the underlying tendency of the customers to repeat a certain combination of products / services. Inertial behaviour is useful in optimizing cost to serve a customer
- **Adoptive:** It represents the overall engagement of the customer with the firm through both financial and non-financial activities. Adoptive behaviour to a large extent drives attitudinal behaviour.
- **Sensitive:** It represents the price sensitivity of the customer. Customers, exhibiting very high sensitive behaviour are likely to get defected easily.
- **Attitudinal:** It represents the state of loyalty customer is in. Very strong attitudinal behaviour represents ambassadorship or wiliness to refer.

These behaviours, are often independent of each other, and if left un-joined, brands can never unravel the true persona behind them. The primary role of loyalty (in facilitating brand's effort towards contextualization) should be to help brands link these various facets of behaviours and derive the "true persona", a capability, which is foundational

to contextualization. Loyalty grants brands the basic capability to uniquely identify customers at each touch-points. Once the customer is identified, his transactions and interactions across all touch-points can be aggregated to uncover his persona, albeit over time. Programs should encourage and incentivize customers to identify themselves regardless of **when they engage, where they engage and how they engage** with the brand, which is the Omni channel approach.

The role the loyalty has to play is to maximize the "exposed interaction" of the customer with the brand across every touch-point! The whole program design philosophy should be built around that. The process of contextualization is iterative and eventually program should shape the customer behaviour in the best interest of the brand. That is how brands can gain top of mind support and growth in market share.

Framework for connecting the dots: Aggregating different facets of customer behaviours across physical and digital channels through transaction, navigation and interaction would help expose the right persona! Following is the illustration of which touch-points might potentially bring out which behavioural aspect of the customers

Once these behaviours are exposed to a reasonable extent, they can either collectively or individually facilitate various contextualization interventions of the brand. The diagram below demonstrates which behavioural aspects of customers might be leveraged for which intervention



Consumer behaviour						
Brand Intervention		Explorative behaviour	Consumptive behaviour	Sensitive behaviour	Adoptive behaviour	Attitudinal behaviour
	Contextualized communication	✓	✓	✓	✓	✓
	Contextualized Offer	✓	✓	✓	✓	
	Contextualized Entitlement		✓		✓	
	Contextualized Engagement	✓	✓		✓	✓

Design principles of Loyalty Programs: Loyalty programs should be an integrated platform for continuously capturing input necessary for contextualization, deploying contextualization output and monitoring those for necessary iterations. Brands need to carefully identify all the

activities or the actions which are required from these perspectives and influence them through appropriate features and functionalities. Below diagram demonstrates an illustrative configuration of loyalty, to both seek input and deploy output from potential contextualization perspective.



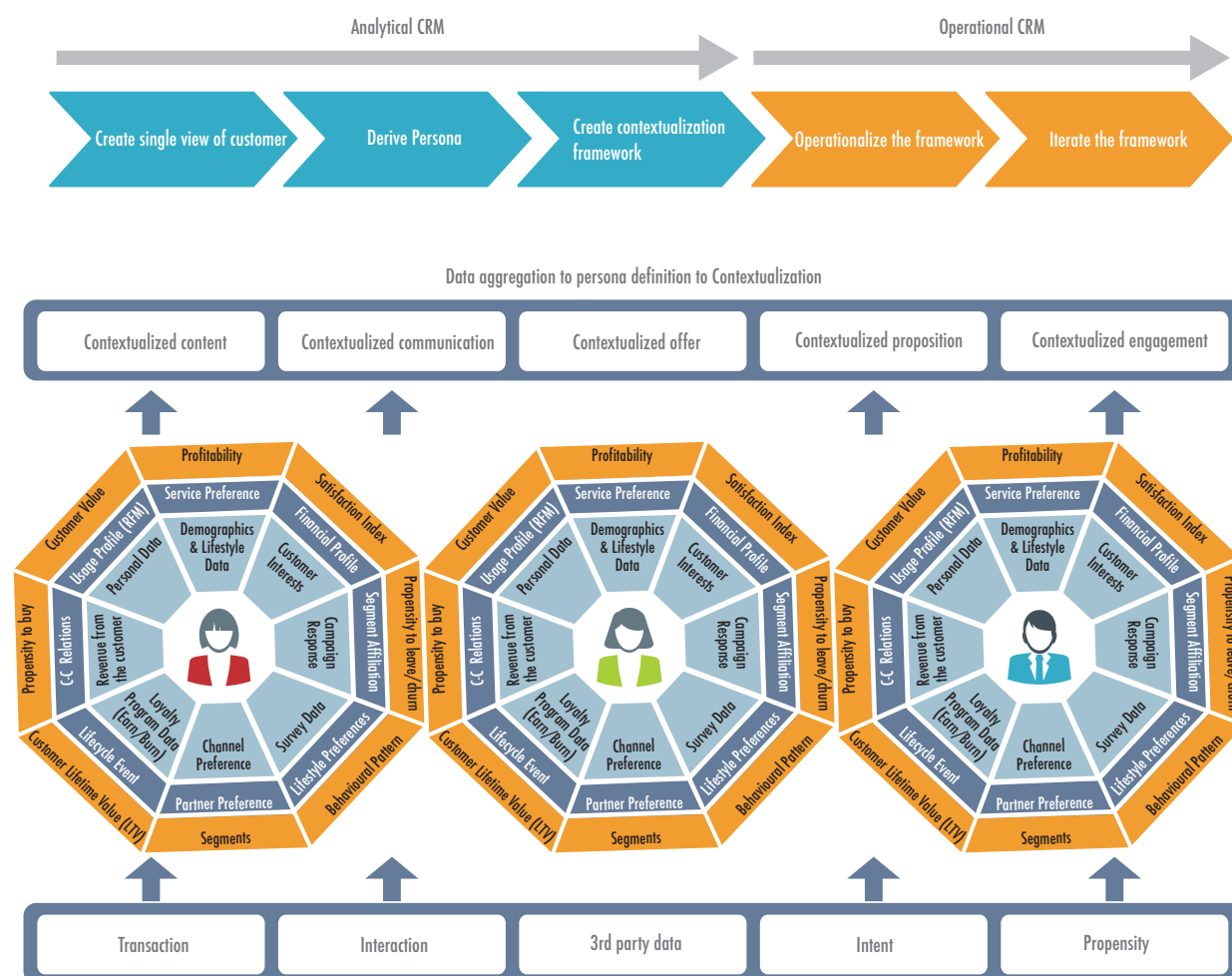


Technology imperative

Technology has to play both operational and analytical role in enabling brand's contextualization effort. While the operational role should enable the overall contextualization processes, analytical role should focus towards sharpening the contextualization framework progressively. The continuum for contextualization should start with brand creating a "single view of customer". In the recent past, thanks to disruptive technologies and proliferation of channels, interactions are fast shifting from physical to digital channels. So much so that, in the advanced economies, traditional channels of engagement, at best expose 50% of the customer persona!

In the diagram below, we have tried to demonstrate how analytical and operational CRM can come together to enable iterative contextualization process!

Analytical CRM: Contextualization starts with firm pulling together various islands of customer information from various sources and creating a single view of customer. Once the single view is created, analytical engine should look for best fit of the customer into the one or more pre-defined segments and subsequently contextualization guidelines of that segment would apply. Degree of contextualization would however depend on firm's ability to create relevant micro segments and differentiate the rules of engagement based on that. For highly distinctive behaviours, contextualization principles should apply to just one individual ($n=1$). Analytical capability should strive towards uncovering those distinctive behaviours and progressively driving the organization towards singular contextualization capability.



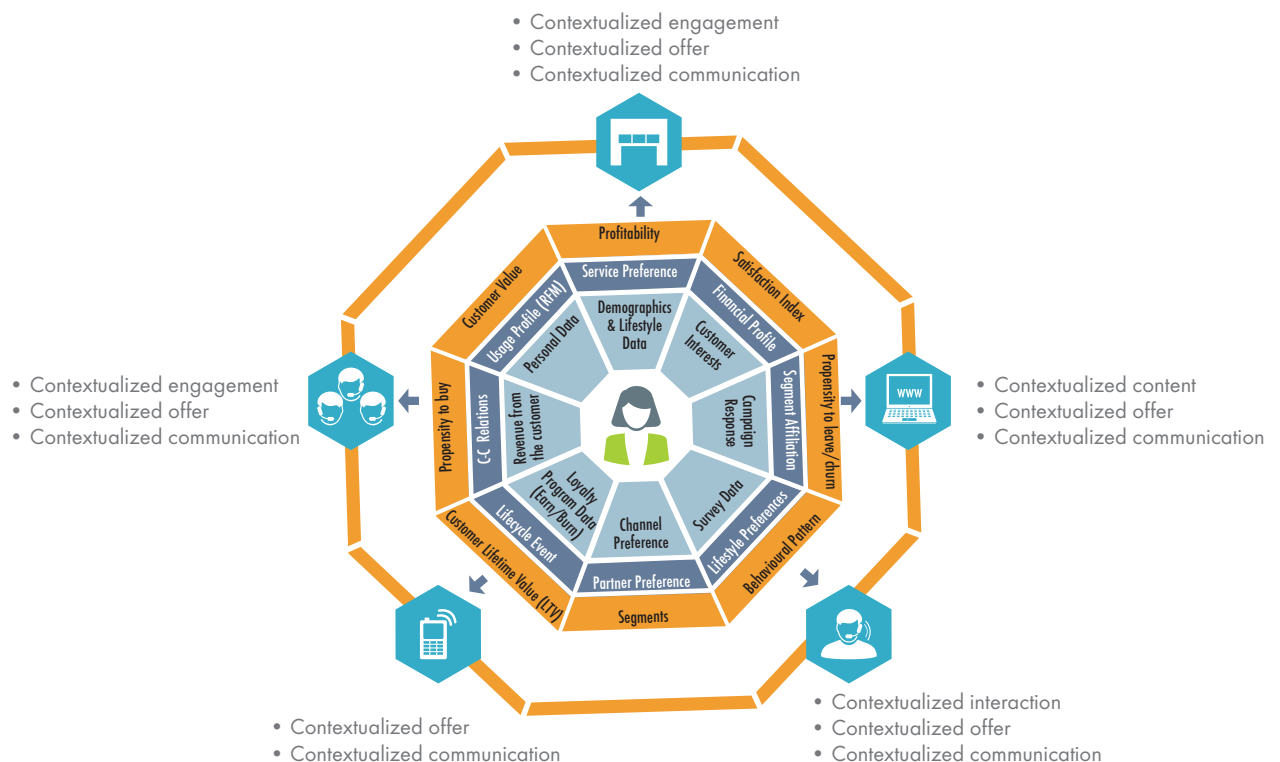
Operational CRM: Operational CRM, on the other hand, should enable the firm to identify the “persona” of the customer across every touch-point at the very instance of interaction and apply the contextualization principles, as appropriate. It should also help close the feedback loop and sharpen the contextualization principles for tighter engagement in the future. The key to this capability is to

- Map the right contextualization aspect (content, communication, offer, entitlement, engagement etc.) with the right channel
- Ensure consistent contextualization across channels

Operational capability should ensure that all the touch-points are being fed off a central contextualization hub which stores both the single view of customer and the entire repository of contextualization rules.

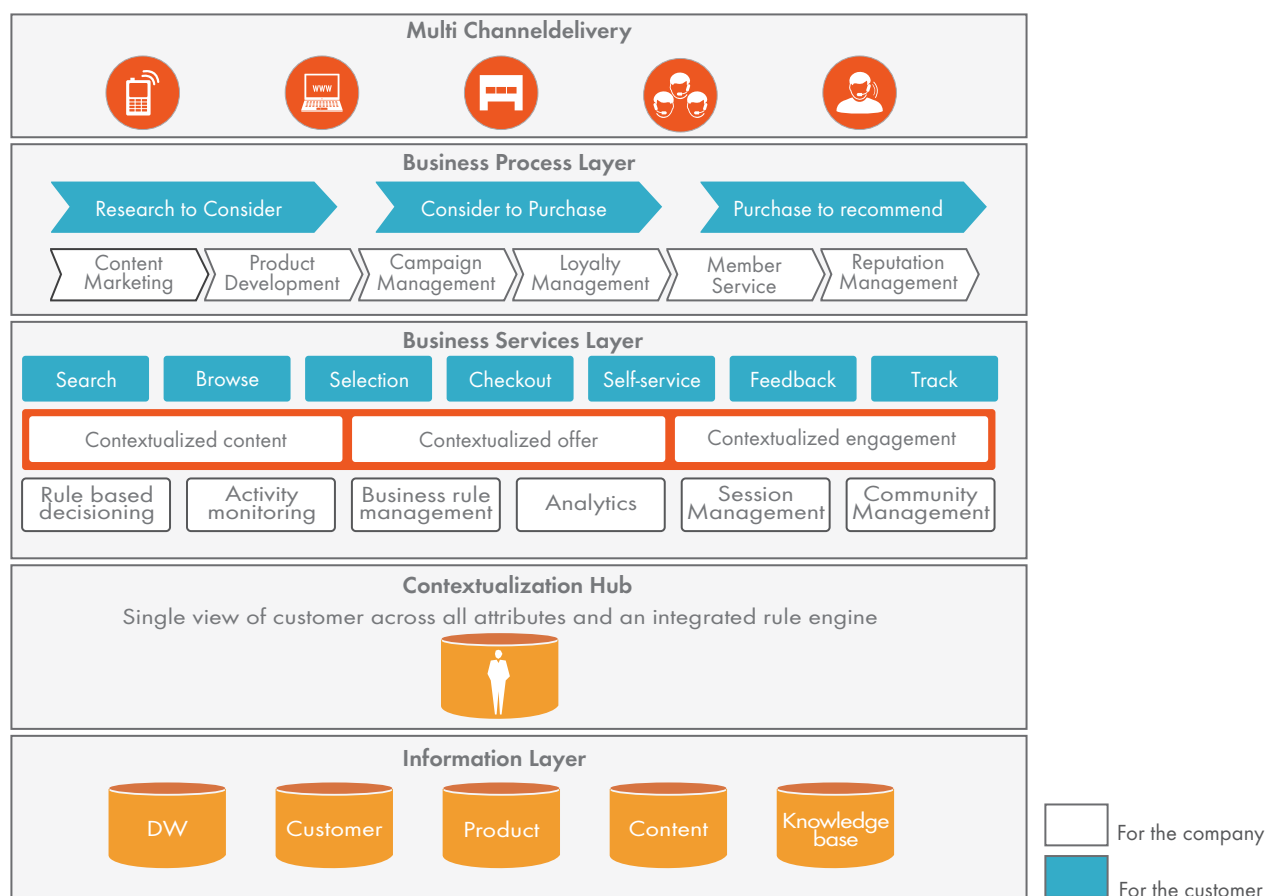
Contextualization effort should be continuously iterative. After each contextualized intervention system should evaluate it for ongoing relevance and provide feedback to the existing framework. The most optimal framework could take time to emerge, depending on system’s iteration capability.

To make this iterative process more effective, firms should encourage a two-way communication with the customer in addition to system’s capability to interpret relevance of any contextualization effort (made towards a particular persona). Operational system should facilitate this feedback capture process and funnel it back to the contextualization rule hub for appropriate calibration.



Architecture for execution

Following is the conceptual blue-print of how these operational and analytical capabilities would come together for flawless execution.



Adapted from Oracle reference CX architecture

The top layer shows various devices and touch-points those are supported by customer experience reference architecture.

Business process layer demonstrates the processes provided by the solution from both customer and the brand perspective, all supported by Business Process Management capability.

Business services layer also shows the necessary capabilities from both customer and the brand perspective. Underlying business services is the data and the service integration capability that provides the glue that brings all the data and services together into a comprehensive, unified solution.

The contextualization hub is the central repository of single view of customers across all attributes and all contextualization rules.

Information layer illustrates the information required to support a consistent, seamless contextualization across all perspectives.

Conclusion

While most firms acknowledge the growing importance of contextualization, they often fall short in both strategizing and executing it. Brands should not limit loyalty programs to just a mean for instant gratification. Instead they should leverage it for driving holistic contextualization interventions. Tomorrow, the extent of contextualization capability would potentially determine the strength of competitive advantage!

Few players have already identified contextualization as a powerful force and started to reconfigure their loyalty program towards that objective. Woolworths, South Africa is a case in point. They are on a journey to continuously trying to steer their market leading loyalty program “WRewards” towards an integrated contextualization platform. By linking historical data of customer transactions, interactions and by leveraging analytics, Woolworths is able to discover multiple customer personas and create appropriate contextualization framework to engage customers beyond just transaction and the results are already prominent! In their industry, they are already beating the best in loyalty penetration, customer attrition and acquisition cost amongst other metrics.

