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Loyalty programs are offered by both retailers and manufacturers to stimulate continued patronage among consumers through discounts, cash, free goods, or special services (such as free magazines on specialized topics of interest to loyalty program members). While retail cooperatives pioneered loyalty programs through giving members allowances based on their annual purchases, the more modern use of loyalty programs began with Raleigh cigarette coupons and with stamp-based programs such as the S&H Green Stamp Company (which offered consumers points based on purchases; these points were redeemable for a broad selection of merchandise).

The most current form of customer loyalty programs started in the 1980s with the introduction of frequent flier programs by airlines. After the Airline Deregulation Act of 1978, many airlines struggled to obtain a competitive advantage. In 1981, American Airlines introduced the first frequent flier airline program—AAdvantage, which sought to reward loyal customers through utilizing the airline's excess capacity.

Despite the large number of firms offering loyalty programs and their high levels of consumer membership, many loyalty programs have not been successful. This article differentiates among the different types of loyalty programs and offers a series of steps to develop, implement, and control an effective loyalty program. Several potential pitfalls that need to be avoided also are discussed.

The Size of the Loyalty Program Market

Loyalty programs have become quite popular in the United States, particularly among airlines, hotels, car rental firms, credit card providers, financial services firms, book retailers, and supermarkets. In the United Kingdom, loyalty programs are popular among gasoline stations, supermarkets, and bookstores. More than 130 airlines currently have a customer loyalty program and 163 million people throughout the world collect loyalty-based miles.[1]

The U.S. loyalty marketing industry has been estimated as a $6 billion industry with 2,250 separate loyalty programs.[2] A recent study found that almost 90 percent of Americans actively participate in some type of loyalty program (including credit card, retail store, and airlines rewards programs) and that most consumers are enrolled in multiple loyalty programs.[3]

Loyalty program usage is similar in the United States, UK, and Canada. One source estimates that 92 percent of UK consumers participate in a loyalty program, with 78 percent being members of two or more programs.[4] Similarly, an ACNielsen study found that 95 percent of Canadians belonged to loyalty programs of department stores, mass retailers, general merchandisers, or warehouse clubs in 2005.[5]

Many individuals and households are enrolled in multiple loyalty programs. A recent Forrester Research study found that 54 percent of primary U.S. grocery shoppers belong to two or more loyalty programs, 15 percent of consumers are enrolled in at least three programs, and 4 percent are members of either four or five loyalty programs.[6] One explanation for the lack of success of many loyalty programs is the extent to which consumers are members of multiple loyalty programs. When consumers have the option of collecting points in loyalty programs where the ease of making qualifying purchases, the rewards, and the redemption requirements are similar, it is very difficult for one loyalty program to maintain a significant competitive advantage over others.

Types of Loyalty Programs

There are four broad categories of loyalty programs (see Figure 1). In the most basic format, Type 1, any customer receives a discount on selected items on the basis of swiping his/her membership card at a point-of-sale terminal. In many instances, store clerks are trained to swipe a card kept at the register if customers forget their card or are not a member. While this format may be viewed as a loyalty program by some merchants and consumers, it is not a true loyalty program since membership is open to all customers and each member receives the same discount regardless of his/her purchase history. Many of these programs are able to enroll a large number of participants due to ease of registration and low member concern for privacy. For example, Giant Eagle Advantage Card members automatically receive savings on hundreds of items in its stores as the item is scanned.

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There are several major limitations to this program. According to one analysis, Type 1 programs do not reward loyal behavior; they reward card

FIGURE 1. A Typology of Loyalty Program Types

Program Type	Characteristics of Program	Example
Type 1: Members receive additional discount at register	• Membership open to all customers • Clerk will swipe discount card if member forgets or does not have card • Each member receives the same discount regardless of purchase history • Firm has no information base on customer name, demographics, or purchase history • There is no targeted communications directed at members	Supermarket programs
Type 2: Members receive 1 free when they purchase n units	• Membership open to all customers • Firm does not maintain a customer database linking purchases to specific customers	Local car wash, nail salon, SuperCuts, Airport FastPark, PETCO
Type 3: Members receive rebates or points based on cumulative purchases	• Seeks to get members to spend enough to receive qualifying discount	Airlines, hotels, credit card programs, Staples, Office Depot
Type 4: Members receive targeted offers and mailings	• Members are divided into segments based on their purchase history • Requires a comprehensive customer database of customer demographics and purchase history	Tesco, Dorothy Lane Markets, Wakefern's ShopRite, Giant Eagle Supermarkets, Harris Teeter, Winn-Dixie, Harrah's, Hallmark

ownership.[7] Type 1 programs do not encourage repeat purchasing and more closely resemble electronic coupons since all consumers receive the same benefits regardless of their past purchases. Occasional customers and "cherry pickers" (who only buy a firm's heavily discounted goods and services) receive the same deals as a firm's best customers. Since Type 1 loyalty program sponsors do not maintain a customer database beyond a member's name and address, they cannot correlate demographic or lifestyle information to purchase behavior or offer special deals to their most profitable consumers.

Type 1 programs are often conducted by small firms that do not have the managerial commitment or resources to conduct a Type 2, Type 3, or Type 4 activity or as a defensive measure to compete against a more complex loyalty program.

All of the other forms of loyalty programs (Types 2, 3, and 4) attempt to increase a customer's total purchases from the firm through offering additional discounts, rebates, or free goods when a consumer's purchases exceed a given level. In a Type 2 program, consumers get one item free, after they have purchased a selected number of items at full price. These programs resemble a quantity discount that is based on a member's total purchases, not the purchase frequency. For example, a member can make 9 purchases on a single day or a passenger can take 5 long-term flights in a short-time span. While heavy users get the same proportionate savings as light users, they are more easily able to accumulate free goods.

Type 2 programs are typically self-managed by consumers. The consumer keeps a detailed account of his/her purchases (often on a card), which gets marked at every qualifying purchase. When the number of qualifying purchases is reached, the consumer becomes eligible for a free good or service. Examples of Type 2 programs include a free hair cut (SuperCuts), dog grooming or bath (PETCO), parking spot (Airport FastPark), or a free sub sandwich (Jersey Mike's Subs). While these programs are extremely easy for a firm to administer, they are also very easy for a competitor to copy. In many cases, a marketer's gains are short-lived as competitors match or beat the free offer. A second major problem with Type 2 programs is that the firm also has no record of a customer's name and address and cannot communicate with members or offer differential rewards to members. Third, the reward is typically the same item that has been purchased in the past. While getting a free good instead of purchasing it is a reward, it may not be as motivating as another good.

Type 3 programs reward points to members based on their past purchases. Unlike Type 1 and Type 2 programs, marketers of Type 3 programs require a comprehensive database that can track a member's purchases and points. Some Type 3 programs encourage consumers to increase their purchases or reward heavy purchasers by having program tiers. Hilton HHonors programs offer tiers where heavy users can more easily accumulate free hotel rooms or can reserve a room on an unrestricted basis.

Best Buy's Reward Zone program members earn 100 points for every dollar of in-store and online purchases. Members receive $5 reward certificates that can be used for anything purchased at a Best Buy store for each 15,000 points. Other firms that use point-based Type 3 programs include airlines (American Advantage, Delta SkyMiles, United Mileage Plus, Southwest Rapid Rewards), hotels (such as Hilton Honors, Hyatt, InterContinental, Marriott Rewards, Holiday Inn Priority Club, Starwood Preferred Guest), credit card companies (including Citibank PremierPass Elite, Discover Card: The Miles Card, AmEx Membership Rewards, Diners Club Rewards), and office supply firms (such as Office Depot Advantage and Staples Business Rewards programs). Many Type 3 programs involve partnerships with complementary marketers (such as an airline, hotel chain, and car rental firm) to facilitate a member's accumulating points and to increase the variety of reward options. Since most Type 3 program marketers send the same communications to all members, they do not necessarily lead to a closer relationship with its members.

While most Type 4 programs are based on points (like Type 3 programs), these programs are able to offer individual members specialized communications, promotions, and rewards based on their purchase history. The best Type 4 programs go beyond offering discounts based on past purchases. Harris Teeter, ShopRite, Winn Dixie, and Tesco are among the supermarkets with Type 4 loyalty programs. Through its E-VIC loyalty program, Harris Teeter e-mails loyalty club members informing them of specials they have regularly purchased. This program resembles a personal shopper that scans Harris Teeter's weekly freestanding insert to identify the most relevant deals for its members. Wakefern's ShopRite stores use its membership program to attract consumers who have not been in its stores lately through coupons and special offers.[8] Winn-Dixie has a Baby Rewards Club (with a quarterly baby-oriented magazine), a Pet Club, and a Wine Club (with a seasonal wine newsletter for its members).

Type 4 merchants have a major commitment to loyalty programs and use these programs as an important element in their marketing strategy. Merchants that use this type of program need to develop and maintain a complex database, be adept at data mining, and be able to administer a complex communication and reward program.

Type 2, 3, and 4 programs build upon lower-level programs. Type 2 program rewards are based on a member's past purchases, not a coupon (as in a Type 1 program). Type 3 program rewards are based on points (not purchases as in a Type 2 program) and include a much broader variety of alternatives. Even the most basic Type 3 programs record a member's name and address, his/her purchase history, and the cumulative number of points earned. Type 4 programs include a comprehensive database (which can include demographic and lifestyle data), the use of data mining, and highly targeted mailings and offerings to members based on their purchase history. The progression from Type 2, 3, and 4 programs implies that a firm can incrementally upgrade its program offerings on the basis of the competitive environment, increased proficiency in managing a loyalty program, and the receipt of additional resources.

Concern Over Loyalty Program Effectiveness

Despite the size of the loyalty program market, a major academic study concluded that there has been little empirical research on whether loyalty programs are viewed as valuable by members or the extent to which these programs contribute to retailer and brand loyalty.[9]

Three researchers in a major academic study suggest that acquisition rates and relationship duration may have little impact on the profitability of a loyalty program.[10] Another major study found that long-life customers may not spend more, be lower-cost customers to serve, or have lower price sensitivity.[11] The authors conclude that customers with high revenue are always preferable, regardless of the duration of the relationship.

A number of other academic and business studies have also questioned the effectiveness of many customer loyalty programs. Among the criteria that can be used to evaluate a program's success are the impact of loyalty programs on consumers' likelihood to shop at a particular store or use a given brand, continuation in a membership program, increased store/brand usage, higher market share, increased sales, or higher profitability. For example:

- A Maritz Loyalty Marketing Poll found that only 24 percent of its respondents were more likely to shop at stores that had loyalty programs.[12]
- A European study found that 76 percent of respondents stated that their shopping behavior had not changed since owning a loyalty card.[13]
- Another Maritz poll found that four out of 10 loyalty program participants quit at least one program. The top reasons for loyalty member dissatisfaction were not being rewarded properly, the difficulty in redeeming awards, and changes in loyalty program rules.[14]
- Another European study by two academic researchers found that consumer participation in loyalty programs has been modest, with only 20 to 25 percent of enrolled members earning or redeeming loyalty program credits in the past 12 months.[15]
- An additional study (using a panel design of 405 customers from three European countries) found that 43 percent of the sample had no transactions and that an additional 36 percent used their card for between 1 and 5 transactions during a one-year period.[16]
- According to one researcher, "even the most technologically advanced and creatively ingenious loyalty programs end up subsidizing current customers, while only marginally contributing to sales."[17]
- One researcher found that one of the most common means used by managers to assess the success or failure of a loyalty program is the registration rate, the number of customers signing up with the program. Managers need to be aware that program registration statistics relate only to a loyalty program's membership—not sales gains, program use, increased loyalty, or profitability.[18]

As a group, these studies pose serious concerns of the impact of many loyalty programs in achieving any of the above objectives.

Potential Benefits of Effective Loyalty Programs to Sponsors

While the overall findings on the successes of loyalty programs may suggest that many do not meet their objectives, there are significant benefits to a well-run program. Two major European academic studies found that members of loyalty programs exhibited increased loyalty to the program's sponsor. The first study found that customers' relationship perception of a Dutch financial services loyalty program explained about 10 percent of the total variation in customer retention and customer share.[19] The second study found that members of a financial services loyalty program were generally less sensitive than other customers to perceptions of lower service quality from their company and any price disadvantage relative to competitors.[20]

There are a number of potential benefits to a well-run loyalty program beyond increased loyalty, lower price sensitivity, and stronger attitudes towards brand and retailers. These include access to important information on consumers and consumer trends, higher average sales (due to cross-selling and up-selling opportunities), greater ability to target special consumer segments, and increased success in implementing product recalls (see Figure 2).

Access to Important Information on Consumers and Consumer Trends

Each time a loyalty card is used in a Type 3 or Type 4 program, the consumer's purchase is recorded onto the firm's database. Companies can use this data to both profile their best customers and to tailor their offerings to specific groups of customers. The information on members' buying behavior can also be used for inventory management, pricing, and promotional planning. According to one researcher, "The effective use of loyalty card data is arguably the most significant benefit of scheme implementation."[21] The chairman of Tesco (the UK's largest retailer and the third-largest retailer in the world) also noted, "What scares me about this [loyalty program], is that you know more about my customers in three months than I know in 30 years."[22]

FIGURE 2. Potential Benefits of an Effective Loyalty Program

- Increased customer loyalty, lower price sensitivity, and stronger brand attitude
- Access to important information on consumers and consumer trends
- Higher average sales (due to cross-selling and up-selling opportunities)
- Greater ability to target special consumer segments
- Increased success in implementing product recalls

A loyalty program's database enables marketers to evaluate the results of special promotions based on additional purchases, use of additional channels, or decreased time between purchases. Tesco has used data from its loyalty program database to analyze the effectiveness of its advertising. According to a dunnhumby executive, "Not only can we see the effect of an advertisement on sales. We can also see what type of customer it won over."[23]

Tesco also used its loyalty card data to develop its Finest private-label line (which includes items such as duck pâté and cashmere sweaters) when its Clubcard data showed that its higher-spending customers were not purchasing wines, cheese, and fruit from Tesco.[24]

After Wal-Mart purchased ASDA, Tesco used its database to identify 300 items that price-sensitive shoppers (those that purchased the cheapest available item in a product category) typically purchased. Tesco assumed that shoppers of these items were most likely to switch to ASDA. Tesco then lowered the price of many of these items (such as its Tesco Value Brand margarine) to successfully stem customer defections.[25]

While traditional market research data collection is commonly based on small samples, self-reported data, and requires active respondent cooperation, loyalty program data is typically based on large samples, transactional data, and does not require the active involvement of members aside from swiping their loyalty card. In addition, many loyalty program members are willing to provide demographic data as part of their loyalty membership program application. Maritz found that about 60 percent of survey respondents indicated that they would provide personal information to their banks' reward programs so their rewards and communications could be better planned.[26]

The large number of loyalty card members also contributes to the richness of loyalty program data and the opportunity for effective data mining. For example, in the UK, Sainsbury has 8 million users of its reward card and Tesco has 12 million households in its Clubcard database. According to an executive of dunnhumby, the company that handles Tesco's database, "We believe we have one of the largest databases anywhere in the world."[27]

Customer loyalty databases are longitudinal in nature and can be used in analyzing trends over time. These trends relate to purchases, repurchases, related purchases, usage of multiple channels, and time between repurchase. Sainsbury, a UK-based retailer, keeps records of all purchases by members of its loyalty program for the past three years including the store name, date and time, and price paid. Sainsbury also records the type of payment by each visit, whether a card was swiped or keyed in, the staff number, and even which checkout was used. Customers are then categorized by address using Acorn's system (such as prosperous metropolitan, professional, and gentrified multi-ethnic areas).[28]

There are some potential limitations to using member loyalty data. This data may provide a limited picture of consumers since it does not look at customer motives and does not show purchases from other brands and stores. Customer panel data may also be more representative than loyalty card member data. The representativeness of loyalty member data is a major concern when membership is limited to highly profitable customers, requires payment of a fee, and when a high proportion of a program's members are not active.

Higher Average Sales (Due to Cross-Selling and Up-Selling Opportunities)

Using the data from its loyalty program in a Type 3 or Type 4 program, a firm can cross-sell and up-sell by offering extended warranties after an item is purchased, suggesting accessories (such as batteries and spare parts), providing discounts on related purchases (such as additional brushes and tools for a vacuum cleaner), increasing the sale of multi-packs to frequent buyers or users with histories of large purchases, or encouraging single-channel consumers to use additional channels (such as stimulating store-based buyers to use the firm's web site).

A loyalty program offer can also be used to increase demand in slow seasons, such as an airline mileage program that is available only on selected flights. These targeted promotions should be more successful than traditional mass-market promotions since there is less waste. The database also enables the program sponsor to monitor the success of each promotion and to determine which promotions have been the most successful.

Harrah's Entertainment extended its customer loyalty program to Caesar's Entertainment directly after the acquisition of Caesar's. While about 80 percent of Harrah's customers were members of its Total Rewards loyalty program, just

30 to 40 percent of Caesar's customers were enrolled in its Connection Card program. Harrah's estimates that extending its loyalty program to Caesar's customers could help drive 90 percent of the new revenue expected for the combined firm.[29]

Greater Ability to Target Special Consumer Segments

Type 3 and Type 4 loyalty programs enable a retailer to precisely target specialized groups of consumers, including the firm's most profitable customers. A loyalty program can also offer specialized promotions, e-mails, and/or newsletters to specific groups of consumers, such as gourmets, do-it-yourselfers, or photo buffs.

Club DLM, the loyalty card program for Dorothy Lane Markets (a three-store supermarket chain based in Dayton, Ohio), tracks its members' customer spending habits, pinpoints its most profitable customers, and then offers these targeted customers special incentives to retain their loyalty.[30] In October 1995, the chain ran its last newspaper ad and began to focus its marketing efforts through newsletters to its loyalty program members. Dorothy Lane Markets realized that whenever it ran newspaper ads, it attracted too many "cherry pickers" who only purchased the chain's special offers. Now, its 14,000 Club DLM members receive different versions of its newsletter. While each newsletter contains 8 to 12 coupons, these coupons differ based on the customer group targeted. A special French bread offering, for example, was promoted only to Dorothy Lane Markets' top 800 bread-buying customers. Club DLM members who spend more throughout the year also receive better discounts than light or occasional spenders.

Tesco uses its Type 4 loyalty program data to develop 15 customer segments, based on members' food preferences. The marketing firm dunnhumby, which runs Tesco's Clubcard program, has developed 40 flags (such as high price, family size, convenience, organic, and environmentally aware) that it applies to Tesco's 50,000 products. These flags are used to place customers into one of six segments.[31] Its Finer Foods segment customers are quite wealthy, buy more organic products than any other group, and are time-strapped. While its Healthy Living segment also buys organic products, it purchases less of finer foods. A third segment, Traditional Shoppers, is comprised of homemakers who purchase ingredients and cook a meal. Tesco's promotional efforts are carefully targeted to its members. Four of every six of its Clubcard discount vouchers that are sent out on a quarterly basis are for goods that members already purchase, while the other two are for related items.[32] While the industry average for coupon redemptions is between 1 and 2 percent, between 15 and 20 percent of Tesco coupons are redeemed.[33]

Increased Success in Implementing Product Recalls

Lastly, a retailer can use loyalty program data to facilitate product recalls through tracing the purchase date and bar code of the recalled items. Kroger was able to trace customers who purchased a lot of recalled beef by accessing a customer's loyalty card transaction history.[34]

Through e-mailing a recall notice that is based on the consumer's actual purchase of the affected good, the recall notice is much more likely to be read and acted upon than a store sign or newspaper notice directed at the general public.

Potential Benefits by Program Type

The ability of a marketer to achieve these potential benefits varies drastically by program type. Since firms using Type 1 and Type 2 programs have no demographic, lifestyle, or product usage database, they cannot ascertain trends, cross-sell merchandise, target special customer segments, or implement directed product recall programs.

In general, Type 3 programs can succeed in increasing customer loyalty to the extent that members are content in accumulating free goods and services. Like Type 1 programs, the simpler Type 2 programs typically have no demographic, lifestyle, or product usage history data that can be used to track trends, target consumer segments, or aid in product recalls. Type 3 programs can increase sales and profitability by offering different points on different goods and services and by encouraging consumers to increase usage through achieving additional benefits associated with higher tiers.

While Type 4 programs are the most costly to plan and maintain, they can potentially provide the most benefits. In addition to general discounts and free goods and services, Type 4 programs provide members with specialized savings on products they generally purchase, offer specialized newsletters and magazines, and enable cross-selling and product recalls due to data mining opportunities. In addition, Type 4 programs provide the highest level of marketing information system capability and the greatest opportunity for data mining.

Steps in Developing, Implementing, and Controlling an Effective Loyalty Program

The planning and implementation of an effective loyalty program goes through a ten-step process:

- outlining loyalty program objectives,
- developing a budget,
- determining loyalty program eligibility,
- selecting loyalty program rewards,
- considering partnerships with others,
- building an appropriate organization,
- developing and maintaining the loyalty program database,
- managing an internal data warehouse and data mining capacity,

FIGURE 3. Steps in Developing, Implementing, and Controlling an Effective Loyalty Program

1. Outlining Loyalty Program Objectives
2. Developing a Budget
3. Determining Loyalty Program Eligibility
4. Selecting Loyalty Program Rewards
5. Considering Partnerships with Others
6. Building an Appropriate Organization
7. Developing and Maintaining the Loyalty Program Database
8. Managing an Internal Data Warehouse and Data Mining Capacity
9. Evaluating the Success or Failure of the Loyalty Program
10. Taking Corrective Action

- evaluating the success or failure of the loyalty program, and
- taking corrective action.

This process is most applicable to Type 3 and Type 4 programs (see Figure 3).

Outlining Loyalty Program Objectives

Loyalty program objectives can be based on revenues, profits, customer loyalty, and increased information on consumers. Common specific loyalty program objectives are increasing the number of members, reducing member attrition, increasing member purchases, increasing member purchase frequency, increasing member profitability, and generating a satisfactory return on loyalty program investment and receiving valuable market research data. Firms that pursue both revenue and profit goals at the same time need to plan a strategy that does not meet one goal at the cost of another. While all types of programs may increase member purchases and purchase frequency, only Type 4 programs generate valuable market research data and increase loyalty through specifically tailored communications and promotions.

Developing a Budget

The loyalty program budget needs to reflect the following expenses: initial and ongoing promotional expenses (including costs of communicating with members), IT hardware and hardware servicing costs, database creation and maintenance expenses, editorial and production costs of loyalty magazines, the direct costs of loyalty rewards, and fulfillment function expenses.[35]

The startup costs in developing a loyalty card system can be substantial. Shell has spent between £20 and £40 million on developing its Smart Card loyalty program and Tesco's initial data gathering costs have been estimated at £10 million.[36] The startup costs for Type 1 programs and for Type 2 programs will be substantially less.

In addition to startup costs, the annual cost of maintaining a loyalty program can be substantial. In the supermarket industry where loyalty programs are relatively mature, annual loyalty program maintenance costs vary from 1 percent to 1.5 percent of sales. In other industries, the cost is between 2 percent and 5 percent of sales.[37] Another source estimates that the administrative expenses associated with a loyalty program can surpass $20 or more per customer per year.[38] The administrative expenses for Type 1 and Type 2 programs should be significantly less.

Some marketers have defrayed some of the startup and maintenance costs by imposing initial membership fees for Type 3 and Type 4 programs. This initial fee can also reduce memberships by casual customers (where the cost of maintaining their membership is greater than their profitability), and can help create value to new members. A major academic study found that higher membership fees increase consumers' preference for luxury versus necessity rewards and that high fees increase the likelihood that consumers will join a program that offers a luxury reward.[39]

Best Buy, the electronics superstore, started its Reward Zone loyalty program in 2001; the program now has close to 6 million members. Members pay $9.95 per year to receive special offers and to accumulate points redeemable on future purchases. According to Best Buy, Reward Zone members visit its stores twice as often and spend 1.5 times as much as other customers.[40]

Budgets can also be reduced through revenues from partners or sales of aggregate data. American Airlines' AAdvantage program receives significant revenues from sales of miles by its hotel and car rental partners. One source estimates that all U.S. airlines sell close to $2 billion in miles to over 22,000 businesses.[41] Tesco sells aggregate loyalty program data to Procter & Gamble, Coca-Cola, and Kimberly-Clark.[42]

Determining Loyalty Program Eligibility

A major question for Type 3 and Type 4 programs is whether a loyalty program should be open to all customers or only to a select group of customers (such as the firm's best customers or those segments most amenable to a firm's incentives). Loyalty program eligibility issues need to be related to a firm's loyalty program objectives and budget issues.

Objectives based on sales volume are best linked with an open eligibility program, while a closed program may be better associated with profit-based objectives. The closed program also generally requires smaller budgets than an open eligibility program.

Program eligibility should be based on customer profitability. Through developing a loyalty program based on "invitation only," a marketer can exclude the customer segments with the lowest profitability (who only purchase merchandise on sale, frequently request that the marketer match a discounter's price, or often return merchandise) by not inviting them into the closed program.

Another alternative is to require minimum purchase requirements or a fee to discourage low potential customers from applying. Chico's, a women's clothing chain, uses a closed program in which customers become passport members after spending $500. Passport members receive 5 percent off every purchase and also get frequent mailers with additional coupons. Barnes & Noble charges members (who receive 10 percent off on all purchases) $25 to join its membership club. In addition to minimum purchase requirements and fees to join, loyalty providers should consider imposing minimum purchase requirements for members to continue in the program.

Selecting Loyalty Program Rewards

Type 1 programs typically reward all customers in the form of discounts on popular goods. Type 2 programs provide 1 item free, with every *n*th good purchased. Type 3 programs and all Type 4 programs require a more sophisticated analysis of reward options.

Type 3 and Type 4 loyalty program providers need to be aware of possible consumer frustration in loyalty programs that can result from qualification barriers, offering rewards seen as worthless by consumers, time and place barriers in redeeming awards, and mental costs in redemption.[43]

Epinions.com in the United States and ciao.com in Germany describe common consumer complaints associated with loyalty programs. These include: a lack of supply of advertised rewards, the difficulty generating sufficient points (due to purchase volume or expiration periods), promised rewards having little value, and privacy issues.[44]

Loyalty program reward decision making for Type 3 and Type 4 programs involves the choice of currency, tier structure, redemption options, and ease of use. The currency choice stage relates to the number of loyalty points earned with each dollar purchase. For example, a member can earn five points for each dollar spent on a primary brand, but only two points per dollar on a purchase with a loyalty program partner.

Firms also need to ascertain the appropriate tier structure. A tier structure can be used to reward members who increase their purchases over a predetermined level or to reward members who are heavy users of a firm's products or services. The first $500 of expenditures can earn 5 points per dollar, while purchases in the $501 to $1,000 level earn 7 points per dollar. Hotel-based membership programs often use tier structures based on total nights stayed in a year. The currency selection process rewards consumers who purchase certain brands or from certain vendors, while the tier structure can be used to reward a firm's best customers or to encourage members to increase their expenditures. For example, Hilton HHonors has four tiers: Blue, Silver VIP, Gold VIP, and Diamond VIP based on the number of stays per consecutive 12-month period (this ranges from no minimum for a Blue membership to 60 nights in a consecutive 12-month period for a Diamond VIP membership). Only Silver, Gold, and Diamond VIP members are eligible for health club access, while only Gold and Diamond VIP members are eligible for upgraded accommodations, and only Diamond VIP members can receive guaranteed reservations with their points with no blackout dates.

In assessing redemption options, a firm must determine the range of redemption options, as well as the program's ease of use.[45] Redemption choice relates to whether the rewards are redeemable at multiple firms or for multiple services (multiple destinations, hotels, and car rentals). To make sure that redemption choices are motivating, Tesco's Clubcard typically offers loyal customers a coupon for something they purchased within the past eight weeks. Tesco's Clubcard serves as a gift for past behavior, a reward for continued behavior, and an enticement for future behavior.

A loyalty program's ease of use relates to the time period necessary for a typical consumer to accumulate the necessary points. A loyalty program's reward can be immediate (such as MCI's Friends & Family program that rewards customers every time they call selected individuals) or delayed (such as an airline frequent flier plan that requires 30,000 miles of travel for a domestic trip). While an exotic trip seem more exciting to many customers than a cash incentive, marketers need to consider the time period needed to achieve the reward. In a recent poll of loyalty customers, the largest cited reason by respondents for quitting (cited by 69 percent of the respondents) was the time it took to accumulate enough points to earn a reward.[46]

Marketers need to understand the tradeoff between divisibility (the number of reward-redemption opportunities) and customer lock-in. While marketers may want to require a large number of points to accumulate a reward to lock-in members, some members may quit due to the frustration in accumulating the necessary number of points. In general, the number of points required should be based on a member's usage, as well as the degree of company differentiation.[47]

Ease of use also relates to the ease of redeeming points. According to one source, major airlines have devoted 7 to 9 percent of their miles flown to frequent flier awards—while the number of outstanding award miles can be close to 1 trillion.[48] For some frequent flier members, the difficulty in redeeming points may mean that they must fly to a desired destination via a truncated route, use inconvenient times, or use less than desired airports.

In addition to cash or gift forms of rewards, some marketers use such non-cash rewards as specialized e-mails, brochures, early access to seasonal or sale merchandise, and invitations to special events. An academic study also found that marketers can increase participation in a loyalty program through designing programs that have high levels of relative advantage for targeted consumer groups. Among the components of relative advantage are closeness of the marketer's store to the consumer, a consumer's high-level purchase frequency, or the perceived exclusiveness of the loyalty provider's double-points offer.[49]

Considering Partnerships with Others

Type 3 and Type 4 loyalty providers can reduce the expense of setting up and maintaining a loyalty program system, increase the desirability of loyalty program membership, and complement each organization's strengths and weaknesses through multi-partner or coalition loyalty programs. Partner firms may also be able to access each other's databases to determine cross-selling opportunities. A popular combination of loyalty program partners includes travel, grocery, gasoline, and financial services firms.

An example of an effective loyalty card partnership is Upromise, a multi-company loyalty card (that includes 26 manufacturers and 160 retailers) which gives money back to its members in the form of contributions to a Vanguard-run 529 savings plan (tax-free college fund). Some 3.5 million consumers have signed onto this program.[50] Another example is Nectar, the UK's largest loyalty program, with a base of 17 partners (where members can earn Nectar points at over 6,500 outlets in the UK) including Sainsbury, American Express, and BP. Half of UK households have a Nectar card. Since its inception, members have redeemed Nectar points worth nearly £500 million.[51]

Building an Appropriate Organization

An effective Type 3 or Type 4 loyalty program requires the development of an appropriate organization to effectively plan, implement, and fine-tune the program. Things Remembered, a personalized gift solutions retailer with 700 locations in 46 states, uses a cross-functional team consisting of personnel with expertise in information systems, marketing, accounting, store operations, loss prevention, and call centers—in addition to a partner that manages the database.[52]

Tesco's Clubcard requires 500 employees to manage its hotline, contact loyalty program members by mail, maintain its call center, and staff its Clubcard Magazine (with a circulation of 9 million consumers who receive four issues a year).[53]

Firms can outsource those activities where they have little expertise or where the outsourced firm has greater skills. Activities that lend themselves to outsourcing include developing and maintaining the member database, developing and maintaining the loyalty member web site, and data mining.

Developing and Maintaining the Loyalty Program Database

Unlike direct marketers, many store-based retailers generally collect and analyze data based on products, not customers. Retailers need to see the role of loyalty programs as an important source of customer-based data. Without a database that tracks member behavior and offers different rewards to each major consumer group, a firm cannot achieve the full potential benefits of its Type 3 or Type 4 loyalty program.

The loyalty program database needs to reflect purchase data from each of the firm's channels, as well as its loyalty program partners. Firms also need to integrate members' demographic and credit history data into their loyalty program database. This enables marketers to build an integrated profile of its members.

Harrah's uses its loyalty program data to build customer profiles based on how often a customer frequents a casino, what games he/she is likely to play, and even his/her gaming ability. Harrah's Total Rewards loyalty program enables the firm to track a customer through all of the firm's transactional, slot machine, hotel management, and reservations systems. Each time a player inserts his/her Total Rewards card into a slot machine, or hands it to a floor manager, the amount of time played and money gambled is recorded in Harrah's data warehouse. Each member receives individualized marketing based on his/her preferences and projected worth.[54]

Managing an Internal Data Warehouse and Data Mining Capacity

In addition to developing and maintaining the loyalty program database, a Type 4 loyalty program provider needs to manage its data warehouse and data mining capability to enable the data to be used for promotional, marketing research, and segmentation purposes. A study of 41 directors of loyalty programs for service companies, consumer packaged goods, direct marketers, and advertising agencies found that the best loyalty programs gathered information on product usage, purchasing habits, and attitudes—and used this information to tailor products to the specific needs of consumers. The best loyalty programs were also found to use enrollment forms to capture demographic, usage frequency, and preference-related data.[55] Airlines, hotels, and car rental firms have an advantage over other firms in this area since consumers must identify themselves at the time of purchase.

Hallmark's Gold Crown Card loyalty program has over 14 million cardholders who shop at 4,200 independently owned and operated Gold Crown stores. Frequent shoppers receive points that can be used as discounts toward future purchases. Hallmark segments its customer base via data warehousing and mining. It knows whether each shopper purchases only greeting cards, favors, ornaments, or shops the whole store. In addition, Hallmark notes each member's preferences by type of card (such as child-oriented cards or cards with religious themes) and collects data on loyalty program members' responsiveness to specific offers.[56]

Harrah's database has real-time capabilities so that a customer on a losing streak could receive a message on a slot machine's card reader display that he/she has been rewarded a $20 credit to offset his/her recent losses. According to Harrah's CIO, "And the more you play with us, the more we know about you."[57]

Evaluating the Success or Failure of the Loyalty Program

The final stage is to evaluate the success or failure of the loyalty program. Many firms such as InterContinental Hotels Group (IHG) use multiple measures to assess a loyalty program's success. IHG found that its average Priority Club member spends 57 percent more at IHG properties after enrolling in its loyalty program. IHG's break-even point is about a 6 percent increase. In addition, IHG members pay a 7 percent to 10 percent higher rate and tend to book via the company web site, the firm's lowest cost channel.[58]

The success or failure of a program needs to reflect multiple activities beyond increased sales. American Express (Amex) cardholders earn points through charging purchases with the Amex card that can be used for a variety of awards. To evaluate the success of the loyalty program, Amex has used such metrics as increased customer retention, increased purchases, and lower acquisition costs for new customers.[59]

A loyalty program's profitability can also vary significantly by market segment. For example, a program can be very profitable by restoring sales for a market segment that was close to leaving the program. The same program, on the contrary, could be very costly in serving light users whose volume cannot be increased. The program can also be particularly effective in increasing the average purchases and/or purchase frequency for selected groups of consumers but be ineffective with other groups.

In determining the cost effectiveness of any loyalty program, a manager needs to select the proper time horizon. The time interval should be sufficient to realize the program's goals based on the time necessary to communicate the new program, enroll members, and for members to accumulate sufficient points. Managers that focus exclusively on short-term goals typically look at gross profit (from incremental sales less administrative costs) data instead of analyzing the long-term loyalty generated by the program.[60]

The performance of any loyalty group needs to be compared to an appropriate control group of nonmembers. The use of a control group enables a firm to measure the loyalty program's success by tracking differences in sales, loyalty, and profitability behavior between loyalty program members and nonmembers.

Return on investment should also be compared to alternatives to traditional loyalty program design and incentives. These alternatives can include giving preferential customers advance notice of sales, special purchases, and closeouts; access to personal shoppers; invitations to parties with major designers; and special phone numbers for customer service. Such alternatives can be more flexible, require less data, and be less costly to design and implement.

The program's results should be communicated throughout the organization. At Things Remembered, loyalty program results are shared throughout the entire company so all employees fully understand the financial significance of the program to the firm.[61] Through adequate promotion, salespeople, cashiers, and assistant managers all understand their role in achieving the program's overall objectives.

Taking Corrective Action

The last step in this process involves taking corrective action in the event that loyalty program performance does not meet objectives. Figure 4 outlines specific corrective actions to meet six specific loyalty program objectives: increasing membership, reducing attrition, increasing member purchases, increasing member gross profit, improving return on loyalty program investment, and increasing the quality of market research. The programs that these corrective actions are most applicable to are listed in parentheses. For example, partnerships with other brands and retailers are most applicable to Type 3 and Type 4 programs, whereas Type 2, Type 3, and Type 4 programs should consider increasing the number of reward options. Since Type 3 and Type 4 programs are more complex than Type 1 and Type 2 programs, the range of corrective action is much greater for these programs. All programs should evaluate alternative returns on investment on other programs that build and maintain customer loyalty.

Potential Pitfalls of Loyalty Programs

In planning an overall loyalty program, marketers need to be aware of several potential pitfalls. These pitfalls include market saturation, low levels of consumer commitment by consumers to loyalty programs, use of the wrong type of program, focusing only on monetary or gift rewards, use of loyalty programs as a cover-up for ineffective marketing, and program privacy issues.

Market Saturation

In many mature markets such as hotel, airline, and credit card programs, competing firms offer loyalty programs with similar membership provisions, purchase requirements, and benefits. In this competitive environment, firms are unable to pull back from their loyalty program commitments due to the fear of lost sales, yet are unable to secure a long-term competitive advantage over other firms due to high costs or the concern for being matched by competitors.[62] Market saturation can occur in all loyalty program types. Henry Silverman, the chairman and chief executive officer of Cendant, argues that "As long as your competitors are doing it, you have to [have a guest loyalty program]. If we all stopped doing it, I wonder what the results would be."[63]

In instances where a firm is first to introduce a loyalty program, the gains may be short run since competitors are typically able to quickly introduce

FIGURE 4. Corrective Actions to Meet Specific Loyalty Program Objectives

Increasing the Number of Loyalty Program Members	• Partner with other brands and retailers to make it easier for members to accumulate points. This strategy also increases the value of the reward to some members (Type 3 and 4 programs). • Provide free points or additional discounts for initial membership (Type 2, 3, and 4 programs). • Recognize that open programs have more members than closed programs (Type 1, 2, 3, and 4 programs). • Increase the attractiveness of rewards (Type 3 and 4 programs). • Make rewards easier to obtain (Type 2, 3, and 4 programs). • Assure members that specific data on their purchasing behavior will be kept in the strictest of confidence and not be sold or shared (Type 3 and 4 programs).
Reducing Member Attrition	• Reduce the number of points needed to receive a reward (Type 2, 3, and 4 programs). • Increase the number of reward options (Type 2, 3, and 4 programs). • Make the program easier to use (Type 3 and 4 programs). • Allow members to purchase points to facilitate getting rewards (Type 2, 3, and 4 programs). • Tailor rewards and communication based on a member's purchase history (Type 3 and 4 programs). • Track member usage and contact profitable customers who have not recently made a purchase (Type 3 and 4 programs). • Partner with other brands and retailers to make it easier for members to accumulate points. This strategy also increases the value of the reward (Type 2, 3, and 4 programs). • Enable members to more easily track points on the Web (Type 3 and 4 programs). • Combine free goods and services and rewards with special services (such as special customer support access, invitations to trunk shows, personal shoppers, etc.) (Type 3 and 4 programs).
Increasing Purchases by Members	• Implement a tier system to provide additional points for purchases above a given level (Type 3 and 4 programs). • Develop a differential point structure to reward heavy users (Type 3 and 4 programs). • Provide additional points for related-item purchases (Type 3 and 4 programs). • Develop a differential point structure for closeouts, overstocks, and end-of-season merchandise (Type 3 and 4 programs). • Cross-sell goods and services with partners (Type 3 and 4 programs). • Tailor rewards and communication to a member's purchase history (Type 3 and 4 programs). • E-mail special offers to members (Type 3 and 4 programs).

continued on next page

a similar or perhaps even better program.[64] It took United Airlines only weeks, for example, to copy American Airlines' AAdvantage program.

Low Levels of Consumer Commitment by Consumers to Loyalty Programs

Since rewards such as 1 airline mile per dollar purchase or a 3-cent discount off future purchases per $1 purchase are so common, a consumer may

FIGURE 4. Corrective Actions to Meet Specific Loyalty Program Objectives *(continued)*

Increasing Member Gross Profit	• Limit enrollment to members with a large and profitable transaction history (Type 3 and 4 programs). • Provide tiered memberships so that heavy users receive greater benefits (Type 3 and 4 programs). • Charge a nominal fee to discourage inactive or small activity accounts (Type 3 and 4 programs). • Enable members to easily track activity, points, and award shipment through the Web (Type 3 and 4 programs). • Restrict membership to a firm's most profitable customers (Type 3 and 4 programs). • Drop out unprofitable members or members with low purchase activity over a given time period (Type 3 and 4 programs). • Develop a differential point structure for closeouts, overstocks, and end-of-season merchandise. This strategy can be used to reduce the markdown levels needed to clear this merchandise (Type 3 and 4 programs).
Increasing the Return on Loyalty Program Investment	• Consider outsourcing loyalty member functions such as fulfillment or award selection where other firms can fulfill these functions more efficiently (Type 3 and 4 programs). • Evaluate the loyalty program on a continuous basis (Type 1, 2, 3, and 4 programs). • Sell aggregate data to suppliers (Type 4 programs). • Sell points to partners (Type 3 and 4 programs). • Sell points to customers (Type 2, 3, and 4 programs). • Evaluate the alternative return on investment on other programs that build and maintain customer loyalty (Type 1, 2, 3, and 4 programs).
Increasing the Quality of Market Research Data	• Outsource database construction, maintenance, and data mining to firms that specialize in these services (Type 4 programs). • Use market research and information systems personnel in loyalty program design and implementation (Type 3 and 4 programs). • Change from a Type 3 to a Type 4 program (Type 3 programs).

have little or no commitment to any specific loyalty program. In this situation, customers join multiple programs and switch loyalty among these programs. This pitfall can be applicable to all program types.

Visa's Credit Card Commitment Research 2004 report found that consumers have less commitment to their credit card brand than to their brands of car insurance, potato chips, and household cleansers.[65] Consumers have a large number of credit cards, it is easy to get a no-annual-fee credit card, and there is no penalty for having a card that is not used.

Likewise, a study of shoppers in a Western U.S. city found that 51 percent of the respondents viewed the loyalty card of three supermarkets as very similar, 24 percent as somewhat similar, and 21 percent who were not sure. That leaves only 4 percent with the perception that the various loyalty programs were somewhat or very different.[66]

Use of the Wrong Type of Program

The loyalty provider must choose among Type 1, 2, 3, and 4 programs. Figure 5 outlines the situational variables that would suggest a particular type of loyalty program to an organization. These variables include:

- whether the firm is small or large,
- the degree of managerial commitment to a loyalty program,
- the speed at which the firm must develop a loyalty program,
- whether the program is viewed as a defensive or an offensive measure,
- the resource levels (such as IT and customer database) of the company,
- the type of customer that the company seeks to attract (such as a mass market or highly profitable customers),
- the extent to which consumers require a diverse reward base (in terms of types of rewards and the length of time a consumer will collect points to receive rewards), and
- the type of product being sold (such as low versus high involvement).

Type 1 programs are best suited for firms with low levels of resources, a low level of managerial commitment to loyalty programs, and the desire for a defensive strategy. Type 2 programs enable a firm to shift the database responsibility to consumers and are appropriate when a firm has a major product purchased by a large percentage of its customers. Type 3 programs are appropriate for firms with higher levels of resources and managerial commitment and when there are strategic benefits to partner with other membership programs (as in the car rental, hotel, and air travel sectors). Type 4 program firms have the highest level of resources and commitment for a loyalty program, view loyalty programs as a major offensive strategy, and are willing and able to use the market research data to fine-tune their market strategy.

Focusing Only on Monetary or Gift Rewards

Instead of just looking at discounts or free goods, firms can utilize other benefits to instill loyalty based on purchase volumes. For example, a marketer can offer its best or most loyal customers such additional benefits as preferential access to trunk shows of major designers, special parties, free alterations, early boarding privileges on planes, availability of personal shoppers, and special customer support phone numbers. These benefits may be perceived as more valuable to these customers than gifts or extra discounts. This pitfall is applicable to all program types.

Use of Loyalty Programs as a Cover-Up for Ineffective Marketing

No loyalty programs, regardless of type, should be used to cover up for ineffective marketing. A study of Western U.S. residents found that of 28 loyalty factors examined, a food-based retailer's offering a shopper loyalty card was rated number 18 of 28 factors and was the lowest ranking factor among

FIGURE 5. Assessing the Appropriateness of Type of Loyalty Program

Type 1 loyalty programs are most appropriate when a firm:	• is small in size. • lacks resources or managerial commitment for a more intensive program. • needs to respond to competitive action quickly. • sees its loyalty program strictly as a defensive measure. • has a low level of expertise in managing a customer database. • does not seek to offer differential rewards to different customers or market segments. • seeks to build traffic by offering sale items to a broad group of customers.
Type 2 loyalty programs are most appropriate when a firm:	• is small in size. • lacks resources or managerial commitment for a more intensive program. • needs to respond to competitive action quickly. • has a low level of expertise in managing a customer database and seeks to shift the database responsibility to consumers. • has a major product that is purchased by a large percentage of its customers that can be used as the basis of the loyalty program. • seeks to reward customer loyalty by offering proportionate discounts to all members.
Type 3 loyalty programs are most appropriate when a firm:	• is medium to large in size. • has sufficient resources and commitment to manage a more comprehensive program. • has sufficient time to plan and implement a loyalty program strategy. • sees its loyalty program as an offensive strategy. • is willing to outsource database and fulfillment responsibilities. • seeks synergy by partnering with other firms offering complementary goods and services. • seeks to attract consumers that have moderate to high levels of involvement to specific products. • seeks to increase purchases by the firm's highly profitable customers through use of tiers and increased points for selected purchases. • needs to offer members a broad range of rewards.
Type 4 loyalty programs are most appropriate when a firm:	• is large in size. • offers the highest levels of managerial commitment and resources to its loyalty program. • has sufficient time to plan and implement a loyalty program strategy. • sees its loyalty program as an offensive strategy. • has the ability to manage a data warehouse and data mining or is willing to outsource these functions. • seeks to attract consumers with high levels of involvement to specific products. • seeks to offer specialized communications, promotions, and rewards to specific groups of consumers based on their purchase history.

moderately important loyalty factors. In contrast, the six most important loyalty factors were quick-moving checkout lines, a wide variety of fresh produce, convenient location, a high-quality fresh meat department, a fresh bakery, and a wide-selection deli counter.[67] Firms should not lose sight that a loyalty program is designed to reward or reinforce a customer's loyalty, not be the reason that consumers shop at a particular retailer or purchase a given brand.

Program Privacy Issues

Along with the management of computer databases (in Type 3 and 4 programs) comes the responsibility to control the distribution of sensitive data relating to such things as income, social security number, and purchase history. These issues relate both to privacy as well as to the potential use of data for identity theft.

Recently, CVS found that its 50-million-member ExtraCare loyalty program, the nation's largest retail-based loyalty card, had a potential security problem. Anyone with a member's card number, ZIP code, and last name could access information concerning a member's over-the-counter drug and family-planning purchases since CVS did not password protect this information. Access to a customer's ExtraCare number was simple since it is printed on all CVS receipts, as well as readable on keychain cards (which may be accessible to parking valets).[68] As a result of this security flaw, CVS pulled Internet access to the data. The access was restored after the site received additional security.

Conclusion

A major concern that marketers need to address in running a loyalty program is saturation of the loyalty program market as evidenced by the large number of competing firms that offer similar programs, as well as the significant numbers of consumers who are members of multiple programs. In this environment, undifferentiated loyalty programs, regardless of type, have little chance of meeting the objectives of brand managers, retailers, and service providers.

A firm must assess the suitability of each program type and then carefully plan, evaluate, and constantly revise the program. One common error is for a firm to underestimate the managerial and financial resources necessary to establish, operate, and fine-tune an effective loyalty program. The result of poor planning or inadequate resources may result in a firm choosing a lower-than-optimal type of loyalty program or in not having sufficient resources to effectively manage the program.

Figure 6 is an audit form that can be used to assess the attractiveness of a firm's loyalty program, as well as its potential loyalty program capabilities. This form is organized by type of loyalty program. The audit should be administered periodically by an appropriate company executive or an outside consultant.

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FIGURE 6. An Audit Form to Assess a Firm's Customer Loyalty Program

	Does the loyalty program:
Type 1 Programs	• vary special offers to attract a wide proportion of members on a periodic basis? • require minimum purchases to get special offers (to discourage cherry pickers)? • change the featured specials to keep the program fresh from a consumer's perspective? • limit the number of times a consumer can purchase a special to discourage consumers from stocking up? • monitor related item purchases by consumers?
Type 2 Programs	• compute coupon redemption rates? • have an expiration date to reduce redemptions by small, infrequent customers? • consider extending the offer to other goods and services?
Type 3 Programs	• use double or triple points as a means of reducing markdowns for end-of-season merchandise or closeouts? • base point value on a product's profit margin? • evaluate partners' contributions in gifts? • evaluate partners' contributions in ease of accumulating points? • cross-sell the loyalty program among partners? • use a closed program to offer points to its most profitable customers? • develop a differential point structure to reward heavy users? • enable members to track activity, points, and award shipment through the web? • use a minimum purchase quantity or a fee to discourage low potential customers from applying? • drop out unprofitable members or members with low purchase activity over a given time period? • evaluate reward options based on consumer interest versus difficulty in generating sufficient points? • allow members to purchase points to facilitate obtaining a reward? • use a tiered structure to increase member sales? • consider outsourcing the member database, the loyalty program web site, and other facets of the loyalty program? • use loyalty membership usage history data to reduce consumer defections? • combine free goods and services and rewards with special services (such as special customer support access, invitations to trunk shows, personal shoppers, etc.)?
Type 4 Programs	• use specialized communications to members based on their purchase history? • use specialized promotions to members based on their purchase history? • use specialized rewards to members based on their purchase history? • have well-defined data mining capability? • use loyalty membership usage history data to reduce consumer defections? • use loyalty membership data to determine consumer trends? • use loyalty membership data to determine advertising effectiveness? • sell aggregate data to suppliers?

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