Loyalty Is Not a Liability

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If your dealer is now rewarding customers for their business as opposed to solely relying on discounting — congratulations! Every year you should be gaining more reward program customers, saving more money, and encouraging loyal customers to keep shopping. Within a year or two, you'll have **thousands of loyal customers** earning more and more points every month.

Would that in any way scare you?

Dealers generally agree with a reward program's philosophy and enjoy its immediate benefits. We find that many managers kick themselves for not implementing it sooner — after realizing they are essentially giving only **half the amount of customer discounts as before.** This situation is also a windfall for marketing and sales. Customers are experiencing the buzz of earning points, visiting your dealer more often, and checking their rewards through your website. Some people are even banking some points for the holidays.

But that's when accounting starts to take notice. You see, things were somewhat simpler without a reward program. You had discounts, credit cards, coupons, gift cards, etc. Now, we're injecting another form of payment — **"rewards" or "Rider Bucks"** — into the mix. What's most disconcerting is that it seems like your dealer owes people thousands of dollars, similar to what happens with **lingering gift card accounts!**

The venerable loyalty program, what had once been considered a marketing tool for "savings," is now chastised as a **"liability."** Some managers will scramble to start retracting benefits and discouraging its use, which will result in upset customers and confused employees. You might even think about going back to discounting.

However, don't worry; there is hope if you're a victim of your own success. Let's look at**three things you can do** to balance your reward program with your budget, all without drastically affecting customer perceptions. We'll then close with **some final tips** to make sure you're on the right track.

1. Have accounting consider customers using the reward program a marketing expense.

Let's start here: how you **define a reward program's value** at the cash register.

Equating reward program dollars with gift card dollars is not recommended in any case. The primary reason is the amount of money it'll seem like you "owe" will be grossly exaggerated. Yes, customers do have points which convert to dollars, and there are uniquely numbered accounts just like gift cards. The big differences are:

- Points are **personally earned** from past purchases; gift cards are sold at value.
- Points will automatically **expire much sooner** than gift cards (if they expire at all).
- Points are redeemed at **much lower rates** — often **between 40% to 50%** less.

The cost of the loyalty program is best considered a **marketing expense applied equally** across all departments for attracting return customers, just as if you were running radio ads or you rented a billboard. By tracking the historical use of how and when customers spend their points, you'll be able to better budget your marketing dollars month-to-month.

2. Make sure you have a reward points expiration policy.

Periodically expire **unused customer points** to keep your projected rewards/marketing expenses as low as possible as participation grows every year. Almost all loyalty programs expire points, so customers are **already familiar** with the concept. (It also compels customers to return sooner than later.)

What can you do? Your reward program, like our Rider Rewards system, may have **several different policies** from which to chose. Many dealers determine to expire all points on a certain day of the year, but they can also choose to expire points on customer "sign-up" anniversaries. There are also other ways, but keep in mind that staff and customers need to understand your dealer's specific expiration policy.

3. Limit the total point balance each customer can carry at any time.

This is also known as instituting a **“points cap,”** and it does two things: First, it ensures that customers **cannot earn a limitless amount** of reward points; second, it drives customers to spend their points when their point balances are at or near the cap.

Explaining further, **a common cap dealers have is “10,000 points,”** meaning any given customer's maximum point balance will never exceed this amount through making additional purchases. Customers must spend or “cash out” some of their points to then get back under the cap. Afterwards, they can start earning points again.

In addition to these three important reward program aspects, think about how destructive some **discounting practices** have become not only for your store but for the industry. Flat discounting may create short term gains, but competition will eventually match or exceed what you're doing...Sometimes, within the same week.

Your marketing budget will probably increase if you enact our first recommendation (considering rewards a marketing expense), but the figures should be juxtaposed with how much money was squandered on **rampant discounting.** I worked with a Harley-Davidson dealer in 2014 whose owner calculated that **even if he lost every customer** who demanded 10% or 15% discounts, and he gained only 300 to 400 Rider Reward customers, he would **come out ahead.** Thankfully, he signed up for our services and rolled back his discounts within 90 days.

If you’re **still wondering** why we recommend that rewards should be considered a marketing expense, please allow me to illustrate it for you: If a customer spends $1,000 with an immediate $100 discount, you’ve given them a lower price, but you **might never see them again.** However, if you give the same customer $100 in reward points for their purchase — you still offered them an alternative deal — but now you have the chance to see them for a following visit to use that $100. You just didn’t help directly pay for their next trip to the movie theater, for example.

As well, the customer could choose not to use all their points. If you recall, it's possible that your total redeemed/cashed-out rewards **could be 50%**, and the remaining points would expire. This is a significant reason why, when calculated for all customers, converting most (if not all) of your discounting to reward points should cut your "**new discounting expenses**" — which are **now those cashed-out reward points** — in half.

That is what we've seen with some dealers over time. Many redeemed rewards ranges run from **less than 1% to 3%**

of sales. This is usually within a dealers comfort zone, depending on their **unique circumstances** — which are always reviewed first before we recommend any changes.

On that complex topic: Some reward/loyalty programs **can become too generous**. That's when we can step in and examine your entire program to see when and how your customers are using their points, what you are rewarding on, how your expiration method is working, and if you're consistently signing up new customers, among other important details.

If you believe you need help with any of these questions, please let us know — we'll be happy to assist you. Call us at (414) 326-4100 or email us at support@morethanrewards.com.