To *tier* or not to *tier*

How many tiers is too many? **Puseletso Mompei** investigates tiered loyalty programmes and how valuable they are in retaining customers

Tiered loyalty programmes are those that segment customers into different levels based on their spend or activity. These programmes are popular in the medical aid, insurance, financial services and retail sectors, with some of the most recognised brands being Discovery Vitality, FNB's eBucks, Momentum Multiply and Woolworth's WRewards.

Steven Burnstone, CEO and head of analytics at Eighty20 Consulting, says there is extensive debate in the industry on the role that tiering plays in enhancing the value of a loyalty proposition. "Typically, tiered propositions in the past have aligned a customer's absolute value to the business to a tier," says Burnstone. "In other words, if you have more disposable income and can spend more, then you are more likely to be eligible for a higher tier."

Higher tiers generally give higher earn rates and better rewards. As a result, customers who already have more receive even more; effectively, the rich get richer and the poor, poorer.

Burnstone points out that in an economy such as South Africa, where a significant amount of economic spend happens in the mass market (high volumes, but low transaction values), this kind of one-dimensional view of tiering does not work. It is for this reason, among others, that programmes are increasingly rewarding customers' relative values (their loyalty and level of engagement with the brand), rather than only on absolute value (the amount they spend).

IS EQUAL REALLY EQUAL?

Burnstone points out that proponents of tiering argue that it facilitates a richer and more targeted and/or personalised offer, and allows optimal resource allocation and alignment of reward to the value that the customer brings to the business. So, in effect, it rewards those that "matter more" with a more meaningful reward. At the same time, it provides programme owners with the ability to reward members who behave in a desired manner more richly. "In other words, it dispenses with the notion that all customers are equal and, therefore, all warrant, by way of an example, an identical earn rate or redemption value or benefit set," he clarifies.

Tshepiso Manyoha, CEO of rewards and loyalty services management company Loyal 1, says businesses have to have a very clear value proposition for their customers in terms of which behaviour they are rewarding. "Gone are the days where rewards programmes were just about points and vouchers," says Manyoha. "One has to understand what drives their customers and encourage that behaviour in line with business objectives." He adds that "one of the downsides of tiering programmes is that customers with lower level of spend capacity can get very discouraged, thus making them feel that the benefits they really want are unattainable, so they may disengage or even seek other alternatives".

HOW TO KEEP THEM COMING BACK

Ros Netto, CRM and loyalty consultant at Truth consultancy, explains that from the onset, companies need to be thoughtful and strategic in designing a programme that derives optimum benefits for themselves and users. Prior to launching, companies should have a solid business rationale that includes a high-level financial model to evaluate programme strategy impact on return on investment, anticipate the ideal structure for their business, and outline how many tiers will be part of the programme and the benefits within each level. In addition, top-performing businesses develop various scenarios and have well-designed ❯
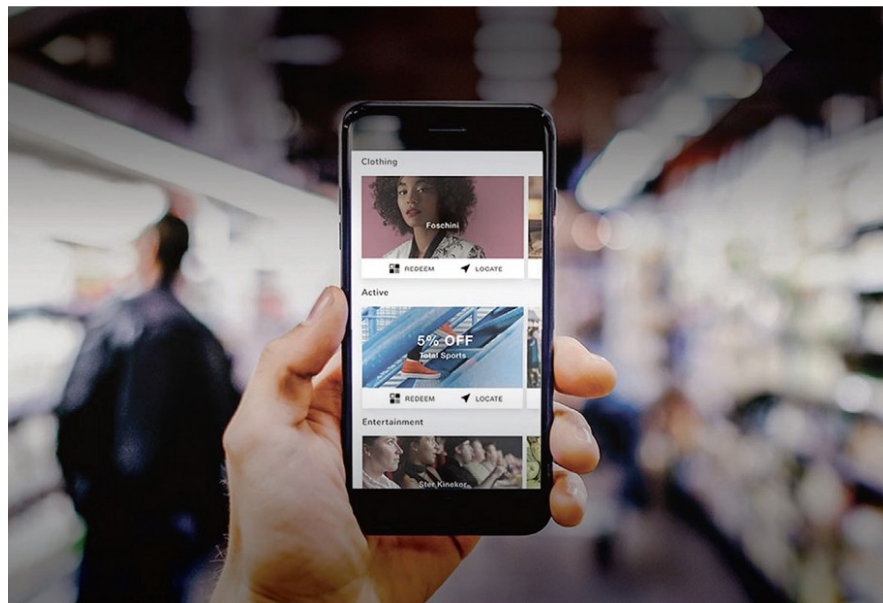
DOT YOUR Is AND CROSS YOUR Ts A tiered loyalty programme should be aligned with legal requirements such as consumer protection regulations and privacy protection laws such as POPI. Additionally, the terms and conditions must be updated as the programme evolves.
Source: Ros Netto, Truth Consultancy

> *"One of the downsides of tiering programmes is that customers with lower level of spend capacity can get very discouraged, thus making them feel that the benefits they really want are unattainable, so they may disengage or even seek other alternatives." — Tshepiso Manyoha*

processes alongside in-depth roll-out plans with quantifiable goals.

A robust technology solution has to underpin a successful tiered offering, advises Netto. "Companies need to be able to collate analytics and generate business intelligence to determine which are their most valuable to least valuable customers, calculate their customer retention rates, understand purchasing patterns, gather data for their customer segmentations and collect ongoing feedback on the success of their programme," she says. "If implemented correctly, technology can ramp up customer acquisition, engagement and retention."

What Netto looks for in a technology platform is its ability to generate KPIs to monitor customers' movements and migration across the tiers, and analyse the impact of these migrations on the bottom line. In addition, the tools need to be agile enough to cope with a growing subscriber base, automatically tabulate whether or not users are redeeming benefits, recognise and execute rewards per tier, and also automatically migrate users up and down the tiers.

ELEVATING AND ENHANCING THE CUSTOMER EXPERIENCE

Netto says savvy brands are extending rewards beyond monetary gains, especially for top-tier members for whom a few points here and there don't make a huge difference. In this case, it's all about the emotional value of the offering. "A perk could be as simple as allowing a top-tier customer early access to a new collection or allowing them to skip the queue at an event," she says. "Tiers allow businesses to reward top-tier customers, give them a VIP experience and administer more value without necessarily spending more cash, but rather elevating their experience of engaging with the brand."

Manyoha observes that a lot of brands are deploying mobile apps in addition to more traditional channels like cards or vouchers. In these cases, the app must communicate the tiers, be easy to navigate, and offer improved engagement and a seamless experience.

He also emphasises that, in addition to going digital, companies need to review whether

- **75** per cent of South African consumers use loyalty programmes.
  Source: South African Loyalty Landscape 2018/19

- **42** per cent of survey respondents find programmes with tiers appealing, while 46 per cent feel it makes no difference to them.
  Source: BrandMapp 2018/19

- **77** per cent of registered retail banking loyalty programme members are active users.
  Source: South African Loyalty Landscape 2018/19

> *"Most retailers using tiered programmes are behind the curve and need to come up with new strategies." — Tshepiso Manyoha*

the levers they used to reward customers will work on a digital platform. "Most retailers using tiered programmes are behind the curve and need to come up with new strategies. It has become increasingly important to leverage data analytics to structure a programme," he says.

For Netto, a strong communications strategy is central to a successful tiered offering. "Interactions, whether by email, SMS or in-app notifications should be timely, relevant, personalised and motivate customers to take the correct actions to unlock maximum benefits. The brand
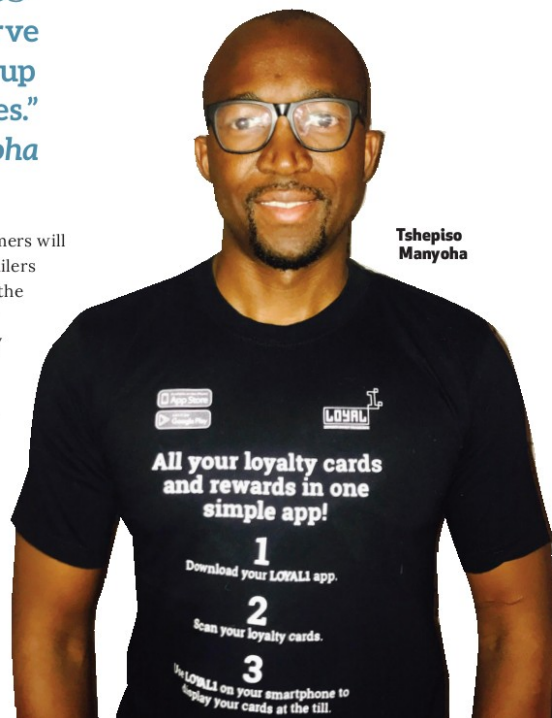
should talk to members about the benefits across the tiers in a way that brings the brand to life and evokes positive emotions. This is especially important for players in industries such as financial services where there is the potential to become overly technical, and in the process lose the meaning or the ability to relate and break their emotional bond with their customers."

In pursuing lasting success, engaging consumers and building emotional connections between their products and customers' needs should be a constant priority for brands.

Burnstone emphasises that the optimal solution to maintain (and improve) engagement levels lies not in avoiding a tiered proposition, but rather in getting the communication elements right around what it means to achieve a higher status. "Tiering can only work if members know about it and, more importantly, know what they need to do to move up a tier." ●

Images: Supplied

Tshepiso Manyoha