

Size Doesn't Have to Matter: How Small Businesses Can Use Loyalty Programs to Compete With the Big Boys

By Bill Bangert

In many ways, owning a small business is the embodiment of the American Dream. Come up with a product or idea, formulate a business plan, do some marketing and watch that dream become a reality.

The United States is filled with dreamers. There are 23 million small businesses, accounting for 54% of all sales, according to the U.S. Small Business Administration. Since 1990, big businesses have eliminated 4 million jobs, while small businesses added 8 million new jobs.

While many small businesses have a limited marketing budget, an effective

loyalty program can be a valuable and cost-effective marketing strategy. The trick is finding the affordable technologies to operate an effective program and learning how to use it to generate engagement. Done well, it can level the playing field and allow small businesses to be competitive with companies of all sizes.

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“Those loyal customers sometimes are your best marketers,” said Susan Solovic, author, entrepreneur and former ABC News small business contributor. “They’re out there, telling people about their experiences. They’re an advocate for your business, they’re talking about it on social media and they’re bringing new people into your business.”

A study from research firm BIA/Kelsey found that more than one-third of small businesses (34%) use loyalty programs as a part of their marketing strategies to attract and retain customers. Another 21% said they were likely to adopt loyalty programs in the next 12 months. “The research indicates that these programs



are becoming an integral part of retail strategy for a growing number of small businesses,” said Steve Marshall, director of research for BIA/Kelsey in comments published with the study. “The data indicates solid interest and intentions in loyalty programs, which are becoming an increasingly important tool for customer retention.”

The importance of customer contact

Launching a loyalty program may seem overwhelming for many small business owners, especially when just getting the enterprise going while margins may be thin. For those who do not want to attempt to run their own programs, there are plenty of loyalty platforms for small businesses owners to consider.

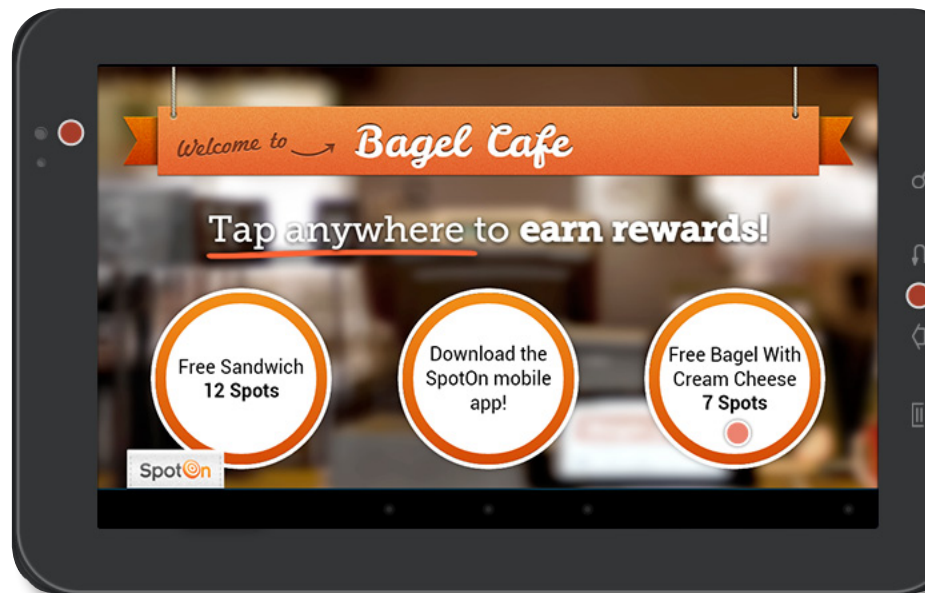
“We believe in making it easy and helping small businesses compete and thrive and make the transition into digital, which is kind of daunting for them,” said Anduena Zhubi, vice president of marketing for SpotOn, a company that provides loyalty programs for small businesses. “We’re just trying to prove to them that this is easy and that you can market in a smarter way.”

She said small businesses do not need to offer daily deals or give away things for half the price to win over customers. “It’s about staying in contact with them and really creating a connection with people locally,” she said.

The importance of keeping in touch with customers was underscored in the results of a SpotOn study of user data released in May. According to the data, small businesses that send loyalty members two to three communications per week see three times more customer visits than those that do not send any communications.

The data from SpotOn also found that there is a tipping point that can lead to diminishing

returns. Businesses that send out more than 13 communications per month see reduced customer visits.



Platforms available to small businesses for loyalty programs are many and varied in today’s market; it’s definitely not a case of one size fits all.

“Technology can be a real asset, but it can also be a real burden,” said Solovic. “You don’t want to make the mistake of getting technology that you really don’t know how to use effectively.” She went on to say that small business operators should make sure they invest in platforms that work specifically for their types of businesses.

“If you’re in the retail business, you don’t want to use a platform that has a lot of services on it because you might not find that it’s conducive to the nature of your business,” she said. She also suggests contacting other businesses using the platform and learning what they like or don’t like about it, and finding out about retention rates and the ease of signing people up.

Dealing with all that data

The technology platforms providing loyalty programs for small businesses can produce a wealth of information that was unavailable with the traditional punch cards or stamp systems. But data is useless without analysis, which is why Jeff Low of Stash Hotel Rewards commissioned a study

The professors created a control group using an algorithm that created a user and compared it against the user's behavioral twin.

By doing this, they could measure the impact of the Stash rewards program and found that when a hotel guest did not join Stash, that traveler stayed

Keep it simple, smart guy

For businesses both big and small, sometimes the simplest loyalty solutions are the best, according to Doug Hardman, the CEO of Sparkbase, a technology company that provides loyalty programs for small businesses.

The biggest risk is overthinking it, "trying to turn it into something that it's not and trying to add too many bells and whistles. If your clerks can't understand it in 60 seconds, they're certainly not going to be able to explain it to a customer who is standing in front of them at the checkout line."

Hardman described employees who interact with customers as the "weakest point of entry" and said they need to completely understand and believe in the rewards program to successfully sell it to customers. Employee engagement is a critical part of attracting and retaining loyal customers, according to the Gallup State of the American Consumer, released in June 2014.

The analysis from Gallup found companies that "engage both their employees and their customers gain a 240% boost in performance-related business outcomes." The research also noted that fully engaged customers are more loyal and profitable than average customers, representing a 23% premium in terms of share of wallet, profitability, revenue and relationship growth compared with the average customer.

Independent traveler:
meet the independent
rewards program.



in 2012. Stash Hotel Rewards is a loyalty program for independent hotels, launched by Low in 2010, after four years of working for Expedia on its hotel products. About 18 months into the program, Low started talking with some professors from Cornell University about his new loyalty program and that he had plenty of data but no method of conducting a sophisticated analysis of it. Part of the problem was the challenge of creating a control group.

The professors told Low that if he provided the data, they would analyze it. He gave them data on 50,000 travelers from 20 different hotels. Some of them had joined Stash and some of them had not.

at Stash hotels about the same amount the following year. The results for the "twin" travelers who joined Stash were quite different, as they stayed with Stash member hotels 45% to 52% more often the following year.

"That was much higher than we anticipated," Low said. "I think in terms of the loyalty world, programs hadn't been measured like this before for small businesses." He said having that data helped his company refine the Stash rewards program to better compete with programs of the larger brands, such as Marriott Rewards and Hilton HHonors.

Technology platforms like Sparkbase and SpotOn provide small-business owners projections of what sort of return on investment they could expect from starting a loyalty program. “You’re a spa or a salon, we know your average ticket, we know how many transactions you do on a daily basis, here’s what you can expect to see,” Sparkbases’ Hardman said. “So the \$39 or \$29 or whatever it is you’re spending on a monthly basis, could equal \$200 in additional revenue.”

Learning from the little guys

What’s happening in the world of loyalty for small businesses can be educational for larger companies. SpotOn’s Zhubi said flexibility is something that should be part of every rewards program. “Your loyalty program has to be open and convenient to everybody,” she said.

The Gallup research from June found, for example, that while hotels can encourage guest retention through rewards programs, those programs don’t guarantee enduring loyalty and engagement – the program’s success is directly related to the guest’s engagement level. Jeff Low of Stash said the size of many of the larger hotel loyalty programs prevent them from doing that.

“They have a massive opportunity to interact and share information from their guests and customize that experience,” he said. “I think they’re just too big.”

Low said Stash Hotel Rewards has spent only about \$900 on advertising since its inception in 2010 and as a result of not spending money on billboards at airports for instance, Stash can keep costs down for its hotel partners. The program has grown to more than 200 partner hotels in four years thanks primarily to word of mouth from travelers who have a positive experience at Stash member hotels and with the Stash Hotel rewards program.



The program is an example of a cost-effective initiative that uses new, affordable technology to attract and reward its best customers. Such a program demonstrates that bigger isn’t necessarily better. Of the loyalty programs operated by larger hotel chains, Low said, “There’s a lot of fat in these programs because they’re not using technology in a smart way.”

The Gallup report concluded that while some businesses rely on price cuts and short-term promotions, the best businesses set out to win customers for life, creating emotional connections with them and continually measuring their engagement. Businesses with effective loyalty programs will do that and reap the rewards, as the big dreams of small business owners become reality. **Q**

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