

THE INSIDERS GUIDE

Creating an Effective Sales and Channel Partner Loyalty Program



ENERGY 2 ENGAGE



//

Show me the
incentive and I
will show you the
outcome."

- Charlie Munger

TABLE OF CONTENTS

What is a Loyalty Program? **4**

Who Owns your Rewards and Loyalty Program? **5**

Why Reward for Loyalty? **6**

Understanding Channel Partners **7**

Designing a Program **8 - 13**

Naming your Program **14**

Managing a Program **15 - 21**

Conclusion **22**

WHAT IS A LOYALTY PROGRAM?

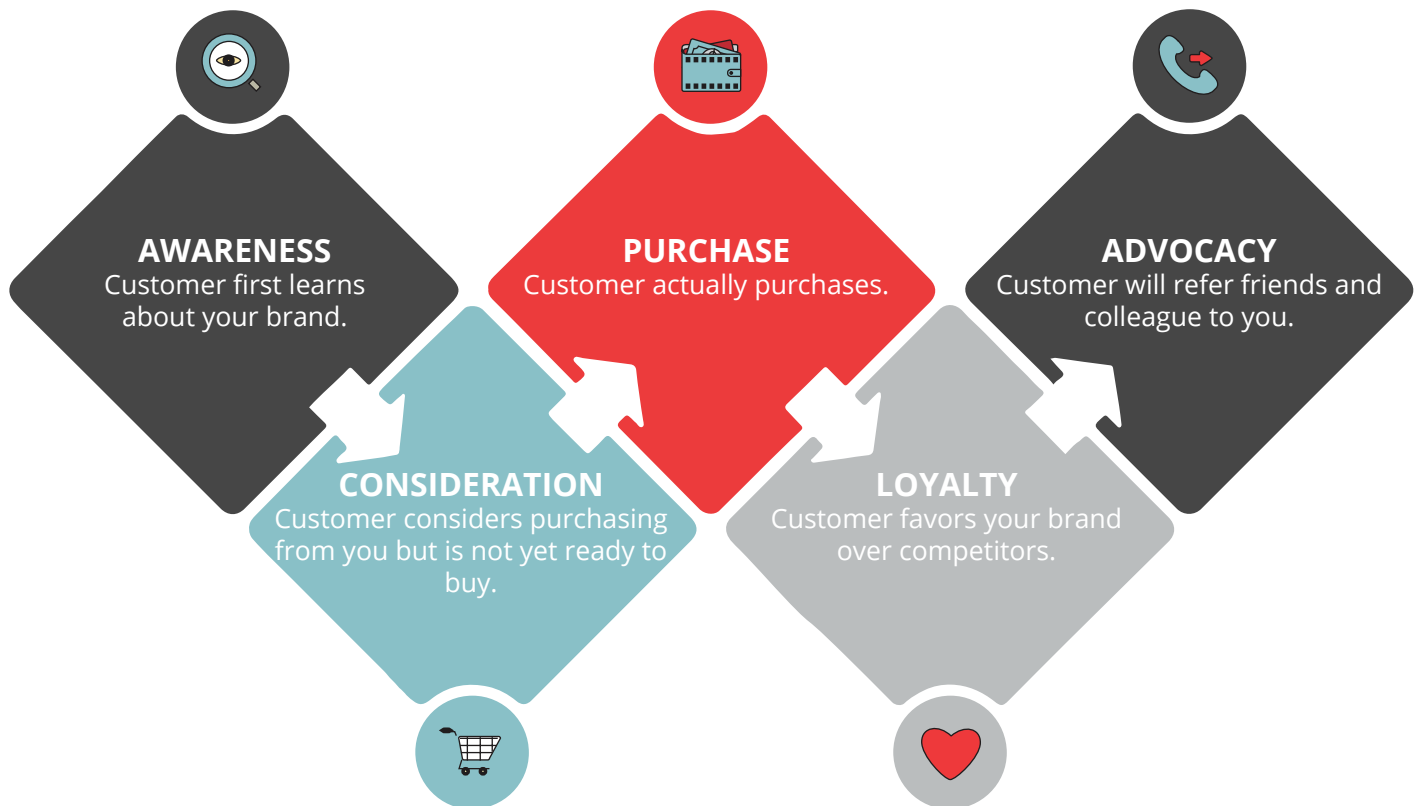
There's no shortage of reward programs out there - you see them at every gas station, grocery store and hotel chain. But rewarding in the manufacturing space requires additional attention.

In today's ever-changing business landscape, capturing customers' attention and creating repetitive buying behaviors is a constantly evolving journey. While transitioning your buyers to the exclusive Advocacy stage of their relationship with your brand is feasible, it isn't without challenges. To get buyers to become advocates, they have already been through a lengthy pre-purchase and post-purchase path - each step along the way becomes more and more challenging.

Good news: rewarding customers (and those along the supply chain) for their loyalty is a proven method of **accelerating that journey** to capturing their entire wallet, becoming exclusive with your brand, and encouraging peers and colleagues to also purchase from you.

At its core, a **reward (or loyalty) program is a low-risk, high-value addition to your business strategy**. Why? Because to be rewarded, they have to purchase (and re-purchase, and re-purchase) from you.

CUSTOMER JOURNEY



Who owns your **REWARDS AND LOYALTY PROGRAM?**

Most often, the primary owner of a program and its success falls under the corporate or brand's marketing umbrella. Generally, sales is a secondary owner as they're the beneficiaries of the sales growth metrics, have a solid understanding of your pricing and profit margins, and are out in the field working with different customers within the supply chain.

There is no right or wrong answer as to who begins or manages a rewards program but keep in mind that it is important to be on the same page with your company's goals for the program.

Why Reward for **LOYALTY?**

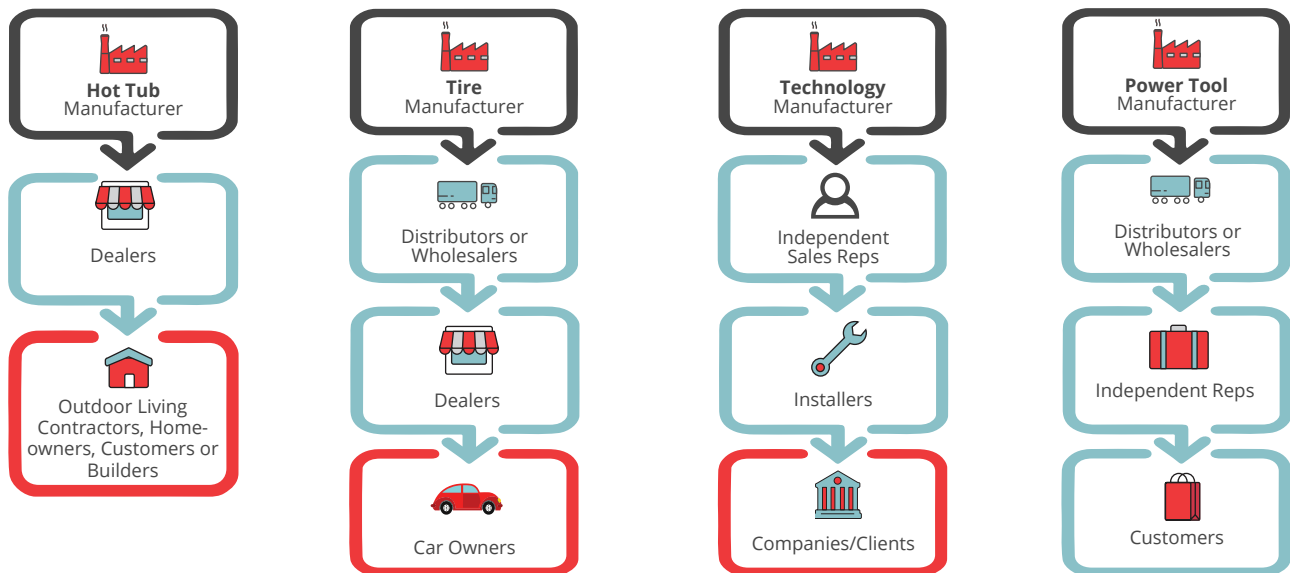
In a sales growth program, *rewarding the participant for their loyalty to your brand is saying "we value your business, here's a token of our appreciation."* Whether it's the dealer, distributor, or end customer, showing appreciation will lead to future sales and purchases. When a participant begins choosing your product over competitors, you have successfully created a brand ambassador. This customer has become even more involved with knowing all of your product offerings and is more likely to share with and refer to others.

A rewards program is a much more effective tool in moving the channel partner or customer to the brand ambassador stage as opposed to price discounting off the top. Your buyers should see the value of your products and brands. **Discounting from the onset leads them to shop around in the future. The key takeaway is to build loyalty with the buyer to grow the relationship, leading to future sales.**

UNDERSTANDING CHANNEL PARTNERS

If your business is exploring a rewards program, most likely you already know how your distribution process is set up. These distribution partners, or channel partners, are critical to the success of many organizations as they're interacting with the end buyer.

You may be selling through distributors, or dealers, or sales reps within a geographic region. Or there's the possibility that you have product installers or decision makers who spec out your product lines. Let's take a look at a few examples of popular channel partners.



Example: Let's use Hot Tub Manufacturers supply chain as an example. To understand opportunities for growth, does it matter to you who the Outdoor Living Contractor buys from? Is your company satisfied with knowing who the contractors are or do you want to dig deeper and learn who the end homeowners are? Is the objective to get the store clerk at the Dealer level to become your ambassador? All of these questions will help you create your marketing growth strategies.

The key here is harnessing the target who has the most options for shopping around. The more options someone has through the distribution model, the easier it is to shift buying behavior (and the bigger opportunity to capture more market share)!

For simplicity's sake, let's consider who you are rewarding as "participants" regardless if they are the dealer, distributor, installer or anyone else in the distribution channel.

DESIGNING A PROGRAM

Prior to coming up with a catchy program name or determining what your rewards look like, you need to evaluate where your brand needs to improve loyalty. As you think through your **channel partners**, is your primary focus to capture additional **dealer sales**? **Installer sales**? **End customer sales**? **Distributor sales**?



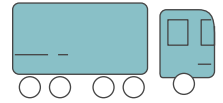
DEALER SALES



INSTALLER SALES



END CUSTOMER SALES



DISTRIBUTOR SALES

Understanding who will be willing to change their future buying behaviors (as well as capturing loyalty from new customers) is where you should center your program.

In the past, there have been 3 primary ways to reward participants for their loyalty: Account Credits, Catalog Program, or Restaurant Gift Cards.

Unfortunately, those three items don't deliver what motivates participants (they want "the Power of Choice") and it doesn't create the positive brand loyalty that you're seeking. To resolve these two pitfalls, a program where participants can **use their rewards for anything they want** is a key strategy. Here's what we mean:

When a participant redeems their rewards for a pair of the exact sunglasses they wanted from your reward program, every time they put on the sunglasses, they're going to think of your brand. This doesn't happen with an account credit or a restrictive (and often marked up) catalog program. And a restaurant gift card implies you know where and how they want to spend their rewards.

Giving the participants the flexibility to choose whatever they want enables them to use their rewards as they please. Maybe they want to use their rewards for gifts for their kids, or a new jacket for their spouse -

giving the participants the power of choice has incredible benefits.

5 primary ways to design a program.

1. Tiered (or Volume) Approach.

The concept behind this is to accelerate sales with a focus on growing participants to the next level of the program, resulting in more rewards. This is a simple and straightforward approach to unlocking more of your end customers' wallet (since they will be shifting their spend to your brand).



Example:

You're a tire manufacturer and want to reward dealer sales reps for promoting and selling your products. Initially, they receive 2% rewards on your products they sell, then as they continue to sell more of your products, they will bump to 3%, 4%, etc.



PROS

- Simple, straightforward to understand.
- Rewards your highest spenders with the highest reward levels.
- Shifts buyers' behavior to get the next level.

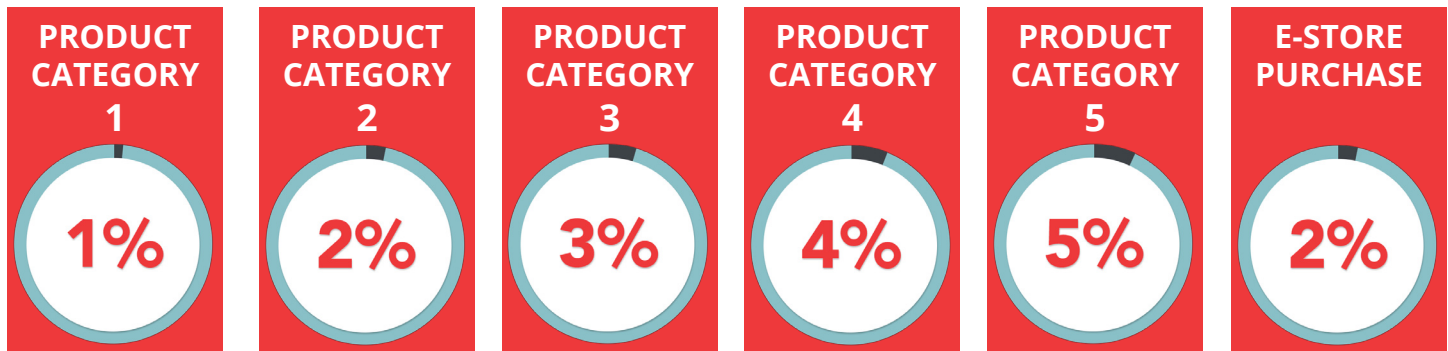


CONS

- Does not factor in current product category pricing margins.
- Does not reward for high single transactions.

2. Product Category Approach.

Another rewards approach (that's easy to understand) is to provide rewards based on product category. There are going to be product lines within your business you have more margin for rewards and others where you may be a loss leader. Choose the product categories that you're looking to grow in your product sales mix by offering higher rewards.



Example:

You're a kitchen appliance manufacturer and want to reward dealer sales reps for promoting and selling your products. The dealer receives 3% rewards on any refrigerator they sell. Later that day, the dealer sells a different consumer a stove (4% rewards), dishwasher (2% rewards) and an extended warranty (5% rewards) as opposed to your competitor's products.



PROS

- Simple, straightforward to understand.
- Factors in rewards based on price margin.
- Shifts buyers' behavior to get the next level.
- Helps increase sales for low performing products.



CONS

- Does not reward your biggest spenders with higher rewards.
- Does not reward for high single transactions.

3. Product Combination Approach.

One of the newest approaches is the Product Combination Approach, where the key here is for your channel partners to upsell their customers with your products. It's combining the product category approach with an emphasis on the single transaction. If the approach isn't marketed and communicated effectively, it can become confusing to the channel partner on how to earn rewards.



Purchases must be made as a single transaction.

Example:

You're a lawn equipment manufacturer and want to reward dealer sales reps for promoting and selling your products. In a single transaction, they:

- Sell a riding lawnmower for \$4,000 (2% rewards)*
- Upsell the customer to spend \$1,000 on a snow plow attachment (1% rewards)*
- Add on a \$500 extended warranty (3% rewards)*

*Based on the above, the participant would receive **3% rewards** (2% base rewards + 1% bonus) on the mower, **2% rewards** (1% base rewards + 1% bonus) on the snow plow attachment, and **4% rewards** (3% base rewards + 1% bonus) on the extended warranty.*



PROS

- Heavy focus on large in-store purchase orders to incentivize spending on higher priced items across categories.
- Reward customers for large transactions on client's products.
- Encourage spending on traditionally lower sales volume categories.



CONS

- Marketing must be clear and easy to understand for a successful implementation.
- Does not reward for incremental purchases.

4. Equality Approach.

At times, simple is the best. An equality approach would blanket your product categories with a consistent reward amount, regardless of the purchase. Knowing how your product ranks in quality, brand preference, and market saturation will help facilitate whether you pay 2% in rewards or 5% in rewards.

Example:

You're an appliance manufacturer and want to reward dealer sales reps for promoting and selling your products. Everything your dealers sell, they receive 3% in rewards.



PROS

- The simplest way to create and execute a rewards structure: everyone knows what reward they will receive.
- Everyone is eligible, attracts new partners to the program quickly.



CONS

- Does not factor in product category pricing margins.
- Does not reward your biggest spenders with higher rewards.
- Does not reward for high single transactions.

5. Time Sensitive or Accelerator Approach.

Perhaps you're in the production space. Selling off-cycle to your channel partners is a common approach to keeping your production lines busy throughout the year.

Facilitating a program that promotes the early ordering sales of your new products or liquidating your previous years model allows for a time sensitive campaign to be run. Unless your partners have a very short sales cycle, a 60 day or 90 day promotion will allow your partners to make sales within the promotional time period. Alerting your partners of an upcoming promotion allows those channel partners to market the push of your products.

The time sensitive or accelerator approach overlays well with other reward programs to give you the extra boost of sales ahead of the on-cycle key selling times.

Example:

You're a hot tub manufacturer and want to reward dealer sales reps for promoting and selling your products. The dealers receive rewards in a product category approach, but for 90 days they will receive an additional 3% on your new product offerings.



PROS

- Overlays well with other approaches.
- Creates a sense of urgency with your partners to sell more of a product within a time frame.
- The rewards are often passed through as a marketing element to your partners (price discount to close a sale).



CONS

- Need ramp up time for awareness of the new offering.
- Does not reward your biggest spenders with higher rewards.
- Does not reward for high single transactions.

Naming a **PROGRAM?**

Now that you have identified who you want to reward for their loyalty and determined how to structure the program, you will want to create a marketable program name for your participants. **Simple is best.** Think of how the sales manager is going to address the program when they're introducing the program to future participants. Consider how the program will be addressed by a participant to someone who has never heard of it. Factor in how it encompasses your brand.

Let's take an example of a **lawn mower manufacturer (we'll call it Big Cuts)** who sells through dealers. They sell riding mowers, push mowers, aerators, seeders, and other pieces of equipment. Here are a few names that would work:

- **Big Cut Rewards**
- **Big Cuts Loyalty Program**
- **Biggest Cuts Rewards**
- **The Big Cuts Club**
- **The Biggest Cuts Club**

Nothing groundbreaking here - they're memorable, easily marketable, straightforward and future participants understand what the program is just by the name - a rewards and loyalty program.

MANAGING A PROGRAM

1. Measuring the Success of your Program

As you set up a program, you need to define what success looks like to your business. Knowing that programs grow over time and you won't have your entire customer base aware of the program upon implementation - temper your expectations.



EXISTING CUSTOMER

Is a winning metric when you get **5%** more from your existing customer spend when your average reward is **3%**?



NEW CUSTOMER

Is sales **15%** new participant growth each year?



MAN-HOURS

How many man-hours are expected to manage and run the program and what does that mean in terms of new sales and current employee capacity?

2. In-House or Vendor Managed

Choosing whether to manage the program in-house or to have a vendor manage the program is not an easy decision. It will ultimately shift how the program grows and the necessary human capital to ensure it's success.

VENDOR

PROS

- You have an extension of your team, who solely focuses on growing the program.
- A dedicated marketing team of the vendor knows what message to send, at the right time, to the right audience.
- Experience in segmenting the participant data list to increase program engagement.
- 24/7 Call Center Support.
- Experience with rewards portal and program maintenance.

CONS

- Ensuring transparency and data reconciliation is key.
- Need to have regularly scheduled calls to track program growth and goals.
- Some charge 'retainers' while others are 'pay-for-results'.
- Working with your competitors (where does their loyalty stand?).

IN-HOUSE

PROS

- Closest possible tie between your corporate brand and the program.
- Can be an overall lower cost to build and market.
- Ensuring data connectivity for auto submissions.

CONS

- Considerable amount of auxiliary costs (call center support, marketing support, reward approval process, any sort of transaction fees).
- Without correct structure and marketing, the program can tank it before it starts.
- It can derail a key member of your team from their own responsibilities.
- Participant questions can become overwhelming as the program grows.

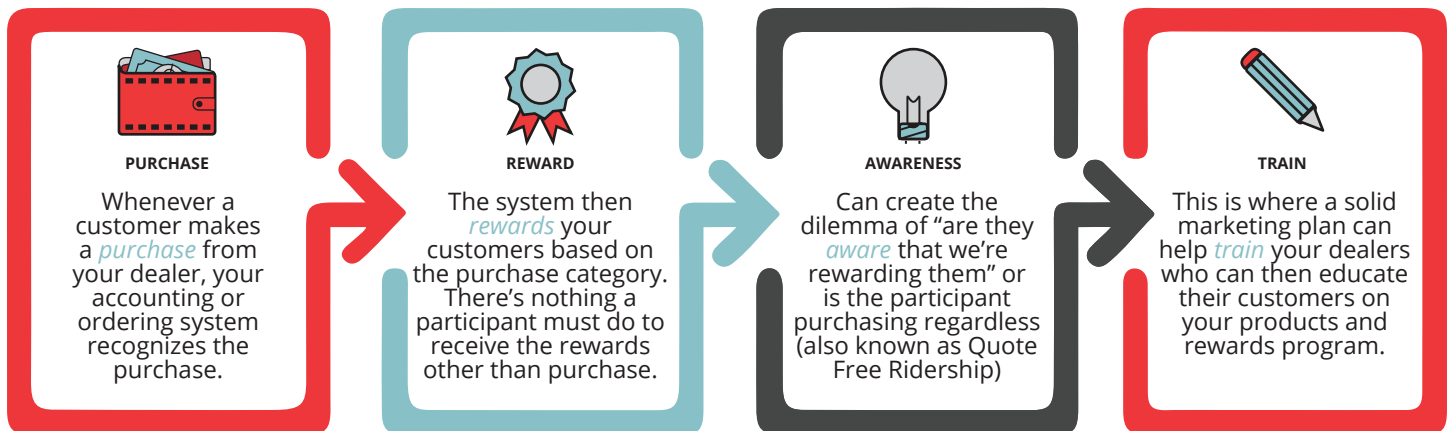
Often, we see a client who has managed their program in-house realize that the amount of work needed to scale the program is beyond their capacity. **Choosing a vendor to manage the program facilitates a successful program** - a vendor has seen what's worked in the past, pitfalls of setting up the program, and can enable the client to manage it from a higher level.

3. Reward Submission

The two traditional methods of a rewards program is: **1. Auto Submission** and **2. Participant Submission**. Knowing your target participants' aptitude for technology will help guide this decision.

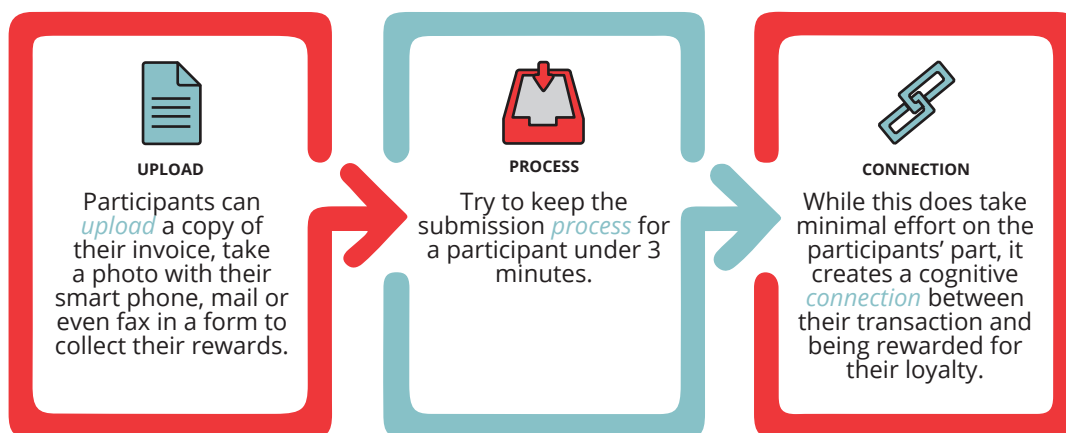
AUTO SUBMISSION

Very hands-off approach from the participant.



MANUAL SUBMISSION

This method puts the burden of responsibility on the participant to submit their rewards, but it doesn't have to be a time-consuming task.



4. Reward "Pay Out"

Now that someone has earned a reward for their loyalty to your brand, it's time to reward them! It's best to have a reward process in place that creates quick and seamless reward for a positive brand connotation and program ease.



DIGITAL DEBIT CARD

A modern approach, which we believe to be the best, is with a Digital Debit Card. When a participants are issued rewards, they have the **option of choosing from any online retailers to make a purchase** - this creates a 'trophy value' connection in their brain between your brand and the item. Maybe they want a new pair of sunglasses or a new laptop. Give them the choice to choose whatever make and model they want and each time they put on their sunglasses or type on their laptop - they will think of your brand and your appreciation of their business.



If participant uploads a submission on the first of the month, they don't want to wait 6-8 weeks for it to be processed. Receiving the reward within 48 hours will facilitate the connection between the transaction and their reward - **INSTANT GRATIFICATION!**



When your customers are happy, your dealers are happy - a quick reward turnaround for your customers also facilitates a repeat customer for the dealers.

A WIN-WIN FOR EVERYONE!



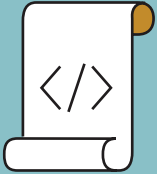
What to reward them will also play an element in the rewards execution. If you're mailing someone a restaurant gift card to a place they don't like or making them choose from a catalog of items they don't care about, your program has a lower likelihood of expanding and converting the participants to ambassadors.

5. Program Marketing

Just like your business didn't grow without the help of marketing your product, your rewards program won't either. The first step, after establishing the program, **is to market to your existing customer base with the program start date - building anticipation and excitement is key to a rapidly growing program.**



In parallel, **create content** on your web page (or dealer portal) about the program. Make sure to include how to sign up, how to earn rewards and what they will receive from the program.



Someone who is researching wants to read and understand the program to being part of it. If a **program is structured appropriately**, you will have a high conversion rate of new participants.



Consider putting a **feature slider** on your homepage for 120 days when the program starts and a smaller home page graphic for the program from day 120 and on.



Depending on if you have promotions or time sensitive rewards, there needs to be marketing (email, direct mail, home page graphics, etc) that rotate on a monthly or quarterly basis. If you have a **consistent program approach**, there's less that will need to be updated throughout the year.

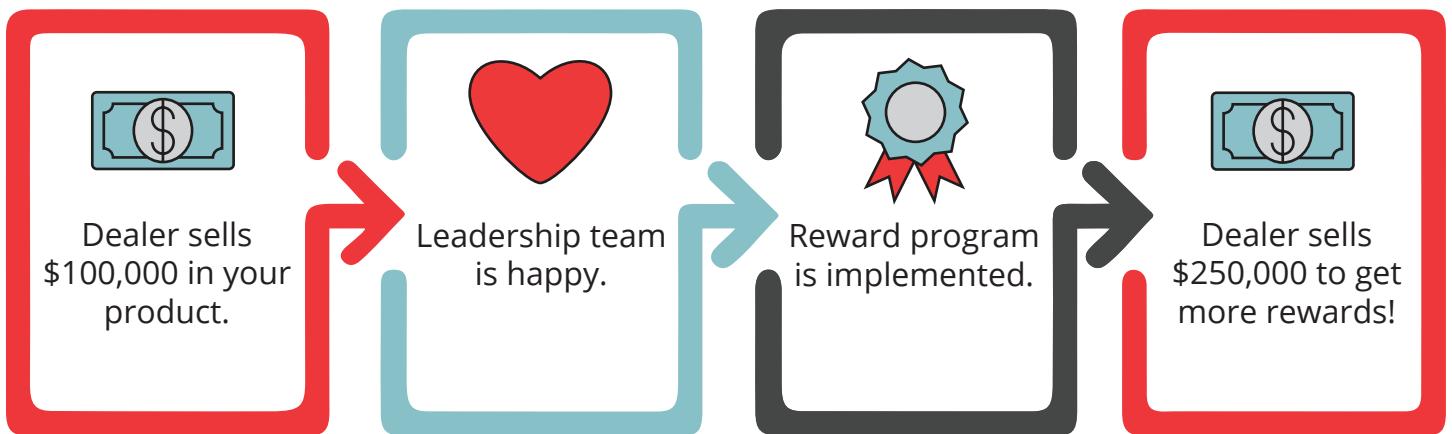


While the program is underway, keep your marketing strategy steady. Tell stories of 'heros' and what people purchased with their rewards. **Build the social excitement** to be part of the program and showcase how your program is affecting other participants - people want to be part of a winning story.

6. Program Cost

“Why should I reward my current customers, they’re already spending with us?” is the first question we often hear. Data from other programs show that while they are spending with you, chances are you don’t have their entire wallet. What we mean by that is:

Let’s say you have a dealer who sells \$100,000 in your product and your leadership team is happy. After implementing the rewards program, their spend jumps to \$250,000 over the next 12 months - the reward program is how you convert those customers to spend more with you.



While free ridership will always be an element within your program, we encourage you to view it as **rewarding them for their loyalty** - they could always switch to a competitor of yours (that did implement a rewards program).

7. Participant Help/Customer Service

As your program grows, there will always be participants who have questions. They want to know their reward account balance, why a submission was rejected, how to get started with the program, and other technical questions. This can be addressed through email, chat features or (and most common) phone calls. Consider if you want to have a designated member of your team who manages the customer support line for callers on the east as well as the west coast, and those calling after hours.



Energy 2 Engage (E2)

helps businesses exceed their sales and marketing goals through branded incentive, reward and rebate programs. Our flexible technology allows us to customize loyalty programs for each client based on their unique needs.



CONCLUSION

Businesses with a desire to grow sales and encourage their supply chain partners and end consumers to become more loyal is both a strategic and tactical way to engage your marketing dollars. We have found the best approach to be defining who the participant is, facilitating a submission process for rewards, and enabling them to determine whatever they want to spend their rewards on is the way to drive loyalty, boost engagement, and capture more of the end consumers wallet.

For **Reward and Loyalty Program** Information, Contact **Energy 2 Engage**.
sales@energy2engage.com | 1.866.855.6733