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THE ART AND SCIENCE OF BUILDING CUSTOMER VALUE

JANUARY 2009

Talktalk



The New Champion Customers

Measuring Word-of-Mouth Activity Among
Reward Program Members

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Summary

In October 2008, COLLOQUY conducted a consumer research survey designed to explore the intersection of consumers who participate in Reward Programs and their Word-of-Mouth (WOM) activity regarding brands, Reward Programs and specific product categories. This survey of 3,610 U.S. and 3,583 Canadian consumers, subdivided into specific demographic segments and by specific WOM behaviors, reveals the following high-level findings:

- Reward Program members are more likely to be Advocates and Connectors than non-members—and the more active their program participation, the more likely they are to exhibit WOM behaviors. There is a direct correlation between Reward Program activity and WOM activity about consumers' favorite products, brands and programs.
- Demographic differences are less indicative of positive WOM potential than specific behavioral and attitudinal differences, although the Core Women segment is unsurprisingly a key driver of WOM activity. Individual customer proclivities are a much better gauge of WOM behavior than broad demographic assumptions.
- At the intersection of Advocates and Connectors, we find a subset of consumers who have both the willingness and the ability to deliver positive WOM messages to other consumers. Empowered by web 2.0 and mobile technology, these new Champion Customers offer the best potential for delivering bottom-line value to the brand. They should be treated as a unique subset of best customers who deserve a disproportionate share of marketers' attention.
- Loyalty marketing can help marketers identify and build relationships with consumers who engage in WOM activity. Those marketers who hope to build long-term, value-added relationships with their best customers should incorporate WOM marketing as part of an overall customer loyalty strategy.
- The loyalty marketing database itself is an under-utilized social network that marketers would do well to exploit in the pursuit of positive, profitable WOM activity that can be measured to determine its true return-on-investment (ROI).

If your only goal is to measure the ROI of an individual WOM campaign, then there are many tools available to marketers. If your goal is to cultivate and encourage ongoing, profitable customer WOM activity, however, then all of the tools required to do so exist within the loyalty-marketing database. Loyalty marketers should find the Champions buried within their program memberships, and build relationships with them that reward them for positive WOM activity.

Without diligent effort to uncover these consumers, potential WOM benefits go unrealized. Surveys can help, but actual tracking and measurement of WOM behavior is more meaningful. All loyalty marketers should design, enable, operate and track specific WOM behavior mechanisms within their customer databases. Few, if any, are doing this today. Tomorrow, such activity will be a prerequisite to success.

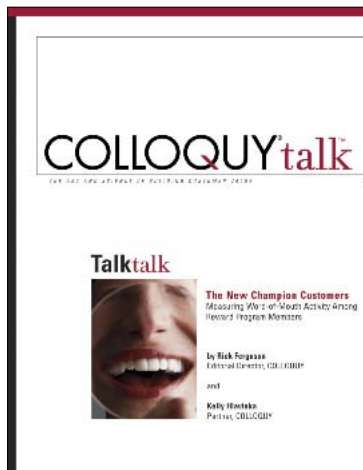
Talktalk

The New Champion Customers

MEASURING WORD-OF-MOUTH ACTIVITY AMONG REWARD PROGRAM MEMBERS

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Introduction

Today's connected world differs vastly from the broadcast world of yesterday. In 1995, Ethernet pioneer and 3Com founder Robert Metcalfe articulated Metcalfe's Law, which states that the usefulness or value of a networked system equals the square of the number of users of the system. The most common example used to illustrate Metcalfe's Law is the telephone: A single telephone doesn't do you much good, but the value of your telephone increases as the number of telephones on the network increases—purchasing a telephone makes other telephones more useful. The internet thus becomes the logical fruition of Metcalfe's vision: Every new node, every new server and every new user expands the possibilities for everyone else who's already there.

This decade has seen a transformation of consumer marketing driven by the real-world application of Metcalfe's Law in the convergence of the internet, social networking tools and mobile communications platforms. For marketers, the power of the network has become manifest in the explosion of conversations, referrals and commentaries by and among consumers about their favorite products, services and brands. In one sense, this activity is nothing new; consumers have engaged in word-of-mouth (WOM) activity for as long as there have been products and brands. The differences between yesterday and today are differences of speed and scale—consumers now have more avenues to share product and brand opinions than ever before, and those opinions can now be shared instantly and with thousands of other consumers. The ability for even a single blogger to drive or derail a brand's reputation has never been greater.

The value of this activity to consumers is not measured in dollars and cents or in points and miles. It is measured, rather, in terms of social capital. By alerting your extended network to a new product, a viral video or the latest adver-game, are you enhancing your reputation as a trendsetter? Are you growing your friend network on Facebook? Are you increasing page views on your blog? Consumers acquire social capital through WOM activity and spend it by expanding the size and influence of their personal and professional networks.

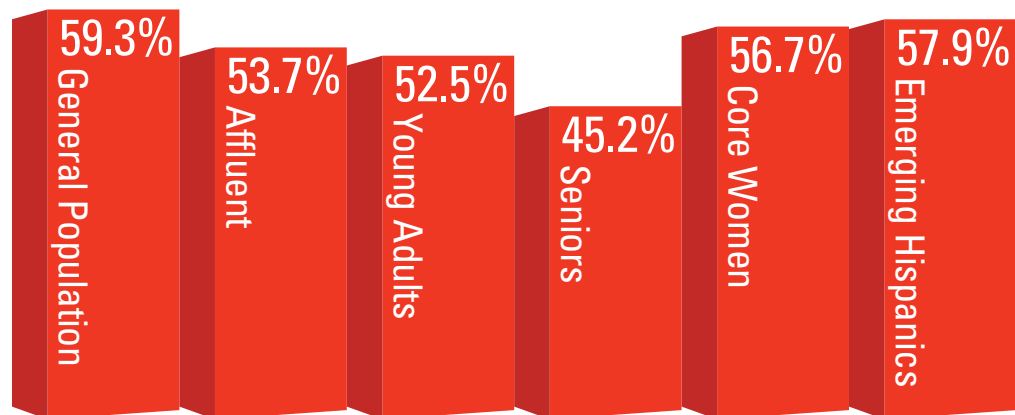
The corresponding explosion of viral video, Facebook and MySpace postings, text-messaging, and blog entries has seen an entire industry develop around the concept of fomenting, promoting and influencing the direction of consumer WOM activity. The trend prompted a recent COLLOQUY cover story, "The Weight of Smoke," in which we explored the difficulty in measuring the effectiveness of today's WOM Marketing techniques. In the story, we profiled agencies that specialize in WOM marketing and which have developed metrics and methodologies by which they attempt to quantify return-on-investment (ROI) on these activities.

"WOM marketing is in most respects a sexier version of traditional mass marketing—and like most mass marketing efforts, it's often difficult to understand what bang you're getting for your buck."

There are two primary challenges in effectively measuring WOM activity. First, it's hard to identify potential WOM brand champions without spending large buckets of marketing dollars on scattershot, untargeted WOM campaigns, many of which generate short-term buzz and little else. Second, it's even harder to translate that spending into measurable ROI. WOM marketing is in most respects a sexier version of traditional mass marketing—and like most mass marketing efforts, it's often difficult to understand what bang you're getting for your buck.

Fortunately, identifying valuable customers and measuring the ROI of profitable behavior changes are the two things at which loyalty marketers most excel—in fact, they're the foundation of the entire discipline. In previous research studies, we even uncovered a few data points that seemed to connect WOM activity and loyalty marketing. Our 2008 COLLOQUY *Retail Loyalty Index* white paper revealed that "willingness to refer" a brand to others is the number-one self-identified behavior of loyal retail customers, and our 2007 *SegmentTalk* white paper revealed that nearly 60 percent of retail loyalty program members surveyed said that they were likely to recommend the retail brand to others based on their loyalty program participation.

Exhibit 1 **Likelihood to Recommend Retailer Due to Reward Program Membership**



- Question asked likelihood to recommend due to Reward Programs
- Answers indicate top 3 boxes on a scale of 1-10, n = 984
- Source: *A Comparison of Loyalty Marketing Perceptions Among Specific U.S. Consumer Segments*, a 2007 COLLOQUY Demographic Loyalty Study

So in 2008, COLLOQUY sought to further explore the intersection of consumer WOM activity and traditional loyalty marketing. Could loyalty marketers be sitting on a potential Metcalfe-model network in the form of the loyalty program database? Loyalty marketers have long known that many program members carry special affinity for the brand. Those consumers who derive the greatest benefit from loyalty programs are generally high-value customers, as well. How many of these high-value members are spreading positive WOM about the loyalty program experience, or about the program's sponsor or partners? How many of them are recruiting new members? How often do they encourage trial with your products or brand? And if you can somehow incent this behavior, how can you track it to measure success?

I. Hypothesis and Methodology

Given the dearth of case studies and real-world examples of loyalty marketers attempting to answer these questions, COLLOQUY opted in October of 2008 to conduct a consumer survey that would attempt to quantify and qualify WOM activity within the construct of Reward Program memberships. Working with our consumer research partner Ipsos Camelford Graham, we designed the survey to answer a number of key questions for loyalty marketers:

“Can loyalty marketers use the stimulus of a loyalty program to identify, engage and increase the WOM activity of customers and monitor this behavior for its effect on the bottom line?”

- How large of an overlap exists between self-identified Advocates (as measured by a Net Promoter-style mechanism) and Connectors (those consumers who actively engage in WOM activities)?
- What percentage of WOM Champions (consumers who self-identify as both Advocates and Connectors) exist within the typical Reward Program membership, and how does that ratio compare to the general population?
- How many WOM Champions exist within specific demographic segments?
- What correlation exists between customers actively engaged in WOM behavior and their Reward Program activity?
- Can loyalty marketers use the stimulus of a Reward Program to identify, engage and increase the WOM activity of customers and monitor this behavior for its effect on the bottom line?

To construct our survey group, we randomly chose a representative sample of 3,610 U.S. and 3,583 Canadian consumers to serve as a control. From this group, we extrapolated the following:

- Specific sub-samples of Reward Program participants (approximately 625) per country.
- Specific sub-samples by demographics in each country:
 - Affluent: \$125K per year annual household income;
 - Young Adults: 18-25 years old;
 - Seniors: 60 years old and up;
 - Core Women: 25-50 years old and between \$50K and \$125K household income;
 - Emerging Hispanics: Hispanic-Americans with \$40K or less in household income;
 - French-speaking Quebecers.
- One segment, New Canadians with five years or less of residency, provided directional input only as their respective sample size was too small to test for significant differences in results.
- We tested the data for significance difference at a 95 percent confidence level between the general population and rewards participants, and between demographic segments.

Exhibit 2 Survey Quota Groups—Sample Composition

Quota Groups	U.S.		Canada	
	Total Sample	Reward Program Participants	Total Sample	Reward Program Participants
Representative, General Population	n = 720	n = 621	n = 746	n = 657
Affluent \$125K+ Household Income	n = 538	n = 504	n = 534	n = 503
Young Adults Males & Females, 18–25	n = 656	n = 505	n = 622	n = 497
Seniors Males & Females, 60+	n = 613	n = 502	n = 563	n = 503
Core Women Women 25–50 \$50–\$125K Household Income	n = 561	n = 509	n = 526	n = 500
Emerging Hispanics Hispanic Descent \$40K or Less Household Income	n = 615	n = 504	n/a	n/a
French-Speaking Quebecer	n/a	n/a	n = 618	n = 508
New Canadians 5 Years or Under	n/a	n/a	n = 57	n = 45

Note: Unless otherwise indicated, all data presented below are from the U.S. survey only. COLLOQUY will release the Canadian results in a separate report.

As you'll see in the following pages, the results of our survey answered many of these questions, confirmed the conventional wisdom in some cases and flouted it in others. One finding became immediately clear: propensity to engage in WOM activity that delivers a measurable impact on revenues clearly resides at the level of the individual consumer. In order to understand how customer WOM activity can impact loyalty ROI, we must first understand the characteristics of an effective WOM Champion, and how these Champions can be identified in your customer database.

II. WOM Behavioral Profiles

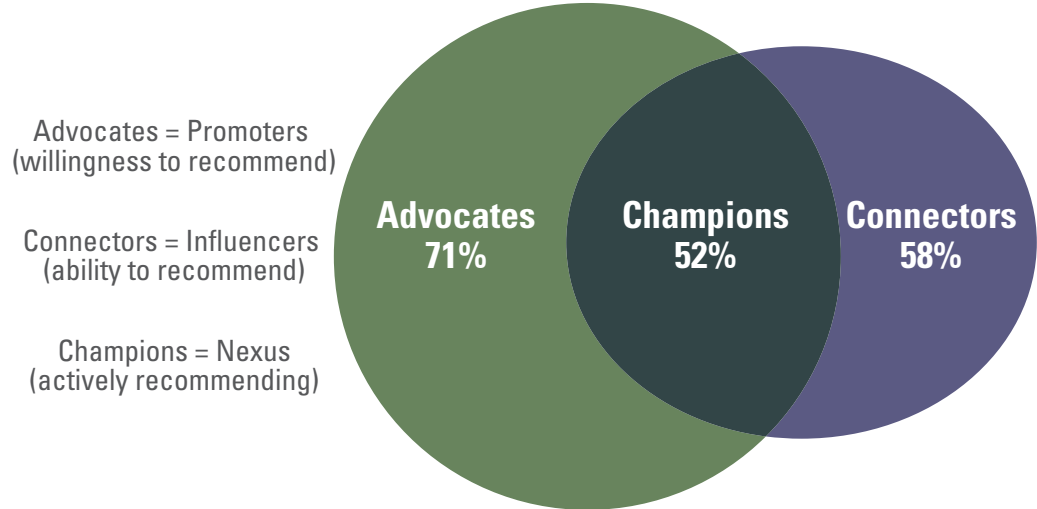
For many marketers and executive boardrooms, the Net Promoter Score™ (as defined by Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld) has become an accepted measure of customer satisfaction, and has even been championed as a reliable indicator of company growth. The metric is simplicity itself: Customers who answer 9-10 on a 10-point scale to the question *How likely are you to recommend this product or company to a friend or colleague?* are considered Promoters, while those who answer 6 or lower are considered Detractors. To calculate your company's Net Promoter Score (NPS), take the percentage of customers who are Promoters and subtract the percentage who are Detractors. To increase revenues, say NPS practitioners, simply evaluate and reward management on their ability to increase the company's Net Promoter Score.

"Net Promoter Score is essentially a measure of customer satisfaction, and every market researcher knows that satisfaction scores are at best imperfect measures of customer behavior."

But let's think about that question for a moment: *How likely are you to recommend this product or company to a friend or colleague?* How many of those self-identified Promoters actually translate intent to recommend into an actual recommendation? How many self-identified Promoters actually engage in activities that reach a meaningful number of other potential customers? NPS is essentially a measure of customer satisfaction, and every market researcher knows that satisfaction scores are at best imperfect measures of customer behavior. We can reasonably expect at least some evidence of a say-do gap in NPS, as those customers who self-identify as Promoters nonetheless fail to do any actual promoting. In these cases, NPS becomes the marketing equivalent of a tree falling in a forest with no one around to hear it.

As we designed our survey, we wanted to look at the intersection of NPS-style customer advocacy and actual WOM activity. To do so, we looked for evidence of three specific consumer behavior groups. These groups are profiled below.

Exhibit 3 Incidence of Advocates, Connectors and Champions in the U.S. General Population

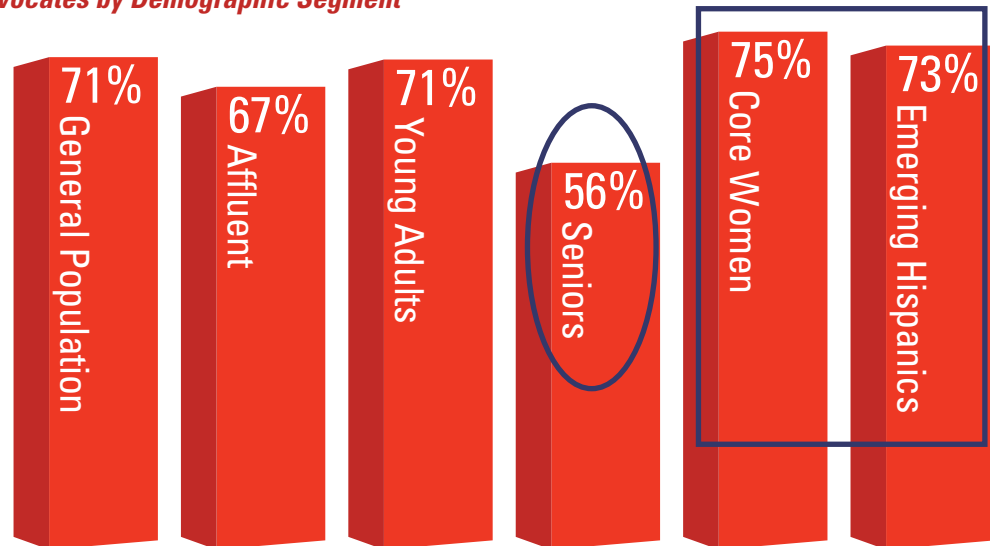


- **Connectors:** "I often have conversations with others about the products and services I use" and/or "I often recommend products or services to others" and "When I find a product or service that I like, I always recommend it to other people."
- **Advocates:** How likely are you to recommend the following products/services to other people in the next 12 months?
- Answers to both questions indicate top 2 boxes on a scale of 1-10, n = 720
- **Champions:** Both a Connector and an Advocate

Group 1: Advocates

When we tabulated the results of our survey, we defined an *Advocate* as any respondent who stated a very high (top 2 boxes on a 1-10 scale) likelihood to recommend any one of 10 specific product categories covered by the research (given the scope of our research, it was not possible to gauge likelihood to recommend for specific products or brands; we therefore caution readers not to infer any direct correlation to NPS methodology). The purpose of this definition was to identify respondents according to their *willingness to recommend*. The percentages of consumer Advocates we uncovered are presented in the exhibit below.

Exhibit 4 Percentage of WOM Advocates by Demographic Segment

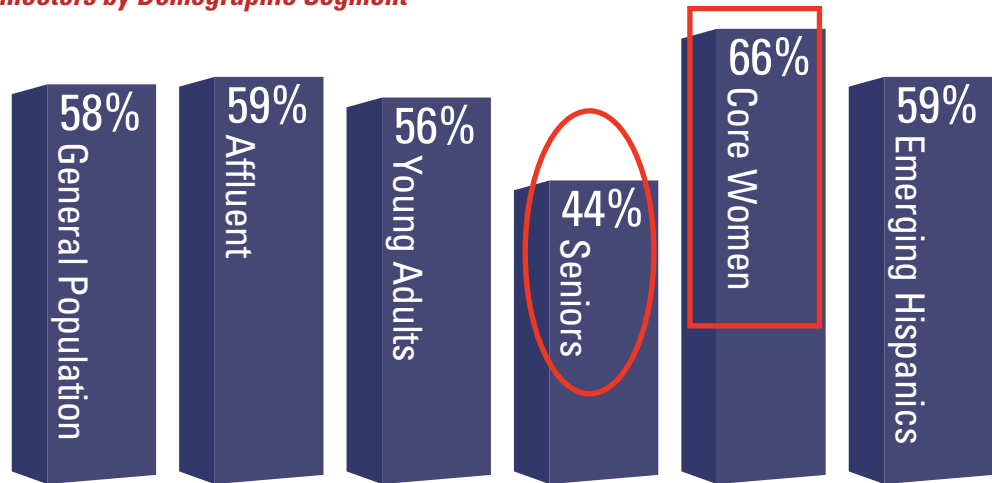


- **Advocates:** How likely are you to recommend the following products/services to other people in the next 12 months?
- Answers indicate top 2 boxes on a scale of 1-10, n = 720

Group 2: Connectors

We defined a *Connector* as any respondent who stated a propensity to have conversations about products and services with others in their social network or peer group. Connectors often have conversations about products and services and often recommend them to their network. If they find a product or service they truly like, they always recommend it. The purpose of this definition was to identify respondents who engaged in *active WOM behavior*. The percentages of consumer Connectors we uncovered are revealed in the exhibit below.

Exhibit 5
Percentage of WOM Connectors by Demographic Segment



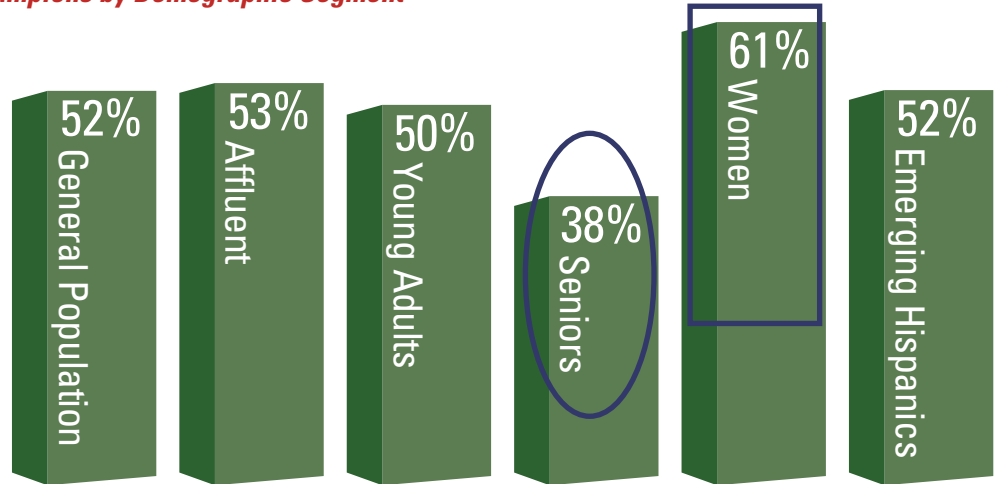
• **Connectors:** "I often have conversations with others about the products and services I use" and/or "I often recommend products or services to others" and "When I find a product or service that I like, I always recommend it to other people."

• n = 720

Group 3: Champions

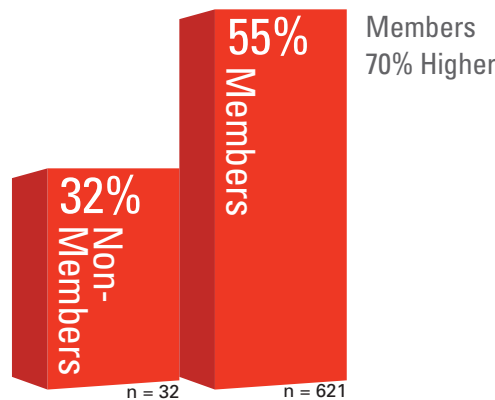
In defining the two groups above, we created separate measures for those consumers who are willing to recommend—satisfied customers, as it were—and those consumers who actually wield influence. But what about the intersection of these two groups? The real potential for marketers lies in those consumers who are not only *willing* to recommend your brand, but who are also *actively engaged* in WOM behavior. We broke that group out in the research and labeled them as Champions. The purpose of this definition is to isolate those respondents who self-identified as *both* Advocates and Connectors. The percentages of Champions we uncovered in the research are outlined in the exhibits below.

Exhibit 6
Percentage of WOM Champions by Demographic Segment



- **Champions:** are *willing* to recommend and are *able* to recommend to a network of others
- *Willingness* is based upon the question: *How likely are you to recommend the following products/services to other people in the next 12 months?* (top 2 boxes on a scale of 1-10)
- *Ability to connect* is based upon a response of: *“I often recommend products or services to others”* and *“When I find a product or service that I like, I always recommend it to other people.”*
- n = 720

Exhibit 7
Percentage of WOM Champions Within Reward Programs Compared to Non-Members



- **Champions:** are *willing* to recommend and are *able* to recommend to a network of others
- *Willingness* is based the question: *How likely are you to recommend the following products/services to other people in the next 12 months?* (top 2 boxes on a scale of 1-10)
- *Ability to connect* is based upon response of: *“I often recommend products or services to others”* and *“When I find a product or service that I like, I always recommend it to other people.”*

Conclusions on WOM behavioral profiles

“If your company currently operates a Reward Program or participates as a coalition sponsor or program partner, then the Reward Program itself may be your most reliable WOM-generating mechanism.”

- **Activity matters as much as attitude.** Note that while our definition of Advocates primarily measures *attitude*, our definition of Connectors is designed to measure *behavior*. While Advocates are willing to recommend, they aren't necessarily doing it. Connectors, by contrast, are actually engaged in WOM activity—but aren't necessarily engaged in activity that benefits your brand. Of the General Population respondents in our survey, more than one in four (26.3%) of self-identified Advocates are *not* Connectors. This finding suggests that a Net Promoter-style score offers limited usefulness to marketers. NPS can accurately identify “satisfied” customers, but only by identifying consumers at the intersection of advocacy and influence can you reach the right target audience to cultivate profitable WOM behavior. Satisfied customers who don't share their satisfaction with anyone else don't help you gain market share.
- **The best metric: Champion Customers.** All loyalty marketers understand that your best customers reside at the intersection of emotional affinity and transactional loyalty. Similarly, the intersection of WOM attitude and action, represented here by the intersection of Advocates and Connectors (see Exhibit 3 above), is where you can extract the most value from your WOM marketing efforts. These Champion Customers are the loud voices, the Facebook addicts, the influential bloggers, the email and web-link forwarders who spread the gospel about their favorite products and brands. If you can identify them and market to them as individuals, they deserve attention as a new and potentially lucrative customer segment.
- **WOM decisions occur at the individual customer level.** Given the lack of variation in the levels of Champions between our identified demographic segments, we may conclude that marketers cannot generate profitable WOM activity by making broad demographically-based assumptions. Young Adults, for example, are often assumed to be the vanguard of WOM activity in the U.S.—but in fact, this group is actually slightly less likely than the general population to be Champions. The exception here is the Core Women segment, which clearly engages in this behavior at a higher level than other demographic groups. We can also conclude that the Seniors segment generally exhibits the lowest level of WOM activity. As a rule, however, WOM activity must be cultivated at the level of the individual customer rather than at the level of demographic segment.
- **Reward Program members are your best source of Champions.** Our research reveals that Reward Program members are significantly more likely to be Champions than consumers in the General Population sample. This difference was statistically significant across all demographic segments and all product categories. If your company currently operates a Reward Program or participates as a coalition sponsor or program partner, then the Reward Program itself may be your most reliable WOM-generating mechanism. Every tool you need to identify, reward and recognize Champions already resides in the loyalty-marketing toolbox.

III. The Importance of Champions Within Reward Programs

Now that we've established the higher percentages of WOM Champions to be found within U.S. Reward Program databases, our next questions become: *Why are Champions so important? What specific WOM behaviors and activities make Champions the most important constituencies to cultivate for loyalty marketers who seek to harness positive WOM?*

Throughout the research, we found that Champions who self-identified as Reward Program members engaged in these activities at higher rates than the General Population. In addition, we found a direct correlation between levels of activity within Reward Programs and instances of WOM Champions. In other words, the more likely a consumer is to be an active user of your Reward Program, the more likely that consumer is to be a WOM Champion. Looking next at the frequency of WOM conversations and the channels through which these conversations typically occur, we likewise found the Champions active in Reward Programs were correspondingly more likely to be having these conversations. Finally, we looked at the motivations of WOM Champions for having these conversations.

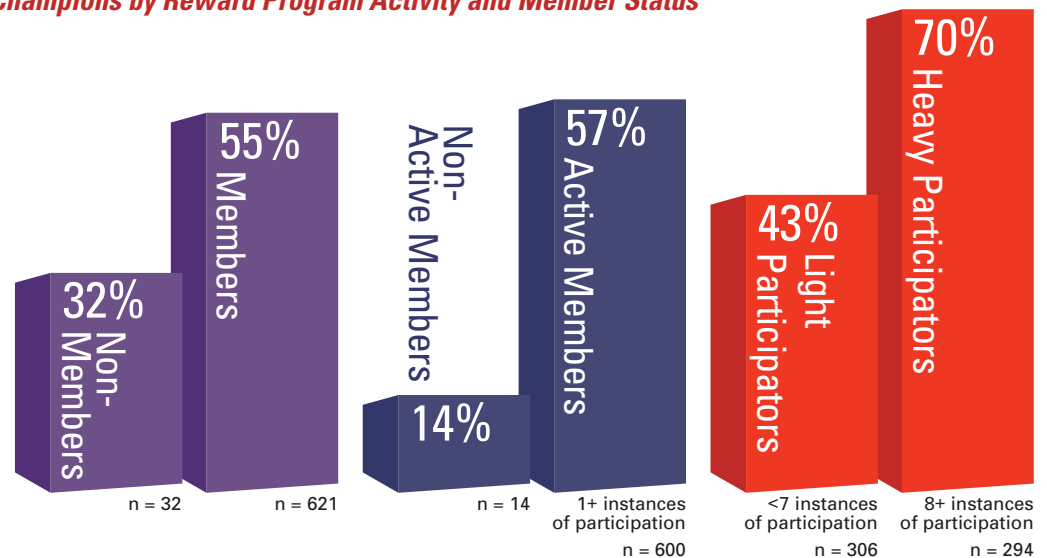
The bottom line: In nearly every instance, heavy activity in at least one Reward Program, regardless of demographic segment or program type, correlates with increased WOM attitudes and behavior. Our key findings appear below.

A. Relationship between WOM profile types and Reward Program activity

Our first task was to look at Champions in the context of their Reward Program activity. COLLOQUY Relationship Chain™ analyses with clients have historically demonstrated that increased Reward Program activity correlates strongly with customer value. Would we see a corresponding correlation with WOM activity? In other words, how valuable are heavy players in Reward Programs in terms of their WOM benefits for the program sponsors? The results of our analysis appear below.

Exhibit 8

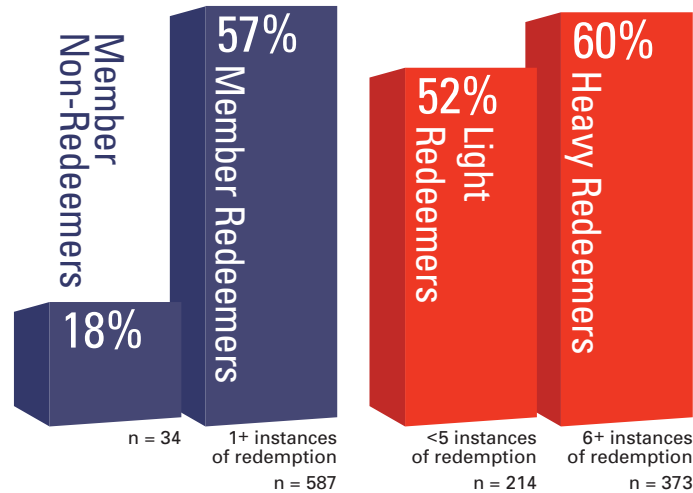
Percentages of WOM Champions by Reward Program Activity and Member Status



- **Champions:** are willing to recommend and are able to recommend to a network of others
- **Willingness** is based upon the question: *How likely are you to recommend the following products/services to other people in the next 12 months?* (top 2 boxes on a scale of 1-10)
- **Ability to connect** is based upon a response of: *"I often recommend products or services to others"* and *"When I find a product or service that I like, I always recommend it to other people."*
- **Participator:** called program customer service, completed survey, accessed program web site, redeemed

Exhibit 8 clearly shows a strong correlation between WOM activity and Reward Program participation. Heavy active Reward Program members are over 50 percent more likely to be WOM Champions than non-members, and five times more likely to be WOM Champions than inactive members. The more a member interacts with your Reward Program, the more likely that member is to be a WOM Champion.

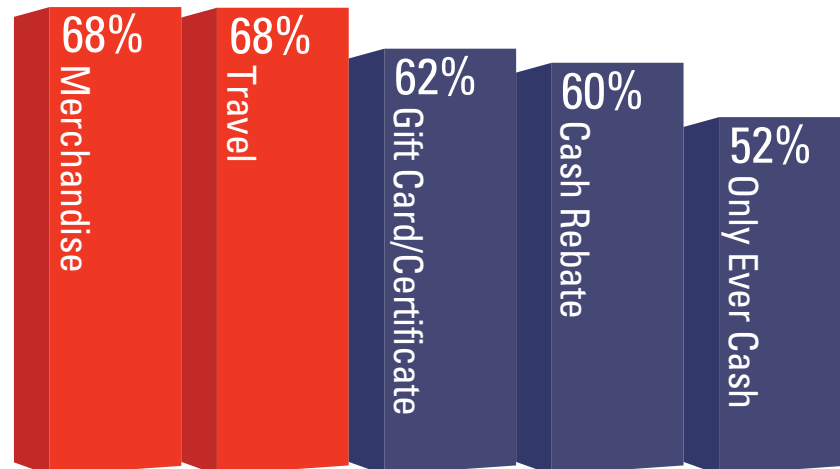
Exhibit 9
Percentage of WOM Champions by Reward Program Redemption Levels



- **Champions:** are willing to recommend and are able to recommend to a network of others
- **Willingness** is based upon the question: *How likely are you to recommend the following products/services to other people in the next 12 months?*
- **Ability to connect** is based upon a response of: *"I often recommend products or services to others" and "When I find a product or service that I like, I always recommend it to other people."*
- Answers to both questions indicate top 2 boxes on a scale of 1-10
- **Redemption** is based upon the question: *How many times in total have you earned rewards of any type since becoming a member?*

Exhibit 9 shows a corresponding increase in WOM value among heavy Reward Program redeemers. While an Active member can show any sign of life—calling the call center, interacting with the web site, etc.—a Redeemer has actually extracted value from the program in the form of a reward, an action that Relationship Chain analysis strongly equates with increased customer value. Both groups display similar levels of WOM activity.

Exhibit 10
Incidence of WOM Champions by Reward Redemption Category



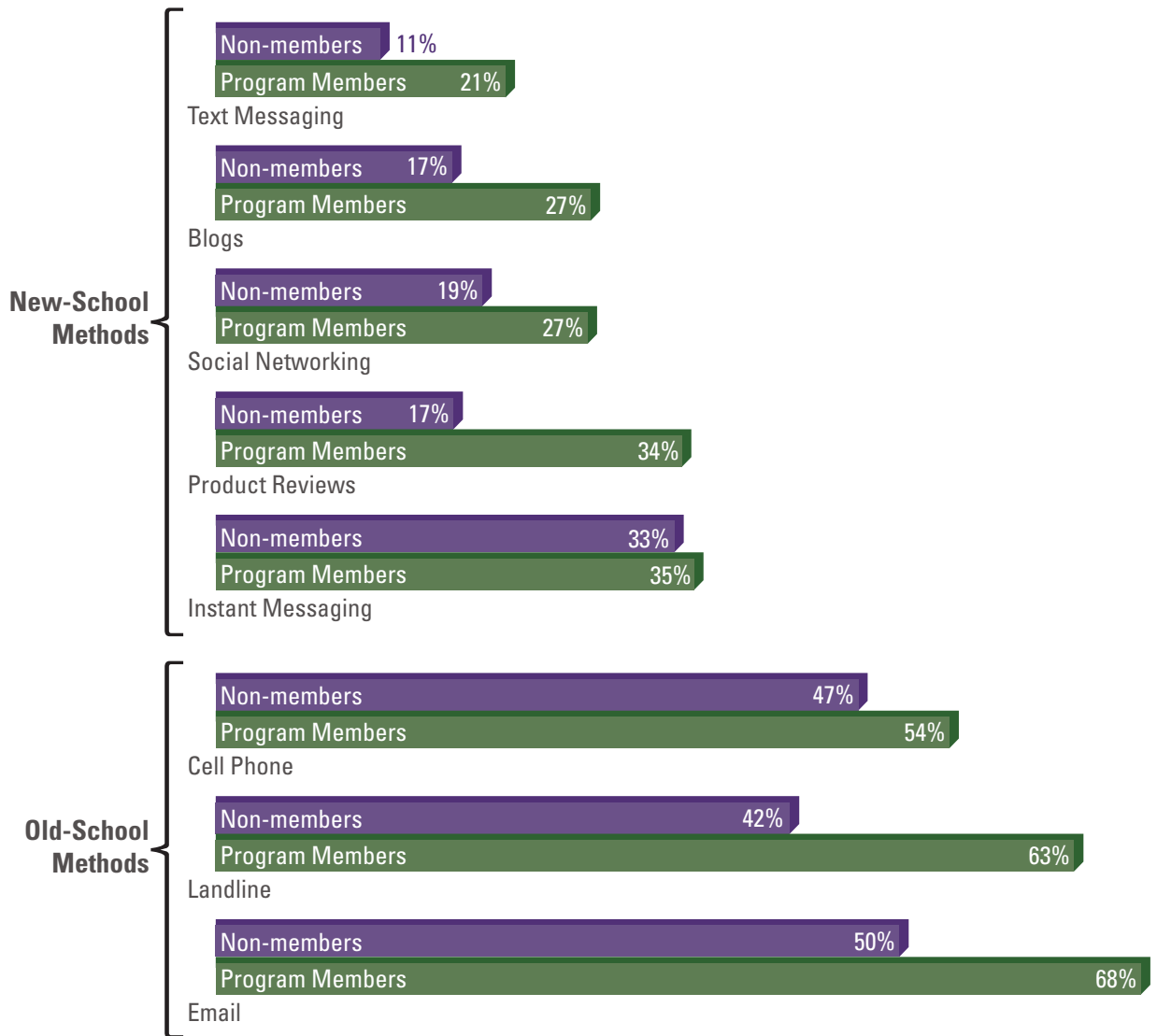
- **Champions:** Within the rewards categories you participate in, please indicate what types of rewards, if any, you have ever earned in the program.
- n = 621

In what is arguably one of our more revealing findings, we learned that redemptions for rewards with high *perceived* value—e.g., travel and merchandise—strongly correlated with higher incidences of WOM Champions than redemptions for more utilitarian rewards such as gift certificates or cash. The lowest correlation with WOM activity occurs with members who have only redeemed for cash rewards.

B. Channels and frequency of conversations among WOM Champions

Now that we understood the higher percentage of Champions that lie within Reward Program memberships, we turned to the task of understanding the frequency of Champions’ WOM activity and the channels through which this activity occurred. *How does the frequency and channel of these conversations among Champions who participate in Reward Programs compare to that of non-members?*

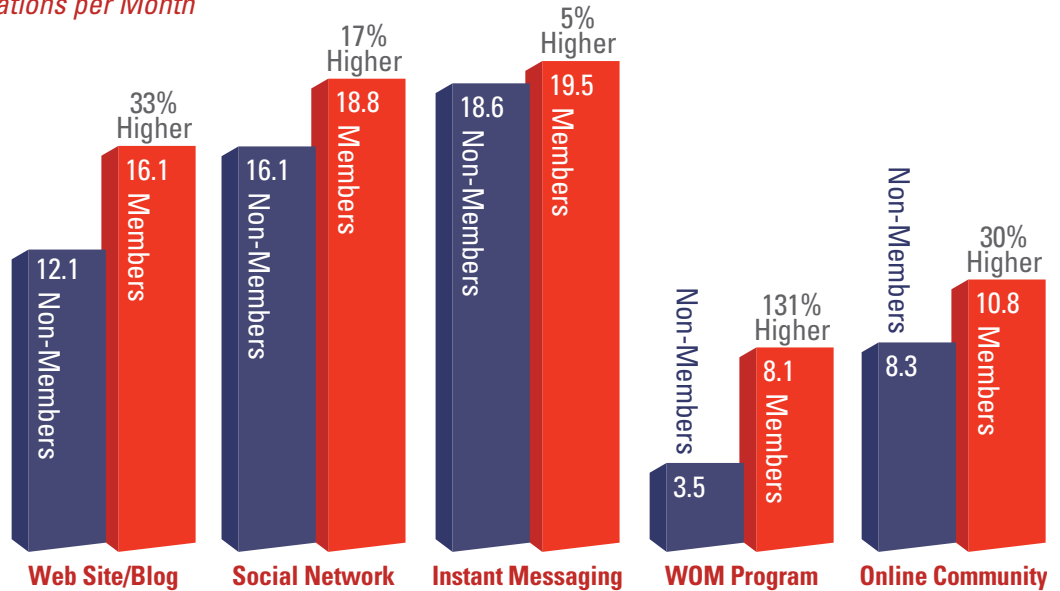
Exhibit 11
Percentage of Champions Engaging in WOM Activity by Channel—Members vs. Non-Members



- **Question:** *Within the last 3 months, when recommending or discussing products or services, which communications methods did you use?*
- Non-member Champions, n = 36
- Member Champions, n = 374

Although not every instance presented here is statistically significant, the overall trend line is clear: Champions who participate in Reward Programs engage in conversations through WOM channels at higher rates than both non-member Champions and the General Population. They are significantly more likely to share brand and product information via email and landline and to review products on web sites.

Exhibit 12
Frequency of WOM Activity—Champion Members vs. Non-Members
Frequency of Conversations per Month



• Frequency based upon the question: *How often do you participate in each of the following each month? (Frequently connect with or participate in . . . Based on total who have connected with or participated in . . .)*
 • n = 720

Champions who participate in Reward Programs also prove their worth in the frequency of their conversations regarding their favorite products, services and Reward Programs. Particularly when it comes to participation in formal “Word of Mouth” programs, Reward Program members engage in this activity at a much higher rate than non-members.

C. Motivations of key WOM behavioral groups

Finally, we wanted to take a look at the motivations of WOM Champions—why do they engage in WOM activity regarding their favorite products and brands? What categories of offers and information were they most likely to pass along to others within their networks? While the motivations of WOM Champions who were active in Reward Programs did not differ significantly from the motivations of non-members, we do learn a few interesting insights into the motivations behind WOM Champions.

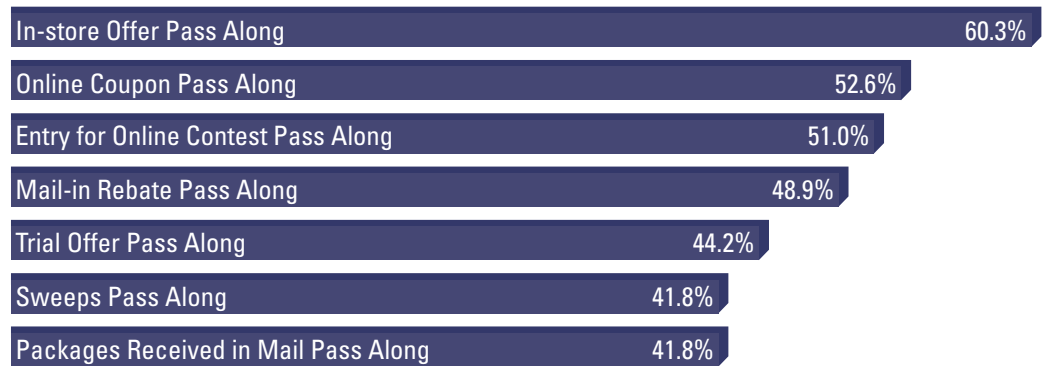
Exhibit 13
Motivations for WOM Champions

- | | |
|---|---|
| To tell manufacturers what I think 73% | To be a resource to others |
| To be in the know | To share my opinion with others 61% |
| To get smart about products/services..... 68% | To help others with relevant information... 59% |
| To be the first to discover new items 68% | To make a difference 58% |
| To get relevant information in the mail 54% | Because it reflects my personality 42% |
| To earn a reward/value | Because it is entertaining 42% |
| To get free product samples..... 63% | Other 14% |
| To earn points or rewards..... 59% | Don't know 7% |
| To get coupons/samples 56% | |

• **Question:** *Please indicate the reasons you started using or participating in the following ...*

We mentioned earlier the importance of social capital to WOM Champions, and indeed, the self-reported motivations of these consumers reflect its importance—"to be first" and "to share my opinion" were both Top Five motivations. What surprised us were the Top Two motivations for WOM Champions—"To tell manufacturers what I think," and "To get smart about products/services." This finding suggests that WOM Champions do indeed crave a deeper relationship with their favorite brands and are searching for ways to provide feedback. Four of these Top Five responses also reflect the importance of confirming self-worth—e.g., a Champion feels important when she tells a company what they could do better, when she can share information with her peer group, be "in the know" and share her opinions. And, of course, 63 percent of Champions admit that they engage in WOM activities to earn free stuff.

Exhibit 14 **WOM Champions' Pass-Along Behavior by Offer Type**



- **Question:** *Within the last 3 months, please indicate which, if any, of the following types of offers you received. Which of these types of offers did you tell others about?*
- The percentage shown reflects the percentage of those who received an offer *and* told others about it.

Note that these results show a proclivity to pass along offers with high excitement and aspirational value—sweepstakes entries and entries for other types of online contests. WOM Champions are motivated less by more utilitarian offers such as product trial offers and samples received in the mail. High-excitement offers get your WOM Champions excited.

Conclusions regarding WOM Champions within Reward Programs

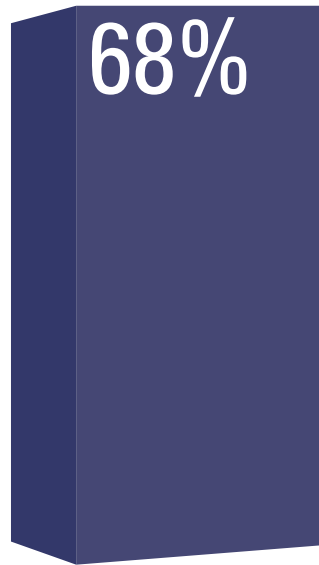
“Loyalty marketers should consider providing WOM channels to their active members and then find ways to recognize and reward them for engaging in WOM activity that benefits your brand.”

- **Active Reward Program members are your most valuable constituency.** COLLOQUY Relationship Chain metrics have demonstrated that heavy activity within a Reward Program correlates with higher customer value in terms of increased Customer Lifetime Value. Our survey reveals the heavy users of your loyalty program are also more valuable in terms of their WOM activity. In fact, there is a high correlation between Reward Program activity and Champion WOM activity. Use the tools and tactics of loyalty marketing to filter WOM Champions into your high-value segments.
- **High-interest rewards attract high-value WOM Champions.** Loyalty marketers have long known that cash-back rewards, while rating high in consumer surveys, are often the least successful way to retain customers and create incremental behavior. Travel and merchandise rewards with strong emotional appeal are more likely to appeal to WOM Champions—and perhaps even help cultivate new WOM activities. Your customers are more likely to share stories about a trip they earned through your program than they are likely to discuss the 5 percent discount they earned on their most recent purchase.
- **Reward Program members talk more.** It appears through these survey responses that those consumers who have frequent WOM conversations through a variety of channels are also likely to be active players in Reward Programs. Loyalty marketers should consider providing WOM channels to their active members and then find ways to recognize and reward them for engaging in WOM activity that benefits your brand.
- **WOM Champions crave relationships with their favorite brands.** When we looked at the motivations behind Champions' WOM activity, we found that these Champions demonstrated a surprising desire to share feedback with their favorite brands. Consumers join your Reward Program not only because they're motivated by the prospect of earning free rewards and special status, but also because they crave a deeper relationship with you. Loyalty marketers should seek out feedback from their member Champions and reward them for submitting product reviews. Make them a part of your product-development process and your Reward Program can even help drive innovation throughout your organization.

IV. WOM Behavior Specific to Reward Programs

The quantity and quality of the Champions who reside within Reward Program member databases, and of their instances of WOM activity as it applies to general product categories and brands, are of primary importance to marketers. As the survey data shows, active Reward Program members engage in this activity at a higher rate than non-members. But what of WOM activity as it relates specifically to Reward Program participation? Are member Champions encouraging friends and family to join their favorite programs? Are they alerting other program members to hot earn or burn opportunities? Fortunately, the survey data provide a glimpse into this behavior.

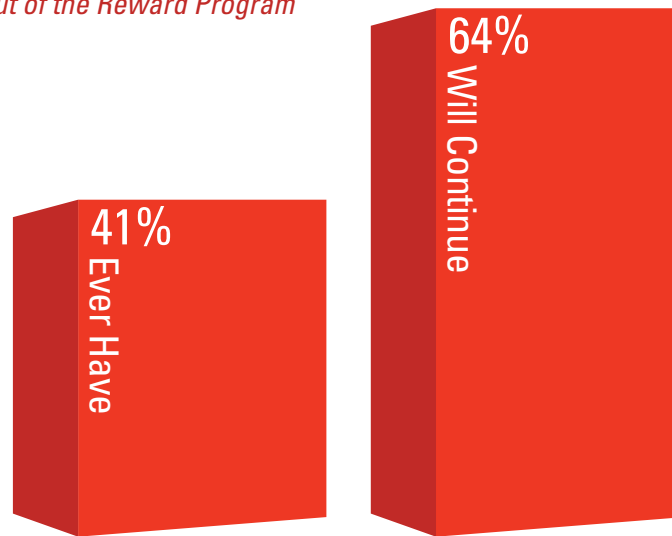
Exhibit 15 The Role of Reward Programs in Generating WOM About the Brand Percentage That Are **Brand Champions** Due to Reward Program



• **Question:** Thinking about the Reward Program you belong to . . . Within the next 12 months, how likely are you to recommend the services or products of that company to family/friends/others?

This exhibit arguably provides the most important statistic in this white paper. Over two-thirds of WOM Champions in your Reward Program say they are extremely likely to recommend your product or service. Since Champions are actively engaged in WOM activity, these Brand Promoters are without a doubt your most valuable WOM constituency—and they became such because of their affinity for your Reward Program.

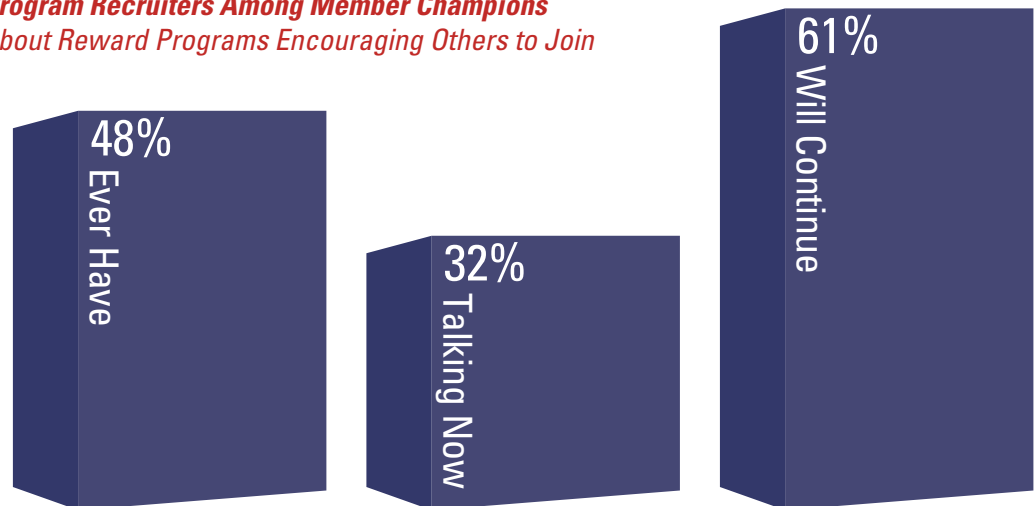
Exhibit 16
WOM Conversations About Reward Program Benefits Among Champions
How to Get the Most out of the Reward Program



- *Ever Have* is based upon the question: *Have you ever talked about how to earn the best rewards?*
- *Will Continue* is based upon a response of: *Extremely likely to continue to talk about how to earn rewards*
- Answers for both options indicate top 3 boxes on a scale of 1-10, n = 438

From this exhibit, we can see that over one-third of members Champions have shared information about how to extract value from their favorite Reward Programs with other members. Nearly two-thirds plan to have such conversations in the future.

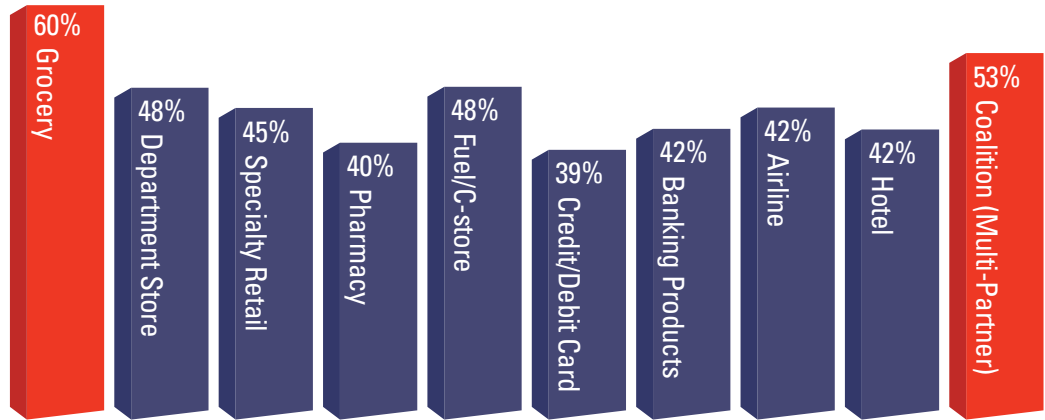
Exhibit 17
Instances of Reward Program Recruiters Among Member Champions
WOM Conversations About Reward Programs Encouraging Others to Join



- *Ever Have* is based upon the question: *Have you ever tried to get others to join the program?*
- *Talking Now* is based upon the answer to: *Currently trying to get others to join program?*
- Answers for both options indicate top 3 boxes on a scale of 1-10, n = 438

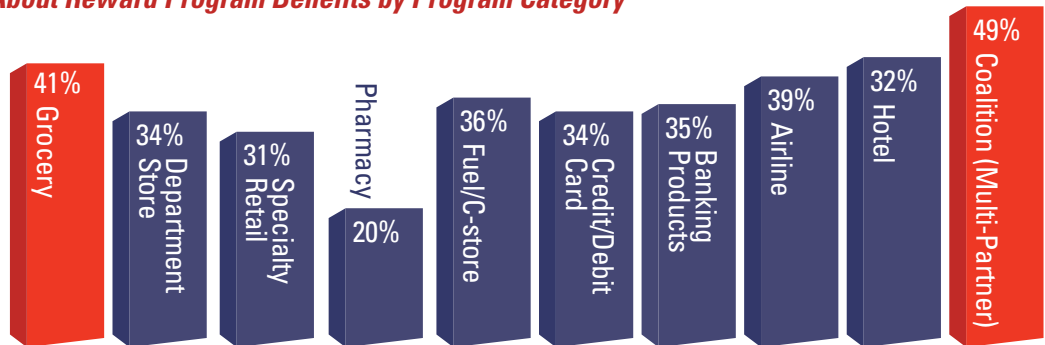
From this exhibit, we can see that Champions in Reward Programs display significant levels of recruitment activity. Nearly half of all Champions have attempted to recruit friends and family into their favorite Reward Programs in the past, a third are doing so now, and nearly two-thirds plan to do so in the near future.

Exhibit 18
WOM Conversations About Reward Programs by Program Category



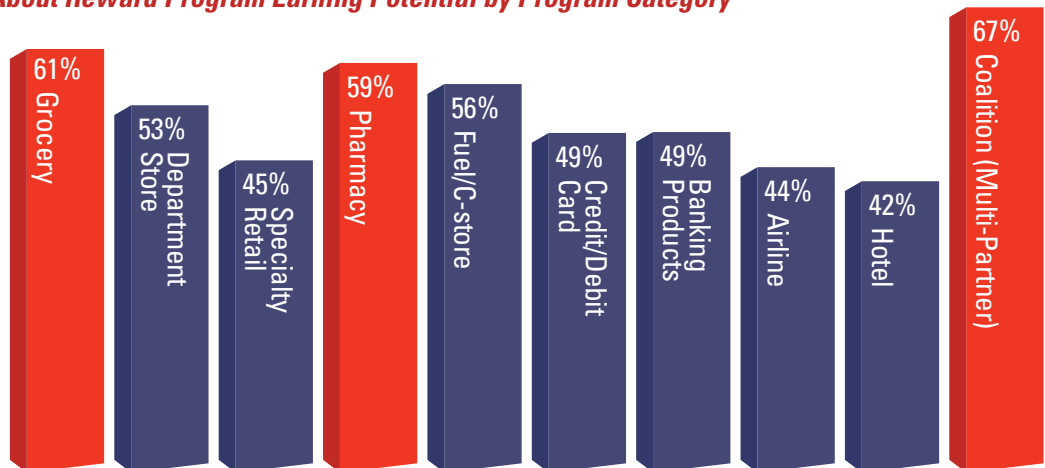
• **Question:** Thinking specifically about the Reward Programs you belong to, please indicate if you have ever had conversations with other members about these programs.
 • n = 438

Exhibit 19
WOM Conversations About Reward Program Benefits by Program Category



• **Question:** Thinking specifically about the Reward Programs you belong to, please indicate if you have ever had conversations with other members where you have recommended how to earn the most points/miles/rewards possible.
 • n = 438

Exhibit 20
WOM Conversations About Reward Program Earning Potential by Program Category



• **Question:** Thinking specifically about the Reward Programs you belong to, please indicate if you have ever had conversations with other members where you have recommended how to earn the most points/miles/rewards possible.
 • n = 438

When we look at Reward Program WOM activity by category of program, we see roughly similar levels of conversations occurring regardless of category, with the exceptions of Grocery and Coalition programs. Our assumption is that consumers are having more conversations about these program categories because of the relatively high shopping frequency involved—members in these programs will interact with them more frequently than they do programs in other categories, which seems to result in a corresponding increase in conversations.

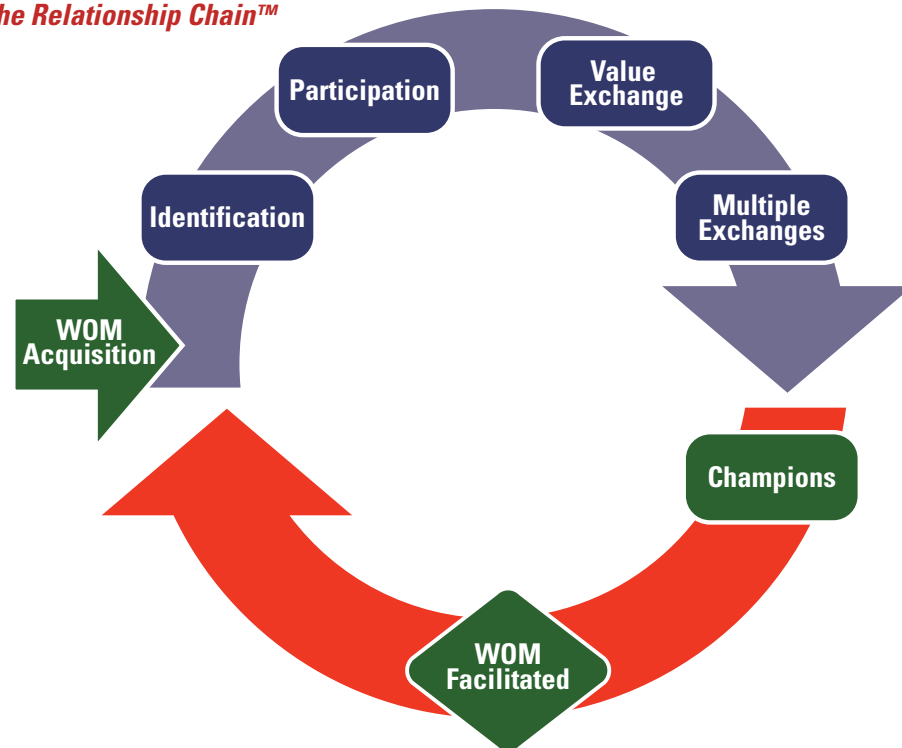
V. Implications for Marketers

Word-of-Mouth is a broadly-used and often misunderstood term. Marketers face a dizzying array of choices—buzz marketing, crowd-sourcing, viral video campaigns, guerilla marketing, product-seeding, and a host of other options—and are often challenged to determine which if any of these methods can deliver return on investment. When trying to decide whether to put your marketing dollars against a WOM marketing campaign or into a longer-term investment such as a proprietary loyalty program or a loyalty coalition sponsorship, marketers often face pressure to choose the tactic that will deliver the most immediate impact on this quarter's numbers. In such cases, WOM marketing that builds buzz, awareness and trial can often seem like the most attractive option.

To the loyalty marketer, however, WOM marketing plays a very specific role. Loyalty marketing is an enterprise-wide strategy designed to build profitable, long-term, differentiated relationships with your best customers. In this vision, your WOM tactics should be designed to build awareness and trial of your products and brand in order to begin a relationship with your newly-acquired customers that can be tracked and measured in the customer database. As the relationship blossoms, you can then reward and recognize them as WOM Champions for your brand.

COLLOQUY's Relationship Chain strategy offers a blueprint for creating more profitable relationships. Our past analysis has demonstrated a direct correlation between progression along the Relationship Chain and increased member retention and annual spend. The results of this survey show a similar correlation to yet another indicator of loyal customer behavior: profitable WOM behavior from Champions. The links in the Relationship Chain process are outlined below.

Exhibit 21
WOM Marketing and the Relationship Chain™



- **WOM acquisition:** Your WOM campaigns now serve an impactful, measurable role—to encourage awareness and trial with the goal of identifying new customers and funneling them into your Relationship Chain.
- **Identification:** Encourage acquired customers to raise their hands and identify themselves by offering a combination of recognition and reward incentives. Such incentives can take the form of a proprietary or coalition Reward Program offer, a dialogue-marketing campaign, a general-purpose or private-label credit card program, or some other loyalty-marketing tactic. Your goal is to identify customers so as to track their behavior over time.
- **Participation:** Once customers are identified, encourage them to actively earn equity in the program. Look for strong signs of interest and engagement. Are members hitting the web site? Completing surveys? Responding to offers? Signing up for your email newsletter? Such activity is a strong indicator that you have a healthy percentage of WOM Champions engaged with your program.
- **Value Exchange:** Once your customers have earned enough equity in the relationship, they will extract value in the form of reward redemption, gift voucher purchase, coupon redemption or other form of “cashing in.” This is the key moment in the relationship, and you must execute flawlessly on fulfilling that value to your customers.
- **Multiple Exchanges:** If the Value Exchange meets or exceeds your customers’ expectations, they’ll attempt to repeat the experience by earning and extracting value at regular intervals. Once you see this behavior, you’ll see a corresponding rise in those customers’ profitability over the lifetime of the relationship.
- **WOM Champions:** Through a combination of behavioral and attitudinal measurements, identify the Champions in your customer database and incent them to engage in *Facilitated WOM* activity. By incenting them to try new products early, pass along offers to their networks or encourage friends and family to join your Reward Program, you can continue to enhance and expand your WOM Marketing efforts at a much lower cost and with measurable ROI—a clear improvement over expensive, untargeted, promotional WOM campaigns.

As always, an effective testing and measurement strategy will be a key challenge for loyalty marketers attempting to incorporate and influence positive WOM activity among their customers. Once you identify Champion customers in your Reward Program and give them a free trial coupon to pass along to a friend, can you track the coupon redemption and tie the redemption to the pass-along? Tracking such activity is crucial to measuring the ROI of your WOM initiatives, but loyalty marketers struggling with budget pressures, a recession and quarterly goals may find such tracking to be a bridge too far.

COLLOQUY advises marketers to focus on the small wins. Devise a test—say, a bonus offer to incent customers to refer a friend to try a new product. Track the behavior and measure the results. If the test is successful, you may be emboldened to design a WOM initiative on a larger scale; if unsuccessful, you'll gain wisdom. To help the process, we offer a few humble best practices.

There is no acquisition without identification. Customer identification is essential to building long-term advocacy. WOM marketing without customer identification—by collecting an email address, signing up the customer for an opt-in program, or tracking offer redemption—is an ineffective acquisition technique. Metrics that end by measuring the reach of your viral campaign tell you only how consumers responded to that particular campaign. They can't tell you whether any of those consumers try your products and become long-term customers. Identification is the first and most important step in the Relationship Chain that leads to cross-sell, up-sell, and increased customer lifetime value.

Nurture the WOM Champions. Our research reveals that WOM Champions offer untapped potential—especially those within the Reward Program database. WOM Champions are talking. So, ensure that they're spreading the good word about your products and services instead of lodging complaints. Invest in the tracking of individual behavior that uncovers the Champions are within your membership base, and implement dialogue that helps nurture their relationship with your brand.

Create Champion Customers. Remember that the combination of willingness to recommend and ability to recommend creates a Champion customer. Invest disproportionately to encourage WOM behavior migration—turn your Advocates into Champions by offering them incentives and tools to share product information, and turn your Connectors into Champions by employing classic recognition and reward tactics. By encouraging such migration, you will grow the number of Champions who become true WOM evangelists for your brand.

Employ loyalty tactics to incent WOM behavior. Experienced loyalty marketers have a wealth of practical experience encouraging profitable changes in customer behavior. Apply that experience to encourage positive WOM activity among your Champions: Offer them targeted bonuses to encourage product testing and participate in advisory panels, use social networking tools to help them share offers and program invitations, and help them build social capital by creating unique soft benefits to recognize their importance.

Develop proprietary WOM metrics. To measure the ROI of your facilitated WOM activities, devise metrics that measure the impact of this activity on incremental revenue. How many customers acquired through your "refer a friend" campaign become members of your Reward Program? How profitable do they become over time? Can you use WOM tactics to encourage cross-sell and up-sell? Keep and evolve the metrics that deliver results; discard the rest.

Leverage your Reward Program network. The typical customer Reward Program is an under-utilized WOM platform. Our research demonstrates that the more active customers are in your Reward Program, the more likely they are to be Champions—there is a direct correlation between WOM activity and customer value. Build tools for these customers to talk to each other and share their enthusiasm for your program and brand. Help them share tips on the best earning options, the hot rewards, and the sweetest partner deals. The knowledge you gain from facilitating these conversations will be difficult for the competition to replicate.

Laws of marketing

While some marketers and academics have challenged Metcalfe on the grounds that he either over- or understates the value of networks, Metcalfe's Law is more of a metaphor than an iron-clad rule. When determining the value of a network, marketers typically define "value" in terms of "utility" rather than by its economic value. The size of MySpace and Facebook has made these networks exponentially more valuable to their users without delivering a corresponding increase in revenue for their owners—at least, not yet.

"Your customer database has the potential to deliver Metcalfe-level value for both users and owners."

But your customer database has the potential to deliver Metcalfe-level value for both users and owners. WOM Champions can be identified and nurtured within the database. In many cases, your proprietary Reward Program or coalition sponsorship can become your most effective tool to identify and build relationships with them. Much of this activity will be new territory for loyalty marketers, but we are first and foremost scientists. Devise and test hypotheses. Build on your successes and learn from your failures. Over time, you'll learn to identify, cultivate and manage the yield of your WOM Champions. For loyalty marketers willing to harness the power of customer word-of-mouth, the power of the customer network truly offers unlimited potential.

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The Publisher

COLLOQUY comprises a collection of publishing, education and research resources devoted to the global loyalty-marketing industry. COLLOQUY® has served the loyalty-marketing industry since 1990 with over 30,000 global subscribers to its magazine and www.colloquy.com is the most comprehensive loyalty web site in the world. COLLOQUY's research division develops consumer and B-to-B research studies and white papers including industry-specific reports, sizing studies and insights into the drivers of consumer behavior. COLLOQUY also provides educational services through workshops, webinars and speeches at events throughout the world and is the official loyalty-marketing partner of both the Direct Marketing Association and the Canadian Marketing Association. COLLOQUY also operates The COLLOQUY Network, a global consortium of practitioners certified in COLLOQUY's proprietary methodology. COLLOQUY magazine subscriptions are available at no cost to qualified persons at www.colloquy.com or by calling 513.248.9184.

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- **LoyaltyOne Consulting** is comprised of a group of internationally-recognized practitioners who design and implement loyalty-marketing strategies for Fortune 1000 clients.
- **The AIR MILES® Reward Program** is Canada's premier coalition loyalty program. More than 9 million active Collector accounts, representing approximately two-thirds of all Canadian households, actively participate in the Program.
- **Direct Antidote** is a loyalty-marketing agency specializing in data-driven creative campaigns that transform customer behavior to deliver on short-term return on investment, while building profitable relationships for life.
- **Precima** is an advanced analytics firm that translates retail customer data into critical insights to better align marketing, merchandising and operations strategies with shopper needs.

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