

7.12: Frequent-Shopper and Rewards Programs

Learning Objectives

- Analyze the various tactics of frequent-shopper or rewards programs



Customer retention is crucial to the success of any business given the high cost of acquiring a customer in the first place. It is estimated that it costs a business 5-25X more to acquire a new customer than to sell to an existing one. Further, established customers are thought to spend 67% more than new customers.^[1]

It's no wonder that savvy businesses have brought a variety of customer retention techniques together under the umbrella of formal "Frequent Shopper" or "Customer Loyalty" programs. As consumers, we all experience these techniques every day.

Some programs are based on simple point system—a purchase amount is equivalent to a number of points. Those points can then be accumulated and used as currency to make additional purchases.

A variant of this tactic, a so-called tiered reward program, is designed to foster longer-term loyalty. Airlines and car rental companies offer such programs and consumers move up the food chain by becoming Bronze, Silver and Gold members over time. With each designation, the customer receives more benefits and perks.

Another tactic is charging customers an annual fee in exchange for VIP treatment. Amazon Prime would be a good example of this type of customer loyalty program. "Prime" customers pay an annual \$99 fee to participate in the program. As Amazon Prime members, customers receive free two-day shipping on millions of products with no minimum purchase required. According to the Consumer Intelligence Research, Prime members spend an average of \$1,500 per year on Amazon.com, compared with \$625 per year spent by Amazon customers who aren't Prime members.^[2]

Practice Questions

<https://assessments.lumenlearning.co...sessments/9215>

1. <https://blog.hubspot.com/customer-success/customer-loyalty> ↗
2. <https://files.ctctcdn.com/150f9af2201/bf283d9e-4cbb-4306-8645-b2dc9a16d805.pdf> ↗

Video - What Makes Customer Loyalty Programs Work?



Video - myStarbucks Rewards - Customer Loyalty Program



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