

WHY LOYALTY MARKETERS SHOULD PICK UP THE AUCTIONEER'S GAVEL

by David Harwood

In Alfred Hitchcock's classic film *North by Northwest*, protagonist Roger Thornhill - played by Cary Grant - used outrageous theatrical bidding at a high-class art auction to draw attention to himself and to ultimately deliver himself to safety from the bad guys. Though there are better ways to differentiate oneself than Thornhill's over-the-top bidding style, there's something to be learned from the classics.

As loyalty-program operators continue to seek new ways to engage their members, loyalty auction techniques have resurfaced as a strategic program design option, particularly now that such auctions have evolved to take advantage of new technologies and to further leverage a program's ability to communicate with members.

Faced with rough economic times and loyalty program ubiquity, loyalty marketers need creative ways to add value to their programs without incurring a substantial increase in costs. Members who perceive parity in loyalty value propositions in general have forced operators to seek new reward content that optimizes redemption impact, differentiates value propositions initiatives, and fuels greater and more productive engagement. Auctions can provide such benefits, and more. Auctions are fun and engaging, and can be implemented today with minimal investment. What's not to love?



add a few more points or miles to their account by participating in pre-auction dialogue or program surveys.

• **REWARD VALUE MEASUREMENT**

Because bid levels depend on member wants, needs, desires and dreams, the members tell you specifically the true value of your rewards. Calibrating high-value versus low-value reward perceptions among players versus non-players can aid future reward optimization.

• **STRENGTHENED BONDS WITH HIGH-VALUE CUSTOMERS**

Auction winners are often top-tier customers, so in essence the auction serves as a "soft" benefit to your highest value segments.

The caution here is that measuring an auction's direct transactional impact is more difficult than with other redemption mechanisms. Depending on the technology required to implement the auction, as well as the total reward costs, your program budget may also rise. Our experience suggests this approach is a great tool for highly tiered programs in established loyalty markets - especially when directed to the platinum level.

GOING ONCE . . .

Auctions were first used within traditional loyalty programs based on accruing such points-and-miles equity currencies as Delta's SkyMiles and American Express's Membership Rewards. The Eddie Bauer Friends program was the first retailer to overlay auctions onto a point-accrual program.

Auctions in traditional programs aren't redemption mechanisms per se. With one winner per auction and the typical program running relatively few auctions each year, this tactic doesn't significantly affect a program's liability account. The winner's points are burned, but all non-winning points bids return to the members' accounts.

Instead, for traditional programs, auctions present these benefits:

• **ASPIRATIONAL REWARD CONTENT**

Because there are few of them, auction prizes can be big, experiential and highly differentiating, helping to invigorate member program interest.

• **INCREASED MEMBER ENGAGEMENT**

Customer engagement drives increased value over time. Auction participation requires registration on the front end, and then regular visits to the program's web site. Members are often given the opportunity to



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High Ideals:
B2B supplier Ideal Electrical out of New Zealand awards both traditional points and an auction-specific currency based on spend to promote loyalty-program engagement and customer retention.

You can also implement auctions without using traditional points structures. Such auctions employ a special currency that grants "rights" to participate in future member-only events. In addition to the sorts of engagement and measurement benefits described for points-based auctions, the self-contained auction strategy provides these benefits:

• **NO LIABILITY**

Auction currency implies no promise of a future reward. The currency simply grants members a measure of rights to bid, with no guarantee of winning.

• **INCREASED FLEXIBILITY**

The sponsor can issue auction currency not only for spend, but also for any measurable behavior, at any time, through any channel. You can allow issuance for a variety of non-ROI activities, including survey completion, friend referrals, feedback provision on new products or services, member forum postings, and so on. Auction currency can even be awarded to compensate for a bad customer experience.

• **BUDGET AND COST CONTROL**

Reward sourcing, procurement and catalog expenses are drastically reduced given the limited scale required by solo winning bids versus the need for a full array of redemption options available to every member. On the budgeting side, auction item costs are viewed as a current-period marketing expense, budgeted precisely for each period. This precludes the need for the sort of a variable reserve account or balance sheet item that traditional accounting of points and miles typically requires.

Self-contained auctions are seldom used in U.S. markets, although Movietickets.com and the first incarnation of Stouffer's Dinner Club provide recent examples. Stouffer's took an interesting approach to building a direct-to-consumer database in the packaged goods industry. In addition to encouraging such engagement activities as web-based customer preference and behavioral surveys, the initiative imbedded auction codes in product packaging to track specific member purchases.

In New Zealand, Microsoft implemented a B2B program using self-contained auctions for almost 6,000 software resellers. Auction currency rewarded a variety of behaviors favorable to Microsoft, including sales activities that varied by product and time period. Resellers regularly visited the auction site to bid on trips and merchandise including Microsoft's Xbox line. The program finale invited the top 20 members to a gala dinner event where they bid on highly aspirational and experience-laden reward items. Target audience participation rates exceeded 65%, and Microsoft received great PR for the gala and for the overall program. Favorable sales impact allowed the company to repeat the program with new channels and products.

Always keep in mind that the long-term impact on yield is less certain in an auction environment, and that impact may not be enough to sustain favorable purchase behavior over time. Also, some members who never win may eventually lose interest, pointing to the importance of a tiered auction strategy with more opportunities to win. Because flexibility also exists on the redemption side, sponsors can offer daily prizes of modest value, weekly or monthly prizes of substantial value, and quarterly prizes of aspirational magnitude.

Our experience suggests that this approach works well for the sports, entertainment, fuel, retail and restaurant industries. The approach clearly works in B2B markets, where customer counts are lower and value per customer is higher.

A third auction strategy combines traditional promotional currency with an auction-only currency distributed to members for both transactional and non-transactional engagements. Again, with no liability on the second currency, sponsors can issue as much of it as they want while maintaining the flexibility to tie it to customer transactional value.

For example, New Zealand's Ideal Electrical, a B2B supplier of components, materials and supplies to electrical contractors, issues both points and auction currency based on spend levels. Results are outstanding - engagement, member satisfaction, retention and overall customer value have grown over time. Having both types of currency costs a little more and thus requires more lift to justify its use, but the Ideal Electrical approach can be replicated in other B2B situations, or in such consumer markets as jewelry or high-end apparel where best-customer count is reasonably finite and customer value is highly segmented.

SOLD!

When managed successfully, program auctions function as a fun engagement tool in which everybody bids and your best customers win. These tactics create a customer-directed, inexpensive marketing and engagement platform. Members enjoy the action, are ecstatic when they win, and aren't likely to be disappointed when, as opposed to a sweepstakes, someone else takes the prize. They keep their currency and go back for another try - continuing to raise their hands as they become more valuable to the enterprise. Just don't pull a Thornhill and get thrown out of your auction by the cops.

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About Reward Paths

Reward Paths is a full service Marketing firm specializing in helping customer-centric companies design, enable and operate reward, loyalty and incentive programs for their customers and associates. Reward Paths offers affordable, best of breed technology especially well suited to the consumer marketplace. The company also provides reward program services to B2B clients serving professional, institutional and trade audiences. Reward Paths LLC is majority owned by Incentive Solutions Limited (ISL) of Auckland, New Zealand. For more information visit www.rewardpaths.com.

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