

GILT GROUPE'S INNOVATIVE APPROACH TO LOYALTY PROGRAMS

Gilt Groupe is an online fashion retailer that offers luxury fashion brands at substantial discounts. Consumers must become members to view the content and be allowed access to Gilt's frequent flash sales. Gilt Groupe has become wildly popular, as over 6 million members have joined since its inception in 2007. However, as flash sales sites are becoming so popular, the number of such sites is naturally increasing. IBIS World predicts that by 2018 there would be around 150 flash sales sites, which would be a sharp increase from the roughly 90 sites in 2014. Thus, Gilt Groupe is innovating in ways to stand out and keep its customers engaged.

Gilt Groupe has launched a loyalty program called Gilt Insider Program, which takes a novel approach to loyalty programs. Unlike many traditional loyalty programs that only award points to members when they make purchases, Gilt Insider Program awards points, called Insider points, to members for a variety of activities that engage them with the brand. Members still earn points by purchasing products, but they also can earn points through referring friends, visiting flash sales, connecting with the brand through social media, and browsing the website. Gilt Groupe studied its customers' behavior and aligned the program with actions that customers are already doing to reinforce engagement with the brand.

According to Elizabeth Francis, chief marketing officer at Gilt Groupe:

We wanted to create a loyalty program that rewards our members not just for their purchasing but for all the ways they interact with our brand. Gilt Insider perks are a collection of our member's most requested asks—from having early sale access to a brand they love, to deeper discounts, to the opportunity to attend exclusive events. The rewards program is designed to provide Gilt members with a platform to pick and choose from the rewards they love the most.

The reward structure is somewhat unique, but fits well with Gilt Groupe's business model. Insider points can be redeemed for a variety of rewards, including early access to flash sales, access to exclusive events, additional discounts, and free shipping. Because the Gilt Groupe business model revolves around exclusive access to flash sales of limited quantities of luxury items, early access is incredibly valuable to its customers. Gilt Groupe has used the knowledge of what its customers value most and has formulated the Gilt Insider Program to incentivize consumer engagement. Ms. Francis said:

It's expensive from a technology perspective. We communicate frequently with our customers. We knew what our members wanted. This is a great way for us to engage.

According to a 2013 global Nielsen survey of Internet users, these incentives should appeal to many

consumers. Eighty-four percent of respondents said they are more likely to patronize retailers with loyalty programs. Seventy-five percent of respondents report that discounted and free products are the most appealing reward. Enhanced customer service is an important reward for 44 percent of respondents and free shipping was important to 42 percent of respondents. According to Julie Currie, the senior vice president of global loyalty at Nielsen:

Savvy retailers are mining the data and looking for new and innovative ways to achieve the benefits most important to their customers. . . . In markets where loyalty programs are long established, customers tend to be savvy about copy-cat promotional offerings that don't offer unique advantages. New and innovative concepts, especially in the online space, that connect with how consumers want to shop are proving to be most effective.

While it is possible for members to accumulate points through many types of engagement other than making purchases, it would take a very long time to earn enough points without purchasing to earn rewards. For example, members earn 25 points for referring a friend and 100 points for visiting the site for five consecutive days. However, lower-level rewards like free shipping start at 3,500 points. In order to reach the lowest denomination of voucher discount (\$80) without making a purchase, a member would need to browse a Gilt Groupe sale every weekday for 250 weeks. Purchases that earn five points per dollar spent accumulate points at a much higher rate.

As members of the Gilt Insider Program accumulate points, they achieve access to three tiers of program status: Select, Premier, and Noir. These tiers are accessible at the 5,000-, 10,000-, and 25,000-point thresholds. With advancement to each additional tier, members are offered additional perks, such as waitlist priority and exclusive VIP customer service lines. For wealthier customers, which are a target market for Gilt Groupe, holding exclusive status with special privileges is more of a motivation than discounts. According to Ms. Francis:

To make it fair we crafted a program that rewarded engagement, i.e. site visitation and social interaction, in addition to purchasing, so that members could advance up tiers as they earned points.

Tiered loyalty programs, which are modeled after airlines' loyalty programs, are a growing trend that is

meant to entice consumers in an environment where traditional loyalty programs have become so common that they often are expected and overlooked. According to Jeff Berry, the senior director of knowledge development for LoyaltyOne, a global provider of loyalty programs for retailers:

When pretty much every retailer is offering a program with points per purchase, tiers offer that extra incentive to choose one over another. It almost has become the overall scorecard for customers, so they understand where they are relative to where they could be.

While the Gilt Insider Program is an innovative way to stand out from other flash sales sites and the proliferation of loyalty programs among retailers, whether it is a sustainable advantage is yet to be seen. The average North American consumer belongs to between 8 and 12 loyalty programs. According to Niraj Dawar, the author of *Tilt: Shifting Your Strategy from Products to Consumers*:

From a brand manager's perspective, the question is what is a consumer loyal to, are they loyal to the brand that you're selling or are they loyal to the points? If they're loyal to the points the moment you stop those points your product will stop selling. Or the moment a competitor offers an equivalent amount of points on a slightly different program, the consumer will switch.

Customer Insight Group, Inc., a consulting group that specializes in loyalty program marketing, offers the following 10 tips for successful loyalty programs, many of which the Gilt Insider Program incorporates:

1. Only require and gather customer information that you plan on using.
2. Make sure your employees know the benefits of your loyalty program and that they don't keep it a secret.
3. Enrollment in your loyalty program lagging? Create an employee contest to see who can enroll the most new customers.
4. One easy way to entice more customers to join your program is offer them an incentive at enrollment.
5. Don't just focus on adding members. To get results, you need member participation.
6. Make it easy for your staff to talk about the benefits of the loyalty program by giving them a script.
7. Secret shop your loyalty program to see if there are training issues.
8. Consider implementing a minimum loyalty program enrollment requirement for employees and make it a component of their employee evaluation.
9. Customers will carry your loyalty card if your customers see value in the program and if they are engaged in your brand.
10. Tier your loyalty program so customers have a reason to give you a greater share of wallet and loyalty.