MEXX

Implementing a Unified Loyalty Program in a Franchise Business

Research Question:
What strategies can Mexx International follow to realize an effective loyalty program that can be adapted to the local needs of Region 3 and be executed in a franchise system?

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Executive Summary

In this report, the topic of loyalty programs in a franchise business model will be discussed with the analysis focusing on the situation at Mexx International. Currently, there is one centrally run program, Mexx Connect, in the company's most important markets in Western Europe. However, in Region 3 (Central and Eastern Europe, Central Asia, Middle East and Latin America) there is a franchise system where the partners are not restricted to having to use one program.

This creates a strategic problem for Mexx because currently the brand is represented in different ways in the region. Confusion and disappointment might arise for customers visiting Mexx in different parts of the world. Just as there is one brand image, mission and vision, there should only be one loyalty program. As this is currently not happening, the initiative was launched to find out what can be done in order to unify or at least streamline Mexx International's loyalty program efforts worldwide.

This report presents the research into the current situation concerning this topic and it gives a recommendation to Mexx for the strategic direction it should take. Based on the best practices and the research into the current situation, both internal and external, it was concluded that the best strategy for Mexx to take is to make the strategic decision of having Mexx Connect in all stores worldwide. This strategy would allow for the company as a whole to target all of its loyal customers, who buy the brand for what it represents, not for how big a discount they can get.

This strategy may be difficult to achieve because of internal resistance from the partners, competitive pressures and uncertain economic conditions, but it is believed that by focusing on Mexx's ability for transformation and development, it is possible to change customer opinions and the loyalty program standards in that region. It just takes a clear vision of where this strategy will take Mexx and the commitment from every single employee.

Table of Contents

Preface

This report was created as the final bachelor thesis for The Hague School of European Studies. It was also part of the loyalty program project in Mexx of Spring 2011. It gives an overview of the desk research and other findings, along with a recommendation for what strategic direction the company should take.

I would like to first and foremost thank Katja Solomatina, whose continuous hard work and guidance were of utmost importance in completing this project. I would also like to thank the rest of the Region 3 team, for their encouragement, enthusiasm and support.

Additionally, I want to express my gratitude to everyone else involved with the loyalty program project, both inside Mexx and out. This would have been impossible without their valuable insights.

I would like to express my appreciation to Mr. van Dam whose advice was always precisely what I needed to keep improving, not only on my thesis but in life.

On a personal note, I would like to thank my closest friends who were with me every step of the way. Thank you for the inspiration, the randomness and all the fun times!

Thank you all very much!

Kind Regards,

Svetlana Tzaneva

1. Introduction

In today's hyper-competitive retail environment, it is important for a company to be able to attract and keep its most valuable customers. It is becoming increasingly difficult for brands to distinguish themselves and to create something original that will satisfy consumers. Customers are switching more and more between brands because of their increasing similarities.

It is hard to find any consumers who are truly loyal to a brand, both by making repeated purchases (behavior) and by having an emotional attachment to the brand (attitude). "Only 12-15% of customers are loyal to a single retailer, but they generate 55-70% of company sales" (CRM Trends, 2011, para. 4). However, if a company manages to foster true loyalty among its customers, it will benefit quite significantly as membership greatly increases the likelihood for customers to increase their spending in a particular store.

In addition to low customer stickiness, an important trend in the retail market is the increased customer awareness about brands. With the great number of information sources, it is much easier for consumers to be informed about a company's well-being or about their operations or strategic choices. In today's highly informed world, it is important for companies to make the right choices and to present the right information and brand image to the public in order to be successful.

More and more companies are relying on financial incentives, such as discounts or gift vouchers in exchange for accumulated points, to maintain their desired level of sales. The problem with such programs is that they do not build brand loyalty among their customers but just bring in extra sales during the promotional periods. Such programs are essentially too expensive because they do not have a long-term positive effect on the company.

One has to be aware of the value that different customers have to a business. The customers who are most loyal shop more often, buy regular price items and generally spend more. Then there are some customers who come infrequently and buy only sale items. Some analysts illustrate this difference by stating that 20% of customers ensure 80% of profit and that the bottom 30% can consume up to half of the profits made from the others (CRM Trends, 2011, Economic Value of a Loyal Customer, para. 1). This clearly shows the need for businesses to differentiate between different customer groups and to treat them differently. The most loyal ones need to be treated better, while the occasional ones can even be discriminated against, so as to achieve the highest return on investment.

Another very important point to consider about customers is their lifetime value to the company. This involves looking at the average annual spend and the number of years that they continue buying the same brand. Research shows that the customer lifetime value increases significantly with loyalty program membership. This is due to the increase of all of the factors involved: number of purchases per year, average purchase and duration of activity. The difference for Mexx Connect, as an example, amounts to €510 per customer (see Table 1).

Table 1: Lifetime Customer Value

	Anonymous Customer	Loyalty Program Member
Number of purchases per year	3	4
Average purchase	€50	€60
Yearly revenue	3 x €50 = €150	4 x €60 = €240
Duration	3 years	4 years
Lifetime Value	€150 x 3 years = €450	€240 x 4 years = €960

(Mexx Int, 2010, Mexx Connect Introduction, Slide 10)

Having a greater insight into customers' buying behaviors allows a company and its sales staff to increase the customers' worth to the company in terms of profit by encouraging re-purchase and by up-selling and cross-selling. The simplest and most widely used technique is to provide incentives for re-purchase so as to bring customers back to the shops soon after their last purchase and thus develop them into truly loyal customers. Furthermore, once there is a certain degree of loyalty to the brand, customers can be encouraged to purchase premium items or ones that they do not normally buy from Mexx.

1.1.   Problem Description

The current situation in Region 3 of Mexx presents an interesting problem for management. As there has been no real focus or interest in loyalty programs in Region 3 in the past years, some of the partners have created their own programs, based on their own rules and offering their own privileges. As these developments went unsupervised and uncontrolled by Mexx, there are currently a multitude of different programs in the region.

This is the main problem that Mexx is facing as this strategy is unwise for any company that wants to establish a single brand image around the world. Any customer that visits a Mexx store in Region 3 and is a Mexx Connect member would not be able to use his or her loyalty card with that purchase. This will cause disappointment and confusion for consumers and it should be avoided.

1.2.   Research Focus

The loyalty program project was initiated by the Marketing Manager of Mexx Region 3 in order to get the wheels turning on this subject area. When the idea was first proposed, nobody had a clear understanding of the situation in the region or the effects the current programs were having on the business. In addition, loyalty programs were a low priority in the past so nobody did much regarding their proper development.

The objectives of the loyalty program project were first of all to figure out the current situation in Region 3. As some countries have a program and some do not, it was necessary to find out precisely what is happening so as to figure out what can be improved.

The other objective for this project was to unify or streamline the existing loyalty programs, so that in the end they would be more effective in achieving Mexx's business goals. For Mexx, it is highly beneficial to have one single program to represent the brand to all customers no matter where they shop. Thus, the central question was formulated which is also the focus of this report:

> *What strategies can Mexx International follow to realize an effective loyalty program that can be adapted to the local needs of Region 3 and be executed in a franchise system?*

However, it should be noted that within Region 3, there are some countries that have higher priority than others, not only for improving a bad program, but even for having a program at all. The countries most important to Mexx are those which bring in the most sales and are most loyal and active in marketing. These countries are Kazakhstan (plus Uzbekistan and Kyrgyzstan), Ukraine, Belarus, Armenia, Malta, Lithuania (plus Latvia) and Turkmenistan.

It is also important to know that the partners in Region 3 generally lack the organization and expertise to implement a well-functioning loyalty program on their own. There is a general desire for such a program, with a primary objective of improving sales and only then thinking about customer loyalty.

The centralized location and decision-making allows for the project to benefit from co-operation with all other departments, from learning the best practices in Mexx Connect, the loyalty program in the other two regions, and from the concentrated knowledge and expertise not only in marketing, but also in sales and business development.

1.3.   Methodology

The research method involved a few different approaches so as to come out with the best-in-practice result. Desk research was conducted for two reasons. First, the theory behind loyalty programs was researched, so that a theoretical best practice could be defined. Second, research was conducted into the loyalty programs of Mexx's competition in the market so as to learn from their experiences.

Internally, the focus of the research was on Mexx Connect because it is an already established and well-functioning loyalty program. It was possible to get more detailed insights into the set-up of the program and different methods that are used for promotion or evaluation than those of competitors' programs.

The practical research focused on the partners in Region 3. First, a questionnaire was sent out to each one, asking them to describe their current loyalty program (if they have one), how they use the database information, how they evaluate the program's effectiveness, etc (See Appendix 1 and 2). However, the response to the questionnaire was not sufficient enough to clearly define the situation and the needs of the partners.

For that reason, further in-depth research was conducted to find out more details about the current situation, needs and capabilities of the countries with highest priority (See Appendix 3). At this point, it was decided to use these countries as 'case studies' for figuring out a strategy that would work for the rest of Region 3 as well.

2. Best Practices in Theory

In this section, the theory relating to loyalty programs will be described. Firstly, a typology of loyalty programs will be outlined, keeping in mind the varying ways of differentiating between them. Furthermore, the overall benefits and pitfalls of loyalty programs will be mentioned. Finally, the methods for data collection and analysis will be described and the evaluation criteria will be listed. It is important to look at the theory of these topics in order to know the basic idea for the structure and function of a loyalty program before thinking about what and how to implement in reality. (See Appendix 4 for further details)

2.1.   Typology

It is important to note that there are different ways of distinguishing between loyalty programs. Programs can be differentiated on as simple a factor as the immediacy of the reward for purchasing, namely whether the customer receives a reward with each purchase (such as a discount) or has to collect points which can be exchanged for rewards. However, the more sophisticated typology of loyalty programs looks at the complexity of these programs and the customer and management involvement. Such a classification was developed by Barry Berman and will now be outlined.

Type 1 loyalty programs give an additional discount to all customers, without collecting consumer information, such as demographics or purchase history, or encouraging loyal behavior. Such programs are used by small companies and require no managerial commitment. Type 2 programs offer one item for free when a certain number of the same have been purchased. This program does not collect customer information, but does reward repeat purchases, even if they are infrequent. It does not involve much staff or managerial effort, as it is self-managed by the customer. It is easy to administer, but also easy to copy by competitors. (Berman, B., 2006, p. 124-126)

Type 3 loyalty programs are more sophisticated as they offer rebates or points based on cumulative purchases. The objective of this program is to get members to spend more money in order to receive rewards. This involves a comprehensive database to track each customer's purchases and the accumulated points. The program also encourages increasing loyal behavior by having program tiers with increasing benefits. One major limitation of the program is that there is one overall communication with all members, which does not allow for a truly beneficial relationship with the customer to be established. (Berman, B., 2006, p. 126-127)

Type 4 loyalty programs are the most complex building up on the set-up and mechanism of a Type 3 program by adding the use of targeted offers and mailings. This customized communication strategy requires quite a comprehensive database of demographics and purchase history and the use of data mining and other data analysis techniques. This program involves a major commitment by the company, either in hiring a capable team of marketing specialists and database management technicians, or in outsourcing the whole operation to an external company specializing in CRM.

2.2.   Benefits

The potential benefits of loyalty programs are numerous. Most importantly, loyalty programs "increase customer loyalty, lowering price sensitivity and intensifying positive attitudes towards the brand or retailer" (Berman, B., 2006, p. 128). This inevitably increases the bottom line of the business and creates a sustainable level of sales that can be easily maintained over time. Sales are also influenced by the possibilities for cross selling and up selling that are available through such programs.

Furthermore, an important aspect of having a loyalty program is that the business will be able to get valuable information about its customers and developing trends. This information can be used by the business to better satisfy its customers by providing them with better products and services to meet their needs. This is not only important for the company's core business, but also for marketing purposes, like targeting communication more effectively and running better promotional activities. By having such detailed customer information, the company's marketing team would be able to target special consumer segments, only investing in those most likely to respond, thus maximizing ROI.

2.3.   Pitfalls

As loyalty programs have become such a popular marketing tool, many companies have started them up for the wrong reasons or under the wrong circumstances. When planning to implement such an expensive and long-term strategy, it is important for marketing managers to consider the following pitfalls that often stand in the way of a successful program.

First, the market needs to be analyzed properly in order to determine if the program would work. Because of the close competition in certain markets, there is a continuous battle to gain market share and any effort by one will soon be copied by another. If there are too many competitors with programs offering similar benefits, starting up a loyalty program would not have any long-term advantage for the business. Furthermore, if multiple programs

offer the same things to consumers, true brand loyalty cannot be fostered as it would be too easy for people to switch brands and still get the same benefits.

Another common pitfall for loyalty program developers is that they choose the wrong the wrong type of program or include the wrong benefits. When dealing with loyalty programs, one needs to understand the target customers and what drives them to purchase this brand over others. With certain brands, a monetary reward would be sufficient, while others need to develop a system of experiential benefits that provide the customer with memories and an emotional attachment to the brand, which in the end is the sign for true loyalty.

Furthermore, if there are such fundamental issues such as lack of privacy protection, the company will not only lose the customers involved, but also gain a negative image, which is much more expensive and difficult to change. And finally and most importantly, a loyalty program should never be used as a cover-up for ineffective marketing. A loyalty program should be put in place to develop the already existing customer base, not to attract one. (Berman, B., 2006, p. 140-145)

2.4.   Data Collection and Analysis

One of the key elements of running a loyalty program is the data collection and analysis part of the process. Without an adequate database, managers would not be able to get the necessary customer insights from the collected information, which then prevents them from getting the main benefit of the program.

There are a few different ways that data can be collected. Essentially, the idea is to have a database that collects each transaction that any loyal customer makes and to link that to the specific customer information. This database can then be viewed from the transactional perspective or from the customer perspective to show different things and gather different perspectives on the performance of the loyalty program.

Looking at a collection of transactional data (for the promotional timeframe, for example), one can then calculate key performance indicators (KPIs) on this information to gain an idea about the customers' spending habits. If that period is expanded to a year or more, one can calculate customers' KPIs such as frequency, average spend, units per transaction and average unit price. Once the KPIs have been calculated, these can be compared on a monthly basis to spot spending trends and areas for improvement. In addition, they can be used to evaluate promotional effectiveness by comparing the performance of the promotional group versus a control group (having the same characteristics).

One of the most important reasons for analyzing a customer database is to generate a complete picture of the company's loyal customers. This will give insights into their psychographics, allowing managers to understand who buys what and when. This analysis can be used to segment customers based on their value to the company in order to select the most appropriate group to target during specific promotions. (Innoviti, 2011, Designing a Loyalty Program for Retail, Slide 14)

2.5.   Evaluation

Loyalty program success depends on multiple factors. First and foremost, the company must provide a product or service which consumers desire with an appropriate brand identity to match. If this most basic factor is missing, then not even the best loyalty program can make people buy the product. However, if there is a good offer, then people could be influenced by a loyalty program to buy from the company in question.

Other criteria which indicate the success of a given loyalty program include the impact of the loyalty program, measured by customers' shopping habits and the general increase of brand usage. This can include analyzing which products are bought when, whether they are bought at full price, and whether a gift voucher was used with the purchase.

Other criteria could include the continuation of the program, the increased store visits, a higher market share, increased sales and higher profitability. However, these factors, easy as they are to measure, are difficult to attribute to a single cause. An increase in sales, for example, can occur for multiple reasons, varying from the overall economic conditions to competitors' activities to the perceived quality of the current collection.

Program evaluation should be done on a regular basis: at least once a month and after every promotion. It is necessary to keep an eye on the program's performance in order to gain the valuable customer insights that such a program is designed to get.

3. Best Practices in Real Life

Thorough research does not only consist of looking for the best way to do something in theory. One has to look at what has already been done by competitors and judge what works or does not work in practice. For the case of creating a unified loyalty strategy for Mexx, it is most relevant to look into the different loyalty schemes of (global) retail businesses around the world. In this section, the best examples of such programs will be described, giving an overview of positive and negative elements. Later on this will be used as a basis for the recommendation of best strategy for Mexx.

3.1.   Mexx Connect

Mexx Connect is the loyalty program used by Mexx in Regions 1 and 2. This program is very successful: it has been in use for many years and has satisfied millions of loyal customers. Because of the program's maturity, all processes and promotions have been perfected and streamlined so that everything works to Mexx's advantage. Even though new points rules were just announced, the program is running very well, attracting many additional customers who buy more than the average anonymous customer.

The program works on a basic points basis with three levels. A customer's level depends on the total amount purchased within the past year. Linen members have to spend €0-€250 to get 2 points for every euro spent, Velvet members need €251-€600 for 5 points for every euro and Silk members need to maintain more than €601 to get 10 points. Points are redeemed automatically once 500 are accumulated at a uniform exchange rate (1 point = €0.01). The gift checks are valid for only three months. (Mexx Int. 2011. New Points System, Slides 4-6)

In addition, there are various soft benefits, such as providing access to special events, such as pre-sales and monthly fashion news. In the Velvet level there is even the possibility of having a personal shopper or profit from free alterations in-store. On top of all the benefits, Mexx Connect runs regular promotions to its members only, such as a €20 voucher or a Crazy Sale (10% off on first item, 20% off on second item, 30% on third and more). (J. Schoenmakers, interviews, 2011)

One of the main benefits of this program is that the financial rewards mechanism is automated and restricted: it has a time limit and it requires another transaction to be made in order for the rewards to be reaped. In addition, the promotions are timed precisely so as to maximize on loyal customers coming back into the stores and making more transactions.

This brings in a great amount of extra sales for Mexx, while still satisfying the brand's loyal customers.

3.2.   Esprit Club

As Mexx's closest competitor, it is very useful to analyze Esprit's loyalty program: Esprit Club. As a member, customers can collect e-points to the amount of 3% of each purchase and redeem them as vouchers (€200 purchase → 600 e-points → €6 voucher). The voucher is sent when 600 e-points are reached and is valid for 12 months. In the e-shop the minimum point level for redemption is 250 e-points (Esprit Club, 2011, Red Card, para. 1).

To become an Esprit Club member, it is necessary to make a purchase, without a minimum amount, and it is not required to maintain a certain level of purchases to remain a member. The only incentive to increase frequency and/or amount of purchases is to gain the extra soft benefits of a Platinum Card rather than the basic Red Card which requires a minimum of 1800 e-points within 12 months (See Table 2 for a list of benefits) (Esprit Club, 2011, Overview, para. 2). Other privileges include online account access, where customers can get information about their different services, check their point status and see their past purchases.

Table 2: Esprit Club Benefits

Benefit	Red Card	Platinum Card
Bonus with every purchase	3%	3%
Welcome bonus after first purchase	300 e-points	10%
Exclusive offers	•	•
Free, non-binding membership	•	•
Free service hotline	•	•
Personal account overview	•	•
Invitations to Private Sales	•	•
VIP invitations to Esprit events		•
Free alterations service		•
Birthday surprise	•	•
Exclusive Esprit club Platinum hotline		•

It is important to note that Esprit Club membership benefits can differ slightly in different countries. This is Esprit's solution to the company's retail/franchise structure, similar to the current problematic situation encountered at Mexx. Certain programs have a more basic structure, while others a more complex one or one with different benefits. In Canada and the United States, there is only one level with 5% bonus. In Germany, customers can get an Esprit Visa Card apart from the Red or Platinum. Finally, in New Zealand, customers can benefits from such soft benefits as gift wrapping, a Christmas gift card or special privileges with partners. (Esprit Club, 2011, Overview)

The main positive side for the Esprit Club loyalty program is that they offer very easy access to receiving benefits. This means that many customers will become members and possibly purchase at least once because of the membership. However, such a program is not ideal for developing true customer loyalty, namely because of its lack of membership

requirements. Such a program will never be able to develop a sense of exclusivity of membership, and thus will never make its members feel special because of the great number of programs offering those same rewards to their customers, if not better.

3.3.   SAKSFIRST

SAKSFIRST, the loyalty program for Saks Fifth Avenue, is one of the best in the retail business. There are two different cards from which customers can choose, offering numerous benefits, including accumulating and spending points at Saks and various partner deals.

Having the basic card, the Saks Store Card, customers can only collect points and redeem them annually for a Saks Gift Card (100 points = $1). With the Saks Fifth Avenue MasterCard, customers can get points not only for their Saks purchases, but also on salons, spas and other dining and essential items.

The program and the higher tiers are quite exclusive to those customers truly willing to spend the needed amount for membership. Saks Store Card holders need a minimum of $1000 spent annually at Saks, while Saks MasterCard owners are automatically members. Furthermore, for the tiers, one needs to spend up to $4,999 annually to be in SAKSFIRST Premier, $5,000-9,999 for SAKSFIRST Elite, $10,000-$24,999 for SAKSFIRST Platinum and more than $25,000 for SAKSFIRST Diamond membership. (SAKSFIRST, 2011, Membership Levels, para. 1-4)

In addition to the points system, SAKSFIRST members benefit from a number of partners. Membership allows for discounts and other special offers from Abercrombie & Kent ("The world's most luxury travel company"), Fairmont President's Club (hotels and resorts), The Palm (restaurant), and Sentient Jet ("The Private Jet Card for Today"). These offers have been chosen with the target Saks Fifth Avenue customers in mind: offering the luxurious, unique and unforgettable experiences. (SAKSFIRST, 2011, Partner Benefits)

The loyalty program of Saks Fifth Avenue is mentioned by different academic sources as one of the best programs in the retail business. With SAKSFIRST all aspects of the program, from the name, to the tiers, to the purchase requirements, scream exclusivity. And that is
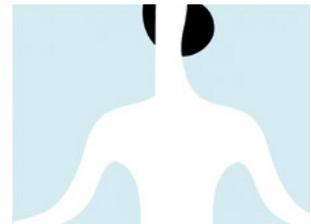
why the program works: it makes customers pay for their membership with their loyalty to the store and to the brand. Only after they have proven loyal will they be rewarded for it.

3.4.   Conclusion

Having analyzed the best loyalty programs in the retail sector, several conclusions can be made about which loyalty program aspects are good or bad for developing truly loyal customers. First of all, it is very important to know that the existing program for the other two regions within Mexx is such a success. This means that the company itself has experience and knowledge internally that can be utilized when developing a unified program.

Looking into competitors' programs has shown quite interesting results. On the one hand, Esprit, whose company structure and operations are similar to Mexx, has a similar program with slight country variations in benefits, but without much restriction on membership. Based on the theory on the subject, such a program may increase sales in the short term, but will never be able to create true customer loyalty on its own.

On the other hand, the Saks Fifth Avenue program is very exclusive and offers selected benefits that would appeal to the company's target group. This program is not focused on the financial or material benefits that it brings to members, but on the experiences and relationship it builds with its followers. Such a program is believed to be more successful in creating a truly loyal customer base for the long-term.

4. Internal Analysis

When creating a marketing strategy, a thorough understanding of the company (its origins and development) and its brand strategy are necessary. The strategy needs to be aligned with the brand image and to fit the company culture. In addition, the company structure will be overviewed, paying special attention to the region in question. This will provide a basic understanding of how the company operates and why implementing a unified loyalty program in Mexx is such a challenge.

4.1.   History
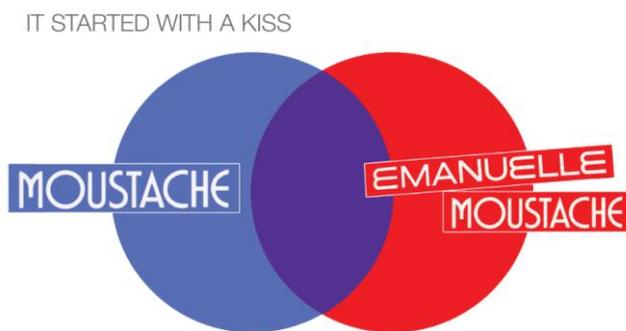
Mexx was founded when founder Rattan Chadha's existing fashion retailers Moustache (M) and Emanuelle (E) were sealed with a kiss (XX). This merger occurred in 1986, creating a power brand known for its casual wear for men and women.

As the company grew, there was a shift in focus in order to capture the attitude of a whole generation. "These young people were independent and they were having fun. Men and women hung out casually, kissing each other as friends." (Chadha, N., 2006, p. 129) The new strategy for Mexx was to create a lifestyle that would fit people in different moments in life: from work to around the house to out in the city. This strategy is at the heart of the brand and allows for everything to continue changing with the developing tastes and desires of target consumers (S_1).

The brand's continuous metamorphosis continued when in the early 1990s with the addition of accessories, shoes, baby, youth and young female collections. At its peak, Mexx even had a sports collection in order to truly provide fashion for every moment in a person's lifetime. "Mexx was living up to its total lifestyle potential." (Chadha, N., 2006, p. 93)

In 2001, Mexx was acquired by Liz Claiborne Inc. for several 100 million dollars. In order to make the company more valuable for the takeover, many long-term rental contracts were signed for A-locations in different cities, such as the store in P.C. Hooftstraat in Amsterdam.

Liz Claiborne's mission gave a very clear direction for where the whole company should be heading. Most importantly for Mexx and its new brand strategy is the promise of "unique, creative and emotionally-charged brands" which is a statement that Mexx has yet to live up to fully. (FashionNet, Branding)

In 2006, Rattan Chadha, the founder of Mexx, decided to finally leave the company. Since then, there have been multiple Boards of Directors trying to restructure the business so that it operates more efficiently. However, these efforts were not always successful, creating even more confusion and bad publicity for the brand.

Additionally, because of the financial standing of the company, in 2006 about half of the staff was let go. Since then, the remaining employees have been left with additional responsibilities that they may not want or know anything about. This created much unrest and lack of productivity internally which hampered development even further.

In order to save costs, there was also extreme price cutting going on. First on the list of things to be cut was product costs. This made products worse in quality, even though they retained the same price for the end consumer. This led to many customers turning away from the brand, highly disappointed. (K. Solomatina, interviews, 2011) (W_{1-3})

But despite all of this turmoil, in 2009 with the new management, Mexx seems to have chosen a great new strategy that thus far seems to be working, yielding positive results for the company (S_2, O_4). They redesigned the brand, the communication strategy and the mission, giving customers the impression that Mexx is returning to its roots. These changes were also made possible by the high dedication from all Mexx employees (S_4).

4.2.   The New Brand Strategy

The new Mexx is exciting, extraordinary, excellent and sexy. It adds the XX-factor to life. With its new mission of "creating an exciting, modern and casual lifestyle brand for an active, metropolitan life" (Mexx Int., 2011) and its new purple signature color representing love and passion, Mexx is becoming more and more recognizable by the day (S_2).

"Mexx makes fashion that is a little bit different. Inspired by life in the big city, influenced by its energy, style and trends. We call this look metropolitan casual. It is smart and classy, not too expensive and not too cheap, always self-confident and casual. In short: Mexx makes fashion for men, women and children who know what they want: something special. Style – designed to eXXcite.

 "Everything that Mexx does aspires to be in some way unique. Because at the end of the day, it is precisely that individuality that people want from an outfit. Every pair of pants, every shirt, every coat gives them an opportunity to emphasize their personality. Every individual item of fashion is a chance to say: 'That's me + XX factor. Me+XX. Mexx. '" (Liz Claiborne Inc., 2011, Our Brands: Mexx, para. 1-2)

The target group of Mexx consists of people between the age of 25 and 45 who have above average education and a higher income. Slightly more than half of all customers are female. More importantly, the typical shoppers are mainly described by their attitudes and interests. They are independent, individualistic and young at heart and mind. They are also big city bound and are fashion interested, but not fashion victims.

4.3.   Company Structure

There are three distribution channels within Mexx. First, there is the retail channel, within which Mexx operates its own high street retail stores. There is also an e-shop that can be utilized by visitors from certain European nations. Lastly, there is the wholesale business, in the form of franchised stores, shop-in-shops and multi-label distribution. (Mexx Int., 2010, Town Hall Presentation, Slide 13) (W_4, T_1)

In addition to the distribution channel division, there is a geographical separation of Mexx operation into three regions. Regions 1 and 2 cover the more important for Mexx countries in Europe, mostly in Western Europe, in both retail and wholesale. Region 3 on the other hand is the region spanning Central and Eastern Europe, Middle East, Russia and CIS countries, and Latin America. This is the most diverse and ever changing region.

The current situation in Region 3 concerning and loyalty programs, more specifically, is quite unorganized and in certain cases unclear or even non-existent. (See Appendix 11.2 for an overview of the current situation). As the partners vary significantly in size, capabilities and marketing know-how, it is impossible to approach the region as one whole. However, there are certain trends in the region that differentiate it from the other two. These will be explained further in the External Analysis section of this report.

4.4.   Summary

Based on the above internal analysis, here is a summary of the strengths and weaknesses of Mexx International.

STRENGTHS

S_1: Ability to change and adapt to changing consumer trends

S_2: New management – new strategy

S_3: Fresh and strong brand image and communication strategy

S_4: Highly dedicated employees who stand by the brand

WEAKNESSES

W_1: Low consumer attachment to the brand

W_2: Designs do not always match brand image

W_3: Weak financial position of Mexx

W_4: Retail / franchise business model

5. External Analysis

It is very difficult to conduct a thorough external analysis for a region of this size and it is also unnecessary for the purposes of this report. The market situations of many of the countries are very similar, having developed politically and economically under similar conditions in post-Soviet years. For that reason, an overview of market trends in the region will be given. Special attention will be paid to the competitive environment and some cultural factors that influence buying behaviors.

5.1.   Economic Conditions

There are many factors (national, regional and international) that affect the development and general economic conditions prevailing in the countries of Region 3 (T_4). Most of these nations used to be part of the Soviet Union, so they have had to transition from a centrally planned to a market economy. In addition, they are affected by world economic trends because of globalization and world trade.

Most of the countries in Region 3 went through a similar development process over the past years. In the 1990s, they were implementing a number of reforms to transition to a market economy. These had varying effects, from Poland's success story to Belarus which to this day still has a policy of 'market socialism' (CIA, 2011, The World Factbook. Belarus, Economy, para. 1). For most though, reforms were slow, involving much foreign borrowing.

In the early 2000, the region saw much growth because of heavy foreign direct investments. However, when the economic downturn of late 2008 hit, the countries in the region were affected even more because the investments seized, exports lessened and unemployment soared. Most countries went into recession, seeing a double digit decline in GDP, around 14%. Poland was the only country in the EU to observe a positive GDP growth through the economic downturn (CIA, 2011, The World Factbook. Poland, Economy, para. 1).

These challenging times were met with many reforms, most of which were very slow and limited. Most are reaching a point of flat or low positive GDP growth. Most notably, Kazakhstan and Lithuania stand out with quite positive performance because they have both taken very optimistic approaches to reforming. Kazakhstan implemented a strategy to diversify its profitable sectors and Lithuania launched a campaign to attract foreign investments and to expand export markets. (CIA, 2011, The World Factbook)

In conclusion, it should be noted that the region as a whole is not yet very economically stable as it can very easily be influenced by global economic events. Some countries even need to continue implementing reforms to open up their markets even more. So, any global companies in that region have to keep in mind that these economies are still quite uncertain and need to be monitored closely.

5.2.   Competitive Environment

Because customers in the region, especially women, are very fashion-forward, they buy from brand names and continue purchasing if they are satisfied. In addition, many times all of these stores are in one shopping mall where it becomes very important for a brand to have extra offers to bring customers inside. In these markets, competition for the same customers is very fierce.

Because of the transformation that the region has been going through and the investments that have been flowing in, there are a great number of global retail brands in the market, providing much competition for Mexx. In addition, because of the region's economic instability, there is a great amount of movement of competitors: there are always new brands coming in and old ones leaving the market. (T_{2-3})
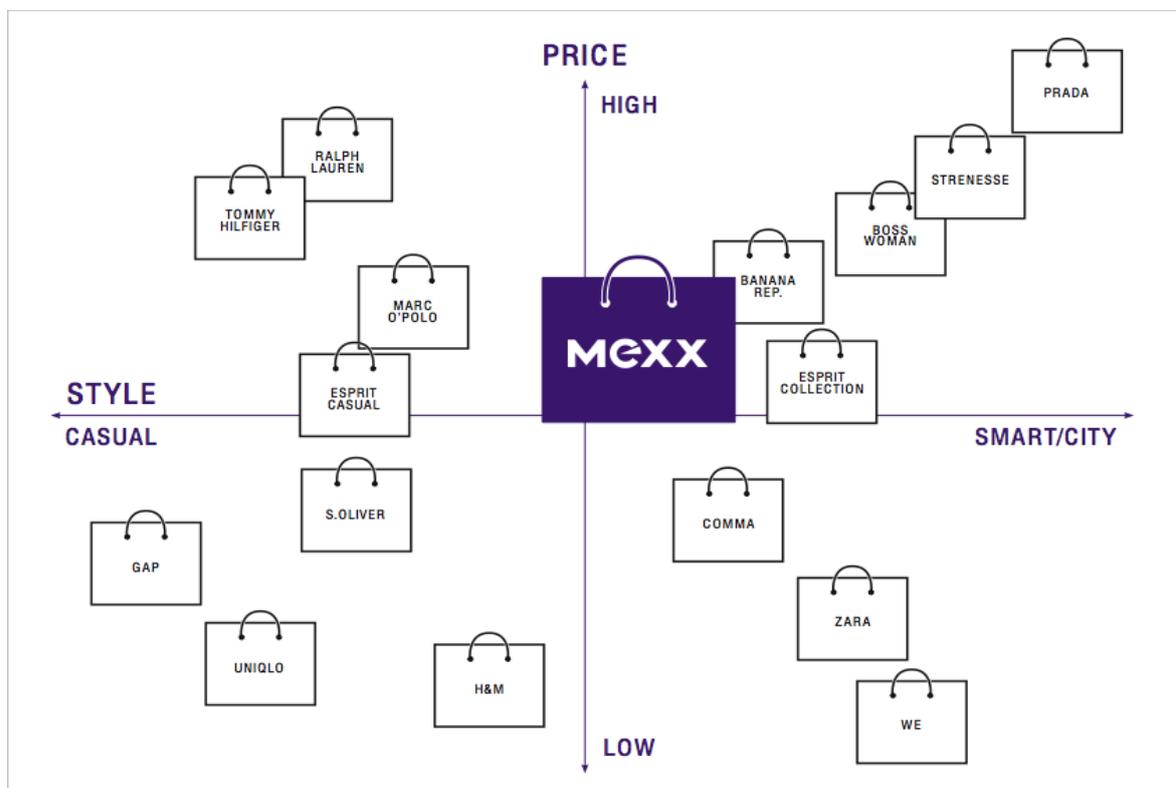
(Mexx Int. 2010, Who is Mexx – Region 3, Slide 18)

In order to increase their sales and market share, many companies have developed loyalty programs that were designed to give discounts to customers in order to keep bringing them into the stores. This strategy has developed in the region because of its economic instability and unpredictability. It has been effective for customers because of their 'carpe diem' attitude of preferring a discount right now rather than waiting for one later. (K. Solomatina, interview, 2011)

Additionally in some countries, the franchise partners have multiple brands, which are already competing against each other. This creates more difficulties for companies trying to set company objectives and strategies. If the company is not loyal to one brand, how can they ask customers to be?

5.3.   Socio-Cultural Factors

Region 3 is characterized by its great diversity. There are so many different cultures, covering a vast number of cultures and languages: from Spanish to Russian to Arabic. This creates many challenges and still even more opportunities for growth and development.

Overall, the brand is positioned higher than in Western Europe. This means that the partners look for the higher-fashion items to purchase and sell in their stores. The typical Region 3 customer is much more fashion oriented and is attracted to the high-end items in the collection. (Region 3 Marketing Introduction Presentation, 2010, Slide 11) (O_{1-3})

In addition, consumers in this market have a 'carpe diem' attitude which means they expect to be given discounts and many of them in return for their continued business. Currently, in their view, having to save points to get a discount for a future purchase is not an acceptable alternative to an immediate discount. (T_3)

5.4.   Summary

Based on the above external analysis, here is a summary of the opportunities and threats for Mexx International.

OPPORTUNITIES

O_1: Shaping customer tastes in developing markets

O_2: Being a pioneer in the region concerning loyalty programs

O_3: Improving customer attachment to the brand

O_4: Improving brand performance by developing true loyalty

THREATS

T_1: Internal resistance to one strategy

T_2: Fierce competition and excessive movement

T_3: Competitors all depend on using discounts as incentives

T_4: Uncertain economic situation in the region

6. SWOT Analysis

In order to gain a complete picture of the situation in Region 3, it is important to take both the internal and external analyses and put them together in the SWOT to figure out how to approach the current situation best. First, a quick overview of the strengths, weaknesses, opportunities and threats will be done based on the two analyses previously mentioned. Then, everything will be put together in the confrontation matrix, which would allow for conclusions to be drawn.

6.1.   Strengths

Mexx's main strength is that it is a company able to adapt and change with the changing times and consumer trends (S_1). This is shown by its history of transformation and development which happened on a regular basis, not only in times of negative performance. With every new trend and generation of customers, Mexx re-invented itself to fit their lifestyles.

Even now, the new management has proven its value by implementing a new strategy that has improved performance (S_2). They are a true part of Mexx because they have shown already their ability to re-invent and adapt which is at the heart of Mexx. This management seems to have what it takes to take the brand back up to its high point.

Another strength that Mexx has on its side is the new brand image. It is fresh, strong and exciting, just like Mexx. The new image and communication strategy (S_3) are better aligned with the company's mission and vision, which provides a good basis for unifying other marketing elements.

Finally, none of these changes would have been possible without a highly dedicated staff that supports the brand and what it stands for (S_4). The remaining employees at Mexx are the best at what they do and most have remained with the brand through its rocky times, showing their commitment to the company.

6.2.   Weaknesses

Most of the weaknesses Mexx have come from the recent turbulent times and the transformation of the brand into the Metropolitan Casual. During these troublesome times, customers were disappointed by low-quality products at high prices, so they started turning away from the brand (W_1). Now, their trust and loyalty have to be regained by the new Mexx.

Another weakness relating to Mexx's recent times of change is that the current designs are still trying to match fully the communicated brand image (W_2). This is something that everyone is working on improving as it is the most important thing for a fashion retailer: to have a good product that matches the desired image.

As already mentioned, Mexx is still not in a very strong financial position (W_3). This leaves the company vulnerable to threats in the environment and unable to take certain risky opportunities. Every strategic decision is made only after thorough analysis of its potential profitability and costs. Nothing is taken on if it will not increase the company's value.

Another disadvantage for Mexx when trying to implement a unified strategy, in this case a loyalty program, is its retail / franchise business structure (W_4). Because of the nature of franchise agreements, Mexx Int. has no authority to make all the partners have the same program, but can only try to convince them to join the chosen strategy.

6.3.   Opportunities

Being characterized by its many development opportunities, Region 3 is a fertile place for the development of consumer behavior (O_1). Even though currently consumers are spoiled by excessive discounts, a strategy for changing their attitudes and behaviors can be developed which would lead to truly loyal customers.

This transformation would mean that Mexx would be the pioneer in the region concerning loyalty programs (O_2). In such a competitive market, a company should strive to be ahead of the competition. Developing loyalty programs in the midst of all the discount schemes there would create excitement which would translate into numerous benefits for Mexx.

Implementing a loyalty program would of course raise customer attachment to the brand (O_3). The idea of loyalty programs is to develop true loyalty, behavioral and attitudinal. This is an opportunity that is unique for Region 3 as there is rarely any loyalty at all, only based on the amount of discount one could get.

If all those changes occur, then of course Mexx's performance as a whole would improve (O_4). Not only will it present a stronger brand, by having one program for all regions, but it would actually develop loyal customers who will stand by the brand through any turbulent times that may come in the future.

6.4.   Threats

There are a number of threats, internal and external, standing in the way of Mexx implementing a unified loyalty program. First of all, there are partners who are unwilling to change their current discount based loyalty program into a points based program (T_1). This provides a challenge to management to convince all partners to participate.

Second, there are the external factors that play a role in the decision making. The fierce competition and excessive competitive movement make it very risky to take such a big step in changing part of the company's strategy (T_2). Any strategic decision has to consider all the competitors in the market, how the new company direction would fit in the mix and whether that would lead to increased profitability.

In addition, one environmental aspect that could prevent the success of a unified loyalty program for Mexx is the fact that competitors in those markets are depending on giving out discounts to maintain sales (T_3). For the partners in the region, it would be easier to keep whatever program they have at the moment rather than investing a great amount of money for something that may or may not work in their country.

Finally, the uncertain economic situation in those countries plays an important role in the decision making (T_4). Companies are generally unwilling to make such a risky strategic move in such times. If the result is anything less than perfect, then the effect on the company could be worse because of the bad economy.

6.5.   Confrontation Matrix

In the following section, the strengths, weaknesses, opportunities and threats will be juxtaposed. This will show how the strengths can be used to take advantage of the opportunities and avoid the threats. It will also give warnings of what could happen if Mexx's weaknesses end up influencing the whole situation and preventing the situation to go forth in a positive direction. This confrontation of the different aspects will reveal different scenarios that could occur based on which a recommendation can be made as to what should be done in order to achieve the desired result.

STRENGTHS:

S_1: Ability to change and adapt to changing consumer trends

S_2: New management – new strategy

S_3: Fresh and strong brand image and communication strategy

S_4: Highly dedicated employees who stand by the brand

WEAKNESSES:

W_1: Low consumer attachment to the brand

W_2: Designs do not always match brand image

W_3: Weak financial position of Mexx

W_4: Retail / franchise business model

OPPORTUNITIES:

O_1: Shaping customer tastes in developing markets

O_2: Being a pioneer in the region concerning loyalty programs

O_3: Improving customer attachment to the brand

O_4: Improving brand performance by developing true loyalty

THREATS:

T_1: Internal resistance to one strategy

T_2: Fierce competition and excessive movement

T_3: Competitors all depend on using discounts as incentives

T_4: Uncertain economic situation in the region

STRENGHTS VS OPPORTUNITIES:

S_1O_1: The ability to change and adapt is highly needed if Mexx wants to attempt to shape customer tastes as that change is quite major and needs a company that has already proven successful in transforming itself and its customers.

S_1O_2: Being able to change is also needed to become the pioneer. If one can change, then one can become something new and unheard of to lead the marketplace.

S_1O_3 / S_1O_4: Though not directly related, Mexx's ability to reinvent itself will lead to improving customer attachment and brand performance if the market is developed by implementing the right kind of loyalty program.

S_2O_1: Mexx's new management has already proven itself in being able to shape customer tastes, so it will be an asset if pursuing this opportunity in the region.

S_2O_2: Implementing a radically new strategy shows the ability to lead a marketplace in innovation and ideas.

S_2O_3: The work done by the new management has definitely shown their capability of improving customer attachment to the brand.

S_2O_4: As the new management has already started improving the brand's performance, they are likely to continue doing so in the future.

S_3O_1: The new image can be the main tool used in shaping customer tastes because it will excite them about the brand and what it stands for rather than the financial incentives.

S_3O_2: Mexx's new communication strategy is already getting to a place where it is leading the market and has the capability of doing even more within a loyalty program.

S_3O_3: The new image is already improving customer attachment because it has brought the XX factor back into the picture which attracted customers in the first place.

S_3O_4: The new communication is already seeing improved brand performance in the market.

S_4O_1: Employee dedication is needed to change customer tastes because it is a difficult long-term strategy.

S_4O_2: It is also needed for leading the market in loyalty programs as that needs their continuous attention and commitment to monitoring every little development.

S_4O_3: If employees are not attached to the brand, then nobody can expect customers to love and support it.

S_4O_4: Dedication and enthusiasm for the brand are necessary to improve performance and to develop true loyalty.

WEAKNESSES VS OPPORTUNITIES:

W_1O_1: The low consumer attachment may make changing customer tastes if customers will not go along with the changes that Mexx is trying to implement.

W_1O_2: If customers do not want to be part of the new loyalty program, then Mexx cannot become the pioneer in this field.

W_1O_3: The already low customer attachment may be too low to improve successfully.

W_1O_4: If customers are not attached to the brand, then they cannot possibly lead to its improved performance.

W_2O_{1-4}: Unmatched designs will only lead to disappointment and cannot possibly allow for any opportunity concerning loyalty programs to be taken advantage of.

W_3O_{1-4}: The weak financial position of Mexx sets a bad starting point for the company when trying to implement a risky strategy. Changing customer tastes and leading market places in marketing innovation is quite challenging and uncertain for any company and only more difficult for one in an already uncertain financial stability.

W_4O_{1-4}: The business model of Mexx only creates difficulties when trying to implement one central program because of the great internal resistance from franchise partners. If the contractual agreements are not set properly to allow for such programs, then the process of convincing the partners to go along with the chosen strategy becomes a long and difficult one.

STRENGTHS VS THREATS:

$S_{1/4}T_1$: Mexx's ability to change has a chance in overcoming the internal resistance only if there is high employee dedication.

$S_1T_{2/3}$: Being able to adapt will allow for Mexx to find the right position in order to stand out from its competitors and their practices.

S_1T_4: Mexx's ability to adapt can help it survive through the tightest of economic conditions.

S_2T_1: The new management and strategy have already brought all of Mexx back to the same place where everything is working together for the same goal once again.

S_2T_2: The new strategy has already proven useful against fierce competition.

$S_2T_{3/4}$: The new management has shown its ability to overcome difficult situations, so it is likely that it will do the same in the current competitive and economic conditions.

S_3T_{1-4}: The new brand image and communication strategy have already proven successful in improving the brand, so it is likely that they will lead the company through these uncertain times by avoiding the threats in the environment.

$S_4T_{2/3}$: High employee dedication is very valuable in be successful in any strategy in such a highly competitive marketplace and industry.

S_4T_4: Employee dedication is also needed in uncertain economic times in order to pull the company through without much negative impact.

WEAKNESSES VS THREATS:

W_1T_1: Low customer attachment is not related to internal resistance, but both make implementing a unified loyalty program quite challenging.

$W_1T_{2/3}$: If the customer attachment is too low, then Mexx would not be able to survive such a major change in such a competitive environment.

W_1T_4: Low customer attachment is bad for any company during uncertain economic conditions and even more when implementing a pioneering strategy.

W_2T_1: The mismatching designs and internal resistance are not directly related but neither makes the situation very easy to deal with.

$W_2T_{2/3}$: The weak designs may not be good enough in order to match or beat competing offers, which is necessary in order to implement a new strategic direction for the company.

W_2T_4: A good product offer is a must during uncertain economic conditions, so Mexx needs to continue working to improve on this weakness in order to be able to survive the uncertain times.

W_3T_{1-4}: The weak financial position of Mexx needs to be improved in order for the company to be able to withstand to any threats in the environment.

W_4T_1: The business model provides the basis for the internal resistance and these two combined can prevent a unified loyalty program from being implemented.

$W_4T_{2/3}$: Mexx's business model makes it difficult for any decisions to be taken swiftly which makes reacting to competitors' moves in such an fierce environment very difficult.

W_4T_4: The slow decision making of such a structure also makes surviving unfavorable economic conditions quite challenging.

7. Conclusion

Loyalty programs, despite how easily they can go wrong, are nevertheless a very important marketing tool. Especially for big global retailers, it is highly useful to have such detailed insights into their customers' buying behaviors. Moreover, it is of great value to be able to develop true customer loyalty, both behavioral and attitudinal, in order to increase lifetime customer value and share of wallet.

Based on the best practices in theory and in real life, there are several aspects of loyalty programs that are very important for a loyalty program to have. Those developing a loyalty program need to be aware of the customers for whom this is done and what they would like in exchange for their loyalty to a brand. Just giving out discounts does not create loyalty, but only brings in customers for the time being. Attachment to the brand needs to be developed through unique experiences that make loyal customers feel special and important.

Considering Mexx's current situation, it is very important for Region 3 to improve the use of loyalty programs by the franchise partners. There are a number of factors that play a role in the choice of strategy to be implemented in the region. These are both internal (strengths and weaknesses) and external (opportunities and threats).

Mexx has a long history of re-defining itself to fit consumer trends. It has a very dedicated work force and management that are working hard to promote the new brand strategy. On the other hand, Mexx's structure and weak financial position weaken the company. In addition, because of recent turbulent times, there are problems with customer trust in the brand and aligning the product to the image.

The external environment in Region 3 is not extremely favorable at the moment due to the economical uncertainty and the fierce competition. However, there are a number of opportunities that Mexx could take advantage of in the region. Most importantly, Mexx can be a pioneer in that area concerning loyalty programs. As this field is mostly untouched there, any company that starts focusing on experiential rewards and true loyalty will benefit from the first and biggest chunk of loyal customers.

Based on the current situation within Mexx and the environmental factors abovementioned, it is the right time for the company to make the very important strategic decision concerning its loyalty program. From a strategic point of view, one single loyalty program for the whole

company is the best option as it will present the company in the same way to all customers regardless of location.

However, this strategy presents quite a few difficulties for Region 3 with its great diversity and franchise structure. It will not be an easy road convincing some partners to switch from a discount to a point based program. However, with the dedication of Mexx's staff, this can be achieved. And if all loyalty programs are brought under the same name and rules of Mexx Connect, then the company will profit not only by increasing customer loyalty and profits, but in improving its working relationships with the partners and other parties involved.

8. Recommendation

The recommended strategy for Mexx to follow in its current situation is to make the strategic choice of having one loyalty program in all regions, namely Mexx Connect (See Appendix 5 for details on how this will work for Region 3). This will really unify the brand and promote it better to end consumers around the world. In addition, Mexx should strive to include more and more experiential rewards in Mexx Connect rather than just relying on gift vouchers and other promotions.

Realistically, this strategy may not be achieved completely in the near future because of the strong internal resistance from certain partners and unfavorable economic and competitive conditions. The important thing for Mexx is to have the strategy decided on so that everyone can focus their efforts to achieving it.

The implementation will always be challenging and time-consuming. In certain cases, it might take one or two years to transform customer attitudes enough to be able to accept a point based system rather than instant discounts. But the important thing is that eventually every region of Mexx will represent the brand with one loyalty program that fits its Metropolitan Casual brand image and attitude.

In those problematic countries where an immediate switch to the point based Mexx Connect would not be possible, there can be a strategy put in place that will transform the program to points in the long term. For the short term, however, the strategy could involve limiting the discounts given and slowly restricting discounts and increasing experiential rewards in order to change customer opinions.

It is highly important for Mexx to set strategies in motion that will lead to one brand experience around the world. This will strengthen the brand as a whole and will improve the company's performance. Only by providing the same great customer experiences everywhere will the company be able to continue improving to the point where it is the top of class once again.

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10. Appendices

In the following sections, the most important additional documents will be attached in order to give the reader a further understanding into the current situation of Mexx.

10.1.   Appendix 1: Questionnaire

MEXX LOYALTY PROGRAM PROJECT 2011

The aim of this questionnaire is to acquire profound insight into your current loyalty program.

The main areas of research include:
_existing Loyalty Program mechanism
_existing communication with and to customers
_existing database variables
_existing data analysis methods
_current usage of the possible benefits of a Loyalty Program

Please try to fill out every of the 43 question to the best of your knowledge.
The answers are either in drop-down menus or open fields. Please add comments in the specified row or column I.
The questionnaire will take about 5-10 minutes of your time.
The results of this survey are for internal use only and will only be used for the Loyalty Program project.

Thank you very much for your participation!

MEXX

1	GENERAL	TO BE FILLED IN BY PARTNER				
	PARTNER NAME					
	COUNTRY (PLEASE USE 1 QUESTIONNAIRE PER COUNTRY)					
	POPULATION OF THE COUNTRY					
	NUMBER OF POTENTIAL CUSTOMERS IN THE COUNTRY					
	TOTAL NUMBER OF OWN MEXX RETAIL STORES					
	TOTAL NUMBER OF MEXX STORES (RETAIL + FRANCHISE)					
2A	**LOYALTY PROGRAM - GENERAL**					
	DO YOU HAVE A LOYALTY PROGRAM EXCLUSIVELY FOR MEXX?	YES/NO	If NO, please proceed answering the questions related to MEXX only.			
	HOW DO YOU CUSTOMIZE THE LOYAL PROGRAM CARDS? (BARCODE / NUMBER / MAGNETIC STRIP / ETC)					
	IF YOU USE MAGNETIC CARDS, WHAT SYSTEM DO YOU USE TO READ THEM?					
	WHAT ARE CURRENTLY YOUR MAIN CONCERNS RELATED TO THE LOYALTY PROGRAM?					
	WOULD YOU BE WILLING TO IMPLEMENT A DIFFERENT LOYALTY PROGRAM IF PROVEN TO BE MORE EFFECTIVE?	YES/NO				
2B	**LOYALTY PROGRAM - MECHANISM**					
	WHAT IS THE MAIN BENEFIT FOR THE CONSUMER TO BECOME A MEMBER OF THE LOYALTY PROGRAM? (CHOOSE BEST OPTION)	RECEIVE DISCOUNT IN %				
	HOW CAN CUSTOMERS ENROL TO THE LOYALTY PROGRAM?					
	WHAT IS THE MINIMUM PURCHASE AMOUNT TO BECOME A MEMBER?					
	ARE THERE OTHER CONDITIONS FOR MEMBERSHIP? PLEASE EXPLAIN					
	HOW DO CUSTOMERS EARN BENEFITS? (COLLECTING POINTS/UPGRADING DISCOUNT/CASHBACK)					
	OTHER RELEVANT INFORMATION:					
2C	**LOYALTY PROGRAM - LEVELS OF MEMBERSHIP**					
	ARE THERE DIFFERENT LEVELS OF MEMBERSHIP?	YES/NO	If NO, answer the questions based on 1 level only			
	IF SO, PLEASE PROVIDE INFORMATION REGARDING UNDERNEATH:	LEVEL 1	LEVEL 2	LEVEL 3		
	>> NAME OF THE LEVEL					
	>> WHAT IS THE POINT EQUIVALENCE (IN EURO) OR DISCOUNT %?					
	>> MINIMUM PURCHASE REQUIREMENT FOR UPGRADE TO THIS LEVEL (EQUIVALENT IN EURO)					
	>> OTHER CONDITIONS FOR UPGRADE (IF ANY)					
	>> ADDITIONAL BENEFITS					
	ARE THERE CONDITIONS UNDER WHICH MEMBERSHIP IS LOST? (after period of time / frequency of buy/etc) PLEASE EXPLAIN					
	OTHER RELEVANT INFORMATION:					

3	LOYALTY PROGRAM - COMMUNICATION CHANNELS	SMS	E-MAIL	MAILING	SOCIAL MEDIA	WEBSITE	OTHER (please specify)
	WHAT TYPE OF COMMUNICATION CHANNEL DO YOU USE?	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	
	HOW OFTEN DO YOU USE THIS COMMUNICATION CHANNEL? (CHOOSE MIMIMUM NUMBER OF TIMES PER YEAR)	>52	>52	>52	>52	>52	>52
	HOW EFFECTIVE IS THIS MEAN OF COMMUNICATION, BASED ON AVERAGE RETENTION RATES (5 MOST EFFECTIVE)	1 to 5	1 to 5	1 to 5	1 to 5	1 to 5	1 to 5
	WHAT INFORMATION DO YOU COMMUNICATE VIA THESE CHANNELS? (sale / new collection / promotion / etc)						
	DOES THE COMMUNICATION DIFFER BY LEVEL OF MEMBERSHIP?	YES/NO					
	OTHER RELEVANT INFORMATION:						
4A	**LOYALTY PROGRAM - DATABASE**						
	HOW MANY MEMBERS ARE IN THE LOYALTY PROGRAM'S DATABASE?						
4B	**LOYALTY PROGRAM - DATABASE VARIABLES**						
	PERSONAL DATA (NAME / ADDRESS / E-MAIL / FAMILY STATUS / AGE / ETC). NAME EXACT VARIABLES						
	TRANSACTIONAL DATA (PURCHASE VALUE AND VOLUME / UNITS PER TRANS / SPENDING PER CATEGORY / STORE / ETC)						
	OTHER DATA (NUMBER OF MAILINGS / RESPONSE HISTORY / ETC)						
	OTHER RELEVANT INFORMATION:						
5	**LOYALTY PROGRAM - DATA ANALYSIS**						
	HOW OFTEN DO YOU ANALYZE THE LOYAL CUSTOMER DATA? (CHOOSE MIMIMUM NUMBER OF TIMES PER YEAR)	>52					
	WHAT METHOD DO YOU USE FOR ANALYSIS (EXCEL / EXTERNAL COMPANY / ETC)						
	WITH WHO IS THIS INFORMATION SHARED (INTERNALLY AND EXTERNALLY)?						
	FOR WHAT PURPOSES DO YOU USE THE ANALYZED INFORMATION?						
	DO YOU HAVE HARD DATA ABOUT THE DIRECT INFLUENCE OF LOYALTY PROGRAM ACTIVITIES ON YOUR BUSINESS RESULTS?						
	WHAT ARE THE MOST USED PERFORMANCE INDICATORS THAT YOU RETREIVE FROM THE LOYAL CUSTOMER DATABASE?						
	OTHER RELEVANT INFORMATION:						

Please be so kind to attach the following documents:
- Example of a Loyal Customer Membership sign-up form
- Example of a Loyal Customer Data Analysis

10.2.   Appendix 2: Questionnaire Results

The questionnaire was distributed to all partners by email in order to be completed and returned. This was a challenging process because most of the partners were uninterested in having a loyalty program or taking the time to do anything on this topic.

However, after much convincing and multiple reminders, enough questionnaires were returned to give an overview of the current situation in Mexx Region 3. The results were collected in a database presented below. Any missing information was filled in by Mexx Int. to complete the picture for those that do not have a loyalty scheme and did not return a questionnaire.

	Country	Armenia	Azerbaijan	Belarus	Bulgaria	Croatia	Georgia	Greece	Guatemala, El Salvador
PARTNER INFORMATION	Partner Name	Modeart LLC	Rar Ltd.	Belvirineja Ltd.	Zyxtrade Ltd.	Magma, D.D.	British Atlantic	Mexx Greece	Euromarcas, S.A.
	Population	2,967,975	8,372,373	9,577,552	7,093,635	4,483,804	4,585,874	10,760,136	13,824,463
	Potential Customer Base	50,000		561,165					50,000
	# Mexx Retail Stores	1		2		1		0	0
	Total # Mexx Stores	1	2		2	2	2	22	1
LOYALTY PROGRAM	Have LP?	Y		Y		N		N	N
	Mexx Only LP?	Y				N		N	N
	LP Card Customization	Magnetic Strip		Barcode					
	System for Card Reading								
	Want a New LP?	Y		Y				Y	
BENEFITS	Main Customer Benefit	Receive Disount in %		Receive Disount in %					
	Enrolment Method	Frequent Purchases		Free Sign-Up					
	Minimum Purchase	300 EUR		350 EUR					
	Other Membership Conditions	None							
	How to Earn Benefits	Upgrading Discount		% discount on past purchases					
LEVELS OF MEMBERSHIP	Levels of Membership?	Y		Y					
	Level	Level 1 Level 2 Level 3		Level 1 Level 2 Level 3					
	Level Name	SELECT SELECTXTRA EXCELLENT		FLAX VELVET SILK					
	Point Rate or Discount %	5% 10% 15%		5% 7% 10%					
	Minimum Purchase	≥330 EUR ≥2000 EUR ≥6000 EUR		350 EUR 500 EUR 1040 EUR					
	Additional Benefits	None		None					
	Conditions for Losing Membership	N							
COMMUNICATION	Types of Communication Channels	SMS E-MAIL MAILING SOCIAL MEDIA WEBSITE		SMS WEBSITE					
	Frequency of Use	>12 >12 >3 >52 >52		>25 >3					
	Effectiveness	5 4 4 4 5		5 3					
	Information Communicated	S, NC, P, E NC, P		S, NC, P					
	Different Comm?			N					
DB	Database Membership	1,152		4,468					
VARIABLES	Name	Y		Y					
	Address	Y		Y					
	Gender								
	E-mail	Y		Y					
	DOB / Age			Y					
	ID #								
	Home Phone	Y							
	Mobile Phone			Y					
	Family Status								
ANALYSIS	Transactional Data?							ALL	
	Analysis Frequency				>3		>3	>12	
	Analysis Method				Excel		Excel	Excel	
	Information Sharing				Internal		Internal: brand and store managers	Internal	
	Use of Analysis				Promotional; effectiveness planning		Tracking loyalty card usage		
	Hard Data on the Effects?						Y		

Category	Field	Hungary	Iraq	Ireland	Kazakhstan, Kyrgistan, Uzbekistan	Latvia, Lithuania	Lebanon	Malta	Moldova
PARTNER INFORMATION	Country	Hungary	Iraq	Ireland	Kazakhstan, Kyrgistan, Uzbekistan	Latvia, Lithuania	Lebanon	Malta	Moldova
	Partner Name	Roland Divathaz Zrt.	Financial Links General Tc	Sunwood	Key Way	Apranga Trade Company	Retail Management Group Sal	Farrugia Textiles	Sensei
	Population	9,976,062	30,399,572	4,470,700	16,455,000	5,740,255	4,143,101	408,333	4,314,377
	Potential Customer Base							5,000	
	# Mexx Retail Stores			0			0	0	
	Total # Mexx Stores	10	1	7	16	4	3	3	1
LOYALTY PROGRAM	Have LP?			Y			Y	Y	
	Mexx Only LP?			N			N	Y	
	LP Card Customization						Magnetic Strip		
	System for Card Reading						Navision		
	Want a New LP?						Y	Y	
BENEFITS	Main Customer Benefit			Receive Information About the Collection			Collect Points and Redeem Them for Discount in %	Receive Information About the Collection	
	Enrolment Method			Free Sign-Up			Free Sign-Up	Free Sign-Up	
	Minimum Purchase			None					
	Other Membership Conditions			None				Malta Residency	
	How to Earn Benefits								
LEVELS OF MEMBERSHIP	Levels of Membership?			N			Y	N	
	Level								
	Level Name								
	Point Rate or Discount %								
	Minimum Purchase								
	Additional Benefits			None			None	None	
	Conditions for Losing Membership								
COMMUNICATION	Types of Communication Channels			SMS E-MAIL SOCIAL MEDIA			SMS E-MAIL	SMS E-MAIL MAILING SOCIAL MEDIA	
	Frequency of Use						>6 >6	>12 >6 >3 >25	
	Effectiveness						5	3 3 5 2	
	Information Communicated			NC, P			S, NC, P	S, NC, P S, NC, P NC, P S, NC, P	
	Difference in Communication?			N			N	N	
DB	Database Membership							3,500	
VARIABLES	Name			Y				Y	
	Address							Y	
	Gender							Y	
	E-mail			Y				Y	
	DOB / Age							Y	
	ID #							Y	
	Home Phone							Y	
	Mobile Phone			Y				Y	
	Family Status								
ANALYSIS	Collect Transactional		N						
	Analysis Frequency		>3	>6	>3				
	Analysis Method			Excel					
	Information Sharing								
	Use of Analysis			To compile a portrait of customer					
	Hard Data on the Effects?			N					

	Country	Poland	Russia, Kaliningrad	Serbia	Slovenia	Tajikistan	Turkmenistan	UAE, Kuwait, Qatar, Bahrain, Oman, KSA	Ukraine
PARTNER INFORMATION	Partner Name	Ultimate Fashion Sp. Zo. O	Puls-KLD	Delta Look D.O.O.	Magistrat International D.D.Lj	Msg Ag	ITC	MAF Fashion Llc	Delta Sport (plus Leprikon and Amigo)
	Population	38,441,588	450,000	7,310,555	2,000,092	7,995,754	4,997,503	39,815,222	45,134,707
	Potential Customer Base		200,000				200,000		
	# Mexx Retail Stores			3			1		12
	Total # Mexx Stores	10	2	3	3	1	1		21
LOYALTY PROGRAM	Have LP?		Y	Y			Y		Y
	Mexx Only LP?		Y	Y			Y		Y
	LP Card Customization		Magnetic Strip						Barcode
	System for Card Reading		Card Reader						
	Want a New LP?		Y	Y			Y		Y
BENEFITS	Main Customer Benefit		Receive Disount in %	Receive Disount in %			Receive Information About the Collection		Receive Disount in %
	Enrolment Method		Minimum Purchase	Minimum Purchase			Free Sign-Up		Minimum Purchase
	Minimum Purchase		155 EUR	200 EUR			242.52 EUR		180 EUR
	Other Membership Conditions		None	None					None
	How to Earn Benefits		Upgrading Discount	Not Available					Upgrading Discount
LEVELS OF MEMBERSHIP	Levels of Membership?		Y	Y			N		Y
	Level		Level 1 Level 2 Level 3	Level 1 Level 2 Level 3					Level 1 Level 2 Level 3
	Level Name		1 2 3	SELECT SELECT EXTRA SELECT					
	Point Rate or Discount %		5% 10% 15%	10% 15% 20%					7% 10% 15%
	Minimum Purchase		155 EUR 1500 EUR 3000 EUR	200 EUR 300 EUR 400 EUR					180 EUR 1785 EUR 4500 EUR
	Additional Benefits		None	None			None		None
	Conditions for Losing Membership		N				N		N
COMMUNICATION	Types of Communication Channels		SMS	SMS MAILING			SMS E-MAIL CALL		SMS RADIO PRESS
	Frequency of Use		>12	>12 >3			>12 >12 >6		>52 >3 >12
	Effectiveness		3	5 4					5 5 3
	Information Communicated		S, NC, P				S, NC, P S, NC, P NC		S, NC, P S, NC, P NC
	Difference in Communication?		N	N			N		N
DB	Database Membership		3,500	2,100			837		8,300
VARIABLES	Name		Y	Y			Y		Y
	Address			Y					Y
	Gender								
	E-mail			Y			Y		Y
	DOB / Age			Y					Y
	ID #								
	Home Phone						Y		
	Mobile Phone		Y	Y			Y		
	Family Status								Y
ANALYSIS	Collect Transactional								
	Analysis Frequency								>6
	Analysis Method								
	Information Sharing								Internal
	Use of Analysis								Share of sales and participation in promos or sales
	Hard Data on the Effects?								

10.3.   Appendix 3: Extended Database – Priority Countries

This database is an extension to the Questionnaire results. It includes further clarification of the current situation, needs and capabilities of the priority countries in the region.

|	Country	Kazakhstan, Kyrgyzstan, Uzbekistan	Ukraine	Belarus	Armenia	Malta	Latvia, Lithuania	Turkmenistan
	Partner	Key Way	Delta Sports (plus Leprikon, Amigo)	Belvirineja Ltd.	Modeart Ltd.	Farrugia Textiles Company	Apranga Trade Company	Itc Leipzig
	Population	16,455,000	45,134,707	9,577,552	2,967,975	408,333	5740255	4,997,503
	Number of Stores	16	17	2	1	3	4	1
	Privacy Regulations	None	Contact allowed only with exclusive customer permission.	Protection of personal information	None	Customer signatures on registration forms is required		None
SKILLS	Customer Selection	Y	Y	Y	N	N	Y	N
	E-mail campaigns	Y	Y	Y	Y	Y	Y	Y
	Data Entry	Y	Y	Y	Y	Y	Y	Y
	Card Production	Y	Y	Y	Y	N	Y	N
	Data Uploads	Y	Y	Y	Y	Y	Y	N
	Analysis	Y	Y	Y	N	N	Y	N
	Customer Service	N	N	N	Y	Y	Y	Y
LP	Loyalty Program in Place?	Y	Y	Y	Y	No, only customer database	N	No, only customer database
MECHANISM	Type of Card	Barcode	Barcode	Barcode	Magnetic Strip	None	n/a	None
	Points / Discount	Discount	Discount	Discount	Discount	None	n/a	None
	How does it work?	3/5/10/15	7/10/15	<5/5/7/10	5/10/15 (min purchase: 330 / 2000 / 6000 EUR)	Pre-sale invitations, free alterations, notifications about new collections, sales and promotions	n/a	Receive information about the collection, sales and promotions; minimum purchase = $350
	Customer Service	Call to office	N	N	Call to office	Y	n/a	Y
REASONS/REQUIREMENTS	Reason for choosing this program	Old SELECT	To generate more sales on a short term	Old SELECT	Old SELECT	There is a loyal customer base (not connected to sales)	n/a	There is a loyal customer base (not connected to sales)
	Would you object to points system? Why?	No - we want the program. The market is not driven on discounts but on brand promotions.	For now - Yes. Unless we would be assured of same level sales	N - giving out discount is not desirable -little competition on the market	N - giving out discount is not desirable (brand strategy is based on lower price positioning)	No, already wanted to join Mexx Connect, but could not because of the high costs.	N - we want to increase brand building activities and promotional incentives.	N - giving out discount is not desirable -little competition on the market
	Requirements of a New Loyalty Program	Bring in the expected additional sale on the loyal customers	Bring in the expected additional sale on the loyal customers	Bring in the expected additional sale on the loyal customers	Bring in the expected additional sale on the loyal customers; Eliminate discounts to keep margin after lowering prices	Bring in the expected additional sale on the loyal customers	Bring in the expected additional sale on the loyal customers	Bring in the expected additional sale on the loyal customers; increase customer base and create loyal customers
PROMOTIONS	Current Promotions / Best Practices	SMS; telephone calls to customers	i_buy 1 get 2 buy 2 get 3 buy 3 get 4 ii_Buy 1 get 10%, buy 2 get 20% etc		None for loyal customers	None for loyal customers	None for loyal customers	None for loyal customers
	Requirements of Future Promotions	As little as possible promotion that would decrease the margin (discount/money) but mainly brand building promotions (giveaways, special loyalty events, etc)	Market is Discount oriented. These are the promotions most effective	More theme/category promotions, focused on Product. Giving out money /dicount is not desirable.	Pirces are already very low. Promotions would be more focusing on traffic driving and brand perception	High brand positioning - Loyal Customer base is relatively 'selective' and high-end. Promotions would be focused on relationship building acitivities.	Carte blanche - promotions should be brand building vs disount oriented	Traffic driving and brand building
	Promotions Overview	Little POS promotions executed as the market is more focused on brand building activities (giveaways)	See tab "Ukraine"	Minimum purchase - free USB Bracelet	Minimum purchase - free USB Bracelet	I_Distributing Chocolates with a 10 EUR value to the most valuable customers. II_invitation to a pre-sale	n/a	Minimum purchase - free USB Bracelet

		1	2	3	4	5	6	7
COMMUNICATION	Approach Method(s)	SMS - cheap	SMS - cheap	SMS - cheap	SMS - cheap	SMS, E-mail, Mailing	n/a	SMS, E-mail, Phone (70% response rate)
	Would direct mail work? Why?	Direct mail is not popular for private correspondance.	No, most customers do not indicate an address		Y	Y		N
	Would e-mail work? Why?	Email is perceived as ineffective	Yes, but don't know how to implement	Yes, internet is preferred above direct mailing	Y, not as popular	Y	Y	Y
	Would SMS work? Why?	Yes	Yes - really effective	Y	Y	Y		Y - high response rate
DATABASE	Size	22347	8300	4468	1152	3500	n/a	837
	Customer Information	Name, sex, address, phone number, date of birth, contact preference		Full name, sex, date of birth, age group, mobile number, address, e-mail	Name, address, telephone number, e-mail	Name, address, gender, email, age, ID card number, home and mobile number	n/a	Full name, email, mobile and home phone numbers
	Customer Permission	Filling out application form	Require customer signature		Verbal agreement	Require customer signature	n/a	Require customer signature
	Export Customer Information?	Y	Y	Y	Y	Y	n/a	Y
TILL	Till System	Panda (developed internally)	ERP MBS Axapta 3.0	1C	1C	(currently changing - either Microsoft NAV or RetailPro)	CenTux	MS Access
	Swipe?	N	Y	N	Y	N	n/a	N
	Scan?	Y	N	Y	N	N	n/a	Y
TRANSACTIONS	Export Transaction Details?	Y	Y	Y	External company	N	N	Y
	Store ID	Y	Y	Y	Y	N	N	Y
	Customer ID	Y	Y	Y	Y	N	N	Y
	Transaction ID	Y	N	Y	Y	N	N	Y
	Date / Time	Y	Y	Y	Y	N	N	Y
	Product ID	Y	Y	Y	Y	N	N	Y
	Price	Y	Y	Y	Y	N	N	Y
	Export Product Details?	Y	Y	Y	Y	N	N	Y
	Export Store Information?	Y	Y	Y	Y	N	N	Y
REPORTING	KPIs Already Monitored	Sales of a Loyalty Card ID, down to EAN (Traffic, sales in volume and value, number of cards, type of purchase, etc)	Sales of a Loyalty Card ID, down to EAN (Traffic, sales in volume and value, number of cards, type of purchase, etc)	Sales of a Loyalty Card ID, down to EAN (Traffic, sales in volume and value, number of cards, type of purchase, etc); demographics	None	None for loyalty	n/a	None
	Current Reporting	Y	Y	Y	None	None	n/a	None
	Reporting Requirements	Identify the effectiveness of promotional activities, customer behaviour and additional sales potential	Identify the effectiveness of promotional activities, customer behaviour and additional sales potential	Identify the effectiveness of promotional activities, customer behaviour and additional sales potential	Observe how the program impacts sales of particular customers and their frequency - if getting a card leads to higher frequency	Identify the effectiveness of promotional activities, customer behaviour and additional sales potential	Identify the effectiveness of promotional activities, customer behaviour and additional sales potential	Identify the effectiveness of promotional activities, customer behaviour and additional sales potential

10.4.   Appendix 4: Developing an Effective Customer Loyalty Program

FIGURE 1. A Typology of Loyalty Program Types

Program Type	Characteristics of Program	Example
Type 1: Members receive additional discount at register	• Membership open to all customers • Clerk will swipe discount card if member forgets or does not have card • Each member receives the same discount regardless of purchase history • Firm has no information base on customer name, demographics, or purchase history • There is no targeted communications directed at members	Supermarket programs
Type 2: Members receive 1 free when they purchase n units	• Membership open to all customers • Firm does not maintain a customer database linking purchases to specific customers	Local car wash, nail salon, SuperCuts, Airport FastPark, PETCO
Type 3: Members receive rebates or points based on cumulative purchases	• Seeks to get members to spend enough to receive qualifying discount	Airlines, hotels, credit card programs, Staples, Office Depot
Type 4: Members receive targeted offers and mailings	• Members are divided into segments based on their purchase history • Requires a comprehensive customer database of customer demographics and purchase history	Tesco, Dorothy Lane Markets, Wakefern's ShopRite, Giant Eagle Supermarkets, Harris Teeter, Winn-Dixie, Harrah's, Hallmark

FIGURE 3. Steps in Developing, Implementing, and Controlling an Effective Loyalty Program

1. Outlining Loyalty Program Objectives
2. Developing a Budget
3. Determining Loyalty Program Eligibility
4. Selecting Loyalty Program Rewards
5. Considering Partnerships with Others
6. Building an Appropriate Organization
7. Developing and Maintaining the Loyalty Program Database
8. Managing an Internal Data Warehouse and Data Mining Capacity
9. Evaluating the Success or Failure of the Loyalty Program
10. Taking Corrective Action

FIGURE 4. Corrective Actions to Meet Specific Loyalty Program Objectives

Increasing the Number of Loyalty Program Members	• Partner with other brands and retailers to make it easier for members to accumulate points. This strategy also increases the value of the reward to some members (Type 3 and 4 programs).
	• Provide free points or additional discounts for initial membership (Type 2, 3, and 4 programs).
	• Recognize that open programs have more members than closed programs (Type 1, 2, 3, and 4 programs).
	• Increase the attractiveness of rewards (Type 3 and 4 programs).
	• Make rewards easier to obtain (Type 2, 3, and 4 programs).
	• Assure members that specific data on their purchasing behavior will be kept in the strictest of confidence and not be sold or shared (Type 3 and 4 programs).
Reducing Member Attrition	• Reduce the number of points needed to receive a reward (Type 2, 3, and 4 programs).
	• Increase the number of reward options (Type 2, 3, and 4 programs).
	• Make the program easier to use (Type 3 and 4 programs).
	• Allow members to purchase points to facilitate getting rewards (Type 2, 3, and 4 programs).
	• Tailor rewards and communication based on a member's purchase history (Type 3 and 4 programs).
	• Track member usage and contact profitable customers who have not recently made a purchase (Type 3 and 4 programs).
	• Partner with other brands and retailers to make it easier for members to accumulate points. This strategy also increases the value of the reward (Type 2, 3, and 4 programs).
	• Enable members to more easily track points on the Web (Type 3 and 4 programs).
	• Combine free goods and services and rewards with special services (such as special customer support access, invitations to trunk shows, personal shoppers, etc.) (Type 3 and 4 programs).
Increasing Purchases by Members	• Implement a tier system to provide additional points for purchases above a given level (Type 3 and 4 programs).
	• Develop a differential point structure to reward heavy users (Type 3 and 4 programs).
	• Provide additional points for related-item purchases (Type 3 and 4 programs).
	• Develop a differential point structure for closeouts, overstocks, and end-of-season merchandise (Type 3 and 4 programs).
	• Cross-sell goods and services with partners (Type 3 and 4 programs).
	• Tailor rewards and communication to a member's purchase history (Type 3 and 4 programs).
	• E-mail special offers to members (Type 3 and 4 programs).

FIGURE 4. Corrective Actions to Meet Specific Loyalty Program Objectives *(continued)*

Increasing Member Gross Profit	• Limit enrollment to members with a large and profitable transaction history (Type 3 and 4 programs). • Provide tiered memberships so that heavy users receive greater benefits (Type 3 and 4 programs). • Charge a nominal fee to discourage inactive or small activity accounts (Type 3 and 4 programs). • Enable members to easily track activity, points, and award shipment through the Web (Type 3 and 4 programs). • Restrict membership to a firm's most profitable customers (Type 3 and 4 programs). • Drop out unprofitable members or members with low purchase activity over a given time period (Type 3 and 4 programs). • Develop a differential point structure for closeouts, overstocks, and end-of-season merchandise. This strategy can be used to reduce the markdown levels needed to clear this merchandise (Type 3 and 4 programs).
Increasing the Return on Loyalty Program Investment	• Consider outsourcing loyalty member functions such as fulfillment or award selection where other firms can fulfill these functions more efficiently (Type 3 and 4 programs). • Evaluate the loyalty program on a continuous basis (Type 1, 2, 3, and 4 programs). • Sell aggregate data to suppliers (Type 4 programs). • Sell points to partners (Type 3 and 4 programs). • Sell points to customers (Type 2, 3, and 4 programs). • Evaluate the alternative return on investment on other programs that build and maintain customer loyalty (Type 1, 2, 3, and 4 programs).
Increasing the Quality of Market Research Data	• Outsource database construction, maintenance, and data mining to firms that specialize in these services (Type 4 programs). • Use market research and information systems personnel in loyalty program design and implementation (Type 3 and 4 programs). • Change from a Type 3 to a Type 4 program (Type 3 programs).

FIGURE 5. Assessing the Appropriateness of Type of Loyalty Program

Type 1 loyalty programs are most appropriate when a firm:	• is small in size. • lacks resources or managerial commitment for a more intensive program. • needs to respond to competitive action quickly. • sees its loyalty program strictly as a defensive measure. • has a low level of expertise in managing a customer database. • does not seek to offer differential rewards to different customers or market segments. • seeks to build traffic by offering sale items to a broad group of customers.
Type 2 loyalty programs are most appropriate when a firm:	• is small in size. • lacks resources or managerial commitment for a more intensive program. • needs to respond to competitive action quickly. • has a low level of expertise in managing a customer database and seeks to shift the database responsibility to consumers. • has a major product that is purchased by a large percentage of its customers that can be used as the basis of the loyalty program. • seeks to reward customer loyalty by offering proportionate discounts to all members.
Type 3 loyalty programs are most appropriate when a firm:	• is medium to large in size. • has sufficient resources and commitment to manage a more comprehensive program. • has sufficient time to plan and implement a loyalty program strategy. • sees its loyalty program as an offensive strategy. • is willing to outsource database and fulfillment responsibilities. • seeks synergy by partnering with other firms offering complementary goods and services. • seeks to attract consumers that have moderate to high levels of involvement to specific products. • seeks to increase purchases by the firm's highly profitable customers through use of tiers and increased points for selected purchases. • needs to offer members a broad range of rewards.
Type 4 loyalty programs are most appropriate when a firm:	• is large in size. • offers the highest levels of managerial commitment and resources to its loyalty program. • has sufficient time to plan and implement a loyalty program strategy. • sees its loyalty program as an offensive strategy. • has the ability to manage a data warehouse and data mining or is willing to outsource these functions. • seeks to attract consumers with high levels of involvement to specific products. • seeks to offer specialized communications, promotions, and rewards to specific groups of consumers based on their purchase history.

(Berman, B, 2006, Developing an Effective Customer Loyalty Program)

10.5.   Appendix 5: Strategy Proposal

The proposed strategy for a company-wide Mexx Connect would work in a similar way as the program already functions in the wholesale part of the business. A terminal will be connected through which the loyal customer transactions can be processed, leading the information to the central database, where analysis and reporting is done by Mexx Int.

The major difference for Regions 3 is that because each partner will be given the opportunity to choose which promotion they want to run and which not to run, they have to also be given an opportunity to monitor their own results. That is why each partner will be given access to the reporting and analysis, only being able to see their own performance. The overall performance will be monitored by Mexx Int.