

I D C V E N D O R S P O T L I G H T

Engaging Customers Through the Online Channel

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Adapted from *Winning Customers: The Evolution of Online Engagement* by Rachel E. Happe, IDC #210608

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Engagement solutions have evolved from offline loyalty and rewards programs to deeper engagement solutions enabled by online functionality and dynamics. While this space is commonly serviced with custom solutions, a new breed of loyalty and rewards platforms is emerging that provides more complex solutions and faster deployment options. This paper reviews how online consumer businesses are looking to leverage the power of loyalty and rewards in new ways enabled by the online channel. In addition, this paper looks at Bunchball, a Web services company dedicated to enhancing customers' Web sites through incentive-based systems that drive deep experiential engagement for users of its Nitro product.

The Role of Loyalty and Rewards Programs

Loyalty and rewards programs have been used to incent, engage, and retain customers across the spectrum of consumer products and services since the early days of S&H Green Stamps. Some of the notable successes have been consumer packaged good points programs, airline reward programs, and the current spate of retail discount cards. Loyalty and rewards programs generally provide one or more of the following benefits:

- **Rewards:** Customers get something (cash, points, discounts, free products) every time they make a purchase.
- **Incentives:** Customers receive an associated benefit for choosing one business over a competitor and are encouraged to spend more time with that business. (In the physical world, this can be food sampling at grocery stores, free classes at Home Depot, entertainment venues at large furniture stores, and so forth.)
- **Status:** Customers receive social recognition for being good customers — faster lines at the airport, better seats at restaurants, leaderboards at gyms, special events for the best customers.

Each of these elements serves different needs for customers and can be isolated or combined to serve various brands, customer segments, and marketing goals. Rewards, for example, drive transactions and appeal particularly well to price- and cost-sensitive consumers. Incentives encourage lead generation and brand awareness, but they have an indirect correlation to transactions. Status is particularly good at encouraging regular customers to increase their interactions with and affinity for a brand, but it does less for the occasional customer.

The Online Advantage

Today, online consumer businesses are looking to leverage the power of loyalty and rewards in new ways enabled by the online channel. The online environment provides benefits that are not possible in the physical world and include:

- Granular tracking of user behavior
- Rewards that are personalized and delivered dynamically based on behavior
- Low program management costs
- More effective viral marketing between customers
- Visible and persistent social commentary and connections
- Quick adaptation of programs based on activity
- Alternate currencies that can be earned, tracked, and spent fluidly
- Opportunity to use loyalty programs for media businesses, which was difficult to do with the radio, TV, and movie theater channels

However, the online channel also has some challenges, which include:

- Barriers to switch destinations are much lower for consumers.
- Customer brand intimacy can be more elusive, and online attention is fleeting.
- Online consumer behavior patterns and preferences are still evolving.
- Start-up costs for online loyalty programs can be very high.
- The deluge of available data can be overwhelming to understand and react to.

The dynamics of the online channel make it imperative that businesses attract and retain their customers in an interactive and personalized way (i.e., engagement) if they want to be competitive. Additionally, the online channel allows businesses to combine their content with engaging, social user experiences in a very cost-effective manner.

In the physical world, Disney, sports leagues, and colleges have demonstrated how effective and important the combination of real-world social experiences, personalized gear and apparel, and ongoing events can be to the loyalty of their constituencies — and to their bottom lines. The associated costs of this personalized, ongoing engagement in the real world are clearly prohibitive to all but the biggest institutions. Online, the cost of enabling personalized, engaging, and rewarding experiences is considerably lower, and it partially addresses the enormous online challenge of low barriers to change.

The elements of providing engaging experiences include:

- Personalization
 - Explicit controls let users create a presence or profile that reflects how they wish to be known.
 - Recommendation engines can adjust content and offers based on users' choices.

- Play
 - To remain engaged, users must have something to do in a context they relate to and with which they have an emotional connection.
 - Depending on the user base, play can mean different things — conversation, collection, making friends, gossiping, competing, showing off, influencing — but it is almost always social.
- Social
 - Individuals make strong connections to things, content, and brands through other people.
- Status
 - People are aspirational — and they need other people to like, respect, and appreciate them.
 - Status is important to individuals only if context and content are relevant to them.

To date, vendors have solutions that typically focus on one or two of these elements:

- **Customized avatars:** 3H Group and Zwinky allow individuals to customize their IM or social networking image.
- **Games:** Oberon Media, Arkadium, Fuel Industries, and CyberArts all provide custom or semicustom game experiences that engage online audiences, some with persistent user profiles.
- **User-generated content and social networking:** Six Apart, Neighborhood America, Awareness Networks, Jive Software, KickApps, and Pluck offer social networking features combined with user-generated content that allow users to publish, broadcast, and interact with content and individuals.

New vendors, particularly those coming out of the gaming space, are combining personalization, play, social, and status elements in a highly configurable way to provide brand-centric solutions that drive deep engagement for customers. Oberon Media, Bunchball, and Tokenzone all provide broader engagement platforms.

Engagement Platforms: Effectively Driving Sales and Customer Conversions

Engagement platforms, like the broader social media category, are very effective at quickly increasing traffic and repeat visitors by providing addictive experiences for end users. Engagement solutions have also allowed media companies to extend the life and richness of their original content by engaging niche audiences around specific shows — *The Office*, *The L Word*, and *The Biggest Loser* are all broadcast shows that have extended their offerings online to create a community and interaction around the content.

Today, engagement platforms are primarily deployed on media and brand Web sites for which the primary revenue stream is advertising. These deployments often isolate the engagement area of the Web site, making it discrete from other content or services. As engagement functionality becomes more common and pervasive, these applications will be used on publisher and ecommerce sites as well, and as that happens, engagement functionality will need to become increasingly parsed throughout a Web site experience so that rather than just drive online activity, it also effectively drives sales and conversions.

Considering Bunchball

Bunchball, based in Redwood City, California, is one of the new breed of vendors specializing in engagement. Bunchball offers a combination of personalization, play, socializing, and status that drives deep experiential engagement for users and is offered in Bunchball's Nitro product. Nitro provides a brandable, configurable solution that can be deployed in a wide variety of ways using any combination of its personalization, game, virtual goods, social, and status tools.

Bunchball addresses the engagement market with a broad suite of plug-and-play features that can be used for a variety of audience types and markets and includes the following:

- Personalization
 - User-customizable avatars
 - Branded avatars or virtual spaces
 - Brand-specific avatar accessories and virtual items
- Play
 - Games
 - Collections
 - Events
 - Rewards for actions
- Social
 - Friending — linking avatars
 - Multiplayer games
 - Trading of virtual items
 - Comparisons between friends — games won, number of friends
- Status
 - Activity indicators — games played, invites, friends
 - Points
 - Virtual rewards
 - Trophies
 - Leaderboards

Nitro is delivered as a service, via a widget and a set of APIs, and can be graphically configured to seamlessly fit a brand experience, including different types of avatars, games, virtual items, and point values. The play, social, and status options can be used selectively to promote specific marketing or branding goals.

Benefits and Challenges

By integrating seamlessly into a Web site architecture and a brand experience, Nitro can enable interaction, incentives, and social experiences that increase page views and drive users to specific actions. This engagement, which is bundled with incentives and addictive activities, can help online sites meet a variety of goals:

- Online page views
- Return visits

- Online actions — viewing, purchasing, inviting friends
- Viral marketing
- Brand familiarity and impact
- Offline activity by offering reward codes on products or through broadcast channels

These goals, in turn, can result in top-line revenue via advertising, transactions, or referral traffic and bottom-line savings by reducing the cost of traffic and lead generation.

However, engagement platforms are not appropriate in every online environment. Certain customer segments will not have the time and interest, and products such as Nitro work best for audiences that skew younger or segments that have high casual game usage. Other considerations should include:

- **Community management:** With social engagement comes a community that provides both potential opportunities and risks if expectations are not set and met. For example, is the engagement available as part of a marketing campaign, or is it a persistent experience that users can expect as a regular part of their experience?
- **Fresh content:** A product can get stale if new content and options are not available on a regular basis.
- **Measurement:** The benefits of establishing an engaged community can be multifaceted, but having a well-defined intent upon deployment will help keep efforts focused. While measuring activity based on goals is important, it is also important to understand that community evolution and growth often take time.

Integrating engagement with core products and services is key to driving real business benefits. The more customized the experience feels for users, the higher their affinity will be.

Conclusion and Recommendations

As engagement platforms are deployed in more verticals that target different types of audiences, functionality and vendor options will increase. Enterprise search, content management, and ecommerce vendors will build or buy engagement functionality in the coming years. How and to what extent engagement functionality is deployed will be dependent on corporate marketing strategy, target market, and type of product or service. To the extent that Bunchball can address the challenges described in this paper, the company has a significant opportunity for success.

Advice for Buyers

IDC recommends that buyers take the time to understand their customers. The answers to several specific questions can provide direction on customers' needs:

- How can universal motivations such as personalization, competition, winning, and recognition be used in the context of your product, content, or service?
- How passionate are your customers? The more passionate they are, the more complex your engagement activities can be.
- Are your customers stratified enough that you can provide different engagement options for different segments?

In addition, buyers should link their goals to functionality requirements. Engagement platforms can be deployed to meet either direct response or branding goals, but it is typically very difficult to satisfy both of these types of goals with the same application and functionality. Define your primary objective (branding or conversions) and use that to prioritize feature and reporting needs.

Engagement platforms offer a number of options, but they typically also enable many options to be turned off or configured. Determine which options best address your lead generation, impression, or branding goals. While it's tempting to insist that users authenticate before using engagement functionality, if the goal is branding, consider forgoing authentication or using a universal authentication scheme such as OpenID.

Finally, experiment. Online engagement is evolving, and some consumers are much more sophisticated than others; finding what works best for different customer segments may not be immediately apparent. Find lead customers to participate in trials and give them recognition, access, or products. Start small — either with a minimum amount of functionality or a minimum number of customers. Publicly visible failed engagement pilots often make both executives and customers gun-shy.

A B O U T T H I S P U B L I C A T I O N

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