

Contractor Loyalty Programs: The Secret to Growth & Success For Wholesale Distributors

How to Design a Loyalty Program That Works
+ 5 Common Mistakes to Avoid

Wholesale distributors have always played a vital role in the B2B supply chain, but the industry is rapidly changing. Disruptions like the rise of online marketplaces and the growth of direct-to-consumer (DTC) brands are increasing pressure on distributors, forcing them to find new ways to create value for customers and manufacturer partners.

So how do you compete in an environment that's becoming more crowded by the day? Consider an often overlooked tool: contractor loyalty programs. While many distributors focus on traditional strategies, such as product pricing and promotions, loyalty programs are essential for wholesale distributors who not only want to keep their biggest customers happy, but also want to grow their business.

A well-designed loyalty program can help distributors:



Increase customer retention



Grow wallet share



Drive sales and margin growth



Gain valuable customer data



Enhance brand awareness



Strengthen relationships with manufacturer partners

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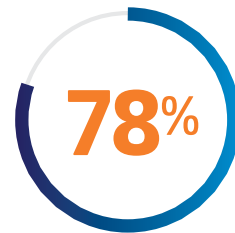
Market Challenges Are Impacting Wholesale Distributors

The business landscape is constantly in flux. Market shifts caused by shipping delays and increased costs. The rise of marketplaces and e-commerce. Overall economic uncertainty causing inflation and more concerning, deflation. These and countless other factors have impacted how distributors do business and find growth.

Now more than ever, wholesalers are feeling the effects of these macro issues as suppliers increasingly question what value distributors bring to the channel. These trends have been increasing since the pandemic, and the [Future of Commerce reports](#) that the intense pressures aren't likely to go away anytime soon.

A few of the key factors driving change for distributors include:

- > B2B marketplaces, like Amazon Business and Alibaba, disrupting traditional wholesale industry models
- > DTC markets creating competition between distributors and their suppliers
- > Mergers and acquisitions creating distribution giants that are difficult for individual distributors to go up against
- > Macro-economic concerns, such as global market uncertainty and talent shortages, causing unforeseen disruptions
- > Deflationary pressures squeezing profit margins



Of survey respondents cited concerns about channel conflict with traditional wholesale partners as a problem associated with digital commerce.

—FORRESTER

Of these factors, changing marketplaces cause the most channel conflicts, pitting traditional retailers (i.e., wholesale partners) against their suppliers.

In many of these cases, online marketplaces may have procured inventory without a brand's explicit approval, putting wholesalers who must comply with brand standards and terms of sale at a disadvantage. The unauthorized products sold DTC often let marketplaces win on price, but not on customer experience or valuable data collection.

As distributors, this is where you can shine. After all, you've already invested in the processes and infrastructure to provide additional value to your customers by:

- > Providing the best in-stock experience
- > Offering on-demand delivery
- > Demonstrating counter expertise that contractors and buyers can't get from marketplaces
- > Creating e-commerce solutions of your own

Even after putting these practices in place you're likely still feeling increased pressure. The need to constantly engage your customer base, encourage repeat business and grow market share can feel like a never-ending cycle.

Now imagine you offer all the value-added services above plus you can reward every dollar your customers spend, resulting in protected margins and an increase in revenue.



Contractors factor incentives into their decision-making and expect to be rewarded for loyalty. The Wise Marketer's **2022 Contractor's Loyalty Report** found that nearly 90% of contractors surveyed said they wanted to be rewarded for all purchases, regardless of channel.



That's the power of a loyalty program—when done right.

How Distributor Loyalty Programs Add Value for Customers & Manufacturers

It's no secret that distributors play a pivotal role between manufacturers and customers. Loyalty programs provide customers with even more reasons to choose you while helping you provide manufacturer partners with essential data.

For manufacturers, data is necessary to understand customers and tailor their market and product strategies. But oftentimes they don't have access to this valuable information because purchases occur outside their limited sales data. In fact, a report from Forrester found that more than two-thirds of surveyed brand manufacturing professionals are disappointed by the amount of first-party customer data they receive from marketplaces. Because of this, manufacturers are hungry for data-rich relationships and opportunities.

As a distributor, you already own the customer relationship, meaning you have access to highly coveted information that can be used to inform your loyalty programs.



QUICK TIP

Give Your Manufacturers An Edge

Make yourself a preferred distributor by offering manufacturers roll-up reports of purchases from specific product categories, plus the manufacturer's share of that category. By providing valuable information they can't otherwise access, you'll help manufacturers identify strengths and weaknesses so they can better plan future offerings, while also encouraging them to increase business with your brand.

Your position in the channel gives you sole access to data, such as:



Location
of each
transaction



Transactional information
about each customer
purchase



Date and time
of the product
purchase or delivery



Each
customer
contact

Data puts considerable power in your hands. Using that to your advantage allows you to harness existing data and design targeted, high-impact loyalty programs that drive real results. While offering manufacturers a chance to fund promotions through your loyalty program in exchange for some of the data you're collecting.

Customers get an opportunity to be rewarded for growing their purchases with you. In return, they can spend their points on things that support their business, family, hobbies and lifestyle. You'll also establish another reason for local store reps and owners to build relationships with customers.

A Contractor Loyalty Program Designed for the Entire Channel

Manufacturer	Wholesale Distributor	Retailer	Customer
<p>Purchase Data: Product-specific point-of-sale (POS) data including geographic pull-through information as part of sponsorship package(s)</p> <p>Product Promotion Opportunities: Ability to offer additional promotions on top of a standard loyalty program</p> <p>Brand Awareness: Ongoing marketing with access to retailers and end customers</p>	<p>Brand Connection: Positioning retailers as the brand face to customers, fostering a stronger brand connection and allowing stores to orchestrate approved touchpoints throughout the journey</p> <p>New Revenue Growth: Overwhelming buy-in for a self-funding program from OEM partners after initial skepticism by distributor stakeholders</p>	<p>Sales & Customer Wallet Share: Targeting customers for repeat purchases that impact total wallet share</p> <p>Customer Marketing: Ongoing marketing touchpoints, promotions and reminders managed on the brand's behalf</p> <p>Customer Appreciation: Ability to reward and demonstrate appreciation for customers</p>	<p>Rewards: Rewarding purchases they were already making with other retailers</p> <ul style="list-style-type: none"> > Redeemable award points > Travel and experiences

Common Mistakes to Avoid When Designing & Implementing a Contractor Loyalty Program

Maybe you already have a contractor loyalty program but haven't seen the results you were hoping for. Or maybe you're designing and implementing a loyalty program for the first time and want to ensure it's set up for success. No matter which stage of the program you're at, consider your stakeholder audiences, communication plans and customer targeting to ensure you're having the greatest possible impact.

MISTAKE #1 Not Getting Buy-In From Stakeholders

For a program to be successful, you need a strong value proposition for each stakeholder audience to get buy-in from them.

Here are some examples of strong value propositions for each stakeholder audience.



Corporate Clients

Increase top-line growth with an emphasis on your most profitable products and services



Local Operating Companies & Branch Managers

Avoid using the program as an entitlement and focus on rewarding customers who grow their business



Vendor & Manufacturer Partners

Gather pull-through sales data, gain access to salespeople and customers with training, or increase opportunities for product promotions



Customers, Contractors & Dealers

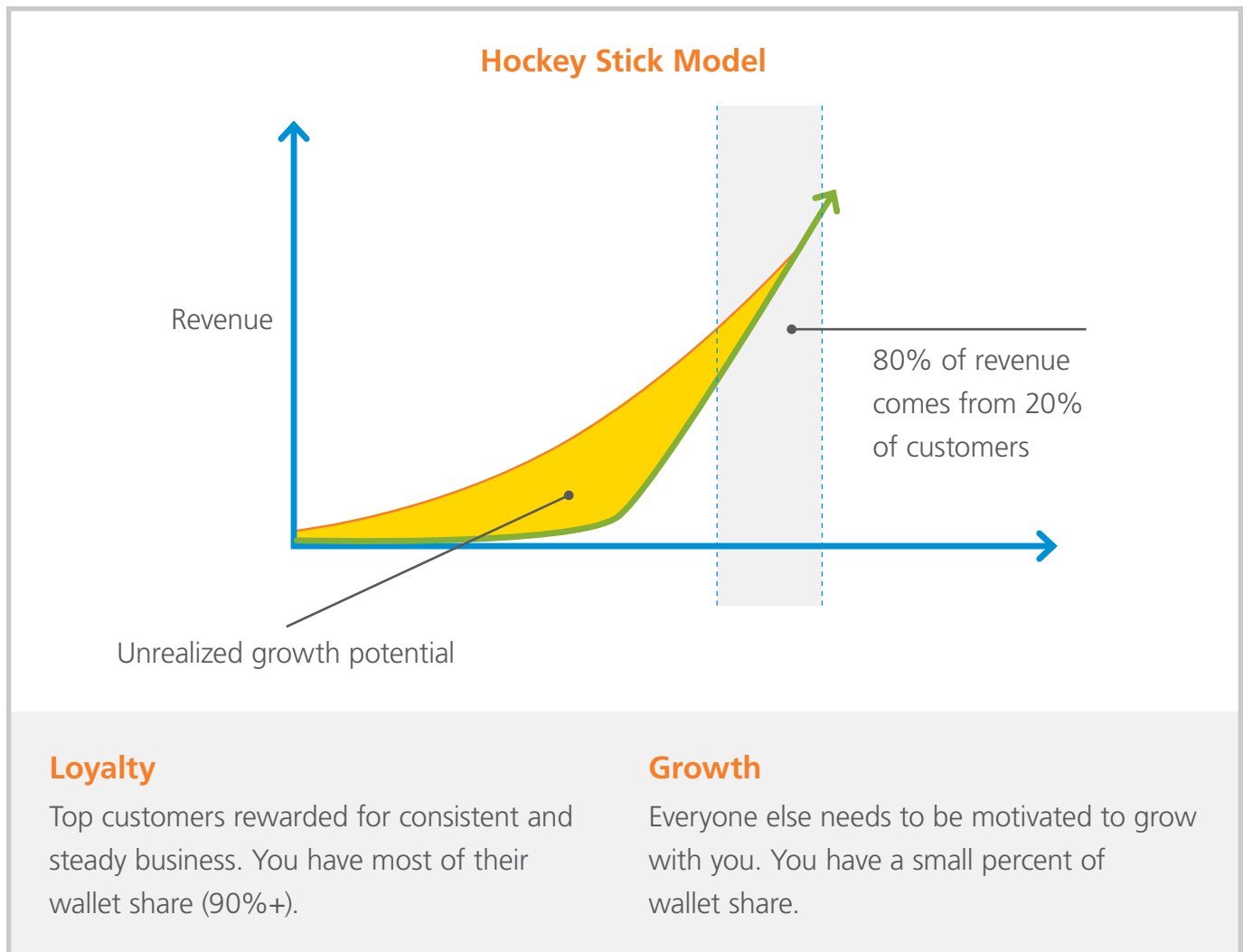
Provide recognition for customer growth and loyalty through lifestyle awards for them and their families

Each audience needs to understand the unique value they'll get by participating in your program.

If you can't articulate "the why" for each audience, you're not done designing your contractor loyalty program.

MISTAKE #2 Applying a One-Size-Fits-All Approach

Many loyalty programs operate on a "hockey stick" model, where a small percentage of top performers generate a large percentage of revenue. In this scenario, a standardized program will fail to motivate all contractor segments because it will cater to top performers without addressing the specific needs of other segments, leading to missed opportunities for growth and engagement.

**QUICK TIP****Focus on Loyalty & Growth**

Distributors see real results from their loyalty programs when they implement incentives for incremental growth.

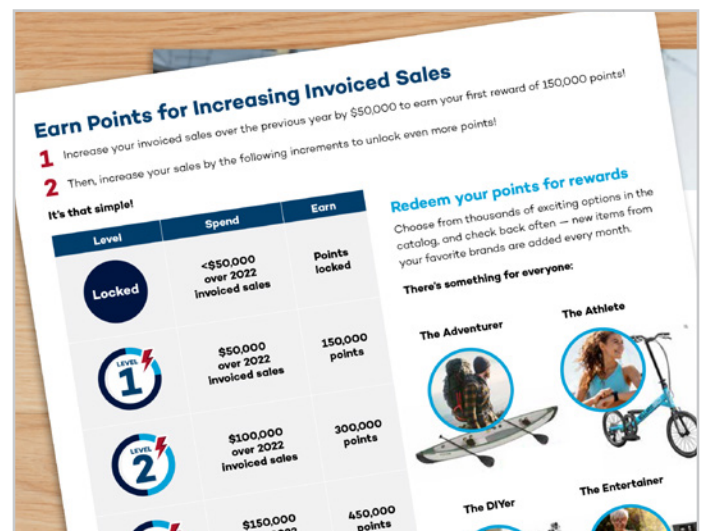
Here's how to avoid the one-size-fits-all trap.

- 1 **Analyze contractors' spending habits, profitability and growth potential.** Then, segment contractors accordingly. This data enables you to tailor awards and promotions by segment, ensuring relevance and effectiveness.
- 2 **Recognize and reward high-value contractors in exclusive ways.** Incent them to continue driving business your way (and potentially increase their spending). Consider prestigious awards, early access to new offerings or dedicated account management to express your appreciation and foster deeper partnerships.
- 3 **Nurture middle-tier contractors so they act on their potential.** Offer targeted incentives and support to help them increase their spending and move toward becoming top performers. Tiered award systems and personalized support programs also encourage growth.
- 4 **Leverage the power of choice by implementing a points-based system.** Allow contractors to choose desired, personally meaningful awards. This caters to individual preferences, builds positive brand associations and increases the perceived value of the program.

MISTAKE #3 Rewarding Contractors Who Are Already Loyal

It's common to see programs reward customers who are already loyal for their continued support. While it may seem logical to reinforce strong relationships, your efforts can be better spent focusing elsewhere.

We advocate for programs where contractors earn points for every sale with the retailer, but they don't get paid until they hit a preset threshold. This protects your margin and ensures the desired outcome.



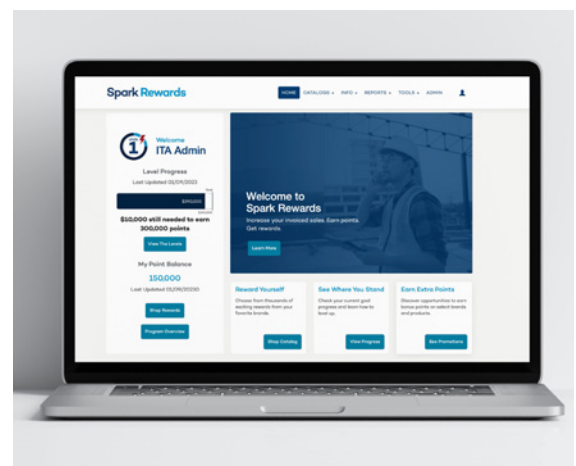
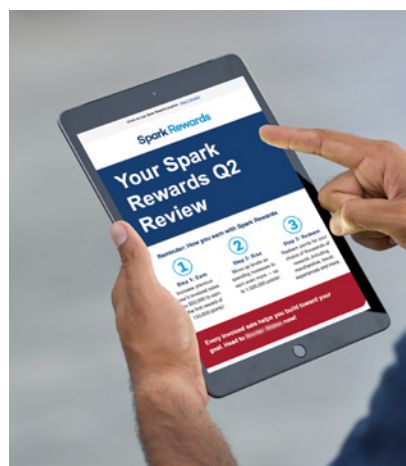
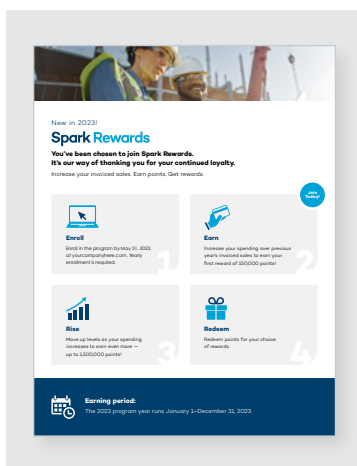
MISTAKE #4 Overlooking Communications as a Critical Component

You can design an incredible program, but if no one knows about it what's the point? An airtight communications strategy and corresponding marketing campaign allows your brand, program and messaging to penetrate the channel and influence your channel partner relationships. Make sure your incentive technology also supports the program rollout and reinforcement with a platform that's personalized, scalable and able to integrate with new advances in digital marketing.

Key elements of an effective loyalty program communication strategy include:

- > **Thinking about how to reach your unique audience.** Consider how they work and what matters most to them. For example, if you deal with contractors as your customers, you'll want to look into SMS messaging in addition to email and direct mail. This way they'll have quick, easy access to important information, even when they're away from the office.
- > **Understanding which manufacturers to target.** Use buy-in opportunities and focused communications that convey the benefits of the program to gain buy-in.
- > **Knowing which customers to target.** Invite key groups to participate in the next step(s).
- > **Sharing why customers should join.** Let them know what they'll gain for their efforts, setting their thresholds accordingly.
- > **Developing consistent touchpoints with manufacturers.** Give key updates and encourage continued investment.
- > **Providing ongoing communications.** Share goal progress and new earning opportunities.

We highly recommend working with a creative engagement agency to help map out touchpoints and make sure each will resonate with your targeted audiences.

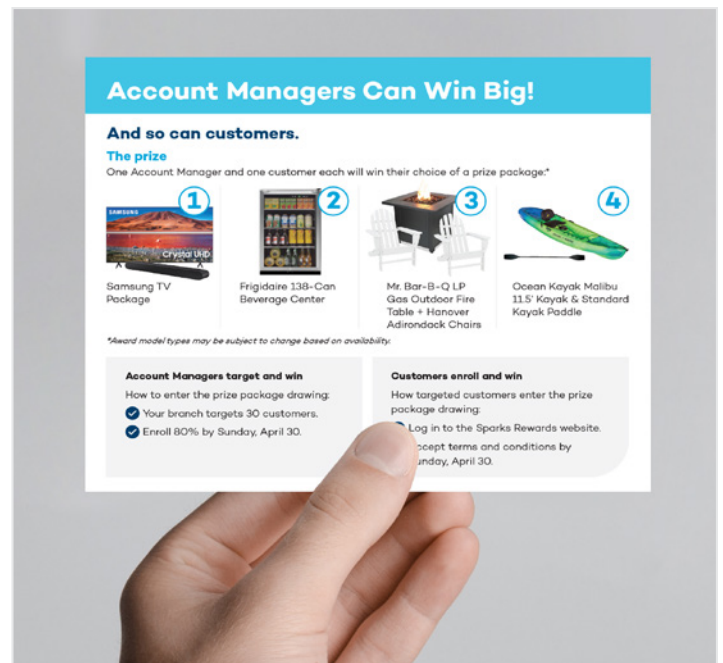


MISTAKE #5 Not Including Local Store Owners, Sales Reps & Manufacturer Reps in the Program

Think about the people who are constantly in contact with your customers and contractors. They have the personal relationships and power to impact your business, for better or worse. Why not activate their influence and make them your program's biggest advocates?

Focus on the vital role sales reps, account managers and manufacturers play in the success of your loyalty program. By including them in the program, you can ensure they're carrying your message to customers and encouraging them to participate. Give them the tools, resources and motivation to be natural advocates for your program.

If your local store reps are not talking about your program, it will fail. Ensure they're on board, can speak to it and understand the value.



CLIENT SUCCESS STORY

How a Wholesale Distributor Used Expert Incentive Strategy to Drive Year-Over-Year Profits

A leading U.S.-based distributor of residential and industrial supplies lacked market share across its 569 independent sellers in 40 states. Sales growth was essential, and leaders within the distribution system knew that local stakeholders had interest in a contractor loyalty program.

Through their partnership with ITA Group, what would've been a heavy lift for a slim-margin wholesaler on its own turned into [an expert-led loyalty program](#) that created value up and down the distribution chain.

By assigning contractors a purchase goal beyond their previous year's business and unlocking earnings when they reached it, local sellers were guaranteed a positive ROI, offsetting their program participation buy-in fee. Identifying existing contractors who grew their book of business with local sellers also helped ensure wallet share growth. And because awards weren't released until contractors' personalized base goals were met, the program was low risk.

The ability to consistently balance targeting contractors for loyalty and growth while rewarding and recognizing top contractors came to life through unique award strategies. During the targeting process, local sellers determined a strategy that ensured a flexible, relevant contractor award experience.

Program Results

187%

Greater purchases by targeted customers vs. non-targeted

447%

Average program ROI over life of program



CLIENT SUCCESS STORY (CONT.)

Enabling local sellers to successfully operate an ongoing loyalty program continues to drive growth. Often lacking marketing expertise or background, local resellers benefit from an investment that doubles as consistent customer marketing.

Today, the decade-long program boasts year-over-year success for the entire channel. In addition to local sellers building relationships, increasing sales and benefiting from a risk-free contractor incentive, sponsoring manufacturers enhanced their brand awareness, secured data they wouldn't otherwise have access to and generated additional revenue through strategic promotions.

Customer Enrollment Options

1. Redeemable Award Points

Online Awards Catalog

Points accumulate with each purchase and display via the program website and printed statements, demonstrating progress to goal and award potential.

Online Catalog Experience

- > Brand-name merchandise and experiential awards
- > Thousands of options carefully curated in 10+ categories
- > Personalized award store according to user interest
- > Optimized browsing and search functionality
- > Simplistic redemption process

2. Experiential Customer Events

Destination-Based Trip Experience

Experiential events for high-volume customers cultivates an unmatched business networking opportunity and motivating award to achieve goals.

Experiential Customer Event Features

- > Custom experiences unique to brand and audience, backed by research
- > Strategic communications including pre-event, on-site and post-event
- > On-site award experiences
- > Curated daytime activities and evening events
- > High-touch, concierge-style service

Next Steps Toward Success With a Contractor Loyalty Program

Whether you're looking to grow market share or better engage existing customers, designing an effective customer loyalty program is a vital component of long-term success.

4 Takeaways to Apply for Building or Revitalizing a Loyalty Program

1

Structure the contractor loyalty program to increase engagement across all segments (not just top performers).

2

Collect valuable customer data to benefit both yourself and manufacturer partners.

3

Use strategic audience targeting and stakeholder communications to make the greatest possible impact.

4

Allow participants to choose their own awards to account for different audience motivations, making them more committed to the program and your brand.

What's going to differentiate you from competitors selling similar products in a crowded market? [Watch this webinar](#) to learn how to stand out with a successful customer loyalty program.