

How Profitable Is Your Loyalty Program: Measuring and Increasing ROI

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Loyalty programs are an important part of the marketing strategy for any company looking to retain customers and boost customer and channel loyalty. When you consider it's more than five times more expensive to acquire a new customer than it is to keep an existing one,¹ the benefits of retention are clear. Research by Bain indicates that in the world of e-commerce one-time customers actually cost businesses money. For example, customers of online apparel retailers are not profitable for the store until they have shopped at the site at least four times –meaning the business needs to retain them for a minimum of 12 months.²

Fortunately, advances in digital and mobile technology, plus the prevalence of social media, have created more ways than ever before for companies to use loyalty programs to encourage customers to keep coming back to their business. Research from Directivity and Citrus indicates these loyalty programs are highly effective with 80 percent of Australians indicating they buy more from businesses whose loyalty programs they are a member of.³

Are You Getting Out What You Put In?

How do you know whether you're getting enough back from your loyalty program to justify what you're putting in? What are the metrics you should be looking for? First, think about the cost of your loyalty program.

Loyalty programs don't have to break the bank, but the costs involved do add up. During the initial set-up, you'll need to factor in software and design costs, as well as the ongoing costs of marketing and the rewards you'll offer.

In terms of ROI, you can assign each customer or channel partner a value by

looking at four key factors:

- How much do they spend at the moment?
- How much do you predict they'll spend in the future?
- How much would they spend if they were more engaged?
- How much would they encourage others to spend via referrals?

When you add this all up, you get customer lifetime value (CLV) – the total amount a customer will spend at your business in their "lifetime." Increase this value, and you know your loyalty program is working.

Put Systems In Place

To maximize the effectiveness of your loyalty program there are a few things to keep in mind:

1. Be Prepared

Before you go live with your loyalty program, you'll need to be ready to start measuring ROI. Make sure your program information is fully integrated and accessible to the whole company. It's also important that your entire staff is on board. Make the loyalty program a part of your workplace culture, and create employee structures and incentives to drive it in the right direction. The program will get better results if the whole business is focused on its success. You'll need to have the technology in place to be able to track progress, and the systems to be able to translate results into measurable data.

2. Use a Customer Database or CRM System

One of the benefits of having an online loyalty program (as opposed to an old-

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fashioned punch card system) is that you can use it to keep track of your customers' information and spending. Only 29% of small business owners use a CRM system,⁴ but it can be an invaluable tool for calculating ROI. There are many CRM systems out there, but some will be better for your business than others, so make sure you check out a few before you purchase one.

3. Work out your Metrics

There are three sets of metrics you can convert to percentages and use to assess the ROI of your loyalty program. These include:

- Levels of customer engagement with the program
- Quality of customer service (or resolution rates for customer complaints about the program)
- Employee knowledge from training (or the level of completion across the company)

These are the three biggest contributors to customer experience, which customers report to be one of the most influential factors in building loyalty. The higher the percentage of these three factors in your program, the greater the ROI. Even a small increase in these factors can have an impact as spending increases, and your most loyal customers will refer their friends.



- acknowledge
- appreciate
- award
- achieve

Performance Improvement

You can also use a metrics manager to keep track and help you assign projections for ROI. Assign metrics to categories, such as:

- Engaged customers are predicted to spend x amount (based on average customer spend over a lifetime).
- These customers are estimated to increase this spend by x amount via referrals.
- Using these figures, the jump in revenue can be estimated if engagement increases by x%.

4. Drive Engagement

Most customers today expect a reward even for a low spend. Market saturation, cross-brand promotions and personalized rewards are lifting the bar higher for businesses looking to boost retention with loyalty programs. The best ones use tools to drive engagement – social media, gamification and surveying tools. Metrics managers, apart from letting you measure ROI, can also give you extra insights into your customers and their behaviors. With those, you can better tailor your program to them in future, and ultimately up your ROI.

5. Keep It Personal

Remember, the best and most effective rewards are not necessarily financial; both employees and customers are motivated by emotional triggers. They want to feel valued. As customer appetites for rewards are growing, the challenge for businesses is creating that feeling of appreciation with personalized interactions that convince customers to not only choose you, but choose you again. Focus and target your approach to your customers and their needs and behaviors. And make sure that, at every level of the business, staff knows how important loyalty is, and are committed to improving it.

6. Know Your Customer

Above all else, make sure you truly understand what makes your customer

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tick and how to keep them loyal to your products. That's why it's important to:

- Seek more feedback and set down several ways to collect feedback and measure engagement.
- Don't rely on single question loyalty surveys.
- Mine your data.
- Lather, rinse and repeat. (Or measure, adjust and re-measure.)
- Encourage employees to encourage loyalty.
- Keep rewards relevant and personable, and pick the right vendor.

The Performance Improvement Council (PIC), a professional organization of performance marketing executives is a special industry group of the Incentive Marketing Association (www.incentivemarketing.org), is collectively focused on helping companies optimize their investment in human capital through proven and innovative reward and recognition solutions. To learn more about the Performance Improvement Council, please visit <http://www.thepicnow.org>

¹ <http://www.forbes.com/sites/tjmccue/2013/02/04/warning-is-your-new-customer-coming-back-4-steps-you-should-take-now/>

² Source: For Love or Money? 2013 Consumer Study into Australian Loyalty Programs

³ http://www.cmo.com/articles/2013/7/18/customer_retention.html

⁴ <http://www.manta.com/resources/special-projects/e-book-achieving-customer-loyalty>