

HOW PROFITABLE IS YOUR LOYALTY PROGRAMME? MEASURING AND INCREASING ROI

A loyalty programme is an important part of your marketing strategy – it's a proven way to retain customers, and boost customer and channel loyalty.

When it's 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 shows that in e-commerce especially, one-time customers will actually cost a business money. For example, customers of online apparel retailers on average 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 for you to use loyalty programmes to encourage customers to keep coming back to your business.

According to research from Directivity and Citrus, **80%** of consumers buy more from businesses whose loyalty programmes they are a member of.³

ARE YOU GETTING OUT WHAT YOU PUT IN?

But how do you know whether you're getting enough back from your loyalty programme to justify what you're putting in? What are the metrics you should be looking for? **First, think about:**

THE COST OF YOUR LOYALTY PROGRAMME

Loyalty programmes 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.

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

² http://www.bain.com/Images/Value_online_customer_loyalty_you_capture.pdf

³ <http://www.slideshare.net/cpattas/2013-australian-loyalty-programs>

VERSE THE WORTH OF YOUR CUSTOMERS

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?

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 programme is working.

PUT SYSTEMS IN PLACE

1. BE PREPARED

Before you go live with your loyalty programme, 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 all your staff are on board. Make the loyalty programme a part of your workplace culture, and create employee structures and incentives to drive it in the right direction. The programme will get more and 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 programme (as opposed to an old-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.

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

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 programme:

1. Levels of customer engagement with the programme
2. Quality of customer service (or resolution rates for customer complaints about the programme)
3. Employee knowledge from training (or the level of completion across the company)

These are the three biggest contributors to customer experience – reported by customers to be one of the most influential factors in building loyalty. The higher the percentage of these three factors, the higher the ROI of your programme. Even a small increase can have an impact, as spend increases and your most loyal customers refer their friends.

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 personalised rewards are lifting the bar higher for businesses looking to boost retention with loyalty programmes.

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 behaviours. With those, you can better tailor your programme 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 personalised 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 behaviours. And make sure that, at every level of the business, staff know how important loyalty is, and are committed to improving it.

GET TO KNOW YOUR CUSTOMERS

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

ABOUT POWER 2 MOTIVATE

THE PERFORMANCE IMPROVEMENT PEOPLE

Power2Motivate is the global leader for all things performance improvement. We develop and manage some of the worlds biggest and best customer loyalty and employee recognition programmes and have offices covering all four corners of the globe including Australia, Asia, North America, South America, Europe and Africa.

Our programmes are available across 144 countries and in 17 languages. We're proud to say we have over 750 clients, in excess of 2.5 million users, and we're still growing.

With a combination of smart technology, passionate people and excellent partners, we offer our clients a straightforward yet powerful solution at an affordable price.

This in turn enables organisations to foster stronger relationships with their customers and employees.