



MEASURING LOYALTY PROGRAM SUCCESS

A GUIDE TO GETTING STARTED

Summary

Loyalty programs are more than just a financial investment. For most businesses, they mean hours of added training, setup, and ongoing oversight, to be successful. Proving their value with the right customer retention metrics is critical, but can present unique challenges that even the most weathered marketers balk at. In this white paper learn more about how you can better collect and leverage your loyalty program data to grow the bottom line and deliver KPIs that tell the real story of your success.

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Table of Contents

The Importance of Hard Data	01
Connecting Your Touchpoints	03
Getting Down to Numbers	05
Defining Your Goals	06
The Big Picture	07
Customer Lifetime Value	
Average Order Value	
Dialing Down	10
Onboarding	
Use	
Engagement	
Split Testing	15
Closing the Deal on Loyalty Marketing KPIs	16

THE IMPORTANCE OF HARD DATA


There's an old business saying that goes "the first job of marketing is to prove itself". That is, no matter how great we think our work is, it means nothing, unless we have a story to tell about it – a deliverable that describes not just where we are, but how we got there.

Time and again, the adage has proven true for almost all of us. The process of collecting, incorporating, and filtering the information driven by any given campaign's successes or failures has been as vital to the next pivot in our strategy, as the result itself.


Drawing conclusions from that data however, has always been a somewhat tricky affair. The process forces us to look honestly at both our successes and failures. If not a challenging study in our own best ideas, it can be a daunting game of "Guess Who", in which we, the marketer, are asked to review a spreadsheet full of metrics, connect the various dots, and present a full-throated and definitive report on how we achieved success.



In reality, customer retention KPIs (like any others) are only as good as the methods by which we've defined them. That includes the process and context that brought us to any given result. Most of us want to believe that it was only through skillful manipulation of the information and keen insights that we achieved success, but can't count the number of times that we've sat down to examine a pool of data and said, "How did I get here?"

No matter how great our ideas were, the numbers didn't always pan out the way we  thought they would. What we perceived to be insignificant aspects of our strategy turned out to be huge players. Things that we, intuitively, felt were a big deal... ended up being minor statistical outliers. There is no marketer in the world who, at one point or another, hasn't been surprised by the data they got back after a campaign was completed.

And all of this is exactly what makes data so important. It represents an unbiased glimpse into how our hypotheses held up against the light of day.

With the recent influx in access to ever-growing quantities of information however, it's become increasingly difficult to see the  for the trees.

'Big data' is BIG. It has infiltrated the retail ecosystem in a way that's both revolutionized our understanding of how shoppers engage our brands, and clouded our understanding of what to do about it. At the end of the day, we often see a kind of informational paralysis among business stakeholders that leads to frustration and indecision.

89% of companies now use their data in a strategic way for business intelligence and analytics.

Never the less, this tidal wave of information isn't slowing down anytime soon. Being able to pinpoint and extract actionable intelligence from within the noise is not only important to what we do, but imperative to being successful at it. This isn't any less true when it comes to moving the needle on your loyalty marketing goals than it is for your business, as a whole. The data becomes easier to parse, the better we understand what to look for.

“ Big data has infiltrated the retail ecosystem in a way that's both revolutionized our understanding of why shoppers engage our brands, and clouded our understanding of what to do about it. ”

Schutz, Thomas. (2013). *The State of Data Quality* [White paper]. Retrieved November 2, 2017, from Experian Information Solutions Inc.: [URL](#)

CONNECTING YOUR TOUCHPOINTS

If this has all presented a unique set of challenges for businesses in the digital space, it has become a virtual nightmare for brick and mortar and multi-channel retailers. Saddled with the complexities of understanding how online traffic is affecting their digital growth, they now have to aggregate and normalize data across various platforms, channels and devices, and combine that with in-store metrics in order to even have a shot at understanding how these ecosystems work together in order to drive loyal shoppers.

At the same time, today's customers have come to expect the kind of highly tailored shopping experiences that can only be wrought through the extraction of this data across your entire business ecosystem.

They only want to see messaging for products that they've expressed interest in. They expect account details, including purchase history and payment methods, to be channeled seamlessly from one touch point to the next. They want to shop over any device, at any time, for anything. Likewise, multichannel retailers want to create systems that both provide an excellent customer experience, and provide them with reliable data on which to make important business decisions.

Changing the Game with Omnichannel Loyalty

Enter **omnichannel loyalty**. The software that powers these advanced customer retention programs integrates directly to your point of sale, website, and mobile applications, in effect, providing a bridge across all of the places that shoppers now engage your brand. Along the way, it aggregates data, not

just about customer demographics, but about how each member shops and what they buy, thereby forming a more complete and relevant shopper profile based on psychographic targeting.

As these programs are most often based in the cloud, it does this all in real-time, providing powerful, up-to-the-minute insights into how we can move the needle on our business goals. Merchants who leverage this data can build targeted campaigns based off a customer's demonstrated preferences, over all the places they engage you, and on a schedule that fits with their lives.

“ Customers who received relevant marketing based on product purchase history were up to 6x more likely to respond to further outreach. ”

Loyalty programs can present your data in a multitude of ways. From out-of-the-box reporting features built into the program's existing CRM to more advanced integrations with predictive analytics tools like Versium or Microsoft's Power BI. Whichever the case, in the following pages we'll establish some tested methodologies for measurement planning, meaningful KPI's, and tips for how to make the most sense of the data you have coming in.



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**LOYALTY PROGRAMS ARE AS MUCH
A WAY TO BETTER UNDERSTAND
CONSUMER BEHAVIOR THROUGH
THE APPLICATION OF DATA, AS
THEY ARE A WAY TO ATTRACT AND
RETAIN NEW SHOPPERS.**

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GETTING DOWN TO NUMBERS

What's Next?

Because your loyalty program will never likely gain 100% penetration, this data can't (and shouldn't) replace your existing in-store or eCommerce based measurement planning, outright. It can however, provide a significant enough sample set to guide large-scale marketing decisions. Take these use cases:

- Members who shop your brand online convert at a 20% higher rate of those that only shop in-store.
- Members who received an online coupon maintain a 15% higher average order value.
- Members who were provided with an instant reward at signup are 25% less likely to churn.
- Members who received a follow up email from a brick and mortar shopping experience were 5x as likely to write a positive review.

Much like your existing data, some loyalty program information will look like nothing at all, unless stretched out over a longer stretch of time. Others will seem like dramatic spikes that, in the big picture, don't really have too much bearing on your bottom line.

The important part is that we can now measure these factors over all of the places our customers shop and apply those lessons to our marketing program, at large.



DEFINING YOUR GOALS

Our goal is to distill the hundreds of thousands of data points that any marketing program produces, into a set of key performance indicators that we can look at, in order to judge the relative health and effectiveness of our loyalty program, both in its own right, and as it affects our larger financial picture.

How much weight should you put on these figures? No more than any other KPI. While it's important to have them, it's even more important to understand what drives them. They should be reliable, but more than that, you're going to want to become intimately familiar with how they work. Treat your KPIs with the same respect you would learning a new language. In order to fully grasp how they are driving your business, you have to absorb the meaning of each word, instead of just memorizing random phrases.

For example, while an 80% breakage rate would be outstanding, it likely points to a larger problem. Your coupon might accidentally be set to award 100% off. You may have accidentally forgotten to exclude a very high value product from your promotion. Etc.

“ Treat your KPIs with the same respect you would learning a new language. ”

Getting Started

What are some effective ways that we can leverage loyalty program data to build KPI's that act as bellwethers for our overall strategy? Figuring out how program data fits in with your overall measurement strategy is the first step.

There are three main questions that your loyalty KPIs should be answering:

1. How do loyalty program members perform against non-members? How is loyalty, specifically, driving your bottom line?
2. Which of your loyalty initiatives are providing the most benefit? For example, which members are having the biggest impact? Which channels are they coming in on?
3. How can we continue driving growth by increasing market penetration and engagement.



THE BIG PICTURE

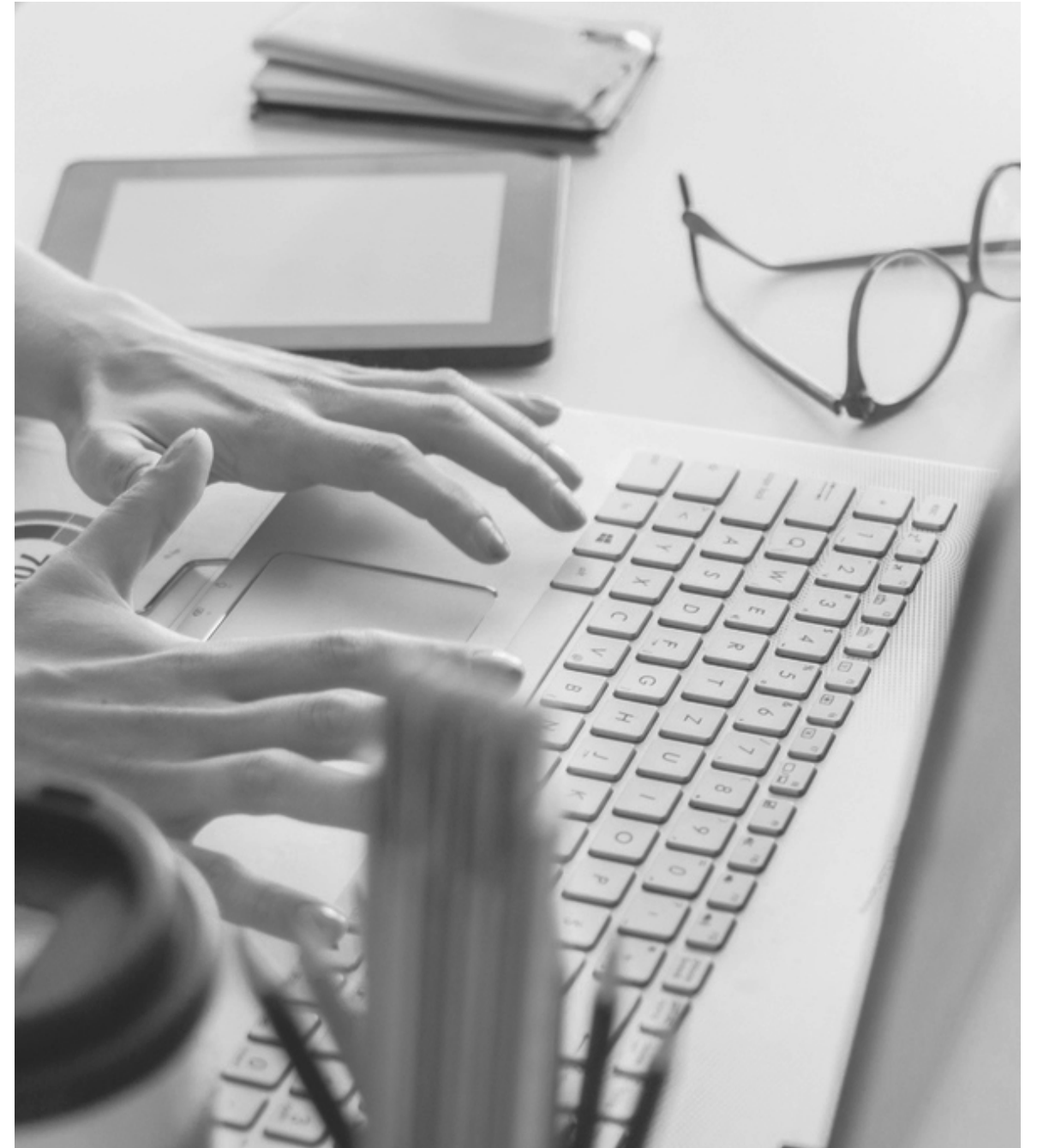
When we speak of loyalty marketing, there are two primary and overarching goals:

- **Increase average amount spent by any given group of shoppers, during a specific visit.**
- **Increase the average amount spent by any given group of shoppers, during a specified period.**

These can be measure with two KPIs known respectively as Average Order Value (AOV) and Customer Lifetime Value (LTV). Keep in mind that these metrics are not exclusive to your loyalty program. They are however, strongly influenced by it and the best metrics to use if you're looking to tell a high-level story about how effective your efforts have been.

Both can be effected by a wide variety of circumstances in, and outside of your customer loyalty program, meaning that they aren't dials, so much as needles. They are crucial to knowing where you stand however, and will be a good indicator of your loyalty program's effect on the bottom line.

In the following pages, we'll walk through some of the most popular and important KPIs for your loyalty program. As we do, keep in mind that every business is different. Over time, you'll want to build a baseline for each metric and what qualifies as a statistical outlier that should raise flags.

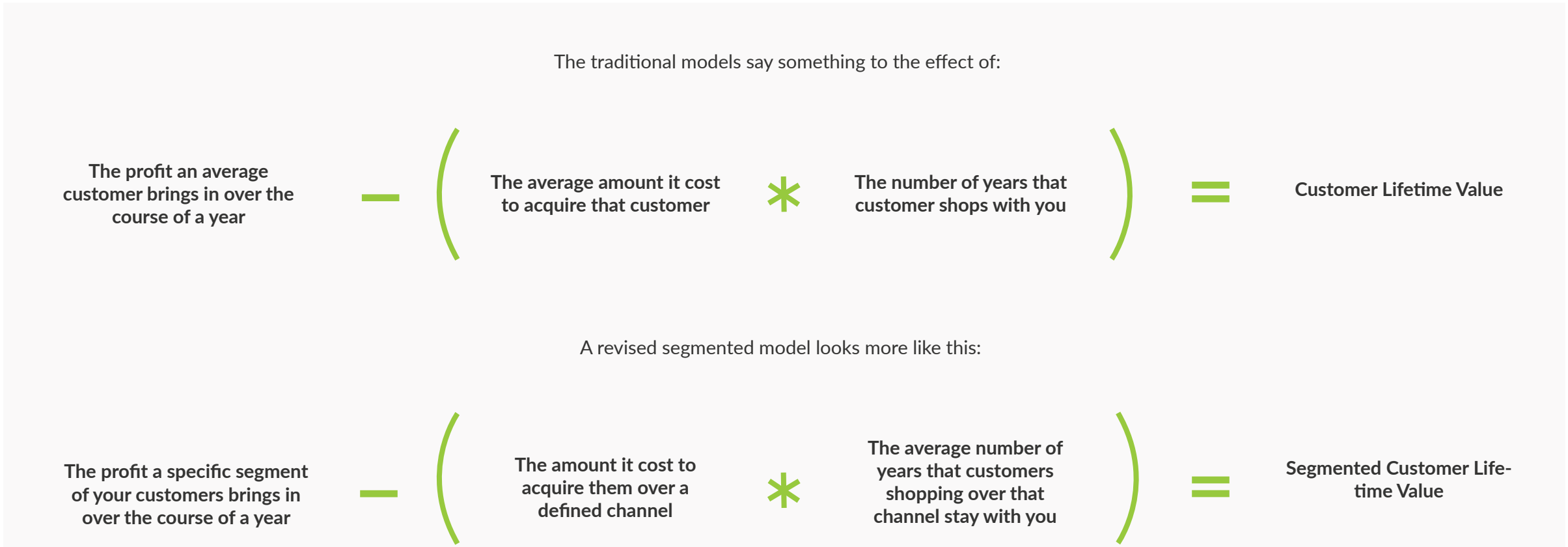


Customer Lifetime Value

Measuring LTV is nothing new. In fact, it's become quite a bit easier for eCommerce merchants in the digital age to build an understanding around. For brick and mortar and multi-channel retailers however, things get a little more complicated. Both acquisition and retention costs as well as ticket totals, can swing wildly across varying points of purchase, leaving us with an abstract customer lifetime value that does more to obfuscate our understanding of the customer's path-to-purchase, than highlight it.

We need a more nuanced LTV model - one that allows us to ingest the realities of today's business environment and accounts for the dramatic impact these factors have on each customer's net value. Omnichannel loyalty helps out here, by using tokenized customer numbers to track shoppers over multiple channels – from the first moment of truth to the last sale.

Segmented LTV, gives us the opportunity to see our company as a whole, but also the to ability to drill down into the profitability underscoring these broad numbers.





Average Order Value

If customer lifetime value had a lieutenant, it would be AOV. Like your LTV, AOV has been around a long time. A standard AOV model however, would describe our customer as an aggregate number. Like 'segmented LTV', Segmented AOV makes an impression when you can begin to understand it within the context of a customer's broader behavior patterns and purchase history.

Segmented Average Order Value

$$\begin{array}{ccc} \begin{array}{c} \text{Shopping Cart with } \$ \\ \text{Segmented} \\ \text{Average Order} \\ \text{Value} \end{array} & = & \frac{\begin{array}{c} \text{Money Bag with } \$ \\ \text{Total Revenue by} \\ \text{Defined Channel} \\ \text{or Profile Type} \end{array}}{\begin{array}{c} \text{Clipboard with } \$ \\ \text{Number Of Orders} \\ \text{Taken Over a} \\ \text{Specified Channel} \end{array}} \end{array}$$

Put these two metrics in your pocket for now. They'll be important numbers to glance at from month to month, check in on quarterly, and investigate, yearly. We, in no way, suggest doing away with your existing LTV or AOV measurements, but if you're looking to maximize loyalty investment, digging into the details is going to be a great start.

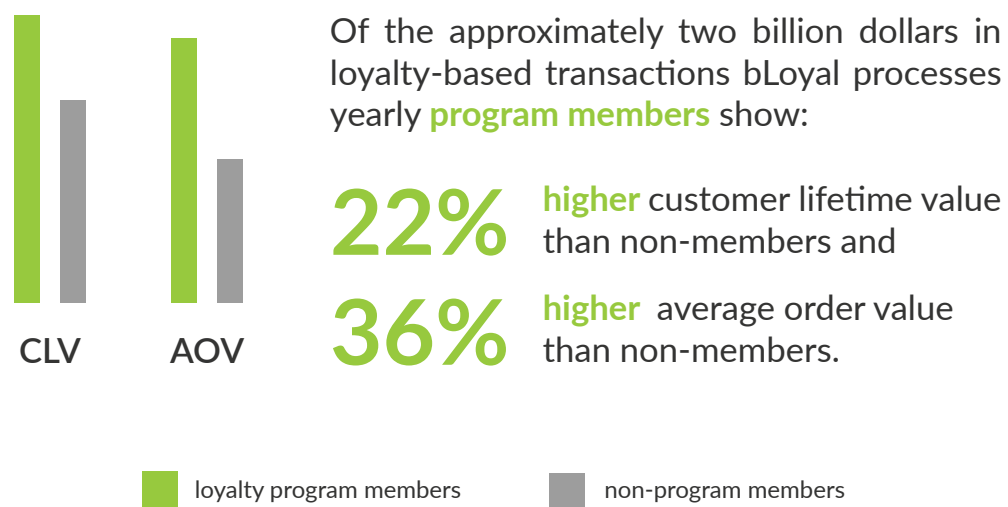
DIALING DOWN

As we drill further down into the specifics of our loyalty program, we'll begin exposing the nuts and bolts of our customer retention strategy. Whereas LTV and AOV, might by 'board-room' appropriate, marketers can use the following KPIs to better understand what's driving those numbers, from a data and analytics, standpoint. There are three major areas of interest: **Onboarding**, **Use**, and **Engagement**.

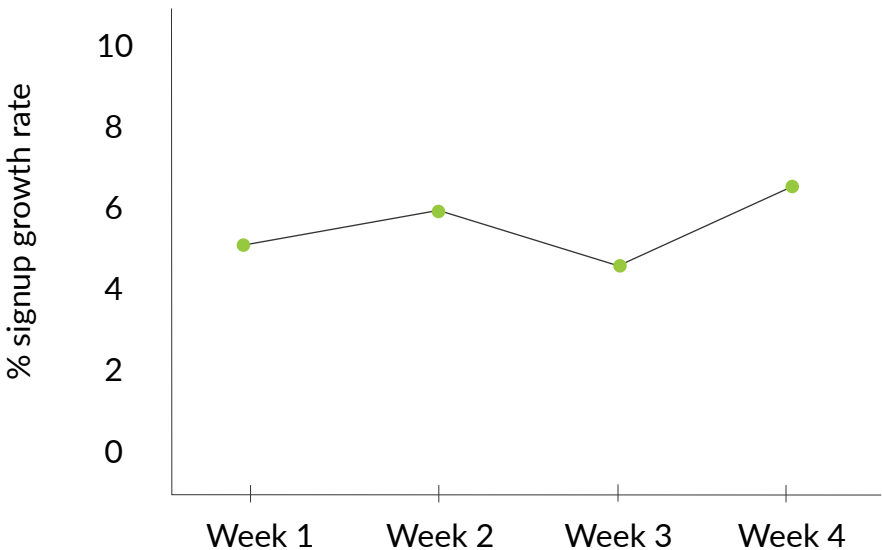
Onboarding

Loyalty Program Penetration

In our recent blog, '**Advertising your Loyalty Program**', we established that building your loyalty program is a conversion, unto itself. We know that loyalty program members spend more, and with greater frequency.



Keep in mind that a well measured signup metric provides two benefits. That of increasing your bottom line. It should also give you a sample data pool on which to start making loyalty program decisions. It's not critical that you maintain 100% penetration, but **the higher your join rate, the more reliable your data.**



Signup Growth Rate

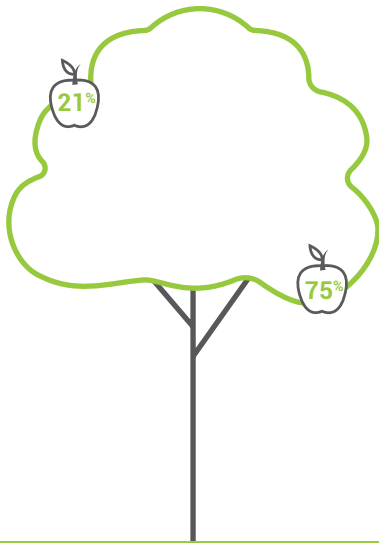
It's important to measure the history of your loyalty program penetration. Remember however, that signup growth, unto itself doesn't necessarily mean that people are staying. Pair high signup rates with lower churn, to better understand how well you're doing at keeping customers that you earned. In our experience at bLoyal **signup lift can increase at up to about 10% a month**, but 5% to 7%t is probably a healthier expectation.

Signup by Device / Location

Where did your most active customers sign up? It's a good idea to focus on the good and cut the dead weight (in as much as possible). For instance, and all things being equal, if you find that 90% of program members joined through a website landing page, let's invest there. A low signup percentage isn't necessarily a harbinger of doom, but we want to grab the low hanging fruit, first. You can always go back and devise new ways to encourage signup over lower performing channels.

Revenues by Device / Location

How do the LTV and AOV of customers who signed up on mobile, compare to that of customers who sign up via your website or at the register? bLoyal aggregated data shows that there can be a wide disparity between signup locations. For instance, younger users tend to be more comfortable with mobile devices. They also have more expendable income. Depending on what you're selling, it may be more valuable to focus campaigns around a single signup type.



“ We want to grab the low hanging fruit, first. ”

Use

Frequency

How frequently are users interacting with your program? This can be a measure of how well you’re engaging customers with new offers. Low frequency rates can tell us a couple of things, including how persuasive your offers are, whether they’re relevant to the user you’re offering them to, or whether they’re even seeing your offer to begin with. Getting a reliable “frequency” metric can be a process of elimination, but at the end of this day, you will have some real data to either back up or dispel your notion of the efficacy of your program.

How do we measure frequency? Each organization keeps track of it a little differently, but you may want to consider how often users are logging in to their accounts, opening your emails, sharing your loyalty promotions on social, etc. This can be compared to overall traffic on a website. It doesn’t mean they’re buying, but they are getting your message.

How do we measure frequency?



How often users are logging into their accounts?



How often are they opening an email?



Or sharing your loyalty promotions on social media?

Breakage

You want to know, not only how many people are taking you up on your offers, but where, when, and how. Naturally, not everyone is going to cash in on every promotion, but you should be able to form a clearer picture of what your customers are interested in, by examining which of your offers are most engaged with. We want to look at breakage from three perspectives:

Overall Growth

Is your breakage growing over time?
Are more people using your offers?

Comparative by Offer

Do offers on one product or combination of products perform better than offers on others?

Discount Values

What is the critical mass for breakage. How much of a discount do you have to offer, in order to get consumers to follow up on the offer?

Be careful to understand and test each variable, independently. For instance, is the featured product driving breakage or the value of the promotion?

Goal Completion

Every marketing campaign, loyalty based or otherwise, has a conversion point. Sure, we want to drive users to spend more. But that 30,000 ft view is only managed through the lens of how successful your individual campaigns are. For instance, if your AOV is \$5. You may want to increase it to \$7.

Goal completion comes into play heavily with frequent buyer programs, but don't let that stop you from building goals around points programs and the like. Create a KPI around the number of people who spent and average of \$7 per visit and track it over time.



Origin

Of the members that completed your goal, what is the break down on five key figures?

- > What channel did they first learn about the campaign?
- > Which channels drove the highest engagement?
- > Where and on what device did they redeem the offer?
- > Was the order value on the ticket where they completed the goal, higher or lower than there AOV?

Frequent Buyer Programs and Goal Completion

There is some enormously interesting data surrounding goal completion and loyalty program metrics. To start, the level of completion that your members' first action propels them towards can have an extremely powerful effect on completion.

For example, take a simple punch card you'd find in a coffee shop. Offering a program member triple points for their first purchase and punching three holes can dramatically increase breakage by using the sunk cost fallacy to drive return visits.





Engagement

Word-Of-Mouth

One of the strongest drivers of loyalty program growth is often ambassadorships and word-of-mouth. Social shares of your loyalty programs are a great way to attach a 'word-of-mouth' metric to your dashboard. It may not be the whole picture, but if you provide engaging content, it'll provide enough of a spike to consistently measure how your program is performing in this elusive measurement. If you want to take the next step into ambassador programs, creating trackable referral codes can be a great way to understand who's helping to grow your program.

Retention

Retention shows the decay rate of member activity. This can help you determine how frequently you should be making offers. Like the story of Goldilocks and the three bears, we don't want to offer more discounts than we have to. Not enough won't drive return shoppers, though. Make sure that you are keeping an eye on how often and what size promotions you should be offering in order to meet the KPI that you're looking for.

Churn

Churn is going to be a metric of how many people are leaving your program vs. how many people are coming in. At bLoyal, we generally consider a program member "churned" when they haven't engaged your program for at least 12 months. Every organization differs, though. At the very least, you need a 1:1 ratio here. An ideal 1:1.5 to 1:2 is a great goal to start with, but we've seen ratios as high as 1:5. Keep in mind that the closer you get to maximum penetration, the more this will slow.

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SPLIT TESTING

The importance of split (or A/B) testing offers and promotions can't be overstated. In most advanced omnichannel awards software, there's a built-in method for testing varying discount percentages, points offered, open rates etc. If not, they aren't difficult to create in any spreadsheet program. Take a small segment of your member base and record varying audiences reaction to the same promotion.

CLOSING THE DEAL ON LOYALTY MARKETING KPIS

As marketers, we're never far from the need to tell a story about how our work impacts the bottom line.

As executives, business managers, and entrepreneurs, it's imperative to driving  a better understanding about the customer's path-to-purchase

· Measuring your **loyalty program's success** shouldn't end with the KPIs presented here. We encourage you to look more deeply, formulate your own hypotheses, and test them against varying segments of your loyalty program membership. You may find that there are metrics, that while not applicable to every business, are key to driving your understanding of how customers engage you.

One of the prevalent advantages of this not-so-new information age, is the democratization of data. There is a LOT information available, to virtually anyone who wants it. from the enterprise business executive to the solopreneur. Google Analytics, Power BI, Versium have empowered online business' ability to track every action a customer takes on your website. Now, combine them with bLoyal to track customers across all of the places they engage you.

