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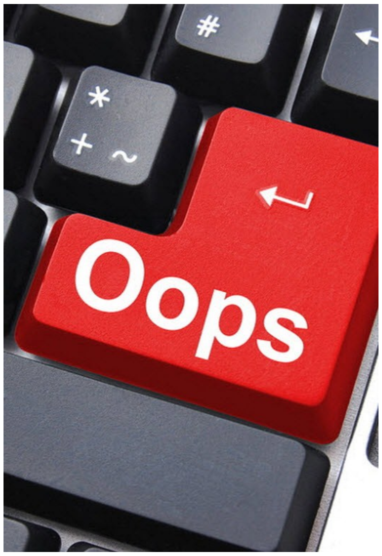
CUSTOMER EXPERIENCE PARTNERS

Why So Many Loyalty Programs Fail - Part 4 of 4



While it may be uncomfortable to admit, most management teams don't know whether their loyalty programs are succeeding or failing. More specifically, they don't know if their loyalty program is actually 'paying its own way'. The reasons for the uncertainty are twofold: 1) No objective measure has been built into the program to gauge and track the program's results; and 2) The costs of creating and running the program are seldom well-identified or tracked. Further, the operational costs are generally not allocated to the loyalty program, nor are operational costs charged back to a program when the added revenue generated by the program is discussed.

But the Programs Still Work, Don't They?

That really depends. Consider a few quick examples: How important is Delta Airline's loyalty program to business travelers flying out of the Atlanta area? It's really more likely they fly Delta because the airline has more flights, more often, than any other airline in town. Do you actually drink more coffee because your favorite coffee-stop tracks purchases and gives you every 20th cup free? Does a grocery shopper really decide between A&P or Kroger because of the respective loyalty programs? Or, more realistically, do shoppers carry loyalty cards for both chains and shop the store that's either: got specific items on sale, or is most convenient to one's current location?

We aren't against tracking customer behavior (which loyalty cards conveniently implement) and we certainly believe in rewarding one's most profitable customers with special care and benefits. But a loyalty program must pass a logic test; it should only be maintained when it is generating more value in desired outcomes (in terms of increased retention, greater share of wallet, or generation of more positive word of mouth) than its fully-loaded costs.

So What Do We Recommend?

Always test a program.

1) Begin by randomly assigning 90% of your current customers to a ***test* group** and the remaining 10% to a ***control* group**.
2) Assess current buying behavior of both groups to prove that historically they've purchased at approximately similar levels.
3) Invite members of the test group to participate in the loyalty program. Offer them all the points and benefits you feel are appropriate.
4) Get buy-in on your test program from your accounting team and get them to assist you in properly allocating all time and out of pocket costs to the program.
5) Run the program with the test group for a pre-determined length of time (should be ample to include multiple repurchase cycles).
6) Compare the per-member revenue of the test group, minus the fully allocated expenses of the program, with the per-member revenue generated by the control group. The positive difference is the lift your loyalty program has generated.

We hope you've benefitted from all four parts of this series, for a reprint: vavra@customerexperiencepartners.com or pruden@customerexperiencepartners.com

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