8 Essential Steps: Championing Your Investment in Loyalty Marketing
Table of Contents

4  |  Step One – Organize and Commit Stakeholders
4  |  Step Two – Identify Value Drivers
5  |  Step Three – Ideate and Validate
6  |  Step Four – Baseline Existing Performance
7  |  Step Five – Build Consensus on Improvement
7  |  Step Six – Assess Total Program Cost
7  |  Step Seven – Calculate ROI
8  |  Step Eight – Understand Sensitivity and Management Risk
For every company that loses a customer, another company is prepared to win that same customer and maximize lifetime value through continuous, contextual engagement.

Most marketers want to expand loyalty efforts; the problem is getting these programs off the ground. Without a solid foundation, your loyalty initiatives are susceptible to major roadblocks that can waste resources, prevent the program from launching, or decrease effectiveness when deployed.

This whitepaper provides guidance on establishing efficient and effective customer loyalty program management with eight steps that will help you remove common roadblocks to investment, gain agreement, and build a strong foundation for measuring and optimizing loyalty investments into the future.

You may find that tackling these steps in a different order makes more sense for your organization. The important thing is that every step be addressed, because together, they help assure swift decision-making, efficient implementation, and successful execution of loyalty initiatives.
Step One – Organize and Commit Stakeholders

Support from multiple stakeholders is essential for building an effective customer loyalty management (CLM) initiative, so you must first understand who needs to be part of the team.

Although CLM is generally driven by the marketing team, the technology team will ultimately be responsible for procuring, implementing, and owning the technology. An operations team may be responsible for training, workflow, operational metrics, and implementation at the store or point of purchase.

It’s also vital to involve financial stakeholders because depending on deployment, loyalty programs carry financial implications that affect the balance sheet, profit and loss statement, and accounting decisions. A common mistake is to be intimidated by the financial team and involve them at the end of planning or deployment. When financial stakes are large, finance must be aligned, which is why these stakeholders need to be identified and involved from the start.

Ask stakeholders to agree on objectives and metrics at the outset. Start with high-level questions. What defines loyalty for your company? What specific KPIs will be improved? What level of change can be managed in and outside of the central office? How will success impact overall financial performance in the eyes of investors?

Step Two – Identify Value Drivers

Next, begin to identify the measurements that will determine success and gain agreement on them. You will have soft measurements such as brand tracker markers, hard measurements such as conversion rates and purchase frequency, and probably some measurements in between. Brainstorm to build a broad set of criteria that can then be refined into the best qualitative and quantitative measures.

Four value drivers related to either technology or business outcomes need to be established to ensure both operational and strategic objectives are met:

Value Driver #1: Turn Customers into Fans

Turning customers into fans describes maximizing the lifetime value of your customer by delivering the right offer at a precise moment through the optimal channel. It also describes adding a high percentage of customers to your loyalty program and optimizing engagement methods.

Value is created as a function of successful execution of core loyalty programs and tactics.

Value Driver #2: Intelligent Contextual Engagement

Today, marketers must determine how to integrate data-at-rest and data-in-motion with powerful analytics and real-time decision engines to deliver contextually rich customer engagements. Achieving visibility into each customer’s context involves more than analyzing aging customer data from the CRM system. Pulling data from all available streams allows contextual engagement transformation.

The value is greater than basic CLM execution. It is achieving knowledge of the customer’s context, which allows more relevant and timely offer delivery and more compelling engagement.
Value Driver #3: Omni-Channel SaaS Platform
Plugging into an omni-channel SaaS loyalty management platform requires negligible investment in software, hardware, integration, and maintenance. It presents a massive cost-saving opportunity, and the potential profitability from this option should be considered and accurately assessed.

Value comes from the capabilities provided versus the cost of alternative hardware and software purchases, maintenance, systems integration, and IT and marketing staff.

Value Driver #4: Accelerated Value Optimization
Marketers can optimize return on their investment through immediate testing and adaptive learning about interaction scenarios. Rigorous test and learn is the best way to discover ways to evolve programs and do more with less.

The value comes out of the organization’s ability to boost performance based on its ability to test, learn, and continuously improve marketing engagement.

Step Three – Ideate and Validate
This step is about creative marketing: How many great ideas you can generate and how will you execute them. In this design phase, programs may be all encompassing and provide fundamentally new ways to capture customers and engage them with your brand, or they may be smaller campaign initiatives that allow you to test the strength of your ideas along with the systems that deliver those programs.

The key is to stretch the imagination to create new initiatives.

The ideation step has nothing to do with finance, but your finance team may need to validate your approach before proceeding. You might need a rigorous consumer business case (for example a series of focus groups to test the concepts) to get commitment from your financial stakeholders.
Step Four – Baseline Existing Performance

It is difficult to understand how successful a program is unless you have an understanding of where you started. Mine your dataset to determine how many customers fall into each behavioral segment (for example, purchase frequency, overall monetary value, other typical behaviors and categories) while considering the key metrics that will help you define the segments.

Questions you might ask include:

- How much are they currently spending?
- How frequently do they buy?
- What do they buy, and for whom?
- What is their average order value?
- What gross margin results?
- What is their attrition rate?
- What is their conversion rate?
- How loyal are they now?

If you have data for it, document it. This step also correlates with step two because answering these questions with baseline data will lead to agreement on the metrics used to determine success.

Retail Loyalty Benchmarks

Example: How likely would you be to sign up for this program?
Step Five – Build Consensus on Improvement

If all the great ideas generated in step three are validated by your customers, how good will your program be? How does increased improvement on each of the key metrics impact the business? Knowing the economic impact makes it easier to determine how you will prioritize your optimization efforts. Ask if-then questions. If we do x, then how many more transactions will customers make? If y happens, how much more likely are they to advocate to friends? If a customer advocates to a friend, how likely is that friend to make a purchase, and for what amount?

If you don’t have historical data, your loyalty vendor may be able to provide example results based on other programs. It’s important to note that although you can use vendor experience, your company ultimately needs to own its data, processes, and metrics. Your project will face difficulty getting approved if you are only using your vendor’s historical data to justify your business case.

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### Step Six – Assess Total Program Cost

Building a thorough understanding of the costs and the implications of investing is critical for establishing credibility. The costs of loyalty marketing are many – including technology, rewards, people, marketing collateral, and advertising.

Some costs are only incurred at start up, and some are ongoing. Some are variable, some fixed. You need a strong sense of costs because it will help you calculate an accurate ROI in the next step – and provide an accurate measurement of program effectiveness. Think of step five as solidifying the details of your return, and step six as solidifying the details of your investment.

### Step Seven – Calculate ROI
If you’ve done your due diligence in steps five and six, calculating ROI should be relatively straightforward; however, your calculation may be affected by how your organization views investment risk.

To begin the communication process, keep the equation simple. How much will you invest, and what is the likely return less costs? Some companies run profit and loss calculations on their loyalty initiatives because it’s a straightforward method for determining the incremental revenues generated, and it provides a summary your CFO can easily digest.

Step Eight – Understand Sensitivity and Management Risk
Companies take different approaches with regard to ROI and break even. For example, some organizations seek a breadth of inputs that define low, likely, and high scenarios in order to see the range of impact. Other companies focus on a very limited number of variables and stress test the model based on wider ranges of the most critical assumptions and risk factors.

It is also common to identify a bare minimum threshold of financial success (for example, an investment rate-of-return hurdle or first-year break-even) and ratchet down the assumptions of lift until the bare minimum is achieved. If those minimum metrics of success can be confidently assumed based on the level of preparation, then the investment can confidently proceed.

You want to raise flags on sensitive parts of the project, those that need to be effective for a successful outcome. For example, you might determine that your project is
incredibly sensitive to enrollment rate, repeat purchase rate, or in-cart conversion rate. Whatever those metrics, alarm the entire organization about them. If enrollment is going to be the key driver for increased sales, your organization needs to focus efforts on getting people to enroll.

Step eight is vital because you will be highlighting the issues you need to address to get the project approved. This step will also help you mobilize your organization on the strategic execution of your program.

In nearly every business case, retaining customers is far more profitable than finding new ones, but customer retention comes at a price. To accurately gauge success, stakeholders need to have a detailed understanding of the returns and investments.

Successful customer loyalty management starts with a solid foundation for truly understanding, evaluating, and deploying the initiatives that will ultimately drive profitability.

When you:

• Understand your customers and their behaviors
• Establish an effective framework for evaluation and optimization
• Assemble a committed team working in agreement
• Leverage technology, robust accounting, and efficient businesses processes

Your loyalty initiatives can deliver significant and increasing revenue and profitability.

For more information, head to www.loyaltylab.com, email loyaltylab@tibco.com or call us at +1 415-633-1400.