HOW-TO GUIDE:
5 WAYS TO MEASURE THE BUSINESS IMPACT OF A LOYALTY PROGRAM
CONTENTS

Introduction ........................................................................................................................................3
Importance of Measuring Loyalty Programs .................................................................................4
5 Loyalty Program Measurement Strategies ................................................................................5
  1. Create a Pilot Population ........................................................................................................5
  2. Develop a Cohort Analysis ......................................................................................................6
  3. Consider Look-Alike Modeling ...............................................................................................8
  4. Develop Pre/Post Launch Analysis .........................................................................................9
  5. Benchmark Against a Control Group ....................................................................................10
Conclusion .....................................................................................................................................12
INTRODUCTION

Launching a loyalty program is an important initiative, but just activating one isn’t enough. To make the financial investment and resource allocation involved in such initiatives worthwhile, brands must ensure they are getting the most out of their efforts. Measurement is significantly different depending on the industry. Brands in industries that have direct customer relationships and sales—such as retail and travel—can more easily calculate and measure their Return on Investment (ROI) and conduct more analytical analysis because they have more transactional information at the Point-of-Sale (POS). Meanwhile, industries that have non-direct, disintermediated relationships—such as Consumer Packaged Goods (CPG) and entertainment—face additional challenges because they don’t sell directly to consumers. Yet there are many ways to measure behavior through third-party data asset providers.

Gauging the success of a loyalty program is part art and part science. It involves assessing and tracking a number of different metrics to ensure that members’ behavior—both purchase and engagement—increases over time. It’s important for brands to think about the business impact of their loyalty initiatives and determine what metrics can help them measure their Return on Investment (ROI). Further, brands should strive to understand true incrementality or revenue that would not have occurred without the program. The following guide illustrates five important strategies businesses should consider.
Measuring the success of a loyalty program is critical for brands to track program member behavior, engagement activities, and particularly spending patterns, as well as ensure that brands aren’t overinvesting in their initiatives. Loyalty programs are often big strategic marketing initiatives, so it’s important to determine what’s working and what areas need improvement to drive greater results and customer engagement.

Unsurprisingly, many organizations struggle with ROI tracking. Nearly 60 percent of companies say that measuring ROI is their greatest measurement challenge.1 Unfortunately, there are few standard calculations across the board that brands can use to understand the true impact of a loyalty program and its performance. While some basic metrics exist that allow brands to track the health of their loyalty initiatives, measuring ROI requires more extensive study. Brands must measure a range of metrics to ensure that their loyalty programs are successfully impacting member behavior and are producing a positive ROI.

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1. The Customer Loyalty Conundrum, Forrester, September 2011

NEARLY 60% OF COMPANIES SAY THAT MEASURING ROI IS THEIR GREATEST MEASUREMENT CHALLENGE.
5 Loyalty Program Measurement Strategies

THE KEY TO ANY SUCCESSFUL LOYALTY PROGRAM IS UNDERSTANDING WHAT TO MEASURE.

Organizations can’t simply attribute incremental revenue to their loyalty programs. Instead, they must take a more pragmatic and tiered approach to measure their goals and assumptions to ensure they are obtaining a full view of their program and impact, while minimizing the risk of overstating a financial impact.

“Brands are trying to solve an age-old question when it comes to measuring ROI,” says Dennis Tze, CRO and SVP of Client Success, CrowdTwist. “If you launch a loyalty program, you will get existing loyal customers to join, which will naturally correlate to higher spending by members. The question then becomes, how much does the loyalty program cause in incremental behavior or spend by members?”

Dozens of metrics exist that brands can use to understand how programs are performing. Below are five strategies brands should implement to measure a program’s business impact and performance.

1. CREATE A PILOT PROGRAM

One approach to measure the success of a loyalty program is to create a pilot program that assesses the impact on purchase metrics. This measurement is ideal for retailers with physical stores across multiple geographic locations. With pilot programs, brands start off small with limited risk exposure.

WHY

Pilot populations are used as a proxy to conduct a natural ‘randomized’ experiment. The stores not offering the loyalty program serve as the control group, while the stores offering the pilot program represent the group receiving the treatment.

HOW TO USE

While this metric helps brands compare the performance of a loyalty program from market to market, it’s difficult to distinguish the overall performance of a given market compared to that of the loyalty program itself. Brands should use this metric more for testing the mechanisms and the operational readiness of the consumer-facing staff to deliver a loyalty program experience. In addition, brands should pick stores that have similar performances prior to the pilot test and that don't have large differences in customer populations since this would decrease the validity of the results.

STEPS TO TAKE

• Launch a pilot program before a full loyalty program is in market.
• Track results over various time periods in the initiative before assessing the viability or impact of the program.
• Ensure that the pilot is statistically relevant. Brands should work with their data teams before deploying a pilot program.
• Establish metrics for operational effectiveness such as Customer Satisfaction, tracking call center complaints, and consumer sentiment surrounding the program experience.
EXAMPLE
An action sports retailer launched a pilot loyalty program in one-seventh of its stores and measured the impact. The brand received a 32 percent increase in sales growth. As the program grew, pilot stores performed better.

Monthly Lift in Sales Growth
This graphic shows the lift in sales growth as a result of the pilot program for a leading retailer.

<table>
<thead>
<tr>
<th>Month</th>
<th>Pilot Program</th>
<th>Non-Pilot Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1 (Feb)</td>
<td>2.3%</td>
<td></td>
</tr>
<tr>
<td>P2 (Mar)</td>
<td>2.7%</td>
<td></td>
</tr>
<tr>
<td>P3 (Mar)</td>
<td>1.2%</td>
<td></td>
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<tr>
<td>P4 (Apr)</td>
<td>3.5%</td>
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<tr>
<td>P5 (Jun)</td>
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</tr>
<tr>
<td>P6 (Jul)</td>
<td>2.3%</td>
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</table>

2. DEVELOP A COHORT ANALYSIS
A second measurement strategy for brands that want to track member behavior and loyalty over time is to create a cohort analysis. A cohort is a group of people who share a common characteristic or experience within a defined period. Typically, a cohort analysis helps brands understand the impact of a loyalty program on members’ spend behavior as they mature through the program.

WHY
A cohort analysis allows brands to identify relationships between the characteristics of a population and that group’s behavior. The goal for loyalty program operators is to see the impact of program engagement over time. The hypothesis to prove is that loyalty members spend more over time as they mature within the program.

HOW TO USE
This particular metric is better suited for brands that have been around for a few years and that have not changed any fundamental elements of their loyalty program. For brands that implement changes to their programs, this measurement
strategy won't be helpful. Brands that alter their tactics should compare cohorts before and after the change to measure true variation.

**STEPS TO TAKE**

- Segment members into groups based on the month they joined the program and then calculate each group’s Average Order Value (AOV) for each month they are in the program.
- Combine all cohorts’ monthly AOVs together so that the months after joining are averaged across all of the cohorts. This diminishes seasonality brands may experience and gives a more accurate account of how all groups perform.
  - Analyze the trend of member and non-member AOV over the period of time that each member has been in the program.
  - Compare the two groups and determine the difference in how members spend throughout their time in a program.

**EXAMPLE**

In a past analysis for a retailer, the lift in AOV for members was more than 20 percent higher than non-members after members had been enrolled in the brand’s loyalty program for 1 month, and nearly 50 percent higher after 12 months.

This graphic shows how the average spend rate for loyalty program members gradually increases as their time in the program grows.

<table>
<thead>
<tr>
<th>Month After Join</th>
<th>Joined 06/13</th>
<th>Joined 07/13</th>
<th>Joined 08/13</th>
<th>Joined 09/13</th>
<th>Joined 10/13</th>
<th>Joined 11/13</th>
<th>All Cohorts</th>
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<tr>
<td>1</td>
<td>$70.52</td>
<td>$84.00</td>
<td>$97.07</td>
<td>$64.33</td>
<td>$110.95</td>
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<td>$93.01</td>
<td>$100.46</td>
</tr>
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3. CONSIDER LOOK-ALIKE MODELING

Another proven strategy to track the success of a program is to measure pre-program behavior of members and look-alike non-members who can be identified. Brands that use this methodology must first find unique identifiers for their customers. For example, retailers that have an in-house credit card can track the behavior of their cardholders before and after program launch.

WHY

It is a well-known belief that members who join the program are already a brand's best customers, and are already higher value customers. The pairing of look-alike members and non-members by pre-program behavior allows brands to understand and pinpoint any fundamental changes in a member's behavior. This method helps brands understand true incrementality of the program. Comparing the pre-program behavior and incremental spend of individual loyalty program members to non-members helps brands identify changes in spending habits and understand how a loyalty program contributes to shifts in customer behavior.

HOW TO USE

For an accurate comparison, it's important to compare accounts that are the same age and have demonstrated similar purchase activity and behavior prior to the launch of the program. By comparing purchase behavior, brands can show that members' AOV increases over time. This type of measurement is more difficult if brands have not maintained unique identifiers for their customers to understand their historical behavior. This strategy is often more labor intensive to perform and requires additional work to match members to non-members.

STEPS TO TAKE

- Find loyalty program members and non-members who have similar spending habits and profile attributes.
- Pair every member with a non-member that exhibited the most comparable spending patterns in a certain period prior to enrolling in the loyalty program.
- Compare member and non-member spending for the same period following program enrollment.
- Monitor any changes in spending behavior from the non-member to the member to the loyalty program.

EXAMPLE

Guests who enrolled in Stash Hotel Rewards, a loyalty program for upscale and luxury independent hotels, returned to the hotel nearly 50% more often and increased their annual spend by a similar amount.\(^2\) Researchers compared guest behavior at 24 hotels participating in Stash, with the hotels providing over two years of transactional data for more than 50,000 guests of both members and non-members. The shift translated into annual incremental revenue per guest ranging between $405 and $780.

\(^2\) New Cornell Study Finds Stash Hotel Rewards Increases Guest Spend by Nearly 50%, Businesswire, Jan. 23, 2014
4. DEVELOP A PRE/POST LAUNCH ANALYSIS

To better understand the business results that correlate to a loyalty program, it’s important that brands regularly look at program performance as a whole. Pre/post launch evaluations are best when there are two points in time for fielding—before the loyalty program commences and after it launches. Organizations can take a holistic look at incremental behavior or changes in spend—including other key metrics such as repeat rate, retention rate, acquisition numbers, sales, and more. By conducting this assessment, brands can look at the impact of the loyalty program, as well as account for other positive brand associations.

WHY

While this framework doesn’t provide a specific “ROI metric,” it measures important trending data comprehensively across a brand, including the loyalty program. Brands don’t need a data scientist to perform this assessment. They just need to focus on the business metrics that they are already tracking.

HOW TO USE

While this approach is informative and allows brands to assess trends overtime, it doesn’t provide as strong of a case for increased ROI since there is no control group or proxy control group. Brands that use this assessment should consider additional metrics to provide a more complete picture of their loyalty program’s business impact.

STEPS TO TAKE

• Calculate predefined values for key metrics such as repeat rate, retention rate, etc., for the entire population broken out by the pre-program members and non-members (if unique identifiers are available) for a certain time frame prior to launch.

• Pull a relevant subset of non-members that exhibit the same pre-enrollment purchase frequency and annual spend of the loyalty member group.

• Evaluate the same key metrics over time as the program is live to determine the impact on overall metrics for all customers.

• Compare pre and post key metrics between members and non-members.

EXAMPLE

A leading CPG brand compared changes in purchase behavior two years prior to the launch of the program and 10 months after the program’s launch. The brand saw improvements in the way the retention, acquisition, and repeat rates were trending, especially given the time of the program launch.
5. BENCHMARK AGAINST A CONTROL GROUP

One way to measure the true impact of a loyalty program—as well as the campaigns and promotions within it—is to attribute changes in consumer behavior of program members against a control group that has not been exposed or enrolled into the loyalty initiative. This approach allows brands to account for true incrementality, as well as assess marketing attribution to various offers and campaigns.

WHY

Control groups help brands isolate changes that would have happened regardless of the loyalty program’s existence. They allow brands to determine if there is a significant difference in behavior between a group that receives a specific offer or treatment compared to the control. Control groups can also be paired with A/B testing to better understand the impact of variable efforts.

HOW TO USE

While controlled experiments give organizations an accurate read on the performance of a loyalty program, they are most effective for online programs and will impact the marketing efforts of those programs. To maintain a control group, brands can’t promote the program in any public manner.

STEPS TO TAKE

- Randomly select new and existing members for the control group and the group receiving the treatment/campaign/offer/etc.
- Send out treatment to only the members selected to receive it. Control group will not receive any information related to the treatment/campaign/offer/etc.
- Compare differences between the group over time and attribute differences to the treatment/campaign/offer/etc.

EXAMPLE

A retailer with an existing loyalty program might consider implementing a new elite membership tier to re-engage its best customers and further incentivize others. To understand the impact of different benefits in this new elite tier, the company would select 6,000 of its top members. Of that group, 2,000 members would randomly be established as the Control Group, 2,000 would be randomly selected for Elite Tier 1, and the remaining 2,000 members would receive the benefits of Elite Tier 2. Over the course of six to 12 months, the retailer would compare the purchase and engagement behavior of each member population and use the data to compare the differences in this behavior between the control group, Elite Tier 1, and Elite Tier 2. By taking the size and significance of the improvements to Tier 1 and Tier 2 compared to the Control Group, brands can weigh the cost and benefits of implementing an elite tier.
“Loyalty programs are not one-size-fits all, so one brand’s measures of success will likely vary from another. As a best practice, brands should construct their loyalty programs with measurable goals that will help them determine a positive ROI from the start.”

-Geoff Smith, SVP of Marketing, CrowdTwist
CONCLUSION

Determining the ROI for loyalty programs is necessary to prove their worth, but it isn’t easy. It requires a steadfast commitment from brands that offer such initiatives. The KPIs related to various objectives can differ by brand and sector. Therefore, no single metric exists to give organizations the foundational elements they need to show why their loyalty program has merit, or how it should be improved. Program health and the measurement scheme must be in harmony. Having an alignment in a family of measures to the brand’s purpose or intent for the program is a critical step.

By implementing the strategies outlined in this guide, brands can take the right steps to properly measure the impact of their loyalty programs and ensure that they are meeting or exceeding brand goals.
CrowdTwist is an industry-leading provider of comprehensive multichannel loyalty and engagement solutions that drive incremental spend, leading to better customer data, stronger insight, and more personalized experiences. We are revolutionizing loyalty, helping top brands including Pepsi, Nestlé Purina, L’Oréal, and Zumiez develop a deeper understanding of customers. For more information, visit www.crowdtwist.com, or call 646.845.0646.

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