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1 Main findings

Lack of loyalty strategy and organizational alignment

When asked to list the top success factors for a loyalty program, respondents grade a clear and well adopted loyalty strategy as the most important factor. In contrast, only 35% agree that they actually have a clear and well adopted loyalty strategy. A lack of resources and attention from management is typically one of the underlying reasons. The loyalty department typically consists of one or very few persons. In addition to strategic development, they need to focus on operational management of the program such as campaigns and events. In these situations, the operational tasks tend to be prioritized before strategic development and organizational alignment.

Mercenary loyalty

Retailers structure their programs to a large extent on bonus points and discounts based on members’ purchase history. To create emotional loyalty where customers feel loyal to the brand companies need to understand their customers. Yet, very few of the participating companies in this study are able to truly understand what their members value.

Inefficient tools and working methods

Only 40% of respondents claim to have clear and implemented processes within their loyalty program. Further, only 20% claim to have the necessary systems and tools in order to get the best effect out of their loyalty program. A combination of unclear processes and inferior system support drives unnecessary workload, creates errors and hinders the realization of the full potential of a loyalty program.

Uncertain profitability

Measuring the profitability of a loyalty program will always be a challenge. 55% of the respondents in this survey claim to have a clear measure of the profitability of their loyalty program and of these, 82% claim to be profitable. When enquiring about the member base, half of the respondents can’t say how big of a share of their members are truly profitable.
Almost all retailers, airlines and hotels today ask you if you are part of their loyalty program. You don’t need a physical card anymore, it’s enough to provide your identity in order for the retailer to track your purchases and behavior. But do we as consumers actually appreciate the points we get, and what is the purpose if we are members in every pharmacy or food chain where we shop, even competing ones? Do the programs actually make us loyal or is it just another good deal?

During the summer of 2016 we at Acando Consulting decided to make an in-depth study of some of the largest loyalty programs in Sweden. We wanted to get a true understanding of the strategies behind successful loyalty programs and identify the key drivers that create loyalty. We started with a desktop study where we scanned web-pages to get information about the programs. We found out that when looking at over 30 programs they were fairly similar. Being a member you typically collect points and get special offers on top of that. The value of the points amount to 1,5-3 % of the purchase value. Sometimes you get higher discounts the more you purchase and a few companies actually charge a small fee for the membership.

During the fall we conducted 20 in-depth interviews with people responsible for the loyalty programs at some of Sweden’s largest retailers, including global, European, as well as more domestic ones. With absolute confidentiality for respondent, Acando is able to give a true and honest picture of the current status of the loyalty programs. Our findings confirm much of our hypothesis that there is a lack of overall loyalty strategy beyond providing discounts on repeat business, but also demonstrates a potential to develop loyalty programs to create a true customer loyalty that goes beyond providing volume discounts. In order to succeed there is, as with most critical programs, a need for top management support and a need for a clear loyalty strategy clarifying what to do and how to do it.

Acando’s view is that the largest potential lies in utilizing modern technology and external sources of information to provide a better picture of each customer, and to customize (or individualize) the benefits to assure that what you give your customer is of value and fulfills the strategy of the program. Be it loyalty or volume.

Stockholm, January 18th 2017

Christian Haeger
christian.haeger@acando.com
+46 (0)702 62 23 45
3 Methodology

The study is based on 20 interviews that Acando has conducted with Loyalty, Marketing and CRM Managers at Sweden’s major retail companies. The participating companies are all leading retail companies within:

- Clothing (45% of respondents)
- Home and leisure (30% of respondents)
- Grocery (10% of respondents)
- Other (15% of respondents)

The average turnover of participating companies is 8,120 MSEK and the average number of employees is 1,592. Interviews were conducted between September 15th and November 7th, 2016.

The survey consisted of a mix of open ended questions, multiple choice questions as well as propositions where respondents could answer on a scale from one to six. Answers in the range 1-2 are interpreted as “Don’t agree”, 3-4 as “Partially agree” and 5-6 as “Agree”.

The underlying model for analysis is based on Gartners Eight Building Blocks of CRM which addresses the company’s vision, loyalty strategy, customer experience, organizational collaboration, processes, information, technology and metrics.
4 Key areas of investigation

4.1 The loyalty strategy and organizational capabilities

Loyalty strategy

In order to create a successful loyalty program, it’s of great importance that the program supports the company’s overall strategy and brand as well as the member’s expectations and needs. Creating a program just for the sake of it and structuring it in a standard way seldom leads to success. The importance of having a clear and well-adopted loyalty strategy is evident among respondents to the survey. In fact, it’s ranked as the most important success factor for a loyalty program according to companies participating in this study. It would therefore be easy to assume that participating companies would claim to have a focus on loyalty strategy and organizational alignment for their program. However, our study shows that only 35% fulfills this crucial success factor.

“In order to add more members to our program all our staff must be involved, in particular the employees on the floor and in the shops”

Loyalty Manager (Clothing Retailer)

Only 35% of the respondents claim to have a clear loyalty strategy that is well adopted in the organization

<table>
<thead>
<tr>
<th>We have a clear loyalty strategy for our loyalty program</th>
<th>Our loyalty strategy is well adopted in the organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>65% Agree</td>
<td>54% Agree</td>
</tr>
<tr>
<td>35% Partially or don’t agree</td>
<td>46% Partially or don’t agree</td>
</tr>
</tbody>
</table>

35% of respondents agree that they have a clear loyalty strategy that is well adopted by the organization

Respondent’s top 3 success factors for a loyalty program

1. A clear and well adopted loyalty strategy
2. Ability to gather, analyze and act upon customer data
3. Ability to create value for members through interaction and relevant offerings
Organization

Loyalty operations can be organized in several ways. It can be run from inside the company or outsourced to a consulting/marketing firm. Each of these set-ups has its own benefits. The key to success is that there are resources dedicated to a program. Companies running a loyalty program in an ad-hoc manner often fall behind and fail to establish a profitable and strategically beneficial program.

Companies running a loyalty program in-house either have a fully functioning loyalty department dedicated to the program, or run the program from their marketing or CRM department. A separated loyalty department has the benefit of clearly stating the importance of the program as an independent business function. This creates a sense of legitimacy for the function and ensures that employees throughout the company don't see the program merely as a novelty. The loyalty department also makes sure that there are employees completely dedicated to the task of developing the program. If running the program from the marketing or CRM department there is a risk that responsibilities and tasks might be neglected due to prioritization of more traditional marketing tasks which will make the loyalty program suffer. However, if the program is viewed as important within the department and the appointed loyalty specialist has sufficient time and resources, this type of organization can be an attractive set-up.

Top 3 characteristics for a successful loyalty department

1. **Clear strategically aligned goals**: A loyalty program needs to be aligned with the overall business strategy and have a clear purpose.
2. **Separate business function**: The program shouldn’t be a marketing channel, it should be a separate function with its own budget and goals.
3. **Sufficient resources**: Like any other business function, a loyalty program requires enough resources to be efficient.
Outsourcing the loyalty organization is also a viable option. This type of work is often given to either fully dedicated loyalty firms, a quite new type of consulting firm that has the capacity to run all parts of a program, from loyalty strategy to technology and design. Firms like this are often the result of a fusion of two types of consulting firms, or as a result of consulting firms looking to widen their offer. The benefit of using a loyalty management firm is that, much like the loyalty department, they can give the program the attention and resources it deserves. However, full service offers can be very expensive and Loyalty Management Firms often make it difficult to switch to internal governance due to their extensive control over the program. On the other hand, using a DM (Digital Marketing) or CRM (Customer Relationship Management) firm, runs the risk of becoming too focused on the operational parts and failing to view the program from a strategical point of view.

There’s naturally possibilities to mix the two organizational practices, e.g. by having a loyalty department that outsources the technological solutions to a CRM firm. Another possibility is to have an employee dedicated to the loyalty program within the marketing department, accompanied by a loyalty management firm that supports with the loyalty strategy. As long as the program has a clear structure, sufficient resources and is strategically aligned with the business, a combination of these two can be a great way of cherry-picking the necessary functions.

In this study, the most common way of organizing this is to have an employee dedicated to the loyalty program within the marketing or CRM department. Some companies have loyalty departments but they often consist of only one person. The majority of the interviewed companies claim that they lack resources in this field which often results in usage of external advice and resources.

One of the main takeaways from this study is that the majority of companies lack the resources to sustain a successful loyalty program. Either the financial resources or the general knowledge of loyalty programs is deficient. The substantial risk is that attention is drawn from the strategic work to more tactical and operational tasks. By failing to work strategically, companies might miss the primary benefits of a loyalty program and instead risk producing a non-profitable program that doesn’t contribute to the primary goals of the business.

Do you have dedicated resources for your loyalty programs?

<table>
<thead>
<tr>
<th></th>
<th>70%</th>
<th>30%</th>
</tr>
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<tbody>
<tr>
<td>YES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NO</td>
<td></td>
<td></td>
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</tbody>
</table>
**Processes**

Members are key to producing an effective and successful loyalty program. After all, the program is only as good as the members it caters to. It’s not unusual for companies to blindly focus on KPIs that rewards quantity rather than quality. A new program might e.g. focus on recruiting members and only measure the growing bulk of sign-ups instead of the kind of members recruited. This might lead to a program largely made out of inactive members. Establishing processes to counter this kind of behavior is therefore important in a successful loyalty program.

In order to make sure that members behave in an optimal way a loyalty program needs to take the whole member lifecycle into account. The member lifecycle is a way of viewing the different phases in a member’s lifetime with the program, from recruitment to a possible exit. Members in different stages require different treatment. A newly recruited member needs a proper onboarding process, while an already active member needs certain activities to keep them active. The need for differentiated treatment is high within loyalty programs and may be the key to turning an unprofitable sinkhole into a thriving cash-machine.

**Reactivation phase**
Creating last measures to pull customers back before exit

**Sign-up phase**
Recruiting valuable customers with positive CLV potential

**Dip phase**
Accurately predicting dips in customer activity, in order to proactively prevent exits

**Onboarding phase**
Creating a positive onboarding process to quickly introduce new customers

**Active phase**
Continuously working with active members and providing incentives for further engagement

**Activation phase**
Ensuring customers have incentives to become active and avoiding long-term passivity

**Member lifecycle**
“We need to be better at converting inactive members to active members. Today almost half of our loyalty members are one time customers”

CMO (Home and leisure retailer)

Maximizing the effect of a loyalty program is to a large extent about bringing members to the active phase of the member lifecycle and keeping them there. Members in the early stages need to be welcomed and activated while members in the late stages need to be reactivated in order to pull all members towards the active phase. Our expertise suggests that companies that desire a mature loyalty program benefit from establishing processes around the member lifecycle’s six stages, with the aim of promoting the desired behavior.

Sign-up, Onboarding & Activation Process:
Recruiting members is not just about quantity, it’s also about recruiting the right members. The share of inactive members in the early stages are often high as a result of one-time sign-up discounts. These type of members can be a source of unnecessary costs and hassle. It’s better to find customers with a true potential for improvement and to focus on recruiting these customers. After the right customer is identified the process of establishing a proper sign-up process, onboarding and activation activities starts. It’s important for all programs, including new ones, to have functions that make the new member understand and actively participate in the loyalty program.

Active, Dip & Reactivation Process:
Already active members also need to be handled actively in a loyalty program. It’s common for companies to forget these members, as they are already exhibiting a desired behavior. However, a fully functioning and engaging Active process will keep members happy and prevent future losses. In an ideal loyalty program, the early stages and Active process are so engaging that there is no need for churn-preventing processes. In reality, a loyalty program needs a dip and Reactivation process as last resort measures.
When looking at the results from this survey, it’s clear that most companies fail to establish clear processes. 60% of respondents don’t have clear and implemented customer processes. Around 70% don’t have clear processes for handling dissatisfied customers. This alarming result shows that a vast majority of Swedish companies don’t maximize the potential of their loyalty programs.

Listen to your members

Several researches show that loyalty programs that support their members’ expectations, needs and behavior are the most successful. In order to be able to design and continuously improve a program accordingly the need for customer evaluations is high. However, customer evaluations are not always used as a valuable tool for improvement. 55% of the respondents agree that they have processes for regular customer evaluations, 82% of these actually use the results to improve their loyalty programs.

“There is great potential in further developing our active members since they are already in our stores”

CRM Manager (Retail Company)
4.2 The member experience

Creating the True loyalty

The main focus of a loyalty program should naturally be to increase loyalty among customers. But loyalty is not a single concept as customers are not simply loyal or un-loyal. There are several types of loyalty that creates different consequences for the company. The two main types of loyalty are Real loyalty and False loyalty. Simply put, real loyalty is when a customer feels loyal towards a company whereas false loyalty is when a customer actually acts loyally towards a company.

False loyalty can be divided into two types of loyalty, depending on the reason for behavior. Inertia loyalty describes customers who behave loyally as a result of a lack of options, such as in a monopolistic market. Mercenary loyalty is when customers return to the brand because of monetary benefits, such as discounts or coupons. This type of loyalty is viewed as false because it’s often short-term.

Real loyalty consists of two levels. True loyalty describes a customer that returns as a customer because they feel an emotional connection with the brand, which makes them willing to overcome obstacles in order to purchase the product. Cult loyalty is the more extreme version of true loyalty, where customers identifies themselves with the brand.

Achieving any type of real loyalty is highly dependent on the customers experience. An exceptional customer experience is often highlighted as one of the competitive advantages needed to create Real loyalty. A loyalty program has the possibility to improve the customer experience by offering a higher degree of engagement and can be achieved through a personalized and engaging loyalty offer. When asked if the loyalty program contributes to an improved customer experience amongst members an unexpectedly large share (45%) didn’t fully agree. This suggests that a large part of loyalty programs may suffer in terms of creating real, sustained loyalty among their members.
The points based system dominates

A loyalty program can be structured based on a range of basic concepts. These concepts are not mutually exclusive, but can be combined and altered to fit a specific need. The three types of structures used by the respondents of this survey are points, partnerships and tier-level. A point system is any type of structure that allows for the gathering and spending of points, a fictional currency used by the programs. This currency can either be spent freely in a points shop, to purchase products and discounts, or accumulated and exchanged for coupons in specific intervals. Partnership entails any type of benefit provided by a partner. Some loyalty programs offer products from their partners in exchange for points and some offer the exchange of points for partner-specific points. Tiers are the use of different benefit levels as the member fulfils a condition. This condition might be collecting a specific amount of points, or when a member has made a specific amount of purchases. Not surprisingly the points-based structure dominates among Swedish loyalty programs with 70% of respondents using it. This is followed by the partnership structure and tier-level structure, with several companies using combinations of the structures. Other more innovative structures, such as gamification, are not used by any loyalty program participating in this study.

How is your loyalty program structured?

<table>
<thead>
<tr>
<th>Structure</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Points</td>
<td>70%</td>
</tr>
<tr>
<td>Partnerships</td>
<td>30%</td>
</tr>
<tr>
<td>Tier-level</td>
<td>15%</td>
</tr>
<tr>
<td>Gamification</td>
<td>0%</td>
</tr>
<tr>
<td>Fees</td>
<td>0%</td>
</tr>
</tbody>
</table>

% of respondents using above structures
How are members benefitting from the program?

The type of benefits provided within a loyalty program are of great importance in order to make members value their membership. Discounts are the most common benefit and be based on spend level or offered to all members regardless of spend. The next most popular type of benefit is experiences, which are provided by 80% of the respondents. An increasing focus on this type of reward can be seen. Experiences include any type of benefits where the member can take part in an activity of some kind. Personalized discounts are provided by 45% of the respondents and are most often issued based on historical spend. This benefit is trending globally as companies get access to more and more data. The use of external data to provide offers based on other factors (e.g., lifestyle) is still very limited in Sweden.

Increasing loyalty through program benefits

Program structure and benefits can be adjusted to increase the likelihood of creating loyal members. This survey suggests that most Swedish companies organize their loyalty program in roughly the same way. But is this structure ideal?

Almquist et. al. recently released an article entitled “The Elements of Value” (2016). In this article they conclude that there are four major types of benefits provided by products or services: Functional, Emotional, Life-changing and Social Impact. The provision of more elements often lead to higher profits and increased loyalty. This is intuitive since the more benefits a service provide for the same price the happier the customers become. A service providing a customer with great quality (functional benefit), reducing anxiety (emotional benefit) and motivating (life changing benefit), will most likely result in more loyal customers than if the service were to provide only functional benefits.

A loyalty program can help provide several of the identified elements of value. However, judging from this survey, most companies are missing out on this since they all use similar structures that focus on the functional benefits like “makes money” and “reduces cost.” If companies would modernize their loyalty program and adding emotional benefits the results could change significantly and create the engagement needed to move from mercenary loyalty to true loyalty. Failing to incorporate new types of benefits can instead lead to profitability problems.

How do your members benefit from your loyalty program?

<table>
<thead>
<tr>
<th>Benefit Type</th>
<th>Percentage</th>
<th>Sample Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounts</td>
<td>90%</td>
<td>“The higher the spend, the better the discounts”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“We always have products with special discounts for members”</td>
</tr>
<tr>
<td>Experiences</td>
<td>80%</td>
<td>“We are shifting focus from discounts to experiences”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“Members receive priority to sales and invitations to inspirational events”</td>
</tr>
<tr>
<td>Personalized offers</td>
<td>45%</td>
<td>“Soon we will be able to segment and provide personalized offers based on external data”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“Personalized offers are provided based on purchasing history”</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>“Members receive additional service, ex. self-scanning”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“Free shipping is provided to members with a certain spend”</td>
</tr>
</tbody>
</table>

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100% % of respondents using above benefits
The elements of value

Social impact

Life changing

Emotional

Functional

Five most important elements of values in selected industries

Clothing retail

Discount retail

Grocery
The profitability challenge with a points based system

Regularly, points are issued based on spend level entitling members to coupons and discounts. Members usually receive between 1-5% of their spend in bonus. Giving discounts and coupons to members implies that a member needs to spend more money compared to a regular customer in order to generate the same profit. With profitability margins being relatively low in the retail sector, the additional spend needed by members can sometimes be many times higher than the spend of a regular customer to generate the same profit. Continuously keeping track of spend levels is important to ensure that large bodies of unprofitable members doesn’t exist and that the bonus levels are correctly used. Also, enabling members to spend points on emotional benefits can help decrease the pressure on profits, while still increasing loyalty. Special events and value added services are examples of more emotional benefits. In retail, many customers may experience anxiety when visiting large and crowded sales. Providing a secluded and special pre-sale for members can be an example of helping to relieve anxiety, thus creating several emotional benefits that can increase loyalty.

What about gamification?

Gamification is when game mechanics are used to illustrate progress and participation in any non-game area. In terms of a loyalty program these game mechanics can be illustrative member levels, badges that reward a desired behavior, or mini games that encourages participation. Gamification is a rising trend among loyalty programs. However, none of the respondents in this survey claimed to have a gamified loyalty program. The area is relatively new and requires more advanced analytical and data collecting tools. Reasons for not having gamification in focus was noted to be both a lack of insight as well as the lack of necessary IT tools.

Gamification can be another way of adding benefits to the program. As game mechanics serve to add functions that don’t directly add monetary value to the customer, but rather serve to entertain and simplify processes, the benefits added are mostly emotional. As this study shows that most loyalty programs are focused on providing discounts and functional values, gamification can be a great way of spicing up the program. When looking at the most important elements of value in each industry, it’s clear that gamification can add something in all selected industries. In apparel retail, it adds a dimension of design/aesthetics and in discount retail and grocery it adds a clear sense of reward for the customer. In all industries, gamification can add elements even higher up in the pyramid (The Elements of Value Pyramid), such as motivation and can therefore be a great tool for improving loyalty.

“I just recently released 50 MSEK worth of bonus points, and I am not 100% sure that it is money well spent”

Loyalty Manager (Clothing retailer)
Five things to consider when gamifying your loyalty program

1. **Start with the program**: Start thinking about the general aim and design your loyalty program and see if gamification fits with your overall goals. Don’t gamify just to gamify!

2. **Gather technical expertise**: Make sure you have the expertise and resources to actually follow through. Consider contacting consulting firms to complement existing knowledge.

3. **Consider your customer**: Design your gamification according to your customers. What would they like? Ex: Swedish game and electronics retailer Webhallen designed their loyalty program like a computer gaming platform, because most of their customers are gamers.

4. **Create meaningful visualization**: Consider what visualization could lead to a better experience for the customer before designing the gamification mechanics. Does the visualization encourage customers to engage more with the program?

5. **Reward the right behaviour**: Consider what behaviour you want to encourage before designing the gamification mechanics. Is it best to reward purchases, or could you be more innovative?

Case: Starbuck’s success through gamification

**Collect stars**
Every purchase rewards customer with stars. Collecting visible stars trigger powerful emotions, rewarding the innate need to collect a complete set of something.

**Earn rewards**
Every 15th star rewards the customer with a free drink, rewarding customers that create repeat business. The progress towards a free product is visible at all times.

**Climb levels**
Starbucks uses two main member tiers, green and gold level. The best customer are upgraded to the gold level and receives a desirable gold card.
4.3 Data and analytical capabilities

In the quest for active and loyal members, customer specific offerings and promotions based on individual member needs and preferences are a much desired capability. In order to get that single member view that enables companies to make their members feel special, the ability to capture and analyze data is crucial. Effective data capturing tools give retailers an ability to gather and store large volumes of data from multiple sources. Not only structured data such as demographics and purchasing behavior, but also unstructured data such as web browsing history and social media interaction. The combination of structured and unstructured data enables retailers to quickly generate holistic views of individual members and member segments. Personalized experiences and offers can be automatically generated by the use of sophisticated analytical tools to increase member engagement with the company.

Data

Member data among respondents to this survey are primarily based on purchase history and information gathered at point of registration. This implies a gap in the data needed in order to provide the highly desired personal experience.

Analytical capabilities

The full potential in member data can only be achieved with effective analytical tools and platforms for the loyalty program. The result of this survey suggests a lack of analytical capabilities among Swedish retailers with only 20% of respondents claiming to have the necessary tools and systems to get the best effect out of their loyalty program.

Active members receive the best offerings

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase history</td>
<td>100%</td>
</tr>
<tr>
<td>Email</td>
<td>60%</td>
</tr>
<tr>
<td>Web analysis</td>
<td>50%</td>
</tr>
<tr>
<td>Phone</td>
<td>30%</td>
</tr>
<tr>
<td>Bought data</td>
<td>30%</td>
</tr>
<tr>
<td>Reclamation history</td>
<td>20%</td>
</tr>
<tr>
<td>Public registers</td>
<td>10%</td>
</tr>
</tbody>
</table>
“Digitalization will give us the possibility to become more relevant for the customers and have an end-to-end both in-store and online customer experience”

CRM Manager (Retail Company)
4.4 Key Performance Indicators

How loyal are your members?

Retailers use a range of Key performance indicators (KPI) to measure loyalty and the performance of their loyalty program. According to this study, Recency, Frequency, Monetary (RFM) is the most common method used, followed by Net Promoter Score (NPS). However, nailing loyalty metrics is generally not about choosing the right KPI, but the right combination of KPIs to get a full picture of how the program is evolving. Succeeding with this requires a combination of three different types of KPIs: Overall performance metrics, member metrics and communication metrics.

**Overall performance metrics** measure the total performance of the Loyalty program in terms of overall results. Several different measures can be used to do this such as RFM, NPS, Customer Lifetime Value (CLV), Retention Rate, etc. and most companies choose one or several of these metrics to measure over time. These measures are very valuable in understanding aspects such as spending patterns, volume and satisfaction. But even though these metrics might show that customers are spending money in stores, visit often and are generally satisfied with the company’s products and services, they don’t give a holistic view. The set-up of holistic performance metrics requires measurement of both behavioral and attitudinal loyalty. As such, the combination of, for example, RFM (behavioral) and NPS (attitudinal) can be used. It’s also important to carefully consider which metrics to choose in each category. E.g. share-of-wallet can give a more complete picture of how loyal a customer is to you in comparison to your competitors.

**Member metrics** show how members are behaving and compares it to your non-members. Metrics included in this category are: Member share of customers (sales, volume), share of active members and share of member opt-in to communication. As with overall performance metrics, it’s important to not just focus on one metric but to build a complete set of measurements that can present a total view of the member development.

“It’s important to be updated, follow the digital evolution and be able to analyze the data you gather in a good way”

**CRM Manager** (Retail Company)

**Communication metrics** measures the effectiveness of the direct communication efforts of the loyalty program. Direct marketing, or marketing automation, is one of the main value-creating activities that can be enabled through a loyalty program. The effectiveness of this communication is therefore essential to measure, to determine the value of the loyalty program. Metrics include: Opening rate, click rate, opt-out rate, etc.
Is it really profitable?

One of the most famous loyalty gurus, Frederick Reichheld, studied the relationship between loyalty and profit. According to his research a 5% increase in customer retention was translated into a 25-100% increase in profits. This number can seem optimistic but if you look at the four contributing factors that he determined, it doesn’t sound as far-fetched.

According to the model, the first lift in profit as a result of customer retention comes after two years as a customer. Besides the base profit, the company now also starts to experience a lift in profits from increased purchases and price premium. Naturally, a long-term customer may start to become familiar with the assortment of products and services provided by the company, resulting in added sales, and might start to experiment with more premium products. In addition to this, long-term customers require less marketing expenses as they already have a high awareness. Long-term customers also need less customization and adjustments which also leads to a decrease in operating costs. Finally, long-term customers have a higher tendency to recommend your product or service to friends and family, resulting in additional business.

This model explains the results of increasing customer loyalty, not the effect of loyalty programs. A problem with many loyalty programs is that profits are not sufficiently measured. The financial effect is just assumed based on models like Reichheld’s, which presents several problems. First of all, Reichheld’s model doesn’t expect a profit increase for the first two years and since the initial costs of creating a loyalty program can be very high, it might take even longer before seeing a profit increase. Secondly, the model explains the effects of increasing customer retention, which is not necessarily the same as time as member. A loyalty program that doesn’t clean up their member database might, for example, have three-year-old members that only have made a one-time purchase throughout their lifetime. Finally, membership doesn’t guarantee a boost in customer retention. The best members might have been long-term customers even without the loyalty program.
All these factors need to be considered when creating a loyalty program. There is a great potential in creating a successful loyalty program, but it needs to be followed closely in order to guarantee success. According to this survey, most companies are uncertain about how their loyalty program is performing.

60% of the respondents to this survey believe they have a profitable loyalty program. However, only 75% of the respondents who claim to have a profitable program also claim to have good control over the profitability. Hence, it can be concluded that only 45% of the total respondents are certain that they are profitable.

Of the 40% who don’t or only partially agree to be profitable, 25% believe that they have good control over profitability resulting in a 10% share of respondents that are certain that they are barely or not profitable.

Nearly all of the respondents in this study claim that members are more profitable than non-members. However, the share of profitable members is unknown by 50% of the respondents. Among the companies that are aware of the share of profitable members, the share vary from 20–90%.

**Only 45% of respondents are certain that their loyalty program is profitable**

- **Our loyalty program is profitable**
  - 60% Agree
  - 40% Partially or don’t agree

- **We have good control over the profitability of the loyalty program**
  - 82% Agree
  - 25% Partially or don’t agree

**Are your members more profitable than non-members?**

- 95% Agree
- 5% Don’t know

**How large share of your members are profitable?**

- Only 50% of respondents knows the share of profitable members

<table>
<thead>
<tr>
<th>Profitable Share</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>91-100%</td>
<td>10%</td>
</tr>
<tr>
<td>81-90%</td>
<td>20%</td>
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<tr>
<td>71-80%</td>
<td>30%</td>
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<tr>
<td>61-70%</td>
<td>21%</td>
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<tr>
<td>51-60%</td>
<td>11%</td>
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<tr>
<td>41-50%</td>
<td>10%</td>
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<tr>
<td>31-40%</td>
<td>9%</td>
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<tr>
<td>21-30%</td>
<td>8%</td>
</tr>
<tr>
<td>11-20%</td>
<td>7%</td>
</tr>
<tr>
<td>0-10%</td>
<td>6%</td>
</tr>
</tbody>
</table>
5 Final remarks and recommendations

Based on the findings in this study Acando has been able to pin-point a set of challenges facing loyalty managers that are summarized in the main findings. In order to address these challenges and to be successful in a rapidly developing retail industry, Acando has defined five areas that loyalty managers should focus on.

Embrace the potential in customer insights

Understanding the customer is key. Customer expectations are shifting faster than ever thanks to advanced technology. Swedish retailers typically gather customer insights through purchase patterns and customer surveys. However, in order to stay competitive, retailers need to make sure that every interaction with a customer is leveraged. The ability to be responsive in web browsing patterns and in social media, will become vital in order to create a true personalized experience as well as a valuable source of information for long-term decision making.

Align your organisation with a clear loyalty strategy

A loyalty program needs to have a clear purpose in order to build a clear loyalty strategy. It needs to be intuitive how the program can contribute to an improved customer experience and how it aligns with overall CRM as well as with corporate strategies and goals. This is the cornerstone in getting the staff’s attention and engagement to implement the agreed strategic initiatives.

Get your goals and KPIs straight

A loyalty strategy is destined to fail unless it’s possible to follow up on progress and success. Both internal and external aspects need to be monitored. Access to data can be a challenge when it comes to external KPIs in terms of member performance. However, in most cases a new data point can be created by using other indirect data sources. An example of this is share-of-wallet which can be estimated based on a specific customer’s demographic and behavioral patterns. Efforts to develop KPIs that truly reflect the loyalty strategy will pay off in the long run.

Develop processes to boost efficiency and success

Processes need to be developed to ensure the best possible customer experience throughout a Member Lifecycle, from on-boarding to termination. By measuring KPIs in each stage of the process, it’s possible to improve quality of output as well as to reduce costs. The Member Lifecycle described in this report is a good starting point for developing effective processes that collectively contribute to bringing members to an active relationship with the company.

Use the right technology

Technology is an essential piece in the puzzle in achieving a true member-centric loyalty program. However, only 20% of respondents in this study agree to have sufficient systems and tools. Investments in technology are often complex and costly. It’s therefore of great importance that investments are done with a clear connection to an improved member experience. In order to know what technology to invest in, don’t focus on technology itself but rather on the customers’ expectations.
6 About Acando

Acando is a leading Management and IT consulting firm that creates business value by improving and streamlining processes, organizations and digital solutions. What distinguishes us, is our ability to combine strategy and business competence with solid technical expertise, and a keen understanding of how organizations work. We are 1600 consultants in four countries.

Phone: +46 (0)771 50 10 00
Email: info@acando.com