



Loyalty Economics

What the C-Suite Needs to Know



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Or

**Segmentatio
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**Digital
Transformation**

Or

**Customer
Centric**

Speaking the CEO's language

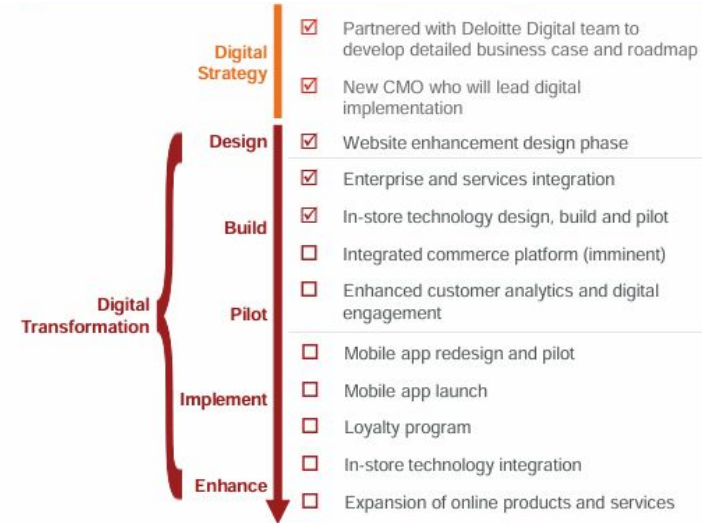
Becoming Customer-Centric is an objective

- Top of pyramid goal, emotionally driven, share of mind & attention
- Creates sustainable increase to Customer Lifetime Value
- Delivers accretive value to the enterprise

Digital Transformation is a process

- Loyalty program is an important step, but not the only one
- Unified Commerce is the result – delivering a consistent brand experience at every customer touchpoint

DIGITAL JOURNEY





Clarity on the Mission



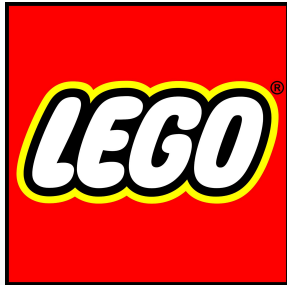
Why the C-Suite matters

- Their support & advocacy is your lifeline
- Are you speaking the right language?
- Are you inviting the right people into the conversation?
- Are you keeping focus on “Big L” value rather than transactional “Little L” programs?

Delphi Panel Survey Summary

“Why Programs Fail” Reason	Avg Panel Score	% of Panel with Score	Highest Score	Wgt Avg Score
Poor use of data	13.07	94.1%	30	13.89
Proving Performance	10.62	91.2%	40	11.65
Inadequate communications and dialogue	10.62	88.2%	40	12.03
Inadequate C-level support	10.26	85.3%	50	12.03
Friction	9.06	82.4%	20	11.00
Weak or absent soft benefits	6.54	79.4%	16	8.24
Employee Disengagement	6.53	76.5%	20	8.54
Inadequate Funding	6.35	73.5%	20	8.64
Lame Rewards	6.53	76.5%	20	8.54
Poor Funding Allocation	5.12	64.7%	15	7.91
Single Channel	4.03	61.8%	15	6.52
Single Tender Type	3.47	52.9%	10	6.56
Over enrollment	2.85	50.0%	12	5.71
Add another reason	4.94	20.6%	40	n/a

amazon



Building a brand through customer growth

Loyalty programs are a powerful financial tool for the enterprise

During the pandemic and in response to difficult business cycles, three major US airlines raised significant capital through their FFP

- American Airlines borrowed \$7.5 Billion in Loyalty-Backed Debt (2021)
- Delta used its FFP as security to borrow \$6.5 Billion
- United borrowed \$5 billion with FFP as collateral



Starbucks Rewards critical to financial success

- 27 million Starbucks Rewards members (U.S.) generated 55% of the company's U.S. revenues (Q4 22) = \$3.4 b of \$6.1b
- Starbucks has \$1.6 billion in outstanding gift card balances, equivalent to an interest-free loan from its customers
- Starbucks reported \$196 million in breakage from unused gift card balances in FY 2022



If you're asking ...

“will I make money with loyalty?”

**... maybe you're looking at your customers
through the wrong lens**

A better question to ask

Can I create better customer experiences

and

deliver more value ...

... while encouraging profitable behavior change

... in a financially sustainable business model?

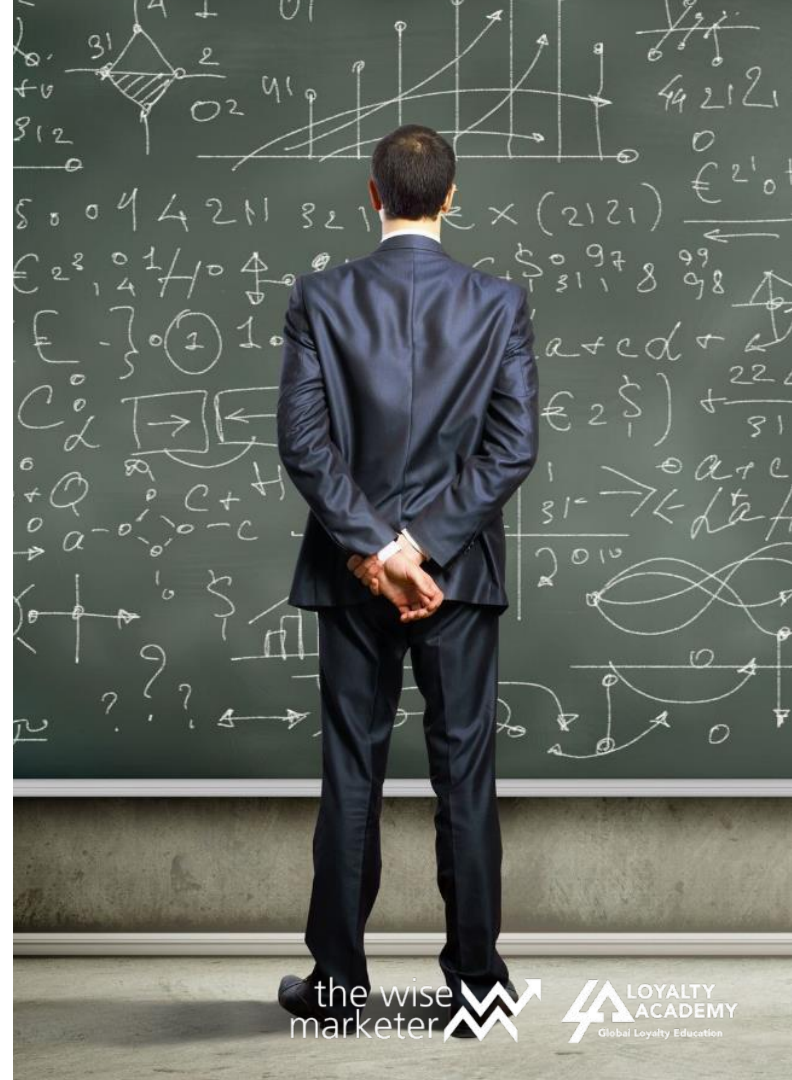
The Loyalty Equation

Incremental revenue

(lift, shift, retain)

- Incremental variable costs

= Incremental Gross Profit



Net Contribution from Loyalty

Incremental Loyalty **Gross Profit**
- Program operating costs

= **Program Financial Benefit**

a/k/a:

- **Incremental income**
- **contribution margin**
- **“your term”**



Return on your Loyalty Investment

Program Financial Benefit
/ Cost to operate program

= Return on Investment %



Exercise



Proving Incremental Income

Hint: our biggest challenge

How do you evaluate lift?

1. Name three drivers of lift
2. Define these drivers as behaviors
3. Apply a monetary value to each behavior
4. **Respond to this question:**
“What do you predict as average lift for your customer portfolio?”

	% Total Trans Fuel	Projected Lift (%)
Customer Types - Fuel		
Margin Eroders - existing	30%	0.0%
Incremental - increased wallet share	60%	20.0%
New customers - switched from comp	10%	50.0%
	100%	

	% Total Trans Merch	Projected Lift (%)
Customer Types - Merchandise		
Margin Eroders - existing	30%	0.0%
Incremental - increased wallet share	60%	10.0%
New customers - switched from comp	10%	25.0%
	100%	

Adjusted Income from Loyalty		
Incremental Gallons Sold	36,306,510	
Incremental GP from Gallons Sold		\$ 8,499,722
Incremental Merchandise Sales	\$ 23,053,628	
Incremental Merchandise GP		\$ 7,880,673
Total Incremental GP		\$ 16,380,395

Managing the Basics

Planning to create a Sustainable Financial Model

- 1. Baseline:** Validate historical business performance to create a “base case” for business
- 2. Consensus:** Challenge assumptions early and often to reach agreement among stakeholders
- 3. Stress It:** Perform rigorous testing through sensitivity analysis to predict a range of outcomes
- 4. Be Inclusive:** Share conclusions and recommendations with cross-functional team

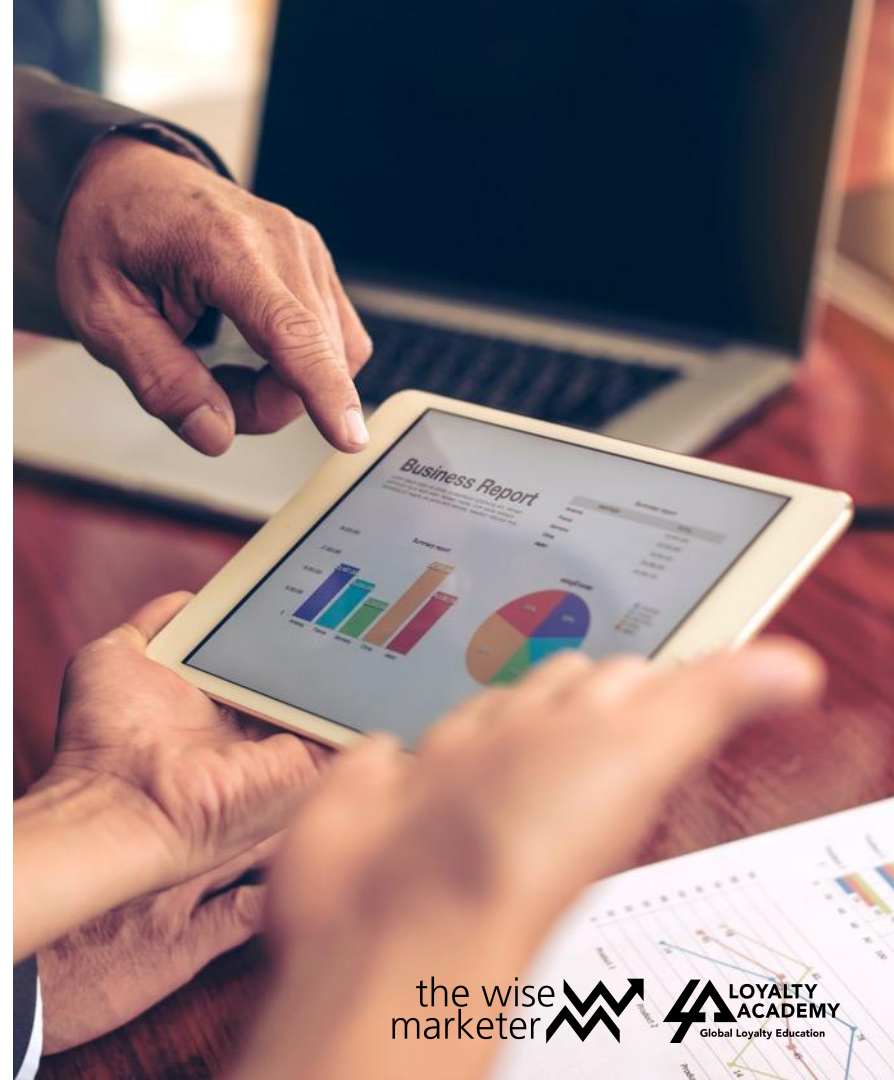
Sustainable loyalty program planning satisfies the needs of your Customers and reduces Organizational conflict



The Loyalty Steering Group

Governance = continuous improvement

1. Establish cross-functional oversight team
2. Maintain visibility among all stakeholders
3. Revalidate Objectives, Behaviors, Values
4. Guide investment decisions to achieve growth
5. Measure, evaluate and report continually, leveraging a customer lens



Loyalty Program Operating Budgets

- Corporate marketing expense?
- Profit center?
- Impact on incentive comp and individual goals?

Start up Costs

Program Planning
Outsource services
Internal HR

Data Analytics
In/Outsource

Technology
Connectivity / interface
Housing setup

Marketing Communications
Branding
Creative Design
Promotion

Training



Ongoing Operating Costs

Project Office
Strategy resource
Finance resource
Analytics / Measurement
PM resource

Technology
Member fees
License fees

Marketing Communications
SMS / Email costs
Creative / Mail costs
Research

Reward Costs
Vendor management

Customer Support

Reality Check

Key elements of a corporate “sniff” test

- How does forecasted sales lift compare to overall predicted growth rates?
- What is the revenue coverage of program members to the whole?
- How does the projected budget compare to other marketing initiatives?
- What assumption is the biggest risk to achieving projected ROI?



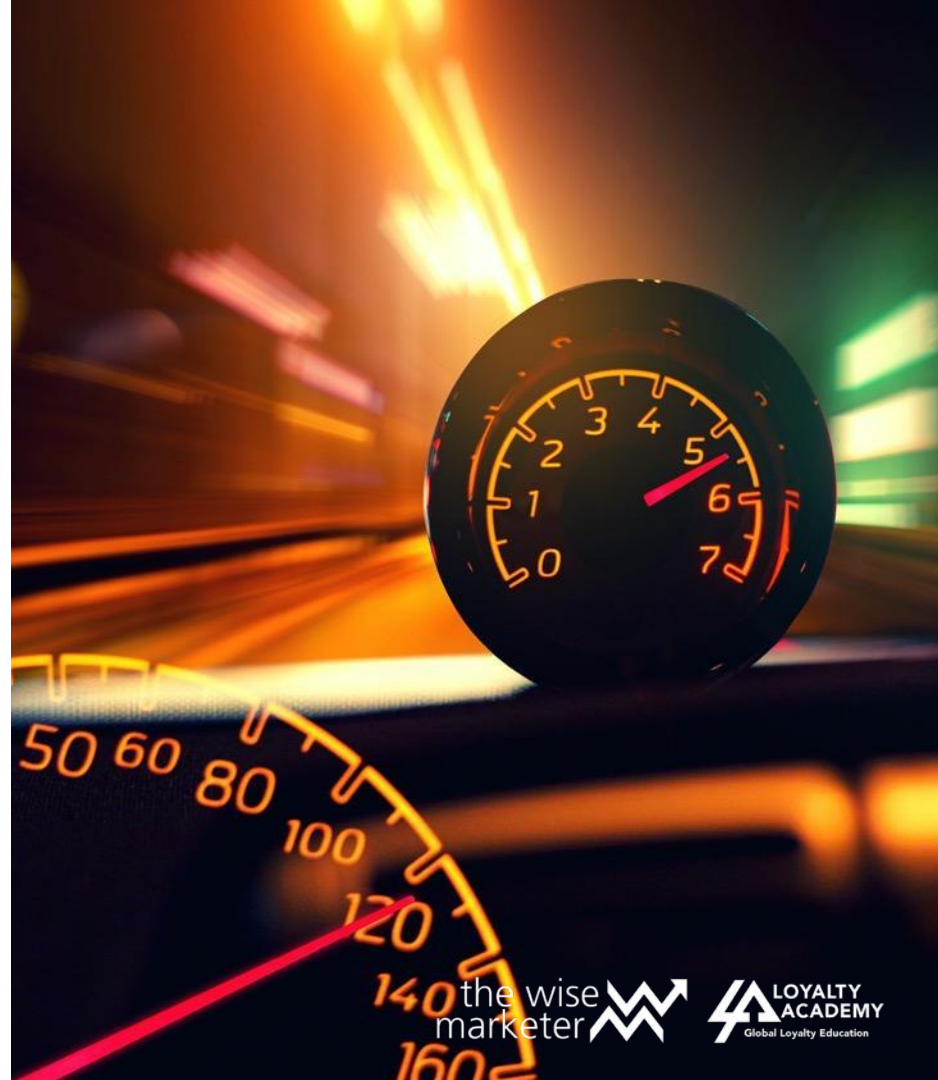
Exercise



Assumption Influence

Rank your choices

1. Membership growth
2. Customer penetration
3. Activity “participation” rates
4. Growth assumptions for desired behaviors
5. Member earning velocity
6. Reward funding rate (% of sales rebate)
7. Breakage / Effective redemption rate





We need a new model

The Incomplete equation

ROI (Return on Investment) – is a financial calculation

- To calculate the ROI of anything, you have to know what you earned and what you spent.

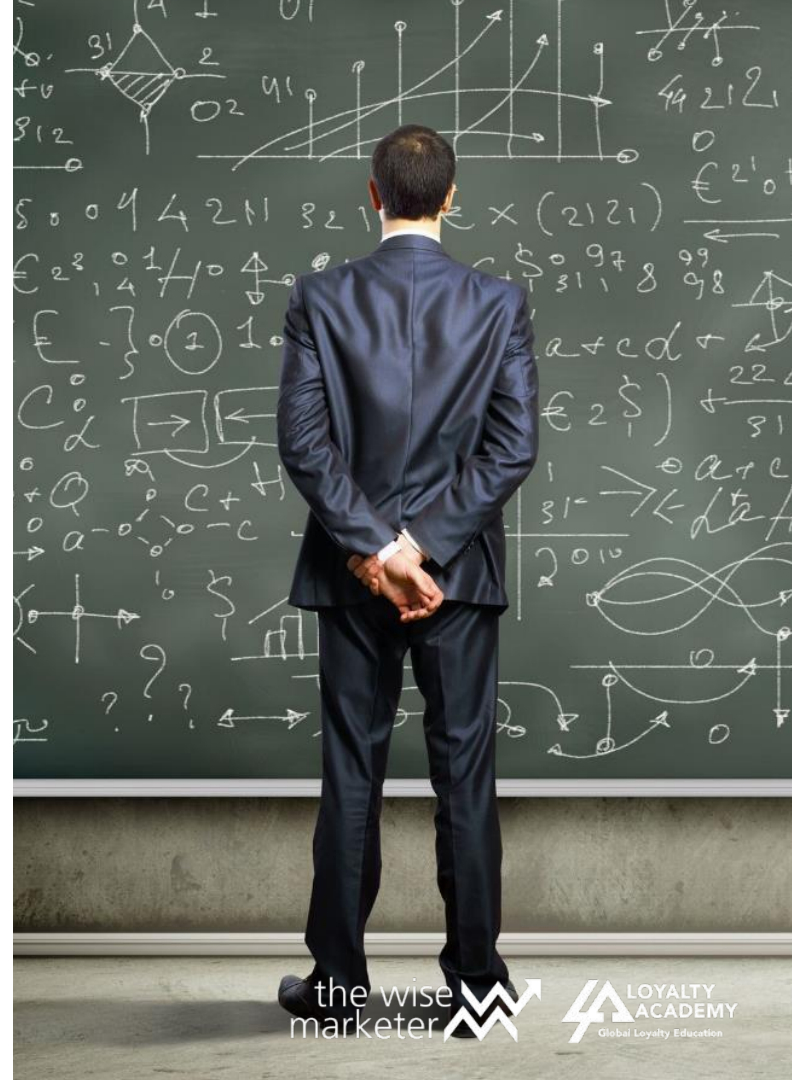
Marketers have struggled to determine “earned” for decades, through attribution analysis.

- What’s the impact of each marketing activity?

Marketing “spend” is easier to communicate on the surface

- Everyone understands a budget, but many don’t fully account for costs

If you don't know the ROI of what you're doing today, you cannot calculate the ROI of AI's impact on it... Christopher Penn



Competing Priorities

Natural friction between Acquisition, Growth & Retention

Acquisition has tempting benefits

- Glitzy numbers to please the CEO
- Limited cost to serve (comms?)
- Limited requirements for supporting technology
- Freedom to ignore new customers (just like fireworks...)

Growth and Retention come with overhead

- Onboarding and communications
- Technology support
- Offer Cost (points, miles, discounts, etc.)
- Brand risk

The “Managed customer base” has higher reward, but carries risk, requiring resources & investment



Does the Traditional ROI Model Work?

Loyalty Academy

Return on Investment Model for a Retail Environment

(Figures are assumed to be USD)

Please input values in areas shaded: green and blue

Note: Fields highlighted in Blue indicate independent variables that, if changed, will have significant effect on model ROI outcome.



Assumptions

Number of stores

Total Customer Base

Total Revenues last year

Gross Margin %

Distribution of "Active" customers	% of Total Customer Base	Customer Total by Tier	Visits per Yr.	Purchases per Yr.	Avg. Transaction Amount	Total Revenue by "Active" customers
Best Customers		0				\$0
Better Customers		0				\$0
Good Customers		0				\$0
Fair Customers		0				\$0
Total	0.00%	0				\$0

Enrollment expectations	Acceptance %	Expected Membership	Fee Based Program?	Membership fee by tier	Fee income
Best Customers		0			\$0
Better Customers		0			\$0
Good Customers		0			\$0
Fair Customers		0			\$0
Total		0			\$0

New Sources of Value

Transcend transactional value to calculate overall brand value

Can you agree on value attribution for these factors?

- Cost savings through behavior modification
 - Data monetization (Zero-Party Data)
 - Earned media value (advertising offset)
 - Known-customer value measured YOY = repeatable, tenured, profitable
 - Full program spin-offs

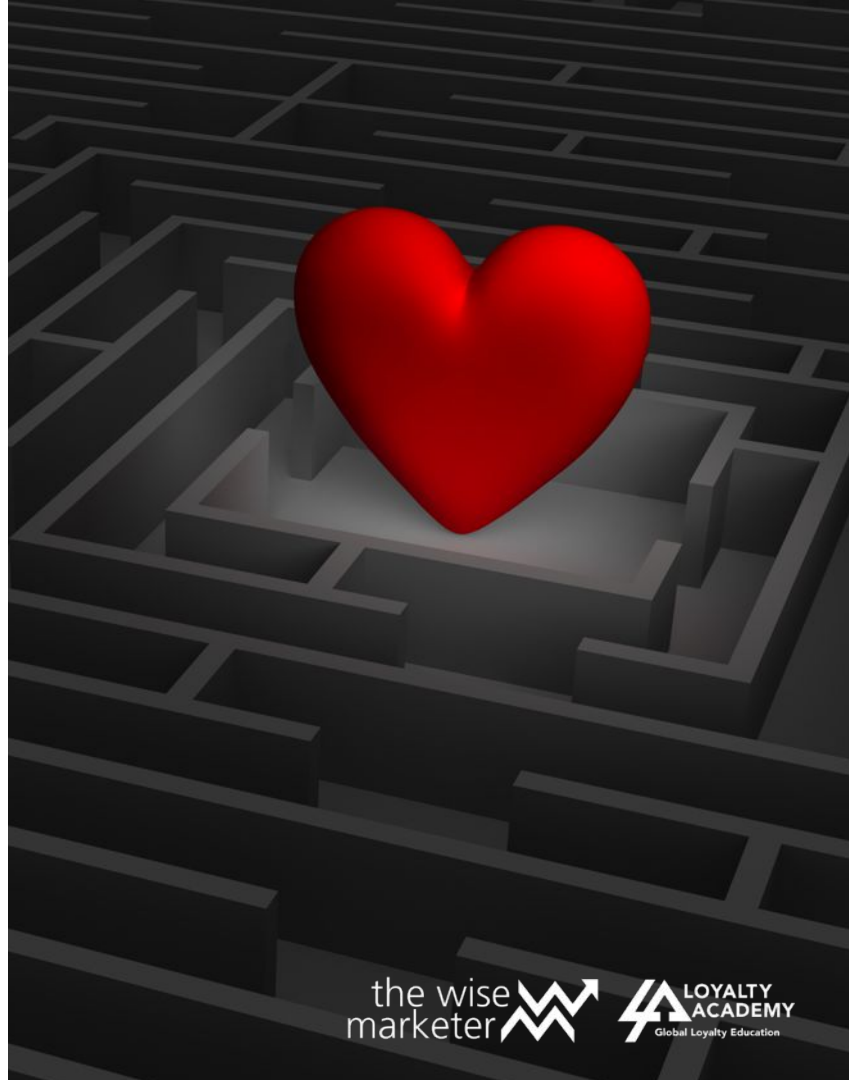
What about Unaided Brand awareness (soft lift) via:

- Referrals
- Recommendations
- Social mentions

What's "Brand love" worth to you?

- C-sat
- NPS
- Brand rankings

Consider all areas of impact through Customer Development
The program is "too large" is proving to be a dated theory



Attribution

Exercise





“Ask Me” Anything

- ❑ **Congratulations, you've earned 1 credit towards the Certified Loyalty Marketing Professional™ designation**
- ❑ **You can earn another credit online by taking one free course (retail value of \$225 USD) ... and you can earn more credits by attending future ELA regional Hub meetings or *The BIG Handshake***
- ❑ **You can continue your certification online at an ELA offer of \$1,500 USD (\$250 discount from the on-demand retail price of \$1,750 USD)**
- ❑ **ELA offers CLMP™'s a complimentary 'Professional Membership' for 12 months (Brands/retailers only) - usual price is €399**
- ❑ **The CLMP™ Community is nearly 1,000 strong across 54 countries**

Thank you!

the wise
marketer 
The Global Voice of Customer Loyalty

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