

Loyalty ROI



Loyalty & Reward Co are based in New York, London, Sydney & Melbourne

We've consulted to over 120 of the world's best brands over the past decade



We literally wrote the book on loyalty. We're an award-winning consultancy that teaches loyalty to loyalty professionals



Loyalty Programs: The Complete Guide

We wrote the most comprehensive book(s) on loyalty programs on the planet

[Learn more](#)



Loyalty Programs: The Complete Masterclass

We designed and run the world's best education course for loyalty professionals

[Learn more](#)



Award-winning program designs

Our programs are recognised globally, winning awards across strategy, mobile and UX

[Learn more](#)

Our expert services span **all aspects of loyalty** ensuring continuity and stellar success



Audit & Advisory

- Detailed gap analysis
- Impact analysis
- Benchmarking
- Strategic recommendations
- Future roadmap



Design

- Loyalty Program Design
- Marketing Campaigns
- Lifecycle Management Strategy
- Market Research
- Data Analytics Strategy
- Commercial Modelling



Implement

- Technical Solutions
- Platform Sourcing
- Tender Process Management
- Reward Sourcing
- Project Management
- Launch Strategy



Operate

- Platform Management
- Marketing & Lifecycle Execution
- Reward Store Operation
- Staff Training
- Reporting & Analytics
- Strategic Optimisation & Evolution



Educate

- Conference Presentations
- Loyalty Education Courses
- Loyalty Psychology Application
- Publications/ Whitepapers
- Expert Articles

**Loyalty managers are
struggling to measure ROI.
Why?**

First, let's determine what a loyalty program is. We define it as a desirable behaviour stimulation program.

Awareness



Consider



Evaluate



Join



Engage



Advocate



Target behaviour

What is the desired member behaviour at each stage of the customer journey?

Opportunities

Where do opportunities exist for the loyalty program to incentivise and reinforce the desired behaviours?

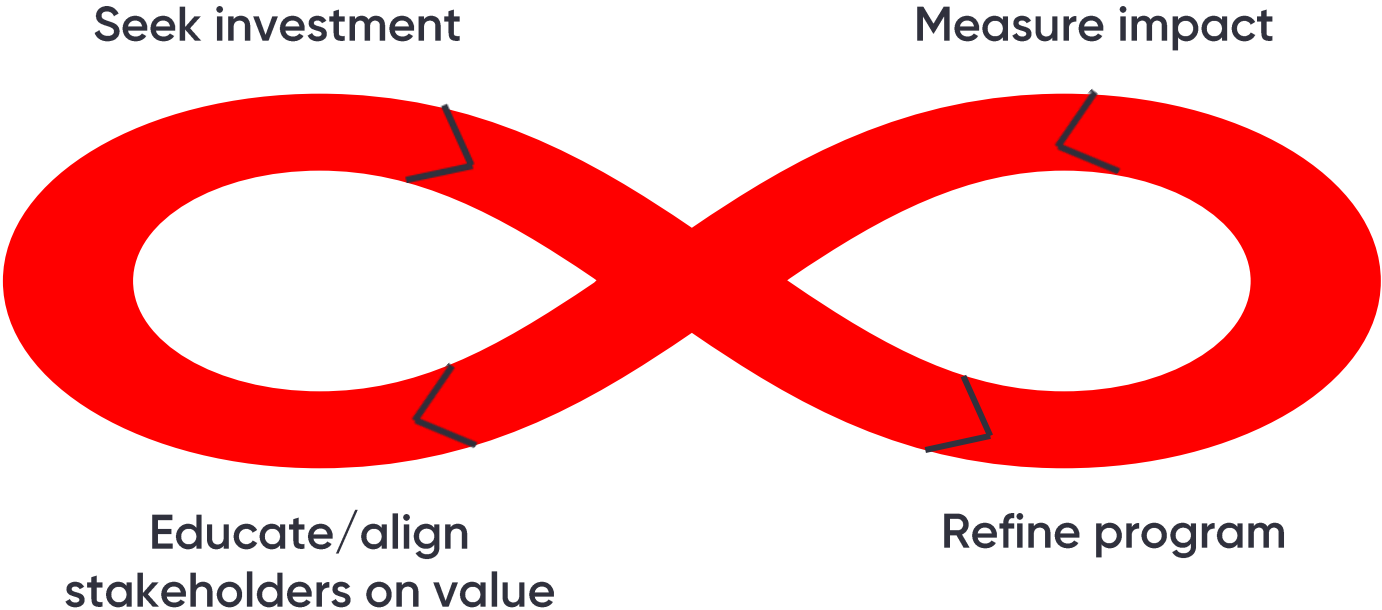
What are main measurable member behaviours loyalty managers should be trying to stimulate?

- 1 Acquisition
- 2 Spend
- 3 Engagement
- 4 Retention
- 5 Advocacy
- 6 Data sharing

But . . . loyalty managers are struggling to measure improvements in some of these areas, which makes it very hard for them to measure ROI

- 1 Acquisition** Can't determine if loyalty program influenced non-customer to become a customer
- 2 Spend** Can't determine whether spend uplift is stimulate by the loyalty program
- 3 Engagement** Can't determine whether non-transactional engagement leads to spend
- 4 Retention** Can't determine whether churn reduction is generated by the loyalty program
- 5 Advocacy** Can determine referral program impacts, but cannot determine WOM impact
- 6 Data utilisation** Difficult to quantify and often overlooked – how valuable is the data asset?

This is a significant problem because measuring ROI is very important.



How to measure loyalty program ROI

One metric to rule them all

Donaldson Brown
"The godfather of ROI"



The DuPont Company Executive Committee in April, 1919.

“For every euro I spend, how much return will it generate?”

WHAT?

What elements to include in the ROI calculation

WHY?

What decisions you are trying to make

HOW?

How to measure/calculate the different elements

WHAT?

What elements to include in the
ROI calculation

ROI is one of the most common financial metrics

$$\text{ROI} = \frac{\textit{Return}}{\textit{Investment}}$$

Activity Time

ROI calculation activity

$$\text{ROI} = \frac{\text{Return}}{\text{Investment}}$$

Imagine it's been 6 months since you have launched your loyalty program. Your CFO wants to understand the ROI. Below is the information you have available:

Initial Launch Costs (one-off)	1,000,000	A
Operating Costs	50,000	B
Rewards Redeemed	150,000	C
Total Outlay	1,200,000	D
Incremental Revenues	700,000	E
COGS	420,000	F
Incremental Margin	280,000	G
Operating & Reward Costs	200,000	H
Realised Net Profit	80,000	I
Margin on Unredeemed Rewards	200,000	J
CLV Uplift	150,000	K

Take 2 mins to calculate your answer

There are many different ways to calculate ROI

Activity example

Initial Launch Costs (one-off)	1,000,000	A
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ROI methodologies

ROI Calculation Methodologies:

	Calculation	ROI
1 Revenue / Operating+Reward Costs	$(E / H) \times 100$	350 %
2 Revenue / (COGS+Operating+Reward Costs)	$(E / (F + H)) \times 100$	113 %
3 Margin / Operating+Reward Costs	$(G / H) \times 100$	140 %
4 Net Profit / Initial Investment	$(I / A) \times 100$	8 %
5 Net Profit / Total Outlay	$(I / D) \times 100$	7 %
6 Net Return / Investment	$((I + J + K) / D) \times 100$	36 %
7 Net Return / Operating Costs+Reward Costs	$((I + J + K) / H) \times 100$	215 %
8 Net Return / Initial Investment	$((I + J + K) / A) \times 100$	43 %

Results are vastly different
Which is right?

WHY?

What decisions you are trying to
make

If you are trying to gauge how performance compares to the original business case

ROI Calculation Methodologies:		ROI
1	Revenue / Operating+Reward Costs	350 %
2	Revenue / (COGS+Operating+Reward Costs)	113 %
3	Margin / Operating+Reward Costs	140 %
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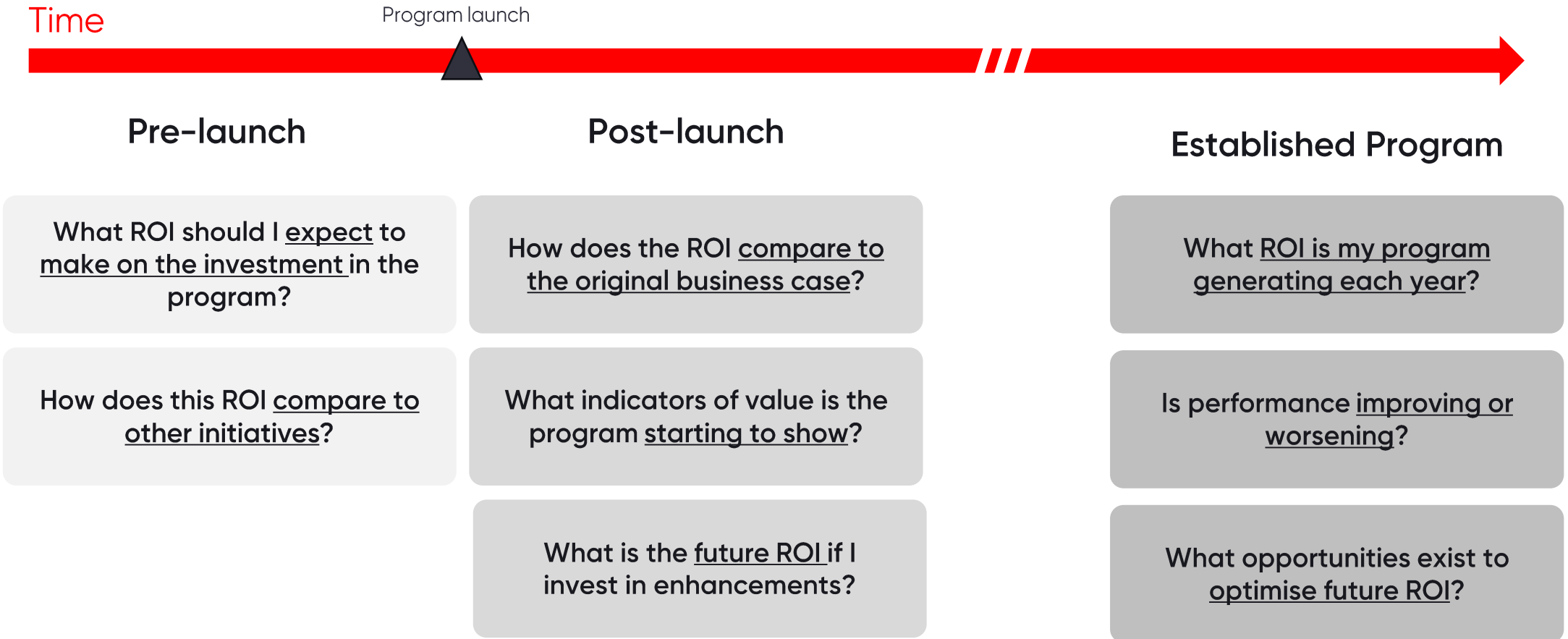
If you are trying to gauge whether loyalty program performance is increasing or decreasing

ROI Calculation Methodologies:		ROI
1	Revenue / Operating+Reward Costs	350 %
2	Revenue / (COGS+Operating+Reward Costs)	113 %
3	Margin / Operating+Reward Costs	140 %
4	Net Profit / Initial Investment	8 %
5	Net Profit / Total Outlay	7 %
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8	Net Return / Initial Investment	43 %

If you want to trick the Board into thinking your loyalty program is their best investment ever...

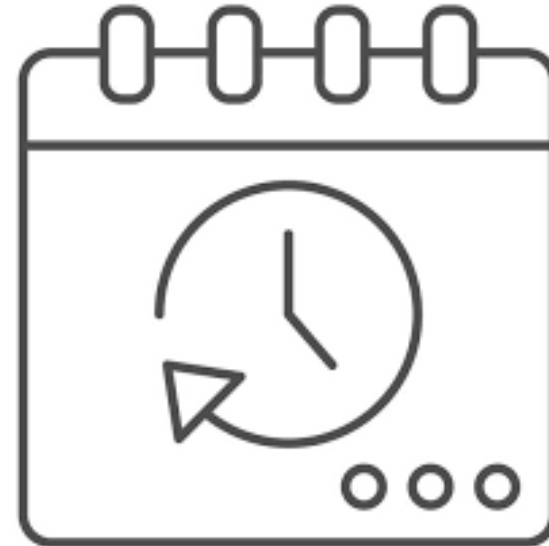
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Where you are in your **loyalty life-stage** will influence the purpose of your ROI analysis, your WHY



Other considerations

- Have all the program elements been launched or are there factors limiting the benefits?
- Has enough time passed for loyalty behaviours to be properly assessed?



HOW?

How to measure/calculate the
different elements

The big ROI challenge: costs are easy to see, but **benefits are hard to find**

"Perfection is often
the enemy of
greatness."
– Janelle Monáe

What are the **direct costs** required to bring a loyalty program to life and sustain it ongoing?

1 Direct costs

Upfront investment

- Human resources
- Technology

Ongoing investment

- Human resources
- Technology
- Marketing
- Rewards

2 Opportunity costs

Rewarding the pre-engaged

- Cannibalising margin

Investment in other projects

- Financial investment
- Time investment

How can program benefits be **categorised and measured**?

1

Known

Able to exactly measure

- Membership Fees
- Subscription Fees
- Margin on Point Sales
- Partnership revenues
- Cost efficiencies

2

Observed

Use campaign target & control groups to measure incrementality

- Campaign specific acquisitions
- Incremental spend due to campaigns
- Retained members via campaigns
- CPA savings
- Margin uplift

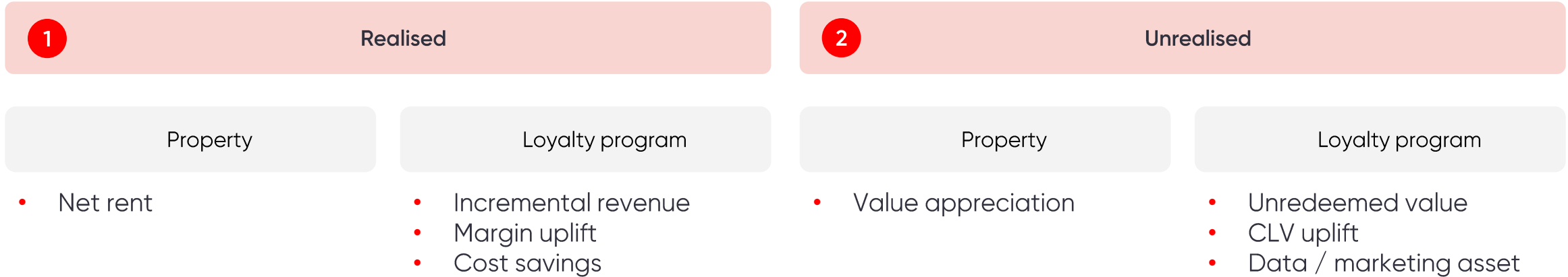
3

Estimated

Use cohort analysis to estimate value

- Incremental Acquisitions
- Incremental Spend
- Improved Retention
- Redemption Uplift
- Unrealised value (Unredeemed/LTV)

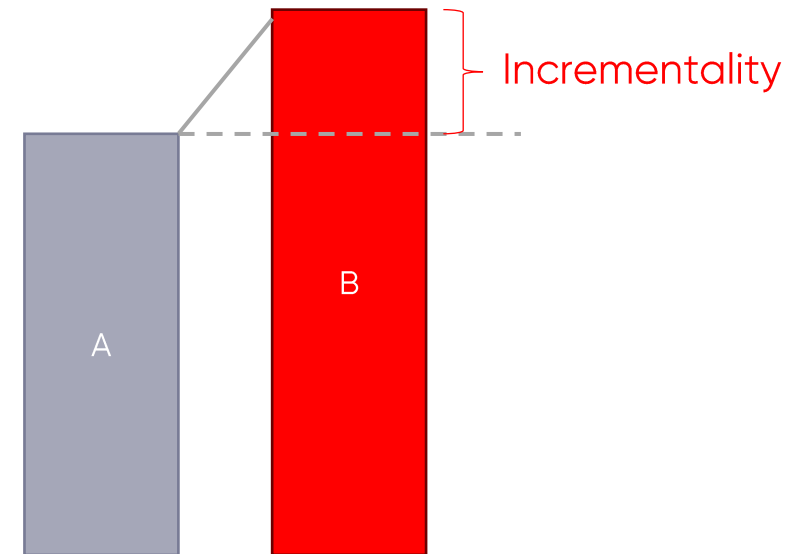
Be careful not to overlook **unrealised returns**



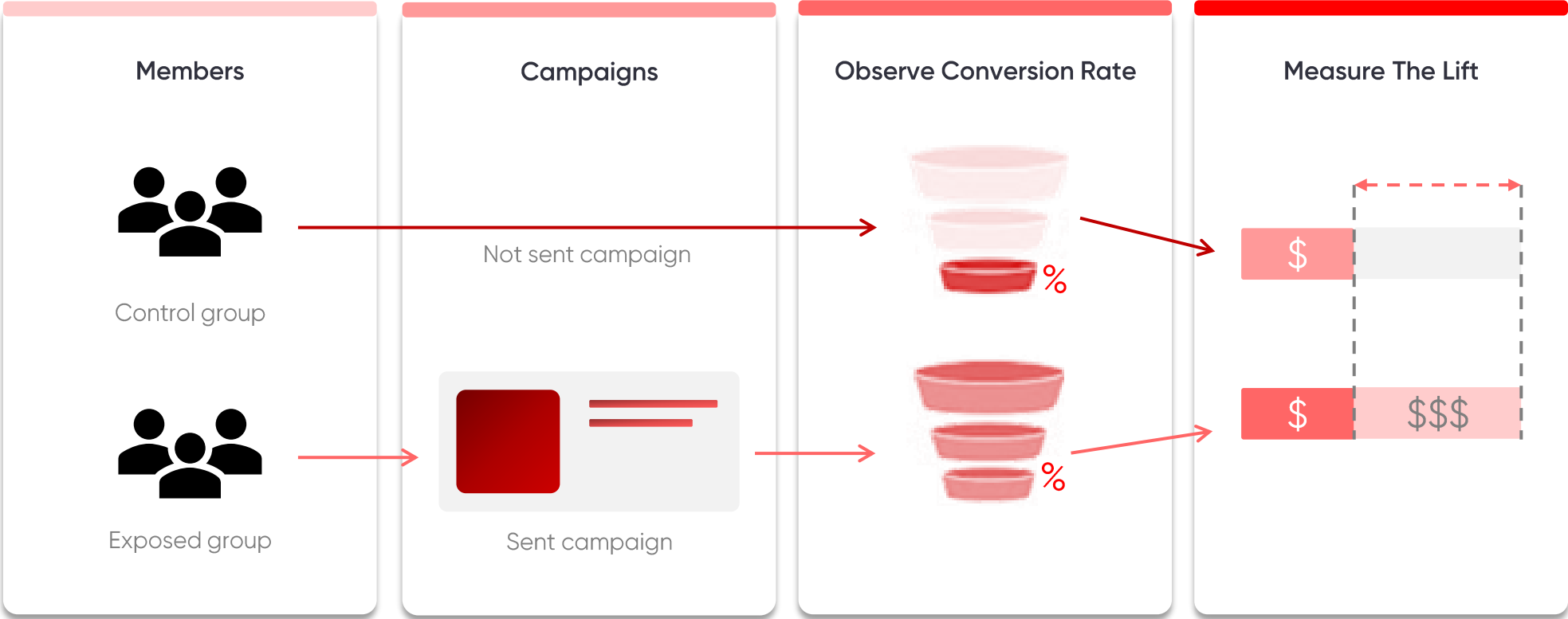
Cohort analysis is used to help measure incrementality by comparing 2 or more groups

Types of cohorts to consider

- Members v non-members
- Members (pre v post launch)
- Engaged vs Non-engaged members
- Engaged YoY change vs Not engaged YoY change
- By segment
- Campaign target vs control
- + more...



This approach can also be used to set up **tactical tests to measure incrementality**



$$\text{Incrementality} = \frac{(\text{Exposed} - \text{Control})}{\text{Exposed}}$$

Example of cohort analysis being used to compare members vs non-members

Members vs Non-Members		
Revenue		\$
A Total Revenue	100,000,000	data available
B Member Revenue	60,000,000	data available
C Non-Member Revenue	40,000,000	calculated (A - B)
Transaction Volume		#
D Total Transactions	200,000	data available
E Member Transactions	108,000	data available
F Non-Member Transactions	92,000	calculated (D -E)
AOV		
G Total AOV	500	calculated (A / D)
H Member AOV	556	calculated (B / E)
I Non-Member AOV	435	calculated (C -F)
Revenue Uplift		
J Member Value Uplift	121	calculated (H -I)
K Revenue Uplift	13,043,478	calculated (J x E)

Activity Time

What is the right cohort analysis approach for your business and why?

Members v Non-Members

Members (pre v post launch)

Engaged v Not Engaged
Members

Engaged Member YoY Change
v Not Engaged Members YoY
Change

Unfortunately, no methodology is perfect

Challenges of various methodologies:

Members v Non-Members

- Not necessarily indicative of behaviour change
- Limited data on non-members

Members (pre v post launch)

- Missing data tied to members pre-program
- Comparing different time periods
- Sample size is smaller due to members who existed in both time periods

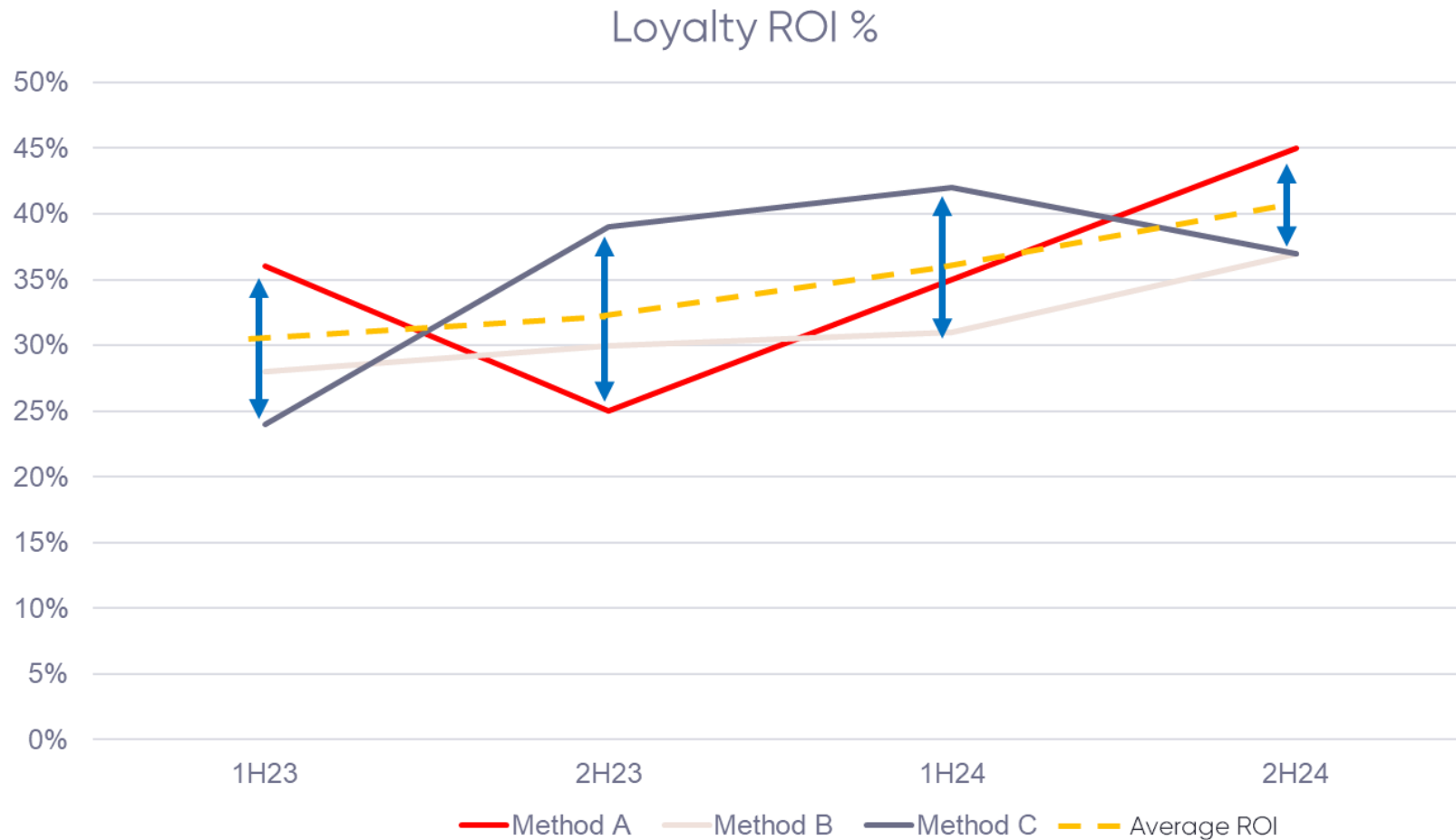
Engaged v Not Engaged Members

- Definition is subjective
- Ignores impact of program on non-engaged members

Engaged YoY Change v Not Engaged Members YoY Change

- Requires data across multiple periods
- Definition is subjective
- Ignores impact of program on non-engaged members

Loyalty & Reward Co's recommended approach is to establish a **Loyalty ROI range** drawing on multiple measurement methodologies over time



💡 Tip

Start simple, then build more detailed options over time to improve accuracy

How can loyalty program ROI be further optimised?

As dumb as it might sound, there are two main ways to improve ROI

$$\text{ROI} = \frac{\textit{Return}}{\textit{Investment}}$$

Targeted promotions for **Next Best Action stimulation** supported by **supplier funding**



Monetisation of the program via subscription or mini-coalition



Access efficient rewards or supplier-provided rewards



We utilise our **Loyalty ROI™ methodology** to determine the financial return generated by loyalty programs



**THANK
YOU**