The science of loyalty

Steve Burnstone, CEO Eighty20

steve@eighty20.co.za
Loyalty programmes make you think of...
Loyalty programmes make you think of…
2015 Loyalty Member Engagement survey
What is loyalty?
The theory of loyalty

CUSTOMER NEED

RELEVANCE (self actualisation)

RECOGNITION (social belonging)

REWARDS (economics)

PROGRAMME STRUCTURE

PERSONALISATION (targeted offers and communications ...)

PERFERENTIAL TREATMENT (tiering ...)

PROGRAMME OFFERING (earn, redemption ...)

The theory of loyalty...
A more scientifically rigorous approach can help generate additional value

**SETTING UP A LOYALTY PROGRAMME**

1. Define the programme’s CVP and business case
2. Develop IT & admin infrastructure
3. Partner acquisition
4. Cards, application forms & marketing material
5. Acquiring customers, managing earn and burn of rewards
6. Measuring and improving
7. Targeted offers and personalised rewards

Most loyalty programmes lose steam here
CVP and business case

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Most loyalty programmes lose steam here.
A rigorous business case is important to test and refine the CVP

**LOYALTY BUSINESS CASE**

- **Motivate internally and externally (IRR/ NPV)**
- **Identifying operational / data issues**
- **Refine / Optimise CVP**
- **Identify sensitivities and risk**
- **Plan**
- **Track performance**
The classic loyalty business case is built on the assumption that customer behaviour will be positively impacted.

**POTENTIAL FINANCIAL REWARD**

- Incremental profit due to change in customer behaviour
- Cost of rewards

![Graph showing sales revenue over time with uplift and natural growth]

- Sustained growth with program
- Natural growth
- Drives rewards expenses

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**Uplift**

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**Sales Revenue**

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**Time**
Top-down modelling approach

Segment 1

Segment 2

Segment 3

Total Book

5 year Revenue Account
- Income
- Expenditure

5 year Revenue Account
- Income
- Expenditure

5 year Revenue Account
- Income
- Expenditure

5 year Revenue Account
- Income
- Expenditure

Expected NPV

Expected NPV

Expected NPV

Expected NPV

X

Y

Z

X + Y + Z
Bottom-up modelling approach

Customer 1

Customer 2

Customer 3

5 year Revenue Account
- Income
- Expenditure

5 year Revenue Account
- Income
- Expenditure

5 year Revenue Account
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... + ... + ... =

Total Book

5 year Revenue Account
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Expected NPV

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Expected NPV
Measuring and improving

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Quantifying behaviour change

Genetic matching is used to create two groups of customers that are very similar in terms of their transactional behaviour but in one group all the customers are members and in the other group no customers are part of the programme.
Quantifying behaviour change

SHoppers

Genetic Matching Algorithm

Joined

Matched to non-joiners

Compare the spend of the two groups in future months
Targeted offers and personalised rewards

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Profiling allows us to understand and serve customers better

**Campaign Centric**
- Filtering
- Single segmentation
- Multiple segmentation
- Behavioural propensity
- Personalisation

**Customer Centric**

**Intelligence / Cost / ROI**
- ★ ★ ★ ★ ★

**Campaign Strategy**
- Sequential
  - ★ ★ ★ ★ ★

**Pros and Cons**
- Overly simplistic
  - ★ ★ ★ ★ ★
- Centred around offers
  - ★ ★ ★ ★ ★
- Simpler to implement
  - ★ ★ ★ ★ ★

- May be perceived as invasive
  - ★ ★ ★ ★ ★
- Can positively impact loyalty of a customer
  - ★ ★ ★ ★ ★
- Centred around individuals
  - ★ ★ ★ ★ ★
- Different campaign objectives per individual
  - ★ ★ ★ ★ ★
Relevant communications have the most impact on behaviour

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
</tr>
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<tbody>
<tr>
<td>Relevance</td>
<td>6x</td>
</tr>
<tr>
<td>Richer offers</td>
<td>3x</td>
</tr>
<tr>
<td>Timing</td>
<td>2x</td>
</tr>
<tr>
<td>Creative</td>
<td>1.35x</td>
</tr>
<tr>
<td>Channel</td>
<td>1.25x</td>
</tr>
</tbody>
</table>
Millennials are driving the need for businesses to send personalised communications.
Targeted offers can add value, but can also annoy customers if it isn’t helping them.
Targeted offers can add value, but can also annoy customers if it isn’t helping them
Thank you

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Some programmes are better than others
Loyalty objectives need to be related to the CVP

<table>
<thead>
<tr>
<th>DATA COLLECTION</th>
<th>BEHAVIOUR CHANGE</th>
<th>CUSTOMER ENGAGEMENT</th>
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</table>
| • Collected data should be actionable and useful | • Programme rules:  
  • Membership fees  
  • Earn  
  • Ease of redemption/ channels  
  • Tiering levels  
  • Point expiry | • Simple and transparent  
  • Perceived as valuable by customers  
  • Inclusive  
  • Represented well by staff |