The Loyalty Momentum Effect

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To what extent is loyalty data being used to generate hard cash return on investment?

Loyalty programmes exist to drive corporate profitability. However, there have been many instances of companies not being able to squeeze financial value from their loyalty initiatives. This research was conducted in order to quantify the proportion of companies, by industry sector, that is using insights gathered from customer loyalty programmes to deliver hard, measurable return on investment. This report will examine how value derived from loyalty programmes escalates, gathering more and more pace, the more effort that is devoted to making the scheme a success. The greater the conviction that underpins the programme, the greater the payback. We have termed this trend the Loyalty Momentum Effect.

Key findings:

? Industry sectors that view their loyalty scheme as an integral part of their business were more able to extract return-on-investment from their scheme. Supermarkets emerged as the stars of our research: nearly two-thirds of organisations were pressing insights gathered through loyalty schemes into hard commercial return. Credit card and department stores, long keen advocates of loyalty, followed close behind.

? Our research points to a â€˜loyalty momentum effectâ€™ â€“ payback from loyalty programmes appears to snowball. The mor you do it, the more you get out of it; as investment is made, the differential between capital investment and return-on-investment increases.

? On the other hand, industry sectors offering distress products and services (insurers, telecoms, utilities) were less able to generate hard cash return on investment from their loyalty programmes than their counterparts in more â€˜desirable industriesâ€™.

? However, the hotel sector and the travel/airlines industry, traditionally strong exponents of loyalty schemes, bucked this trend, performing below par with only 35.6% and 40.7% of organisations deriving real financial value from their schemes respectively. These sectors may have been loyalty pioneers in their time, however they have lost their edge to several other sectors that have succeeded in extracting real value from their loyalty programmes.

? The utilities sector lagged behind all other industries, with just over a third (34%) of companies making intelligent use of loyalty data. However, a newly deregulated industry, this trend is less likely the result of inattention to customer value, and, instead, indicative of a cautious, wait-and-see approach to diversification in their product portfolios, and customer development plans.

Introduction:

More so than ever before in modern times, the customer is king. The penny has finally dropped: it is cheaper, easier and more productive to encourage your existing customers to do more with you than it is to win new friends. Consequently the last few years has seen the number of companies launching loyalty programmes proliferate. And customers are loving it. According to research by TNS, 85% of UK households have at least one active loyalty card, and take-up certainly shows no signs of slowing.

Needless to say, loyalty practitioners do not reward customers out of the goodness of their heart: there is a definite quid pro quo. The purpose of loyalty programmes is to exist to deliver incremental value back to the organisation. Companies seek to achieve this by rewarding customers for their loyalty, in the hope that in doing so they will cause members to alter their purchasing behaviour in some way, allowing the company to reap the rewards. But rewards are merely the shiny finish of a loyalty programme. The primary role of loyalty is to establish a â€˜dialogueâ€™ with the customer in order to determine their needs and wants, maintain and strengthen the relationship, and ultimately increase profits. Customers might choose to shop more frequently with a particular store if they are accumulating or redeeming rewards, they might spend a little extra, or they might widen the range of products that they buy. Cumulatively, the changes in purchasing patterns should have a significant impact upon the bottom-line. A well-executed programme should deliver ROI as a serious multiple.

Cynics argue that loyalty programmes are little more than a bribe; that do nothing to engender consumer allegiance. Loyalty aficionados, on the other hand, claim loyalty programmes form the core of their business strategy, enabling them to increase customer value, grow market share, and successfully populate new markets. There is clearly a gulf in the success with which UK plc is using loyalty programmes to increase profitability. So to what extent are organisations seeing payback from their loyalty schemes? Total DM decided to quantify the proportion of companies UK plc is seeing the fruits of its investments â€“ not in terms of intangible customer loyalty, but rather in hard measurable return on cash investment. We asked senior marketers across key UK industry sectors about the proportion of companies that were deriving real value from their loyalty schemes.

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