

Methods to Measure Customer Loyalty

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About measuring loyalty



You cannot manage what you cannot measure. Given the cost (and often thin margins) in retail, measurement is worth striving for in order to maximize Return on Investment and allocate resources to the most effective actions.



The cost of engaging with customers across various online and offline channels can also vary by orders of magnitude, so by measuring, you will better understand where to allocate funds to generate the highest return.

Of course it is fundamental to try and measure accurately, but we will be the first to admit that precision in the measurement of marketing effectiveness is hard to achieve. In spite of the difficulties, it is getting easier because new tools and services are available that track customer journeys across devices and can match online data with in-store transactions and other behavioral data to understand actual results.

In any case, we believe each business should determine its own desired level of accuracy and strive to beat that. Increasing levels of accuracy come with increased effort and cost – so you need to determine what is most appropriate for your business.

At Currency Alliance, our framework for the measurement of loyalty programs is based on the belief that “Engagement” is the common denominator and “Advocacy” and positive, increasing Life Time Value (LTV) are the primary goals. Please note that “Transactions” are only an element of building healthy relationships with customers.

Measuring “engagement” comes down to:

- Registrations for the Loyalty Program
- Frequency of engagement across all channels
- Conversion into purchases or other Actions
- Redemptions
- Advocacy

By the way, it is possible to measure hundreds of things, but not everything that can be measured is important. Many people define Key Performance Indicators (KPIs) as the 5 to 15 things about your business or loyalty program that are most important to monitor (with a focus on improving them over time with proactive efforts).

What are KPIs and Which Ones Should I Pay Attention To?

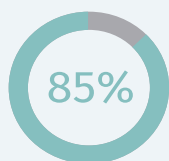
A KPI is a measure of the level of performance of a process. The value of the indicator is usually related to a defined objective - set in advance; and, it is usually expressed as a percentage.

A KPI is designed to show how a particular aspect of the business is progressing, so it is an indicator of performance. There are KPIs for different areas of business: purchasing, logistics, sales, customer service, etc. Companies (and

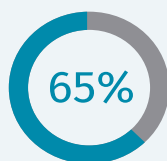
teams) have KPIs that show whether the actions taken are paying off or, on the contrary, they are not progressing as expected.

Key Performance Indicators can be financial or non-financial metrics used to quantify the degree of compliance with the objectives; together, they reflect the performance of a business (or department, or an initiative).

KPI Example



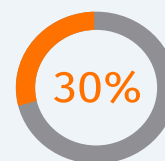
New players



Downloads



Commented



Active Players

At Currency Alliance, each person in the company has 3-5 Key Performance Indicators concerning their areas of responsibility - which they monitor daily. Most of our team members then have another dozen or so that they monitor less often.

For your program, we suggest you choose 3-5 KPIs that are crucial to understand the health of your program and then a few more that provide broader perspective. We also encourage you to avoid too many measurements, or it is possible that the most important KPIs may be lost among too many numbers.

Measuring Registration

Until an actual or potential customer registers for your loyalty program, they are pretty anonymous and you really don't know how to treat this person in a special way that engenders more of a relationship. So it goes without saying that the main purpose of the loyalty program is to get people to register so you know something about them and can start to tailor a dialog with them that builds trust in the business and eventually loyalty and advocacy.

Many retailers allow customers to register for loyalty programs both online and offline. In either scenario, you will use some type of display/banner to draw people's attention to the loyalty program. The most effective way to get people in physical retail stores to join the program is to have your associates talk about the program and facilitate the registration. This should be encouraged in every way possible – even by rewarding sales associates for their success (possibly with points in your program – so they become more committed).

It is possible to measure (or at least estimate) the percentage of visitors who become “aware” that a loyalty program exists and then from that estimate of the “addressable population,” measure how many actually registered.

For online registrations, you can also measure conversion at each step of the registration process (from clicking a banner to access the registration page, to filling out portions of data, to accepting the terms and conditions, to clicking the actual registration button – as well as whether the registrant corrects any errors they may have entered in the process). At each step, a portion of online users will abandon the process and you want this to be as low as possible by removing friction (which might be because you are asking for too much information, or their inability to understand statements about the program). You can always ask for more details once they are benefiting from the program – so keep the initial registration process as “light” as possible.

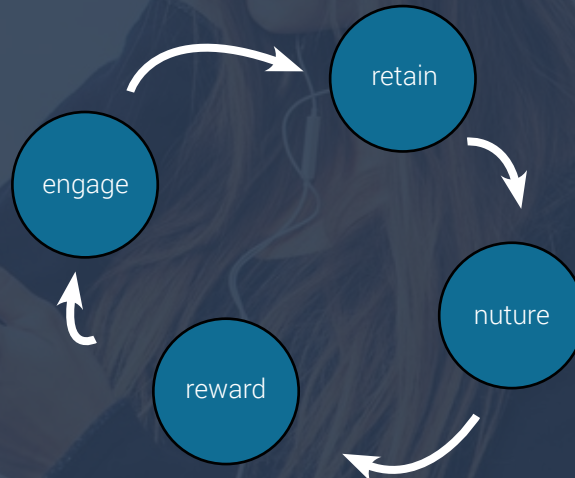


Registering new members may involve having the user confirm their email address – which can also be measured.

As we mentioned earlier, measuring the Customer

Life Time Value (CLTV) is a primary metric and this value will depend a lot on what you do to demonstrate value during the first day and during the first month the customer registers.

In any case, getting new registrations is really only the first step of a customer journey that should be optimized to increase participation over a long period of time.



You cannot assume the customer understood all of the rules and benefits associated with the loyalty program, so following up their registration with a short animated video or set of key points by email could be effective ways to reinforce the wise choice they just made in registering. Of course, it is also helpful to reduce rules and complications to the minimum – giving the customer more freedom to engage how they want.

To demonstrate immediate value for the new member, you might also want to offer free access to a special “Members” event, or deliver a coupon that will drive their next purchase.

You can also test different types of Calls to Action (CTA) and measure results. Some companies call this A/B Testing and the goal is to determine which Call to Action works best – and by how much.

Once the data about a customer is captured, you can now start to learn more about this person and how best to engage with them. Over time, capturing information about how the customer engages with your communications and what they are buying from your shop will give you unique insights about how to personalize future interactions.

One of the unique advantages of the Currency Alliance comcoin program is our ability to capture this data not only from the customer’s interaction with your store, but also what they buy from other partners in the comcoin network. This broader data improves the customer profile by orders of magnitude and facilitates better personalization that builds trust. And, we make this data “actionable” so you can put it to immediate use – rather than most systems that make Big Data hard to access or use.

The vast majority of loyalty programs
**do NOT retain customer
engagement after the
first 90 days.**

You need to think deeply about this fact and how you will overcome it with your program. The reasons are many, but mostly related to lack of perceived value for the effort the customer must put into participating.

Frequency of Engagement

Think about your own situation. You probably have joined dozens of programs, but quickly realize collecting points - spread across many fragmented programs - means you will never collect enough points in most of them to enable redemption for something of emotional interest.

There are ways to overcome this problem of disbursed value, but the easiest for a retailer and the most valuable for customers is to offer a global loyalty currency that the customer can collect from many retailers in a single trusted account. This is why we offer comcoin as exactly that global digital loyalty point currency. Anyway, in the context of growing engagement

(i.e., many touchpoints with the customer), the key is to “balance” the frequency and type of information you share with customers with your ability to anticipate what the individual customer desires next (i.e., personalization).

For example, you may want to send the customer a ‘welcome’ email which describes a number of the ways a customer can benefit from the program. If there are many, choose the 2-3 easiest and rewarding ways to highlight. You may want to include a “Bonus Point” offer for a specific action that is valuable or relatively easy for the customer to perform.

The most effective engagement plans have a defined Customer Journey that maps out the types of interaction you hope to achieve, and then you define specific actions to try and create those interactions. Most of this can be measured.

You can measure the Open Rate for this email, whether any links have been clicked, and whether the customer takes a desired action. Depending on what the customer does, you can then define the next actions (which might be another email, or a specific offer, or the presentation of additional ways the customer

can benefit from the program). All of these actions can be measured – and you can even test different messages to see which performs the best.

These types of measurements may not be your KEY Performance Indicators – but they could feed

a KPI that indicates how well your on-boarding process is working. If Objectives are not being met, you can dive into the details to investigate what could be improved.

Keeping in mind that you want to promote optimal interactions with the customer over a very long period of time, the Customer Journey Map defines what you intend to do after several weeks, several months, and well into the second or third year. All of this can evolve as you gain greater insight about what works well, and what requires improvement.

Bear in mind that a “loyal” customer is one that remains highly engaged and supporting your brand in a variety of ways. This is why it is important for marketers to track the actions customers are taking and how often they do them – including non-transactional activities such as mentioning your brand on Social Media, liking your page on Facebook, tweeting a promotional offer to their network, referring friends to your business, etc. There are many tools available to measure these activities, and you are encouraged to award loyalty points for this behavior as well.

Depending on your business, budget, and technical resources, capturing this data can be relatively easy, beyond your capacity, or somewhere in the middle. As companies like Amazon get even better at knowing their customers and personalizing interactions, it will be important for your business to find ways to “keep up,” with personalization, or prepare to become more of a commodity operator in your market.

Online marketers have typically been measuring:

Frequency of visit
(or interaction with a message)

Length of visit

Recency of visit

Purchase activity

App download
(or connection to a mobile web)

Reviews
(product, service, business, etc)

Let's talk about Frequency and Recency

Every retailer would like to have their customers make purchases on a frequent basis, but the reality is that consumers don't buy washing machines very often. On average, most people buy a flight less than once per year. For businesses with infrequent customers, trying to create a proprietary loyalty program - where your points are only good at your store is probably doomed to failure right from the start. And the bigger problem is that with infrequent engagement, the data you can collect won't help you anticipate when the customer may next be "in-market" for your products or service.

On the contrary, if you are a grocery store, you might be able to design the customer experience (products, services, shopping environment, convenience in getting to the store) and a loyalty program (earn enough to redeem many times per year) in such a way that you can earn a majority Share of Wallet from the target audience.

Most retailers will not have a high enough frequency (i.e., a real purchase need from the

customer) to compete on Big Data, so should consider joining a program that captures customer information from many sources and shares it in a way that allows the retailer to remain top of mind when the customer is "in-market." In any case, measuring what you can is better than measuring nothing at all.

In the context of frequency, you should be capturing as many transactional and non-transactional interactions with the customer as possible, and monitor whether the frequency is increasing or decreasing over time – as this indicates how engaged the customer is with your brand.

Recency is especially important when preparing the next communication with the customer. The nature of your message (and what you may want to offer) should depend primarily on how recently the customer did business with you, what they bought (a strong indicator of what they are interested in), the time of year, and which channel they seem most engaged with.



At a more macro level, recency and frequency can be used within customer segments (cohorts) to prepare less personalized offers that will still resonate with the target segment.

Over time, a goal should be to see that frequency improves and you may want to add products or services to your portfolio to enable this goal. For example, many ski shops sell bicycles in the off-

season, or garden centers offer yard maintenance to enhance touchpoints with their customers.

Even for businesses that offer products/services purchased infrequently, you can maintain frequent interactions with customers by asking them for reviews, referrals, or help promoting a special event even when they are not in buying mode.

Methods of increasing frequency (and recency) for your business might include:



Contests

Running contests for prizes. Everyone welcomes a prize. Or, if the customer receives some direct benefit every time they visit the store, rates are likely to increase.



Content

Content, above all, should be interesting and diverse. Most people naturally want to be aware of anything "new" - so changing text and offers can introduce an element of surprise.



Game mechanics

Leveraging game mechanics such as active participation in promotions.

Conversion – Thinking Beyond the Purchase Transaction

Offline, a conversion happens when a display or sales person convinces a potential customer to take an action (usually a purchase). Online, a conversion occurs when a user clicks on an ad or the website of a brand or company and performs an action that is defined as valuable to the brand or business, such as making a purchase or calling your business, or sharing a comment on social media.

Conversions help to understand the value of the stimulus (an online ad, sales comment, or promotional display). Measuring conversion is one of the most important aspects of assembling useful Key Performance Indicators because the insights gained from measurement help us improve the effectiveness of our campaigns over time.



Conversion tracking can help identify what customers do after clicking on an advertisement or the website of the brand or company. Conversion will vary quite a lot depending on the online or offline marketing channel, as well

as time of year, degree of incentive, and level of personalization. Therefore, you cannot just compare all conversions as equal, but must consider conversion within the “context” where the stimulus was presented to the customer.

In most cases, the higher the discount offered, the higher the conversion. However, the most effective campaigns try to optimize marginal contribution to profits – such that the level of discount is not so great that the campaign becomes unprofitable; and, where the more you sell, the more you lose.

In many cases, retailers have been offering excessive discounts in order to grow revenue – but this is not sustainable and the past 20 years are littered with many retailers that relied too heavily on discounting and did not balance the marketing mix (price, place, promotion, and product) to build a healthy business that engages customers with value beyond price.

Members of a loyalty program will generally be less price sensitive, which means they may be willing to pay more because they perceive higher overall value.

It is important to measure profitability by customer over time to encourage the profitable customers to engage further, while introducing the unprofitable customers to your competitors, or incentivizing them to behave in a more desirable way (which is where loyalty points can have a profound impact).

You may even find that consumers will do irrational things to collect more points – such as buy an airline ticket near the end of the year just to get over a threshold that entitles them to more benefits in future years. Or, a customer may buy

something they don't need just to earn enough points to qualify for a prize or tier.

The most important thing here is that the marketer must be able to distinguish what actions can bring more value to the brand and generate the conversions they are looking for. It is, therefore, quite important to monitor these conversions to see if it increases loyalty - or not. For online businesses, Google has completely free tools such as Google Analytics from where you can get full reports on all the conversions that occur on a web page.

For consumers that join a loyalty program, the primary objective is usually to **redeem the value accumulated** over time for something of extra value.

The more aspirational the product or service received from the redemption, the more motivated the customer will be to earn points. And, the closer the customer gets to redeeming, the more engaged they are likely to be (and possibly irrational).

Redemptions – Not Only Desired by the Customer

There was a time when many loyalty program operators wanted points to expire – so they did not have to honor the liability. However, now, retailers recognize the importance of facilitating and encouraging meaningful redemptions because of the “halo effect” it has on the overall customer experience and relationship. In fact, customers are 20 times more likely to tell their friends about a redemption - than simple transactions associated with the collection of points.

“Redemption” is also very important to retailers because it is the moment when the customer feels a sense of accomplishment based on their effort and a stronger bond with the brand.

Of course you can and should measure consumer behavior as they are approaching rewards/redemptions to understand how they modify the way they interact with the business. And, you should report on the percentage of customers getting close to new rewards so you can anticipate this positive moment in building relationships (and possibly make sure you have enough inventory to meet demand).

Measuring redemption – and what the customer chose for their accumulated loyalty value – is also important to understand what motivates individuals. You will find that some people take the easiest rewards as quickly as they earn them, while others accumulate points until they can get something of more aspirational value. Measuring and understanding this by customer and by segment can greatly improve the way in which you interact with people on an individual basis.

And, you have considerable control over introducing types of rewards, testing their appeal to different types of customers, and changing them from time to time to keep things fresh. In fact, many loyalty marketers have found that the most compelling rewards don’t have to cost much at all – such as a special invitation to a private experience.

Therefore, monitoring a few KPIs around redemption will add considerable understanding about what your customers value – and what they don’t – so you can adapt over time. You may even find that unprofitable customers are attracted by specific features, which could be eliminated altogether in order to cease attracting unprofitable customers.

Advocacy – Reaching a Level of Loyalty that Generates Almost Free Marketing

Advocates will talk positively about your brand and their experiences without much incentive. And, they will think of you first when they have a need within categories of products or services you offer. Therefore, the customer journey should lead toward advocacy and you should be measuring all the steps that get customers to this state - so friction can be removed, incentives well placed, and the time is reduced to the minimum.

Furthermore, with the evolution of social media platforms like Instagram, Facebook, and Twitter over the past 10 years, creating brand advocates must be a top priority because prospective new customers (i.e., friends or contacts of your current customers) will trust their social network more than anything your company can do directly.

Social advocacy, then, is an excellent way to reach new audiences and brands. Companies that harness the power of social advocacy tend to be the most profitable in the world. Look at Apple, for example. They do not issue loyalty points at all, but many of their customers are fanatical about their products, and when something goes wrong,

they appear to have a great deal of patience. In fact, Apple stores are now the most profitable in the world based on revenue and profit per square foot of display space.

You can of course make it easier for your customers to talk about your brand, specific products, and promotions by creating tools that simplify the customer's work in sharing content. For example, you can create widgets on your website that connect directly to Facebook, Twitter, or Instagram to facilitate the posting of social content – where you can even create the default text for the customer (yet allow them to edit the text if they desire).

Many of the "actions" an advocate can take on your behalf can be measured, and you can track levels of engagement over time to ensure the business is constantly getting healthier. At least one KPI that measures advocates as a percentage of total customers should be on your dashboard, so you can quickly monitor progress toward company goals.



Segmentation Improves Measurements; Try NOT to Rely on Averages

Cohort Marketing can be used not only for better personalization, but also to create a control group.

Generally, Cohort Marketing divides the audience into groups based on their similarities, behaviors or other attributes that allow the adaptation of marketing accordingly. Thus, a group that already knows your customer program and another one, which does not know it, are contrasted.

You may also create cohorts based on frequency: low frequency, average frequency, and high frequency, which should be compared to another one. Then, you can try to understand the specific characteristics of each segment or the triggers that drive desired actions to draw conclusions about the broader customer base.

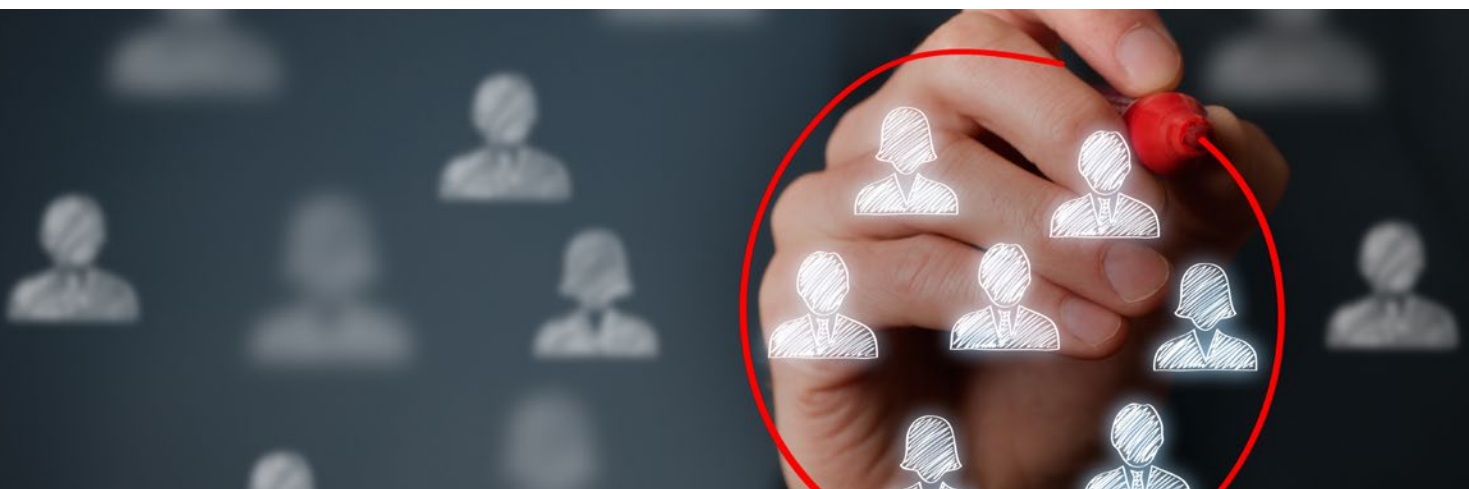
The problem with “averages” is they can often be misleading. For example, if your best customers are very active with certain features, but your worst customers are not active at all, the average of the entire population suggests that all customers are only marginally interested in the feature. It is only when you segment

the customers and then measure averages within each segment that you can see the stark difference in feature engagement between the two groups.

As you better understand the “Cohorts,” you can target customer acquisition marketing to find more customers like your best customers (since their value over time to your business will be much higher than any new customer).

Cohort marketing is the key to getting the most meaningful data out of your loyalty initiative since members of your loyalty program have likely given you enough information about them to enable segmentation. Of course, customers who do not join your loyalty program are also important, but you just know too little about them.

Having said that, they may belong to the comcoin loyalty program, and if you were to offer comcoin as your primary or secondary loyalty currency, you might quickly tap into a mountain of interesting data captured from everywhere else they shop.



Conclusions

There is a massive amount of work and broad array of interesting things that you could do to better understand your customers. However, most companies don't have the resources to tackle even a modest percentage of what is possible. Depending on your unique set of circumstances, you should determine what amount of time and money can be realistically allocated to a loyalty program and then only bite off what you can chew.

It is much better to do fewer things – but do them very well, than undertake too many initiative and fail in the eyes of your customers. Fortunately, starting small with a solution that can scale with your business, and which relies extensively on integrated technologies can allow you to do more with less – and this scenario will only get better with time and experience.

Imagine how much more productive we are today with word processors and email versus 30 years ago when surface mail and typewriters were the most efficient means of communication available.

With the right plan, every retailer can thrive, but the most important aspect remains that you cannot catch fish if your hook is not in the water; and, you can catch a lot more fish with the right bait. So get started. Do something. Measure it and then let the data determine your path to success.

The professionals behind Currency Alliance welcome any feedback you care to share on the content of this publication. Thanks !!

**Digital Currency Management with an awesome
solution for Loyalty Programs and Smart Cities.**

We are on a mission to get two or three times more
of your customers active in the loyalty program so
your Return on Investment grows by an order of
magnitude - without increasing cost.

We operate an Open and Global platform to issue
and transfer existing or new currencies - such as
loyalty points, crypto-currencies or any other type of
digital asset.

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