



To build a successful customer loyalty program | do the math.

Glenn Wagner

Vice President of
Account Development,
Customer Engagement
BI WORLDWIDE

When it comes to customer loyalty programs, we have all heard the term “do the math.” Marketers rely on benchmarks like customer lifetime value, net promoter score, visit frequency, retention rates, engagement rates and a variety of other methods to ensure success. Doing the math for loyalty programs, however, has its own unique set of challenges.

An article in the *Harvard Business Review* mentions two of those challenges that are frequently overlooked: “[There are challenges with] engineering the economics of reward structure and creating incentives good enough to change behavior but not so generous that they erode margins. Not least, there are puzzles of consumer psychology to sort out, which can make two rewards of equal value inspire very different levels of activity.”

“Doing the math” has become even more difficult with the changing nature of loyalty programs. Many programs are now driven by different behaviors that stretch far beyond traditional transaction-based behaviors. There are a great deal of important non-transactional behaviors in successful loyalty programs, like downloading an app, going paperless, ordering through a different channel, making a referral, scheduling an appointment, responding to a survey, providing an email address, etc. The best non-transactional initiatives tend to focus on building an emotional connection that pulls customers in closer to your brand, product or service.

The key to designing a successful customer loyalty program is creating an equitable value exchange. In this equation, both the program owner and the customer need to get the value they expect from the program. The program owner wins if the program drives the behaviors and engagement tied to their objectives. The customer wins if the program provides the rewards and motivators they expect for participating, which is an obvious but often overlooked aspect of a program.

An equitable value exchange is critical because of the behavioral economic theory of **idiosyncratic fit** – customers base their degree of engagement on an assessment of the reward relative to the effort required to earn it. If the rewards for participating in your loyalty program are not at least commensurate with the effort required, the program won’t succeed.

One of my favorite examples that illustrates this failure to “do the math” comes from a public utility company who recently attempted to change my behavior as it pertains to power consumption. Their goal was to inspire me to save energy over time. If I reduced my power consumption during a certain time period, I would be rewarded with my choice of a gift card.





To build a successful customer loyalty program | **do the math.**

The problem with this offer was two-fold. First, the gift card was valued at a minimal \$5 and most people are not willing to exert much effort in exchange for \$5. This was particularly true in my case because my annual spend with this public utility is over \$2,500 per year. There is clearly no equitable value exchange between me and my public utility.

The second problem is the fact that they were using a gift card as the reward. Gift cards lack the power of more inspirational rewards because they are not able to be socialized, re-consumed or promoted; they often get used for everyday expenses like gas or groceries. What if the public utility offered something different as a reward, something with a higher perceived value? For example, they could offer me a choice of a merchandise item I would use regularly. Or better yet, use a points-based program where I could accumulate points over time to eventually use on an even bigger item. When the reward is meaningful and specific to the individual receiving it, the perceived value is higher (and in some cases, the actual cost even ends up being lower).

As you build your customer loyalty program, don't forget to "do the math" — and make sure all of the elements add up to success.

Visit our blog to read or share this article.