

# Loyalty that really counts

Why incrementality is everything

What really counts in loyalty? Incrementality. It's everything and here's why... Loyalty programmes are - of course - designed to make members more loyal to an organisation and joining a programme is a sure sign of engagement. The ideal onward journey sees members spending more, transacting frequently and staying loyal to the organisation for longer than would have been the case without membership.



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**3/4** of companies leaving loyalty value on the table<sup>1</sup>.

The benefits for scheme sponsors don't stop there either. Members can demonstrate their loyalty by evangelising on behalf of the organisation, behaving in ways that reduce costs for the company or acting in ways that generate additional revenue.

**However, what matters most is the engagement an organisation enjoys which would NOT have occurred without the loyalty programme - in other words, incrementality. The concept of incrementality is concerned with measuring the additional value generated by members OVER AND ABOVE what would have occurred if a customer did not become a programme member.**

## **IncrementALITY: It starts with a mindset**

Loyalty operators who can prove their programme delivers incrementally for the organisation are much more likely to garner C-Suite support for the scheme once it is identified as a key contributor to the business.

**However, many companies simply measure various aspects of member engagement and transactional behaviour. And a surprising 62% reveal they cannot properly track incremental profit<sup>1</sup>.**

This is problematic for senior stakeholders looking to back those who can measure incremental behaviour delivering benefits which would not otherwise exist. Put simply, the mentality of loyalty scheme operators needs to centre on incrementality – how to generate it, how to measure it and how to prove it to senior stakeholders.

## **Why does incrementality matter more than ever now?**

Currently, macro-economic factors are making for a tough trading environment, so businesses are looking for new or better ways to create value in order to thrive or – in some cases – simply survive. Yet our research reveals a story of 'missing millions,' with nearly  $\frac{3}{4}$  of companies leaving loyalty value on the table<sup>1</sup>. That's just too much to lose in trying times.

In its 'Winning in Loyalty' report<sup>2</sup>, McKinsey outlines several key factors that have put pressure on business margins in recent years. Following the Autumn Budget 2024, business leaders will need to contend with higher cost bases, due to factors such as increased Employers' NI rates, minimum wage increases and rising energy costs. Overhead costs are in danger of devouring profit unless revenues also rise. Customer loyalty initiatives can create much needed-incremental value but in order to do so, they must be correctly conceived<sup>3</sup> and properly measured.

## **Fixing the fundamentals first**

**First of all, the 'fundamentals' need to be in place. Our research shows that 56% of loyalty operators don't track programme costs properly and 2/3rds of companies don't track loyalty revenue in detail – losing sight of specific income streams<sup>1</sup>.**

Once these basic tracking flaws are fixed, it's time to consider optimal methodologies for measuring incrementality, which will depend upon the programme's sector, operating environment and available data.

To begin measuring what matters, key questions include:

- Can the loyalty team prove to senior stakeholders that the company is investing in behaviour that it wouldn't otherwise have enjoyed?
- Is the organisation able to identify which members are generating a return on the investment in the loyalty programme?
- Can the company identify which member groups can be influenced to generate additional revenue without investing in the whole membership base?

## Measuring the incremental impact of a loyalty programme

To understand the incremental value generated by a programme, we first have to understand what would have happened without the loyalty programme. This entails tracking customer behaviour pre and post joining the programme.

eCommerce makes measuring incrementality relatively easy. Customers transact with an organisation, then they join a loyalty programme. Customer behaviour pre and post loyalty programme registration can be measured. The difference between the two is the incremental profit generated by the loyalty programme. This methodology is possible in many industries such as airline businesses or in retail banking. It can potentially even be applied to bricks and mortar businesses where customer behaviour is tracked pre and post loyalty programme registration via their payment methods.

It's true that measurement can be more challenging without eCommerce but there are still several methodologies to help measure what matters and get a handle on true incrementality. In the event that behaviour pre and post membership cannot be tracked for the same customers, there are alternative ways to establish a baseline.

Most of these are concerned with identifying a representative control group for the programme, including:

1. Establishing geographical control groups as a baseline where the loyalty programme is operational in one geography and not in another. A simple example of this methodology is a store test for a retailer where a loyalty programme is implemented in stores A, B and C but not in similar stores D, E and F. It's important here to ensure that the geographies share similar demographics or are considered 'nationally representative' if later scale-up is envisaged.
2. Implementing a 'hold-back' control cell of new members - excluding them from all programme communications. Normally, an organisation would hold back between 2% and 7% of new members from communications to ensure a statistically robust control cell. On low overall volumes, a control group higher than 2% is recommended to ensure results can be relied upon. It can be tempting to include every member in communications due to tactical commercial pressures - but without a control, it's impossible to prove what worked in order to refine and repeat activity later.
3. Creating a loyalty score or engagement score based on the frequency and type of member engagement and tracking the behaviour of low scoring members stratified against a similarly spending cohort of high scoring members.

## Incrementality in loyalty is everything and measurement matters

To conclude, incrementality is what really counts in loyalty and proving it matters. Measurement methodologies require careful consideration and development but once in place, provide the visibility and certainty both loyalty operators and senior stakeholders need to support schemes and their continued success.

### The bottom line?

If your scheme needs to identify and prove incrementality, contact Collinson - ask about our ROI calculator and better bespoke measurement for your business.

## Contact Collinson

**Collinson helps businesses unlock the true value of their loyalty programme investment by transforming them into sustainable profit centres.**

**Ask about our ROI tool and find more profit in your programme.**

**Sources:**

1. Collinson Loyalty Landscape research
2. McKinsey '[Winning in Loyalty](#)'
3. Collinson 'Designing a loyalty strategy from cost to profit'