

Unlocking the profit potential in loyalty programmes



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Loyalty programmes can absolutely foster customer retention, drive revenue growth and generate incremental profit. However, many fail to realise their full potential.

Measuring accurately, evaluating areas of under-performance and taking action means businesses can drive up gross margin by at least 10%. Here we delve into the nuanced challenges loyalty programmes present, looking to Collinson's research to identify some of the profit 'pitfalls' and the opportunities for unlocking it.

The story of missing metrics and money

Shockingly, almost 62% of companies can't accurately measure incremental profit ¹. Given one key purpose of loyalty schemes is to create value, what's the point if incremental profit can't be calculated? How can a scheme sponsor justify its continuance or further investment without nailing this critical commercial information?

Our research shows that the struggle to track costs and revenue is real. Only 38% of companies say they are tracking incremental profit in detail, with 34% tracking revenue at a granular level. When it comes to costs, the picture is similar with just 47% tracking these at a high level and 44% at a granular level. ¹

So over half of companies don't know the detail of their programme's costs or revenue and for some there's a failure to get the economics right more broadly. ²

At Collinson, we believe every programme operator can and should crack this, with robust measurement methodologies. Our ROI tool is designed to help clients do exactly this and it sits alongside a host of other diagnostics and initiatives designed to improve profit. As part of the puzzle, we can help to contain operating costs too – through a mix of automation and improved programme management.



Almost
62%
of companies can't
measure incremental
profit from loyalty

In our research, 74% of loyalty operators say their programmes are operating at a limited capacity, usually running as a cost centre. Only 26% say their programmes are optimised, and operating at maturity levels 5 and 6

This means almost three-quarters of programmes are leaving significant amounts of value on the table. We work with clients to get that profit out – and consistently drive up gross margin by at least 10% in every programme we work on – flexing all the drivers in loyalty to deliver the most profitable programme possible.



74%

of loyalty programmes are leaving value on the table

Some seem to be leaving data for later

Measurement and leaving value on the table aren't the only issues when it comes to profitability. Many players in the loyalty market are failing to monetise data with third parties – perhaps running scared of the correct data permissions or potentially simply not recognising the market value of data. Over 55% of companies don't monetise data with third parties, missing out on a significant opportunity to increase revenue.¹

In fact, more widely, data under-utilisation is a key reason many companies are missing out on profit. Failing to fully leverage data means missed opportunities for hyper-personalisation – lowering engagement, response and ultimately depressing profitability. Yet getting loyalty data right is pivotal in the quest for elevated customer experiences and the improved profit which ensues.



And over
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When revenue dilution is a foregone conclusion

Why drive profits down?

In our research, special member pricing or discounts came close to being the top loyalty reward (just pipped by points).¹ We have all observed the growing penchant - especially amongst the multiple grocers - to make discounts the loyalty mainstay.

However, programmes that rely purely on functional rewards are known to fail longer term, missing the mark in terms of emotional bonding, relationship and brand building - the hallmarks of long term loyalty. Enjoyable experiences, added value and special recognition all have a part to play alongside pricing and they can improve profit rather than giving it away.

Who are the top performers?

Upper quartile programmes rake in the revenue

Happily, some programme operators are raking in the revenue. Companies with more advanced programmes (based on Collinson's Six Dimensions of Loyalty assessment) operate more profitably.

Collinson research shows that of those operating only a basic programme, the vast majority have under 5 million members and 54% say members generate less than 50% of sales revenue.¹

This contrasts with those utilising hyper-personal and time relevant incentives, where over ¼ have over 5 million members, with 62% of such companies stating that members generate more than 50% of total sales revenue.¹

81% of the latter cohort have been established for over three years, with companies in the first group having a younger maturity profile.¹ So maturity matters alongside levels of sophistication, arguably making the point that loyalty is indeed a long game. And yet Collinson sees the opportunity for schemes at any stage to make huge leaps at pace, realising the profit currently being left on the table. Rapid scaling, better performance and improved profitability do not have to be years in the making - success can be accelerated with the right multi-dimensional strategy and execution.

To see if your programme falls in the upper quartile try our Loyalty Maturity Assessment [here](#).



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The value exchange



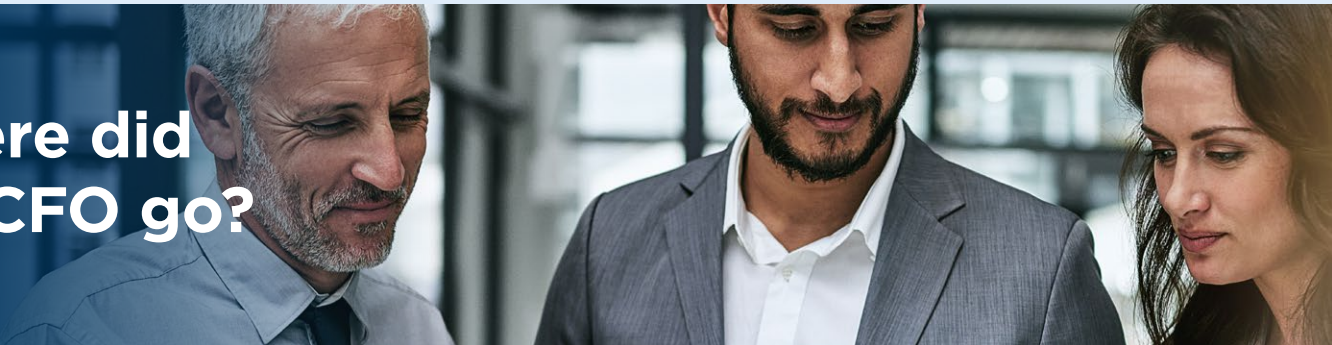
Rewards structured for improved returns

Looking beyond the basics (where scheme members receive the same value regardless of behaviour), there are tried and tested techniques which increase value for both the member and the scheme sponsor.

Providing more value the more members spend is one obvious way of increasing revenue. And the key here, as in all loyalty schemes, is to make the rewards richer by creating a gap between perceived value and cost, so that redemption is desirable while costs are kept low to protect profitability.

Interestingly, 53% of companies are now providing value to members based on how much they will spend in future, based on predictive modelling. And better still, 60% of schemes provide more value to members who generate more profit or exhibit behavioural proxies (for profit), such as flying in a specific cabin class or belonging to a specific frequent flyer tier.¹ With the right financial MI, data analytics, rewards and technology, it really is possible to engineer value exchanges which prioritise profitability.

Where did the CFO go?



More cross-functional collaboration is vital in the quest for improved profitability. While loyalty, CRM and marketing teams can rightly own the crafting of great propositions, customer journeys and value exchanges, they should be engaging the finance department and CFO to a greater degree to avoid the 'missing metrics' conundrum.

While marketers will hopefully measure engagement levels, accruals, redemption levels, attrition rates, net retention and a whole host of programme performance indicators, collaborating with the CFO and finance team will surely result in improved financial understanding, including formulas to provide a true read on incremental profit. Our experience - also championed by McKinsey - shows a dedicated P&L will help with the overall financial challenge.³

Currently, only 27% of companies say the finance department is responsible for financial management of their programme, with the vast majority leaving this to CRM, loyalty and finance teams.¹ Our view? Just as loyalty efforts need to be seamless for customers, so does the force behind them, with the combined expertise of functional specialists bringing about improved outcomes. After all, if no-one truly knows the incremental programme profitability, where's the case for investment? Funds spent on loyalty can and should be measured, with the CFO being a key stakeholder.

Finances sit with the
finance department
in only

27%
of companies

The bottom line? Collinson's take

There is encouraging evidence that some operators are deploying sophisticated, tailored propositions and smart value exchanges to drive spend and profitability. This is scheme design at its best and, with the support of a CFO, represents an approach bound for robust returns. It's also clear from our research that maturity (in terms of longevity and scheme sophistication) makes for more success.

However, for many companies, detailed profitability and performance measures are lacking, making it tough to articulate why a scheme exists at all, let alone making the case for further investment. Collinson advisory works with clients to resolve these key commercial issues, providing essential measurement dashboards but even more importantly, unlocking the hidden profit sitting in many programmes.

In truth, The Six Dimensions of Loyalty combine to affect scheme performance and profitability:



The Member Experience



Value Exchange



Data Strategy



Technology



Commercial



Execution

Collinson advisory examines each of these areas in turn with clients, unlocking the full profit potential in programmes.



Time to take a look at your programme?

Join the top performers and find 10% more profit

We identify profit opportunities which are being missed by tapping into our rich evidence base which clearly illustrates – across all key drivers of loyalty - how the top 26% of programmes operate as a profit centre versus the remaining 74% operating at a limited capacity, often simply as a cost centre.

Is your programme in the near 60% struggling to measure incremental profit or experiencing some of the other pitfalls discussed here?

Collinson advisory can help, with clear recommendations and a roadmap to drive profitability, finding the extra 10% and taking your programme into the top quartile for performance.

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. Harvard Business Review [Why Loyalty Programs Fail](#)
3. McKinsey [Next in Loyalty: Eight Levers to Turn Customers into Fans](#)