

### Better Measurement for Customer Marketing:

*Comp Customers™*

» Loyalty Marketing

» Relationship Marketing

» Partnership Marketing

» *Organic Growth*

# How many people have asked you how your business is since you got here?

## The Typical Response:

- “We’re up X% over last year.”
- “Comp sales for the last period were up Y%.”
- “Profits are up Y%.”
- “Earnings per share are flat.”
- “I think we’re doing OK.” (implied uncertainty)

## The Better Question and Answer:

- Do you really know? How specific can you answer?
- The reality is that many numbers, such as **Comp Sales** – the big number for retailers – used alone are flawed
  - They’re too macro – just like measuring stocks only from a market performance perspective
  - Businesses can’t explain why they are up or down based on this metric
- The better answer looks at performance on a Comparable Customer level, how are customers performing

# At Loyalty Expo 2008, we talked about redefining loyalty given the problems with so many programs

## 1. Lack of Organizational and Leadership Support

- Let's face it, not everybody "gets it"
- Loyalty is an organizational strategy, not just a marketing strategy
- Budgets are cut and programs are de-prioritized from the central business strategy

## 2. The Wrong Customer Proposition

- If the proposition is less than compelling, people won't play; too rich and the program economics aren't sustainable
- A one-dimensional proposition won't deepen the customer relationship or truly drive program lift

**The most critical, if not commonplace problem is the one we'll address today:**

## 3. Reliance On A One-dimensional Value Proposition

- Loyalty "dialogue" is inherently customized and requires more than pushing discrete messages to mass audiences
- After an initial launch, many organizations expect their programs to run on auto-pilot and still perform

## 4. Poor Program Mechanics

- If the "mechanics" of the program are poorly executed, the program frustrates customers or is too costly to operate

## 5. Poor Metrics, Tracking and Reporting

- Every loyalty program needs to have a P&L - program costs, revenues and the incremental activity created
- A well designed program has the means to effectively track against key behavioral and qualitative metrics

# Marketing is increasingly expected to deliver measurable results – aka numbers

- There is a clear shift away from traditional “investments” in mass media given soft measures and lack of true accountability
- Companies are increasingly using analytics at both business (BI) and customer levels and getting rid of CMOs who don’t deliver
- Regardless of the economy’s health there is always a premium on both visibility and predictability
- Customer marketing – loyalty and relationship marketing – provide the means to deliver those measurable results and ROI

*While marketing is too often a “birthright” the right measures are required to give it visibility in proper terms for CEOs: financial ones*

# So there's a big gap between traditional marketing measures and customer metrics

- **For example, descriptive demographics**
  - Counts: How many customers or how many transactions
  - Geo, demo, psycho factors: what do customers look like
  - Soft measures: Awareness and purchase intent – how do they think
- **These factors provide the basis for most traditional segmentation yet they are often limited in how actionable they are**
- **The actionable metrics to drive profit are behavioral**
  - Understand how customers behave (and don't) and then you can do things that measurably drive revenue

***Past behavior → Relevant to Future behavior***

***Loyalty is often habit***

# Marketing metrics, especially for loyalty marketing, ultimately need to tie to (be on) a P&L

- Spending money on customer marketing should be an investment
- CEOs, CFOs, boards understand profit and approve major investments
  - So do investors
- To support marketing investments, profit impact is the trump card
  - It is THE business case
- Too many companies either don't measure this or don't measure at all

<b>Loyalty P&amp;L</b>	
	<b>Contribution Margin from Incremental Sales</b>
<b>+</b>	<b>Fee Income (if applicable)</b>
<b>-</b>	<b>Program Costs</b>
<hr/>	
<b>=</b>	<b>Loyalty Profit</b>

***Loyalty profit -- not NPS -- is the ultimate question (and answer)***

# Properly executed, loyalty marketing is perhaps the best tool for business management

- Provide a platform for engagement with customers
- Provide a platform for promotion and communications
- Provide a platform for engaging partners and employees
- Provide customer and business insights to enable customer differentiation and intelligence
- Provide a measurement tool for customer and business performance

*Collectively, these capabilities provide the best measures of a company's organic health and levers for responding to that insight*

## However, most companies with loyalty programs aren't getting these benefits today

- Loyalty programs are set on auto-pilot or used to drive promotional emails only (spray and pray)
- Customer insights are tapped into at a cursory level or only occasionally to drive messaging rather than business growth
- Companies aren't using the tools to manage and predict customer behavior
- Companies don't see this as an investment that can drive a real return beyond the published loyalty program

*Loyalty marketing is fundamentally about treating different customers differently, based on their capacity for growth*

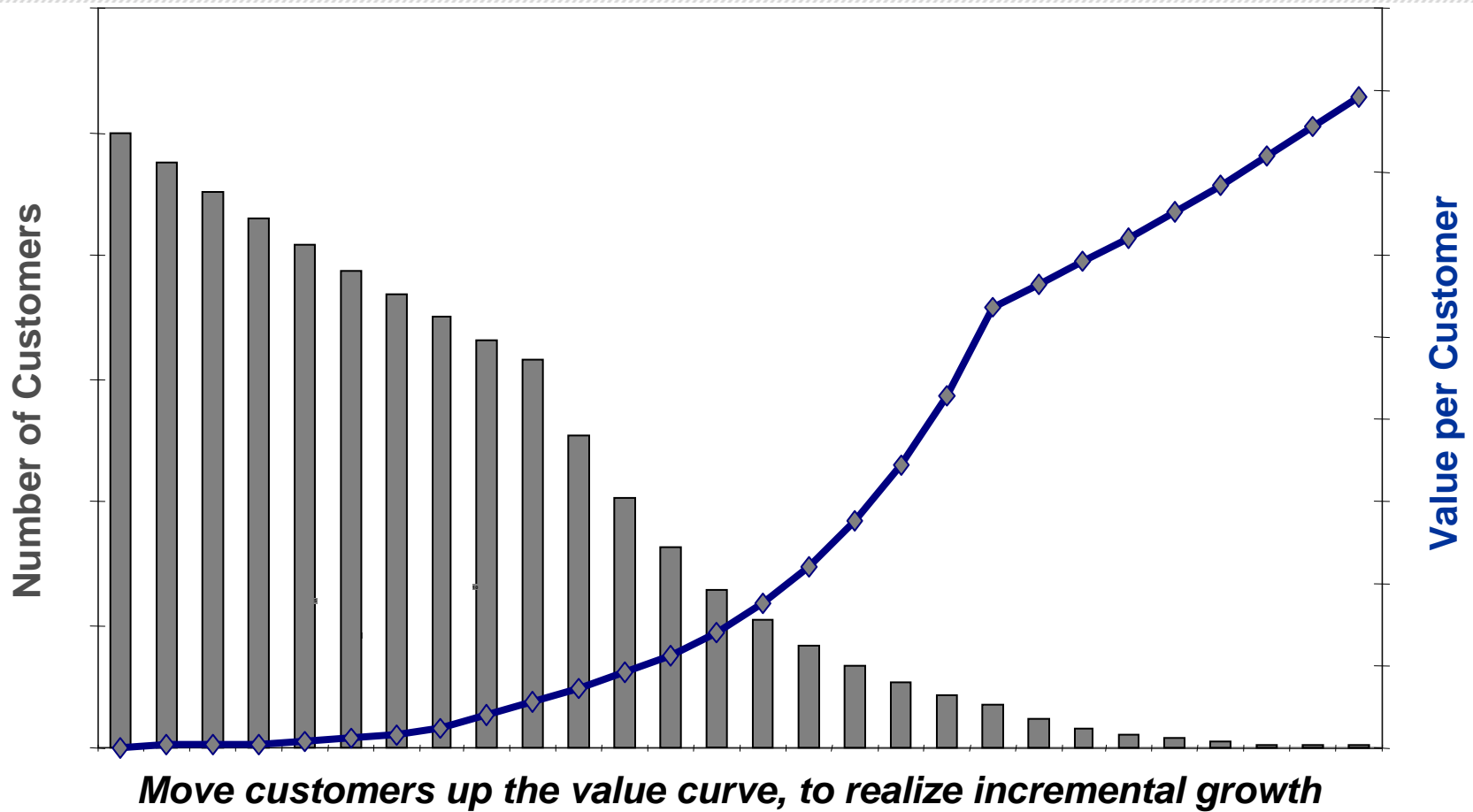
# “You manage what you measure”

– Prof. Louis Lowenstein (Columbia)

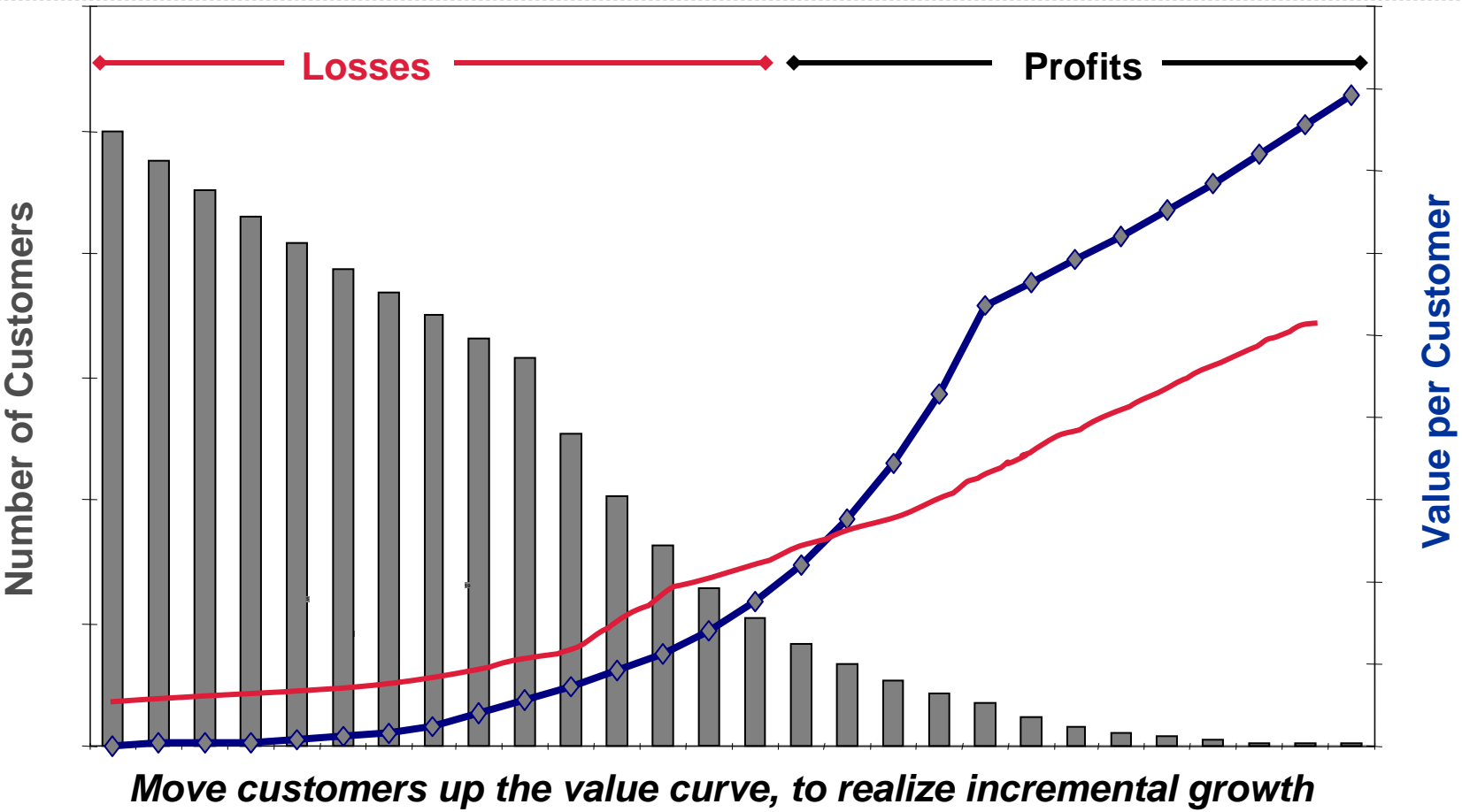
- **Covey espouses four fundamental disciplines for execution:**
  - Focusing on the wildly important goals (WIGs)
  - Acting on the lead measures
  - Keeping a compelling scorecard
  - Maintaining a cadence of accountability
- **So much of loyalty marketing’s shortcomings are execution-related**
  - Leveraging the data available
  - Measuring and acting based on customer behavior and profit impact
- **Better measurement is needed and it’s not as hard as it might seem**

***Better measurement – accountability -- is what your CEO, board and stakeholders are increasingly expecting, if not demanding***

# Return on investments in customers suggests looking at customers as a portfolio

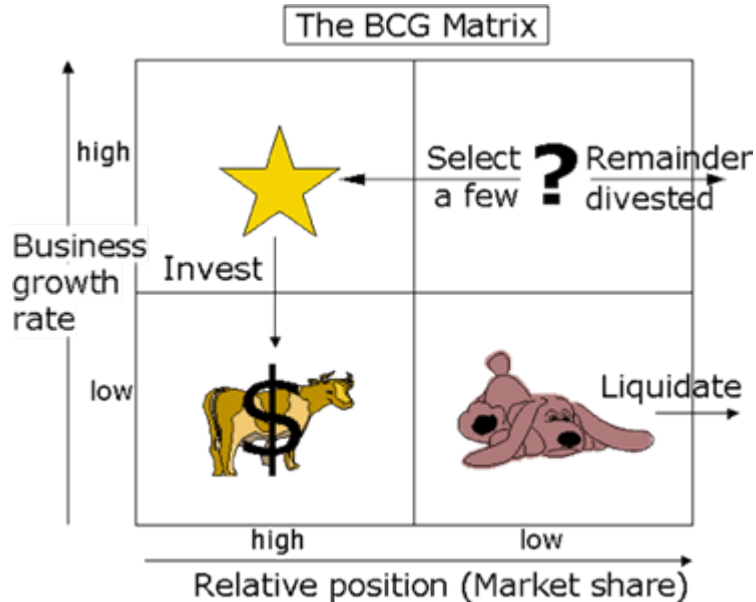


# Like other portfolios, it's easy to delineate where the profit and loss is

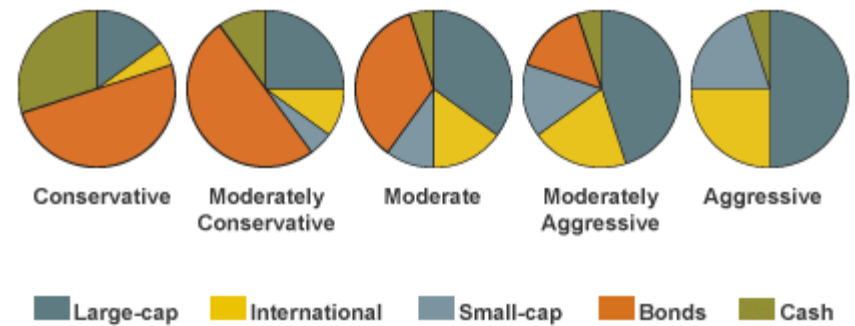


# There are different “asset classes” of customers, much as in financial portfolios

- Traditional product marketing view from Boston Consulting Group



- An investment portfolio strategy based on asset allocation

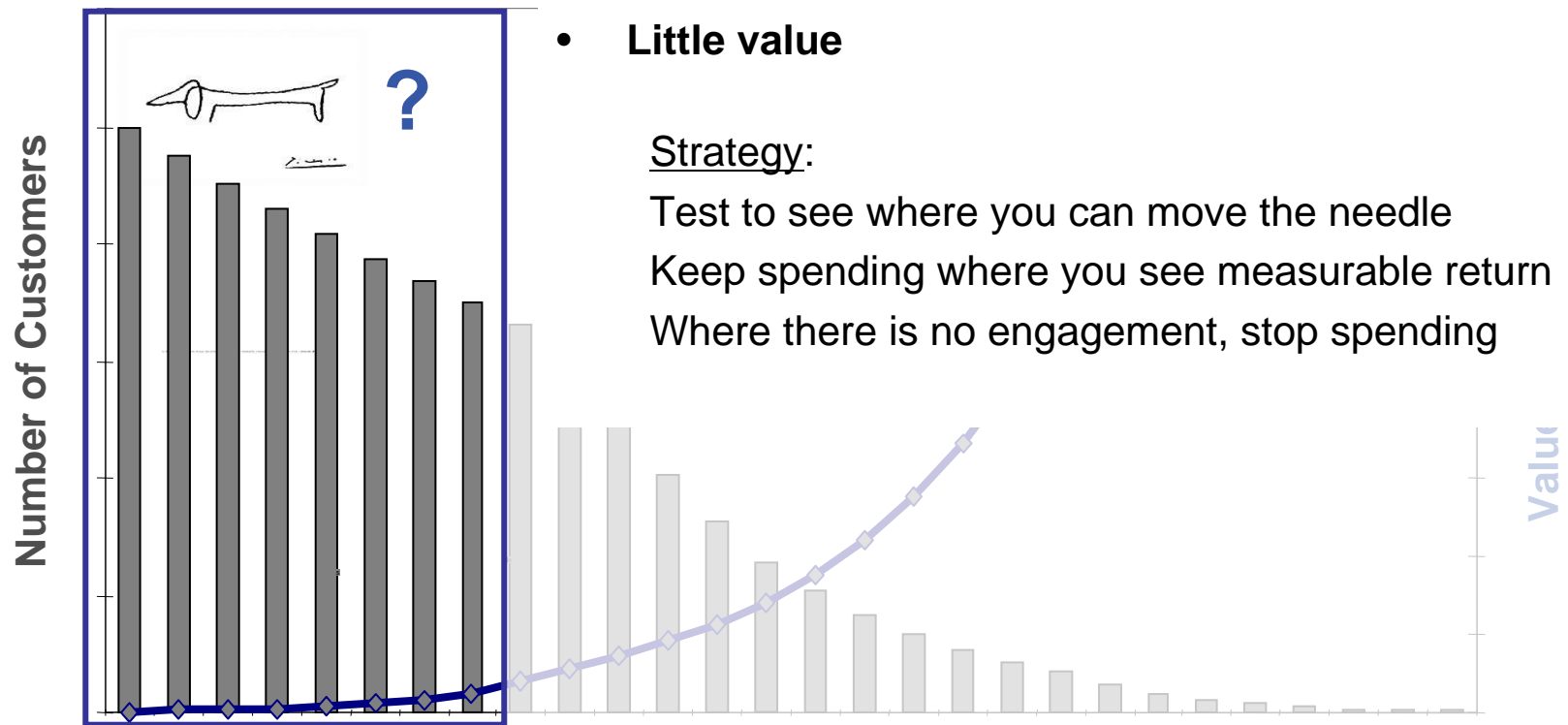


*Where do you invest, and where do you divest to improve ROI?*

# Minimize investment in customers that don't provide a return

## Dog and Question Mark Customers

- Lots of them
- Little value



### Strategy:

Test to see where you can move the needle

Keep spending where you see measurable return

Where there is no engagement, stop spending

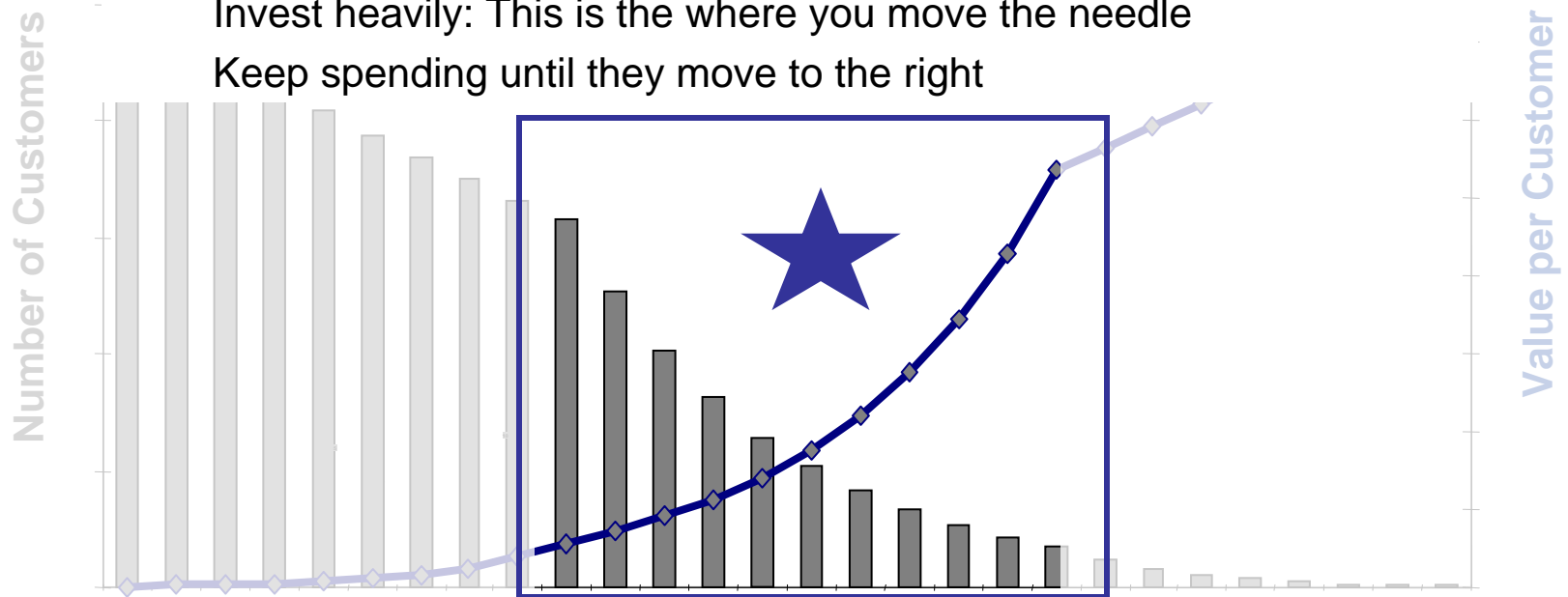
# Somewhere around the middle deciles of customers is the sweet spot

The stars are here and there are more of them than you think

- Large opportunity to grow share of customer

Strategy:

Invest heavily: This is the where you move the needle  
Keep spending until they move to the right



# Your best customers provide lots of profit but present less opportunity for incremental growth

Objectives are primarily retention, advocacy

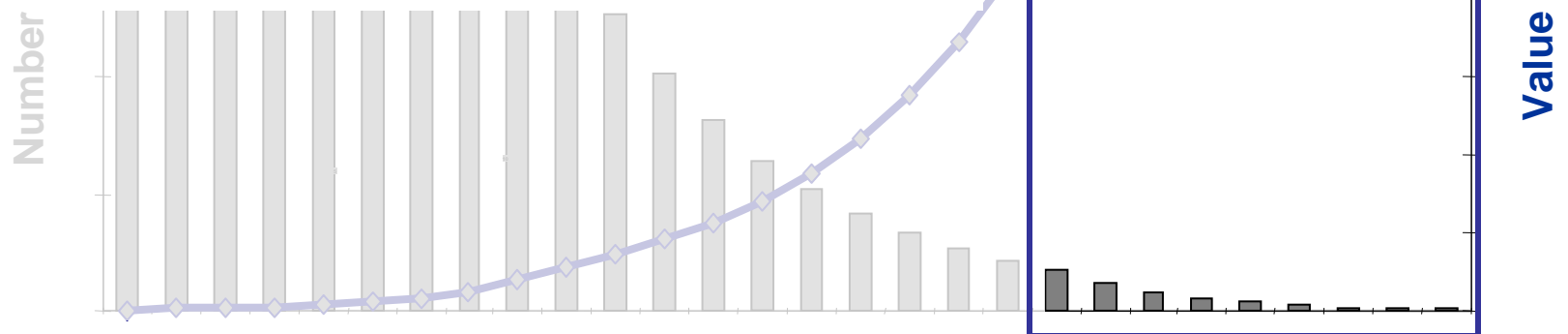
- The less linear a reward proposition, the more profitable it will be

Strategy:

Taper reward investment

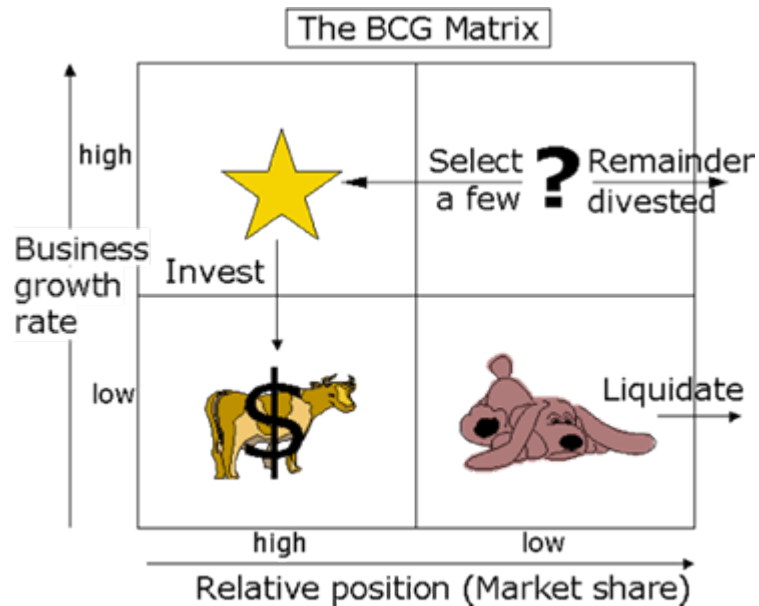
Prioritize soft benefits, recognition, feedback

Don't do anything stupid!

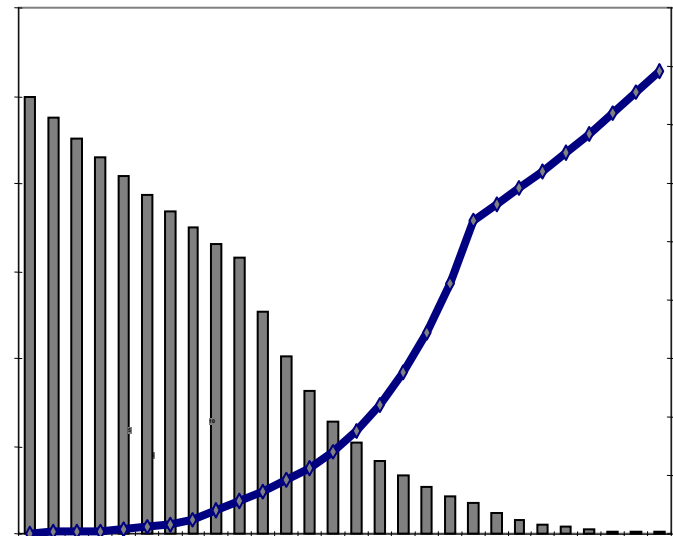


# How do you measure profitability and ROI by customer?

If this is your investment model...



Tracking Comparable Customers becomes your scorecard



# The real answer to business performance lies in understanding individual customer performance

- **What do you say (and what do you know) when you're asked how business is?**
- **Increasingly, retailers are hesitant to report Sales Comp numbers on a frequent basis**
  - Too short-term of an indicator
  - Misleading with regard to the true picture of the business
  - Intentionally non-transparent (i.e., hiding the state of the business)
- **Business sales come from customers – pretty obvious**
- **In order to understand sales performance, especially in a service business, you have to understand customer performance**
- **So why aren't customers the key metric to understand and report business performance?**

*The better customers perform, the better the business performs*

# As long as you track customer sales, the Comp Customer<sup>TM</sup> metrics are easily derived

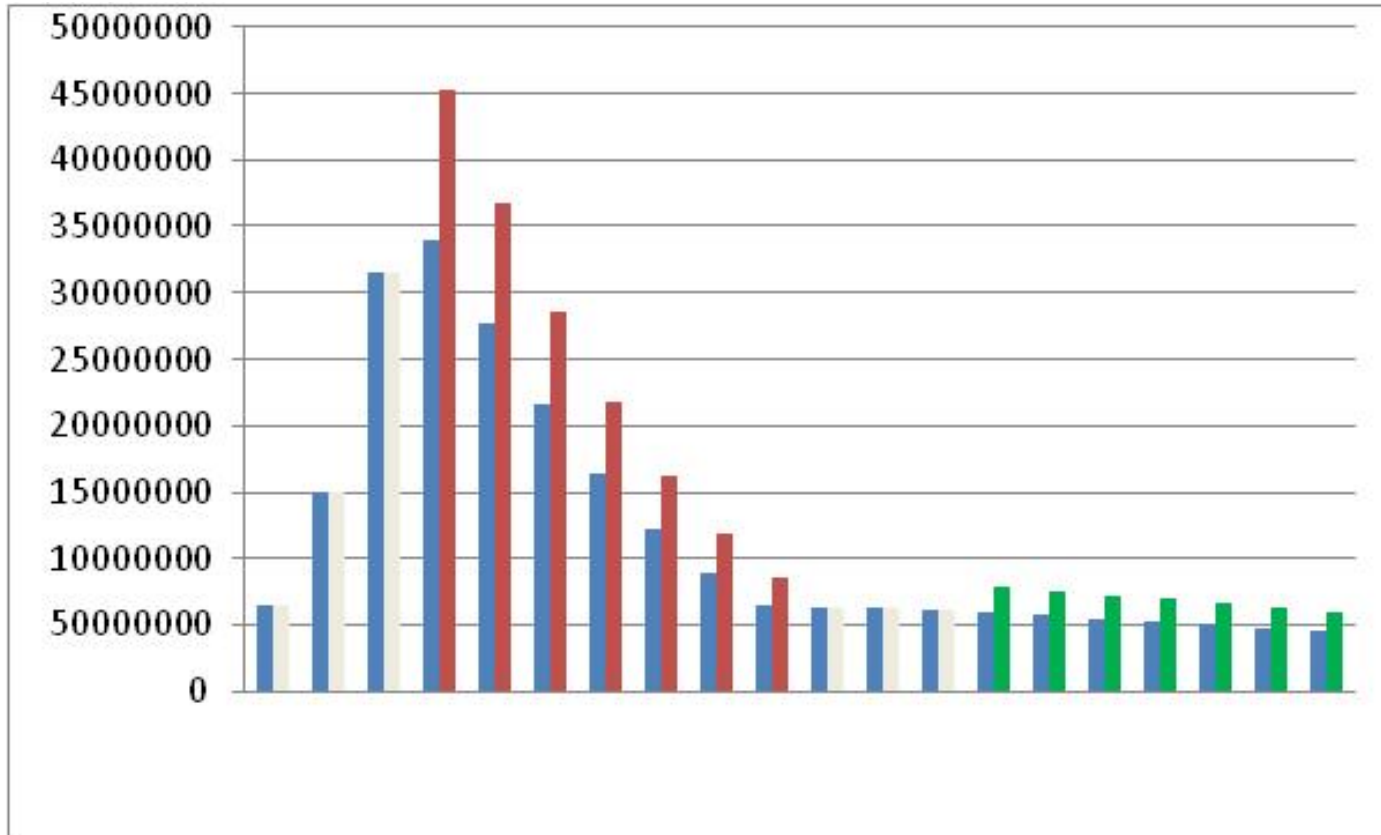
Member #	Name	Period 1 Sales	Period 2 Sales	Delta
7334528	P Rubin	\$ 249	\$ 342	\$ 93
9848927	B Smith	\$ 742	\$ 812	\$ 70
8447392	T Jongs	\$ 345	\$ 256	\$ (89)
9876422	M Culver	\$ 654	\$ 743	\$ 89
6601075.2	W Flount	\$ 321	\$ 198	\$ (123)
8864034.3	D Staines	\$ 233	\$ 221	\$ (12)
7602652.8	M Grould	\$ 342	\$ 501	\$ 159
8888779.8	K Trombley	\$ 452	\$ 498	\$ 46
5940967.7	D Gleason	\$ 865	\$ 786	\$ (79)
7977630.9	P Long	\$ 345	\$ 532	\$ 187
<b>Total All Members</b>		<b>\$ 450,252,000</b>	<b>\$ 484,011,000</b>	<b>\$ 33,759,000</b>
		<b>% Increase</b>		<b>7.50%</b>

*Comp Customer<sup>TM</sup> is the difference between specific customers at different points in time*

# Comp Customer sales drive the loyalty P&L

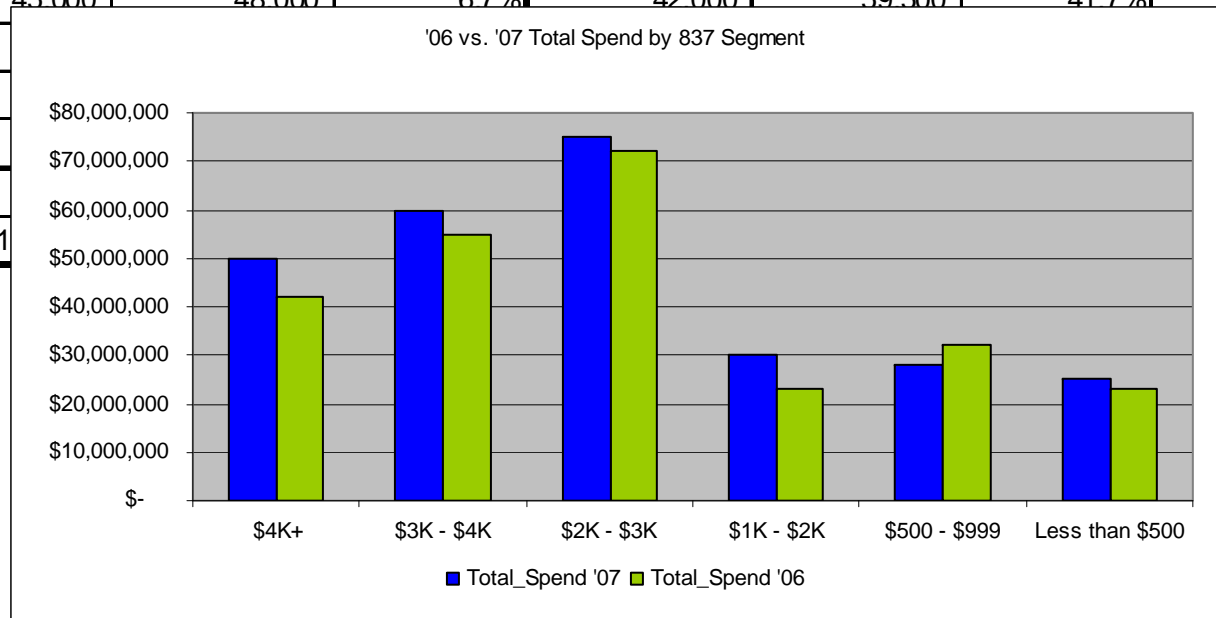
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<b>% Increase</b>				<b>7.50%</b>
	Member Spend Prior Period		\$ 450,252,000	
	Member Spend Current Period		\$ 484,011,000	
	Incremental Spend		\$ 33,759,000	
	Contribution Margin at 15%		\$ 5,063,850	
	Program Cost			<b>(\$792,080)</b>
	Program P&L			<b>\$4,271,770</b>

# You can also look at the payback / progress graphically, using the Comp Customer metric



# Finally, Comp Customer metrics make for a valuable dashboard for customer marketing

Comp Customers	February			March		
	2007	2008	% Change	2007	2008	% Change
# Actives	75,000	80,000	6.7%	70,000	85,000	21.4%
Transactions	300,000	350,000	16.7%	35,000	50,000	42.9%
Total Sales	\$ 200,000	\$ 275,000	37.5%	\$ 14,000,000	\$ 21,000,000	50.0%
# Up Trending	45,000	48,000	6.7%	42,000	59,500	41.7%
Avg Increase in Sales	\$					
# Down Trending						
Avg Decrease in Sales	\$					
Enrollments						
Total Members		1				



# Comp Customer metrics are insightful for both program design and of course, program management

- **Understanding Comp Customer metrics drive the business case for loyalty as they describe the opportunity**
- **We recently helped a famous customer centric department store redesign a “me-too” program**
- **Most at the company expected that attrition among customers at various spending bands was the most pressing problem**
- **Comp Customer analysis illustrated that year-to-year variances within each tier of customers was much more pressing than defection**
  - This helped establish a tiering and benefit strategy

***Comp Customer metrics are the key guide to program performance post rollout***

# Measuring comp customers helps you more than measure performance, it should help drive it

- **Increase relevance by recognizing customers that are up- and down-trending in both communications and at points of contact/POS**
- **Promotion**
  - To delineate the “?s” from stars or dogs
  - Winback for high value downtrenders
  - Accelerated Elite qualification for heavy uptrending “?s”
  - Surprise & delight for uptrenders and high value downtrenders
- **Communications**
  - Copy versioning for direct communications
  - Call center and physical points of contact

# Using Comp Customer metrics will transform your business, internally and externally

- **Even if it is only internally, you'll be able to:**
  - Answer the question regarding the real health of the business
  - Better able to fix problems and take credit for successes
  - Attract more budget dollars with a sure way to drive ROI from them
  - Ultimately be able to command a higher valuation for the company
- **Better audience selection and versioning means you better manage the costs of your marketing investments versus their opportunity**
- **All things equal, a company that demonstrates the ability to better manage customers through intelligence will command a higher valuation**

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***Measure your customers!***

# Thank You

## For additional dialogue, please contact:

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