

The

Participation Principle

Evaluating The Effect Of
Actively Engaged Customers

KOBIE
MARKETING

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Evaluating The Effect Of Actively Engaged Customers

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Loyalty matters. Or, more accurately, a company's ability to retain its best customers is key to its financial performance. The cost of acquiring a new customer can be as much as five times the cost of retaining a customer, according to the Harvard Business Review.

Kobie has found success in measuring the financial impact of loyalty initiatives by employing a model that is both customer-centric and highly-quantifiable. At its heart, the model employs two basic premises:

1. Communication drives participation, and participation drives retention.
2. The retention benefit is measured by comparing the incremental revenue associated with participating members with that of non-participating members.

What is “participation,” and why does it matter?

First, let's look at the general concept and execution of customer relationship strategies. In a business landscape where cost-cutting and price pressures dominate, it's easy for an executive team to focus on those other, more tangible and immediate tactics to improve the bottom line. But customer relationships and customer strategies have consistently proven their short and long-term worth. In August 2010 the Strativity Group reported that stronger customer relationships lead to more revenue and stronger relationships. In that study, 73% of consumers stated that they would expand their purchases with a vendor if

their experience was superior. 55% of consumers agreed that they would stay with a vendor for 10 years or more, and 58% said they would recommend companies that deliver superior customer experiences to others.

In the customer-centric world, it is the actions of the customer/member that define and determine whether there is true engagement in the loyalty program. Recency, frequency, and total spend are commonly-used parameters in a wide range of loyalty initiatives, including credit card, travel, retail, restaurant and entertainment programs. But how do you define and measure the benefit of a loyalty initiative in a business where recency and frequency simply do not apply?

In order to measure and evaluate the financial benefit of its loyalty initiative, Kobie has developed a metric called “The Participation Parameter,” which identifies those customers who are actively engaged in the loyalty program. Their performance as well as their retention can then be measured over time, and compared to unengaged members as a basis for measuring R:E.

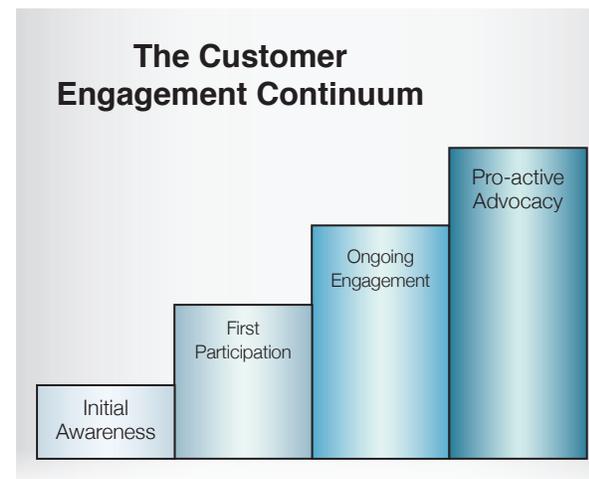
One useful way of defining engagement, or participation, is to identify those members who log into their member account, either through the program web site or by calling the Call Center and asking the CSR to log into their account for them. The logged-in status indicates a voluntary action on the part of the member that is apart from monthly spend. In a points-based loyalty

program, the member may be redeeming their points on rewards, but that is not the only indication of engagement. “Point savers” may be checking their points balance and browsing the rewards catalog for future redemptions. Members may be logging into the site to take advantage of other point-earning opportunities that have been added to program – for example, using a link to an online mall, participating in a member survey, or providing a new customer referral. Kobie has found it useful to measure this participation in the loyalty program over a 12-month period, tracking on a monthly basis the percentage of members who were active in the program at the start of the period, and who logged into the site at least once.

The reasoning behind the use of this “participation parameter” is simple: we cannot claim to have retained a member who over the course of a year does not indicate that they are aware of or engaged by the benefits of the program. Taking the participation metric one step further, we compare the churn rate of participating members to that of non-participating members. The difference in annual customer churn between these two groups establishes a financial benchmark by which to measure the R:E of the program. Studies comparing the churn reduction impact on customers who are not in the program confirm the validity of the participation metric: non-participants and non-members behave in a similar fashion.

If participation is so important, how do you achieve it, sustain it or increase it?

Maintaining a customer-centric flow of communications is foundational to driving participation. This begins with the initial communication to the customer, which acknowledges that they are either entitled to enroll in the program (the opt-in enrollment strategy) or have been automatically enrolled in the program (the auto-enrollment strategy). We view this as the “awareness” stage of what we call the Customer Engagement Continuum:



In either of the enrollment strategies, powerful and effective communication is required in order to spur the member to action that indicates their first participation. In the opt-in strategy, different creative packages and enrollment offers may be tested to determine what combination will achieve the highest response rate. In one initiative, Kobie found that the results were more

than four times higher for the best-performing package than for the worst. A key benefit of the opt-in, self-enrollment strategy is that the member has already participated by responding to the enrollment offer, either by visiting the site or calling the Call Center to register for the program.

In the auto-enrollment strategy, it may take a stream of communication initiatives over a period of several months before you have achieved the desired initial participation. While we may visualize members as waiting for each program communication, and poised to take an action as soon as they receive it, the reality is that everyone is busy, distracted, and focused on things other than our program. In one program Kobie found that it took 10 communications to obtain the first participation from 75% of new members who ultimately participated in the program, and seven more to reach the 90% level:

Moving up the Customer Engagement Continuum

Once the initial participation has been achieved, the objective shifts to that of sustaining ongoing engagement in the program and its benefits. In highly-competitive businesses, where opportunities to impact customer spend may be more limited than the opportunity to impact retention rates, the ability of the customer loyalty program to move members up the Customer Engagement Continuum is paramount. Periodic statements (either print or e-statements) informing members of their point balances as well as new

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or featured rewards and program benefits have been proven to have the most significant impact on participation, since they maintain program awareness and encourage point redemption.

However, redemption may easily account for less than half of all participation. In addition to redemption, therefore, an effective loyalty strategy must provide multiple opportunities for members to engage with the program for other reasons.

Successful Engagement Drives Advocacy

Over a period of time, a well-designed, well-managed loyalty program will not only drive engagement with the brand. It will also create brand advocates within the active member base. Advocacy can be demonstrated in a number of measurable ways, among them your members' willingness to refer new customers, and to provide feedback through member surveys, customer testimonials, and social media.

Customer-Centric Personalization Adds Impact

A key driver for engagement is communicating to members in the way they choose, with information that is meaningful to them.

Respecting members' choices as to print and/or e-mail is foundational to maximizing the effectiveness of your communications budget.

In fact, for one client, Kobie has found that although print statements continue to generate a higher response rate than e-statements, the highest response rate was not from those who received both, or from those who received print instead of e-mail, but from those members who had specifically opted out of print altogether and received only the e-statement.

Leveraging the customer data within your program is essential. So, for example, through personalization, only those members who do not have a particular service and are eligible to receive the service will be shown a promotional offer for that service. In a B2B program, factors such as geographic location, length of service,

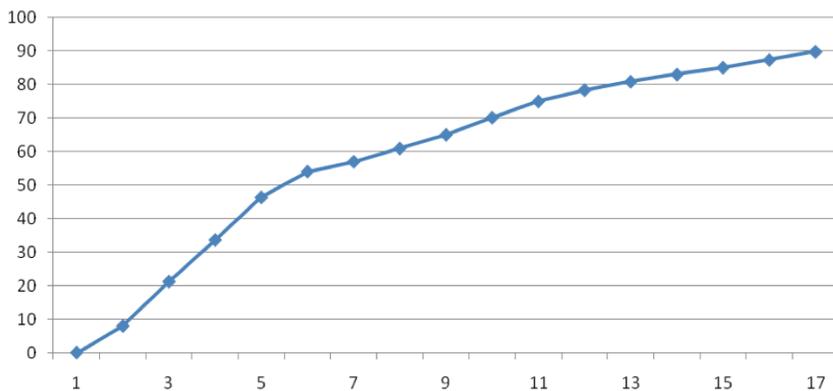
and size of business are other customer attributes that can be used to customize the content of a communication to a specific member's needs and interests, and thereby drive engagement. Integrating variable content into the initial design of your communication allows the development of a detailed offer matrix. In one ongoing program, a layout featuring up to four variable offers or articles selected from 12 different options results in more than 80 unique versions of the piece.

This is not customization for the sake of being different. Ongoing analysis of the program shows that the opportunity to promote telecom services only to those who do not have the service but are capable of receiving it has driven program member product penetration rates significantly higher than penetration rates for non-program members.

Frequency Matters

How often do you have to communicate to generate or sustain participation? The answer is: probably more than you think! While response rates to loyalty program communications significantly out-perform those for general direct mail or e-mail, it is still essential to maintain a flow of communication with your members that stimulates ongoing engagement. We have found significant differences in month-to-month participation that can be directly correlated with the communications plan – or gaps in the plan.

Number of Communications to 1st Participation



But frequency, particularly in e-mail, can be a double-edged sword: overuse of the opt-in e-mail member base can lead to erosion of open and click-through rates, as members become over-saturated with program-based e-mails.

Test Everything, Assume Nothing

Clearly, the overall structure of the loyalty program is critical in achieving impact. Key elements such as the earn rate, the cost basis of a point (or other program currency), program partners, the rewards grid, opportunities to earn points through program partners are critically important when first launching a program, or re-launching it further down the road. But most, if not all, of these elements are difficult to test, and challenging to measure on an incremental basis.

Again, communications to the rescue.

Through the development of an informed, intelligent test plan, virtually every element in the communications plan can be leveraged to improve program performance. And the results can be surprising.

In one B2B program, a vertical 3-panel self-mailer was the traditional form of communicating to targeted sub-segments of members – until it was tested against a no. 10 envelope/letter, which generated significantly higher response rates. And when the vertical self-mailer format was tested against the traditional 6" x 9" envelope/4-page statement, again the “envelope” format outperformed, flying in the face of the theory that

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consumers are less apt to open envelopes than self-mailers.

Subject lines for program e-mails are one of the simplest communications elements to test, and can provide as much as a 5-point difference - or more - in open rates.

Promotional points can also be tested in the telecom world, although the peculiarities of adding new products or services, and tracking the response back to the promotion, add far more complexity than, for instance, measuring a retail offer.

Conclusion

The Participation Parameter in Action

To help its clients, Kobie implements KPIs to measure the program's financial performance and implements the Participation Parameter. "I think it's important to understand that participation is a performance indicator," says Carlos Dunlap, Kobie's Practice Director of Loyalty Consulting. "When you add features and they go unused, that indicates a lack of participation and engagement. The features we added for Verizon increased participation. Because of that, it indicates better performance."

Kobie helps increase participation by adding new member features and benefits; such as point auctions, member surveys, customer referral programs, new rewards, partner offers, and co-funded promotions; and develops a comprehensive non-member database to serve as a source of new enrollments and comparative data.

Consistent success across industries validate this approach. "It makes sense that awareness of the program's special benefits via targeted communications adds a positive predisposition towards continuing with the brand," says Sharon Avery, VP of Marketing Services for Kobie Marketing. "Communication is key to participation and ongoing engagement with the brand."

About Kobie Marketing



Kobie Marketing works with the most respected brands in the world to improve their loyalty marketing programs and profitability through complete end-to-end solutions. For over 20 years, Kobie has been a recognized leader in the loyalty marketing industry designing and managing programs for the world's top brands within the financial services, retail, telecommunication, and travel industry. Through award-winning loyalty marketing campaigns and continuous reinvention of how firms execute effective programs, Kobie's clients enjoy incremental revenue, product and household penetration, and brand advocacy.

Today, Kobie leads the loyalty marketing industry with a relentless focus on delivering the best Customer Experience, through proprietary technologies including our Alchemy loyalty platform and award-winning campaigns. Kobie is spearheading the mobile loyalty revolution with its Social Media, SMS, MMS and Mobile Application loyalty solutions. Kobie serves a diverse client base of top brands including Verizon, Verizon FiOS, Bank of America, RBC Bank, Royal Caribbean Cruise Lines, TracFone Wireless, BJ's Restaurants, AMC Theaters, and CBS Sportsline, among others.

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