



The Great Value Proposition Debate

"Man is an economic animal in search of self-importance."

— Brian Woolf, Customer Specific Marketing



marketingstrategists

EXPERIENCE. PASSION. INSIGHT. RESULTS.

Introduction

Brian Woolf's quote illuminates the two behavioral levers that comprise the fundamental tool kit for building all loyalty-marketing value propositions. When properly leveraged and applied, these levers can alter current patterns and create sustainable, profitable customer purchase behavior. Woolf, a noted author and loyalty consultant, knew that consumers are both rational and emotional in their purchase decisions. They want to know that they've gotten their money's worth and are eager to inform others what a good deal they received. This human characteristic is at the crux of the "economic animal" argument.

But consumers also want to feel that they're special. Not only are they responsive to any and all gestures of recognition, but they'll also smugly tell others of their unique status, reinforcing Woolf's "self-importance" observation.

Well-designed loyalty programs use these levers with a combination of hard and soft benefits—free, tangible rewards and conspicuous, unmistakable recognition. While critics of loyalty programs often decry this "psychology of rewards" as nothing short of bribery, long-time practitioners of the art and science of loyalty marketing argue passionately that the blended value proposition of hard and soft benefits is fundamental to program success and superior return on investment.

The psychology of rewards

The psychology of the blended value proposition is simple. There is no better price to a customer than "free," so the accrual of a hard-benefit promotional currency that eventually leads to a no-cost reward represents compelling, indisputable added value. Better yet, because the points or miles act as deferred, accumulated incentives rather than temporal price reductions, loyalty programs preserve margin and shift the consumer's attention away from price.




Likewise, the soft elements of ego, status and self-importance can set unique emotional hooks into customers when delivered by a variety of special treatments, privileged access or differentiated experiences that allow for defined levels of relationship. By combining the hard and soft approaches, the loyalty marketer creates an aspirational ladder that invites customers to climb as high as they can.

When the loyalty program provides enough value, your customers will do the work. As long as the hard and soft benefits are sufficient, there's no need to ping incessantly on your customers' cell phones or blast away at their inboxes. Customers will actively seek out ways to buy more in order to earn more. Cognizant of the economic and emotional benefits that accrue to them for their patronage, customers actually raise their hands and say, "Hi, here I am. Track me, market to me—but always reward and recognize me."

COLLOQUY has long advocated the need for both hard and soft benefits in loyalty programs as the means to create significant customer commitment and involvement while laying the foundation for enduring customer loyalty. COLLOQUY founder and original publisher, Rick Barlow, noted in the inaugural issue (1990) that a balanced and well-blended value proposition made the most sense. Barlow was the first practitioner to go on record with the value proposition debate. He also was the first to coin the phrase "hard and soft benefits." He asked questions about points versus discounts and communications-only programs that are still being asked today.

Barlow believed that a compelling hard benefit was a tangible reward, irresistible in perceived value and always available to the member for free. He warned us not to mistake discounts for hard benefits. Although price reductions carry an economic incentive, they aren't free; they require customers to dip into their own wallets to take advantage of the offer. Hence, discounts are soft benefits—privileges made available to members based on their earned status in the loyalty program. It's a subtle distinction, but an important one. Barlow also warned that, while customers will take all the discounts you offer them, the

Chart A

CUSTOMER STRATEGY	RATIONALE
 DIALOGUE	Added value is often as simple as a communications-only strategy, a membership card, a newsletter, some survey questions and a way to know customers' names and preferences when they arrive to do business. Points cost lots of money— who needs 'em?
 HARD	A tangible reward, which may be earned in its entirety and requires the program sponsor to spend out-of-pocket dollars to provide it, and for which customers would otherwise have to pay. In other words, mix in some miles or points that convert to free "stuff" ... and you have very willing, interactive customers, solidly within your own magic marketing fortress. Can you afford this?
 SOFT	An intangible consideration extended to members as evidence of their special status. Most often taking the form of special treatment, privileged access or discounted pricing and could require little or no out-of-pocket funding by the sponsor. We all know it works—every time we step up to the separate check-in line, settle into an "upgrade" seat in first class or drive right off the lot while the masses wait in line. How do you execute?

tactic is easy for your competitors to match or beat. Discounts lack memorable impact and only increase customer focus on price. Barlow often argued that discounts alone don't define the brand in a way that sets apart the relationship between you and your best customers—especially your top-tier, high-value customers.

The Great Debate

Loyalty marketers throughout the history of this discipline have asked similar questions. What value proposition works best? Points only? Discounts only? Dialogue and communications only? All of the above? None of the above? The conundrum has been apparent for more than 20 years, and the best advice COLLOQUY could come up with is that a loyalty value proposition should contain some magical mix of hard and soft benefits with an overlay of customer dialogue. The arguments and definitions look something like those found in Chart A.

While Barlow and Woolf may have been first to put intellectual substance around the argument of hard and soft benefits, they weren't the only voices in the wilderness. Other loyalty practitioners and marketing consultants have made the same argument:

"A comprehensive and multi-faceted combination of recognition and reward (works), differentiated in response to the ever broader and deeper understanding of the needs and preferences and relative economic value of individual customers. Hard benefits (rewards) 'purchase' credibility, customer attention and customer information. Soft benefits (recognition) set the emotional hooks of deeper and more durable loyalty."

—Don Peppers, COLLOQUY Issue 6.4 Publisher's Notes, 1998

"The customer who has joined a loyalty program for a 10 percent discount will leave when another program offers a 15 percent discount. True loyalty is earned when unique, personalized or soft benefits are added to the mix. They tell the customer that they are part of a special group by bestowing status on them via special treatment or access to exclusive services."

—Janet Kraus, CEO, Circles, COLLOQUY Breaking News, February 2002

"Soft rewards are very effective builders of retention—once worthwhile privileges have been earned, customers are unlikely to sacrifice them. It is often the soft rewards that are remembered for longest. Soft rewards are often the drivers of advocacy—customers derive great pleasure from telling their friends about exceptional service that has been lavished upon them."

—Robin Clark, The Wise Marketer, 2004 Loyalty Marketing Guide

While the experts may agree, marketers often remain skeptical. Many loyalty programs are launched without a blend of hard and soft benefits. Having engaged in numerous loyalty consulting assignments over the years and having heard extensive debate about the proper value proposition in our public, educational workshops, the team at COLLOQUY realized that tactical and operational hurdles often prevented best strategies from evolving.

A number of false premises and real-world stumbling blocks continue to fuel the debate. Here are a few of them:

Customers lie: Well, not really, but what customers say and what they do are often at odds. Whenever consumers are surveyed as to what value proposition they prefer, they invariably list cash and discounts as Nos. 1 and 2, respectively. But in a real-life loyalty program, they more often than not choose accrual, rewards and special treatments as the real influencers of their behavior. We have consistently seen the prospective customer focus group derail the strategic concepts of hard and soft benefits before the train ever leaves the station.

You can't afford it: You can design the perfect value proposition on paper—but just try to implement it. No sooner do you try than Operations begins lamenting the hidden cost of delivering soft benefits and the training required, while a vein in your CFO's head starts throbbing over the issue of point liability. The result, in most cases, is the compromising of your strategic vision. And it gets worse when your business case still includes the rosy projections of increased retention and spend after you've been forced to water down your value proposition. Affordability is an ROI issue, not a cost argument. Weak value propositions fail to change behavior. Without positive behavioral change, you've only increased the cost of doing business.

It's too hard: Frankly, many marketers don't have the specialized expertise, time or the willingness to exercise the gray matter required to design a truly differentiated loyalty value proposition. Why spend time thinking about all of those hard and soft benefits when it's so much easier just to run another promotion? And it's easy to model results—after all, we've been running these discount days since before we were born. Reliable predictions and tactical reports take precedence over innovation and strategic thinking.

Empathetic as to the practical challenges, but frustrated over the lack of understanding, the COLLOQUY brain trust has consistently looked for a solution to this conundrum. What if we could offer incontrovertible proof that the right mix of hard and soft benefits influences customer behavior better than any other value proposition? Numbers don't lie. If we can prove it, then can we finally settle the debate?

When opportunity knocks

Fortunately, in 2003-04, such an opportunity presented itself. A client who was debating these very issues engaged the consulting team at COLLOQUY to help them identify the optimal value proposition for their soon-to-be-launched loyalty program. When internal disagreement caused the program design decisions to reach a stalemate, we proposed a real market test to quantify the differences being debated. The client agreed—and the opportunity to put theory to the test had finally arrived. While we hoped to ultimately settle the debate, we also relished the opportunity to finally shed some quantitative light on the subject.

The client, who granted permission to use this case in return for anonymity, is a big box retailer with more than 400 stores in the U.S. and annual sales of over \$4 billion. The target audience in question consisted of consumers and small business owner/operators who were already visible in the retailer's transactional database because of their propensity to use the merchant's private-label credit card. The business objectives called for a lift in average spend per customer of more than 20 percent and an improvement in the rate of customer attrition by 10 percent. Given the higher value segment characteristics of the target audience, achieving these objectives would result in a substantial financial benefit and return-on-investment (ROI) for the retailer.

The debate over the value proposition required to achieve these objectives is an all-too-familiar refrain—especially in retail environments. Merchants, after all, are merchandisers, and they know that discounts and rebates move the needle, especially when they have the right inventory displayed and a needle begging to be moved. Proven rebate and discounting techniques can predictably alter “same store sales” or “comp” revenues, and these gains usually drive favorable opinions from Wall Street analysts and the resultant higher stock prices. This debate is typically most fervent within the Executive Suite—and so it was with this retailer. They were inclined simply to give the target audience greater value through reduced prices and forget about points, rewards and special privileges.

Fortunately, the client’s marketing team was curious. They believed a program that positively impacted “same customer sales” would achieve similar results with potentially greater margin. They knew that the price-derived value equation would move results, so they wanted to include these proven tactics in their test. But they also wanted to know if Barlow, Woolf, Peppers and the others were right. To sort out the optimum value proposition for their target audience, they needed firm measures against a control.

That’s where we came in.

The test construct

The test construct we designed was simple and straightforward. It looked like this:

TEST	HARD BENEFIT	SOFT BENEFIT
Reward	Merchandise	
Service		Discounts & privilege
Combination	Merchandise	Privilege
Rebate		% off or cash back
Awareness		Communications

We created a total of five different value propositions as test cells and confined each treatment to a single test market. We carefully matched each market to a control market that received no value proposition stimulus. The market-matching criteria were extensive and sought to minimize any potential noise in the results due to geography, weather, competitive patterns, market development and other extraneous factors outside the parameters of the loyalty program.

The **Reward cell** offered loyalty program members the ability to accrue points they could redeem for in-kind merchandise—products already sold by the retailer. We set the rate of accrual at approximately 2-4 percent of the member’s spend on each identifiable transaction. This cell is best characterized as a classic “hard benefits only” value proposition.

The **Service cell** offered members discounts on selected items at up to 50 percent off—a special pricing privilege for members only. Additional privileges included special checkout lanes, preferred parking, gift cards and offers from local restaurants, and special spending reports that helped the audience keep track of their purchases by department. This cell was a “soft benefits only” strategy, but it did include some economic incentives.

The **Combination cell** offered members both the points accrual model of the Reward test and the special PAGE privileges (but without discounts) of the Service test. This cell was the classic definition of a blended value 5 proposition containing both “hard and soft benefits.”

The **Rebate cell** offered members a 2-4 percent rebate on all identified purchases; they could take the rebate as either cash back or a balance reduction on their private-label credit card account. In keeping with our classification of rebates as soft benefits, we characterized the Rebate test as such, even though the economic incentive was substantial and applied to all member spending.

The **Awareness cell** was a communication-only strategy that used incremental, targeted and personalized direct mail to reinforce existing services offered by the retailer to the private-label cardholders. This cell was a “dialogue-marketing” test using special communications as the sole soft benefit.

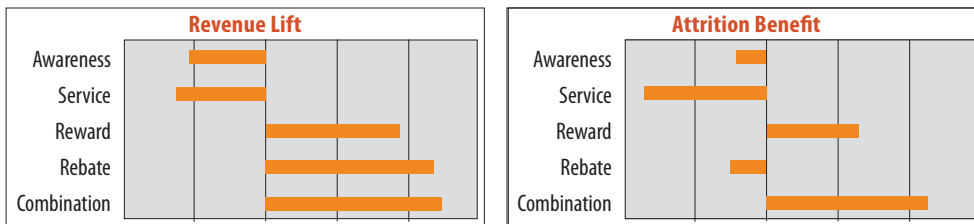
More than 75 stores participated in the test, and we auto-enrolled over 60,000 members from the house credit card file. The control group consisted of approximately 30,000 customers from the same target audience who received no treatment, but whom we could still track.

With the exception of the Awareness cell, all benefits were tiered at five levels—the higher the tier, the higher the value of the rewards, rebates and soft benefits. We established a minimum spending threshold and communicated it as a requirement to qualify for the first tier of benefits. We considered the target audience a higher-value segment than the average customer of this retailer because they displayed regular purchase frequency and higher average transaction values than the norm.

We ran two consecutive six-month test periods. At the end of each test period, the Rebate, Reward and Combination markets received their economic benefits. The customers in the Reward and Combination markets redeemed their points for merchandise from a tiered catalog. The Service and Combination markets received delivery of their soft benefits throughout the test period.

And the winner is . . .

At the conclusion of the two test periods, we analyzed data associated with the program objectives for each test cell versus their respective control groups. While we hate to say we told you so, the proof is in the pudding: The results overwhelmingly favored the blended value proposition. What our theoretical evidence told us would win out actually did: The Combination test market, with both hard and soft benefits. The results looked like this:



At the end of the two six-month tests, the Reward, Rebate and Combination cells all generated positive revenue lift over control. The Rebate cell came close to stated lift objectives; the Combination cell actually flirted with achieving or slightly surpassing the established metrics for revenue change. For attrition measures—which we defined as no transactions in the preceding 12 months—only the Reward and Combination markets generated a positive result versus control. While both cells surpassed the preestablished metric, the Combination market did so with overwhelming superiority. The Rebate test failed to generate a positive attrition benefit. Both the Awareness and Service cells failed to register a positive result versus control for either lift or retention. In other words, they were big losers.

The Combination value proposition not only generated the greatest revenue lift, but also came within a millimeter of achieving very ambitious objectives. This same proposition blew away the attrition objective. Although this value proposition carried higher execution costs, it was the clear winner in the value proposition debate.

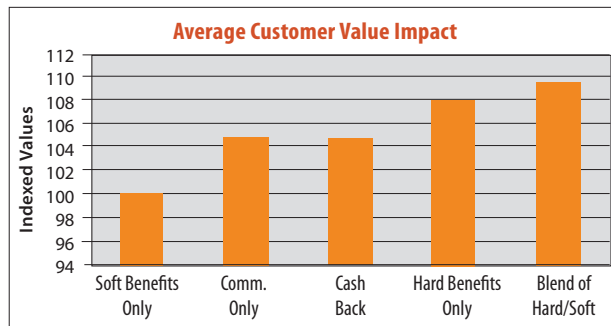
The Reward market, a “hard benefits only” strategy, also saw increased revenue lift and experienced an attrition benefit, but not at levels sufficient to meet financial objectives. The added costs of running and maintaining the points program and merchandise redemption options required either greater efficiency of scale (only one market had this treatment), stronger lift or greater time for the attrition benefits to produce additional ROI. The Rebate market results

confirmed our belief that rebates are an effective tool for motivating a short-term jump in spend—but at this rebate level at least, they are ineffective at sustaining sufficient interest and loyalty to stop churn.

What about customer value?

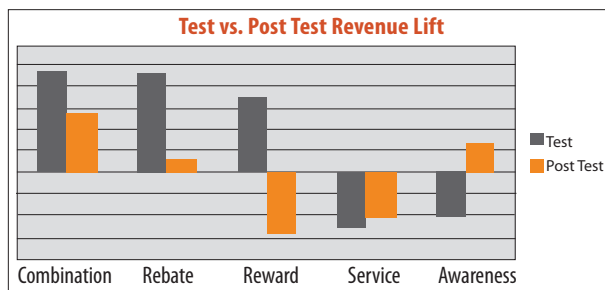
But our analysis didn't just concentrate on the primary metrics associated with loyalty program objectives. We conducted an additional evaluation to examine the overall value of the members in each test cell. Based on a proprietary Customer Value Score (CVS) methodology that uses a composite of recency, frequency and monetary spend measures, as well as the principle of transaction velocity, this evaluation took the derived value scores for each cell and indexed them to a benchmark of the Service market members.

The result? Members in the Combination value proposition test returned value scores a full 10 percentage points higher than benchmark market members, as evidenced below:



Hence, the Combination cell—with its blend of hard and soft benefits—was not only produced improved retention and increased yield, but also delivered the highest overall average customer value to the retail organization.

The retailer requested one final measurement. What would happen to revenue change after the loyalty program stimulus was removed? We evaluated a five-month post-test period by tracking the continued transactional behavior of all members in the test markets. The results, which appear in the chart below, were interesting, to say the least:



The Combination market saw a continued increase in spend even after the test ended. The Rebate market essentially leveled off, keeping the gains they saw during the test even after we removed the Rebate. The Reward market, however, saw spending in the post-test period fall in relation to the test period, essentially returning to its pre-test spend. What was happening?

Here's where we enter speculative territory. Did the Combination market see continued lift due to a halo effect attributable to receiving not only a tangible benefit, but also recognition through the delivery of soft benefits? The intangible, emotional elements of this value proposition may have conveyed the message that these customers were highly valued by the enterprise. Woolfe's "self-importance" concept appears to have an after-life. Additionally, once we gained forward momentum with these customers, simple inertia may have kept the revenue gains in place during the post-test period.

Additionally, the Rebate market kept its test period gains while the Rewards market did not. If, as we surmised earlier, Rebates have less of a sustaining effect than Rewards, then why wouldn't the opposite effect have occurred?

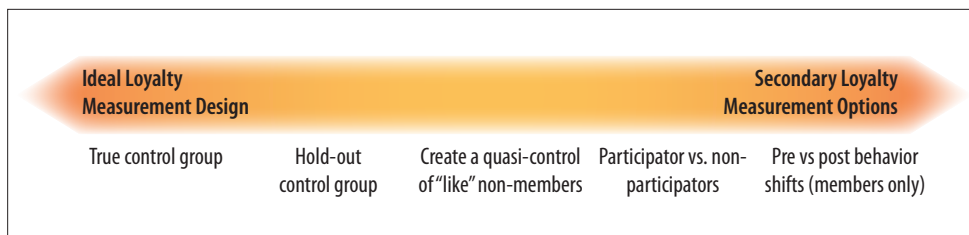
Again, more speculation is necessary. Was the withdrawal of rebates from customers less of a shock to the system than the withdrawal of tangible hard-benefit merchandise? Perhaps customers saw the rebates as less defining, less value-add and more of a reflection of special status. As such, they carried a soft-benefit impact into the post-test, essentially confirming our belief that the perceived value of cash is not as strong as the perceived value of a reward-based benefit. Without the defining soft benefits, meanwhile, the Reward market had no halo and no recollection of prior special privilege to offset the loss of incentives. The market reverted back to its pre-test level of revenue. Apparently, the economic animal does exist—and his diet has to be free.

Finally, the crazy patterns in the Service and Awareness markets were frankly puzzling. Did the Service market members find the soft benefits of the program irrelevant to their needs? Did they feel slighted by the offer? Even after the stimulus was removed, the bad feelings lingered, and the behavior continued to decline. In the Awareness cell, was the special nature of the communications lost on members? Or was the post-test lift a delayed response to the Awareness communications? Advertising and communications professionals have preached for decades that sustained messaging efforts are required to get the point across. Could it have simply taken a little longer for communications to deliver revenue gains? Perhaps we should take a closer look at the dialogue-only approach, and devise a deeper measurement plan over a longer period of time to sort out the puzzle.

The science of control groups

If the design, testing and interpretation of the value propositions and their results were pure art, then we must view the measurement disciplines used in this case as all science. The entire test was made possible, and results deemed credible, because we used control groups.

To identify incremental lift and the attrition benefit of a loyalty program—or any other metric, for that matter—you must establish some type of control group. There are a variety of methods to do this. Some methods are more precise than others—but we're continually amazed by how many loyalty programs fail to establish any control measures. Control group methods exist along a spectrum from the ideal to what we consider secondary, or less than ideal:



A **true control group** consists of a random sample of the population that is never exposed to the program stimulus. While this method is prevalent in the direct marketing arena, it can be difficult to execute in loyalty-program designs that use in-store marketing and national advertising, as was the case with our retail client.

In order to use a true control group, you must identify customers before the program begins, and you must track purchase behavior. Most retailers are unable to meet this necessary requirement, but direct billing or subscription industries such as telecom and cable television often can.

A **hold-out control group** basically acknowledges the real-world struggles of a true control measure. The basic requirements are the same for both true and hold-out control groups: You split your known customers into test and control cells, actively enroll your test population and hold out those designated for control measures. If customers in the control group hear about your program, you need a contingency method to enroll them and track their performance separately. Migration from control group to test group can cause some bias in your measurements.

Financial service providers and hotels are good nominees for hold-out control groups. Both industries can identify their customers, contact them when needed, track their historical spend and match the patterns between test and control prior to the start of the loyalty-program pilot. Automatic enrollment or direct invitations are the only enrollment strategies that support true or hold-out control groups. Our retail client used an auto-enroll strategy.

Unfortunately, what's good for measurement isn't always good for marketing. If your program is tender neutral, and you're trying to capture customer information and establish baseline behavior for previously invisible transactions, these solutions can be less than ideal.

To establish a **quasi-control group**, select a like group of non-test members whom you can track, perhaps by using stratified random sampling on customers who were invited but did not respond, or establish a market control by identifying a matched market that closely resembles the geography in which you're testing. Our retailer essentially followed a quasi-control measurement plan. Careful selection of the matched markets is extremely important in mitigating the potential bias of geography.

The **participator method** assumes that only the customers participating in the program are affected by the program stimulus. By participation, we mean those customers who demonstrate active engagement with the program through incoming interaction such as a phone call, a visit to the web site, point redemption or survey completion. This method works well in a subscription environment, where customers can gain status in a loyalty program without showing a card with each purchase.

The least attractive method of establishing a control group is to compare the behavior of members prior to program involvement to their behavior subsequent to their involvement. Many factors can bias the results: self-selection, seasonality, competitive response, market conditions and even human nature. You simply can't isolate other variables from the program stimulus well enough to gain true understanding.

The joys of market control

In this case study, we employed a market control system. Our client's customers shopped in geographically concise locations, and the retailer displayed program materials prominently in the test markets. This system allowed us to test each value proposition within the closed environment of a distinct geographic market while taking advantage of inexpensive in-store advertising. The market control method also facilitated staff training, as each test market needed to learn only one value proposition. Customers not automatically enrolled in the program could enroll on site. In addition, the retailer encouraged all members to register additional identification vehicles in the form of their preferred credit card.

In selecting the control markets, we considered the size of the markets, and kept an eye on the relevance that market would have in projecting rollout scenarios. To remove as much uncertainty as possible during market selection, we analyzed and compared several variables, including the number of customers and stores, customer value, potential and likelihood to attrite, as well as revenue trends, market factors, competition, climate and divisional placement. Remember that variables are unique for every industry; select the ones that are important to your business.

You are what you measure

To best measure results at the individual member level, you must capture the test and control group behavior for a defined period prior to the program, and for that same period during the program. Metrics can include total spend, frequency, spend per visit, recency, value score, attrition score or any other metric important to your business. Make sure you include only those members who have an identified transaction in the prior period. Then follow these steps to measure program success:

1. Calculate actual change vs. year ago

Member program behavior – Member prior behavior = Member change in behavior
Control program behavior – Control prior behavior = Control change in behavior

2. Calculate percent change vs. year ago

Member change in behavior / Member prior behavior = Member percent change
Control change in behavior / Control prior behavior = Control percent change

3. The KEY metric is the delta percent:

Member percent change – Control percent change = Delta percent

The future's so bright...

Though this test helped shed substantial light on the Great Value Proposition Debate, the financial ramifications of the results needed additional exploration. Each value proposition carries a different cost structure and a different pattern of results. You'll need to examine operational challenges, ease of implementation, rollout scenarios and many other factors in a business-financial context before you march into the CEO's office, pound your chest and tell him or her exactly what to do.

As for our test, we created next-step scenarios and financial projections based on actual results for the Combination and Rebate cells. We selected the Rebate value proposition based on management's insistence—they believed that the ease of implementing rebates might make up for their performance shortcomings.

We therefore designed five scenarios for continuing the test and modeled financial projections for each scenario using proprietary loyalty financial modeling tools with a proven track record and standardized financial math.

The scenarios broke down as follows:

1. Continue test with current construct
2. Continue with the Combination value proposition in the current markets
3. Continue with the Rebate value proposition in the current markets
4. Expand the Combination test into additional markets
5. Expand the Rebate value test into additional markets

The key metric outputs from the financial model that we evaluated were:

- Year 5 Return on Expenses (ROE)
- 5-year Net Present Value (NPV)
- Time to Break Even

Show me the money

And the results were:

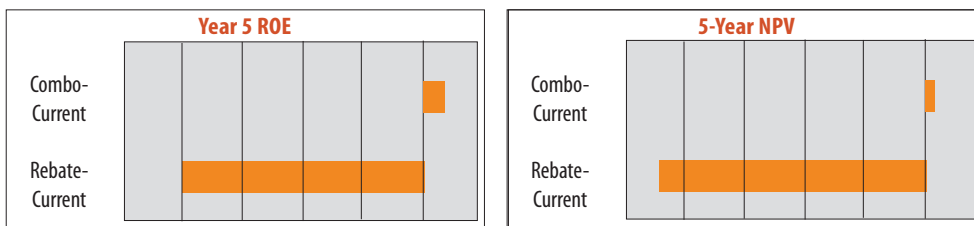
1. Continue test with current construct

An obvious losing hand. The lift experienced in the Rebate, Reward and Combination markets isn't great enough to counter the decline in the Service and Awareness markets. And the attrition benefit generated in the Reward and Combination market, though significant, isn't great enough to counter the continued loss of customers in the Service, Awareness and Rebate markets.

2. Continue with the Combination value proposition in the current markets

3. Continue with the Rebate value proposition in the current markets

Neither scenario meets established financial hurdles for investment. The Combination value proposition, however, does return positive results for the five-year ROE and NPV metrics. In our scenario, we estimated it to break even in Year 3. The Rebate value proposition, meanwhile, doesn't break even during the five-year examination period. It returns a projected negative Year 5 ROE and NPV.

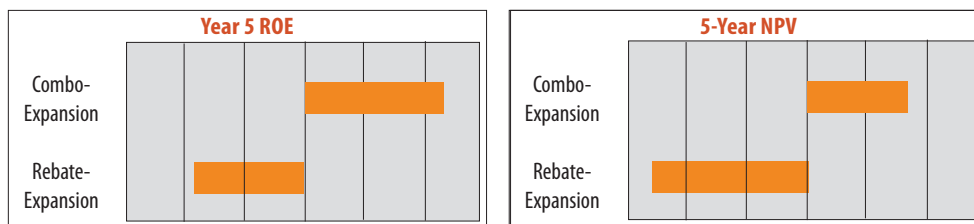


4. Expand the test with the Combination value proposition into additional markets

5. Expand the test with the Rebate value proposition into additional markets

Assuming an expansion or rollout of either value proposition in additional markets, the Combination strategy produces a resounding financial win. We projected break-even for the end of Year 1. The Year 5 ROE and NPV returned very positive projections that met the CFO's criteria for success.

Unfortunately for you merchants in the audience, the Rebate strategy is a major loser. It can meet neither the ROE nor the NPV standards—in fact, both return negative results over the five-year financial projection period. While the revenue lift is evident, it comes at a reduced margin and does nothing to increase retention over the long haul. The more markets you expose to such a strategy, over the longer term, the worse the financial results become.



The Combination value proposition does carry additional expense loads for the retailer. While these expense loads have a variable cost component associated with the rewards funding, soft benefit delivery and program membership size, they also carry a fixed component covering the infrastructure, technology and program management expenses required to run a hard and soft benefits design. More critical mass beyond the original test market means more leverage of the positive effects from increased revenue and higher average value per customer. More time forward means that the accumulated effect of improved retention begins to build financial equity and really kicks in accelerated returns. In other words, you should base your decision to run with

this value proposition not on the cost of running such a program, but rather on the return associated with your investment.

The lessons in this case are profound. While some of you will wish for more financial methodology details and better calibration of the accompanying graphs, we humbly remind you that we had to hold back some of the nitty-gritty in order to receive permission to publish this case. For our part, we're grateful that at least one retailer was willing to share what they learned during an actual loyalty test. The actual numbers for this retailer's financial model are far less important than the procedure and discipline used to answer an extremely important business and customer management question.

If you're not using test and control methods to evaluate alternative loyalty program designs, then shame on you. Though challenging, the techniques are available and can be performed by anyone who has the tools and mindset. If you don't have pre-established objectives and a firm measurement plan for reporting your results, then frankly, you're beyond our help. And if you don't use those results to build sound financial models, simulations and ROI projections, then it's no wonder you never get invited to the Executive floor.

In this case, it's wise to focus not on the specifics—because yours will be different—but rather on the disciplines involved. Do things the right way in order to do right by your best customers. And if you need outside help, don't be afraid to ask for it.

The debate: settled?

Loyalty programs with hard-only or soft-only benefits can be successful—we all know of examples in the marketplace. Likewise, many programs featuring a combination of hard and soft benefits have failed miserably.

But, in a study of nearly 2,000 loyalty programs in the COLLOQUY archives (1990-2004), we found that 38 percent of all new loyalty initiatives failed. Of those programs pulled from the market, 77 percent had weak or no soft benefits; 75 percent had no demonstrated dialogue tactics with their best customers; 82 percent did not appear to use the customer information they collected to advance their program, refine their measures, or improve the value proposition for their members. This isn't pure coincidence. Rather, it's the art and science of loyalty marketing talking back to the audience that created it.

Just like your customer base, our case study is unique. Taken alone, it may not settle the Great Value Proposition Debate. But it does shed powerful light on the subject. Certainly it invites more study, greater experimentation, and rigorous research. The entire loyalty industry would benefit. We hope we've gotten the ball rolling.

"The Great Value Proposition Debate" was originally published by COLLOQUY – Volume 1, Issue 5, 2005.

Permission to use has been granted by the publisher.



marketingstrategists

EXPERIENCE. PASSION. INSIGHT. RESULTS.



Mike Capizzi



Terri Gaughan

Marketing Strategists is an independent consulting practice focused on the responsible design and enablement of your best customer and loyalty marketing strategies. We specialize in creative, customer-focused, data-driven marketing solutions. Founding partners Mike Capizzi and Terri Gaughan collectively bring over 50 years of experience and the passion for best customer initiatives to deliver proven insights and results.

Learn more at www.mktgstrategists.com

Marketing Strategists, LLC
545 Ridge Avenue
Greendale, IN 47025
USA

info@mktgstrategists.com

Mike Capizzi, Founding Partner
+1 812-537-3747
+1 812-290-1915 cell
mike@mktgstrategists.com

Terri Gaughan, Founding Partner
+1 513-833-5480
terri@mktgstrategists.com