Building the Case for a Loyalty Solution

Your guide to developing an effective business proposal, generating organizational commitment, and addressing objections

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INTRODUCTION
Loyalty is a major strategic undertaking that requires significant investment. Often, the easiest course of action is maintaining the status quo; therefore, it can be challenging trying to get buy-in from key stakeholders and management. But with the steady decline in retail sales over the past decade, there has never been a more crucial time to build a loyal customer base.

This white paper was written to support your loyalty buy-in discussions and ensure your loyalty initiative is set up for success. Follow this guide for information on how to build an effective business case, get buy-in from all departments across the organization, and handle objections.

BUSINESS CASE BEST PRACTICES
A business case should help you effectively communicate the benefits of loyalty, define key objectives, make recommendations, and ultimately win commitment from your organization.

A business case argues for an investment in change; therefore, your business case should communicate the anticipated results as well as risks and pitfalls. It should answer questions such as:

- How much will a loyalty solution cost?
- How much time and manpower will it take to launch?
- What are the risks?
- What does success look like?

All parties must be clear about why an investment in loyalty is a good decision, and if implemented, the impact it will have on your organization.

The net increase in overall loyalty program budget for 2020 is 43%.
- Incentive Research Foundation

DEVELOPING A BUSINESS CASE
Best practices indicate that if you choose to produce a formal written business case, for a loyalty program, it should include the following sections:

- Executive Summary
- Loyalty Vision and Benefits
- Program Objectives
- Program Design Options
- Vendor Evaluation
- Loyalty Success Metrics
- Business Impacts and Outcomes
- Risks and Dependencies
- Costs
- Recommendations and Timelines

The next sections of this white paper provide a deep dive into the requirements for each of these business case components.

Executive Summary
The Executive Summary section of your business case should provide an overview of what will be covered in the presentation. It should answer these questions:

- Why loyalty?
- What are the business benefits?
- What are the risks?
- What is the expected ROI?
- What are the recommendations?

Expert Tip: The executive summary of the business case should be written last.

Loyalty Vision and Benefits
If loyalty is a new concept for your company, you need to articulate why loyalty matters and present the value it will bring to your organization. You must engage all stakeholders and demonstrate how loyalty aligns with the company’s overall strategy.

To help you make your case, consider these benefits of implementing a loyalty program:

Loyal customers spend more.
Customer acquisition costs significantly more than implementing a loyalty program. Add to this the fact that new customers are not nearly as profitable as the customers you already have. Loyal customers spend 67% more than new ones.

According to this study, the top 10% of your most loyal customers spends three times more per order than the lower 90%. And the top 1% spends five times more than than the lower 99%.

Loyalty programs not only improve customer retention, they also provide your customers with incentives to make purchases. If your loyalty program offers personalized brand experiences and makes members feel valued, this will encourage more spend and greater brand loyalty.
Loyalty programs provide a competitive advantage.

Only 17% of consumers feel valued by a brand, which means if your competitors currently offer a loyalty program, you're already at a disadvantage.

In fact, 83% of consumers agree that loyalty programs make them more likely to shop with a brand. A loyalty program allows brands to compete on customer experience instead of price alone. According to research, retailers that continue to compete on price are not fulfilling other critical business objectives—such as customer satisfaction and loyalty. Just 40% of retailers believe their pricing strategies build customer loyalty, and only 23% believe pricing is driving bottom-line results. Investing in loyalty and customer centric strategies can help you truly differentiate your brand offerings.

Give your existing customers a reason to come back and attract new customers by providing a loyalty program that rewards customers for every action taken with your brand.

Loyalty programs build emotional connections.

Emotionally loyal customers are more willing to spend with a brand. Research by Gallup has demonstrated that consumers with strong emotional connections to retailers will visit their stores 32% more often and spend 46% more money than those without emotional bonds.

Loyalty program rewards that go beyond offering discounts give their members the opportunity to feel part of an exclusive community in exchange for their brand loyalty. From elite rankings to special events and unique experiences, it’s essential to offer one-of-a-kind rewards and experiences that make members feel special, valued, and appreciated.

Loyalty programs offer valuable insights that increase customer lifetime value.

Customer lifetime value (CLV) measures how valuable the customer is to a brand currently and the projected value of all future brand interactions.

A loyalty program can help you calculate exactly what the CLV is for each of your customers and optimize your customer retention strategies accordingly. A McKinsey analysis revealed that companies that put data at the center of the marketing and sales decisions improve their marketing ROI by 15 to 20 percent. That adds up to $150 to $200 billion of additional value based on global annual marketing spend of an estimated $1 trillion.

A loyalty program helps you monitor customer behaviors and preferences across all channels so you can create personalized experiences that increase CLV. For example, after adopting the Oracle CrowdTwist omnichannel loyalty solution, retail clients experience a 40% increase in CLV.

Loyalty programs create brand advocates.

Brand advocates are the customers who recommend your brand to their friends and family. These customers are extremely valuable for your brand given that 92% of consumers trust recommendations from people—even if they don’t know them personally—over promotional content that comes directly from brands. Loyalty programs with a “refer-a-friend” feature reward brand advocates for customer referrals. This not only helps with customer retention, but it also helps with customer acquisition.

Program Objectives

Before you start thinking about program design or vendor evaluations, first consider what you want from the loyalty program from a business perspective. Do you want to acquire new customers, improve retention, create brand advocates, increase the spending of existing customers, or all of the above? Each objective you select must be specific and measurable against a defined timeline.

Do you want to acquire new customers, improve retention, create brand advocates, increase the spending of existing customers, or all of the above?
Program Design Options

After establishing the goals for your loyalty initiative, you can determine which type of solution meets your objectives and targets. Consider the established budget, level of sophistication, and speed to market you require. A good starting point is to research what your competitors are doing to understand how you can add value or differentiate your brand. Then the most important factor is establishing how you choose to reward your customers—for transactions only or for engagement with your brand also.

Transaction-Based Options

If you want to start off simple, a transaction-based loyalty program is a time-tested approach. Transaction-based loyalty programs reward customers for spend and capture data such as number of purchases, transaction spend, and types of purchases. However, transaction-based loyalty programs lack robust data on who your customers are and what they want from your brand. They offer a view of only one touchpoint in the consumer lifecycle and give little insight into behavior and preferences.

Engagement-Based Options

If your goals are to increase retention and drive greater spend, you should tailor your strategy to meet customer needs by adopting an engagement-based loyalty program. Consider investing in an omnichannel loyalty program that provides members with the opportunity to earn points for activities across every channel—including in-store or online purchases and social media interactions. Go beyond one-dimensional discounts and coupons and let members redeem points for exclusive rewards and one-of-a-kind experiences. This type of program enables marketers to gather crucial data to drive marketing performance and provide customers with relevant, personalized experiences.

Considering Solution Types

Once you have mapped the functionality you require, evaluate vendors and assess your internal resources to determine what level of customization, if any, you need. Choosing a SaaS loyalty provider is often the easiest, fastest, and most effective option due to its out-of-the-box functionality and speed to market. A custom-built solution takes more time to develop and requires more investment.

Engaging loyalty vendors at this stage in the process can help you as you sell your vision of loyalty internally. Many brands partner with loyalty vendors to help build out a business plan because the vendors have experience and knowledge in the space, relevant case studies, and resources for determining ROI.

Vendor Evaluation

After establishing the type of solution and functionality you want from a solution, the next step is to evaluate relevant vendors and present your findings to demonstrate that you have conducted your due diligence.

These are the key areas of criteria to include in your assessment and can be broken down into specific questions your vendor should be able to answer:

Reputation
- Does the vendor work with known brands?
- Have they worked with brands in your industry?
- Does the company have a proven track record of success?
- Can the company demonstrate that the programs they power drive incremental revenue six months after launch?

Service and Support
- Does the vendor help you promote the program to your members?
- Are there varying levels of support?
- Can the provider manage the day-to-day operations of your loyalty initiative if needed?
- How quickly can the vendor get the loyalty program into market?

Adoptability
- Does the product seem simple to navigate and use?
- How much training and support is provided?

Functionality
- Does the vendor provide sufficient customer segmentation data?
- Does the vendor provide actionable customer insights?
- Which systems does the vendor integrate with?
- Does the vendor have a clear process for systems integration?

Evaluate vendors based on their responses and then make your recommendation.
Loyalty Success Metrics
To track the success of your loyalty effort, it’s crucial to identify metrics that will help you understand the performance of your program. Since every loyalty program and strategy differs from one brand to the next, there’s no single metric that will solve this need. That’s why you should track a range of metrics.

As you identify key areas to measure, remember to set expectations with your targeted timelines.

Consider tracking the following metrics in your program:

**Lifetime Value, Average Order Value, Purchase Frequency, and Churn Rate**
These metrics will help you understand how your loyalty program impacts the purchase behavior of customers. Plan to compare members and non-members.

**Level of Customer Engagement**
An engagement metric enables you to track how a loyalty program impacts your customers’ activity level. Important metrics to track include program monthly active rates, the number of actions completed per member, page views, email metrics, and one-and-done rates. Where possible, compare these rates between members and non-members.

**Redemption Rate**
Understand what percentage of customers are redeeming rewards and what percentage of points are being redeemed. Pay special attention to members who have enough points to redeem a reward yet have not made a redemption.

**Successful loyalty programs:**
- Are simple to understand.
- Make it easy to join.
- Allow members to quickly earn rewards.
- Provide relevant rewards.
- Encourage engagement.
- Surprise and delight members.

Business Impacts and Outcomes
This section of the business case describes the high-level business priorities that loyalty impacts. They are likely to be a combination of quantitative and qualitative outcomes that align to strategic business objectives. Where possible, set these against specific targets and timelines.

**EXAMPLES OF QUANTITATIVE BUSINESS OUTCOMES**
- Increase in sales
- Reduction in churn
- Increase in cart size
- Increase in monthly spend
- Increase in repeat sales
- Increase in frequency of visits

**EXAMPLES OF QUALITATIVE BUSINESS OUTCOMES**
- Improved customer satisfaction
- Greater brand awareness
- Competitive advantage

Risks and Dependencies
The success of a loyalty initiative is dependent on whether you can identify key business challenges from the outset. Common risk areas for a loyalty initiative include:
- The impact of a loyalty initiative on the organization in terms of roles, responsibilities, and workflow.
- The level of time that is needed to invest in training for a new solution.
- The impact the data insight will have on business strategy moving forward.
- The level of disruption implementing a new system will cause.
- Lack of commitment or enthusiasm from the executive level.
- Managing the liability of having points on your books.
Costs
Before you launch any loyalty initiative, it’s crucial to forecast all costs involved in the effort. This will require you to build a financial model that will help the management team understand and quantify the risks and rewards associated with the loyalty initiative. Building a financial model will enable you to measure your projected ROI before launch and set you on the path for success.

Forecasting the cost of a loyalty program can become complex, so it’s best to collaborate with your finance department early in the design phase. When developing your model, it’s important to:

• Create a program that is financially responsible and scalable.
• Consider variables such as reward costs, program liability, and breakage.
• Ensure the giveback economics work on any scale.
• Understand your breakeven numbers and program KPIs that indicate a positive ROI and program success.
• Determine how your program design will drive liability and cost.
• Make adjustments where needed to ensure the program fits with your company’s goals.
• Develop a reasonable points economy that offers value to the brand as well as consumers.

Recommendations and Timelines
Your loyalty initiative business case should conclude with a clear set of recommendations on how to proceed as well as projected timelines. It also needs to include any details which could impact the next steps, such as budget deadlines. Ideally, it leaves management feeling confident that an investment in a loyalty solution is a good business decision for the company.

“...To make a financial case for implementing loyalty, create a pro-forma ROI analysis that includes high, medium, and low scenarios to project membership growth rate, breakeven point, and so on.”

-Heather Costello, Application Sales Manager, Oracle

GETTING DEPARTMENTS’ BUY-IN
Running a loyalty program is a team effort. While the marketing department typically takes the lead role in securing buy-in for a loyalty program, input is required from across the organization. Other departments—including operations, customer service, IT, and merchandising—need to feel involved and understand the role they play in helping a loyalty program succeed.

By starting at the top, you ensure that your business case incorporates input from all stakeholders and addresses any concerns from the start.

Here’s an outline of the roles and responsibilities that should be communicated to those involved in launching your program.

Marketing or CRM
This team initiates the loyalty program, develops the management plan, and determines how loyalty will sync with other marketing campaigns and initiatives.

Legal
Legal devises the program’s terms and conditions and privacy policy. In addition, this department creates a points expiration plan and should be comfortable with the program’s point-earning capabilities and sweepstakes.

Finance
This team develops a rewards and liability budget, as well as the accounting methods used to monitor points after launch and points expiration.

IT
Initially, this team assembles an engineering team and UX team to design the user experience and to integrate the loyalty platform. Management over time should be light, but the program will need the team’s continued support.

Field
Comprised of customer service, call center, and store employees, this team understands the program and prepares a talk track to encourage customers to join and field any questions.
Ecommerce

This team works closely with front- and back-end developers, the creative and design team, your chosen email service provider, and the user experience team to incorporate and feature the loyalty program across the ecommerce platform. For brands with physical stores, it’s important to understand how the loyalty program will integrate with your existing point-of-sale system. Ensure that your messaging doesn’t confuse buyers or slow conversions. It must bring loyalty in at the right places to drive purchase and registrations.

“Different constituencies have different resource concerns for launching a loyalty program. To counter objections from the IT-side of the business, for example, I recommend walking them through the solution implementation plan in detail so they can assess any security concerns they may have as well as what will be required to complete the work on their side.”

-Lauren Baer, Application Sales Manager, Oracle

OBJECTION HANDLING

Despite your best efforts to present a strong business case, you will likely experience some pushback. Here are some of the common objections to loyalty program investments and how you can handle each one.

“It’s too expensive.”

The biggest objection you are likely to face is cost. The decision makers in your company might be primarily concerned with investing valuable resources in a new program.

However, keeping an existing customer is significantly less expensive than driving customer acquisition. Furthermore, the cost incurred to launch a program should be minimized by the additional business generated.

“We don’t have the resources to manage it.”

Some marketing teams hire an internal loyalty manager to oversee the day-to-day operations of a loyalty program; however, with the right solution, it’s not completely necessary.

After the initial effort it takes to design your program, the right solution will run itself to ensure that the correct information is being captured and customers are being rewarded for every action they take with your brand. A comprehensive solution will be supported by a strategy and client success team.

Oracle’s team can support the Oracle CrowdTwist loyalty platform as little or as much as needed by the client. Skilled professionals can also fully run and manage the day-to-day loyalty program responsibilities if the client would prefer.

“It’s not right for our industry.”

Loyalty programs exist in every industry. Choose a solution that works with clients in your industry and has strategic success in building effective programs that generate revenue. For example, some brands offer surprise-and-delight programs because rewarding members with points isn’t on brand. And some brands that aren’t a fit for product giveaways and discounts offer purely experiential rewards that make their customers feel valued.

“It’s not right for our customers.”

Implementing a loyalty program communicates to your customers that you value them, and not just because they buy from you. A solution that captures engagement data, as well as transaction data, will provide you with the insights to market to your customers effectively.

“We’re not ready.”

What’s the alternative? Not having a loyalty strategy in place could put your business at risk of losing business to a competitor. Leverage a loyalty solution provider such as Oracle to help you design the right program for your company. If you’re cautious, start small and simple then build in extra functionality as the program evolves.

“What if the program doesn’t perform well?”

Loyalty requires constant nurturing. Choose a vendor that can help you make sense of the data and insights to evolve and iterate your loyalty program and optimize performance. Measure your projected ROI throughout. For additional guidance, refer to Forrester Research’s Total Economic Impact (TEI) framework to calculate ROI for loyalty program expenditures here.

Implementing a loyalty program communicates to your customers that you value them—and not just because they buy from you.
ADVICE ON PRESENTING YOUR BUSINESS CASE

Here are some tips and ideas on how to increase the likelihood of persuading your company’s leadership team to invest in a loyalty solution.

1. Before the formal presentation, you may have to do a series of presentations to smaller groups across departments. Ensure that you ask for their input and incorporate their recommendations in your presentation.

2. In your conversations, identify your biggest supporters and ask them to consider co-presenting with you. The more support the solution has the more likely the decision makers will be persuaded.

3. Answer all the questions you heard in your departmental meetings and include them in the presentation. This demonstrates that you value their concerns and have sought to address them.

4. Follow up after the presentation. Visit each meeting attendee separately and request feedback.

5. Schedule a follow up meeting to determine whether the budget has been cleared for the solution and use the opportunity to clarify any concerns you heard from your one-to-one conversations. This might also be a good time to invite the vendor you have chosen to help influence the decision.

CONCLUSION

Loyalty programs provide companies with the data and insights to execute smarter business decisions and drive customer retention and acquisition. A successful loyalty initiative aligns strategy, people, processes, and technology. In order to win investment from management, you must provide a clear, comprehensive, and compelling justification for loyalty.

The Oracle team is happy to partner with you to present your case, identify opportunities, mitigate risks, and secure the success of your loyalty initiative.

Learn More

Oracle CrowdTwist customer loyalty platform enables brands to unlock unique insights and incremental value through omnichannel engagement. A flexible SaaS solution, Oracle CrowdTwist leverages AI technology and predictive analytics to deepen brand-customer relationships and build emotional bonds. Forrester recognized the platform as a Leader in “The Forrester Wave: Loyalty Technology Platforms, Q2 2019.”
Building the case for a loyalty solution

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