

Will a loyalty program deliver ROI?

Knowing when it's time to invest in customer loyalty



Overview

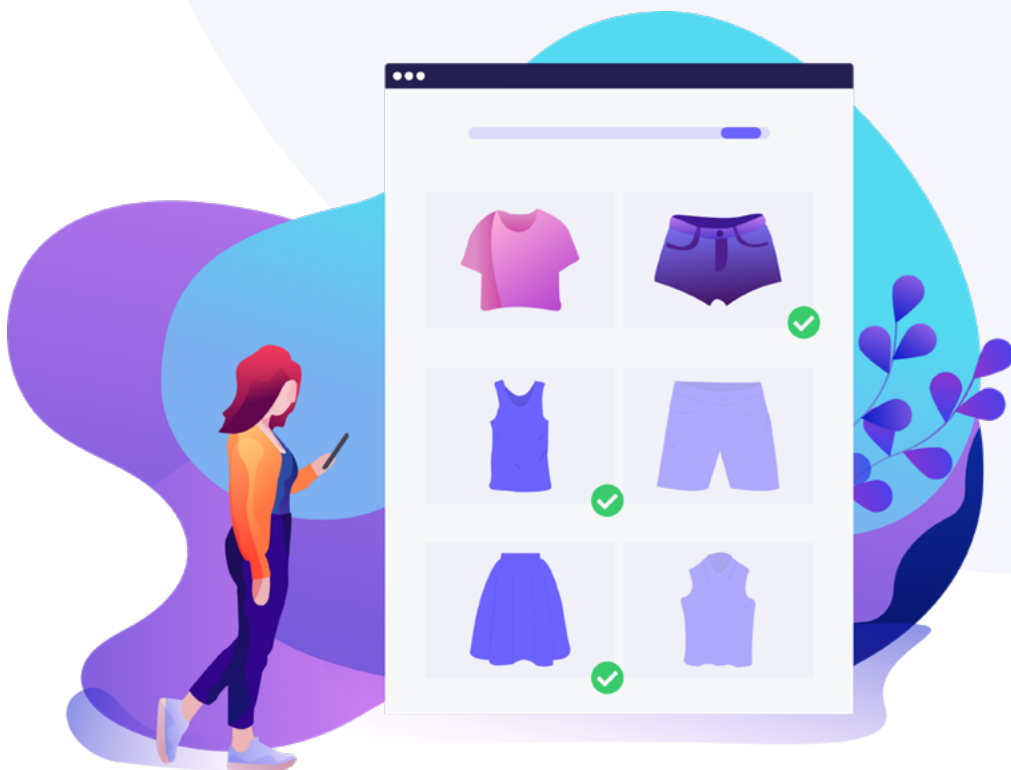
First-time customers who join a loyalty program spend 40% more than those who don't. They're also 47% more likely to return and make second purchase. Despite this, there are still many misconceptions about the cost and complexity of implementing a loyalty strategy.

In this ebook we'll dispel some of the myths surrounding loyalty programs, and help you identify when you should invest in customer loyalty in order to deliver the greatest return on investment (ROI).

Why invest in customer loyalty?

There are three key reasons why ecommerce businesses invest in customer loyalty programs:

- It costs five times less to retain an existing customer than it does to acquire a new one [[Harvard Business Review](#)]. Finding innovative ways to engage and retain customers is a huge part of ecommerce success
- The top 10% of your customers are worth six times more than the average customer [[RJ Metrics](#)]. A loyalty program can help you identify your most loyal customers and focus marketing efforts where they will deliver the highest return
- The ecommerce market grows by 13% each year, making it harder and harder to stand out from the crowd. A loyalty program can help you differentiate your brand, showing customers that you value them as individuals, rather than seeing them as just another number



Myths and misconceptions about customer loyalty

Myth #1: Loyalty programs are costly

There's an outlay involved in setting up a loyalty program of course. However, program members who redeem points spend 2.5 times more than non-members so it won't take long to recoup your costs.

Myth #2: Loyalty programs are complex

Loyalty programs are as simple or as complicated as you make them. There is no harm in starting small, offering a simple points structure with rewards for basic onsite activities such as account creation, purchases and birthdays. You can add the complexity once your program has started to grow.

Myth #3: Customers are tired of loyalty programs

81% of consumers say that the chance to join a loyalty program makes them more likely to continue doing business with a brand [[Bond Brand Loyalty](#)]. If that doesn't convince you, then perhaps the fact that the world's biggest players such as Starbucks and Sephora are continuing to invest more and more in their customer loyalty strategies will.

Myth #4: You don't have enough customers to start a program

Contrary to popular belief, you don't need a huge customer base to launch a loyalty program. It's true that the more customers you have, the more potential members you have. However, as soon as you're getting sales, you have an audience that could be returning to purchase again while simultaneously talking about you to their friends and family.

Myth #5: it's hard to measure success

There are many metrics that can help you to measure the success of a loyalty program - from repeat purchase rates and average order values to net promoter scores. The real barometer is the ability to measure whether you are positively impacting the customer lifetime value of a member versus a non-member.

Knowing when it's time to invest in customer loyalty

With some of the biggest questions about customer loyalty behind us, now it's time to focus on the most important one - when is the right time to start investing in customer loyalty? Let's look at some of the telltale signs that your business will see an ROI from a loyalty program.

Sign #1: Repeat purchase rates are stagnant or declining

One of the most effective ways to drive revenue from existing customers is to increase the number of times they return to your store and purchase again, while decreasing the amount of time it takes for them to do so.

If repeat purchase rates are declining and the revenue from your existing customers is not comfortably covering the cost of acquiring new customers, then it's time to focus on retention. Loyalty programs are proven to increase purchase frequency, with customers who join and redeem a reward being 68% more likely to purchase a second time than those who don't.

Quick win: Award points for onsite activities

If repeat purchase rates are declining, consider expanding the activities that you award points for. Rather than just rewarding purchases, allow customers to collect points for social likes and shares, newsletter signups and account creation. Customers will have more opportunities to build up points, and will therefore be more likely to return and redeem them faster. This can drive a 15-20% increase in repeat purchase.

81% of consumers agree that loyalty programs make them more likely to **continue doing business with a brand**

Sign #2: Many of your customers are 'at-risk'

The chances are that a reasonable number of your customers could be considered 'at-risk' - i.e. they haven't returned to your store to make a second purchase within an

expected timeframe. If that number keeps increasing, then it's time to identify and re-engage 'at-risk' customers.

Quick win: Use loyalty emails to re-engage 'at-risk' customers

If too many of your customers could be categorised as 'at-risk', concentrate on giving them a reason to return and make their next purchase. Loyalty-focused emails have an average click through rate of 35%. Use them to encourage customers to return, letting them know what points they have

available, or what they could earn on their next purchase.

Consider using incentives such as bonus points on particular products or free shipping on their next purchase to encourage them to re-engage. You might also look to upgrade 'at-risk' customers to the next tier of your loyalty program, unlocking new benefits that will make it worth their while coming back to purchase again.

Sign #3: Checking you out, not checking out

Are you finding that you have a disproportionate number of browsers compared to buyers?

If that's the case, it could be time to focus on improving the quality of the traffic to your store. Loyalty programs encourage satisfied

customers to act as advocates, referring your brand to friends and family. Customers acquired through referrals are not only better qualified, but they also tend to spend 200% more than the average customer [[Annex Cloud](#)].

Quick win: Incentivise customers to act as advocates

If you're finding that conversion is down and traffic is not qualified enough, use your loyalty program to incentivise referrals from your existing customers. Make it as easy as possible for customers to refer friends and family - whether via social, email or mobile - and ensure they are rewarded with points or rewards for doing so.

Customers referred by friends and family are four times more likely to make a purchase, so are far more qualified visitors. They are also on average between 16 and 24% more loyal, and more likely to act as advocates themselves in the longer-term [[Annex Cloud](#)]. By integrating referrals into your loyalty program you can drive over \$1000 in referral revenue per week.

Sign #4: You're caught in a race to the bottom

It's no surprise that 88% of consumers pre-research before buying online, however this doesn't just mean that they're comparing products [[PYMNTS.com](https://www.pymnts.com)]. Today's savvy consumers compare prices more than ever before, leaving more and more retailers caught in a race to the bottom. Added to

this, is the fact that retailers are being forced to participate in more discount days than ever before in order to keep up with their competitors. If you're struggling with the perennial pricing issue then it's time to look for another way to differentiate your brand.

Quick win: Communicate your program clearly

By clearly displaying your loyalty program on your site, you are demonstrating to your customers that you value their engagement and want to build longerterm relationships with them. However, it's also important to ensure that customers can immediately see the value of joining your program

and shopping with your store regardless of price.

Structure your program in a way that allows customers to earn and redeem within a reasonable timeframe, so they see immediate gains for their spend. Make sure that structure is clearly communicated so that the value of joining your program is clear at all times.



Summary: Is it the right time to invest in customer loyalty?

No matter the size of your store, no decision is small or should be taken lightly - and that includes investing in customer loyalty. Understanding the cost of failing to retain your existing customers is the first step to knowing whether it's time to invest in customer loyalty, and whether a customer loyalty program will deliver an ROI for your business.

To find out what the ROI of a loyalty program could look like for your business, [try our free ROI calculator](#).

About LoyaltyLion

LoyaltyLion is a data-driven loyalty and engagement platform trusted by thousands of ecommerce brands worldwide.

Merchants use LoyaltyLion when they want a fully customized loyalty program that is proven to increase customer engagement, retention and spend.



marketing@loyaltylion.com