Measuring Reward Program ROI

There is a popular business saying that applies to any organization: "What gets measured, gets done." Of course this is more than a saying. It is true.

While marketing in general has not always been entirely accountable, a loyalty or incentive program is one of the most measurable forms of business expenditure. However, many managers and executives often struggle to measure the results of a rewards program.

As part of designing an effective rewards program, you should ask yourself five critical questions regarding measurement:

1. What specific program metrics do we have in place?

2. Does the program present a viable value proposition, not only for our organization but also for our customers or members?

3. Is there a true and consolidated accounting of the program's cost?

4. Is there a defined process in place for reporting on the program's performance?

5. Do we have a way to measure the incremental return that the program generates?

Determining Specific Program Metrics

Consider the improvements or changes that you want to see as a result of your program. These changes are the objectives of the program and are exactly what should be measured. Examples could be transaction number, size, duration, active customers/members, or any of a number of outcomes a program is designed to achieve, depending on what kind of program and what kind of business you are in.

1

Determining Specific Program Metrics (continued)

Employee programs can present a wide range of tangible criteria-based metrics (performance improvements, targeted behaviors, etc.) and soft value-based ones (i.e., on-the-spot recognition for exemplifying company cultural values).

Customer and member programs typically are more focused on specific criteria-based metrics, which may be behaviorally based – such as encouraging donors to make their contributions online or driving event participation – or focused purely on financial objectives.

Set benchmarks. You cannot measure improvement without establishing a base to which you can compare. The key is to make sure the metrics are <u>specific</u> , <u>measurable</u> and <u>relevant</u> to your program participants… and that they are aligned with your strategy for that audience.

Presenting a Two-Way Value Proposition

Too often organizations develop an incentive or loyalty program that looks solid structurally and financially to the company or association, but does not offer a compelling value proposition to the target audience.

Strive to work constantly toward that balance. Although primary research can offer directional feedback, your customers' and members' real world behavior, and that behaviors effect on your business performance, is the single most important measure. With that in mind, continuously analyze your participation and performance trends. Test and refine. Segment and model your base as appropriate – you may adjust your value proposition based on member or donor tiers and based on its impact on your business.

Always look for ways to improve on a win-win value proposition.

Relatedly, be mindful that many incentive and loyalty programs also incorporate partner-related benefits, as well as other "soft benefits," to enhance the value proposition to the target audience. Partner benefits may include product or service discounts or exclusive promotional offers. "Soft benefits" can provide incremental perceived value through special events or receptions, close-in seating, public recognition, prioritized service, etc.

Accounting For Your Program's Cost

Regardless of the nature of your program, it is important to secure an accurate and complete roll-up of program costs, both pro-forma and ongoing actuals.

A simple incentive promotion may only require tracking via an Excel spreadsheet or Access database. A comprehensive donor loyalty program, however, could involve more sophisticated data capture, combined with accounting and analytical rigor, and a program profit and loss statement.

Partner-related and soft benefits – such as those mentioned above – can be low indirect cost, but also may be hard to track. Estimated individual and aggregate costs are sometimes the best you can do.

2

Establishing A Process For Performance Tracking & Reporting

To track these programs, think about what kind of data you will need to report to measure progress against metrics or objectives.

Research shows that programs are increasingly run online, using Web-based platforms. This approach has improved access to the data, either in real time feeds or on a pre-established batch time frame.

Make sure that you have a *documented* process and timeline in place to obtain the data you will need and get it loaded into the program database. Also, ensure that all stakeholders – whether participants who input their information directly or administrators who manage the process centrally – understand and abide by the process and by the metrics.

Measuring Incremental Return

As we have reviewed, the metrics you establish may be criteria- or value-based. "Return" over benchmark may appear in the form of tangible revenue dollars or an improved retention percentage – or in the form of intangible (but still measurable) values like improved employee morale and brand equity among members.

Customer or member loyalty and incentive programs are typically criteria-based and measured as "return on investment." Employee reward and recognition programs often measure "return on value," implying a mix of criteria- and value-based metrics.

For any program, ask yourself these five questions up-front and force a discipline to measure return. You'll find that the adage, "what gets measured, gets done," will not only apply but also will result in more profitable and effective programs.

This article appeared in the December 2005 issue of <u>Association Forum</u> magazine. Dave Thomas, Ph.D., is COO with Loyaltyworks and is a recognized expert on incentive and loyalty program performance measurement and analysis.

About Loyaltyworks

Loyaltyworks designs, develops and manages a wide array of loyalty and incentive programs – from turnkey programs and promotions to fully customized solutions – with a focus on measurable results. For nearly 30 years, Loyaltyworks has successfully implemented employee recognition, sales incentive, customer/channel loyalty and performance improvement programs.

Loyaltyworks supports its programs with a full range of capabilities and services, and approaches client relationships based on core values of openness, ease and accountability. The result – clients find it easy to do business with Loyaltyworks and be successful.