



# Evaluating Customer Loyalty Solutions

Customer Loyalty Programs (CLP) have come a long way from their early beginnings in the 1970's. Conceptualized with the original idea of gaining a better understanding about popular routes for airlines, CLPs have evolved to become a subject of wider corporate aspirations and challenges.

The success of CLPs depends on two factors - a differentiating concept behind the program, reflecting corporate aspirations, and a solution capable of addressing technology challenges, reflecting corporate concerns. This mandates a thorough needs-analysis and objective evaluation of solution options, as each evaluation situation is more likely to be unique.

This paper highlights the technology challenges from a real-life situation involving a loyalty solution evaluation. The emphasis has been given on the key learnings that include - need to extend considerable attention in defining evaluation parameters, a stage-based evaluation, objectivity (scoring mechanism) and reviews from different perspectives (business, architecture, and subject matter experts etc.).

## About the Author

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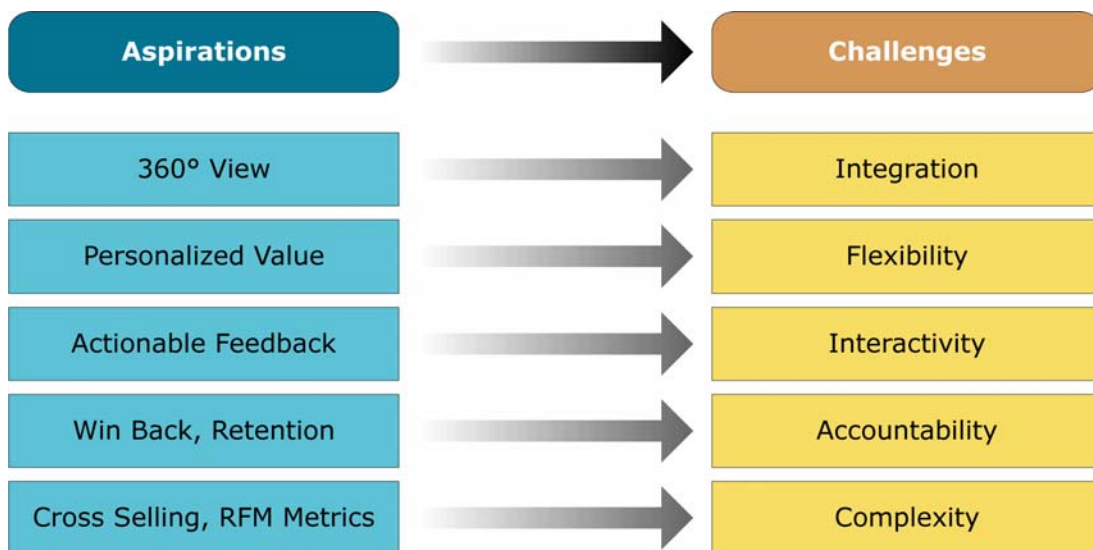
# Corporate Aspirations and Challenges

Customer Loyalty Programs (CLPs) have come a long way from their early beginnings in the 1970's when the airline industry invented frequent flier miles. CLPs, conceptualized with the original idea of gaining a better understanding about popular routes for airliners, have evolved to become a subject of wider corporate aspirations and challenges at the same time.

The success of CLPs arguably depends on two factors at a high level:

- A differentiating Loyalty Program concept that is a true reflection of corporate aspirations about customer relationships
- A CLP solution capable of addressing key challenges that truly reflect concerns in realization of such aspirations

Analysts have indicated that the success of loyalty programs is influenced by the choice of technology. This paper attempts to reinforce the ideology that, given a differentiating Loyalty Program concept, a lot of challenges relate to the choice of technology. A good CLP concept, to succeed, needs appropriate technological backing.



**Fig 1** Corporate aspirations and challenges

## Selling Propositions and Buyer Concerns

A simple search on CLPs or CLP Solutions on Internet results in a range of selling propositions. These propositions present a reflection of corporate aspirations attached to CLPs and CLP Solutions, such as:-

- 360 degree view across all channels
- Personalized and perceived customer value
- Actionable feedback / Understanding customer needs
- Customer win back/ Improved customer retention / reduction in customer attrition / enhancing customer acquisition
- Promoting cross-selling
- Improving (Recency, Frequency, Monetary) RFM metrics
- Achieving business goals

The promises tend to be as indirect as – Achieve business goals, or as direct as – Improve RFM metrics. This is the state of CLP Solutions today.

However, noted analysts and organizations, with experience in dealing with CLPs and CLP Solutions raise concerns regarding the validity of such propositions, such as:

- Do Loyalty Programs go beyond cost of doing business?
- Do Loyalty Programs offer any competitive differentiation?
- Do Loyalty Programs lead to customer loyalty or are limited to customer satisfaction only?
- Do Loyalty Programs influence purchase behaviors or are taken for granted?
- Do Loyalty Programs influence margins?

A direct answer for such concerns is almost unavailable. All such concerns point to the key success factors and an answer depends on how well a success factor has been addressed.

## Key Success Factors

Success of CLPs, arguably depends on two factors at a high level

- A differentiating Loyalty Program Concept
- Appropriate technological backing

### **A differentiating concept**

The strength of a Loyalty Program Concept lies in its ability to establish relevance for target customers. Research studies have established that coalition programs (or co-branded programs) tend to fare well in their ability to motivate desired customer behaviors. Another finding has been with the relevance of rewards for customers, for example, contribution to a social cause. Such findings are discussed in many research reports by noted analysts.

### **Technological backing**

Analysts have indicated that successful realization of a CLP Solution is influenced by a choice of technology. This mandates that a thorough analysis of an organization's needs along with an objective evaluation of solution options should precede a decision about a CLP Solution. This is important to extend considerable attention in defining evaluation parameters, as each evaluation situation is more likely to be unique.

## Loyalty Solution Evaluation – Key Considerations

Understanding potential challenges and bringing that out in the form of key evaluation parameters makes an important aspect of CLP Solution evaluation. The following sections define key evaluation parameters used for assessing the ability of CLP Solution options.



**Fig 2** Loyalty Solution Evaluation Considerations

## Decision between build and buy

A decision to 'build' implies developing a baseline CLP Solution and subsequently enhancing it for additional requirements. A decision to 'buy' implies making a choice from available packaged Loyalty Solutions. A variant to build could be a combination of a baseline CLP Solution and a business rules engine. This variant makes a hybrid solution where all business rules related processing is achieved using business rules engine product, while baseline CLP Solution provides for other CLP requirements. The build versus buy evaluation includes parameters like

- Strategic implication of technology choice – This factor determines the degree of technological alignment that loyalty solution needs to have with other systems including aspects like service-oriented-architecture and open-systems, that may be well on an organization's IT roadmap
- Time to market – Time to market has two aspects – readiness and effort. Readiness determines the ready-to-deliver functionalities offered by a solution option (in case of buy options) while effort determines person days equivalent to delivering required functionalities. It is important to understand that readiness takes into account the benefit associated with best practices, the selling proposition of all buy options, while effort takes into account the person days required in bringing such best practices live for use. Here the important assumption is that no functionality comes live with zero effort. So even out-of-the-box functionalities have significant configuration and integration effort, which cannot be ignored while assessing time to market capabilities.
- Future direction of loyalty and CRM aspirations of the organization – Loyalty systems tend to evolve, like other customer management systems, into more sophisticated solutions. This is defined by a CRM vision of the organization.
- Vendor Viability – This parameter takes into account factors like presence of the vendor (including sales offices and local support), compatibility of existing data center arrangement with the new vendor, financial prospects of the vendor and commitment extended to the loyalty domain.
- Cost of Ownership – This parameter takes into account the elements of cost involved in adopting a solution over a period (typically three years). This tends to be the most difficult parameter to evaluate as certain cost elements cannot be quantified at the evaluation stage.

## Interactivity

This parameter is critical as the success of the CLP depends on complex communication needs, including

- Timing – A communication meeting its intended purpose depends on how well timed is that piece of communication. Communication timing needs would vary between an immediate response, a synchronized response, or a well planned response, based on market conditions. Timing also has implications on the cost, for example, defining frequency at which the member activity statements and other notifications should be sent. Flexibility to gain control over timing mechanism is therefore a key consideration in evaluating loyalty solutions.
- Content – Although systems can do little to add meaning to the content, with a lot of member interaction moving online, web capabilities of loyalty solution should be evaluated.
- Channels of delivery – Loyalty systems tend to mature into sophisticated customer management solutions calling for a multi channel service delivery. Loyalty solutions multi-channel capabilities contribute to the complex communication needs of loyalty programs.
- Member preferences – This parameter takes care of effectiveness of an interaction, given efficiency. While timing, content and channel contribute to efficiency, effectiveness is determined by how relevant a message is for a member. One way to gain control over relevance is to keep track of member preferences and tune interaction, based on such member preferences.

## **Integration**

Loyalty systems exchange data with many peripheral solutions including

- Customer websites – Integration with customer websites could be real time for supporting enrollment, member inquiries, and promotions
- Core transactional systems – Real time integration is not critical with core transactional systems, however a significant lag in synchronizing data may not be favorable
- Reward fulfillment systems – Integration with fulfillment systems may be through batch processes, however integration with external fulfillment vendors depends on the vendors' ability to supply fulfillment related data back to the loyalty system. Vendors may not have the capability to store, organize, and feed such data.
- Data warehouse – Data analysis needs are served by these systems and a two-way batch integration is a typical requirement

## **Flexibility**

CLPs lead or lag (in the context of competition) depending upon flexibility of CLP solutions in accommodating changing business needs. Very often, a campaign launch by a competitor mandates an equivalent or superior response. An excess dependency on application support team compromises time-to-market, in such scenarios.

Flexibility is required to keep pace with evolving market needs including

- Program and promotion eligibility
- Reward eligibility and threshold
- Reward restrictions including benefits from concurrent promotions
- Member Tier Status Eligibility

## **Accountability**

Generally a CLP, being a marketing investment with a liability of accruing rewards with every valid transaction, cannot fare well in the absence of meaningful reporting. CLPs involve various elements of accountability that include

- Program performance reports
- Point balances and reward status
- Reconciliation with partners
- Operational reports for marketing managers
- Activity reports for program members

## **Complexity**

Complexity is a key parameter in evaluation of a CLP Solution option as CLPs tend to be complex with maturity, involving

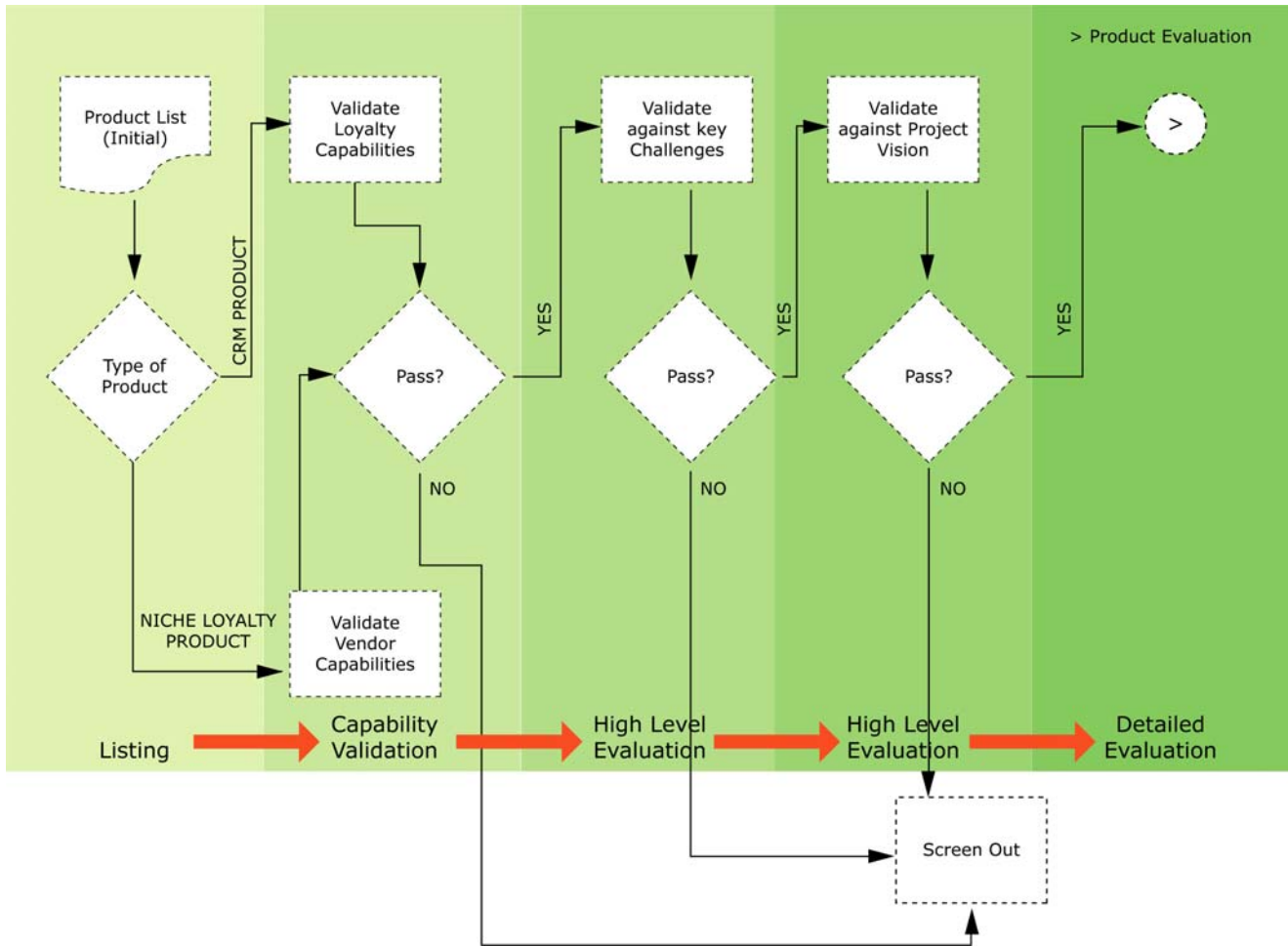
- Multiple brands
- Tier management
- Managing partner programs (co-branded or coalition programs)
- Participating franchisee locations
- Data feeds from multiple sources
- Multiple reward types and fulfillment channels (for example, email fulfillment)
- Multiple enrollment scenarios
- Tracking – duplication of benefits and reward restrictions, multiple contact information, multi stage enrollment process, tracking corporate and individual member status, tracking partner and partner-employee activities, milestone based tracking and rewards, and tracking individual sales and corporate sales
- Support functions including - self service, partner assisted service, email response, and tele-support.

## Other aspects of Solution Evaluation

Other important aspects of CLP Solution Evaluation (that would in general also apply to any situation involving solution evaluation) include a stage-based evaluation, objectivity (in most cases gained by a scoring mechanism based on a set of guidelines) and reviews from different perspectives (Business, Architecture, and Subject Matter Experts etc.). The following sections delve into such aspects:

### Stage-based evaluation process

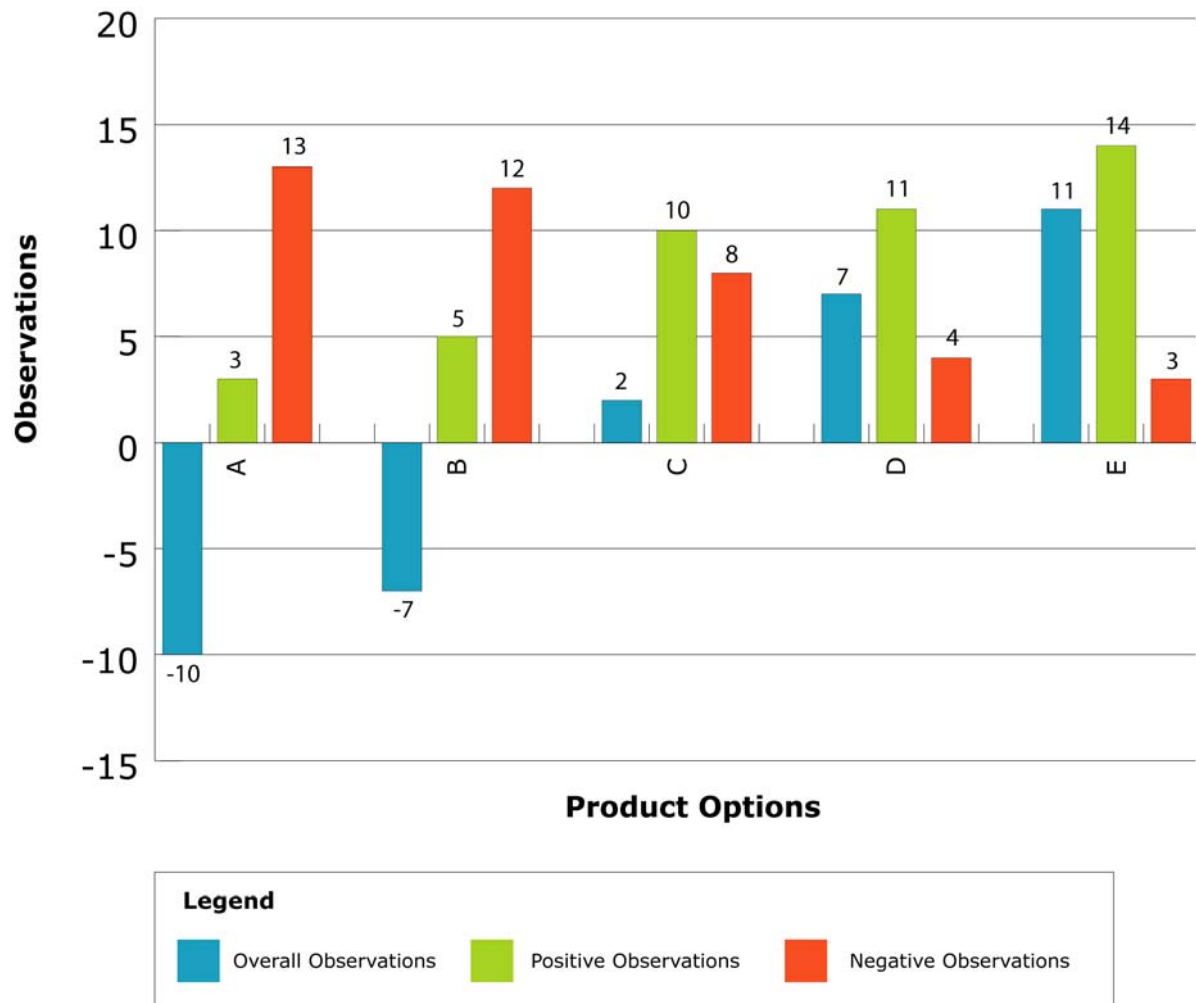
The evaluation followed a stage-based process such that each progressive stage screened out options that were deemed unfit. Each successive stage looked into finer aspects of CLP Solution capabilities by way of detailed evaluation parameters. Figure 3 is a graphical representation of the stage-based evaluation process.



**Fig 3** Stage based evaluation process

### Objectivity

At the end of each stage, the results are subjected to thorough discussions and reviews from different perspectives (Business, Architecture, and Subject Matter Experts etc.). As pointed earlier, it is required that objectivity (in most cases gained by a scoring mechanism based on a set of guidelines) be maintained throughout the evaluation process. Figure 4 is a graphical representation of an outcome from a screening stage, where X axis represents the solution options and Y axis is a plot of scores.



**Fig 4** Capability Validation

## Conclusion

This paper brings in key evaluation parameters that can be used for evaluating CLP Solution options for an organization. Although the parameters discussed in this paper are from a real life situation, another key learning has been about a need to extend considerable attention in defining evaluation parameters, as each evaluation situation is more likely to be unique. Other important aspects of CLP Solution Evaluation (that would in general also apply to any situation involving solution evaluation) include a stage-based evaluation, objectivity (in most cases gained by a scoring mechanism based on a set of guidelines) and reviews from different perspectives (Business, Architecture, and Subject Matter Experts etc.).

One size does not fit all - has been the underlying philosophy of the concept of CLPs. The same philosophy interestingly relates well to the choice of technology in realizing a CLP Solution. This mandates that a thorough analysis of an organization's needs along with an objective evaluation of solution options should precede a decision about a CLP Solution. This is also important to extend significant attention to the evaluation parameters (like a decision between build or buy, time-to-market etc.) as discussed in detail earlier in this paper.



## About TCS' CRM Practice

The CRM practice brings the right set of proprietary tools, methodologies, knowledge assets and alliances to partner meaningfully with leading organizations to support their CRM initiatives. Leveraging on extensive experience, the CRM practice helps organizations right from establishing a strategic vision to implementing and sustaining the CRM application.

## About Tata Consultancy Services

Tata Consultancy Services (TCS) is among the leading global information technology consulting, services and business process outsourcing organizations. Pioneer of the flexible global delivery model for IT services that enables organizations to operate more efficiently and produce more value, TCS focuses on delivering technology led business solutions to its international customers across varied industries.

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