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KPI-Based Evaluation of Customer Loyalty Programs

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Abstract

Loyalty programs are booming, but the evidence of their effectiveness is controversial. Many companies are unsure whether and how to use loyalty programs profitably. Measuring the effectiveness of a customer loyalty program is important, but not easy.

In contrast to the common practice of measuring loyalty programs based on the "outside-in" approach (competitor benchmark or customer surveys), this article suggests measuring them using the "inside-out" principle (i.e., from the company's perspective and using key performance indicators [KPIs] based on available data and financial figures). This is the only reliable method, albeit a harsh and rigorous one, to determine whether a loyalty program is working or not.

However, this principle imposes certain requirements: Assessing the success and health of a customer loyalty program requires continuous monitoring of KPIs. The challenge is *to know the relevant KPIs* (which is the focus of this paper) and to draw actionable insights from them in order to improve program performance. Both in research and in practice there are major deficits; this study closes this gap.

The study presents a *compendium of relevant loyalty KPIs* for measuring loyalty programs. It is based on a literature review of the last 25 years and interviews with 12 leading international loyalty experts from business and academia. With its comprehensiveness, the compendium represents a novelty on the loyalty market. Following a final expert ranking of the compendium's KPIs, the study concludes with *a list of the top 10 loyalty KPIs*.

Through this independent and critical study, companies can learn how to measure the health of their customer loyalty programs and improve their performance in a sustainable and targeted manner. *Program management becomes more fact-based* and less driven by intuition or blind copying of competitors.

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1.   Definitions

In this section, we will define and explain the terms most frequently used in this study.

1.1   Loyalty Programs

The term *loyalty marketing* includes all aspects of sustainable customer relationship management – in both B2C and in B2B – in combination with delayed reward mechanisms (monetary rewards such as points, vouchers, and cashback programs or non-monetary rewards such as status and privileges). In this study, loyalty marketing is used in the context of loyalty programs.

Programs can be customer loyalty and bonus programs as well as customer and member clubs. They all have the same focus: customer retention and customer development on a long-term basis. This distinguishes loyalty programs from short-term loyalty and sales promotion measures (e.g., collectibles, cashback programs, or coupons), which are understood as discounts. In practice and research, there are different definitions of loyalty programs (cf. Dorotic et al., 2012, p. 218; Staudacher, 2021, p. 450). This study uses the definition from Kim et al. (2020, p. 3): "We define loyalty programs as any institutionalized incentive system that attempts to enhance consumers' consumption behavior over time, which captures a broad span of types of programs." An overview of the different types of loyalty programs can be found in the appendix.

Loyalty programs are not a new phenomenon. The history of loyalty programs began in the late 18th century (Kim et al., 2020). The first contemporary, data-driven customer reward program originated in 1981 when American Airlines launched its AAdvantage program with the goal of increasing profits (customer development). In the following decades, virtually all hotels, restaurants, and retailers began providing some type of incentive to customers in order to encourage loyalty.

Today, loyalty programs have become a serious financial business – and in some cases a business entity of their own. As a result, the accumulated rewards (especially points and vouchers) are a form of currency that a company must report on its balance sheets (PwC, 2016).

The rise of information technology and social media have also changed the loyalty landscape. Programs have become increasingly digital. In addition to merely rewarding purchases, loyalty programs have started to reward online interactions, such as likes and recommendations, that promote the company and its products (cf. Crowd Twist, 2016). Accordingly, integration with mobile applications has become a necessary component of loyalty programs.

Future trends will feature more creative, innovative, and relevant rewards, gamification concepts, and graphic designs (fewer words and more images) – including seamless omnichannel experiences that transcend mere online or offline transactions (Kim et al., 2020).

1.2   Loyalty KPIs

Key performance indicators (KPIs) are core metrics that relate to the success and performance of a company or its individual units (e.g., the proportion of customers in the elite segment). Compared to ordinary "business as usual" metrics (e.g., the number of respondents to an email campaign), KPIs are those metrics which move an organization forward (OnStrategy, 2020).

Customer loyalty program KPIs (herein called loyalty KPIs) enable comparisons between program management actions and thus create the basis for A) triggering relevant individual marketing measures (e.g., adjusting the points earning/burning rule) and B) prioritizing and improving budget allocation.

The loyalty KPIs therefore clearly show what the company needs to measure and control in order to achieve its long-term goals (e.g., retaining profitable customers). Ideally, the KPIs are monitored against *target KPIs* in order to identify potential gaps between as-is and to-be and to close these with appropriate measures. This paper identifies and evaluates the most important KPIs for measuring loyalty programs.

1.3   Inside-Out & Outside-In Views

Basically, loyalty programs can be analyzed and evaluated from two perspectives: from an inside view (inside-out) and/or from an outside view (outside-in). Both perspectives help program managers to make decisions, which improve the programs.

The *inside-out view* describes decision-making from the company's perspective (Waack, 2019). This means focusing primarily on the needs of the company ("What is best for the company?") and secondarily on the needs of the customer. In loyalty, the inside-out decision process relies on the data (master and transactional data) that the program is generating.

The *outside-in view*, on the other hand, describes decision-making from the customer's perspective (Waack, 2019). This means primarily taking into account the needs of the customer ("What is best for the customer?"). Here, program managers use customer surveys and benchmarking (i.e., information from outside the company) to create the necessary (customer-centric) basis for decision-making.

The current practice of loyalty marketing recognizes both approaches and a mixture of both, with the outside-in view being the most commonly used. This paper compares the two in the context of a better program management.

2.   Background

In order to identify and evaluate the relevant KPIs for customer loyalty programs, this study must take into account the general situation on the market and the existing scientific research.

2.1   Boom in the Loyalty Market

Customer loyalty programs are on everyone's lips – nationally, globally, and in all industries. More and more companies are looking for ways to incentivize customer loyalty and they rely on loyalty programs or are planning to introduce them.

Many experts have highlighted this trend: Bruhn (2016), for instance, mentioned that loyalty programs have become more widespread in recent years. Similarly, Staudacher (2021) comments that "for customer-oriented organizations, it is an obligation to establish a customer loyalty program" (p. 432). Merkle's Loyalty Barometer Report (2020) states that "loyalty programs can be found everywhere these days" (p. 3). McKinsey (2020) confirms: "Many companies have been introducing loyalty programs in the last few years, and a series of major companies are relaunching established programs" (para. 2).

In order to illustrate this market boom with figures, let us take a closer look at two example markets: the USA (representative of the English-speaking and strongly developed loyalty market) and Switzerland (representative of the Continental European and, in comparison, moderately developed loyalty market):

- *USA*: The average U.S. household participates in more than 30 loyalty programs and program membership has quadrupled since 2000 to 3.8 billion members in 2016 (Fruend, 2017). Experts expect the loyalty program market, estimated at $4 billion in 2020, to reach $18 billion by 2028, at a compound annual growth rate of 22% from 2021 to 2028 (Fortune, 2021).
- *Switzerland*: The Swiss market also has many programs. "Currently, we count over 25 million loyalty cards and over 150 modern programs" (Meili, 2018, para. 4). That makes six loyalty programs per household. According to the 2019 Loyalty Report, 42% of B2C companies in the DACH region already offer a loyalty program and another 6% are planning to introduce one (Service Excellence Cockpit, 2019).

However, the widespread penetration of programs does not automatically mean that they are successful, as we will see in the following section.

2.2   Effectiveness of Loyalty Programs

Academic researchers have begun to question the effectiveness of customer loyalty programs. While some studies have confirmed certain positive effects of the programs on customer behavior (cf. Nunes & Drèze, 2006; Breugelmans & Liu-Thompkins, 2007), others report little to no impact. Groundbreaking articles questioning the benefits include Dowling and Uncles' (1997) "Do Customer Loyalty Programs Really Work?" and Shugan's (2005) "Brand Loyalty Programs: Are They Shams?"

In most cases, the main criticisms are as follows:

- Enrolling members does not automatically lead to higher revenue and profit, resulting in a gap between financial returns and expectations.
- Customers do not clearly see the benefits of a loyalty program and view the program's rewards or communication as irrelevant, resulting in high levels of program inactivity.

Generally, the academic literature does not paint a cohesive picture. As McCall and Voorhees (2010) put it, "the academic literature may provide more confusion than guidance to managers" (p. 36).

Not surprisingly, managers are avoiding the question of their programs' effectiveness; often they argue that the program performs cross-departmental tasks (e.g., CRM, customer service, and finance) through the data it generates and therefore does not need to deliver a direct ROI. However, in a direct cost-benefit analysis, few programs can provide solid arguments to justify the investment made to set up and run a program. An analysis by Oliver Wyman (2015, p. 3) shows that only in a few cases can the costs of a customer loyalty program be recouped by the profits generated through the use of the program's data. The author concluded that "of all the customer loyalty programs on the market, only 20% are economically successful." The following quote from an anonymous manager at Millennium Hotel Group symptomatically illustrates this shortcoming: "You know, I have this customer reward program, it's kind of expensive, but I feel like I have to have a program because everyone else has one. Honestly, I don't know what, if anything, it actually does for me" (McCall & Voorhees, 2010, p. 36).

Today, as modern customer loyalty programs have evolved into a business in their own right (Section 1.1), loyalty program managers are facing increasing resistance from their colleagues in finance and accounting, who are concerned about the costs that customer loyalty programs add to a company's balance sheets. Consequently, managers are challenged to present a compelling and quantifiable argument to prove the impact of a loyalty program.

Measuring success becomes more important than ever.

2.3   Measuring Loyalty Programs

Research and the author's personal experience over the past 20 years suggest that most loyalty programs (regardless of location, size, or industry) are run without the appropriate metrics or target parameters.

Practice shows that companies rarely measure the success of programs. They usually limit themselves to relative year-on-year comparisons (e.g., the number of customers). These are interesting comparisons, but they say little about the actual performance and health (fitness level) of a program.

To evaluate the overall performance of a loyalty program, loyalty marketers must use other methods that focus on the right KPIs and they must compare actual figures to targets.

2.4   Literature on Program Assessment

Despite the ubiquity of loyalty programs, there is a lack of literature on the subject of KPIs for customer loyalty programs – with the exception of activity, expiry, and redemption rate (the three classic metrics). Most articles, including those in trade journals, reference books, or conference papers, are limited to certain aspects of loyalty programs (e.g., hard vs. soft benefits or rules for qualification to an elite group), case studies (e.g., redesigning a certain program), or comparisons of program models (e.g., with or without a partner network [cf. Stourm, 2016]). Strikingly few studies address the question of how to measure the overall effectiveness of loyalty programs as such (cf. Loyalty Report, 2019).

Some studies focus on a single KPI, but there has essentially been no independent study of loyalty KPIs in a comprehensive, unified whole. Some exceptions are certain leading consulting firms (e.g., McKinsey or Oliver Wyman) and software vendors (e.g., Comarch, Tibco, or Smile.io), which publish some recommendations on loyalty KPIs . However, these are biased and are used as door openers for larger consulting projects.

Given the limited number of independent studies, the aim of this paper was to provide a non-biased synthesis of findings from academic research (literature review) and industry experts (interviews).

3.   Research Question & Methodology

We have seen in Section 2 that loyalty programs are ubiquitous, that there are doubts among experts about their effectiveness, and that there is generally very little measurement of the programs. There is also limited research on how to properly measure loyalty programs.

3.1   Research Question

Following from the above background, the following central research question is the focus of this paper: *What are the relevant KPIs to best evaluate and measure a loyalty program?*

The goal of the study is to provide a fact-based foundation upon which managers can properly manage, control, monitor, and adjust/renew their loyalty programs.

As with a check-up at the doctor's office, the study should identify the first steps of a "health check" of such programs based on international best practice. By knowing and measuring the relevant KPIs, program managers obtain concrete information about the program's performance and can identify where there is room for improvement and where they need to make adjustments.

The classic quote from the economist Peter Drucker also applies here: "You can't manage what you don't measure." Aligning the company with the right activities or strategies is difficult or even impossible if this is not done. The same applies for loyalty programs.

From this point of view, the study focuses on identifying the right KPIs for professionally evaluating programs, including some high-level recommendations on respective marketing activities. The KPIs identified herein will be summarized in a "compendium" of Loyalty KPIs, presented in Section 4. This compendium will represent *the first unbiased and the most comprehensive overview of relevant KPIs for the loyalty marketing industry*.

Follow-up studies can further develop this KPI perspective, for instance, toward a standardized health check for programs, with modern data-driven dashboards and scorecards (see Section 7).

3.2   Methodology

The research focuses on general KPIs that, in principle, are relevant for any type of loyalty program in either B2B or B2C contexts (see all the different types in the appendix).

As a proxy for the majority of loyalty programs, the study uses medium-sized (>100,000 members) B2C programs from the retail, e-commerce, travel, and finance sectors in Western Europe and North America. This selection ensures the greatest possible validity of the resulting KPIs (exceptions apply).

The study is methodologically divided into two parts: a qualitative research part and an empirical part based on a survey. The former serves to consolidate the literature review and the author's personal experience in dealing with program assessments, while the latter builds on it and shows the most important KPIs of the experts interviewed.

- *The research part* is based on desktop research of national and international publications as well as the author's experience from 20 years as a strategy consultant for designing and redesigning European loyalty programs. To identify the most important KPIs of modern customer loyalty programs, academic databases such as Research Gate, Springer Journals and Google Scholar were examined. Our search terms included "loyalty KPIs," "loyalty measurement," "loyalty effectiveness," and "loyalty program evaluation." The selected studies were published within the last 25 years. Additional articles were included when the context and implications were related to loyalty KPIs, such as the 2019 Loyalty Report, a European online benchmarking analysis.

- *The empirical part* is based on exploratory interviews with proven customer loyalty experts from the fields of business (a practical perspective) and research (an academic perspective). The goal was to identify overarching, general patterns through the interviews. The 12 experts are leaders in loyalty and were carefully selected from the author's personal network. They are from eight different countries and each has more than 10 years of professional experience with customer loyalty programs. This combination of practice and research in a survey about KPIs is new to the customer loyalty market and is intended to provide new valuable insight for proper program management. Due to the physical distances involved, the interviews were conducted online. A structured questionnaire with open and closed questions was used to collect both opinions and brief experiences on the topic. The questionnaire was subjected to a pre-test; it is reproduced in the appendix. The interviews with the experts were conducted between March 2021 and December 2021. A total of eight content-related questions were asked. The average time to complete the survey was 12 minutes 46 seconds. Microsoft Forms was used as the survey software. Descriptive statistics based on the fully completed questionnaires were used for the analysis, which was performed in MS Excel.

The following two sections present the results of the two methods.

4.   Research: Relevant Loyalty KPIs

Typically, loyalty KPIs cover the following key dimensions:

- Membership view (KPIs which track member behavior in a program).
- Program view (KPIs which track program metrics based on set rules)
- General customer scores (KPIs which track qualitative/quantitative member values)

Any change in the program (e.g., redesigning the program with new rewards) has an impact on one or more of these three dimensions. Each dimension has its drivers, with corresponding KPIs. Some are more important than others.

What are the right KPIs?

Firstly, it is crucial to note that metrics are only valuable if action can be taken using them. Secondly, as Envolved (2020) explained: "yesterday's KPIs will no longer be sufficient for measuring the success of programs in the future" (p. 10). In a program that is not only transaction-based, but also dynamic and emotional, measuring success using classic key performance indicators (see Section 1.2) is no longer sufficient and must be expanded with additional KPIs. Considering these aspects and the primary and secondary sources cited in this study, Table 1 presents a compilation of the 20 most frequently mentioned KPIs, compiled as a "Loyalty KPI Compendium." Due to its comprehensiveness, this represents a novelty in the industry.

There are some notes to bear in mind regarding Table 1:

- The list is not exhaustive, but is an attempt to collate the most relevant KPIs that are currently used most often in the market in relation to loyalty programs.
- If a program has a specific strategic goal (e.g., preventing churn or increasing revenue), the selection of core KPIs to be tracked will slightly change.
- In addition to the list of generic KPIs, program managers can consider additional bespoke KPIs (not part of Table 1) to meet the company's industry-specific goals (e.g., card expenditure volume for a credit card company).
- Indicators such as "total points spent" and/or "points expired" are not listed. We do not consider these as KPIs, because they reflect absolute numbers that do not provide information on the program's health – no action can be taken using them.
- The overview of KPIs is supplemented with possible marketing measures (the last column), which can be further elaborated upon in follow-up studies, together with target values for the KPIs.

Table 1 – Compendium of Loyalty KPIs

Loyalty KPI	Definition	Importance	Possible actions
Membership View (behavioral metrics - according program usage)			
New Acquisition rate (also: annual growth rate)	Share of members enrolled last year (new members) in % of total program member base.	Important, because without continuous growth, it is challenging to meet company's overall financial goals.	- active acquisition at POS - review of onboarding process - adapt value of welcome bonus
Acquisition Quality	Of the members who join the program, % that activate (make first purchase) within first purchase cycle.	Important, because those who don't activate have a high likelihood of lapsing out of the program.	Introduce "habit shaping" strategy, e.g.: - automated email after 1 month - nursery call after 2 months
Activity rate	% of members that made at least one *purchase* last year/last 12 months.	Indicates engagement degree of members in the program.	- award points for a purchase - offer rebate coupons for a purchase
Engagement rate	% of members that made at least one *purchase and/or a non-transaction (e.g. referral)* last year/last 12 months.	Indicates the degree and depth of brand interactions of a customer. Likelihood not to switch to a competitor.	- award points for a purchase - encourage to connect on social - reward customers for referrals
Turnover penetration rate	Share of the company's total sales realized by members of the loyalty program.	Indicates how mature and relevant the program is and if the most valuable customers are successfully included.	- focus on acquisition & enrollment - increase welcome bonus - outbound calls
Churn rate (also: attrition rate)	% of members that have left the program, and potentially the brand.	Vital, because acquiring a new customer costs 5X more than retaining an existing customer. (Reichheld, 2001)	- set-up churn model (Kognitiv, 2020) - optimize retention/churn strategies - use predictive behavior
Share of elite members (also: elite status rate)	Indicates proportion of top customers in higher program status (tiers or hierarchical levels).	Important, because elite members are the most valuable customers. This is often referred to the Pareto-Principe.	- offer new privileges to motivate elites - introduce another tier level - change (re-)qualification calibration
Repeat purchase rate (also: incremental frequency)	The proportion of customers that have shopped more than once with your company.	Important, because it answers the financially relevant questions: are my customers coming back, how often?	- engage with post-purchase message - incentivize a second purchase - optimize with targeted emails. …
Average order value	An average order value tracks the average amount spent every time a customer places an order.	Traditionally, it is one of the first KPIs business owners try to increase revenue. (Shopify, 2020)	- offer 'free shipping' - bundle products or create packages - cross-sell complementary products
Member lift in spend (also: incremental turnover)	% increase in spend for active members versus non-members.	Shows how many higher transaction size loyalty members take compared to non-loyalty members. (Kognitiv, 2020)	- improve targeted communication - stronger customer centric approach - award points for transactions
Elite spending lift	% increase in spend for elite/status members versus non-elite members.	Important, because it shows if the program is well calibrated to tap strong ROI from elites according Pareto rule.	- identify and focus on best customers - review elite levels (rules, benefits) - introduce another tier level
Incremental revenue/margin (also: revenue per member)	Calculates the increase (or decrease) in contribution margin caused by the loyalty program (Milesahead, 2020).	"This KPI is vital because it determines the overall health of the program." (Kognitiv, 2020)	- reduce operating cost of the program - review rewards budget - plan potential exit strategy
Participation rate	% of customers participating/enrolled in the program.	KPI demonstrates if the program is easy to find and equally simple to join, with a relatively frictionless adoption process.	- offer reward your customers want - promote program in visible places - explain how the program works
Program View (earn & burn and costs metrics - according program rule setting)			
Points earn rate (also: accrual rate)	Exchange rate from commercial money into loyalty currency – the provider or issuer decides on the rate.	shows the generosity of program toward the customer and allows comparing to competitors value proposition	- increase/decrease points rules - differentiate basic vs. promo points - include multiplicators
Points burn rate (also: redemption rate)	Share of points redeemed divided by total points issued in a same period (usually last year).	Redemption rates are the pulse for how engaging a program is (Smile.io, 2018)	- encourage members to redeem points - identify best moment for redemption - offer rewards ready to be redeemed
Share of non-transactional earn	Share of rewards given to non-payment behavior, e.g. social media engagement (Kim et al., 2020).	Members rewarded for social engagement display higher loyalty than those rewarded solely for purchases.	- incentivize co-creation - reward member-get-member - encourage profile updates, social posts
Points expiration level (also: expiry rate)	Share of points expired divided by total points issued in a same period (usually last year).	Points expiration will motivate members to come back and to continue purchasing (Breugelmanns, 2017).	- review the lifetime of points - review the points expiry message - review exceptions for elite members
Program Cost rate	Share of total sales covering annual cost of the program	Provides transparency in budgeting rounds and organizational impacts, and provides comparison to benchmark	Review costs for redemption, staff, communication, IT platform (licenses and operations), etc.
General Customer Scores (qualitative and quantitative member values)			
Net Promoter Score NPS	NPS measures the attitudinal loyalty of customers to a company reported with a number from the range -100 to +100.	Provides insight on the members' emotional connection to a brand – a key driver for increasing brand loyalty.	Set-up a "driving advocacy" action plan, to engage customers with co-creation, charity, referrals, etc. (Meili, 2021).
Customer Lifetime Value CLV	Reflects how much revenue members will create over the period of time in which they are enrolled in the program.	Members with a high CLV indicate that they are the customers for which efforts should be focused (Llaguno, 2018).	Focus on the factors that influence the CLV: improve turnover, reduce churn, prolonged tenure, add self-service, etc.

5. Expert Interviews: The Top KPIs That Matter

The survey addresses experts who deal with loyalty programs on a daily basis and have many years of experience in this area. These are recognized international loyalty leaders from the worlds of academia and marketing. Table 2 is organized according to these two perspectives.

Table 2 – Experts & Interviewees

Expert	Organization	Role	Location Country	Perspective
Matilda Dorotic	BI Norwegian Business School	Associate Professor Marketing	Oslo, Norway	Academia
Yuping Liu-Thompkins	Old Dominion University	Professor Marketing	Virginia, USA	
Valeria Stourm	HEC University	Assistant Professor Marketing	Paris, France	
Lena Steinhoff	University of Rostock	Assistant Professor Service Management	Rostock, Germany	
Wayne Taylor	Southern Methodist University	Assistant Professor Marketing	Dallas, TX, USA	
Clay Voorhees	University of Alabama	Professor Marketing	Tuscaloosa, AL, USA	
Michael Bietenhader	MilesAhead Ltd.	General Manager	Zurich, Switzerland	Practitioner
Baiba Ebulina	Civitta Ltd.	CEO	Riga, Latvia	
Rémon Elsten	Crystal Partners Ltd.	Consultant	Zurich, Switzerland	
Stuart Evans	Independent	Loyalty Consultant	London, UK	
Paul Smitton	Cathay Pacific Ltd.	CEO Asia Miles	Hong Kong, CN-HK	
Reto Wettstein	Independent	Loyalty Expert	Zurich, Switzerland	

The following sections present the findings and key messages. The interviews yield a better understanding of the loyalty KPIs and the respective experiences of the experts. Selected personal experiences and direct quotes provide an individual perspective to the answers.

This section is structured by the seven items in the questionnaire (see the appendix). As the opening question of the survey, the first item aims to assess the KPIs defined and identified in the KPI Loyalty Compendium (Section 4, Table 1).

Item 1 – What are the most important loyalty KPIs?

On a three-point scale, respondents rated how relevant the KPIs are for measuring program performance (very important; somewhat important; neutral or no opinion). The sum of all points results in the following ranking, in order of importance.

Table 3 – Ranking of the Most Important KPIs

#	Key Performance Indicators	Ranking, overall (n=12)	Ranking, practitioners (n=6)	Ranking, academia (n=6)
1.	Customer lifetime value (CLV)	1	1	1
2.	Member lift in spend	2	2	6
3.	Incremental revenue/margin	2	2	6
4.	Churn rate	4	4	3
5.	Repeat purchase rate	4	7	2
6.	Engagement rate	6	7	3
7.	Program cost rate	6	7	3
8.	Growth rate	8	7	6
9.	Activity rate	8	7	6
10.	Redemption rate	8	4	11
11.	Acquisition quality	11	7	11
12.	Participation rate	11	13	6
13.	Average order value	13	13	14
14.	Accrual rate	13	13	11
15.	Net promoter score	13	4	16
16.	Elite in spend	17	17	17
17.	Share of non-transactional earning	16	17	14
18.	Share of elite members	18	20	17
19.	Turnover penetration rate	19	13	19
20.	Points expiration	20	20	19

The results reflect the opinions of the experts who were interviewed and are not meant to be statically representative. Based on this premise, Table 3 leads to certain conclusions.

- "Customer lifetime value" (CLV) was the undisputed favorite of all the experts surveyed. This shows that customer loyalty programs go beyond mere retention and have a mandate to increase quantitative customer values by focusing on the right customers, i.e., separating the wheat from the chaff. In a follow-up study, it would be interesting to examine whether other CRM customer values – such as recency, frequency, monetary value (RFM; not listed in Table 1) – would be rated as highly in the context of loyalty.

- The other four most important KPIs were strictly economic in nature. They show the incremental direct financial contribution of customer development: the percentage of increased sales, profit, and purchases, as well as of customers lost. With these KPIs, the mission for the loyalty program is clear: to drive incremental revenue and *to go the extra mile*.

- It is striking that the classic KPIs, which are relatively easy to calculate – "activity rate," "redemption rate," and "expiry rate" (see Section 2.4) – were not among the most important parameters. Whereas "redemption rate" was regarded as being important among the practitioners (fourth place), this was not the case among the academics (11th place). "Expiry rate" (decisive for liability accounting) was a surprisingly unimportant metric to all the respondents (20th place). This may also be because CFOs (who are interested in all the financial implications of expiring points) were not represented among the interviewed experts.

- The comparison of practitioners versus academics did not reveal any major differences. Both groups agreed on the ranking of the top KPIs. What they did consider differently, however, was "redemption rate" and "net promoter score" (important for the practitioners) and "repurchase rate" and "participation rate" (important for the academics). The difference between practitioners versus academics was most obvious for "net promoter score" (4th and 16th places, respectively). This finding presumably reflects the fact that this metric (based customer opinion and willingness to recommend) is becoming increasingly widespread in practice, but is still controversial among academic experts, who distinguish between behavioral and attitudinal loyalty (cf. Uniphore, 2017).

Item 2 – Are there any KPIs missing in the above overview?

Most of the experts independently confirmed that the list of KPIs in Table 3 covered well the current state of knowledge (e.g., "I don't think anything is missing"). Four out of twelve stated that the list of KPIs in this comprehensive form was new and, as such, a first in the industry.

When asked which KPIs were missing from the above list, some experts mentioned: "cost per member" and "advocacy." [Author's note: Both metrics are covered *mutatis mutandis* in Table 3, under "program cost ratio" and "net promoter score," respectively.]

Reflecting the fact that loyalty programs have become a financial business of their own (see Section 1.1), one expert proposed a "combination of earn & burn KPIs" and compared monetary program management to those of a national bank with its own currency:

"'Balance growth' – Going up at a steady (inflationary) rate is healthy. Too fast growth means the program is issuing too many miles/points and may struggle with redemption/expiry rates that are too high. Negative growth in balance means members cashing-out. This is one of the most critical measures for a program. Like a central banker managing a currency."	Paul Smitton

As mentioned in Section 4, it may be advisable to add one or two industry-specific KPIs to the list of generic KPIs. Below are two suggestions for the *hotel and payment industry*:

"This is a really strong list and comprehensive (the most comprehensive I have seen). The only other thing I've seen that some companies in hospitality really value is channel activation or channel defense. What I mean by that is the share of direct bookings or purchases from reward members versus transient customers. In hospitality, keeping reward members directly booking is gold."	Clay Voorhees
"What about linking together metrics with brand- and CRS-related KPIs to get a more holistic picture of how to manage customer relationships and referring KPIs to the natural development of loyalty programs in financial payment mechanisms, which again offers new perspectives for LP managers?"	Matilda Dorotic

Item 3 – Share your experience with loyalty KPIs or measuring loyalty programs

When asked about their experience with loyalty KPIs, two experts (Stourm and Bietenhader) replied that there is always a small percentage of members who generate most of the value. Because these members receive disproportionately high rewards, companies should measure loyalty KPIs at the segment level, not just on average.

Other experts found that KPIs are only successful if they are tracked regularly and do not neglect the aspect of "attitudinal" loyalty (see the last comment under Item 1):

"Look at them every day. [It's a] critical part of operating a healthy business."	Paul Smitton
"The research evidence on the effectiveness of loyalty programs in fostering 'true' loyalty is mixed. Specifically, some programs may stimulate behavioral loyalty, but fail to create attitudinal loyalty toward the company. Also, for behavioral loyalty, positive effects have been shown	Lena Steinhoff

> to erode after some time, so the challenge here is to keep customers active and engaged to enhance their loyalty in the long run."

In summary, the experts stated that their experience has shown that loyalty programs must be analyzed carefully and that the effectiveness of the programs per se is not a given.

Below we come to one of the main assumptions of this paper, namely, that programs in general are not in good condition (see Section 3) and that in order to work effectively they need a cure.

Item 4 – How "healthy" is the average loyalty program?

On a scale of zero to ten, the experts rated the general health of loyalty programs.

Figure 1 – Health check rating
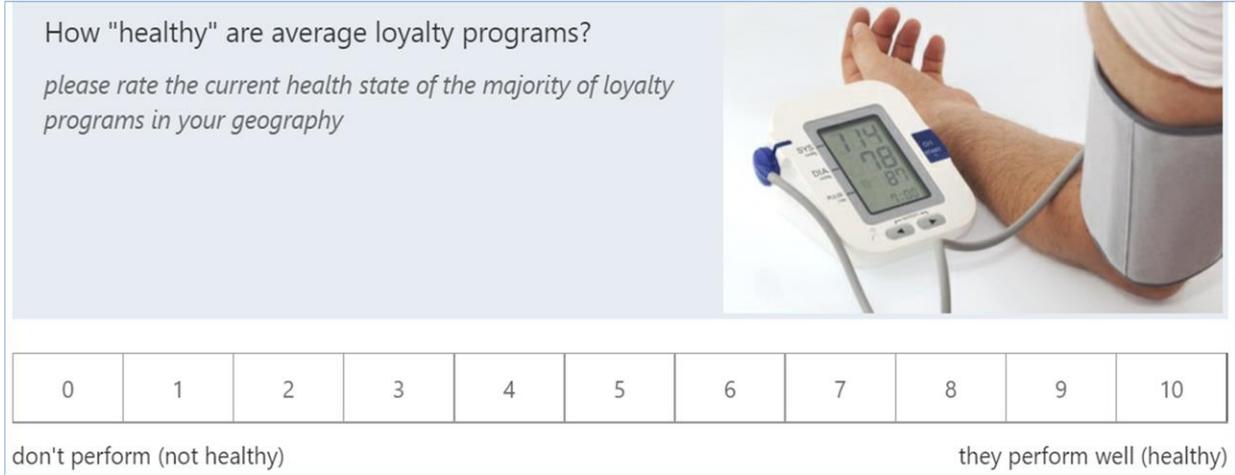
The answers of the participating experts ranged from three to seven and resulted in a mean score of 5.1 (median: 5.0). Applied to an NPS (net promoter score) calculation, this would result in a score of -82. This indicates that the experts considered such programs to be unhealthy and performing moderately well, which reinforces the fact that it is worth taking a closer look at the programs.

Items 5 & 6 – What factors influence the success of programs?

In the questions regarding what is required for programs to be successful or healthy, the survey provided ten pre-formulated listed factors. The experts were asked to rank these factors in order of importance.

Table 4 – Influencing factors

#	Factors that influence loyalty program health	Ranking, overall (*n*=12)	Ranking, practitioners (*n*=6)	Ranking, academics (*n*=6)
1.	Customer experience & level of digitization of the program (e.g., redemption process)	1	2	1
2.	Program design (tiers, points, rules, rewards, features, etc.)	2	3	2
2.	Top level support (stakeholder management)	2	1	3
4.	Competition (e.g., competitors have a program or not)	4	3	4
5.	Size of the program (e.g., large programs are easier)	5	7	5
5.	Industry sector (different impact levels)	5	7	6
5.	Skill level of employees managing the program	5	5	7
8.	Contractual vs. non-contractual business	8	9	7
9.	Lifetime of the program (maturity levels)	9	5	10
10.	B2B vs. B2C (different impact levels)	10	9	9

Table 4 shows the following findings (to be explored in greater depth in a follow-up study):

- The main factor was "customer experience" in connection with more digitization of the programs, a finding which highlights the importance of being customer centric.
- "Top level support" was the most crucial factor of success for the practitioners (first place). This can be explained by the fact that these experts are closer to the decision-making processes in loyalty marketing than their academic colleagues are.
- "Program design" was also a top-rated influencing factor (second place). This shows that proper program calibration, the definition of innovative features, and balanced benefit packages can make all the difference. It can be assumed that the factors "competition" (fourth place) and "industry" (fifth place) are included as part of the conception of "program design."
- The comparison between practitioners and academics revealed few differences, except for the "life of the program" (ninth place) age factor. Here, the practitioners, who are closer to the market, saw a reason to act earlier than the academics.
- Finally, it is striking that all experts considered the difference between "B2B and B2C" (10th place) to be irrelevant to a program's success.

Generally, the path to be taken towards a better program was clear to all the respondents: First, measure the current performance, thereby generating customer insights, and finally derive the right customer-experience measures.

Some experts provided additional advice:

"At the core of loyalty programs is customer data and using that data to make marketing more effective. The best programs I've seen are very active in generating customer insights through loyalty programs and using those insights to develop new products and customize marketing campaigns."	Yuping Liu-Thompkins
"[It is decisive] how effectively data collected from the program is used to create value and insights."	Valeria Stourm
"Communication: without communication the best *program design* has no effect on customer behavior (this includes all kind of communication, for example, classic, automations, or dialogue)."	Michael Bietenhader

Item 7 – Why do companies usually not share loyalty KPIs?

The survey did not confirm the assumption that companies actively keep their loyalty KPIs hidden and prefer not to share them. The reason they do not share KPIs is more complex. A selection of the answers given by the experts is presented below.

"In many cases, aside from the confidentiality, they don't know the KPIs or are too embarrassed by poor performance."	Stuart Evans
"Sharing customer metrics would allow competitors to gain insight into the value of the customer base, which affects strategic decisions (e.g., how many resources to invest to compete for the same customers)."	Valeria Stourm
"Fear of performance transparency."	Rémon Elsten
"I'm not sure whether this is a case of not wanting to talk about loyalty KPIs – that doesn't necessarily match my experience. Rather, a challenge I observe when talking to loyalty program managers is that some companies simply lack the resources (e.g., in terms of time or analysis skills) to continuously analyze their loyalty program data in-depth using state-of-the-art scientific methods."	Lena Steinhoff
"Most firms I talk to are insecure. They are worried that if they share KPIs, others will be better and it will reflect poorly on them. Alternatively, they don't have a clue and truly don't have clean KPIs to share."	Clay Voorhees
"The data is not available …"	Michael Bietenhader

Basically, the prevailing trend seems to be that many companies are not even aware of the program KPIs. This is mostly because they do not measure the KPIs or are unable to measure them because they lack the technology (such as database interfaces).

Item 8 – Do you have any general observations/opinions/recommendations about the topic "loyalty KPIs"?

The following recommendations conclude the survey and bring the study to a close.

"Get the right measures, track them, and understand how to move them."	Paul Smitton
"KPIs are often defined only at the end of a project, although they should be defined at the beginning, together with the program objectives. This is a good example of how the topic is often not approached strategically."	Michael Bietenhader

6. Conclusion

The research indicates that *few loyalty managers expose their programs to systematic performance measurement*; many do not even know how to track the business success of their program. This is alarming.

Loyalty programs are no longer the "buy 10 get 1 free" punch cards of former days. They have evolved greatly in the last 20 years and have become a serious financial business, often a business of their own. In this context, measuring the effectiveness of a loyalty program is indispensable, but – as the research has shown – not always easy.

This paper reveals *the need to adopt a KPI perspective*. Today's loyalty managers should move away from blindly matching the competitors' customer value proposition (benchmark) toward a metric-based measurement system. This approach (though unfortunately still underused due to a lack of knowledge) has the following advantages:

- Companies ensure that there is a plan to measure success.
- Companies can make a qualified statement and diagnose the program's effectiveness.
- Companies can take respective marketing actions based on economic data points.

Additionally, experience shows that companies often define program KPIs only after the program has started – if at all – and not along with the strategic objectives before the start. Companies are often unaware of what it takes to design, implement, and execute a successful program. What often follows is disillusionment and the opinion that the program is ineffective. This leads us to the central question of this study: *What are the relevant KPIs to best evaluate and measure a loyalty program?*

Derived from the various consolidated perspectives (literature review and expert interviews), this study identified 10 key KPIs that companies should track to monitor their program's overall health status. Table 5 contains the most important KPIs and applies to all types of programs (see the typology in the appendix).

Table 5 – Top KPIs by which to measure a loyalty program (expert review)

1. Customer Lifetime Value	6. Engagement Rate
2. Member Lift in Spend	7. Program Cost Rate
3. Incremental Revenue/Margin	8. Growth Rate
4. Churn Rate	9. Activity Rate
5. Repeat Purchase Rate	10. Redemption Rate

The values of the KPIs may vary depending on the industry, but the nature of the KPIs remains the same. To get as close as possible to the core business, the findings suggest adding one or two company-specific KPIs.

The main findings from Table 5 are as follows:

- The analysis reveals that "customer lifetime value" (CLV) is in first place, as unanimously confirmed by all the experts surveyed. Strictly speaking, CLV is a general customer value score and not a specific loyalty program metric. The fact that CLV is at the top of the list shows that the programs' mission is to increase member profitability throughout their lifetime (today and tomorrow).
- The top five KPIs all have purely commercial goals. Interestingly, the classic conventional KPIs – "growth rate," "activity rate," and "redemption rate" – were important as well, but came in second place. Accordingly, the experts ranked non-commercial metrics such "engagement rate" and "net promoter score" (not top 10) as less important. The message is clear: Programs should primarily pursue commercial goals, ideally (but secondarily) in combination with customer satisfaction and customer experience.

The metrics, however, are only meaningful if companies use them as tools to improve and move the business forward. When they become an end in themselves (obsession about the numbers), they have no impact or are even harmful (no focus on improvement). Measuring and taking action go hand-in-hand, but action follows analysis. Consequently, *companies must first assess the performance and state of "health" of their programs (measure) prior to developing and launching innovations for the loyalty programs of the future (action).* The latter must be a consequence of the former. This may seem counterintuitive to managers who are committed to initiating every marketing activity from the point of view of customer experience and customer centricity (an outside-in view). For them, a shift in mindset is required, at least when it comes to loyalty programs.

The study demonstrates that in order to manage a program effectively, the *inside-out* approach has to be the starting point, the baseline. Only then, in second place, does the *outside-in* approach based on customer satisfaction and matching competitors' loyalty features come in. This ensures that all marketing measures (e.g., gamification, chat bots, or points promotions) are connected to or derived from a KPI. Ultimately, this prevents budgets from being misspent and blindly allocated based on personal opinion or competition. With this KPI-driven approach, every customer-focused company has a measurable plan for its loyalty program. Companies with a plan that know how to measure, monitor, and leverage their KPIs have a greater chance of running a successful loyalty program in the future.

7. Recommendation for Future Research

The findings about the most important KPIs and the understanding that companies must measure their programs on a regular basis are the starting point for further analysis and follow-up studies. By measuring the right KPIs, it is possible to identify the problem areas and strengths of the programs. However, the following information is still lacking:

- What are the right *target KPIs* we should aim for?
- How do our *actual KPIs* compare to those of our competitors on the market?
- What are the *specific marketing actions* that fit to the program and the KPIs?

Continued research will lead to the creation of a "guideline" for a standardized, non-biased analysis of program performance and an *assessment model for "loyalty health checks"*. Such an unbiased performance-oriented model for loyalty programs does not yet exist on the market.

How would such a health-check model work?

Depending on the program goal (e.g., increasing turnover, etc.), KPIs from the study will be selected for the model; bespoke industry KPIs (see Section 4) will also be included. In order to have a strategic plan, the model will start with two to four KPIs. Once the KPIs are defined and measured, a follow-up study will design and develop *scorecards* that graphically display the performance of current versus target KPIs. Scorecards enable organizations (A) to get a quick overview of the program' performance on a single page, (B) to monitor KPI progress, and (C) to develop appropriate (marketing) strategies to close the gap from actual to target. Ideally, the development of these scorecards *should be tested and implemented with two or three mid-sized companies* in order to gain experience on how well they can implement the model.

On this basis, participating companies gain a solid, fact-based analytical tool and an action plan to better manage and continuously optimize their loyalty programs.

Concluding remarks

To quickly obtain initial results, it is better *to start small and successively expand the model*. Companies that cannot measure all KPIs can also participate. A few simple KPIs will be used initially. The focus is on improvement and progress and is not limited to measurement alone.

Finally, this fact-based framework (health check) will help organizations build a *customer-centric culture with a plan*. After initial positive (test) results, companies can use the momentum to continuously improve their KPIs (e.g., through compelling customer experience initiatives) and make their loyalty programs more effective – as well as more relevant for their customers.

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Questionnaire

Most important loyalty KPIs
(research paper)

Work hypothesis:
• Loyalty Programs do not perform as they should (company view, not customer perspective)
Research output:
• What are the most important KPIs for measuring the success of a customer loyalty program?
Reference programs:
• B2C; retail/travel/finance; >100.000 members, (Western-)Europe and (North-)America
Respondents:
• The survey is aimed at a narrow selection of leading international loyalty experts (max. 10)
Data protection:
• Participants will be listed in the study by name. Responses only in aggregated form. No quotations without the express consent of the participants.

Note: Below are copies of the online survey (questions only; the multiple-choice options are not shown).

1

What are the most important loyalty KPIs?

please rate the KPIs in relation to program performance assessment (corporate view) and according your experience

2

Any KPI missing in the overview above?

please name the KPI(s) and describe briefly

3

Share your experience with loyalty KPIs or measuring loyalty programs

optional

4

How "healthy" are average loyalty programs?

please rate the current health state of the majority of loyalty programs in your geography

0	1	2	3	4	5	6	7	8	9	10

don't perform (not healthy)   they perform well (healthy)

5

What factors influence the success of programs?

please rank the below influence factors by putting in the right order - from top to bottom meaning
<u>note:</u> this type of question can be a bit cumbersome with small screens and smartphones

6

Any key factor missing in the overview above?

please name the reason and describe briefly (optional)

7

Why do companies usually not share loyalty KPIs?

unlike in other businesses, companies avoid talking about loyalty KPI values (as-is or to-be values) - why do you believe is this so?

8

General observation/opinion/recommendation about the topic "Loyalty KPIs"

tell your own opinion (optional)

Program Typology

Table 6 – Types/Forms of Loyalty Programs on the Market

Loyalty Program Type	Leading Sectors	Examples (Swiss market)	Loyalty Tools			KPI Assessment *
			discount offers	hard currency	status privileges	
Classic loyalty programs (estimated 80-90% market share)						
offers-based	insurances, telco	e.g. Allianz Plus	x			●●
points-based	all sectors	e.g. Coop Supercard	x	x		●●●●
vouchers-based	retail	e.g. PKZ Insider	x	x	(x)	●●●●
cash-back based	credit cards, e-commerce	e.g. Cornercard Cashback	x	x	(x)	●●●●
status/tier-based	hotels, luxury	e.g. Jelmoli Rewards	x		x	●●●●
points- & tiers-based	airlines	e.g. Swiss Miles & More	x	x	x	●●●●
New forms of loyalty programs (5%)						
interaction-based	health care	e.g. Helsana+	x	x	x	●●●●
gamification-based	e-commerce, social	e.g. Galaxus DG Play	(x)	virtual		●●
crypto-coins	FMCG	e.g. Lattesso Kaffee		x		●●●●
Programs at cost (5-10%)						
club-concept	travel, car-rental, ratail	e.g. Hertz Yellow	x		x	●●●

* indicates relevance to working paper on a scale from 1-4 (low-high relevance)

Source: Own research, 2022