

CASE STUDY

Loyalty Program Business Assessment

Industry: Casual Dining

Challenge

A national pizza chain that prides itself on its unique, fun and creative environment of delivering delicious food was **considering implementing a loyalty program**. However, this client saw loyalty programs as primarily cost, and not revenue opportunity. In addition, each franchise location operates with a distinctive look and feel that requires a program that can transcend a one size fits all look. The focus for this client was not a typical point's based program. If a profitable program could be established, it would need to **reflect the personality of the establishment**.

Goals

- Assess feasibility of a program intended to solidify loyalty among the client's biggest fans, and encourage the next tier of customers to increase their loyalty
- Provide recommendations on an optimal structure for such a program

Approach

The question the client needs to answer: Should we do this? Our first step is to run sensitivity analyses using reasonable inputs to determine if a path to profitable launch is visible. Utilizing proprietary research we identify key industry demographics and metrics unique to this type of establishment. These figures are then aligned with rewards value and fulfillment costs as well as financial inputs directly from the client to establish goalposts for the rewards structure.

Multiple scenarios are run to validate the potential profitability of a loyalty program.

Scenario 1: LOW

Assumes a 5% visit lift but no incremental spend per visit. This scenario does not cover the suggested pilot program costs or provide a break-even program structure.

Scenario 2: HIGH

Assumes aggressive incremental visits and increased spend per visit. This scenario suggests break-even can be quickly achieved by expanding store participation with substantial incremental profits to follow.

	Year 1				Year 2			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Locations Included	125	125	125	125	125	125	125	125
% Locations Participating	85%	85%	85%	85%	85%	85%	85%	85%
Customers with Participation Opportunity	1,265,625	1,265,625	1,265,625	1,265,625	1,265,625	1,265,625	1,265,625	1,265,625
% Customers Active in Program	20%	20%	20%	20%	20%	20%	20%	20%
# Customers Active in Program	253,125	253,125	253,125	253,125	253,125	253,125	253,125	253,125
Baseline Visits	506,250	506,250	506,250	506,250	506,250	506,250	506,250	506,250
Baseline Revenue Expectations	\$ 12,139,875	\$ 12,139,875	\$ 12,139,875	\$ 12,139,875	\$ 12,139,875	\$ 12,139,875	\$ 12,139,875	\$ 12,139,875
Baseline Gross Profit Expectations	\$ 6,859,886	\$ 6,859,886	\$ 6,859,886	\$ 6,859,886	\$ 6,859,886	\$ 6,859,886	\$ 6,859,886	\$ 6,859,886
Incremental Visits	37,969	37,969	37,969	37,969	37,969	37,969	37,969	37,969
Total Incremental Revenue	\$ 1,367,253	\$ 1,367,253	\$ 1,367,253	\$ 1,367,253	\$ 1,367,253	\$ 1,367,253	\$ 1,367,253	\$ 1,367,253
From visit change	932,218	932,218	932,218	932,218	932,218	932,218	932,218	932,218
From spend change	435,035	435,035	435,035	435,035	435,035	435,035	435,035	435,035
Incremental Gross Profit	\$ 772,595	\$ 772,595	\$ 772,595	\$ 772,595	\$ 772,595	\$ 772,595	\$ 772,595	\$ 772,595
From visit change	526,769	526,769	526,769	526,769	526,769	526,769	526,769	526,769
From spend change	245,826	245,826	245,826	245,826	245,826	245,826	245,826	245,826
Total Program Revenue	\$ 13,507,128	\$ 13,507,128	\$ 13,507,128	\$ 13,507,128	\$ 13,507,128	\$ 13,507,128	\$ 13,507,128	\$ 13,507,128
Total Program Gross Profit	\$ 7,632,481	\$ 7,632,481	\$ 7,632,481	\$ 7,632,481	\$ 7,632,481	\$ 7,632,481	\$ 7,632,481	\$ 7,632,481
Total Costs	\$ 353,259	\$ 353,259	\$ 353,259	\$ 353,259	\$ 353,259	\$ 353,259	\$ 353,259	\$ 353,259
Period Incremental Gross Profit Gained After Program Costs	\$ 419,336	\$ 419,336	\$ 419,336	\$ 419,336	\$ 419,336	\$ 419,336	\$ 419,336	\$ 419,336
Cumulative Gains - Costs	\$ (322,714)	\$ 96,612	\$ 515,950	\$ 935,284	\$ 1,354,630	\$ 1,773,966	\$ 2,193,302	\$ 2,612,638
Cumulative Gross Profit Gain	\$ 970,379	\$ 1,742,974	\$ 2,515,568	\$ 3,288,163	\$ 4,060,758	\$ 4,833,352	\$ 5,605,947	\$ 6,378,542
Cumulative Cost	\$ 1,299,093	\$ 1,646,352	\$ 1,999,610	\$ 2,352,869	\$ 2,706,128	\$ 3,059,386	\$ 3,412,645	\$ 3,765,903
ROI - Current Expenses Only	118.7%	118.7%	118.7%	118.7%	118.7%	118.7%	118.7%	118.7%
ROI - Cumulative	25.0%	5.9%	25.8%	39.8%	50.1%	58.0%	64.3%	69.4%

Scenario 3: MID (Realistic)

Assumes modest improvements in both visits and incremental spend. This scenario results in negative ROI during the pilot period but achieves breakeven during the first year when rolled out across the collection of stores. Many programs take 2+ years to achieve break-even.

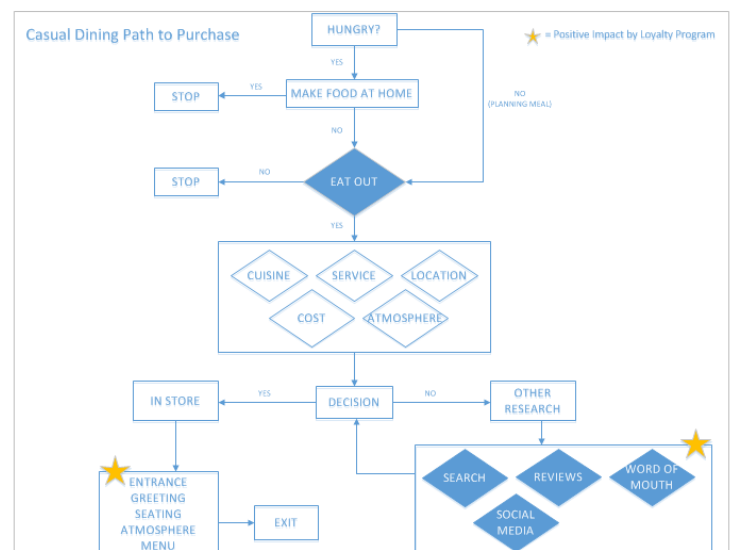
Focusing on the most realistic scenario, a reasonable case for a profitable program has been established.

Results

In staying true to the brand, **a loyalty program was recommended and adopted** that accurately captured the brand identity and quite simply recognized good guests for being good guests. **The program recommendation suggested a focus on membership experience that recognizes guests for engaging with the brand in new, fun and unexpected ways that will get people talking, tweeting, posting and visiting more.**

The pilot program would have an online and in store presence but mobile was the primary recommended delivery channel to provide the broadest positive impact of the loyalty program. A suggested mobile app would store relevant customer information; provide store location information, message boards, exclusive information and offers. The mobile aspect would also allow users to share their rewards and experiences with friends or other members.

Success criteria (KPIs) were established for quick analysis of the pilot program and ultimately the program roll-out.



Contact us for more success stories and to see how we can help bring your loyalty program to its full potential.

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