

**The published version of this working paper is**

Wansink, Brian (2003), "Developing a Cost-Effective Brand Loyalty Program," Journal of Advertising Research, 43:3 (September), 301-309

## **Segmentation and Successful Brand Loyalty Programs \***

Brian Wansink  
Professor of Marketing and Advertising  
350 Wohlers Hall  
University of Illinois  
Champaign, IL 61820  
Wansink@UIUC.Edu  
217-244-0208

January 16, 2003

---

\* Brian Wansink is Professor of Advertising, of Marketing, and of Agricultural and Consumer Economics at the University of Illinois (Urbana-Champaign). Thanks also to Scott Seed for help on a related project. Please direct correspondence to Professor Brian Wansink, 350 Wohlers Hall, University of Illinois, Champaign, IL 61820, 217-244-0208, [wansink@uiuc.edu](mailto:wansink@uiuc.edu).



# Developing Cost-Effective Brand Loyalty Programs

## Abstract

What makes a brand loyalty program successful? In-depth interviews of 41 experts were conducted to establish the best practices of brand loyalty programs. Following this, Study 1 examines three types of programs (small, moderate, and large benefit programs) for three segments of consumers (non-, light-, and heavy-users). Using 132 brand managers, Study 2 shows why current thinking keeps brand loyalty programs from being more successful. The results indicate that loyalty programs offering only small or moderate benefits may be the most reasonable means to motivate current users to increase purchases. In the short run, programs offering anything more may be less cost effective.

## Developing Cost-Effective Brand Loyalty Program

In the past 20 years, loyalty programs have grown throughout the services industry. While trading stamp programs may have been the first to use such programs, American Airlines' AAdvantage program in 1981 renewed an interest in loyalty programs that quickly spread to nearly every major airline in the country. Complementary services such as hotels and rental car agencies soon followed. However, by the end of the decade, some companies began to question the effectiveness and necessity of their own programs. In 1990, for example, both Radisson and Omni Hotels retreated from their loyalty programs in order to concentrate more on service (Seacord 1996).

Today, however, loyalty programs are still used by many companies and are now beginning to be established across a spectrum of industries, from credit cards issuers to long distance carriers to restaurants. Recently, consumer packaged goods companies have begun to embrace the concept of these programs. PepsiCo, for example, has established loyalty programs for both its Pepsi Cola and Frito Lay products. Frito Lay's Planet Lunch program, the biggest promotional program in the snack maker's history, follows a very similar formula to Pepsi's Pepsi Stuff. By collecting and redeeming points on Frito Lay packages, participants can earn various awards (Hein 1998).

For some companies, the decision to establish a loyalty program was made according to a widely held belief that it's six times more expensive to obtain a new customer than it is to keep a current one. Using a loyalty program to retain customers, however, does not come without a price. For instance, while the Sheraton frequent traveler program costs \$30 million to \$50 million annually, they claim the lack of loyalty is even more expensive" (Brookman 1998). Indeed, the typical Fortune 500 organization has real annual growth of 2.5%, but if it can keep an additional 5% of its customers per year, that growth rate will increase to 7.5% and profits by at least 25%. If a company increases customer retention by 2%, costs can decrease by as much as 10% (Conlon 1996).

In some cases, decisions to establish a loyalty program are reactions to match the competition. Yet after a program has been established, its intended purpose is sometimes forgotten. Instead of being an effective marketing tool for an organization, the program becomes an expensive administrative task. The purpose of this research is to discuss best practices of loyalty programs and answer the following key questions in order to improve their effectiveness:

1. How can the cost effectiveness of a loyalty program be calculated?
2. What level of loyalty program is appropriate?
3. How does a loyalty program influence light and heavy users of a product?
4. What product categories respond best to loyalty programs?

## **Best Practices of Brand Loyalty Programs**



For this study, 47 directors of loyalty programs for service companies, consumer packaged goods companies, and direct marketing and advertising agencies were contacted for the “Best Practices” portion of the study and 41 eventually agreed to participate. These 41 managers had been cited in the business press as overseeing what had been noted as a successful loyalty program. This information was then analyzed and compared with previous research on loyalty programs (Wansink and Seed 1999). The following best practices, summarized in Table 1, are a result of this comparison.

**[Insert Table 1 About Here]**

### **What are the Ideal Products and Services for Loyalty Programs?**

According to the loyalty program directors who were interviewed, loyalty programs work best for products and services with high margins and for products and services that a customer will invest heavily in over a long period of time. They also work best for products and services that are not unique (Geller 1997). Airlines and hotels are therefore ideal for programs since their services are difficult to differentiate and are relatively expensive. In addition, travelers spend a great deal for these products over their lifetimes, and loyalty programs hope to capture a majority of these lifetime purchases and increase the lifetime value of the customer.

Consumer loyalty programs can sometimes appear to work better for high involvement products (Dowling and Uncles 1997) since high involvement products tend to be more expensive and have higher margins. Consider, however, that a major premium ice cream manufacturer currently operates a successful loyalty program for its line of ice cream. This product line is suitable for a consumer loyalty program since has high margins, and has the ability to be purchased many times over a customer’s lifetime. Though ice cream is not a high

involvement product, the ice cream manufacturer has been able to create and increase consumer involvement by periodically mailing full-color brochures full of dessert recipes and new product information to its program members. The seeming exclusivity of belonging to such a program and the benefit of being the first to receive information about new products and services can make the consumer feel special and closer to the organization.

In fact, since the incentives used in a consumer packaged goods program are not as valuable as for an airline or hotel (a 50 cent coupon does not compare to a free trip or room upgrade), Bissel (1996) argues the only way loyalty programs can be effective for consumer packaged goods is to build involvement in customers. Such involvement can be created by communicating to consumers in a way that shows an understanding and appreciation for that consumer's personal needs and lifestyle. The key is developing exit barriers. Hotels and airlines do this through mileage and points. A consumer packaged good company needs to do this through an emotional link with the product (Chandon, Wansink, and Laurent 2000). Consumers that are not willing to put forth the effort to begin a relationship with a new brand, therefore, will remain with the existing brand.

### **Loyalty Programs Generate Important Customer Information**

The best loyalty programs are able to obtain a wealth of customer information (such as product usage data, purchasing habits, feelings, and attitudes) and use this to tailor products and services to the specific needs of consumers. Information is primarily obtained through an initial enrollment process and subsequent recording of purchases. Airlines, hotels, and rental car agencies have an advantage in information collection since customers must identify themselves

at the time of purchase. This customer information can then be easily linked with previous enrollment data and can be used to segment and focus marketing efforts.

A program that simply requires a name, address, and proof-of-purchase from consumers redeeming awards is not building a long-term, knowledgeable relationship with the customer. An enrollment form is a means of self-selection. Consumers willing to take the time to complete an enrollment form for a program are usually more interested in the product than a casual purchaser.

Some programs even require a nominal evidence of proof-of-purchase to be included with an enrollment form to ensure only the most interested and frequent consumers are joining the program. The best consumer packaged goods loyalty programs require an enrollment form that obtains background information from the customer. The result is a database of consumers most likely to want a long-term relationship with the company.

Consumer packaged goods companies, however, are at a disadvantage since a customer's purchases cannot be easily linked with established customer information. Though some have partnered with retailers to obtain this information, consumer packaged goods manufacturers currently do not have the capability to obtain data for every customer purchase. Even tracking coupon redemption can be ineffective if a company's best customers do not use coupons. For now, the best consumer packaged goods companies can do is rely on consumer panel data to evaluate the effectiveness of their programs (Sudman and Wansink 2002).

### **Developing Loyalty Programs that are Relevant to Consumers**

Companies with the best programs use focus group and survey research to frequently refine the benefits of their programs to make them relevant to the consumer. Some programs publish magazines that include information relevant to their customers' interests, and other

programs use cross-promotional reward programs that focus on the interests of their target market and reinforce the brand's personality. The danger with such programs is that they cannot appear to be too self-serving. A company that continually heaps promotions for its products or services onto its customers will undermine any attempt of establishing a sincere relationship. Members must be provided with real benefits that make them feel valued, not targeted.

### **Improving Customer Retention**

Companies with the best loyalty programs go beyond merely retaining their program members as customers. By using background and purchase information for more focused targeting, companies with effective programs attempt to generate incremental business from their members and maximize share of customer. For some, retention rates are one measure of a program's success.

If members expire from the program, they should still be treated as current members (Lewis 1997). A major airline, for example, sends a special offer to members that have not flown for several months after expiring from the program. While keeping nonmembers permanently in the database may not be cost effective, such initial treatment demonstrates the company is concerned for its customers even when their purchases stop. Membership expiration is also an opportunity to communicate with the customer and discover if leaving the program resulted from a change in lifestyle or past dissatisfaction with the product. If the reason is dissatisfaction, this offers an opportunity to resolve the problem and potentially win back a customer. If dissatisfaction was not the reason for expiration, this offers an opportunity to show appreciation for past purchases. Since former members have the ability to influence new and existing customers, a positive final interaction with company can be important.



## Determining the Cost Effectiveness of Loyalty Programs

Loyalty programs can be profitable in the short run, or profitable in the long run. The cost-effectiveness of a program that does not break even in the short-run can still be profitable if it generates a longer stream of benefits and a longer string of goodwill than would otherwise have been realized. Too many programs, however, do not attempt to account for the long-term payback from these loyalty programs. Instead they focus only on quarterly or yearly return. In determining the cost effectiveness of loyalty programs, the time horizon is a critical issue.

The cost effectiveness of a program cannot be determined by simply subtracting its administrative costs from gross profit. Besides ignoring the longer-term implications on sales and loyalty, such an equation does not account for profit cannibalized by rewards (free products, coupons, etc.) given to or redeemed by consumers whose purchases remain unchanged from pre-program levels. These consumers could be true loyalists who would have purchased a product or service without the motivation of a loyalty program. They could be, however, consumers who were persuaded by a loyalty program to refrain from switching to a competitor.

Regardless, without an increase in purchases, their buying behavior erodes profit and must be considered in a measure of cost effectiveness. A major cereal manufacturer, for example, scrapped a test loyalty program, though it helped increase sales in the targeted segment by 7.1%. At the same time, the redemption rate of coupons (given as rewards to the targeted segment) increased to 22%. The average redemption rate had been 5%. Coupons were cannibalizing too much of existing sales, making the program ineffective.

In the simplest form, cost effectiveness of a program can be determined by the following equation:

$$\text{Gain/Loss} = (U_a * P) - D - (U_w * P) - A$$

Unit sales after program implementation--	$U_a$
Price per unit--	$P$
Dollar amount of coupons or other incentives used--	$D$
Unit sales before program--	$U_w$
Administrative costs of program--	$A$

This equation can then be used to determine the cost effectiveness of programs for different levels of users. (Since administrative costs are fixed, they are removed from consideration). Table 2 is a sample profitability table for different users and different program levels.

[Insert Table 2 About Here]



## Study 1.

### An Empirical Examination of Loyalty Program Effectiveness

To determine how a certain type of program influences a particular level of user, three separate questionnaires were administered to a nationwide survey of 2500 adult consumers who had been recruited based on random addresses obtained from census records. In exchange for completing the questions, each consumer received \$6.00. Of the 2500 questionnaires, 643 were



returned in time to be included in the study. The average age of the respondents was 41, the average education was 0.8 years of college, and 65.2% were female.

The questionnaire contained questions about expected purchase behavior for a particular product line if a certain level of loyalty program was established. The three levels of loyalty programs were that were established for the study included 1) a high reward program with valuable benefits, a moderate program with average benefits, and a low reward program with minimal benefits. Each respondent received the same level of loyalty program for all three questionnaires. In addition, respondents were only aware of the level of loyalty program given to them. The different levels offered to the other participants were not discussed.

The three product lines involved in the study were Kellogg's cereals (Special K, Frosted Flakes, Rice Krispies), Betty Crocker meal and side preparation products (Hamburger Helper, Suddenly Salad, Bisquick), and Land O' Lakes dairy products (Land O' Lakes Butter, Land O' Lakes Dairy Case Cheese, Land O' Lakes Sour Cream). The three levels of loyalty programs are noted in Table 3.

Consumers on the panel were asked to estimate purchases in the next month and for the entire next 12 months for a particular level of program. Past monthly and yearly purchase behavior was also recorded to determine the consumers' level of current product line use (nonuser, light user, and heavy user) and to judge the change in sales for a particular level of program.

**[Insert Table 3 About Here]**



Observations were analyzed using the actual change in purchases. For this discussion, only the changes in forecasted monthly purchases were used to estimate the growth in sales. Actual total purchases from the entire last 12-month period were used to establish the level of product use. Light users and heavy users of a particular product line were estimated using average purchases per year.

### Study1 Results



Across all products and all types of users the moderate reward program generated an average 1.5 unit increase (+117%) in estimated purchases for the next month (see Table 4). The high reward program finished second by generating a 1.2 unit increase (+83%), and the least attractive program was the low reward program which finished last by generating an increase of 0.7 units (60%).

Across user segments, the high reward program generated the highest increase in intended units purchased for both the light and heavy user segments. As the programs became less attractive, sales increases for heavy users decreased from 2.4 to 1.1 units. As shown in bottom of Table 4, the moderate and low programs had similar impacts on light users, increasing sales only 0.8 units for the next month. The moderate reward program stimulated the highest increase among nonusers, while the high and low programs had little or no effect on this user segment.

**[Insert Table 4 About Here]**

Based on the survey results of Table 4, the most cost-effective program for nonusers and heavy users offered average benefits (moderate reward program). This program level captures an average monthly incremental gain of \$2.95 from the nonuser and \$3.10 from the heavy user. For light users, the most cost-effective program offers below average benefits (low reward program). This program level captures an average monthly incremental gain of \$2.00 from the light user.

**[Insert Table 5 About Here]**

Table 5 demonstrates the importance of choosing an appropriate program level. A marketer targeting a specific segment could actually spend less on a program and gain more in return. In this survey, for example, using a high reward program to target the heavy user would be the least cost-effective. A company would gain an additional \$.50 per customer by implementing this level of program to target the heavy user, but could obtain \$2.60 more per customer by implementing the moderate program instead. Even the low reward program would provide more of an advantage. Further, by identifying and targeting different user segments simultaneously, a company could offer tailored reward values and fully maximize the cost effectiveness of its loyalty program.

Since respondents in the study were not able to compare all three loyalty programs, the results demonstrate they were able to make a knowledgeable value judgement about the program offered to them. Based on that value judgement, these respondents adjusted their purchase behavior accordingly. Though actual change in purchase behavior might be less than the results predict in Table 2, the relative difference between the changes could be considered the

significant result of the survey. The low reward program grew purchases half as much as the high reward program, while the high and moderate programs produced a similar increase in planned purchases.

## **Study 2**

### **A Study of Brand Manager Effectiveness: “I Knew That, or Did I?”**

How do these results compare with what brand managers actually know? To determine this, a survey of 300 brand managers was conducted. These 300 managers were taken from the American Marketing Association's membership list, and each had been working in the packaged goods industry for at least 10 years (average 15.3 years) and 76% had received an MBA or other graduate school training. When contacted through the mail, they were told that in exchange for completing a brief questionnaire, they would be provided a copy of the results. Of the 300 that were mailed, 132 usable surveys were returned (43% response).



The survey was in two parts. In the first part, managers were presented with the same three loyalty programs presented to consumers in Study 1, and they were asked to predict which reward program (low, moderate, or high) would be most effective for each of the three brands. They were asked to define what they meant by “effective.” In the second part of the survey, managers were also asked to select which of the three programs they thought would generate the most incremental sales and the highest total profits. Because the answers were consistent across all three of the products, the average for the three products will be reported.

Table 6 notes a number of notable insights about these survey results. First, managers show a strong bias toward believing heavy users should be targeted with loyalty programs. This was consistently found in the open-ended comments they provided, and it is consistent with a general notion that the best way to increase volume is to target heavy users. Not only did 54% believe the biggest potential for incremental sales lay with these heavy users, but 82% also believed heavy users would be most profitable to target with loyalty programs.

**[Insert Table 6 About Here]**

Similarly, there was also a bias in believing that loyalty programs with high reward levels would be most effective in increasing unit sales and in increasing profitability. To increase incremental sales, 57% of the brand managers believed that higher reward programs would be most effective, followed by 35% who believed the moderate program and 8% who believed in the low reward program. As profitability was concerned, there was a continued bias toward high (65%) reward programs versus moderate (33%) and low (8%) programs.

What is notable about the results in Study 2 is that well-trained, experienced brand managers make assumptions about loyalty programs and used incorrect intuition when assessing loyalty programs. The assumptions are almost certain to handicap these brand loyalty programs almost before they start.<sup>1</sup> It is important to underscore that there is a strong bias toward expensive programs and heavy users. In Study 1 *neither* of these

were the correct targets. Moderate level reward programs, when aimed at moderate users, was the most cost effective and the most profitable.

Study 2 was intended to investigate how much of what was discussed as best practices and how much was illustrated in Study 1 was evident to experienced brand managers. Given these results and given the faltering steps of many programs, it appears most is not self-evident.

## **Discussion**

Marketers should understand that for a loyalty program to be successful, it must offer obvious benefits to the consumer. The high reward program, and to a lesser degree, the moderate reward program, offered obvious benefits to the consumer in the form of informational product newsletters, valuable coupons, and free merchandise. The lower quality attributes of the low reward program did not have enough appeal to make an impact. As is specified next, Table 7 summarizes some of the insights related to different usage segments and different types of products.

**[Insert Table 7 About Here]**

### **Key Differences Across Usage Segments**

Recall the high and moderate programs similarly motivated light and heavy users to increase estimated purchases. Further, the low reward program motivated light users to purchase the same as the moderate reward program. These results indicate that marketers can motivate

---

<sup>1</sup> It is possible that managers may have used different assumptions or metrics that gave them incomplete information, or perhaps they used parameters in which they assessment would have



heavy user segments to increase purchases with programs offering benefits of average value. Light users can be motivated with programs offering even less value. Since these segments are already interested in the product, only a marginal push is necessary to change behavior. A program offering more valuable incentives would gain a smaller benefit per consumer for the extra effort.

If resources allow only one group to be targeted, heavy users should be the chosen segment. The planned increase in purchases of the heavy users in the survey was double that of light users.

Across all products, the moderate reward program was the only program that motivated nonusers to purchase. Perhaps, the high reward program required too much involvement on the part of the nonuser and the low reward program did not offer enough benefit to induce trial. The moderate reward program might have struck the right balance. As nonusers become more familiar with the product, however, a program with more benefits might be required to sustain interest.

### **Differences Across Various Product Types**

The products used in the survey, Kellogg's, Betty Crocker, and Land O' Lakes, could be generalized into three categories respectively: convenience foods, meal preparation items, and perishable foods. Kellogg's cereals, for example, are an alternative to the traditional hot breakfast. The Betty Crocker products are not meals in themselves, but aid in the preparation of main meal items and sides. The Land O' Lakes products fit into a category of perishable foods since they have a limited shelf life and must be refrigerated.

---


otherwise been correct.

In general, for convenience foods like Kellogg's cereals, a program with very attractive benefits (like the high reward program in the survey) appears to be the most effective in increasing planned purchases. Specifically, light and heavy users of this category respond best to this level of loyalty program. Since these products tend to have higher margins, the coupons used in this study be inducing additional purchases from consumers wanting more value.

For meal preparation items like the Betty Crocker products, a program with average benefits can increase purchases significantly higher than programs with better benefits. Users of these products might already be content with the value they receive and are not attracted by the coupons. The quarterly newsletter, for example, might be of interest to those wanting new recipes for the products they are currently using. This interest could serve to increase involvement with the brand and positively affect planned purchases.

In general, for perishable foods like Land O' Lakes products, a program with average benefits can generate a similar increase in purchases as a program with comparatively better benefits. Heavy users, however, should be targeted with an attractive program. Since perishable items are difficult to stockpile without a good reason for use, perhaps heavy users are enticed with coupons that reduce the risk of purchasing items that might expire before consumption.

### Future Research

 The survey conducted for this research measured changes in the *purchase likelihood* of a panel of over 100 consumers. The actual purchase behavior of these consumers could change, however, when uncontrollable variables (such as competitive actions) are added to their environment. Further research in this area could determine how different loyalty programs affect the actual purchase behavior of hundreds of

consumers. A consumer products company, example, for example, could establish different levels of loyalty programs in test regions across the country and track established panels.

It might also be useful to know what specific elements of the programs appeal to and impact consumers the most. Further research could determine, for example, which benefits (free prizes or coupons) motivated heavy users to increase (or perhaps decrease) their purchases.

## Summary

Many different elements must be considered when establishing an effective, profitable loyalty program. Yet once established, these elements must continually be reassessed if the program is going to continue to retain and increase value for customers. Changes in customer needs or use, reactions from competitors, or shifts in product or service costs can negatively affect your program.

Most of the more successful loyalty programs are long-term propositions, not short-term promotions. Management has to be committed to a program that will last for years, not months. Such commitment will help develop and maintain a strong lifetime relationship with customers. The result of such a close connection will bring many rewards to both sides.

## REFERENCES

- Bissell, John. "‘Loyalty’ is More than Just a Coupon in the Mail." *Brandweek* v37n47, (Dec 9, 1996): 17.
- Brookman, Faye. "Companies Invest in Customer Loyalty." *Marketing News* v32n5, (Mar 2, 1998):14.
- Chandon, Pierre, Brian Wansink, and Gilles Laurent (2000), "A Benefit Congruency Framework of Sales Promotion Effectiveness," *Journal of Marketing*, 64:4 (October), 65-81.
- Conlon, Ginger. "True Romance." *Incentives* (May 1996): 85-90.
- Dowling, Grahame R. and Mark Uncles. "Do Customer Loyalty Programs Really Work?" *Sloan Management Review* (Summer 1997): 71-81.
- Geller, Lois. "Customer Retention Begins with the Basics." *Direct Marketing* v60n5 (1997): 58-62.
- Lobb, Jeff. "Stuff-ing it to Coke: How Pepsi Used a Promotion to Counter its Rival’s Olympics Megablitz." *Marketing* v102, (Jan 27, 1997): 18.
- Hein, Kenneth. "Shooting for Success." *Incentive*, v172n2, (Feb 1998): 53-58.
- Lewis, Herschell Gordon. "Does Your ‘Loyalty’ Program Inspire any Loyalty?" *Direct Marketing* v60n2 (1997): 46-48.
- Seacord, Stephanie. "Who’s Been Sleeping in our Beds?" *American Demographics*, Marketing Tools Supplement (March/April 1996): 58-65.
- Wansink, Brian and Scott Seed (2001) "Making Brand Loyalty Programmes Succeed," *Journal of Brand Management*,8:3 (February), 211-222.
- Wansink, Brian and SeaBum Park (2000), "Methods and Measures that Profile Heavy Users," *Journal of Advertising Research*, 40:4 (July/August), 61-72.
- Wansink, Brian and Michael L. Ray (1996), "Advertising Strategies to Increase Usage Frequency," *Journal of Marketing*, 60:1 (January), 31-46.

<b>Table 1</b> <b>Summary of Best Practices</b>	
<b>Ideal Products and Services</b>	<ul style="list-style-type: none"> <li>• Loyalty programs work best for products and services that have high margins and are difficult to differentiate.</li> <li>• They are also appropriate for products and services that a customer will invest heavily in over a long period of time.</li> </ul>
<b>Amount of Customer Information</b>	<ul style="list-style-type: none"> <li>• The best programs collect a wealth of customer information. This information, usually obtained by matching enrollment data and purchase behavior, is used to tailor products and services to the specific needs of consumers.</li> </ul>
<b>Relevancy to the Consumer</b>	<ul style="list-style-type: none"> <li>• Companies with the best programs continually refine the benefits of their programs to make them relevant to the consumer.</li> <li>• The benefits must be real, not self-serving to the sponsoring company.</li> </ul>
<b>Rewards</b>	<ul style="list-style-type: none"> <li>• Rewards should directly build loyalty in the consumer by supporting the proposition of the brand.</li> </ul>
<b>Customer Retention</b>	<ul style="list-style-type: none"> <li>• The best programs go beyond retaining their program members as customers.</li> <li>• Loyalty programs should also increase the amount a customer spends with the organization.</li> </ul>

<b>Table 2</b>					
<b>Cost Effectiveness of User Segments</b>					
	<b>Program Level</b>	<b>(Ua*P)</b>	<b>D</b>	<b>(Uw * P)</b>	<b>Gain/Loss</b> [(Ua*P) – D – (Uw*P)]
		<b>1</b>	<b>2</b>	<b>3</b>	<b>1-2-3</b>
<b>Heavy User</b>	High	*	*	*	*
	Low	*	*	*	*
<b>Light User</b>	High	*	*	*	*
	Low	*	*	*	*
<b>Non-User</b>	High	*	*	*	*
	Low	*	*	*	*

**Table 3**  
**Three Program Levels Used in the Study**

**High Reward Program**

- A monthly full-color booklet with recipes, games and puzzles, and information concerning new and existing products in the product line
- Coupons included in the booklet for a \$1.00 discount off any product in the product line
- Free product line merchandise with 10 proofs of purchase. (For example, receive a free coffee mug with the product line's logo by sending in 10 proofs of purchase)

**Moderate Reward Program**

- A quarterly full-color booklet with recipes and information concerning new and existing products in the product line
- Coupons included in the booklet for a \$0.50 discount off any product in the product line
- Free product line merchandise with 20 proofs of purchase. (For example, receive a free coffee mug with the product line's logo by sending in 20 proofs of purchase)

**Low Reward Program**

- A quarterly one-page newsletter with information concerning new and existing products in the product line
- Coupons included in the newsletter for a \$.25 discount off any product in the product line
- Product line merchandise with 20 proofs of purchase and a \$5.00 postage and handling fee (For example, receive a coffee mug with the product line's logo by sending in 20 proofs of purchase from any product in the product line and \$5.00 for postage and handling.)

<b>Table 4.</b>					
<b>Change in Units Purchased</b>					
<b>Across Products and User Segments</b>					
	<b>Reward Program</b>	<b>Non-User</b>	<b>Light User</b>	<b>Heavy User</b>	<b>All Users (Weighted)</b>
<b>Kellogg's</b>	<b>High</b>	0	+1.4	+2.4	+1.7
	<b>Moderate</b>	+0.5	-0.7	+0.6	+0.0
	<b>Low</b>	0	+0.9	+0.6	+1.0
<b>Betty Crocker</b>	<b>High</b>	0	+0.5	+1.7	+0.8
	<b>Moderate</b>	+0.8	+1.7	+3.6	+2.1
	<b>Low</b>	0	+0.7	+0.9	+0.7
<b>Land O' Lakes</b>	<b>High</b>	+0.3	+1.0	+4.0	+1.6
	<b>Moderate</b>	+1.5	+1.3	+1.6	+1.4
	<b>Low</b>	0	+0.3	+0.6	+0.6
<b>All Brands</b>	<b>High</b>	+1	+1.2	+2.4	+1.2
	<b>Moderate</b>	+1.2	+0.8	+2.0	+1.5
	<b>Low</b>	0	+0.8	+1.1	+0.7



**Table 5**  
**The Cost Effectiveness of Brand Loyalty Programs**

	<b>Program Level</b>	<b>Average Monthly Purchases Before/ After Program Start (in units)</b>	<b>Change in Purchases (in units)</b>	<b>Average Monthly Revenue After Program Start<sup>1</sup></b>	<b>Dollar Amount of Coupons Used<sup>2</sup></b>	<b>Average Monthly Revenue Before Start<sup>3</sup></b>	<b>Gain/ Loss<sup>4</sup></b>
<b>Nonuser</b>	<b>High</b>	0.0 / 0.1	+0.1	\$0.30	\$0.10	\$0.00	+\$0.20
	<b>Moderate</b>	0.1 / 1.3	+1.2	\$3.90	\$0.65	\$0.30	+\$2.95
	<b>Low</b>	0.0 / 0.0	0.0	\$0.00	\$0.00	\$0.00	+\$0.00
<b>Light User</b>	<b>High</b>	1.3 / 2.5	+1.2	\$7.50	\$2.50	\$3.90	+\$1.10
	<b>Moderate</b>	1.7 / 2.5	+0.8	\$7.50	\$1.25	\$5.10	+\$1.15
	<b>Low</b>	0.8 / 1.6	+0.8	\$4.80	\$0.40	\$2.40	+\$2.00
<b>Heavy User</b>	<b>High</b>	4.3 / 6.7	+2.4	\$20.10	\$6.70	\$12.90	+\$0.50
	<b>Moderate</b>	3.8 / 5.8	+2.0	\$17.40	\$2.90	\$11.40	+\$3.10
	<b>Low</b>	4.1 / 5.2	+1.1	\$15.60	\$1.30	\$12.30	+\$2.00

<sup>1</sup>(Monthly purchases before program + change in purchases) \* 3.00/unit. \$3.00 per unit was arbitrarily chosen for this discussion.

<sup>2</sup>Assumes all purchases were made with coupons of either \$1.00 (High Reward Program), \$0.50 (Moderate Reward Program), or \$0.25 (Low Reward Program). Dollar amount of coupons used = Face value of coupon \* Average monthly purchases after program start

<sup>3</sup>Average monthly purchases before program\* \$3.00/unit

<sup>4</sup>Gain/Loss = Average monthly revenue after program – Dollar amount of coupons used – Average monthly revenue before program start

**Table 6.**  
**Percentage of Brand Mangers Rating Programs as “Most Effective”**

	<b>Program Level</b>	<b>Which Program will Most Increase Incremental Sales?</b>	<b>Which Program will Be Most Profitable?</b>
<b>Nonuser</b>	<b>High</b>	7%	0%
	<b>Moderate</b>	2%	0%
	<b>Low</b>	0%	0%
<b>Light User</b>	<b>High</b>	23%	14%
	<b>Moderate</b>	14%	4%
	<b>Low</b>	0%	0%
<b>Heavy User</b>	<b>High</b>	27%	51%
	<b>Moderate</b>	19%	29%
	<b>Low</b>	8%	2%
<b>Total Percentage</b>		100%	100%

<b>Table 7</b>			
<b>Summary of Key Findings</b>			
	<b>Non User</b>	<b>Light User</b>	<b>Heavy User</b>
<b>Type of Program</b> In general, a program must offer an obvious benefit to the consumer to be the most effective.	A program with average benefits is the most effective in stimulating initial trial.	A program with below average benefits can generate a similar increase in purchases as a program with comparatively better benefits.	A program with average benefits can generate a similar increase in purchases as a program with comparatively better benefits.
<b>Type of Product: Convenience Foods</b> A program with very attractive benefits is the most effective in increasing planned purchases.	A program with average benefits is the most effective in stimulating initial trial.	A program with very attractive benefits is the most effective in increasing planned purchases.	A program with very attractive benefits is the most effective in increasing planned purchases.
<b>Meal Preparation Items</b> A program with average benefits can increase purchases significantly higher than programs with better benefits.	A program with average benefits is the most effective in stimulating initial trial.	A program with average benefits can generate a greater increase in purchases than a program with comparatively better benefits.	A program with average benefits can generate a greater increase in purchases than a program with comparatively better benefits.
<b>Perishable Foods</b> A program with average benefits can generate a similar increase in purchases as a program with comparatively better benefits.	A program with average benefits is the most effective in stimulating initial trial.	A program with average benefits can generate a greater increase in purchases than a program with comparatively better benefits.	A program with very attractive benefits is the most effective in increasing planned purchases.