KOBIE MARKETING

CASE STUDY

Too Good To Be True?

Measurable Success in a Wireless Communications Loyalty Program.

Kobie Marketing is a fully-integrated relationship marketing agency specializing in customer acquisition, retention, loyalty, and database analytics.

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Cellular Loyalty Program Overview

Kobie Marketing designed and implemented a customized loyalty program for a cellular telephone company. The program implementation methods allowed for accurate tracking of customer behavior using control groups – customers just like those in the loyalty program who were not offered membership in the program. By comparing the behavior of the customers in the loyalty program with those not in the program, the financial impact of the loyalty program could be very precisely determined. Since this program was not advertised anywhere but through the mail to specific customers, a perfect "blind test" of loyalty program effectiveness was created in this cellular market.

Over the 2 year period from January 1999 to December of 2000, customers in the loyalty program spent an average of 35% more than customers not in the program. After calculating the EBITDA* margin on this increase and subtracting the cost of the program, this loyalty program generated a Return on Investment of 252% annually over the two years of the test period. The ROI on the top 20% of spenders averaged 665% for each year. Notable also in this program: the increased customer profitability came from both churn reduction and increased spending by customers.

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Background

A major cellular provider hired Kobie Marketing, an agency specializing in customer retention and loyalty, to create an innovative cellular customer loyalty program in the Philadelphia and Central New Jersey markets. Kobie Marketing was chosen to develop, launch and manage the program. This initiative was designed to improve customer retention in the highly competitive arena of wireless communications, where the cost of acquiring one new customer can be well over $400, and price competition is fierce.

*Earnings before Interest, Taxes, Depreciation and Amortization.

Communications Plan

Randomly selected customers were welcomed into the rewards program with an elaborate Membership Package. This package consisted of a letter and a Welcome Brochure explaining how the program worked and describing more than 100 "standard rewards". Members also received three newsletters during the course of an average 12-month period. The newsletters contained approximately 15 to 18 "Special Opportunity Rewards", rewards offered to members in limited quantities but at exceptionally low point levels. These rewards are specially designed to encourage member involvement and participation in the program.

In addition, newsletters were utilized to introduce new standard rewards to members between versions of the Welcome Package. At the start of the program, and while member point balances were generally low, Special Opportunity Rewards were offered on a "first come, first served" basis. Later in the program, more involving methods of reward allocation were utilized, including "silent" point auctions and random drawings. The newsletter was delivered in an economical "self mailer" format combining the rewards offering and a Points Statement into one piece without the need for an outer envelope. The self-mailer provided areas for lasered content (including the Points Statement) and was personalized according to the member's status.

Cellular Rewards Website

The website for the program was launched in January 2000, about a year after the measurement period start date. The site allowed members to check their point balances online, browse through the four categories of standard rewards, contact program management with questions and receive an e-mail response, redeem their points, and enter the random drawings for Special Opportunity Rewards online. In addition, the home page provided a variety of Opportunity Rewards, which were changed frequently to encourage repeat visits from members.

With the creation of the program website, more than 32% of reward redemptions shifted from phone-ins to web-based, creating significant cost savings for the program.

What Made the Program Successful?

The Cellular Rewards Program was designed to be high impact from the very start. Members were welcomed with a personalized letter and rich Welcome Package detailing all of the benefits and rewards of membership. More than 100 “standard” reward choices were provided, many chosen specifically for their unique appeal to this market and group of members. Sports fans were offered team gear from the Flyers, authentic game jerseys, and even autographed items. The most popular family destinations in the area were included, from the New Jersey State Aquarium to the Philadelphia Zoo.

Members interested in dining options had their choice of not only the leading national restaurant chains, but also more than thirty different local places selected to appeal to this specific member base ranging from Lee's Hoagie House to Striped Bass, and Susanna Foo. Shopping rewards included all of the well-known retailers, as well as the local favorites. A full range of wireless services including local cellular airtime, paging, and accessories was also offered as reward options.

A second critical element in the design and success of the program was the creation of what Kobie calls "Special Opportunity Rewards", offered initially to members through periodic mailings and then later through the program website. Offering members the opportunity to redeem their points for highly desirable rewards at very low point levels early in the program encouraged member involvement.

Unique and "impossible to find" rewards such as a pair of home game Club Box Seats for the Sixers and Flyers (including the playoffs), a chance to attend a closed practice session or catered party in a Club Box Suite, a meeting with the coach for a “chalk talk” before the game or at halftime, and a trip for two to the Daytona 500 were also among the many special experiences offered as opportunity rewards.

Key Factors for Success

- Personalized member communications and program web site
- Rewards customized to members’ interests
- “Special Opportunity Rewards” high value, low points
- Additional ways to earn points

For non-sports-enthusiasts, Special Opportunity Rewards included items such as a private, "behind the scenes" breakfast at the Philadelphia Zoo hosted by one of the curators, or choice tickets to a Broadway show, the annual Radio City Music Hall Christmas Show, or the hottest event on the summer concert tour.

Another unique feature of the program was the opportunity for members to earn additional points through loyalty program partners. Cellular members were able to earn points through long-distance services and by using a nationally-known travel service. These points were paid for by the program partners.

Member communications able to break through the clutter were a critical feature of the program. Comprehensive annual membership packages and high impact periodic newsletters promoted the Special Opportunity Rewards. The introduction of the program website was announced to members via a four-color oversized postcard. Throughout the program, Kobie kept the focus on communicating to members in ways that were designed to capture their attention.

The program was enormously successful from a financial perspective for the cellular company. Post analysis showed not only a decrease in churn rate, but also significantly increased overall spending by customers in the program when compared with customers not in the program.

The program generated a 15.6% decrease in customer churn, as well as a substantial increase in overall spending by customers in the program when compared with customers not in the program.

High ROI Financial Results

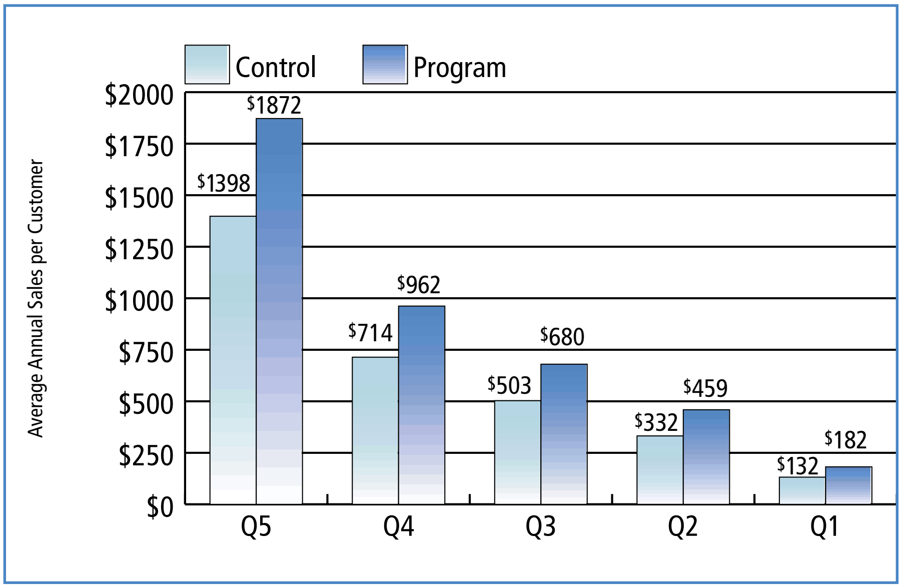
The financial success of this program is measured by comparing the financial performance of customers in the program to an identical group of customers not in the program. Details on the selection process and other parameters of the test are included below under the section Test Details.

The following measurements use customer spending to organize the data in a more meaningful and actionable way. Customers are ranked by annual sales and divided into 5 equally-sized groups called Quintiles. Quintile 5 contains the Top 20% of customers ranked by annual spending. Quintile 1 contains the lowest 20% of customers ranked by annual spending. Positive percentages in the tables below reflect out-performance by customers in the loyalty program against customers in the control group; negative percentages reflect under-performance of customers in the loyalty program against customers in the control group.

Annual Program Impact on Sales

The program resulted in significant sales improvement across all customer spending segments, from the highest 20% (Quintile 5) to lowest 20% (Quintile 1).

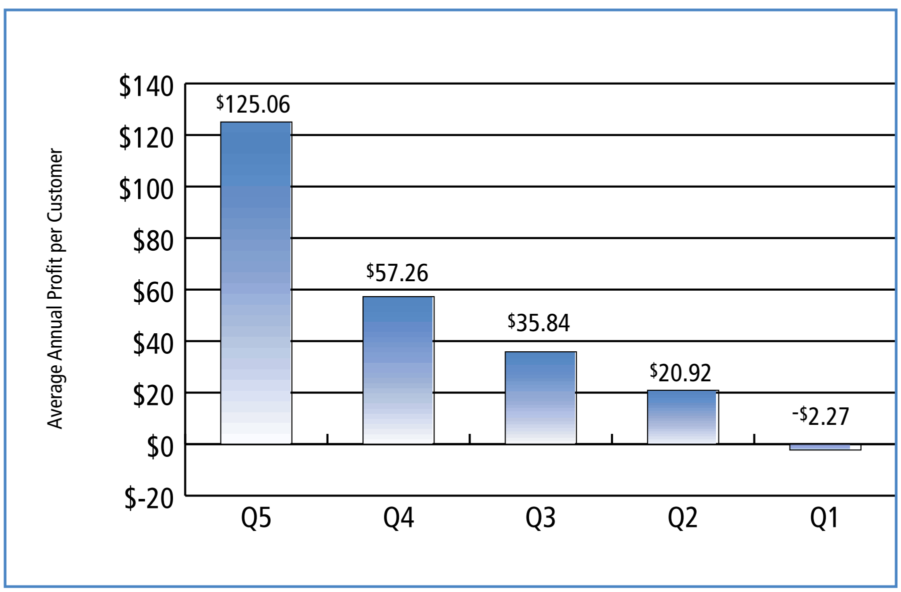
Customer Spending Segment	Increase in Sales vs. Control
Quintile 5	34%
Quintile 4	35%
Quintile 3	35%
Quintile 2	38%
Quintile 1	38%
Average	35%



Annual Program Impact on Profits

The cost of the program is offset by the rise in profits per customer for almost every customer spending segment. Lowest value customers did not increase their spending or decrease churn enough to cover costs, but the average change in behavior across all customers resulted in a significant increase in profits on customers in the loyalty program when compared with those not in the program over the same time period.

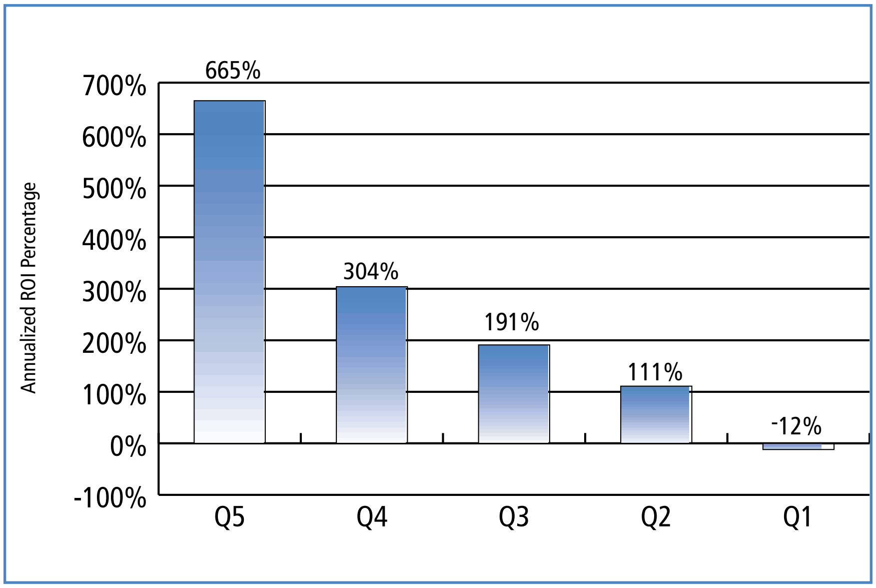
Customer Spending Segment	Increase in Profits vs. Control
Quintile 5	15%
Quintile 4	13%
Quintile 3	12%
Quintile 2	11%
Quintile 1	(3%)
Average	13%



Annual Return on Investment

The program returned $2.52 in additional profit for every $1 spent after covering all costs. The highest customer spending segments accelerated their spending the most. Since the cost of a loyalty program of this type is similar for each customer (high fixed, low variable costs), this higher spending by best customers drives higher ROI in best customers. Examples of increased revenue drivers include phones per account increasing by 16% and add-on services “sampled” by customers using loyalty program points being converted to billable services.

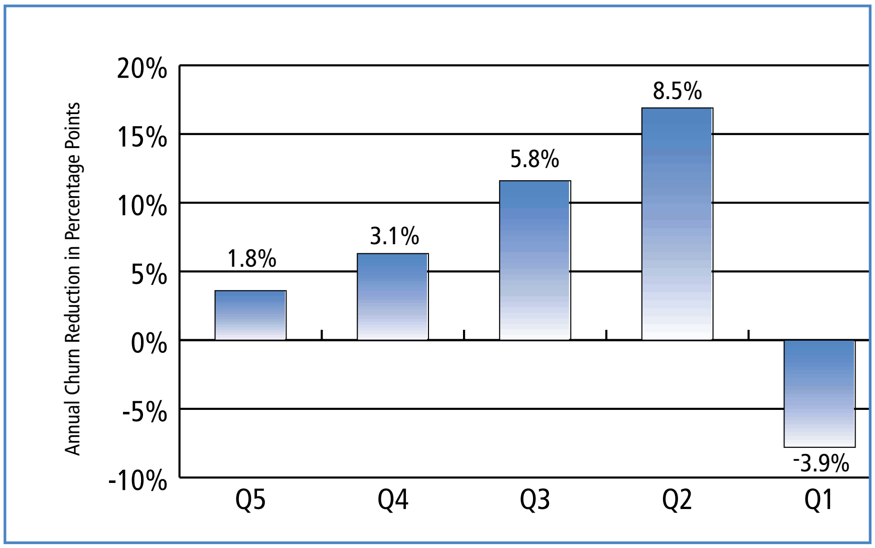
Customer Spending Segment	Return on Investment
Quintile 5	665%
Quintile 4	304%
Quintile 3	191%
Quintile 2	111%
Quintile 1	(12%)
Average	252%



Annual Churn Reduction

The Churn Rate decreased an average of 3.1 percentage points across all customer spending segments annually – a 15.6 percent decrease in churn over the 2 year period. Note the greatest reduction in churn rate occurred in the critical “mid-spending” customer group. When combined with the accelerated average spending per customer, churn reduction really pushed increased profits to the bottom line.

Customer Spending Segment	Churn Reduction
Quintile 5	1.8pts.
Quintile 4	3.1pts.
Quintile 3	5.8pts.
Quintile 2	8.5pts.
Quintile 1	(3.9pts.)
Average	3.1pts.



Test Details - How Program Members Were Selected

Customers who had been active for at least 6 months and having an average monthly cellular payment of at least $50 over a 3-month period were eligible for the program. A random sample of these eligible customers was selected in accordance with the cellular company's budget for the program. Those customers eligible for the program but not selected randomly for inclusion in the program became the "control group". This selection process ensured customers of all types (for example, different lengths of service or geography) who fit the initial selection screen were evenly represented in both the loyalty program and the control group. Customers could not apply for the program, and it was not "advertised" anywhere; those randomly chosen to participate in the program found out about it for the first time when they were selected to join and received a membership package in the mail.

The cellular company supplied the billing records of all cellular customers to Kobie Marketing each month, regardless of whether the customer was enrolled in the rewards program or not. This approach allowed Kobie to create and track groups of customers just like those in the program who had no knowledge of the program. The behavior of these "control groups" would later be compared to similar groups of customers in the program to measure any effect on average monthly spending and churn rate.

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How the Integrity of the Analysis was Verified

The control group was analyzed to make sure it was composed of customers like those in the program and there had been no errors in the random selection process when creating the control groups. Variables such as length of service, geographic dispersion, and mix of pricing packages present in the program group and control group were compared and verified. The customers in the control group were in fact virtually identical to those in the program.

The financial analysis was first done on all customers regardless of start date, since the mix of start dates was the same for both the program group and the control group. The financial results of this "all customer" analysis actually outperformed the data presented here, with higher sales increases and higher ROI across all segments.

But what if a great percentage of the longer-term customers were already "loyal"? How would you know if the loyalty program had actually created loyalty, or merely enhanced existing loyalty or was relying on customer inertia for success?

To eliminate potential bias of the profitability results due to very long term, already loyal customers, the analysis was done again using only customers that joined the company during the two-year period of the analysis, for both the program and control groups. Further, the number of customers in both the program group and control group were adjusted for seasonality – there were equal numbers of people in each group according to the month they started service. Those results are presented here and clearly indicate the financial success of the program – even when used solely to address new customers.

Financial Analysis Parameters

EBITDA Margin is a common measurement of profitability and success in the cellular telephone business. An industry average of 30% on the sales dollar was used to calculate ROI. This does not imply the EBITDA Margin at all cellular companies is 30%. It simply provides a benchmark for other companies to use in judging if a cellular rewards program like this could be successful for them.

Credits

Kobie Marketing is a fully-integrated relationship marketing agency specializing in customer acquisition, loyalty, retention, and database analysis. Kobie's mission is to help clients build and keep the most valuable customer base possible. Our approach focuses on acquiring the right customers, assessing customer value, and retaining the most profitable customers with High ROI Customer Marketing.

This case study was co-authored by Sharon Avery, Director of Loyalty Marketing at Kobie, and Jim Novo, consultant. Sharon oversees the creation, development and fulfillment of rewards, benefits and loyalty programs at Kobie Marketing. Jim Novo is a customer behavior and analytics expert with over 15 years of experience generating exceptional returns on customer marketing program investments.

Kobie marketing has more than 12 years of experience in the loyalty arena, delivering thoughtful, effective solutions that replace customer churn with customer retention and loyalty. If your relationship marketing efforts are not giving you the return you're looking for, or you feel the need for High ROI Customer Marketing, visit Kobie Marketing at: www.kobie.com or call us at: 800-821-7892 or 727-822-5353.