

THE SOCIAL MEDIA PAYOFF

Establishing the Missing Link Between Social Media and ROI



A Report on the Results of the 2012 LoyaltyOne Social Media Transaction Impact Study

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Introduction

In a twist of a cliché, corporate participation in social media has been something of a case of “Put your money where your word-of-mouth is.” In other words, “Prove it. Don’t just talk up the potential of social media initiatives. Where’s the evidence that corporate investments in social media will return benefits in the form of transactions, profits and ROI?” And those “other words” are coming directly from CEOs, CMOs and CFOs.

It all sounds logical—engaging with customers via social media, done right, should inspire further engagement, brand loyalty and, ultimately, more transaction activity. But establishing an accountable link between

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social media activity and tangible, positive impact on the business has been elusive.

The 2012 LoyaltyOne Social Media Transaction Impact Study establishes that link, and confirms that social media interaction between consumers and a brand has definite business-building potential. Working with the Medill IMC Spiegel Digital and Database Research Initiative at Northwestern University in Chicago and the Ivey School of Business at the University of Western Ontario, this

LoyaltyOne study (which we believe to be the first published study of its kind) demonstrates that positive social media interaction can and does lead to a significant and sustained increase in transaction volume from participating customers. Specifically, the study isolated and confirmed a direct and positive link between consumer social media activity with a major, well-known Canadian brand and increased transaction volume for that brand.

This study shows:

- **When properly designed and executed**, social media engagement provides long-lasting returns that are both significant and measurable. (In the case of our study, this engagement was prompted by online events and contests.)
- **Social media initiatives** create a long-term improvement in customer engagement, markedly improving the value of customers involved in the effort.
- **The impact of consumer engagement** is evident at all levels of the marketing dialogue with customers—from the initial outbound contact all the way through to customer response.
- **The biggest lift created** through social media engagement is found in high-potential customers who are not yet fully engaged with the brand.

That's the good news. The *better* news is that the study demonstrates that a reliable methodology of establishing and measuring such a connection is not only available, but also practical and deployable. The study's execution identifies a set of recommended marketing actions that any consumer loyalty marketing group can take to promote positive consumer word-of-mouth among their best, most loyal customers – actions that enable them to measure the downstream transaction effects reliably and accountably.



In Search of the Missing Link

The explosion of social media in recent years has both fascinated and confounded marketers – not to mention the executives they report to. The promise was clear – these networked communications were going to allow brands and consumers to talk to each other in new, more immediate and more personalized ways. Companies could build whole new levels of customer engagement. Yet, social media's newness, its pace of rapid change, and its frontier-like opportunities and lack of boundaries have turned most marketing attempts into something akin to a marketing Wild West. It was difficult enough to track social media activity in general; establishing ROI and even defining what social media marketing success looks like in the first place has been elusive.

In fact, when respondents in a 2010 joint DMA-COLLOQUY study were asked to identify the most important measure of social media success, nearly two-thirds selected "don't know." And when in early



In a recent study, nearly two-thirds of marketers, when asked to identify the most important measure of social media success, selected "don't know."

Source: 2010 DMA-COLLOQUY Social Media Survey

2012 Deloitte and *MIT Sloan Management Review* asked 3,748 executives from 115 countries and 24 industries about their social-initiative metrics, the #1 answer was "do not measure." In the two years after the DMA-COLLOQUY study, we should expect greater concentration on measurement.

Today, with nearly a billion people on Facebook alone, it's no surprise that companies have showered advertising dollars on social media outlets. However, marketers have struggled to prove a link between social media activities and the ROI of all this spending.

In the 2012 LoyaltyOne Social Media Transaction Impact Study, our researchers were attempting to identify the possible link between social media activity and a direct, tangible, positive impact on the business. To do so, researchers examined specific sets of brand-customer social media engagement within Canada's AIR MILES Reward Program. AIR MILES, operated by LoyaltyOne, is one of the first and largest coalition loyalty programs in the world, with 10 million members. Some 70% of Canadian households actively collect reward miles (the program's currency). The AIR MILES Reward Program allows members to earn reward miles by doing everyday shopping at more than 220 brand-name partners, representing thousands

of retail and service locations across Canada, as well as leading global brands online. Amassing a single loyalty currency earned from their cross-category purchasing at partner companies, AIR MILES members

A Number to Talk About 15-30%

The average increase in transactions with AIR MILES partner companies exhibited by participants in a series of social media engagement events, versus the transactions of the non-participants in control groups.

are quickly able to redeem for a broad range of travel, entertainment and merchandise rewards, including instant redemption for groceries, gas, drugstore products and home improvement items. Since 1992, when the program commenced in Canada, more than 50 billion reward miles have been redeemed by AIR MILES members.

AIR MILES hosts a social community website where members share tips on the best ways to collect and use reward miles, and discuss their experiences with AIR MILES as well as other topics. Researchers combined two-and-a-half years of social media

interactions with actual transaction data for members identified by their unique member ID, disguised by an anonymous numerical key used to protect the privacy of all subjects in the study. They then measured the impact of community-website activity surrounding three different AIR MILES events that invited social media participation from members registered on the site. (See “The Engagement Events” on page 7 for details of the specific initiatives.) To encourage use of the site, these events either awarded a small number of bonus reward miles directly to members for participating, or offered a chance to enter a lottery for large prizes in exchange for their social media activity. Researchers then linked that activity to downstream transactions and engagement for a large sample of participants and a control group of non-participants.



The Good News

Linking member activity and transactions provides concrete evidence of social media engagement’s impact on customer behavior, and shows that properly designed and executed social media marketing can deliver a large, lasting and measurable increase in customer engagement.

In aggregate, we found that the mere act of writing a short public statement on the site from the member’s perspective spurred significant lifts in transaction activity immediately following the prompting events and for as long as two months after the events, compared to a matched control group of members who received the exact same marketing prompts but who did not participate.

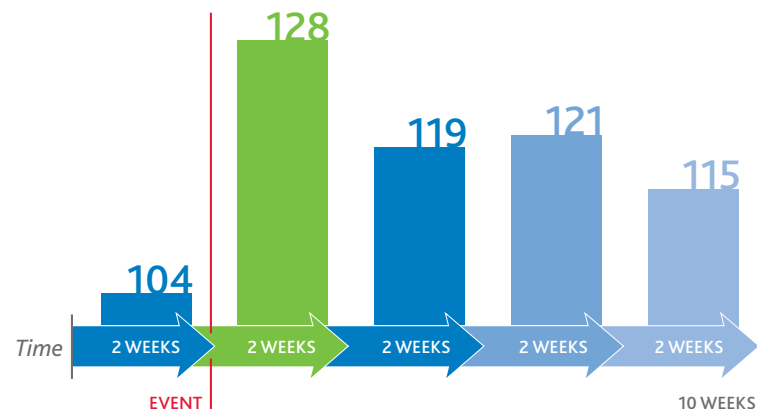
Exhibit 1 shows this impact over the course of the ten weeks surrounding the events—benchmarking participants' transactions over the entire period against an indexed performance baseline of 100 for non-participants' transactions.

Members who participated in the events by responding with their thoughts about the AIR MILES brand and what it brought them in terms of benefits became much better customers. In the eight weeks after the events, participants increased their transactions with the AIR MILES partner companies by, on average, 15-30%

over the performance of the non-participants in the control groups. These aggregated general results were consistent with the specific findings of each of the three individual events – significant lift in post-event transactions for participants that persisted for the two months following the event.

One inescapable conclusion from the study is that the greatest mistake in marketing via social media is employing it only as a means of communication—to tell the customer something. Instead, initiatives must offer customers opportunities to participate in ways that reinforce the brand value for themselves. Our findings indicate that successfully prompting dialogue triggers brand engagement, and engagement drives subsequent transactions.

Exhibit 1:
Lift From Brand-Customer Social Media Participation
 Index of Relative Transaction Performance of Social Media Participants
 Over Control Group of Non-Participants (Index = 100)



Source: 2012 LoyaltyOne Social Media Transaction Impact Study

- Aggregation of total transaction volume of member respondents who participated in three events prompting social media contributions, indexed over the transaction volume of a matched control group of members who were also prompted to participate but who did not, Feb. 2009 to May 2011
- n = 25,326 for participants
- n = 69,682 for non-participants



More Good News in the Key Findings

Other learning from the study includes:

Social media "co-creation" interaction reinforces brand value.

The most successful of the AIR MILES events, the "Winter Event," awarded ten reward miles to each member posting an answer to, "What are you redeeming your reward miles for this winter?"

The study shows a direct correlation between the type of answer someone gave in the Winter Event and the number of reward miles they earned on transactions downstream of the event. Members who

said they planned to redeem their reward miles for an experience like a great vacation or a getaway to someplace warm during the event subsequently collected more reward miles than those who targeted an item like a coffee-maker or a vacuum cleaner. Also, among those who said they wanted to redeem for an experience, the longer and more detailed their answer to the question, the more reward miles they subsequently collected.



Successfully prompting dialogue
triggers brand engagement, and
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These results indicate that the impact of customer engagement is both direct and indirect – socially gregarious customers influence not only others, but also themselves. By responding to a prompt to call to mind and “co-create” the core brand benefit, customers are reminding themselves of the value the brand delivers, and that reinforces the brand connection.

The impact of engagement flows through all levels of an interaction.

The study shows that the higher the level of member participation in the initial event, the greater the impact on downstream activity. As seen in the Winter Event example, participants who gave longer answers subsequently delivered greater transaction value.

Interestingly, the impact was evident even among those who were invited to participate, but did not. Specifically, all those who received and opened the initial invitation email but took no further action had significantly higher transactions afterward versus a matched group who received but didn't open the email. Likewise, those who opened the email and clicked through to the community page but who didn't contribute a post exhibited significant lift over a matched group who opened the email but who didn't click through to the page. This interesting finding suggests an advertising-driven aspect of engagement, and reinforces the potentially profitable self-funding nature of social media dialogue.

The brand must take it upon itself to be a primary motivator of engagement.

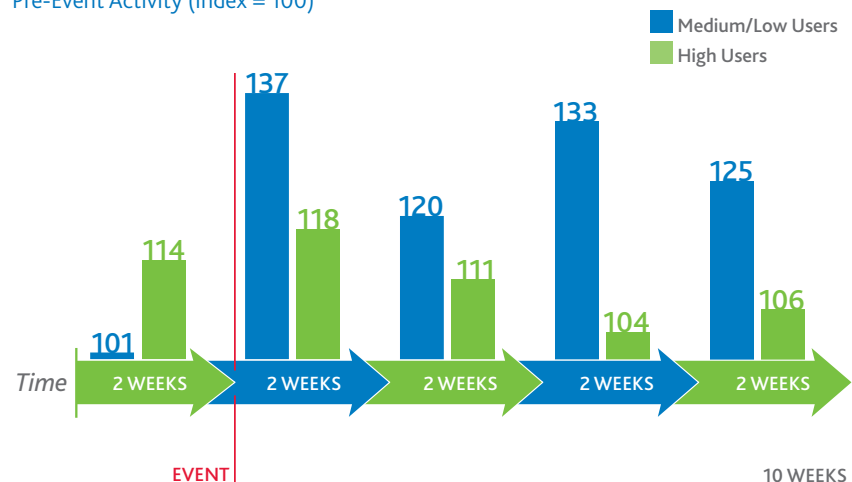
In the study, the AIR MILES-driven events triggered 99% of posts made on the community website during the study's time period. Initiatives must inspire customers to reinforce the brand value for themselves and directly for others.

Social media interaction can employ surprising leverage points.

The effects of these events were seen regardless of whether members had previously been heavy, medium or light users of AIR MILES. However, what's particularly striking is that the greatest percentage of lift was seen from members who had been using AIR MILES the least in the weeks prior

Exhibit 2: Lift by Heavy AIR MILES Users Versus Other Users

Index of Relative Transaction Performance of Social Media Participants Based on Pre-Event Activity (Index = 100)



Source: 2012 LoyaltyOne Social Media Transaction Impact Study

- Transaction volume of member respondents who participated in three events prompting social media contributions, indexed over the transaction volume of a matched control group of members who were also prompted to participate but who did not, Feb. 2009 to May 2011
- Medium/low users had earned 0-49 reward miles in Period 0, and High users earned 50 or more reward miles in Period 0
- n = 25,326

to the events. As we see in Exhibit 2, the smallest improvement in customer participation was among the heaviest users of AIR MILES. Those people were already spending at a high level to collect the currency, so it's likely that they were participating as much as they could. Therefore, social media interaction can be a tool for lifting the transaction value of lower-volume consumers with high potential, who have more room to increase their spend.



An Accurate and Repeatable Methodology

The methodology used in this study is both reliable and transferable. Here are the key elements of the study methodology, and the learning taken from using those elements.

The core of the research was its ability to identify individual members through the anonymous numerical key representing their program ID. This allowed researchers to view the before-and-after activity of members individually and in aggregate, and therefore also in segments within that whole. To establish the level of participants' social media activity, the events were conducted via the AIR MILES social media platform, where sign-ins meant that all posts made could be associated with an individual member.

The learning here is the importance of linking social media across all touch points into your customer database. Measuring social media marketing efforts has been haphazard and disconnected from real business results for too long. The study shows the importance of linking the unstructured data of social conversations into the structured decision frameworks and valuation metrics of a brand's CRM and/or loyalty program management. That means setting up your own proprietary social-interaction sites (community pages,

online customer service sites, blogs, and so on) to register your customers through their loyalty-membership numbers. Even third-party social platforms, such as Twitter and your various Facebook pages, can be employed to establish that link back to your proprietary member tracking. Incent members to register via engaging events and contests to build your visibility into “who’s saying what” and the downstream impact that may have on sales.

A clear goal was established for the research: to determine the nature of participation on the AIR MILES community website and measure the downstream transaction impact, if any, of different forms of participation (active posting versus passive viewing, posting of positive versus negative comments, the length of posts, the incidence of event-motivated posts versus general posts, and so on). The purpose was not to measure activity – it was to measure financial impact. What questions must you answer – for key stakeholders and decision-makers – and what information will help you answer them?

The study held out one carefully matched sample control group that did not receive the email invitation to the events. In addition, the researchers created three large post-hoc (after-the-fact) control groups for all events, composed of members who received the email invitation but who did not participate in the events.

The Engagement Events

The social media interactions studied in the 2012 LoyaltyOne Social Media Transaction Impact Study:

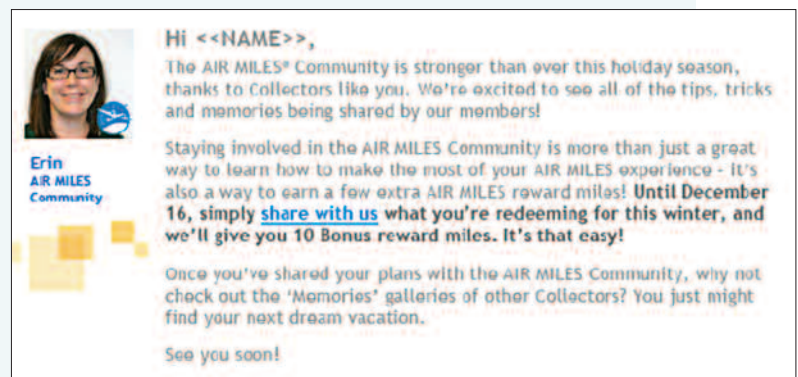
The “Cruise Contest” gave members one chance to win a luxury travel package each time they answered a question; a new question was posted each week for six weeks.



The “Block Party Contest” asked members to write about what the value they derive from the program means to them. The contest awarded 2,500 reward miles (a significant amount in the context of the program currency) to the winner.



The “Winter Event” awarded 10 bonus reward miles to each member who posted an answer to the question, “What are you redeeming your reward miles for this winter?”



Researchers then tracked the long-term impact of these marketing events by monitoring customer behavior in the two weeks before and the eight weeks following each event. They measured reward miles collected, frequency of AIR MILES transactions, and the number of AIR MILES partners visited each week. More than two years of data were incorporated in the research. In each of the events studied, invitations were emailed to all AIR MILES members (except the hold-out control group). The emails linked to the AIR MILES community website, where members were required to sign in, meaning that all posts could be linked to an individual member. Researchers subsequently reviewed more than 99,000 unique posts made by users before and after the marketing events. Researchers were able to track how much time each person spent viewing and posting to the site, and link that information to downstream customer behavior.

A loyalty program's ability to identify customers is a powerful tool to create that linkage.



Leverage the Learning

Social media's importance is bound to grow over the coming years, so marketers must experiment now to master the intricacies of true customer engagement. Though every company differs in marketing methods and means, here are a few common denominators from our findings that any company can and should employ now:

1 Create the conditions that deliver the true meaning of "social" to drive results.

Consumers truly consider social media as social, not as new commercial channels used by marketers to pester them. Your customers will see your messages as helpful in a social context if and only if you behave as a friend or trusted advisor would—bringing news, entertainment, and fun into their lives, and solving real problems. Social media can thus transform marketing from merely a one-way stream of messages into a shared and share-able service. You must create a reason for customers to engage and to share the results of their engagement within their network—and the means to do so. Even activities as simple as sharing a photo or voting in a contest can have great reach if participants have the means to share what they've done with friends and family.

2 Integrate your social media efforts into your loyalty marketing strategies.

The best way to engage customers in social dialogue is to target your efforts to the best customers in your loyalty marketing database. Motivate and inspire them to start sharing. They are the most likely to reveal themselves, share their data, and look for more ways to enjoy the benefits of your brand and the loyalty program's value proposition. They presumably know the brand best, like it the most, and are able to influence others most positively. Because your internal loyalty marketing

people are already stewards of that kind of information, and because they are best-customer advocates, they're in a particularly good position to coordinate the necessary internal integration. Apply your customer-engagement expertise directly to social media initiatives.

3 Measure your social media programs with confidence.

Given the magnitude of the downstream transaction lift our researchers discovered, the findings indicate that similar efforts to engage social dialogue can pay off handsomely. Brand marketers should link their social media marketing to their loyalty marketing strategies, thereby creating a targeted, accountable way to measure the results of social media spending and its impact on the core customers that matter most to the brand. Use the insights from the 2012 Social Media Transaction Impact Study and similar methodologies to provide the knowledge and proof that your company's chief executives will appreciate and support: by demonstrating that social media marketing campaigns are accountable to drive proven bottom-line results.

4 Focus social media R&D efforts using your customer value segmentation.

With a competent measurement platform in place, your enterprise can accelerate learning about what drives the greatest business impact from social media engagements. Think of such a platform as a "customer R&D lab." Because some talk is valuable, and some is cheap, your greatest payoff will result from the conversations involving your best and highest-potential customers. However, don't forget the percentage of lift seen in customers with low participation before the study events took place. Leverage all segments with high potential to grow.



A Final Word

Engaging customers via social media will become increasingly important in the future.

Today it's still a fairly small element in a much broader marketing mix and keeping social media in perspective as a "rudder," not an "engine," of customer relationships is critical. Clear brand positioning, a compelling reason for being, relevant and targeted promotions, great personal service at the point of sale, and responsive support after the sale are the core drivers of customer engagement. Social media can assist with the direction and impact of those drivers, but it can't replace them.

Social media's big promise is to bring the customer more intimately into dialogue with your brand. With the 2012 LoyaltyOne Social Media Transaction Impact Study's clear evidence linking activity to results, marketers can be assured that well-designed, measurable social media strategies are worth the investment.

ABOUT

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Neil Everett is Senior Vice President and Chief Marketing Officer of LoyaltyOne. He is responsible for all aspects of marketing the AIR MILES Reward Program, including branding, digital strategies, promotions, direct mail and reward strategies, procurement and fulfillment. His focus as CMO is on growing and evolving consumer engagement to ensure the continued leadership of North America's premier coalition loyalty program. Everett also leads Direct Antidote, a full-service integrated marketing agency under the LoyaltyOne umbrella.



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ABOUT

LoyaltyOne

LoyaltyOne is a global leader in the design and implementation of coalition loyalty programs, customer analytics and loyalty management solutions for Fortune 1000 clients around the world. LoyaltyOne's unparalleled track record in the loyalty marketplace stems from its unique combination of pragmatic, hands-on experience and continuous thought leadership. LoyaltyOne has over 20 years' history leveraging data-driven insights to develop and operate some of the world's most effective loyalty programs and customer-centric solutions. These include the AIR MILES Reward Program, North America's premier coalition loyalty program and a working partnership with Latin America's leading coalition program, dotz. LoyaltyOne is also the equity partner of Direxions, a loyalty pioneer headquartered in India, and the owner of COLLOQUY, a group dedicated to research, publishing and education for the global loyalty industry. LoyaltyOne is an Alliance Data company.

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ABOUT

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Medill was founded in 1921 and offers programs in journalism and integrated marketing communications. It teaches new techniques essential in today's digital world. Medill is leading the way in training a new generation of multimedia journalists and integrated marketing communications professionals. The Medill School of Journalism, Media, Integrated Marketing Communications at Northwestern University is named after Joseph Medill, a newspaper man and former Mayor of Chicago. (www.medill.northwestern.edu)

ABOUT

The Richard Ivey School of Business, University of Western Ontario

The Richard Ivey School of Business at The University of Western Ontario is Canada's leading provider of relevant, innovative and comprehensive business education. Drawing on extensive research and business experience, Ivey faculty provide the best classroom experience, equipping graduates with the skills and capabilities they need to tackle the leadership challenges in today's complex business world. Ivey offers world-renowned undergraduate and graduate degree programs as well as Executive Development at campuses in London (Ontario), Toronto and Hong Kong. (www.ivey.ca)

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