Assignment 3

Internet-based company loyalty programme

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1.0 Management Summary

In an effort to maintain customer loyalty and improve overall sales, e-Fresh plans to embark upon a project that will put a new system in place within the online ordering system used for handling customer transactions. This new system will involve direct and indirect incentives for customers in the form of reward/bonus points, which will be redeemable for cash discounts off their shopping.

It is planned that reward points will be offered based on the dollar value of customer transactions, as well as passing a reduced number of points back to a referring customer if their details are specified when a new customer joins. This is predicted to increase raw sales slightly for existing customers, due to a desire to make use of the bonus points, as well as an increase in the number of customers due to new customers being referred, and those coming on board to try to make use of the new system.

The project is expected to take approximately 3 months to complete, and has a budget of just under $20,000. It is expected to pay itself off almost immediately with an increase in spending, increased customer numbers and prolonged retention rates of customers. The project is discussed in this document in relation to technical development and marketing phases, broken down into a timeline and a budget, along with financial forecasts as to the future of e-Fresh in relation to this project. Finally, communication requirements during the project are discussed, and conclusions are drawn as to the viability of the project, which appears very positive.

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2.0 Introduction

"e-Fresh" is an online grocery store which provides a complete shopping and delivery service for customers who are too busy to get to grocery stores during normal operating hours, or who don't have time to locate and purchase all the things they need. e-Fresh allows these people to quickly browse grocery products (or search by name, brand, etc) and select what they want, then have them delivered to their door at a specified time. Customers may even build templates for regular items and load their cart with those products automatically at each visit. The service has proven popular and the company is successful, but the marketing department has decided to implement an incentive system to retain customer loyalty in the face of increasing competition in the online grocery market. The proposed incentive system is outlined in the Project Overview section, covering two (combined) approaches to retaining customers and increasing sales.

The implementation of the incentive system will involve technical processes to include the functionality required to record bonus points and to record referring customers and keep track of referred sales. Once the technical development is complete, there will also be a requirement for promotional activities to inform existing customers of the new features of e-Fresh, and to get new customers to sign up and start shopping. It is not anticipated that training will be required for any staff members at e-Fresh, since the system will be entirely automated and integrated with the shopping experience for customers. Existing technical staff will complete the development, so they will be fully-versant with its operation.

After outlining the incentive program and the basic process of implementing it, this document will analyse the returns that can be expected and the changes in revenue based on the distribution of bonus points and cash-back rewards. It is worth noting that it is anticipated that the incentive program will result in a net increase in revenue for e-Fresh.

3.0 Project Overview

Following are outlines of the proposed incentive system and the process of implementing and promoting that system within e-Fresh's online operations.

3.1.0 Proposed Incentive System

1. For every dollar spent on groceries at e-Fresh, customers will receive 2 bonus points.
2. If a customer refers another customer, who uses the name of the person who referred them when registering, then the first customer will also earn 1 bonus point for every dollar that their referral spends (the customer spending the money will still receive their own bonus points).
3. Once 2,000 bonus points are collected by any customer, they may be 'cashed in' for $15.00 off their next grocery order.
4. Bonus points will not be directly redeemable for cash (they may only be used to reduce the cost of groceries purchased at e-Fresh).

This combination of rewarding spending and referrals not only encourages loyalty and continued spending, but also offers an incentive for people to tell their friends about e-Fresh and have them join. This approach will potentially increase both sales and customers.

3.2.0 Incentive System Implementation

Implementing the incentive system will involve technical development and promotional activities. The elements of the implementation are discussed below.

3.2.1.0 Technical Development

To implement the proposed incentive system, there are certain changes that would need to be made to the existing online systems of e-Fresh. The main changes would be:

1. Ability/functionality to record the accumulated bonus points for any registered customer account.
2. Ability to 'cash in' bonus points over a certain threshold when making a purchase.

3. Ability to record a referring person (and match those details to an existing account if possible) when creating a new customer account.
4. Ability to record bonus points against the referring customer when a referred customer makes a purchase.

Based on estimates from the technical department, it is expected that these changes will take approximately 9 weeks to complete, as detailed on the Project Timeline. In addition to the technical development of the systems to support the incentive system, e-Fresh would also embark on a promotional campaign to inform current and potential customers of the new program.

3.2.2.0 Promotional Campaign

Once technical development of the system is complete and operational, e-Fresh will launch a campaign informing existing and potential clients of the new incentive program. The campaign will include the following elements:

- Emails sent to all existing customers with details of the new program, which they will automatically be signed up to.
- Promotional information included on the e-Fresh website to entice new customers to sign up.
- 'Tell Your Friends' feature for registered users, allowing them to easily send an email to their friends from the e-Fresh website which will include encoded information to record them as the referring customer.
- Fliers distributed to households within delivery areas of e-Fresh agents informing them of the service offered by e-Fresh and in particular promoting the incentive program. This would be pursued once initial customer uptake was demonstrated to ensure financial viability.

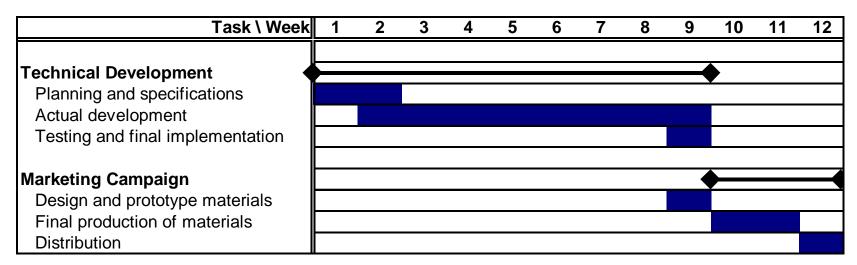Details of the timeline for the promotional campaign are included in the Project Timeline. The main requirement for the marketing campaign being that it should only start once the system is live, to avoid misleading customers and creating dissatisfaction.

3.3.0 Project Timeline

Below is a timeline indicating the approximate timing for the completion of this project, shown relative to a start date.

Task \ Week	1	2	3	4	5	6	7	8	9	10	11	12
Technical Development	◆━━━━━━━━━━━━━━━━━━━◆											
Planning and specifications	███											
Actual development		████████████████										
Testing and final implementation								███				
Marketing Campaign									◆━━━━━━━━━━◆			
Design and prototype materials								███				
Final production of materials										████		
Distribution												██

4.0   Incentive Program Forecasts

A program such as this will obviously affect the revenue of e-Fresh, since there will be an effective reduction in profits over the same number of products due to the cash-back rewards involved in the program. Specific calculations and projections are included below, relating to the direct bonus points offered to customers, and the indirect bonus points offered on the purchases of other, referred customers.

4.1.0   Direct Bonus Points

e-Fresh is offering 2 bonus points for every dollar spent by a customer. 2,000 of these points is worth $15.00 to the customer.

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- 2 points per $1.00 spent

- 2,000 points = $15.00 cash back
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Based on these figures, the following information can be derived:

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- 2,000 points at 2 points per $1.00 = $1,000.00 spent

- $15.00 cash back for $1,000.00 spent = equiv. 1.5% discount
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With an average product margin of approximately 12% [assumed], this discount is acceptable for continued operation, and given the expected increase in customer numbers and sales, is sustainable.

It is estimated that the new system will result in approximately 1 in 10 customers increasing their shopping at e-Fresh, at an average rate of $5 per week, on top of a current average customer spend of $50.00 per week. With 1 in 10 customers now purchasing at $55.00 per week, and the other 9 in 10 at $50.00 per week, the average customer spend per week will be $50.50. To receive the $15.00 cash-back at $1,000, these customers will, on average, take 20 weeks of shopping. The program is also expected to increase customer numbers by 1%.

e-Fresh currently has 5,300 active customers, so without the program in place, we can derive the following figures:

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5,300 customers spending $50.00 per week = $265,000.00
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If we assume the 1% customer-base growth and the increase in spending, then the following figures will apply with the program in place.

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5,300 customers + 1% increase = 5,353 customers

5,353 customers spending $50.50 per week = $270,326.50 revenue
per week.

$270,362.50 in revenue, allocating $15.00 per $1,000.00 spent
will result in $4,055.48 being issued as rewards (1.5%)

$270,362.50 revenue - $4,055.48 in rewards = $1,307.02 increase
in revenue per week (over $265,000.00)

This is a 0.5% net increase in revenue over current figures,
along with the expected increase in loyalty/retention.
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4.2.0 Indirect Bonus Points

The true impact of indirect bonus points will be harder to calculate, due to the variation likely to occur in the number of people that any one customer will refer successfully to e-Fresh.

Given that the majority of customers are not likely to successfully refer a customer who will remain active with e-Fresh, it has been estimated that on average, each customer will only successfully refer 0.5 of a customer to the system. With this assumption, we draw the following calculations:

```
0.5 customers at 0.5 bonus point accumulation rate (1 point
instead of 2 per dollar)

Direct bonus points granted at an approximate rate of $1,300.00
per week

Therefore $1,300 in bonuses, at 0.5 customers, with 0.5 rewards
= an additional $325.00 in rewards per week

$1,300.00 + $325.00 = $1,625.00 rewards per week
```

Taking indirect bonus points into consideration effectively raises the equivalent discount from 1.5% to 1.875%

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$15.00 per $1,000.00 + (0.5 referrals at 0.5 bonus rate) =
$18.75 per $1,000.00 = 1.875% equiv. Discount
```

4.3.0 Additional Customers

With the introduction of the new incentive scheme, it is also expected that approximately 1,000 new customers will join up and remain as repeat customers with e-Fresh. These new customers will raise revenue levels as follows:

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1,000 customers at $50.50 per customer, per week = $50,500.00
per week additional revenue.
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These 1,000 new customers will be obtained via direct emailing, 'Tell A Friend' campaigns and other advertising processes as determined by the marketing department of e-Fresh.

5.0 Project Financials

This project will largely make use of existing infrastructure (online ordering/user management system), however it will require technical development and testing before it can be implemented. Once the system modifications have been made, they must also be marketed to users (current and potential) via a promotion campaign. Costs for the project are low, however as with all technical project, they need to be managed carefully to avoid 'project-creep' and blown budgets.

	Approx Cost ($)
Technical Development	
Planning and Specifications	4,000
Development	7,000
Testing	1,000
TOTAL	**12,000**
Promotional Campaign	
Design and Prototyping marketing materials	2,000
Development of materials	2,000
Distribution	1,000
TOTAL	**5,000**
PROJECT TOTAL	**$17,000**

NOTES: Technical planning/dev charged at 2 people, at $1,000 per day each, for 2 days.

Development and testing will cross over, and are charged at approx $1,000 per week.

Design rates/charges are lower because all production and distribution will be electronic.

6.0 Communications Schedule

Being a relatively short project, the implementation of the incentive scheme will require adequate communications to ensure that all elements of the project are synchronised properly. Early release of the promotional materials would be misleading to customers, while late release would be wasteful of the effect of the introduction of the new system.

Part of good communication procedures will be for all involved departments/work groups to produce periodic update reports to inform other areas as to where they are up to. A sample Project Update Report is included in Appendix A. This template should be used to provide a consistent, succinct report that will include all the important information. It is suggested that this report be issued weekly, by either the technical or marketing departments, depending on the current stage of the project.

7.0 Conclusion

e-Fresh plans to solidify and improve their position in the online grocery market by instituting an incentive system, where customers are rewarded both for continued shopping, and referring other shoppers to shop at e-Fresh. This incentive system will be relatively cheap to implement, involving little more than some technical development and promotional activities.

In-house technical staff will be used for the technical production of the new system, and marketing/design staff will produce all promotional items. As shown in the project timeline, the entire project should only take 3 months to complete. With a budget of under $20,000, this project will pay itself off immediately, assuming the forecast additional customers come on board.

Appendix A: Sample Project Update

Title	Name	Phone
Project Manager:		
Technical Manager:		
Marketing Manager:		

Current Focus: [Technical] / [Promotional]

Schedule: [On Schedule] / [Ahead of Schedule] / [Behind Schedule] / [Slipping]

General Progress Comments:

Completed Tasks:

Upcoming Tasks:

Date:

Signed:

Project Manager