

Avoiding the “Rooster Syndrome”

by Kathy Lambert & Tom J. Salutz – DataCo

The Rooster Syndrome [shorthand for the Latin: *cum hoc ergo propter hoc* (“with this, therefore because of this”) is an easy trap for marketers to fall in to when they explain why things happen the way they did. Using a control group allows you to avoid believing that the rooster’s crowing causes the sun to rise.

As an eternal optimist, the headline of an article which said, “Loyalty schemes likely to breed ‘WOM champions’” seemed promising. Incentive and rewards programs are powerful weapons in the marketers’ tool kit. Especially in times when those rewards and programs may be providing the main competitive differentiation or at least an important element of the value proposition against an increasingly wary, informed, frugal, and just plain jaded customer base. But, if loyalty programs could be shown to “breed” Word Of Mouth champions—rather than just identifying the likely WOM champions—that would really be news.

Further in to the research summary the article stated that the study had revealed “significant evidence of a direct correlation between reward program activity and consumers’ positive WOM endorsement activity.” And it included factoids along the lines of: loyalty program members were 127% more likely to be WOM champions than the normal population. But while the title said the loyalty program was likely to “breed” these champions, the article stopped short of saying that they were WOM champions because of the program. Unfortunately, other recent articles have not been as cautious as they should be. So it is time to quickly discuss a couple of points the article’s title raises, because this is not simply an issue of semantics or serendipity.

We believe that it has never been more important to determine what is working—and how—in your marketing budget. You can no longer settle for what appears to be working, or what your “gut” says is working. You need to know in order to allocate your resources as effectively as possible to maximize your results. And, since it is possible to actually know what’s going on, there is no excuse to operate blindly.



For most companies, the objective of reward, incentive and loyalty program is to increase customer retention and revenue. But since these programs come in many different forms, the statements made about the performance of customers in any particular loyalty program or scheme should be properly measured against a control group to prove that the objective is truly being met. Let's look at some real world data where misinterpreting it could create a significant problem for the marketer.

Because there is a difference, the program caused it:

Often loyalty program members are compared to non-members to determine the value of the program against real objectives. The point is—while not refuting the claim that the sales performance of the reward customers is greater than non-rewards—that it is not sufficient to attribute those differences in sales as being caused by the reward program. It is a logical error to attribute cause and effect to statistical differences between a result and a prior fact. In fact, statistical analysis does not provide a proof of cause. It only states that some relationship exists between the two sets of data. In the example we began with it's the loyalty program membership and the WOM champion. In the example below, we show a relationship between average spend and joining a rewards program. In either instance, even when the differences are great, it still doesn't mean that the Reward program generated the incremental sales or 'bred' WOM champions.

Let's review the hypothetical results from a program we ran for one of our clients. Credit Card A sends a direct mail campaign to active cardholders, encouraging enrollment in their Rewards program. From the active cardholders in good standing, we created a mail target and a control group. As part of the campaign results, we analyzed spend activity for 4 months subsequent to the mailing. Here's a summary of results which did not find any incremental sales from the rewards:

Credit Card A - Test Failed				
Post-Campaign Behavior →		Joined Rewards	Did Not Join Rewards	Total
Mail	% of Total	10%	90%	100%
	Average Spend	\$1,000	\$444	\$500
No Mail	% of Total	N/A	100%	100%
	Average Spend	N/A	\$500	\$500
Incremental Value:				\$0

We found that the Rewards customers spent more than twice as much (\$1,000 versus \$444) as those that didn't enroll, and twice as much relative to the control group (\$1,000 versus \$500). However, in reality, there was no increase in sales that

“The statements made about the performance of customers in any particular loyalty program or scheme should be properly measured against a control group to prove that the objective is truly being met.”

could be attributed to the mailing (\$0 in Incremental Value). How is that possible given the results? What happened?

As with many Rewards programs, the customers who responded to the offer in this case were most likely to already be the client's "best customers". These customers have the most to gain from a Rewards program because they intend to continue to spend. They are active buyers and the Rewards offer is just an opportunity to either save money now or accumulate points that will provide additional value in the future. So the Rewards program did not generate incremental sales; rather, the rewards program segmented the more loyal customers into the rewards program, and the non-loyals into the non-reward group.

Predictive analytics and modeling are critical tools for the marketer. And the use of control groups will keep your measurements reliable, your vendors honest, and your CFO happy with the results.

In this example, the Reward program appeared to generate additional sales, but the control group showed that the program was in fact ineffective. However, the only way you would immediately know that the program was ineffective would be through a comparison with the control group. Otherwise, you might be inclined to actually increase the funding to this effort, and then be left wondering what happened at the end of the year when the budget was gone and sales were flat.

In our opening example, it is far more likely that the Loyalty schemes that were described actually identified the WOM champions in the customer base rather than bred them. Why does it matter? Because it tells you as a marketer who is in your loyalty program and—when added to some qualitative research—it will suggest what to do about it. Conversely, it may explain why adding more regular customers to the loyalty program may be unlikely to "breed" more WOM champions—as was implied.


(continued on next page)

Yes Virginia, you really do need a control group:

In the example we used, the client was able to set aside control groups, but for many Loyalty Marketers, that is simply not an option. Unfortunately there is no shortcut. In fact, there is just no other way to guarantee that you are measuring the right things and actually achieving your goals. The control group is literally the ruler you need to optimize your efforts. Without it, you might think that your loyalty program created advocates instead of just enrolling them. You might think you had generated incremental spending on the part of your customers instead of just identifying the ones who spend the most anyway. And, you might think that by enrolling a lot of customers in the Rewards program that you had also identified the most easily incentivized to spend more. In every case, the opposite or counter-intuitive was precisely the case.

Predictive analytics and modeling are critical tools for the marketer. And the use of control groups will keep your measurements reliable, your vendors honest, and your CFO happy with the results.

As Mark Twain once said [to the chagrin of our ilk], “there are liars, damn liars and statisticians.” We told you right from the beginning that we are optimists by nature. So we like to think that Mark meant that dictum as a friendly and cautious reminder to be careful when interpreting the meaning of any statistical measure or relationship. Because—while it would be very easy to fall into Mark’s continuum—you can stay out of trouble by remembering the simple rule: measurements are important but you can not always draw a cause and effect from them. Or, as my mother used to say: “The road to hell is paved with unsupported conclusions drawn from measurements that ignore the fact that statistical relationships do not guarantee cause, that averages can be comforting but deceiving, and that not all customers behave the same way. Consequently, identifying segments of customers and targeting them appropriately is much better done utilizing control groups.”

Alright, alright, Mr. Twain. It just might have been more like something about the rooster not causing the sun to rise... 

**I'M BEING PULLED IN A MILLION
DIFFERENT DIRECTIONS. EXCEPT YOURS.**

EMAIL

MOBILE

WEBSITE

DISPLAY ADS

DIRECT MAIL

CALL CENTER

POINT OF SALE

CONNECT WITH MORE PEOPLE IN MORE WAYS.

In a world where consumers are bombarded by marketing impressions, Acxiom enables marketers to reach the right people with the right message across all key marketing channels: email, mobile, website, display ads, as well as offline.

ACXIOM[®]
WE MAKE INFORMATION INTELLIGENT[®]