Unwaivering Allegiance

An e-commerce brand is trying to launch a loyalty programme, you are required to delve into the expected costs of the programme.

CASE TYPE
Unconventional

COMPANY NAME
Bain & Co.

DIFFICULTY LEVEL
★ ☆ ☆

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An e-commerce business's path to customer loyalty

Case Type	Company Name	Round	Difficulty Level
Unconventional	Bain & Co.	Partner	

Problem Statement **An e-commerce brand is trying to launch a loyalty programme, you are required to delve into the expected costs of the programme.**

That's intriguing! I would like to get a deeper understanding of the programme. Does the loyalty programme offer returns to the subscribers in the form of discounts, vouchers or complimentary products?

The customers get a cashback in the form of a virtual currency made by the company proportionate to their order value.

How many customers frequently visit the site in a month?

Around 10,000 - 15,000 customers buy products from the site monthly.

Alright, I'll incorporate that in my approach. First, I want to calculate the total transaction value:
Total Transaction Value = No. of Customers x Average Order Value
For the average order value, I'd like to ask the products that the e-commerce website deals in and their average price.

The company deals in clothing, and specialises in fast fashion. The average price of a single product is Rs. 1500.

Great, fast fashion relies on popular trends and social phenomena and forces people to buy clothes frequently as fashion trends change very frequently nowadays. Moreover, the purchase patterns of different income groups would vary greatly, with high-income groups buying a greater amount and more frequently than comparatively lower-income groups. Taking all these factors into consideration, is it safe to assume that 30% of people buy more than 2 items, 30% of people buy 2 items and 40% of people buy a single item in a month?

Yes, it is.

Alright, the Average Order Value = 30% of 5000 + 30% of 3000 + 40% of 1500 = Rs. 3000.

The following is a mathematical model that can be used to calculate the cost of the loyalty programme.
Cost = (Total transaction value) x (Percentage of people who have the loyalty programme) x (Percentage of customers who will redeem coupons in a month) x (Redeemable transaction value)
People who will subscribe to the loyalty programme are the ones who visit the site the most, thus the ones who buy more than two items monthly, which is 30% of the customers. Factoring in forgetfulness, lower number of transactions and other variables that might render a customer unable to redeem his coupons, we can assume only 80% of customers actually use their currency.
Is this approach okay?

Yes, that looks like a good mathematical model.

In order to delve further, I'd like to inquire about the redeemable transaction value the company is currently looking at for a single transaction.

The company will offer 100 currency points for a transaction of Rs. 2000.

Alright. The redeemable transaction value is thus 1/20 for every transaction.
Compiling all the factors, our cost can be calculated.
Cost = (12,500 x Rs. 3000) x 30% x 80% x 1/20
= Rs. 4,50,000

Great, we can close the case now.

HERE'S A TIP!

Usually when calculating the expected costs of a pilot project at any scale, while delving deeper into the case, the cost incurred in fulfilling the Average Order Value(AOV) must always be kept in mind. Thus, these cases would usually involve making a guesstimate on what the AOV would be, what the size of the market would be and what the company would incur on fulfilling that order.

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CASE FLOW

CASE FACTS

1. An e-commerce brand is trying to launch a loyalty programme.
2. The customers get a cashback in the form of a virtual currency made by the company proportionate to their order value.
3. Around 10,000 - 15,000 customers buy products from this site monthly.
4. The company deals in clothing, and specialises in fast fashion. The average price of a single product is Rs. 1500.
5. 30% people buy more than 2 items, 30% of people buy 2 items and 40% of people buy a single item in a month.