



Costing out a loyalty program solution in 2021

The definitive cost guide to help you plan your investment



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*This cost guide covers development and maintenance costs in the US. The Total Cost of Ownership usually includes other factors such as deployment costs such as hosting and server space, legal fees, copyright costs, app store/ search engine commissions, etc, which are outside the purview of this document. TCO helps a company plan for any expenses incurred during the maintenance and deployment of a particular software.

Introduction

Customers love well-executed loyalty programs. Almost three-quarters of US online adults belong to at least one. The challenge is to build a loyalty program at a cost that doesn't exceed your budget.

This guide illuminates the total costs associated with different approaches to implementing a customer loyalty technology solution.

We break down the total cost into:

01. Fixed costs, including application development, software licensing, and/or debugging, depending on the technology approach you choose
02. Variable costs, including ongoing maintenance and potentially implementation, depending on the technology approach that you choose*



*We will cover only maintenance costs in this guide.

Fixed costs

Initial development, software licensing, debugging

IT RESOURCE	COST	TIME TO DEVELOP	DEVELOPMENT AND IMPLEMENTATION COSTS	YEAR-1 DEBUGGING* (FIXING BUGS AND BETA TESTING)	ANNUAL SUBSCRIPTION FEE	TOTAL COST
Freelance developers <i>For calculation, let's assume a team of 5 developers</i>	\$50- \$300 per hour per developer	7 - 9 Months	\$308,000 - \$1,584,000	\$40,000	\$0	\$348,000- \$1,624,000
Software development outsourcer	\$400 - \$1250 per hour per team of developers	7 - 9 Months	\$492,800 - \$1,980,000	\$40,000	\$0	\$532,800- \$2,020,000
Internal IT Team (developer, PM, tester)	\$30,000 - \$38,000 per month	12 - 18 months	\$360,000 - \$684,000	\$48,000	\$0	\$408,000- \$732,000
Commercial loyalty software products	\$ 15,000 - \$40,000 one-time for deployment and customization	4-6 weeks**	\$15,000 - \$40,000	\$0	\$24,000 (Average of \$2,000/ month subscription fee depending on the number of program members)	\$39,000 - \$64,000

*Debugging is meant to discover and fix a problem at a moment in time without impacting other components in the system.

**This is the time taken to customize the commercial product as per the company's brand guidelines and the current loyalty model, along with any legal or licensing requirement.

Variable costs: maintenance

Maintenance costs are the costs that grow over the lifetime of the system.

Maintenance can be segmented into three types:

- 1. Corrective maintenance** - troubleshooting problems that show up in testing or after the program has been rolled out.* This is generally released as upgrade packets to customers.
- 2. Adaptive maintenance** - ensuring that technology is up to date and matches up to industry standards. The software also needs to adapt to regulations on data protection and privacy.

Corrective and adaptive maintenance is usually priced at 30% of the total development effort.

- 3. Enhancement maintenance** - is solely at the company's discretion and usually aimed at maximizing user satisfaction and engagement. Most freelance developers, software development outsourcers, and internal tech teams will need to start coding new features from scratch, which could cost more than half a million dollars and take more than a couple of months. However, commercial loyalty software products can include coded modules and plugins that add new functions to the host program at no cost.

TYPE OF MAINTENANCE**		AVERAGE ANNUAL MAINTENANCE COSTS
Freelance developers	Corrective and adaptive maintenance	\$104,400 - \$487,200
Software development outsourcer	Corrective and adaptive maintenance	\$159,840 - \$606,000
Internal IT Team (developer, PM, tester)	Corrective and adaptive maintenance	\$122,400 - \$219,600
Commercial loyalty software products	Corrective and adaptive maintenance included in the subscription fee.	~\$0

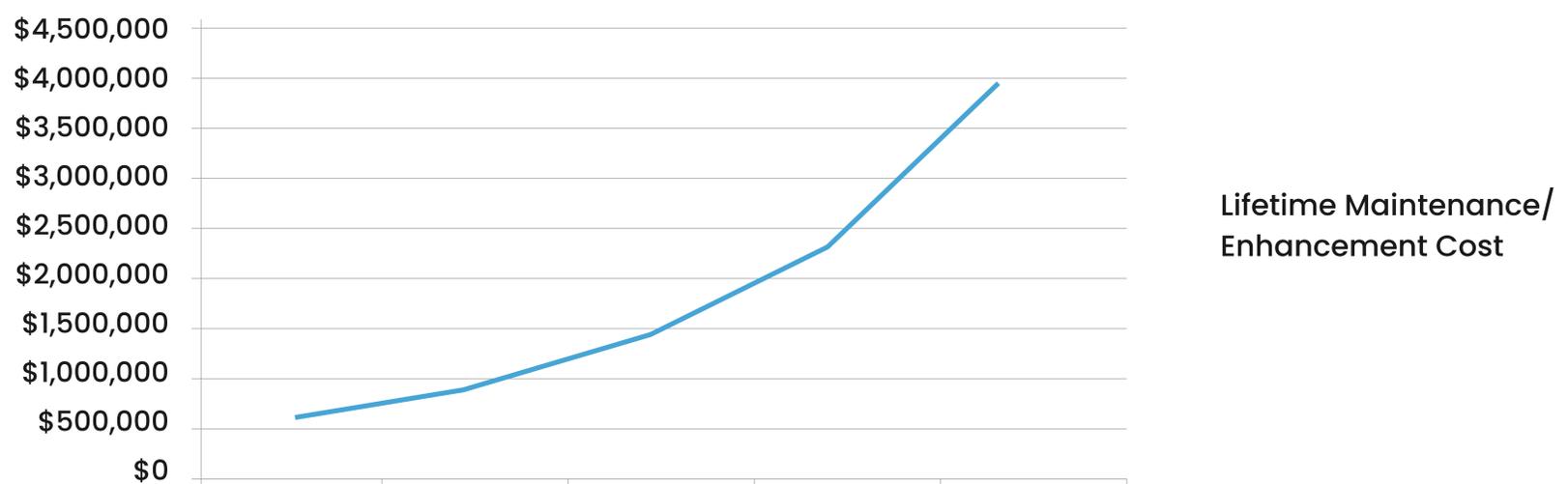
*Troubleshooting deals with multiple components of the system at the same time. It's a process of parsing out the items that are causing problems and often need policy-level intervention as much as tech expertise.

**Enhancement maintenance hasn't been included in cost estimation, as it is highly subject to the company-specific loyalty program. Costs vary depending on the complexity of the new features, which could be anywhere from a few thousand dollars to more than a million dollars.

Maintenance cost YoY

Before we look at the total cost, consider how the **maintenance cost grows year over year (YoY)**.

Lifetime Maintenance/ Enhancement Cost



At some point, a custom-built solution's annual maintenance costs will become exceedingly high -- i.e., so high as to not make sense to continue. The decision will be to rebuild a new custom solution from scratch or go with a commercial loyalty platform.



Total Cost*



	COST OF DEVELOPMENT - DEPLOYMENT	AVERAGE ANNUAL MAINTENANCE COSTS (YEAR TWO ONWARDS)	TOTAL COST FOR FIRST TWO YEARS
Freelance developers	\$348,000-\$1,624,000	\$104,400- \$487,200	\$452,000 - \$2,111,200
Software development outsourcer	\$532,800-\$2,020,000	\$159,840- \$606,000	\$692,640 - \$2,626,000
Internal IT Team (developer, PM, tester)	\$408,000- \$732,000	\$122,400- \$219,600	\$530,400 - \$951,600
Commercial loyalty software products	\$39,000 - \$64,000	\$0	\$39,000 - \$64,000

Designing a successful loyalty program is always a journey, but being cost-effective is half the victory. Balancing out predictable (fixed) and unpredictable (variable) costs while ensuring you have enough resources to support your program is key to creating a successful loyalty program.

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