



Value of customer data - a financial study of accounting practices of the largest retailers in the Nordics

Over 42 finance departments and CFO:s surveyed on the value of customer data and accounting practices regarding loyalty points, vouchers and more. 102 retail chains in the Nordics were invited to participate.

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Study conducted by:

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Many thanks to Alex, Cristina and David who helped us in getting this study completed. Also special thanks to Evert, Martin, Nick, Robert and Johan at CRIT along with all the companies that shared their knowledge contributing to this study.



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Summary

A quantitative survey has been conducted by Ida Limbäck and Semer Said Yahya at Uppsala University in partnership with ID24. This study contains feedback from the finance departments and CFOs of 42 of the largest Scandinavian companies in the Nordics. The feedback data was collected over the phone and through an online questionnaire. Example of companies participating: Apotek 1 (Apokjeden), Ball group (Zizzi), Boots (Norway), Circle K, CityGross (Bergendahls), Clas Ohlson, Happy Homes, Hemtex, Hälsokraft, IKEA, Kicks, Lindex and ÖoB.

Our aim was to investigate how finance departments value customer data and how it is accounted for in the balance sheet. The survey's questions covered the following variables: Customer Loyalty, Decision-making, Predictions, Value Creation and Cross-functional Teams.

Ida Limbäck

Semer Said Yahya

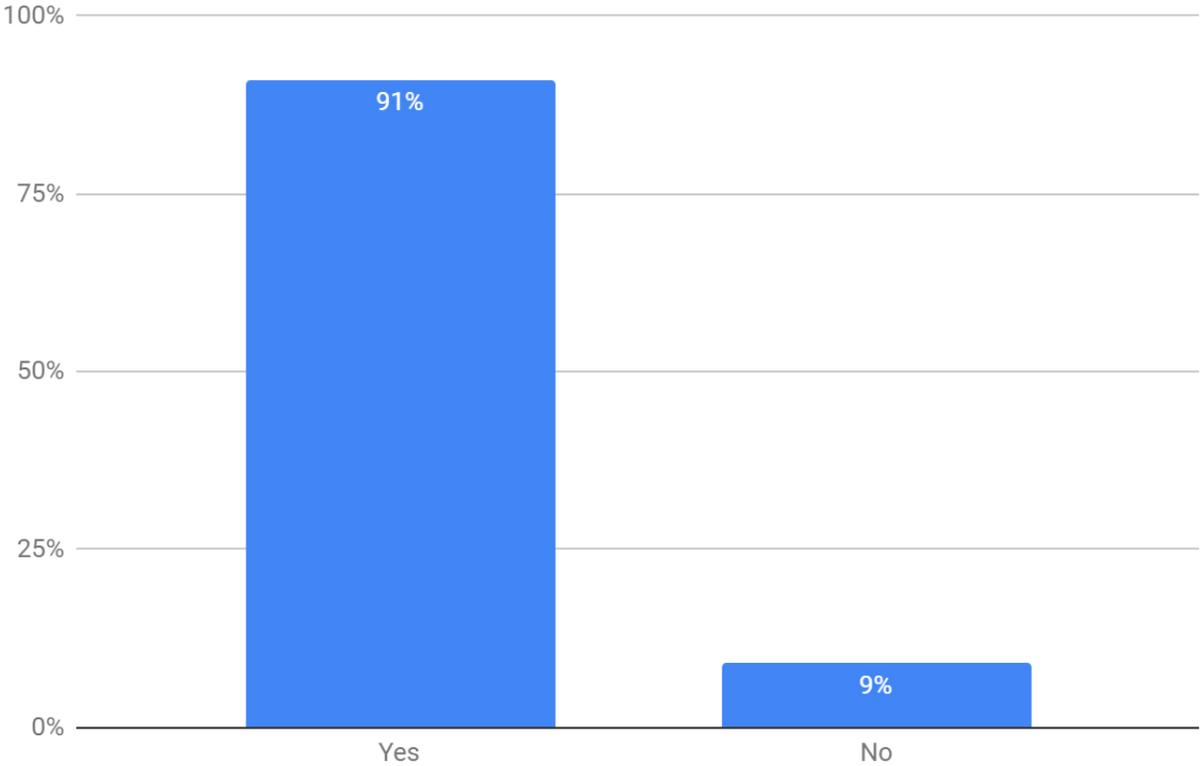
Jakob Gottlieb



Loyalty programs are increasingly popular

A clear majority of the invited retailers (91%) offer a loyalty program and the trend is for most retailers to be receiving an increasing amount of customer data. Of those retailers who answered the questionnaire 96% offer a loyalty program (Question 14).

Around half the companies have 50% or more transactions linked to member purchases. This means that most retail companies collect a lot of customer data that can be used for analytics and business intelligence (see below Questions 14 and 24).



A clear majority of the 102 largest retail companies in the Nordics (invited to take the survey) offer a loyalty program to customers.



Customer data definition

The components of customer data that are often added to the balance sheet refer to:

- a) Bonus points
- b) Accumulated member vouchers from bonus points

Additional (indirect) customer data that is not accounted although creates value is:

- c) Transaction history linked to members for analytical purposes
- d) Members' contact information for marketing purposes

These parts of customer data c) and d) are mostly relevant in the case of a company evaluation, due diligence or company sale.

Background and key takeaways

Several studies have compared how finance departments can benefit from customer data and contribute to value creation. Previous studies by McKinsey (2017) and the International Federation of Accountants (2020) promote integrating the balance sheet value, business value, and societal value into a holistic value creation process. As customer data is a highly valued business resource it is important to know if and how finance departments systematically account this value.

The results in this study offer insights into more effective value creation based on customer data. For example, 84% of the survey respondents Agree or Strongly Agree that customer data is important to gain new insights for financial decisions (Question 4).



Finance departments can play a bigger role in ensuring data quality and cost optimisations

More than half of the finance departments could play a bigger role in ensuring data quality. Alarming 43% of the finance departments report that they never, very seldom or seldom take part in making sure the quality of the member data in the database is of high quality (Question 10). The members may, for example, lack valid contact information which reduces the value of the customer data.

The study results suggest that there is a great opportunity for many companies to optimize and automate processes, in particular, related to loyalty programs. This will help to reduce costs and improve the efficiency of finance departments. Half of the finance departments spend a lot of time and cost to account for bonus points and/or bonus vouchers (Questions 19 and 20). 52% of the survey respondents have an IT integration in place to automatize the accounting of the bonus point and vouchers (Question 19). The natural consequence of not having this automated is the additional costs for time to do the accounting. Every third respondent reported spending more than 100 hours on accounting the customer data (Question 20). In the conversation with the retail companies the research team learned that many factors complicate these processes such as international subsidiaries, franchise structures, knowing how to value bonus points and vouchers based on historical data (e.g. regarding what percentage of bonus points is likely to be cashed in).



Current legislation

The legislation is limited with regards to how bonus points and vouchers should be reflected in accounting. The study group has, for example, asked the Swedish tax office Skatteverket and the Swedish Accounting Standards Board (BFN) for guidance.

The annual report (årsredovisning) of a limited liability company must be prepared in accordance with the category regulations issued by the BFN, known as “K regulations” (K-regelverk) in Sweden. Larger companies do their annual reports according to K3 – Årsredovisning och koncernredovisning (BFNAR 2012:1). K3 is a legislature based on principles rather than rules - this leaves room for interpretation in each company.

One example of interpretation is the K3 rule 23.7 together with its comment on how to account for parts of purchases that include a future service (such as a bonus point). **It was found that some retailers account for both points and vouchers, while some retailers just account for the vouchers and not the bonus points thus potentially contradicting the K3 23.7 rule.** As a consequence many retailers indicate that they spend significant efforts to account the bonus points and vouchers where companies a) don't have IT integrations or b) spend much time and resources on the maintenance of the IT integrations.

Save time and cost by not accounting loyalty points?

More than half of the surveyed companies (55%) offer members to collect points as part of the loyalty program (Question 15).

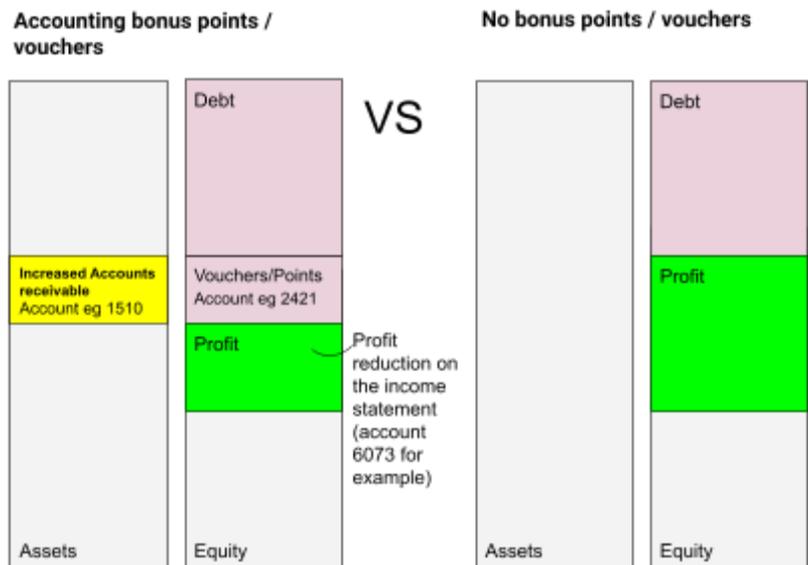
Most companies (71%) account for the value of bonus points as debt in their balance sheets in accordance with the K3 legislation (Question 16).

Since the K3 legislation in Sweden is open for interpretation retail companies can decide how to optimise the accounting and whether to account for both points and vouchers. We see that many retailers (29%), just account for the vouchers and not the bonus points.

It was a surprise to our research group that almost every third retail company stated that they don't account for the bonus points.

We looked at some potential incentives to not add bonus points and vouchers to the balance sheet:

- The time and complexity to account for the bonus points and vouchers. Bonus point value calculations can be complicated and time consuming because of franchise structures, cross border trade, historic data calculations and uncertainty in what percentage of bonus points is likely to be cashed in.
- Adding the bonus points and vouchers to the balance sheet lowers the profit (see graph 1 below).



Graph1. The effects of not accounting bonus points / vouchers on the balance sheet

This data combined with the report that many retail chains lack IT integrations for the accounting of the loyalty programs suggest that there is room for process optimisations and also that more retailers may benefit from not accounting the bonus points at all.

Vouchers

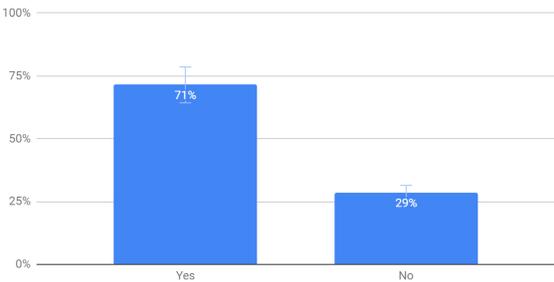
Some companies like IKEA have a loyalty program without bonus points and thus do not face the need to account for points. The retail companies that don't offer bonus points normally offer other benefits such as discounts and vouchers on particular items or occasions, for example, a birthday voucher to spend on a birthday.

Vouchers offered to members can be viewed as future discounts by some companies and thus not added to the balance sheet. Vouchers can be split into two different kinds of vouchers that most likely will have an influence on the accounting:

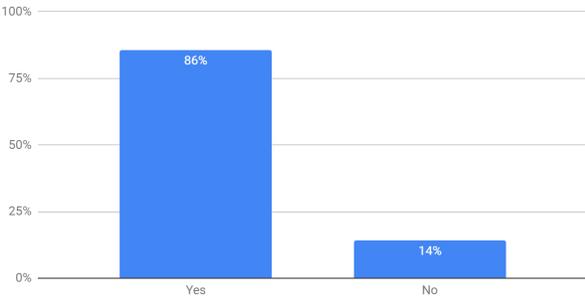
- Vouchers related to accumulated bonus points
- Vouchers as an incentive to shop and not related to previous spending

Out of the companies that offer discount vouchers based on accumulated bonus points 14% answered that they don't add this asset to the balance sheet (see below graphs 2 and 3).

16. If yes, do you account the members' points value from your loyalty program as debt into your balance sheet?



18. If yes, do you account the members' vouchers' values from your loyalty program as debt into your balance sheet?



Graph 2 and 3. Questions 16 and 18.



Different auditors might have different views how to account for different types of vouchers. Most likely it is reflected as debt if it is related to bonus points. This is then similar to how you account for example a gift card. Or simply not accounted at all until the voucher is used by the member if it is for example a birthday voucher.

VAT

In some conversations the complexity of VAT was mentioned which we did not analyse closer. Our research group thought it would still be worth mentioning as another factor that could create complexity in the accounting process.

The bonus points should be treated as a discount and not affect VAT. However in practice you may see more VAT included on a paper receipt compared to the VAT reported to the tax authorities. This happens when the bonus point is stated as a payment method on the receipt. See the following example comparing a bonus point as discount or payment method.

Ordinary price 100 sek	Ordinary price 120 sek (20 sek paid with bonus points as discount)	VS	Ordinary price 120 sek (20 sek paid with bonus points as payment method)
Total price ex VAT 80 sek	Total price ex VAT 80 sek		Total price ex VAT 96 sek
VAT 20 sek	VAT 20 sek		VAT 24 sek
Payment method: 100 sek debit card	Discount/Points used -20 sek		Payment method: 100 sek debit card 20 sek bonus points
Receipt total: 100	Receipt total: 100		Receipt total: 120

Receipt might show 4 sek more VAT although this might not be the value to report to the tax authorities

102 Companies invited to participate

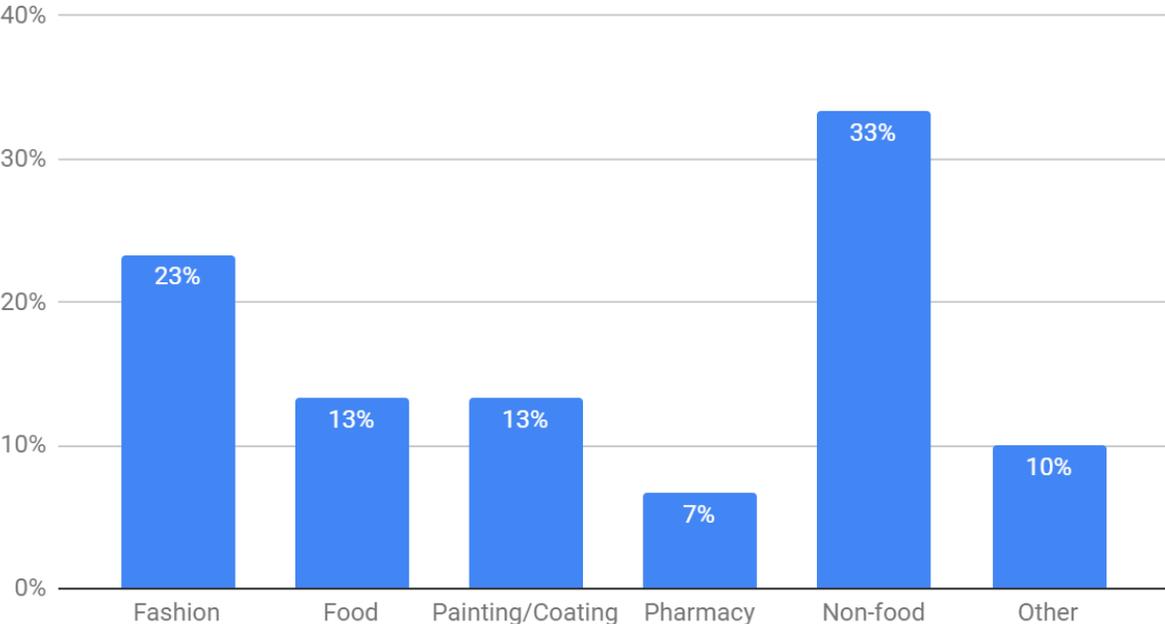
AgriMarket	Grangården	Norsk Medisinaldepot /
Åhléns	H&M	Vitusapotek
Akademibokhandeln	Hälsokraft	OKQ8
Apotek 1	Happy Homes	ÖoB Överskottsbolaget
Apotek Hjärtat	Hemköp	Pandora
Apoteket	ICA	Plantagen
Apoteksgruppen	IKEA	Reitan Group / Narvesen
Arken Zoo	Illum Bolighus	Reitan Group / Rema 1000
Bauhaus	Indiska	Rizzo
Bergendahls / CityGross	Intersport	S Group / Prisma
Bergendahls / Glitter	Jula	S Group / S Market
Best Western Scandinavia	Jula / Hööks	S Group / Sokos
Biltema	Kappahl	Scandic Hotels
BilXtra	Kicks	Scorett
Blomsterlandet i Sverige	Kid	Silvan
Boots Norway	Kid / Hemtex	Sportson
Brothers	Kronans apotek	St1
Byggi	Lidl Sweden	Stadium
ByggMax	Life	Stockmann
Carlson	Lloyds apotek	Stockmann / Lindex
Cervera	Marimekko	Suomalainen Kirjakauppa
Change Lingerie	Meca	Thon Hotels
Change Lingerie / Twilfit	Mekonomen	Tøjeksperten
Christiania Glasmagasinet	MQ	Tokmanni
Circle K	Musti ja Mirri	Varnergruppen / Bikbok
Clas Ohlson	Naturkompaniet	Varnergruppen / Carlings
Coop	Net on net	Varnergruppen / Cubus
Daniel Wellington	Nilson shoes	Varnergruppen /
Dressmann	Nilson shoes / Din Sko	Dressmann A/S
Elgiganten	Nilson shoes / Skopunkten	Waynes Coffee
Elite hotels	Nordic choice hotels	Willys
Elkjøp	Norges Gruppen / Kiwi	XXL
First Hotels	Norges Gruppen / Meny	Zizzi
GANT	NorgesGruppen ASA	
Gina Tricot	Norsk Medisinaldepot /	
Granit	Ditt apotek	

Complete survey answers in graphs

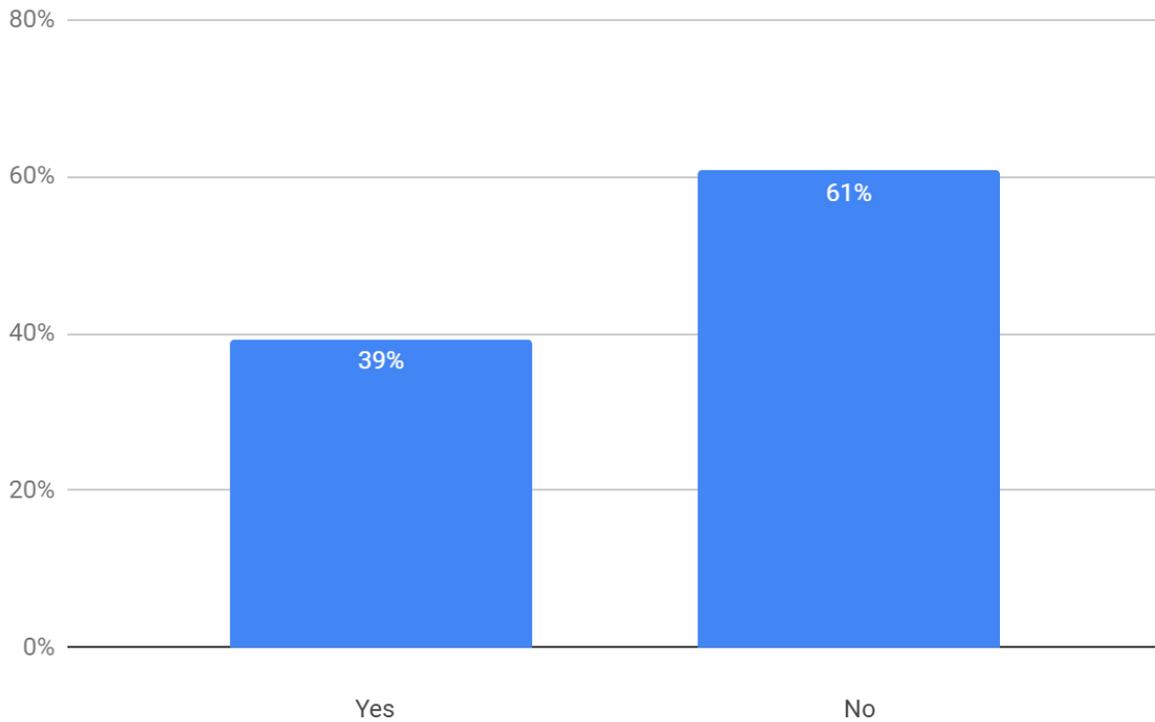
The following graphs are based on 31 responses. 42 responses were received, however 9 answers were from the same companies so they were removed.

Out of the 102 companies invited to participate we received another 14 answers from companies over the phone. So in total the study group had 56 answers to process. Ida and Semer additionally included some smaller retail companies who have not been included in the final report.

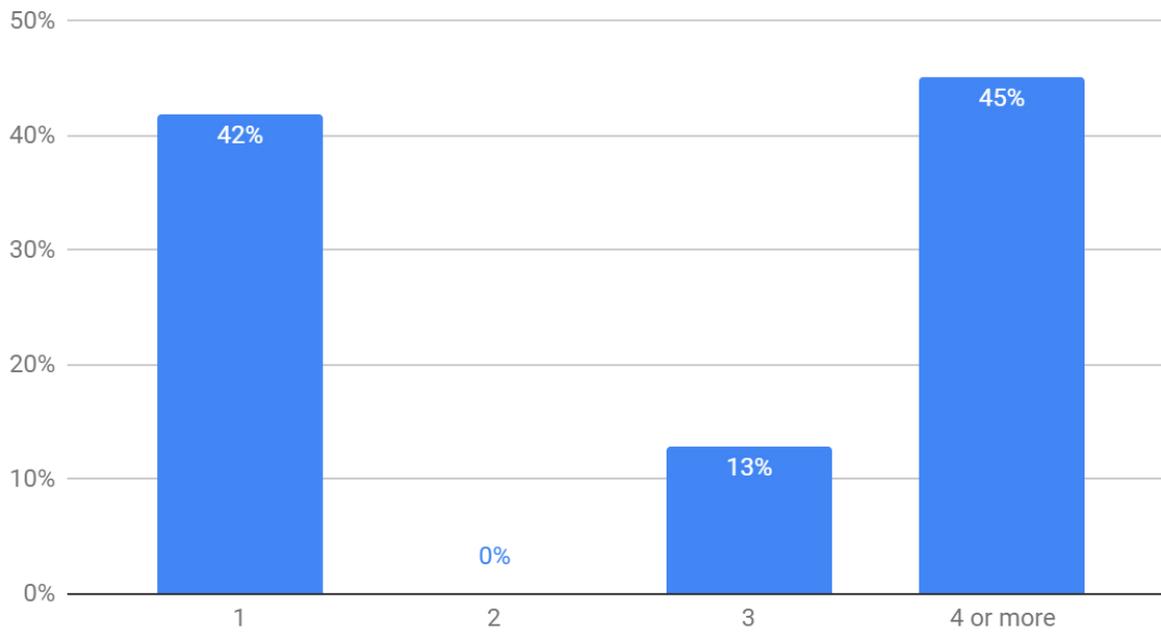
1. What retail sector does your company operate in?



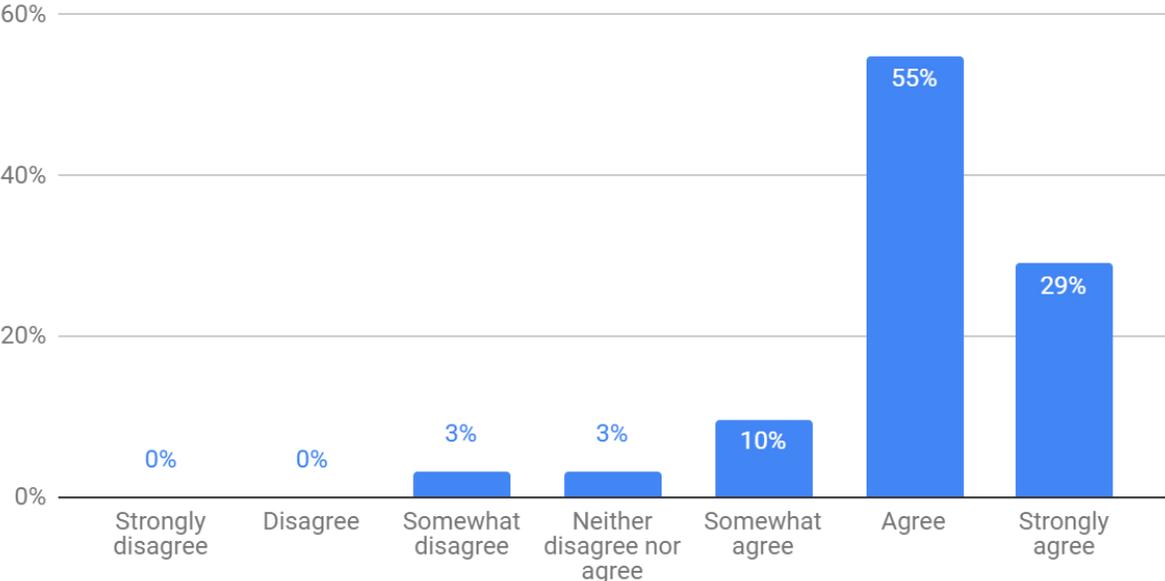
2. Is your company listed on the stock market?



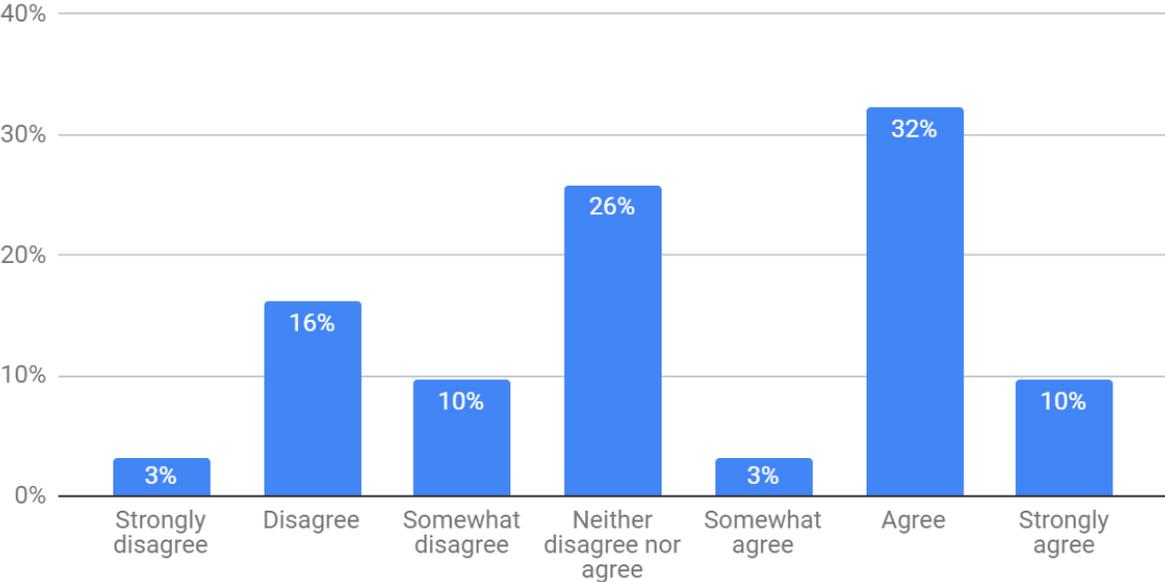
3. In how many countries does your company operate?



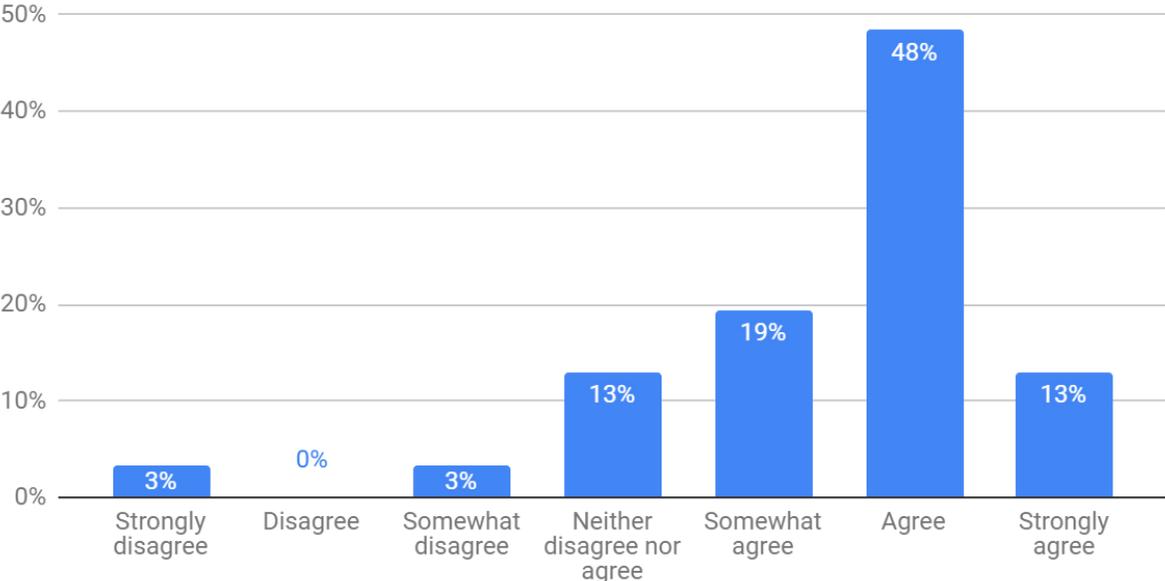
4. Customer data is important when gaining new insights for financial decisions.



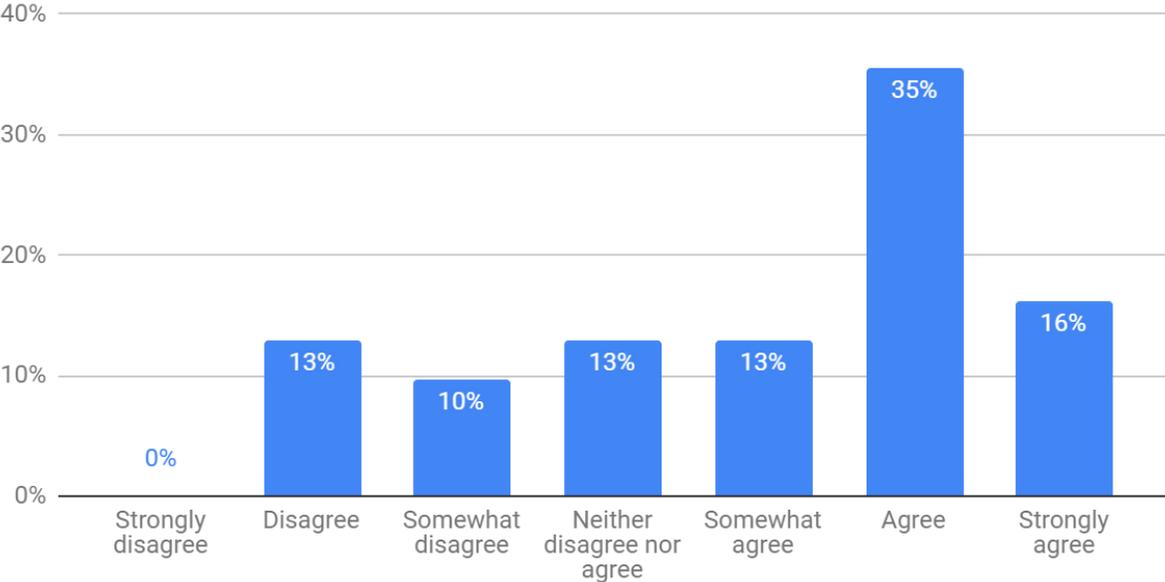
5. The finance department has a role in the process of customer data being collected and analyzed by the company.



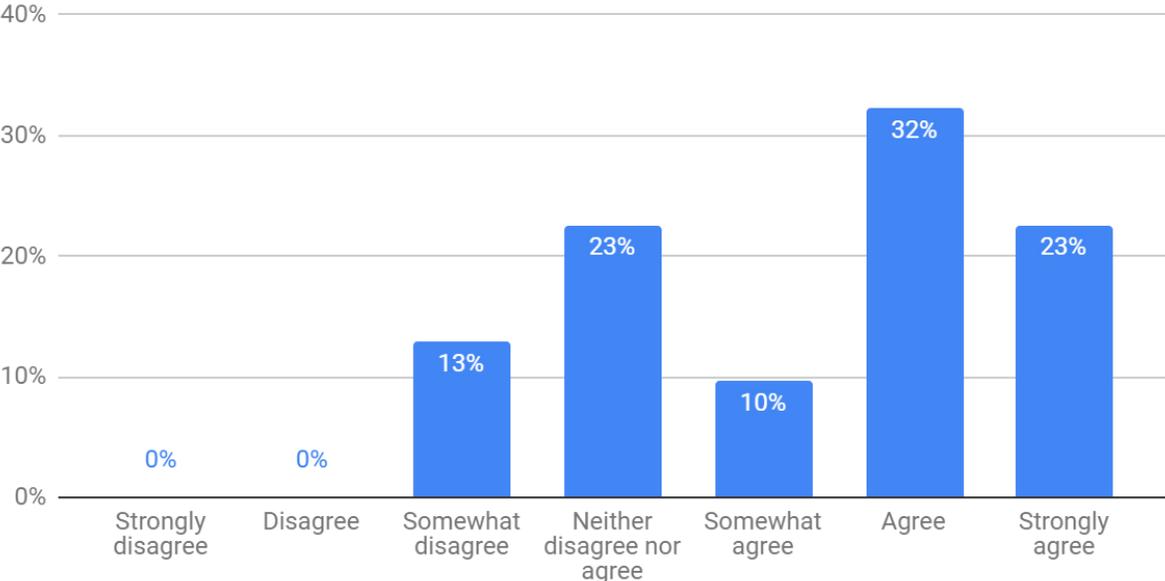
6. The quality of the customer database has a big impact on the financial performance of your company.



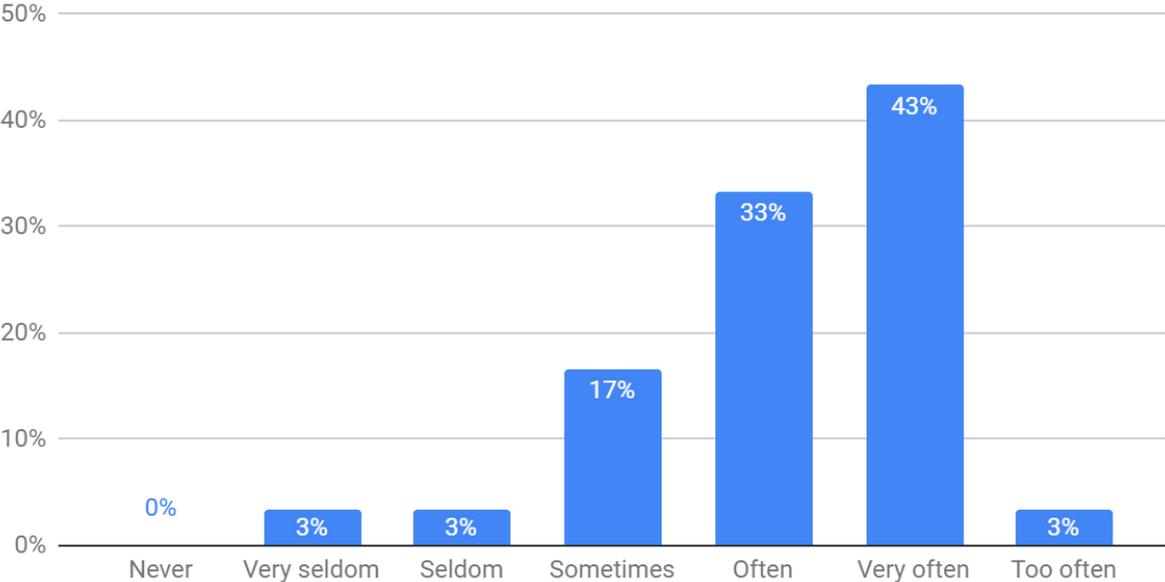
7. Financial departments are increasingly involved in IT projects, for example, Big Data.



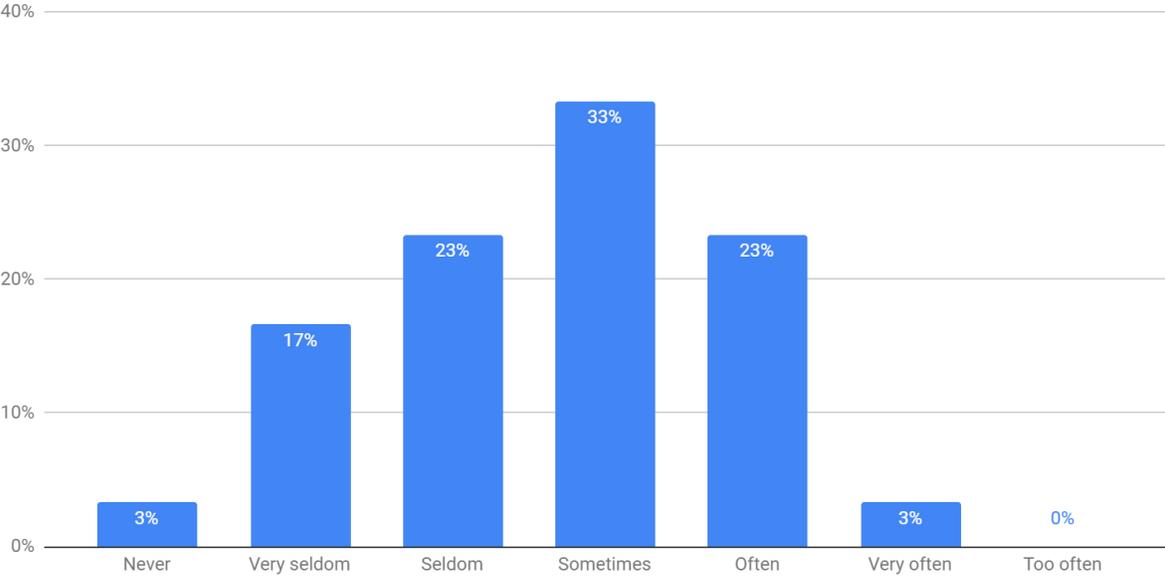
8. Our finance department is affected by the General Data Protection Regulation (GDPR).



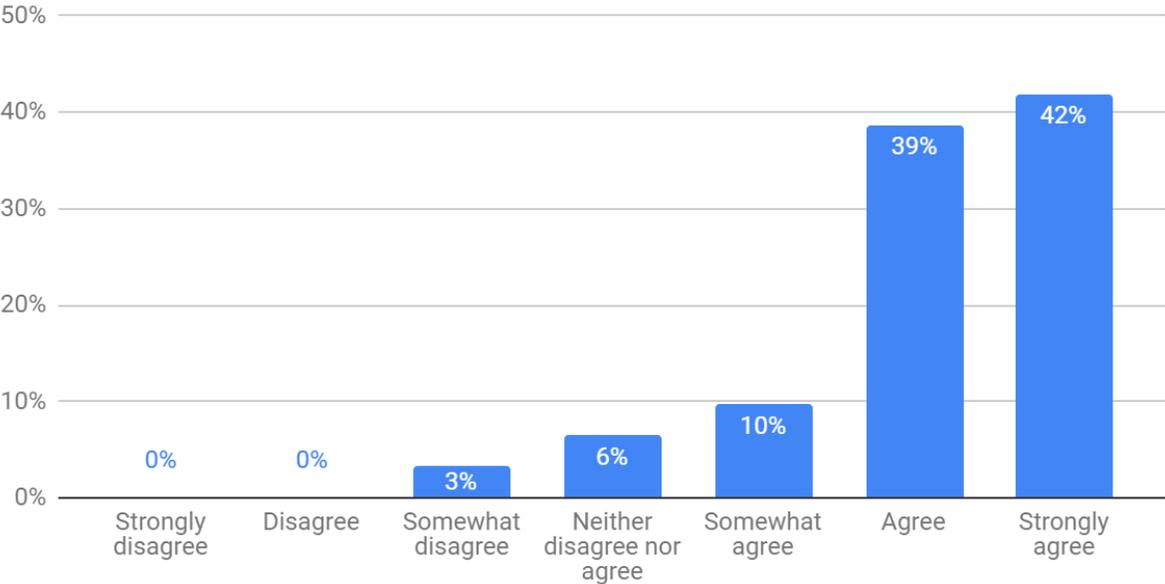
9. How frequently are finance colleagues involved in cross-department projects?



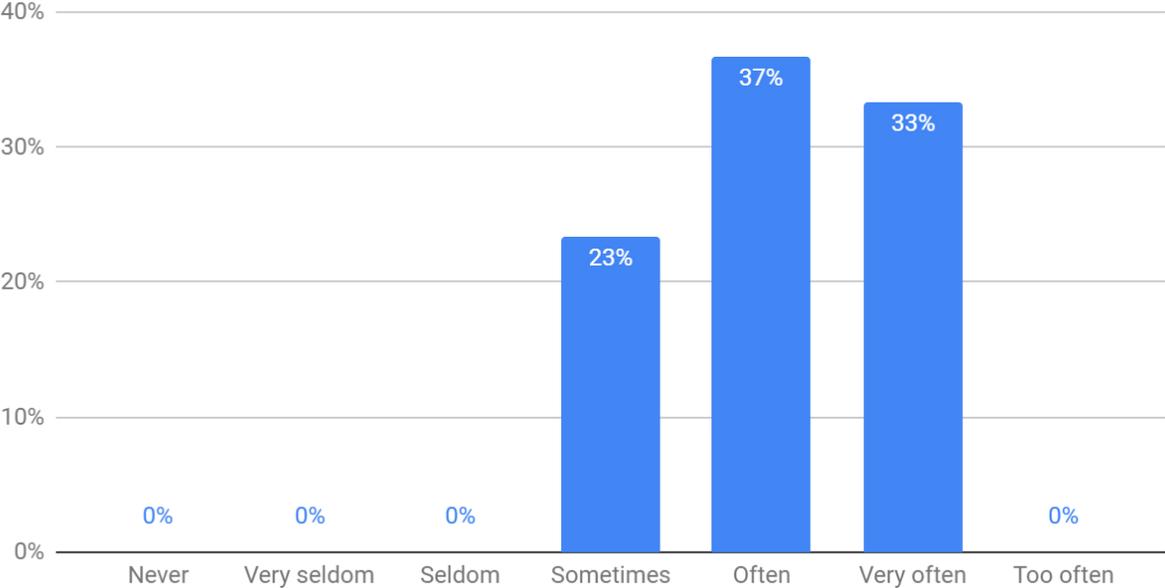
10. To what extent does the finance department collaborate with the IT or Marketing department to ensure that the data in your customer database is of high quality? (examples: correct emails, phone numbers, customer documented consent).



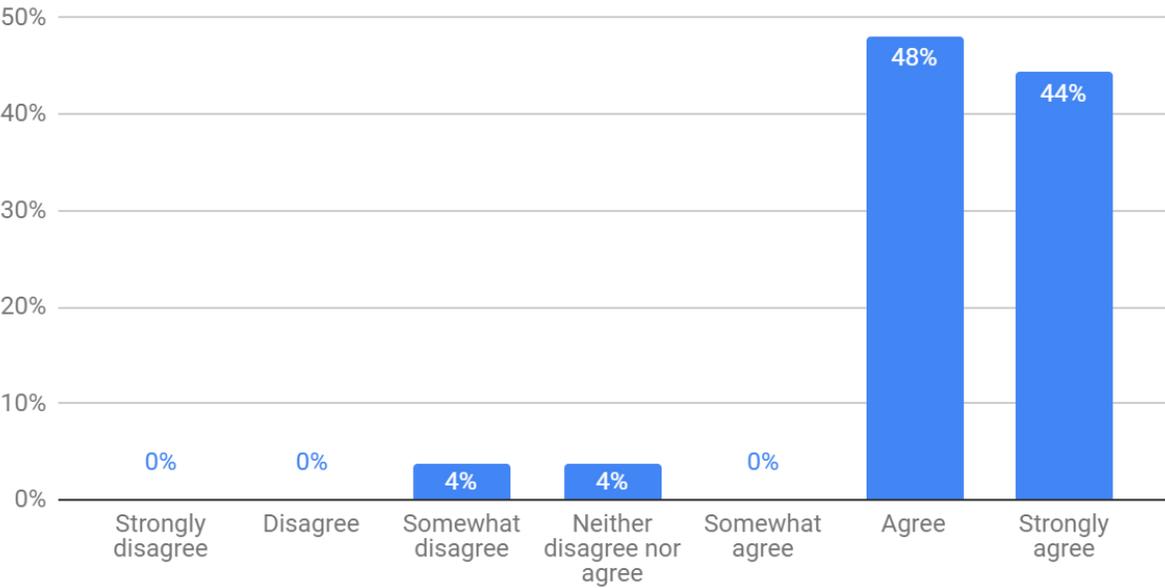
11. Companies that work well across multiple departments are more innovative



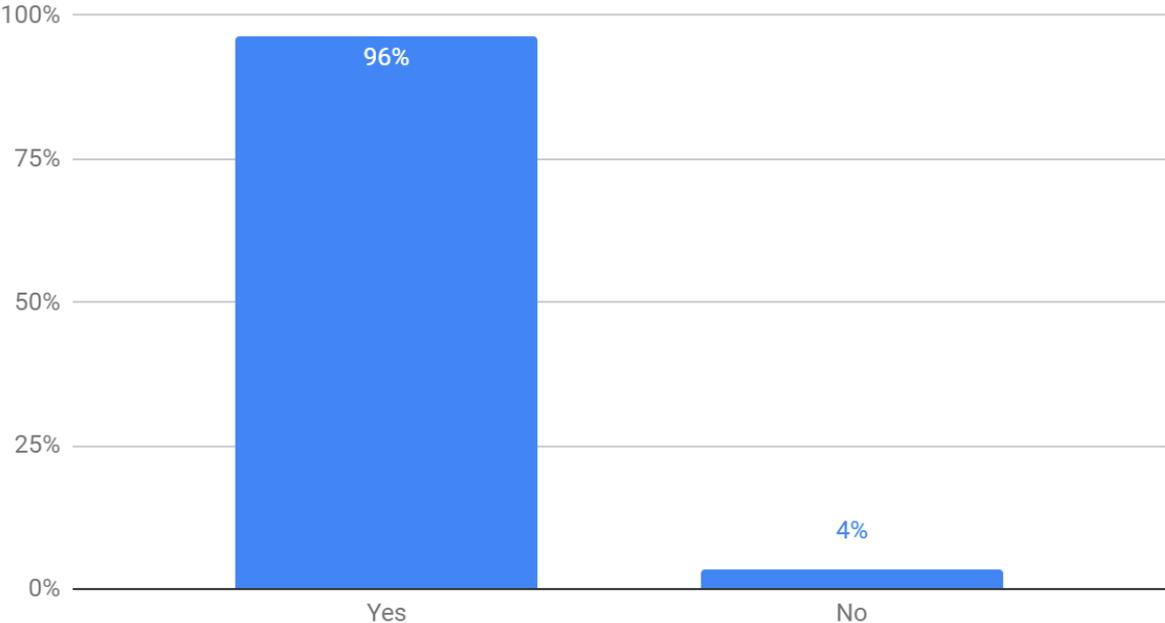
12. How frequently do cross department projects succeed (such as sharing information and integrating with other departments)?



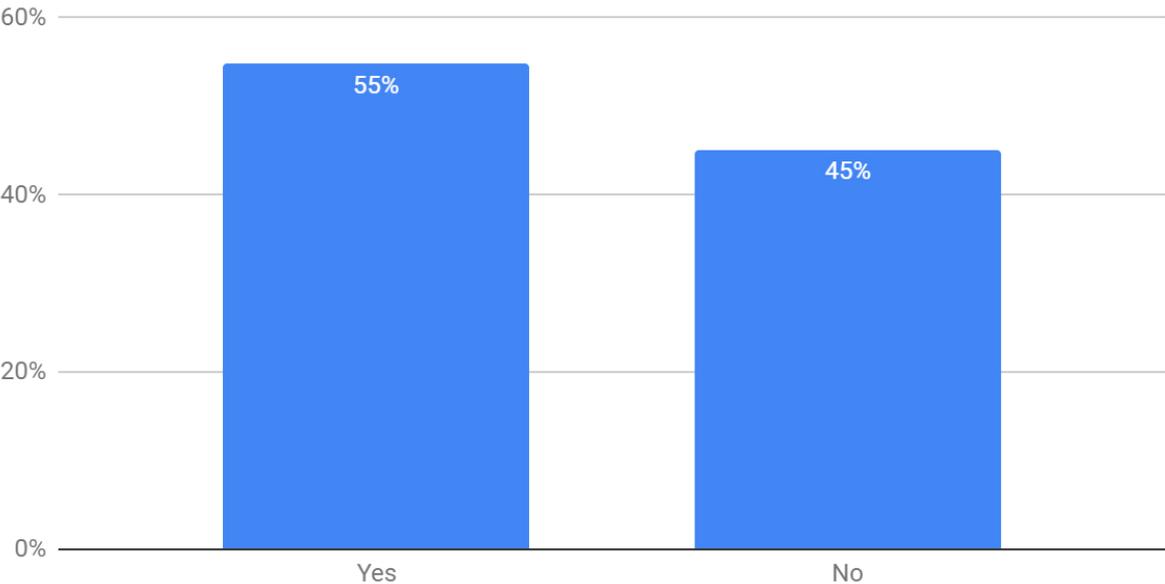
13. Maintaining loyal customers is cheaper than acquiring new customers.



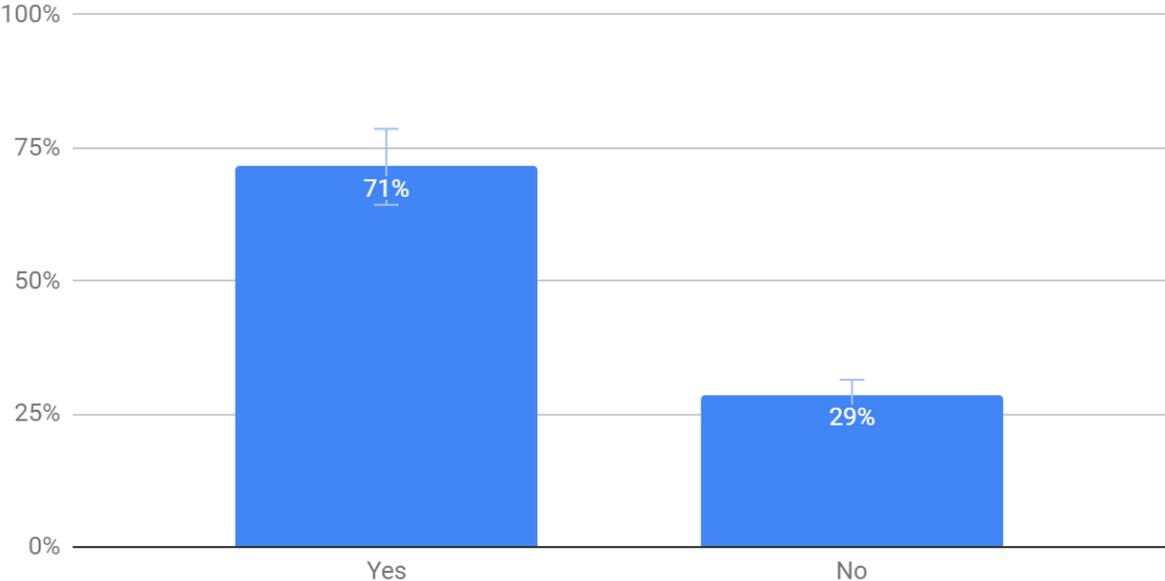
14. Does the company offer a loyalty program to customers?



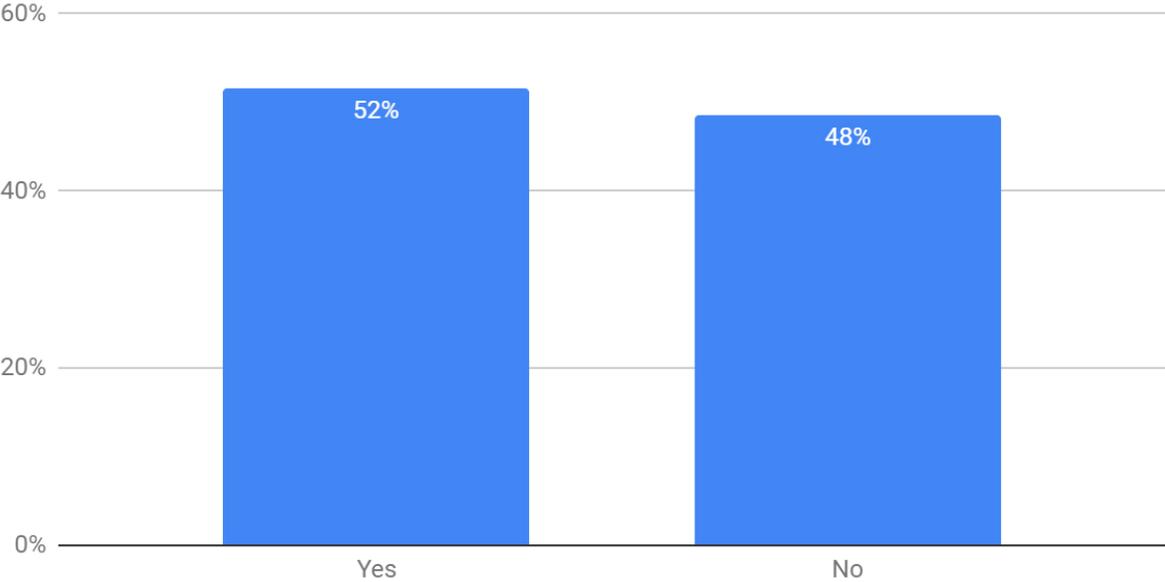
15. Can your members collect points as part of the loyalty program?



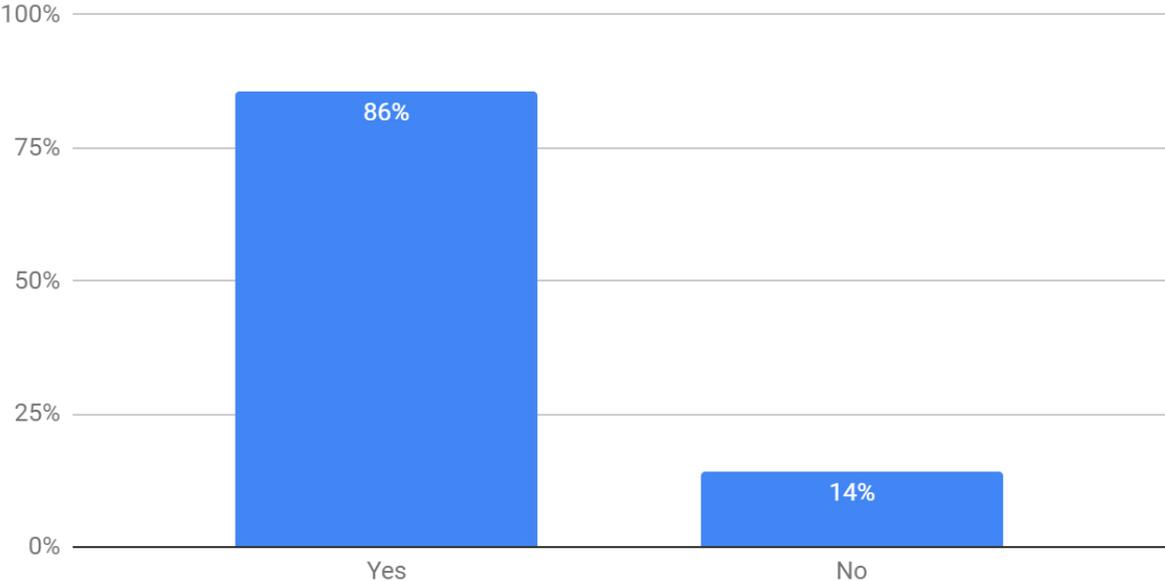
16. If yes, do you account the members' points value from your loyalty program as debt into your balance sheet?



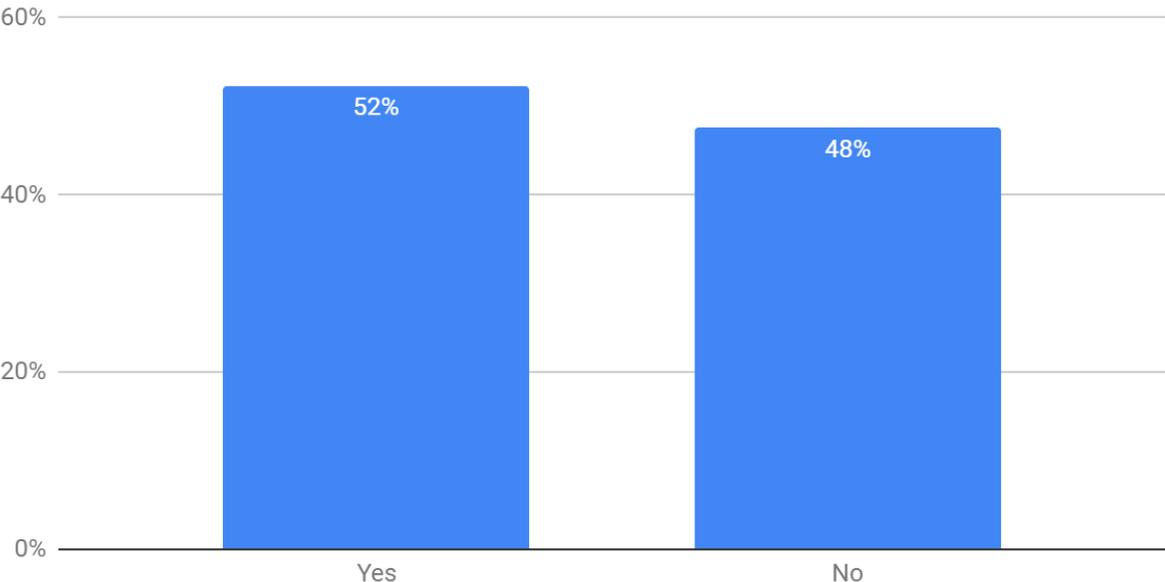
17. Can your members receive vouchers after accumulating points as part of the loyalty program?



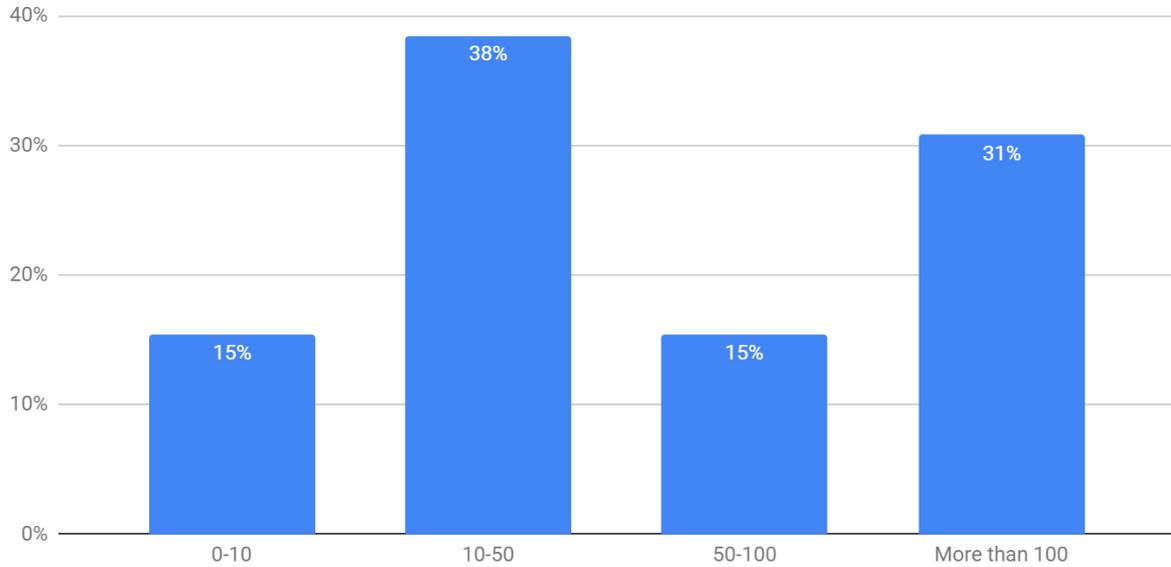
18. If yes, do you account the members' vouchers' values from your loyalty program as debt into your balance sheet?



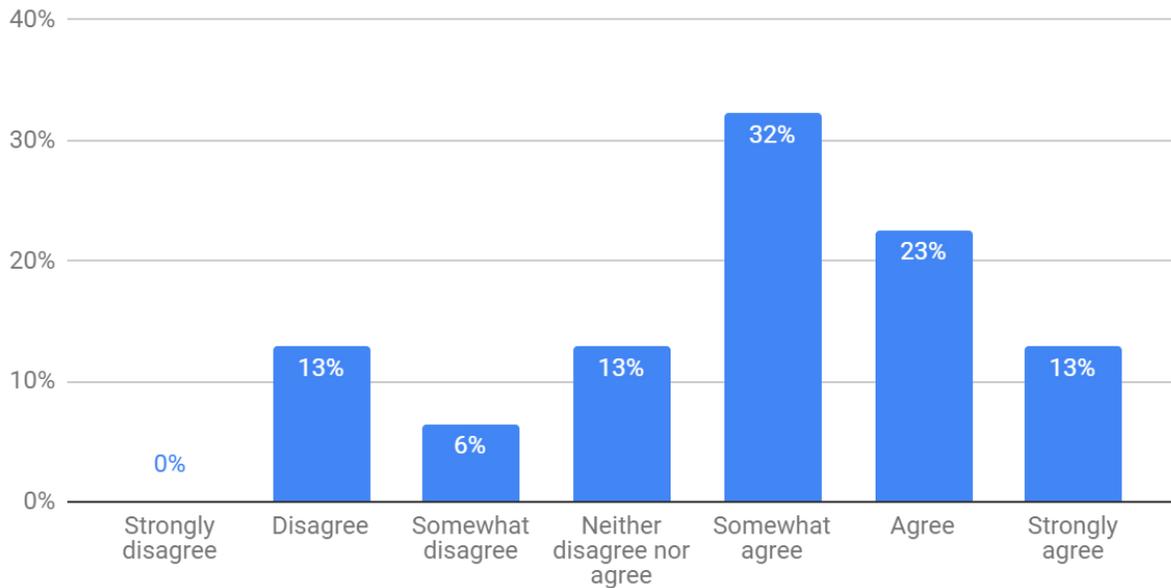
19. Do you have IT integrations in place to do the vouchers/membership points accounting?



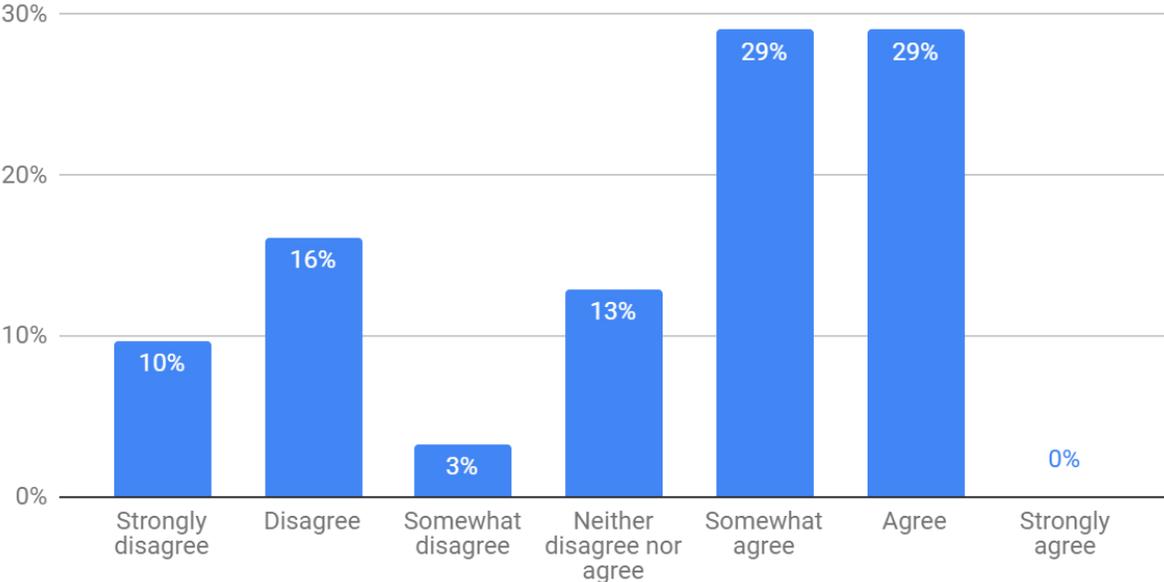
20. If yes, how many working hours does it normally take per year to account for the points and/or vouchers (this includes maintenance of IT systems if you have such integrations)?



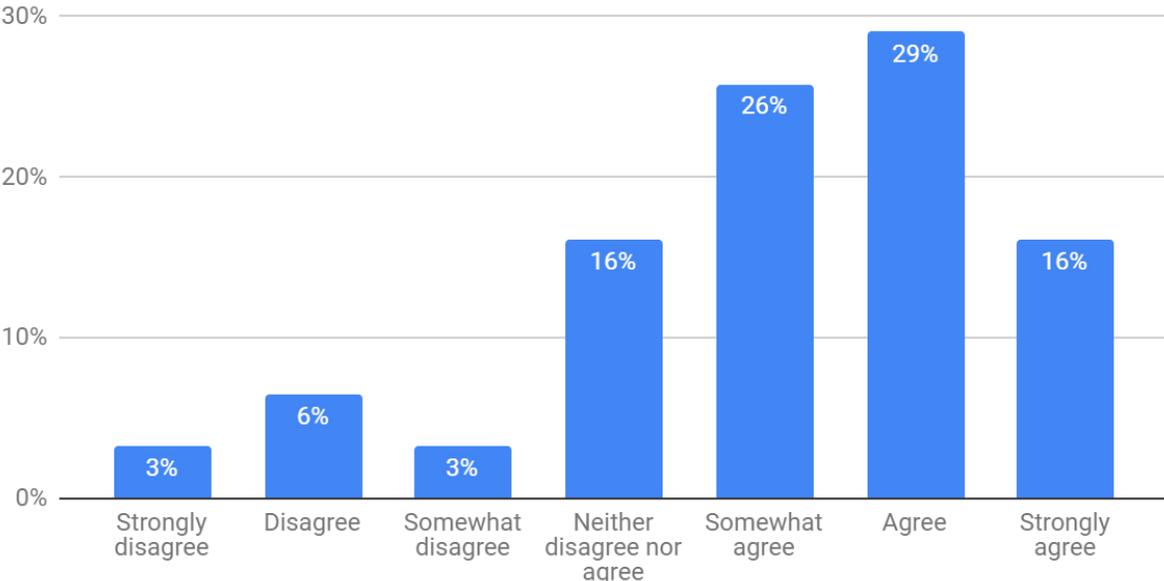
21. Customer data is beneficial for the finance department to predict risks.



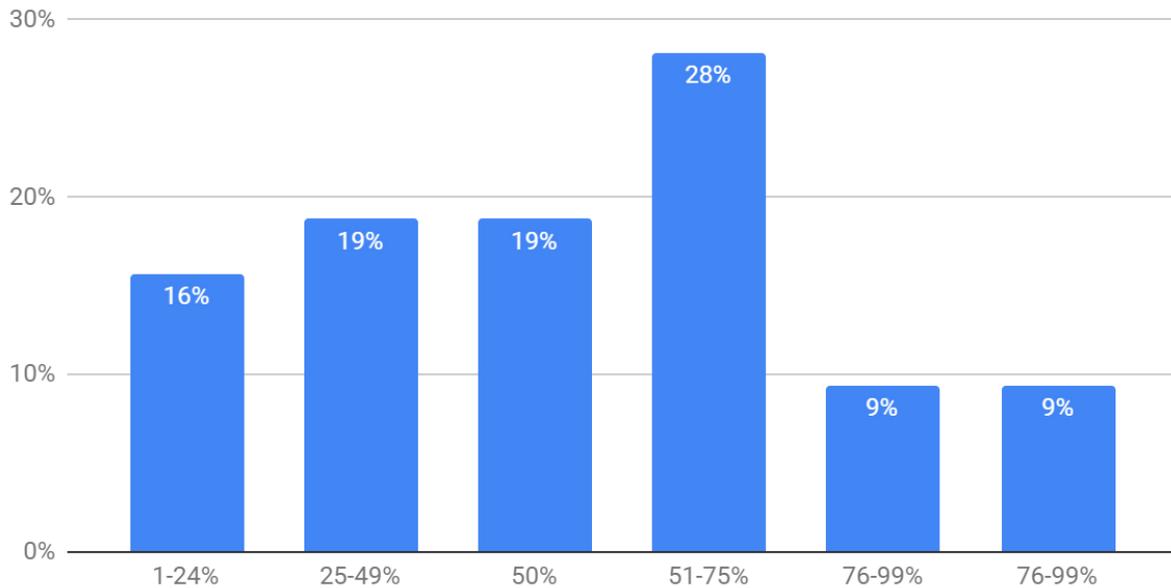
22. The finance department is always involved in calculating the value of your customer database.



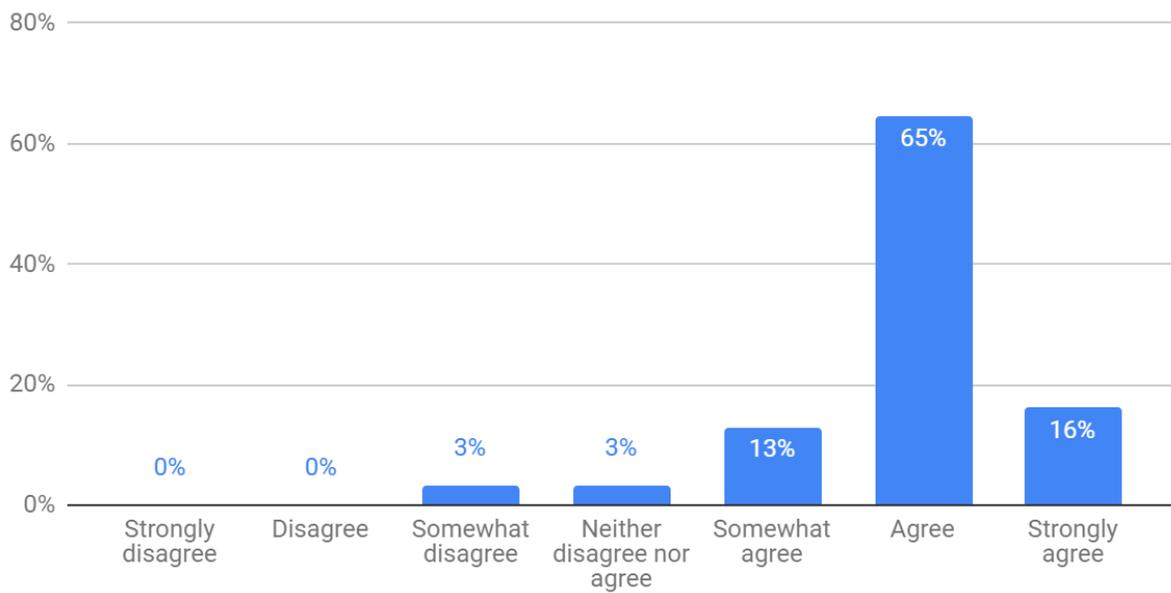
23. Other departments are responsible for calculating the value of the loyal customer database.



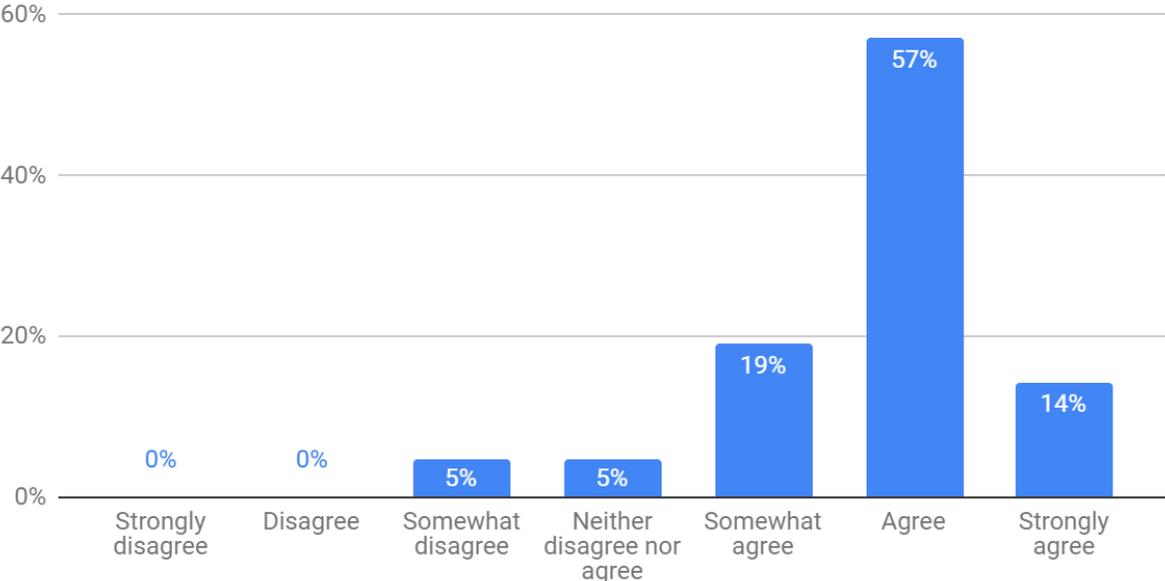
24. What percentage of your transactions are linked to your (loyalty) members?



25. Having many loyal customers leads to financial stabilization with growing sales.



26. The finance department is not always involved in calculating the value of your customer database.



Appendix 1: Calling the Finance-departments template

Appendix 1: Calling the Finance-department template

Hello (First name), My name is (X) and I'm a student at Uppsala University writing my Bachelor Thesis while cooperating together with the Swedish retail company ID24. We are comparing how the finance departments in the 100 largest Scandinavia retail companies value customer data.

The question I wanted to ask you is:

1. Do you have loyalty programs?
2. Do you value the customer database (for example the loyalty points of your members, rewards vouchers) in your balance sheet?
3. If yes, is it accounted as a debt?

We made a survey for the finance departments in order to see how involved they are in evaluating customer data value. It takes approximately 5-10 minutes to answer the survey, Can I send this to you? Everyone who answers gets a summary of the results if interested.



Appendix 2: The Questionnaire

Scandinavian Retail Finance Survey

This anonymous survey is a joint bachelor-thesis project between Ida Limbäck and Semer Said Yahya at Uppsala University and ID24. The survey is set out to compare finance departments in the 100 largest Scandinavian retailers. In the future, we hope to compare this with other European markets.

This study is voluntary, and respondents can withdraw at any time. The answers will be treated anonymously, and the results will be reported on an aggregated level without jeopardizing the anonymity.

The survey includes 25 questions and is estimated to take approximately 5-10 minutes. At the end of the survey, you can choose to leave your email address to receive the results of the study. The email address will not be linked to the survey responses. Many thanks in advance.

Section 1:

Company's background

1. What retail sector does your company operate in?
2. In how many countries does your company operate?

Section 2:

Decision-making

1. Customer data is important when gaining new insights for financial decisions.
2. The finance department has a role in the process of customer data being collected and analyzed by the company in order to improve decisions.
3. The quality of the customer database has a big impact on the financial decisions of your company.

Current Loyalty Programme

1. Does your company offer a loyalty programme to its customers?
2. Can your members collect points as part of the loyalty program?
3. If yes, Do you account the members points value from your loyalty program as debt into your balance sheet?



4. Can your members receive vouchers after accumulating points as part of the loyalty programme?

IT Integration

1. Do you have IT integrations to do the vouchers/membership points accounting?
2. If yes, how many hours does it normally take per year to account for the points and/or vouchers? (Including the maintenance of these IT systems).

Customer Loyalty

1. Maintaining loyal customers is cheaper than acquiring new customers.
2. What percentage of your transactions are linked to your (loyalty) members? (Round to the nearest integer)
3. Having many loyal customers leads to financial stabilization with growing sales.

Predicting

1. Financial departments are increasingly involved in IT projects, for example, Big Data.
2. Our finance department is affected by the General Data Protection Regulation (GDPR).
3. Customer data is beneficial for the finance department to predict risks.

Cross Functional Teams

1. How frequently are finance colleagues involved in cross-department projects? (example: collaborating with marketing, IT, sales, and/or retail operations).
2. To what extent does the finance department collaborate with the IT or Marketing department to ensure that the data in your customer database is of high quality? (examples: correct emails, phone numbers, customer documented consent).
3. Companies that work well across multiple departments are more innovative.
4. How frequently do cross department projects succeed (such as sharing information and integrating with other departments)?

Value Creation

1. The finance department is always involved in calculating the value of your customer database.
2. Other departments are responsible for calculating the value of the loyal customer database.
3. The finance department is not always involved in calculating the value of your customer database.



Section 3:

Please click on Submit

Thank you for your time and your participation!

Please let us know if you would like to receive the results of the study.

Kind regards,

Ida Limbäck and Semer Said Yahya

Would you like to receive the result of the study?

If yes, please enter your email address.

