

# LOYALTY BLUNDERS

AVOIDING THE MOST COMMON LOYALTY PITFALLS



Structured properly, executed flawlessly, and well-aligned with your brand, a customer loyalty program can pay big dividends in retention, advocacy, and increased yield from your best customers. Loyalty programs work because their design is built on a foundational understanding of human psychology and our very human desire for recognition and reward. Research has shown, however, that half of all loyalty program launches fail within two years of launch. Very often, programs fail for the same reasons; so much so that it's possible to catalog the most common loyalty blunders to avoid when designing or relaunching your own loyalty program. Here are the ten most common loyalty pitfalls:

# 1

## Not defining your business objectives

It's critically important to tie program design to your overall business objectives. Is your goal to increase market share? To reduce customer churn over the last fiscal year? To collect customer data to mine for insight? To increase gross margin contribution from your key customer segments? Linking program design to your overall business objectives ensures that your program will impact the bottom line.

# 2

## Not profiling current customer behavior

You can't design a loyalty program that will profitably change customer behavior unless you first understand how your customers behave now. Use available customer data to profile the current best customer behavior. What behaviors need to change in order to hit your business objectives? Where are your opportunities? Find the gaps in behavior and design a program to overcome them.

# 3

## Not defining your customer behavioral goals

Your program value proposition should focus on behavioral change goals for two primary groups of customers: customers of high current value, and high-potential customers. Is your goal to reduce churn among your top customer segment? To increase frequency of purchase for high-potential customers to shift market share? Devise reward and recognition elements that move behavior in the right direction.

# 4

## Not aligning the program with your brand

Very often, loyalty program design defaults to a cookie-cutter approach of rewarding one point or mile per dollar with no other differentiating elements. Cookie-cutter programs nearly always fail. Instead of defaulting to me-too, design an engaging program that hews closely to your brand values. A program brand that works for a fast-casual restaurant, for example, won't work for a fine-dining establishment.

# 5

## Under- or over-funding your program

There's a sweet spot for loyalty program funding rates: if you're too stingy with rewards, your program won't encourage profitable behavior change; if you're too generous, you risk cannibalizing existing customer behavior. Pro tip: provide a base-level funding rate of 1 or 2 percent, and then use targeted bonuses to increase earning for high-potential customers ready to switch their spend from the competition to you.

# 6

## Not blending reward and recognition

Programs that offer a point-per-dollar with nothing else going for them do nothing to build feelings of emotional loyalty among your top customer segments. Conversely, programs that focus only on delivering on customer experience or affinity leave an opening for your competitor to compete on price. The most successful programs blend reward and recognition to appeal to both halves of the consumer brain.

# 7

## Not segmenting your customer base

One of the most common loyalty pitfalls is designing a program that delivers the same level of reward and recognition to every customer, regardless of her value to the enterprise. By segmenting your customer base and targeting program benefits based on customer value, you can ensure that your program dollars deliver results where they can do the most good. Your best customers deserve no less than superior treatment.

# 8

## Not rewarding desired behavior

Targeted bonuses are critical to loyalty program success. Instead of offering the same level of rewards to everyone, target your program dollars to reward customers on specific temporal, spatial, or behavioral variables. With targeted bonuses, you can encourage increased frequency, bigger basket size, longer tenure, and even social media advocacy. Pick your battles and go all-in on bonusing desired behavior.

# 9

## Failing to use data to differentiate and personalize

Delivering the same offer to every customer in your database is a terribly inefficient and relationship-damaging way to communicate program value. Instead, use transactional, behavioral, and self-reported survey data to deliver a personalized and relevant offer through the customer's preferred communication channel. Collect data that you'll use, and use the data you collect. Your customers will expect no less.

# 10

## Failure to measure results

The key to a successful loyalty program lies in your ability to measure its incremental effect: what profitable behavior change can you, within a reasonable doubt, attribute directly to the program stimulus? Not every loyalty initiative will succeed; by rigorously measuring results, you can learn from your failures and iterate your successes.

**THE BOTTOM LINE:** By avoiding these common loyalty pitfalls, most of which occur in the program design stage, you can ensure a reasonable chance of launching a successful loyalty program well before you put your program into market. Define your business and customer objectives; align the program with your brand; bake in a compelling value proposition; segment your customers; and use data to build relationships. It's your optimal path to success.

This loyalty tip sheet is brought to you by Reward Paths: Your direct path to customer loyalty.