Common Pitfalls of Loyalty Program Design

BRAND LOYALTY

Minding Loyalty Program design and planning gaps is critical to an effective customer engagement strategy

Loyalty Programs are ubiquitous across most business sectors and are a critical tool for fostering an effective customer engagement strategy for brands.

They enable customer acquisition, onboarding, engagement, retention, and even win back a brand's customers. With that said, many strategic brand marketers have made their Loyalty Programs a key business imperative and have invested significant financial and human capital against this important endeavor. While any business can attempt to launch a customer Loyalty Program, designing, planning, and executing a successful one requires significant expertise, enterprise commitment, and unwavering attention to detail.

How can you plot a course toward a successful customer Loyalty Program?

Steer clear of the common pitfalls.

Always keep them top of mind when addressing the **10** main components of your Program.

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1 Strategy

2 Design, Mechanics, and Value Proposition

3 Member Experience

4 Operations

5 Technology

6 Data

7 Measurement

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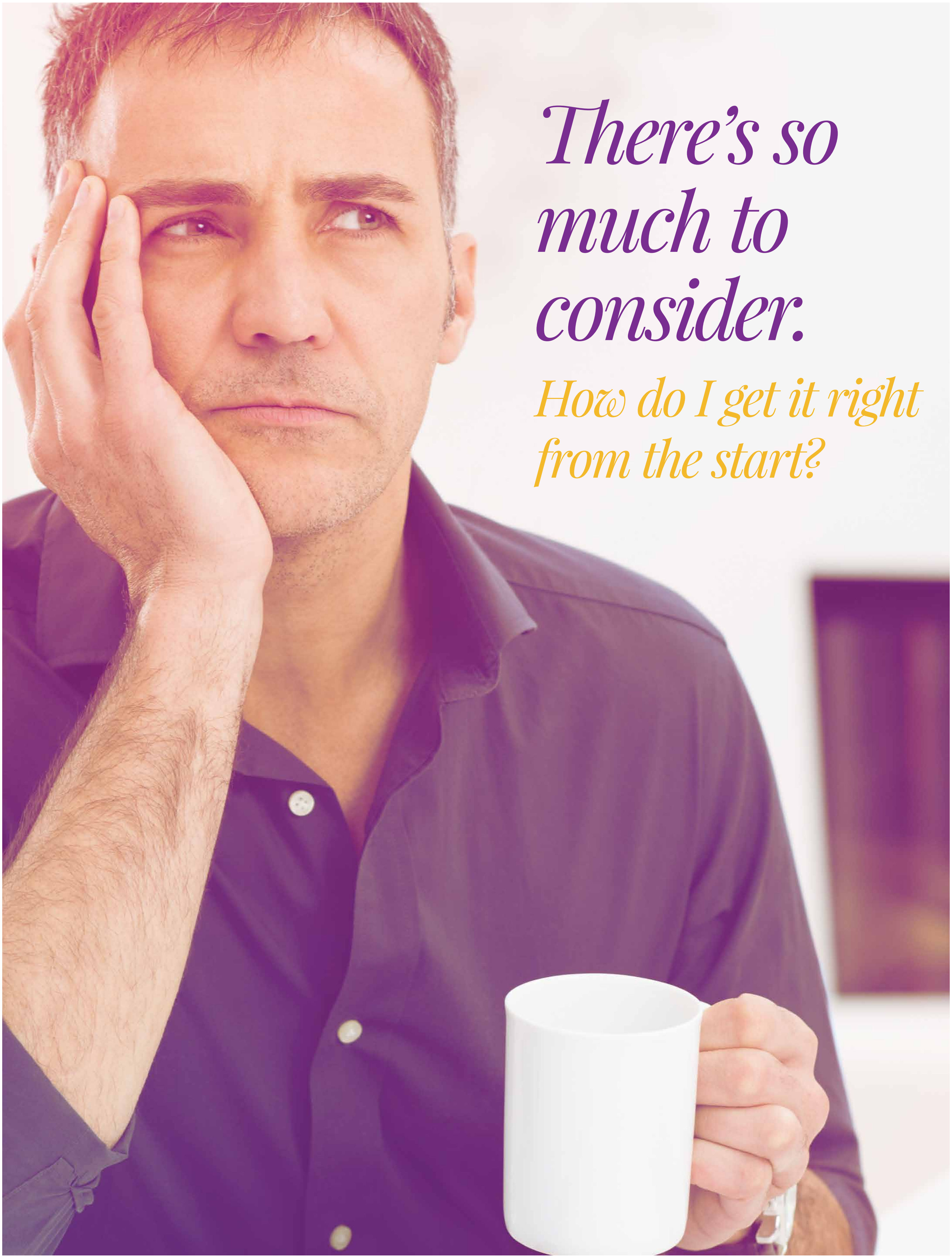
10 Legal


There's so much to consider.
How do I get it right from the start?

Strategy #1

A successful Loyalty strategy requires a thorough understanding of your business requirements and customer needs, and an ability to deliver on your brand promise.

Designing an effective Loyalty Program strategy requires a combination of customer and marketplace research, financial data, and insights.

Here are a few areas where Program strategies tend to fall short:

Brand misalignment: When a Loyalty Program design is misaligned with the brand it is in service to, Members of the Program tend to derive lower levels of satisfaction with the Program. Their propensity to continue to do business with the brand lessens, making it less likely for Members to recommend the brand to family and friends.

Lack of customer relevancy: Insufficient input from customers, combined with an overreliance on the brand's sentiments and requirements, will result in a lack of customer relevancy, which will lead to Program apathy.

Overreliance on transactional Loyalty Program mechanics: Transactional Loyalty mechanics embodied in the Program design are important for acquiring and engaging Members. Over time, Programs can lose their luster and differentiation when there is an overreliance on transactional mechanics, such as discounts, which make them easy for competitors to replicate. Emotional Loyalty mechanics are vital to transcend transactional Loyalty and migrate the brand–customer relationship to one that engenders emotional Loyalty to the brand over time.

Limited evolution: Brands must continuously innovate. Programs that stay stagnant or rest on prior success become stale in the minds of customers. As competitors innovate, brands are susceptible to a reduction in Program efficacy. Brands should consistently look for ways to create new and exciting reasons for customers to engage with their Loyalty Programs. Reinventing a Loyalty solution could include new available technologies, enhanced customer experiences, and learnings from other sectors.

Design Mechanics and Value Proposition #2

When designing a Loyalty Solution, it is vital to harmonize the needs of the business and its customers' expectations.

Finding a level of congruency is of paramount importance. There must be an equitable value exchange between what the brand requires of the customer and what the customer expects from the brand.

Deliver on the experience that customers expect by avoiding the following:

Complicated Program mechanics: There appears to be a tendency by brands to create elaborate earn and burn structures and mechanics within Loyalty models, to meet multiple business goals. In all our research, we find that Members do not have the patience or time to navigate through complex Program designs regardless of how lucrative the rewards might appear to be. Complex designs ultimately result in lower levels of enrollment and engagement. Sometimes, the simplest propositions are the most effective. Stress testing a design in co-creation sessions with customers can yield highly beneficial results for a Program design. It is rather costly to undo a Program design when it is already in market. Better to get it right from the start.

Significant time to redeem rewards: In this world of instant gratification, Members expect to achieve their rewards within a reasonable amount of time. Programs that make grand promises about their rewards can make customers feel as though it takes an eternity to ever realize those rewards, causing customer frustration and muted engagement. While not all rewards can be attained instantly, it is important to provide Members with sufficient encouragement and motivation as they work towards their reward. Simple surprise and delight moments along the way to attainability can often help alleviate the lengthy time required to redeem.

Lack of breadth and depth of rewards: Members desire choice, and a lack of choice restricts their ability to be in control of their reward. This can result in Program dissatisfaction. One size cannot fit all. Neuroscience behavior strongly suggests that as human beings, we are extrinsically motivated to achieve rewards. Variety can be appealing when we have an active choice in our goals or actions. Limiting and restricting rewards can be counterproductive. While there might be specific business needs, it is important to harmonize those business needs with Member expectations.

Redemption complexity: Reverting to the concept of simplicity, barriers to redemption will result in Member frustration and ultimately a reduced willingness to further engage with the brand. Equally important, Members often share negative redemption experiences, which can have exponentially greater implications for a brand. Keeping the redemption experience simple, expedient, enjoyable, and rewarding is vital to reengaging the Member post-redemption.

Restrictive terms and conditions: We recognize that there is a need to have specific terms and conditions to maintain the integrity of the Program and to mitigate business and financial risks. However, Programs that are overly restrictive can simply cause Member frustration, negative perceptions about the Program or even worse, the brand. As human beings, we are social animals, and through the power of social media, one bad experience can be amplified to millions instantly. So, when developing terms and conditions, think about the needs of the business as well as the expectations of your Members.

Member Experience

#3

Of all the ways in which Members interact with and evaluate Loyalty Programs, the experience matters most.

Experience drivers like digital, personalization, and the human touch comprise 64% of what drives satisfaction and are more important than monetary drivers in achieving Program satisfaction. Your employees can make all the difference and there's lots of room for improvement as only 22% of Members agree that brand representatives consistently create positive Member experiences, according to the Loyalty Report 2017.

If you want to keep your Members happy, avoid these pitfalls:

Inconsistent experiences: Members have come to expect, regardless of what channel they transact in, a consistently satisfying experience with their Loyalty Programs. Unfortunately, we still see that offline and online engagement with Loyalty remains vastly different across multiple business sectors. When developing a Loyalty solution, it is imperative to ensure that the Loyalty experience is consistent and optimal regardless of how your Members interact with your brand.

Lack of human-to-human connections: There is certainly a rush to digitize all elements of a Loyalty offering as digital has significant advantages for businesses and Members. However, an overreliance on digital can result in an anonymous and insincere brand–customer relationship. It is equally as vital to retain those human-to-human connections that people still cherish. For instance, a thank you email or text cannot match the efficacy of a personal call or a hand-written thank you note. Engaging frontline employees to connect and evoke positive emotions with Program Members is a strategic imperative and point of differentiation.

Operations #4

Objectives are set and the rollout plan is in place; however, there are hidden operational components that when overlooked could hinder the successful growth of your Program.

Keep your eyes and ears open, don't fall victim to:

Lack of adoption by operators of the business: It is not enough to have the marketing group hatch the most innovative Loyalty Strategy. If it cannot be executed with impeccable delivery, it is not worth the paper it is written on. Ensure that your brand's operators have a seat at the strategic table. Involving operators in the design phase is vital to finding solutions to challenges. Side-stepping this valuable voice in the strategic process will result in poor levels of adoption internally, where it matters most.

Ineffective employee training: Employee training is often one of the last considerations by many brands as there is significant focus on designing the Program. Employees are your frontline ambassadors. It is important that they are fully knowledgeable about the Program and are empowered to service your customers. Ineffective training will result in apathetic employees who will not advocate for the Program. We encourage bringing employees into the circle of trust earlier and we highly recommend conducting employee focus groups as a fundamental part of Program design. It is a healthy way to better understand customer expectations and Member needs, and capture employee suggestions. Implementing a formal training process with mandatory training sessions for new employees is also a key component of executional success.

No frontline feedback mechanism: Employees are on the front line of the Member's experience with the Program. Most brands do not have a formal mechanism to take the pulse of the Member's experience. This is a huge misstep. A formalized mechanism is critical for capturing real-time input that can mitigate Program challenges and deal with them in an expeditious manner. Similarly, brands should be leveraging Employee input to learn how the Program can be improved for them and their Members.

#4

Ineffective enrollment strategy and tactics: Enrollment is the gateway to Program engagement. A poorly developed enrollment strategy will yield low subscription rates and will make it more difficult to move the financial needle on Program KPIs. When launching a Program, you really have one chance to make a strong impression with your customers. It is important to get it right from the start, as it is much harder to acquire Members after a poor first experience.

Low scan rates (Member I.D.): Poor scan rates will result in lower engagement and efficacy of the Program. It will also impact top-line sales, profitability, and growth. Ensure that you are capturing Member transactions so that your customers do not remain anonymous. When Members are not identified, brands are left with data gaps, restricting their ability to understand who is doing what and when. After all, it is more difficult to cultivate a relationship with these Members if you don't know who they are. Build an effective strategy that allows Members to independently identify themselves as they interact with the brand. Giving Members a reason to do so through a desirable Program can go a long way to achieving higher scan rates. Every brand should be striving to build personalized communication strategies with Members to deliver a higher level of relevancy. Therefore, it is vital to capture all transactional and non-transactional loyalty signals in order to create greater brand intimacy with your Members.

Technology #5

Technology has changed the very nature of the customer–brand relationship, enabling a two-way dialog between the brand and customer.

Loyalty technology will become an integral part of your technology ecosystem and the right technology will allow you to bring your loyalty vision to life.

When you're implementing new loyalty technology solutions, here are some of the considerations to be aware of:

Lack of technology stakeholder involvement: Neglecting to involve the technology team in the design and planning process reduces understanding of existing technical capabilities or limitations to overcome. Technology stakeholders understand your current technology ecosystem. Involving them early in the process ensures alignment on project objectives and scope, secures required resources and prioritizes your Loyalty initiative.

Insufficient focus on the user stories: Taking the time to consider how a customer will enroll and participate in your Program is a critical step in ensuring that the technology solution will deliver an experience that is consistent with your brand. The process of customer journey mapping allows you to work through the user experiences you want to deliver and the best ways to test alternatives. Start with the user stories or scenarios you anticipate, including but not limited to enrollment, identification, receiving and redeeming benefits, and profile/account management. Insufficient attention to the user experience will result in a poor Member experience. It is important to map out the user experience with your technology partners.

Lack of monitoring of all the integration points: Often during implementation, most of your focus is on getting to launch and less on planning for post-launch events like monitoring day-to-day activities. Data flowing between various applications and systems is a core element for Loyalty Programs. Identifying points of failure ensures the appropriate alerts are in place so action can be taken. Appropriate monitoring and alerts can be acted upon right away, which then minimizes the impact on Members.

Technology

#5

Limited attention to planning and establishing fraud controls and threshold alerts: Once a Program is designed, time needs to be allocated to preventing fraudulent opportunities. Consider additional controls and alerts to detect fraud and stop any further activities. Not having the right controls in place can be costly for an organization.

Inability to scale the solution with the growth of the Program: When planning for Loyalty technology, a long-term view needs to be considered. Your technology solution needs to easily scale and handle increases in Member volume, sudden bursts in activity, and the flexibility to add new features, functions, and Program partners. Lack of consideration for these factors could result in a poor Member experience and mitigate your brand's ability to effectively grow the Program.

Data #6

The best customer loyalty strategies properly reward customers in exchange for information.

Successful Programs will leverage information to build lasting customer relationships through relevant communications, rewards, and other personalized means. This can only be inspired by the story the data tells.

An ineffective data collection strategy, mechanics, tools, and management will reduce a brand's ability to effectively leverage a highly valuable data asset enterprise-wide.

Inefficient data access: Poor data access will make it difficult to utilize data in an efficient and expeditious manner, resulting in greater effort, cost, and time delays. If you can't access your data in real/near real time, your competition will have a head start on engaging with your customers.

Lack of attention to data security: Data security is a major topic of concern these days. It is vital to ensure that you mitigate the chances of a breach as it can have a catastrophic impact on your brand's reputation and shareholder value. You don't want to be on the front page of the newspaper for the wrong reasons.

Weak data governance strategy: Companies that do not have a well thought out and effectively managed data governance strategy will quickly lose the confidence of their customers. For instance, a poor Member contact strategy will create inefficiencies in the business and Member communication dissatisfaction. It is critical to have a stringent and purposeful strategy as to how you will use data, who has access to the data, how you plan to use data, and a regulated frequency of communications with your Member base.

Underutilization of data asset: Most companies spend a significant amount of capital collecting, housing, and managing data. If you are underutilizing such data to inform business decisions across your enterprise, then you are limiting the ROI of your Loyalty Program.

Incomplete and missing data: Incomplete and missing data will not allow you to develop a full picture of your customer's activities and needs. It will limit your ability to deliver relevant and personalized customer experiences.

Measurement #7

All too often, we see brands formulate their measurement strategies at the very end of the design process.

Keeping measurement at the forefront ensures that what you are building can be effectively and efficiently measured. Brands track and measure Program performance to gauge success and investment return.

Having measurements in place allows marketers to mitigate financial risk to the organization.

A substandard measurement strategy: A poor measurement strategy will restrict a brand's ability to effectively and efficiently measure Member and Program efficacy. Remember the adage: if you can't measure it, you likely should not be doing it.

Lack of qualified resources, tools and protocols: When building a Loyalty strategy, if you don't have the right resources, tools, and processes, you will inhibit your ability to leverage defined disciplines to derive insights and opportunities to grow the business strategically and financially. If you don't have these in house, it is recommended to outsource this to a qualified customer engagement agency.

Non-automated campaign management process: A lack of campaign automation will not only make the delivery of offers, promotions, and campaigns very cumbersome and costlier to manage, it will also be difficult to set up, execute, track, and measure. In the age of personalization, non-automated processes are simply not an option. Again, if the technology does not exist, seek it out or outsource the activity to a customer engagement agency.

Lack of a continuous improvement plan: Staying stagnant will stifle your ability to uncover new Member insights and keep pace with the market. It is important to secure the right analytical talent to manage your measurement strategy.

Financials #8

Financial viability is not the goal of a Loyalty Program but rather financial incrementality.

There are several critical factors to consider when achieving these financial goals.

Some of the common pitfalls that impact a brand's success in achieving their financial goals include:

Lack of alignment on KPIs: Different lines of business have different priorities and tend to measure financial success based on their own metrics. These can often manifest as competing interests. It is vital to secure enterprise-wide congruency on all KPIs.

Inability to access financial data: Surprisingly, some brands still struggle to access financial data in a consistent and standardized manner due to multiple systems and approaches. This is further complicated when the data is not easily accessed in a timely manner. Building the right technology infrastructure and seeking alignment on a financial measurement methodology is a cornerstone to financial measurement.

Lack of loyalty financial acumen: Loyalty is a defined discipline. Customer and Loyalty Program metrics are far different from a brand's financials. While the two are intrinsically linked, it is important to ensure that you have the right competencies in place or consider outsourcing this work to a customer engagement agency.

Short-sighted financial planning: This can yield significant strategic and financial risk given the level of investment in a Loyalty Program. It is important to find a way to instill patience in your senior executive team. While they crave fast short-term results, it is important to remember that building real Loyalty to a brand can take time. Set clear expectations up front and seek buy-in. Keep stakeholders informed every step of the way. Don't keep surprises to yourself with reveals at the end of a significant period. Bring key stakeholders into the fold so when there are issues and concerns, they are aware and participate in the solution.

#8

Lack of industry benchmarks: Some brands have a false sense of assurance of the financial performance of their Program, as they do not possess competitive benchmarks in Loyalty. Acquire a better understanding of what your competitors are doing and achieving. Learn from their missteps and don't be shy about borrowing good ideas and making them even better. The Loyalty Report 2017 can help you better understand what is/is not working for your competition and your customers.

Organization #9

Organizational alignment and securing the right competencies to design and execute a Loyalty Program are critical to the success of this important endeavor.

Some common organizational alignment pitfalls include:

Lack of C-suite alignment and commitment: Misalignment and lack of support from the C-suite will erode a brand's Loyalty Program success. It will quickly lose support at the top and become a side show with your customers. If the C-suite is not committed from the start, shift your priorities to understanding their issues and concerns and address them immediately. Bring them into the solution, so that there is sufficient support to deliver a successful Loyalty Program.

Minimal to no input in strategy from lines of business: A Loyalty Program cannot be designed in a vacuum. It is critical to acquire the input and support of all key constituents across the business. Getting other areas of the business to the strategic table early along in the process might be painful and may even stifle a Loyalty marketer's vision, but will pay dividends in the end by ensuring that the solution has the right level of organizational buy-in.

A non-enterprise-wide initiative: A Loyalty Program cannot only serve the interests of the marketing department. The Program should be leveraged across the entire enterprise to maximize your investment by leveraging Member data and insights to support your various lines of the business's requirements. So, don't be myopic when designing your Loyalty Program.

Deficiencies in core competencies: If your company does not have sufficient skill sets in place to design, manage, and operate a Loyalty Solution, either hire up or contract these requirements out to a skilled customer engagement agency. Don't try to wing it. Loyalty is a costly endeavor and requires the right level of skills, experience, and commitment to be successful in the short term and the long term.

Legal #10

Like any other major company initiative, it is imperative to seek legal counsel to ensure that the Program design adheres to all legal requirements.

We have witnessed companies design Programs without early consultation of legal counsel, only to find that they need to make sizeable changes to the Program far down the path of development and even implementation.

Avoid having to re-do the work!

Noncompliance with federal, state and local laws, regulations, and privacy: Seek legal counsel and involvement early; however, be careful not to allow your legal counsel to limit your creativity. Always challenge them by asking them, "Tell me how I can do this." The ramifications of being offside with the law may result in legal action, harm to the brand's reputation, attrition of the Member base, and financial penalties. Adopting a customer-centric lens when designing and implementing a Program is the best approach to mitigating legal issues. While we encourage brands to push the envelope to bring forth innovative and strategically differentiated Loyalty solutions to their customers, always be sure to adhere to legal requirements and business operating standards. Always put yourself in the shoes of your customer.

We often see many Loyalty Programs underperform or even fail because of these missteps.

As you can see, there is a lot to consider. If you are launching or renovating a Loyalty solution, try to avoid as many of these pitfalls as possible and learn from the mistakes of other brands.

The key is to plan and include all relevant stakeholders at the strategic table. **Your Program will have a much higher probability of being successful.**

Bond Brand Loyalty is a customer engagement agency that specializes in building brand loyalty for the world's most influential and valuable brands. Our mission is to make marketing more rewarding for customers, richer and more resilient for brands, and more profitable for our clients.

We build measurable, authentic and long-lasting relationships through a combination of services that includes loyalty solutions, customer experience, marketing research, customer analytics, live brand experiences, and proprietary loyalty technology platforms.

Written by

Richard Schenker,

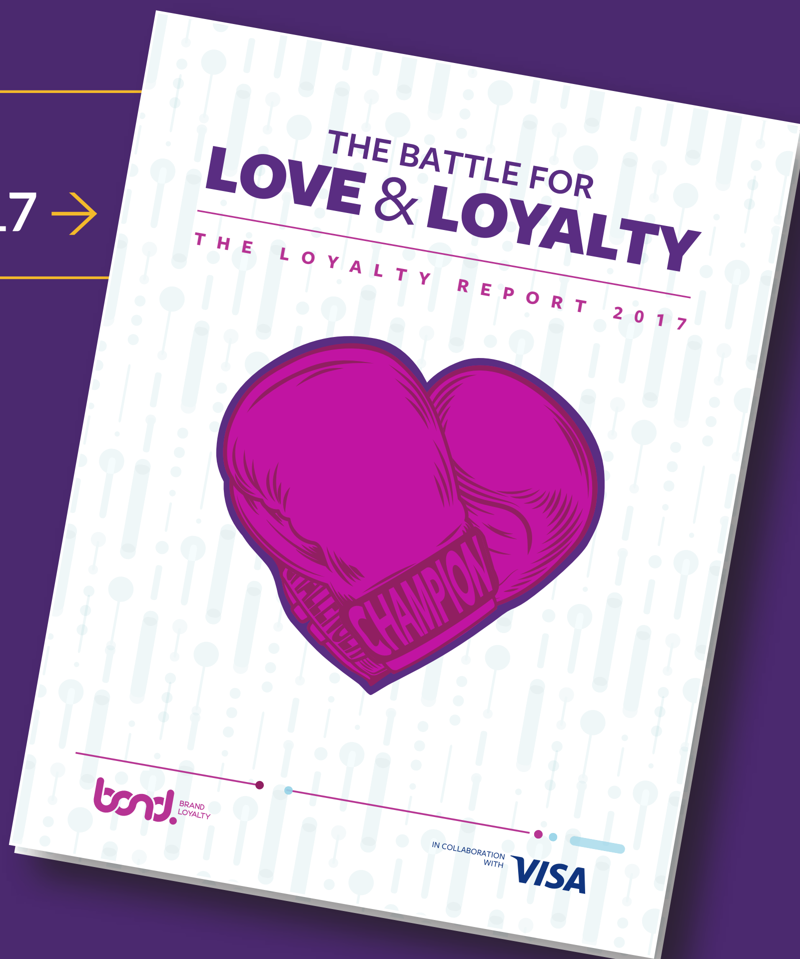
Senior Loyalty Consulting Director

Richard is a visionary and highly accomplished customer engagement and loyalty solution design professional. For over two decades, his work has enriched relationships between some of North America's most iconic brands and their customers. He possesses a unique breadth and depth of client and agency experience, designing and managing award-winning customer engagement and loyalty solutions backed by data and insights that fuels enterprise-wide sales and profitability. Richard's extensive sector experience includes; high- and mid-frequency retail, financial services, quick service restaurants, hospitality, consumer packaged goods, and automotive.

Prior to joining Bond, Richard held a number of senior North American loyalty marketing leadership roles at LoyaltyOne (owner and operator of the Air Miles Reward Program) in addition to managing numerous key client relationships. Other notable accomplishments include the design, launch, and management of the Shoppers Optimum Program for Shoppers Drug Mart and the management and marketing of Hudson's Bay Company's credit cards and Loyalty Program. Richard is also an accomplished Loyalty industry author and holds a MBA from the University of Ottawa and a BA in Economics from York University.

Looking for more information on Loyalty?

Download the Loyalty Report 2017 →



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Bondbrandloyalty.com | **info@bondbl.com** | **@createabond**