The Delphi Report | 2019

WHY LOYALTY PROGRAMS FAIL!

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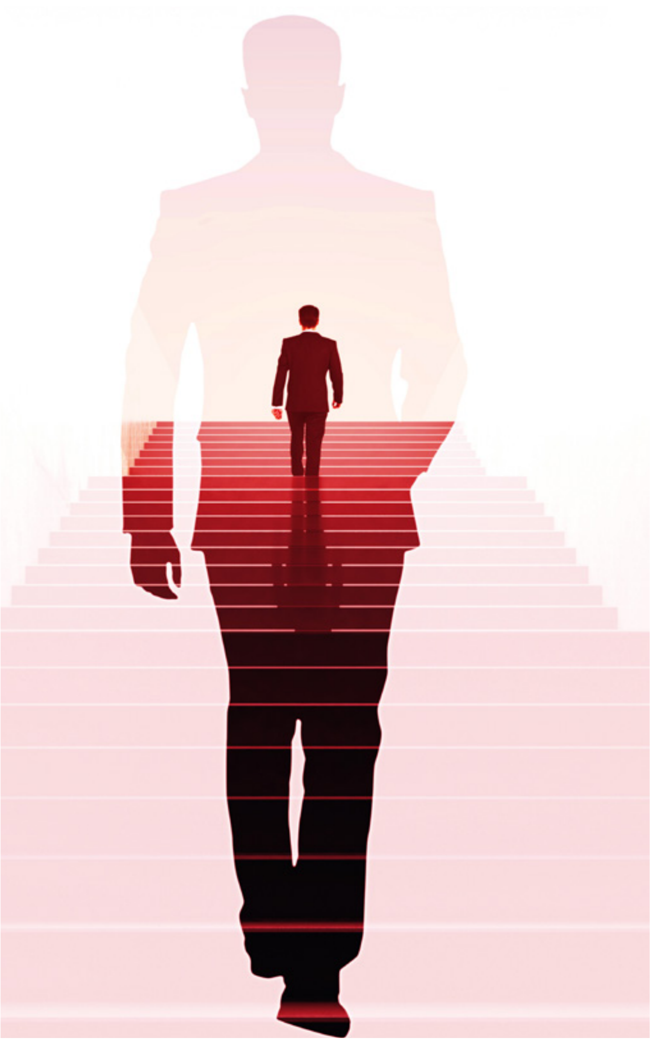
EDUCATION BY LOYALTY MARKETERS, FOR LOYALTY MARKETERS

THE 2019 DELPHI REPORT

INTRODUCTION

"IT'S BETTER TO HAVE TRIED AND FAILED THAN TO LIVE LIFE WONDERING WHAT WOULD'VE HAPPENED IF I HAD TRIED."

–Alfred Lord Tennyson, *19th Century British Poet*



The global loyalty marketing industry remains our focus for the 2019 Delphi Report. If you missed last year's edition, *The Future of Loyalty Marketing*, it is still available at The Wise Marketer and is a must read for anybody who is involved in the industry. In this year's report we turn our attention to a very thorny question – *Why Programs Fail* – and use the significant expertise and insight of the Delphi Panelists to predict which specific causes are most likely to lead a loyalty marketing initiative down the path of ineffectiveness, if not outright termination.

The industry remains in a state of rapid transition. Under attack from every form of technological, psychological and demographic disruption, loyalty marketing must evolve or lose its place within the marketing arsenal. The stakes are very high. How can we prevent programs from failing to deliver for their customers, their brands and their partners? What should we avoid in the future?

THE DELPHI PANEL

"THE BEST WAY TO PREDICT THE FUTURE, IS TO CREATE IT."

–Peter Drucker, *Austrian-born Global Management Consultant*

The Loyalty Academy re-convened a panel of experts in the Summer of 2019 to tackle the delicate and often dangerous task of prediction. Every member of the panel is engaged in the loyalty marketing industry in one way or another; every one of them has a sharp eye on trying to prevent the programs they are involved with from failing to deliver. Each has commercial interests, as the panel included service providers, consultants, brands, technologists and payment industry specialists with a combined 500+ years of loyalty related experience across global markets. Hence, each carries their own unique perspective shaped by their past, their present endeavors and their future insights. The vast majority carry the distinction of Certified Loyalty Marketing Professional™ (CLMP) as recognized by The Loyalty Academy. The remainder are members of the Customer Strategy Network, a global consortium of consultants and practitioners.

We employed the Delphi Panel technique to identify those reasons most likely to cause the future failure of a loyalty marketing program. The Delphi method is a structured communication technique, originally developed as a systematic, interactive forecasting method which relies on a panel of experts. Delphi is based on the principle that forecasts from a structured group of individuals are more accurate than those from unstructured groups or individuals. The technique has been widely used for business forecasting and is recognized as producing group judgments that are more valid than individual judgments. The comments of the individual panel members are used throughout this report, although the source of each specific comment remains anonymous.

The exercise began with a select group of CLMPs developing a comprehensive list of potential causes for future program failure. Each cause carried a brief explanation, although the eventual interpretation was left up to the individual Delphi Panelists.

- The experts were given a fixed sum of 100 points and asked to assign the points across a preliminary list of reasons.
- Each was invited to write-in another reason which was not on the preliminary menu.
- Panelists could spread their points out among as many issues as they felt important or concentrate their scoring among just a few key attributes, provided the total equaled 100 points.

Commentary from the panelists regarding how and why they scored the potential reasons for failure was recorded.

No one panelist selected every reason on the preliminary menu, yet at least 50% of the total panel assigned some points to each specific cause for failure.

- The percentage of the panel who assigned points to each specific cause for failure and the mean score for each cause (zeros included) was calculated, put in rank order and shared among the entire panel to enable each expert to review, comment, or revise their earlier scores considering the replies and write-in reasons from other panelists.
- This process enabled the panel to reach an overall scorecard which revealed a consensus set of failure predictions. Remarkably, given the breadth and depth of the panel and their respective regional differences, the consensus was easily achieved, and a top ten list was consolidated and summarized by the panel facilitator.

The entire panel is identified in the appendix. A total of 34 experts from 14 different loyalty markets around the world participated in the full exercise. Although the results published here should be considered qualitative and directional in nature given the small sample of respondents, the remarkable scoring consistency among global markets, vertical industries, B2B and B2C focal points, and the specialized loyalty marketing competencies of the 34 panelists reveal that experienced loyalty minds think alike.

FAILURE

"A FAILURE ESTABLISHES ONLY THIS, THAT OUR DETERMINATION TO SUCCEED WAS NOT STRONG ENOUGH."

–Christian Nevell Bovee, *19th Century American Writer*

Failure is a strong word. One of the immediate issues raised by the panelists was how best to define failure in a loyalty marketing program, a prerequisite to predicting potential causes. We turned to Webster's Dictionary (4th Edition) first and learned that failure was "the act of failing, or the state or condition resulting from having failed; specifically a) falling short b) a loss of power or strength c) a breakdown in operation or function d) neglect or omission e) not succeeding in doing or becoming f) becoming bankrupt." All these definitions were accepted as an appropriate expression of failure in a loyalty marketing program. Whether it was ineffectiveness or outright closure of the program, the panelists would focus on the specific tactical reasons for the lack of success.

One panelist added:

"Failure for a program has many meanings. Each reason on the preliminary list may be applicable or not if you are looking at the program as a fail from the company's perspective, the member experience, or a combination of both."

Another commented that failure was often tied to proprietary programs in categories that should never have attempted such:

"Natural lack of spending and category frequency - For brands (product/service categories) with low frequency, they probably need to partner with other brands and offer the partner's loyalty currencies to incentivize customers to reveal useful data."

Several panelists went right to the top and helped shape the definition of failure from a leadership and managerial perspective:

"My overall point is that you need a mission from the top."

"A new CMO is hired and wants to 'own' the program strategy - so they either shut the old program down or redesign with their touch."

"So much attention is given to the customer facing elements and the technology to support the program, but sometimes the long-term implications on the enterprise are not analyzed in an exhaustive manner. This leads to erosion of C-level support, if it exists, or a negative impact on the program if C-level support is weak from launch."

"We would say this… loyalty is complicated, and most program managers don't know what they're doing - some or all of the preliminary list of issues might be going on, but the underlying cause is the head of the program doesn't have the skills to right the ship."

"Advent of technology companies which promise technology as the holy grail, while negating the role of a competent program manager or owner. Add to this the rise of the 'procurement' function which is disassociated with the actual program outcome owners. This is resulting in the lowest cost partner selection and thus poor program management."

The general discussion and commentary about "failure" indicated that many underlying values were possibly precedents to the root causes. While all the comments above, and many more, pointed out the difficulty in trying to assign specific causes for failure, the panelists moved forward with their scoring of the preliminary list and added their own write-ins.

THE SCORECARD

"A FAILURE IS NOT ALWAYS A MISTAKE; IT MAY SIMPLY BE THE BEST ONE CAN DO UNDER THE CIRCUMSTANCES. THE REAL MISTAKE IS TO STOP TRYING."

–B. F. Skinner, *American psychologist, behaviorist and author 1904-1990*

- The average panel score includes the "zeros"; the weighted avg. score excludes the zeros. Very slight difference in rank at the #2 and #4 positions but otherwise the order is very similar.
- No panelist assigned a score to every attribute. % of panel with score tells you how many people assigned a score to that specific attribute; the highest individual score is also given.
- There were 6 write-in reasons across the entire panel. No 2 write ins were the same. Most panelists described the overlapping and interdependent nature among many of the reasons and the write ins seemed to expand on that. Yet, some are truly unique.

2019 DELPHI PANEL SUMMARY

"Why Programs Fail" Reason	Avg Panel Score	% of Panel with Score	Highest Score	Wgt Avg Score
Poor use of data	13.07	94.1%	30	13.89
Proving Performance	10.62	91.2%	40	11.65
Inadequate communications and dialogue	10.62	88.2%	40	12.03
Inadequate C-level support	10.26	85.3%	50	12.03
Friction	9.06	82.4%	20	11.00
Weak or absent soft benefits	6.54	79.4%	16	8.24
Employee Disengagement	6.53	76.5%	20	8.54
Inadequate Funding	6.35	73.5%	20	8.64
Lame Rewards	6.53	76.5%	20	8.54
Poor Funding Allocation	5.12	64.7%	15	7.91
Single Channel	4.03	61.8%	15	6.52
Single Tender Type	3.47	52.9%	10	6.56
Over enrollment	2.85	50.0%	12	5.71
Add another reason	4.94	20.6%	40	n/a

1. POOR USE OF DATA

"DATA IS WHAT DISTINGUISHES THE DILETTANTE FROM THE ARTIST."

–George V. Higgins, *American author, lawyer, newspaper columnist, raconteur and college professor. 1939-1999*

Delphi panelists were almost unanimous (93.5%) in predicting that the poor use of loyalty program data was a fundamental cause of potential program failure. Specifics cited included inadequate segmentation of the member database; the lack of versioning in both the value proposition and/or the communications; no KPIs or predictive models tied to potential spend, upsell/cross sell, churn or advocacy. Overall, the panelists predicted that inadequate measurement plans and the lack of advanced data analysis would be the #1 reason leading to program failure. Commentary was both frequent and vocal with a strong dose of passion in the tone of the individual panelists.

"This ties back to management buy-in. If a program isn't using analytics to drive engagement and one to one communication, as well as to reinforce program value with management, it will have a short lifespan."

"Key reason for failure, irrelevant and unattainable member offers using a 'machine-gun' approach rather than targeted offers based on member data (transaction and lifestyle). Technology is a likely corollary here."

"Frequently true. This is the only job of retail loyalty programs - the program is the only way to know customers and they all routinely do a very poor job of it."

“Effective gathering, updating and use of data is critical to understanding member value, preferences and what program considerations will drive behavior to meet objectives and KPIs. Understanding member value and adopting personalization are ultimately affected by the poor use of data, thereby increasing the risk of attrition through ineffective engagement.”

“Requesting too much data up front instead of growing trust over time and adding data consistently throughout the lifetime member relationship. This must be considered a poor data practice.”

“Boy, this is major and is surely disregarded all too often! A gold field of data and power to greatly influence customer behavior but all too often over-looked. A major loss in sales influence for B2B loyalty programs!”

“Worst practice that not only leads to a lack of demonstrating the value of the program, but also creates obstacles in driving profitable desired behaviors.”

“Absolutely an important point. Usage of data to segment and identify trends and gaps are essential for the success of a program. Likewise, having measurable KPIs and reviewing these on regular basis are key success factors.”

“I believe there is tremendous potential value to be extracted from customer data remaining untapped today. We see this in practice with basic data hygiene issues holding back use of the data in some cases. I have to think this issue is being addressed, but it remains a big reason today why some programs do not reach potential or fail in the eyes of the customer.”

“Data is critical and as privacy emerges front of mind for many consumers, transparency about the use of the data will become a critical success factor.”

As the panel’s comments indicate, there appears to be a strong association between poor use of loyalty program data and future failure. However, not every panelist agreed, and although nearly all included this factor, several downplayed the importance:

“Not really a reason for ‘failure’ here. Most programs have started using some form of segmented campaigns to drive performance. Off course, under pressure to boost sales, many programs resort to a ‘communicate/target everyone/everyday’ kind of approach. This means that while individual campaign performance is poor, the overall trickle in revenues seems to justify the approach.”

“Important after the program is launched and the first data is collected, but if a program is in good shape, it is not as crucial as the other topics.”

“But it isn’t consumer facing so maybe not as much impact as other variables?”

“This is an issue for the leaders in the space, for sure. But many, many programs are failing for much more fundamental reasons than this. Even today!”

We must speculate as to why the poor use of data exists in the first place and offer some solid advice on addressing the issue.

- First, a program must be able to get at the information rapidly, with distributed access across the enterprise, in flexible and understandable formats that allow for more advanced analytics and every-day insights. This is likely tied to the underlying technologies which enable the program. Too many times these platforms confuse "reporting" with "analytics."

- Second, the data must be clean, accurate, integrated across multiple touch points/sources and permission-based in order to be leveraged. The likely culprits here are associated with non-transparent data collection processes, lack of aggressive hygiene, privacy and compliance factors which are ignored plus the underlying technologies.

- Third, analytics require special resources and special skills. Many programs cannot secure the funding needed to procure this expertise from the outside; other programs have outside vendors and agencies who lack the skills; many others try to do it internally along with all other facets of program management and never get around to it.

- Finally, and perhaps most significant, program managers have become "lazy" and stressed for time. It is easier to pull the whole list, draft one message/offer for all and hit the send button. Perhaps it is a simple case of funding. In any case, consumer and B2B expectations are rising across multiple fronts and the poor use of data by program operators will likely lead to future program problems.

2. PROVING PERFORMANCE

"ALL GOOD PERFORMANCE STARTS WITH CLEAR GOALS."

–Ken Blanchard, *American author, speaker and business consultant*

Delphi panelists were also near unanimous (93.5%) in predicting that the inability to prove program performance was an underlying cause of potential program failure. While the mean score was lower than the data issue, the strength of this factor was very noticeable. Panelists detected that this inability led to C-Suite thinking that the program costs too much, resulting in constant budget pressures; or the CFO thinking that the more breakage the better; or the often expressed view that the sales, margins, advocacies and other program outcomes would have been realized anyway.

"In my experience, the 'bean counters' often view loyalty as a cost, not an investment. Constant battle between marketing vs accounting places greater importance on validity of program reporting!"

"If incrementality can't be demonstrated it is believed to become an added cost of doing business and the C-suite, especially the CFO, will question its value."

"Reporting performance and KPI results are important to understanding what works and what should be tweaked, as well as to prove brand benefits."

"Yes, this is still an issue due to the lack of understanding of what a loyalty program should be. Many still think the more breakage, the better it is (cost savings)."

"Yes, with multiple marketing efforts going on at the same time, it does become difficult to attribute success/revenues to any single program/campaign. When the rest of the market is under severe pressure from the e-commerce players who are willing to sell at losses/deep discounts, traditional retail is struggling to cope. Thus, the debate for an immediate gratification in the form of discounts fights for dollars which would have gone into loyalty rewards."

"This is key as it ties into the required C-Level engagement. Without feedback to further engage the decision makers they will give up."

"Weighting this most heavily as I see it being the #1 reason that the program is underfunded, thereby leading to many of the other issues listed here."

"Inadequate financial planning (added below) leads to not having a useful dashboard of reporting metrics available to evidence performance to executives. It also means that expectations for the program may not have been properly set at the time of launch or re-launch."

"...part of the resource problem - you don't have the skills to know what to measure, and how to interpret."

"Technology issues here due to lack of preparation and due diligence on solution selection."

"You would THINK this is the #1 issue. But, in my work with clients in the last 5 - 10 years, this is not the primary culprit for failure. Most executive teams believe they need a 'loyalty program answer' in their competitive space. While they should be asking harder questions about performance, I just don't see it occurring that often."

In the opinion of practitioners Loyalty marketing has always been subjected to a much more critical eye than other tools in the marketing arsenal. Advertising expenditures were largely unproven in the pre-digital era, with soft metrics like awareness, interest, intent to purchase and brand image collected via consumer survey. Results were accepted as "proof" of performance irrespective of whether sales went up or down. PR expenditures were even worse in proving performance. Direct marketing was much more sophisticated in its use of test vs control campaigns, but growing mail costs, huge clutter and the advent of all digital channels eventually cut into the performance equation. Mobile and digital channels can measure the direct result more easily, but often fail to establish incrementality and have difficulty in proving the cause the effect with everything else going on. Loyalty marketing, with its ability to precisely measure the behavior of members as a result of the value proposition, appears to be held to a different standard than other strategies because of its ability to precisely measure. Going back to the direct marketing era, implementing test and control mechanisms can and will prove the performance that executive management seeks. One final thought – we must have firm KPIs and financial plans prior to launch that clearly define success. We measure against those established metrics. We refine based on the performances to date. We regularly review with the C-Suite. This is not rocket science and it will help mitigate future failures.

3. INADEQUATE COMMUNICATIONS AND DIALOGUE

"WHAT WE HAVE HERE, IS A FAILURE TO COMMUNICATE."

–Strother Martin, playing the role of The Captain in the motion picture *Cool Hand Luke (1967)*

Mentioned by 87.1% of the Delphi Panel, communications deficiencies were ranked as the 3rd most important factor in predicting future program failure. Among those panelists who assigned a score to this factor the number of points allocated were even greater than the performance attribute referenced above. The characteristics associated with the commentary surrounding this factor included the absence of preference driven, multiple communication channels; absence of surveys, auctions, dialogue/feedback and overall poor member care. Panelists felt that many programs viewed communication costs first without ever examining the effect. Overall, the panel expressed that relevant communications based on personal, lifestyle and share of customer attributes were often missing, leading to weak engagement.

"No excuse for not delivering the Right Offer, at the Right Time, using the Right Media!"

"Fundamentals, fundamentals. Just like poor associate engagement, this is still a root cause of underperformance."

"My experience is that brands know customers are resistant to excessive marketing when it's sent to drive sales - they forget that customers WANT to hear about their loyalty benefits, so they under-communicate and send occasional and uninteresting blasts out instead."

"An extremely valid point as I have always argued that a well-structured loyalty offering is the 'good news' platform and it is rarely seen and appreciated as such!"

"One of the most important and least invested line items in the budget."

"Lack of targeted and relevant communication significantly affects member engagement."

"Another worst practice that will result in members losing interest – unfortunately, I think the reverse - overcommunicating - is a bigger problem - when brand and program communications are not monitored for cadence, segment, integration."

"As a digital marketing practitioner, this is frequently an under-rated point. I have witnessed many programs collapse in the 2000s due to inadequate communication. The best programs cannot do well if members do not hear or see the values..."

"Under budgeting for engagement management is an issue. With 'procurement' selecting program agencies based on lowest cost, there are not enough program management fees being paid to enable proper program communications. This leads to poor program management followed by poor performance and failure."

"A contrary view is that I sometimes unsubscribe from communications because they are too frequent AND not relevant to me. I guess I´m still a member of the program, but I don´t like the style/frequency of communications which leads me to look elsewhere."

It is clear from the panelists commentary that loyalty program communications practices are not at an optimal stage. Also clear is the inter-relationship with the data findings expressed above. The lack of money appears to be the foundational raison d'être. Perhaps if we could prove program performance and establish specific KPIs associated with all communication and dialogue efforts the results would be different and potential failure would be avoided?

4. INADEQUATE C-LEVEL SUPPORT

"A GENUINE LEADER IS NOT A SEARCHER FOR CONSENSUS, BUT A MOLDER OF CONSENSUS."
–Martin Luther King, *American Civil Rights Activist*

As mentioned previously, the Delphi panelists firmly believe that C-level leadership is a prerequisite for program success. With 83.9% of the panel assigning importance to this attribute and earning the second highest weighting among those who included the factor in their scorecard, the absence of support is clearly a potential cause for future failure.

"If the top folks do not care or are not 100% behind the program, it will fail. All the items listed by the panel could affect the program, but if the top people are engaged than all can be fixed or adjusted. I think this is at least half the battle, but I could argue it is the whole thing."

"C-level focus is critical, and they need to be engaged to ensure success."

"A ship without a captain is not going anywhere. Top Management buy-in and support is essential to ensure adequate funding, resources and priority is given to the loyalty program."

"Program leadership must come from the top!"

"…see this time and again, poor re-enforcement by C-Level and left to employees who are often intransient, lacking any sense of long-term engagement and appreciation of the 'power' of a well-structured loyalty offering!"

"Often more of a cultural issue in that the business is product focused rather than customer focused. Every loyalty program must have a C-Level supporter."

"Organizations who treat the program as a cost center are bound to have their program fail. Organizations need to look at the value of the investment more closely."

However, there is hope on the horizon according to some Delphi Panelists.

"If there is no C-Level support, programs will fail in the long run - but I don't see this as much as we used to - as programs are now discussed during earning calls, etc."

"For the programs that survive - there is strong support. Very few programs have shut down or are in danger of shutting down if they have been properly conceived."

"C-Level support is important, but if the program itself is not right, then strong support cannot save the program from bad performance. I am putting this as a 0% as this can be a go/no go kind of situation. Without C-Suite support the programs won't exist in the first place."

"This could have ranked higher in the past and the problem still exists, but these days many companies are speaking about being 'customer centric' and smart consultants (like those in our CLMP group) know to raise this issue with the executives. It is still a factor and maybe you could combine this score with the failure to prove value or the lack of exhaustive financial planning. They are all intertwined."

The interconnection of this factor to others in the top ten list is unmistakable. And support must go beyond the initial approval of the program and its operating budget. Like Dr. King said, support means the building of a consensus among all enterprise disciplines – managers, front line associates, partners, investors, community stakeholders – and for that to happen the C-Level must be committed, passionate and totally informed along the loyalty path. This is the key role for program executives and their respective teams. Don't run from the C-Suite, embrace it. Only by showing what is happening with the program and how that relates to the overall performance of the business can this factor be turned from a potential cause of failure to a powerful ally for success.

5. TOO MUCH FRICTION

"THE ONLY THINGS THAT EVOLVE BY THEMSELVES IN AN ORGANIZATION ARE DISORDER, FRICTION AND MALPERFORMANCE."

–Peter Drucker, *Austrian-born Global Management Consultant*

When the Delphi panel convened for its 2018 Report, *The Future of Loyalty Marketing*, a "frictionless future" was a key prediction from the experts. Apparently, the removal of friction is not happening fast enough as this year's panel gave substantial weight to friction as a cause of potential failure. No surprise that too much friction ranks 5th on the failures list, with 83.9% of all panelists including the factor on their scorecard.

The concept of too much friction centers around a triad of difficulties that loyalty programs often put in front of their customers. Too difficult for members to enroll; too difficult to tie transactions to the member or payment type; too difficult to redeem. Each has a significant impact on program momentum and overall program performance. No one likes difficulty, especially today's customer. Hurdles require jumping that many people simply walk away from. Commentary from the panel reinforces this belief:

"For programs to be effective, they have to work. Working means that the technology does its job, transactions process, balances are correct, etc. Working can also mean that it is easy to enroll, redeem and data collected is used in a smart way to connect with customers, build relationships, and ultimately change behavior. We have seen programs with challenges in each of these areas and they routinely underperform."

"Friction affects enrollment and engagement; resulting in poor KPIs."

"Complex or confusing enrollment and redemption processes are a turn off, especially in this digital age."

"...most people think a program has rewards and will try it, however, if it is hard to use or set up, you cannot even get to testing or changing or adjusting. You will simply have no participants."

"Very crucial, as otherwise the activity rate is low, and the program is not performing; goes in line with IT platform & processes that cause the friction."

"Often the case but core is to have the B2B sales team and the B2C retail staff endorsing the program at every given opportunity, even have a mini incentive to influence associate 'buy in'. If they don't endorse and see the value, then why should the customer?"

"If there is equity in the currency and the customer value prop (CVP) is strong then members will accept some complexity, but best practice is to make it easy to redeem."

Loyalty marketing can no longer afford to carry-on with the friction-based practices of the past. Enrollment must be instant, with only the minimal amount of information required to create a member. Long forms with endless fields of information are a definite barrier and enrollment abandonment rates soar. Enrollment must be on the spot, first transaction, with full credit rewarded to the member. The mobile phone will likely play the critical role in enabling instant and frictionless enrollment. Regarding transactions the process must also be frictionless – all transactions, all channels, all tenders and when the member "forgets" their unique ID, the system looks it up and appends it to the transaction record. Transactions, including advocacy/referral and social media behaviors, must post quickly. Finally, making members jump through hoops to redeem for the benefits they have earned is like withholding the trophy from the player who deserved it. Reward search, availability, fulfillment and delivery must all happen in near real time via a simple and intuitive member interface. Instant redemption at the point of sale is rapidly coming to the loyalty world.

6. WEAK OR ABSENT SOFT BENEFITS

"BRAINS, LIKE HEARTS, GO WHERE THEY ARE APPRECIATED."

-Robert McNamara, *Former American Secretary of Defense*

The concept of appreciation and recognition was characterized as an important factor by the Delphi panelists. The absence of soft benefits was viewed as a potential cause of failure by 77.4% of the panel. Concerns about programs which offered no special privileges to the membership (or a portion thereof) and created no emotional bonds were programs with high potential for failure. Allied to this concern was the tendency for many programs to treat all members the same. While soft benefits may be difficult for some brands to enable and deliver, applying them to only the highest value segments of the member base can certainly make the task easier.

"Best customers need to know they are being treated as a 'special' member in support of their greater brand/program loyalty. Often soft benefits are the greatest differentiator to competitors and drive greater loyalty through stronger emotional connection to the brand."

"I believe these are the most defining and compelling components of a differentiated loyalty program - I think more brands are starting to really pay attention to this as consumers are interested in deeper relationships with the brands through experiences and engagement and appropriate levels of recognition."

"Customers increasingly value experiences, strong brand values and connection. Loyalty programs that focus on 'do this/get that' are becoming increasingly irrelevant."

"Lack of appreciation, thinking that a pure loyalty offering/reward will suffice… Not!"

"Absence of compelling soft benefits made available by tier achievement, emotional connection to the organization, etc. will kill a program. Points and rewards should be one small component of the overall program structure."

But the full Delphi panel was not in complete agreement regarding the soft benefits question and the relationship to future program failure. While the ranking of this attribute on the failures list was very important to some, the mean score dropped down significantly from the top 5 factors referenced above.

"We'd like to think this is a primary driver of failure. We all like to say that this is the core objective. But I don't see the evidence of this in program ROI results. Hard benefits still rule 80% of program performance from my observations."

"As long as members are being treated well relating to a loyalty program, then this may not be an issue. I am not a believer that segments and hierarchies in a loyalty program are the keys to its success."

"Soft benefits can enhance the program if used in the right target group/segment and can reduce the effect of inadequate funding. But if funding is good, then soft benefits are not necessary, though it depends on the industry (e.g. grocer vs. service industry)."

"Soft Benefits are important for some segments like VIP or other premium segments but may not be very effective for low value segments. If I am a value seeking member who enjoys 5% cashback on my transactions, soft benefits may not matter that much compared to say a top tier Frequent Flyer member who gets priority upgrades where available."

"Most programs do set up emotional and ego gratification systems. Off course when the programs involve a large member base with low per member spend, then the costs of these soft rewards can become prohibitive."

Debate is a healthy thing. While the panelists differ on the extent to which the absence of soft benefits affects program performance, the psychology of loyalty marketing suggests that some form of recognition is required. The insight derived remains the same as it did in the early years of loyalty marketing – a blended value proposition is always strongest and will be less likely to fail. Program designs must include rewards that tell customers they are getting their monies worth (rational) coupled with recognition elements that tell customers they are important (emotional).

7. EMPLOYEE DISENGAGEMENT

"ALWAYS TREAT YOUR EMPLOYEES EXACTLY AS YOU WANT THEM TO TREAT YOUR BEST CUSTOMERS."

-Stephen R. Covey, author of *The Seven Habits of Highly Effective People*

Most of the Delphi Panelists (74.2%) assigned some weight to this factor, although the scores were significantly lower than the top 5. Concerns about the relationship to potential program failure included situations where the employees were not aware of the program and its details; where employees can't/won't advocate on behalf of the program; where employees were not trained; and the lingering issue of employees not being enrolled as members.

Although the ranking was not as strong as reported above, the panelists were quite vocal in their assessment.

"In my hands-on work with retailers in the last 10+ years, this is probably the #1 cause of failure."

"I addressed this issue in an earlier question but rate this point as pivotal in escalating consumer/client/market awareness. Poorly trained/engaged staff can kill a program while at the same time escalating the investment costs!"

"You need the front line to be trained and to engage and promote - allowing them to join the program is a first step to resolve."

"Key component to any program is to educate everyone who interfaces with the program participant about the program, benefits and importance of building a relationship with the member."

"Employees should become program members and strong advocates to the program to increase enrollment and engagement. If possible, offer top tier status to all employees to assist in communicating to customers/members the benefits of greater program engagement."

"Communication, whether internal and external needs to be pervasive and delivered across channels. Over communication is always better than under communication."

"This is a cause for poor customer experience. The customer facing employee is one of the lowest paid cogs in the wheel and thus their level of empathy/effort is in complete mismatch with the kind of expectations that a high value customer expects."

"These people are the front lines and are really an extension of how the C-Level sees customers. Once again most short comings can be fixed if the C-Suite believes in the program. However, without employees believing and customers joining with no friction the show cannot get started."

"Employee participation provides an essential test bed and ongoing feedback from a committed 'community' within the program."

However, one panelist reminded us of the difficulties involved while still endorsing the importance of employee disengagement:

"If the program relies on your employees - it won't work. Turnover is far too high, and they get the basics wrong too often."

The issue of employee disengagement will be different across industries and cultures. Yet too often the underlying factors which lead to such disengagement are remarkably similar. Not enrolling associates is a bad practice, whether they already get an employee discount or not. Create a special tier, with a different funding rate commensurate with the reduced margins from an employee discount, and the objections disappear. Failing to establish a training budget is another root cause. Why not ask the HR professionals and the in-field operations managers for help in designing a pre-launch plan aimed directly at the front line? Add an incentive with a specific KPI attached. Regularly ask the associates for feedback – what's working/not working and why? These simple steps will increase employee engagement and help prevent issues down the road which can add to potential failure.

8. INADEQUATE FUNDING

"NO MATTER HOW MUCH FUNDING I GET, I'M ALWAYS THINKING, 'THIS IS TEMPORARY. THIS IS FRAGILE. IT COULD ALL END TOMORROW, AND HOW AM I GOING TO MAKE TODAY WORTH IT'?"

–Hope Jahren, *Geochemist and Geobiologist, University of Oslo, Norway*

Like most loyalty marketers, the Delphi panelists ponder the challenges associated with inadequate funding and transient program budgets. The funding question prompted many responses, but two central themes emerged. First, if the program funding rate for rewards was too low, customers would be unable to earn benefits at a fast-enough pace to stay engaged. Failure loomed on the horizon. Second, if the operating budget for the program and all its needs (as described elsewhere in this report) were inadequate then failure was also a potential outcome.

"Society today is more than ever one of instant everything. Boredom and less usage will be a factor if timing to a tangible reward is not aligned to a satisfactory pace."

"Response from a B2B perspective - often sponsors have inadequate understanding and appreciation of the existing program and on-going management! Budgets become under pressure when the sponsor lacks appreciation of customer behaviors and how-to best influence desired change."

"Members will get frustrated and stop participating and redeeming - will that set off alerts to management? Only if they are paying attention."

"Is it too long to earn a reward or too confusing? Sometimes customers simply don't understand what they need to do in order to earn a benefit."

"Low funding results in low activity of members and therefore is the beginning of the end."

"Members need to know they can earn a reward quickly or they will disengage."

"This is a real problem. Inadequate funding being spread too thinly across all members. This is often further exacerbated by another cause on the list - Poor Funding Allocation."

Several panelists also mentioned that regulatory actions – such as those related to credit card interchange reforms in the UK and Australia – could impact program funding. With a smaller pool of funds available from interchange, credit and debit card reward programs could suffer in the future or find other alternatives such as card linking and retail participation in order make it worthwhile for the cardholder.

As always, the panel was not universally convinced that program funding was a driver of potential failure.

"Funding is not the real reason for failure in programs. Beyond a certain stage the margins inherent in any industry define what the budget of the program can be. Where the margins coupled with frequency of purchase result in inadequate velocity of earning, other program formats can be considered."

While the issue is tangible and very real to the discussion of failure, many loyalty marketers throw up their hands and say, "it is what it is." Perhaps the potential causes at the top of our report – proving performance, C-Level support, poor use of data, etc. define and shape the funding question? While overall costs per member have been dropping in recent years it is unclear if such metrics relate to tech efficiency gains or squeezed budgets. Perhaps the programs have become too large (i.e. too costly) for the objectives originally intended?

Whatever your point-of-view on the subject, Ms. Jahren offers some sound advice – how are you going to make today worth it?

9. LAME REWARDS

"NOTHING GREAT WAS EVER ACHIEVED WITHOUT ENTHUSIASM."

–Ralph Waldo Emerson, *American Essayist, Poet, Lecture and Philosopher (1803-82)*

If rewards are foundational to the loyalty marketing discipline, then driving enthusiasm about the reward is essential to success. Emerson may have been talking philosophy or transcendentalism, but his point is appropriate. Most of the Delphi Panelists (74.2%) agreed, although the average weights assigned continued to lessen as we moved down the list of potential causes of program failure.

What constitutes a lame reward? Clearly this factor is dramatically different by industry, culture and global region. Furthermore, the interplay with inadequate funding rates for the member compound the potential for ennui, disengagement and eventual failure. But the Delphi panel offered some interesting comments about lame rewards:

"Reward offerings are lame when they do not resonate with the membership. Poor reward choices; same as everybody else; no uniqueness to the rewards offering, etc. all spell trouble for the program."

"3rd Party redemption options and/or 3x - 4x face value on rewards are necessary to create equity and high redemption levels. More emphasis should be made to encourage redemptions. The breakage model is dead!

"True. Banks have stumbled to best practice which is the same amongst all (but works). B2B particularly have focused on merchandise to make margin and it's artificial - once you float the currency - no one wants merchandise. Cash Back is lame and ineffective from an investment perspective. Customers want 'everything and now' and the only way currently to deliver that is in store redemption using points at POS."

"Program rewards should be pitched to cover diversity, the client, the family, sports and social interests. Solicit member feedback, they will surely tell you. Compare what competitors have as rewards and strive to achieve ongoing points of difference!"

"There are so many programs at parity like this...goes in line with inadequate funding."

"Customers will not become program members if they do not see any value in the program benefits/rewards and/or the competitive programs are more robust and relevant."

"Rewards schemes that gives back a tangible, simple and easily calculated rewards value are often preferred."

There are some very important take-aways from the panel's comments. Diversity, on demand choice, instant redemption and carving out some degree of uniqueness appear to be essential. And our industry cannot survive on a breakage model any longer. If the promise of a future reward is the primary reason the member joined in the first place, then we must do everything to ensure an enthusiastic response from the member or risk losing the battle, if not the war.

10. POOR FUNDING ALLOCATION

"ALL COMPANIES HAVE MANY OPPORTUNITIES. STRATEGY IS ABOUT ALLOCATION OF RESOURCES AND PRIORITIES."

-Michael J. Silverstein, *American Business Consultant, Author and Managing Director of The Boston Consulting Group*

The 64.5% of Delphi panelists who placed this issue into the top 10 agree with Silverstein's comments. A loyalty program has only so many funds to allocate to the customer value proposition and to spread those funds evenly across the entire member base can be a precursor to failure. This is a strategic decision and must be part of the overall design, the financial model and the inherent objectives associated with the loyalty program itself.

"This is an important factor. Many program operators are still treating everyone as equal."

"Programs like this are at parity and will flounder. But if they are designed to check the box 'we have a loyalty program because our competitors do' then the program might not be deemed important enough to consider redesign."

"Business isn't properly linking the reward to the value of the business benefit."

"Effective funding and the use of bonuses to drive member behavior is critical to program survival and growth. Effectively segmenting and funding should be allocated based on the members with the greatest opportunity rather than blanket funding."

"Basically, treating all members, the same, rather than targeting specific customers for specific behaviors can be problematic. Very similar to poor use of data."

As always, some panelists were less concerned:

"Most programs will set up a tiering logic thus this is not a major contributor to failure."

Without a funding allocation plan, programs run the risk of over funding some segments and underfunding others. Since all members are not created equal in terms of value to the brand, it makes little strategic sense to treat them in an identical fashion. While some programs are guilty due to a lack of tiering, most fall short on the allocation issue due to a lack of bonusing. Technology shortfalls are often in the background. The bonus provides ultimate flexibility – increase the funding allocation at a specific time, to a specific segment for a variety of specific behaviors. The base funding rate stays the same – an affordable rate. But the use of periodic bonus techniques allows the funding to be allocated in accordance with specific goals and priorities. Without such an approach, the program increases the risk of failure.

THE HONORABLE MENTIONS

Several other causes received consideration from the Delphi panel as potential reasons for future program failure.

Single channel designs were included by 64.5% of the respondents. The single channel referenced programs which did not track all transactional and advocacy type behaviors across all interactions. Hence, the reward offering was incomplete in the eyes of the member and the database lacked the full view of the customer that brands covet.

Single tender designs were given some weight by 54.8% of the panel. This potential flaw called out programs which only tracked spend when the member paid with a specific type of tender, like a linked or private label credit card. Again, the reward offering fell incomplete in these cases and the associated value assigned to a customer had the potential to be missing some important transactions.

On both measures the North American panelists were more likely to assign weight than their counterparts in Europe, Middle East/Africa or the Asia Pacific regions.

Also receiving some modest consideration (54.8%) was the issue of over enrollment. Some panelists felt it was critical to dial back aggressive enrollment practices which ended up inflating the database and adding cost against segments which offered little or no revenue growth opportunities. Others felt it was important to enroll everybody just to get a perspective on who/what that the program database relied on. Most felt it was a combination of efforts – enroll aggressively but do not overfund the low value segments if they did not display the potential to increase their behavior with the brand. Starving them out of the program naturally was a common theme in these cases.

Perhaps more enlightening was a variety of write-in comments expressed by the panelists. The initial list of potential causes was carefully constructed and defined in order to get the entire panel on the same page prior to submitting their scorecard. As referenced throughout this report, many of the defined causes appeared to have overlap. In some cases, the expressed definition did not suit the interpretation of the individual panelist, so they created their own cause of potential failure.

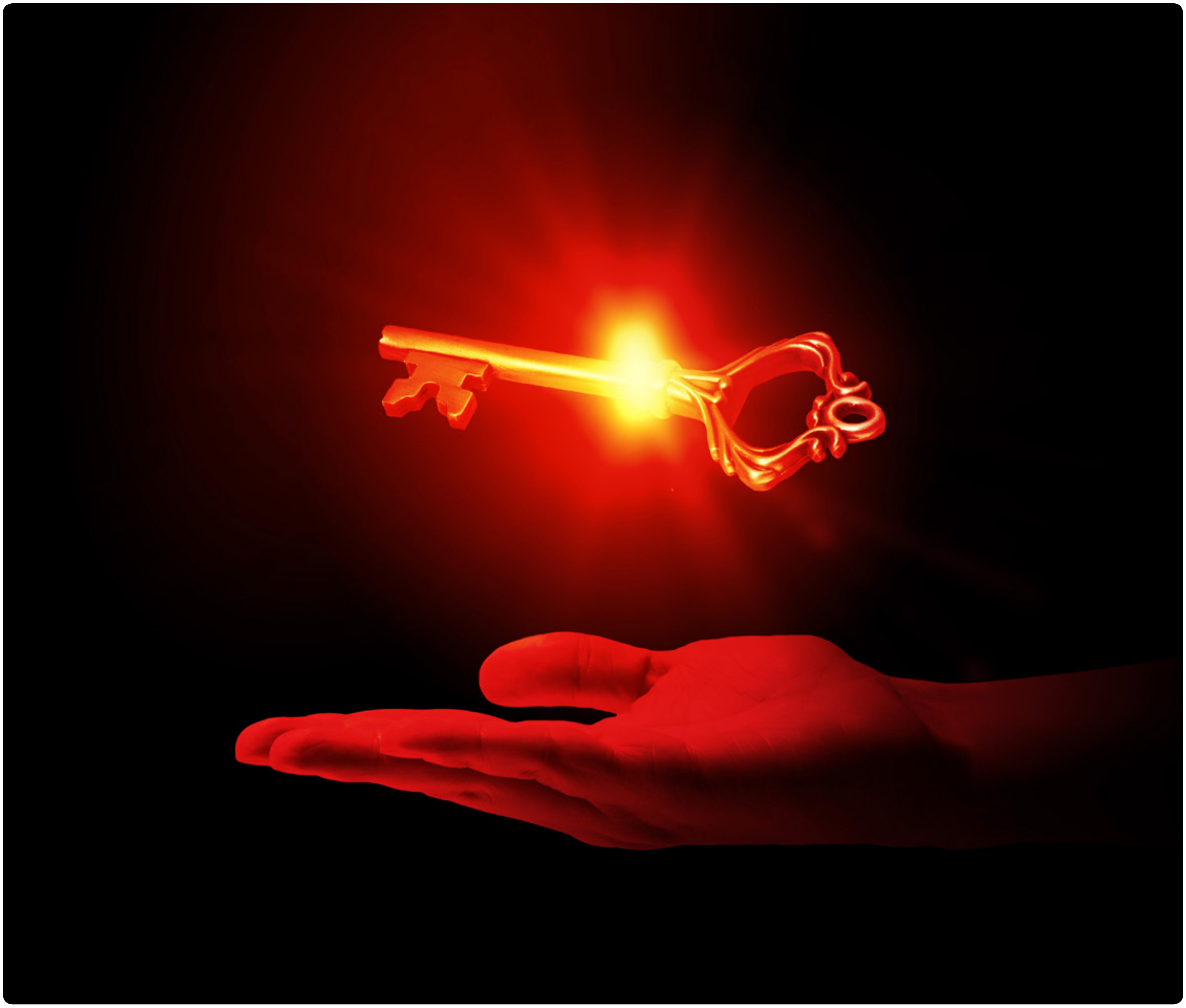
Combined, these write-in candidates received mentions by 22.6% of the panel. But the average number of points assigned to any of these causes was very large and frequently the number one or two cause for potential failure in the eyes of the individual panelist.

"The market has moved," expressed one panelist, suggesting that our industry hasn't kept pace and potential failure was a future outcome. None of the panelists disagreed with this comment but the scoring was confined to those areas of tactical or strategic execution that needed to be reformed to meet the needs of a changing marketplace.

"Inadequate IT or loyalty platform" was called out by another panelist. Again, there was little disagreement and tech related comments appeared in many other explanations for scoring the initial list of possible failure causes. In the end, tech itself did not appear to be the "cause" for the panelists. It was what the tech could not enable that stood out as the potential driver of failure.

"Poor financial planning" was strongly endorsed by another panel member. This issue was referenced in many other comments associated with the original list of causes – poor use of data, inadequate C-Level support and inability to prove performance among others.

Finally, as referenced in the opening of this report, "lack of loyalty management experience, CMO's wanting their own design and lack of category spending frequency" were important enough factors to be written in by a few panelists and assigned a high weight.



CONCLUSIONS

“THERE IS MUCH TO BE SAID FOR FAILURE. IT IS MORE INTERESTING THAN SUCCESS.”
–Sir Max Beerbohm, *British Actor (1872 – 1956)*

The embrace of the loyalty marketing discipline is a global phenomenon. The Wise Marketer estimates the industry size at US$55 billion, excluding rewards, and growing at double digit rates year over year. Virtually every vertical market, in every region of the world has adopted the strategy to foster deeper customer relationships and drive business results.

Hence, failure is expensive. While there appears to be a variety of factors which can lead to program ineffectiveness or outright termination, and these factors are often inter-related, knowing which design elements are most likely to put you in peril is what this report is all about. And while the ranking of attributes outlined as causes for potential failure will differ by global region and vertical market, the Delphi Panel hopes that this report can offer you a roadmap to ensure greater program success.

Good luck going forward.

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About the Publisher

The Wise Marketer Group (WMG) is a global customer engagement and loyalty marketing organization that is the principal source of news, insights, education, and research for this industry. WMG operates two principal brands - The Wise Marketer, a digital media and research enterprise and The Loyalty Academy, an educational platform and certification standard for the industry.

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