RESPONSIVE

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Escape The Loyalty Trap

WHITEPAPER

How single-brand companies should think about loyalty investments

About Responsive Consulting Group

Most commercial teams are facing the multitude of challenges brought on by digitalisation and AI. The dual impact of changing demands from consumers and requirements of a new operating model is accelerating the need for a commercial transformation. The teams that unlock the possibilities arising from this tidal wave of change in the competitive landscape stand to gain massively and sustainably.

Responsive Consulting Group shepherds consumer companies through commercial transformations. We help make better decisions, build and scale businesses, redesign operating models, build organisational capabilities, and embed technology and AI deeply in business processes.

Responsive is an independent boutique consultancy with services within Consumer Transformation, Commercial Excellence, Operational Efficiency in Commercial Teams, and AI in Commercial Management. We help our clients create lasting impact, go beyond strategies, deliver solutions.

Consumer Transformation

Commercial Excellence

Operational Efficiency in Commercial Teams

AI in Commercial Management

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About the author

Peter has spent nearly two decades working at the intersection of business strategy and digital technology. He has held various advisory roles while also serving two stints as part of the executive management teams of technology companies, one currently listed on Nasdaq Copenhagen. Peter works with the executive leadership teams and boards to set the direction for large transformation initiatives, advising on strategy and future operating models across financial services, direct-to-consumer, retail, subscription services, technology and hospitality.

Executive Summary

Most loyalty programmes are approved on the wrong logic. They are sold as customer strategy, but measured through enrolment, member revenue or engagement rates - metrics that are inflated by self-selection. Members spend more than non-members in almost every programme, because higher-spending customers are the ones who join.

The decision turns on a causal test: Whether the programme creates incremental, profitable behaviour that would not otherwise have happened, and whether that margin exceeds reward cost, benefit cost, operating complexity, cannibalisation and leakage.

For single-brand companies - fashion, jewellry, home appliances, luxury goods - this is especially acute. Lower frequency, narrower earn-and-burn utility and higher brand risk make traditional points programmes a common source of margin leakage rather than growth.

In most single-brand companies, a points-based programme reduces overall business value. Leadership teams in these categories should treat that as the base case and require evidence before departing from it.

HOW SINGLE-BRAND COMPANIES ENDED UP WITH THEIR CURRENT LOYALTY PROGRAMMES

Throughout a decade of helping retailers and direct-to-consumer companies succeed with loyalty initiatives, we have consistently found that following these six steps will improve decision-making and increase chances of achieving the desired financial outcomes of your loyalty strategy.

1. Define the loyalty question in your context
2. Understand your customer economics
3. Avoid broad-retail benchmarks
4. Build the business case on incrementality
5. Understand margin leakage
6. Design for economic fit

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WHY the loyalty conversation starts in the wrong place

The loyalty question is usually framed too narrowly

Loyalty discussions usually open with "Should we launch a loyalty programme?" The question presumes the mechanism. What comes first is the strategic job loyalty is expected to perform. A loyalty programme is only one possible mechanism. The broader loyalty strategy can pursue several jobs: identifying customers, understanding preferences, activating owned-channel journeys, recognising valuable customers and creating a test-and-learn system for customer economics.

The first common mistake is to jump straight to mechanics: points, tiers, rewards, vouchers, member pricing or birthday benefits. The second - and more costly - mistake is to substitute mechanics with various versions of emotional loyalty. Your ability to build any meaningful emotional connection is limited to under 2% of your customers, with near-zero impact on the remaining 98%.

Mechanics should be chosen last. In some cases the right answer is a formal programme. In others, a CRM-first, clienteling-first, service-first or lifecycle-marketing approach delivers the same commercial outcome at lower cost and lower brand risk.

CLIENT IMPACT

Responsive helped a global single-brand D2C evaluate its loyalty programme against a leaner, CRM-first alternative. The team unwound the programme, delivering a **3.4% revenue uplift** and nearly **2% gross margin uplift** for affected customers - while removing liabilities tied to unredeemed benefits.

REFRAMING THE LOYALTY QUESTION

The question we often hear	The counter-question we ask	Strategic implication
Should we launch a loyalty programme?	What customer-value problem are we solving?	Understand customer-economics in their depth and complexity.
How many members can we enroll?	What incremental behavior can we cause?	Measure critically against a counterfactual.
What benefits should we offer?	What value exchange changes behavior?	Develop value propositions instead of benefits, focusing on economics and brand fit.

Single-brand loyalty has structurally different economics

Consumer loyalty in single-brand companies cannot be benchmarked against grocery, airlines, marketplaces or coalition programmes. Those models benefit from structural conditions many single-brand companies lack. High-frequency, multi-brand environments make loyalty currencies more useful - customers earn faster and redeem more easily.

Single-brand companies face a narrower utility problem: customers can only earn and redeem within one brand, which limits perceived value, especially in lower-frequency discretionary categories.

HOW SINGLE-BRAND COMPANIES ENDED UP WITH THEIR CURRENT LOYALTY PROGRAMMES

Traditional points-based loyalty programmes have a simple underlying mechanic

A customer earns a currency when they buy a product

... the company recognizes a short-term cost or deferred liability for that currency

... and the customer can later burn the currency for discounts, products, services or other benefits.

Adoption of loyalty programmes over time across retailers and D2C

The design problem is harder in these categories, not unsolvable. A programme must create enough perceived value without becoming a broad rebate system, and it must avoid importing assumptions from sectors where frequency, redemption and partner economics are structurally more favourable.

Single-brand D2C companies that import the loyalty assumptions of multi-brand retailers are working from customer economics that do not describe their business, why a points-based loyalty programme is decremental to overall business value in most single-brand companies.

WHY BENCHMARKS OFTEN MISLEAD SINGLE-BRAND COMPANIES

Loyalty model	Why it works	Why transferability is limited
Grocery / pharmacy	High frequency, broad basket, routine choice.	Frequency and basket breadth are structurally higher.
Airlines / hotels	Status, upgrades and high-value redemptions.	Benefits and economics are category-specific.
Coalition / marketplace	Multiple earn/burn locations.	Single brands lack currency liquidity.
Beauty / apparel / specialty retail	Style, discovery, services, replenishment and access.	More comparable, but still category-dependent.
Single-brand discretionary categories	Brand relationship, service, identity and occasions.	Lower earn velocity and higher brand risk.

2

WHAT the numbers actually show

Build the business case on incrementality, not member averages

The central loyalty ROI question is causal: what did the programme make customers do that they would not otherwise have done? Member averages mislead because customers self-select into loyalty programmes - the customers who join are already more engaged and higher-spending. Comparing members to non-members inflates perceived impact.

A robust business case isolates incremental contribution from additional frequency, higher basket size, improved retention, better margin mix, increased full-price purchasing, higher owned-channel conversion, better targeting and lower promotion waste. The business case nets that against reward cost, benefit cost, technology and operating cost, liability and breakage, cannibalisation, and leakage.

Both Responsive's own research and academic evidence suggest single-brand companies have a much smaller upside from points-based programmes than widely believed. For the majority, the business case is net-negative.

CLIENT IMPACT

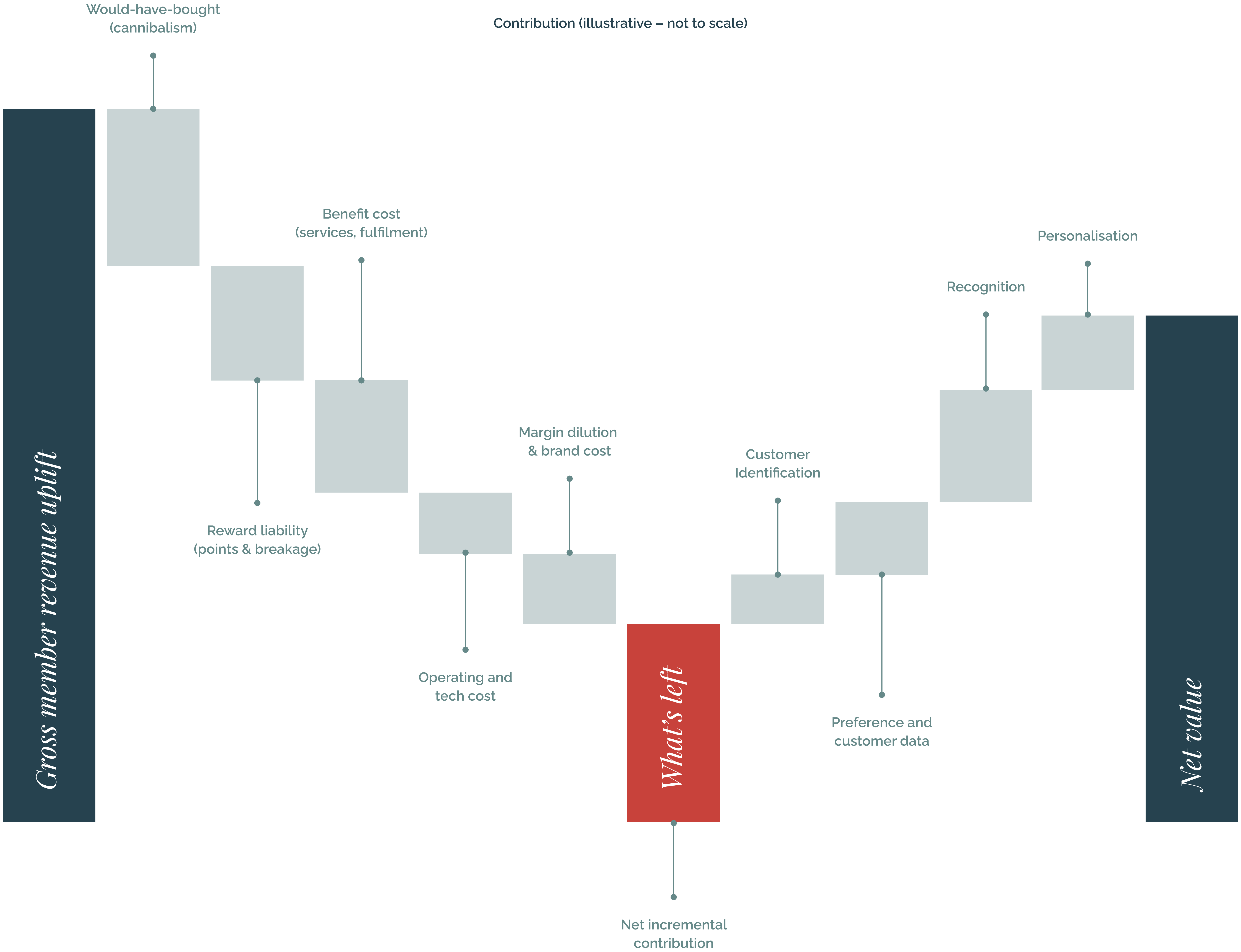
Responsive helped a global single-brand retailer analyse the economic value of three benefit types. The team eliminated one popular-but-costly benefit group with little impact on incremental behaviour, saving a large double-digit-million DKK amount annually

Loyalty programmes can have positive effects, but effects are heterogeneous and context-dependent. One set of academics find a positive corrected share-of-wallet effect, but much smaller than a naive model would imply. Another study reviewed a broad evidence base and concluded that loyalty-programme effects vary materially by context, segment, mechanism, and measurement design.

To critically assess the economics, we recommend starting with an honest, fact-based estimate of the gross revenue uplift. Then factoring in the decremental components such as cannibalism (would have bought anyway), liabilities, direct cost (benefits and operating cost), and margin dilution to arrive at the net contribution. That's the direct business case. From there, add the "opportunity value" of customer identification, customer data, personalisation, to get to the net value.

LOYALTY VALUE WATERFALL

Contribution (illustrative – not to scale)



Traditional points-led programmes can become margin leakage

For single-brand companies, earn-and-burn programmes are economically fragile: cost is broad-based while the behavioural upside is narrow and uncertain. Every customer receives rewards, but not all customers are equally influenceable, you pay for all, you gain from only a subset.
Low-value or low-frequency customers may earn too slowly to care. High-value customers earn meaningful rewards, but many of their purchases were likely to happen anyway.

The result: the programme subsidises existing behaviour more than it creates new loyalty. In our experience, more than two in three loyalty programme designs we review do not withstand objective economic analysis; the case rests on engagement reporting rather than on contribution.
Worked example: a single-brand retailer awarding 5% back in points on a DKK 750 order creates DKK 37.50 of reward funding before breakage.

For a once-a-year buyer, that's too small to change behaviour. For a four-times-a-year buyer, it becomes visible - but likely just rewards an already engaged customer.

RECEIPT

Order value	**DKK 750**
5% back in points (reward funding)	**DKK 37.50**
Before breakage	

THE POINTS-VALUE MISMATCH

Customer value segment	What happens in a broad points programme	Risk
Low / medium-value customers	Accrue points slowly; low perceived value.	Programme fails to change behaviour.
High-value customers	Accrue visible value quickly.	Rewards may subsidise already-loyal customers.
Promotion-sensitive customers	Learn to wait for benefits.	Full-price mix may deteriorate.
Unknown / anonymous customers	May not join unless the value exchange is clear.	Data-capture goal may fail.

3

HOW to design and govern loyalty that pays for itself

Better loyalty strategy starts with five strategic jobs

The organising principle of an effective loyalty strategy is the job loyalty performs in the commercial system. Points, tiers and rewards are downstream of that choice. For single-brand companies, five jobs are particularly important: identify, understand, activate, recognise, and learn and optimise.

This taxonomy is deliberately not “earn, burn, tier.” Those are mechanics. The strategic jobs are outcomes. A single-brand company should only introduce mechanics that improve one or more of these jobs at attractive economics.

WHY BENCHMARKS OFTEN MISLEAD SINGLE-BRAND COMPANIES

Strategic job	Commercial purpose	Typical mechanisms
Identify	Increase known-customer penetration across channels.	Account, member ID, receipt capture, app, profile, warranty or service registration.
Understand	Improve relevance and prediction.	Preferences, wishlists, transactional history, browsing-to-profile linkage.
Activate	Drive incremental behaviour.	Lifecycle CRM, targeted offers, individual pricing and discounts, next-best-action, personalised offers and reminders.
Recognise	Deepen valuable relationships.	Access, service, tiers, events, priority treatment and appreciation.
Learn and optimise	Improve decision quality.	Holdouts, CLV models, offer testing, dashboards and experimentation cadence.

Most companies need customer loyalty to be economically viable. Relying on a formal loyalty programme to achieve it, however, is investment-heavy, difficult to reverse, and negative ROI for the vast majority of single-brand companies.

Loyalty design should follow economic fit

Different loyalty archetypes fit different economic conditions. A full points-led programme should be the end of the decision ladder, not the beginning. The design choice should reflect frequency, margin, brand role, customer concentration, data capability, benefit economics and measurement maturity.

For many single-brand companies, the most attractive route is CRM-first, light membership, recognition/service or targeted rewards before a broad points programme. Choosing the lowest-complexity model capable of delivering the strategic job is a matter of discipline, not of ambition. Complexity should be added only where the economics justify it.

STRATEGIC LOYALTY OPTION LADDER

Program archetype						
No formal program	**Light membership layer**	**Recognition and service program**	**Targeted earn'n'burn**	**Full points-led program**	**Paid/ premium membership**	**Partner ecosystem**
When to choose						
When the strategic job is mainly identification, understanding and activation, and a formal program is unnecessary.	When the company needs data capture and engagement but cannot justify broad rewards.	When brand role and customer value concentration support non-monetary value.	When elasticity tests show targeted rewards shift timing, frequency, basket or retention.	When frequency, margin, redemption relevance and measurement confidence are strong.	When benefits have clear recurring value and perceived exclusivity.	When single-brand frequency is too low but adjacent partners add relevance.

CLIENT IMPACT

For a Nordic client, Responsive simplified an existing loyalty programme - eliminating a large partner ecosystem, removing tiers, and tightening recognition and services. The programme saved 25%+ of operating cost, reinvested those funds in its most impactful parts, and was revitalised at no added total cost.

What executives should do before approving a loyalty investment

The governance challenge is to make loyalty a disciplined investment decision, not a marketing initiative approved on soft engagement metrics. Before approving a material loyalty investment, leadership should be able to answer eight questions:

1

What strategic job is loyalty expected to perform?

2

Why are lighter CRM, clienteling or lifecycle-marketing alternatives insufficient?

3

What specific customer behaviour is expected to change?

4

What is the counterfactual?

5

What is the incremental contribution after reward cost, benefit cost, operations and leakage?

6

Which customers receive value - and are they the customers whose behaviour can be changed?

7

Does the programme reinforce the brand role?

8

How will the company test, measure and stop initiatives that do not create incremental value?

A good loyalty strategy helps the company identify customers, improve prediction, activate demand, recognise its most valuable customers and measure what works. Programmes that cannot answer them tend to fund purchases that would have happened anyway.

How to use the framework in practice

There are **two situations** for applying this framework

Management teams should treat loyalty as a sequence of investment gates, not a creative exercise in member benefits.

1 Critically reviewing an existing loyalty scheme

2 Slowing down and improving the loyalty decision before programme design becomes inevitable

STRATEGIC	ECONOMIC	OPERATIONAL
Which customer-value problem is material enough to solve?	Which behaviour can be changed profitably?	What is the simplest mechanism that can deliver the change and be measured with confidence?

A useful first workshop should produce three outputs: A ranked list of loyalty jobs, a first version of the contribution waterfall, and a shortlist of programme archetypes plausible given the company's category economics and brand role. Where those outputs cannot be made explicit, benefit design is premature.

The highest-risk path is to approve any - and particularly a points-led - programme before these gates have been cleared.

Once launched, liability, customer expectations and operating complexity become harder to unwind. The safer route is to test narrower mechanisms first: Identification offers, lifecycle journeys, service benefits, recognition moments, targeted rewards and holdout-based experiments.

Any further questions? Feel free to reach out

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