SIX WAYS TO DECREASE LIABILITY IN LOYALTY PROGRAMS
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LOYALTY PROGRAMS COME IN A VARIETY OF FLAVORS AND STRETCH ACROSS MANY INDUSTRIES. REGARDLESS IF YOU ARE SUPPORTING A CONSUMER-FACING PROGRAM OR A BUSINESS-TO-BUSINESS INITIATIVE, THE ONE COMMONALITY SHARED ACROSS THE MAJORITY OF LOYALTY PROGRAMS IS POINTS LIABILITY—THE ACCUMULATION OF MEMBER POINTS THAT CAN BE REDEEMED IN THE FUTURE AT A COST TO THE BUSINESS.

While accounting for and managing points liability must be carefully considered, strategies exist to help you better manage and relieve the financial burden on your books. Enter the concept of low liability programs—reward structures that allow you to keep your balance sheet liability to a minimum while engaging customers and delivering incremental value. By developing a well-crafted strategy that features the options outlined in this whitepaper, you can decrease your overall program liability and maintain customer value with your brand.

DEFINING LOW LIABILITY SOLUTIONS

If you are running a loyalty program, there's no doubt that you are familiar with points liability. Within liability-based programs, the points that members earn have an associated cost per point that you incur upon redemption. The more points members collect and hold, the more liability you have to account for on your books. While loyalty programs that feature these tangible rewards are popular with consumers, you can utilize these reward strategies to minimize your financial liability and please your loyal members, as well.

With a low liability rewards strategy, programs are structured so that the points consumers earn have little to no value at all, and instead they act as a mechanism for determining status, providing access to sweepstakes, experiences, or other privileges. In this instance, the financial liability occurs when consumers redeem a reward, rather than when the reward is earned. For example, Oakley's Type O Member Program unlocks access to sports and retail events, exclusive Oakley products, and personalized services when members reach set point thresholds. Participants don't exchange their points for rewards since the points are not used as a currency.

Low-liability rewards programs are structured so that the points consumers earn have no value at all, and instead they act as a mechanism for determining status.
By offering non-dollar-backed rewards, companies can lower their costs and obtain greater flexibility to manage their loyalty program structure. With a properly structured program strategy, brands can drive a greater affinity for their products and services with customers.”

- Geoff Smith, SVP, Marketing, CrowdTwist

To stay competitive, it’s important to continually explore new ways to reward members and keep customers engaged in your program. While the traditional spend-and-get model typically serves as a general motivator to keep customers active, the costs associated in offering them aren’t always easy to swallow. According to a survey, nearly half (49 percent) of brands said that managing costs has become “very challenging,” while 38 percent said that managing costs has become “more challenging.”

To lower your financial cost, it’s important to consider adding non-dollar-backed rewards to your program mix through surprise and delight campaigns, sweepstakes offerings, or benefits to customers at each membership level. With these strategies, you can motivate and reward members with things that are appealing and offer value.

In extreme cases, some brands will do away with points altogether, and simply promise future rewards to customers at a later date for signing up. Rather than points, Panera Bread rewards members of its MyPanera loyalty program with special offers and rewards such as free coffee for a month and coupons off smoothies, salads, and soup, etc. The more members visit the brand, the greater rewards they receive. With this approach, Panera drives loyalty behavior (repeat purchases, customer recognition at the Point-of-Sale, etc.), rewards MyPanera members as appropriate, and minimizes the liability burden on its balance sheet.

Panera Bread takes a no-points approach to its loyalty program and rewards members based on visits.

## REWARDS CURRENCY THAT HAS NO MONETARY VALUE
(No commitment of hard dollar-backed items)

### Benefits
- Promotes more community engagement among members
- Increased perceived value of the reward (with ample marketing support)

### Challenges
- Brands have to work harder to explain the value proposition
- Consumers are often less familiar with this model

### CONSUMER EXPERIENCE

### FINANCIAL LIABILITY
- Program expenses are typically Cost of Goods Sold (COGS) versus a liability on the balance sheet
- Lower barrier to entry for most brands to implement

- Brands must be more creative developing benefits and rewards to appeal to consumers
- Requires brands to offer more “soft” versus “hard” rewards

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“More and more brands are adding low liability rewards to their marketing mix in an effort to decrease costs and broaden their offerings. The goal is to keep liability to a minimum while delivering value and heightening customer engagement to keep members active in your loyalty program.”

- Dennis Tze, CRO, CrowdTwist
How do you develop a low-liability reward solution? Let’s take a deeper dive into six program strategies:

“As much as customers want to be rewarded for their loyalty, they really desire status and special treatment above average members and non-members. This is especially true of platinum level or high-income individuals.”

- Carlos Dunlap-Beard, Strategic Loyalty Leader, CrowdTwist
In any rewards strategy, the ultimate is offering customers an exceptional experience at a very low cost to your brand. Experiential rewards accomplish those very goals. They not only strengthen the connections between customers and your brand, but they create more emotional ties for members. With experiential rewards, members have the chance to acquire one-of-a-kind rewards, such as sitting trackside at an event or attending a meet-and-greet with a celebrity.

Experiences also let you expand your brand image by connecting fans with advocates and unique brand experiences that last a lifetime. Although experiential rewards have a high perceived value, costs can be extremely discounted, allowing you to amplify consumer interest in your brand with a minimum investment.

CASE IN POINT: ULTIMATE FIGHTING CHAMPIONSHIP (UFC) GIVES MEMBERS A CHANCE TO REDEEM POINTS FOR GREAT EXPERIENCES, SUCH AS TRAINING WITH UFC HALL OF FAMER FORREST GRIFFIN, AND HAVING A VIP PRESENCE AT PRE-FIGHT WEIGH-INS.

Experiential rewards are typically included in a traditional points-based program. And in many cases, traditional points liability still exists, however, the cost per point redeemed will be less. If you are considering experiential rewards, it’s important to feature a variety of offers and to implement rewards at little to no cost to your brand, such as opportunities at brand-hosted events, access to partner experiences, member-only access, meet-and-greets with celebrities, and more.
Another strategy to lower your liability and demonstrate value through rewards is to offer special privileges and early access to your brand, products, and services. There's something special about giving customers perks that aren't available to the general public.

Special privileges let members feel “in the know.” What's more, they have a greater perceived value than physical rewards. It's all about having access to something extraordinary. These perks could include being invited to preview a new product line before it goes on sale to the public, or receiving early access to shop Black Friday sales before anyone. What makes this strategy attractive is that the cost of experience/access rewards can be minimal or nothing to your organization. Meanwhile, consumers covet the experiences and memories these rewards provide.

CASE IN POINT: TOMS GIVES MEMBERS OF TOMS PASSPORT REWARDS PROGRAM EARLY ACCESS TO PREVIEW AND SHOP FROM NEW COLLECTIONS. THIS SPECIAL PRIVILEGE GIVES CUSTOMERS AN EDGE TO BUY TOMS’ PRODUCTS BEFORE ANYONE ELSE.

While the rewards themselves are alluring, the time it takes for members to accrue enough points may detract some from redeeming the offer. You may consider offering these rewards as a regular loyalty program perk, or setting reasonable point values to encourage redemption. Remember, not every member may find your rewards relevant, so it's essential to offer a variety of perks that appeal to a broader audience.
SURPRISE AND DELIGHT

Another option to lower liability is to tap into the surprise and delight model. This strategy allows you to control costs while exploring the creativity that your brand can offer through rewards. Surprise and delight rewards let you choose which loyalty program members you want to recognize. Another benefit is that you can use surprise and delight tactics as a trigger to motivate members to take action.

CASE IN POINT: XBOX IN 2012 SURPRISED ITS TOP XBOX LIVE VIP REWARDS MEMBERS WITH LIMITED EDITION XBOX LIVE ANNIVERSARY CONSOLES AND AVATAR HELMETS ON THE 10TH ANNIVERSARY OF THE REWARDS PROGRAM. MICROSOFT STAFFER LARRY HRYB SPREAD THE WORD ABOUT THE SURPRISE GIFT TO XBOX LIVE MEMBERS VIA TWITTER.

While loyalty program members generally welcome surprise rewards, there are no clear incentives that drive customers to spend more with your brand with unpublished reward schemes. To overcome this hurdle, it’s crucial to time the release of your rewards well to your specific goals, and direct customers to take a specific action. For example, if you are trying to drive more social media activity, send members a surprise and encourage them upload pictures of their rewards on Instagram or Twitter with a specific hashtag in their post.

Despite the appeal of receiving an unexpected gift, recipients don’t have the ability to select a specific reward. When using this strategy, you have some leeway, but it’s essential to stick with your traditional rewards set and not stray too far from proven appealing and satisfying rewards. Offer rewards that members will find relevant, engaging, and exciting.

Microsoft staffer Larry Hryb spread the word about Microsoft’s surprise gift to Xbox Live members via Twitter.
**TIERS**

Another strategy to lower your points liability is to offer a tiered program with new benefits for members at every level. While this approach includes a structure that allows members to earn points, these points don't have monetary value, and therefore don't carry a liability. By implementing tiers in your program, you can provide an incentive for members to increase their spend and engagement to reach the next level of benefits. What's more, a points system allows you to easily rank members within your program and focus on your very best customers.

**CASE IN POINT: SPOTIFY USES A TIERING STRATEGY UNDER THE SPOTIFY ROCK STAR PROGRAM BY RECOGNIZING MEMBERS FOR THEIR CONTRIBUTIONS TO ITS COMMUNITY. USERS POST CONTENT ON DISCUSSION BOARDS AND BLOGS, AND EARN REWARDS ACCORDING TO A TIERING STRATEGY. IN RETURN, PARTICIPANTS RECEIVE PREMIUM CODES, SPOTIFY GEAR, AND EXPERIENTIAL REWARDS, SUCH AS A DIRECT LINE TO STAFF MEMBERS, OR A MENTION IN A BLOG.**

While tiers provide several benefits, establishing the thresholds for each tier can be tricky. If your points-earning level is too high, members will disengage because the next tier is unattainable. If your points-earning level is too low, costs may rise as members quickly elevate to more elite ranks. To overcome this challenge, it's important to forecast the anticipated points-earning capacity of various member segments, and estimate the time it will take members to level up.

Another challenge is that the cost of the rewards themselves can be too expensive to reasonably obtain. One solution is to look for soft benefits that you can provide internally. Airlines, for example, do this well by offering early boarding, premier services, and lounges for elite members. Most brands that use this strategy offer a healthy mix of hard and soft benefits. Estimate the rewards cost you anticipate and verify them with your team—especially your finance department.

While the hierarchy of a tiered structure remains important, you must carefully consider what type of rewards to offer in each level. If your program offers limited rewards variability from tier to tier, members may disengage if they don't like the benefits. To solve this issue, make sure that you provide an array of exciting benefits and give members something to work toward.

_Spotify uses a tiering structure to determine the level of engagement in its loyalty program and offers greater rewards based on member participation._
Another strategy to keep your liability low is to use auto redemption as part of your loyalty program. Under this option, when a member’s account balance reaches a pre-determined threshold of points or activity, or when a specific time period passes (such as monthly or quarterly), a reward is automatically generated. For example, if a customer earns 1,000 points in a program, the program will convert those points into a $10 credit to be used on a future purchase.

The beauty of auto redemption is that you can turn points into credit and drive customers back to your brand. Often credit or certificates drive shoppers to spend well beyond the face value of the reward, fueling future incremental sales at a faster rate. In addition, auto redemption reward certificates or credit are considered a cost of goods sold or marketing expenditure, so there is no bottom line impact to the books. With this option, you can structure your program to deliver the reward almost as soon as it is earned to recognize the member’s achievement, as well as give that person the incentive to repeat the positive behavior. Typically, this type of reward carries an expiration date to create a sense of urgency for the program member.

CASE IN POINT: EDDIE BAUER OFFERS MEMBERS OF THE EDDIE BAUER FRIENDS PROGRAM REWARDS ON ALL PURCHASES. AT THE END OF EACH PROGRAM CYCLE, MEMBERS AUTOMATICALLY RECEIVE A REWARDS CERTIFICATE IN $5 INCREMENTS BASED ON THEIR POINT BALANCE. ANY REMAINING POINTS ARE CARRIED OVER TO THE NEXT EARNING PERIOD. CERTIFICATES ARE DISTRIBUTED THREE TIMES A YEAR.

While auto redemption is a widely used strategy among marketers and offers a low liability option, not every customer will take advantage of the benefit. Some customers may stray from a program that doesn’t give them the option to pick and choose their own rewards, or bank their points for a higher value reward. If you don’t currently utilize the auto redemption strategy, you might want to consider running a test scenario with a relevant percentage of your members to determine if the automatic redemption is appealing to your program participants and beneficial to your bottom line.
SWEEPSTAKES

One low-liability strategy that should be part of nearly every company’s loyalty marketing arsenal is a sweepstakes. While this non-dollar-backed rewards option features an underlying expense, it gives you control over the total costs. The expense of the reward or prize is set to the value of the sweepstakes, regardless of the number of entries or points spent. Often, when sweepstakes have a high engagement level, the expense of the reward is less than the value of the points that were used. In these cases, members essentially redeemed their points at a discounted level. This lowers your overall liability by burning points at a greatly reduced cost-per-point rate.

Another benefit is that sweepstakes allow you to offer unique brand experiences that consumers couldn’t otherwise have. This not only helps increase program excitement and appeal, but it also drives engagement.

CASE IN POINT: Zumiez lets members use their points toward sweepstakes entries for a chance to win some fun prizes, including private driving lessons with the Hoonigan Drift Squad, a professional motor racing team.

While sweepstakes give consumers a chance to win some amazing prizes, one disadvantage is that big-prize sweepstakes limit the number of loyalty program members who actually receive a reward. And since sweepstakes winners are randomly selected, entrants receive the same treatment, regardless of their activity levels with your brand. It’s possible that your most engaged or best customers may not win.

To overcome these challenges, it’s essential to also offer high-volume, low-cost rewards, such as T-shirts, or other branded merchandise that impact multiple winners. By rewarding a number of recipients, you can broaden your reach, increase brand affinity, and drive greater program engagement.
### SIX LOW-LIABILITY PROGRAM STRATEGIES

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<th>BENEFITS</th>
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<td>Privilege-based rewards offer users greater perceived value</td>
<td>Brands can control the cost of rewards</td>
<td>Tiers act as an incentive to increase spend and engagement</td>
<td>Customers drive business back to the brand by using earned credit</td>
<td>The reward cost is equal to the sweepstakes cost</td>
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<td>The cost of rewards can be extremely discounted</td>
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<td>Brands can select which customers to reward with surprises</td>
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<td>Sweepstakes drive engagement and let members burn points quickly and easily</td>
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<td>These rewards can take members time to earn</td>
<td>There’s no clear incentive for members to spend more</td>
<td>Establishing tier thresholds can be challenging</td>
<td>Not every loyalty member will take advantage of the benefit</td>
<td>Big-prize sweepstakes limit the number of members who receive rewards</td>
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<td>Members lose interest if the rewards aren’t compelling</td>
<td>Not all members may find the reward offerings compelling</td>
<td>Consumers have no control over the rewards they receive</td>
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<td>Prizes may not go to best customers because of the random draws</td>
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**Experiential Benefits**
- Members form deeper emotional connections to brands
- The cost of rewards can be extremely discounted

**Privileges/Access Benefits**
- Privilege-based rewards offer users greater perceived value
- The cost of rewards can be extremely discounted

**Surprise and Delight Benefits**
- Brands can control the cost of rewards
- Brands can select which customers to reward with surprises

**Tiers Benefits**
- Tiers act as an incentive to increase spend and engagement
- Brands can easily rank customers

**Auto Redemption Benefits**
- Customers drive business back to the brand by using earned credit
- The option creates a sense of urgency for customers to redeem the reward with an expiration date

**Sweepstakes Benefits**
- The reward cost is equal to the sweepstakes cost
- Sweepstakes drive engagement and let members burn points quickly and easily
LOWERING YOUR FINANCIAL LIABILITY CAN DO WONDERS FOR YOUR BOTTOM LINE, BUT IT’S CRUCIAL TO DEVELOP THE RIGHT STRATEGY AND THE BEST MIX OF REWARDS THAT WILL MAKE YOUR BRAND OUTPACE THE COMPETITION. HERE ARE FOUR THINGS TO CONSIDER WHEN ENTERTAINING A LOW LIABILITY REWARDS STRATEGY:

1. Review your loyalty program to see where soft rewards fit in: If you’ve already launched your loyalty program, there may be an opportunity to expand your offering to incorporate low liability strategies. This will not only help to lower your costs, but broaden your rewards pool to include new options that consumers may find compelling.

2. Link low liability rewards to business goals: When developing these rewards, think about your business goals. Offer rewards that can help you achieve certain goals, such as prompting members to tweet about their experience, rewarding them for driving social media activity, and offering additional points in a tiered program to those that refer-a-friend to boost acquisition.

3. Properly vet your rewards structure: Once you decide how to add low liability rewards to your loyalty structure, be sure to have your program vetted by your finance team and accountants. Ensure that they meet your needs and the rewards match your brand and program objectives.

4. Remember to test: When running any loyalty initiative, it’s imperative to test your rewards structure to make sure it aligns with your audience. If your rewards aren’t capturing much interest from members, it’s time to re-evaluate what you’re giving. Offer a limited selection of specific rewards to gauge their popularity and success for your program.
AS CONSUMERS CONTINUE TO SPREAD THEIR LOYALTY ACROSS NUMEROUS BRANDS, IT’S BECOMING MORE IMPORTANT THAN EVER TO RETAIN MEMBERS AND PERSUADE THEM TO STICK WITH YOUR BRAND. BEYOND CREATING AN ENGAGING LOYALTY PROGRAM, YOU MUST OFFER COMPELLING REWARDS THAT CONSUMERS FIND WORTHWHILE AND EXCITING.

Rewards should be the linchpin of your program strategy while being used as a mechanism to maximize value and minimize costs. To keep customers active in your loyalty program, it’s important to broaden your strategy to include experiences and unexpected rewards. This approach not only lowers your overall program costs, but it demonstrates your value to consumers beyond the spend-and-get relationship. By being proactive about your rewards strategy, you can create a loyalty initiative that is truly rewarding for members without causing a headache for your finance team.