

Loyalty Program Strategy — Workbook

This workbook turns the course into a costed, launch-ready loyalty program for your own business. Each section mirrors one course module with hands-on exercises, fill-in worksheets, and checklists. Before you start, pick one real product line you sell and write down two numbers you will carry through every section: your gross margin and your customers' natural annual purchase frequency. You will finish with a chosen structure, a priced points-and-reward model with a break-even lift, a tier ladder built from your own spend distribution, a reward catalog and redemption flow, a platform shortlist, a launch plan, and a measurement plan that isolates incremental lift with a control group rather than flattering yourself with sign-up counts.

What Loyalty Programs Are For and Which Structure to Pick

Anchor the program in the behavior you want and the economics you have, then choose a structure your margin can fund and your frequency can sustain.

Worksheet: Define the Behavior and the Two Numbers

A loyalty program must move a named metric. Write down the behavior you are paying for and the two numbers that constrain every later choice, so nothing in this workbook is designed in the dark.

Product line this program will cover

Primary behavior to increase (pick ONE): purchase frequency / average order value / customer tenure / referrals

Why this behavior matters most to the business right now (one sentence)

Gross margin percentage (reward affordability ceiling)

Natural purchase frequency (orders per customer per year)

Average order value (AOV)

One-sentence purpose statement: This program exists to increase ___ among ___, funded within our ___ percent margin

Exercise: Stress-Test Against the Incrementality Trap

The most common way loyalty loses money is rewarding behavior customers already had. Write down honestly where your program risks paying for nothing, before you design the rewards.

- List the customer segment most likely to join first (usually your existing best customers). Were they already buying at high frequency?

• If you give that segment points on every order, what behavior actually changes, and what would have happened anyway?

• Name two behaviors that are genuinely incremental (a missing second purchase, a slow-season order, a referral, a review) that the program should reward instead.

• Write the sentence you would say to your finance team to justify the spend in terms of behavior change, not sign-ups.

Worksheet: Choose Your Structure by Margin and Frequency

Map your two numbers to the right structure. Lead with the structure your economics support; you can blend later.

My margin band: thin (under ~30%) / healthy (30-60%) / high (60%+)

My frequency band: low (1-2/yr) / medium (3-5/yr) / high (6+/yr)

Indicated primary structure: points / tiered / paid-subscription / value-based (use the course decision rules)

Why this structure fits my margin AND frequency (one sentence)

Secondary structure to layer later (e.g. add tiers to a points base, or a paid premium tier)

What I will NOT do (e.g. flat points rebate on a thin margin) and why

Checklist: Foundations Gut Check

I wrote ONE behavior the program is paid to increase, not a vague 'more loyalty'.

I wrote my real gross margin and natural purchase frequency before designing rewards.

I identified where the program risks rewarding behavior customers already had.

I chose a structure my margin can fund and my frequency can sustain, not the one a famous brand uses.

I named at least two genuinely incremental behaviors to reward (review, referral, second purchase, slow-season order).

The Economics: Pricing Points, Rewards, and Breakage

Price the two values of a point, model the full program cost, compute the break-even lift, and plan for breakage and the points liability.

Exercise: Price the Earn Rate and Redemption Value

Set both prices of a point so the reward feels generous to earn but costs a controlled percentage of revenue. Show your arithmetic.

• Choose your target reward rate as a percent of revenue, anchored to your margin (e.g. 1-5%).

• Set the earn rate (e.g. 1 point per dollar) and compute point value: $\text{point value} = \text{reward rate} / \text{points per dollar}$ (e.g. 5% at 1pt/\$ = \$0.05 per point).

• Set a first redemption threshold that a typical customer reaches within a few orders (state the points and the dollar reward, e.g. 100 points = \$5).

• Worst-case check: if 100% of points were redeemed, the cost equals your reward rate. Confirm your margin survives that ceiling, then note that breakage will lower the real cost.

Worksheet: Model Full Program Cost and Break-Even Lift

Rewards are only one cost. Add platform, time, and the non-incremental margin you give away, then compute the incremental revenue the program must generate. Remember rewards are spent in margin, so divide by margin.

Expected members (count)

Expected annual spend per member (\$)

Total member revenue (members x annual spend)

Reward rate (%) and reward cost (member revenue x reward rate)

Annual platform/software fee (\$)

Management hours per year x cost per hour (\$)

Total program cost (rewards + platform + time)

Gross margin (%)

Break-even incremental revenue = total cost / gross margin

Break-even lift as % of member revenue (and is that lift realistic? Y/N)

Exercise: Plan Breakage and the Points Liability

Breakage makes a program cheaper but a high breakage rate means low engagement. Decide your assumptions and how you will keep the program honest on the books.

- Estimate a starting breakage rate (share of points never redeemed) and state where the number comes from (industry range ~10-30%, or your own data later).
- Compute your effective reward cost = headline reward rate x (1 - breakage rate). Show both numbers.
- Decide a point expiration rule that caps liability without burning trust (e.g. points expire after 12 months of account inactivity) and note any consumer-protection limits in your region.
- Write the one sentence you will give finance about the outstanding points liability and revenue deferral (ASC 606 / IFRS 15) so it is modeled, not discovered at audit.

Checklist: Economics Sign-Off

- I priced BOTH the earn rate and the redemption value, and I know the dollar value of one point.
- My first redemption threshold is reachable within a few orders (not a 2,000-point wall).
- I modeled the FULL cost: rewards + platform + management time + non-incremental give-away.
- I divided total cost by gross margin to get the real break-even lift, and judged it realistic.
- I set an expiration rule and looped finance in on the points liability and revenue deferral.
- I am treating rising breakage as a re-engagement signal, not a windfall.

Designing Tiers, Rewards, and Redemption

Build a tier ladder from your real spend distribution, assemble a reward catalog and redemption flow that brings customers back, and add motivation without manipulation.

Worksheet: Build Your Tier Ladder from Real Spend Data

Set thresholds from your actual customer spend distribution, not a guess. Make the mid tier reachable for an engaged customer and the top tier a genuine stretch for your best.

Median annual spend (\$) — pull from your platform

75th-percentile annual spend (\$)

90th-95th-percentile annual spend (\$)

Number of tiers (2-4) and their names (status customers would be proud to hold)

Threshold for each tier (entry / mid near 75th pct / top near 90th-95th pct)

Escalating earn rate per tier (e.g. 1x / 1.25x / 1.5x)

Two to three benefits per tier (access, free shipping, early access, service upgrades, recognition)

Qualification window (e.g. rolling 12 months) and downgrade rule

Exercise: Design the Reward Catalog and Redemption Flow

Redemption is when the program works. Design a ladder of rewards and a frictionless flow that pulls customers back to spend, not a pile of unredeemed points.

- List 4-6 rewards across types: money off, free product/sample, free shipping or service perk, experiential/access, and (if brand-aligned) a charitable option. Note the cost-to-you versus perceived-value for each.

- Lay out a reward ladder (small / medium / large) with point thresholds, ensuring the smallest is reachable within a few purchases.

- Describe the redemption experience at checkout: how points apply in one click, where the balance is shown, and what friction you are removing.

- List the redemption nudges you will send (enough-to-redeem alert, reward-expiring reminder, near-next-reward goal-gradient prompt) and the channel for each.

Exercise: Add Gamification, Referrals, and (Optionally) a Paid Tier

Layer motivation that maps to genuine customer value, fold referrals into the program, and decide whether a paid tier fits your economics.

- Pick 2-3 gamification mechanics tied to real value: progress bar to next tier/reward, a time-boxed challenge (try a new category, buy 3x this season), streaks/milestones, or a bonus-point event. State the behavior each one rewards.

- Design the referral reward: points for a converting referral, what each side gets, the qualification rule (genuine new customer, first purchase, defined window), and what voids it (refund, self-referral).

- Decide on a paid tier: does the value clearly exceed the fee? Price a fee and list the benefits (e.g. free shipping + standing discount) and the order count at which a customer recoups it.

- Write one sentence on how this keeps gamification motivating rather than manipulative (reward behavior the customer already wanted to be good at).

Checklist: Design Readiness

- My tier thresholds come from my actual spend percentiles, not a guess.
- An engaged customer can plausibly reach the mid tier; the top tier is a real stretch for my best.
- Members can always see their tier, progress, and exactly what reaching the next tier takes.
- My reward catalog is a ladder (small/medium/large), and the first reward is reachable fast.
- Redemption applies in one click at checkout with a visible balance and no code-hunting.
- Referrals reward both sides and are protected against fraud and self-referral.
- If I added a paid tier, the customer recoups the fee quickly through tangible benefits.

Platforms, Launch, and Measuring Impact

Shortlist and configure a platform, launch the program as a marketing event, and prove it with incremental lift instead of sign-up counts.

Worksheet: Shortlist and Configure Your Platform

Pick the platform that fits the structure you designed and the channels your customers already use. Confirm it supports your earning rules, tiers, redemption, and the metrics you will need.

My commerce platform and email/SMS tools (e.g. Shopify + Klaviyo)

Candidate platforms to compare (e.g. Smile.io, LoyaltyLion, Yotpo Loyalty, Stamped, Talon.One, Voucherify, Antavo, Open Loyalty)

Supports my structures? points / tiers / referrals / paid membership (Y/N per candidate)

One-click points redemption at checkout on web and mobile? (Y/N)

Reports redemption rate AND member-vs-non-member behavior? (Y/N)

Pricing model and how it scales with my member/order volume

My choice and the one-sentence reason

Exercise: Plan the Launch as a Marketing Event

A program nobody knows about changes nothing. Plan enrollment, comprehension, and a fast first action, plus the launch offer that removes the cold-start problem.

- List where the program will be visible: rewards page, header/account link, checkout prompt, post-purchase invite. How will customers be enrolled (ideally automatically)?

- Design the one-screen explainer: how to earn, what a point is worth, what the tiers give. Write the headline benefit line a customer sees first.

- Design the launch offer (e.g. double points for 30 days + a welcome-points bonus) and state why it accelerates new members to their first redemption.

- Write the lifecycle messages that fire automatically: welcome, first-earn celebration, first-redemption nudge, near-tier/near-reward prompt, and quiet-member re-engagement.

Worksheet: Build the Incremental-Lift Measurement Plan

Members always outspend the average because your best customers join first. Plan how you will isolate the behavior the program actually caused, before you report any numbers.

Control method: randomized holdout (keep/delay a slice of eligible customers) OR matched non-member cohort (similar prior spend and tenure)

Holdout size or matching criteria

Member pre-enrollment spend baseline (\$)

Member post-enrollment spend (\$)

Non-member / control change over the same window (\$)

Incremental lift = member change MINUS control change (the difference-in-differences)

Incremental revenue and program ROI (incremental margin vs full program cost)

Decision: scale / adjust / stop, and the one change to test next

Checklist: Launch & Measurement Sign-Off

- My platform supports my exact structure (points/tiers/referrals/paid) and one-click redemption.
- I tested a real account end to end: earning, tier climb/downgrade, and redemption all work.
- Customers are enrolled with minimal friction and start with a non-zero balance (welcome bonus).
- The program is visible on a rewards page, the header, checkout, and post-purchase.
- Lifecycle messages fire automatically for welcome, first earn, first redemption, and near-tier nudges.
- I set up a holdout or matched control group BEFORE launch to measure true incremental lift.
- I will report incremental revenue and ROI — not sign-ups or points issued — as the headline.
- I have a loop: watch redemption rate and tier movement, test one change, keep winners, repeat.

Your Action Plan

1. Write the one behavior the program must increase, plus your gross margin and natural purchase frequency, and a one-sentence purpose statement tied to those numbers.
2. Choose a structure (points, tiered, paid, or value-based) your margin can fund and your frequency can sustain, and name two genuinely incremental behaviors to reward.
3. Price both the earn rate and the redemption value so a point feels generous to earn but costs a controlled percentage of revenue, with a first reward reachable in a few orders.
4. Model the full program cost (rewards + platform + time + non-incremental give-away), divide by gross margin to get the break-even lift, and confirm that lift is realistic.
5. Set a breakage assumption and an expiration rule, and loop finance in on the points liability and revenue deferral (ASC 606 / IFRS 15).
6. Build a 2-4 tier ladder from your real spend percentiles, with escalating earn rates, benefits

people want, and a clear qualification and downgrade rule.

7. Design a ladder reward catalog and a one-click redemption flow, with active nudges (enough-to-redeem, near-reward, expiring) that pull customers back to spend.

8. Fold in referrals (rewarding both sides with anti-fraud rules) and add gamification that rewards behavior customers already wanted; decide whether a paid tier fits.

9. Shortlist and configure a platform that supports your structure and channels (e.g. Smile.io, LoyaltyLion, Yotpo, or Talon.One), then test earning, tiers, and redemption end to end.

10. Launch as a marketing event with a one-screen explainer, automatic enrollment, a welcome bonus, and a double-points launch offer; set up a holdout or matched control group, report incremental lift and ROI rather than sign-ups, then run a continuous test-and-learn loop.

