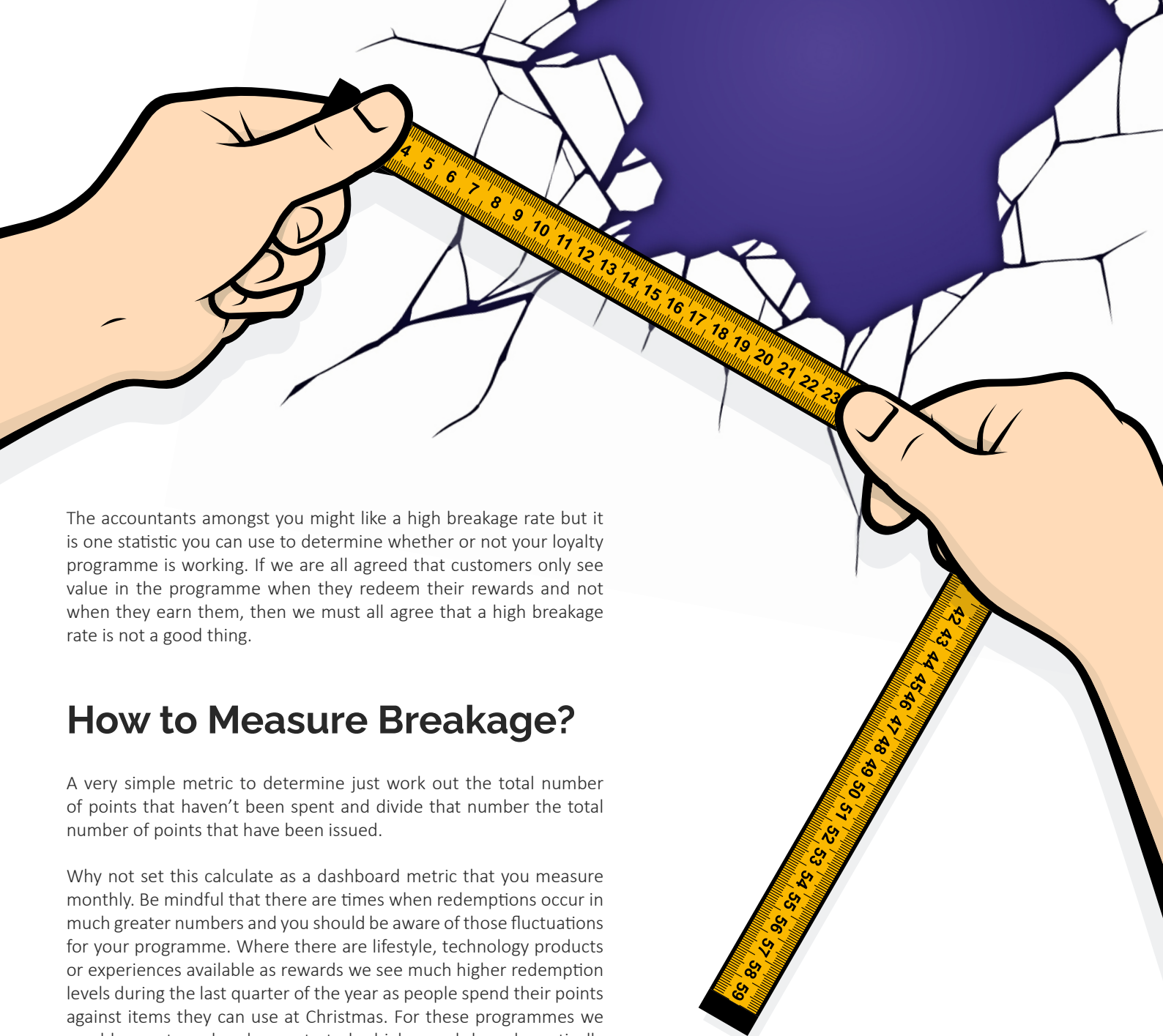# Loyalty Programme Breakage

## It's not a Good Thing!

The accountants amongst you might like a high breakage rate but it is one statistic you can use to determine whether or not your loyalty programme is working. If we are all agreed that customers only see value in the programme when they redeem their rewards and not when they earn them, then we must all agree that a high breakage rate is not a good thing.

## How to Measure Breakage?

A very simple metric to determine just work out the total number of points that haven't been spent and divide that number the total number of points that have been issued.

Why not set this calculate as a dashboard metric that you measure monthly. Be mindful that there are times when redemptions occur in much greater numbers and you should be aware of those fluctuations for your programme. Where there are lifestyle, technology products or experiences available as rewards we see much higher redemption levels during the last quarter of the year as people spend their points against items they can use at Christmas. For these programmes we would expect our breakage rate to be higher and drop dramatically during and after this period.

Get a baseline rate for your programme and then make sure you are able to measure and analyse it.

## Why should you worry about breakage?

We have seen a 6 times increase in engagement and value from customers who regularly redeem their points or rewards or credits. To continue that trend we need customers to redeem so that they continue to engage and see the value in the programme.

A high breakage rate would tend to signal a decline in engagement in your programme that needs to be addressed.

Breakage rates can vary across programmes and the percentage will depend on a number of factors from expiry rules to the rewards you are offering but it is a number you need to take note of.

# How can you improve your breakage rate?

Depending on the programme there are a number of ways you can reduce breakage and encourage your customers to redeem:

**1. Be transparent**

Points, credits, currency, however your customers earn through your loyalty programme there is a financial value and you should treat your rewards accordingly. Be transparent about how they were earned, what value they can bring the customers and how to redeem them. Clear and concise statements detailing balances, income, redemptions and expiry dates all go a long way to proving to the customer you want them to spend their rewards.

**2. Don't hide points expiry dates**

Why not make points expire at the end of a month rather than different dates depending on when they were earned. This makes it simple for customers and you don't need to over communicate. Use the rule of 3 to communicate points expiries – inform two weeks out, inform one week out and inform 24 hours prior to any expiry. Make sure customers are aware of what and how they redeem and that you have segmented your rewards in your messaging.

Even better why not only expire points if the customer stops spending with you. This way you are rewarding continued loyalty and if a customers does stop spending it gives you a reason to re-engage with them.

**3. Educate on how to redeem**

The easiest way to get customers to redeem is to continuously educate them on how they can redeem and what they have available to them. If you have segmented your audience successfully then you will be able to provide them with clear information on what they have available to them. Continue with the rule of 3 – something they can redeem now, something they can redeem with an extra 10% spend and something aspirational (but still achievable with a stretch).

**4. Make the process frictionless**

We have talked about making programmes frictionless a lot, but if you don't make the process of redemption simple then customers won't keep coming back as they wont see the value. Clear signposting, clear messaging and simple, fast functionality are key to lasting engagement. Don't let technology let your programme down.

**5. Have a range of rewards to suit all budgets**

If you are giving customers points then make sure they are able to redeem them. You should have a range of rewards that are achievable for all customers. Customers should be able to redeem their rewards within a 3 month period at the most.

**6. Have the ability to run redemption campaigns or promotions**

Most people are familiar with promotions designed to help you earn more points but have you got the ability to run promotions designed to help customers spend their points. You could incentivise customers to redeem their points on new products, brands or services by providing a 2 for 1 on all redemptions. Alternatively and this is one your accounts team will like, you could run a redemption campaign with a partner brand or service where you leverage their marketing budget to provide your customers with better redemption options.

# How do breakage rates differ across programmes?

Our lowest breakage rates are seen on programmes that allow customers to redeem their points against their purchased but these programmes don't often see the highest engagement as customer don't get the same level of excitement as those who redeem for an aspirational item. Generally we see an average 20% breakage rate across our client loyalty programmes where they are able to redeem consistently.

Breakage rates tend to be higher when customers are working towards a goal over a period although engagement and excitement over the rewards tends to be higher. Some reasons for this could be personnel changes during the period with the programme not being effectively communicated to the new teams. Another reason could be that the customer has lost interest, forgotten about the campaign altogether or not engaged in the first place.

Consumer facing loyalty programmes often tend to have a higher breakage rate than B2B loyalty programmes.

We had a B2B client come to us with a campaign they were running which hit a breakage rate of 70%. Needless to say the accounts team were ecstatic as it was all money going back into their bottom line but it was clear that the loyalty programme wasn't working. We worked with them to survey the members to understand better what could be improved for them next time and how to better engage them.

Understanding your customers is the key to getting loyalty right and particularly to keeping a low breakage rate. If a customer has missed the ability to spend their points why not offer them the ability to have the points back if they do something in return that will enable you to better understand their needs in the future.

## Key Takeaways:

1. Get a baseline breakage rate for your programme, understand when and why it might fluctuate and measure it throughout the lifecycle of your programme

2. Make sure you are encouraging your customers on a redemption journey. Make the journey easy, clear and engaging.

3. Keep your customers redeeming at least once every 3 months.

4. Ensure your programme adapts and has achievable rewards to suit all your customers.