

Getting Strategic About Incentives

*Building Value
Through Promotions
and Loyalty Programs*

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Rethinking Incentives: From Cost Center to Growth Driver

For years, marketers have used discounts and loyalty rewards to drive purchases. These types of incentives were long viewed as tactical tools, rarely discussed in the boardroom and often sidelined in broader strategic conversations. That is no longer the case.

Today, incentives have firmly moved onto the C-suite agenda. Loyalty programs are no longer just about points and promotions—they're about creating long-term value for customers and strengthening brand differentiation. Incentives are now a recurring theme in earnings calls, signaling just how central they've become to growth strategies across industries. With customers demanding more value—and marketing teams under pressure to do more with less—incentives are one of the few levers delivering both measurable and profitable results.

While the strategic importance of incentives has increased, many businesses still struggle to harness their full potential. Too often, they're siloed across teams chasing their own short-term targets—leading to generic offers, margin erosion, and missed opportunities.

Now is the time to stop treating incentives as a cost center and start using

them as a powerful value driver. That means using data to understand what truly motivates customer behavior. It means integrating loyalty and promotions into the full customer journey—not just at checkout. And it means building the flexibility to adapt offers in real-time, guided by business objectives rather than falling back on blanket discounts.

The rising importance of incentives is being driven by three structural shifts. First, competition for consumer attention and spend has intensified, making it harder for brands to stand out. Second, today's value-conscious consumers—shaped by lingering inflation—are more selective in how and where they spend. And third, in the emerging artificial intelligence paradigm, enterprise value is increasingly tied to owning the customer relationship and the data that powers it.

This Harvard Business Review Analytic Services report underscores that shift in focus and reflects a growing recognition among senior leaders that incentives are no longer peripheral—they are central to driving profitability, sustainable growth, and deeper customer relationships.



Christoph Gerber
CEO and cofounder
Talon.One

The path forward requires a more thoughtful, more strategic approach. One that moves beyond short-term uplift and starts with a clearer question: what behavior are we trying to drive—and how do we create value on both sides of the exchange?

Getting Strategic About Incentives

Building Value Through Promotions and Loyalty Programs

Buy one, get one free. Points for purchases. Seasonal sales. Bring-a-friend rewards. Today's consumer is bombarded with incentives of every kind. But while savvy shoppers have become accustomed to deals and discounts and often actively seek them out, business executives worry about the impact of relentless promotional activity on their bottom line and brand value.

Incentives are proving hard to avoid, however. In 2024, 40% of online shoppers in the United States wanted discounts of 10% to 20% off their e-commerce shopping carts, while a third wanted as much as 20% to 30% off.¹ In the current economic climate, many businesses are finding they simply have to give away some value in exchange for a sale, according to Brett Hollenbeck, associate professor of marketing at the University of California, Los Angeles (UCLA) Anderson School of Management. "Inflation has caused people to be more aggressive in searching for discounts, and there is also more 'social chatter' around this now, with people using social media to talk about how to maximize their use of loyalty programs," he says. "I think there's a lot of frustration among the

C-suite that consumers have come to expect discounts and rewards."

Despite this apparent frustration, executives do recognize that incentives—which include promotions and discounts as well as customer loyalty programs—are an important part of doing business today. A survey by Harvard Business Review Analytic Services of 420 respondents from the *Harvard Business Review* audience, all from organizations that offer promotions or discounts and all familiar with their organization's decisions about promotional pricing and customer loyalty, showed that incentives are highly regarded. Among respondents at organizations that both offer promotions or discounts and have a customer loyalty program, more than three-quarters (77%) say their customer loyalty

HIGHLIGHTS

 **77%**

of respondents at organizations with a customer loyalty program say their customer loyalty program efforts are either extremely or very important to their executive leadership team, while 71% say the same of promotions/discounts.

 **60%**

of respondents at organizations with a customer loyalty program say their organization plans to increase the integration of promotions and customer loyalty efforts over the next 12 months.

 **50%**

of respondents at organizations with a customer loyalty program say their efforts with it are extremely or very effective, and 48% say this for their promotions/discounts activity.

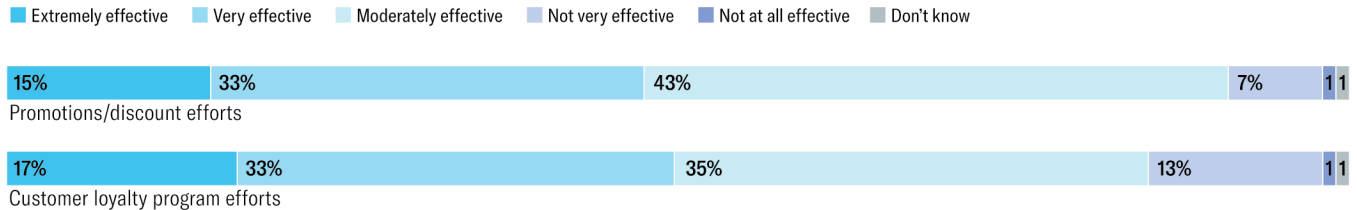
Due to rounding, some figures in this report may not add up to 100%.

FIGURE 1

Room for Improvement

About half say their organization is highly effective at promotions and customer loyalty program efforts

How effective is your organization's execution of each?



Base: 206 respondents at organizations that both offer promotions or discounts and have a customer loyalty program.

Source: Harvard Business Review Analytic Services survey, March 2025

Seventy-one percent say promotions/discount efforts are extremely or very important to their organization's executive leadership team.

program efforts are either extremely or very important to their executive leadership team, while 71% say the same of promotions/discounts.

The problem, then, appears to be with how incentives are designed and implemented, with the execution of incentives not always as effective as it could be. Despite the importance of incentives to executive teams, only half (50%) of those at organizations with a customer loyalty program say their efforts with it are extremely or very effective, and 48% say this for their promotions or discounts activity. **FIGURE 1**

Done well, however, incentives can create value for both customers and for businesses—but only if companies take a more strategic approach by integrating promotions activity with customer loyalty programs, using data and technology to support continuous improvement and drive greater personalization, and aligning incentives with corporate strategy.

“I think a mindset shift needs to happen,” says Neslihan Manikofski, global marketing director for retail promotions at the LEGO Group, a privately held company based in Billund, Denmark. “Many people see promotions as merely price discounts that can negatively impact profits, rather than stepping back to consider how they might be used more strategically to build long-term value over time.”

This report will explore how incentives—approached differently—could become a strategic differentiator for companies and a boost to profitability and customer loyalty, helping create value rather than erode it.

The State of Incentives Today

In practice, incentives can take many forms, though they all boil down to the same thing: value exchange with customers to change customer behavior (buy something, buy more, come back again). However, the way companies think about and execute incentives can look very different from the point of view of internal strategy, investment, or process.

Promotions and mass discounts, for example, may simply be driven by the merchandising team as a means to shift excess stock, while customer loyalty programs—often housed within the marketing function—are usually seen by executives as intrinsically more valuable and strategic, as they help attract and retain customers by rewarding them for repeat purchases. Oliver Page, a principal with consulting firm Deloitte Consulting LLP, headquartered in New York City, and coleader of its loyalty market offering, says customers also value loyalty programs highly. “Price and quality are always going to be the top things for customers, but number three on their list is loyalty. Businesses can use loyalty as a very powerful third lever in addition to product and price.”

To take advantage of this lever, companies such as SiteOne Landscape Supply Inc.—the largest distributor of equipment and supplies to landscape contracting businesses in the United States, based in Roswell, Ga.—have built loyalty into their core value proposition. While SiteOne integrates

“Our research shows that it costs about five times more to attract a new customer than to retain an existing one. Once a customer is in your database, retargeting or reengaging them is much easier and cheaper.”

Oliver Page, principal, Deloitte Consulting

discounts and promotions with its loyalty program to reward customers for their business, it goes beyond standard points or discounts to drive loyalty. “What sets our program apart is the business solutions we provide to our Partners Program members—tools and technology that help them grow their businesses,” says Courtney Adair, senior director of loyalty and life cycle marketing at SiteOne. “These can be discounted rates for cell phone contracts or cheaper access we have negotiated for marketing or payroll platforms.”

Creating and giving away such value is often worth it for businesses when their loyalty program is delivered digitally and has a strong data capture element to it. Companies are increasingly leveraging gamification to support more effective value exchange with customers—delivering a more enjoyable experience for loyalty members while enabling businesses to clearly point to and reward the behaviors they want to see. Starbucks Rewards, for example, gives loyalty members Stars (points) for every dollar spent, which members can redeem for free drinks and food. Members unlock greater rewards through in-app games, challenges, and double points days. Challenges can include rewards for trying something new on the menu or coming into a store outside peak hours. The company also incentivizes members to preload money and pay directly through the app, offering two Stars for every dollar spent to members who pay this way, versus one Star per dollar spent for those who pay by cash or credit/debit card.²

“We’ve found that digital engagement drives increased shopping behavior by about 20% on average,” asserts Deloitte’s Page. “And how do you get people to order digitally? You give them rewards, incentives, and coupons through a digital channel, and you gamify the experience to encourage them to come in more often or buy more.” Such gamification can include tiered reward systems that allow customers to unlock greater benefits the more they spend or challenges that require customers to take specific actions to get rewards.

In exchange for these incentives, customers give their data, and this is where the value lies for businesses. As Page

puts it, “Our research shows that it costs about five times more to attract a new customer than to retain an existing one. Once a customer is in your database, retargeting or reengaging them is much easier and cheaper.” Customers benefit, too, of course. “People will travel on a more expensive airline or take a more expensive ride service because they have stored value with that company in the form of loyalty points,” explains Page.

The flip side of this win-win scenario—where customers get discounts and rewards and businesses get increased revenue and data—is indiscriminate or mass discounting without thoughtful design. Poorly executed promotions may deliver a short-term boost to sales at best, but they can create long-term brand damage at worst. Some retailers have even “trained” their customers to buy only on discount. When clothing retailer JCPenney Co. Inc. hired a former Apple Inc. executive as its new CEO under the promise of abolishing the retailer’s aggressive discounting strategy, the plan famously backfired. Customers stayed away, sales plummeted by billions of dollars, and the new CEO was fired.³

An Integrated Approach

JCPenney may be an extreme example, but many other businesses fall into the trap of giving away too much value—and getting too little in return. A more strategic and holistic approach to incentives—one that is carefully designed with customer and business needs in mind and is inherently data-driven—may hold the answer. However, many organizations are not currently set up with the right processes or the required data and technology infrastructure to work in this way.

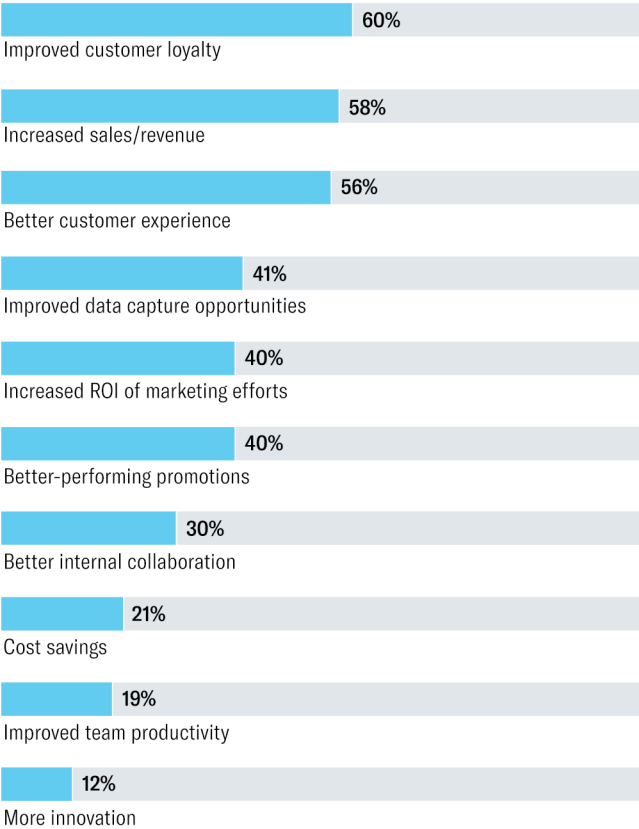
In fact, a key barrier to effective incentives is siloed teams working without a shared strategy. Different departments running discounts to chase their own objectives can lead to an overreliance on simple discounts across the customer journey. “You see one group in the business trying to design a strategic plan for loyalty and discounts and another group

FIGURE 2

Benefits of Integration

Integrated promotions and customer loyalty programs often benefit customers and company revenues

What business benefits has your organization realized, if any, as a result of integrating its promotions efforts and customer loyalty program efforts? *Select all that apply.*



Base: 156 respondents whose organizations have partially or completely integrated promotions efforts and customer loyalty program efforts. Not shown: 3% Don't know, 1% Other, 0% None.

Source: Harvard Business Review Analytic Services survey, March 2025

in charge of inventory management with a policy that says if there's too much inventory in the last two weeks of the quarter, they automatically slap a discount on it," says UCLA's Hollenbeck. "If those teams are not communicating with each other, that can create misaligned incentives."

Integrating promotions or discounting activity with the customer loyalty program may be a good place for companies to start. Among those at organizations that both offer promotions or discounts and have a loyalty program, nearly one in four (22%) say their organization still has distinct and

separate strategies, teams, and budgets for each area, while 76% say they're partially integrated or completely integrated. And greater integration appears to be gaining momentum. Some 60% say their organization plans to increase the integration of promotions and customer loyalty efforts over the next 12 months.

Doing so appears to make good business sense, as closer integration delivers benefits for customers as well as revenue for the business. Closer integration can decrease overall spend on mass promotions, make better use of personalization in inventory management, and leverage more financially efficient mechanisms to reward customers, such as points over discounts. While improved customer loyalty is the number one business benefit companies are seeing from integration, selected by 60% of respondents whose organization has partially or completely integrated their promotions efforts and customer loyalty program efforts, increased sales/revenue (58%) and better customer experience (56%) are close behind. Other noteworthy upsides to integration include improved data capture opportunities (41%), increased return on investment from marketing efforts (40%), and better-performing promotions (40%). No respondents say they haven't seen any benefit from integrating their promotions and customer loyalty program efforts. **FIGURE 2**

To be clear, integration does not always mean there is one team initiating all incentives activity within a business. Promotions can originate from areas outside the customer loyalty team or marketing function, as long as there is proper collaboration and oversight, says SiteOne's Adair. "The last thing you want is different groups in the business working in silos to execute a promotion. That's ultimately not going to give you a holistic view of the customer and their needs."

While the marketing function is the natural home for customer loyalty teams, Page says the rising importance of data and the trend toward greater personalization are pushing organizations to try different internal structures. "Traditionally, loyalty programs have sat in the marketing domain, and that's still a common place for them, but we're seeing that change. Businesses have relevant capability sitting in

“You need to keep a constant [finger on the] pulse, understanding what is working and what is not, and then taking action based on what you see. If you look at the data and something is not working with a promotion, you know it’s time to pivot.”

Courtney Adair, senior director of loyalty and life cycle marketing, SiteOne

analytics teams, in digital teams, and in marketing, and companies are evolving quickly to try new things. One company I worked with has split its marketing function into an ‘experience’ team and a traditional brand team, with the experience side bringing together loyalty, customer experience, and digital capabilities. That’s working for them, but I don’t know if there is a single answer for every company.”

Good Design and Continuous Improvement

A more strategic approach to incentives involves not only thinking about who within the business is responsible for executing them but also optimizing the design of the incentives themselves. If different teams are trying to drive their own objectives without collaborating—and using only discounts to do so—consumers may be conditioned to always expect and use discounts. Good design in this space can help companies think more creatively about both the types of rewards and the value they give away, as well as prevent abuse by aggressive bargain hunters.

“We use gifts with purchase as a way to incentivize shoppers and build loyalty. This helps protect and enhance the brand,” says the LEGO Group’s Manikofski. “By using gifts, we can create brand value by offering something meaningful to shoppers and consumers who are very passionate about our brand. The beauty of these gifts is that they are exclusive; you cannot buy them, and that makes them particularly special to our fans.”

However, not every promotion needs to come with a big price tag. Some rewards are effectively free for companies to give away but highly valued by customers—think priority boarding in the airline industry or exclusive access to new product launches, as used by sportswear manufacturer Adidas AG.

Thoughtful design can also help prevent value erosion from customers trying to extract maximum reward for minimum spend. Page asserts that businesses need to be

thoughtful in program design to prevent abuse. “In our business case analysis, ‘bad habits’ can be minimized with the right guardrails [built] into your program and incentives,” he cautions. The best guardrails, in Page’s view, are those that give rewards in exchange for specific behavior change. “Customers have to purchase a certain number of times, or reengage, or do something specific in order to get the benefit.”

Like many companies, SiteOne uses a minimum spend threshold as a trigger point for when customers can start redeeming points. The company revised this threshold downward when it refreshed its Partners Program a few years ago, while also simplifying the overall design of the scheme. “Before we had a difficult earning structure—40 points for every \$100 spent. That’s hard math. So, we made it one point for every one dollar spent to make it easier for our customers,” says Adair. “We reduced our spend threshold and added new business solutions. Our goal was to simplify, add value, and take a more customer-friendly approach.” Adair says the changes have paid off, with SiteOne’s loyalty program getting great customer feedback and surpassing industry benchmarks.

Given that promotions and loyalty programs are now “table stakes” in many industries, continuous improvement is paramount if companies are to ensure their activity is optimized to drive value and let them remain differentiated from competitors. Many companies appear to be thinking more strategically about design, with 65% of respondents agreeing that their organization is interested in updating the rules or design of its customer loyalty program. Adair says continuous monitoring, measurement, and improvement are critical to ensure the right changes are made. “You need to keep a constant [finger on the] pulse, understanding what is working and what is not, and then taking action based on what you see,” she says. “If you look at the data and something is not working with a promotion, you know it’s time to pivot. The key is having the right measurement infrastructure in place to support continuous improvement.”

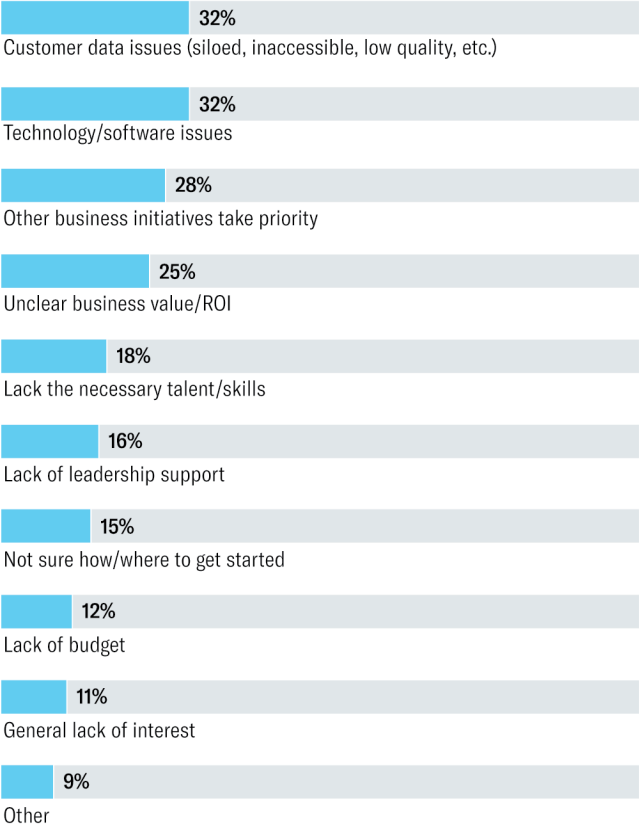
Thoughtful design and continuous improvement take time and effort, of course. Here, Page says companies may

FIGURE 3

Hurdles to Overcome

Data and technology issues remain key barriers to personalization

What prevents your organization from personalizing its promotions/discounts? *Select all that apply.*



Base: 161 respondents whose organizations do not currently offer personalized promotions/discounts. Not shown: 4% Don't know, 2% None.

Source: Harvard Business Review Analytic Services survey, March 2025

need to think differently about how they approach incentives compared with how they may have done so in the past. “Static offers and loyalty programs that are ‘set ’em and forget ’em’ no longer [are] enough,” he explains. “These programs are more living and dynamic today and evolving every year. Programs today have time-bound limitations, more flexible choice benefits, challenges and gamification, and they pull on more powerful feelings through experiences. The sophistication of these programs has gone up dramatically, first to drive repeat engagement and purchase as well as to minimize abuse and value leakage.”

The March Toward Personalization

The growing sophistication of incentives is thanks in large part to the increasing use of data and technology to optimize and execute them. And with more data comes greater opportunity to become more targeted through personalization. “Personalization is the future for everyone,” states Adair. “Everyone is on a march toward personalization; tools, technology, and data are only going to play a larger role as personalization becomes the expectation and norm.”

Moving away from mass discounting toward personalized offers creates more value for businesses and for customers. Among respondents at organizations that have started personalizing promotions/discounts (56% of the group), 62% say they’ve seen increased sales as a result. Nearly half (47%) say it’s increased customer loyalty, while 44% say it has delivered a better customer experience.

However, personalization is not always easy to achieve in practice. Some companies are hampered in their efforts toward personalization by inadequate data and technology. In fact, customer data issues and technology or software issues are the most common barriers to personalization, say respondents at organizations that do not currently offer personalized promotions/discounts. **FIGURE 3**

“To enable personalization, a proper data infrastructure is essential,” says Manikofski. “That data also needs to be integrated into the right systems to allow for effective segmentation. You also need to have people within your organization who understand how to design and implement customer life cycle campaigns that leverage personalization effectively.”

Hollenbeck says the trend toward personalization has elevated the importance of customer loyalty programs and made them less risky in terms of value leakage. “The key concern with loyalty programs was always that you are cannibalizing your profits or just reducing your margins by giving discounts to your best customers who are going to purchase anyway,” he says. “So, the whole question is how you can use these programs to increase customer numbers and drive incremental sales and not just cannibalize existing sales.”

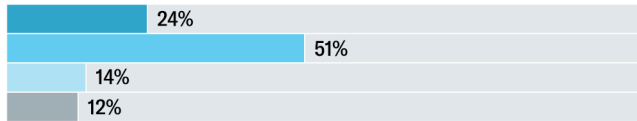
FIGURE 4

Focus on Personalization and Profitability

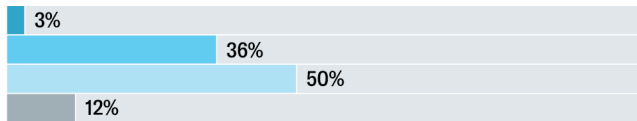
Ensuring the profitability of incentives overall is a big focus area for companies in the next 12 months

Looking ahead, over the next 12 months, is your organization changing how much it does any of the following activities?

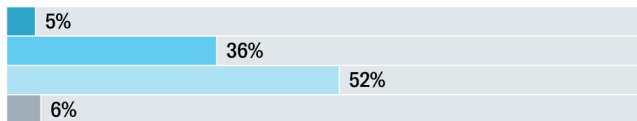
Decreasing this No change Increasing this Don't know



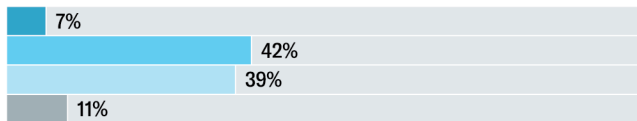
Mass discounting



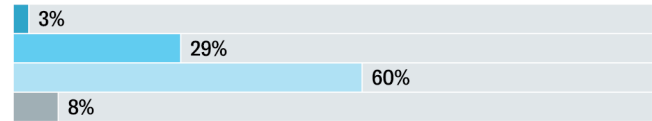
Use of personalized offers



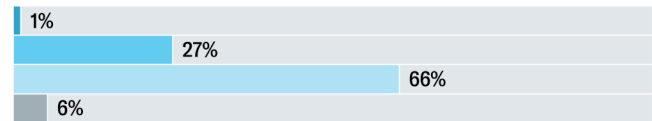
Investment in the customer loyalty program*



Investment in promotions/discounting



Integration of promotions and customer loyalty strategies*



Focus on profitability of the customer loyalty program*



Focus on profitability of promotions/discounting

Base: 420 respondents (all) or *206 respondents (those at organizations with a customer loyalty program), varies by row.

Source: Harvard Business Review Analytic Services survey, March 2025

Hollenbeck says firms can use their loyalty programs to drive a positive cycle in which they get more customer data, which can be used to increase personalization, which can drive further engagement and incremental sales. “To do this, you need to get people engaged in the first place. They need to download your app or sign up for your loyalty program. This is really the key value of a loyalty program for businesses today,” he says, noting that McDonald’s now requires customers to scan their app when purchasing in the store so that they can track customer behavior and use that data to drive engagement through personalized offers and deals.

Moving Forward Strategically

As personalization gathers momentum, mass discounting and promotions won’t entirely go away, Hollenbeck adds.

“There are lots of benefits to mass discounts in that they are easy to implement, they can generate buzz or social word of mouth that brings attention to a company, and they can be coordinated with advertising campaigns. So there are still advantages to a mass approach.”

That said, among survey respondents, the focus on mass discounting appears to be stagnant as personalization grows. Three-quarters of respondents say their organization is planning to maintain (51%) or decrease (24%) their mass discounting activity in the next 12 months. Only 14% of respondents say their organization is planning to increase mass discounting, versus the 50% of respondents who say their organization is planning to increase the use of personalized offers. **FIGURE 4**

As the incentives space becomes more sophisticated and data-driven, companies are also starting to think about how they can make their incentives more profitable. Among

respondents at organizations with a customer loyalty program, two-thirds (66%) say their organization plans to increase its focus on the profitability of the customer loyalty program over the next 12 months. A similar number (65%) are planning to increase their focus on the profitability of promotions and discounting. Leveraging the loyalty program to drive greater personalization and reward customers in more strategic or value-building ways could help improve the profitability picture overall.

The growing focus on profitability speaks to the more strategic approach organizations are taking with their incentives in general, and that's much needed, says Page. "One of the most critical mistakes we see is that loyalty programs are not in line with the overall company strategy," he explains. "We see businesses setting these big organizational goals in terms of how they want to drive revenue or which segments they want to target, and then you look at their loyalty program

and the personalization elements within it, and they aren't tied to those goals. It seems obvious, but we see this strategic disconnect all the time."

Companies that can better link their incentives activity to company strategy, leverage data and technology to drive digital engagement and personalization, and improve the way they design and execute their incentives may be better positioned to enter that virtuous circle where more data leads to better deals for customers and more incremental sales for brands.

As Manikofski puts it, "Incentives are more than pricing, discounts, or vouchers. They are a strategic tool to drive business growth while simultaneously building brand value. I believe that if we approach them more strategically—taking into account what the customer truly wants—they can deliver significant benefits for both the business and the customer."

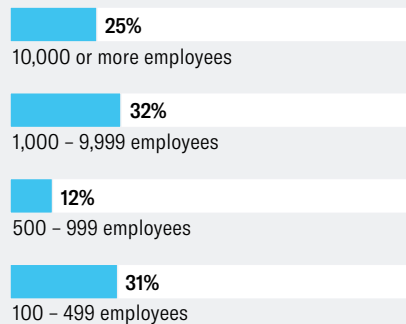
Endnotes

- 1 Statista, "Average Discount Percentage Desired by U.S. Online Shoppers 2024," September 3, 2024. <https://www.statista.com/statistics/1490163/discount-percentage-desired-us-online-shoppers/#statisticContainer>.
- 2 Starbucks Corp., "Starbucks Rewards," accessed May 12, 2025. <https://www.starbucks.com/rewards>.
- 3 Jim Edwards and Charles Minato, "The Ron Johnson Disaster Timeline: How the Apple Guru Humbled JCPenney," *Business Insider*, March 5, 2013. <https://www.businessinsider.com/the-ron-johnson-disaster-timeline-how-the-apple-guru-humbled-jcpenney-2013-3>.

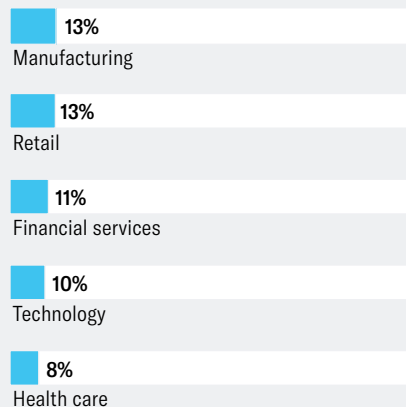


Harvard Business Review Analytic Services surveyed 420 members of the *Harvard Business Review* audience via an online survey fielded in March 2025. Respondents qualified to complete the survey if their organization ever offers promotions or discounts and they were familiar with their organization's decisions about promotional pricing and customer loyalty.

ORGANIZATION SIZE

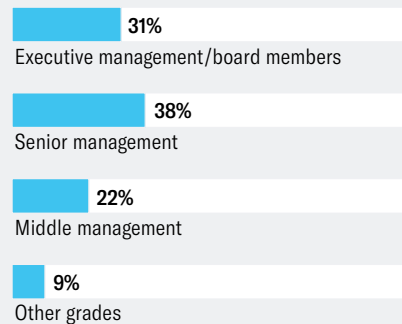


INDUSTRIES

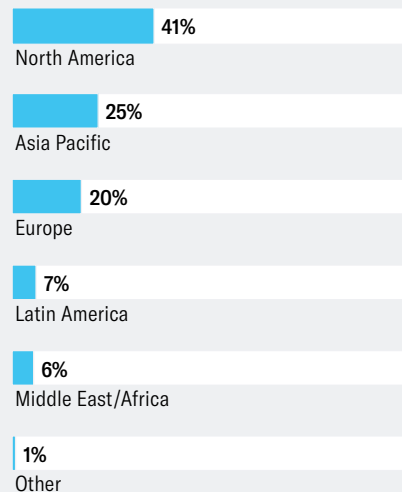


All other sectors less than 8% each.

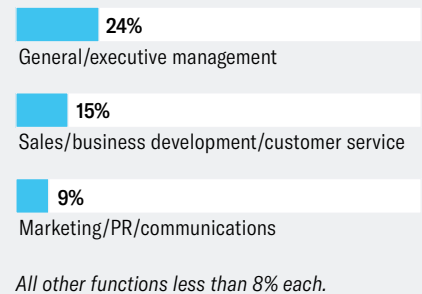
SENIORITY



REGIONS



JOB FUNCTIONS



All other functions less than 8% each.



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