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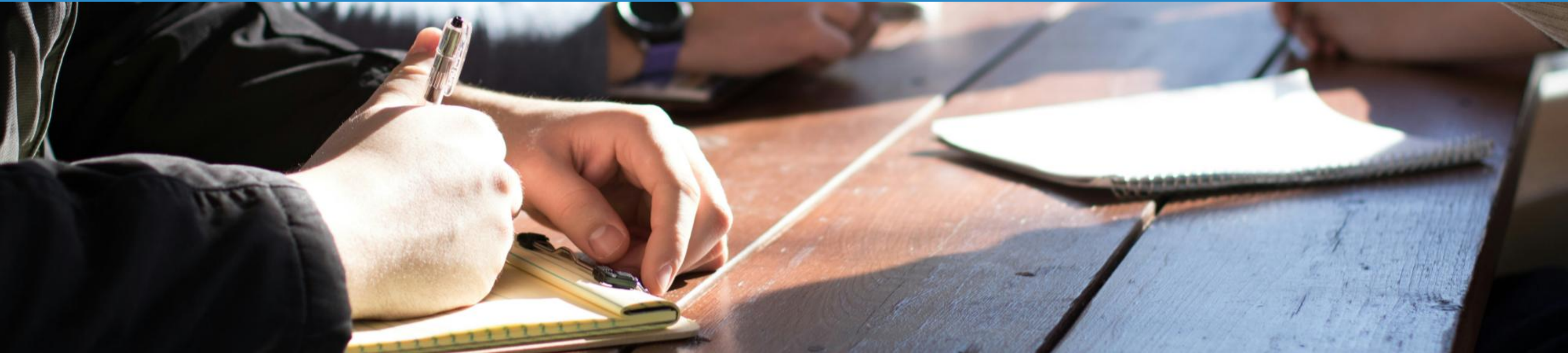
THE HIDDEN ECONOMICS OF LOYALTY:

2026 Trends from High-Performing Loyalty Programs



Loyalty programs are facing a new level of financial pressure.

Finance teams want proof of incremental profit. Executives want clarity on loyalty program ROI. As a result, many programs are still perceived as cost centers rather than engines of long-term value.

Inside, we establish the economic principles required to evaluate loyalty in financial terms. We explain how incremental value is created. We identify the customer behaviors that drive meaningful changes in customer lifetime value. And we share industry KPI trends that signal where loyalty programs are gaining or losing value as we move into 2026.

This is not a playbook for running promotions. It's a framework for understanding, managing, and communicating the true economic impact of loyalty programs using metrics that resonate with finance and executive leadership.

Inside you'll find:

- A practical framework and operational KPIs for managing incremental value
- Industry trends in these KPIs to benchmark your program's performance and highlight areas of opportunity
- Steps needed to build on these operational KPIs to prove ground up incremental value

The Big A-HA

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Most loyalty programs track engagement.
Few can explain true incremental value.

As loyalty programs come under increased financial scrutiny, this gap is becoming harder to ignore. Engagement metrics alone no longer justify investment. Leadership wants to understand whether loyalty is driving incremental profit or simply discounting revenue that was going to happen anyways.

This is the core challenge loyalty teams face in 2026.

To elevate loyalty from a perceived cost center to a recognized value driver, programs must move beyond engagement reporting and toward a clear, defensible understanding of incremental value.

Most leaders still can't answer:

"How much incremental value did my loyalty program create?"

Establishing the Basic Principles of Incrementality

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To talk about value creation in loyalty, we need a shared economic language.
The key definitions are as follows:

Customer Lifetime Value (CLV)
is the dollar-and-cents view of loyalty.
It represents the expected lifetime profit generated by a customer (i.e., profit to date + expected future profit) and captures the compounding effect of long-term retention.

Incremental Value is the change in CLV caused by the loyalty program. If loyalty does not change lifetime customer behavior, it is not creating incremental value.

Ultimate Redemption Rate (URR)
percent of points issued that will ultimately redeem.

Breakage is the inverse of URR (i.e., Breakage = 1 – URR). It represents the percentage of points issued that will never be redeemed.

Understanding loyalty through the lens of CLV reframes the conversation. It shifts the focus from engagement to value, and from short-term performance to long-term economics.

All Loyalty Programs Are Trading Margin For Volume

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CLV =

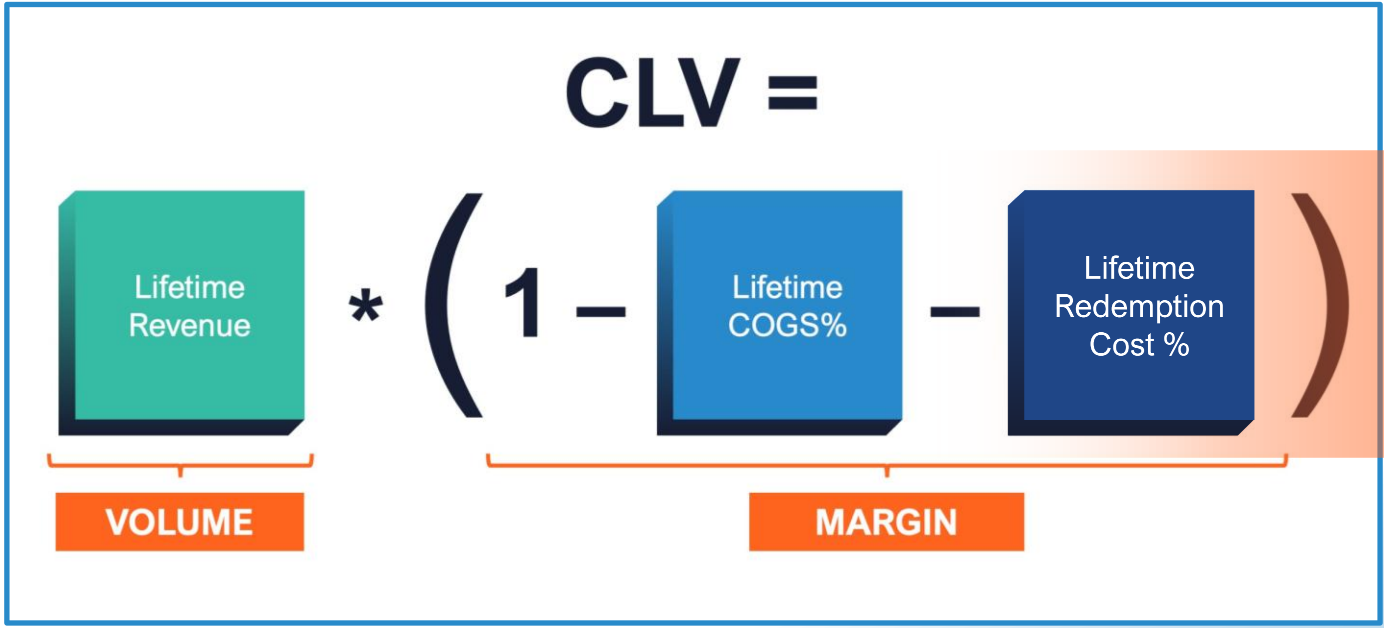
$$\underbrace{\text{Lifetime Revenue}}_{\text{VOLUME}} * \underbrace{\left(1 - \text{Lifetime COGS\%} - \text{Lifetime Redemption Cost \%}\right)}_{\text{MARGIN}}$$

Note: "lifetime" Includes both profits generated to date and expected future profits

Incrementality = change in CLV due to the loyalty program

CLV Must Be Measured Net of Redemption Cost.

Loyalty programs ultimately trade margin for volume. Finance stakeholders care about incremental profit above and beyond the cost of rewards, not gross revenue alone.



Lifetime Redemption Cost is highly dependent on estimated URR

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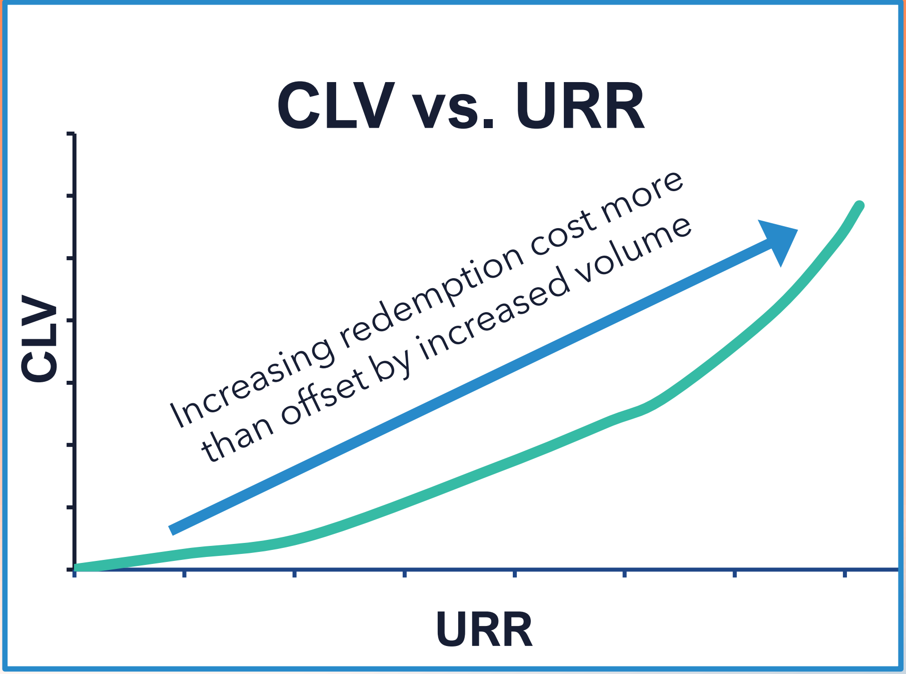
High URR is Good.
As redemption increases, margin may decline, but volume often increases by far more. In many programs, sacrificing a few points of margin can generate a multiple-fold increase in lifetime value.

Higher URR
leads to higher CLV



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The Actuary is a Critical Partner.

Redemption cost is driven largely by the Ultimate Redemption Rate (URR), which estimates the percentage of points that will ultimately be redeemed. CLV, Incremental Value and ROI all depend on this estimate, making actuarial insight essential to understanding incremental value.

$$\text{ROI} = \frac{\text{Incremental Value}}{\text{Cost of Points}}$$

Incremental Value
is the change in CLV, which
is highly dependent on URR

Cost of Points
is highly dependent on URR

You can’t understand incremental value or ROI without deeply understanding URR

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From Economics to Operational Signals

How to Manage Incremental Value in Practice

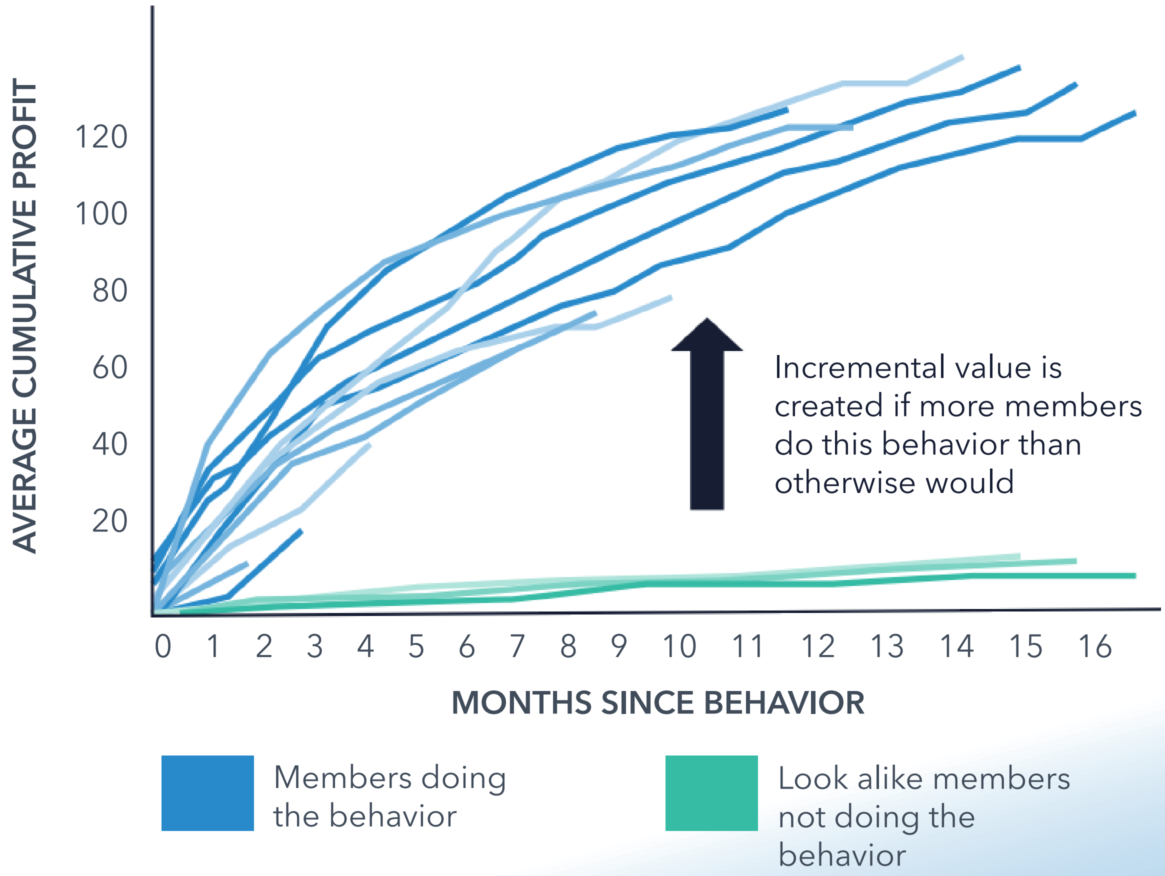
If incremental value is defined as a change in customer lifetime value, then the most useful KPIs are the ones that signal whether CLV is actually changing.

Incremental value is created when more customers reach moments in the journey that materially increase their lifetime value than would have otherwise. These moments represent inflection points. When customers reach them, their future behavior changes in ways that compound over time.

The KPIs in this report do not, on their own, prove incrementality. What they provide are practical, finance-relevant signals that loyalty teams can monitor and manage month over month.

These operational signals bridge the gap between long-term economic value and day-to-day program management.

Example Inflection Point in Customer Behavior



- We are looking for behaviors where members that do the behavior result in subsequent behavior that is very profitable compared to look-alike members that don't do those behaviors.
- These behaviors are important inflection points when you can find them.
- We clearly want more people doing the behavior than otherwise would. If we can achieve that then we are creating incremental value.

Identifying Inflection Points That Change Customer Lifetime Value

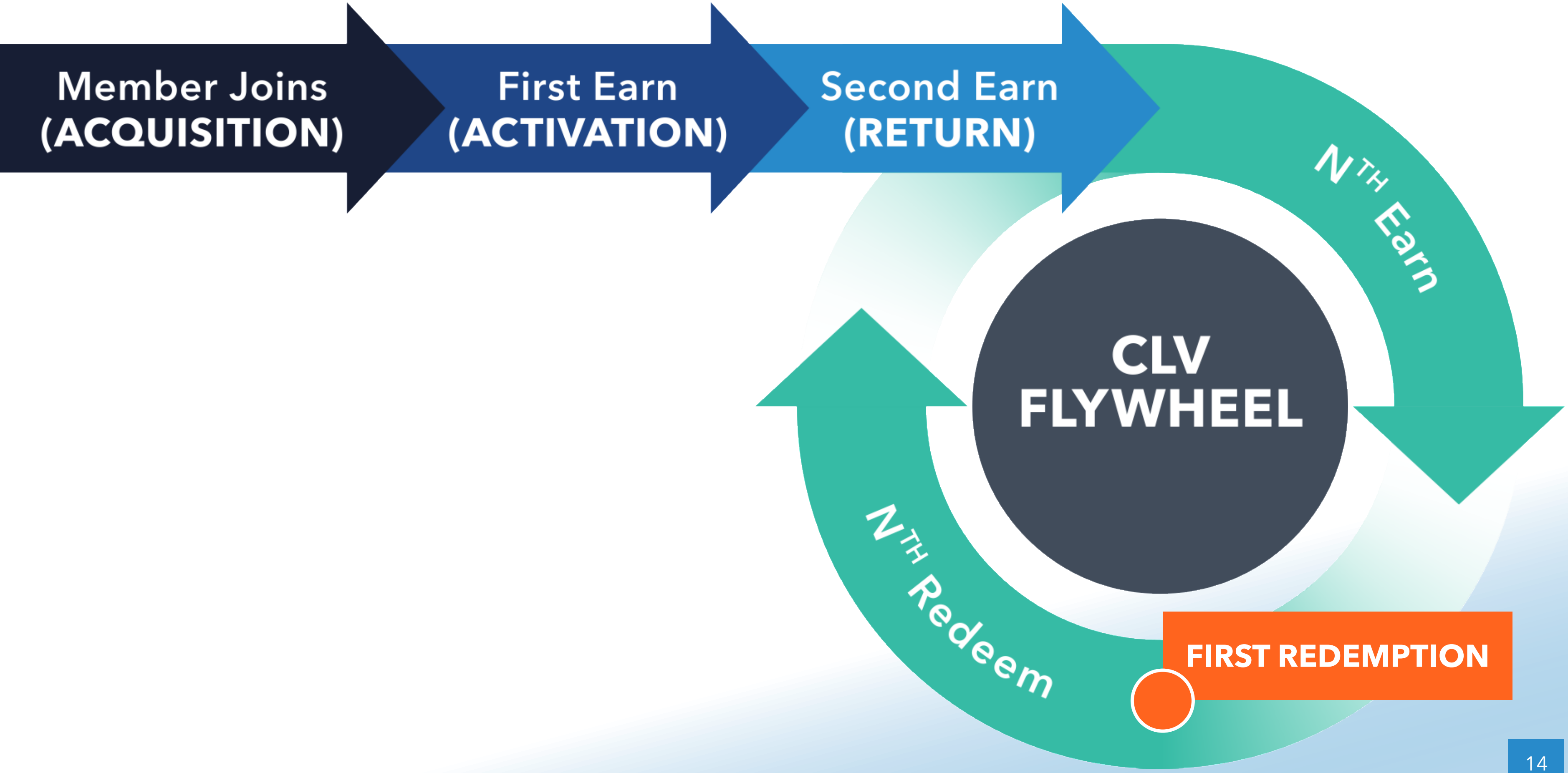
The most valuable operational signals are behaviors that cause a meaningful jump in customer lifetime value. These behaviors tend to cluster around key moments in the customer journey where commitment deepens, usage increases, or habits form.

If loyalty programs are designed to influence behavior, then loyalty measurement should focus on whether customers are reaching these moments more often and more quickly.

Tracking these behaviors monthly allows teams to:

- Detect early signs of value creation or deterioration
- Understand which levers are working
- Frame loyalty performance in economic terms that resonate with finance and c-suite

Inflection Points in The Customer Journey



Operational KPIs That Signal Changes in Lifetime Value

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The following KPIs follow the inflection points that represent moments where loyalty programs can influence future value:

ACQUISITION: Number of members acquired in a month

ACTIVATION: % of members that join that have first earn within 3 months of joining

RETURN: % of member that activate that have a second earn within 6 months of activating.

REDEMPTION: % of members who return that redeem within 12 months of returning

Tracking the share of members who move from one stage to the next provides a practical system of operational KPIs. These KPIs signal changes in incremental value.

When more customers reach these inflection points, customer lifetime value increases. When fewer do, CLV deteriorates. This makes them a powerful lens for managing loyalty performance in real time.

This set of KPIs is a good starting point, but many more can be added over time to track and manage behaviors further in the customer journey.

CLV IMPACT SCORE CARD

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ACQUISITION

CLV Impact:
CRITICAL

Getting as many members as possible into the program is critical. Program levers are unable be used to influence CLV if members are not in the program.

ACTIVATION

CLV Impact:
MODERATE

Members who activate see a meaningful percentage uplift in CLV, but it's a smaller absolute than the uplift from other behaviors; however, members must first activate before completing the next behavior.

RETURN

CLV Impact:
HIGH

Return drives a very large percentage increase in CLV and meaningful absolute increase. Members that come back at least once are much more likely to keep coming back.

REDEMPTION

CLV Impact:
VERY HIGH

First redemption drives a very large absolute uplift in CLV, often in the hundreds of dollars. Redemption is an investment in the customer rather than a cost.

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KPI Trends 2026

ACQUISITION

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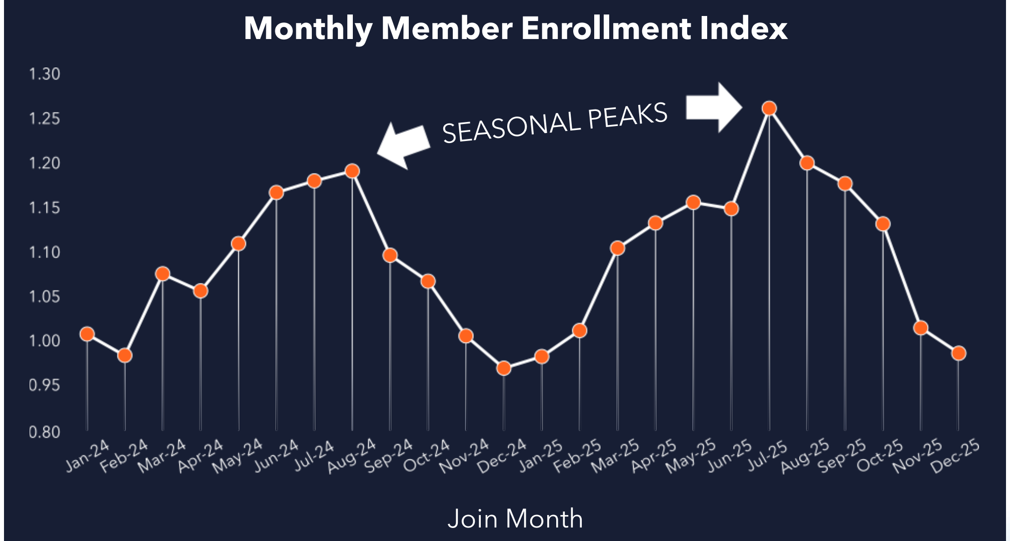
CLV Impact: **CRITICAL**



Industry Trend

- For established programs, monthly enrollment remains consistent year-over-year (perhaps slightly up), with fluctuations driven by seasonality
- Year over year increase in total membership averages 20%
- This indicates a healthy steady state and continued interest in loyalty programs from the broad consumer base underlying our benchmark
- Trends are much more volatile for newer programs; monthly enrollments can increase 2x to 8x year-over-year

Where's The Opportunity?

- Many programs add friction points in the enrollment flow to minimize acquisition in a quest to minimize redemption cost
- The best programs know that points only cost you something if the member redeems, and the act of redemption is a key inflection point that drives CLV; Reducing enrollment friction is key to maximizing incremental value

** Acquisition is defined as number of members acquired in a month

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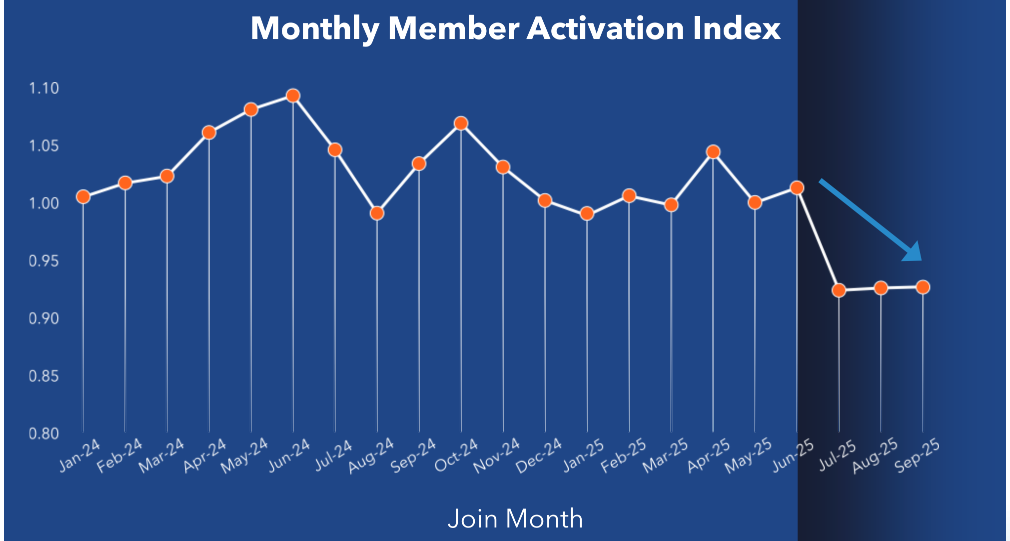
CLV Impact: **MODERATE**



Industry Trend

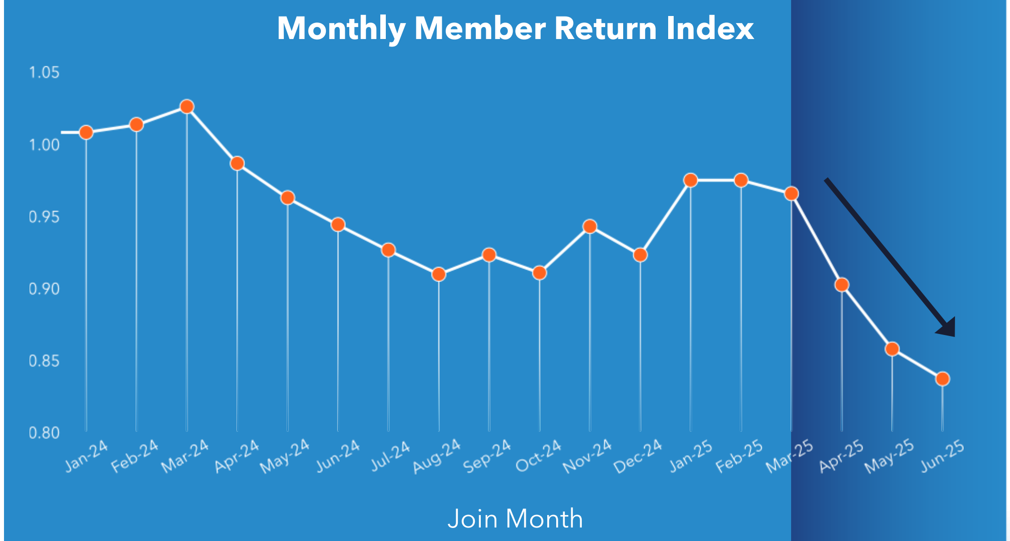
- The decreasing trend suggests consumers are becoming less committed when they join, perhaps due to economic headwinds
- The best programs will double down on the importance of an excellent on-boarding workflow to drive activation in 2026

Where's The Opportunity?

- It's not uncommon for activation to be surprisingly low, getting down to 10%-20%
- This means 80%-90% of members join but never purchase, highlighting the upside potential
- The best loyalty programs are using intelligent and targeted welcome campaigns tested against control groups to drive provable lift in activation and generate significant incremental value

** Activation is defined as % of members that join that have first earn within 3 months of joining

CLV Impact: **HIGH**



Industry Trend

- The decreasing trend highlights the economic headwinds; loyalty program managers will need to work hard to get customers past this inflection point in 2026

Where's The Opportunity?

- Most programs have return rates less than 50%, highlighting that programs are losing at least half the members they've activated. Don't assume that activation = retention
- The best programs are using A/B optimized re-engagement campaigns that are highly targeted and leverage the loyalty currency (e.g., bonus points) as an incentive to drive return with great efficiency and ROI

** Return is defined as % of member that activate that have a second earn within 6 months of activating

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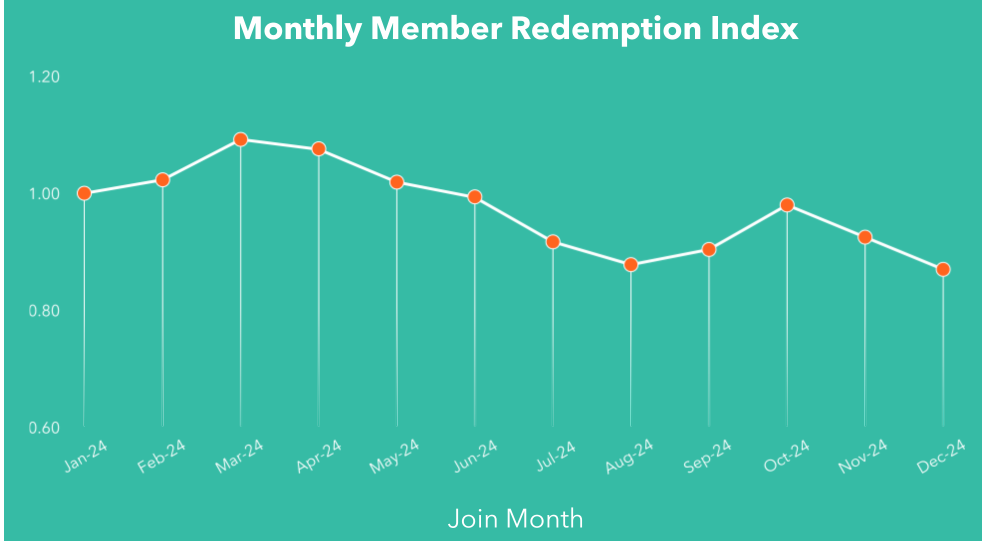
CLV Impact: **VERY HIGH**



Industry Trend

- Data limitation: the horizon for this KPI is 12 months, so we only have 12 observations from 2024 (i.e., for members that returned in July 2025, we won't yet know if they've redeemed within 12 months until July 2026).
- Therefore, it's hard to tell if there is a longer-term trend in this KPI

Where's The Opportunity?

- It is common for this Redemption KPI to be in the single digits, highlighting how very few members make it to the point of redemption and the potential for how many could.
- The best programs recognize that redemption is a critical inflection point to improve CLV and have broad-based support to invest in getting members to this point, showing how they are focused on maximizing value rather than minimizing cost.
- It is critical to have the right measurements and narratives to change the culture from loyalty as a cost center to loyalty as a value driver

** Redemption is defined as % of members who return that have their first redeem within 12 months of returning

Member Growth, Activation, Return and Redemption Are Correlated; Manage Expectations Wisely

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If ACQUISITION Then ACTIVATION

Acquisition and activation are negatively correlated (between -20% and -30%)

If ACTIVATION Then RETURN

Activation and return are negatively correlated (approximately -10%)

If RETURN Then REDEMPTION

Return and Redeem are positively correlated

Key Insights:

- Properly manage expectations.
  If you're driving membership growth or activation, there will be downward pressure on activation or return. Be sure to look at the net effect of higher volume but a lower rate to understand the total economic impact.
- Because return and redeem are positively correlated, optimizing the return KPI is the first step towards optimizing the redemption KPI

KEY TAKEAWAYS

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How loyalty performance should be understood, measured, and managed:

- **Customer Lifetime Value is the economic scorecard for loyalty.** CLV captures the long-term, compounding impact of loyalty that short-term engagement metrics miss.
- **Incremental value is the change in CLV caused by the loyalty program.** If loyalty does not change lifetime behavior, it is not creating incremental value.
- **Redemption is good.** It's an important CLV inflection point. When redemption leads to higher lifetime value, low breakage is a signal of program health, not wasteful costs.
- **The most useful loyalty KPIs are behaviors that signal changes in CLV.** Engagement alone does not explain value. Behavior change does.
- **Acquisition, activation, return, and redemption form a practical system for managing loyalty performance.** These inflection points provide operational signals that connect day-to-day management decisions to long-term value creation.
- **Industry trends show growing pressure on activation and return.** Managing these inflection points will be critical to protecting CLV in 2026.

What the Data Signals Right Now

The KPI trends in this report point to clear areas where incremental value is being left on the table.

- **Activation is surprisingly low.**
  Many enrolled members never reach the first value-creating moment in the journey.

- **At least half of activated members never return.**
  One of the largest CLV inflection points is being missed by most programs.

- **Redemption often remains in the single digits.**
  Significant lifetime value goes unrealized when members never reach this moment.

Each of these gaps represents unrealized incremental value. Not just program inefficiency.

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Managing incremental value is the first step in proving incremental value. Need help framing a clearer value story with finance and leadership? See how your program compares.

BOOK A PROGRAM REVIEW to see where incremental value may be hiding.

You may fill out the following scorecard and bring it to your review. If you're unable to fill it out, we can have a call to talk about how to complete it.

SCORECARD TEMPLATE

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KPI	YOUR CURRENT	PRIOR YEAR	DIRECTION	WHAT DROVE CHANGE?	INCREMENTAL VALUE CREATED FROM YOY CHANGE
URR					
Acquisition					
Activation					
Repeat					
Redemption					

About Kyros

KYROS is the world’s only actuarial firm dedicated exclusively to loyalty programs.

We help finance and marketing leaders solve the two actuarial problems that define program success: proving ROI and de-risking points liability. KYROS partners with leading brands including Expedia, Avios, Wyndham, Red Roof, Hawaiian Airlines, Bilt, and Fanatics.

Learn more at **kyros.com**.