



THE FUNDAMENTALS OF PROGRESSIVE RETAIL LOYALTY PROGRAMS

WHITE PAPER

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THE FUNDAMENTALS OF PROGRESSIVE RETAIL LOYALTY PROGRAMS

The retail industry has traditionally been characterized by low margins and high fixed costs, with ever-looming price wars on the horizon. Digital technology has contributed to these challenges by providing emerging businesses with online tools enabling them to compete at lower price points.

As a result, many retailers have adopted loyalty programs to offer value to shoppers while incenting them to reduce

their store switching¹. However, many retailers still adopt a cookie-cutter approach to loyalty programs, with the same old points and limited menu of rewards. The changing digital landscape and evolving consumer expectations require innovative approaches to building loyalty. In order to provide guidance to our retail and agency partners, we present Snipp's 2016 guide to **The Fundamentals of Progressive Retail Loyalty Programs**.



THE LOYALTY LANDSCAPE FOR RETAIL IN 2015

RETAIL LOYALTY PROGRAM MEMBERSHIP IS ON THE RISE IN THE US - EXCEPT FOR GROCERY STORES



Specialty store loyalty memberships now exceed airline frequent flyer memberships, at 434 million – second only to credit card reward programs.



Drugstore memberships rose 88% to 268 million in 2015, the highest rate of growth of any census category other than restaurant programs².



Department store loyalty memberships rose to 229.6 million, an 18% increase from 2014³.



The rate of decline in fuel/convenience store programs slowed significantly from rates reported in 2013.



Grocery memberships declined by 2% to 169.7 million, with memberships dropping at twice the rate compared with 2013.

LOYALTY PROGRAMS AND SPECIAL PROMOTIONS INFLUENCE CONSUMER STORE-SWITCHING

68% of global consumers say price is a major motivator for store-switching, while 45% report that special retail promotions can influence where they choose to shop⁵.

33% of consumers agree they would not be loyal to a brand if it were not for a loyalty program, and 70% modify when and where they shop to maximize points⁶.

57% of mobile users admitted that loyalty programs and points are the top feature in a mobile wallet, with 56% giving that title to discounts and deals⁷.

CONSUMER EXPECTATIONS PUSHING RETAIL LOYALTY TOWARDS MOBILE

- 73% of retailers do not offer access to their loyalty programs through a mobile platform, and only 40% let customers redeem loyalty points both in store and online⁹.
- 62% of retailers are increasing their budgets to enhance their loyalty programs through supporting technologies, with 56% planning to participate in mobile loyalty applications¹⁰.
- 78% of retailers say that increasing relevance through personalization

was one of their top marketing priorities¹¹.

- In 2016, 883% more retailers 883% more retailers plan to have the ability to identify customers when they walk in the store via their smartphones in five years¹².



MAKING LOYALTY WORK: OPPORTUNITIES IN THE DIGITAL WORLD

Although loyalty memberships are on the rise, and overall shopping volume is up, traditional brick-and-mortar retail behemoths are growing worried about retaining customers – and with good cause. Accenture’s assessment of nearly 190 retailers in 13 countries concluded that digital commerce is up, while in-store traffic is declining. The new breakout retail stars are the specialty stores and online shopping platforms, which have become the darlings of millennials (ages 21-34) and Gen Z (ages 15-20). Even CPG and grocery products, usually the domain of

retail grocery stores, are increasingly purchased through platforms like Amazon:

- 30% of millennials and 28% of Generation Z say they’re ordering groceries online for home delivery.
- More than 20% of Amazon Prime members who have purchased CPG products online expect to purchase more in the future – an additional 12% expect to transition soon.
- Gen Z is particularly willing to use all of the retail e-commerce options in the future¹³.

Fortunately, well-designed loyalty programs can actually increase sales and provide much-needed differentiation in the cutthroat retail environment. For instance, Starbucks has credited its loyalty program, My Starbucks Rewards, as a major contributing factor in its fiscal revenue¹⁴. Overall, retailer-initiated loyalty systems are truly triple-win marketing

activities simultaneously benefiting retailers, brand-owning suppliers, and shoppers. They contribute to higher levels of loyalty, more effective targeting, and better prices and promotions¹⁵. How? By capturing and harnessing the vast storehouse of customer data that these programs can unlock.

ALL ABOUT THE DATA

The kinds of data that loyalty programs generate can add tremendous value for a retailer, helping it to understand its customer base and store needs to customize its offerings. Analyzing loyalty program data can help retailers:

- **Understand the Customer Mix at Every Location:** Each retail location has a different set of customers, with different demographic profiles and different requirements. A generic store layout for all locations ignores the potential for using loyalty data to target various segments of the population with different product placements, promotions, and even prices that better serve their needs – and ultimately increase profits¹⁶.
- **Assess Customer Churn Potential:** Data within a loyalty program can reveal which customers are most likely to churn, based on lower purchase volume

over time. This information can allow retailers to make special, personalized offers to retain these customers.

- **Identify High-value Customers:** These individuals are vital to retailers and account for a significant percentage of sales based on their relative spend – knowing who they are can allow retailers to create correspondingly higher levels of service to such customers, through micro-level loyalty offerings.



A LOYALTY MAKEOVER FOR 2016 AND BEYOND

MAKE LOYALTY SEAMLESS AND OMNI-CHANNEL

This refers to the ability of a retailer to deliver a consistent on-brand experience for each customer, across every touch point and channel. Unfortunately, this kind of retailing remains a rarity – customers routinely encounter different images, environments, offers and prices when shopping in-store vs online, and even when shopping from a desktop/laptop versus a smartphone or tablet:

- Only 32% of retailers consistently offer identical cross-channel pricing¹⁷.
- Only 7% of smartphone users are able to start shopping with their mobile device and complete the cycle in store.

The opportunity cost of not being seamless and omni-channel today, according to recent research, is 10% in lost revenue¹⁸. For a multimillion-dollar retailer this translates into hundreds of thousands of dollars. For this reason,

omni-channel tech projects will be a top priority for retailers in 2016 and beyond¹⁹. Walmart, for example, is moving aggressively to integrate omni-channel digital capabilities, and already offers a pay-with-cash facility that allows customers to order online and pay with cash at stores, so those who do not have a credit or debit card can still buy online²⁰.

The recent launches of Facebook and Twitter’s “buy” buttons and Curalate’s Like2Buy platform for Instagram, which allow consumers to purchase items from retailers directly from their social media feeds, are more examples of seamlessness. For loyalty programs, this can extend to redeeming socially recommended rewards online, or gaining points for social sharing – which can then be put towards in-store shopping.



BRIDGE DIGITAL WITH THE IN-STORE EXPERIENCE

In a competitive retail environment, the most successful retailers will leverage technology to satisfy shoppers with a personal touch – whether they are in-store or online. Consumers often want that “human” connection, to be individually engaged, and to have their needs and concerns addressed on a more personal level. Optimizing the in-store and online experiences will be critical to meeting customer service expectations in the future²¹. For example, Sears is introducing “Meet with an Expert,” which promises to give online shoppers the chance to personally consult with home appliance experts at their stores²². For loyalty programs, this opens up a range of opportunities to treat members with

exclusive offerings that bridge the digital and in-store worlds.

In addition, the growing use of indoor positioning systems, or ‘iBeacons,’ in retail stores is allowing retailers to send targeted messages to shoppers at just the moment when they can influence purchase behavior the most. A harried mother browsing the diaper aisle, for example, could receive a coupon notification through the loyalty app on her smartphone for a special offer on her usual brand. By 2020, retail businesses that use targeted messaging in combination with internal positioning systems are estimated to see a 5% increase in sales²³.



LEVERAGE PARTNERSHIPS TO MAKE LOYALTY MORE INSIGHTFUL AND REWARDING

According to a Colloquy survey²⁴, more than three-quarters of retailers said strategic partnerships would provide more opportunities to enhance their value to

consumers – through more reliable data, and expanded promotions/reward offerings to consumers. Partnerships with the most potential for retailers include:

PARTNERSHIPS WITH DELIVERY PLATFORMS

Amazon continues to gain share from brick-and-mortar retailers, as its loyalty program, Amazon Prime, continues to grow. For millennials, who make up an outsized portion of these online consumers, the ease and convenience of being a Prime Member encourages their repeat and loyal patronage. Retailers looking to compete are responding by working in partnership with delivery platforms, such as Google Express, which provide retailers with a quick and simple way to compete with Amazon without having to make their own massive investments in delivery systems. Retail loyalty programs will be able to offer delivery to their members in much the same way as Prime does.



PARTNERSHIPS WITH CPGs & BRANDS

CPG companies already work effectively with retailers in multiple ways to boost sales. The more sophisticated brands can also offer consumer insights and targeting tools that can dramatically improve the retailers' own marketing efforts, and drive more traffic into their stores. By investing in collaborative relationships with their CPG partners, retailers can further improve their data collection, and improve their offerings to customers.



PARTNERSHIPS WITH PAYMENT PROVIDERS

Retailers facing intense competition to win and maintain new customers can gain an advantage by leveraging partnerships with payments providers²⁵. Such partnerships not only help to enrich the data sets for retailers, but also add customer benefits through unique added services. The data bears this out²⁶:

- More than 60% of consumers surveyed said they would be more likely to join a retailer's loyalty program if it allowed them to earn extra points or benefits when using their own bank's debit or credit cards.
- 53% agreed that it would be useful if they could connect their debit or credit cards to their loyalty programs to collect points without using any extra cards or apps.

Payments providers can help their retail partners ensure security of the online checkout process, or respond to card-change events, such as updated expiration dates. Payments providers also provide necessary confidence to retailers:

More than 50% of consumers say they trust banks and credit card companies more than retailers to protect their personal and payment information. This confidence, as well as the sheer number of consumers using large-institution cards, translates to easy, more efficient adoption.



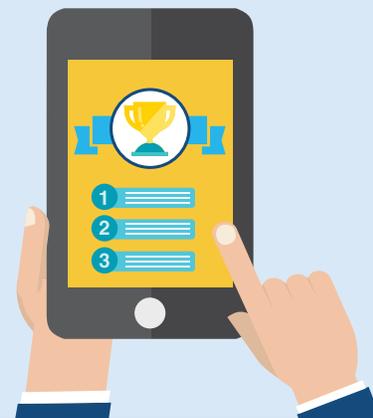
COALITION PARTNERSHIPS FOR BETTER REWARDS

For large retailers with traditionally low margins, the sustainability of loyalty rewards can come from an emerging rewards model. That model, coalition loyalty, has gained widespread interest with the introduction of American Express' Plenti program. In addition to improving the range of potential reward offerings to members, coalition loyalty programs reduce a lot of cost obstacles to individual retailers, and allow them to test and go to market faster with their loyalty offerings^{27 28}.

EXPLOIT GAMIFICATION TO MAKE LOYALTY INTERACTIVE

From Farmville to Nike+, game-based programs have emerged as crowd pleasers, as they offer visible progression along a defined rewards path, in addition to the fun aspect of competition. For example, Nike+, Nike’s unofficial loyalty program, allows friends to track their exercise, receive micro-rewards for progress, set up challenges between friends, curate and display lifetime achievements and more. These visible, achievement-based rewards regularly incentivize customers at low costs – and move product for Nike. These initiatives don’t have to be complex or “high-tech.” Retailers could use gamification as part of

their loyalty programs to incent participation in ways that traditional loyalty offerings cannot²⁹. The CRM/Unified Commerce Survey results show an explosion in the use of gamification, from 6% in 2014 to 31% in 2015, and a 181% planned increase within the next five years³⁰.



MAKE LOYALTY PERSONALIZED AND CUSTOMIZED

Consumers want to be treated as individuals and responded to personally – regardless of channel – and receive relevant offers and loyalty points at the point of purchase, whether in-store or online. Granular, real-time data analysis can take retailers closer to providing true “one-to-one” personalization, where the customer has a completely tailored experience that seamlessly travels with them across all touch points, and customers are willing to provide this kind of data, if they get that experience:

- Close to 50% of global shoppers are happy to provide retailers with their personal information—as long as it results in a truly personalized offering³¹.
- More than 60% would increase their purchases if they were offered a personalized offer³².

Individual customer data and purchase transaction data can identify opportunities to surprise and delight shoppers while upselling and growing consumer relationships. For example, Kroger, the

largest traditional U.S. grocery retailer, logs 97% of transactions on loyalty cards – it uses this to design and target millions of direct mail offers to customers, where no two offers are the same. The redemption

rate is over 70% within six weeks of the mailing, and these targeted coupons generate over more than \$10 billion in sales annually³³.

EXPAND REWARD OFFERINGS FOR THE SOCIALLY CONSCIOUS

While consumers like discounts, they are even more interested in incentives for living a healthier lifestyle, sharing on social media, participating in social responsibility programs, or for practising energy conservation. The preference is so strong that³⁴:

- 84% of consumers say they would spend more with retailers who offer such programs
- 36% have joined these action programs so far
- 28% have switched their spending from

programs that reward only purchase to those that reward activities such as social media sharing and other “feel good” activities as well

- 87% say they would join a loyalty program that offers points for activities such as exercise or energy conservation.

Shoppers want to know the money they are spending is not going into one person’s pocket, but is truly making a difference in the community they live in. More retailers will launch initiatives that tie loyalty rewards to lifestyle and value-based offerings.



KEY CONSIDERATIONS

A meaningful store experience, seamless omni-channel access, fun and interactive programs, and personalized offers are the

cost of loyalty for today's deal-savvy shoppers³⁵. But there are some key considerations to the digital realm:

DIFFERENT DEMOGRAPHICS THINK DIFFERENTLY ABOUT LOYALTY — AND SHOPPING

Retailers have to recognize that building a relationship with consumers is not a “one-size-fits-all” proposition. When it comes to loyalty programs, the youngest shoppers (Gen Z and millennials) are much more pragmatic, with higher expectations of what features are worthy of their loyalty. Older shoppers are less interested in digital benefits like gamified loyalty apps, etc. For every customer that prefers to shop online, another prefers the old-school world of plastic and paper.

Tesco, the leader in retail loyalty in the UK, received a lesson in this when it launched its Clubcard app, thinking that it would eventually replace its card, key fob and coupons³⁶. But customers rebelled, many preferring to maintain those elements. Therefore, for retailers who serve a wider array of the population, loyalty programs must be flexible enough, and offer enough choices to cater to different sub-sections of their customer base³⁷.



COMMUNICATION IS A BALANCING ACT

In the rush to win deeper customer engagement and wrangle data to shape the next generation of loyalty, retailers can end up going to extremes. But over-communicating or

under-communicating with the customer can be equally off-putting. Frequency and timeliness of loyalty communications is a fine balance³⁸.

PERSONALIZATION RIDES A COOL/CREEPY LINE

Consumers are only just now defining their "comfort bubble" in the digital world. While personalized offers from retailers are becoming the gold standard for loyalty initiatives, they can start to feel too much like 'Big Brother' and be perceived as creepy³⁹. For example, while 69% of consumers find interactive store maps a 'cool' personalization tool, 74% find it 'creepy' if a salesperson greets them by name when their phone triggers their presence in the store. Again, retailers need to understand how best to utilize these tools, and not over-use them. Giving customers the choice of how to engage

them or communicate with them can go a long way towards mitigating this creep factor.

Regardless of the retail category, loyalty programs that are considered best-in-class all have one common trait—the active and intelligent use of data coming out of day-to-day customer interactions. Successful programs harness this data to inform their decision making processes, and relentlessly work to improve the way they serve their customers – across every channel of their choice.



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