



| REPORT

Defining Loyalty:

How Customer First loyalty can drive success in retail

dunnhumby



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Defining loyalty

The concept of rewarding loyal customers to drive engagement is nothing new in retail. Creating an emotional connection and rewarding shoppers for their custom is an age-old strategy which is fundamentally built on making things more convenient for the consumer. However, in a rapidly evolving sector, the loyalty approach is constantly changing.

The fight for loyalty has intensified during the pandemic, but access to customer data has never been more achievable and with greater insights comes greater personalisation and greater opportunity. Armed with a direct line to customers, brands have the ability to understand not only macro trends about behaviours, but deeply granular insights into individual shoppers too. As a result, today's loyalty programmes are more intelligent, more sophisticated and more profitable than ever before.

This report explores the potential of loyalty in post-pandemic grocery retail. Drawing on dunnhumby's standing as a global leader in customer data science and analytics, we will look at loyalty trends, common loyalty programme features, how to measure loyalty and what the future of loyalty could look like.

We will also demonstrate what best practice looks like, referencing loyalty programmes from across the world and showcasing the positive impact that personalisation has made.

With input from global dunnhumby experts, we are exploring the role that loyalty programmes have to play in supporting retailers as they tackle the constant challenge of retaining customers and navigate the shift to digital.

Loyalty: programme, approach or outcome?

The word loyalty can very easily tie us in knots. Is it a card? An app? Customers collecting points? Or it can be wider cross-company approach. Or, is it actually the end goal, when retailers have customer loyalty? Or maybe it's all of these?

Here, we explore this in more detail and look at how programme, approach and outcome are so closely intertwined.



Loyalty: the programme

A loyalty programme has traditionally been a relatively static base programme that might include several features and benefits often around core 'earn and burn' mechanics that can drive 'loyalty' as customers accumulate towards a deferred reward.

In the past the job of driving customer loyalty often sat with the team that managed the loyalty programme and it was assumed that was the key lever. Retailers often then layered customer data and a level of personalisation to manage the ongoing relationship with members. Planning and activation of these would often be managed in silos. These programmes were static and based on a fixed framework where all customers evolved at the same pace. This is not the case anymore.

Today we prefer to think about loyalty programmes in a more integrated and extended way, considering the broader member experience and supporting engagement across the entire footprint of a customers' relationship with a retailer, as well as how this can be expanded.

A healthy integrated and personalised member engagement programme plays an integral and enabling role alongside other marketing levers in delivered on customer first. Earn and burn may be important mechanics in a member engagement programme, but this should be tailored to support retailer objectives and specific customer needs as part of the overall member experience.

Loyalty: the approach

A loyalty approach is more about a holistic strategy across all elements of the customer experience - including the store, website, app, pricing, promotions, range; everything that, when focused on the customer, can help to grown incremental preference and loyalty over time.

Customer data captured by a loyalty programme can be used to power the wider loyalty approach including optimisation of the programme itself, but also personalisation, insights to power wider decision making, and engagement of suppliers and partners to enhance the customer experience and open revenue streams.

Loyalty: the outcome

The outcome of the programme and approach ends is enhanced customer loyalty. This is a result of taking an enterprise-wide 'loyalty' or, as we refer to it at dunnhumby 'customer first' approach, and not simply the result of a singular loyalty programme.

Loyalty: programme, approach and outcome

In summary, the '**programme**' should be reimagined as the whole **member experience**; this can enable and is part of a wider **Customer First approach** that leads to enhanced **customer loyalty** as the eventual outcome.

Key trends in loyalty

In order to understand the changing landscape of loyalty, we must first recognise the current changes in grocery retail.

The COVID-19 pandemic fundamentally changed the way consumers shop for groceries. Habits and preferences were turned upside down, with dunnhumby research showing that customers were taking less frequent shopping trips and shopping larger baskets, along with different choices of retailer, type of products and brands purchased.¹

In accelerating the shift to ecommerce, even the choice of channel has been impacted. In one survey from June 2021, 34% of US households said they were shopping for groceries online more than they did pre-pandemic and 60 percent of these households planned to continue shopping online after the pandemic ends.²

Achieving a seamless customer experience

One of the biggest questions asked by retailers during this period has been 'how do we retain these new customers?'. And whilst it is a complex question to answer, the solution can lie in ensuring a seamless customer experience across instore and digital channels.

As shoppers turn to digital devices to choose their products, they are suddenly bombarded with information on a small screen. Store trips only add to the messaging, from pricing to promotions. A disjointed customer experience in this new shopping journey could be enough for customers to look elsewhere.

What does this mean? For retailers, it increases the need to focus on propositions that can create personalised shopper experiences. The onus is placed on loyalty.

90% of millennials say companies should find new ways to engage and reward loyal customers.³

¹dunnhumby.com/resources/blog/covid-19/en/six-months-on-how-have-consumer-behaviours-changed-as-a-result-of-covid-19/

²academic.oup.com/cdn/article/5/Supplement_2/231/6293076

³Average number of retailers visited each month: FMI's U.S. Grocery Shopper Trends 2020 study, Gen Z and millennials visiting 6 different retailers a month

With all of this in mind, loyalty programmes must work harder than ever before to help support, reward and inspire customers at every stage of the end-to-end, multi-channel shopping journey.

It is no longer enough to offer customers points, collected in-store via a card with supplementary keyring tag. Loyalty today is about creating experiences for customers, providing digital apps that help them to find and pay for products - and more - in a seamless way that delivers value, convenience and (in the post-COVID world) safety.

Good loyalty in the post-pandemic world is delivering personalised services. This includes:

Blended programmes: The evolution of apps

Bringing together what would have traditionally been separate loyalty, CRM, ecommerce, payment and other solutions into one blended shopper programme, or a single platform, usually through a digital app. This supports customers at all stages of the online and digitally-enabled instore shopping experience.



EXCELLENCE IN PRACTICE:

Coop Danmark

Flipping the traditional subscription model, Coop Danmark's programme encourages customers to bring forward spend, rather than paying an additional fee for access - putting money into a pot that they can spend at a later date with the retailer.

Blurring the lines between a premium model and a blended approach, Coop Danmark has also added a tiered additional benefit layer - the more a customer puts into their pot, the more they get access to external benefits such as streaming services, utilities, and in-store rewards.

Loyalty ecosystems: All-in-one

While a blended programme is about how customers shop across the brand's own digital and instore channels, an ecosystem involves further partners to maximise the value of the customer asset. This could include be engaging partners to combining multiple shopping, social, entertainment, payment and financial management relationships into a single platform or app. The retailer can also offer B2B services to other partners based on the capability they have. Amazon Prime is the leading 'ecosystem' example, offering a raft of B2B services to other retailers that grow the connected (Amazon) asset and deliver additional benefits to customers.

By building this ecosystem, the business can offer multiple customer and licensed partner services to 'own' a category, with linked customer data at the heart of the platform.

Subscription programmes: Premium loyalty

Charging customers a recurring fee in order to access benefits of a high perceived value. This strategy has the opportunity to create 'lock-in' and a recurring revenue stream by offering customers the best of the brand. Bringing together elements of the blended programme and an ecosystem approach, the aim here will be to grow the asset in order to support the wider ecosystem.



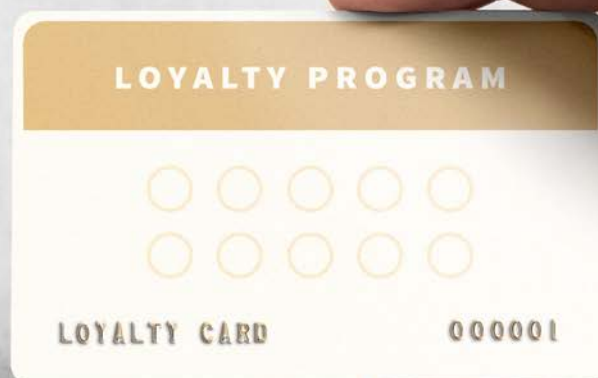
EXCELLENCE IN PRACTICE:

Walmart+

A premium Loyalty programme aligned to core parts of the retailer's strategy is helping Walmart to drive balanced growth of higher margin services across grocery and non-grocery. Walmart+ offers free online delivery and curbside pickup for members, discounts on fuel (both at Walmart fuel sites and other partners), and free/discounted prescriptions from pharmacy counters – all high perceived value benefits that are core to the online/offline and healthcare strategies of the business.

87% of customers satisfied with the benefits of a retailer's paid loyalty programme will likely choose that retailer over a competitor offering a lower price.⁴

⁴https://info.claruscommerce.com/WC-2020-PL-Data-Study_LP-2020-PL-DataStudy.html



What makes a successful loyalty programme?

Loyalty programmes can include any number of features to help reward, excite and attract customers. However, it is important to recognise that programmes must reflect business strategy and support clearly identified needs, while recognising that these vary according to customer and the point they are at on the shopper journey.

The key is to engage customers in the day-to-day business of shopping with the brand, rather than just being a bolt-on.

Using data to personalise

If loyalty is about delivering what customers want and need in order to drive engagement, then grocery retailers are in a fantastic position, with access to some of the richest and most informative datasets on earth.

Personalisation is critical to drive engagement and we have seen a seismic shift from 'same for all' member benefits to science-driven personalisation which supports the shopper experience.

Equipped with a wealth of information about their customers' purchasing habits, brands have never had a better opportunity to deliver personalised and insight-driven programmes, thanks also in part to today's technology that enables hyper-personalisation. A few years ago, retailers already had a wealth of customer data, but there were technical constraints to deliver this level of personalisation. Today it is possible, with the perfect mix of data, technology and strategy.

Benefits beyond points

One of the biggest changes in loyalty in recent years has been the shift from a 'points only' reward-based system, to one of wider member benefits. With the introduction of blended and premium Loyalty programmes, the key to success is in delivering access to benefits – both to attract new customers and reinforce engagement with existing shoppers.

These can be categorised into three main groups:

- **Value:** Such as discounts for members or points-based rewards that can be redeemed for discounts either in store or with partners.
- **Experiential:** Offering exclusive content or access to member only experiences. Often popular in non-grocery but becoming more accessible for grocery retailers too.
- **Convenience:** Including access to free or faster shipping, access to scan and go (where not otherwise offered), digital receipts and additional support in store.

CENTRALGROUP

EXCELLENCE IN PRACTICE:

Central Group Thailand

A conglomerate with a number of retailers and franchises under one umbrella, Central Group Thailand has transformed its loyalty and reward experience by switching from a largely paper-based, one card system to a centralised app. Focusing on tactical personalisation, the app offers tiered member discounts and rewards with integrated payments via a wallet for added convenience.



Our four steps to Loyalty success

- No bolt-ons: Make sure your Loyalty programme supports the business and brand strategy
- Don't exploit customers: Understand the needs and preferences of your top customers and focus on them
- Ensure relevance: Offer compelling benefits that are relevant to the experience of shopping with you
- Deliver (perceived) value: Make sure customers feel they are getting value, particularly for premium Loyalty programmes

A global, Customer First approach

Today's loyalty programmes, therefore, require careful consideration. We have moved on from the days of a 'one-size-fits-all' loyalty approach across the industry. Even within individual brands and individual loyalty programmes, success in one country does not mean success in another.



Putting customers first

One of the biggest mistakes retailers make in loyalty is failing to put the customer first. Loyalty is about the company acting loyally to its customers, not vice versa. Remember the difference between the loyalty approach and the loyalty programme. The latter should not come in isolation - it is one individual element of a wider strategic approach aligned to the company objectives, values and strategy.

At dunnhumby, we have developed a Customer First philosophy to help our clients ensure that their retail strategies are truly customer-centric and that every decision optimises customer satisfaction. This approach goes beyond loyalty, but it also provides a framework for loyalty success.

Customer First consists of three steps:

1. Understand your customer: Gain a 360-degree view of your customer – and the role your products and services play in their lives – to establish how you can improve their experiences.
2. Consider the customer journey: Discover what customers value most, and how influencers like price, promotions, range, layout, marketing, service and brand impact their decision making and expectations.
3. Build a plan for success: Build strategies (for example a loyalty programme) that fulfil your customers' changing needs and desires, creating the perception that each customer's experience has been designed exclusively for them.

 What loyalty is	 What loyalty is NOT
Earned: Being responsive to customers' needs and wants	Expected: Gained without reason from customers (expected)
An overall approach aligned to business strategy	An individual programme (loyalty is much more than just a programme)
Built on science-driven customer insights	One-size-fits-all
Example: A personalised, relevant coupon delivered to the customer in their channel of preference, that can be redeemed in any channel or store, as many times as they want. It is an important product for them, so the more they buy, the more discount they get.	Example: A coupon that can only be redeemed online, and just once, because the retailer has an objective to grow their ecommerce, but with limited margin impact. That's not customer first, as many customers prefer to shop in physical stores, and the retailer is taking this possibility from them for their own goals.

Local decisions, global success

Another key consideration for global retailers is how to approach loyalty programmes in different countries. Data sharing and privacy laws, smartphone habits and customer behaviours will also differ between countries, particularly for truly global brands operating on different continents.

For example, an app-based loyalty programme is more likely to succeed in USA, where more than eight in ten consumers have a smartphone, than in India, where penetration rate is less than a third.



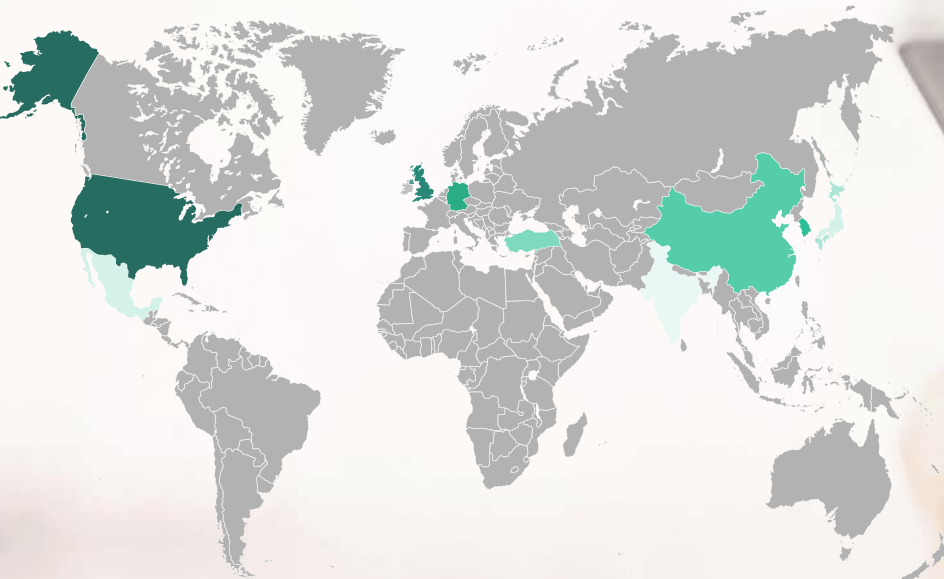
EXCELLENCE IN PRACTICE:

EsSELUNGA

EsSELUNGA, which operates a network of more than 150 superstores across Italy, offers a loyalty card called Fidaty, which allows shoppers to accumulate 'Strawberry Points' that can be exchanged for benefits including personalised offers, donations and prize items from a catalogue. It also provides access to reduced pricing on goods throughout EsSELUNGA stores, and discounted cinema admission.

With a penetration of more than 90%, the programme was already a market leader but has proved even popular thanks to a series of added value, personalised benefits. These include giving customers the option to choose six items for personalised discounts, as well as monitoring peaks in store and book their position in the queue outside of their local store.

Penetration rate of smartphones in selected countries in 2020⁵

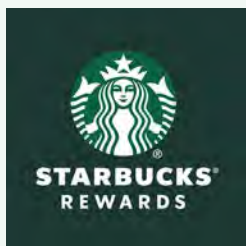


● United States – 81.6%	● Turkey – 61.7%
● UK – 78.9%	● Japan – 59.9%
● Germany – 77.9%	● Mexico – 54.4%
● South Korea – 76.5%	● India – 31.8%
● China – 63.4%	

⁵[statista.com/statistics/539395/smart-phone-penetration-worldwide-by-country/](https://www.statista.com/statistics/539395/smart-phone-penetration-worldwide-by-country/)

Data protection laws also fluctuate wildly across the globe, for example between Latin America where Mexico's data privacy legislation is not well defined which makes it difficult to enforce and Argentina's congress continues to review a new data privacy bill that will replace the current outdated legislation. Only Colombia and Brazil do have defined laws in place, but they do not compare to the European Union's General Data Protection Regulation (GDPR), which sets the global standard for data privacy frameworks and regulations. This inevitably impacts what a brand can and can't do in loyalty across its global territories.

The maturity of individual schemes in specific countries should also be considered when making strategic decisions. What works in one market, where shoppers are more used to the idea of loyalty programmes, is unlikely to work in another where loyalty is a fledging concept.



EXCELLENCE IN PRACTICE:

Starbucks Rewards

Starbucks Rewards, with nearly 25 million members, has reinforced how lucrative member data can be when used to send relevant offers at crucial times. In 2019, Starbucks attributed 40% of its overall sales to the program, and a lot of those purchases are likely due to promotions.

But crucially, there is regional variation in its Rewards programme, with differences between the programme in many countries. As markets mature, the programme is becoming more consistent, but some differences remain, with the UK retaining a 'Gold Members' tier, which no longer exists in many other markets – whether in response to local competition or customer adoption, it shows the value in regional variation. And with Starbucks Rewards now representing 53% of the spend in their stores, it's a true sign of the importance in taking a localised approach to building loyalty.



Adopting a customer-first mindset

In summary, the loyalty approach enables retailers to better achieve strategic objectives based on a superior understanding of customers, but they must be led by the customer. By embedding customer insight into the organisation (and into individual loyalty programmes), retailers can make better, faster decisions to improve customer experience, thus growing sales and profits sustainably.

Best-in-class retailers have proven this model with growth in like-for-like sales and profits that consistently outperform their competitors.

Key takeaways:

- Loyalty is much more than an individual programme. It is an approach to drive customer engagement and ultimately margins
- It should be aligned to the business strategy – the brand acting loyally to its customers, not vice versa
- The pandemic has changed retail – brands are seeking new and innovative ways to retain customers
- Loyalty can help achieve this – if it supports the objective of delivering a seamless customer experience across all channels including digital
- Modern loyalty programmes can take many forms but should offer personalised services, not just points
- The key shift is from ‘same for all’ member benefits, towards science-driven personalisation which supports the shopper experience
- Loyalty programmes should also take into account global differences in consumer attitudes, smartphone use and data privacy regulations
- Above all else, they should put the **Customer First**

Debora Franchim, Global Product Director for Personalisation, dunnhumby on Loyalty:



Ultimately, loyalty is not about the retailer, it's about the customer.

Loyalty is not something that lives in the marketing area and consumes marketing budget. It's not about simply introducing an app either. While an app as a channel is an enabler and makes things much easier, loyalty is not an app strategy.

Retailers need to take an alternative view when it comes to loyalty. Start with the customer. Think about the customer's needs, the customer's journey, the customer's pain points.

Once these are clear, it's easier to organise the solutions in a loyalty approach. Retailers must break down their silos, as the customer needs to be treated as an individual. It doesn't matter if they're buying online or offline; using cash or redeeming points to pay for their purchase; buying only promotional items or full margin in that visit. Decisions can't be made based on those individual aspects, they should be based on who the customer is and what they need at all times."



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THE WORLD'S FIRST

CUSTOMER DATA SCIENCE PLATFORM

dunnhumby is the global leader in Customer Data Science, empowering businesses everywhere to compete and thrive in the modern data-driven economy. We always put the Customer First. Our mission: to enable businesses to grow and reimagine themselves by becoming advocates and champions for their Customers.

With deep heritage and expertise in retail – one of the world's most competitive markets, with a deluge of multi-dimensional data – dunnhumby today enables businesses all over the world, across industries, to be Customer First.

The dunnhumby Customer Science Platform is our unique mix of technology, software and consulting enabling businesses to increase revenue and profits by delivering exceptional experiences for their Customers – in-store, offline and online. dunnhumby employs over 2,000 experts in offices throughout Europe, Asia, Africa, and the Americas working for transformative, iconic brands such as Tesco, Coca-Cola, Meijer, Procter & Gamble, Raley's, L'Oreal and Monoprix.



Get in touch

To discuss how we can support you in achieving your retail objectives through data strategy and customer insights, contact our team today.

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