



capillary

Customer Loyalty

2020
& Beyond

Loyalty 2020

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The previous decade saw a global adoption of online commerce, mobile apps, wearable technology, smart devices, and engagement via social media. At the core of every strategy is still the 'customer', and customer retention continues to be one of the biggest challenges in business today. Since 2010, we have seen multiple disruptions in the retail industry, owing to technological advancements, shifting markets, and a dramatic evolution of customer preferences — all of which makes loyalty and retention marketing more important than ever.

In North America, the number of loyalty program memberships in the retail industry are at 1.6 Billion — an all-time high, and a positive sign that consumers are looking for a deeper connection with brands. Yet, the state of customer loyalty is still far from ideal. A whopping 46% of the memberships are inactive; a large question mark looming over the efficacy of the loyalty programs today.

To stay ahead in the rapidly evolving retail sector, retailers will need to understand how shifting customer behaviour and preferences will shape the future of the industry. The winners of tomorrow will be those who are agile and forward-thinking in adopting new technologies and channels. In this report, we aim to uncover the technological and customer trends that are likely to make the biggest impact on customer loyalty in 2020 and beyond.

Loyalty as a measure of brand health & future potential



Capillary's discussions with some of the biggest venture capitalists of the retail industry revealed the importance of loyalty programs while considering a potential deal or merger. Most claimed to look at key metrics such as the Loyalty Base and Repeat Customer Percentage during preliminary discussions with companies, to gain a sense of the overall health of a retailer.

A growing number of retailers today realize that a healthy loyalty program signals the potential for growth. Lululemon's soaring stock price was **attributed to the increasing value of their loyal customers**. Programs such as Amazon Prime have started the trend of looking at loyalty programs as a business line as well as a marketing program. This has created a new mindset and opened up several exciting possibilities.

Why will this trend in 2020

Investors and decision makers alike are recognizing how well-executed loyalty programs can improve the overall company health by boosting customer retention and improving profitability. The opportunity to gain additional revenue through enriched customer data and insights adds another dynamic to the situation. Capillary's One-Click personalization uses Artificial Intelligence & Machine Learning algorithms to understand customer data, and then sends customers personalized communication and offers.

This decade will be defined and decided by the retailer's ability to use AI/ML, which would mean that customer data is more valuable than ever.

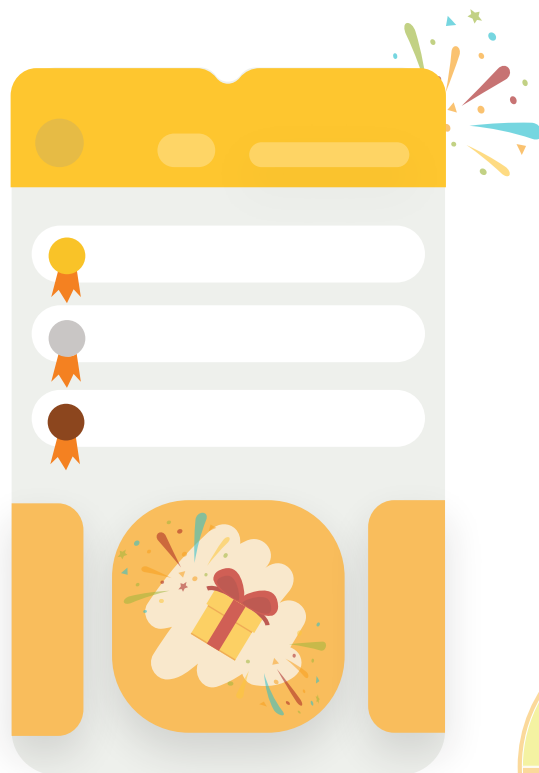
Thinking Loyalty beyond transactions

#2

Most retailers agree that holding onto existing customers is much cheaper and less complicated than acquiring new ones. A study by Bain & Co. found that increasing customer retention rates by 5% increases profits by 25% to 95%. With the advent of technology, small and mid-size businesses have been able to succeed in markets without spending big bucks on advertising, and instead relying on traditional methods such as word of mouth recommendations.

For this reason, the content created for the brand, post shares and positive reviews are becoming increasingly important for the brand, forcing the hand of retailers to reward loyalty customers for their advocacy in addition to traditional loyalty programs.

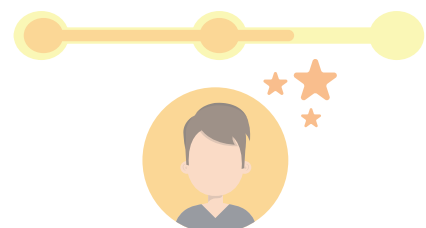
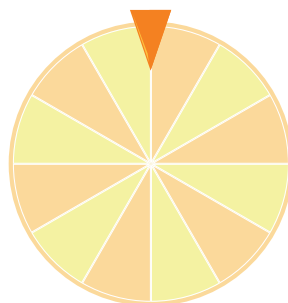
The 2020 decade will see the retailers eliminating barriers from the 'transaction-basis accrual only' strategy, and give control to customers. This will allow customers to:



Earn rewards throughout their program experience
(eg: social media mention, retweeting the brand's tweet, checking in at the retailer events)

Benefits beyond just transactions
(eg: writing a positive review would get them access to pre-end of season sale events)

Rewards beyond just discount
(eg: Top engagements with the brand on social media gets early access to new product launches)



Why Customer Relationships Matter

Brand Connection vs. No Brand Connection

300%

Changes to Customer Lifetime Value:
Emotionally engaged consumers have a
300% higher CLV than
a non connected/engaged customer

**5.1
years**

Connected customers stay longer with
the brand:
5.1 years vs 3.4 years

80%

8 in 10 customers with high emotional
engagement will recommend the product
to their family

North American customers have a price — that price is to be heard more, be seen more and to be involved more than before.

Why will this trend in 2020

Somewhere in the last decade, loyalty got lost between deep discounting and thousands of irrelevant offers inundating customers. The 2020 decade will see customers frequently depend on their emotions to guide the purchase decisions. Brands will also focus on converting the 'dollar spent in getting likes from the customer' into actual stable revenue, thus improving customer lifetime value and profitability.

Capillary's motto of 'Loyalty Beyond Transactions' allows retailers to reward customers using a robust yet flexible loyalty engine that allows you to create multiple types of reward programs. The aim is to engage and reward customers on the basis of their non-transactional behavior in addition to the transactional behavior.

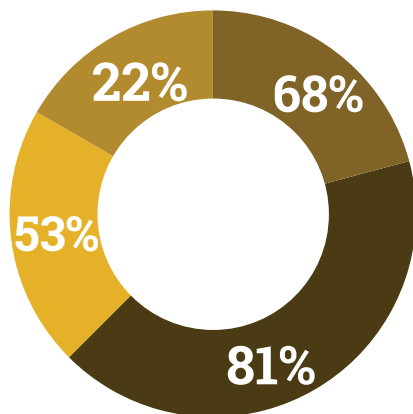
Gamification of Loyalty Program

By integrating game mechanics as a motivation tool, gamification engages a target audience more successfully than passive methods of engagement and marketing. It incites more commitment from consumers and allows retailers to attract, cultivate and retain followers for a longer period of time.

Gamification requires brands to consider the behavioural psychology of their audience, and cater to those needs and desire using game dynamics. Game dynamics could range from “missions” that represent the game-proposed challenges, to “scores”, “levels” or “leaderboards” that create competition amongst users. Most importantly, in order to have a positive effect on the brand and compel users to play, it is necessary that gamification’s users have fun.

A frequently cited example, the Nike Plus app turned the mundane activity of exercising into a game, converting every step taken by the user into points. If they’re looking to best more than their personal score, it also hooks up to social media for users to compete with others.

When Hilton Embassy Suites targeted about 50,000 of their most loyal customers and solicited their participation through multiple channels, including inviting customers to play a game, most customers responded favorably. These customers accounted for 20% of the additional \$ 1 Million achieved through campaigning. Gamification is fast turning out to be the innovative edge in an increasingly competitive environment.



53% of loyalty program members say game mechanics would make the program more enjoyable

When gamification is present, 81% of members take advantage of it

When loyalty programs use gamification, programs see an almost two-fold (1.7x) lift in active engagement

Customer activity grows by an average of 68%, and social sharing jumps by 22%

Why will this trend in 2020

Gamification allows brands to seamlessly engage with consumers by invoking the fun element without going out of the brand’s ecosystem. The more engagement a brand receives, the more integral it is to a consumer’s life, thus influencing their purchases and usage. Capillary uses gamification as a pillar of engagement with consumers; it has a gamification tool that allows you to play games, compete with friends on social media, and show off your skills on leaderboards.

Experiential Rewards

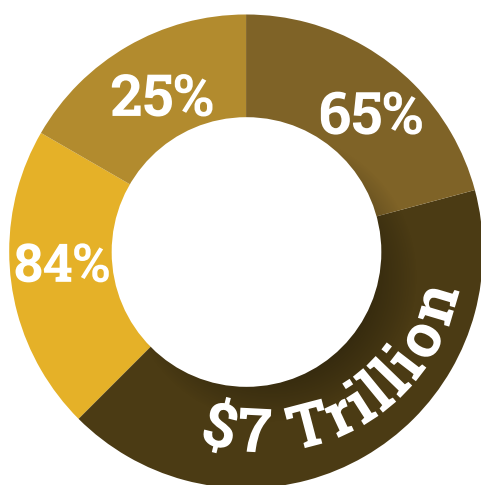


As competition increases in the retail landscape, creating a customized shopper experience will go a long way in earning the emotional loyalty of customers.

Based on the customer data collected, retailers can personalize their loyalty program by analyzing products bought by the customer, transactions made, and so forth. The greatest personalization your brand can offer customers in this decade is a high level of experiential rewards. The 'non-transactional rewards' of the past decade have been limited to free delivery, free parking, and rewards designed to meet the needs of larger customer groups. Experiential rewards must give greater choice to the consumers based on what they resonate with individually.

Studies show that Millennials are more likely to engage with a loyalty program when they have a choice of personalized rewards, customized experience-based rewards such as charitable donations, non-brand experiences, and so forth. These consumers want to have a say in how engagement takes place.

In another instance, Capillary powered a major North American company to run an exclusive, experiential program for their top-tier customers. This allowed customers to unlock experience-based rewards using the points they earned, such as spa vouchers or a dinner for the whole family.



\$7 trillion in liquid assets by the end of this decade. No generation previously has held such massive purchasing power

65% of Gen Z and 71% of Millennials are highly influenced by loyalty programs

84% of Millennials have stated that they would prefer experiential rewards from loyalty programs

25% revealed they would like to share their rewards with family and friends

A man in a light-colored suit jacket and tie is smiling and holding a dark-colored shopping bag with black rope handles. The background is a blurred indoor setting with warm lighting and other people in the distance.

Why will this trend in 2020

The true essence of luxury is defined not by how much cash is spent, but rather how priceless the overall experience is. Experiential rewards are a powerful tool in connecting with consumers. For retailers in 2020, rewards must go beyond points or marketing; it must create a convenient, exclusive experience for the customer— one that gets them excited.

Senior consultant at Kobe marketing, Howard Schneider notes, “customers will remember their experience long after they’ve forgotten the discount.” Loyalty programs that lack an experiential dimension may risk losing a major demographic of customers.

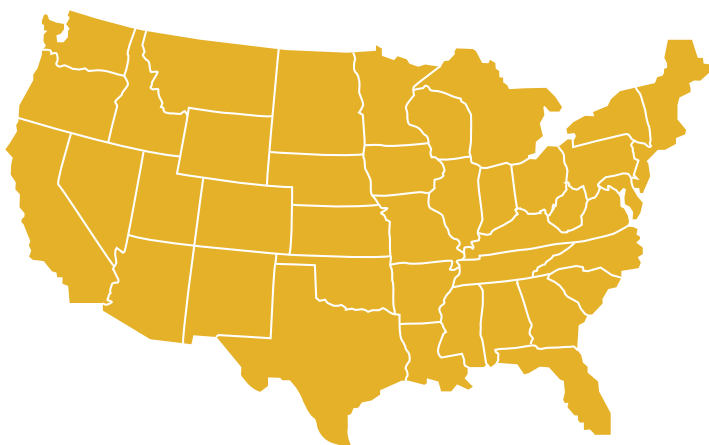
Bye Bye Direct Mails

#5

Flyers & Direct Mails have arguably been around for hundreds of years as a marketing practise. While it has had its fair share of advocates, according to a recent report on 'CMO Trends and Future of Direct Mail Through 2020', the share of Direct Mails in the marketing budget is shrinking every year. In the current age of fast fashion and shifting consumer preferences, Direct Mails lag far behind contemporary marketing methods. With personalization, real-time offers and Artificial Intelligence becoming the new norm, Direct Mails clearly hold a disadvantage.

As Artificial Intelligence & Machine Learning programs gain more ground, AI is becoming impressively accurate in predicting human behaviour and purchase patterns. AI-based programs can help retailers target communication for different segments of customers. Replicating the same via direct mail would be time consuming, complicating the calculation of Return on Investment.

Decade 2020 will see more synchronization of direct mail campaigns with social media, so they appear before, during and after a purchase is done. Retailers still face a massive gap while attempting to cross-sell and upsell efficiently via direct mails. A USPS Survey shows that the volume of advertising mail received by U.S households increases with the household income, the average age of household members, as well as the number of adults in the household. The survey states that millennials tend to read less advertising mail compared to older heads of the household.



The Average American receives 454 piece of direct mails every year

North American direct mail volume (excluding catalogs) declined from 93.1 billion pieces in 2008 to 77.9 billion pieces in 2014

Direct mails have an average response rate of 3.7%

Why will this trend in 2020

While there is no denying that direct mails will continue to exist, there are a growing number of use cases where direct mails provide little help:

Upselling & Cross-selling

After handing out flyers to customers in-store based on their purchases, a North American brand decided to move to a real-time dynamic vouchering system. This allowed customers to receive a push notification as soon as they were billed, allowing the retailer to upsell and cross sell more efficiently. This real-time dynamic vouchering system helped the brand realize a hit rate of 8%, compared to the previous hit rate of 4% while using flyers.

Targeting non-members

Ditching direct mails, a global convenience store chain enabled targeting non-members with customized communication by triggering rules based on their purchases, and using real time vouchering to infuse technology with age-old bill printing.

The Bottomline

While the last decade saw an uptake in the number of memberships, acquiring new members for loyalty programs was seen as an expensive-yet-essential exercise for brands. At the same time, the high number of inactive memberships indicated that, barring some outliers, brands are not doing enough to offer a truly customized and emotionally-engaging program. The last decade saw consumers getting conditioned to expect discounts as the primary reward for loyalty programs. This exercise has devalued loyalty for retailers who find themselves lost in an unending discount cycle.

The cycle is easy to break:

Most brands have hardly struck the tip of the iceberg when it comes to personalization. Marketers of the new era must quickly adapt to tech tools that help create seamless personalized experiences for clients. Retailers will have to remind themselves of the adage: no two customers are the same.

Methodology

Capillary conducted a study with 28 chief marketing officers across the globe. Spanning three verticals, the research focused on the top priorities for retailers & marketers in the next decade.

Marketplace research: Capillary analyzed over 100 loyalty programs across 7 countries in order to gauge the strongest features of different programs.

Resources

1. The best loyalty program go beyond rewards

<https://www.forbes.com/sites/shephyken/2017/03/25/the-best-loyalty-programs-go-beyond-rewards/#4bbea7062503>

2. AIMIA Global Emotional Loyalty study 2019

3. REDUX: The new story of Loyalty: Bond Brand

4. Is it time to Rethink Loyalty Programs:

<https://assets.kpmg/content/dam/kpmg/be/pdf/Markets/is-it-time-to-rethink-your-loyalty-program.pdf>

5. Loyalty trends and best practices AIMIA

<https://www.aimia.com/loyalty-trends-best-practices-2019-round-up/>

6. Leveraging the Value of Emotional Connection for Retailers (September 2018). Motista.

<https://www.motista.com/resource/leveraging-valueemotional-connection-retailers>

Jatin leads Capillary's North America markets and comes with 10+ years of experience in consumer marketing, Customer Loyalty & Ecommerce, his last stint was with Jubilant group where he was responsible for Consumer Marketing & Digital Innovations. Jatin has spent the better half of his career with Capillary and has worked with the company in India, South Asia, Middle East, Eastern Europe and more

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