

Digital Transformation - The Power of Physical to Digital Loyalty



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Introduction & Background

When modern customer loyalty programs were first introduced by stores in the early 1990's, the successful execution and recurring use of such programs enabled retailers to change the game by inspiring greater brand connection and retention of their customers. While there's nothing better in retail than a superb customer experience and a loyalty story, the effectiveness of traditional card-based, in-store loyalty programs is waning. To combat this decline, retailers are looking toward Omnichannel Loyalty programs to enable consumers to both access and exercise their loyalty benefits across channels (in-store, online, mobile and social) and drive long-term customer value.

- The success and continued growth of loyalty programs is plagued by challenges including members' lack of easy access, awareness of benefits and ability to track, cumbersome point-of-sale (POS) processes, and growing consumer reliance on mobile devices.

Retailers ranked Omnichannel Loyalty as the **no. 1** capability to improve customer experience management



81%

of loyalty members are unaware of the benefits of their current programs, or the process related to rewards redemption



2%

decline in overall active member rates within retail from 44% in 2013 to 42% in 2015



Store or Digital Loyalty?

The old adage in stores is that loyal customers do the marketing for retailers by referring their entire circle of friends and family. And while this is true, the meaning and impact of loyalty in stores has evolved with the new and unique digital dimensions of customer behavior.

- Customers are used to card-based loyalty and rewards programs, but such programs do not work for all customers. Card loyalty works only when it is easy for customers to use.
- The rapid adoption of smartphones and advances in retail commerce mean more and more consumers can access digital loyalty programs.



70%

of US millennial consumers shop online at least once per month and 33% shop on mobile devices



69%

of consumers are more likely to use a retailer's loyalty program if they can store the card on their smartphone



48%

of consumers continue to participate in a loyalty program because it's available on mobile

Loyalty in the Store has its Share of Deep-Rooted Problems

First and foremost, card-based loyalty programs are not always **simple and straightforward to use**. In the stores, for customers to use loyalty cards consistently, active reminders and engagement are required at the point-of-service. In addition, customers often fail to carry their physical cards or certificates to the store.

The second challenge is that loyalty cards are going through **a state of declining returns. This is mainly due to the fact that new loyalty sign-ups, retention and customer acquisition** require a significant marketing spend. The ROI of traditional loyalty is no longer guaranteed thanks to inconsistent customer spending and shopping patterns.

Another big challenge is how to ensure **recurring loyalty card usage and timely redemption** of reward points or dollar perks.

6 in 10



retailers believe that the most critical element to building a comprehensive unified personalization strategy is making it work across all channels

More than 50%



of all customer loyalty cards are inactive. Statistics provided by a California QSR chain on their loyalty cards show just 18% were active within 6 months, while 44% remained entirely unused.

Finally, the dramatic shift in customer path-to-purchase behaviors in retail is one of the most critical challenges that retailers face today.

The framework outlined below explains the evolution in the customer's path-to-purchase:

Standard Store Path-to-Purchase



Cognitive
Need



Sourcing
Information



Referral



Store
Visit



Decision
Process

Digital Path-to-Purchase



Electronic
Search



Comparative
Assessment



Reminders



Personalization



Decision
Process

A standard customer path-to-purchase journey in the store has dramatically shifted from a show-and-tell scenario towards greater access to digital pricing, promotions/messaging, electronic search, and personalized reminders using frictionless eCommerce and dynamic mobile apps.

This is one of the main reasons retailers need to incorporate mobile and digital loyalty to their current reward programs.

Absence of a clearly articulated strategy is stated as the top challenge in the implementation of customer experience management strategy in stores



Retailers state that more personalized communication can help boost sales by **5.1%**.
Digital devices are more personal than ever before



Considering these shortcomings and the astronomically high customer experience bar set by the likes of Amazon, Apple and Uber, loyalty programs need a serious overhaul. The next stage of evolution in retail loyalty – Omnichannel Loyalty – is the powerful confluence of the physical and digital loyalty worlds to address the challenges faced by consumers and retailers.

- There is a compelling need for retailers to be omnipresent with their customers - be it mobile, social or physical and to switch from today's in-store-focused loyalty model to a digitally-inclusive omnichannel program.

- This new model enables rewards, point-perks, or VIP programs to function in an all-encompassing web-mobile-social-store shopping environment, providing a seamless experience across all channels for shoppers and an integrated view of engagement for retailers.

Retailers expect **10%** improvement in the 'average basket size' as a result of delivering outstanding customer experience across all channels



66%



of smartphone users would have a more positive opinion of a loyalty program if they could store and access information on their smartphone

6 in 10



retailers believe the most critical element to building a comprehensive unified personalization strategy is making it work across all channels

Omnichannel Loyalty: Where Digital Meets Physical

Because digital is influencing 50% of retail store sales and on average 1 in 3 millennial customers use their mobile phone to shop at least once a month, loyalty programs and digital customer experiences must capture the essence of what customers need today from retailers -- a robust value-driven and integrated approach incorporating loyalty for fulfilling the end-to-end path-to-purchase journey across all channels - digital and physical.

94%

of retailers see in-store digital capabilities as important not only for customer experience but also for store operations



57%

of consumers are interested in using their mobile device to check their points balances, redeem reward points (55%), and browse reward options (54%)

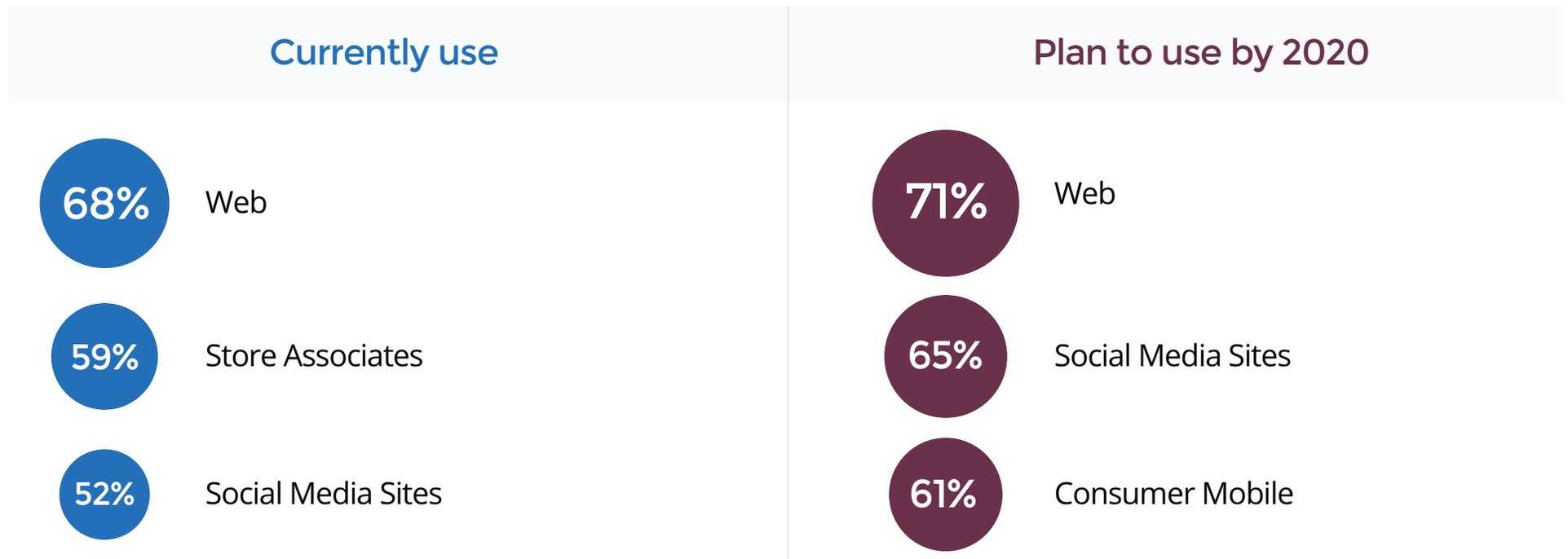


The Three Pillars of Omnichannel Customer Loyalty

Can retailers augment their loyalty card programs to achieve an omnichannel customer connection? It's definitely possible.

The ideal DNA of an Omnichannel Loyalty program consists of three important pillars to engage shoppers at every step in their journey. Omnichannel Loyalty programs must offer multiple interaction models for greater customer convenience, personalization, and long-term customer value across multiple touchpoints in and out of the store.

Increase in adoption of omnichannel customer touchpoints for capturing customer feedback



The three pillars of an omnichannel customer loyalty approach include:

1. A holistic customer experience: requires an end-to-end store and web commerce-connected mobile loyalty experience journey that covers all customer touchpoints and marketing channels.

- The goal of any end-to-end Omnichannel Loyalty program is to provide the ability to dynamically invite new customers to use the benefits of the loyalty program on their mobile devices (via opt-in SMS, social messaging, or in-app messaging) before or during the point of interaction in the stores. And existing customers must be able to easily and consistently access rewards and account details, and apply loyalty points when needed towards future purchases, anytime anywhere.

Omnichannel vs single channel shopper benefits:

- **13.4%** higher basket size
 - **11.2%** higher profitability
-

2. Connecting the dots between customer growth and loyalty: a customer acquisition and sales channel growth model built around the need for robust customer acquisition, engagement and advocacy is a critical element in ensuring the success of omnichannel programs.

- In order to grow new and existing customer relationships, Omnichannel Loyalty platforms must help retailers cultivate new and existing customer relationships that enhance revenue, wallet share and long-term customer value.
- These business benefits can be gained by using omnichannel messaging (opt-in SMS, social messaging, e-mail and/or in-app messages) for prompt and personalized digital loyalty sign-up opportunities, and delivery of unique offers and redemption opportunities.
- The results are that retailers i) can ensure that their sales force isn't spending valuable time coaxing shoppers to sign up and ii) can access their customers' digital devices in order to deliver more personalized experiences.

- 3. In-depth customer loyalty insights:** leveraging deep customer usage and preference information (using combined data from digital and physical store/POS data) plus insights from real-time loyalty engagement help can provide valuable opportunities to analyze trends and ultimately drive loyalty programs to the next level. These actions aid improvements in sales, marketing and messaging across channels.

4 in 10

retailers are currently using customer loyalty insights, another 4 in 10 retailers are planning to use it in the next 24 months



4 in 10

retailers share loyalty data in real-time with their store managers



Conclusion & Recommendations

An agile shift towards Omnichannel Loyalty programs requires not only integration of the physical and digital worlds, but also process and technology transformation. The key essentials of an effective Omnichannel Loyalty approach include:

- **Ensuring easy accessibility to loyalty program features.** Giving customers the ability to access the program (obtain cards, points balance, rewards certificates, program benefits, automated reminders, new offers etc.) via all existing digital marketing channels (email, SMS, mobile apps, digital wallet, and Facebook) and both in-store and online is vital to ongoing loyalty success.
- **Leveraging engagement data is an integral part of an Omnichannel Loyalty approach.** Engagement data can provide the trends and patterns associated with the effectiveness of program benefits, offers, customer acquisition, retention, wallet share and channel growth. The use of this engagement data can improve the loyalty program performance.
- **Reducing signup friction to make it easy to acquire new member and engage with existing customers.** Omnichannel success starts when retailers deliver a simple customer signup, without delays or time-consuming steps. Giving new customers the ability to join a loyalty program on their smartphone and providing existing customers an easy way to become digital members without the POS, store associates, or clunky desktop-only processes can increase the loyalty acquisition rate and provide an improved experience.
- **Identify opportunities which leverage existing POS, CRM, and loyalty systems.** Both physical and digital loyalty applications must be able to operate together within the existing environment as an overlay or upgrade without requiring significant upgrades to existing store or back-end enterprise systems.



Our research agenda is developed using inputs from the end user community and the end user community extensively reviews the research before it is published. This ensures that we inject a healthy dose of pragmatism into the research and recommendations. This includes input of what research topics to pursue, incorporating heavy practitioner input – via interviews etc., and ensuring that the blend of research take-aways are oriented towards a real-world, practical application of insights with community sign-off. For more information, visit www.eknresearch.com.

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