

About this report

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About the research

To better understand customer loyalty, Deloitte commissioned an online consumer survey carried out by an independent market research agency. The survey was conducted with a UK nationally representative sample of 2,164 adults aged 18 and over between 16 June 2017 and 19 June 2017.

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Loyalty is a relationship, not a scheme

In this edition of the Deloitte Consumer Review, we are revisiting a theme explored in our 15th edition: the challenge businesses have in delivering a positive customer experience. We focus in particular on customer loyalty.

Deloitte believes traditional loyalty schemes need a rethink not only because of changing consumer expectations, but also because they have become expensive to run and difficult to unwind. Securing customers' loyalty goes beyond having a loyalty programme. Loyalty is the brand's ability to be 'top of mind' in a customer's head as well as to secure a sense of allegiance from consumers. Allegiance is much harder to achieve at a time when every consumer has different expectations and responds to different triggers when it comes to engaging with a brand. Getting the customer 'experience' right has become the differentiating factor for many successful business models. The right loyalty strategy should help to deliver that experience.

This report will examine a number of viewpoints:

- the traditional customer loyalty scheme has become a 'tired' concept that needs to be reinvented
- the customer experience is just as important as points or financial rewards to secure customer loyalty
- winning and retaining customers in the digital era requires a mix of personalisation, relevance, exclusivity and engagement across all the different channels
- traditional points-based schemes are often not agile enough to meet rapidly changing customer expectations in the same way that 'connected stores' and new technologies can engage with consumers¹
- traditional financially driven loyalty schemes can become a financial liability for businesses
- businesses need to consider a custom-built solution for implementing their loyalty strategy versus an off-the-shelf 'buy' version
- loyalty solutions need to be agile to build and enhance the offering.

The traditional customer loyalty scheme has become a 'tired' concept that needs to be reinvented

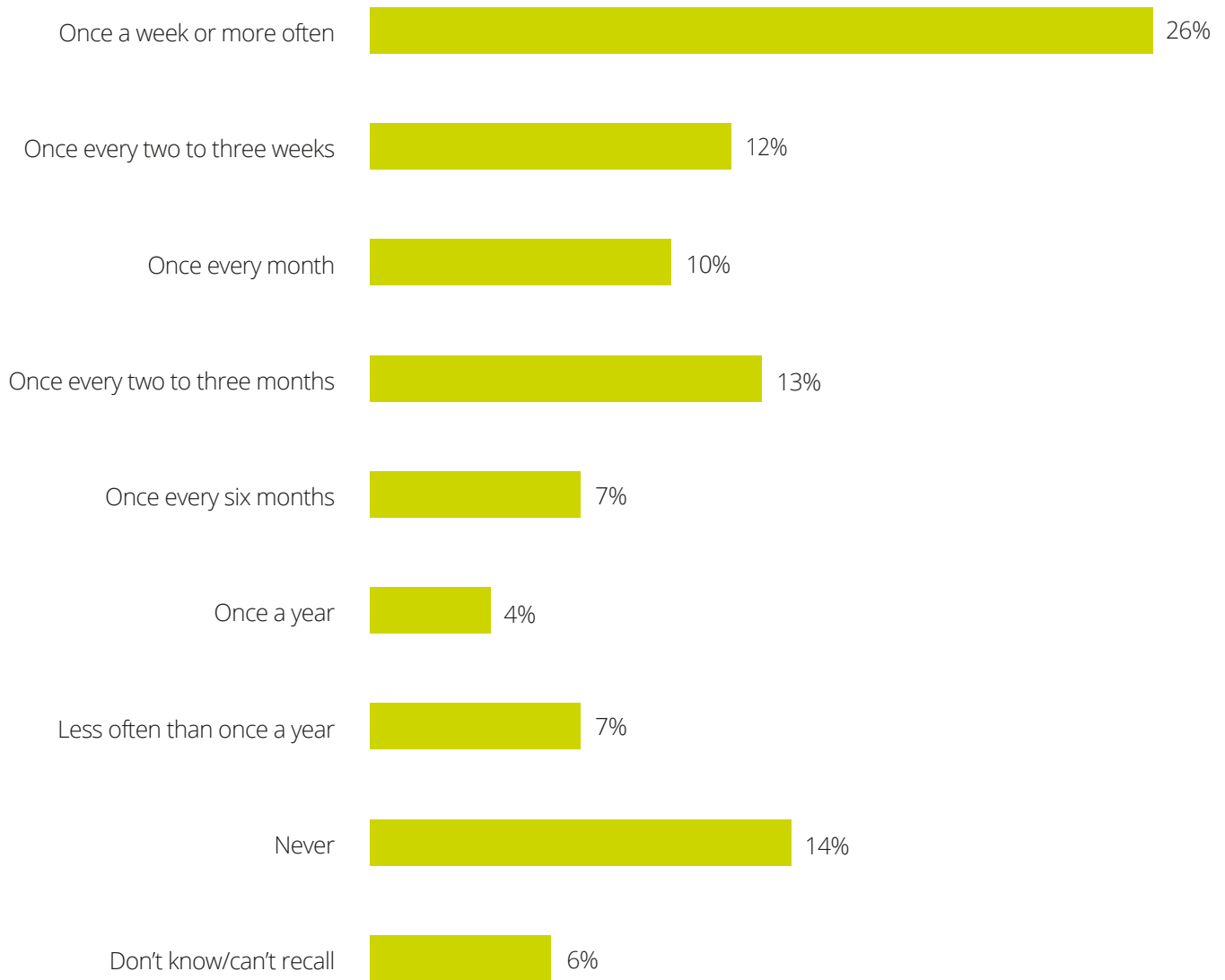
Loyalty schemes are no longer the differentiator they once were. Although the word 'loyalty' is often associated with the points and financial incentive schemes that were launched over 30 years ago, these schemes are no longer enough to satisfy a more demanding customer, whose loyalty has evolved and requires a more personal and relevant approach.

According to Deloitte research, the majority of consumers consider being rewarded for their loyalty as the norm but not a differentiator. The research demonstrates that while participation rates to loyalty schemes are relatively high, the reward offered is not seen as differentiating for the brand, it is expected rather than prized or valued. The data shows that one in two consumers is a regular user of loyalty schemes, making use of a brand loyalty scheme at least once a month. Moreover while 54 per cent of people claim to like points-based loyalty schemes, a similar share of consumers do not always redeem all their points (53 per cent). When asked about their attitude to loyalty schemes, 42 per cent indicated they needed more than points to shop with a brand (see Figures 1 and 2).

Sir Terry Leahy once said: "The true source of loyalty is to create benefits for people." He went on to explain: "That's really what builds loyalty. Sometimes people concentrate too much on devices like a loyalty card, such as the Clubcard."² This statement demonstrates the need for schemes to evolve with changing consumer expectations.

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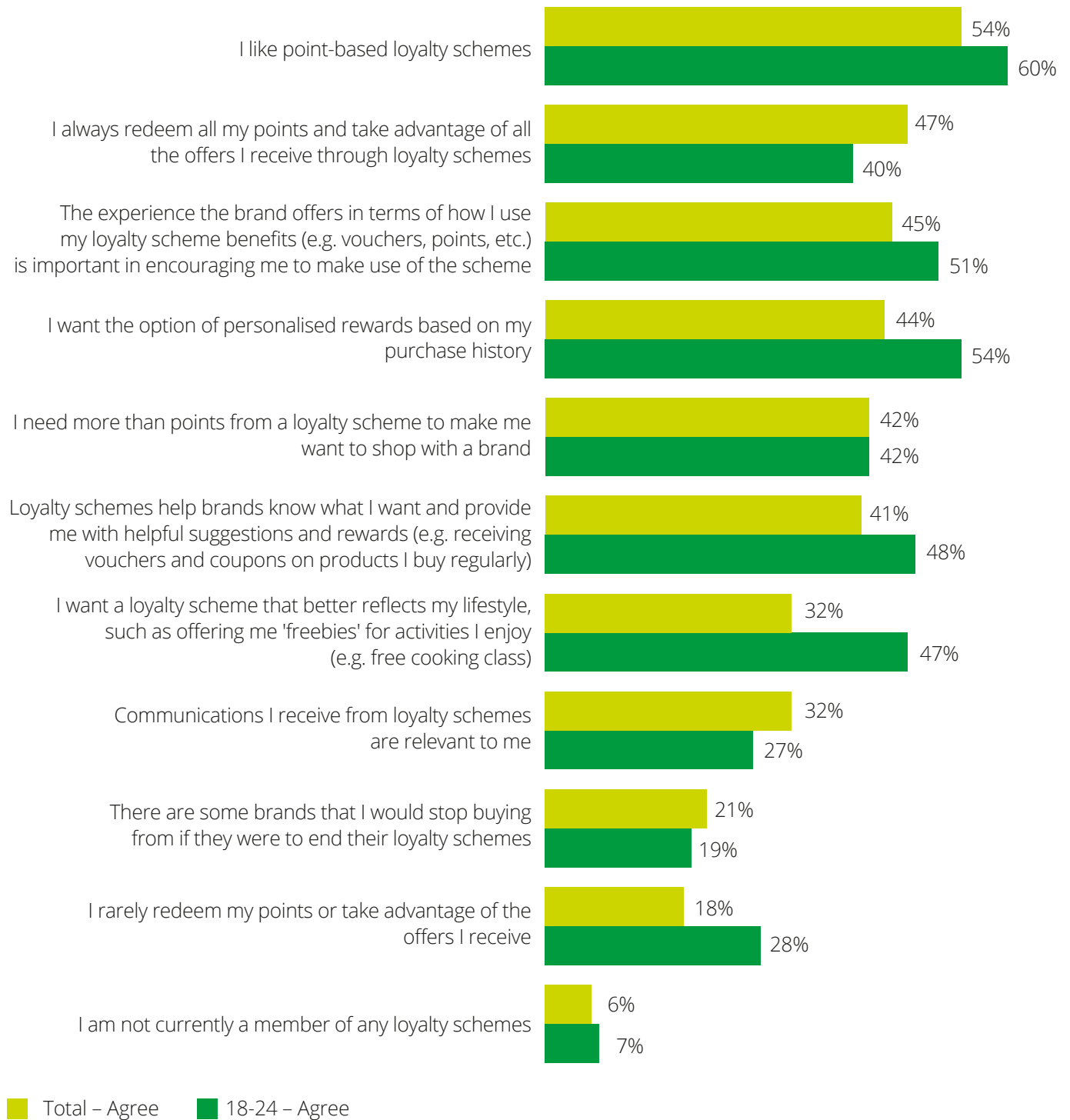
Figure 1. Frequency of usage - Loyalty schemes



Source: Deloitte UK, June 2017

Base: All GB adults online (n=2,164)

Figure 2. Attitudes to loyalty schemes



Source: Deloitte UK, June 2017

Base: All GB adults online (n=2,164)

The customer experience is just as important as points or financial rewards to secure customer loyalty

According to our research, overall experience as well as loyalty schemes are important factors beyond value for money, trust, quality, convenience and customer service in achieving loyalty. Among the reasons people give for being loyal to a brand, 27 per cent claim it is about the quality of the shopping experience and 26 per cent like the brand's loyalty scheme (see Figure 3). Previous research has also shown that over 50 per cent of consumers say that the overall enjoyment of their experience is important in their decision to buy a product or service.³

Loyalty should be about more than just collecting points. Loyalty programmes lose their significance when they are surrounded by similar schemes. On average, people are enrolled in 14.3 loyalty programmes, according to a recent report from Bond Brand Loyalty.⁴

Many of the current schemes just reward normal behaviour or routine, not loyalty. Loyalty is often tied to routine, so any innovation that simplifies a routine while enhancing the customer experience is a reward in itself. Businesses should try to ease the burden on customers by making the journey frictionless and easier. While rewarding customers for their repeat purchases is important, it is the overall experience that matters the most.

It is very likely that customers will remember their experience with a brand long after they have forgotten receiving a discount. Loyalty programmes need to focus on the role they can play in the overall customer experience to help forge that relationship between the customer and the brand for the long term.



Case study – Marriott, the power of tiered loyalty

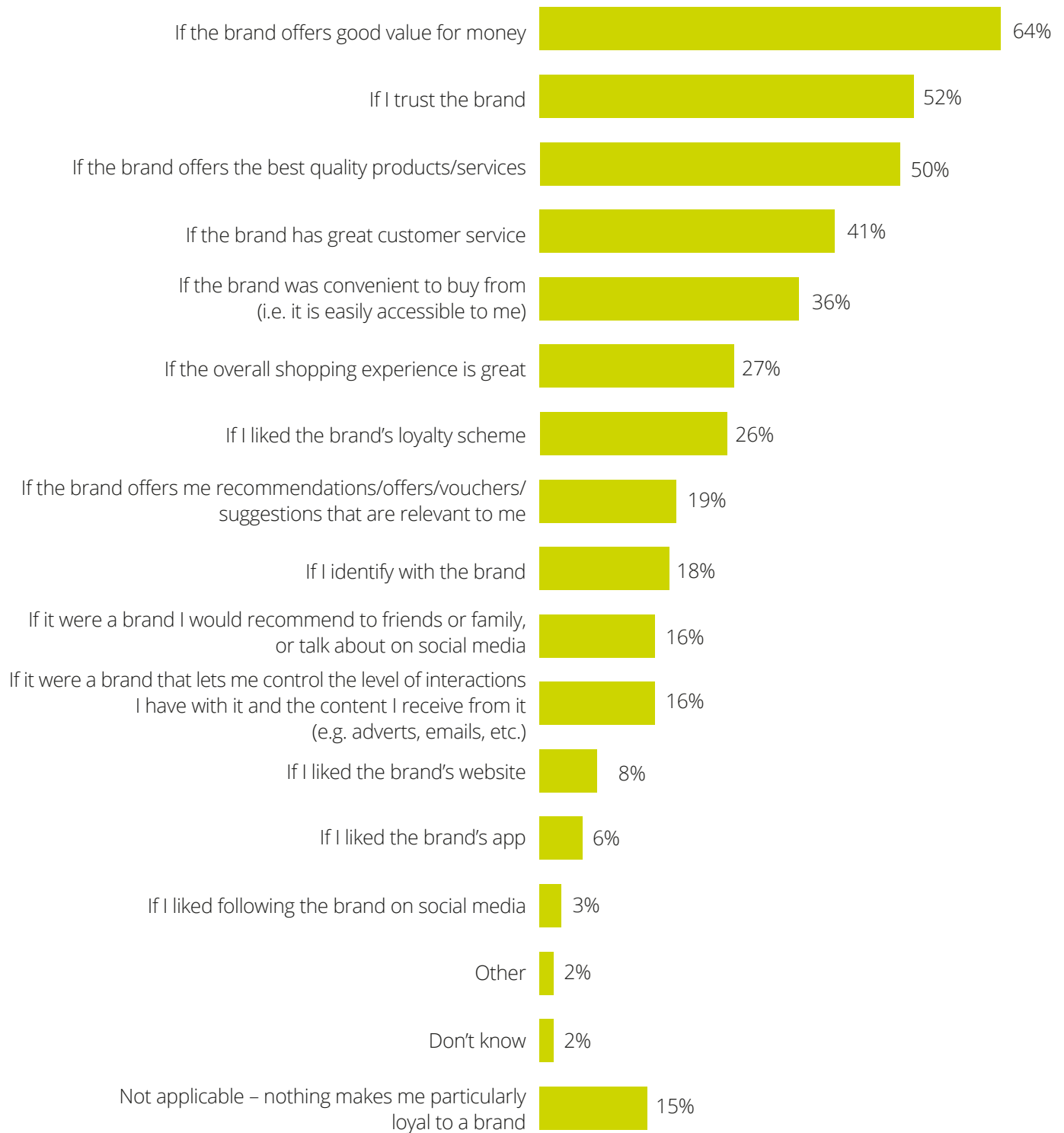
There are many travel rewards programmes, but none have embraced the power of tiered loyalty quite like Marriott Rewards. Marriott has decided to push this concept one step further with what is called “tier-ception”.

Marriott Rewards takes gamification to a different level by giving customers the opportunity to keep improving their status in the programme.

The Lifetime Status tiers recognise customers who make a long-term commitment. Once this status is achieved, it can never be revoked or expire, ensuring the customer receives the benefits of either Silver, Gold or Platinum.

This is a good example of a scheme that rewards lifetime customer value not just individual transaction value.⁵

Figure 3. Drivers of loyalty



Source: Deloitte UK, June 2017

Base: All GB adults online (n=2,164)

Winning and retaining customers in the digital era requires a mix of personalisation, relevance, exclusivity and engagement across all the different channels

Consumers want to be recognised and rewarded as individuals, not as nameless, faceless point collectors. Consumers want to be rewarded based on their personal tastes and choose how they interact with a brand. Today's savvy consumer also expects brands to be more relevant in the way they communicate and engage with them. When it comes to consumers' attitudes to loyalty schemes, Deloitte research shows that personalisation and relevance are high on the list of what consumers expect from a loyalty scheme (see Figure 2):

- 44 per cent of consumers agree with "I want the option of personalised rewards based on my purchase history"
- 41 per cent of consumers agree with "Loyalty schemes help brands know what I want and provide me with helpful suggestions and rewards, (e.g. receiving vouchers and coupons on products I buy regularly)"
- 32 per cent of consumers agree with "I want a loyalty scheme that better reflects my lifestyle, such as offering me 'freebies' for activities I enjoy"
- 32 per cent of consumers agree with "Communications I receive from loyalty schemes are relevant to me."

According to our research personalisation and relevance are more important to the 18 to 24-year-olds compared to the rest of the population. This group wants a different way to engage with brands. And while this group is more likely to enjoy a points-based loyalty scheme they are less likely to redeem the points (see Figure 2).

This might reflect the fact that the most popular loyalty schemes are older than many of the millennials and were designed for previous generations. However, in a sign that the early innovators in the loyalty arena are starting to move in the right direction, Tesco has just relaunched its Clubcard with a brand-new look and contactless technology. Tesco claims it will save customers time at the checkout and enable them to get more from the loyalty scheme such as spending points with the like of Uber and Hotels.com.⁶

The power of 'next-best-action' analytics and machine learning have enabled more relevant and personalised one-to-one communications with the customer.⁷ Businesses that have adopted such tools are the ones who will thrive in this ever changing loyalty landscape.

In the digital era it is important that loyalty schemes give consumers some control over curating and selecting the rewards and level of interactions they have with the brand. Brands that build loyalty programmes collaboratively with their customers can lower the risks and increase their chances of success.

Given the importance of consumers' data for businesses to offer more personalised and relevant experiences, clearly communicating to consumers what they get in exchange for their data is key to ensuring consumers willingly share their personal data. Previous Deloitte research shows that nearly two-thirds of consumers would be willing to exchange their personal information for benefits, such as financial rewards, improved products or services, help with achieving personal goals or more personalised experiences.⁸



Case study - Amazon, the master of understanding customer needs

Amazon Prime's success can be seen by the fact that people are willing to pay £79 a year for it. Not many loyalty programmes have been able to show enough value to make people willing to pay to receive their benefits.

Amazon Prime has done this by offering perks such as free access to its streaming service with free videos and music, and free next-day delivery. These perks are only available to Amazon Prime members who therefore feel more valued by the company compared to the average customer. This has led to an estimated seven million Amazon Prime members who spend twice as much on average as non-members.⁹

Traditional points-based schemes are often not agile enough to meet rapidly changing customer expectations the same way that 'connected stores' and new technologies can engage with consumers

Consumers in the digital era are fickle and securing a share of both their 'hearts and minds' is a key challenge for businesses. Technology has encouraged them to shop around more. The digital revolution has transformed loyalty from the basic concept of a customer repeating purchases with the same brand and being tangibly rewarded to something less tangible. Research shows that today's customers will be more loyal to 'experiences' than to brands, products or companies.

Technology can provide solutions to the shift in the nature of loyalty by offering more relevant customer experiences.

Deloitte research shows that while 43 per cent of people do not know what technologies would make them more loyal, those who do (around a quarter) want technologies that allow more personalisation, frictionless experiences, customisation and curation. This is particularly true among 18 to 24-year-olds who are also more likely to use technologies to engage with a brand (see Figure 4).

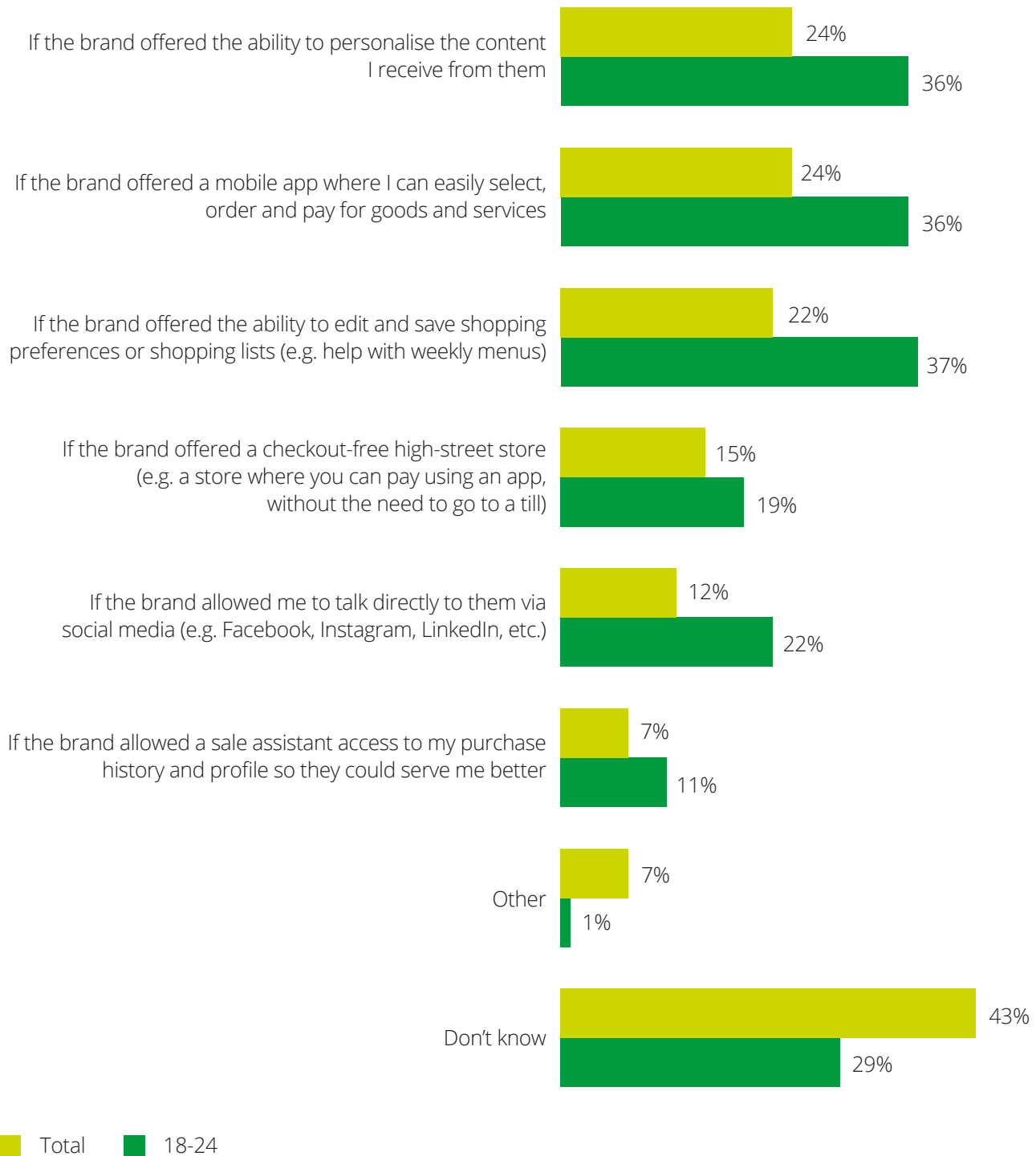
Technology-based solutions that could enhance the customer experience include:

- using software like Persado that can write cognitive content and significantly drive conversion rates and increase the return on investment¹⁰
- developing an integrated cross-channel approach to ensure a more seamless shopping experience
- creating an app. Apps are opening up endless possibilities for loyalty programmes. They offer location-based services to reward browsing and create highly targeted offers, mobile wallet for seamless payment and accumulation of points, gamification and social media. In addition, Apps can integrate the camera for coupon scanning and receipt-based purchase validation. Smartphones are the platform on which new loyalty programmes are being built. Card-based systems now also need to offer a supplementary smartphone app
- offering coupon and barcode scanning apps, that can recognise scanned receipts or QR codes displayed on restaurant tables offering instant-win prizes
- incorporating an 'OmniCart' function that allows shoppers to complete transactions on their smartphones that were started in the physical store
- gathering data using sophisticated in-store technologies that build comprehensive customer profiles in near real time
- positioning tablets outside store fitting rooms that scan the items shoppers try on, linking the product and the customer's online account details.

Businesses need to adapt to the digital age by adopting agile and flexible solutions that will allow them to realign their customer experience programme to constantly changing customer expectations and needs. This has become even more important given the exponential growth in start-up and technology-led competitors eager to fill any gap they spot in the market. With every new business model offering a better experience, consumers' expectations mount as does the pressure on traditional businesses to adapt and transform their business models.

Technology can provide solutions to the shift in the nature of loyalty by offering more relevant customer experiences.

Figure 4. Preferred technologies



Source: Deloitte UK, June 2017

Base: All GB adults online (n=2,164)



Case study - Virgin boosts engagement

Virgin is for the first time combining all its UK businesses under one loyalty programme as it looks to boost engagement with its customers and gain a competitive edge.

The loyalty app will reward members with offers and discounts for using Virgin services and engaging with in-app content. The experience will also be personalised based on what people do in the app, for example if someone shows an interest in holidays at home they might be shown content or offered deals based on Virgin Trains.

The loyalty programme is designed to encourage multiple relationships.¹³

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Traditional loyalty schemes can become a financial liability for businesses

Loyalty programme innovation can be risky and expensive, whether because of cost, fear of alienating the current membership base or doing it inefficiently. However investment in loyalty initiatives is on the increase. New roles at the executive level are being created with chief customer officer (CCO) and chief data officer (CDO) positions emerging in many businesses. Yet most businesses do not realise the true cost of traditional loyalty schemes.

According to Deloitte research, only about half of consumers (47 per cent) always redeem all their points and take advantage of all the offers they receive through loyalty schemes. The figure is even lower among the younger age group (40 per cent) (see Figure 2). Points-based programmes have not only become so commoditised that it is getting harder to drive participation, they are also difficult to unwind.

Years ago, loyalty programmes were typically partnered with third-party providers. This meant that businesses missed what is now considered a strategic asset: access to data and control of much of the loyalty programme. In addition, the outstanding redemption costs on a business's balance sheet can be difficult to manage.

Given these risks and the lower return on investment in using a third party scheme, businesses need to build more internal loyalty capabilities that focus on experiences rather than points, giving them greater control and flexibility.

However, a newer experience-based scheme can be difficult to operate at a sufficient scale, the payback can be hard to measure and the value exchange between customers and brands opaque. Considering these challenges will also be critical in implementing a successful loyalty programme.

Businesses need to consider a custom-built solution for implementing their loyalty strategy versus an off-the-shelf 'buy' version

With the speed of change accelerating in both technologies and customer expectations, the best approach businesses can adopt is to design a flexible loyalty ecosystem.

However, one question still remains: should businesses invest in building their own solutions or in buying off-the-shelf technologies and system integrators or even a combination of both? Given how important an asset data has become, businesses are increasingly wanting to own and control their loyalty scheme.

More and more businesses employ data scientists, engineers and product owners to customise their loyalty initiatives to reflect their customer preferences and align their programmes to their brand proposition. As a result businesses can enhance their loyalty schemes exponentially rather than through more traditional incremental changes.

Loyalty solutions need to be agile to build and enhance the offering

Many businesses run large Customer Relationship Management programmes (CRMs), but on costly legacy systems that are not sufficiently agile to deal with rapidly changing customer expectations. Businesses can no longer accept that it takes three years to develop the IT solution for CRMs and loyalty programmes.

Businesses should be developing their own solutions using open-source software like Python and data scientists to develop algorithms that accelerate releases to customers.

Businesses that are customising existing technologies and building their own solutions are not only gaining greater control over their data, they are also more agile in offering a better customer experience and can release programme improvements on a two-to-four-week basis.

Online-first retailers have led the way in providing customers with experience-based, relevant and personalised rewards but the majority of businesses have not yet developed the necessary analytical capabilities to do so.

While we have examined a number of viewpoints in this report, it is clear businesses have an opportunity to redefine their loyalty strategy and enhance their customer experience as a result.

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Key priorities when rethinking the customer loyalty strategy



Creating more relevant and timely experiences across all touchpoints by incorporating data science and using technology such as 'next-best-action' and 'real time' should be realistic ambitions for businesses



Easing the burden on customers' wallets by providing mobile enabled loyalty identifiers creating a frictionless checkout experience



Driving engagement through gamification to reward desired behaviours such as transactions, social media engagement, 'refer a friend' and product reviews



Enabling customers to have control over their own experience and engagement with a brand through agile delivery



Attracting a new customer can cost five times as much as keeping an existing one, so companies need to pay as much attention to retention as they do to acquisition. Boosting customer retention rates by just 5% can increase profits by between 25% to 95%¹⁴



Remembering that people are still interested in loyalty programmes but that their expectations have changed, especially among young people



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