COMARCH CRM&MARKETING

COMARCH WHITE PAPER
WHAT DRIVES CUSTOMER LOYALTY?

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1. WHAT DRIVES LOYALTY?

Shoppers are getting smarter. For decades, we as consumers have been driven by our need to distinguish ourselves – to compete with our friends, neighbours and family. The credit crunch delivered a sharp shock to this mind-set.

For many of us, shopping is no longer about keeping up with the Joneses, but about meeting our own expectations. What do we really want? How can we get the best deal for it?

The concept of loyalty has changed. We have more jobs in our lifetimes than our parents, we change banks and service providers at the flick of a switch – when previous generations stayed put for life – and we are more willing to move location. While we may feel an emotional pull towards a specific brand, we know that the supermarkets can pull them off the shelves tomorrow, making us try something new or go somewhere else for that product.

“

80% of survey respondents said they are better shoppers than they were a few years ago; 70% said they get more value out of their retail purchases than they did five years ago.”

OmniShopper Report

MasterCard, 2015

Yet retailers and brands, whatever industry they're in, need reliable customers. Various studies have shown that we, as consumers, become more profitable to a brand the longer we're loyal to them.

- A 5% increase in customer retention increases profits by anywhere from 25% to 95% (Bain & Co.).
- Existing customers spend 31% more, and are 50% more likely to try new products, than new customers (Invesp CRO).
- People who've made two previous purchases are nine times more likely to buy again than a prospective customer (Adobe).

Havas' Meaningful Brands study reported that if 74% of brands vanished overnight, most people wouldn't care. So what makes people come back for more? How do brands become part of that 26% that people care about?

2. WHAT IS LOYALTY? AN ACADEMIC VIEW

Beyond the intuitive statement that customer loyalty means, at heart, getting people to keep choosing to buy from a specific brand, or visit a certain store, over others, the Financial Times has specified four key components of loyalty that can be applied to the customer — brand/retailer relationship.

- Psychological loyalty – where people develop a bond with the staff at a certain shop or a brand, or feel a sense of comfort and certainty (for example) when buying online. This would also include the habitual need to stick with the same brand of everyday consumables.
- Economic – it makes more financial sense to stick with the current brand, retailer or supplier.
- Functional – the brand has become part of the person's routine, and changing brands now would mean a change in habits.
- Contractual – the customer may be tied in to a contract for a set time, and breaking the contract could result in a hefty fee.

While economic and contractual factors may be significant, they are built around convenience and therefore don't always represent long term loyalty in its truest form. There's no way of knowing if consumers signed up to a 24-month mobile contract actually still want to be customers, or if they have no choice. Neither can you guarantee that some customers won't switch to a cheaper brand the moment their 'favourite' brand becomes more expensive.

Psychological and functional loyalty is based on emotion, and is much more significant for companies and brands because it signifies a mutually beneficial relationship. People are loyal to a brand because they want to be. It makes them feel good, or they enjoy the benefits of being a customer. The retailer gets repeat custom, and the customer is happy with the products and service provided.

Loyalty programmes, customer cards and point collecting represent some of the methods that brands use to reward loyalty, but they don't always work, because they don't always focus on the right type of loyalty.

Craft a loyalty scheme that's built around sending customers money off vouchers and you're giving them an economic reward. However, if the individual receives a coupon for money off a product they'd never buy, it has no impact. In fact, it can have a negative result. "I know now that this brand knows nothing about me. It's probably giving these things out to everyone anyway, and it just wants me to buy more stuff".

According to research by Rare Consulting, 86% of people said that brand loyalty was driven by likeability, while 83% cited trust as the key factor. Meanwhile price, quality and convenience were important factors in general purchases.

To create genuine, lasting loyalty, brands need to focus on the relationship with their customers. Who are they? What do they want? How can the brand make their lives a little bit better? Loyalty is a two way street. Brands need to show loyalty to get it in return.

3. WHAT ARE THE KEY DRIVERS OF LOYALTY?

As we've seen, there are two types of loyalty. Loyalty built around convenience, and loyalty founded on emotional connections.

While it is possible to build long-term loyalty around convenience, it's harder to do. Businesses like petrol stations and coffee shops often rely on convenience-driven loyalty, but find that when people's circumstances change, or when they simply drive a new route to work, loyalty can evaporate.

Businesses selling expensive items, or experiences (the automotive industry, travel, hospitality and luxury and specialised retail) tend to depend on emotional loyalty. They identify and address people's wants rather than their needs. These customers may not spend with the businesses every day, but when they do, they often spend big.

In the airline industry it is important to remember that there are many other opportunities to engage customers beyond them booking flights. Through gamification, airlines can reward those who engage with partners or with the brand on social media. This way, no matter how much a person flies they can still gain rewards and feel included by the brand.

When examining what drives us to return to the same brand or retailer, we also have to consider what makes us stop returning. What incentivises us, and what drives us away?

A. INCENTIVES AND OBLIGATIONS

In its study on consumer loyalty, Deloitte University asked respondents why they stayed in both positive and negative business relationships. The top five reasons were:

1. SATISFACTION

The Deloitte study found that 86% of respondents remained in business relationships due to their levels of satisfaction. Fifty-five percent of these people said that they had a negative relationship, yet they were satisfied enough with the service to stay.

Customer satisfaction is a tricky concept. What keeps one person happy can be considered barely making an effort by another customer. Satisfaction also has a wide spectrum. It can mean, "I find shopping at this place annoying at times, but overall it's okay", but it can also mean "I love shopping here! I'd never go anywhere else." It could also mean the customer likes the products, but hates the customer service, or visa versa.

2. PREVIOUS INVESTMENT

Seventy-nine percent of respondents to the Deloitte study said that they maintained a business relationship due to the length of time they had been in it. This held true even for those with a negative relationship, 59% of whom stayed for that reason.

This is also known as the 'sunk cost effect'. We feel like we have invested time, energy and money into something, so we almost feel obliged to keep the relationship going. For example, why keep visiting the corner shop, if a supermarket has opened a small shop down your street? If you've shopped at the corner shop for 25 years, you're probably on first-name terms with the proprietor. There's a connection there that you're less likely to have with the newcomer, even if they do have a wider product range or lower prices.

3. SIMPLICITY

The Deloitte study found that 57% of people stayed in business relationships because switching would be too much hassle.

While some behaviour may look like loyalty in action, it may be simple inertia. People naturally look for the easiest, quickest route to solving problems and competing tasks. If there's nothing especially eminent about shopping with a certain retailer or buying a certain brand, why change?

The process of changing – whether it is our bank, our preferred brands or our hairdresser – requires us to learn new habits or tastes, and to form new relationships with people. It's hard, but it mustn't be confused with real loyalty.

A dissatisfied customer may choose to stay because it's too hard to leave, but the moment it becomes easier, they will probably make the switch. (Just look at what happened when bank switching was made easier in the UK.)

4. SPECIAL TREATMENT OR BENEFITS

Benefits and perks may seem like obvious ways to keep customers loyal. It's the foundation of many loyalty schemes after all. While 67% of people with a positive business relationship cited this as a reason to stay, only 25% of those with a negative relationship felt that this mattered to them.

Uniform loyalty schemes or benefits, where every customer gets the same perk are designed to be easy to implement, but are they effective? The best reward programmes are those that give personalised perks, rather than generic 20% off book receipts that get handed out with your transaction receipt at checkout.

Similarly, when at the airport, if you have never shopped at the high-end retailers why would only offers at these stores be of interest to you? If your loyalty programme history shows that you spend your time in duty-free and having a meal then offers should be tailored accordingly. While it is often good to encourage people to do something different, there needs to be a balance with brands also showing that they understand you as an individual.

5. SOCIAL OBLIGATIONS

Forty-six percent of respondents in the Deloitte study said that they stayed with a business due to social obligations. For example, if many of your friends and family use the same mobile provider, and you all get to benefit from free calls to each other, changing providers has a financial and social impact.

In 2015, Nielsen reported that 84% of people said recommendations from friends and family were the most credible form of advertising. But these recommendations may come with added social pressure. “I really like this, say that you like it too!” Sometimes, it isn’t easy for people to change their mind when it means letting someone down, or marking themselves as different from the group.

Again, this isn’t true loyalty to the brand or retailer; rather it’s loyalty to friends and family.

B. HABIT VERSUS LOYALTY

Repeat purchase behaviour doesn't always equate to a customer who is loyal to a brand because sales data alone doesn't show us why the purchase was made. For example, the purchase of a particular brand in a supermarket could be due to the customer's brand loyalty or because of the placement of the product in the shop. If its position on the shelves changed would the customer still purchase that particular brand?

Loyal customers will actively select the brand they're buying, rather than buying it simply because it is the most convenient purchase for them. It's dangerous for brands to combine the two motivations, as it provides marketers with a false sense of security.

Loyal customers don't just buy products out of habit, or because it makes them look good to splurge on an item. They follow the brand's latest news and are eager to hear about the latest products in development. For example, an Adele fan may spend 200 times the actual cost of a ticket on the black market, rather than shrug their shoulders at missing out on a ticket and the experience, then settle for streaming a low quality version of the concert at home. While a fan of a popular gaming franchise may buy not only the game, but the guide book, art book, soundtrack and extra copies of the games on any platform they have.

Habits can change with our circumstances, but genuine passion has staying power. It can create loyalty. The question is how do brands earn this loyalty?

4. JETBLUE AIRWAYS - CASE STUDY

JETBLUE

JetBlue serves 30 million passengers a year, many of whom participate in its loyalty programme. It is headquartered in New York with 12,000 employees and has more than 160 airplanes flying more than 750 flights daily serving 75 destinations.

Comarch analysed the air travel market, looking for a solution to change the way customers use the JetBlue frequent flyer programme. Five main areas Comarch could improve were identified: increase engagement; increase sales; more social; capture data; and enhance loyalty.

Comarch has designed and implemented TrueBlue badges. TrueBlue Badges lets JetBlue loyalty members compete against each other for recognition and rewards. Through this gamification platform, TrueBlue members can opt in to Badges, and their JetBlue flight activity is recorded on their own personalised map. More than 280 badges are available for activities like interacting with TrueBlue partners, getting social on social media, sharing experiences with friends and family, and more.

In addition to bragging rights for scoring badges, participants earn TrueBlue points for most of the Badges they collect. By adding a gamification element, members are able to engage across all of TrueBlue's activities – not just via flights. Customers enjoy the competitive part of Badges which adds to the overall engagement.

Facts & Figures:

- Over 1.3 million additional loyalty portal page views generated
- Over 1.5 million Facebook impressions of branded content
- Over 200% new transaction activations Q2Q
- Over 650,000 badges awarded
- Over 100,000 active users

Benefits:

- Higher traffic to the jetblue.com website across multiple social media channels
- Greater customer engagement
- Measuring online customer engagement
- Innovative and customer friendly brand positioning
- Increased conversion rate

5. WHAT CREATES SUCCESS IN A LOYALTY PROGRAMME?

A. CRITICAL SUCCESS FACTORS IN ANY LOYALTY PROGRAMME

Successful loyalty programmes see 60-80% of transactions being completed using a loyalty card. But how do customers get to this stage? For loyalty programmes to succeed, brands need to focus on the customer. Brands need to personalise rewards by targeting the right customer with the right offer. If everyone gets a coupon for 20% off chicken, what does that say to vegetarians? They've shopped with you for years, why don't you know them?

And that's the problem that an ill-thought-out loyalty programme can create. The aim of any loyalty programme is to create and strengthen the relationship between the brand and the individual consumer. If this is done poorly, it can do the opposite. It can show consumers just how little the brand knows, or cares, about them. It can alienate rather than engage.

Creating a strong relationship between the brand and individual consumers is the best way to create loyalty, but to do that, brands have to craft their offers and experiences to people, not from lines on a database.

B. BALANCING CONVENIENCE AND EMOTION

As we now know, both convenience and emotion can be drivers of loyalty. But, it's harder to build loyalty around convenience. For convenience businesses (like petrol stations and supermarkets) to build long-term relationships, a loyalty scheme combined with excellent customer service should be a winning combination to outshine their local competitors. With an easy to use loyalty scheme, the retailer ensures that the customers visit regularly, which results in the customer building up more points and working towards bigger rewards. This keeps them shopping with the brand, and the allure of the scheme can entice occasional shoppers to become regulars. By offering saving opportunities, adding a service differentiation and providing an exceptional experience, brands that build their loyalty on convenience can create loyal customers.

For brands that build loyalty on emotion – such as the automotive, luxury travel, retail and hospitality industries – image is a key driver of loyalty, but customer experience and convenience remain important.

These loyalty programmes need to focus on crafting the right image – such as being part of an exclusive club, or by allowing the customer to be seen as a trendsetter. These are often large purchases, and, in the case of purchasing a car, they can define a person's relationship with a brand for years to come. These products are often aspirational - the dream product that everyone wants to own. But what happens after the sale? To keep people coming back, brands need to think about after-sale care. Maybe these customers become part of a club with great benefits such as exclusive event invitations, or the brand offers them exceptional product support (like that provided by Apple).

C. LOYALTY DRIVERS DIFFER ACROSS INDUSTRIES AND CUSTOMERS

Loyalty is a complex game, driven by emotion and psychology. It cannot be reduced to a formula. Relationship building, which needs to take place to arrive at loyalty, is different for every industry. It's also different for every person. If I shop with you 90% of the time, I may consider myself brand loyal, while the brand may be asking "why isn't it 100%"?

The oil, gas and retail sectors face fierce competition and low profit margins. In these sectors, convenience is vital. The ability to establish brand loyalty depends on factors such as local competition, convenience, and the person's proximity to a store. These factors determine what brand a customer will use on any given day.

The travel sector faces similar considerations. People now have the option to search for the best deals and cheapest flights through a variety of low cost airlines and comparison sites. For some people, loyalty often extends to who has the best deal and no further.

For others, quality of service is the primary concern, where it's the experience that creates engagement and repeat custom. For example, through the British Airways loyalty programme members can earn perks such as check-in at business class desks, fast track lanes through security and lounge access.

Whereas some customers want savings over everything else, others prefer the perks that come from flying with the same airline all the time. As a result, brands need to determine what loyalty means to them and their customers prior to launching any loyalty scheme.

D. THE IMPORTANCE OF AUDIENCE

Content needs to be determined not by sectors and stereotypes, but by generation and individuality. Social media has revolutionised the way we communicate, and people expect to have a more direct relationship with brands. As a result multiple engagements with real people is often valued above a singular brand voice.

Members of the younger generations prefer experiences that they can share with family and friends, and brands need to find a way to adapt to this and incorporate it into their loyalty programmes and rewards.

Instant gratification is also important – how can the brand provide that split second feedback that people crave? What experiences can the brand deliver to keep people committed and loyal in the long-term? There needs to be a mixture of instant and delayed gratification in any loyalty scheme.

By shaping the loyalty scheme to fit the customer, brands communicate with people on their terms, making successful engagement much more likely.

E. THE IMPACT OF TECHNOLOGY AND DATA ANALYSIS

Businesses that create successful loyalty schemes are always thinking about the customer and what they expect from a brand. Through predictive analysis they can assess what the customer is likely to want, and then apply this research not only to product development, but to engagement and loyalty schemes.

USING INTELLIGENT ANALYSIS TO CREATE TAILORED REWARDS

The most common analysis looks at clients based on how much they spend, how often they spend and how long ago they spent it. But intelligent analysis goes beyond these measures. It focuses on extracted value and business insights – lifecycle and behavioural segmentation. Using smart analytics, the most innovative brands work with basket analysis to discover cross-app upselling opportunities.

As data analysis has become more prevalent, rewards became more tailored to the individual. More businesses are starting to understand that they're selling to an audience of people, with unique likes and dislikes, rather than to market sectors. For example, if a brand wants to target millennials (those born between 1980 and 1995), there is no one programme that suits all those in the age group. The difference in characteristics, experiences and interests between 20-year olds and those in their 30s is huge and so they can't be targeted as a single unit with a loyalty programme.

CREATING FUTURE-PROOF LOYALTY SCHEMES

Businesses need to continue the trend towards 'mobile first'. In the long-term, paper based coupons will become obsolete. Our mobiles are already the hub for most of our brand interactions outside the home. As a result, retailers and shopping malls have already started using beacons to add a layer of surprise and fun to shopping, but what more can mobile do? If brands don't develop apps of their own, others will and have, and they will lose the data that these apps generate.

6. AVOIDING COMMON MISTAKES

Loyalty schemes shouldn't be implemented without knowing why one is needed, and what it's there to achieve. Loyalty campaigns can only succeed when brands centre the campaign around consumers. It's not only about selling more products, or increasing revenue. It's about rewarding customer loyalty.

IT'S COMPLICATED

The process of joining a loyalty programme or claiming rewards needs to be hassle-free. Add too many steps and people may not bother to claim what they've earned (or what the brand has gifted them). This is a great way to generate resentment in those who abandon the task part way through. It sends the message that, while you may say you value the customer, you clearly don't value their time.

For example, coffee chain Caffè Nero gives customers paper cards that they stamp every time they buy a drink – collect enough stamps and you get one free. The problem is, the card is easy to lose, or forget about, so many people never see the benefit. Meanwhile, rival Starbucks has an app that has a feature that enables customers to place their order in advance – valuing customer's time and making their day a tiny bit easier. This is in addition to customers getting a free drink once they have purchased a certain amount and also having access to other offers.

TOO MUCH, TOO SOON

If someone needs to fill out a comprehensive application form - detailing everything from their household income, to their level of education – and all they've done is walk into a new shop, they're unlikely to sign-up to a loyalty card. While brands do need to know as much as they can about customers to provide them with tailored rewards, this should be a more organic process. Don't ask for everything up-front when the customer doesn't know you.

MAKING IT ALL ABOUT THE MONEY

Loyalty schemes need to help create and grow an emotional connection to the brand. Thoughtful loyalty schemes that allow brands to show consumers how much they're listening can be more effective than a simple "have 10% off this product."

People are also hyper-aware of sales. It's possible that offering a discount won't be seen as an act of kindness, but as a way to pull them into the store to spend more or a way to offload excess stock.

IGNORING THE DATA

Customers provide businesses with a rich source of data every time they shop, review, rate and recommend. There's no need to rely on focus groups and surveys when customers are telling the business what they want, and what sort of things interest them as individuals. The data is there, businesses just need a way to collect and analyse it. They can then use this information to create rewards tailored to individual customers.

CONFUSING REWARDS AND INCENTIVES

A large online retailer may decide to give its loyal customers money off a digital music purchase or online movie rental when they buy a digital copy of a book. It may do this because, in general, it may find that customers who buy digital books are also interested in other digital purchases. However, if it looks at the customer's purchase history, it may see that they rarely buy digital music, and they've never rented a movie. For the customer, this becomes less of a reward, and more of a sales tactic.

If the retailer wants to reward the customer, it needs to look at what the customer actually likes and provide them with a reward that they will be more likely to use.

MAKING REDEMPTION DIFFICULT

Do customers know how to redeem their loyalty benefits? Does the brand add extra steps into the redemption process – for example, by making the customer pause during online check-out to visit the reward site, grab the codes they need, and go back to the main site?

Extra steps, or confusion over exactly what they need to do, are likely to result in customers not bothering to redeem their loyalty perks at all. Apart from rendering the loyalty scheme pointless, this experience may also frustrate customers.

FOCUSING ON ONE TYPE OF CUSTOMER

High-value customers are the hardest to please but once they are emotionally bound to a brand they are exceptionally loyal and are often advocates of the brand. They spend a lot of money with the business and need to be taken care of. But these are also the customers where there's not a huge potential for growth as they already spend as much as they can with the brand. Although this doesn't mean that they can be ignored, they need to continue to get personalised offers and rewards that they value and have come to expect.

By creating rewards that target casual consumers, such as those who shop on special occasions, or when they are in the area, businesses can help create future high-value consumers. As appreciation for the brand increases, so does loyalty and patronage.

7. HEATHROW AIRPORT - CASE STUDY

HEATHROW

London Heathrow Airport as Britain's only hub airport is home to over 80 airlines, serving 184 destinations in 84 countries. It is the busiest airport in Europe and the third busiest airport in the world by passenger traffic. Heathrow has the highest retail sales of any airport in the world.

Heathrow Airport manages over 70 million passengers a year through its terminals and that's a huge number of people who could be receiving benefits and bonuses for using the airport.

Heathrow realised that greater one-to-one engagement and deeper knowledge about its passengers can reveal vast untapped potential.

Comarch provided a comprehensive loyalty solution enhanced with additional programme management services. Members can collect points from over 400 outlets and over 120 different brands. Heathrow offers three ways of collecting points: a loyalty card; online by entering a card number on the booking form; a virtual card on phone downloaded from Passbook App or from a mobile website.

The reinvigorated Heathrow Rewards delivered:

- Points accrual integration with over 120 brands
- 27% increase in number of transactions
- 64% increase in members
- 14% increase in spend per visit; £49 higher than non-members
- 2.5% OPEX reduction despite significant member growth
- Improved passenger experience by including mobile website, smartphone virtual membership cards, coupons via Apple Passbook and utilising geo-locations
- Migration to Comarch loyalty platform delivered in six months from contract signature

6. MEASURING SUCCESS – HOW DO YOU KNOW IF A LOYALTY SCHEME HAS WORKED?

The only way to be certain that a loyalty scheme is working is to have established key performance indicators prior to launching the scheme. These have to be incorporated into the design of the programme so that it is specific to the business and what it wants to achieve.

Once you know what success looks like, you can extract the correct information from the programme platform and analyse the performance of the programme. Both prior to implementation and then regularly as the programme progresses.

Loyalty schemes can't be considered successful without the data and analysis to measure their success. Brands miss a number of opportunities to collect and unify data – such as communication history with customers (emails, social media, phone calls and face-to-face). By collecting and analysing all of these touch points, brands can get a complete picture of the individual customer, which helps them create loyalty rewards that are just right for them.

Measurement data might include:

- Number of participants in the programme
- Average spend per visit per programme member vs non-member
- Increase in spend per visit
- Number of visits per month / quarter
- Number of rewards or points redeemed
- Increased revenue
- % of revenue driven through loyalty transactions
- Increase in active users
- Redemption of specific campaigns
- Engagement with brand across different touch points

7. SUMMARY: KEY TAKEAWAYS FOR BRANDS AND RETAILERS

- Loyalty is about inciting emotion. Likeability goes a long way to making someone want to return to the brand frequently.

- Consumers must be able to trust the brand before they develop loyalty to it. Brands need to be transparent, humble and approachable, rather than distant and overly-corporate. They need to show that they've taken the time to get to know their consumers as individuals.
- A mixture of incentives and obligations drives us to return to the same business repeatedly, but while factors such as our level of satisfaction and how much we've invested in a relationship may contribute to loyalty, it doesn't guarantee it.
- We shouldn't combine repeat purchases with loyalty. Our habits may dictate that we make repeat purchases sometimes, but when these habits change, so does our buying behaviour.
- For loyalty programmes to succeed they need to focus on what the individual customer wants, rather than what 'types' of customers want, or what the brand's ultimate goal may be (to drive sales, for example).
- Brands need to focus on creating a scheme that is easy to implement, understand and use. They need to ensure that loyalty schemes aren't reserved for their top-tier customers, but are being used to cultivate infrequent customers into the passionate patrons of the brand.
- Measure the success of loyalty campaigns by knowing what success looks like before the campaign is conceived and trust the data that customers provide you through their shopping habits and their feedback.

COMARCH

ABOUT COMARCH

Comarch has over twenty years of experience in designing, implementing and integrating state-of-the art IT solutions. The most important service offered to the largest enterprises is a comprehensive suite of IT solutions and professional services, which can help to build and manage loyalty programmes, create rich consumer experiences and personalised interactions, automate marketing processes and, finally, boost profits. Our software supports the entire loyalty value chain. Comarch has multi-industry experience, gained through work with over eighty clients, including FMCG companies, retailers, telecoms, financial institutions, travel companies, such as JetBlue Airways, London Heathrow Airport, BP and many more. Our range of services also include big data analytics and innovative customer engagement systems based on gamification, which increase profits and strengthen relationships between customers, partners and the brand.

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