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Digital

Stand out from the crowd
Customer-focused loyalty strategies keep
customers engaged with the brand

Introduction

How loyalty can drive growth in 2023/24

2022 was a challenging year for businesses and consumers alike. Economic challenges led to slashed marketing budgets, consumer confidence being undermined, and dramatic changes to spending habits. During 2023, the outlook has remained uncertain, with rising inflation, economic slowdowns and new variants of COVID-19 threatening to disrupt the recovery. How can brands and retailers survive and thrive in this environment? In this second of three articles reviewing the most successful of customer-centred business strategies, we consider the part loyalty programmes have to play in today's business and consumer world, and the key elements of success for any programme: customers, configuration, and connectivity.

Despite their prevalence, many loyalty programmes have rendered these customer relationship-building schemes overly transactional marketing tactics. With more care and effort, loyalty interventions can be shaped to address customer needs and complement product and service lines. Customer loyalty is a strategic asset that can generate enterprise value by creating long-term relationships with customers based on mutual benefits. Well-run loyalty programmes can increase customer retention, frequency of purchase, and value of spend. These programmes can also act as brand differentiators, promote advocacy and stimulate innovation.

Deloitte's consumer research reveals that loyalty is key to capturing consumers' needs and values in 2023 and beyond. Our survey shows that 70% of consumers spend more and engage more frequently with brands and retailers when they have signed up to the loyalty programme than when they have not. Moreover, loyalty programmes can influence consumers' purchase decisions across different categories, channels and occasions.

Not all loyalty programmes are created equal, however. To succeed in today's competitive landscape, brands and retailers need to rethink their loyalty strategy, design and execution to meet the expectations of their customers.
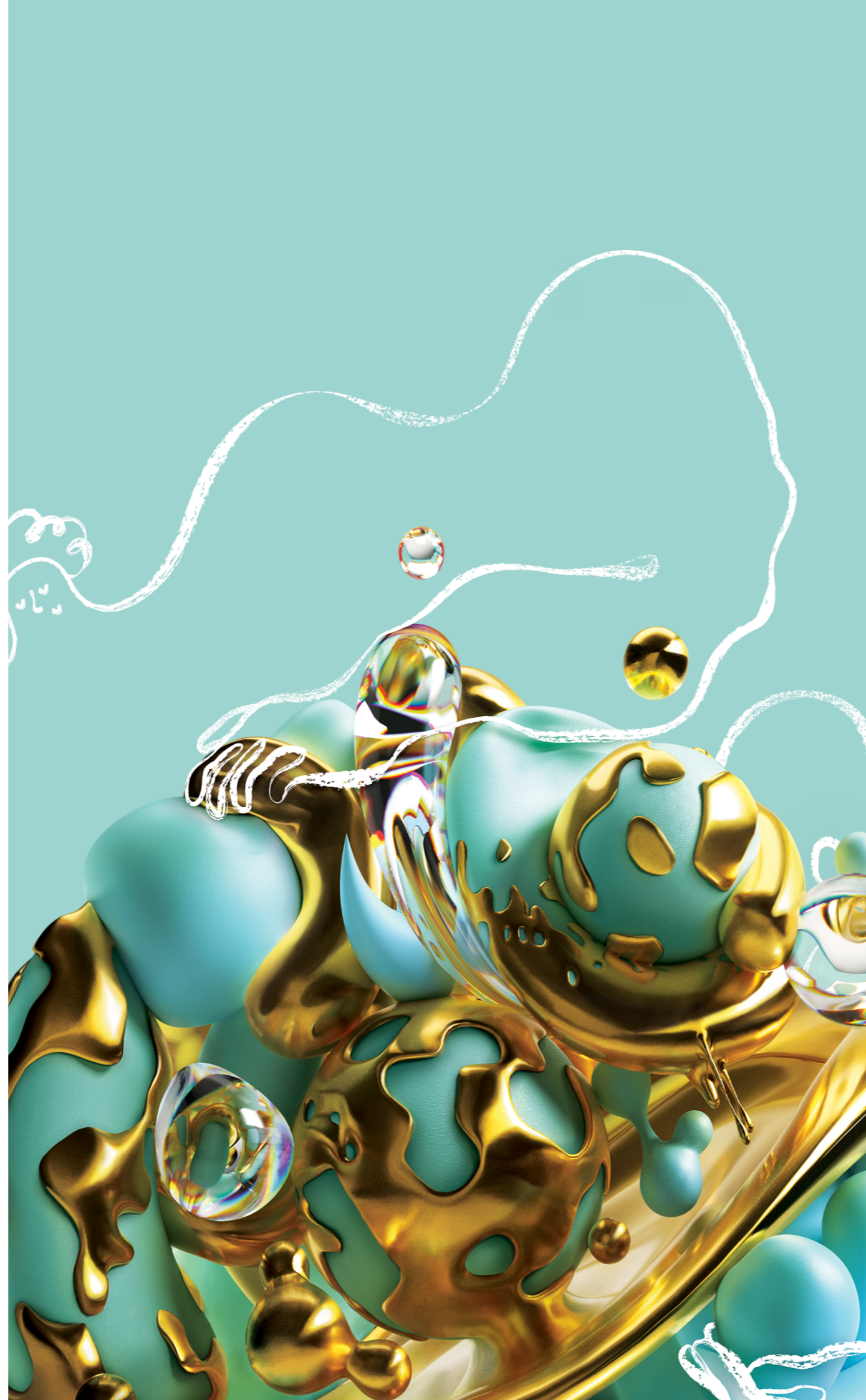
Customers

Customers are at the heart of any loyalty programme. Brands and retailers must understand who their customers are, what challenges they face, what they want, and how they behave. Key to this understanding is well-managed data collection, analysis, and interpretation. This data comes from multiple sources, and can be used to segment customers according to their needs, preferences and behaviours. Sophisticated data management can be used by brands and retailers to tailor their loyalty offers to different customer segments, and to deliver personalised experiences that drive engagement and improve customer satisfaction.

Member strategy/ DTC

Organisations often find themselves juggling numerous objectives simultaneously, inadvertently overlooking the untapped potential value within their existing customer base. Recognising the need to bolster its digital and direct business, a global retailer decided to shift its focus away from customer acquisition, and instead prioritise customer up-selling and retention.

To achieve this, it embarked on a journey to gain a deeper understanding of its current member base. This involved delving into customer profiles and buying behaviours, and identifying the optimal combination of channels, products, and promotions that resonated with each customer segment. Armed with these insights, the channel teams seamlessly incorporated these customer preferences into their execution plans, enabling them to concentrate on high-value customers during key sales periods throughout the year, such as Black Friday, the holiday season, or product launches.

The result of this strategic shift was a remarkable increase in member return on investment, digital sales, and member engagement for the organisation . By prioritising its existing customer base, and tailoring its efforts to meet their specific needs and preferences, the retailer was able to unlock significant growth and strengthen its relationship with its loyal members. At its peak, the improvements to digital sales through this approach topped 34% by revenue period on period.

Configuration

Having understood the customer segments value products and services that meet their needs and how those groups react specific combinations of channels, promotions, and pricing adjustments the next step is to configure the loyalty programme to best meet the customer preferences. This is best addressed by answering several configuration steps that brands and retailers can resolve to structure and operate the loyalty programme to best effect. First is to define the value proposition of their loyalty program: what benefits do they offer to their customers, how do they reward them for their actions, and how do they communicate with them? A successful loyalty programme should offer a balanced mix of hard (e.g., discounts) and soft (e.g., recognition) benefits that appeal to different customer segments. It should also have a clear reward mechanism that incentivises desired behaviours such as repeat purchases or referrals. Finally, it should have an effective communication strategy that harnesses various channels (e.g., email, dedicated App) to inform customers about their status, rewards and opportunities.

Loyalty programme redesign

To drive member acquisition and sales, an Australian retailer focused on the mechanics and configuration of its loyalty programme. It adjusted the frequency of benefits, re-evaluated its channel strategy, and implemented structural changes that included revamping the tiering model, benefits matrix, and the exclusivity and accessibility of rewards. The retailer eliminated promotions outside the programme, ensuring that 'spend and save' or 'spend and earn' rewards were exclusively available to members – even during major retail periods such as cyber week.

These strategic adjustments resulted in a remarkable 70% increase in programme growth versus the previous year. Acquisition played a vital role in the loyalty strategy, as more than two-thirds of customers signed up for the programme during their initial online or in-store purchase. With 80% of its sales originating from the programme, it was a both logical and successful step for the retailer.
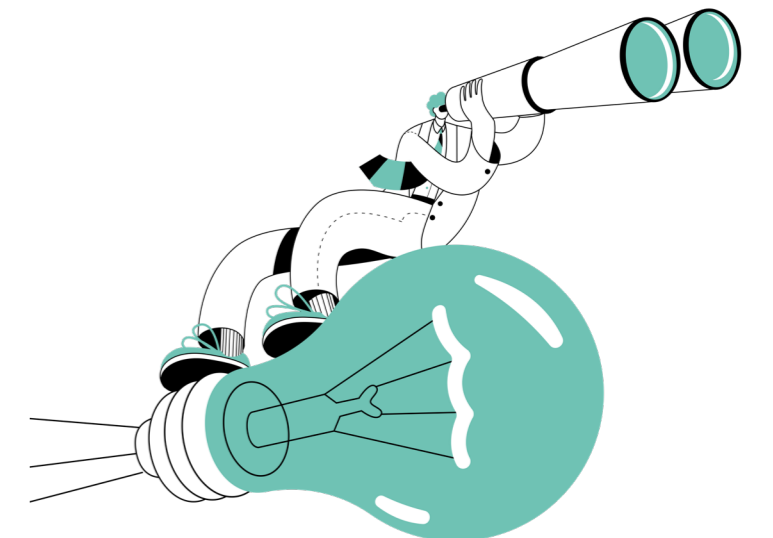
Connectivity

With the programme optimised for best effect, it is vital that it seamlessly connects with the rest of the overall business model of the brand, retailer or ecosystem of allies. This connectivity is an essential integration step that ensures there's minimal friction when operating the programme – and no unintended consequences. Brands and retailers need to ensure that their loyalty programme is aligned with their overall business strategy and objectives, and supports their core value proposition. A successful loyalty programme should also leverage partnerships with other relevant players (e.g., suppliers, media or charities) to offer more value to customers, and create synergies. Additionally, it should use technology (e.g., AI, cloud, blockchain) to enable seamless interactions between customers, brands, retailers and partners, and provide data-driven insights for continuous improvement.

Collaborative partnership

Collaborative partnerships and the sharing of customer data can greatly benefit multiple organisations – but only if done correctly. The outcome should create synergies for both providers and customers, either financially or through more intangible aspects such as brand values. A European cosmetics company successfully identified a pivotal moment in its customer journey, and incorporated a new channel into its go-to-market strategy, by capitalising on airports and travel hubs .

It further strengthened its approach through collaboration with shop-in-shop partners, thereby expanding its product range and establishing another significant retail channel within its sales strategy. The retailer has consistently achieved strong results in its standalone stores, which has had a positive effect on brand sales in key cities. The favourable feedback received from partners and customers indicates that this strategy is proving highly effective for its business.

From laggard to leader

In markets where consumers are confused for choice, facing hard economic circumstances, and besieged by competitive marketing, distinctive loyalty programmes can make a real difference. They provide genuine benefits to customers according to their researched needs and preferences, and simplify their purchasing decisions. By working through the steps of Customer, Configuration, and Connectivity, brands and retailers can create modern loyalty programmes that excite and engage customers for repeat business and as advocates, to stimulate innovation and even to co-create solutions.
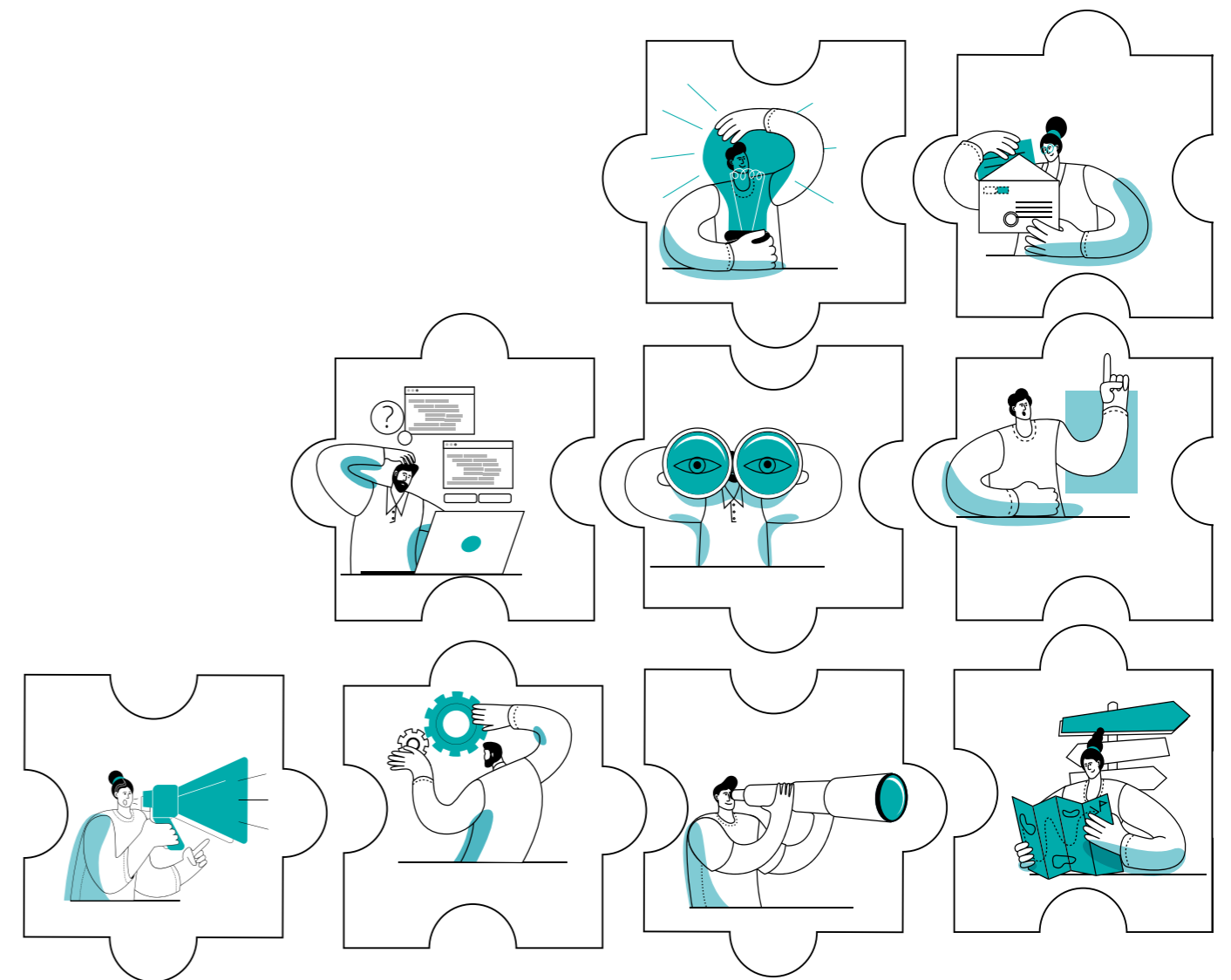
A strategic growth partner

Based on years of consumer research and market experience, Deloitte Digital has now created a proprietary model that maps the most important loyalty levers to create that mature and market-leading programme. Our maturity model quickly evaluates companies across a set of loyalty levers, to determine the areas to invest in for a more differentiated and competitive loyalty offering.

As a result, you'll be able to identify where your programme scores well, and benchmark against competitors to identify opportunities that will guide your programme strategy and development. Important opportunities identified through the assessment include finding the optimal balance between financial and non-financial benefits, and personalised activation to accord with key life stages.

We hope this article has helped you understand more about loyalty programmes, and how the design and operation of programmes can yield remarkable returns. In the next article focusing on **customer-led growth**, we take a look at the world of XaaS, where the delivery of anything can be seen as a service.

If you want to learn more about the topic of loyalty, don't hesitate to get in contact with Kasia, Nicholas or Benthe.

References

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