

Delivering Superior Customer
Experience in China
The Essential Ingredient to
Building Customer Loyalty



Contents

Introduction	3
The Chinese Customer Experience Lifecycle	4
Key Challenges among Consumer and Retail Companies	8
Deloitte's Perspectives on How to Enhance Customer Loyalty	14
Key Contacts	28

Introduction

Chinese customers are becoming increasingly demanding with respect to customer experience; however, consumer and retail companies are failing to keep pace with rising expectations

Relationships between Chinese customers and consumer and retail companies are constantly evolving. Technology advancement and penetration, as evidenced by increased internet adoption and social media participation, have transformed the way companies interact with customers. As touch points increase, customers expect companies to deploy a holistic customer engagement model to connect with them.

As customers, we expect companies to understand our requirements and deliver personalized and consistent experience across all channels. However, our recent study suggests that over 75% of Chinese customers are not satisfied with their customer experience when interacting with a company across multiple channels (Deloitte China Consumer Study, 2014). In particular, lack of consistency across channels is cited as a primary issue. Without doubt, satisfactory customer experiences are mere table stakes. In a highly competitive consumer and retail landscape, superior customer experience differentiates brands and drives loyalty. Unfortunately, when companies are put to test, few truly excel on this front. To complicate matters, customers are proactively sharing their customer experience with fellow customers via online forums, aggregator websites, and social media. Brand perception formed in these communities play an important role in influencing purchasing decisions. One poor customer experience can be "retweeted" to millions of fellow social media users.

While technology can bring about disruption and challenges, it also creates additional opportunities to engage customers in innovative ways. Many leading companies have already taken steps forward. For example, companies are adopting analytics tools to monitor and analyze customer opinions on social media platforms. Some are creating mobile apps to push location based services to customer smart phones. Others are even experimenting with the use of social messaging services (e.g., WeChat) to deliver customer services.

It is time for companies to invest in customer experience and enhance customer loyalty

We believe this is the right time for consumer and retail companies to invest and improve customer experience. Positive customer experience creates long-standing and loyal relationships, which ultimately drives growth. According to a recent study, 86% of consumers are willing to pay more for a better customer experience and 73% of consumers would expand their purchases with a merchant by 10% or more if the merchant delivered superior customer experience (Gartner, Harris Interactive and Strativity Group, 2012). In 2014, Deloitte launched an extensive study to better understand customer experience and customer loyalty in China. To understand the ever-changing Chinese consumer and retail landscape, Deloitte conducted surveys, focus groups, and in-depth interviews with consumers across select Tier 1 and Tier 2 cities in China. We also leveraged mystery shopping to better gain insights into the consumer experience. In parallel, we conducted in-depth interviews with executives of leading consumer and retail companies to understand the opportunities and challenges they face in operating in China. This study has provided us with important insights into evolving Chinese customer behaviors, the challenges companies are facing, and how companies can capture customer loyalty and drive repeat purchases. As technology evolves and customer expectations rise, we believe companies should seize the opportunities to rise above the competition. Companies that can deliver superior and consistent customer experience across multiple channels will be rewarded.

Chinese customers are becoming increasingly sophisticated. As a result, how they engage with companies is also evolving. Technology has changed the way customers make purchasing decisions. In turn, it has also created additional opportunities for companies to interact with customers.

To appreciate this point, it is important to understand the Chinese customer experience lifecycle. There are five key phases: Research, Choose, Buy, Use/Service, and Evolve/Repurchase.

Research

Internet and social media have become important research tools for shopping. Customers are leveraging search engines and social media before making purchasing decisions, as it informs them of the brand, products, and pricing, as well as fellow customers' reviews. Comparison websites such as etao.com and specialty forums are making research easier than ever. As Chinese customers become increasingly skeptical of official websites and traditional advertising, social media has emerged as a powerful alternative as user-generated content is perceived as more reliable.

Choose

Internet and social media have exerted a growing influence on brand and product choice in China. Chinese consumers no longer trust brands; they trust their fellow consumers. China consumers are much more likely to rely on product recommendations from blogs, review sites, and social networking sites versus traditional advertising and retailer-led promotions. More often than not, the decision to choose a particular brand or product is made before a customer visits a store.

Buy

Chinese consumers are buying products and interacting with a company via multiple retail channels. It is no longer as simple as brick and mortar store versus online store. Technology and connectivity allows them to have multiple options of where and how to execute purchases. Mobile commerce is also becoming increasingly popular. As channels proliferate, customers are also expecting flexibility. For example, placing an order online and picking up the order at a nearby retail store.

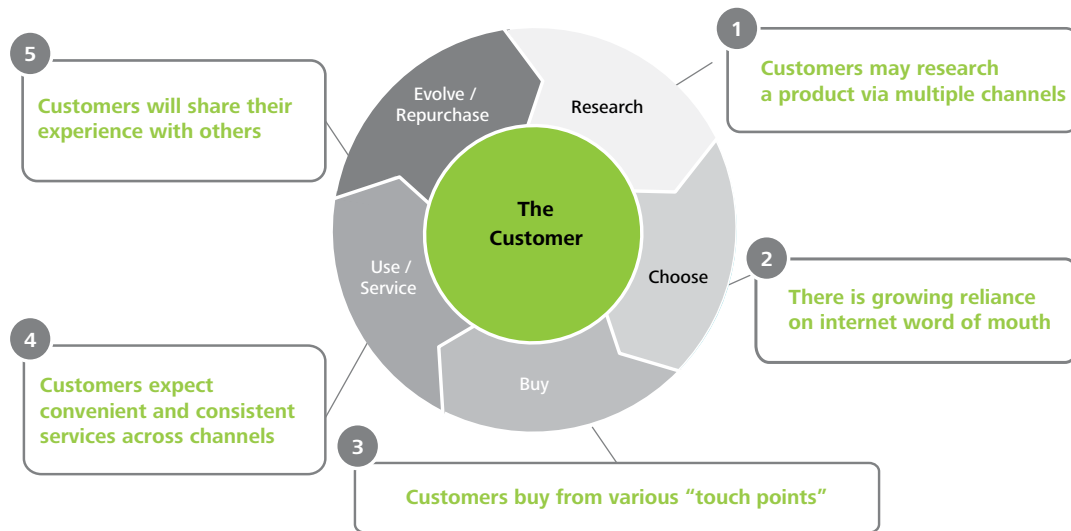
Use/Service

As digital technology keeps consumers more informed on delivery and post-sale communication, customers now expect companies to provide consistent post-sale services across channels (online, call center, Weibo/WeChat). This requires companies to integrate their databases across retail channels. For example, customers may buy a product online and return it for refund at a nearby retail store. If they had already provided their telephone number and credit card information online, they do not expect to have to provide the same information again when they visit the retail store.

Evolve/Repurchase

Chinese consumers like to share their purchasing experience and they expect to be heard. Regardless of whether customers are promoting or criticizing a brand, how a company chooses to address feedback can materially impact customers' repurchase intention.

Deloitte Customer Experience Lifecycle



As customer behavior evolves, many consumer and retail companies are struggling to keep pace. Our research identifies four key challenges as companies evolve to meet customers' needs:

- **Companies struggle to become customer centric.** They cannot keep up with the pace of changing customer preferences and have trouble effectively carrying out customer experience transformation to become customer centric.
- **Customer experiences are inconsistent across retail channels.** Lack of standardized messaging across channels leaves customers confused and frustrated.
- **Customer loyalty programs lack strategy and purpose.** While there has been a proliferation of customer loyalty programs, few effectively connect with customers and generate the expected Return on Investment (ROI).
- **Customer relationship management (CRM) infrastructure and analytics tools fail to enhance customer experience.** Lack of a holistic CRM strategy and supporting infrastructure result in companies collecting vast volume of data, but unable to form an effective understanding of customers and deliver a customized experience.

China Market Challenges

- Inadequate Customer-Focus**

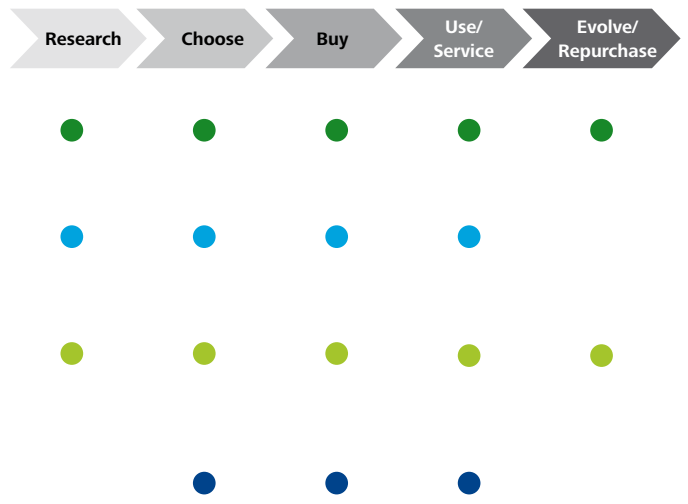
Companies cannot keep up with the pace of changing customer preferences and have trouble effectively carrying out customer experience transformation to become customer centric.
- Inconsistent Experience**

Inconsistent and confusing messages across different channels left many customers confused.
- Ineffective Loyalty Programs**

Customer loyalty program often lack strategy and purpose. They also fail to drive loyalty.
- Underdeveloped CRM Capabilities**

Companies lack a proper CRM system infrastructure and analytics tools , and the inability to form a single view of customers.

Challenges Appear in Different Stages of Customer Experience Lifecycle



(A) Companies struggle to become customer centric

Customers in China increasingly expect customized messaging, yet most organizations are simply not set up to do so. As an illustration, marketing teams in China frequently deploy standardized push messages to mobile devices of target customers. Such messages are usually forwarded to all customers within the company's database – regardless of age, gender, income, and other demographic measures – and fail to address differentiated needs. As a result, recipients react to many of these messages in a dismissive or infuriated manner, potentially generating negative perceptions for the brand.

The primary reason for this struggle is that many companies operate with a business unit (BU) oriented mindset. For example, incentives are structured around BU or department performance metrics versus customer satisfaction or cross-sell and up-sell performance metrics. However, delivering truly customer-centric experiences requires companies to break down organizational silos.

Shifting from a company-centric model to a customer-centric model is time consuming, costly and potentially risky. Without a clear strategy and structured approach to implement customer experience initiatives, many companies get stuck in hoping to develop better customer experience but failing to do so effectively.

"The broader issue is organization structure. Coordination between different departments is very limited and each department has its own set of goals. Without customer oriented processes and reward mechanisms, we will be hard pressed to deliver customer driven solutions."

– Fortunate 500 Consumer Goods Company BU Head



"Customers are savvier than ever. They are connected through smartphones and social media. They decide when they shop and how they shop. This creates both significant opportunities and challenges for us."

– Fortune 500 Retail Company Executive

(B) Customer experiences are inconsistent across retail channels

Proliferation of technologies in recent decades have forced companies to adopt different channels to engage with customers. As companies increase touch points with customers across multiple channels, many face the challenge of maintaining a consistent customer experience.

Expansion of channels and customer touch-points without coordination is dangerous. In many instances, it leaves customers confused and frustrated. Some examples we observe in the marketplace:

- **Different Product Mix and Marketing Messages.**
 - Customers receive promotional emails about specific products, only to find out the products or promotion is not available in-store.
- **Inconsistent Pricing**
 - Retail price for the same Stock Keeping Unit (SKU) differs online and offline
- **Different Transaction Policies**
 - Product pamphlets state that purchases are fully refundable but store personnel are unaware of the terms

In an era where convenience is highly valued, customers expect the option to make purchases and receive services through channels of their choosing – via store visit, phone, internet, or other means. Dissatisfaction from unhappy customer experience can significantly dilute brand equity and ripple effects can be significant.

(C) Customer loyalty programs lack strategy and purpose

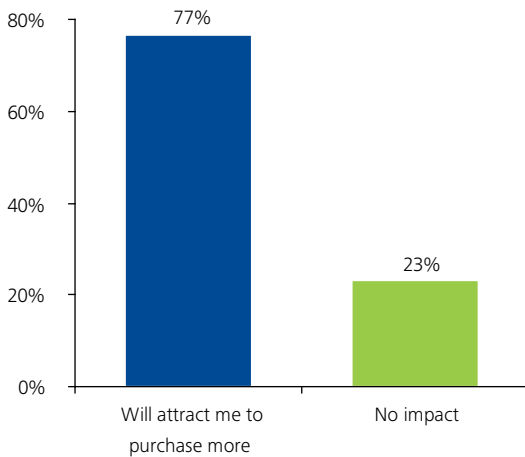
As the Chinese economy continues to grow, per capita disposable income also increases. As a result, value for money, pricing, and discounts are no longer primary drivers of purchases or repeat purchases. Brand, customer experience, quality, safety, and reliability are becoming top of mind, particularly among more affluent customers.

As companies look to strengthen brands and develop strong customer bases, deploying a customer loyalty program may be an attractive option. Deloitte study shows that over 77% respondents believe that loyalty program will encourage them to purchase more (Deloitte China Consumer Study, 2014).

"Loyalty program will increase my willingness to purchase. Not only do I receive perks from participating in the program, it shows that the products are popular to warrant such program. I feel safe making purchases from these types of companies."

– Mr. Wang (37), Sales Manager of a financial services company in Beijing

How loyalty program affect your purchase decision



Source: Deloitte China Consumer Study, 2014

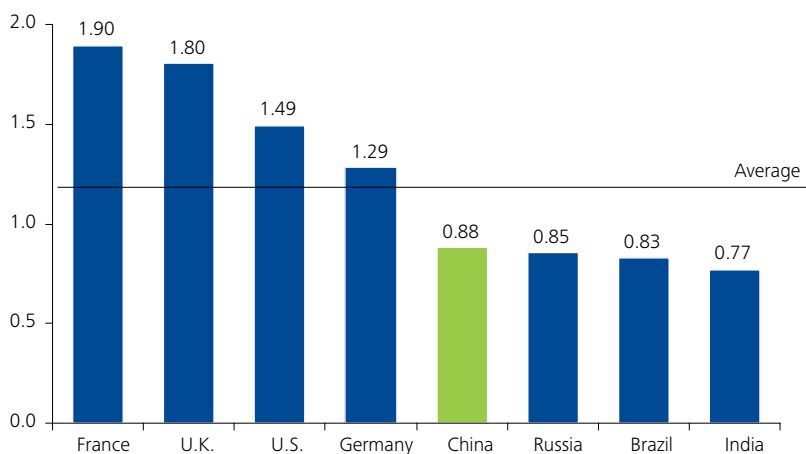


In response to customer preferences, many companies in China have launched loyalty programs to secure their customer base. However, few are successful in generating favorable ROI. At its core, many programs lack a clear vision and strategy. Many loyalty programs fail to develop the right accrual and redemption features, let alone the resource and capabilities to deliver and support the program. As customers participate in such programs, companies remain ineffective in collecting, tracking, and analyzing the wealth of customer information. As a result, companies fail to leverage the information to enhance their interaction with customers. Customers grow

tired or disinterested with a generic program and participation wanes.

The relative under-development of customer loyalty programs is illustrated by the results of a third party study. Compared to consumers from other countries, Chinese consumers are one of the least active with their loyalty programs – utilizing their loyalty programs less than once a month. In contrast, UK consumers leverage their loyalty programs about twice a month. Lack of return customers and high churn rate are costly to companies. This trend highlights the significant room for improvement among Chinese companies to take action and revamp their loyalty programs.

Average number of loyalty program used per month



Source: Gartner, 2011

"I enrolled in many loyalty programs; however, many are rarely used. The membership cards are somewhere at home."

– Miss Shen (22), student in Chengdu

"Everyone in the market is launching or planning to launch a loyalty program. However, most companies do not exactly know what they want to get out of the program. Some even have 3-4 different loyalty programs."

– Executive of a leading China retail company CRM department

(D) CRM infrastructure and analytics tools fail to enhance customer experience

There's a common misconception in China that CRM is simply a technology, even among companies with CRM software in place. As a result, few companies manage to realize the benefit of their CRM investment, with most fail to realize that CRM is the bundling of customer strategy and processes, enabled by relevant software, for the purpose of improving customer loyalty and ultimately, company profitability.

To bring this point to life: Jack purchased an electronic product from Company A's website. Two weeks later, he goes to the nearest physical store to browse and buy complementary accessories for his electronic product. Four months later, he encounters problems with

the software and calls the services hotline for technical support. 18 months later, he needs hardware repair and brings his product into the service center for servicing. In an ideal situation, all of this information will be stored in Jack's customer profile, creating a single view of Jack. A single view of a customer is an aggregated, consistent, and holistic view of a customer at an individual (or household) level, enabled through data collected from membership information, product purchase history, service / maintenance records, and other interaction points. However, many companies in China have issues providing a single view of a customer's interaction with the company. Without this view, few companies are in the position to conduct analysis and generate valuable customer insights that can be utilized to differentiate services and offerings.

"Companies gather a lot of information. Unfortunately, it is not providing them with the competitive edge as the data is scattered into different database all collected in different formats. It is very hard to analyze these data to form a single view of an individual customer."

– CRM Manager, Multinational Retailer

We believe consumer and retail companies can overcome these hurdles to drive customer loyalty. To do so, consider the following recommendations:

- (A) Embark on a structured and customized approach to transforming into a customer-centric organization
- (B) Enable consistent customer experience across channels and strategically manage interaction points to enhance customer engagement
- (C) Define clear objectives and desired results in deploying a customer loyalty program
- (D) Leverage advanced customer analytics to drive ROI of loyalty programs



(A) Embark on a structured and customized approach to transforming into a customer-centric organization

1. Identifying the right "path" to transformation

To overcome the hurdles in customer experience transformation, companies must first examine its existing customer experience capabilities to find the right "path" to transformation. This self-examination can be structured around 7

key customer experience capabilities - vision and strategy, customer insight, customer value proposition, operations, organization, technology, and measurement. After gaining full understanding of existing customer experience capabilities, company should conduct gap analysis and identify initiatives to close the gaps between current state and the company's aspiration of what they want to be.

Approach to transforming into a customer-centric organization



Customer Experience (CE) Capability

- Vision & Strategy** The capability to create a blueprint of the vision of Customer Experience, communicate it to the organization and establish a work plan with timeline and steps to achieve the CE vision
- Customer Insight** The capability to capture, store, cleanse and analyze customer data to make business decisions and manage operations based on customer value, preferences, priorities and behaviors
- Customer Value Proposition** The capability to distinguish between customers based on well-defined segmentation and customer lifetime value to the company, and at the same time align the brand and its promise with CE goals
- Operations** The capability to establish cross-functional business processes that enable continuous improvement at CE touchpoints by leveraging the Voice of the Customer and the Voice of the Employee
- Organization** The level of strategic and operational commitment to CE from the organization and its leadership, as reflected in organizational alignment around CE goals, management of resources to CE quality metrics, promotion of a customer-centric culture and the presence of dedicated CE individuals and/or business units
- Technology** The capability to deploy a robust IT architecture that supports a holistic view of the customer and his/her preferences across all touchpoints
- Measurement** The capability to establish a cross-functional metrics system that enables CE-based performance management, including processes and policies for regular CE metric reporting and utilization in planning, execution and performance reviews

2. Considerations for embedding customer centricity into your organization to enable long term success

Once the self-examination is completed, the question remains: how does a company effectively transform into a customer centric organization? As outlined in a recent Deloitte report titled Customer-centricity: Embedding it into your organization's DNA (2012), there are seven important areas to bear in mind when companies embark on such a journey:

1) Provide visible and customer-focused leadership. Having clear leadership that embraces and supports the importance of customer-centricity to the company and pushes forward its implementation is critical to the creation of a customer-centric organization. Executive priority is key to the longevity of such a transformation.

2) Understand your customer deeply. Understand who the customers are and what their behaviors are to tailor experience.

3) Defined the customer experience. Identify and understand the key interaction touch-points across every channel.

4) Empower frontline team members. Create an environment where marketing and sales individuals enjoy a higher degree of creativity and empowerment to achieve better customer satisfaction.

5) Engage back office personnel. Utilize the customer journey with the location of key touch-points as the framework to educate and help back office functions develop customer-centric thinking and behaviors.

6) Create metrics that matter. Develop customer-centric reward metrics that can influence the way each business unit operates, such that decisions made to improve customer experience are rewarded fairly.

7) Drive continuous improvement through timely feedback. Use traditional voice of the customer campaigns and social media to track and improve process.

There are many tough decision involved within an organizational transformation with similar degree of complexity. The process can be slow and painful, but dedication and unwillingness to compromise will have a long term impact to the organization culture and the overall customer experience.



[Case Study]

A leading consumer goods company in China

Customer experience challenge

Relative to its competitors, the company has been rated "below average" with regard to customer experience. Among the key issues identified were that the company has limited understanding and insights on the needs of their customers and that the organization is structured by product lines and have limited interactions across different business units.

Comprehensive assessment across all customer contact centers

The company conducted a step by step "customer journey mapping" and evaluated its internal effectiveness across all customer touch points. In addition, the company benchmarked industry leading practices to understand potential improvement areas with regard to customer experience capabilities. A detailed prioritization and roadmap process was then created to form company-wide initiatives to transform selected areas and included detailed financial analysis on ROI for each initiative. Among the many initiatives green-lighted for execution, a stand-alone customer relationship management department was set up to spearhead the transformation of cross functions processes, encourage interaction across business units, and take ownership of increasing the effectiveness of customer analytics.

Impact

After 12 months, the company is well on its way of transforming from a product centric organization into a customer centric organization. Surveys and focus group interviews showed that customer satisfaction rating improved by 25% and product cross-sell rates among existing clients increased by more than 20%.

"Customer experience transformation allows us to drive greater levels of customer service, flexibility and efficiency. It helps us meet the rising customer demand with new services. This allow us to become increasingly agile while continuing to offer innovative products and services in order to gain a competitive edge in the market."

– Leading Retail Company CEO

(B) Enable consistent customer experience across channels and strategically manage interaction points to enhance customer engagement

1. Create higher interconnectivity across channels to forge consistency in customer experience

Providing consistent experience across channels is easier said than done. Setting up rules and guidelines for channel leaders to follow seldom work when stakeholder interests are not aligned. As such, the key is to build a clear understanding across the organization with regard to how different roles and responsibilities work together to achieve a common goal – delivering a consistent customer experience. Our perspective is to develop an omni-channel strategy with high interconnectivity across channels.

Interconnected channels require seamless cooperation among different functions to deliver quality products and services to customers. A successful omni-channel strategy allows customers to make decisions in one channel while having the information transferred to all other channels. For example, many companies in China now provide retail store pickup for online purchases. This service requires the online sales function to maintain close communication with retail stores, so that orders and products will be made available for pick up when the customer visits a specific store. By unlocking communication and information sharing across channels, customer information can then be seamlessly transferred to deliver a consistent customer experience.

When pursuing an omni-channel customer experience, companies should consider the following points:

Make it relevant to customer

Customer engagement continues to be generic and impersonal in China. To illustrate this, some companies' call center representatives would recommend products that the customer already purchased in a store. A truly customized customer experience should be relevant to the customer goals, interests, and purchasing process. All channels should have a holistic and up-to-date view of the customer – who they are, what they buy, how they behave, and what preferences they have. Armed with this insight, companies can then leverage different characteristics of each channel to help customers fulfill their needs.

Proactively develop "Voice of Customer"

Most companies understand developing voice of customer requires conducting surveys, focus group discussions, VIP in-depth interviews, and other market research on a regular basis. But simply running through the motion is no longer enough in today's fast-evolving market. Leading companies should proactively create platforms such as discussion forums to allow customers to share their opinions with fellow customers. Through this mechanism, not only can companies attain honest and unbiased feedback on more wide-ranging topics vs. those in organized research sessions, they can also proactively manage and react to such discussions. While ad-hoc studies can help companies to better prepare strategies and marketing plans for the next customer interaction, a self-developed platform allows a company to understand the Voice of Customer real-time and enables a company to quickly respond to the "moment of truth."

[Case Study]

Global leading electronic retailer

Connect customers across all channels

A leading electronic retailer has launched a new omni-channel strategy which breaks down the silos between online store and their brick and mortar store. For example, customers can browse online and request an offline "Product Demo" session. These demo sessions act as a mechanism to draw customers to visit retail stores to test out products, allowing sales staff to provide hands-on services that are not offered online, such as comparison of response times across different camera models.

Meanwhile, if a shopper is interested in purchasing a product that is out of stock at a store, the sales staff can help place an order through the company's online store and allow the customer to choose his/her preferred delivery method, such as in-store pickup or home delivery. This ensures no potential sales are lost and fulfills the customer demand.

Benefits to the company

Online appointment for a "Product Demo" session allows the company to track customer data early in his/her buying process and also provides sales staff more time to better prepare for customer visits and questions. In-store pickup not only offers customers an opportunity to examine the product, but also provides a chance for sales staff to potentially cross-sell products.

Key Takeaway

Omni-channel is not just about consistency across channels, but inter-connectivity across channels. A successful omni-channel strategy can improve both customer experience and increase opportunities for cross-selling and up-selling.



2. Increase use of social media to monitor omni-channel strategy's success

Proactively increasing touch points through social media has proven to be an effective way to enrich and deepen customer engagement. Many companies in China have leapfrogged the traditional marketing channels and instead are investing in social media platforms to engage consumers. However, many companies fail to successfully leverage social media as a means to monitor customer experience and collect feedback.

Companies that deploy omni-channel strategies to serve their customers seldom have the direct knowledge over where things may have gone wrong that triggered a negative customer experience. Where the traditional feedback channels (e.g. comment boxes, feedback forms) fall short, social media shines. Social media has become a medium where customers feel very comfortable to express their true (albeit sometimes overly exaggerated) opinions on certain brands, products, and services. Through monitoring activities on social media, companies can gather valuable insights on their performance (and their competitors') and understand their target customers as reference for strategy development.

Tracking social media data can be a very labor intensive job if companies lack the advance software and tools to generate automated data collection and analyses on social media posts. Implementation of a customized social media strategy can help ensure relevant data will be tracked and collected with the right tools.

[Case Study]

Global leading retail company

Use social media to communicate with customer

A leading retailer used social media as new channel to communicate with customers. Customers were encouraged to post their comments or complaints on the social media site. The company will respond to customers directly and try to fix the problem. It shows that the company cares about the customers who buy its products, and demonstrate the company tries very hard to communicate with them.

Collect customer feedback through social media

The company started a blog for customers to send in ideas on how to make their overall experiences better. The company not only listens to its customers, but its takes action, implementing the ideas from customers and giving them credit.

Impact

Customers feel empowered when a platform is created for them to openly share their thoughts and ideas. The company captured 7,000+ ideas in 1 year. This new channel has replaced the traditional functions like direct mail/call center to collect customer feedback. This move has reduced costs and made customers feel empowered and engaged.

Key Takeaway

Use of social media can be an effective way to support omni-channel strategy. When adopted in a smart way, it allows the company to proactively manage customer feedback and save costs while doing so.

(C) Define clear objectives and desired results in deploying a customer loyalty program

1. Start with the end in mind

Before launching a loyalty program, companies should have a clear end goal in mind, whether it is to drive sales, increase customer retention, improve customer experience, reduce cost, or improve brand image. Having a clear goal in mind will help company target the right customers, collect the right customer data, and design the right rewards and benefits for the program.

[Case Study]

A global leading grocery retailer in China

Clear Objective

The company has launched their loyalty program in China for eight years. They have set very clear goals in mind from the beginning – maintain customer relationship and increase customer spending. With the clear objectives in mind, the company designed a simple and effective program to collect customer contact information, track customer spending patterns and encourage spending by targeted coupons.

Mechanism to accomplish goal

Customers are required to fill in their contact information to sign up for membership. Every store manager has been made aware of the importance of customer data collection – KPIs are set to encourage stores to boost the collection of customer data, both in quantity and quality. For example, store reps are asked to validate application forms for completion. The resulting data are routinely checked for error; stores with high error rates are flagged and subsequently penalized.

Effective use of data

Based on demographics and preference information collected through membership sign-ups, the company developed customer segments to deliver targeted marketing. Customized marketing campaigns were subsequently rolled-out based on individual purchase histories such as product categories, spending amount, and frequency. Different types of coupon are used to target specific customer segments based on this understanding.

Impact

Coupons come with a carefully designed minimum spending requirement – usually slightly higher than the expected purchase value of the targeted customer. As a result, customers tend to spend more when using these coupons. With the clear end goal in mind, the loyalty program became very successfully. There are now over 8 million members since the program launched, and this number continues to grow.

2. Plan and develop a loyalty program that fits the company's DNA

Loyalty programs are common in the market, but a truly effective one often requires comprehensive planning with considerations around organization structure, target customers, channel, product, and accrual/redemption rules. Jumping in too quick often leads to a loyalty program that is just like any other in the market. A differentiated and impactful loyalty program should fit the company's DNA – it should align with the company's brand, culture, capabilities, product and channel mix, and other key attributes.

[Case Study]

A global leading consumer electronics company in China

Extensive study to understand consumer and internal capabilities

The company was planning to introduce a customer loyalty program in China across all product categories and channel touch points to effectively retain core customers, as well as enhance cross-selling and up-selling capabilities. Before the program was launched, an extensive consumer study and multiple rounds of internal interviews were done to generate insights on consumer behavior and company internal capabilities.

Carefully designed to fits the company DNA

Research and analysis of the company's capabilities and resources show the company has certain system limitation at different channels that will affect the data collection efficiency. Moreover, their existing organization structure might not support an effective launch of an all product/channel loyalty program.

Detail and thoughtful planning and forecasting

A customized loyalty program was deployed with consideration of customer, product, channel contact strategy, and targeted benefits to best suit their target customers' interest. To address the challenge in customer data collection, the company collaborated with external cross-industry partners to facilitate data collection through targeted channels. Furthermore, as the company identified the need to create a new business function to own and manage the program to ensure long term success, a CRM department was established to support the launch of loyalty program and coordination between different business units. Financial models and scenario planning simulation were conducted to analyze ROI and provide guidance on impact for the next 5 years.

Phased approach to realize vision

A two phased roadmap was adopted to realize the loyalty program vision, starting with foundational establishment then full-scale capability building. Detail operational roadmap with implementation initiatives were outlined before the program launch.

Impact

The loyalty program was launched in 2013. Preliminary membership estimate is over 10 million for the first year and expected ROI for loyalty program to be >100%.



3. Simplicity in program rules and rewards is key

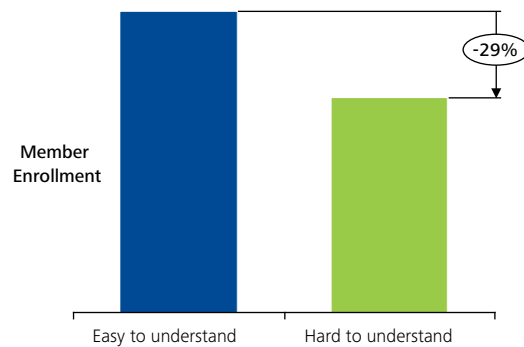
To encourage high utilization of a loyalty program, simplicity is key. Deloitte study shows that Chinese customer values ease of understanding in loyalty programs. Over 70% of customers assert that simple/straight forward enrollment are more preferred a real person explain the program details and guide them through the enrollment process at the point of sale (Deloitte China Consumer Study, 2014).

Despite this finding, most loyalty programs remain difficult to comprehend. Point systems frequently involve calculations with fractions / decimal points; program affiliates oftentimes have different point accrual systems; sales personnel tend to possess varying levels of understanding for program rules and policies.

"I prefer to enroll in store since it is most convenient. However, most sales reps are unable to help guide me through the benefits of the program or it takes them 20-30 minutes to do so – I will only enroll if the process is easy and trouble free."

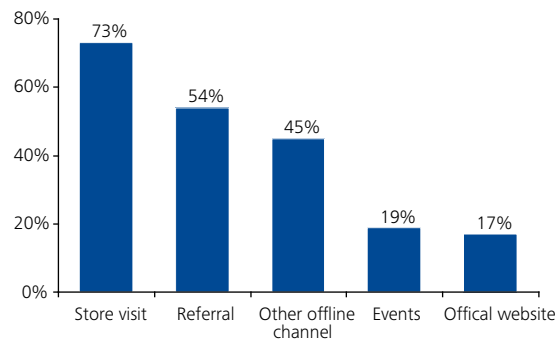
- Mr. Lee (20), student in Guangzhou

How does enrolment in loyalty program differ based on if it is easy to understand?



Source: Deloitte China Consumer Study, 2014

What methods of enrolment to loyalty program do you prefer



Source: Deloitte China Consumer Study, 2014

"I have enrolled in ~8-10 loyalty programs, but I only use 1 or 2 on a consistent basis. Reason for that is because the majority of the point accrual systems make little sense to me. I'm not sure when I will be able to reap the rewards, if ever."

- Mrs. Wen (42), homemaker in Shanghai

(D) Leverage advanced customer analytics to drive ROI of loyalty programs

1. Build an integrated customer data infrastructure

The heart of every CRM strategy is insight generation from customer data. Frequently, existing customer information is stored in multiple systems and formats within disparate databases and servers. Performing analysis on data under such circumstances is extremely difficult and that is why companies with serious considerations in building CRM capability need to develop an integrated data infrastructure. Once this infrastructure becomes synchronized with quality data, companies can then begin to generate a 360 degree view of customers and develop a holistic picture of their preferences and needs. Only by achieving this level of customer understanding can a company build a solid foundation for customer analytics, which is critical to new product/ service innovation and customer experience improvement.

The worry on many executives' minds with implementing new IT infrastructure is how to make the transition as seamless as possible. In a previous Deloitte report titled "Deloitte's CRM Transformation (2011)", five important considerations are highlighted.

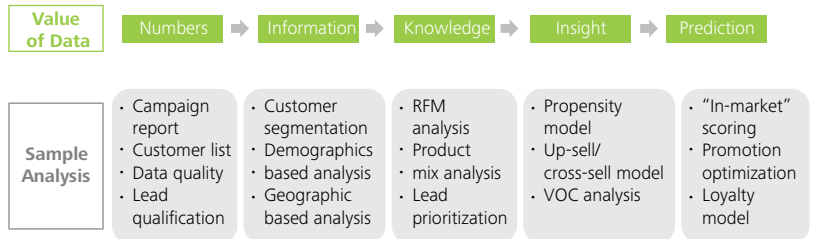
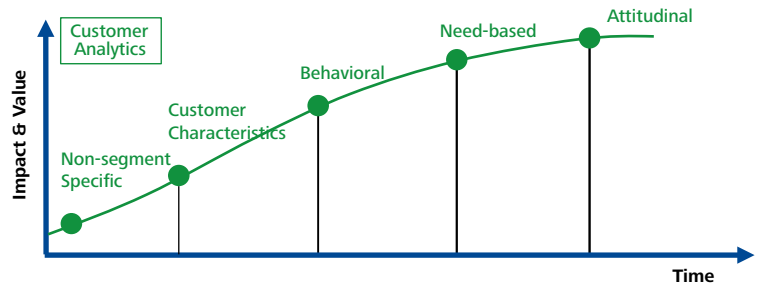
- 1) Plan ahead.** Have a clear vision and strategy for the system and understand that the implementation of an integrated data infrastructure is a strategic resource, not just a tactical tool. Ensure the overarching business goals are identified and agreed upon, as well as understand how the desired technology portfolio should look like in short-term, medium-term, and long-term.
- 2) Collaborate with stakeholders.** Collaborate with everyone who will be impacted by the new system at key steps along the way. Abundant communication with all stakeholders is a key driver in ensuring an effective, efficient and speedy transition.
- 3) Start small.** Limit the scope of the rollout at the beginning to avoid surprises and overinvestment. Follow a pilot and phase approach to allow the team to master its capabilities and show early results before further expansion.
- 4) Measure the value.** Plan, measure, and evaluate the costs and benefits before, during, and after the implementation. The results can reveal interesting insights on areas for improvement quick and early.
- 5) Be open to changes.** Make sure the organization is open to the possibility of adopting new processes and approaches along the way, rather than forcing the application to fit the company's current model which may be outdated.

2. Build advance customer analytics capabilities

Understanding your existing and potential customers is only the beginning. What truly sets leading companies apart is advancing customer analytics capabilities. This involves moving away from non-segment specific analytics towards attitudinal analytics.

Many companies employ customer characteristics analytics, which merely identifies who the customers are from a characteristics standpoint (e.g. age, gender, income, geographic location). How these customers view brands, products, and services and execute purchases remain largely based on assumptions instead of data. For attitudinal analytics, however, companies can understand consumer behavior on an in-depth level. Specific questions such as where does the customer usually buy from, which price point does the customer view as "too high," and what other accessories are potential add-on items for the customer. As a result, companies that invest in customer analytics formulate concrete understanding of their customers and customize their approach to fulfill demand in a relatively personal manner.

Leading companies have been differentiating themselves through performing need-based or even attitudinal customer analytics. Some even consider this as a core competency and competitive advantage. Most companies do not have difficulties collecting customer data. It is what to do with the data that troubles them. In the increasingly competitive environment, companies that are willing to invest in customer analytics are the ones that are more likely to leap ahead of the pack.



[Case Study]

Leading Global Consumer Goods Company

Use sentiment analysis tool to better understand customer

A leading global consumer goods company utilized sentiment analysis tool to analyze customer opinions on social media to better understand the marketing effectiveness of its newly launched product. When the brand launched its new campaign, the analysis dashboard revealed a huge spike in mentions of the brand and product. Also trending topics are displayed in word-cloud graphics that show the latest words used in connection with the brand and products, with the font size of the words proportional to its usage frequency.

Impact

The social-media analysis results confirmed and supplemented the company's internal research, providing critical insights for future marketing programs and even new product development requirements.

Where to begin?

Companies looking to enhance customer loyalty should:

1

Articulate what your customers expect and identify touch points and moments that really matters

2

Revisit company's aspirations around customer experience and decide where you want to focus and differentiate

3

Evaluate your company's strongest and weakest capabilities on customer experience and see how it relates to your aspirations

4

Start small to get people moving and start soon to get the momentum going



Contact Information

For more information about this paper, please contact:

David Lung

Managing Partner
Deloitte China Consumer Business Industry
Tel: 86 10 8520 7118
Email: dalung@deloitte.com.cn

Robert Hah

Director
Greater China Consumer Business
Consulting Practice Leader
Monitor Deloitte
Tel: 86 21 2316 6294
Email: rhah@deloitte.com.cn

Joseph Fan

Associate Director
Greater China Consumer Business
Consulting Practice
Monitor Deloitte
Tel: 86 21 2316 6120
Email: jfan@deloitte.com.cn

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/cn/en/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. More than 200,000 Deloitte professionals are committed to becoming the standard of excellence.

About Deloitte in Greater China

We are one of the leading professional services providers with 21 offices in Beijing, Hong Kong, Shanghai, Taipei, Chongqing, Dalian, Guangzhou, Hangzhou, Harbin, Hsinchu, Jinan, Kaohsiung, Macau, Nanjing, Shenzhen, Suzhou, Taichung, Tainan, Tianjin, Wuhan and Xiamen in Greater China. We have nearly 13,500 people working on a collaborative basis to serve clients, subject to local applicable laws.

About Deloitte China

The Deloitte brand first came to China in 1917 when a Deloitte office was opened in Shanghai. Now the Deloitte China network of firms, backed by the global Deloitte network, deliver a full range of audit, tax, consulting and financial advisory services to local, multinational and growth enterprise clients in China. We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

