Cristina Ziliani

CUSTOMER LOYALTY STRATEGIES IN THE INTERNATIONAL SCENARIO

OSSERVATORIO FEDELTÀ

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Parma University Loyalty Monitoring Unit

- 100 scientific studies
- 5 books
- 40 sponsors
- 23 conferences
- 6000 attendees
- 1300 companies
- 180 speakers
- 120 dissertations on loyalty

AGENDA

1 CORPORATE LOYALTY AND GROWTH

2 LOYALTY MANAGEMENT

3 LOYALTY STRATEGIES IN ITALIAN COMPANIES

"We've had a double-digit increase in registrations for our 88VIP loyalty scheme and average order value.

We'll be continuing to invest in memberships to increase average order value and therefore expand the company."

"Our strategy is to attract value customers and gain their loyalty by having them join the scheme and use the app, because members have higher transaction profits and higher repurchase rates, leading to increased lifetime value.

Increasing this type of customer results in us growing more quickly and more profitably."

SEPHORA

"Sephora has performed exceptionally well, because it continues to innovate and develop customised experiences based on the loyalty scheme."

Levi's

"The loyalty scheme has 26 million members, + 40% from the previous year - member transactions and average transaction value keep increasing as a positive consequence of our strategy to increase membership."

The entire business world is moving towards

CUSTOMER-BASED GROWTH STRATEGIES

GROWTH STRATEGIES

Customer management

Strategic process based on increasing the value of the company's customer base
Measures: retention rate and customer lifetime value

Brand management

Strategic process based on developing and supporting the value of corporate brands
Measures: revenue and market share

Unstructured loyalty strategy (CRM, CX)

Set of initiatives that aim to increase loyalty objectives such as retention and engagement (CX, CRM, customer service)

Structured loyalty strategy (loyalty scheme)

Focused on an explicit ‘give and get’ value proposition formalised in the scheme

Source: Osservatorio Fedeltà UniPR

HOW WIDESPREAD ARE GROWTH STRATEGIES BASED ON CUSTOMER MANAGEMENT?

AND HOW EFFECTIVE ARE THEY?

Han, Reinartz, Skiera, (in print) "Firms' focus on Brand and customer management: Management, Development and Investors valuations"

2085 companies

10 sectors

16 years
2003-2019

80.800 documents
of earnings call transcribed

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Customer Management & Brand Management

- The customer management approach is the most widespread
- It has increased by 35% since 2003
- Against brand management at 4%
- It is positively correlated with higher than average profits

HAVING A LOYALTY STRATEGY PAYS OFF!

Sources: *Antavo Global Customer Loyalty Report 2022;
Search for companies 2023 Loyalty Observatory UniPR

At an international level,

93.1%

of companies that measure ROI reported positive* ROI from their loyalty scheme

85% in Italy**

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Most companies already have several ways to provide value to customers through loyalty, pricing and promotions (among other benefits), but very few look at all these levers in concert to create an integrated customer strategy and experience.

Driving loyalty alone isn't enough to retain and engage customers, while pricing alone is becoming less effective. Improving the holistic customer value proposition with an integrated pricing and loyalty strategy can fuel greater future growth

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1980

LOYALTY PROGRAM

Discovering the link between loyalty and value

2000

CRM

Using data to manage individual customer relations

OGGI

CUSTOMER EXPERIENCE MANAGEMENT

Using data and insight to (re)design the customer experience

Source: Osservatorio Fedeltà UniPR

Trends that will affect loyalty management

SOCIETY	ECONOMY	TECHNOLOGY	COMPETITIVE ENVIRONMENT
Buy-in from Gen Z (18-26 years old)	Index of economic uncertainty remains high	Artificial Intelligence	Growth of e-commerce
Aging population	Global growth below historic averages	New physical, in-store experiences enabled by technology	New channels and business models: quick commerce
Focus on health and wellbeing	The time of low interest rates is over	Retail media covering several touchpoints and gathering data	New channels and business models: social commerce
Sustainable consumption	Energy prices will remain high	New digital payment solutions	New channels and business models: D2C, B2B and resale
Consumer confidence	Inflation	Even the metaverse will manage it eventually	Ecosystems

Source: Edge, McKinsey, IMF

SOCIETY

- Buy-in from Gen Z (18-26 years old)
- Aging population
- Focus on health and wellbeing
- Sustainable consumption
- Consumer confidence

GEN Z WILL ACCOUNT FOR 27% OF THE WORLD'S POPULATION BY 2025,

and their buying habits on new channels will drive the omnichannel

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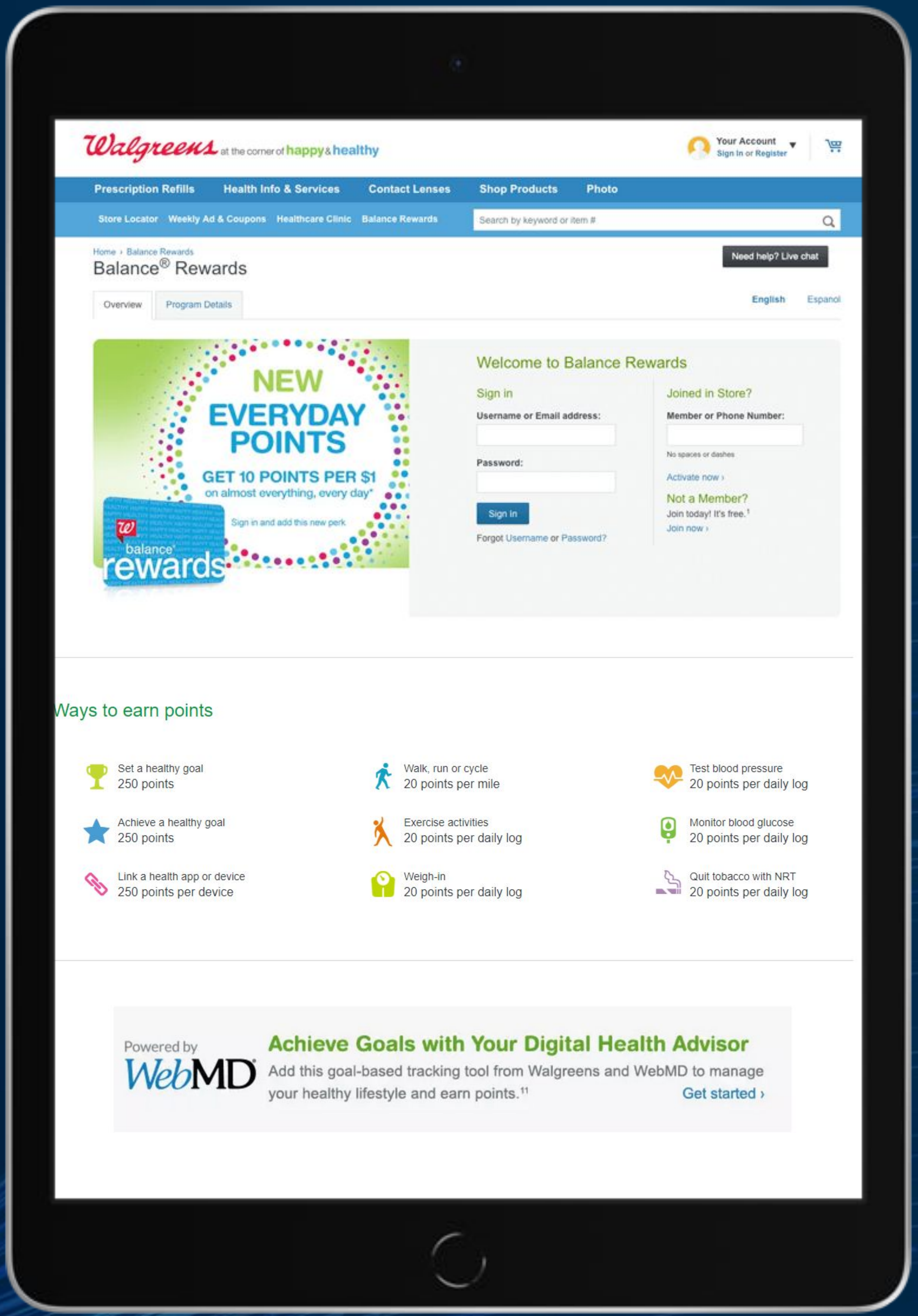
Walgreens

- 9000 pharmacies, 8 million sales a day
- Walgreens' Balance Rewards
- Launched in 2012
- To shift the focus from "treating" to "preventing" illness
- After two years it started rewarding members for monitoring their own health - tracking activity, logging weight, stopping smoking
- Partnership con app specialistiche – il cliente guadagna punti per il loro uso:
  - Lose It! – Runkeeper – WebMD - The Johnson & Johnson Official 7 Minute Workout - Withings Healthmate - Contour Diabetes app - Google Fit
- 250 points as soon as you connect

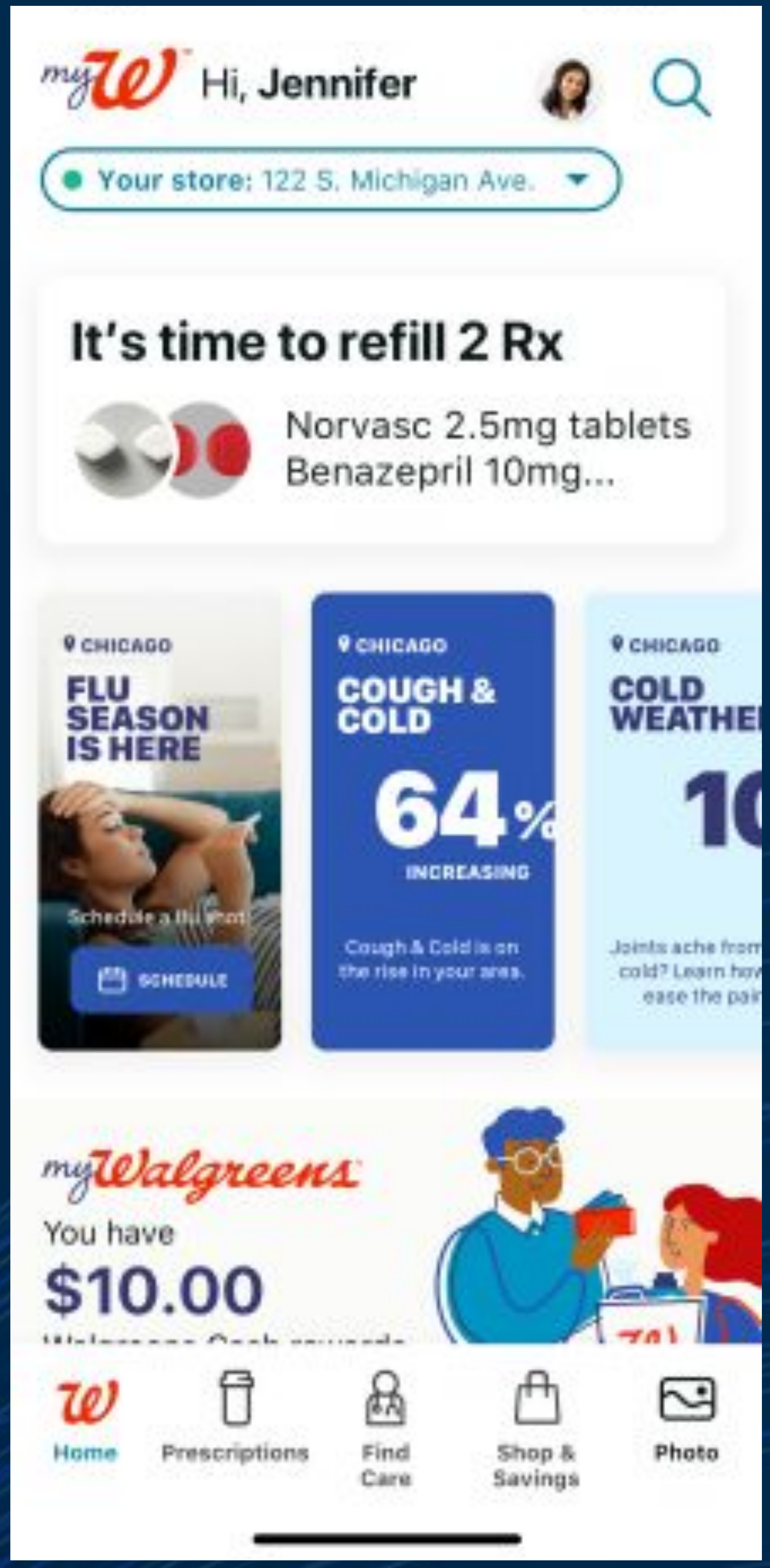


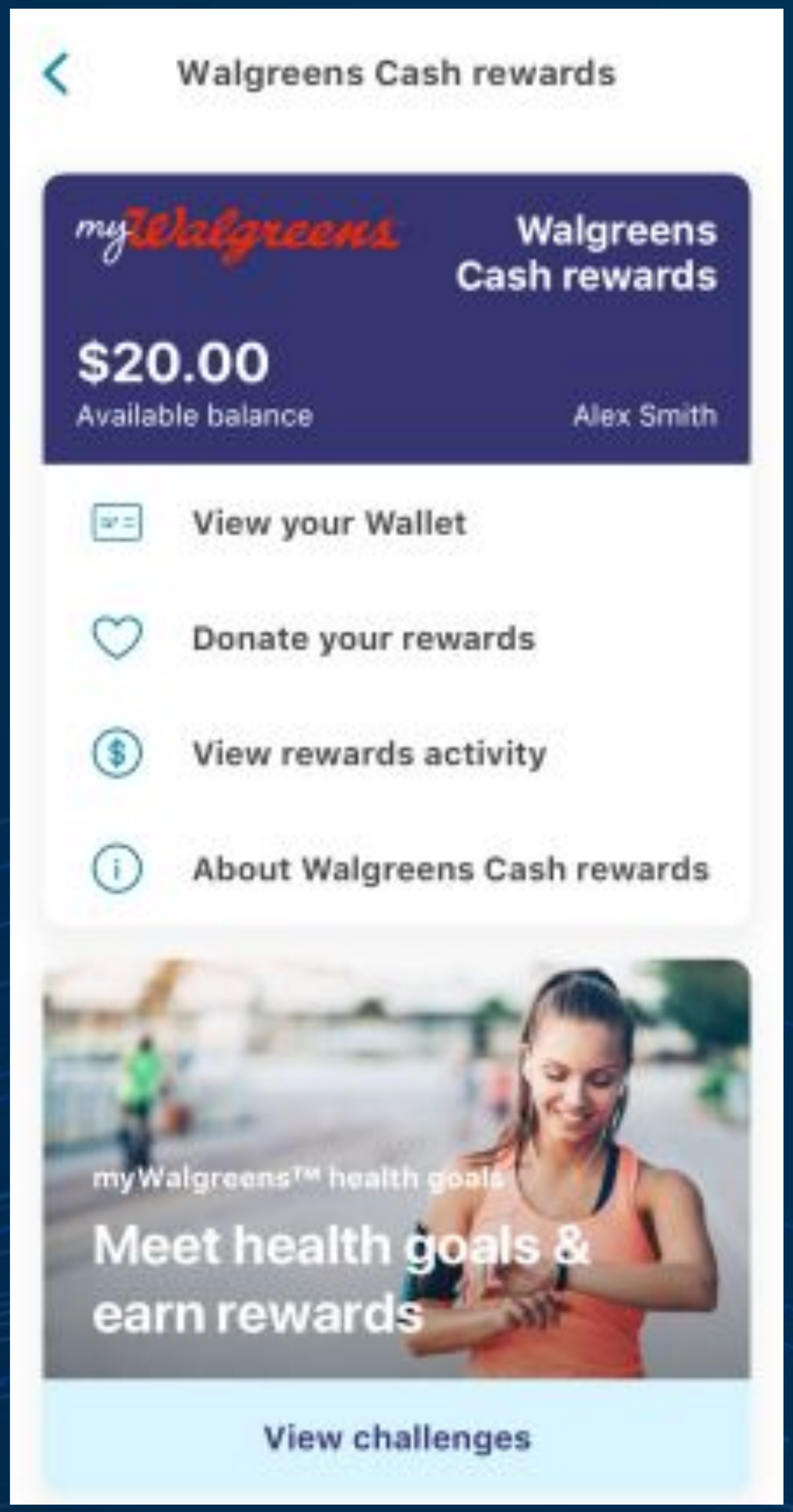
What they measure:

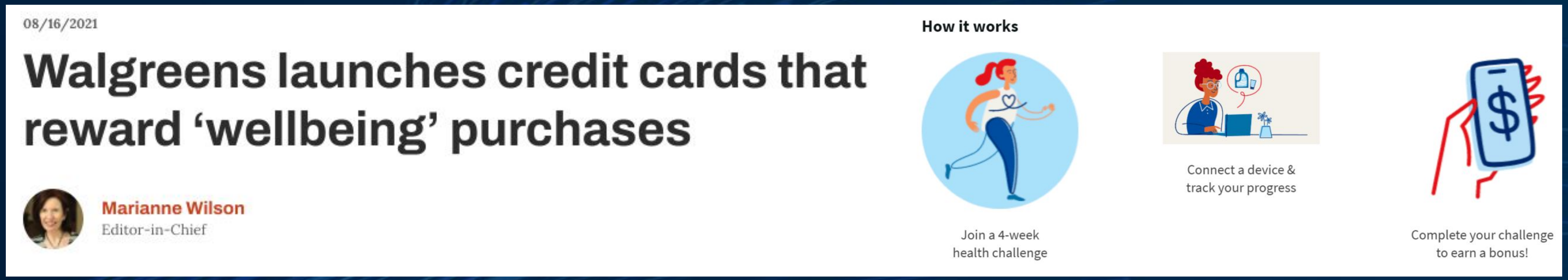
- Registration
- Devices and apps connected
- Miles logged
- Pounds lost
- Monthly activity rate
- Balance Rewards points awarded to participant

myW™

- In 2020 omnichannel loyalty scheme launched
- In-pharmacy, drive-in or kerbside collection in 30 minutes
- Free delivery above $35
- Buy online or with the app
- Chat with pharmacist 24/7
- Cash reward in app wallet
  ($1 every 1000 points ($100)
- Personalised advice
- Credit card
- 100 million members in the scheme
- 70 million app downloads
- +7% sales
- +5% basket value
- $10 million in revenue from advertising







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THE PERCENTAGE OF OVER-65S WILL DOUBLE WORLDWIDE

by 2050, to a figure of 6.4%.
In Italy they already account for 23%.

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SOCIETY

Buy-in from Gen Z (18-26 years old)

Aging population

Focus on health and wellbeing

Sustainable consumption

Consumer confidence

CONSUMER INTEREST IN ETHICAL AND SUSTAINABLE PRACTICES IS INCREASING,

and is being driven by younger generations

Ikea | Usa, Canada and Australia

You Can Finally Shop IKEA's Budget-Friendly As-Is Section Online

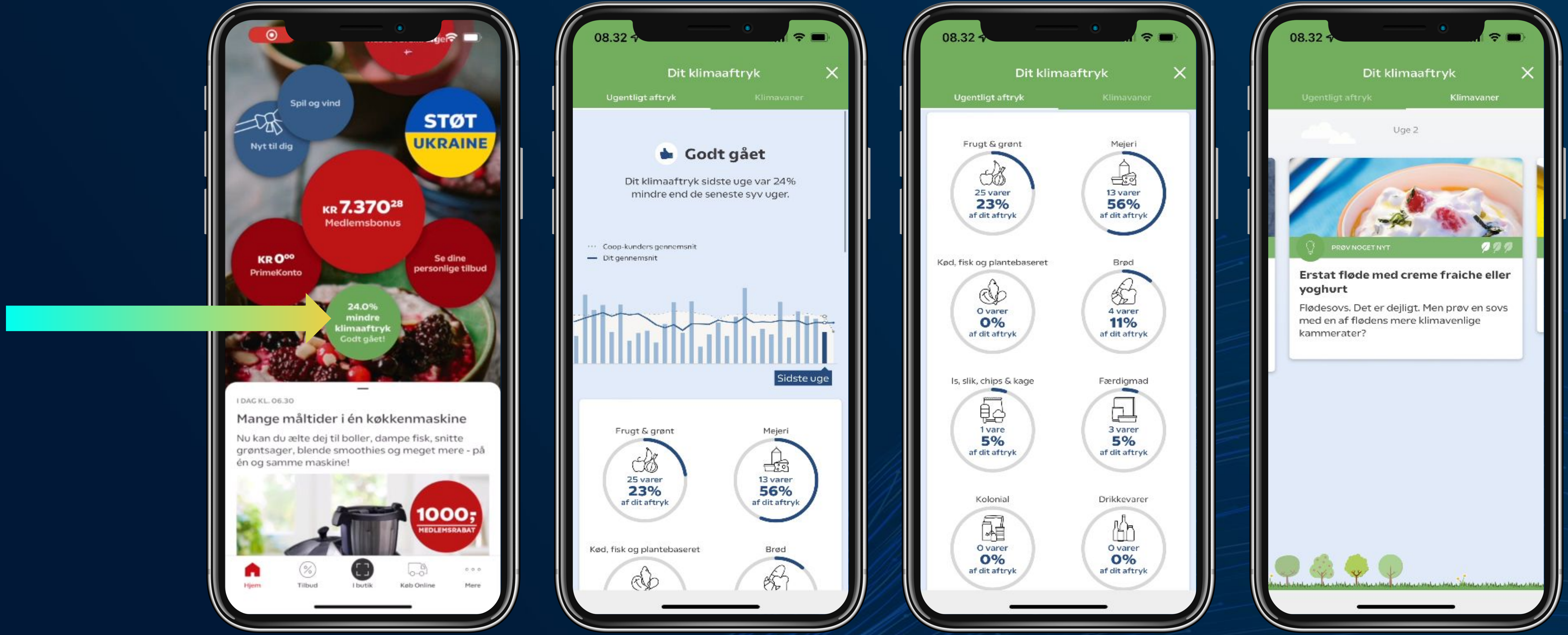
The beloved retailer is taking a number of steps to make shopping sustainably easier.

IKEA Family Sell-Back Program

At IKEA, we believe the value of an IKEA product is a beautiful thing not to be wasted. We know that sometimes you need to part with a piece of furniture because it no longer suits your needs, and we want to give those products another life. IKEA Canada's "Sell-Back" program is a smarter way to look at the value of your unwanted furnishings. When it's time to say goodbye to the things that are outdated, unwanted or cluttering your home, we'll buy them back from you in the form of an IKEA in-store credit. It really is that simple and easy!

We'll do our best to give another life to the items we buy back, so that you benefit, the community benefits, and so does the planet. Together, we're making a more beautiful world.

Coop | Denmark



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ECONOMY

Index of economic uncertainty remains high

Global growth below historic averages

The time of low interest rates is over

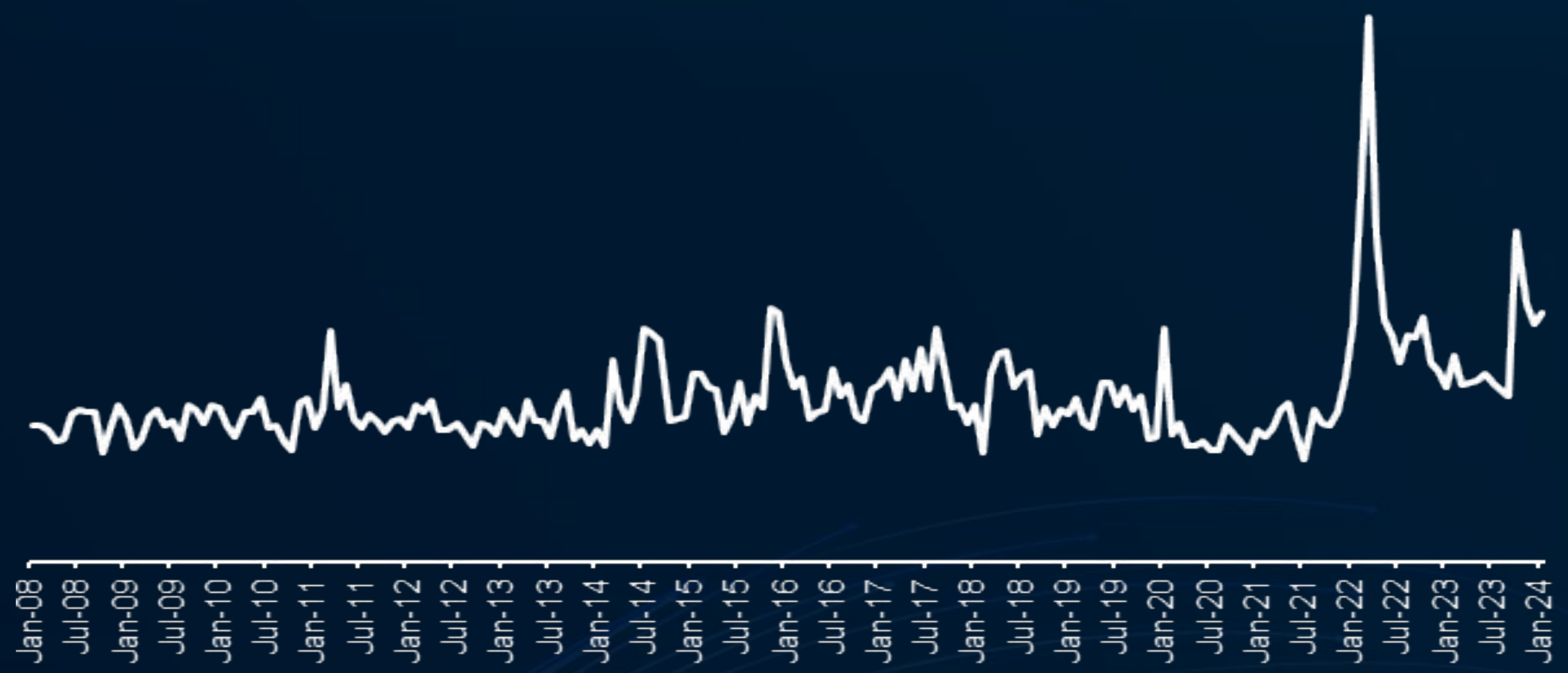
Energy prices will remain high

Inflation

Economic uncertainty and geopolitical risk

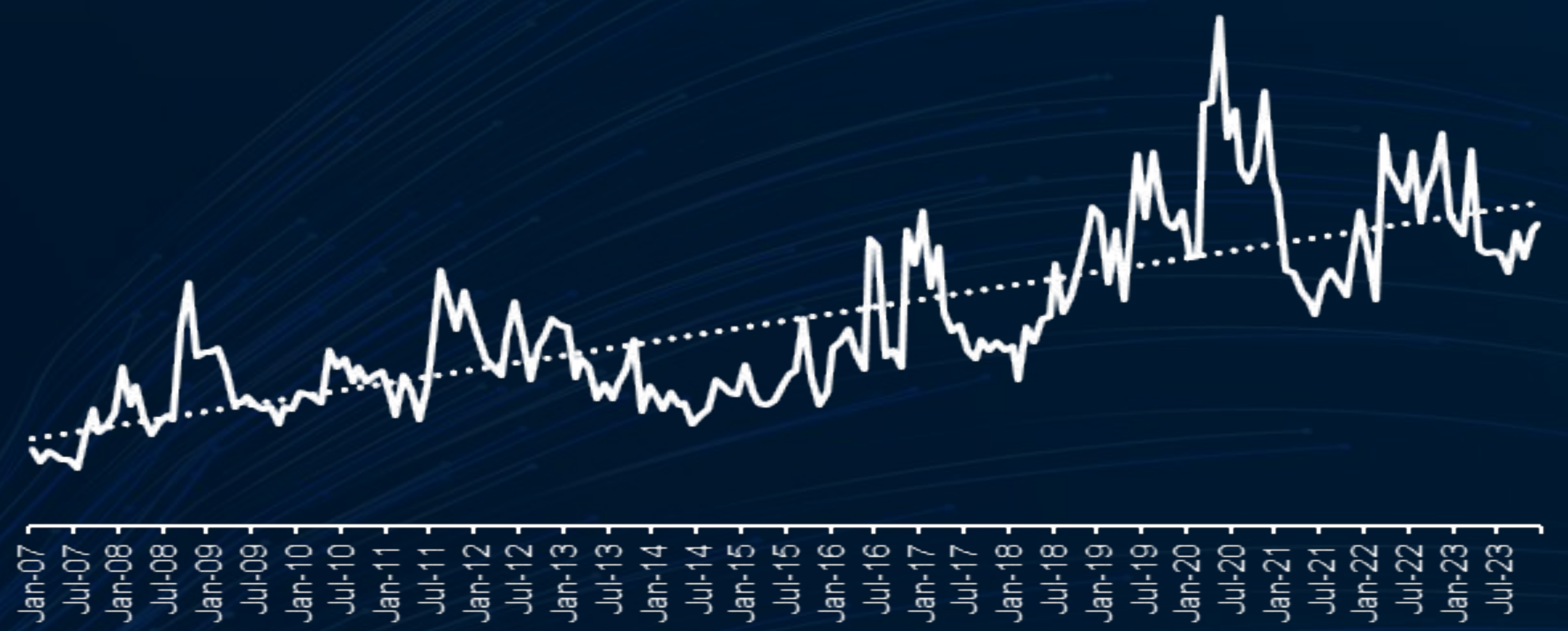
Geopolitical risk index

A measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions, The search is organized in eight categories: War Threats, Peace Threats, Military Buildups , Nuclear Threats, Terror Threats, Beginning of War, Escalation of War, Terror Acts.



Economic uncertainty

A GDP-weighted average of national indices for 21 countries including Brazil, China, France, Germany, India, Italy, Japan, the United Kingdom, and the United States. Each national index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy, policy and uncertainty.



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk"; "An Index of Global Economic Policy Uncertainty," Macroeconomic Review; www.policyuncertainty.com

ECONOMY

Inflation

Global growth below historic averages

The time of low interest rates is over

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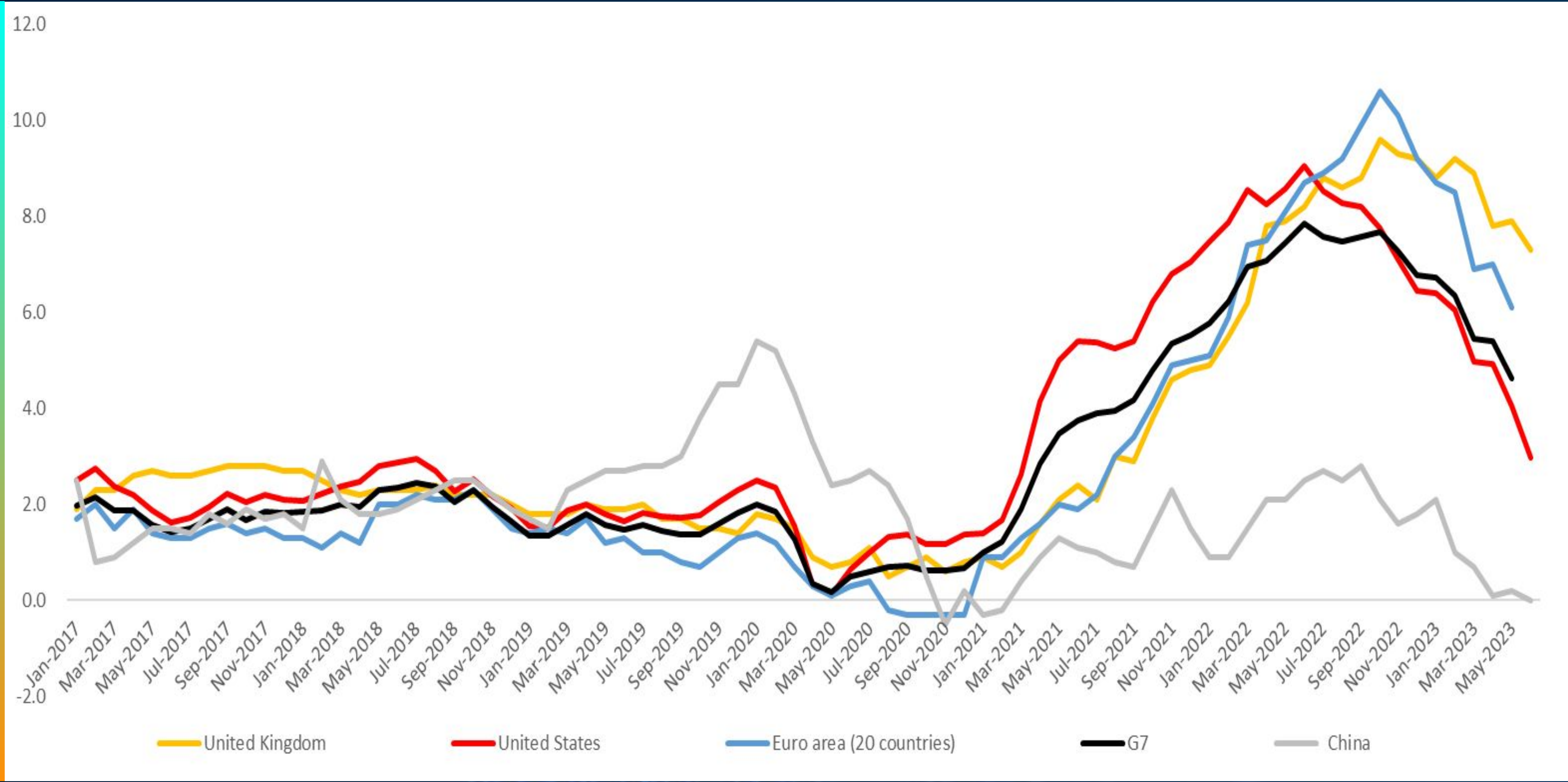
Index of economic uncertainty remains high



Source: Organisation For Economic Cooperation & Development, July 2023

How loyalty schemes support companies in counteracting inflation and protect value for customers

Targeted promotions for the price-sensitive

Interest-free loans/credit for households in difficulty

Price increases given back in the form of vouchers for members

% reduction in the label price reserved for members

Introduction of cheaper subscription levels

Concentration of offers for members in the scheme

Increase in value offered with a subscription

Discount on energy prices, reserved for members

- Targeted promotions for the price-sensitive
- Price increases given back in the form of vouchers for members
- Introduction of cheaper subscription levels
- Increase in value offered with a subscription
- Interest-free loans/credit for households in difficulty
- % reduction in the label price reserved for members
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- Discount on energy prices, reserved for members

TESCO	Has increased penetration of its scheme to 80% of sales
Sainsbury's	Has reached 1 million members in its digital Nectar scheme, amounting to savings of £90 million on 3000 products
Morrisons	Was the last to give discounts to loyalty scheme members

TARGET

Target Circle Week

500.000
new members

3,5
times more
new members than in a normal week

TECHNOLOGY

Artificial Intelligence

New physical, in-store experiences enabled by technology

Retail media covering several touchpoints and gathering data

New digital payment solutions

Even the metaverse will manage it eventually

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AI

- Prediction machines
- Speech recognition
- Natural language translation
- Image recognition
- Visual perception
- Decision-making

Marketing

- Search
- Forecast
- Recommendation
- Personalisation
- Content creation
- Customer support
- Online advertising
- Market research

Customer experience

- Smart and robotic services
- Touchpoint redesign
- Real-time alert management
- Automated marketing processes
- Personalisation

Retail media network

US Retail Media Digital Ad Spending

Billions, 2021-2027

- Retail media digital ad spending
- % of digital and spending
- % change

Media Network Growth

Forecast 2022 – 2023 | USD, bn

	2022	Growth	2023
amazon	29.1	18.8%	34.6
Walmart	2.2	42.0%	3.2
instacart	0.8	41.3%	1.1

45bn$

2X the cost for TV advertising

17% of total cost for digital advertising

Source: BCG, Insider Intelligence 2023

COMPETITIVE ENVIRONMENT

Growth of e-commerce

New channels and business models: quick commerce

New channels and business models: social commerce

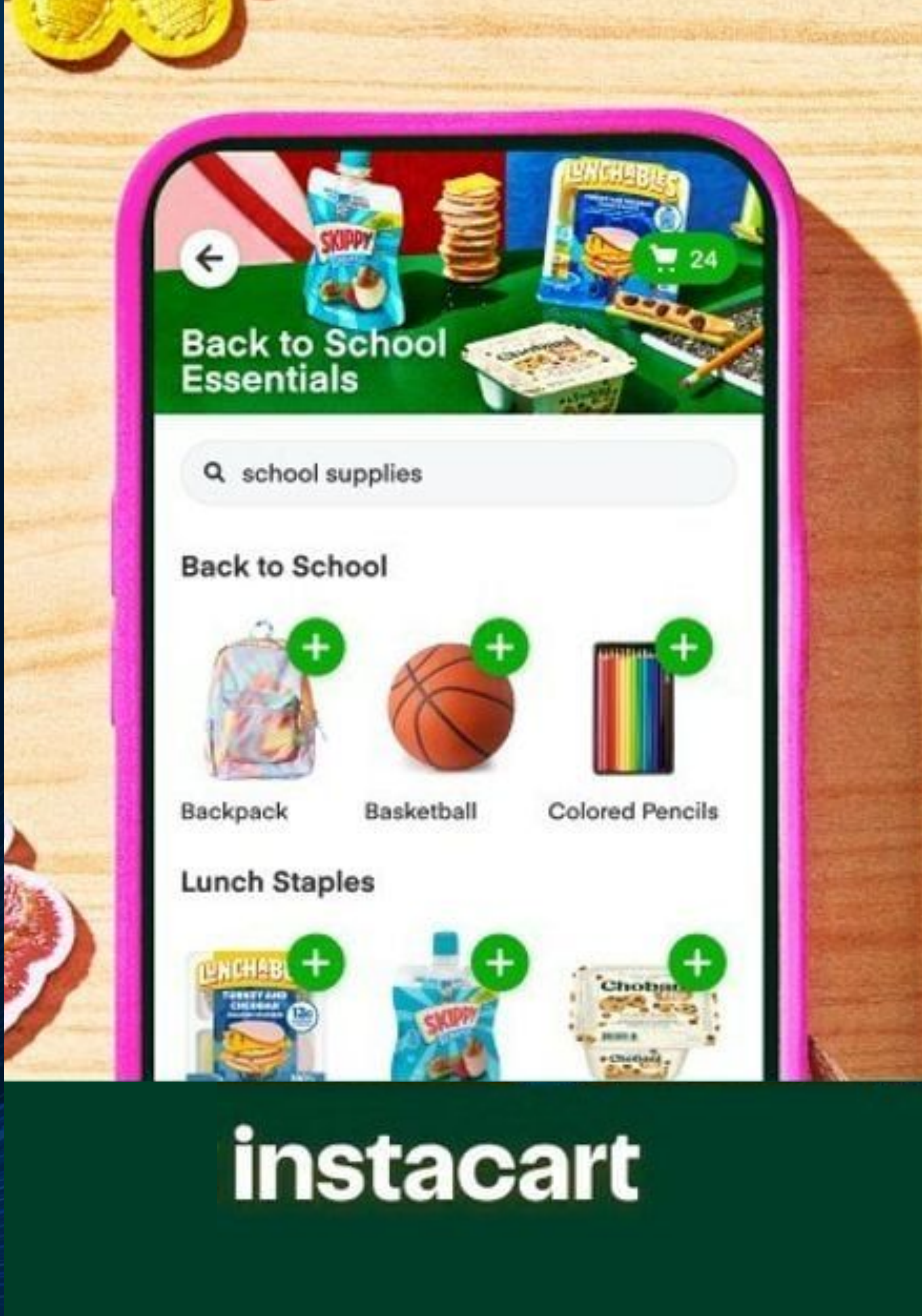
New channels and business models: D2C, B2B and resale

Ecosystems

6-week back-to-school campaign at different touchpoints - paid and organic social media, linear and streaming TV and online video, app pop-ups, thanks to the retail media platform.

Discounts on dozens of lines and subscription to Instacart+

Chat GPT supports the search.



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Ecosystems

E-commerce will account

FOR **41%** OF TURNOVER GLOBALLY IN MODERN RETAIL BY 2027 (it's currently 35%) and be worth double in terms of value sale opportunities compared with all physical channels put together.

It Cosmetics hosts livestream promotion on Ulta Beauty

D2C brand Avon agrees retail partnership with Superdrug

Lush Germany partners with Lieferando for delivery service

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Are you using a structured programme based on customer membership (loyalty scheme) to implement your loyalty strategy?

70%
B2C

38% of those without it will introduce it in 1-2 years*

	Industry	Retail	Services
YES	50%	84%	61%
NO	50%	16%	39%
Total	100%	100%	100%

*figure consistent with the Gartner benchmark "Marketing Trends and Predictions"

How do you plan to develop your loyalty scheme in the next three years?

Offer more benefits linked to buying behaviour	45%
Introduce/improve the loyalty scheme ap	41%
Add offers or benefits linked to values	36%
Improve the redemption experience	32%
Introduce (more) experience-based benefits	32%
Add gaming elements	30%
Aim for social and environmental sustainability	29%
Introduce (more) digital benefits	23%
Create a members' community	16%
Add theme clubs	13%

LOYALTY SCHEME BENEFITS

	GEN Z	GEN Y	GEN X
Discounts on products/services	3°	2°	1°
Free samples	4°	1°	2°
Gift upon reaching a certain level	2°	3°	3°
Birthday gift	1°	5°	6°
Reward catalogue	7°	4°	4°
Free products/services	5°	6°	5°
Special offers reserved for members	6°	7°	7°
Surprises	10°	8°	10°
Free home delivery of purchases	9°	11°	8°
Option to try (not buy) new products	12°	9°	9°

THE HUMAN FACTOR
IN LOYALTY

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Who is directly involved in operating the loyalty scheme with customers?

	TOTAL
Shop staff/other direct sellers	68%
Staff managing e-mails/social media relating to the scheme	53%
Call centre staff	33%
Reps/other independent retailers	14%
Our loyalty scheme does not involve physical interaction	11%
Third-party employees	6%

2 out of 3

have one or two different types of employee directly involved in the delivery (and perception) of their loyalty scheme.

The % exceeds 100% because several responses were possible

The people involved in operating the scheme are crucial to its success

100% B2B*

89% B2C*

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*the percentage is calculated as the frequency total for those giving an importance score of 5, 6 or 7

The most effective actions for ensuring that personnel directly involved provide good support with the loyalty scheme

% of respondents who said highly effective*

Having specific training on the loyalty scheme and its benefits	90%
Sharing the results of the scheme regularly with employees	80%
Gathering employee feedback on the scheme	79%
Giving employees specific targets relating to the scheme	76%
Having employees attend planning sessions relating to the scheme	74%
Giving new hires training on the scheme	74%

* the percentage is calculated as the frequency total for those giving an importance score of 5, 6 or 7

Where does your company sit between: 1= we don't do anything & 7 = we have a formal long-term strategy for developing loyalty scheme ambassadors among employees?

ONLY 3% HAVE A FORMAL LONG-TERM STRATEGY for involving employees in the scheme

33%DOES NOTHING OR VERY LITTLE*

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* the percentage is calculated as the frequency total for those giving an importance score of 1, 2 or 3

THANKS FOR LISTENING!

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