



LOYALTY MUST BE PROFITABLE!

We call this genuine loyalty



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01.

EXECUTIVE SUMMARY

With today's changing customer expectations, companies recognize the need to evolve their loyalty programs and create a consistent customer experience with personalization across all touchpoints. At the same time, companies are under pressure to reduce operating costs and find new revenue streams. Therefore, it is important to rethink loyalty programs and make them profitable.

This point of view explores what customers expect from loyalty programs and what future generations are likely to value. It also discusses how brands can transform their loyalty programs, increase their value, and create customer experiences that make a difference.

“Customers have a different understanding of Loyalty than brands. They are looking for superior products and services personalized across all touchpoints. Only those organizations that take this into account will achieve “genuine loyalty” - which is profitable for both the brand and the customer. The key enablers to achieve this is data and technology.”

Falko May

Principal, Lead Loyalty Business & Technology Solutions, Capgemini

“Brands are increasingly competing for customers' mindshare and retention. Understanding how customers want to engage with loyalty programs is key to keeping competitors from pulling them away.”

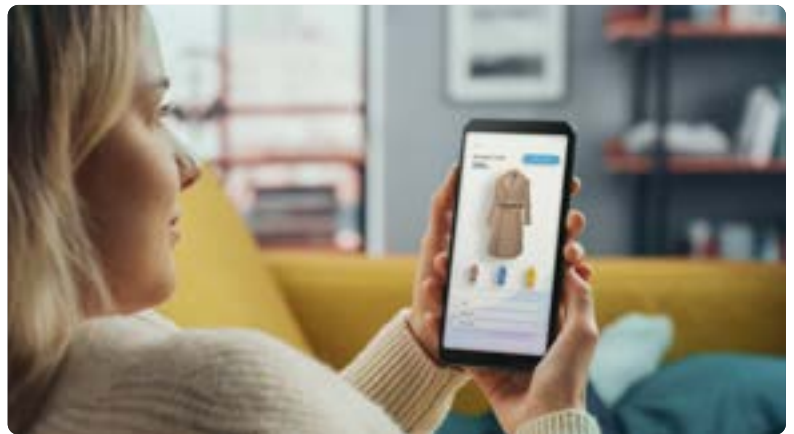
Brigitta Berger

Director of Product Management, Salesforce

02.

CUSTOMERS HAVE A DIFFERENT UNDERSTANDING OF LOYALTY THAN BRANDS

Today's customers are data-savvy, prefer to communicate via digital channels, and hunt for the best deals. They are not as loyal as they used to be: In 2022, for example, 71% of customers have switched brands at least once¹. But loyalty programs are still important to them: According to Salesforce's Connected Shopper Report from 2021, 56 percent of customers are more likely to buy from a brand with a loyalty program. At the same time, many loyalty program memberships are inactive. What does loyalty mean to customers? Customers are loyal because of unique products, fair prices, and superior service across all customer touchpoints. They are loyal to brands that offer sustainable products, are socially committed, or help them through difficult times, as research showed in 2022 during the cost of living crisis².



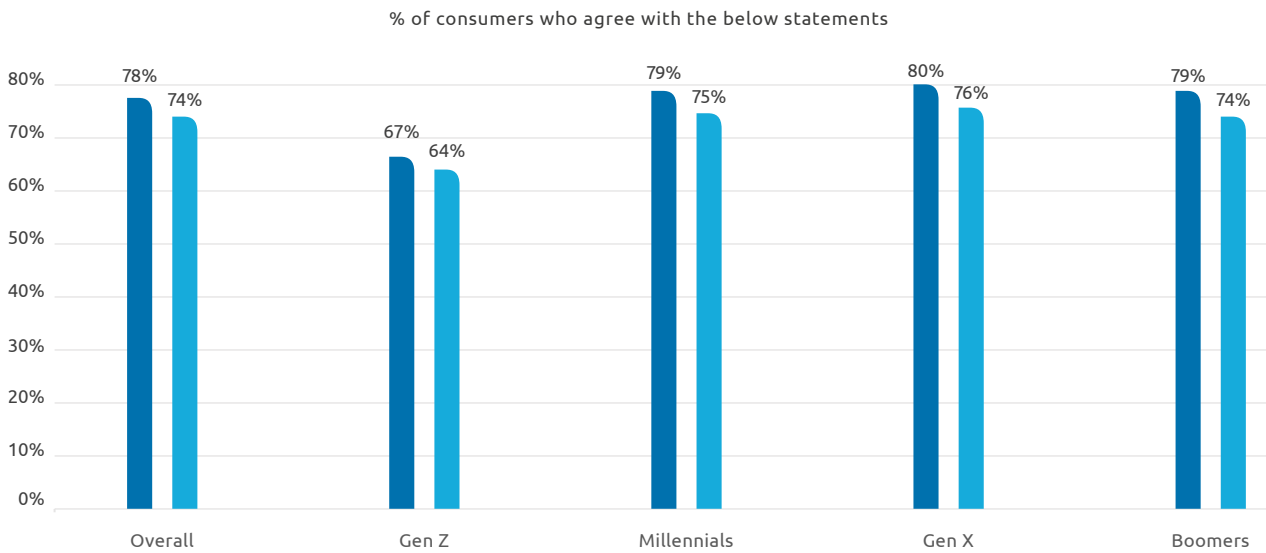
Loyalty is driven by rational as well as emotional factors. Rational reasons for buying a product or service include its quality, price, return policies and convenience. Emotional reasons may include the desire to be part of a certain community, demonstrate a specific lifestyle, or to buy from a brand that they trust. As a general rule, the younger the consumer, the higher the expectations. And with Gen Z set to make up 40 percent of all consumers by 2026, the bar for brands is rising every year.

¹ <https://www.salesforce.com/resources/research-reports/state-of-the-connected-customer/>

² <https://www.cappgemini.com/insights/research-library/what-matters-to-todays-consumer-2023/>

CONSUMERS WILL REWARD COMPANIES THAT HELP THEM THROUGH THIS DIFFICULT TIME WITH THEIR FUTURE BUSINESS AND LOYALTY

Figure 1 78% of consumers say they will be more loyal to companies that help them through this difficult time



I will be more loyal to companies that help me through this difficult time

I will purchase more products/services in the future from companies that help me through this difficult time

Source: Capgemini Research Institute, Consumer demand survey, October-November 2022, N=11,300 consumers; 992 Gen Z consumers, 3,264 Millennial consumers, 3,332 Gen X consumers, 3,712 Boomer consumers.

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LOYALTY EXPECTATIONS VARY BY DEMOGRAPHIC

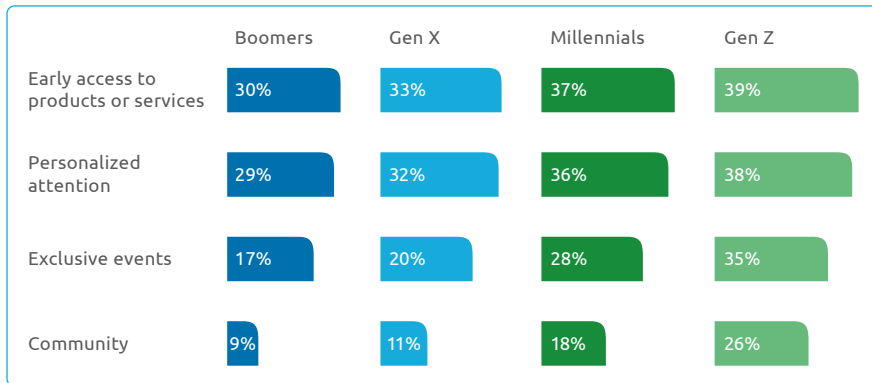
Figure 2 With Gen Z expected to make up 40% of consumers by 2026

salesforce



What do you value most in a loyalty program?

*Aside from discounts



Source: 12,490 respondents, "Salesforce Consumer Sentiment Survey," 2021.

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Customers expect additional benefits from loyalty programs such as early access to new products and services, personalized attention, exclusive events, access to a brand community and incentives money can't buy. But many brands still run fairly simple programs that reward actions such as recommendations, reviews, or general engagement. For example, in traditional earn-and-burn programs, customers receive points that can later be redeemed for discounts on products and services.

But programs like this incentivize bargain hunting and do not create an emotional connection to a brand. In addition, many loyalty programs are run as stand-alone solutions that are not connected to the customer experience universe. As a result, despite all investments, many loyalty programs are no longer profitable.



03.

BRANDS MUST CLOSE THE LOYALTY LOOP

Loyalty programs must be beneficial to both customers and brands in order to create genuine loyalty. But as customer expectations have changed, loyalty programs must also evolve. They need to be experiential rather than transactional, with rewards based on value rather than behavior, provide personalized experiences rather than of fixed rewards, and engage members rather than simply retain them.

Set up with these principles in mind, loyalty programs can save costs, because acquiring a new customer is at least five times more expensive than retaining an existing one. In addition, it can increase annual revenue: Loyalty drives customer lifetime value and increases spending by 25 percent with personalized recommendations³.

To be successful, brands need data. We are in the Age of Privacy, where privacy changes are happening at an unprecedented rate, highlighting the need for brands to rethink their approach. Prior to 2020, privacy was regulated with new policies that were a mandate to follow, including what data could be collected and how and where it could be stored. Now we are seeing big tech companies begin to put privacy in the hands of their customers with changes that allow users to opt in or out of the information that is tracked and shared. Loyalty is part of a data strategy and enables customers to acquire first party customer data.

Data will help to add value to customers by providing the right products and services through right channel at the right time. But collecting data is only the first step. Many brands have a lot of data about their customers, but it is stored and processed in many disparate systems such as CRM, marketing, commerce, and service solutions. To create a holistic view of the customer, brands need a data strategy that aggregates, processes and connects all the information. Analytics adds value by segmenting and predicting customer behavior. All information must be accessible across the enterprise and support sales and service at all customer touchpoints to create a superior customer experience.

With the right data infrastructure, brands can:

- Invest in the customers with the highest return.
- Run selective campaigns with predicted return.
- Use customers as advocates.
- Analyze the return of campaigns and learn for the next one.
- Ensure consistent communication across all touchpoints to improve the experience.

The right data infrastructure also enables brands to make tangible benefits transparent to customers so they can measure and track what they are gaining. If customers feel recognized, valued, and rewarded, companies can close the loop and establish a self-reinforcing cycle where every interaction increases customer loyalty.

³ <https://www.salesforce.com/resources/research-reports/connected-shoppers-report/>

04.

THE BUILDING BLOCKS FOR GENUINE LOYALTY

Success in loyalty requires much more than just a gorgeous app or exclusive rewards. It needs a smart, thoughtful approach combined with a carefully constructed, comprehensive end-to-end customer experience strategy. When a deep understanding of the customers is combined with an iterative approach to experience excellence, the results can be transformative.

To find the right approach, brands must assess the current state of their loyalty initiatives and benchmark them against their own goals as well as industry benchmarks.

The assessment should address the following areas:

- Loyalty strategy and objectives.
- Customer value proposition.
- Member acquisition and engagement.
- Customer data management and use of data insights and actions.
- Capabilities of people and the organization.
- State of technology and automation.

Evaluating the strategy and objectives leads to the question of how loyalty can help to deliver on the brand promise. In other words: Why should customers become members and engage with the brand? What are their needs and pains, and how can they be addressed? What value can a customer expect from the program and what is the desired customer behavior? The latter needs to be tied to a business goal than can be broken down into KPIs, such as customer lifetime value, which can then be tracked to measure improvements.

The next area to assess is what data and insights brands expect from the program and how the information can be monetarized for cross-selling and up-selling, for example. To make loyalty programs more successful over time, brands should calculate and track their profitability. Customer lifetime value and net promoter score should become two of the brand's key KPIs.

Brands should also evaluate if they have the talent in place to analyze and process data, run programs, and provide insights for campaigns, personalization, and research. Finally, technology, and in particular automation, plays a crucial role in the success of loyalty programs, as well as the workload and cost associated with them. The more connected, open and flexible the core systems are, the easier it is for brands to adapt to changing customer demands.

The expected benefits together with the total cost of the program should lead to the calculation of the business case, including the expected return on investment.

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Capgemini and Salesforce are two market leaders that jointly offer end-to-end solutions to create genuine loyalty. We have a long list of credentials covering strategy consulting, implementation and operation of profitable loyalty ecosystems.

For inspiration, visit our website and read an interview with **Aron Mitchell, Global VP, Customer Engagement and Loyalty**, IKEA, about the future of customer engagement and loyalty and how IKEA creates and nurtures an emotional connection with customers.

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