



Customer Loyalty in a Fragmented Retail Market

How retailers can leverage data
to create long-term relationships
with their customers

TotalRetail

FIDEL

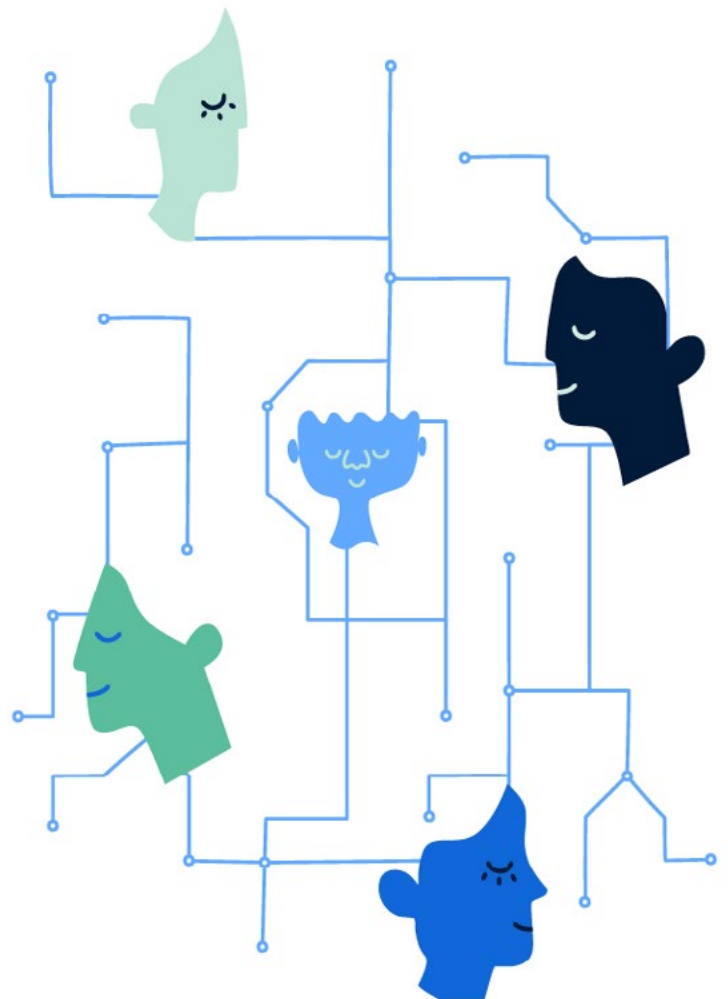
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Create the next generation of loyalty experiences with access to real-time customer payment data

Build loyalty programs your customers love with Fidel's card-linking API

- Access global data from Visa®, Mastercard® and Amex® through a single integration point.
- Capture every transaction your customers make with you, whether online or in-store
- Cut friction at checkout, removing the need for complex POS integration or staff training
- Engage with customers in real-time, drive footfall and increase transaction value



Visit www.fidel.us to learn more about card-linked loyalty and book a free demo.

Executive Summary

With the abundance of choice that today's consumers have, particularly online, we've seen loyalty to retailers decrease. If a retailer can't meet the immediate and increasingly stringent needs of a consumer, be it price, product quality, service, delivery time, etc., they simply move on to a competitor. And those shifts are occurring across all channels and at all points in the purchase journey.

This development is important for a couple of different reasons: one, the cost to acquire new customers continues to rise. In fact, it can cost up to five times more to acquire a new customer than to retain an existing one. And two, increasing customer retention rates yields gains to the bottom line. According to the Gartner Group, **80 percent of your future profits will come from just 20 percent of your existing customers.** Furthermore, boosting retention rates by just 5 percent can actually raise profits by 25 percent to 95 percent, **according to a Bain & Company report.**

To help address the retention challenge, retailers are looking to technology solutions that can help them leverage their most critical asset — data, and more specifically, customer data. Data on where, when and how much customers spend provides retailers with the information they need to craft relevant messaging and offers. With that, they can increase engagement and build long-term, loyal relationships. Tools that enable frictionless data capture across shopping channels are therefore at the top of many retailers' wish lists as they look for ways to improve and personalize the customer experience. And prioritizing customer experience is proven to pay off.

Consider the following:

- **44 percent of consumers** said that they're likely to become repeat buyers after a customized experience with a company; and
- **37 percent of consumers** will stop doing business with a brand that fails to offer a customized experience.

To help address the retention challenge, retailers are looking to technology solutions that can help them leverage their most critical asset — data, and more specifically, customer data — in an effort to build long-term, loyal relationships with their customers.

FLEETING RETAILER LOYALTY

According to new **research from Nielsen**, just 8 percent of consumers consider themselves to be firmly committed brand loyalists. Furthermore, 46 percent of consumers report that they're more likely to try new brands than they were five years ago. This sentiment is particularly true among much-sought-after younger consumers. A recent **study by Daymon Worldwide** found that just 29 percent of millennials usually purchase from the same brand, compared to 35 percent of Gen Xers.

This trend doesn't figure to slow down as more shopping shifts online. To stay ahead, a large number of retailers are looking to loyalty programs as a means to capture more data on their customers.

The value of an effective loyalty program doesn't lie solely in the repeat transactions that it generates. In addition, there's the data that consumers explicitly share with retailers to join programs, as well as the implicit behavioral and transactional data that retailers collect from loyalty program members. Every time a customer clicks an affiliate link, scans a coupon code, etc., they share a variety of implicit and explicit data.

With that data, retailers are able to get a better understanding of how their customers shop and strategically tailor their offerings, giving a boost to customer engagement. Here are some examples of leading loyalty programs which have focused on data capture and foregrounded customer experience to increase retention rates.

- **Starbucks:** The coffee chain's Reward Loyalty Program had 16 million active members as of March 2019. Starbucks attributes 40 percent of its total sales to the Rewards Program and has seen same-store sales rise by 7 percent. Largely responsible for that success is Starbucks' mobile app, with users able to order and pay through the app ahead of arriving at a physical store, as well as earn stars (rewards) that translate into free items. Starbucks is customizing features and functionalities within the app based upon data collected about its users.



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■ **Nordstrom:** The upscale department store chain's loyalty program, The Nordy Club, is predicated on experiences, in addition to rewards. For example, members can receive priority access to style events, beauty and style workshops, curbside pickup, first to shop select brands, among other perks. The experiences crafted for Nordy Club members are based on customer feedback; members not only want good deals and discounts, but they want access to unique products and services as well.

"The Nordy Club is designed to provide more personalization, access and service — no matter how customers choose to shop," a **Nordstrom exec told Total Retail**. "We evolved the loyalty program to continue to deepen relationships with existing customers and give new customers a reason to engage with us. Whether it's sparking curiosity and a sense of discovery by introducing new products and services or offering programs to engage, attract and retain customers, we're constantly evolving to try and help solve their needs in new and relevant ways."

■ **Avios:** Avios is a world-leading travel rewards currency. The coalition loyalty program turns everyday spending into travel and leisure rewards for nearly 8 million customers around the world. Brands that participate in the Avios coalition loyalty program include Tesco, Shell, Hilton, and Aer Lingus. One of the core differentiators of a coalition loyalty program is the ability to earn points across multiple touchpoints. This enables customers to maximize the points they can earn, and redeem them for things like free flights. However, with today's consumers demanding a seamless user experience, Avios needed a way for its members to earn more rewards without complicating their experience.

Avios used an API to integrate card-linking with their internal systems. Now when a customer signs up to Avios, they're prompted to link their card. Once they do, they're shown offers from local retailers where they can earn Avios points for purchases. There's no need to activate or claim an offer — when the customer makes a purchase with their linked payment card, they're automatically rewarded with Avios points. Those points can then be exchanged for flights with Aer Lingus, for example.

These programs are using technology and data to help them foster customer loyalty. Transactional data is critical for retailers to understand their customers better, and is leveraged in various aspects of the business to refine offerings strategically. Data generated from loyalty programs serves as the foundation for a variety of business functions, including product development, customer service and, perhaps most importantly, marketing and promotional campaigns.

The customer data yielded from a loyalty program is so valuable because of how challenging it is to acquire otherwise. Online customers refreshing their cache or abandoning their baskets can mean that affiliate links aren't tracked. Furthermore, there's no in-store equivalent. Tools such as vouchers, codes and coupons work across channels, but add friction at the point of checkout. That means consumers often don't bother to redeem them for smaller transactions. The result is that retailers are left with an inconsistent customer experience and an incomplete picture of how customers actually engage with them, hampering efforts to retain them.

Eliminating these capture mechanisms and going direct to the source (i.e., the bank account or card network) can provide a more complete picture of customer transactions, but is also very difficult. It requires multiple complex integrations to be built and maintained, comes at a significant cost, progresses slowly, and requires rigorous compliance certification.

For retailers that want to generate more revenue from their loyalty programs, frictionless, holistic and simple data capture is key.

Retailers that use card-linking technology — i.e., a way for consumers to “link” their credit card to a merchant’s loyalty program — are able to acquire customer data via an API. This method bypasses the challenges of going direct to source. Instead, granular transaction data is captured when customers shop with their normal payment card. That data can then be attributed to a unique, anonymized customer ID, helping retailers build a single customer view. Information such as transaction time and amount, merchant location and ID, merchant category code (MCC) and authorization code, and payment method and status helps the retailer understand exactly how its customers are interacting with it.

In addition to the data it provides, card-linking technology helps to improve the checkout experience by ensuring customers don’t have to remember to scan a card, code or coupon at checkout. Reduced friction at checkout leads to a better shopping experience, and a higher likelihood that customers come back to purchase again.

Card-linking works across both online and offline channels, which is critical given the omnichannel nature of consumers. It enables merchants to unify online and in-store experiences, and capture data from every transaction, irrespective of channel.

Easy access to real-time transactional data can help brands to understand their customers better and tailor their offering accordingly. This customization helps to strengthen retailer-customer relationships. Leveraging data to arrive at a single customer view, understand customers better, and create more relevant shopping experiences is becoming table stakes; retailers that are unable to deliver relevant customer experiences are, quite simply, going to be left behind.



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BEST PRACTICES FOR EARNING CUSTOMER LOYALTY

We've established the challenge retailers are facing in trying to create loyal customer bases (fickle consumers, more competition), as well as the benefits of doing so (lower customer acquisition costs, higher profits). But knowing that and being able to execute upon it are two different stories. Here are tips to help merchants grow their customer loyalty:

- 1. Collect customer data.** Understanding the motivation of the customer as well as how you can make their life easier is key to brand loyalty and customer retention. Implement technology systems (e.g., CRM, CDP) that allow for the collection, management and utilization of customer data. For example, card-linking technology can provide merchants with real-time insights into a customer's transaction time and amount, merchant location and ID, and payment method. Technology systems that enable loyalty through the delivery of data are a critical investment area for brands.
- 2. Identify your brand's unique value proposition.** This reflects back on the amount of competition in the marketplace; you must give consumers a reason to come back to your website or store again and again, and not to one of your competitors. Whether that be unique products or services, the lowest priced merchandise, exceptional customer service, ensure that customers know what your brand's value proposition is, and that they can only get it from you.
- 3. Ensure you have a first-rate user experience.** The key factor in consumers' purchase decisions used to be price; now it has become experience. This extends from discovery through post-purchase, and across all channels — often in the same purchase journey. Consumers expect a fast, easily navigable website that lets them find what they want and make a purchase without friction during the process. The same expectations apply to the in-store shopping experience. A great user experience is what's going to convert first-time customers into repeat buyers.
- 4. Create a loyalty program that offers both deals and experiences.** Consumers will always want to receive the latest and greatest deals and discounts in exchange for signing up for a retailer's loyalty program. However, they're looking for more than just that; they want relevant and value-added experiences as well. Find out what types of experiences are relevant to your customers (e.g., events, classes) and introduce them into your brand's loyalty program.
- 5. Personalize the customer relationship.** Use the information you've learned about your customer, such as product preference, channel preference, payment preference, etc., to personalize their future interactions with your brand. This level of personalization should extend across all channels. Consumers have come to demand that the brands they do business with know them. Meeting this demand is critical to future retail success.



CONCLUSION

Given the economic benefits of developing a loyal customer base — lower costs (acquisition, marketing), higher customer lifetime values, greater profits — it's not surprising that nearly every retailer and brand is trying to find ways to create long-term relationships with buyers.

Merchants must have a plan for how they're going to engender customer loyalty. That plan needs to include data and personalization, as well as the technology systems that can enable them. Experience is the new differentiator in today's hypercompetitive retail environment. With the right data, brands can personalize the customer experience, leading to happier and, most importantly, repeat customers.

WHO WE ARE



TotalRetail

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Fidel makes it easy, quick and affordable for developers to access real-time card payment data. Through a single API, developers can securely access data from the three major card networks and build their applications on top of the powerful payments infrastructure - supercharging innovation and driving value back to consumers. Fidel works with global businesses including Klarna, Avios and Royal Bank of Canada, and has offices in London, Lisbon and North America. Backed by Nyca Partners and QED Investors, Fidel recently raised a series A round of \$18m. **For more information, visit: www.fidel.uk.**



WHO WE ARE



Led by a former Forrester Research analyst, the NAPCO Research team crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problems and create solutions that enable deeply informed decision making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

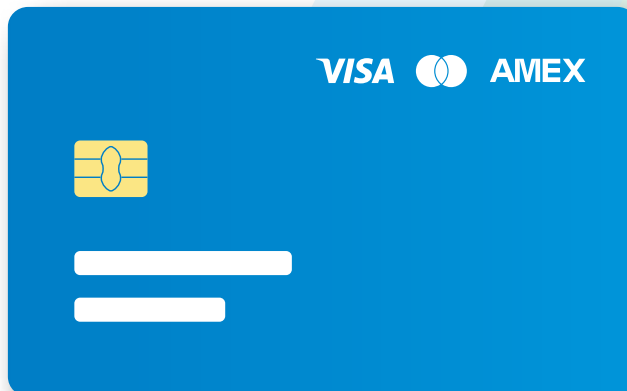
Contact research@napco.com for a research consultation.

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Card-linking can help drive more traffic through your loyalty program and increase the average value of each customer transaction.

- ✓ Real-time transaction data
- ✓ Granular merchant information
- ✓ Easy integration
- ✓ PCI compliant
- ✓ Scalable pricing



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