

LOYALTY MARKETING

Creating Stickiness in a Distracted World

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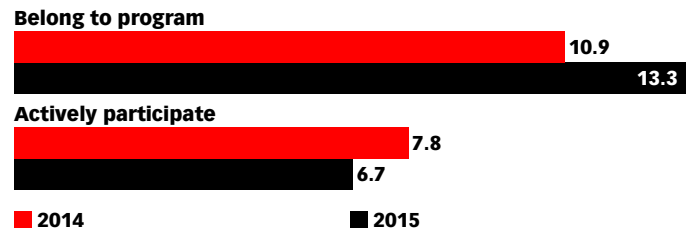
LOYALTY MARKETING: CREATING STICKINESS IN A DISTRACTED WORLD

Memberships in loyalty programs are expanding rapidly while active participation in programs is falling. The reason is simple: Although the barriers to joining programs are lower than ever, most programs are undifferentiated and rely largely on discounts.

- Although spending on loyalty marketing is effective, marketers still heavily prioritize acquisition spending.
- One study found that slightly less than half of consumers remained loyal to a Top 100 US consumer packaged goods (CPG) brand over a one-year span.
- Consumers remain highly price conscious, but discounts aren't enough to keep them loyal. According to one study, 63% of US millennials participate in a loyalty program that supports their lifestyles and personal preferences.
- Loyalty program memberships in the US climbed to 3.32 billion in 2014, up 25.3% from 2012. Growth was strongest in drugstores and restaurants.
- Gamification is increasingly important in keeping loyalty marketing fresh.
- Mobile is changing loyalty marketing by raising expectations of instantaneity and consistency across channels. It has also opened up new opportunities in real-time messaging, customer service and seamless customer experiences.

WHAT'S IN THIS REPORT? This report covers trends in loyalty programs and looks at the ways in which loyalty marketers are communicating with mobile customers.

Average Number of Loyalty Programs to Which US Consumers Belong vs. Actively Participate, 2014 & 2015



Source: Bond Brand Loyalty (formerly Maritz Loyalty Marketing), "The 2015 Loyalty Report," March 31, 2015

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KEY STAT: Even as memberships in loyalty programs continue to increase, active participation in programs is decreasing. This points to a failure of many programs to engage members with relevant and differentiated offers and service.

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CUSTOMER LOYALTY EVOLVES BEYOND DISCOUNTS

Marketers have traditionally been biased to acquisition, but the most effective marketing targets retention. "We have found most marketers do best when they spend about 70% of their marketing dollars talking to actual buyers, 20% of those dollars talking to people new to the brand and the remaining 10% on people that just happen onto their website that they've never tried to acquire," said Ric Elert, president of Conversant, an online advertising platform.

Consumer marketing firm Catalina highlighted the importance of retention marketing by analyzing consumer data from its retail partners for the 52 weeks ended June 30, 2015. It found that only 45% of consumers maintained a consistent level of loyalty to the top 100 CPG brands in the US over that time.

Loyal Customer* Retention Among the Top 100 US CPG Brands**, 52 weeks ending June 30, 2015 % of total

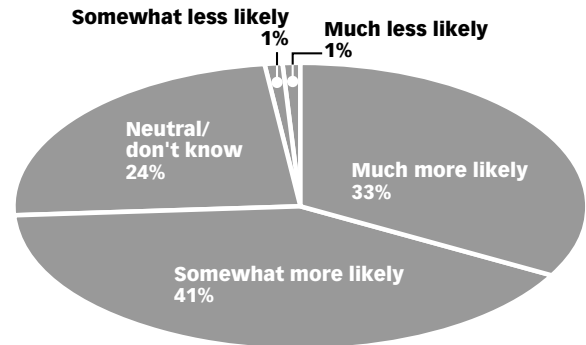


Note: read as 45% of customers who were loyal to a top 100 CPG brand during the 52 weeks ending June 30, 2015 remained loyal during the following year; *customers who made a least 70% of category purchases from a particular brand; **among Catalina's network of drug, grocery and mass retail outlets
Source: Catalina, "The 2015 Mid-Year Review: How the Top 100 CPG Brands Performed," Sep 30, 2015

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Consumers respond well to formal loyalty programs. In a June 2015 survey, marketing services firm Epsilon found that the majority of US loyalty program members polled were more likely to shop at stores that offer loyalty rewards, with a third being much more likely.

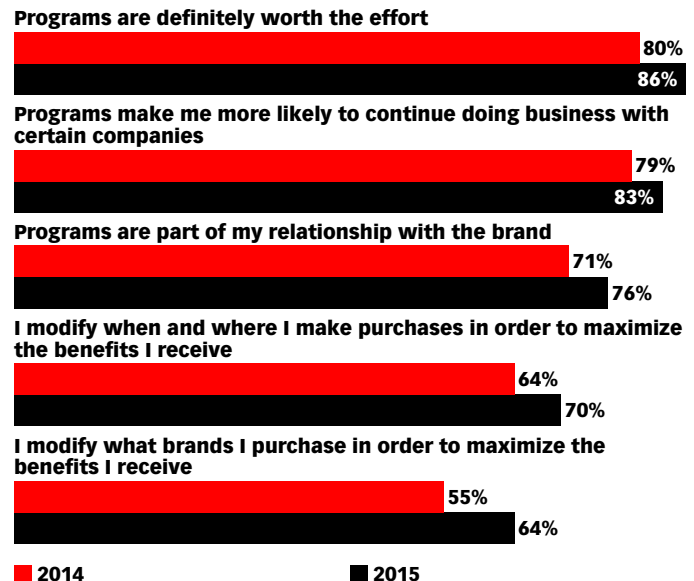
Likelihood of Shopping at Stores that Offer Loyalty/Reward Points According to US Loyalty/Reward Card Owners, June 2015 % of respondents



Note: n=2,616 ages 25+; numbers may not add up to 100% due to rounding
Source: Epsilon, "2015 Holiday Shopping Survey Results," July 29, 2015
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A March 2015 report by loyalty and marketing services provider Bond Brand Loyalty found that 86% of US respondents found loyalty programs worth the effort and significant majorities said that programs made it more likely to shop with certain companies, build a relationship with a brand and modify purchase patterns.

Attitudes Toward Loyalty Programs Among US Consumers, 2014 & 2015 % of respondents

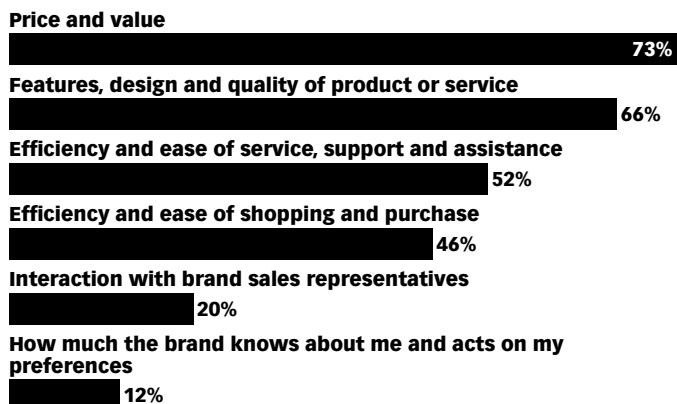


Source: Bond Brand Loyalty (formerly Maritz Loyalty Marketing), "The 2015 Loyalty Report," March 31, 2015
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OVERALL EXPERIENCE DETERMINES LOYALTY

According to a September 2015 survey from Support.com, 73% of US respondents named price and value as the leading factor that determined brand loyalty, followed by "features, design and quality of product or service," at 66%. Price considerations play a key role when US consumers evaluate loyalty programs. "There are certainly rising expectations today [for] discounting as the cost of entry for loyalty programs," said Jeff Berry, senior director of research and development at Colloquy, a loyalty marketing research and education practice.

Factors that Determine Brand Loyalty According to US Internet Users*, Sep 2015 % of respondents



Note: ages 18-60; *who consider themselves very/somewhat connected to technology and want to know about and use the latest technologies
Source: Support.com, "Connected Consumers and The Most Personal Brand Experience," Nov 5, 2015

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Although marketers can't ignore consumer price consciousness, the heavy and often exclusive focus on discounts has its downsides. "For far too long, 'loyalty programs' have really just been a mechanism for distributing price discounts, which really has virtually nothing to do with loyalty," said Katie Casavant, CEO of Kantar Shopcom. "It frankly can create precisely the opposite behavior of loyalty. It can create loyalty to the lowest price, wherever that lowest price can be found."

In order to develop lasting loyalty, marketers need to go beyond the transactional side of the relationship. "Loyalty is an emotional state," said Mark Taylor, senior vice president of digital customer experience at Capgemini. "The way to drive real loyalty is to create engagement through experiences."

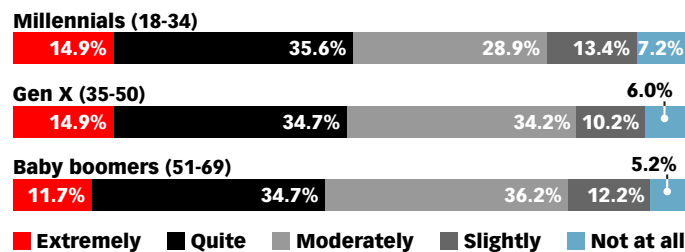
A number of retailers have sought to create this heightened level of engagement by enhancing the in-store experience with brand-aligned activities. The result has turned some stores into destinations for more than shopping: Shoppers can scale a climbing wall at REI, eat at the cafe or tapas bar in Nordstrom or bring their kids to play at Gymboree. "People cherish experiences over things," said Babs Ryan, principal at ThoughtWorks Retail. "What's really making people more loyal is catering to what we like to do when we're not shopping."

Experiences that fail to meet customer expectations, on the other hand, are less tolerated than ever before. "Customer experience breakdowns are the new spam," said Taylor. "Our expectations set by the companies that you know, the Googles, the Amazons, the Zappos and the Starbucks of this world, are so high."

YOUNGER CONSUMERS SEEK EMOTIONAL CONNECTION

The fluidity of brand loyalty is true across demographics. A June 2015 survey of internet users in North America by multichannel loyalty platform CrowdTwist found that 46.4% of baby boomers polled considered themselves "extremely" or "quite" loyal to a brand, slightly less than the 49.6% from Gen X and 50.5% of millennials. The relatively low level of baby boomer loyalty may result from their greater focus on financial discounts. "Making that dollar stretch is more top of mind," said Geoff Smith, CMO of CrowdTwist. "They are motivated by the benefit, the discount."

Level of Brand Loyalty According to Internet Users in North America, by Generation, June 2015 % of respondents in each group



Source: CrowdTwist, "Demystifying Brand Loyalty Among Millennials," July 22, 2015; "Demystifying Brand Loyalty Among Generation X," Aug 5, 2015 and "Demystifying Brand Loyalty Among Baby Boomers," Aug 24, 2015

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In contrast, younger shoppers, although concerned about finances, are more likely to cite nonmonetary reasons for their brand loyalty. An August 2015 survey by Colloquy found that 63% of US millennials polled have continued to participate in loyalty programs that support their lifestyles or personal preferences, compared with 46% of baby boomers. "Millennials have a much higher expectation of the benefits they're getting from programs being experiential vs. economic," said Berry. "Loyalty was much more about an emotional connection [for millennials], where for boomers loyalty was mostly about fair exchange of value, fair economic exchange of value."

Status/Nonmonetary Reward Reasons that US Internet Users Have Continued to Participate in a Loyalty Program, by Generation, Aug 2015

% of respondents in each group

	Millennials (18-34)	Gen X (35-50)	Baby boomers (51+)
Supports my lifestyle/ personal preferences	63%	53%	46%
Has a smartphone app	59%	55%	31%
Gives me a mobile payment option	42%	32%	15%
Includes a competitive game or social aspect	27%	18%	7%

Note: among those who joined a loyalty program and have continued to participate; programs joined in the past 12 months

Source: Colloquy, "Customer Loyalty in 2015 & Beyond: Are you Wasting Your Money?" Oct 14, 2015

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Experiential benefits can include promises of exclusivity. Colloquy found that 25% of millennial respondents had joined a program in the past year because it offered access to a members-only event such as a fashion show or concert, compared with 16% of all respondents.

In a May 2015 Synchrony Financial survey of 1,003 US adult internet users, 69% of millennial respondents said they would pay more for products or services if they received their most desired benefits from a retailer. A majority of Gen Xers also would pay a bit more for top benefits, but only 37% of baby boomers and 35% of seniors said the same. Although some of these benefits have financial aspects, such as the ability to choose sale items, the younger cohorts expected a higher degree of relevance, flexibility and service than the older ones.

US Internet Users Who Would Pay Slightly More for Products/Services if They Received Their Most Desired Benefits* from a Retailer, by Generation, May 2015

% of respondents in each group

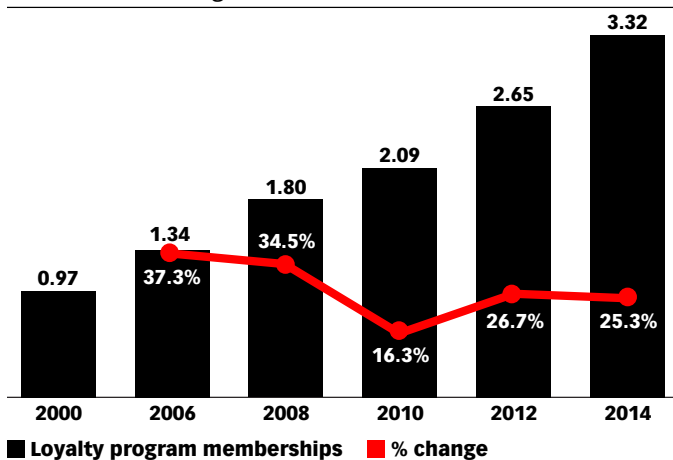
Millennials (16-34)	69%
Gen X (35-49)	55%
Baby boomers (50-68)	37%
Seniors (69+)	35%

Note: *e.g., pick-your-own-sale items, hassle-free returns, etc.
Source: Synchrony Financial, "The Retail Customer Experience," Sep 16, 2015
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LOYALTY PROGRAMS

In its biennial loyalty census, Colloquy found that loyalty program memberships in the US reached 3.32 billion in 2014, up 25.3% from 2012. That represents roughly 10 memberships for every person, and significantly more for active consumers. "It's become a strategic imperative to have a loyalty program," said Brandon Logsdon, president and CEO of Excentus, parent company of Fuel Rewards, a coalition loyalty program.

US Loyalty Program Memberships, 2000-2014
billions and % change



Source: Colloquy, "The 2015 COLLOQUY Loyalty Census: Big Numbers, Big Hurdles," Feb 12, 2015

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The big spike in memberships corresponds to easier sign-ups, which can be as simple as downloading an app, logging in with Facebook or giving an email address at the point of purchase. With such a low threshold to entry, people sign up without a deep connection with a brand.

Not surprisingly, loyalty program memberships have grown quickly across most sectors. According to Colloquy, drugstore memberships jumped 88% between 2012 and 2014, restaurants soared by 107% and specialty retail climbed by 20%. Three exceptions were grocery, convenience stores and airlines, which dipped 2%, 3% and 4%, respectively. According to Berry, grocery strategies have headed in divergent paths, with some brands such as Shaw's and Acme abandoning programs in favor of everyday low prices, while others such as Kroger and Safeway continue to invest heavily in them.

US Loyalty Program Memberships, by Category, 2014
millions and % change vs. 2012

Financial services	577.9 (5%)
Specialty stores	433.5 (20%)
Airline	355.9 (-4%)
Hotel	288.7 (29%)
Drug store	267.6 (88%)
Department store	229.6 (18%)
Grocery	169.7 (-2%)
Mass merchant	164.3 (17%)
Gaming	156.5 (4%)
Restaurant	54.8 (107%)
Car rental & cruise	44.9 (14%)
Fuel & convenience store	24.5 (-3%)

Source: Colloquy, "The 2015 COLLOQUY Loyalty Census: Big Numbers, Big Hurdles," Feb 12, 2015

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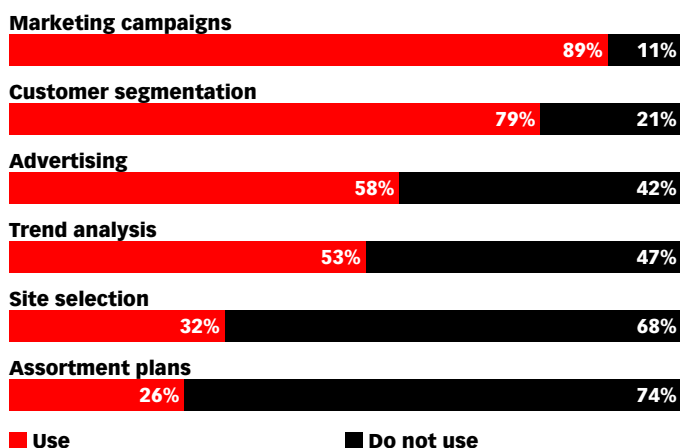
Although not measured by Colloquy, CPG and manufacturer brands have launched loyalty programs in recent years. "CPG brands historically have never had a direct connection to their consumers because they're disintermediated," said Smith. "Having a loyalty program is really solving multiple problems that they've had a hard time solving before." Smith pointed to three reasons why loyalty programs attract brands: increased consumer engagement with the brand, better data and direct advertising capabilities.

Manufacturers have also begun to offer programs, often based on apps. "A lot of brands like [Nike with] Nike+ are essentially opt-in programs," said Sean Claessen, executive vice president of strategy and executive creative director at Bond Brand Loyalty. "They have a unique identifier. They maintain a conduit for communication. They do cross-sell and upsell."

Across industries, marketers have used loyalty programs as much to collect data as to retain customers. An April 2015 survey of retail executives in North America from Boston Retail Partners found that 89% of respondents used data from loyalty programs to fuel their marketing campaigns, while 79% used it for customer segmentation and 53% used it in trend analysis. "It's not just about what actions you want to incentivize, but ultimately it's equally important to think about what interactions do you want to capture from a data perspective that ultimately become insights," said Zach Woith, vice president of loyalty strategy at 500friends, a loyalty marketing firm.

Areas Where Retail Executives in North America Use Customer Data Gathered from Loyalty Programs, April 2015

% of respondents



Note: among those whose company has a loyalty program
Source: Boston Retail Partners, "2015 CRM/Unified Commerce Survey," May 11, 2015

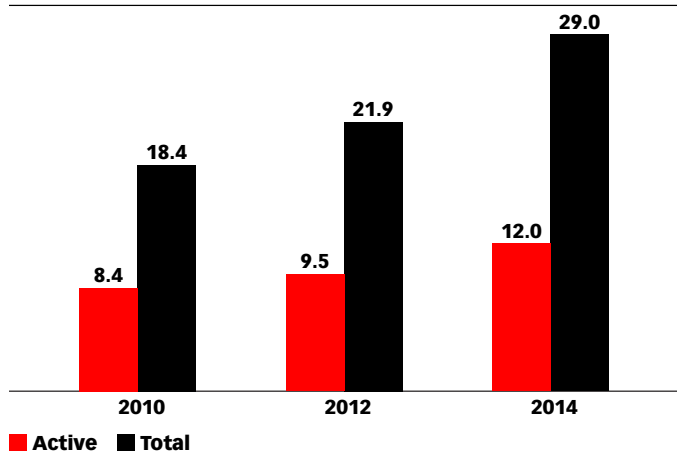
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ACTIVE PARTICIPATION RATES DECLINE

Colloquy found that the average US household had memberships in 29 loyalty programs in 2014, up from roughly 22 two years earlier. But consumers were active in only 12, or about 41%. This represented a decrease of 2 percentage points per year over each of the preceding four years, according to Berry. "You can't possibly use them all effectively and you can't possibly spend enough to get value out of all of those programs," Berry said.

Average Number of Total and Active Loyalty Program Memberships per US Household, 2010, 2012 & 2014



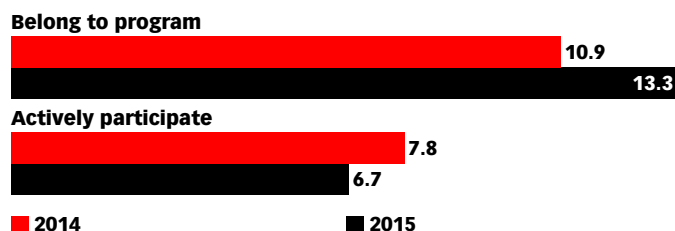
Source: Colloquy, "The 2015 COLLOQUY Loyalty Census: Big Numbers, Big Hurdles," Feb 12, 2015

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Bond Brand Loyalty found that the gap between membership and active membership increased rapidly from 2014 to 2015, and active participation actually decreased in absolute terms. In 2015, the average US consumer belonged to 13.3 loyalty programs but participated in only 6.7, or roughly 50%. This active participation rate was down from 71.6% in 2014. "It's just way too easy to download an app and [sign up], and never go back again," said Jeremy Drzal, global vice president of customer engagement at mobile payments platform Mozido.

Average Number of Loyalty Programs to Which US Consumers Belong vs. Actively Participate, 2014 & 2015



Source: Bond Brand Loyalty (formerly Maritz Loyalty Marketing), "The 2015 Loyalty Report," March 31, 2015

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The drop in active participation in loyalty programs varied by industry. A June 2015 report from EY found that active use of US loyalty programs overall declined between 2010 and 2015, but held steady for drugstores. Memberships in supermarket programs, however, fared much worse, in line with the drop reported by Colloquy.

US Internet Users Who Participate in Rewards/Loyalty Programs, by Retailer Type, 2010 & 2015

% of respondents

	2010	2015
Drug store	49%	49%
Supermarket	75%	46%
Department store	30%	21%
Mass merchandiser	26%	21%
Specialty store for pet supplies	30%	15%
Specialty store for electronics	35%	14%
Specialty clothing store	17%	8%
Specialty store for beauty	12%	6%
Total	50%	37%

Note: 2010 n=996; 2015 n=1,000; ages 18+ who made a purchase from each type of retailer in the past 3 months
Source: EY, "Americas Retail Report: Redefining Loyalty for Retail," June 16, 2015

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EY did see some bright spots for loyalty program memberships among millennials, with 46% of respondents saying they join a frequent shopper program when offered, compared with 41% of Gen Xers and 31% of baby boomers. The same survey also found greater enthusiasm among millennials for these programs, with 57% saying they tried to use rewards every time they shopped, 50% using them more now than before and 45% saying that belonging to a loyalty program makes that store more special.

Attitudes Toward Rewards/Loyalty Programs Among US Internet Users, by Generation, Jan 2015

% of respondents in each group

	Gen Z	Millennials	Gen X	Baby boomers	Total
I try to use rewards every time I shop	38%	57%	47%	35%	44%
When a store I shop at offers a frequent shopper program I join it	29%	46%	41%	31%	37%
I use my frequent-shopper cards more now than I used to	26%	50%	39%	31%	37%
Belonging to a store frequent-shopper or loyalty program makes the store special to me	30%	45%	35%	24%	32%
I will go out of my way to shop where I can use my frequent-shopper cards	27%	45%	37%	24%	32%
Frequent-shopper programs have better rewards than they used to	25%	46%	33%	26%	32%
Having a rewards card makes me buy more than planned	24%	42%	32%	20%	28%
I trust a store more if I am a member of their rewards or frequent-shopper program	23%	38%	30%	19%	26%
I would rather receive exclusive invitations to special events than discount offers I may receive via email or on a register receipt	20%	38%	28%	12%	23%
I don't mind paying a small annual fee if the program benefits are worth it	18%	36%	25%	10%	22%

Note: Gen Z born between 1997-2000 (respondents were limited to those ages 14-17); millennials born between 1981-1996; Gen X born between 1965-1980; baby boomers born between 1946-1964; top-3 box choices on a scale of 1-10 where 1="completely disagree" and 10="completely agree" Source: EY, "Americas Retail Report: Redefining Loyalty for Retail," June 16, 2015

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The drop in active participation reflects the higher threshold of engagement that programs need to attain to produce real loyalty. "Customers have changed in terms of expectations and transactional-based loyalty programs just struggle to make anything valuable, either for the consumer or for the company," said Taylor.

MAKING PARTICIPATION WORTHWHILE

The challenge for loyalty marketers is to turn initial interest into long-term engagement. "For the average person, the willingness to sign up for [a program] is pretty high," said Casavant. "Whether that translates to more engagement with the brand is a separate question altogether and will be entirely dependent on how the brand leverages the data."

Most rewards still rely very heavily on cash discounts in exchange for purchases. December 2014 research from Capgemini found that only 16% of loyalty programs worldwide offered rewards for activities, while 14% offered rewards through gamification campaigns and 4% rewarded social media engagement. "Program designers must continue to find ways to differentiate, making sure that the ways they're engaging consumers extend beyond simply a discount," said Scott Robinson, vice president of design and strategy at Bond Brand Loyalty.

Activities that Earn Rewards in Loyalty Programs Worldwide, Dec 2014

% of loyalty programs analyzed

Purchases

97%

Activities (e.g., writing reviews, taking surveys)

16%

Participation in gamification campaigns

14%

Mobile app downloads

6%

Social media engagement

4%

In-store check-ins

2%

Note: n=160 loyalty programs

Source: Capgemini, "Fixing the Cracks: Reinventing Loyalty Programs for the Digital Age," March 26, 2015

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In order to differentiate their programs, brands need to go beyond the immediate transactional side and include elements that build the long-term emotional connection. And that requires a focus on improving the relevance of benefits and the ongoing customer experience, but in ways that are consistent with the brand's positioning. "If a retailer has aspirations to implement a loyalty program, it needs to have alignment to the brand in terms of positioning and character and personality," said Don Yee, vice president of Boston Retail Partners. "Without that, they're not convincing the customer."

Relevant Offers

A December 2014 survey of social media users worldwide by Capgemini found that the leading reason for unhappiness in loyalty programs was the lack of relevance, flexibility and value of the rewards, cited by 44% of respondents. "If I'm going to enable you to collect this data about me, you need to use it responsibly and in a way that improves and betters my experience with your brand," said Casavant. "The rules of the social contract are changing a little bit, with more power shifting to the consumer."

Leading Reasons that Social Media Users Worldwide Express Negative Sentiment Toward Loyalty Programs, Dec 2014

% of social media conversations analyzed

Lack of reward relevance, flexibility and value	44%
Lack of a seamless multichannel experience	33%
Customer service issues	17%

Note: based on analysis of consumer opinions expressed via 40,000 social media conversations

Source: Capgemini, "Fixing the Cracks: Reinventing Loyalty Programs for the Digital Age," March 26, 2015

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The August 2015 survey by Colloquy found that US internet users were most likely to leave a loyalty program due to irrelevant offers, cited by 56% of respondents. On the flip side, three-quarters of participants cited relevant offers as a reason for participation. "People are typically opting in to programs where they understand they're going to get value and more relevant offers and messaging by doing that," said Lars Albright, co-founder and CEO of mobile ad and data platform SessionM. "The messages we deliver with the highest engagement rates are those data-driven messages that have a personalized context, that are based on both the historical profile of the customer and what are they doing in real time."

Leading Reasons for Joining, Participating in and Leaving Loyalty Programs According to US Internet Users, Aug 2015

% of respondents

Joining

Earning points/miles on purchase 56%

Product or service offer/discount 55%

Participating

Easy to understand 81%

Rewards and offers are relevant to me 75%

Leaving

Did not provide rewards/offers that interest me 56%

Too hard to earn points for rewards 54%

Note: ages 18+; programs joined in the past 12 months; only the top 2 responses in each category are shown

Source: Colloquy, "Customer Loyalty in 2015 & Beyond: Are you Wasting Your Money?" Oct 14, 2015

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Attainable and Redeemable Rewards

Michael Amar, co-founder and CEO of digital rewards service ifeelgoods, claimed that redemption rates for real-time rewards can run as high as 70% to 80%, a figure that drops in half when offered in a follow-up email two hours later. "We can give very small rewards that still are having a [tangible impact] on the consumer," said Amar. "It is changing loyalty programs, because nobody wants to wait two years to redeem enough points to get a free coffee machine."

Customers prefer quick redemption in part because it simplifies program management. An October 2015 survey of internet users in North America by iVend Retail showed that 40% of respondents missed out on a loyalty reward because it had expired, while 36% forgot about a paper coupon received in store and 17% had trouble remembering the programs they had joined.

Reasons that Internet Users in North America Miss Out on Using Loyalty/Rewards Programs, Oct 2015

% of respondents

Have missed out on loyalty points because they didn't use them before the expiration date

40%

Often forget to use paper coupons they receive in the store

36%

Often forget to use loyalty cards in their wallet

24%

Have so many loyalty cards that they find it hard to remember where they are a member

17%

Note: ages 18+

Source: iVend Retail, "Great Omnichannel Expectations," Dec 10, 2015

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Consumers often find that individual programs make it hard to accrue enough points. In Colloquy's August 2015 survey, 27% of respondents ranked the ability to earn points from multiple retailers as one of their top three appealing program features. "The coalition model solves a lot of that clutter, a lot of that confusion for the consumer by consolidating many programs into one program," said Logsdon.

Gamification

Given the importance of differentiation, retailers are employing gamification. Ankit Shah, managing director and partner of gamification agency Dopamine, defined gamification as "the utilization of game concepts in nongame environments."

In a separate April 2015 survey of retailers in North America, Boston Retail Partners found that 31% of respondents had some gamification elements baked into their loyalty programs, with 31% expected to do so within two years. "You've got to keep the program fresh," said Yee. "And keeping it fresh is keeping it engaging and exciting."

Current vs. Planned Implementation of Gamification* According to Retailers in North America, April 2015

% of respondents

Implemented

31%

In 2 years

31%

In 3-5 years

25%

Note: *applying game design thinking to nongame applications

Source: Boston Retail Partners, "Loyalty Programs – Rewarding the Customer Experience," Aug 6, 2015

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In the loyalty context, gamification can address one of the constant struggles brands face. "Loyalty hinges on this one caveat: Nothing is fun forever," said Shah. "The loyalty process must be constantly refreshed to make experiences fun and interesting regardless of what they look like today or how 'sexy' they are today."

Gamification in loyalty programs often functions by giving participants a sense of accomplishment. "People are looking for an understanding that the actions that they took meant something or created a change in environment, or created a change for them," said Shah.

The Starbucks loyalty program has over 10 million members, and it works on a number of levels. The mobile payment app is seamless and the rewards are tangible and attainable. But it also has employed simple gaming principles to keep customers engaged. The program has three levels with increasing benefits, all of which include a free drink or treat for a member's birthday. By earning stars via purchases, members can move up levels. At the top tier, gold-star members receive free in-store refills, a gold card and periodic free drinks and food.

There are numerous gaming principles that could be appropriate in loyalty programs, depending on the product and the audience. It's also just "a tool in the toolbox," said Shah, one that's not appropriate for every problem.

COMMUNICATING WITH MOBILE CONSUMERS

Mobile has changed the way that businesses communicate with their loyalty customers. “Mobile is becoming not only a channel onto itself, but it is also becoming a bridge between every other channel,” said CrowdTwist’s Smith.

As a result, retailers have additional pressure to create a consistent message. Two-thirds of consumers in the iVend Retail study said that it was “very important” or “somewhat important” for retailers to have an integrated view of them across channels. “The key thing there is just to make sure that it’s a truly integrated experience and that what you’re saying over here lines up to what you’re saying over there and that those touchpoints work together in all the right ways,” said Cynthia Price, director of marketing at email service provider Emma.

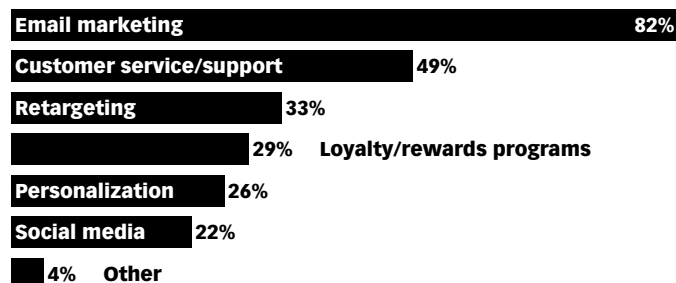
Mobile also has raised consumer expectations for immediate and situationally relevant information. “The retailers who will win will be those that present their value proposition in a mobile-friendly manner, [not just] with a mobile-friendly site, but in a manner that takes advantages of the immediacy ... and personalization that a mobile-first world offers,” said Casavant.

Email

Email remains a primary loyalty marketing channel in the mobile world. March 2015 research by eTail found that 82% of US retailers polled used email in their customer retention strategies, far ahead of other channels. In fact, this was nearly three times the percentage of retailers with formal loyalty programs.

Leading Digital Marketing Tactics/Channels Used for Customer Retention According to US Retailers, March 2015

% of respondents



Source: eTail, “Trends in Digital Retail: Engaging & Converting Through Personalization & Omnichannel Excellence” commissioned by Sailthru, Criteo and Soasta, June 3, 2015

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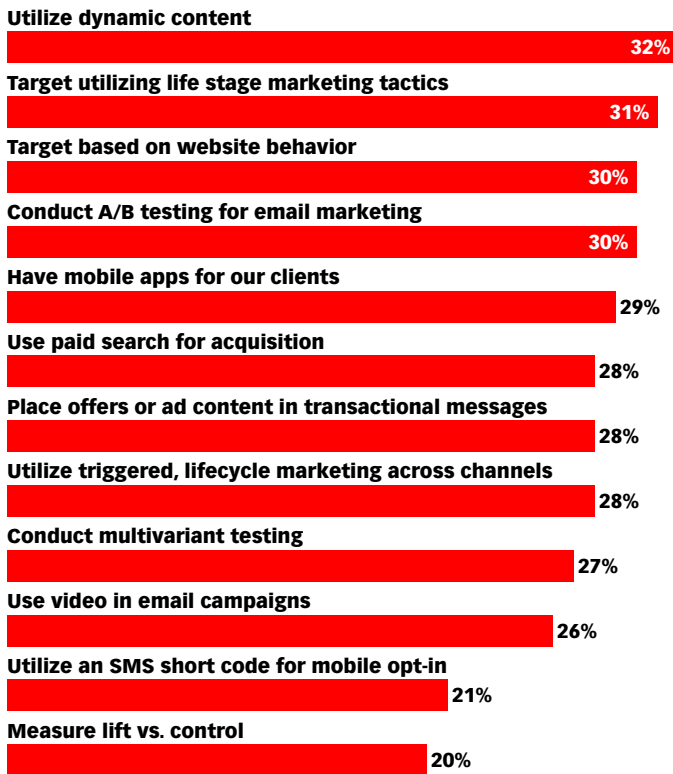
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Email, however, has its limits. In iVend Retail’s survey, 42% of consumers would prefer to receive loyalty messages as they enter a store via mobile push message, vs. 29% who wanted them sent as emails. As a way to receive loyalty messages in general, however, email still is the preferred channel. Overall, 42% of consumers in the iVend Retail survey would prefer loyalty offers via email, while 30% would like offers sent via mobile device.

In part, email marketers are keeping their content relevant with dynamic content, which changes based on the time and location of the viewer. Nearly a third of US marketers surveyed by The Relevancy Group in December 2014 used dynamic content in their emails, just ahead of the percentage targeting customer life stages.

Email Marketing Tactics Used Regularly by US Marketers, Dec 2014

% of respondents



Note: n=353

Source: The Relevancy Group, "The Relevancy Ring: ESP Buyer's Guide 2015," Feb 23, 2015

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Apps

Mobile loyalty programs are still a work in progress for many retailers. According to research by Boston Retail Partners, 33% of retailers have implemented features that let loyalty members track points, and 29% let them redeem rewards or receive alerts when they near a rewards threshold. Many more retailers expect to activate these functions within the next two years. "Retailers are seeing the opportunity to actually relaunch their apps," said Berry. "If they build their loyalty value proposition within the context of an app, it's actually a reason for people to open it more routinely."

Current vs. Planned Implementation of Select Mobile CRM/Loyalty Program Capabilities Among Retailers in North America, April 2015

% of respondents

	Implemented	In 2 years	In 3-5 years
Track point balance	33%	29%	8%
Redeem rewards	29%	38%	8%
Alert when customer is near a reward threshold	29%	33%	17%
Offer special promotions	25%	38%	17%
Participate in mobile loyalty app such as shopkick	12%	26%	18%
Integrate loyalty program with a mobile payment app	11%	40%	20%

Source: Boston Retail Partners, "Loyalty Programs – Rewarding the Customer Experience," Aug 6, 2015

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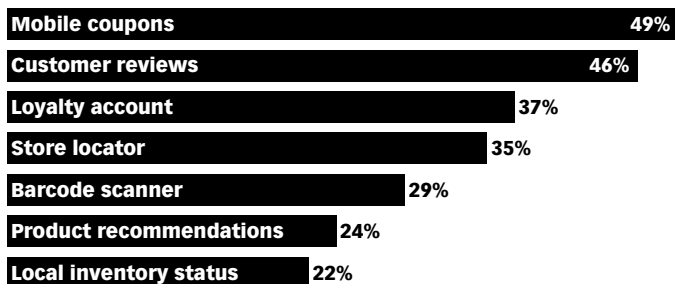
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Only 11% of retail apps have integrated a mobile payment system into the app, according to the survey. The growth of Apple Pay and Android Pay may encourage more apps to integrate easy payment options. Some 40% of retailers hope to integrate mobile app payment with their loyalty program in the next two years. "[With Apple Pay] a member can make a purchase simply by using their fingerprint and get rewarded with points," said Lucien Benacem, mobile product manager at Bond Brand Loyalty. "This is the part that's been missing up to this point—that loyalty aspect to the in-app purchase."

In September 2015, retail app provider GPShopper and comScore Inc. queried US adult smartphone users about their mobile shopping plans for the holiday season. It found that 37% of respondents planned to tap their loyalty account through a retailer app, slightly behind the 49% who aimed to download mobile coupons and the 46% who expected to look up reviews. "A lot of loyalty is helping you navigate the space that you're exploring or learn more about the products, and what to do with those products," said Gabe Weiss, director and strategy lead at digital agency SapientNitro.

Mobile Retail App Features that US Smartphone Users Plan to Use When Holiday Shopping, Sep 2015

% of respondents



Note: ages 18+

Source: GPSHopper and comScore Inc., "2015 Holiday Mobile Shopping Survey," Oct 30, 2015

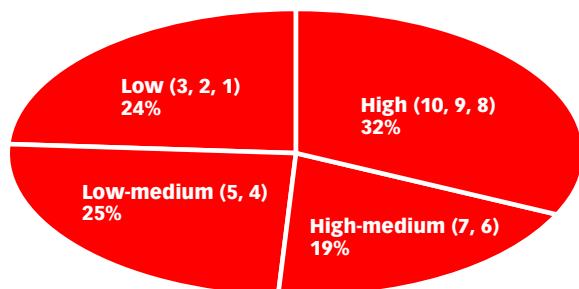
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Consumers appear interested in downloading well-designed loyalty apps. A December 2014 survey of over 2,200 US mobile phone users by 451 Research found that more than half of respondents reported a high or high-medium level of interest in more mobile loyalty programs. "If there are incentives ... and a retailer can deliver relevant and customized content, more and more loyalty members will be downloading the app," said Yee.

Level of Interest in More Stores Offering Mobile Loyalty Programs Among US Mobile Phone Users, Dec 2014

% of respondents



Note: n=2,292; includes smartphone users; respondents were asked to answer on a scale of 1-10 where 1="totally disagree" and 10="extremely agree"

Source: 451 Research, "US Mobile Marketing and Commerce Survey" as cited in company blog, June 30, 2015

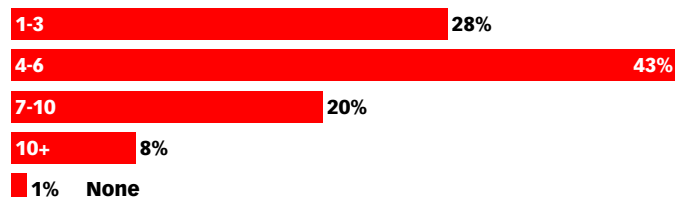
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Even so, consumers naturally gravitate to a handful of apps and rarely use more than a few a day. This poses a major challenge to retailers hoping to break into the regular lineup. An August 2015 survey by Millward Brown Digital found that the median US smartphone owner uses four to six apps a day.

Average Number of Apps Used per Day According to US Smartphone Owners, Aug 2015

% of respondents



Note: ages 18+

Source: Millward Brown Digital, "The New Mobile Mantra," Oct 5, 2015

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Mobile Wallets

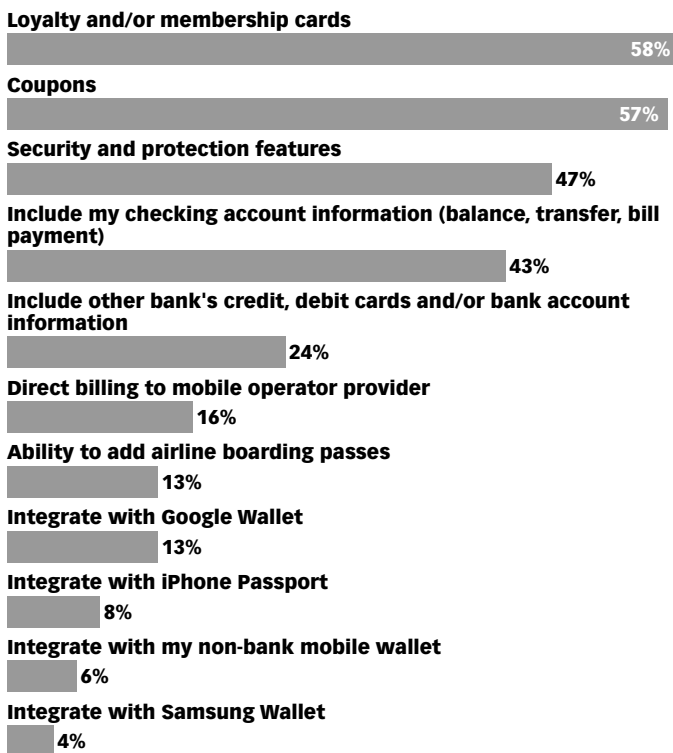
Mobile wallets serve at least two roles for loyalty marketing. First, they simplify payments for loyal customers, not just in app but also in stores. "There seems to be a real desire to have both loyalty and payment integrated because it just makes it easier at the point of purchase for the customer," said Berry. "The lines between payment and loyalty are becoming more and more blurred."

Second, they can also serve as a platform for notifications. "We view the mobile wallet opportunity for loyalty as the delivery mechanism," said Mark Tack, vice president of marketing at mobile marketing platform Vibes. In Apple Wallet (formerly Passbook), for instance, a customer just needs to click a button in an email or advertisement to save a pass, or offer, to the wallet. "In terms of adoption we are hoping that it's much easier to get people on board with passes [than apps] because they don't have to download anything," said Wall. "It's one touch. These are people who have already opted in to email, so this is just incremental."

However, mobile wallets are still in their infancy. "You've got to be prepared for [mobile wallets], but that can't be your core strategy ... because that's not where the consumer transactions are at the moment," said Logsdon. Even so, an October 2015 study by CCG Catalyst found that the most desired mobile wallet feature among US internet users is the ability to store loyalty and membership cards.

Desired Mobile Wallet Features Among US Internet Users, Oct 2015

% of respondents



Note: ages 18+

Source: CCG Catalyst, "The Age of Mobile Wallets: What Banks Need to Know When Considering the Creation of a Bank Branded Mobile Wallet," Oct 29, 2015

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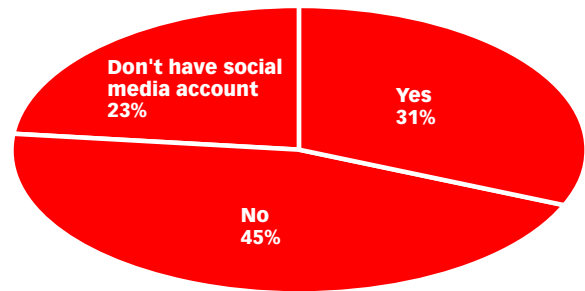
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Social Media/Advocate Marketing

Epsilon found that 31 % of loyalty card members followed brands on social media. This gives marketers another platform to reach loyal customers. "We leverage social media in a few different ways," said Allegra Stanley, vice president of loyalty at Sephora. "But a key way that our clients engage is through Beauty Talk, a Sephora property. This forum allows for conversations within the Beauty Insider community and from Sephora to our Beauty Insiders."

US Loyalty/Reward Card Owners Who Follow Brands for Which They Have a Reward/Loyalty Card on Social Media, June 2015

% of respondents



Note: n=2,616 ages 25+; numbers may not add up to 100% due to rounding
Source: Epsilon, "2015 Holiday Shopping Survey Results," July 29, 2015

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The majority of millennials and high-income consumers are influenced by digital consumer-generated content, according to an April 2015 survey of worldwide digital shoppers by Bazaarvoice. Less apparent but equally important is the effect on the advocate. "Not only are they having an impact on the persons who are acquiring it, but it actually changes [the advocate's] relationship with the brand," said Matthew Roche, CEO of referral marketing platform Extol. Advocates feel a "form of membership" with the brand, he said, adding that customers that are recommended via friends are also more likely to join a loyalty program.

Digital Shoppers Worldwide* for Whom Digital Consumer-Generated Content Has an Influence on Offline Purchases, by Demographic, April 2015

% of respondents in each group

Age	
25-34	54%
35-44	48%
45-54	45%
55-64	40%
Income	
<\$25K	48%
\$25K-\$50K	43%
\$50K-\$75K	46%
\$75K-\$100K	67%
\$100K-\$150K	73%
\$150K+	87%

Note: among those who research digitally and buy offline; *Australia, Germany, the Netherlands, UK and US

Source: Bazaarvoice, "The Conversation Index Volume 9," July 14, 2015

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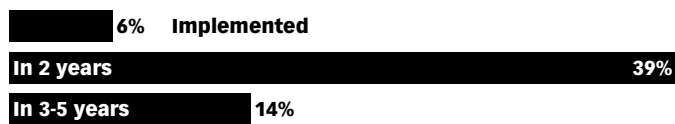
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Clienteling

Mobile is also in the early stages of transforming clienteling. Boston Retail Partners found that only 6% of retailers in North America have the ability to identify a customer via smartphone when they arrive in a store, although 39% plan to do so within two years. "A huge frustration for customers is that they give you all this data, they've stated they're interested in your brand, they're shopping physically there ... and you're still not using the data," said Weiss.

Current vs. Planned Ability to Identify Customers via Smartphone When They Arrive In-Store Among Retailers in North America, April 2015

% of respondents



Source: Boston Retail Partners, "Loyalty Programs – Rewarding the Customer Experience," Aug 6, 2015

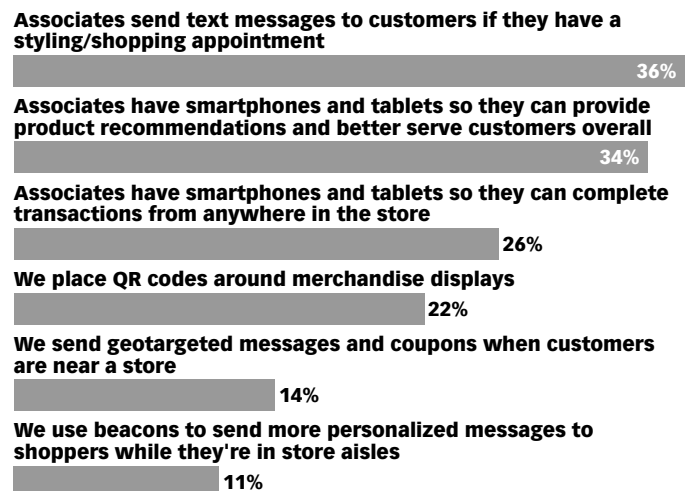
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According to a June 2015 survey of US retailers by Yes Lifecycle Marketing, 34% of respondents had equipped their associates with mobile devices that could provide product recommendations and inventory checks on the spot. "We see a lot more opportunities to identify people at the beginning of their shopping experiences ... by volunteering that [loyalty] token up front," said Claessen.

Elements of Their Mobile Clienteling* Strategy According to US Retailers, June 2015

% of respondents



Note: *using omnichannel customer data and feedback to create more personalized interactions

Source: Yes Lifecycle Marketing, "Engaging Customers Across The Lifecycle Journey: How Clienteling Helps Enhance Customer Relationships," Sep 14, 2015

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Data from iVend Retail backs this up. It found that 23% of customers wanted their personalized online experience replicated in store, but this requires a way for the retailer to identify the customer. "In the online world you typically need to sign in to do your transactions," said Jonathan Wall, co-founder and chief technology officer of Index, an in-store analytics and personalization platform. "They are able to do this personalization and present this tailored or personalized experience without having an explicit loyalty program." That's not nearly as easy to do without a signal from the customer when they walk in the store.

Yes Lifecycle Marketing found that 26% of US retailers surveyed gave their store associates access to the CRM systems to see detailed customer profiles, but 42% have very little access to this information. It should be noted that clienteling tools make sense for high-touch retailers, but not as much for others. "If I went into a grocery store and someone came up to me with a clienteling tool, I would think it was a little weird," said Wall.

Extent to Which Store Associates Can Identify/Engage with Their Most Profitable Customers In-Store According to US Retailers, June 2015

% of respondents

Yes, they have very high-level information such as full name, address and past purchases

25%

Yes, they can access detailed profiles that include customers' entire history with us

26%

No, associates know very little, if anything, about in-store customers

42%

Don't know

7%

Source: Yes Lifecycle Marketing, "Engaging Customers Across The Lifecycle Journey: How Clienteling Helps Enhance Customer Relationships," Sep 14, 2015

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Beyond clienteling and push notifications, customer data can also affect the messaging of in-store signage. It's still a very new technology, but SapientNitro and others are working on ways to make signage dynamic based on information from apps. "One of the things we talk about [with our clients] is using their app to project the customer's preferences to the store and then having the sales associates understand that and the digital signage in stores react to that," said Weiss.

Customer Service

Another retail trend aims to improve the responsiveness of customer service. Yes Lifecycle Marketing found that 31% of US retailers surveyed were responsive to their customers on social networks, and 25% had customer service representatives available via chat, text or email. Loyalty data makes this service more effective. "There is a really big trend around loyalty to inform better customer service management," said Albright. "So customer service reps always are going to do better if they understand who they're talking to and what their behavior is and various attributes a customer might have."

Methods Used by Store Associates to Stay Connected with Customers According to US Retailers, June 2015

% of respondents

Actively engage with customers in the store

74%

Responsive on social networks in case customers need to get in touch

31%

Send emails before and after in-store visits

31%

Available via chat, email or text to share news and answer questions

25%

Use mobile devices to provide recommendations in the store

15%

Other

7%

None of these

4%

Source: Yes Lifecycle Marketing, "Engaging Customers Across The Lifecycle Journey: How Clienteling Helps Enhance Customer Relationships," Sep 14, 2015

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In the past year, Facebook has begun to develop business applications for Messenger, effectively turning it into a channel for customer service and virtual clienteling. It's still very early days for Businesses on Messenger, but the app gives organizations another channel to answer questions from customers, follow up orders and take orders. "I think it's a unique opportunity for businesses to interact with people both where they're already spending their time and having these meaningful conversations, but also in this context of one-to-one," said Benji Shomair, director of product marketing for Pages at Facebook. "It fits this broader theme of on-the-go accessibility."

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Katie Casavant
CEO
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Dopamine

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Senior Vice President,
Digital Customer Experience
Capgemini

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Director, Strategy Lead
SapientNitro

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Vice President, Loyalty Strategy
500friends

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Mobile Product Manager
Bond Brand Loyalty

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Sean Claessen
Executive Vice President, Strategy,
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Bond Brand Loyalty

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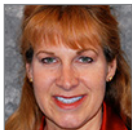


Matthew Roche

CEO

Extole

Interview conducted on January 8, 2016



Babs Ryan

Principal

ThoughtWorks Retail

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Geoff Smith

CMO

CrowdTwist

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Allegra Stanley

Vice President, Loyalty

Sephora

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Mark Tack

Vice President, Marketing

Vibes

Interview conducted on June 20, 2015



Jonathan Wall

Co-Founder and Chief Technology Officer

Index

Interview conducted on December 29, 2015



Don Yee

Vice President

Boston Retail Partners

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