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SURVEY REPORT

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2020 CUSTOMER LOYALTY BENCHMARK REPORT

BUILDING Customer Loyalty DURING UNCERTAIN TIMES

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Earning — and keeping — customers' loyalty represents a big challenge even at the best of times, and these are certainly not the best of times. Retail (along with the rest of society) has received multiple shocks to the system in 2020, including COVID-19; the subsequent economic fallout; and street protests, both peaceful and not, in cities around the country and around the world.

But retail is a resilient industry, and the year's events also have created new opportunities. The biggest impact has undoubtedly been the e-Commerce surge generated by stay-at-home mandates and brick-and-mortar store closures. This third annual *Retail TouchPoints* **Customer Loyalty Benchmark Report**, based on responses from **109** retail executives surveyed in June and July 2020, reveals that **68%** of retailers gained new online customers due to the pandemic, with **46%** saying their e-Commerce customers were making more frequent/larger purchases.

Retailers' task going forward will be to retain as many of these new shoppers as possible. Strategically minded omnichannel retailers will be seeking ways to encourage online shoppers to also visit their brick-and-mortar stores, since study after study shows that multi-channel customers represent a higher Customer Lifetime Value (CLV).

As always, retailers will need to balance their customer acquisition and retention efforts to achieve the optimal mix of new and returning shoppers. However, this will be a particularly tough challenge given signs that many retailers' budgets in both of these areas are being tightened.

RETAILERS RAMP UP DIGITAL ACQUISITION TOOLS

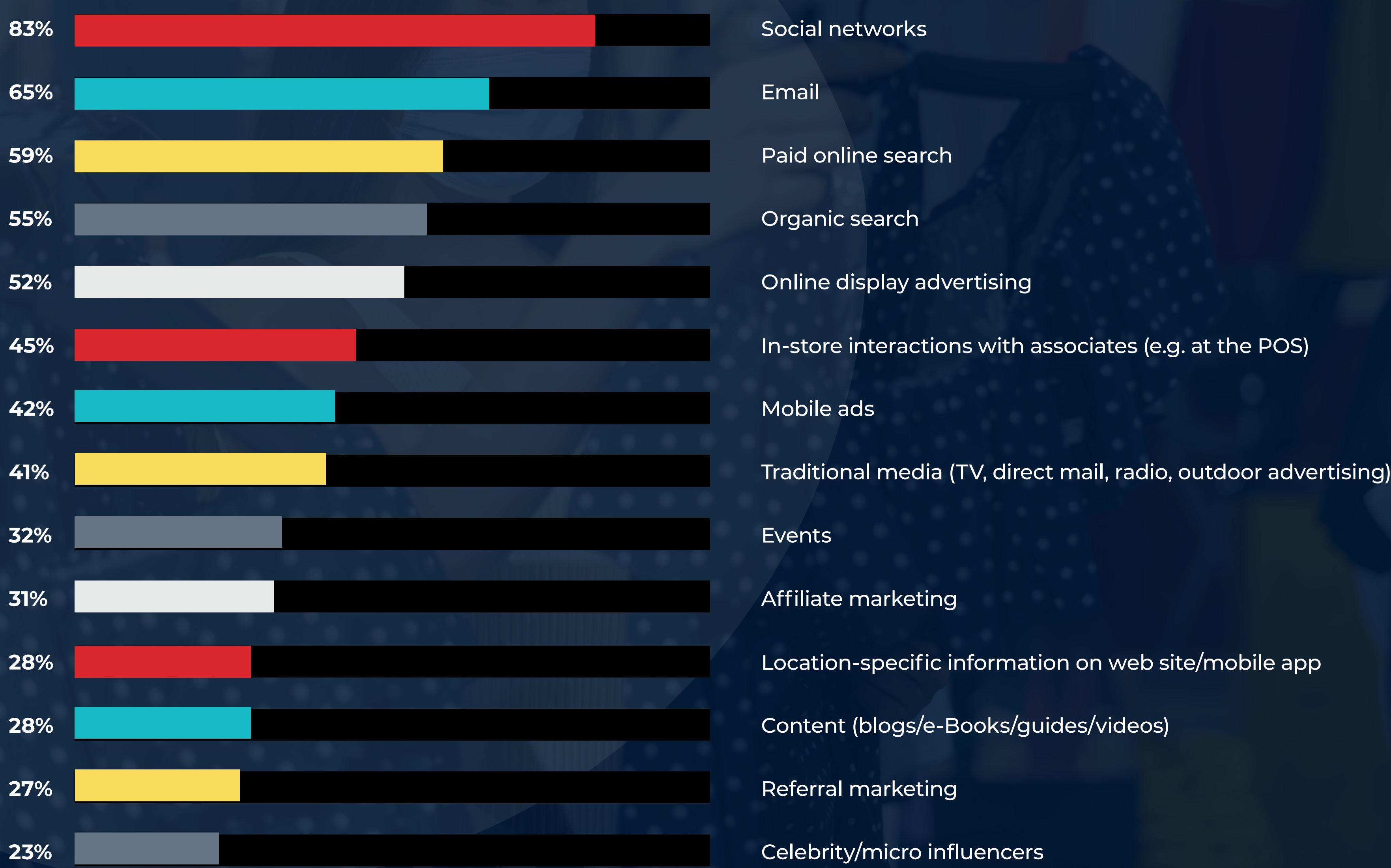
Multiple industry experts have said that while COVID-19 has not created new retail trends, it has accelerated many existing ones. Most notably, consumers' steady migration to digital channels became something of a stampede, with **68%** of respondents reporting that they gained new e-Commerce customers due to the pandemic.

Even before the pandemic, retail marketers tasked with customer acquisition already were increasing their use of digital tools and platforms, particularly social networks. These were the top choice among customer acquisition tools, used by **83%** of respondents, up from **74%** in **the 2019 *Retail TouchPoints* customer loyalty survey**. Email continues to play a key role in customer acquisition, nabbing the number-two spot at **65%**, a slight decrease from the **69%** who chose it in last year's survey.

Marketers also have noted consumers' move to mobile — another trend given extra fuel by COVID-19. As physical stores have reopened, the emphasis on creating contactless shopping experiences has coincided with a **20%** year-over-year jump in the time consumers spend in mobile apps, according to **App Annie**. Mobile advertisements' usage as a customer acquisition tool rose from **31%** in 2019 to **42%** this year.

How has the COVID-19 pandemic affected your ability to attract new customers?

Which tools do you use to acquire customers?



RETAILERS SHIFT RETENTION EFFORTS TOWARD POST-SALE INTERACTIONS

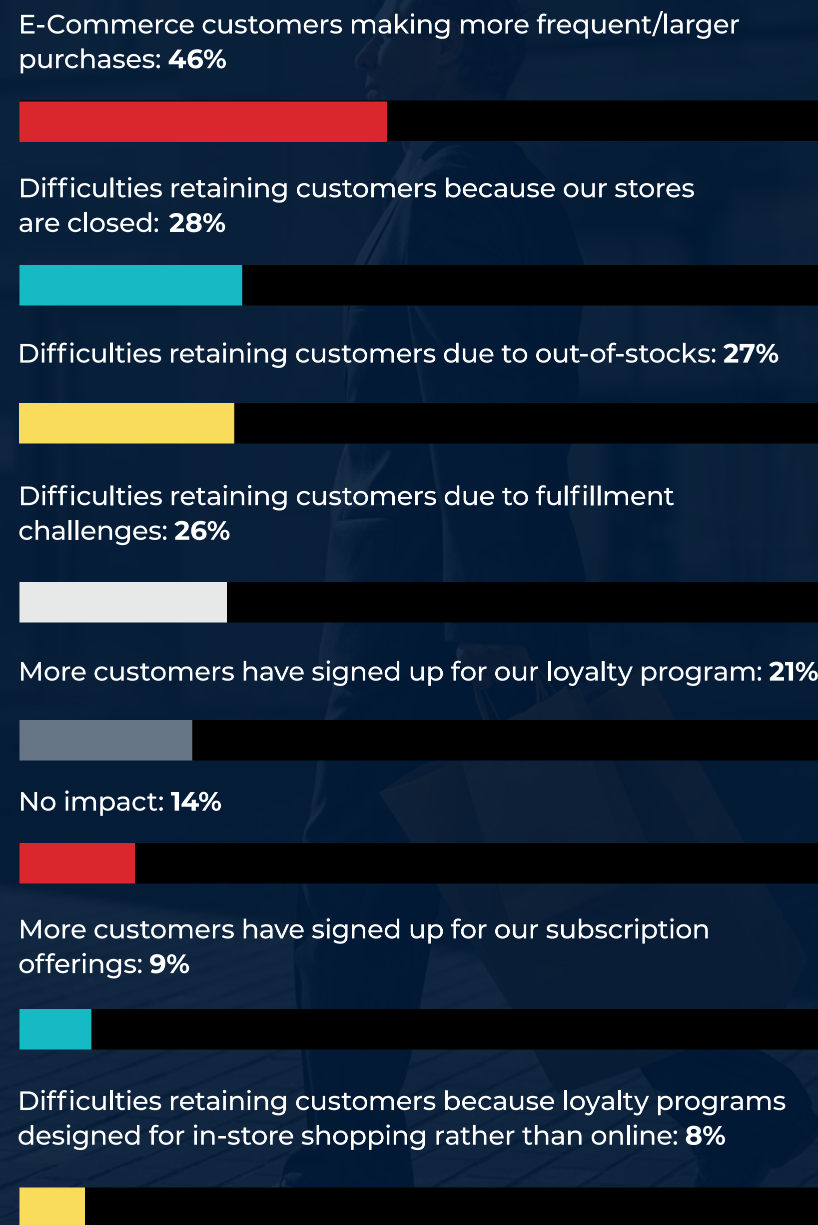
COVID-19 has played havoc with customer retention initiatives. Retailers reported difficulties with customer retention due to closed stores (**28%**), out-of-stocks (**27%**) and fulfillment challenges (**26%**). Just a small group (**8%**) reported challenges because their company's loyalty programs were optimized for in-store rather than online shopping, a sign that most retailers have successfully "digitized" their loyalty program experience.

Another sign of customer retention challenges: a significant decline in retailers' ability to turn newly acquired customers into repeat purchasers. Retailers at the low end of the spectrum, capable of keeping *less than 10%* of these new customers, comprised just **9%** of the total in 2019, but **17%** in 2020.

Results at the higher end of the spectrum also indicate a fall-off in customer retention this year: while **17%** of respondents were able to retain *30% to 40%* of customers last year, that figure dropped to **13%** this year. Retailers able to retain *40% to 50%* of customers dropped from **18%** in 2019 to **7%** in 2020, and those able to retain *more than 50%* fell from **17%** to **11%**.

Retailers have turned to proven resources to battle customer defection: discounts and free services. As they did in 2019, purchase discounts led the list of customer retention tools, at **66%**. Just over half (**52%**) of retailers now offer free shipping, up from **44%** in 2019 — a mark of how vital the delivery experience has become.

How has the COVID-19 pandemic affected your ability to retain new customers?



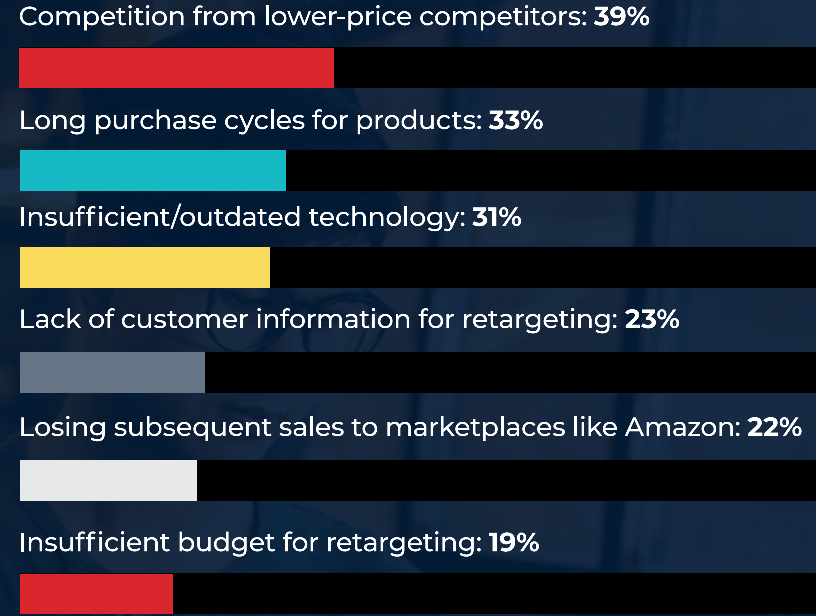
Which tools do you use to retain customers?

Given the number of store closures during Q1 and Q2, stemming both from COVID-19 and bankruptcies — at retailers including **Ascena Group**, **Neiman Marcus**, **RTW Retailwinds** and **GNC** — it's no surprise that the role of in-store relationship-building in customer retention took a dive, dropping from **54%** last year to just **39%** in 2020. As more stores reopen, retailers would do well to recognize returning customers and make a special effort to make them feel welcome, safe and cared for in the brick-and-mortar environment.

The biggest challenge for both customer acquisition and retention, however, appears to be an internal one — namely, less money to spend on these efforts. In 2019, respondents reporting that their budgets had decreased were in the single digits: **9%** for customer acquisition and **8%** for customer retention. This year, **26%** of respondents reported their acquisition budgets had decreased, with **20%** saying their retention budgets had dropped.

Shrinking budgets in these areas could reflect the belt-tightening necessitated by COVID-19's economic fallout, a move to lower-cost digital marketing tools, or some combination of both.

What are your biggest challenges in driving repeat purchases?



MATT ROCHE

CEO, Extole

What Happens Next?

During COVID-19, we are seeing a range of business outcomes. Some businesses like food delivery are seeing spikes of up to 400% revenue growth. Some, like movie theaters, entertainment venues and travel are seeing their revenue approach zero. In planning for the post-pandemic future, the question for the first group will be: “How many of these fair-weather fans are going to remain customers?” For the latter, “How many of your prior customers will actually come back?”

The pullback is in its fourth month. We leaders must internalize that this is not a blip or a dip but instead an upheaval. It is cliché to say this changes everything, but I am absolutely certain that we are witnessing a structural change in our relationship with customers. The “Age of Acquisition” is ending.

The first quarter century of e-Commerce has been dominated by the funnel, and most notably, by paid search. We acquire traffic and gain conversions. In a world where we can know infinite amounts about virtually everyone, we still obsess over new customer acquisition sources and transactions. In this world, the actual living, breathing customer is no more than an abstraction — what is real is their credit card number, or more importantly, their authorization to charge on it!

But what happens when that stops? Like 300 million tiny John (and Joan) Galts, the consumer has effectively stopped the motor of the world. Who knew that the actual engine of the economy was not the CEOs (like me!) who sit hapless and anxious but the individual, empowered consumer? We may have claimed that “the Customer is King,” but now we know they have absolute power, silently delivering execution orders to some of the largest travel, entertainment and retail companies.

If you had a direct relationship with a group of people with absolute power over the life and death of your livelihood, how would you behave?

I know what I would do. I would lavish them with gifts. I would stop asking them for money and start communicating with them. I would recognize when they bestowed grace upon me. And I would figure out which ones were *really* my friends. I would treat them the way you treat people with power over you — thoughtfully, carefully and well. And I would really, really, really focus on making sure that the ones I invested in were invested in me.

So let's make a change.

First off, let's let go of the notion that the health of the customer is just a function of how much they spend. If you had to choose between two customers, one that reliably spent $500/month and one that reliably posted on social media and message boards about your brand, which would you choose? The second customer not only amplifies your brand, but they are clearly your target. They understand your proposition and are willing to embody it. Now ask which you give attention to now (if either!).

The key is understanding that the "whole customer" view must incorporate transactional — *what they buy and for how much* — with the non-transactional, *what they do, who it influences, and how often*.

With transactional approaches, we can identify the highest-spending customer, or a customer that may be waning. With a combined approach, we can understand how close an individual is to being our ideal customer and how we should invest to develop and retain them. Every viable brand has an ideal customer. It is the customer for whom your product (service, offering...) truly resonates. We want to maximize revenue from her. But it is equally important that we maintain her enthusiasm and sense of connection, and that we prioritize acquiring more customers like her. This is the heart of what we call loyalty — enthusiasm, connection and participation.

Buying keywords cannot do this. It can prime the pump. Even sophisticated custom audience targeting on Facebook can't do it, because the information we are providing is still transactional. Which ads convert? Which audiences spend the most?

But what if we incorporated non-transactional information like, Do they refer? Did they rate or review? Do they share? Do they influence purchases? The profile of that customer is much richer and is a much more precise model for an ideal customer. And when we find this ideal customer we can actually deploy resources like incentives, bonuses and recognition more liberally because we are doing it less arbitrarily.

In the best case, we can concentrate our budget, including acquisition, on fewer targets with enough firepower to win. What could you do for a customer that you know was carrying water for you? That you know had driven $10,000 in revenue from other people thanks to referrals? That you know invited friends to events? What wouldn't you do?

And just as important, how would you act if incentives were not discounts for new to file, but were used to creatively recognize important behavior and relationships?

In the world after this world, where customer habits have been exploded, this may be the most important question you can answer.

RETAILERS REAP MORE REVENUE FROM LOYALTY AND SUBSCRIPTION PROGRAMS

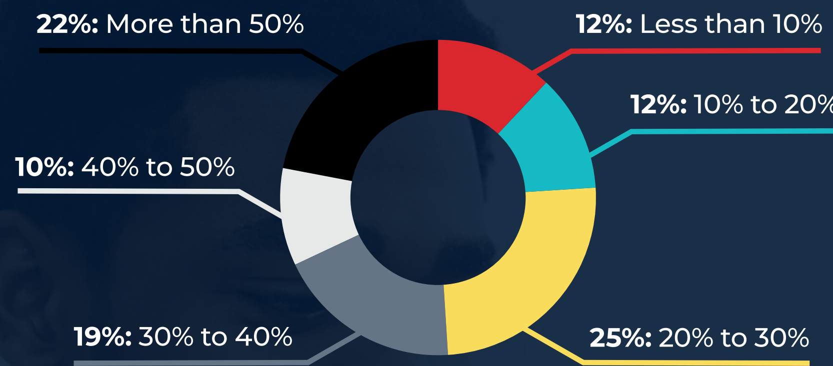
Customer loyalty programs are a tried-and-true method for tying customers to a retailer or brand, with the added benefit of providing a wealth of data about shoppers and their purchasing habits. Additionally, they serve as a way for retailers to cultivate and reward their best customers, those most likely to purchase more often and spend more when they do.

This year's survey indicates that retailers operating loyalty programs are becoming more adept at garnering additional revenue from their members. In 2019, **16%** of respondents got *less than 10%* of their revenue from loyalty members; this year, that figure dropped to **12%**.

In contrast, retailers receiving higher portions of their revenue from loyalty members increased in all but one bracket between 2019 and 2020. Those getting *20% to 30%* rose from **21%** to **24%**. In the *30% to 40%* bracket, the change was even more dramatic, jumping from **5%** in 2019 to **18%** in 2020. Retailers able to generate *more than 50%* of their revenue from loyalty program members also increased, from **18%** last year to **22%** this year. These increases are even more noteworthy considering that the percentage of all customers who are loyalty program members stayed relatively steady from 2019 to 2020.

A key subset of all loyalty programs includes those that charge membership fees. The largest of these is **Amazon** Prime, which reported more than **150 million members** as of January 2020. However, in February 2020 it was reported that Amazon rival **Walmart** was readying its own version of a paid service, **Walmart+**. COVID-19 has likely delayed the program's full rollout, but the willingness of the world's largest retailer to take on its biggest rival in this arena indicates Walmart's belief in this business model.

What percentage of your revenue comes from loyalty program members?*



What benefits do you offer as part of your paid/ premium loyalty program?*

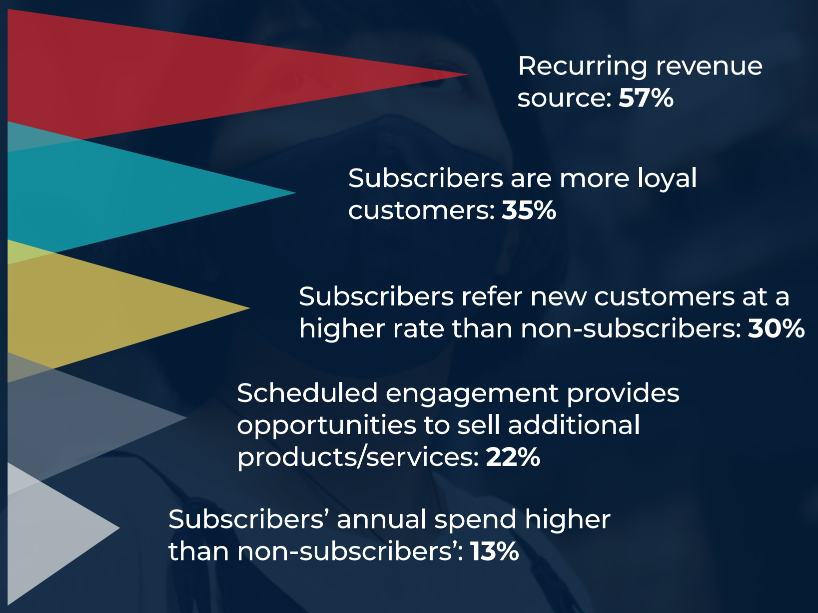
*Among companies offering this type of program

COVID-19 also has spotlighted the benefits of subscription programs. While retailers without such programs scrambled to establish a home delivery beachhead and fulfill pandemic-enlarged orders, retailers with subscription programs were already part of consumers' established purchase patterns.

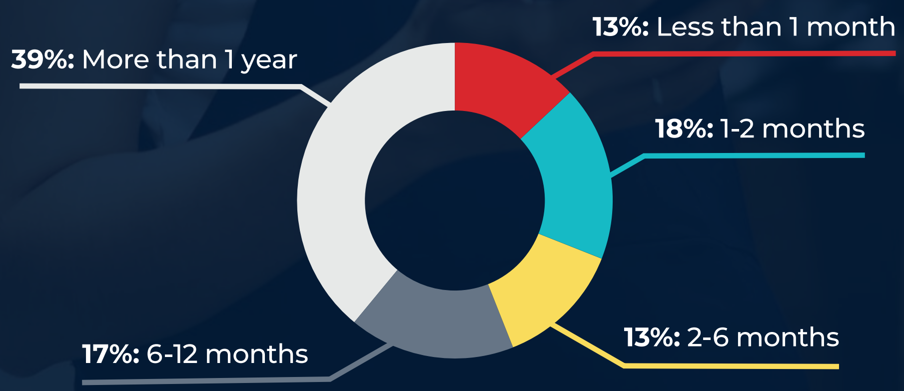
These programs offer a number of key customer loyalty and business benefits: **35%** of retailers with such programs say subscribers are more loyal customers; **30%** say they refer new customers at higher rates than non-subscribers; and **13%** report that subscribers' annual spend is higher than non-subscribers'.

Retailers appear to be improving their ability to keep subscribers signed up for longer periods of time, avoiding the challenges that are posed by churn: both trying to woo back members who are leaving, and spending resources to acquire new members to take their places. Nearly four in 10 (**39%**) of retailers offering subscription programs boast average membership lengths of *one year or more*, with an additional **17%** posting an average membership length of *six to 12 months*.

What are the key business benefits of your subscription program?*



On average, how long do shoppers typically maintain a subscription?*



**Among companies offering this type of program*

RETAILERS DISPLAY INCREASED SOPHISTICATION IN CALCULATING CLV

The ability to quickly and accurately calculate Customer Lifetime Value (CLV) has become an essential element in planning and executing customer loyalty initiatives. Marketers need to understand CLV in order to determine which customers will be most valuable to acquire — a task that has become increasingly urgent as COVID-19 disrupted many traditional brand loyalties, putting many shoppers "up for grabs."

CLV is equally vital in customer retention efforts. When marketers understand which shoppers' CLV is truly significant in terms of future revenue, they can focus more attention on keeping these shoppers happy — and offer more tempting incentives if they show signs of straying.

Retailers use a wide range of metrics to determine CLV, and this year's survey indicates a somewhat greater use of metrics based on customers' actions rather than their demographics. For example, determining the acquisition channel/method of the customer increased, from **26%** in 2019 to **35%** in 2020. Use of web site dwell time increased slightly, from **16%** to **18%** this year, as did measuring mobile app download usage, from **15%** to **18%**.

While these are encouraging signs, it's clear retailers need to keep improving their CLV metrics, data-gathering and analysis in order to bring greater business intelligence to both their customer acquisition and retention efforts.

Retailers need to keep improving their CLV metrics, data-gathering and analysis to bring **greater business intelligence** to their customer acquisition and retention efforts.

Which metrics do you use to define Customer Lifetime Value (CLV)?*

**Beyond measuring recency, frequency and spend*

Despite the many changes stemming from the unique nature of 2020 events, retailers still need to have solid customer acquisition and retention programs in place. As multiple retailers downsize or disappear altogether, their shoppers will be seeking replacement brands capable of fulfilling both their needs and their desires. Retailers would be smart to initiate customer acquisition campaigns to gather up these “orphaned” shoppers.

Likewise, customer retention will gain even greater importance given the disruptions to regular shopping patterns that have occurred this year. Retailers will need to coordinate and communicate through all touch points to reassure existing shoppers that they are in business and ready to serve.

METHODOLOGY

Retail TouchPoints surveyed 109 retail executives during June and July 2020. Following is the breakdown of company types represented among survey respondents.

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Brands use Extole to activate customers turning buyers into loyal customers. Our customer engagement platform and team of experts create beautiful advocate and referral programs so brands can harness the full power of their current customers to the benefit of their bottom line. Extole enables marketers to connect with millions of advocates, scale word-of-mouth to acquire new customers, and increase loyalty using their greatest competitive advantage: their customers.

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P 201.257.8528
info@retailtouchpoints.com

ABOUT THE AUTHOR

Adam Blair, Editor

Avid theater-goer, intrepid journalist and grammar nag. There's always something new to learn about retail technology.