2021 CUSTOMER LOYALTY BENCHMARK REPORT

retail TouchPoints®

POST-COVID PRIORITIES:
IMPROVE DATA MANAGEMENT, ENHANCE LOYALTY PROGRAMS AND MAXIMIZE MOBILE INVESTMENT

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EXECUTIVE SUMMARY

As it did with nearly every aspect of retailing, COVID-19 challenged many of the traditional pillars supporting customer loyalty. Neighborhood retailers that were forced to close their brick-and-mortar stores quickly realized just how much convenient locations and friendly in-person service contributed to their ability to maintain customer loyalty. Even essential retailers that were permitted to keep stores open had to ramp up ecommerce capabilities, curbside pickup and contactless BOPIS offerings in order to stay connected to their customers.

Omnichannel and pure-play ecommerce retailers also were forced to pivot rapidly, not once but several times, as the pandemic's impact waxed and waned through 2020 and early 2021. While online merchants welcomed the surge of new shoppers, many — including industry giant **Amazon** — struggled to keep items in-stock and deliver on fulfillment promises. These retailers got a customer acquisition windfall, but their challenge was, and remains, retaining these new shoppers as we move into the next normal

This fourth annual *Retail TouchPoints* **Customer Loyalty Benchmark Report** — based on responses from **103** retailers surveyed in May and June 2021 — details the challenges brought on by the pandemic, but also some silver linings for the industry. Key findings include:

- The growth of new acquisition tools such as **text/messenger program outreach** (used by **30%** of retailers) and declines in the use of **traditional media** (down to **29%** from **41%** in 2020);
- The emergence of **free returns** as a customer retention tool, used by **42%** of retailers; and
- Downward shifts in the percentage of revenue generated by retailers' **loyalty program members** — perhaps from the flood of new, non-member customers shaken loose from their normal shopping habits — indicating that building up these programs' membership should be a high priority for retailers.

SUPPLY CHAIN AND OPERATIONAL ISSUES COMPLICATED CUSTOMER LOYALTY

Several of the toughest customer loyalty challenges retailers struggled with this past year were related to basic business operations, led by the **44%** of respondents identifying higher-than-normal out-of-stock levels caused by supply chain issues, and the **42%** bemoaning that shuttered stores interrupted regular associate-customer relationships. Even stores that remained open had to deal with disruptions to traditional customer engagement, with **23%** noting that BOPIS and curbside pickup disrupted associate-customer interactions.

Ecommerce operational challenges also bedeviled many retailers' customer loyalty efforts: **37%** of retailer respondents noted that their sites were not optimized for personalization, and **26%** said the lack of an optimized mobile site or app eliminated a key customer touch point. Given the massive move to mobile that was taking place even before COVID-19 struck, this finding indicates that strong customer-facing mobile initiatives should be a top priority for all retailers.

"Loyalty is driven by a repetitive positive experience with the brand," said Donovan Neale-May, Founder and Executive Director of the **CMO Council** in an interview with *Retail TouchPoints*. "That means you've got to understand all the touch points where customers engage with your brand or your company."

Finally, in a classic version of "be careful what you wish for," **28%** of retailers noted that high ecommerce volumes had negatively affected their online customer experience (CX). While it's unlikely that the sudden ecommerce spike caused by COVID will be repeated in the future, it will still be vital for retailers to deploy flexible cloud-based ecommerce platforms that can be ramped up quickly if/when another crisis hits.

During the past year, what have been your most significant customer loyalty challenges?

COVID GIVETH, AND COVID TAKETH AWAY

The disruptions caused by COVID-19 were certainly dramatic for the retail industry (as well as the rest of society), but a few actually improved retailers' ability to attract and retain customers. Some retailers were able to make gains in *both* the online and physical worlds: **30%** of retailers reported that they gained more multi-channel customers due to the pandemic, and nearly as many, **27%**, gained new in-store customers.

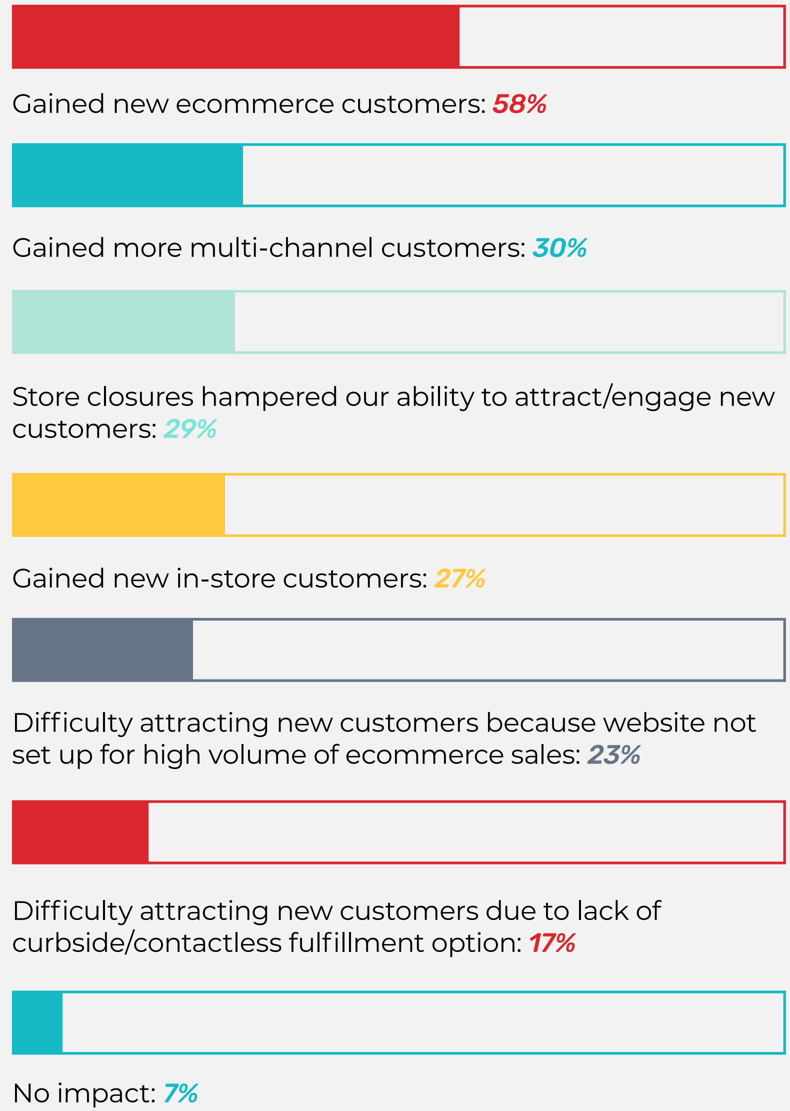
Negative impacts on customer acquisition were primarily tied to technological and operational limitations, but these affected a relatively small group of retailers: **23%** cited websites that were not set up for a high volume of ecommerce sales, and **17%** said their lack of curbside or contactless fulfillment options hampered acquisition efforts.

COVID's impacts on customer retention also were tied primarily to supply chain, last mile and inventory shortfalls, led by the **45%** experiencing retention difficulties due to delivery and fulfillment challenges and the **37%** losing shoppers due to out-of-stocks.

Nearly one in four (**24%**) of retailers struggled with retention because their loyalty programs were designed for in-store shopping rather than online commerce. Given long-term growth trends for ecommerce that were significantly accelerated due to the pandemic, it's imperative that retailers work to make their loyalty programs equally effective no matter what channel the customer is using: in-store, online, mobile, voice and even via social commerce.

On a positive note, **12%** of retailers reported that COVID encouraged more customers to sign up for their subscription offerings. Consumers who were rattled by uncertainty and spending more time at home were likely attracted to regular deliveries of either essentials or treats. The subscription increase, while relatively small, is relevant for retailers, since subscriptions represent a regular source of revenue from loyal customers, as well as offering opportunities for gathering valuable shopper data and using referral marketing to bring in even more new customers.

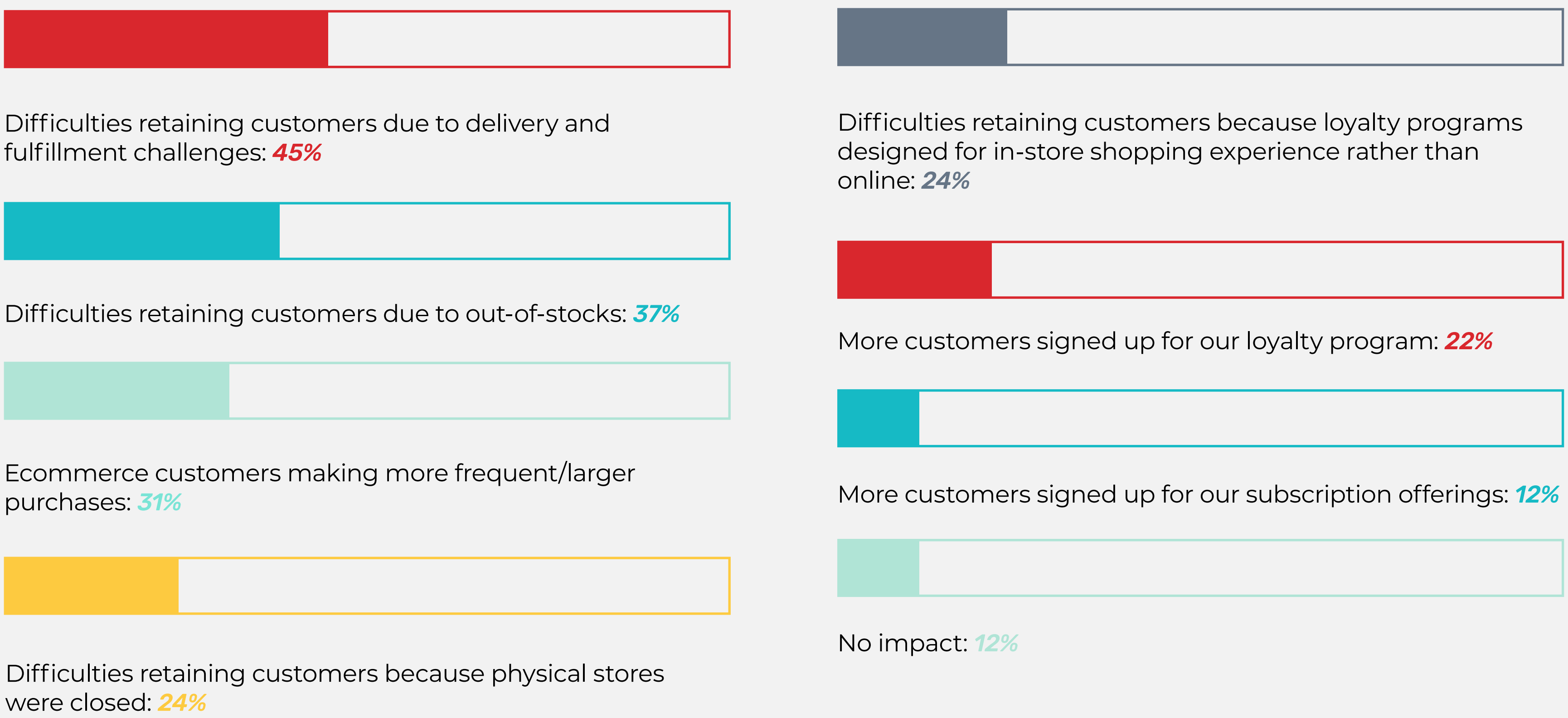
What have been the main impacts (positive or negative) of COVID-19 on your company's ability to attract new customers?



While COVID's persistence worldwide means that inventory and fulfillment challenges won't disappear overnight, retailers can take actions to mitigate their negative effects. "Supply chains are strained and there's limited product availability [in the furniture vertical], and customers understand that," said Brian Schultz, Senior Director for Digital Product Marketing at **Crate & Barrel** during a June 2021 **webinar**. To make their wait less painful, the retailer is ramping up its inventory availability transparency.

"We're making sure there's visibility as to where the product is in the supply chain — overseas, on the water, at the dock, in the distribution center or at the store," said Schultz. "We're planning to relaunch our post-transaction communications experience at the end of June 2021, because customers love to have that visibility."

What have been the main impacts (positive or negative) of COVID-19 on your company's ability to retain customers?



WHAT WILL A SUCCESSFUL LOYALTY PROGRAM LOOK LIKE IN 2022 AND BEYOND?

By Tom Caporaso, CEO, Clarus Commerce

Even before the height of the pandemic, nearly **two-thirds of consumers** said their loyalty was harder for retailers to maintain than ever before. Then, COVID-19 pushed more people out of stores and into online shopping.

This shift made it even easier to find any product at the lowest price and raised expectations around BOPIS, curbside pickup and the overall experience. Retailers will need to reevaluate their loyalty strategies to meet the rising demands of consumers in 2022 and beyond.

Loyalty Programs Will Need to Provide Faster Rewards

Earning rewards slowly after making purchases will become less effective. From streaming content to social media, your customers live in an instant world, and this includes loyalty programs.

Research shows that **86% of retailers** that offer benefits within the first week say their loyalty program members shop at least once a week. And **60% of consumers** say instant discounts that can be used whenever they shop would motivate them to join a premium loyalty program.

From free shipping to coffee upgrades, think of ways to reward your members with something they find valuable every time they engage.

Customers Want the Option to Choose Their Type of Brand Relationship

Many loyalty programs feel similar, but each brand has different types of customers. You can't treat every customer the same with the same experience. The benefits not only have to make sense for your customer base, but also different groups within your customer base.

That's why more brands are offering premium loyalty programs that allow customers to opt in to pay for enhanced benefits. A premium tier could work with your existing loyalty program, to offer the best of your brand for those who want that relationship.

When someone is in your existing program, it's easier to demonstrate the value of a premium tier. And if a premium tier member feels they'd like to move to the free tier, they're still in your ecosystem.

A majority — **60% of consumers** — are likely to join a premium loyalty program if they already belong to that retailer's free loyalty program, and **95% of retailers** with traditional programs are discussing launching a premium loyalty program this year.

Loyalty Programs Need to Evolve Over Time

Ultimately, the most important thing is continually optimizing your program. With the speed at which consumer expectations and needs change, you can't set it and forget it.

Launch it, get feedback and results and enhance it over time. The best loyalty programs have done this — Prime, Starbucks and Target have all upgraded or relaunched over time based on member feedback.

What your customers value in 2022 will be different than in 2023, and so on.

Running a successful loyalty program going forward will take giving your customers what they value quickly, offering them a choice on the type of relationship they want to have with your brand and keeping your program fresh and relevant.

RETAILERS TAKE NEW ACQUISITION AND RETENTION TOOLS OUT FOR A SPIN

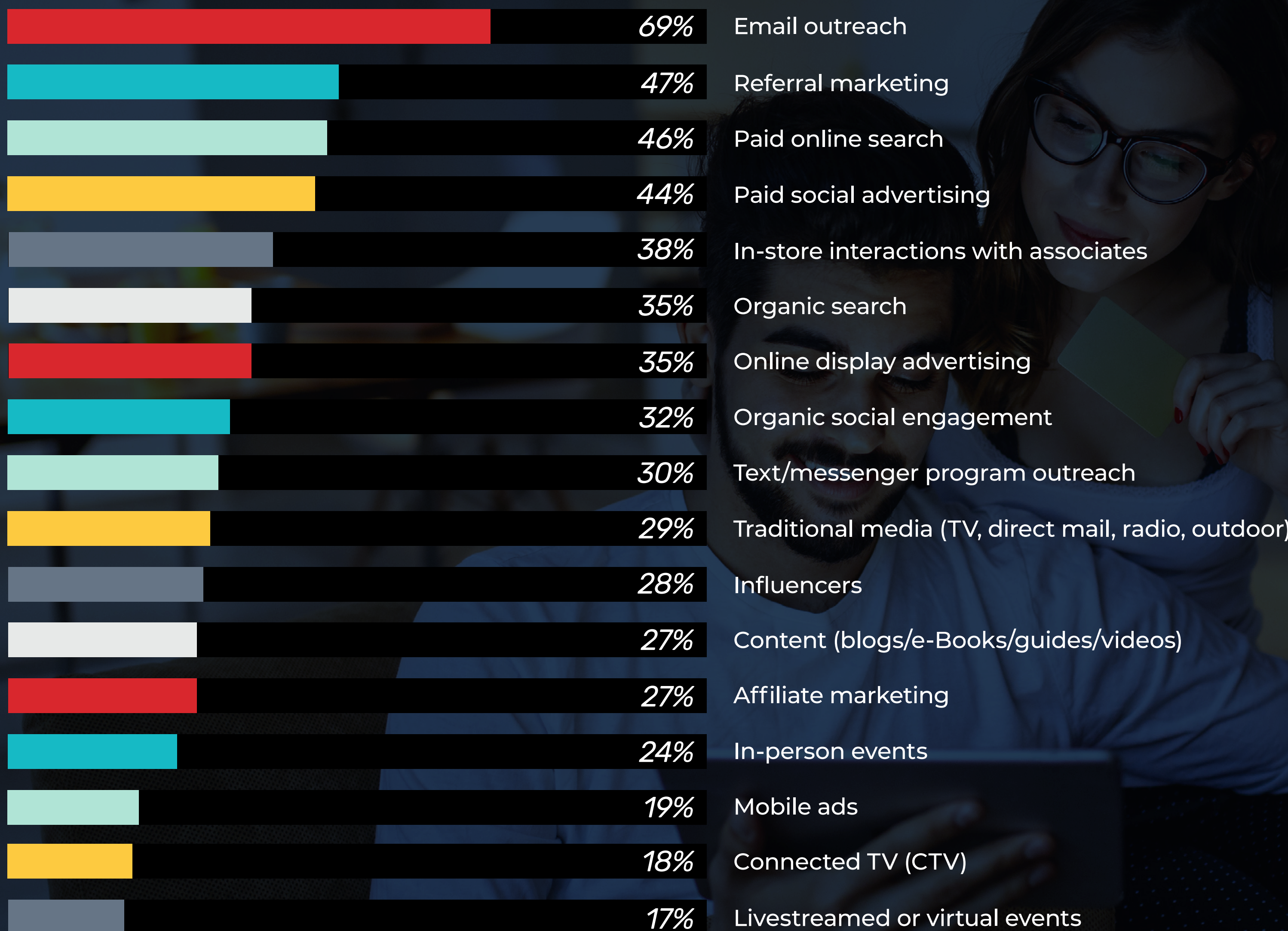
The customer acquisition methods identified in this year's survey are a mix of the new and the tried-and-true. By far the most popular is email outreach, used by **69%** of retailer respondents (and up slightly from the **65%** using it in 2020). While email remains both effective and cost-effective, however, it's now just one digital tool among many. Consumers are spending more time on their digital devices, but that also means there are more distracting claims on their attention.

Forward-thinking retailers are determined to be wherever their customers (or potential customers) are, shown by the popularity of paid online search (**46%**), paid social ads (**44%**), organic search and online display ads (both **35%**) and organic social engagement (**32%**). One relatively new tool, **text/messenger program outreach**, is being used by **30%** of retailers. This figure is likely to rise given high, fast open rates for texts, making this touch point optimal for **location-based** and **time-sensitive** outreach.

One somewhat surprising increase is in the use of referral marketing, which rose from **27%** in 2020 to **47%** this year. This jump may be tied to increased enrollment in loyalty and subscription programs, which often include rewards for members who bring in friends and family members.

Usage of traditional media, such as TV/radio advertising, direct mail and outdoor, dropped from **41%** in 2020 to **29%** this year. It's likely marketers are focusing more of their spend on targeted acquisition methods rather than those primarily used to build awareness.

Which tools do you use to acquire customers?



The enormous rise in home deliveries has boosted the value of last-mile benefits as customer retention tools. Free shipping tops the list at **64%**, displacing the long-popular purchase discounts from the top spot to a still-strong **55%**. Free returns, a response option not offered in last year's survey, made a strong initial showing at **42%**, while expedited shipping climbed from **21%** in 2020 to **26%** in 2021.

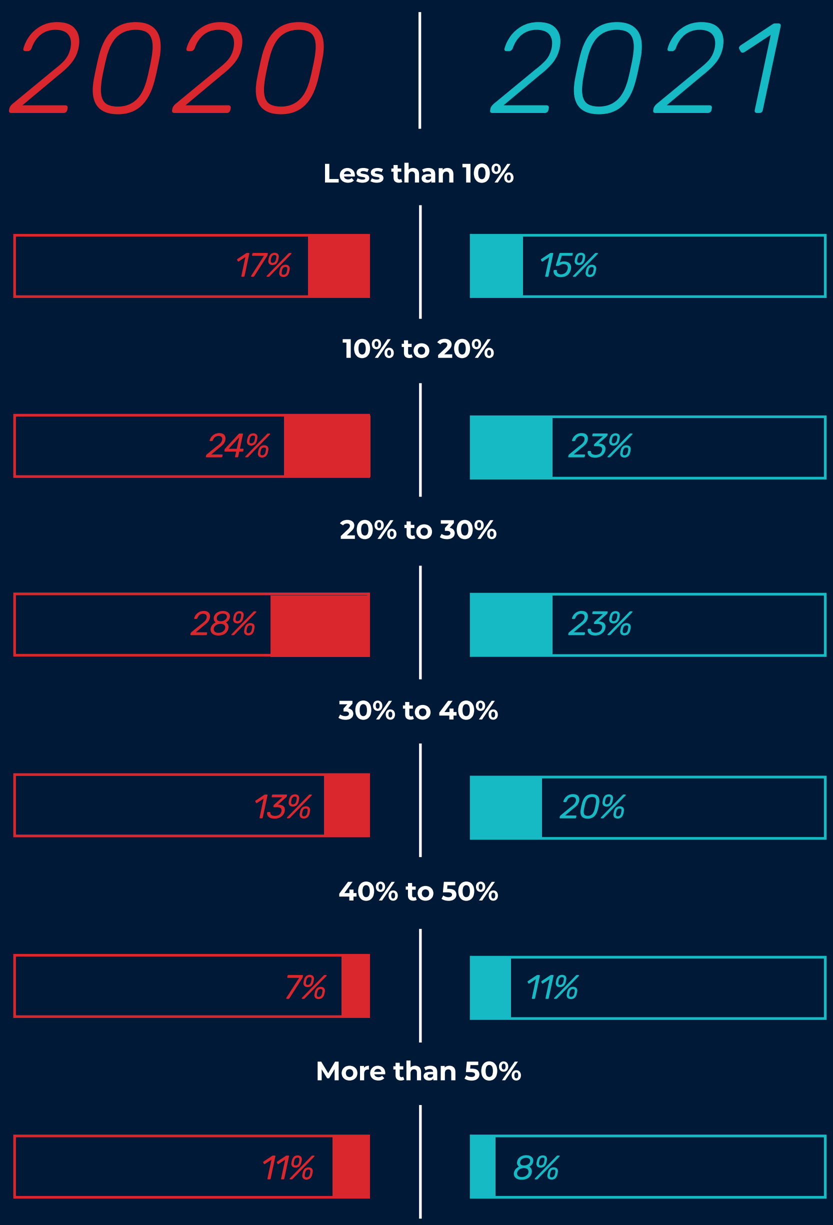
Another new response option this year, free services (such as in-home electronics setups and repairs) is used by only **12%** of respondents. However, it's likely this figure will grow as consumers make working from home a regular part of their routine, necessitating upgraded home offices and rapid repairs if something breaks.

There are signs that these customer retention tactics are beginning to pay off — good news both for retailers that have lost customers and those struggling to hold on to new ones. The percentage of retailers able to retain *less than 10%* of newly acquired customers dipped slightly in 2021, from **17%** to **15%**. There was a corresponding rise at the higher end of the spectrum: retailers achieving *30% to 40%* retention of new customers climbed from **13%** in 2020 to **20%** in 2021, and those in the *40% to 50%* bracket also increased, from **7%** to **11%**. There was some falloff at the highest level: those retaining *50% or more* dropped from **11%** to **8%** this year.

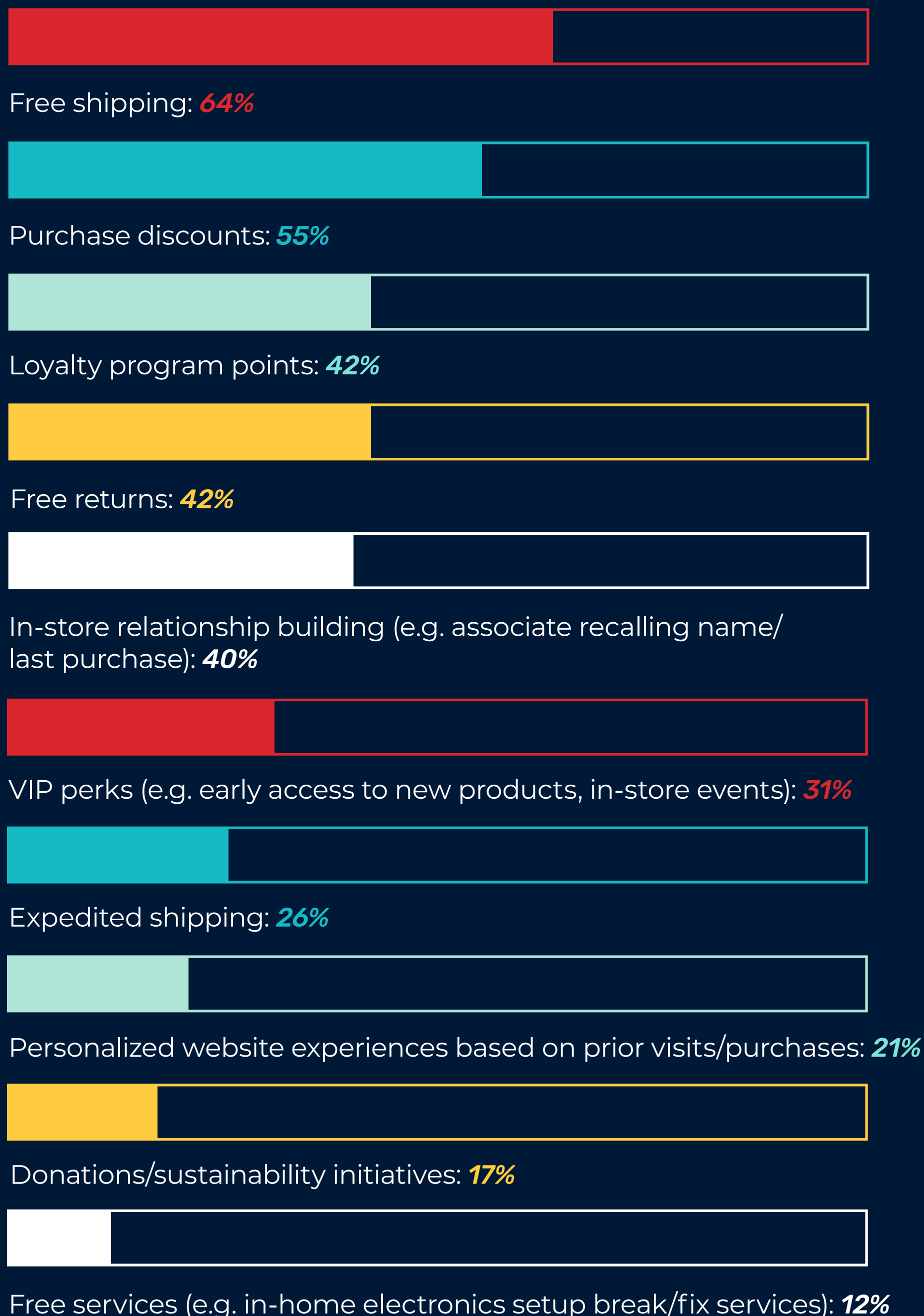
Some of the barriers to customer retention have shifted along with large-scale industry changes. The **growing popularity of marketplaces** is reflected in the rise of *losing subsequent sales to marketplaces like Amazon*, from **22%** in 2020 to **34%** this year.

However, data management and technology challenges seem to have a greater collective impact than competition: **29%** of respondents said a lack of, or incorrect, customer data complicated their retargeting efforts; **25%** blamed insufficient/outdated technology; and **22%** reported that customer data was not easily available to those needing it. These results indicate that data centralization, cleanliness and management should be an area of keen focus for retailers — and a prime opportunity for solution providers.

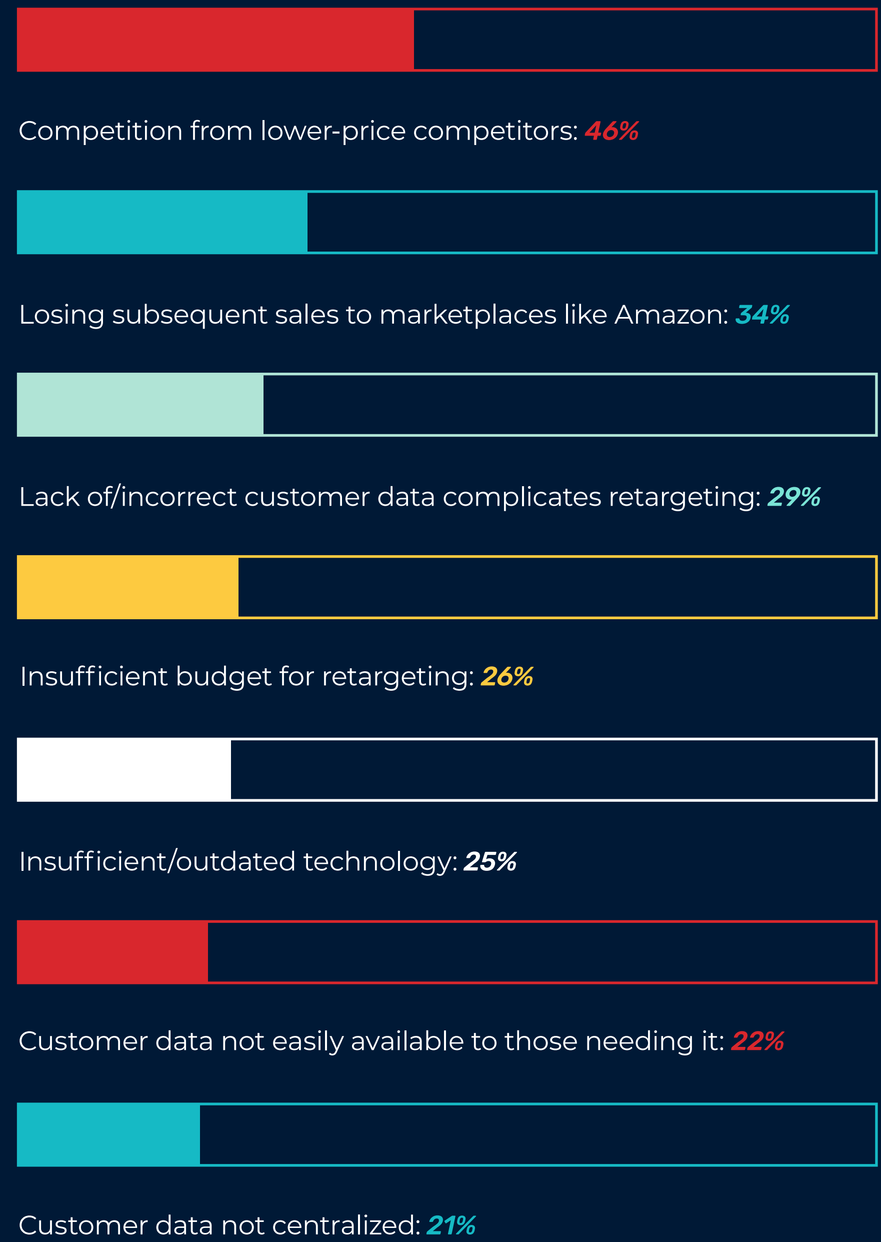
What percentage of newly acquired customers are you able to turn into repeat purchasers?



Which tools do you use to retain customers?



What are your biggest challenges in driving repeat purchases?



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TO TRULY MEASURE CUSTOMER LOYALTY, TRACK ENGAGEMENT AND INFLUENCE

By Matt Roche, CEO, Extole

Retailers report that consumers are returning to stores this summer as COVID-19 restrictions are lifted. This news comes as a massive relief to multichannel retailers, since it was not at all clear what permanent changes would result from the pandemic. Would the convenience of digital lead to an abandonment of in-store shopping and the stranding of billions in real estate assets?

Consumers did shift to digital in 2020, massively, and their return offers some important insights about loyalty in the cross-channel era. In a nutshell, loyalty is more than a transaction. Engagement is the better measure of a brand than purchases, and loyalty is about more than entering a credit card number.

How should this inform your loyalty program?

First off, you need to release yourself from the shackles of the purchase/points/levels orthodoxy. That model, which is at least 70 years old, is the classic hotel/airline approach of giving a point for each dollar (yen, euro, etc.) of spend, and of providing tiers at certain point levels that offer privileges. It is pure, it is easy to communicate and consumers understand it implicitly.

But it is disappointingly limited. If “loyalty” were just the sum of transactions, then we would consider our COVID online buyer loyal. But their loyalty may simply be necessity — they couldn’t get out, and you could deliver. In the reopened economy, what value would you assign those customers that rushed back to your store? What about those who brought a friend? The simple behaviors of “visited my store” or “invited a friend” indicate a higher level of loyalty than the fact that they didn’t abandon their cart this time.

The new loyalty paradigm needs to go beyond the transaction to understand **engagement and influence**.

When a customer shops in a store, watches a video, shares a link, nominates a friend for recognition or answers a survey, they are engaged. It behooves us to listen for that engagement, to count it and to recognize customers that have high levels. The top companies in the economy, Starbucks, Facebook, Amazon and Apple, all obsess over monthly active users and daily active users (MAUs and DAUs), because engagement indicates a real relationship and is the key leading indicator for monetization.

When a consumer refers a friend to shop, or drops a hint that they want you to buy them something or shares a photo on Instagram, they are also clearly creating value. It may end up in a transaction, but it may just result in making them more likely to buy in the future. And it definitely results in other consumers’ purchases. Our view of loyalty must account for influence, understanding that a customer who spends **$100** but influences **$6,000** is likely more valuable than a single customer that purchases **$6,100** of your product. Cosmetics companies like Estée Lauder and L’Oréal know this, and make influence, referral and social sharing an integral part of how they relate to their customers.

The customers are returning, but will they return for everyone? You won’t find that answer by counting transactions alone. But take the extra step and invest in engagement and influence.

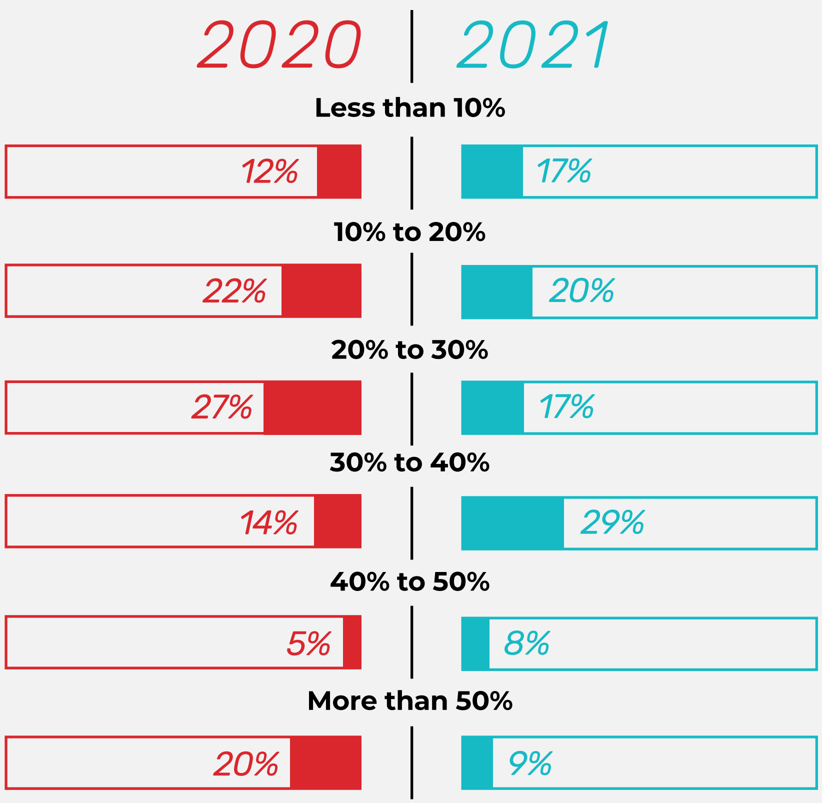
Your brand just may depend upon it.

AWASH IN NEW CUSTOMERS, RETAILERS NEED TO BUILD LOYALTY MEMBERSHIP

Shoppers were jolted out of their familiar habits by COVID-19. In August 2020, **McKinsey** reported that an astonishing **75%** of consumers tried a new shopping behavior in response to economic pressures, with **36%** of consumers trying a new product brand and **25%** incorporating a new private label brand.

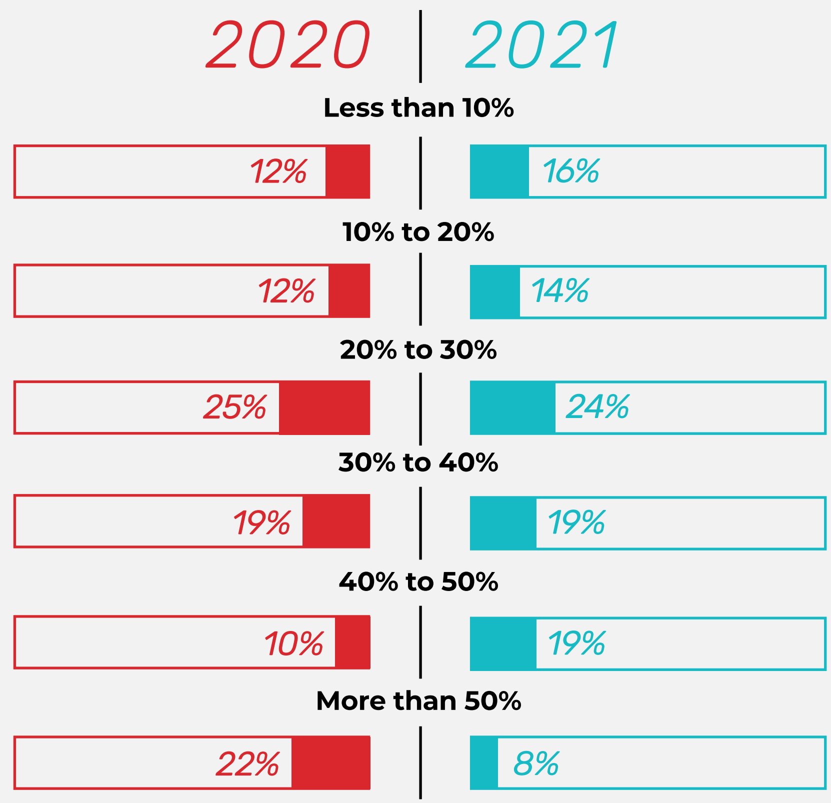
Both loyalty program memberships and revenue took hits as a result of this dramatic rise in brand-switching. (**62%** of all respondents operate loyalty programs). While **20%** of these retailers boasted that *more than 50%* of their customers were loyalty program members in 2020, this year the figure dropped to just **9%**. The decline at the high end was accompanied by an increase at the low end: **12%** of these retailers had *less than 10%* of customers as members in 2020, but **17%** were in the same position in 2021. The numbers are not totally dire: The percentage of retailers in the *30% to 40%* bracket rose, from **14%** in 2020 to **29%** in 2021.

What percentage of your customers are loyalty program members?*



*Among retailers offering a loyalty program.

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



*Among retailers offering a loyalty program.

There was a similar pattern in the percentage of revenue generated by these programs. Among retailers operating loyalty programs, those reaping *more than 50%* of their revenue from members dropped from **22%** in 2020 to **8%** in 2021, while those at the lower end of the spectrum (*less than 10%*) increased slightly, from **12%** in 2020 to **16%** in 2021. Figures remained basically steady in the middle, although retailers garnering *40% to 50%* of revenue from loyalty program members did rise, from **10%** in 2020 to **19%** in 2021.

Loyalty programs do far more than boost revenue and member basket sizes; they also are invaluable sources of first-party data, an increasingly valuable commodity as retail shifts into a **"post-cookie" environment** — one with less access to third-party data collected by companies like Google and **Apple**.

All these factors make increasing loyalty program membership a top priority for retailers, both to maximize customer lifetime value (CLV) from new shoppers and to keep a tighter hold on existing ones.

Paid or premium loyalty programs, such as **Amazon** Prime and **Walmart+** can generate even more benefits for retailers than free programs. (Among retailers offering loyalty programs, **22%** charge for membership and **3%** plan to begin doing so within the next 12 months.) Once shoppers have "invested" in a membership, they are more likely to make these retailers their go-to choice.

And when memberships include benefits such as free shipping with no order minimums and free returns — each offered by **30%** of the retailers operating loyalty programs — these programs become even "stickier." Another popular premium benefit: referral/advocacy bonuses (used by **33%** of these retailers), which help make well-run premium programs self-perpetuating.

*Among retailers offering a loyalty program.

RETAILERS ADAPT CLV METRICS FOR CHANGING CONDITIONS

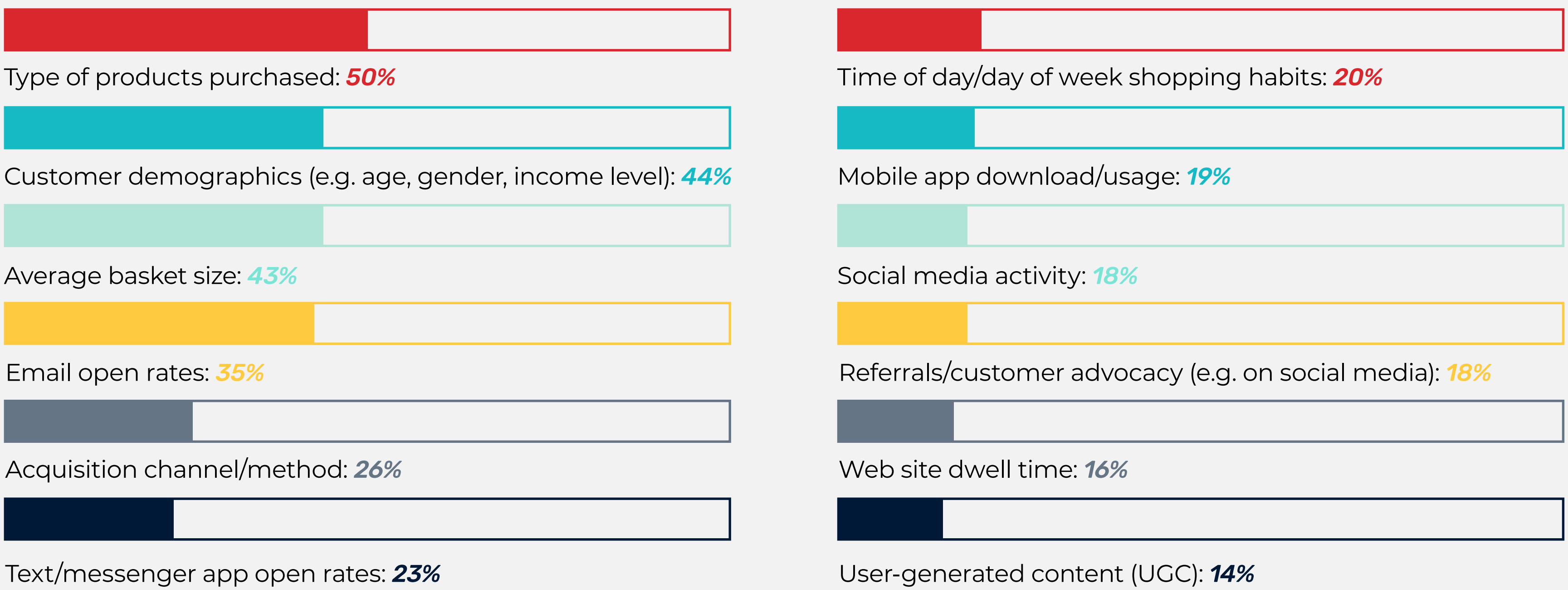
It's increasingly vital that retailers' measurement of Customer Lifetime Value (CLV) is not just accurate but relevant to their consumer base and business model. While the traditional triumvirate of recency, frequency and spend is still used to establish a baseline, retailers now deploy a wide variety of metrics to determine which shoppers are worth the time, effort and dollars needed for both acquisition and retention.

As it did in 2020, the list is led by identifying the types of products purchased, used by **50%** of retailer respondents. Customer demographics are next at **44%**, followed closely by average basket size (**43%**).

Two metrics that have lost popularity this year are acquisition channel/method, which dropped from **35%** in 2020 to **26%** in 2021, and social media activity, which fell from **25%** to **18%**. It's likely that the mass movement online made identifying exactly how a customer was acquired less relevant than it was previously.

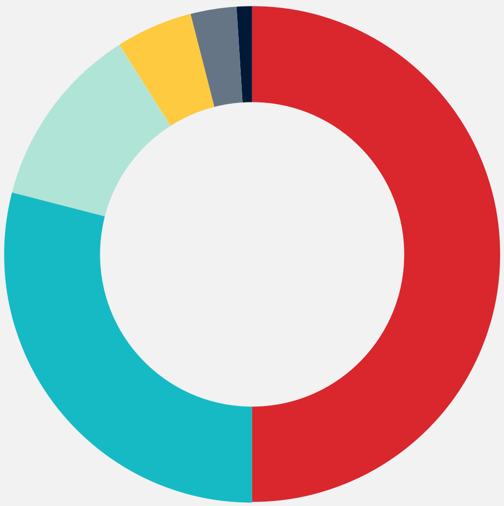
The dip in social media may be a function of the sheer amount of traffic on these platforms during a period with a global pandemic as well as a highly contentious presidential election and its aftermath. Finding signals within this wall of noise was likely deemed more trouble than it was worth during this period. However, as these platforms move more aggressively into ecommerce, usage of this data to calculate CLV almost certainly will rise.

Beyond recency, frequency and spend, which metrics do you use to define Customer Lifetime Value (CLV)?



METHODOLOGY

Retail TouchPoints surveyed 103 retailers during May and June 2021. Following is the breakdown of company types represented among survey respondents.



Retailer — brick-and-mortar stores and ecommerce: ***50%***

Retailer — pure-play ecommerce: ***29%***

Retailer — brick-and-mortar stores only: ***12%***

CPG company: ***5%***

Hospitality/restaurant: ***3%***

Retailer — subscription-only model: ***1%***

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Clarus Commerce — where customer loyalty meets subscription revenue — is the only company solely focused on building, managing and optimizing customizable premium loyalty programs for retailers. The company provides the full suite of services needed for a successful loyalty program, which includes the technology platform, client services, strategy, creative, marketing, analytics, IT and operations. Clarus Commerce was founded in 2001 and is headquartered in RockyHill, Connecticut. For more information, please visit **www.claruscommerce.com**.

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