

2022 BENCHMARK SURVEY

CUSTOMER LOYALTY AND PERSONALIZATION:

SUPPLY CHAIN IMPACTS,
UNDERSTAFFED STORES CREATE
CUSTOMER LOYALTY CHALLENGES

retail
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POINTS



5 KEY TAKEAWAYS

1

For the second year in a row, **out-of-stocks due to supply chain challenges** topped the list of retailers' toughest customer loyalty challenges, at **44%**.

2

The "Great Resignation" is having an impact on customer loyalty efforts: **41%** of retailers cited insufficient staffing's negative impact on in-store CX as a challenge.

3

The use of traditional media (TV, radio, direct mail and outdoor advertising) as a customer acquisition tool rose from **29%** in 2021 to **51%** in 2022, second only to email outreach.

4

Inflation is the likely cause for the resurgence of purchase discounts as a customer retention tool; it rose from **55%** in 2021 to **73%** in 2022.

5

Some retailers are trying to gain a more holistic view of their customer relationships: **45%** collect customer service data such as complaints, product returns and reviews.



CUSTOMER LOYALTY EFFORTS FACE CHALLENGES OLD AND NEW

At a time when the maxim “the only constant is change” seems truer than ever, retailers and brands are keenly aware of the vital importance of customer loyalty. Having a core group of loyal customers for whom retailers can personalize assortments, product recommendations, offers and loyalty program rewards is the shining Emerald City that glitters in the distance. But as Dorothy and her companions discovered, getting there often involves a long and complicated journey, full of challenges, obstacles and rough (Yellow Brick) roads.

For the last two to three years, the biggest roadblock has been snarled, uncertain supply chains, according to the 2022 *Retail TouchPoints Customer Loyalty and Personalization Benchmark Report*, based on a survey of **115** retailers conducted in May and June 2022. As in 2021, retailer respondents identified out-of-stocks caused by supply chain issues as their top customer loyalty challenge, at **44%**.

These results certainly makes sense: having the products customers want available for purchase, whether in a brick-and-mortar store or online, is almost the definition of a retail “business basic.” Ironically, the herculean efforts retailers have made to address out-of-stocks may have actually hurt customer loyalty efforts by convincing consumers that things are truly back to “normal.” Shoppers may be thinking *‘It’s not like 2020, when lots of stores had empty shelves; why can’t I find the products I want now?’*.

Retailers’ second-biggest challenge, at **41%**, is another lingering byproduct of the pandemic: insufficient store staffing’s negative impact on the customer experience (CX). Until retailers can **combat the “Great Resignation” effectively** enough to fully staff their stores, they are likely to continue struggling in this area.

Several challenges relate to retailers’ digital offerings and their intersection (or lack thereof) with the store shopping experience. Nearly one-third (**31%**) of retailers cited ecommerce sites not being optimized for personalization as a significant challenge. For **24%**, the lack of an optimized mobile offering has hampered their efforts, and **23%** identified an inability to align ecommerce and in-store touch points. As with out-of-stocks, consumer expectations of a channel-agnostic shopper journey — one that allows them to move seamlessly between digital and physical touch points — should motivate retailers to acknowledge and address their shortfalls in this area.

There is some good news: less than one-fifth (**19%**) of retailers blamed customer loyalty losses on their lack of a BOPIS or curbside pickup option, meaning this popular service has become embedded into a large number of retailers’ operations.

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

Losing customers due to out-of-stocks caused by supply chain challenges

44%

Insufficient staffing negatively affected in-store CX

41%

Ecommerce site not optimized for personalization

31%

Lack of optimized mobile site/app eliminated a key customer touch point

24%

Inability to align ecommerce and in-store touch points

23%

High ecommerce volumes negatively affected online CX

23%

Lost customers due to lack of BOPIS/curbside pickup offerings

19%

“Cookie” restrictions and privacy regulations hampered retargeting/retention

15%

The specific tools retailers use to acquire customers held some surprises in this year's survey. While email outreach topped the list (at **68%**) as it did last year, traditional media such as TV, radio and direct mail took second place in 2022, at **51%** — up from just **29%** in 2021. It's likely the number of people still working remotely has boosted consumption of these marketing vehicles, making them fertile ground for customer acquisition efforts.

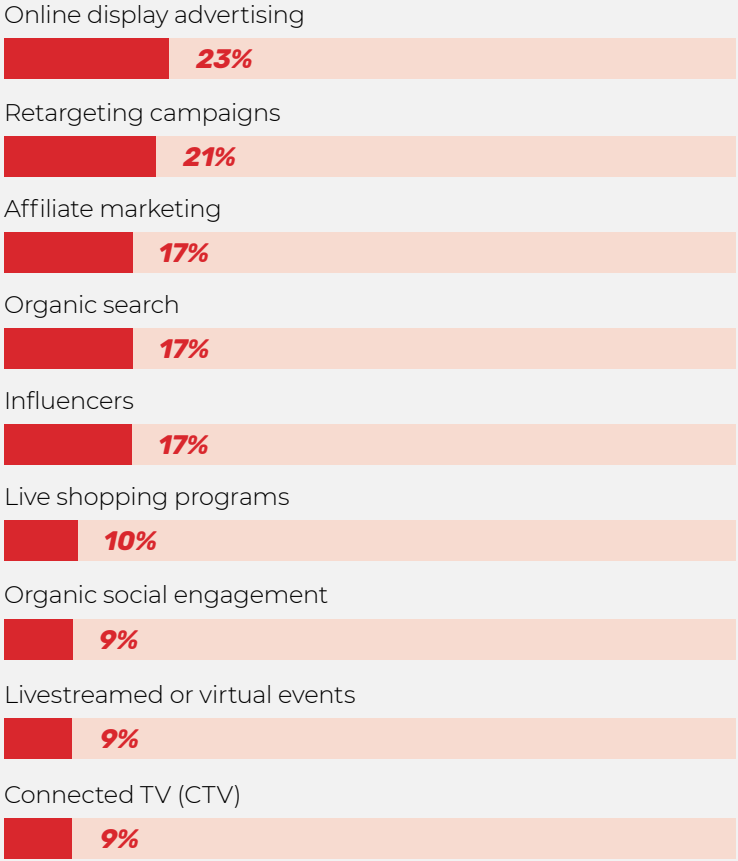
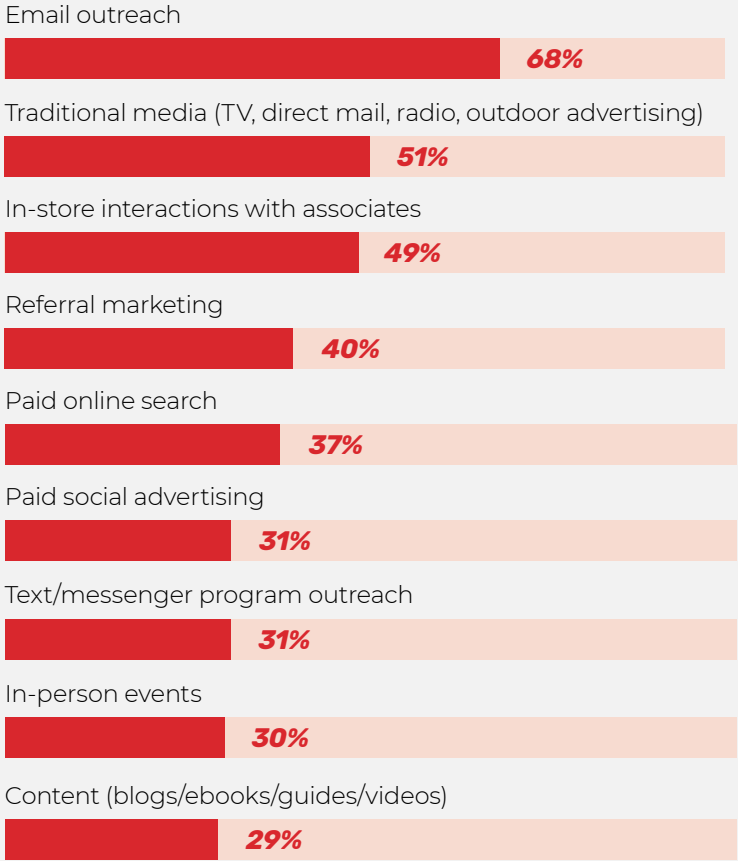
Nearly as many respondents (**49%**) identified in-store interactions with associates as a top acquisition tool. As brick-and-mortar locations have reopened, retailers are seizing the opportunity to establish relationships with shoppers via one of their most valuable assets — their frontline workforce.

Strategies for retaining customers also illustrate retail's move into the not-quite-post-pandemic new normal, as well as the realities of inflation. Purchase discounts were the top choice in this year's survey at **73%**, up from **55%** in 2021.

Last year's top retention tool, free shipping, fell slightly, from **64%** in 2021 to **57%** in 2022. The industrywide ubiquity of this offering means its effectiveness as a competitive differentiator has slipped; it now trails loyalty program points (**63%**) and in-store relationship-building (**62%**).

And while the ecommerce surge fueled by COVID-19 may be subsiding somewhat, a growing number of retailers are leveraging online personalization tools to hold on to these shoppers. Offering website experiences based on a customer's prior visits and purchases rose from **21%** in 2021 to **32%** this year.

What are your top tools for acquiring customers?



What are your top tools for retaining customers?

Purchase discounts



Loyalty program points



In-store relationship-building



Free shipping



Free returns



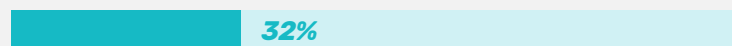
VIP perks (exclusive experiences, early access to new products, in-store events)



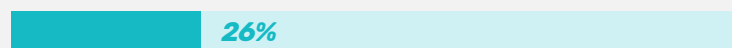
Retargeting lapsed/infrequent customers



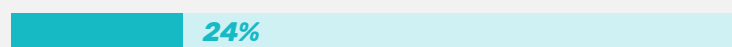
Personalized website experiences based on prior visits/purchases



Expedited shipping



Donations/sustainability initiatives



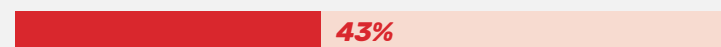
Free services (e.g. in-home electronics setup, break/fix services)



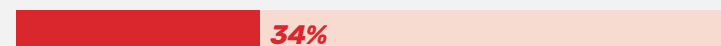
As in previous years, retailers blame competition from lower-price competitors as their top challenge in driving repeat purchases, at **43%** — a figure that's likely to remain high until inflation retreats. But also as in previous years, data issues remain key roadblocks: **34%** of retailers cited non-centralized customer data as a challenge; **30%** said this data is not easily available to those needing it; and **25%** identified a lack of, or incorrect, customer data as a retargeting complication.

What are your biggest challenges in driving repeat purchases?

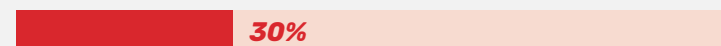
Competition from lower-price competitors



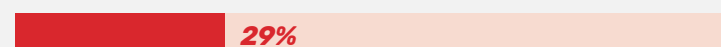
Customer data not centralized



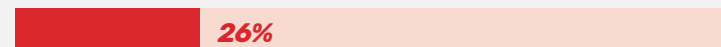
Customer data not easily available to those needing it



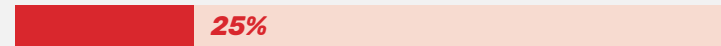
Losing subsequent sales to marketplaces like Amazon



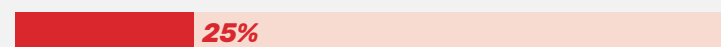
Insufficient/outdated technology

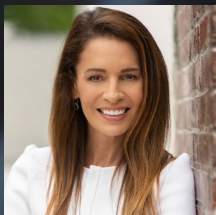


Insufficient budget for retargeting



Lack of/incorrect customer data complicates retargeting





SEAMLESSLY WEAVE LOYALTY INTO THE OVERALL CUSTOMER EXPERIENCE

Q&A with Stephanie Meltzer-Paul, EVP of Global Loyalty, Mastercard



Retail TouchPoints (RTP): *What are the biggest challenges retailers face in building and maintaining customer loyalty?*

Stephanie Meltzer-Paul: The challenge many organizations have is that they haven't defined what loyalty means for them and their customers — and it means something different to every organization. Some organizations might start with a basic definition such as 'This customer is loyal because they come in X times per month' or 'This customer is loyal because they spend X number of dollars.' For truly impactful loyalty programs that not only drive consumer engagement but evolve and expand with shifting expectations, it's essential to think beyond the transaction. For us, **loyalty is the ability for a customer to experience a rewarding relationship with a business that goes beyond the core offering of what they're buying, and it can build organically into an emotional connection that grows and evolves with the brand.**

RTP: *How do these definitions of customer loyalty affect decisions about gathering, coordinating and analyzing data?*

Meltzer-Paul: When Mastercard is working with organizations, we ask about the needs of the organization in general, not just around loyalty — the big broad questions. Then we encourage companies to determine the types of

things they would like to do from a revenue-generating perspective to grow their business and work backwards from that.

The data you collect — responsibly — must then be designed for your goals and objectives. What do you need to know? For instance, the ability to understand a brand's individual customers — and not just their household — is critically important. Also understanding the B2C vs. B2B, such as a hardware store that sells to contractors, is another important distinction. You need to define it, because sometimes it's the same person but they are essentially operating as two different buyers across different workstreams.

Then you need to examine things like how you're **capturing the data**; how you're **organizing it**; and then how you're **extracting data** to actually create your marketing plans against that. You can spend a lot of time organizing your data, so my recommendation is always to start with the use cases.

RTP: *What are some of the key elements retailers need to keep in mind on the customer-facing side of things?*

Meltzer-Paul: A retailer's marketing tactics will be different depending on the channel: traditional brick-and-mortar, ecommerce, mobile and even via third parties. Retailers often spend a lot of money 'pushing' people into

certain channels because of things like margin differentials, but customers want to make the choices themselves. So it's important to focus on flexibility and ease of use in how the shopper applies [loyalty credits] and takes advantage of offers.

Retailers also need to ask themselves honestly if their loyalty experience — whether it's a membership program or a subscription — is woven seamlessly into the [overall customer] experience. At Mastercard, we use our insights, tools and expertise to answer critical questions throughout the customer lifecycle, reversing pain points and capitalizing on the positive experiences for consumers. How quickly can someone get through the experience? How many steps will it take, and how simple are they? Is it easy to find out how many points they have and to easily redeem them? If it feels like hoops to jump through, consumers won't do it, and it certainly won't drive a positive, emotional connection with a consumer.

RTP: *Personalization has long been seen as a key element in effective marketing and building customer loyalty. What can Mastercard do to help retailers with this?*

Meltzer-Paul: A lot. We acquired Dynamic Yield, an AI and personalization leader, because personalized, relevant experiences are what it's all about. Are you drawing on the right data and technologies to drive incremental behavior? And to create sticky, meaningful experiences?

We have cutting-edge technology that helps retailers, department stores, QSRs, airlines and others make data-driven decisions, bringing consumers experiences, benefits and rewards on their terms by responding to their

individual demands — from building loyalty programs and identifying key audiences to creating consumer behavior and lookalike models and developing marketing creatives for multichannel campaigns. Mastercard capabilities, such as our Test & Learn solution powered by predictive analytics, allow us to make sure we're driving the right message to the right consumer, ultimately optimizing outcomes for brands.

It's also important to note, however, that it isn't always about using AI and machine learning; it depends on your customer interaction, use cases and data footprint. If you're a retailer with a **million** SKUs and you only have five placements on a screen, you want to know how to offer up the right products there — the **five** that will entice someone further into the funnel. But if you offer only **25** items total, you might need something much simpler; you don't need to over-engineer. We help counsel merchants to guide them to the best solutions.

RTP: *Are there still dangers in over-personalizing, the “creep factor”?*

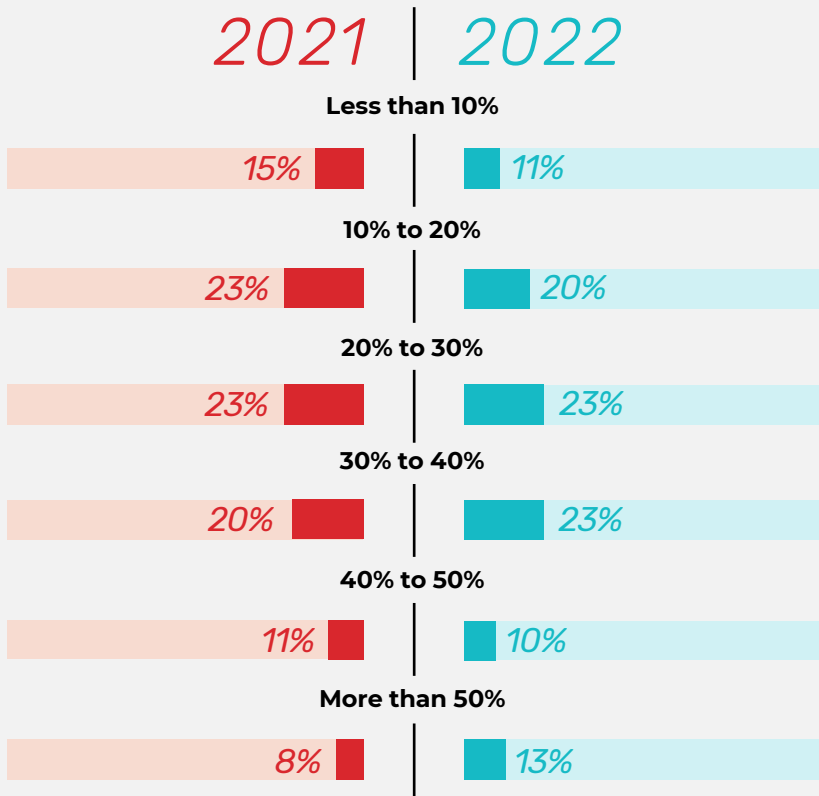
Meltzer-Paul: This involves the relationship that the customer has with the retailer and about engaging in a way that is mindful, authentic and consumer-centric. The vast majority of consumers are comfortable with [a retailer] they frequent knowing information about them in terms of their interaction with that particular retailer, and they're not surprised if they get an email with a special discount or product recommendations. But there are certainly limits to what a brand can and should do.

My view is that the more transparency, the better.

LOYALTY PROGRAMS: MORE MEMBERS AND MORE REVENUE

Despite the range of tools retailers are using to retain customers, turning newly acquired shoppers into repeat purchasers remains a hard-to-solve problem. There has been some progress: in 2021, 15% of respondents were able to hold on to *less than 10%* of their new customers, but that figure dropped to 11% in 2022. At the other end of the spectrum, retailers converting 50% or more of new customers into repeat purchasers rose, from just 8% in 2021 to 13% in 2022.

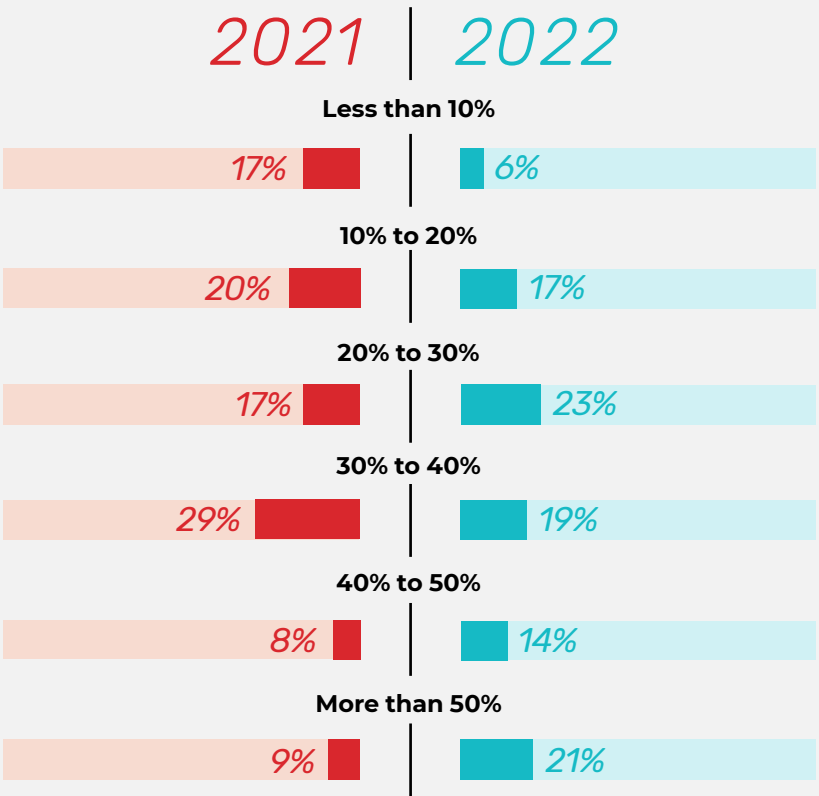
What percentage of newly acquired customers are you able to turn into repeat purchasers?



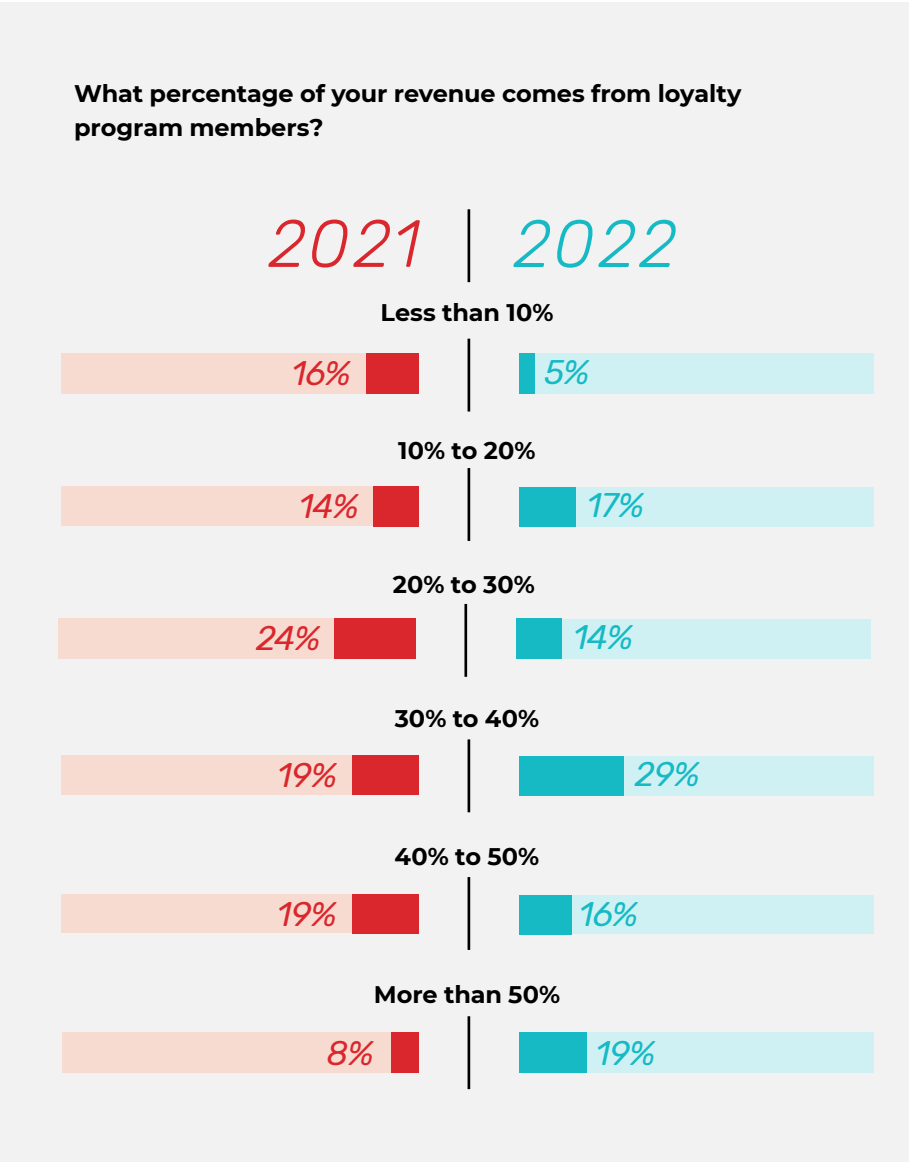
Retailers with loyalty programs have a powerful tool for overcoming this challenge. These programs, from the biggest (**Amazon Prime**) to the smallest (the punch card at your local car wash) have proven their worth over and over again. As retailers struggle to both build and maintain customer loyalty in the face of supply chain snafus, inflation and other pressures, there are strong indications that they are getting more from the loyalty programs they operate, both by adding new members and by generating more revenue from those members.

In 2021, 17% of retailers reported that *less than 10%* of their customers were members of their loyalty program; by 2022 that figure had dropped to 6%. At the upper end of the spectrum, retailers with 40% to 50% of customers enrolled in their program climbed from 8% in 2021 to 14% in 2022; those with 50% or more increased from 9% to 21%.

What percentage of your customers are loyalty program members?



Retailers also have been able to boost the revenue that these program members generate. In 2021, **16%** of retailers were getting *less than 10%* of their revenue from loyalty program members; in 2022 that figure dropped to **5%**. The percentage of those *generating 30% to 40%* of their total revenue from members climbed **10** percentage points, from **19%** in 2021 to **29%** in 2022, and more than doubled for those generating *more than 50%*, jumping from **8%** last year to **19%** this year.





CASE STUDY: A SPECIALTY RETAILER ENHANCED CUSTOMER RETENTION BY USING MASTERCARD SESSIONM TO DELIVER SEAMLESS REWARDS



A specialty retailer with over **50** store locations wanted to enhance its engagement strategies and grow new revenues. However, the retailer lacked the capabilities to deliver the personalized, omnichannel experiences consumers favor.

The retailer drove engagement and increased earning velocity by using Mastercard SessionM to deliver a best-in-class tender-neutral loyalty program at scale. The retailer's new loyalty program was able to provide a seamless customer experience by integrating the website, app and in-store POS systems.

By unifying first-party data on consumer behavior and preferences, the retailer unlocked a 360-degree view of the customer. This enhanced data revealed opportunities to increase basket size and cross-sell into other product categories by targeting specific segments of loyalty members with personalized offers, campaigns and messaging. For co-brand cardholders, the retailer delivered additional benefits.

Using Mastercard SessionM to launch an innovative loyalty program, the retailer was able to automate, manage, measure and optimize its engagement strategies. Since the program's inception, the retailer seamlessly issued over **5.6 million** offers, driving dramatic increases in transaction levels. More than half of members transacted at least **six** times and **81%** of members transacted in the last 12 months. Within that timeframe, the loyalty program helped the retailer generate **\$705 million** in revenue from member purchases.

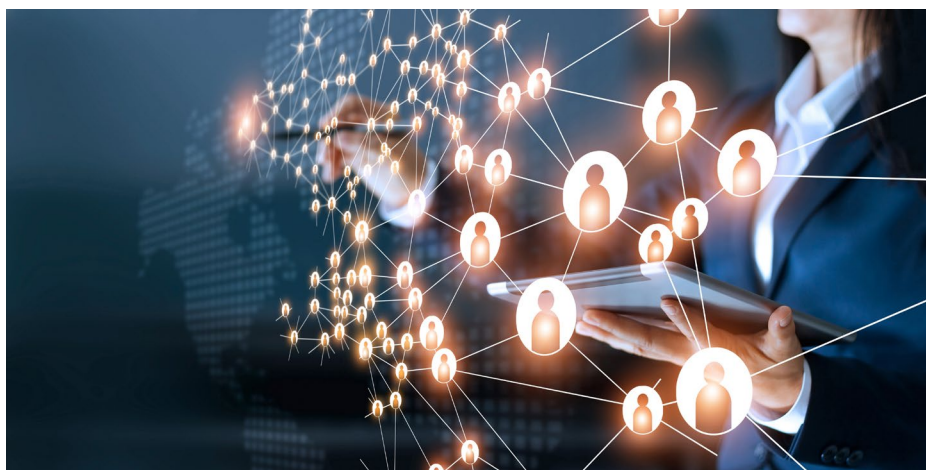
RETAILERS EMBRACE TECH TO SHARPEN PERSONALIZATION

Personalization efforts have come a long way since the local butcher remembered that Mr. Jack Sprat liked his cuts of meat lean, while his wife Mrs. Sprat didn't want any of the fat trimmed off. It's also come a long way since inserting "Dear [first name here]" at the top of an email was considered the epitome of personalization.

Today's retailers are using a wide range of technology solutions to personalize just about everything they can, from the items they promote to which channels they use to communicate to the cadence of their messaging.

The toughest personalization challenges retailers face align with many of the data-related hurdles of their other customer loyalty efforts, including maintaining a real-time customer information database (selected by **71%** of respondents) and incorporating both structured and unstructured data, such as social network activity, at **68%**.

Comparatively speaking, retailers are less concerned with issues around privacy, including consumers' concerns (**58%**), compliance with regulations such as GDPR and CCPA (**51%**) and the prospect of fewer "cookies" that facilitate online tracking (**32%**).



What are your biggest personalization challenges?

Analyzing data to determine optimal communications/offers

75%

Maintaining a database of comprehensive, real-time information on customers

71%

Maintaining real-time consistency with individuals across multiple touch points

69%

Incorporating both structured and unstructured data (e.g. social network activity)

68%

Integrating/centralizing multiple data sources to create single view of the customer

63%

Consumer privacy concerns

58%

Complying with new laws/regulations, e.g. GDPR and CCPA

51%

Dealing with fewer "cookies" and other consumer tracking restrictions

32%

C-suite buy-in

15%

Customer data platforms are used by nearly two-thirds (**64%**) of retailer respondents to support their personalization initiatives, with another **13%** planning to implement them in the next year. Enthusiasm for this technology makes sense given the multiple customer data-related challenges hampering customer retention efforts — particularly since the retention side of customer loyalty is where personalization can have its strongest impact.

At **56%**, social analytics solutions are another popular tool. This represents another area of convergence for retail marketers: social commerce is expanding rapidly, with many of the most popular platforms adding tools to streamline shopper journeys over the past two years. Social commerce also presents a prime opportunity for marketers to understand consumer behavior at granular levels, and to tailor advertising, marketing and offers to specific audiences that are highly likely to respond to them.

The use of personalization solutions is by no means limited to digital commerce: biometrics (at **24%**) and facial recognition software (**23%**) made respectable showings given the relative newness of these technologies. However, plans to implement these technologies in the near future were both in the single digits (**9%** and **6%** respectively), so their overall appeal seems limited, at least for the immediate future.



Which technologies do you use to support personalization efforts?

■ Use now ■ Plan to add in next 12 months

Customer data platform



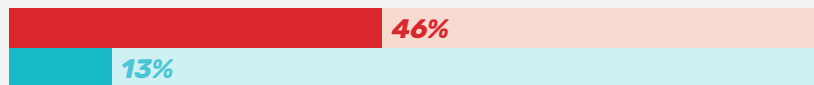
Social analytics solutions



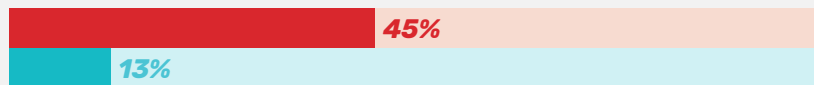
Location tracking (i.e. via consumers' mobile devices)



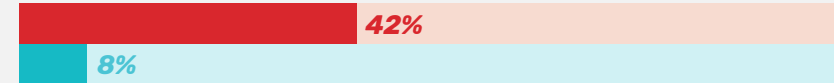
Interactive chatbots



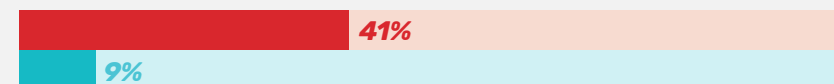
Predictive analytics algorithms



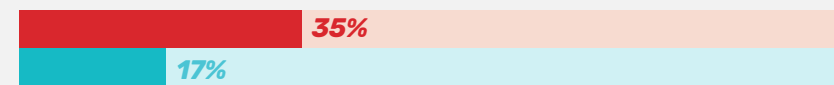
Personalized voice/conversational commerce apps



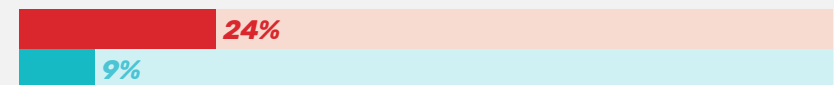
Sentiment analysis



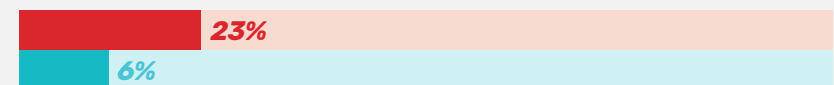
AI/machine learning



Biometric technology



Facial recognition software



Retailers also are sharpening their personalization and customer retention efforts by collecting more types of data. As might be expected, purchase histories top the list, at **65%**; knowing what a shopper bought, when and in what quantities remains a basic building block for retargeting campaigns. (In its aggregated form, it's also essential to forecasting and planning functions.)

There are also signs that retailers are trying to gain a more holistic view of their customer relationships, one that goes beyond individual transactions: **45%** of respondents collect customer service data such as complaints, product returns and reviews. Multiple complaints, negative reviews or product returns provide strong indicators of wavering customer loyalty, alerting retailers that a win-back strategy should be deployed.

Positive reviews, or a customer service experience that effectively solved the shopper's problem (they are often linked) indicate the potential for the retailer to strengthen customer loyalty bonds, turning an ordinary shopper into an enthusiastic advocate. And with influencers becoming a part of more retail marketers' toolkits, organically finding these kinds of brand ambassadors provides retailers with a double win.

**In addition to basic identifying data,
what customer information do you collect
for marketing/personalization initiatives?**

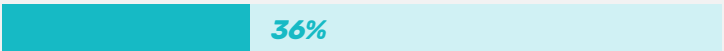
Purchase history, broken down by items/basket contents



Customer service history (i.e. complaints, returns, positive reviews)



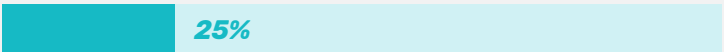
Demographic data (e.g. age, gender, marital status, household size/income, zip code)



Social media activity related to your company



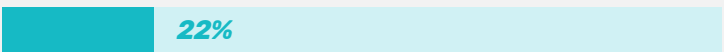
Typical purchasing cycle



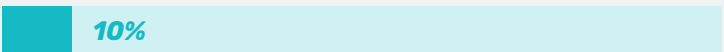
Referrals of new customers



Customer Lifetime Value (current and/or projected)



Hobbies/interests



PERSONALIZATION CAPABILITIES VARY SIGNIFICANTLY BY CHANNEL

Ideally, personalization would go hand in hand with an omnichannel approach to customers. Shoppers should be able to receive the same targeted offers and highly relevant product recommendations whether they are online, using a mobile device, reading an email or visiting a brick-and-mortar store. Of course, different touch points offer different capabilities: location-based offers are most effective when they are sent to a consumer's mobile device, for example alerting them that a new product they're likely to be interested in is located just one aisle over.

Unfortunately, personalization prowess, like many other aspects of retailing, varies widely from channel to channel. The broadest set of capabilities, and the highest rates of adoption, are in email. Just over half (**52%**) of retailers can show personalized product recommendations and offers based on customer preferences, purchase history and/or liked products via email. In contrast, just **38%** of retailers can do this via their mobile apps.

Email personalization capabilities also include populating abandoned-cart emails with personalized messaging and offers, at **41%**; using algorithms to determine which types of emails (e.g. win-back, price drop, limited inventory) to send to which customers (**29%**); and scaling email message volume based on individual customer engagement levels (**29%**).



Which email personalization capabilities have you implemented?

Show personalized product recommendations/offers based on customer preferences, purchase history and/or liked products

52%

Use customer's name (or preferred username) in email messaging

49%

Send retargeted abandoned cart emails that include personalized messaging around discounts/offers

41%

Use customer's demographic/profile data to personalize email messaging

38%

Curate/tailor content based on customer insights and past behaviors

31%

Use algorithms to determine which types of emails (e.g. win-back, price drop, limited inventory) to send to which customers

29%

Scale email message volume based on individual customer engagement levels

29%

Adjust cadence of email contact based on stated customer preferences

20%

No/minimal email personalization capabilities

20%

In contrast, ecommerce personalization capabilities show limited use of algorithms and other advanced tools: **36%** of respondents show online shoppers recommendations based on similar customers' activity, and **33%** tailor their content based on customer insights and past behaviors. Nearly three in 10 (**28%**) of retailer respondents say they have no or minimal online personalization capabilities.



Which online/ecommerce personalization capabilities have you implemented?

Customers can create product wish lists



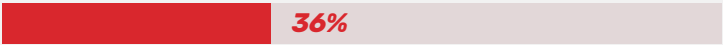
Customers can specify volume of messaging they receive via email, mobile or direct mail



Customers can specify types/categories of products they want to view



Customers shown recommendations based on similar customers' activity



Curate/tailor content based on customer insights and past behaviors



No/minimal online personalization capabilities



Digital personal shopper





Which mobile personalization capabilities have you implemented?

App displays personalized product recommendations/offers based on customer's preferences, purchase history or liked products

38%

Curate/tailor content based on customer insights and past behaviors

32%

Adjust timing of mobile offers/push notifications based on customer's stated preferences

29%

App displays customer's name

29%

Send location-based communications/offers (e.g. offers based on proximity to a store)

28%

App sends push notifications triggered by customer behaviors

25%

No/minimal mobile personalization capabilities

21%

While adoption rates for personalization tools are lower in both mobile and in-store channels, there are some interesting combined solutions at work: **38%** of retailers can send offers to mobile devices based on a shopper's location within a brick-and-mortar store, and **31%** can send notifications based on a shopper's proximity to a store. Apps also come into play for the **33%** of retailers that can tailor digital display content to individual customers who opt in via their mobile app. More than one-quarter (**27%**) of retailers can tailor digital display content based on customer characteristics discerned by facial recognition technology.



Which in-store personalization capabilities have you implemented?

Send offers to mobile devices based on shopper's location inside a brick-and-mortar store

38%

Store associates use clienteling solution to provide personalized service and product recommendations

36%

Tailor digital display content to individual customers that opt in to mobile app

33%

Send notifications/communications to mobile devices based on shopper's proximity to a brick-and-mortar store

31%

Facial recognition technology tailors digital display content based on customer characteristics

27%

No/minimal in-store personalization capabilities

23%

What are the top impacts personalization strategies have had on your business?

Increased loyalty/retention



Increased sales



Increased traffic in-store



Improved customer acquisition



Increased traffic online



Improved in-store CX



Improved online CX



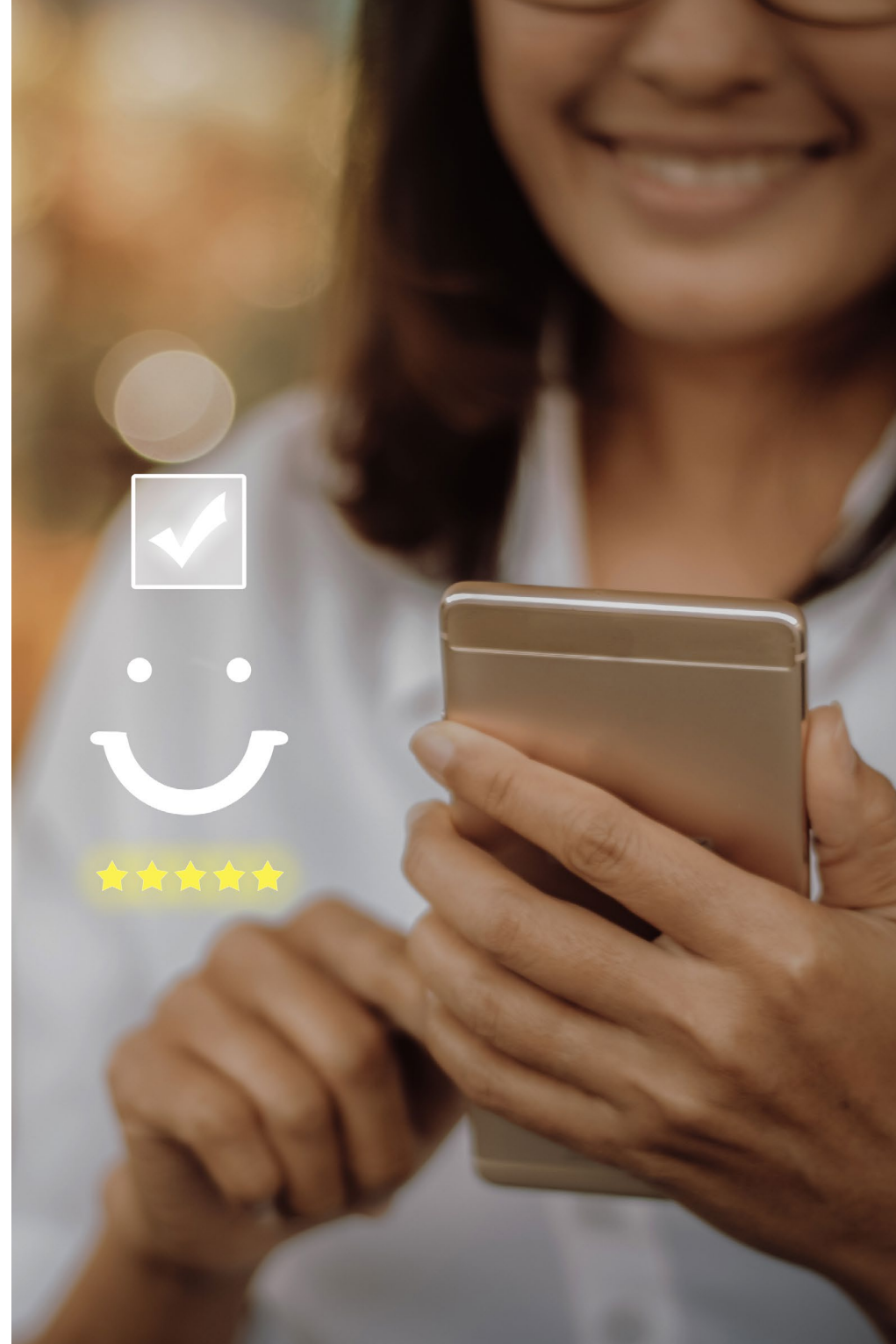
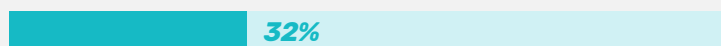
More positive customer feedback/reviews



Increased Average Order Value



Increased customer referrals



LEARN MORE...



Mastercard Data & Services provides customers with custom solutions to enhance customer acquisition, engagement, and loyalty. By harnessing the power of our real-time, anonymized and aggregated transaction data, powerful software platforms such as Test & Learn, SessionM and Dynamic Yield, and wealth of expertise, we empower customers to discover new insights, recommend targeted actions, improve performance over time, and execute campaigns at scale.

For questions about Mastercard's loyalty solutions, please reach out to Chad Hock, VP of Loyalty, Mastercard Data & Services, at Chad.Hock@mastercard.com



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