TRIFFT
LOYALTY CLOUD

Learn from the Best

RETAIL LOYALTY TRENDS IN 2023

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Editorial Letter

Dear Marketing & Loyalty Professionals,

If you are reading this, congratulations. You are working at the great intersection of CX, technology, psychology, and operations!

There has never been a better time to invest in customer loyalty. The economic instability caused by both the recent pandemic and ongoing inflationary surge has made consumers behave differently. With changing priorities and accelerated digital adoption, businesses were forced to respond quickly, finding new ways to connect with customers in a bid to retain their hard-earned loyal behavior.

There is a lot to learn from the leading companies' actions of the past few months. That's why we thoroughly examined how the 100 most successful US companies (ranked by sales) adjusted their loyalty strategy to cope with the changes.

Are you ready? 🚀

Simona Arbesova
CMO, TRIFFT

What is Customer Loyalty

Though there is no single definition of customer loyalty, it is generally considered an ongoing, two-sided relationship between a brand and a customer, influenced by several rational and/or emotional factors.

The strength of a relationship is manifested by the customer's likeliness to do repeat business and engage with the particular brand over its competitors.

Customer loyalty forms over a longer period as a result of numerous positive encounters with the brand, resulting in building a strong purchase preference for the brand.

The more satisfied a customer is, the more exclusive his loyalty gets.

A Brief History of Loyalty Programs

Loyalty programs have been around for centuries, with their early roots dating back to ancient times. Born as a result of these business needs, the individual formats adapt to the new era.

Ancient Egypt
Beer & Bread Tokens

17-18th century
Tokens

19th century
Stamps

20th century
Point-based loyalty programs & plastic cards

21st century
Digital revolution

It is often argued whether to consider beer and bread-shaped tokens made from wood a predecessor of modern loyalty programs or simply a foundation of currency systems (which was not invented back then).

The physical tokens were handed to certain working groups to be exchanged for commodities, most often beer and bread.

Considered the first official loyalty program, copper tokens first used in Sudbury, New Hampshire. The tokens were handed to customers after their purchases, encouraging the shoppers to use them for future purchases.

Other merchants soon adopted the idea in their own shops, often replacing copper with less costly materials.

In a bid to lower the expense, tokens were replaced with stamps, checks, or tickets.

Offered to customers after purchase at the checkout, shoppers were encouraged to stick the stamps into collecting books and later exchange them for rewards, creating fundamentals of modern loyalty programs.

After American Airlines introduced its Miles and Points in 1981, awarding customers points for every mile flown and putting them in different tiers, the world of loyalty changed.

The ownership of a plastic loyalty card did not only represent discounts, it was a status symbol.

In the modern era, technological advancements are shaping our world. Loyalty is not an exception.

With 7.26 billion smartphone users (91% of the world's population), most physical loyalty cards are replaced with mobile applications, loyalty websites or digital wallet cards.

The Current State of Loyalty:
The Golden Standard at the
Top 100 US Retailers (Ranked by Sales)

▷

Context and Scope of Research

There's no two ways about it, Covid has accelerated digital transformation, pushing customers to try new brands and technologies, while rapidly adapting to new realities. The soaring inflation levels and the gloomy forecasts of a global recession led consumers to be hesitant about spending their hard-earned savings, and ultimately trying to get value for their money.

These two factors have dramatically changed our lives in many ways, putting consumer loyalty up for grabs.

We've recently witnessed numerous top retailers revamp their loyalty programs, establishing themselves as convenient, reliable partners with the products and services they already sell to their consumers. But now these retailers have had to make a necessary shift to meet the newly desired digital-first experiences.

At the same time, consumers crave actual value and real cost savings, otherwise, they have no problem underline switching to a different retailer.

Companies also need to consider that with new generations of consumers, personal values and viewpoints of the world are quickly changing, which needs to be reflected in the rewards schemes as well. We have covered this topic in our ebook "Building Customer Loyalty Across Generations".

How have companies coped with changes in consumer behavior with loyalty programs?

We've surveyed the top 100 US retailers (ranking based on NRF's Top 100 Retailers 2022 List, ranked according to revenue) to distill the most important factors that leading companies incorporate into their loyalty programs.

Top 100 US Retailers by Category
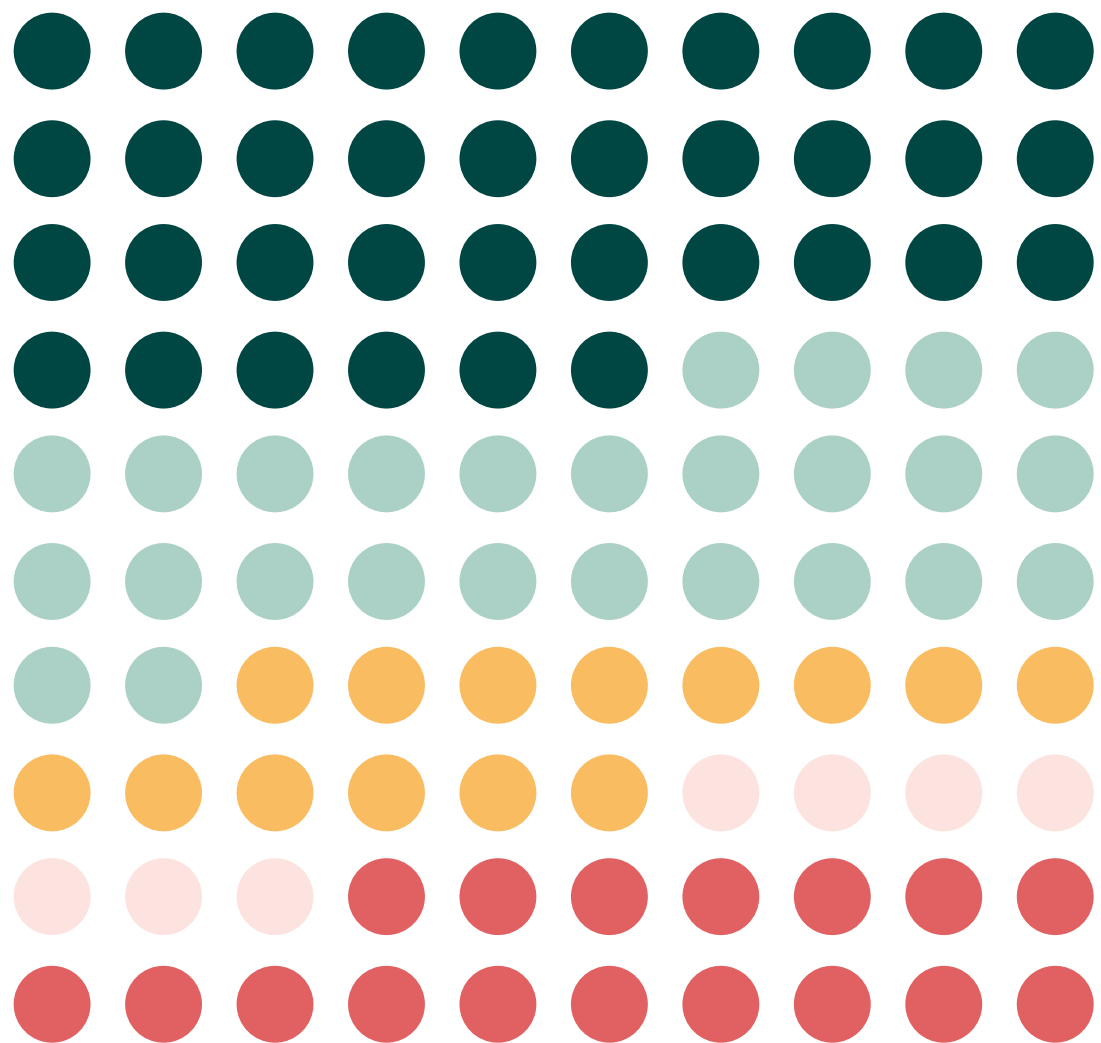
● Grocery, Convenience, Gas Retail (36%)

● Furniture, hardware, home and office supplies (26%)

● Apparel & Sporting Goods (14%)

● Pharmacy & Drugstore (7%)

● Other (17%)

88%

of TOP US retailers offer a loyalty program

...while the rest states business strategy as a reason not to implement one

The efforts to win the loyalty of modern-day customers have been around for decades. So it is no surprise that leading brands most likely established some form of rewards program years ago.

In fact, 88 out of 100 top US retailers offer a well-orchestrated loyalty program. The remaining **12% intentionally opted out of offering a loyalty program as part of their value proposition to consumers**.

Aldi, the 16th largest retailer in the US, and similarly, Trader Joe's, states that people deserve good offers every day and their private-label items are already so cheap that providing any sales, coupons, or loyalty program is not an option.

Although they run weekly specials, there's no official loyalty program in place. Both are examples of the rare breed of strong brands where not having loyalty is a legitimate part of their "everyday low price" brand proposition.

"Interestingly, LIDL in Europe switched from this narrative into providing a rich, app-based loyalty club experience and became one of the leaders of modern loyalty use in grocery retail.
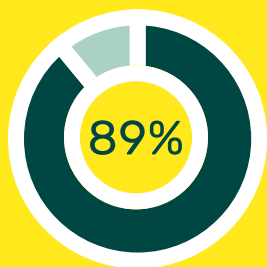
We would not be surprised if going forward, Aldi or Trader Joe's changed their minds and implemented modern loyalty to capture more consumer data and create a new communication channel."
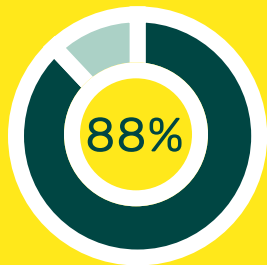
Jakub Minks
CEO, TRIFFT
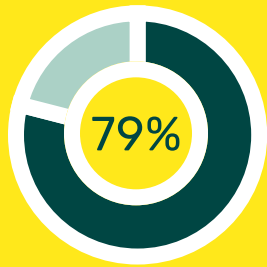
Loyalty Program Usage Per Category

Examples of Retailers Included in the Survey

Grocery, Convenience and Gas Retail

89%

Walmart, The Kroger Co., Target, The Albertsons Companies, Royal Ahold Delhaize USA, Publix Super Markets, Aldi, H.E. Butt Company, 7-Eleven, Meijer, Hy Vee, Giant Eagle, Shell, Piggly Wiggly, and more

Furniture, hardware home and office supplies

88%

Ace Hardware, Office Depot, Staples, Hobby Lobby, Bed Bath & Beyond, Home Depot, Best Buy, Williams Sonoma, and more

Apparel & Sports

79%

Dick's Sporting Goods, Academy Sports, Dillard's, Foot Locker, Hudson's Bay, American Eagle Outfitters, Tapestry, and more

Other

76%

Barnes & Noble, AT&T Wireless, Verizon Wireless, and more

Pharmacy & Drugstore

71%

CVS, Walgreens Boots Alliance, Sephora, Health Mart Systems (Health Mart), Good Neighbor Pharmacy, Ulta Beauty, and more

The Most Important Factors the Top US Retailers Incorporate Into Their Loyalty Programs

▷

The Rise of Paid Rewards Programs

We've heard talks of paid rewards programs here and then since Amazon launched their customer-centric Prime subscription in February of 2005, starting at $79 a year. The program had an astonishing estimated subscriber count of 153 million in 2021, according to statista.com.

With the big shift in customer loyalty caused by the 2019 pandemic, the topic came into the spotlight once again. Though only 13% of the top 100 US retailers currently offer a paid membership (or a combination of free and paid programs), loyalty experts agree that we'll see more premium loyalty programs emerge in the coming years, with the top reason for implementation being an increasing number of people who seek:

▷ Immediate benefits (outweighing the entry fees),
▷ Experiential "money can't buy" rewards (over physical rewards),
▷ Member-only benefits (e.g. early access), while still enjoying fundamental benefits like free shipping/delivery, etc.

According to a McKinsey survey, paid programs also:

Make its members 60% more likely to spend more on the brand once subscribed (vs 30% in the case of free programs)

Positively affect purchase frequency, and basket size

Discourage brand switching

Example of a Paid Program Done Right:

CVS CarePass

In 2019, CVS rolled out the first membership loyalty program to offer free national pharmacy delivery for $5 per month or discounted at $48 annually.

The benefits include:
- Free 1-2 day delivery on qualifying purchases
- Free same-day Rx delivery
- 24/7 pharmacist helpline
- 20% discount on eligible CVS Health Brand products both in-store & online
- A monthly $10 CarePass promotional reward to be used in-store or online

Additionally, customers were able to try the program out for the first month free, with other surprise perks and bonus offers popping up throughout the year.

According to Kevin Hourican, Executive Vice President, CVS Health and President, CVS Pharmacy, *"[...] the program delivered an enhanced customer experience that has resulted in a 15-20% average increase in purchases after a member joins."*

Investing in paid loyalty program makes sense if you:

- Can offer highly sought-after rewards, too scarce or too expensive to offer broadly (e.g. VIP event invitations)

- Can ensure frictionless payment process Want to provide members with access to premium rewards, and need to offset their cost

- Need to differentiate from competitors by offering similar products to create habits and make switching to other brands less probable

- Can create a long-term engagement strategy combining hard benefits (discounts, freebies), transactional benefits (free shipping), and emotional ones (personalized or member-only content)

- Communicate tiers with absolute clarity

Jakub Minks
CEO, TRIFFT

Omnichannel is a Must-have to Engage Digital-native Generations

Younger generations, from Millennials to the currently youngest Generations Z & Alpha represent a major percentage of the world's consumer population. Born and raised in the world of social media, the Internet, and digital advancements, this young population seamlessly moves between the physical and digital world.

Even older generations are warming up to technology, as they discover the power of digital technology and Covid has only accelerated this trend.

As consumers were forced to spend more time online during the past few years, the call for convenient digital experiences in all areas of their lives has exploded. Used to frictionless and fast actions they observed in the online world, it is now up to businesses to keep up with the digitalization trend even offline. Omnichannel capabilities have quickly become a requirement for brand survival.

Loyalty Mobile Apps and Websites Lead the Way

Looking at the Top 100 US retailers, it's clear that the leaders recognize the ongoing digitalization as an opportunity to appeal to a broad range of customers.
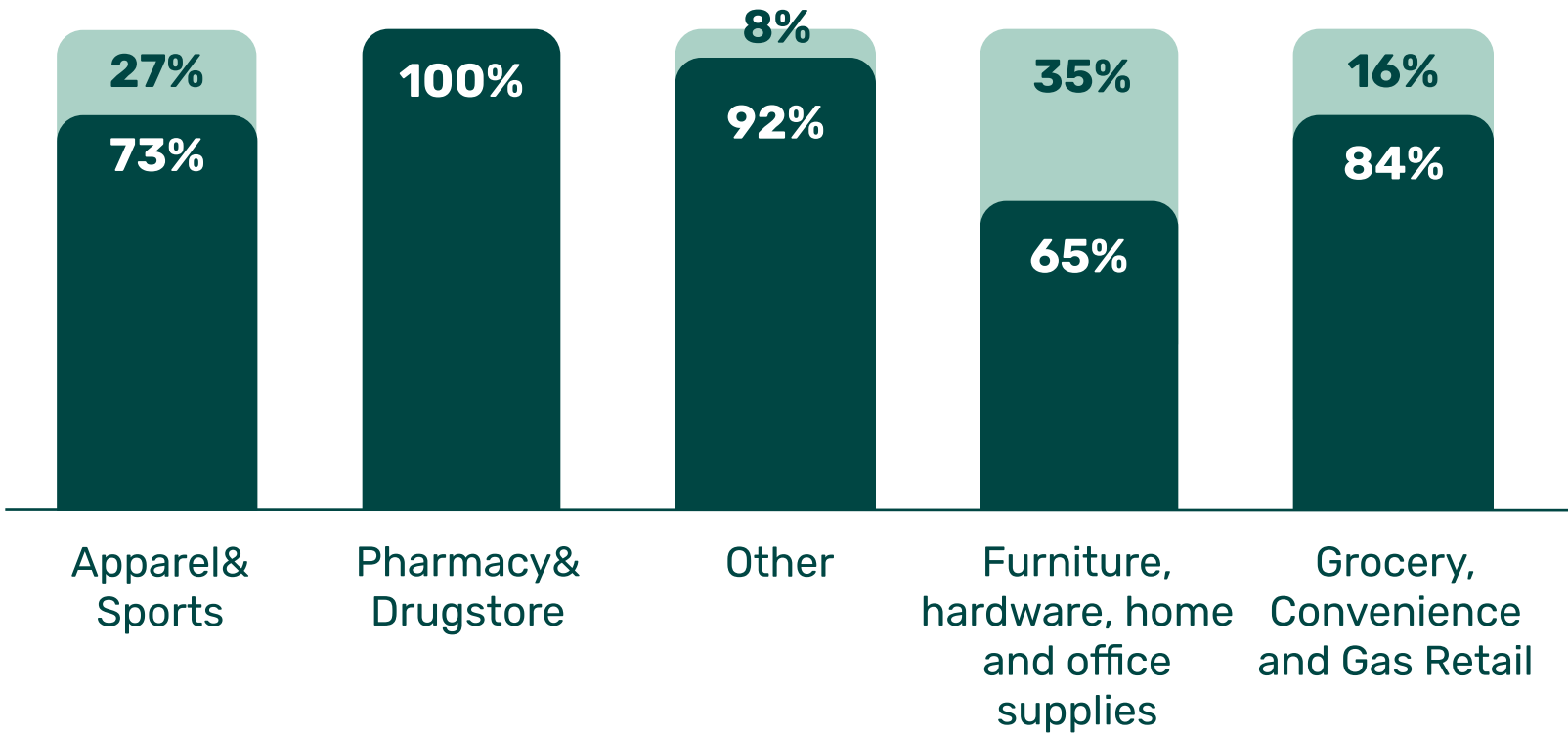
Though 27% of them still keep plastic cards as one of the options for customers to enroll and benefit from their loyalty programs, the vast majority either expanded the options by introducing mobile apps (78%) and websites (93%) or simply replaced physical cards completely.

It is important to mention though, that having multiple loyalty channels does not necessarily mean omnichannel – to create such a strategy and offer one seamless experience for the customer, a company must be able to sync all the individual channels.

Typically with supermarket chains, there has been a legacy of letting some of their earliest users enter the loyalty program with their phone number typed at checkout, which demonstrates how difficult it may be with some groups of customers to switch to modern channels.
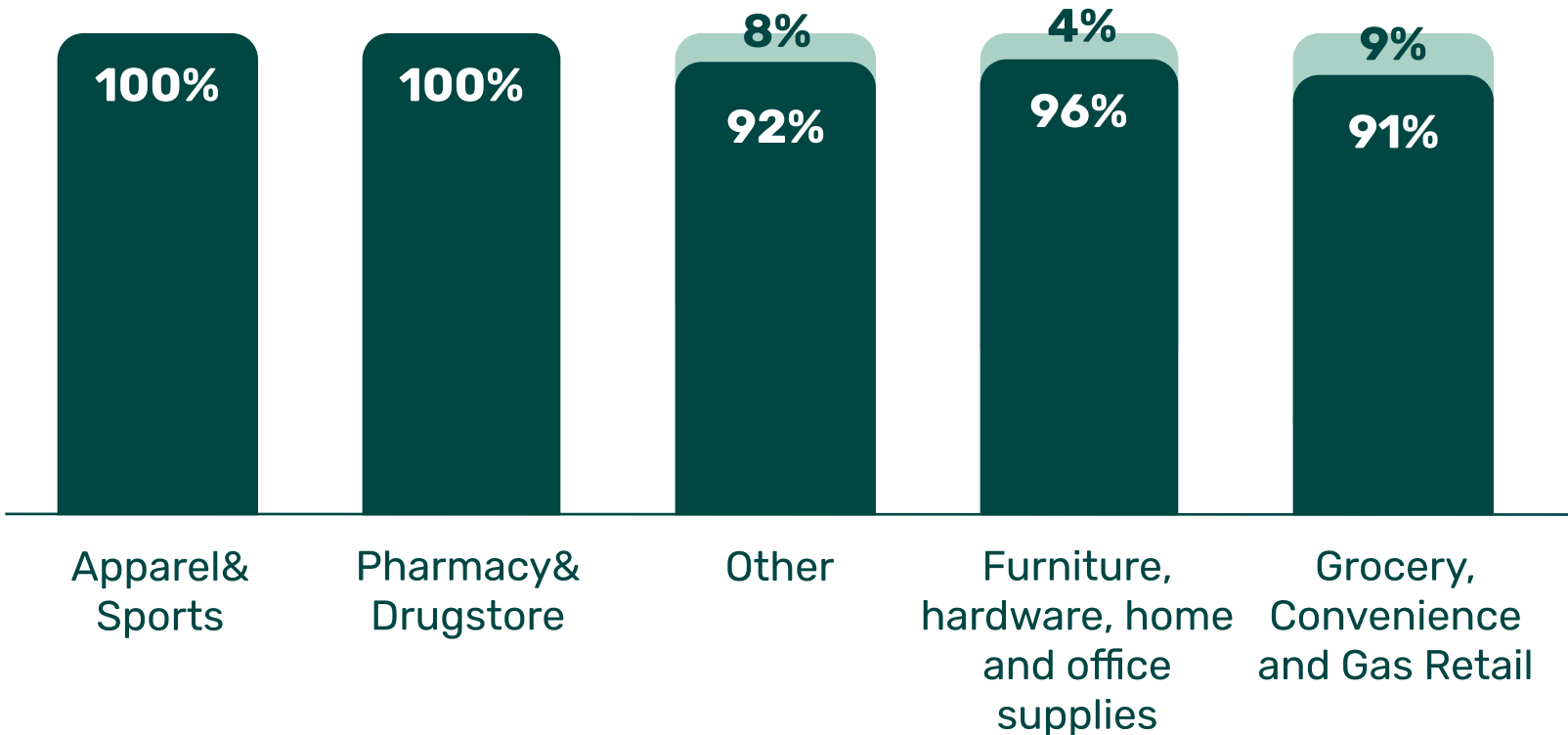
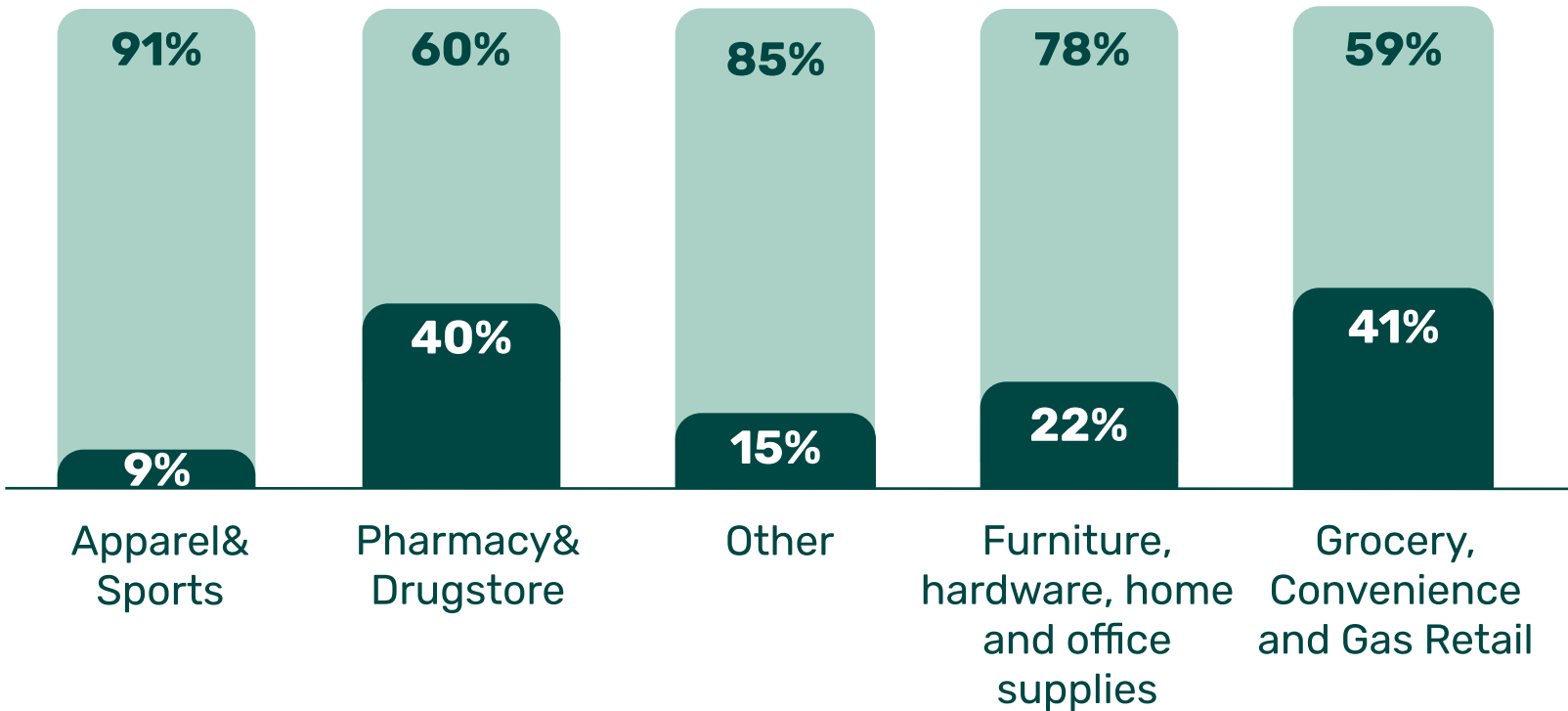**Mobile applications:**

- ● *In use*
- ● *Not in use*

	Apparel& Sports	Pharmacy& Drugstore	Other	Furniture, hardware, home and office supplies	Grocery, Convenience and Gas Retail
Not in use	27%		8%	35%	16%
In use	73%	100%	92%	65%	84%

Websites:

- ● *In use*
- ● *Not in use*

	Apparel& Sports	Pharmacy& Drugstore	Other	Furniture, hardware, home and office supplies	Grocery, Convenience and Gas Retail
Not in use			8%	4%	9%
In use	100%	100%	92%	96%	91%

Plastic loyalty cards:

- ● *In use*
- ● *Not in use*

|	Apparel& Sports	Pharmacy& Drugstore	Other	Furniture, hardware, home and office supplies	Grocery, Convenience and Gas Retail
Not in use	91%	60%	85%	78%	59%
In use	9%	40%	15%	22%	41%

Ecommerce "Widgets" and Digital Wallet Cards

Following the trend of channel proliferation to maximize consumer convenience and participation, additional channels are joining the portfolio of options.

eCommerce "widgets", living under a simple button, provide just enough information for members to conveniently join the program, check their status and points or redeem offers. The name of the eCommerce game is to minimize distractions on the way to purchase, so this is a more suitable solution than a "full-blown" loyalty microsite that is much more immersive. Such a site works great for e.g. gas stations, where interacting with the program with full attention is probably the most valuable activity consumers can do online.

Similarly, Digital wallet cards are a direct replacement for plastic cards. They are easy to implement (especially where cards with bar or QR codes are in use already), save cost and nature and allow some level of personalization and marketing (namely push notifications!). Also, unlike mobile apps, they are sticky, happily living in the digital wallets of even less engaged members for years.

So which media is right for you? It depends on the business you are in and your brand strength (not everyone is McDonald's or Starbucks) and esprit (high-end restaurants don't want patrons fiddling around with apps). Whatever you do decide - aim for a mix of channels that is convenient to as many of your desired club demographics as possible! And, wink, needles to say - make sure your tech stack allows you to manage all channels at once.
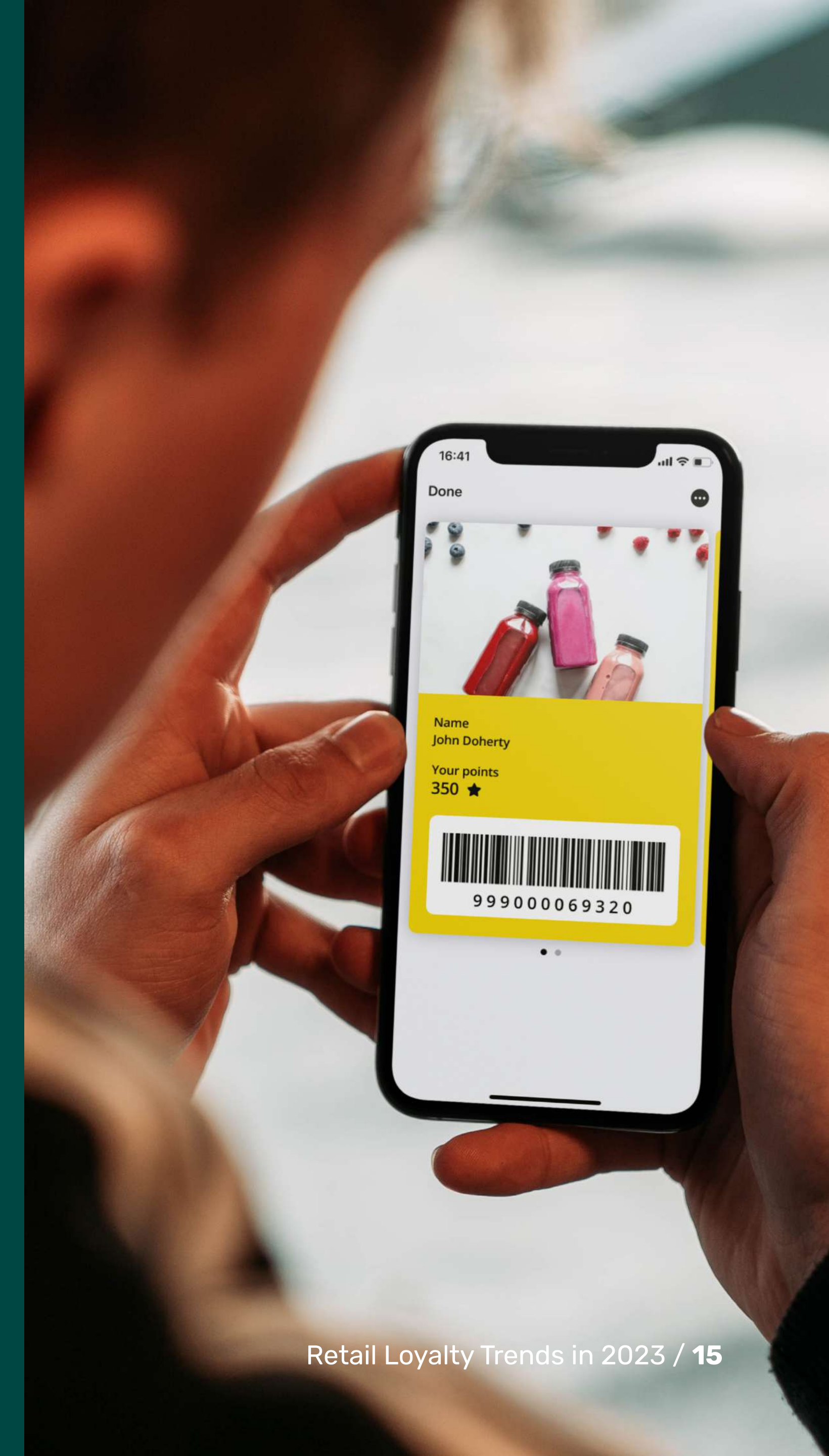
Not All Customers Are Created Equal

With the surge in digital behaviors caused by new realities, personalization has moved from the position of "something consumers want" to "something they naturally expect". That's why it has become one of the hottest topics for leading businesses.

Putting the super-valuable zero-party or first-party data of the consumers to work can be done in several ways. While sending an email with the customer's name in it is considered a personalization tactic, this is nowadays not enough to impress your customers.

A more sophisticated method of personalization is segmentation or micro-segmentation, when customers are put into smaller groups based on similarities in their shopping behavior. Thanks to digital channels, retailers have data and also means to provide personalized offers and messages. The level of personalization is driven by a combination of technical ability and ROI (overly granular segments either don't get differentiated offers and messages, or this creates too much work).

With the unprecedented advent of usable AI technology, there will be an imperative to create and serve the content that is most relevant to each loyalty member. Retailers would be wise to invest now in digital loyalty channels to make sure they have the relevant inputs to feed the AI-driven "machines" and channels (like mobile apps) that can display the hyper-personalised content.

According to McKinsey, offering personalization at scale can deliver:

▷ 1% - 2% increase in total sales for grocery companies, offering even higher increase for other retailers.
▷ increases loyalty and share-of-wallet among already-existing loyal customers.
▷ 10% - 20% cost reduction in marketing and sales.
▷ result in an increase of engaged customers (driving up revenue).
▷ 20% increase in customer satisfaction.
▷ 10% - 15% percent improvement in sales conversion rates.
▷ 20% - 30% increase in employee engagement.

In the same report, McKinsey also states "Customer-experience leaders in the retail space (retailers with consistently high customer-satisfaction scores) have provided their shareholders with returns that are three times higher than the returns generated by retailers with low customer-satisfaction scores."
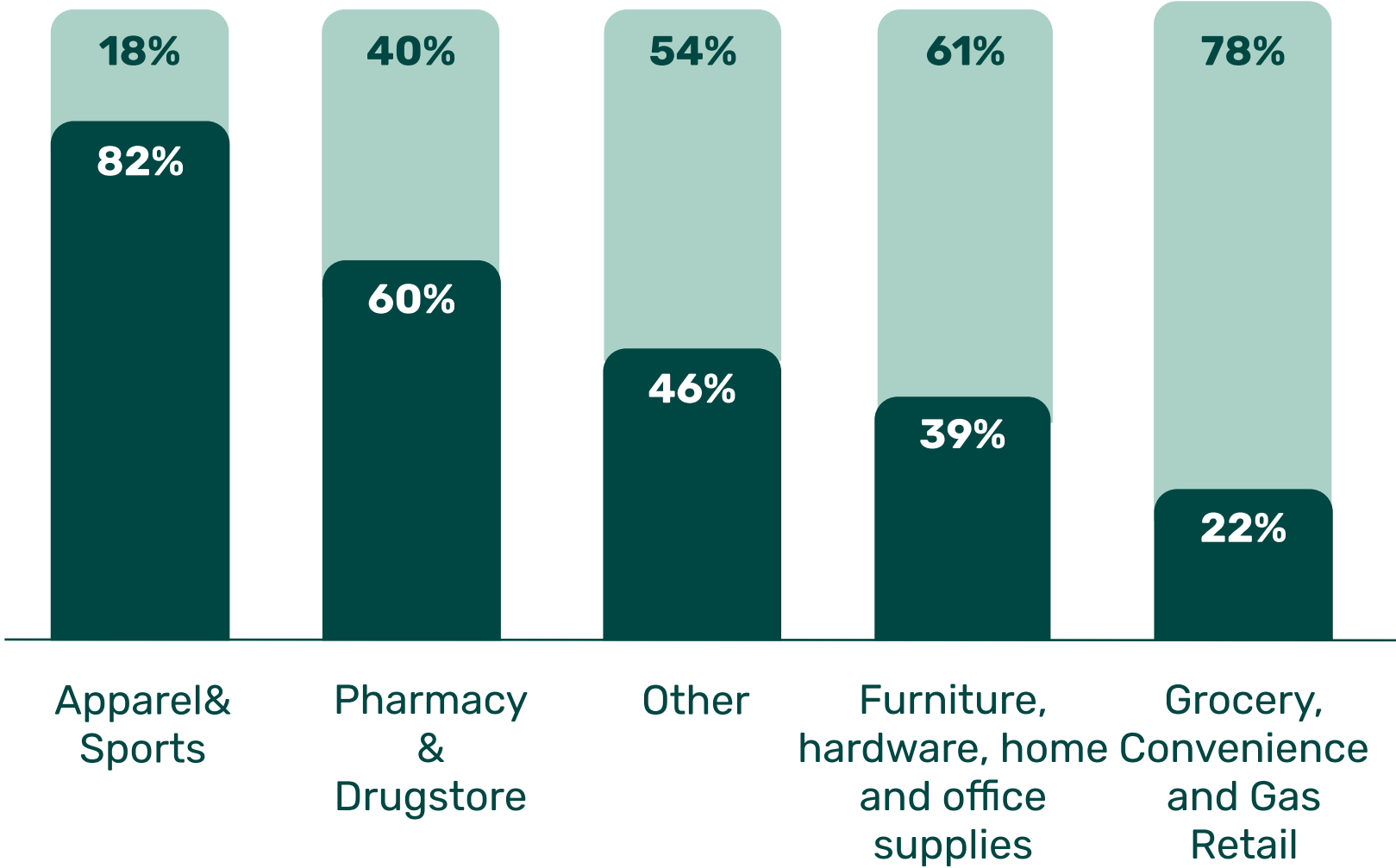
Tiered Loyalty

We've observed approximately 40% of the top US retailers using "tiers" as the primary or supporting loyalty mechanics.

This is one of the key tenets of loyalty - that it should bring closer customers that are profitable and discourage customers that are destroying economic value for the company. Tiers create status and natural stretch goals while making it easier for retailers to award their best customers.
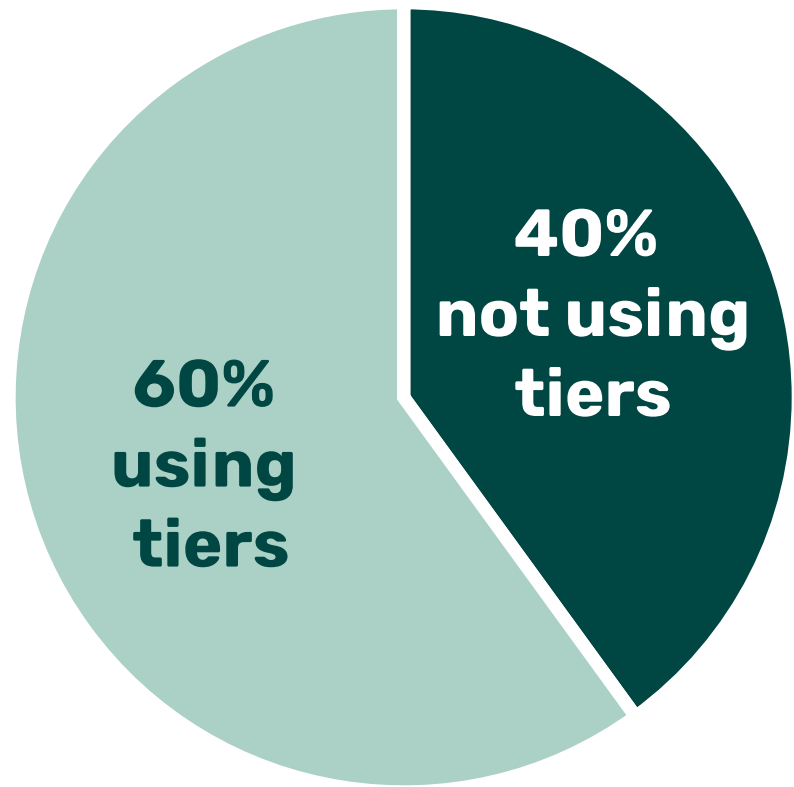
The trend was obvious with the apparel and sports category (82%), where we've even seen smaller retailers out of the top 100 list like Lids, Dick's, Foot Locker, or JD's rolling out tiered schemes. The pharmacy & drugstore category came second with 60% of businesses applying tiers to their reward systems. All other categories scored less than 50%.

60% using tiers

40% not using tiers

	Apparel & Sports	Pharmacy & Drugstore	Other	Furniture, hardware, home and office supplies	Grocery, Convenience and Gas Retail
Top	18%	40%	54%	61%	78%
Bottom	82%	60%	46%	39%	22%

Creating a Rewards Ecosytem

The era of purely transactional rewards is coming to an end. Though these still constitute the largest chunk of the overall pie, we've seen experiential rewards starting to pop up in all retail categories. Given the expected rise in the economic power of generations Z and Alpha, experts believe experiential rewards are here to stay and will become even more prominent.

Looking at the current top 100 list, we've noticed 6 reward groups:

▷ Coupons (special offers, not necessarily personalized, awarded as part of loyalty marketing strategy, eg. money-off of selected items, BOGO, etc.)
▷ Cashback/money-off certificates (we included money-off certificates/discounts or cash-back awarded when a customer collects any given amount of points)
▷ Member pricing (discounted prices of goods awarded when customers identify themselves as loyalty program members)
▷ Free shipping/delivery/curbside pickup (offered to customers as a part of loyalty membership)
▷ "Money-can't-buy" rewards (experiential rewards)
▷ Free items (redeemed points for free items, samples)

Bar chart:
- Coupons: 77%
- Cashback/Money-off certificates: 65%
- Member pricing: 42%
- Free shipping/delivery/curbside pickup: 39%
- "Money-can't-buy" rewards (experiential): 38%
- Free items: 20%
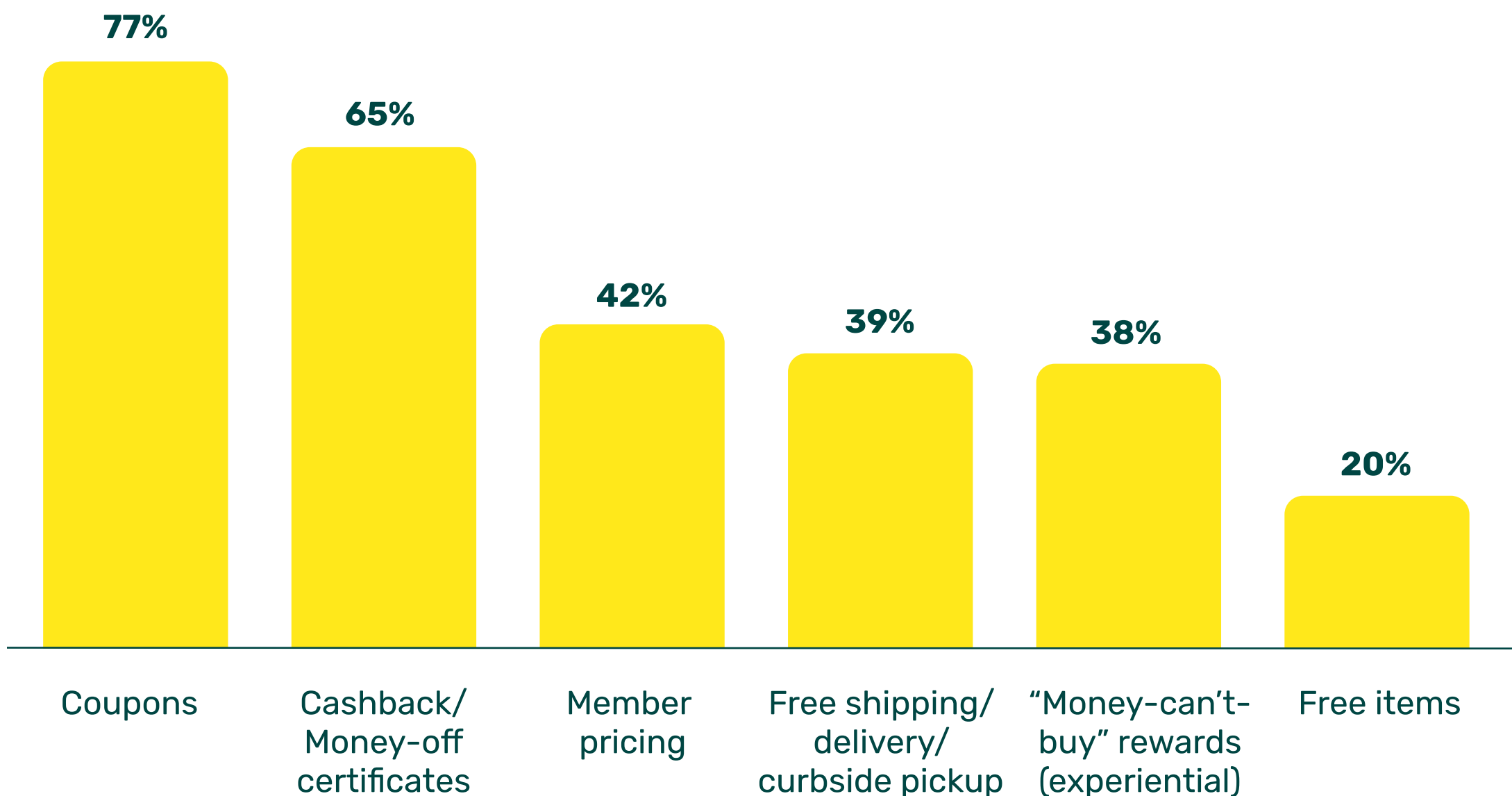
Coupons were the most widely used loyalty award (77%), followed by money-off and discount certificates (65%), member pricing (42%), free delivery/shipping/pickup (39%), money can't buy rewards (38%), and free items (20%).

The experiential rewards were mainly represented by early access to product launches, sales, exclusives, invitations to member-only events, then premium support or services, such as consultations, alterations, customization, or even valet parking.

While experiential rewards are still a relatively newer loyalty concept, with 38% of businesses already using them, we believe that they will most likely be a fundamental part of the rewards program's evolution in the coming years.

# Technology is Not a Strategy, But Still Matters a Lot

Technology & Beyond: Building a Future-Proof Loyalty Program

Loyalty mechanics and channel preferences are constantly evolving, but one thing remains timeless – the pursuit of exceptional customer experiences. To achieve this, modern loyalty programs need to be built on robust, purpose-driven technology that fully supports end-to-end execution and delivery of amazing loyalty experiences.

However, technology alone is not enough. In loyalty, there's an essential equation to keep in mind: Experience = Strategy × Technology × Execution. If any of these components is lacking, the overall experience will suffer.

Start with a solid strategy: Consult loyalty experts, retail associates, and customers to shape your approach. Next, choose the right technology and allocate sufficient time for its implementation. Lastly, be prepared to execute both in marketing and in-store or restaurant operations.

While this may sound complicated, it doesn't have to be. By selecting the right partner, you can establish a strategy and technology foundation that will last for years to come. This will free you to focus on what you do best – creating unforgettable loyalty experiences built on rock-solid foundations.
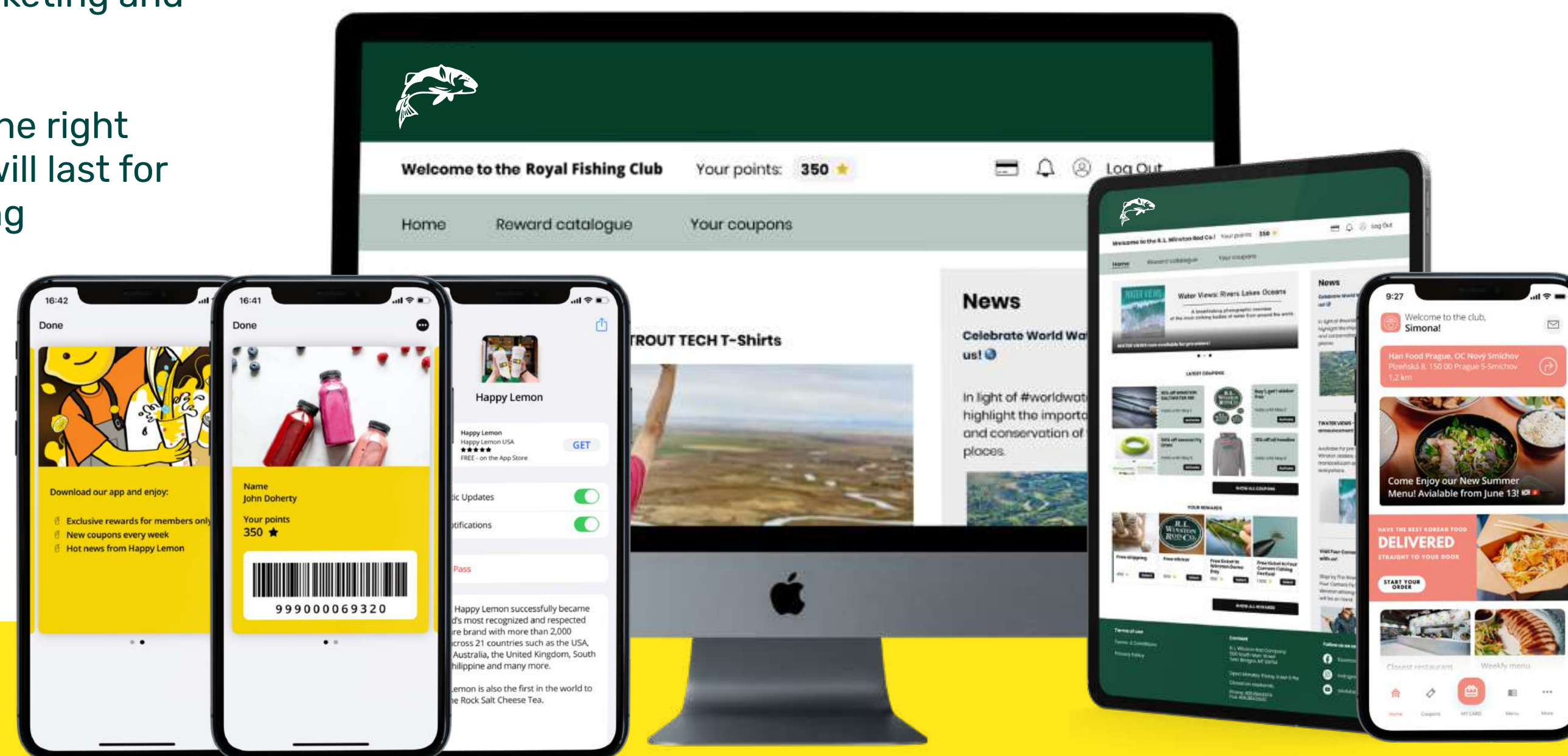
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About TRIFFT Loyalty Cloud

TRIFFT delivers enterprise-grade loyalty to retailers with a complete and ready-to-roll-out toolkit.

This includes a built-in CRM, real-time CMS, and a no-code responsive loyalty websites, mobile apps, digital cards, etc.; branded to each of our customers - all in one platform. With this, the toolkit supports all modern loyalty mechanics and features, while helping businesses save money on customer acquisition, expediting revenue growth, and increasing profits.

TRIFFT customers implement and operate top-notch loyalty programs that deliver awesome loyalty experiences to attract new customers and retain existing members.
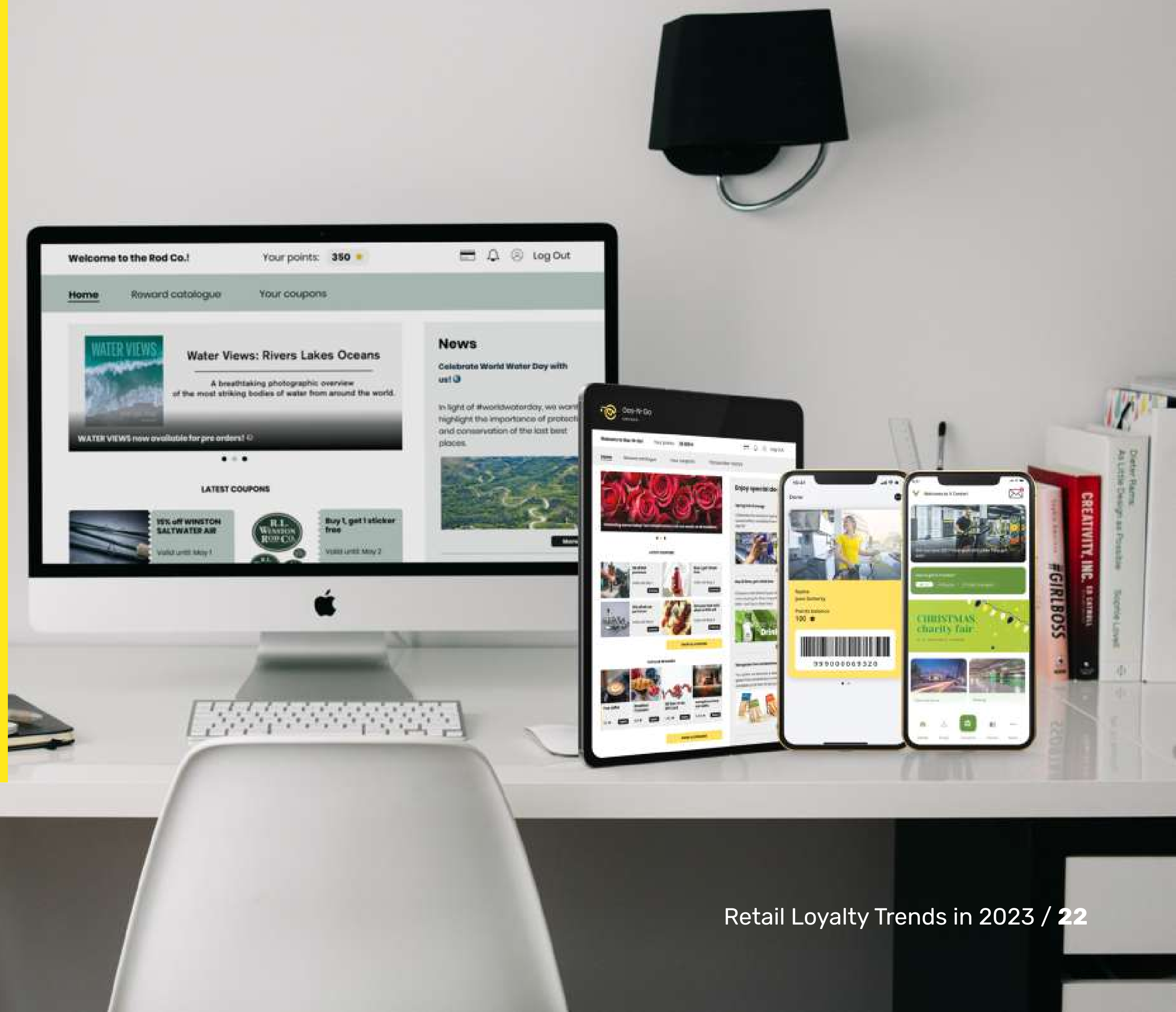
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Talk to us.