Shopper Insights to Improve Retail Loyalty Programs

NORTHWESTERN UNIVERSITY

Kellogg
School of Management

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The Research Team
The research team for this project included Kellogg School of Management graduate students: Charles Beck, Andy Crewson, Simon Ho, Chelsea Luse, Adam Sloey and Katherine Young. The team’s work was overseen by faculty members Vic Orler and Terri Albert, PhD.
Overview

The escalating proliferation of retailer customer loyalty programs has led many to question the return on their program investments. While there is debate on the best set of outcomes to measure the ROI, one of the most widely accepted metrics is retailer loyalty. Retailer or store loyalty is measured by repeat visits and purchases, which is based on the assumption that a positive store visit experience will drive the shopper to return and bring other shoppers in the doors (virtual or physical) through word of mouth.

As with any product, service or program innovation, sustained loyalty program growth through differentiation is made possible with customer insights. The need for these consumer insights and data-driven recommendations is the reason for this collaborative research study between SAS and the Kellogg School of Management. Leveraging Kellogg’s experiential learning initiative, SAS worked with a group of MBA marketing research students to pursue a rigorous study to uncover relevant consumer insights about what drives retailer loyalty. The purpose of those insights is to provide guidance for how retailers can improve their loyalty programs.

Executive Summary

Dramatic changes in the retail landscape have greatly affected the traditional mainstay of most retailers: their loyal customer base. With access to more information and many ways to buy, consumers have become fickle, and retailers are reeling from the backlash. Loyalty programs are now the norm, and memberships in these programs continue to increase. But retailers struggle with finding the right mix of valued program awards for their customers, and they are challenged to differentiate their programs from those of their competitors.

Recognizing that shoppers will not substitute their perception of a retailer’s overall value and quality merely because of their loyalty program is a critical factor for successful loyalty programs. Furthermore, loyalty programs designed to keep the customer coming back do little to trump a bad customer experience. As a result, retailers must first ensure that they are delivering quality shopping experiences before offering perks for return trips.

In general, discounts and convenient store locations are the most important benefits to retail shoppers. This holds true across the four main retail categories: department, general merchandise, grocery and specialty stores. The exception to this finding, however, are affluent shoppers and impulse buyers, who are less focused on discounts than the other identified shopper types.

Only one in five shoppers in the study used social media as a communication channel for the most frequented retailers. Among that 20 percent, Facebook is the dominant platform where shoppers look for discounts and news. Previous research expands upon social media as an effective channel, albeit in its infancy, for building brand awareness, brand engagement and word of mouth1, but with less direct impact on sales. In this research, department stores enjoy a higher level of social media engagement than other store types.

To maximize the effectiveness of loyalty programs, retailers need to know key shopper segments and the loyalty program benefits that resonate with each segment, thereby enabling them to attempt to tailor programs. This study identified three segments, as well as their overall attitudes toward shopping and the relevant loyalty program characteristics that appeal to each:

- **Necessity shoppers.** Shopping is not considered a pleasurable activity. This segment tends to put off shopping as long as possible.
- **Practical shoppers.** Shoppers who enjoy shopping and find the experience satisfying overall.
- **Pleasure shoppers.** Engage in shopping for the enjoyment of the activity, typically treating it as an occasion; they are less interested in practical shopping.

The research study was conducted from April to June 2014 through the SAS and Kellogg School of Management collaboration. The research consisted of two phases:

- **Phase 1:** Exploratory qualitative research engaging a diverse set of 25 consumers2 to understand their perceptions and attitudes about customer loyalty programs that guided the questionnaire development.
- **Phase 2:** Quantitative online survey composed of open-ended and forced-choice questions among 300 adult shoppers in the US.

Findings and recommendations from the exploratory and quantitative phases are combined in the results that follow.

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2. Age range of 19-83; mix of professional levels, income and geographical diversity.
The Importance of Service, Quality and the Customer Experience

The exploratory qualitative research focused on engaging a diverse set of 25 consumers to understand their perceptions and attitudes about customer loyalty programs. Areas of inquiry included: general store loyalty, program benefits and their appeals, and store names that inspire loyalty.

The consensus among the 25 interviewees for what’s important to building store loyalty were “top-notch service, quality products and value pricing.” In addition, the respondents held that loyalty programs focusing on promotions and discounts (defined as value pricing) do not substitute for exceptional service, the quality of the products offered and the overall customer experience.

The most valued loyalty program benefits from these interviewees were:
- Discounts.
- Convenient location.
- Free shipping for online retailers.
- Expedited lines.
- Exclusive products.

The results from the interviews closely paralleled how the survey participants responded, indicating discounts and location as the most highly regarded features.

The men and women who were interviewed differed in what they are looking for from loyalty programs. Women asked for more targeted benefits and a personal relationship with the retailer. They respond well to personalization. For example, a mother of young children would prefer a toddler shoe-buying event over a wine-tasting happy hour. Programs that trigger offerings around key dates like birthdays and anniversaries are also well-received. Women also place a premium on a pleasant shopping environment. The piano player in Nordstrom was cited as an example of a nice touch.

### Dominance of discounts and location

Nearly 75% of consumers listed discounts or location as the most important benefit to them.

- Discounts: 46.9%
- Convenient Location: 27.5%
- Hours: 6.6%
- Early Access: 6.6%
- Faster Service: 4.6%
- Personal Communication: 4.6%
- Exclusive Events: 5.2%

Percent of respondents who listed the benefit as No.1.

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3 Age range of 19-83; mix of professional levels, income and geographical diversity.
Conversely, the men were more concerned with speed and convenience. Discounts and sales were less important to them than loyalty programs that speed up the shopping process and enhance convenience. These gender differences pose interesting opportunities for retailers to target loyalty program benefits to respective groups, potentially even letting members choose their own benefits.

Given the vast number of program loyalty memberships in the US (over 2.65 billion as of 2012), another area of discussion focused on reasons people join loyalty programs. Many retailers offer membership at the point of sale. Why join? Consumers are motivated by immediate discounts (“sign up and receive 5% off today’s purchase”) and tangible benefits (“you’ll get free shipping”). They are also more likely to join programs of stores they visit frequently enough to make it worth their while.

Initial signup in loyalty programs, according to this group, needs to be unobtrusive. The interviewees prefer to give no more information than their email address or telephone number. What’s more, they do not want to carry the loyalty cards with them, but prefer to use a phone number as ID.

Once they are program members, this group prefers traditional mail as a means of communication (although they are reluctant to give information other than email and phone number). They are not particularly interested in social media interactions with the retailer. Email is an acceptable means of communication as long as communications are targeted and not too frequent.

Uncovering Drivers of True Customer Loyalty

Based on the exploratory findings, the quantitative research focused further on understanding retail loyalty from the customer perspective. The general areas of interest were:

- What benefits matter most to consumers with respect to retail loyalty?
- Can shoppers be segmented into relevant groups based on their actions and behavior?
- How and why do shoppers interact with retailers on social media?
- Who are the retail industry role models in loyalty, according to shoppers?

A survey consisting of 35 questions to address these topics was developed, pretested and administered. Completed surveys were submitted by 305 consumers who were pre-screened for being members of at least one retail loyalty program. The survey questions represented both forced choice (interval, ratio, nominal/categorical, ordinal) and open-ended text responses. There was a battery of questions specific to four retailer categories: general merchandise, grocery, department and specialty.

Discounts figure prominently in the loyalty program participant’s calculus

Consistent with the findings from the qualitative interviews, the survey indicates that, overall, what’s most important to shoppers are discounted prices followed by convenient location. These two benefits appear to be the most influential in the loyalty equation, significantly outweighing all other factors. Discounted prices, however, are clearly the preferred benefit.

Survey respondents offered specific input for loyalty programs in the area of discounts. Cash back, gift cards, exclusive sales, points redeemable for discounts and coupons were among the suggestions. Clearly, the general shopper equates membership in a loyalty program with savings in exchange for loyalty.
In this array of store benefits, it is interesting to note that personalized communication ranks last. This doesn’t suggest that customers don’t value and respond to personalized marketing. Research shows that personalization works. However, relative to the other retailer benefits listed, this is least important to customers.

It’s important to note that a subsegment of consumers emerged with contradictory preferences; 23 percent of shoppers ranked discounts in the bottom four of their benefit preferences. They had a specific profile, being either wealthy consumers (income of $100,000 and above) or impulse buyers.

Not surprisingly, shoppers expressed different preferences based on store type. Discounted prices, for example, are less important to specialty store customers, who place a higher premium on store location. Department store customers, on the other hand, are less concerned than other shoppers about store location. General merchandise and grocery store patrons place more emphasis on expedited service. Conversely, the patrons of department and specialty stores are more interested than other shoppers in exclusive events and personalized communications.

By contrast, wealthy consumers and impulse buyers do not prioritize discounts.

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**Customer preferences vary by store type**

Percent of shoppers who ranked the benefit in the top three.

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Department</th>
<th>General Merchandise</th>
<th>Grocery</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted Prices</td>
<td>79%</td>
<td>79%</td>
<td>83%</td>
<td>69%</td>
</tr>
<tr>
<td>Convenient Location</td>
<td>63%</td>
<td>76%</td>
<td>74%</td>
<td>76%</td>
</tr>
<tr>
<td>Operating Hours</td>
<td>45%</td>
<td>49%</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td>Expedited Service</td>
<td>33%</td>
<td>49%</td>
<td>49%</td>
<td>37%</td>
</tr>
<tr>
<td>Early/Special Access to Products</td>
<td>35%</td>
<td>26%</td>
<td>28%</td>
<td>33%</td>
</tr>
<tr>
<td>Exclusive Events</td>
<td>20%</td>
<td>13%</td>
<td>13%</td>
<td>26%</td>
</tr>
<tr>
<td>Personalized Communication</td>
<td>25%</td>
<td>8%</td>
<td>9%</td>
<td>19%</td>
</tr>
</tbody>
</table>
Three types of shoppers emerge

A key objective of this research was to identify shopper segments to provide additional insight into building and refining loyalty programs. The first step in the analysis was to determine if there were categories of shopping behaviors and attitudes that could be derived from the survey results. Based on the survey responses, three factors were identified:

- **Store satisfaction**: the overall attitude toward the shopper’s most frequented store.
- **Practical shopping**: the amount of shopping done for everyday purchases and general level of enjoyment of shopping.
- **Pleasure shopping**: the amount of shopping done for specialty goods or in department stores, or a tendency toward impulse shopping.

Based on these underlying factors, the research suggests that shoppers can be segmented into three groups whose attitudes and shopping styles differentiate them from each other.

1. **The necessity shopper**

   Necessity shoppers represent two-thirds (66 percent) of the survey respondents.

   - They don’t particularly enjoy the shopping experience and are focused on getting what they want (but at a good price) and exiting the shopping experience as quickly as possible.
   - These shoppers tend to be somewhat older than shoppers in other segments.
   - Men are more likely than women to be necessity shoppers, which correlates with the findings from the qualitative research that men value convenience and fast service over other benefits.
   - Necessity shoppers are less likely to shop multiple stores and are also less likely than other shoppers to be loyalty members in stores they frequent.
   - They also give their most frequented stores lower ratings on loyalty benefits compared to other shoppers, suggesting that they are either harder to please or because they are loyalty program members, they are not getting the same perks.

   The large size of the older, necessity shopper segment reflects the representation of baby boomers in the general population.

2. **The practical shopper**

   Practical shoppers account for one in five (19 percent) of the survey respondents.

   - These customers are frequent shoppers, enjoy the shopping activity and are generally satisfied with their shopping experiences.
   - Practical shoppers focus on getting good deals as a priority.
   - They are likely to be members of the loyalty programs in stores where they shop most frequently.
   - Practical shoppers are typically younger than necessity shoppers and more often women than men.

3. **The pleasure shopper**

   The smallest segment identified in the research is the pleasure shoppers (15 percent of respondents).

   - Pleasure shoppers enjoy the overall shopping experience and don’t mind visiting multiple retailers during shopping excursions.
   - This group is more likely to shop at department and specialty stores than are the other shoppers, with less focus on the practical aspects of grocery and general merchandise shopping.
   - Pleasure shoppers tend to consist of younger shoppers who are women.
   - The vast majority of these customers have loyalty cards to stores they frequent, but this doesn’t necessarily translate into loyalty because of their affinity for shopping.
   - They value a good deal, but are also shopping for the fun of it.

While the baby boomer segment is important to target because of its size, active lifestyle and income, it is critical to build the loyal shopper pipeline by also targeting other segments.
Shopper segments are driven by different levels of benefits

While discounts and convenience are the key benefits for all shopper segments, there are distinct differences in the intensity of preferences among these groups. For example, necessity shoppers are much more focused on discounts and location than the other two segments, with 80 percent of this segment ranking these two benefits in the top three.

Practical and pleasure shoppers appear more willing to trade off convenient location. These two segments are also more interested than necessity shoppers in early or special access to products. In fact, pleasure shoppers rank this early/special access No. 2 (with convenient location) in loyalty benefits. Practical shoppers place more value than the other two segments on exclusive events, and both practical and pleasure shoppers are more interested in personalized communication than necessity shoppers.

<table>
<thead>
<tr>
<th>Shopper segments place different importance on benefits</th>
<th>Percent of shoppers who ranked the benefit in the top three.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted Prices</td>
<td>Necessity Shoppers: 80% Practical Shoppers: 69% Pleasure Shoppers: 73%</td>
</tr>
<tr>
<td>Convenient Location</td>
<td>Necessity Shoppers: 80% Practical Shoppers: 56% Pleasure Shoppers: 51%</td>
</tr>
<tr>
<td>Operating Hours</td>
<td>Necessity Shoppers: 47% Practical Shoppers: 35% Pleasure Shoppers: 43%</td>
</tr>
<tr>
<td>Expedited Service</td>
<td>Necessity Shoppers: 43% Practical Shoppers: 41% Pleasure Shoppers: 38%</td>
</tr>
<tr>
<td>Early/Special Access to Products</td>
<td>Necessity Shoppers: 24% Practical Shoppers: 43% Pleasure Shoppers: 51%</td>
</tr>
<tr>
<td>Exclusive Events</td>
<td>Necessity Shoppers: 16% Practical Shoppers: 28% Pleasure Shoppers: 14%</td>
</tr>
<tr>
<td>Personalized Communication</td>
<td>Necessity Shoppers: 9% Practical Shoppers: 30% Pleasure Shoppers: 30%</td>
</tr>
</tbody>
</table>

Reaching the shopper segments

Necessity shopper loyalty program features need to focus on efficient shopping since this segment does not enjoy shopping and delays it for as long as possible. In addition to discounts, a program could include offers and reminders for merchandise at the retailer’s closest or most convenient location. Another feature could be a dedicated phone line where shoppers can set up orders in advance, at the most convenient location, and pick up purchases from the store (delivery an option if free – perhaps free for a predetermined amount of accumulated loyalty program points). Necessity shoppers tend to be a bit older than other segments, with somewhat less income. Since they do the vast majority of their shopping in the store (versus online) and tend to shop at fewer stores, it’s important to capture this segment, become its primary retailer, and keep it coming back.

Practical shopper loyalty program features should focus on balancing discounts with personalization. Invite these shoppers to back-to-school sales or early-bird holiday shopping. These shoppers frequent general merchandise and grocery stores. Loyalty program benefits could provide suggestions for maximizing each shopping trip, thus reducing or consolidating the number of monthly trips. The program can provide discounts for merchandise at the retailer’s closest location. Practical shoppers tend to be younger, employed full-time and have children. Members of this segment may be shopping with children; thus, a loyalty program where accumulated points (based on purchases) that can be redeemed for children’s activities while shopping with a parent could be appealing.

Pleasure shoppers shop for fun and view shopping as a social activity. This segment is not interested in practical shopping; therefore, the loyalty program should highlight discounts in conjunction with early or special access to new, trendy products and just-released merchandise (not restricted to clothing or other apparel; this is equally relevant in other categories). Points could be accumulated based on purchases with redemption in the form of discounts on the new releases. Point redemption could also be applied to other activities that would occur before or following the shopping experience (dining, movies, etc.). Members of this segment have slightly more income than the practical shoppers and are more likely to shop at department and specialty stores. There’s a great opportunity for personalization with the pleasure shoppers since this group would be most likely to provide personal information to enhance the shopping experience.
Shopper interaction with social media

Since retailers continue to increase their engagement with customers via social media to encourage loyalty, the study also addressed the frequency with which shoppers interact with retailers via that channel. Only one in five (19 percent) of the survey respondents indicated that they interact with retailers via social media. While not statistically significant, shoppers who do interact with social media are more likely to do so with department stores, more so than with grocery, general merchandise and specialty stores. Facebook is the dominant social media platform for receiving information from and about all retail stores.

Company/product news and, to a slightly lesser extent, discounts are the main reasons customers engage with retailers on social media. Compared to the broader respondent base, people engaging with stores on social media place a lower emphasis on discounts.

Other types of social media interaction include posts from others, news feeds, liking a retailer’s page, user-generated photos/threads/replies, reposts/shares, friend referrals or invites.\(^5\)

Discounters do it best

For the question "What one store does a better job than others at earning your loyalty?", Wal-Mart was the clear winner, with twice as many unaided mentions as the next closest retailer. By offering both low prices and convenient locations across the country, Wal-Mart plays well to the top benefits that shoppers value. Other noteworthy mentions were CVS, cited primarily for its discounts and loyalty rewards, and Kohl’s, a standout due to its frequent “percent off” coupons and “Kohl’s cash,” which shoppers can use for additional discounts.

Based on the responses, it appears that retailers mentioned by name deliver on customer service in addition to pricing and discounts. Once they identified the standout store that engenders loyalty, the respondents were prompted to comment on what that store does to make it stand out. The responses were not limited to discounting.

Key Takeaways and Recommendations

Once a competitive advantage, loyalty programs are now expected by consumers. This research provides insight into the customer’s perspective of retail loyalty and how to structure rewards to three distinct types of shoppers.

- Address the overall customer experience before turning to a loyalty program to retain customers. A good loyalty program will not make up for below average customer service or poor product quality or selection.

- Consider gender, as well as other demographics, in building loyalty programs. Men and women shop differently, as do shoppers segmented by age groups.

- Invest in understanding your customer base and what they value. Successful loyalty programs appeal to the specific needs of shoppers.

- Don’t abandon traditional promotional channels for social media just yet. Engage with your audience in the channels they prefer.

- Don’t go head-to-head with Wal-Mart. Instead, loyalty efforts should center around the overall customer experience and the development of relationships with customers to help accurately target offerings to specific needs.

\(^{5}\) Hoffman and Fodor, 2010
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