



The Right Tools for the Digital Consumer

The Loyalty Tech Stack Your Team Needs in 2022

Foreword

The Importance of Customer Loyalty as Brands Navigate Digital Dilemmas

For many brands, a significant focus on digital was required to keep doors open and customers engaged as COVID shutdowns and restrictions were put into place. With this came a number of roadblocks and frustrations as platforms and systems that once worked well were not able to quickly adapt to meet needs for personalized and segmented communications, loyalty program updates, pauses on tier and point expirations, app-based and online shopping experiences, and more.

Now, two years after the onset of the COVID pandemic, expectations for personalization and seamless digital experiences remain as customers have fully adapted to the ease, convenience, and heightened customer experiences brands have brought on board.

However, there is still work to be done due to a fresh set of challenges brought about by supply chain disruptions, staffing shortages, employee turnover, and a “privacy era” that has brought about new legislation and restricted brands’ access to customer data. While COVID pushed brands to focus on digital – which has, in many ways, benefited brands and customers in the long run - we are still in a time of digital disruption and uncertainty.

As marketers work to strike a balance between high-level customer service and limited resources, and providing personalized experiences with tightened data controls, customer loyalty programs and strategies have remained at the forefront as a key way to engage customers, offer specialized benefits and rewards, while also collecting data to better understand, communicate, and connect with customers.

Having the right teams and technologies in place is a common , and often constant, challenge for brands, but the disruption is here to stay. By focusing overall efforts on creating a value exchange between the brand and consumers, marketers can gradually put the right parts and pieces in place to successfully drive and sustain long-last customer loyalty.

- Carly Stemmer Ivory Vice President and Research Analyst, Loyalty 360





Introduction

Two major shifts that have taken place over the past two years that have created a perfect storm for loyalty programs to move to the forefront of marketing organizations, and become the revenue-driving powerhouses they always should have been.

The first is the COVID-19 pandemic—it accelerated the evolution of American shopping habits, and consumers expectations for what loyalty programs should do. Digital purchases soared starting in 2020, buy-online pickup-in-store became a common activity, and this surge in digital engagement caused shoppers to demand more personalization from brands in exchange for all of their shopping information. While COVID-related restrictions may be relaxing, 62% of Americans still do most or all of their shopping online, which means expectations for personalized experiences are higher than ever.

The second shift is around consumer data privacy. The topic of privacy in the advertising and media industries has been going on for years, but Meta's large earnings miss in February 2022 is a clear indication of the rising financial impact new privacy changes will have for companies that have relied mainly on mining consumer data. With Apple's elimination of the Identifier for Advertisers (IDFA), Facebook is no longer able to specifically target consumers to the same degree they used to.

Moreover, privacy legislation continues to advance, which will likely eliminate the use of 3rd party data - the mainstay of today's industry. This not only impacts Facebook's revenue, but is the beginning of a massive shift in the near trillion dollar advertising industry. Many people made jokes about the upcoming cookie-pocalypse when Google and Apple began announcing stronger privacy controls for consumer data, but Meta's earnings miss is a clear sign that this significant shift is no longer on the horizon, it's already here and it's just beginning.

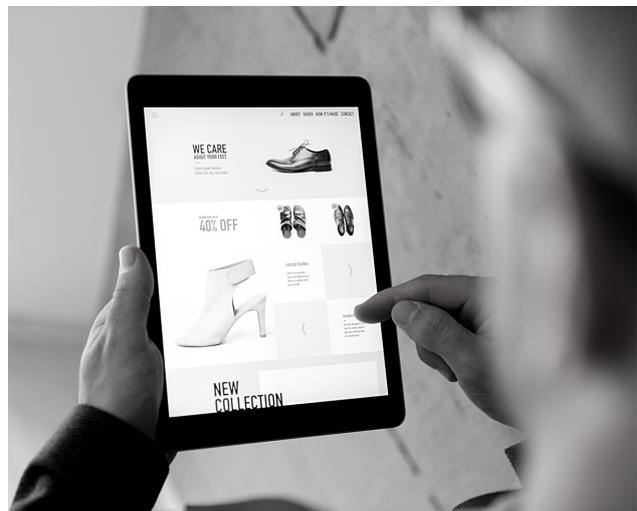
A Call to Action for Loyalty Leaders

These market & consumer shifts may not seem directly tied to loyalty programs, but in fact are a call-to-action for every loyalty leader and product manager alive today. Digital consumers in our current market expect the brands with which they interact to know and understand what they need and want. There's an incredible cost-benefit to retaining those consumers: It costs five times as much to acquire new customers as to retain the customers you already have.

As brands realize they can't support rising costs to acquire a customer (CAC) in these digital ad channels, they'll look to other avenues for acquisition and revenue. Some companies are doing this by actively shifting programmatic ad dollars into other channels - organic social, owned content, and retail media networks. However, most brands are sitting on an untapped pot of gold that can help solve their challenges around rising acquisition costs, while also deepening customer loyalty—1st party data.

There is a larger opportunity arising from the ad-privacy-apocalypse, and it's the growth of martech platforms and solutions that automate the activation of zero- and first-party data. First-party data is the only way to deepen customer engagement, while hewing to privacy concerns and regulations. Thus, leveraging zero- and first-party data enables companies to drive higher performing marketing campaigns, with personalized experiences and offers, which will mitigate the accelerated increases in CAC.

What exactly is zero- and first-party data? The data customers intentionally and proactively share with a brand is called zero-party data, and can be collected through questions included as part of the registration process, a preference center within the consumer's account area, or even by posing polls in Instagram Stories. First-party data is data not directly shared by the customer, but gleaned from user behaviors, analytics and other tools that provide insight into customer journeys and actions. For example, if a consumer often puts products in a shopping cart on her mobile device, but only completes those transactions from her desktop, that is a highly personalized piece of data that she has not volunteered but can nonetheless be tied back to her.



"Zero- and first-party data is a foundational asset of business growth when collected and used with relevance and respect. It gives brands a known, controlled and owned base to form ongoing and mutually beneficial dialogue with their customers.

Known = you (the brand) know who your customers are and their buying behaviors and interactions.

Controlled = you are the conductor of the data orchestra, shaping the data to be a value exchange of relevance and personalization.

Owned = while the data is actually owned by the customer, the essence of having this data in your ecosystem means you are the landlord and not renting it from 3rd parties e.g. social media (where you are renting)."

- Adam Posner, CEO & Founder of The Point of Loyalty

For brands that want to mitigate the cost of acquire new customers profitably in an era of higher costs, by owning the relationship with their customers, and driving deeper brand loyalty, it is imperative to do three things:

1. **Invest in zero- and first-party data relationships** with your customers by building an opt-in loyalty program. It does not need to be earn-and-burn program, but rather a program where customers can opt into a longer-term, more valuable relationship based on trust, where they share data because it leads to better service, more relevant communications and offers, and a better experience
2. **Invest in a modern data infrastructure** where zero- and first-party data can be made available to applications, like dynamic offer or real-time interaction management platforms, which enable personal engagements across the customer lifecycle
3. **Invest in modern applications** which enable your marketing team to create and field personalized experiences and dynamic offers at scale.

Additionally, brands now have the capability to regularly collect customer data from a multitude of channels and have to do so amidst constantly shifting market conditions. If your loyalty tech stack is not able to continuously ingest new data and optimize offers based on these new conditions, the personalization will depreciate over time, making your personalized engagements stale and unengaging.



“Data has always been important but now more than ever with the slow death of the cookies. Zero-party data has been something brands have been asking for and collecting for years but we recently coined the term along with first-party data. Both sets are vital to truly embracing and using your CRMs and CDPs to their fullest capabilities.”

Data ingestion and acquisition plans may seem daunting but you have to start somewhere to get somewhere. Start by mapping what data you do have and then what data you want to have and the baby steps you need to take to get there. Remember we don’t run a marathon overnight, it takes consistent effort and time and so does a data plan.”

-Erin Levzow, Vice President of Marketing Technology at Del Taco



The Tech Stack for Modern Loyalty Programs

Clearly, the time is now to create the tech stack that will more deeply engage digital consumers.

Technological innovations have exponentially accelerated – over the past decade, advances in automation, data collection and analysis, AI and machine learning platforms, integration between any system using APIs, and cohesive omni-channel experiences have brought us closer than ever to true one-to-one, personalized marketing.

With these advances, marketers are able to offer customers what they want, when they want, and make it available in their preferred channels. This makes it possible to deliver personalized, engaging customer offers and experiences, while enabling marketers to adapt them to customers' needs and preferences over time. However, to achieve this nirvana of personalized marketing and increased loyalty, brands need to create the right tech stack. In a perfect world, your loyalty tech stack should be:

- **Insightful:** Your data includes individualized customer files that have one source of truth within the customer data platform and all systems that house data can talk to each other. Models regularly refresh customer insights, audiences are refreshed regularly to account for changes in consumer behavior, and updates are applied to all offers and communications.
- **Automated:** Your MarTech stack automates the generation, execution and fulfillment of offers, communications and experiences through a marketer-enabled self-service platform.
- **Omni-channel:** Your team is able to engage customers with personalized offers and experiences on any channel available, without adding additional operational overhead.
- **Personalized:** Your offers and experiences are personalized for each customer, based on previous purchase history, demographics and preferences, and executed via an automated, machine-learning driven platform.
- **Optimized:** Customer offers and experiences are optimized so the organization spends its reward dollars most efficiently. You have machine learning algorithms built into your stack that learn from campaigns, so each new campaign is more efficient and personalized.

Every company has zero- and first-party data on their customers, but much of it is locked away in siloed systems and isn't being used to enrich ongoing customer programs. At best, martech platforms like marketing automation leverage simple data points like name and location to try to drive better performance from their marketing programs. However, a simple name in an email is table stakes for digital consumers today, and brands need to use solutions that will leverage much more in-depth data points to create personalized offers and experiences.



"Appreciation of the value of data, especially data that's driven out of loyalty programs, can vary greatly depending on the lifecycle of an organization.

People often think of the value of loyalty programs in terms of points and rewards. If you give your customers points, they'll come back and buy more. But the real value of a loyalty program is the data that is captured; the insights that generates, conversations enabled and richer brand experiences. Customers know their data is valuable and they are entrusting it to brands increasingly in the hope they do something with it beyond just trying to relentlessly upsell and cross sell them; they want it enriched and then presented back in ways that help them achieve their own lifestyle goals."

Tom Trounce, Chief Practices Officer, Neal Analytics and Founder, Culture Rising

Why Brands Need to Upgrade their Stack Today

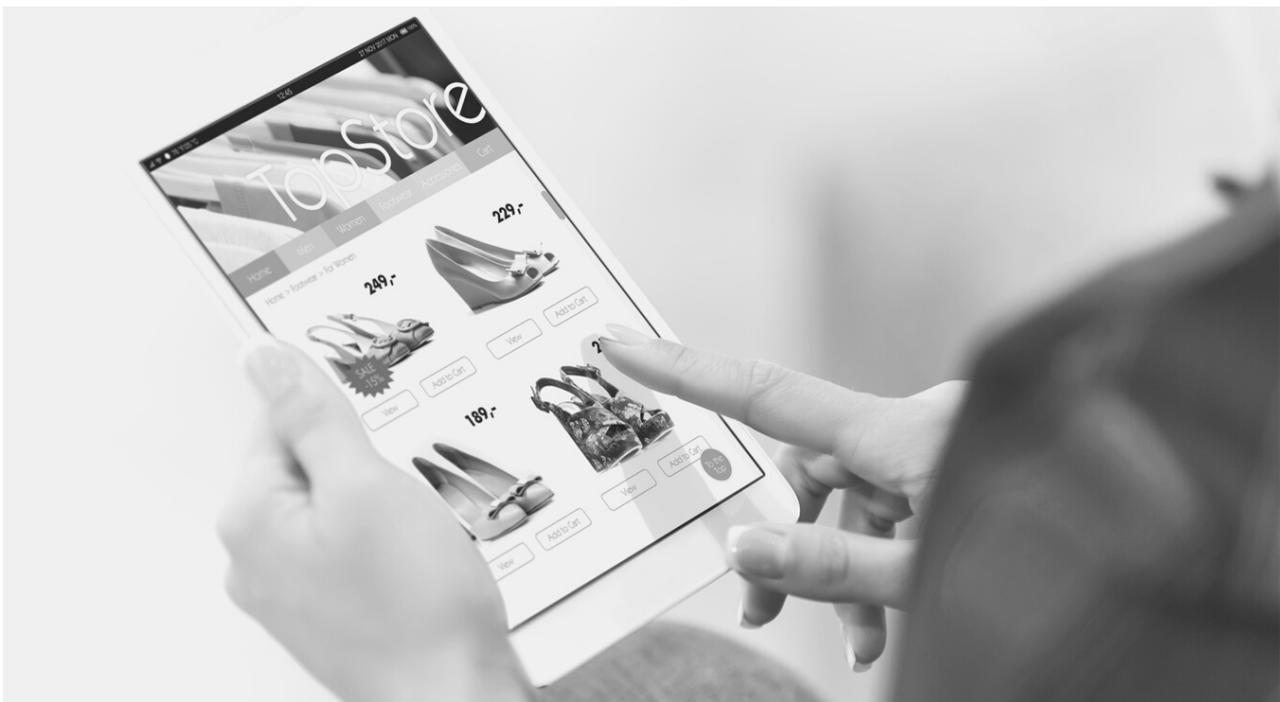
According to McKinsey & Company, 75% of US consumers changed their shopping behavior and shifted to new brands during the COVID-19 pandemic. That means three-quarters of your current loyal customers are at risk of shifting their loyalty to a competing brand. However, according to a survey of more than 1,000 U.S. adults, found that while American consumers clearly value discounts, brand loyalty hinges on more relevant and meaningful relationships with brands.

When asked why they actually join loyalty programs, consumers said:

- They enjoy receiving special offers (64%)
- They feel the brands they engage with represent their taste (34%)
- They like being part of an exclusive membership group (27%)

While half (48%) of Americans say having a loyalty membership increases their spend with a brand, even more (61%) say they spend more with brands they have an affinity with. However, the top 3 things consumers want personalized in their offers, which can create that brand affinity, are only possible with the tech stack we described above:

- Inclusion of a discount or reward amount that aligns to the amount they normally spend (64%)
- Brands or styles they regularly purchase (59%)
- Offerings aligned with their past shopping history (54%)



"How do you get started? Pick a practical use case in one part of the business and get rolling - build out your customer data and technology stack.

Initially it will be semi-manual work with your current tech stack and new tools you can quickly add on, and with those you can show your team initial value. As you do those kinds of pilots with a small squad, build the roadmap and vision for where you need to go in the next couple years."

- Mark Abraham, Marketing, Sales & Pricing Practice Leader for North America, Boston Consulting Group



Clearly, brands cannot create a basic loyalty program to balance out the rising acquisition costs they're facing, it can't be done shoddily. Competition for shopper loyalty is stiff. Most Americans (77%) belong to four or fewer loyalty programs, and 26% feel they belong to too many. And brands need to be conscious of how they use their zero-and first-party customer data, as 1 in 5 say they leave loyalty programs because they don't like their shopping behavior tracked.

Brands that invest in the right innovative tech platforms – like CDPs, real-time interaction, dynamic offer and experience management – will drive long term company revenue by creating deeply loyal customers who spend a greater share of wallet with them over time. Brands that create simple earn-and-burn loyalty programs, or those that double down on acquisition-only models, will lose loyal customers and revenue alike.

How are you going to uplevel your loyalty tech stack in 2022?

Methodology

This report uses data from a survey of more than 1,000 U.S. adults, conducted by Propeller Insights on behalf of the Loyalty Innovators by Formation.

This report was also influenced by insights from our 100+ community of loyalty leaders, all of whom are at different stages on their journey to more modern loyalty programs.



LoyaltyInnovators

by **Formation**



Customers are important.

Digital is moving fast.

We all could use a little help keeping up
with the changing times.

This community is a place for digital
leaders, marketing executives and loyalty
innovators to connect, share best practices
and learn from each other on building that
most authentic customer experience for our
respective businesses.