



BATTLE LOYAL

How Leading Retailers Keep Customers Coming Back

ThoughtWorks® Retail





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"It's crucial to understand what your particular unique competitive advantage is; those functional and emotional benefits customers get from your brand. And then use those as your anchors and say, 'What's right for our consumers in that space? How do we experiment, test and prototype things to roll out?' That could be quite a unique experience, but a unique experience that will resonate with your customers."



- Daniel McMahon

Head of ThoughtWorks Retail, Asia Pacific

Introduction

How do you encourage people to choose your brand in the face of alternatives repeatedly? It's a question on everyone's mind in a world of increased competition and fast-moving challenger brands. The competitive landscape can change in months as newer, more exciting options emerge to challenge once dominant brands. Consumers are now not only more willing to take risks and experiment, but there is status in being a switcher/trier of new. People used to need a ton of convincing to try a new brand. Now, there's cachet in being "in the know" about new brands and products and being the first to try and evangelize.

In this environment, we can't rely on traditional approaches to building loyalty. Traditional loyalty programs have been built with mechanics first used in the 1700s. Around this time, American retailers started to give copper tokens redeemable on a future purchase. Fast forward three centuries and current loyalty programs haven't changed that much. Sure, now there are more advanced ways to collect and redeem rewards, but the points-for-prizes model remains fundamentally unchanged.

So can we reinvent how companies think about rewarding customers and maintaining relationships? We think so, starting with these 7 principles...



1

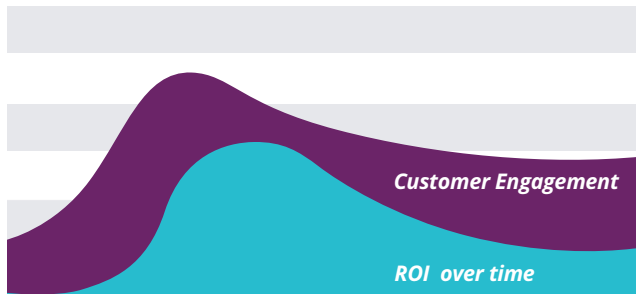
Choose moments of delight over mainstream monotony

Choose moments of delight over mainstream monotony

In 1993, Wolfram Schulz, a professor at the University of Cambridge, ran an experiment with a monkey named Julio. Julio inhabited a room with a monitor. If he touched a lever when a squiggle appeared on the screen, blackberry juice would run down a tube and into his mouth. Over time, this became a habit. Julio came to anticipate the juice as less of a reward and just an expectation.

The same issue befalls traditional reward programs. A new program may trigger a flurry of attention; it's shiny, new and exciting. But after the initial hype, customers quickly become habituated to static rewards. The program ceases to delight as what used to be seen as rewards become standard expectations.

Running the Same Loyalty Programs as Others Leads to Failing in the Same Way



Brands that adopt a traditional points-for-prizes approach find themselves in a vicious (and expensive) cycle of launch, promote, rethink, relaunch. As customer interest falls, so does the return on the program.

Traditional loyalty programs rely on consistency and predictability: spend X, get Y, repeat. But customers are much more likely to rave about (and recall) the time they were surprised by a bunch of flowers or an unexpected weekend trip or some other unanticipated treat than about a routine markdown they collected at checkout.



Surprised Hanover residents received an extra Christmas gift courtesy of Zappos.

Loyalty Leader: Zappos



Residents of Hanover, a town of 11,260 in New Hampshire, received an extra dose of Christmas cheer in 2015. Zappos discovered Hanoverians are fiercely loyal to Zappos compared to other similar towns. Wanting to thank them, they delivered a surprise Christmas package to almost every home. Each package contained an assortment of gifts for the whole family: headphones, backpacks and warm-weather gear, perfect for cold Hanover winters. Zappos Loves Hanover got coverage in publications from Forbes to Adweek and garnered many surprised posts and tweets from Happy Hanoverians.

You might be forgiven for believing that this was a “one-off” stunt. It wasn’t. Zappos is famous for empowering its employees to send customers random gifts (like flowers) and going to extreme lengths to fulfill customer orders, even if that means buying an item from their competitors!

2

Think with your heart, not your head

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Copying a reward program is easy. Copying brand essence and emotional benefits is hard if not impossible. Shoppers gravitate towards brands that reflect their values, their personal experiences and the image they wish to project to the world. Loyalty is deeply emotional; it's about feelings of affiliation, connection, trust and reassurance. So why do most loyalty programs emphasize transactional, rational elements like points and discounts?

Think beyond the functional benefits of your products and services and consider instead how they apply to the broader context of the customer's life. What are the bigger problems that they're trying to solve? What dreams are they are trying to achieve?

When a consumer applies for a mortgage, they're buying the pride they feel in owning a new home, along with the expectation of creating memories. When they buy a loved one a birthday present, they're purchasing a moment of surprise and happiness. When one buys hardware supplies, they're buying the sense of satisfaction that comes from successfully completing a do-it-yourself project. Tap into the emotional needs your customers are attempting to satisfy when shopping with you.

Loyalty Leader: Trader Joe's




Trader Joe's success runs contrary to much conventional retail industry wisdom. Millennials love to shop there, yet the brand lacks a single social media account. The brand is not eCommerce enabled, yet it boasts the highest grocery sales per square foot in the U.S (\$1750 compared to \$930 at its closest competitor Whole Foods). They don't have a points program or weekly sales. So how do they have the "most satisfied customers in North America"? The brand emphasizes emotion-building brand touchpoints.


Shopping there is fun! Waltz into a Trader Joe's and you might find an artist-drawn sign featuring Mr. T saying "I pita the fool who doesn't try pita bite crackers." Ask a Trader Joe's associate where to find something, and she will physically walk you over to it. Store associates try all new products and share informed, passionate opinions on everything from pancake mix to craft beer. These emotionally-anchored experiences combined with customers' love for Trader Joe's value pricing and unique, private-brand products, are a recipe to keep customers coming back.



Trader Joe's colorful stores, famously friendly service and well-edited assortments keep customers coming back.



*Customer loyalty is created when retailers
create the right combination of emotional
connection, trust and habit.*



- Dianne Inniss

Customer Experience and Innovation Strategist

3

Consider experiences that don't scale

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You can't be everything to everyone. Retailers often worry that a particular experience won't scale across their store network and customer base, but often it doesn't need to. Brands should focus instead on building unique, memorable retail experiences for a small number of high-value customers. A handful of highly personalized and remarkable personal interactions will generate bigger buzz than a thousand people receiving the same coupon.

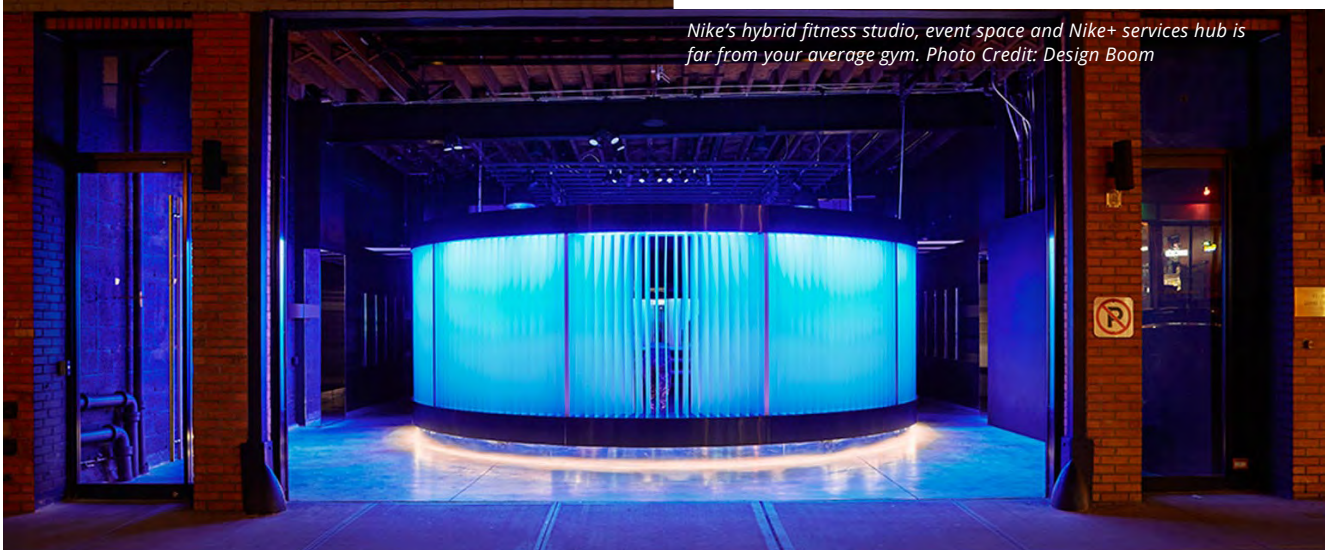
Think of Adidas' super exclusive NYC event, where sneaker and music fans paid top dollar to witness the unveiling of Kanye's YEEZY Season 3 collection and the premiere of his new album. Or Hershey's "Chocolate World" stores where chocoholics can create a customized mix of Hershey's miniatures or broadcast a photo with a special message on Broadway.

Loyalty Leader: Nike 45 Grand



Head to 45 Grand St, deep in the belly of New York's chic SoHo neighborhood and you might be surprised at what you find. Behind the seemingly unremarkable exterior of an old metalwork shop lies a private, women-only, invitation-only fitness studio created by Nike.

Select influencers and Nike elite are granted access to 45 Grand, and given codes to purchase new releases before they're available to the mainstream public. Scalable? No. Unforgettable, loyalty-building experience for important influencers? Yes.



Nike's hybrid fitness studio, event space and Nike+ services hub is far from your average gym. Photo Credit: Design Boom

4

Prioritize interactions over transactions

Prioritize interactions over transactions

Who are your most valuable customers? It may not be the person who spends the most or shops most often. Smart retailers don't recognize just big spenders. They also recognize and reward vocal and influential brand advocates, brand fans and influencers who encourage others to spend big with their brand.

Consider these two: The executive who drops \$2000 at Nike three times a year but tells no one and the college student who posts incessantly on Instagram and writes for SNEAKERFREAKER, a kicks blog read by hundreds of thousands each month.

Brands often focus solely on the former and disregard the latter. But the exec doesn't need a coupon to motivate future spend and the college student trades in recognition and social capital. In this example, Nike can reward both top spenders and key influencers with an exclusive and relevant experience.

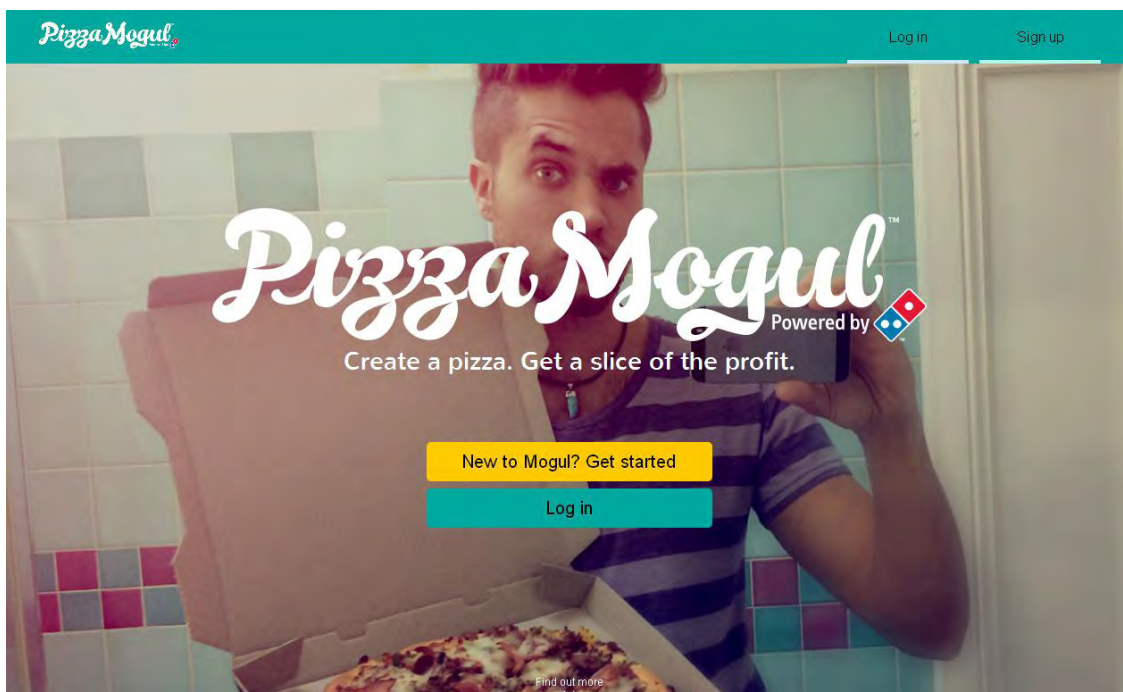
The takeaway? Bring your influencers into your inner

circle. Make them feel special by inviting them to try things first and use them to gather vital feedback in creative ways; brand fans are happy to give it and they are less likely to judge if they realize they are part of an intimate, important test group.

Loyalty Leader: Domino's Pizza Mogul



Domino's Pizza Enterprises has leaped ahead of the competition in the value pizza space with a slew of digital initiatives that emphasize interactions over transactions. Perhaps the most prominent move in this area is "Pizza Mogul." The Pizza Mogul program lets customers create a pizza, promote it across social networks or by other creative means, and earn a piece of the profit for every pizza sold. In 11 months, Pizza Mogul amassed 63,000 users, 130,000 pizza creations and more than 10,000 pieces of user generated content. One motivated pizza creator made almost \$50,000 from pizza on his Facebook page. Talk about a rewarding brand relationship!



Domino's Pizza Mogul initiative rewards vocal brand advocates when they promote the brand.



5

Combine instant and variable rewards

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Many loyalty programs fail to keep customers excited over time. Customers lose interest as benefits become a routine expectation. There is a strong case for offering customers an incentive to sign up now (instant gratification) as well as variable rewards over time, creating a sense of simple serendipity. The varying nature of rewards is of particular importance as it keeps customers' interest from waning.

What rewards should you offer? First and foremost, include rewards that satisfy customer needs and desires while motivating them to return. Leading brands in loyalty offer multiple layers of variable rewards. Consider Sephora, LVMH's powerhouse beauty retail brand. In 2007, Sephora launched Beauty Insider, a program that entitles members to a free birthday gift, free beauty classes and express shipping. Beyond this more traditional "points-for-prizes" initiative, Sephora has launched many digital initiatives that help customers find the best makeup and beauty products to match their personal style.

There's Virtual Artist, an augmented reality app that lets customers "try on" makeup on their mobile phone and

Beauty Board, a Pinterest style board where customers can save and upload their favorite looks. Sephora also entices beauty addicts to join its Beauty Insider program with the promise of personalized recommendations that match the user's skin tone, purchase history and beauty preference profile.

Perhaps the most potent example of multi-layered, variable rewards can be found in the wildly popular Amazon Prime.

Loyalty Leader: Amazon Prime



Amazon Prime turned the conventional approach to loyalty on its head when it asked customers to pay for its privileges. Jeff Bezos is so sure of its value he says "you'd be irresponsible" not to join. Prime members get instant gratification. As soon as they enter, they enjoy free 2-day delivery, access to Prime Video, Music and exclusive deals. In some cities, members are even entitled to free 2-hour delivery with Prime Now.

The content on Prime Video is also regularly refreshed (think a Netflix-like service) either with shows from other networks or Amazon original content. The highly successful Amazon Prime has struck a delicate balance between instant and variable rewards that convinces over 63 million users to shell out \$99 each year for the privilege.

Amazon Prime members receive an enticing mix of variable and instant rewards to keep them interested.

A screenshot of the Amazon Prime Member Exclusives page. At the top, there's a banner for Prime Now with a brown paper bag icon and the text "Prime Now Free 2-hour delivery Groceries, Gifts, and More". Below this, there's a section for "Get Free Access to The Washington Post" with a smartphone icon. To the right, there's a section for "Prime Early Access: Shop deals first" with a person sitting at a desk icon. The main section is titled "Prime Early Access Deals" and shows a grid of various products with their prices, discounts, and "Add to Cart" buttons. The products include a Cuisinart Proctor Silex and Grind Press, a (Single) Solid Cast Iron Kettle, a Behnam By Cuisinart 10 1/2" Nonstick Rice Cooker, an Emax-Design 2 Piece Makeup Blender Set, a BlueFire 1200 Lumen CREE XM-L T6 Adjustable Beam, a Premium Quality Stainless Steel Cooktop Utensils, a Mincig World Cocktail Shaker Set, a Kuchini® Double Magneto Drawing B, and a Yousao 16W/3A USB Type C Car Charger. Each product has a progress bar indicating how many members have claimed the deal and the time left to claim it.



6

Promote novelty, not points for stuff

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What do Zara and Aldi have in common? Both brands lean on novelty and variety to drive foot traffic in stores: Zara with its chameleon collections that are always changing and Aldi with its “special buys” every Wednesday and Saturday.

Creating a short window of opportunity provides a compelling reason to act. The sense of urgency spurs customers to interact with the brand. Contrast this with a points program that is available all the time. When retailers execute a traditional loyalty program, there are often few triggers to drive desirable behaviors.

Shift the focus away from discounts and coupons to rewarding customers with the promise of something new and fresh. Discounts and coupons are transactional and do little to amplify brand connection. They're often counter-productive; slashing the price of something a customer would have otherwise purchased erodes margins. Focus instead on creating sticky and surprising moments.

Zara, for example, actively combats the need for deep discounts with the promise of something fresh.

Loyalty Leader: Zara



Did you know the average Zara customers visits 17 times a year compared to 4 for similar retailers? Sans loyalty program. Why? Zara's notoriously snappy supply chain means stores receive new items twice weekly. The brand thrives by using technology to amplify its core brand values of affordable, on-trend fashion. They notoriously push products from concept to store in 14 days, an effort supported by their RFID implementation in 2014. The RFID chips on every item help Zara keep better track of its stock and replenish clothing racks quickly so that Zara can capitalize when trends are selling well.

“It gives us great visibility, knowing exactly where each garment is located; it really changes how we operate our stores,” Inditex CEO Pablo Isla said. This capability is a key differentiator for Zara; their speed means they discount significantly less than their slower selling counterparts. 85% of Zara products sell at full price, compared to the industry average of 60%-70%.



Zara stores receive new styles twice weekly to keep foot traffic high.

The background is a solid teal color. A large, dark teal diagonal stripe runs from the bottom-left towards the top-right. A large, white, stylized number '7' is positioned in the center of the page, overlapping the diagonal stripe.

7

Leave a trail of breadcrumbs to build habits

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Habit is the Holy Grail of loyalty. It results in customers consistently choosing your brand with little or no consideration of alternatives. As Nir Eyal explains in his book “Hooked,” elite brands build habits by taking customers through what he calls “The Hook Model.” The four phases of “trigger, action, variable reward and investment” provide a framework for building habit-forming brands and experiences. The first step is to find a way to attract interest and encourage customers to take a single, simple action with one small action. Reward that action and then (this is the important part) find a way to build commitment by having the customer become slightly more invested by following up with another action.

Consider the Sephora Beauty Insider program again. A beauty enthusiast (let’s call her Leila) might find about it from a friend. Based on her friend’s positive review, Leila decides to take action and sign up online. After signing up, she is pleased to see her emails from Sephora have become more personal; they match her skin tone and are aligned with her preference for organic makeup, so she decides to click on the button requesting her to complete her beauty profile further. Because she spent time

and effort, she is beginning to become invested in her relationship with Sephora. Each email or invitation can become another trigger for the cycle to take action, feel delighted in being rewarded and strengthen emotional investment, helping to make Sephora a habit.

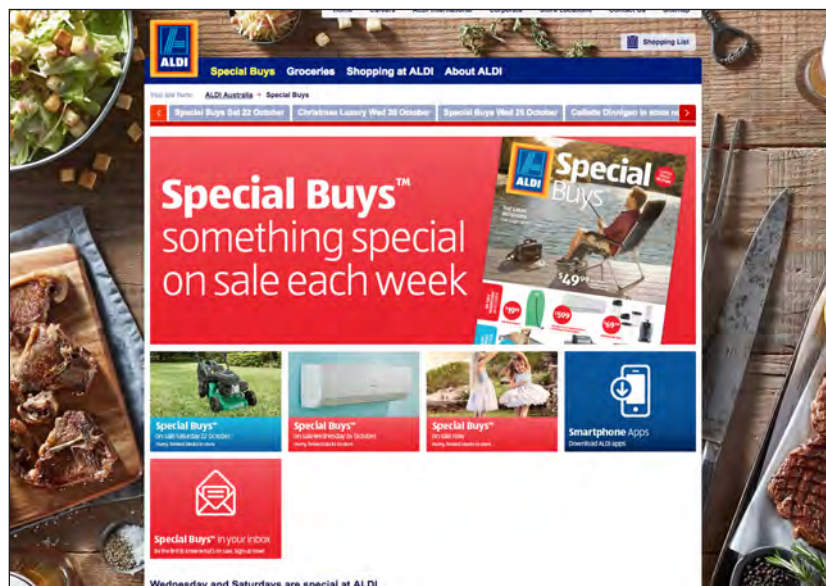
In the grocery space, Aldi is another retailer that has done a particularly good job of “leaving a trail of breadcrumbs.”

Loyalty Leader: ALDI



As we mentioned earlier, Aldi makes Wednesdays and Saturdays exciting with its “special buys” initiative. A one off catalog is released every Sunday in addition to Aldi’s core range that will appear in stores only on those two days. What’s there one week won’t be there the next, so customers are compelled to visit. It has a bargain, scavenger hunt feel.

The combination of Wednesday and Saturday only, released every Sunday and the unpredictable offers and rewards leave a “trail of breadcrumbs” that make this initiative more compelling and memorable than routine discounts throughout the week or back-of-receipt offers.



Aldi's special buys provide a compelling reason for shoppers to visit their stores.

A Final Word.

Hit them right in the feels. Loyalty is about humanity and emotion, not points and predictability. Programs should surprise and delight, not just reward people with more of the stuff they were already going to buy. Loyalty isn't dead. But the launch-promote-sustain cycle of Loyalty 1.0 *is*.

Loyalty won't be created through a single mechanism or an app. Those who win will do so with a balance of creativity, commerciality, a deep understanding of their customers and a culture that embraces innovation and experimentation.

Think in terms of "continuous loyalty," an iterative approach where retailers try, test and prototype new ideas, quickly, frequently and with their customer at heart. Ask yourself: "How can I simplify? How can I make the consumer's life more interesting? How can I add a sense of achievement?" Brands that always question and evolve pack a powerful punch in the battle loyal.

The Authors



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ThoughtWorks Retail

Daniel is the Head of ThoughtWorks Retail Asia Pacific. Daniel has over 15 years of retail industry experience, working in senior leadership positions across store operations, merchandising, marketing, and business development. Most recently Daniel led the development of online businesses and digital roadmaps for Australia's largest department store, BIG W, as well as for one of Australia's largest technology retailers, Dick Smith, as part of the Woolworths Group.

In this role, he developed award-winning eCommerce offerings with capabilities such as Click & Collect, digital payment plans, drop-shipping platforms, marketing automation and analytics supporting over 500 retail stores and more than 100,000 products.



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Dianne is a principal for ThoughtWorks North America's Retail team. She partners with clients to design meaningful customer experiences and deliver digitally-enabled solutions that create shared value for retailers and their consumers. By helping clients to craft solutions that start with human-centered experience design, integrate front and back end-technologies, and embed the necessary process and organizational changes, she positions them to generate customer delight, drive sustainable growth and increase profitability. Dianne has worked with leading global brands such as the Coca-Cola Company, Coach, Estee Lauder and the Hudson's Bay Company, parent of Saks 5th Avenue and Lord and Taylor.



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