Reinventing
LOYALTY

The New Loyalty Experience

2017

Goldsmiths
UNIVERSITY OF LONDON

Adobe

INTRODUCTION:
Reinventing Loyalty

Being an "experience business" means putting customers first. But what happens when your customers and their needs and desires are constantly changing? Digital is the driver of change – it has empowered customers, putting more choice at their fingertips than ever before. It follows, then, that the very concept of loyalty has changed. Businesses can no longer rely on the strength of their product experience alone. True loyalty is derived from a total brand experience. Brands must be Experience Makers.

This changing nature of loyalty in the digital age and why brands need to adapt is an important question, and one that we have partnered with Goldsmiths, University of London to answer. Following our study into consumer behaviour (Reinventing Loyalty: Understanding Consumer Behaviour in the Experience Era), the researchers set about developing a new strategic framework for measuring loyalty suitable for the digital age.

Specifically, the team found that there are four distinct new criteria that consumers consider when it comes to brand experiences:

- **Does the experience adapt to my individual needs? Is it predictive?**

- **Is the service available when and where I want? Is it prevalent?**

- **Does the brand help me to find what I want or need easily?**

- **Does the experience delight me? Is it differentiated?**

To test this model, we asked senior marketers to measure their experiences against these factors to see if those incorporating them were seeing commercial benefit. The findings are significant:

- **We need to know the customer much better:** 75% of CMOs are neutral or negative about their ability to understand customers and their changing behaviour

- **Data drives loyalty through predictive experiences:** 61% of consumers are loyal to brands that tailor experiences to them but only 32% of marketing leaders say they are using Artificial Intelligence (AI) to enhance customer experiences. AI is a game changer for brands in creating smart and adaptive experiences

- **Getting loyalty right in the digital age is business critical:** Organisations incorporating the new loyalty measures into their customer experiences outperform those using traditional loyalty measures by 14%

Today's era is both challenging and exciting. Adobe & Goldsmiths hope that this research, insights and recommendations that follow will help brands to better understand the new, more empowered customer – wherever he or she may be – and connect with them in whichever way they desire. Join the movement. Become an Experience Maker.

GARRETT ILG
President
Adobe EMEA

Reinventing Loyalty is a research collaboration between Adobe and researchers at Goldsmiths, University of London, and research consultancy Smoothmedia. The objective was to capture what's happening in terms of emerging models of customer loyalty in a world in which someone can be immersed in a brand from their own sofa. The research was directed by Dr Chris Brauer and Dr Jennifer Barth with researchers Alexia Samara and Cleary Ahern. Contributions were made by research assistants Areej Ahsan and Sean Duggan along with video anthropologists Ricardo Leizaola and Louise Boer and photography was by Ivan Gonzalez.

Why loyalty needs to be reinvented:
A NEW FRAMEWORK FOR LOYALTY

They Are Driven By

New Loyalty Dimension
Predictive:
Does the experience adapt to my individual needs?
Is it predictive?

New Loyalty Dimension
Choice:
Does the brand help me to find the things I want or need easily?

New Loyalty Dimension
Prevalent:
Is the service available when and where I want? Is it prevalent?

New Loyalty Dimension
Experience:
Does the experience delight me? Is it differentiated?

Connected on multiple platforms

Time poor

Influential on social media and reviews

Will buy from unknown brands

Infuenced by social media and reviews

Want to be wowed

The Changing Consumer

Want more transparency on data use

Faced with vast choice

Existing loyalty models are based on assumptions that have changed in the face of digital transformation. To understand what has changed the research team gathered evidence on how people now seek and purchase products and services in the context of their digitally-enabled lives.

Researchers then compared this against traditional academic measures of loyalty, such as the Net Promoter Score (NPS) which mainly focuses on combinations

of consumer behaviours and attitudes. This includes measures such as recommendation, retention and responsiveness.

What they found was that, to date, few models can adequately capture the impact of digital transformation on consumer behaviour. While important and still relevant, these need to be updated to reflect the digital aspects of the consumer experience.

The new framework of loyalty is a conceptual design that shows how people choose and purchase products/ services in a digitally infused world, alongside new experiences that brands should be incorporating into their marketing strategies.

THE BUSINESS IMPACT of new loyalty

The new model linked to performance

The research suggests that the traditional measures of loyalty (recommendation, retention and responsiveness) only partially account for the modern customer's behaviours. CMOs have always understood the need to measure loyalty - after all retention is more profitable that acquisition - but loyalty has changed. It is now about an evolving consumer who wants their purchases to reflect themselves and their aspirations as well as the way they purchase goods and services. If brands can create experiences that meet the needs of this individual, then loyalty is assured.

Through research with marketing leaders we have identified that brands aware of and using the new loyalty dimensions were indeed outperforming those who were not. **They saw in fact a statistically significant improvement between new loyalty practices and commercial performance of 14%.** With enterprise brands under constant pressure from newer, more agile businesses that have been born in a digital and data-led world, any way to improve competitiveness and increase the bottom line must be considered.

While sample sizes within geographic regions were too small to reach firm conclusions, preliminary interpretations of regional differences did provide an early opportunity to examine how geographic region affects these conclusions. Notably, the pattern described earlier where new loyalty out-performed old loyalty, and combined loyalty was strongest of all, was reflected most strongly in the UK, followed by Germany and then the Nordics. The pattern also held, but was weaker, in France.

Dimensions in order of impact

Our research found that, to have the greatest impact on performance, businesses should focus on serving the Changing Consumer.

Changing Consumer
Predictive
Experience
Prevalance
Choice
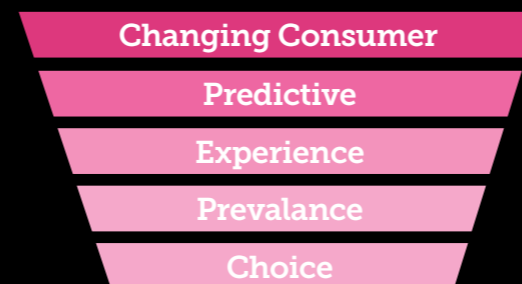
How industries are performing against each dimension

In each of the industries we looked at, the dimensions differed in order of the greatest impact to loyalty:

Financial services: Predictive
Automotive: Changing Consumer
Manufacturing and production: Changing Consumer
Retail: Choice
Travel: Prevalence

However, an analysis of mean scores on all these new loyalty dimensions indicated that **75% of CMOs disagreed or were neutral regarding whether their companies were doing well in these areas.** Just 25% felt positive. This clearly demonstrates that CMOs feel that there is huge room for improvement when it comes to implementing the new loyalty dimensions.

Putting the Changing Consumer front and centre

As we've already established, not all of the old loyalty model is redundant, but the influence wielded by different elements of it is changing. The Changing Consumer is completely at the core of the new loyalty. Where organisations place that individual, their behaviours and their values at the heart of their process, they are likely to outperform their peers by 14%. This is by far the strongest dimension of the new framework for loyalty.

The results vary by country; the overall trend, however, is sharply towards the digital customer having the ability to place themselves at the centre of the process.

The power of prediction

The second strongest dimension is predictive. Organisations using behavioural and contextual data to forecast what an individual is about to do are well-equipped to do better than others. Consumers feel (rightly) that their needs are understood and empathised with, so they respond with repeat business. However, the customer must understand how and why their data is being used and the company must be transparent about their use of this data for the predictive relationship to work.
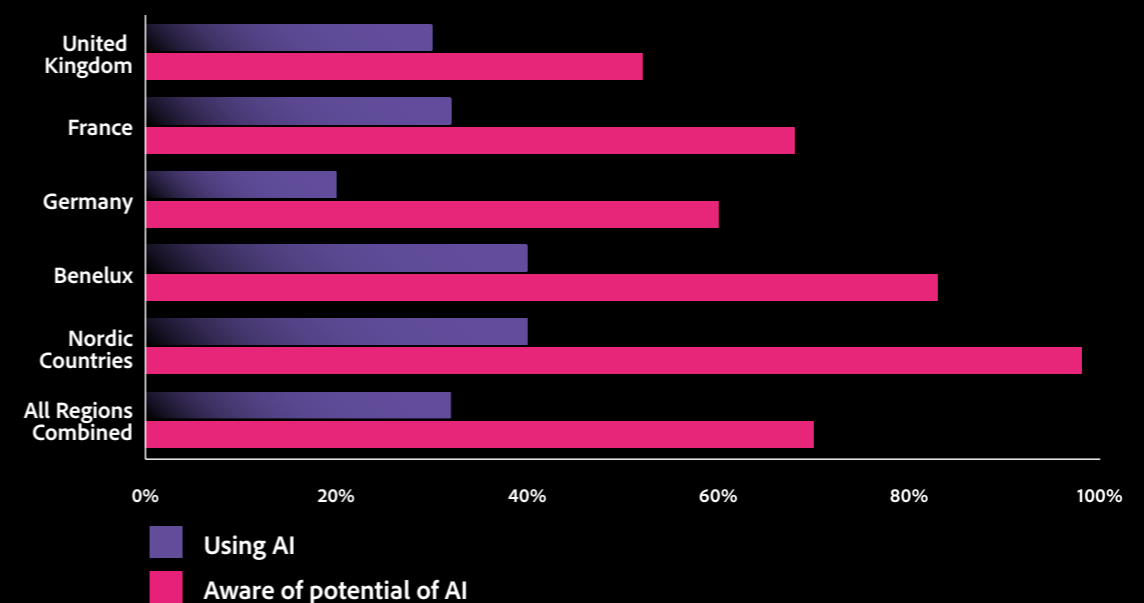
AI holds the key to the predictive dimension. But only 32% of respondents say that their organisation uses AI to enhance customer experience.

The Nordics, Germany and Benelux countries were particularly strong in the predictive dimension. By industry, predictive scores were highest in the finance, travel and retail sectors. Collectively, there is room for improvement.

Geographical breakdown of consumers vs CMOs on meeting the needs of the Changing Consumer

- Consumers: our purchases reflect our values and identities
- CMOs: we market in line with customer values and identities

Geographical breakdown of CMOs using AI to enhance customer experience.

- Using AI
- Aware of potential of AI

Activating the new loyalty dimensions to create GREAT EXPERIENCES

Now we have established that the new dimensions of loyalty have a significant impact on business performance, we've developed a series of new loyalty practices that brands should be considering for their marketing strategies moving forward. Each experience is focused on putting the Changing Consumer at the centre, and includes to some extent each of the other dimensions – predictive, prevalence, choice and experience.

Adapt to a Changing Consumer

The most important element of the research is the fact of the Changing Consumer. Technology is extending and enhancing our awareness of ourselves and our desire for our values to be reflected by whatever we buy. Choice is vast and products that look very similar have become available, resulting in a granular approach to selection. As a result, when we buy products for practical purposes and benefits, we also purchase them because of what they say about us. At its best, brand loyalty helps us to describe ourselves as "this is me" when using and buying a product. Brands are therefore advised to take an emotional rather than a rational approach in their marketing.

"Loyalty goes beyond having an awesome product or a market leading service. It's about focusing on the customer as an individual and building an experience that appeals to them directly. It's about showing them that you know them, respect them and you talk with one voice to them. Loyalty comes from a great product delivered in a respectful way that delights the consumer and creates an experience"

JOHN WATTON
Senior Marketing Director
Adobe

Apply a data-driven approach

Data is meaningless in itself, but applying algorithms gives it actionable intelligence. This is quite an undertaking. Customers generate vast amounts of data as they move between devices. Building a coherent view from these interactions allows a business to have an individual conversation with a customer.

This is not personalisation as previously thought – that is, siloing and segmentation. This is providing personally focused information that adapts to your needs.

However, in loyalty, trust and transparency is critical. Ask customers for consent and make it clear why you need the data and how it will be used, providing straightforward options for opting out. When using algorithms let customers know that automated logic is being applied to their data and give them the option for human intervention.

"Going forward, we will see an even stronger focus on providing leaner, more purposeful, and more relevant experiences to customers. I also think that we'll see more artificial intelligence and machine-based learning used to communicate with customers in the ways they prefer.

"With an increasingly diverse customer base, one challenge is to reach the customer with truly relevant digital content—a one-size fits all approach isn't going to solve this."

LIV BRAHIN
Head Group Marketing and Communication Services
UBS

The Changing Consumer demands:

61% purchase products and services that reflect their personal values

43% want to have a relationship with the companies they buy from

How CMOs are responding:

58% agreed their marketing of goods and services is aligned with customers' values and their personal identities

68% say they ensure customers have a personal relationship to their brand

The Changing Consumer demands:

61% are loyal to brands that tailor their experiences to their needs and preferences

76% want transparency from brands on how they use their data

How CMOs are responding:

52% use consumers' digital histories to tailor experiences

44% say they know how customers feel about the way their data is used

Simplify discovery and purchase

Customers want things quickly. The research suggests that a lot of businesses spend time and money on the customer journey and the customer rewards them by basing their decision on their current state of mind. The ubiquity of technology means that the customer controls their own experience and can take advantage of it any time they wish. The business has to meet them where they are, rather than try to guide them through their processes.

Vision Direct is one company that understands the need for speed. As an example, it has a one-button re-order function; text the company with "1" and it will know which contact lenses and fluids you need.

"It takes away the problem for customers who would otherwise need to get back to their desktop, log onto the internet (maybe from a poor or slow connection at home) and get the technical details of what they're re-ordering right — a single digit and they're sorted. This has probably been one of the most popular initiatives we've launched because it increases speed and we, not the customer, worry about the complexity."

ASHLEY MEALOR
CMO
Vision Direct

Create meaningful experiences

As a general guide, a campaign has to amount to something. In this instance, it refers to the ability to surprise and delight; offer experiences rather than simply "positioning", and customers are likely to remember you. Loyalty is not about the product, it's about how experiences make us feel.

" Part of building loyalty is around thinking about experiences that form habits, that's where the power comes from. It's not from rolling out a loyalty programme or starting to give points or other options over their services. Not necessarily - those are levers and triggers that can be used, but what brands need to look at and think through, is what are those activations or steps that turn into habit for those customers. The experience itself must be meaningful to the individual, it must help them solve a problem, satisfy a need, or surprise and delight them."

VIJAYANTA GUPTA
Head of Product & Industry Marketing
Adobe

♥ The Changing Consumer demands:

59% say convenience is the most important aspect they consider when making purchases

62% want a consistent experience whether online or offline

46% are overwhelmed with choice, with 60% using reviews to help make decisions

💬 How CMOs are responding:

71% make online purchasing of products convenient and easy, **58%** make all their services available on mobile

58% provide consistent experiences between online and offline channels

67% focus on making buying process simple, 39% encourage customers to use reviews

♥ The Changing Consumer demands:

50% get excited by brands that use the latest technology to create delightful experiences

50% said that continually introducing innovative technologies enhances the customer experience

51% would buy from an unknown brand

💬 How CMOs are responding:

50% use the latest technology to surprise and impress customers

77% see technology as a way to continually improve the customer experience

82% say the strength of their brand is a critical factor in the sales process

REINVENTING LOYALTY KEY TAKEAWAYS

Based on the findings of this research, there can be no doubt that digital transformation has not only disrupted the business world, but has also had significant impact on consumers and how they now expect to engage with brands. Consumers have a new-found sense of self-awareness, which is satisfied through the experience of purchasing products or services rather than just the items themselves.

Customers are now loyal to experiences, but these experiences need to be tailored to them as individuals.

For brands, reinventing loyalty is underpinned by data, it is the essence of great experiences. It starts with a single intelligent view of the customer no matter where, when or how they engaged with the brand. Knowing the customer allows businesses to place them at the centre of the experience, adapting to their immediate needs, predicting what they might need next, making it easy, convenient and personal. Applying artificial intelligence to this process, means true personalisation can be done at scale.

But it's never just about the technology. Any outstanding experience may be underpinned by data, but it is led by its strength of creativity and meaning. The changing consumer wants speed and convenience, but is also driven by a desire to be wowed and for the experience to mean something to them.

Today the battle for consumer loyalty is fierce, digital has lowered the barriers for entry and disruptive companies are able to scale awareness and use at lightning speed. Brands must now develop a culture of loyalty that puts the customer front and centre of every experience, and that can adapt quickly to the changing digital landscape.

APPENDIX

The research used a mixed method approach to test the hypothesis: "Digital transformation and profileration of choice are transforming the characteristics of loyalty".

The process of researching innovative technologies requires an agile methodological philosophy that is able to incorporate a diverse range of methods to test the hypothesis.

Methods include:

- Extensive desk research in academic and media articles and related industry reports used as a guide to form the hypothesis while identifying the dimensions that impact loyalty.

- Subject Matter Interviews, including academics, industry experts and third party commentators focusing on verifying and commenting on the loyalty dimensions.

- Digital Ethnography: A Messenger chatbot named "Loyalty bot" was built to deploy various tasks to participants as part of the workshop. Each task was placed in the context of the Consumer Experience.

- All participants completed a survey designed to identify their buying behaviours and their digital embeddedness status. These results were then combined with the outcome of their personality profile to draw their individual consumer profiles.

- The tasks were designed to remind participants what digital tools brands usually use and then they were asked to provide feedback about their experiences when using those tools. The tasks were coded according to the loyalty dimensions with the goal to uncover loyalty moments during the consumer experience, when using only digital tools.

- Workshop: After completing the set of chatbot tasks, all participants interacted with each other by taking part in various activities and expanding our understanding on how they make decisions when they purchase goods while pinpointing loyalty moments during their purchase journey.

- Consumer survey: Insights from the combination of methods and factor analysis were verified quantitatively through a questionnaire amongst 1,000 representative adults 18 years and older in each of five regions: UK, France, Germany, Benelux, Nordics (total 5,000).

- Organisational questionnaire was completed by 130 senior marketing decision makers and CMOs in multinational organisations (with 3000+ employees) scoring organisational readiness and practices in the dimensions of the new loyalty model. Respondents were from organisations based in the UK, France, Germany, Benelux and the Nordics and in the manufacturing and production, financial services, travel, retail, and automotive sectors.

The data collected by the above methods were taken through the process of reviewing, coding according to themes, cross-checking and ultimately looking for patterns and drawing conclusions.

Performance Calculation:

The measurement of loyalty and of performance were both based on the strength of CMO responses to survey questions. Loyalty was measured with questions about self, prediction, prevalence and choice; performance was measured with questions about productivity, revenue and profitability. The relationship indicated a strong positive relationship between new loyalty and CMO ratings of performance. Moreover, the strength of the relationship between new loyalty and performance was greater than the relationship between old loyalty and performance. Finally, the relationship between loyalty and performance was strongest when old loyalty and new loyalty combined were correlated with performance. Taken together, these results suggest that new loyalty measures something important and new, and does so by building on and at the same time breaking away from existing notions of consumer loyalty.