

# Loyalty Insights 2021

An insight-driven  
approach to know your  
customers



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# 1. Main findings

Conducting in-depth interviews with Loyalty, Marketing, Technology and CRM Managers, at 23 of the largest retail and consumer service companies in Sweden, we have identified 4 common findings. These reflect updates to our 2017 study and our evolving world. Where we see gaps to reach successful customer loyalty through a data driven approach are as follows:

## A low adoption of loyalty strategy across organizations

Only 29% of respondents thought they have a well adopted organizational strategy for loyalty. We do see a positive shift in the number of respondents that have a strategy (77%) since 2017. However, adoption of that strategy remains a challenge, with only 38% happy with organizational adoption and compliance. The underlying reasons cited are a lack of attention, resources, and prioritization of operational tasks. Thus, there is a need to improve the adoption and execution of loyalty strategies within the whole organization.



## A long way to go to reach true personalization

Many companies have relaunched, or will relaunch in the coming year, their member program with one clear focus - becoming relevant in every interaction with their members. We found that many loyalty leaders are prioritizing personalization to establish that relevance. Currently, only 19% of the respondents feel they truly offer the full experience of personalization through both offerings and communication. A need to improve harvesting of member data and increase engagement are required to better understand the members behavior in order to reach personalization.

## Complexity of creating a data ecosystem

Today's companies are good at collecting lots of data about their members. Yet only 32% of the respondents in our study believe they can fully extract the data they desire. Companies have invested in a lot of IT systems, but they face challenges in both structuring and integrating data into one single source of truth. The majority of the companies within the study are on average collecting data from three or more different systems. That, combined with a lack of a data driven culture and an understanding of how to efficiently act upon insights, are the reasons that companies are not fulfilling the large potential of their data and investments.

## The need for analytical competence

Only 14% of the respondents feel that they have the data they need and can fully generate the analysis they truly want. Additionally, more than 60% of our respondents are seeking analytical competences. However, we would advise that the goal should not be to turn everybody into data scientists. Rather, there is a stronger need for a common language around data. That will help ensure decisions are understood across the organization.



[Link to Recommendations](#)

# 2. Foreword

The way we shop is dramatically transforming. We see many consumer behavioral changes and an ability to shop anything, at any time, from anywhere. And the e-commerce we knew—ordering online with goods being delivered to your closest post office or door—continues to develop at a rapid pace.

True omni-channel experience—the fusion of digital and physical worlds—is something that consumers expect and take for granted. An experience where you, as a consumer, choose your touch points. You get inspiration, seek advice, and discover prices online, or on your phone or in store. Maybe you shop in the store but pay online, or vice versa. And you bring the goods home, or have them delivered to your house, the boot of your car, or to an Instabox; unless you buy online and collect at the shop. Additionally, we see that ‘click and collect’ phenomenon growing quickly, especially in the current Corona pandemic that has further accelerated online shopping.

In our digitalized world, we are affected by influencers and recommendations. We search products through marketplaces and can compare prices with our fingertips. We no longer have the “local trader” relations of older times. However, we do seek the same type of relationship, longing for personal recommendations based on who we are as individuals.

In 2017 we conducted our first loyalty study – interviewing 20 of the largest Swedish retail companies. The interviews were conducted with managers responsible for loyalty programs, CRM, marketing and different types of membership programs. And the conclusions were quite clear. The top three success factors for a loyalty program were having:



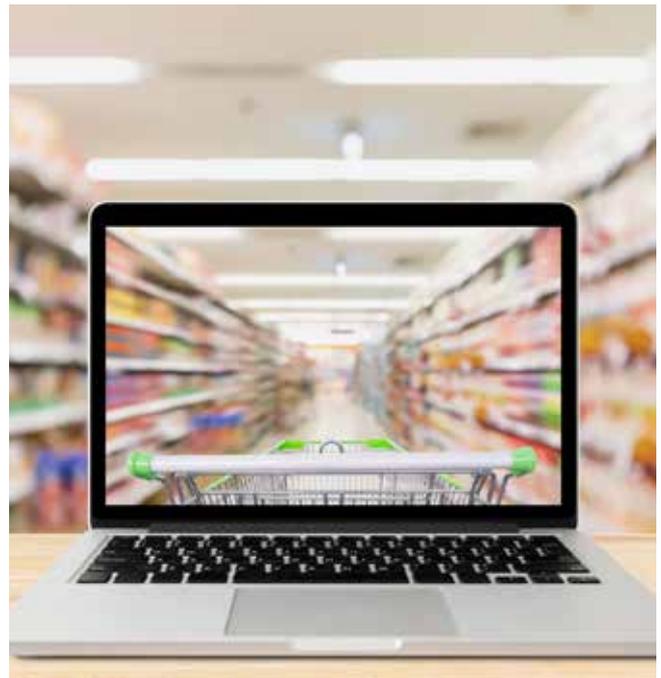
1. a clear and well adopted strategy (for the loyalty program)
2. an ability to gather, analyze and act upon customer data
3. an ability to create value for members through interaction and relevant offerings

At that time, only 35% of the respondents had a clear and well implemented strategy for their loyalty program. Whilst 80% lacked the right processes, tools and IT systems to perform the necessary analysis of customer data. Our conclusion was that few retailers were able to offer truly personalized offers.

Our 2021 loyalty study finds significant improvements have been made. But I, as a customer, still feel bombarded with irrelevant promotions from many retailers. For example, when opening an ad for a flat screen TV on occasions such as Black Friday, the same TV-ad pops up on every webpage that I visit. We know the technology to follow our movements exists, the challenge is in how it is used. When CGI talks to our retail clients, it is clear the ambition is to promote personalized offers based on comprehensive individual profiles that includes personal preferences and interests.

So, even if the technology maturity has developed a lot since 2017, loyalty approaches are still not grasping the opportunities. Therefore, when we launched our second loyalty study during the summer of 2020, we had two objectives.

1. To find how companies should act to make customers truly loyal in the digital omni-channel world
2. To provide hands-on advice to retailers seeking to provide their customers with truly relevant and personalized offers



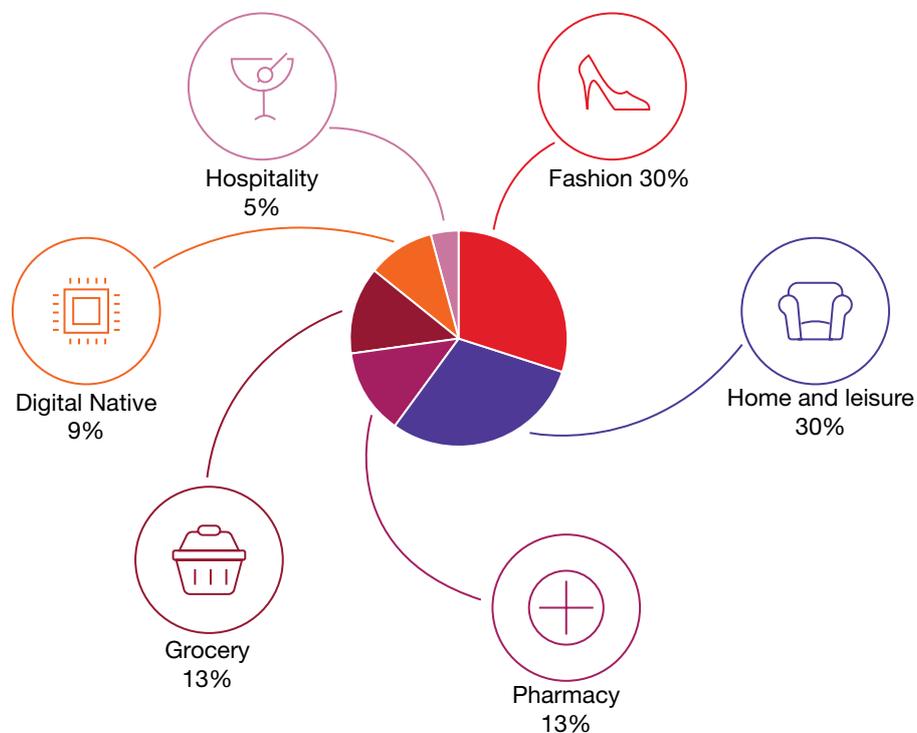
Stockholm January 8th 2021

**Christian Haeger**

Vice President Retail & Consumer Services,  
CGI Stockholm

# 3. Methodology

The study is based on in-depth interviews CGI conducted with Loyalty, Marketing, Technology and CRM Managers at 23 of the largest retail and consumer service companies in Sweden. The participating companies are all leaders within:



Companies involved in this study had an average turnover of 7,2 Billion SEK in 2019 with an average of 2,538 employees. With the interviews being conducted between May and September of 2020.

The in-depth interviews were performed face-to-face through online platforms, based on a set of predetermined questions, whereas the qualitative answers were quantified. Additionally, each respondent also answered a questionnaire after the in-depth interview, consisting partly of open multiple-choice questions and others with a numerical scale from one to six. Answers in the range 1-2 are interpreted as "Disagree", 3-4 as "Partially agree" and 5-6 as "Agree".

# 4. Key areas of investigation

## 4.1 The strategic focus on relevance

### Loyalty strategy

We recognize it is key to formulate a loyalty strategy. One that guides employees on how to act, what to accomplish and sets the plan for how the company will gain a competitive edge. This is reflected by the study's respondents, with 77% stating they have a formulated strategy in place. Nevertheless, a well formulated strategy is no better than its execution. Only 38% of respondents believe their strategy is well adopted across the organization. That is to say, only 29% of respondents have a well adopted strategy. Which is a similar result to our 2017 study of 35%. Therefore, there is still room for improvement in strategy execution.

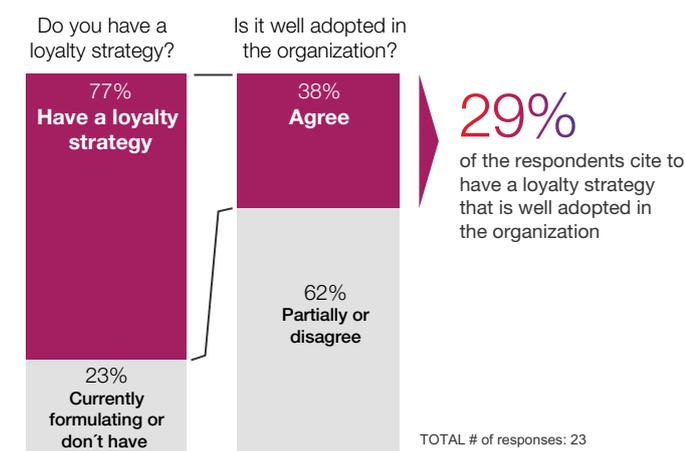
At a general level, the respondents indicate their member program objectives are to increase sales, the customer lifetime value, and emotional connections.

Since 2017, we see a desire to shift from lower forms of engagement loyalty, such as mercenary and inertia, towards true loyalty. How is this shift to be achieved by retailers? The answer: by being relevant in the interactions with their members and increasing engagement

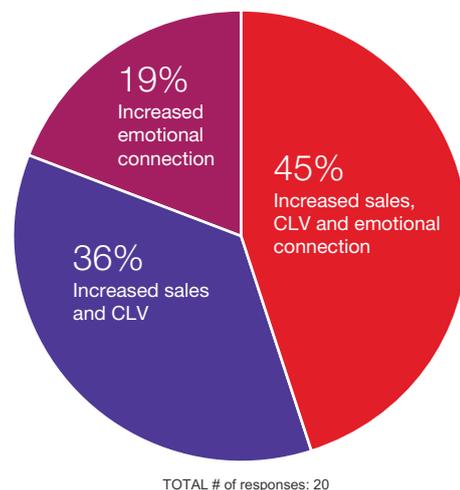
**“We have not guided store staff well enough so that they can serve, guide and inspire our members”**

**Marketing and CRM Manager**  
(Home and leisure company)

### Only 29% of the respondents cite to have a well adopted loyalty strategy in the organization



### Main objective of our member program

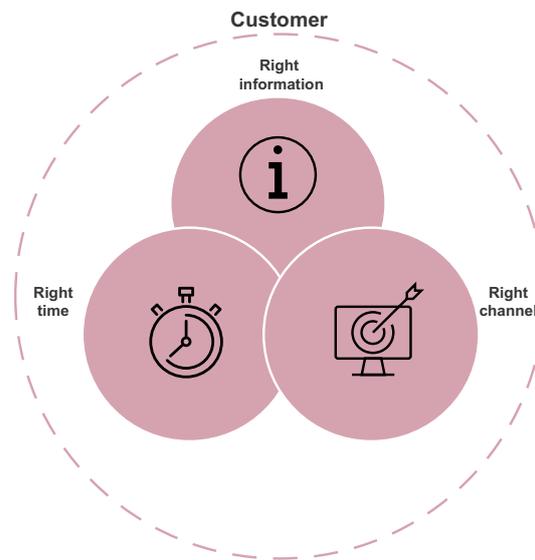


## What types of loyalty are there?

False		Real	
 <p><b>Inertia Loyalty</b> <b>Description</b> When customers do not have adequate options, they only stay loyal because they have to</p> <p><b>Market characteristics</b></p> <ul style="list-style-type: none"> <li>• High barriers to exit</li> <li>• Low involvement</li> <li>• Monopolistic markets</li> </ul> <p><b>Example(s)</b></p> <ul style="list-style-type: none"> <li>• Banking</li> <li>• Airlines</li> </ul>	 <p><b>Mercenary Loyalty</b> <b>Description</b> When customers are payed for their loyalty with discounts, coupons etc.</p> <p><b>Market characteristics</b></p> <ul style="list-style-type: none"> <li>• Cost-based competition</li> <li>• High competition</li> <li>• Low barriers to exit</li> </ul> <p><b>Example(s)</b></p> <ul style="list-style-type: none"> <li>• Retail</li> </ul>	 <p><b>True Loyalty</b> <b>Description</b> When customers feel an honest, emotional connection to the brand and are willing to overcome obstacles in order to stay a customer</p> <p><b>Market characteristics</b></p> <ul style="list-style-type: none"> <li>• High involvement</li> <li>• Highly visible products</li> </ul> <p><b>Example(s)</b></p> <ul style="list-style-type: none"> <li>• Fashion, consumer electronics</li> </ul>	 <p><b>Cult Loyalty</b> <b>Description</b> The highest level of true loyalty. When customers feel like a brand is part of their identity</p> <p><b>Market characteristics</b></p> <p>Same characteristics as for true loyalty.</p> <p><b>Example(s)</b></p> <ul style="list-style-type: none"> <li>• Across all industries</li> </ul>
 <p><b>Engagement</b></p>			

## What does it mean to become relevant?

In retail, where offerings and opportunities are almost endless with the help of the web, establishing loyal customers has somehow become a costly business. Customers' expectations and needs, such as simplicity when ordering a product or smoothness when interacting with a company, are continuously changing. As new shopping channels are launched through social media, acting as inspiration and influence buying behavior, companies have to be relevant for the customer and meet their real needs, preferences and interests. Relevance is the ability to connect and communicate personalized and targeted information towards customers.



“It is important not to push irrelevant offers but it is a challenge to capture the customer’s footprint and communicate what they want”

**Marketing and CRM Manager**  
(Home and leisure company)

When we asked about views on relevance, our respondents named three key perspectives in the interaction with the customers: communicate the right information, in the right channel, at the right time. These concepts strongly resemble the traditional “marketing mix” (product, price, place and promotion) published a few decades ago, leading to the question, are these concepts still relevant and applicable in today’s landscape? Yes – we think so, and it turns out there are 5 more P’s we should address.

## Perspectives of relevance to think about

Zealley et. al., not so long ago published an article in Harvard Business Review. “Marketers Need to Stop Focusing on Loyalty and Start Thinking About Relevance” (2018). It concluded that, to become a living business, companies should expand their thinking to include the following five P’s:

1. Purpose: Customers feel the company shares and amplify their values.
2. Pride: Customers feel proud and inspired to use the company’s products and services.
3. Partnership: Customers feel the company relates to and works well with them.
4. Protection: Customers feel secure when doing business with the company.
5. Personalization: Customers feel their experiences with the company are continuously tailored to their needs and priorities.



These additional 5 P’s form a simple and comprehensive test of relevance. The first four extend from the top to the bottom of the psychological need’s hierarchy — from what Maslow called “self-actualization” or fulfilling your full potential, to safety, a more basic need. The fifth, personalization, enables companies to connect with customers around any of these needs and increase relevance. How does this work in reality? CVS Pharmacy is a company that has succeeded in adapting this approach.



### Case: CVS Pharmacy's success through the 5P's

CVS Pharmacy, one of the largest retail pharmacies in the U.S, offers a good example of the five P's. CVS Pharmacy is moving beyond a purely transactional retail model and is focusing on helping their customers on their path to overall better health. By doing this, customer share the company's purpose. It also satisfies their desire to feel cared for and helps build the trusted relationship most customers have with their pharmacist—an example of protection. CVS has a great focus on social responsibility and are supporting local communities, which in times of the Covid-19 pandemic, has proven to be much appreciated—making the customers feel pride.

Additionally, CVS is embracing technologies like predictive analytics intelligence, and machine learning to send their customers personalized reminders to refill or take their medications, in the spirit of partnership. Furthermore, the company has teamed with AI giant IBM Watson to anticipate patient needs, including when they might require more urgent care - Personalization. These new roads and practices will increase the value for customers in maintaining an active engagement with a pharmacy retailer—and make the CVS brand more relevant, through protecting their health and well-being.

“Our goal is basically to collect as much data about customers as possible and become as relevant and personal with them. In this way we can reach loyal customers.”

**CRM Manager**  
(Pharmaceutical company)

# Personalization as an approach to relevance

It is not unusual for retailers to communicate the same offer, at the same time, through the same channel, to the mass market. However, as a customer, you do not want to be bothered with irrelevant discounts, e-mails, or texts. Instead, they want to be informed of offers that meet their specific needs (at that specific time). Personalization is an approach to be more relevant through increased customer engagement whilst focusing on delivering tailored and meaningful customer interactions. Personalization also plays a critical role across the full customer life cycle—acquisition, customer engagement, average spending, frequency of purchase, cross-selling, and churn prevention among other things. Out of this study’s respondents, 90% are striving to become more relevant towards

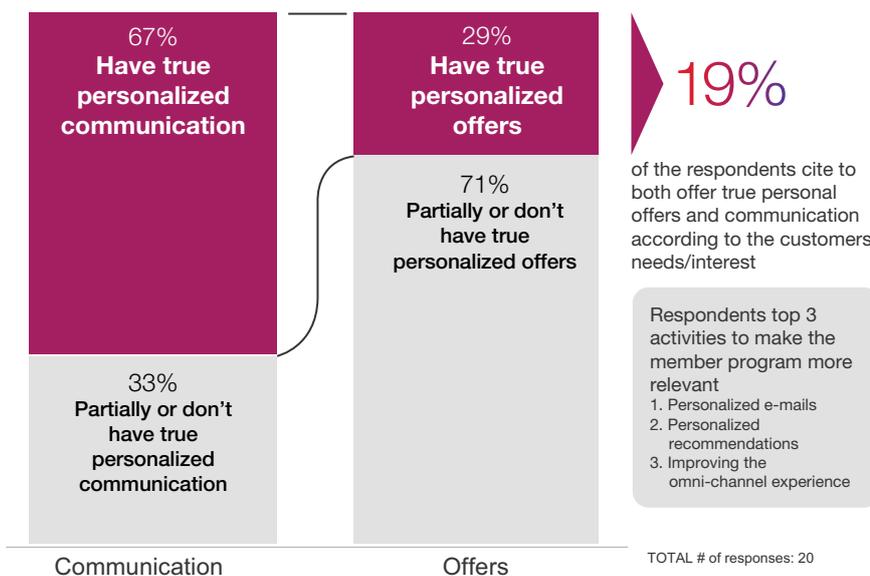
their customers. And to achieve this, they are looking to personalize their offerings and communicate those offers according to the members’ needs and behaviors.

“We want to be “Top Of Mind”. It is the customer’s need that drives loyalty. The important thing for us is to always be relevant!”

Senior CRM Manager  
(Native technology company)

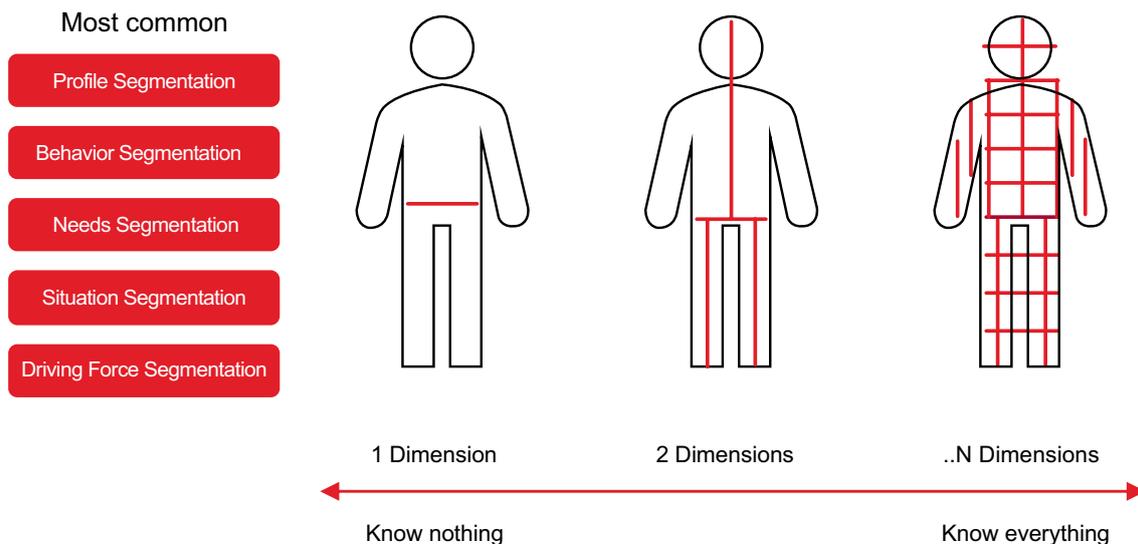
## Only 19% of the respondents claim to have true personal offers that is communicated in a personal manner

How do you work with personalization?



“For us, it is first and foremost about increasing the number of users and then, in a later stage, focusing more on personal campaigns and relevant offers.”

CRM Manager  
(Home and leisure company)



## Segment to create personalization

Segmenting members is a common way of creating groups of customers into the smallest common denominator. The most common segmentation, according to our respondents, is what is called profile segmentation. For example, demographic (age, gender) and geographic (where they live). Interestingly, since our 2017 study, we see an increased use of behavior segmentation whereas customer lifetime value as a metric to target and guide actions dominates.

In general, the more dimensions you add to a segment, the higher precision and level of personalization felt by the recipient. One example could be life situation segmentation such as “moments that matter”, e.g., if a person moves to a new apartment insures a pet, or registers a car at the household. As a retailer, having access to that type of data could help increase a higher level of personalization. If you do not have that many data points on a member (just a slice of a person’s life), then psychographic segmentation such as their values, attitude, and lifestyle can be powerful. Our advice: think about “moments that matter” and segment accordingly. The secret is to create sub-segments as well as categorizations of the broader archetypes mainly used to catch preferences and behaviors through the customer journey that are triggered at the right time.

“No, we do not categorize our members, but it may be done in the future. The reason is that we do not have the system support needed to extract data.”

**Loyalty Manager**  
(Pharmaceutical company)

However, at the same time, creating too many segments could turn into a costly business, having to manually manage and create content for all those segments. But having too few segments leads to unpersonal experiences. Therefore, in order to truly scale personalization, you need technology that can automate the personalized communication. In summary, it all boils down to understanding your customers, profiling them with detailed attributes and what connects them to you. And to understand that, you need data.

“We collect information through; online behavior, sales history and data linked to our warehouses but unfortunately there are no integrations linked to the customer behavior.”

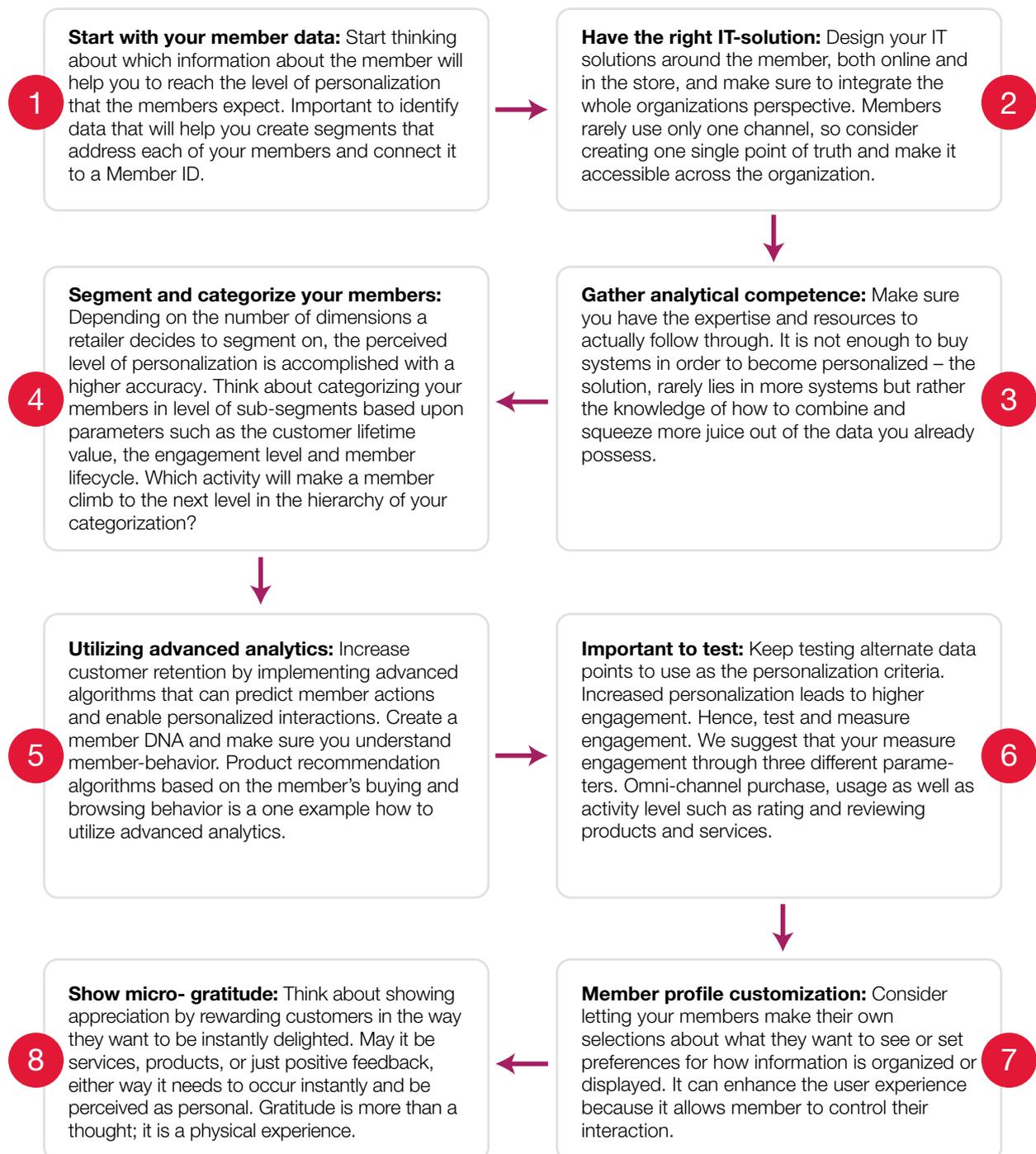
**CRM Manager**  
(Home and leisure company)



“We want to reward those who shop the most, but today everyone is treated the same as we do not categorize our members.”

**CRM Manager**  
(Home and leisure company)

## Eight practical steps to consider when creating the perception of personalization

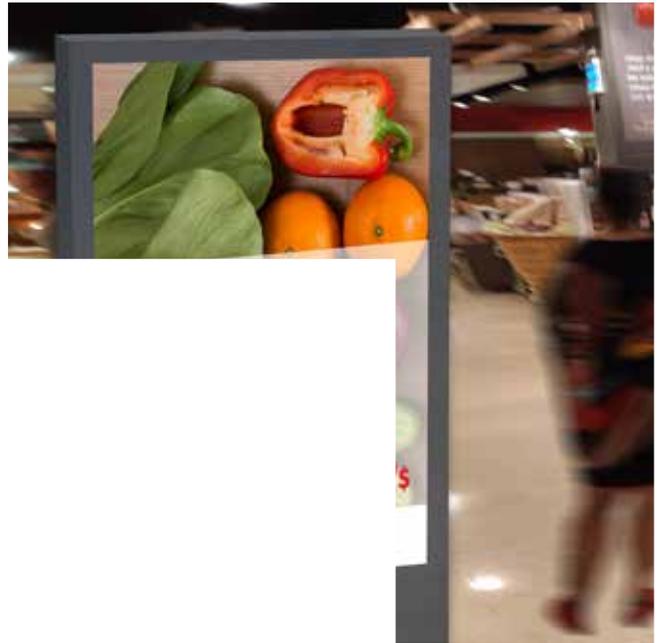


## 4.2 Data and the analytical journey

### Today's landscape within data and analytics

To become more relevant and gain a loyal customer base, companies need to truly understand their customers. To achieve this, companies need data. Our 2017 study discovered that “gather, analyze and act upon customer data” was ranked as the second most important factor for a successful loyalty program. So, how far have companies come within analytics and capitalizing on data?

When asked “how advanced is your level of analytics today?”, only 27% of our respondents said they use advanced analytics extensively. In order to benefit from more advanced analytics, companies need to invest and secure the foundational levels. Think of Artificial Intelligence as being at the top of a hierarchy. Yes, self-actualization (AI) is great as in Maslow's hierarchy of needs, but first you need food, water, and shelter (data ingestion, transformation and consolidation to a single source of truth). Without the proper foundation - the first three levels in the hierarchy, the higher level of analytics can never be reached with sufficient success.

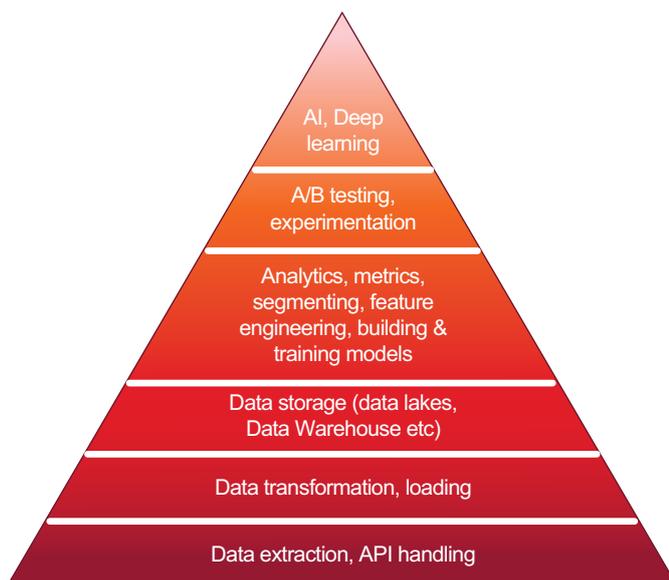


#### How advanced is your level of analytics today?



TOTAL # of responses: 23

## The Advanced analytics Hierarchy of needs



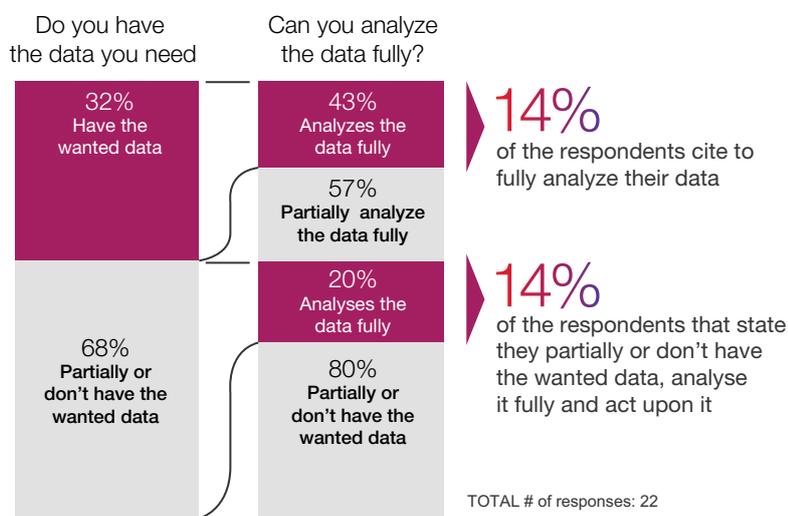
# 28%

**Claim to fully be able to analyze  
& utilize the data at hand**

## Analytical capabilities

It is often complex, time consuming, costly and resource intense to be at the forefront of analytics and get value out of one's IT investments. Many companies have already invested heavily in CRM systems and other data tools. But they are now struggling to use those tools to their full potential and get a return on their investment. Given that more data has been generated the last three years than in the rest of human history, companies often have more data than they can handle. The challenge becomes one of how to focus on the right data - filtering the noise - while generating better insights from existing data, as only 28% of respondents express they can fully analyze the data they have.

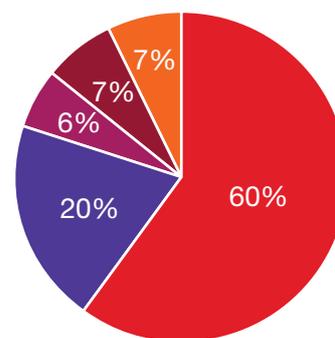
Only 14% of the respondents are able to fully analyze their customer data and have the data they need



“We have bought a Rolls-Royce of a CRM system while in practice only take advantage of the front wheel”

Marketing and CRM Manager  
(Home and leisure company)

If you could hire another person, what expertise would that person have?

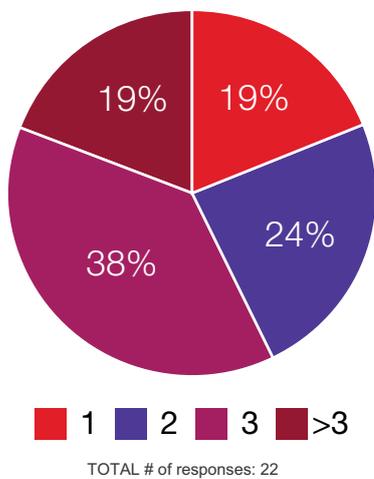


Analytics Marketing CRM expert  
Mail expert Project leadership

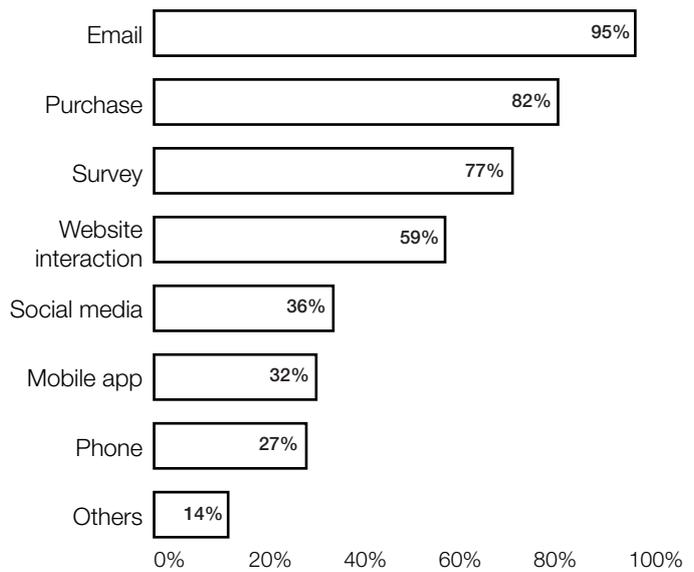
“If we could hire a person, it would be someone with analytical skills, the broader the better. We have a lot of data but have no one who has time to take care of it.”

Marketing Manager  
(Home and leisure company)

### Number of systems to collect data from at CRM department



### How do you collect your customer data?



### Some of the key roles and their differences to build an analytical organization



#### Chief Data Officer (CDO)

- ✔ **Task**  
Bridging technological perspective to C-level
- ✔ **Skills & Talents**  
Data warehousing, extract transform load, data modelling, system architecture



#### Data Owner

- ✔ **Task**  
Accountable for the quality of one or more data sets
- ✔ **Skills & Talents**  
Domain knowledge connected to data set



#### Business Analyst

- ✔ **Task**  
Analyze the business, processes to leverage strategic insights
- ✔ **Skills & Talents**  
Excel, Extra: programming, visualization tools



#### Data Steward

- ✔ **Task**  
Expert of data inventory, responsible for the organization's data governance processes
- ✔ **Skills & Talents**  
Administrative and communicative skills as well as insights as e.g. GDPR



#### BI Developer

- ✔ **Task**  
Develop, deploy, and maintain BI tools
- ✔ **Skills & Talents**  
Visualization tools such as Power BI or Tableau, data warehousing
- Front-end oriented



#### Data Scientist

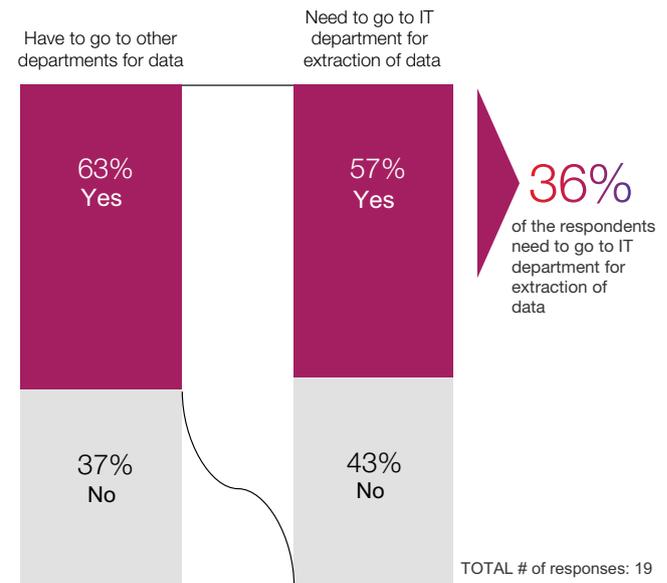
- ✔ **Task**  
Building predictive models and doing deeper data analysis
- ✔ **Skills & Talents**  
Machine learning, statistics, data exploration, business understanding

# Data quality and access

In order to scale personalization, companies really need to work cross-functional, engaging with marketing, operations, and tech experts to build organizational capabilities that can sustain change and establish new ways of working towards customers. For many organizations, a large part of the analysis work is spent getting hands on the data as well as finding the right people in charge of that data. This is time consuming, both for the team extracting the data and the team receiving the data. Time that could have been spent on the actual analytical work.

As the channels for customer interaction have increased over the years, so have the number of systems. According to the respondents in our study, email, purchase history, and surveys are the most common channels of collecting data from members. As a result, we found CRM departments have to extract data from an average of three separate systems, even sometimes up to ten or more. The impact of this is that 63% of respondents say they must go to other departments to get their data, and out of those, 57% say that they can only get data from the IT department. This is not a very agile approach to data and creates a lot of challenges. Not least, extracting data from different systems, with different standards, often makes a lot of manual data transformation necessary, increasing the risk of errors. This causes unnecessary stress, as well as inefficiencies, whilst waiting for hours, and sometimes days, to receive the data.

One way of handling multiple data sources is to build a digital infrastructure, consolidating the data to a single source of truth (SSOT). A data warehouse (DW) is one solution which 27% of the respondents expressed



they use. Its purpose is to increase data quality and consistency, as well as making the data easier to access for the whole organization. Whilst consolidating all data sources to a DW might come off as complex and sometimes a costly initiative, you don't have to tie all systems together at once. Start small, perhaps tying demographic data together with transactional data and data from the web, aiming to build a 360-degree view of the customer. But be aware that you seldom get the whole view of the customer from one interaction point in isolation. You only realize full potential when looking across multiple channels.

However, having a SSOT is not enough, companies need to continuously look over their data. Initiatives that companies should be aware of are master data management (MDM) and data governance. Both are growing in importance. Data quality is everything in relation to increased amounts of data and being able to achieve various levels of AI and machine learning in the long term.



“We have the data we want but need to better tie it together.”

**Loyalty Manager**  
(Pharmaceutical company)

# Where do we start from?

To utilize data more extensively in your membership program you need to understand what data you have and what data you need; as well as how to store and consolidate that data. Below are three questions to ask yourself when establishing your long-term data strategy.

## 1. What level of analytics are we at and where do we want to be?

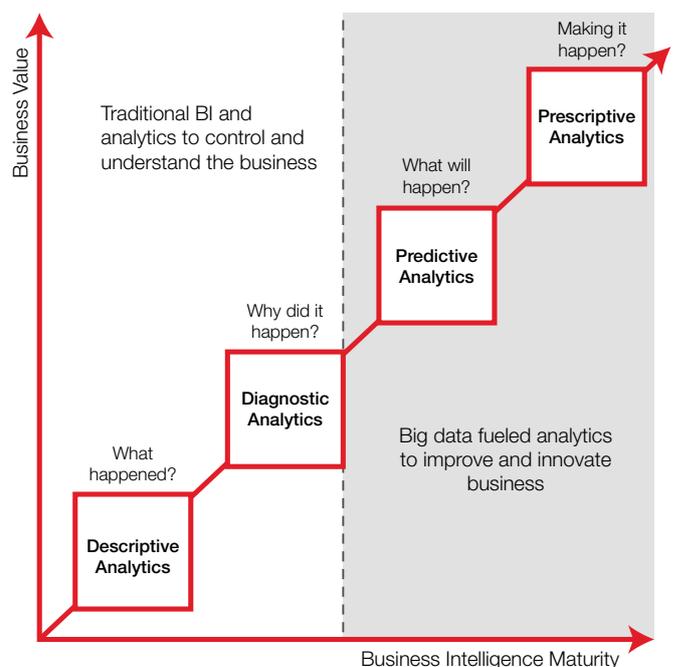
First, identify your current analytics capability. You need to know from where you start your journey to be able to reach the next. Is your analytics only helping you understand what happened in the past (descriptive analytics), are you able to predict what will happen, or even make the future happen (prescriptive analytics)?

## 2. What data do you have?

Next is to understand what data your company has and from where it originates. What data is first party (from internal systems, such as sales data), second party (from partners) and third-party (external data, often bought information relating to customers)?

## 3. What strategy do you have to tie the data together?

Finally, it is crucial to have a clear strategy about what data supports the member program's objectives. As well as how that data is consolidated to the single source of truth; from where it can be easily accessed.

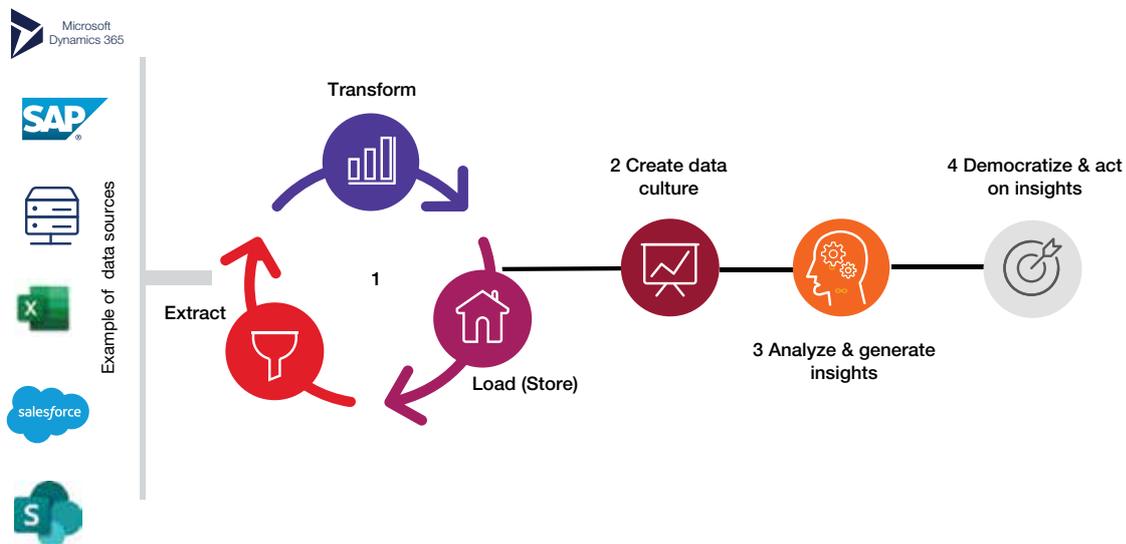


# Thinking of data as a commodity that needs processing

To capitalize and squeeze out all the value from the available data, companies have to first zoom out and understand the complete value chain of data. Data, which has been described as our time's new oil, can be looked at as a commodity. As with oil, data needs processing before being used, carefully and deliberately going through several steps to deliver real value.

## 1. Extract, Transform and Load – Increasing data quality

Extract, transform and load is a technical term for the first steps in data processing. In short, the goal is to extract the data from all the different sources and make it coherent, so it is in the same format independent of what system or source it came from. Thereafter correcting any errors according to defined rules and then storing the data in the adequate type of storing. As previously mentioned, the output from more advanced analytics is only as good as the foundations. So, the purpose of these steps is to ensure data quality.



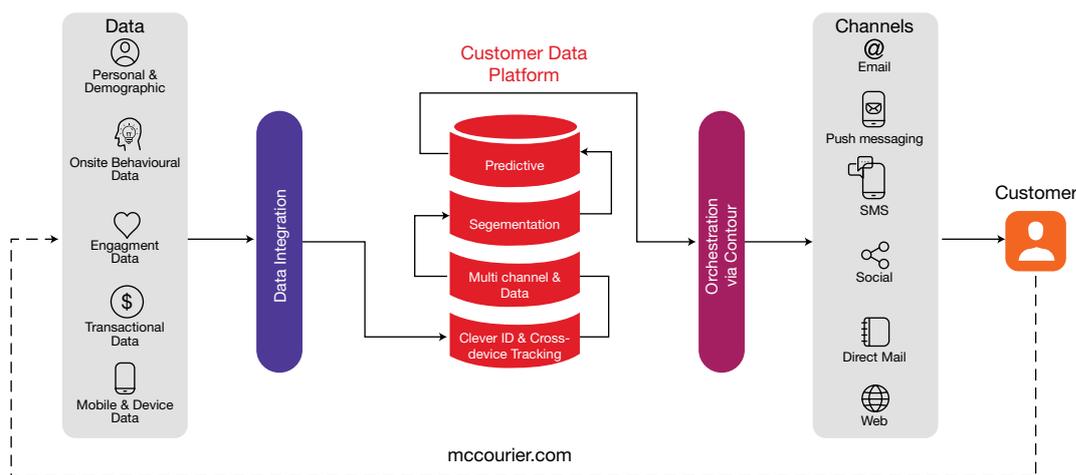
## Customer Data Platform

Looking at upcoming technologies for creating a single source of truth, Customer Data Platforms (CDPs) make it possible for marketers to track data-driven customer interactions in real time. Just as a house doesn't come together until all the parts are put into place, it is only when data is combined that it becomes truly valuable and ready to use. A CDP takes the data a company already has, combines it to create a meaningful customer profiles and makes it accessible across the organization. Having the data in one single source, the life of an analyst or data scientist is immensely simplified. Multiple truths are eliminated, and data quality has been assured. When acquiring a CDP solution, it is worth looking at both commercial products as well as the opportunity provided by open source solutions.

## 2. Data Culture

To make a member program data driven, requires more than getting the right technology and hiring data experts. Companies have to create a culture around data that is ingrained into the company DNA. According to Professor Thomas H. Davenport in a report for Harvard Business Review, there are three common ways of creating a data culture:

1. **Top down** – senior executives conclude that data is critical to companies' success and move the organization toward a data culture
2. **Middle out** – a group of business unit managers collaborate to move the organization in a data focused direction



“There is a culture today, that we do things because we “feel/believe” in them rather than “the data is telling us.”

Head of CRM  
(Grocery company)

**3. Bottom up** – often a smaller group, front-line workers driven by interest – change the culture through a social movement, moving procedures and routines towards a data driven approach

To achieve real change, retailers need to address all three approaches at the same time. Retailers need to educate staff throughout the organization in appropriate tools in order to make better analysis and decrease intuition-based decisions. The goal is not to turn everybody into data scientists, rather, it is to increase data literacy so communication and decisions across different parts of the organization are understood.

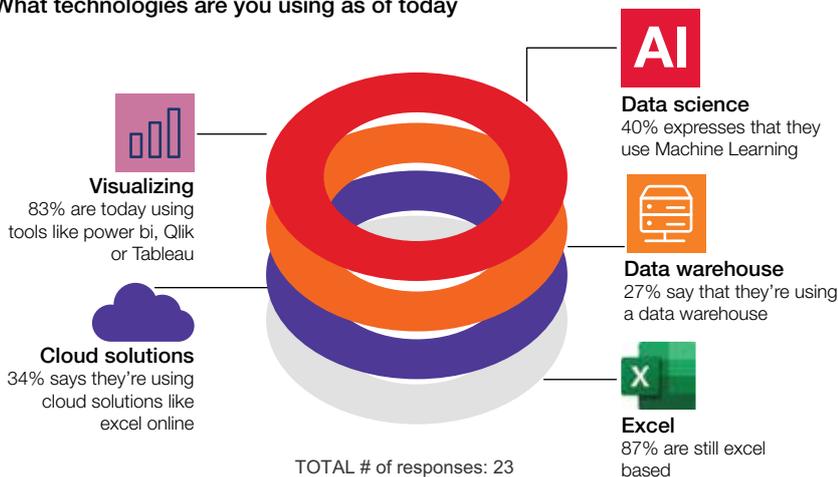
**3. Analyze & generate insights**

Analyze and generate insights is all about how companies capitalize on their own data and how they integrate first-, second- and third-party data sources to create a 360 view of the customers. Looking at how to analyze data and what tools to use to generate insights, 83% of respondents confirm they use some kind of tool for visualization: Power BI, QlikView and Tableau being among the most common. For web analytics, google analytics is the most dominant tool to track customer interactions. Trying to get an indication of future trends, the top 3 investments retailers expressed they're looking to prioritize are: AI, chatbots and APIs.

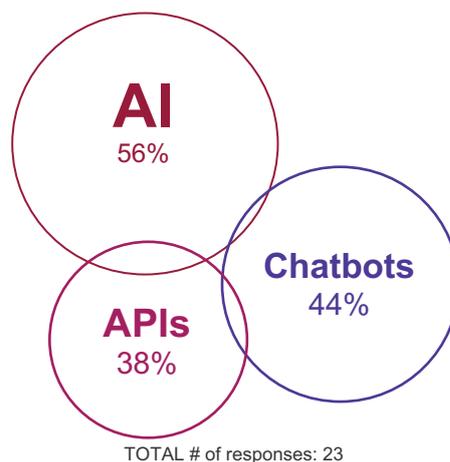
Regardless of technologies, retailers need to have a structured way to combine different tools and information from multiple channels into a single source of truth, while democratizing insights across the organization in real-time. A way to push retention for instance, a chain of events after a customer bought a product in a store could be created, starting with a follow-up mail sent 3 days later linking to recommended products on the website. One week later, the customer gets a notification with a 15-percent discount nudging to make another purchase within their scope of interest. Vice versa, combining data from multiple channels creates better understanding of potential churners that can be used to prevent them from leaving.

To really scale personalization, technology and different models based on machine learning is necessary in order to fine tune messages and not having to create content and recommendations manually. In the end, in order to truly understand the customers, companies also need to understand the why behind the behavior, using strategies as the design thinking process to understand the driving forces and the customer's true preferences.

**What technologies are you using as of today**



**Top three future investments**



## Three concepts of how to work with recommendation engines



### Content-based recommendation

An algorithm looks at what the customer has seen or bought and recommends similar things. This can be powerful when you do not have much data about your customers or potential customers. This method does not study behavior directly but relies on having an algorithm that "understands" the products themselves, which is often done with product tags. In general, the problem is purely technical to build a good "embedding". This means making an algorithm that places all the articles in a geometric space where identical articles are close to each other in the digital space.

This can be exemplified by:

How do you make a red shirt end up close to a blue shirt but quite far from a red skirt to the customer?

This is the type of recommendation that most regular online stores use because there are many third-party providers.



### Collaborative filtering

This is a very powerful method as it does not make any assumptions about customers' demographic information or product articles but is solely based on behavior on the platform.

You collect information about all articles that all customers have looked at or liked and put it in a large matrix.

You can then ask the question: Given that many customers who have liked the same things you have liked also like thing X, what is the probability that you also like thing X?

The assumption made is that people who have the same behavior historically will have the same behavior in the future. It also requires a lot of historical data on customers. Netflix and Amazon are well known for this method.



### Hybrid methods

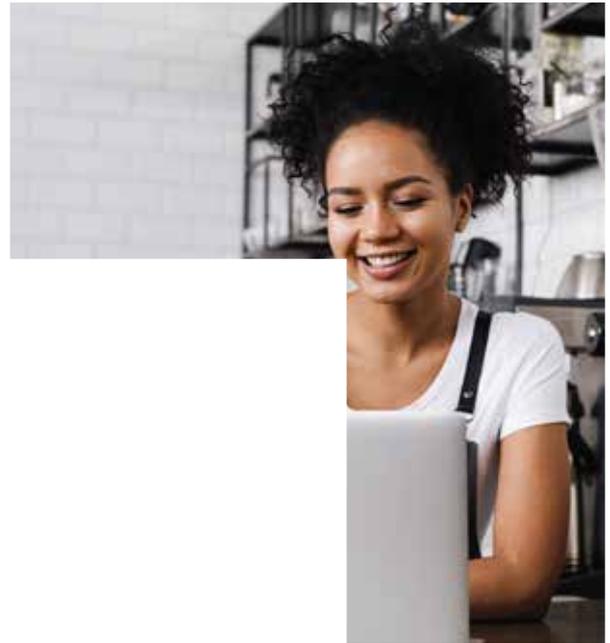
It is conceivable that it would be useful to combine both methods in order to avoid the negative aspects of both. For example, by merging the predictions into a model or using content-based on new customers and collaborative filtering on customers who have liked more than X articles

## 4. Democratize and act on insights

Finally, the last step is to democratize the insights and make them actionable out in the organization (and not only for the CRM department). Only 31 % of respondents today say they continuously share their CRM data to other parts of the organization. Insights without actions fulfill no purpose and seldom create any change. In order to secure the actions with valuable output, two steps need to be clear:

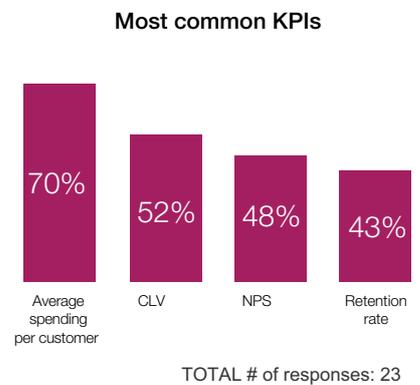
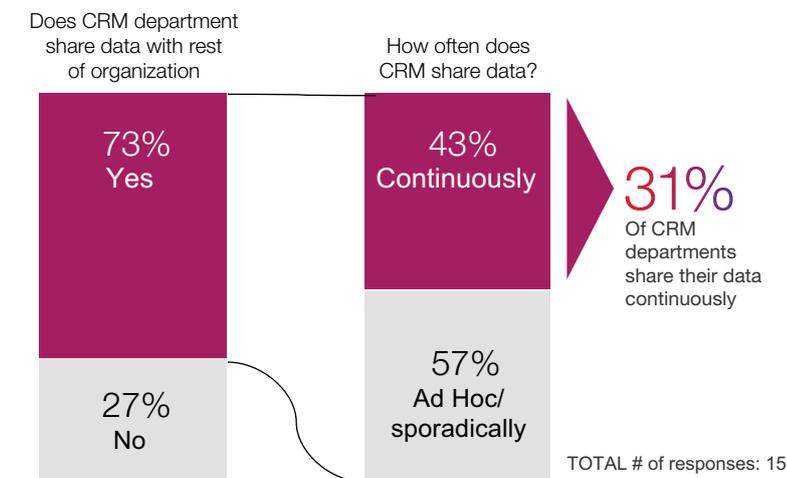
1. **Set the processes on what initiative will follow certain insights** – Do not just create pretty dashboards. Instead, link each KPI to a clear initiative or strategy. If you can't link a KPI or a visual in your dashboard to an action, remove it.
2. **Have clear channels out to the organization for spreading insights** – Having clear channels of communication out to the organization is crucial. If these channels are not established, the CRM data and insights will not maximize their value for the organization. One example is a direct link to management in order to achieve effective and immediate actions because of new insights.

“Today you do not really understand what information you can extract ... So, no one asks. We need to go from push to pull of data”



**CRM Specialist**  
(Fashion company)

Nevertheless, what gets measured gets done. It is key to test your initiative and measure what was successful or not. In this study, the most important KPIs identified are: Average spend per customers, Customer lifetime value (CLV) and Net promoter score (NPS). Compare to our previous study that highlighted RFM, NPS and CLV. It is interesting to note that CLV had gone from 36% in 2017 to 52% now. Nailing loyalty and member metrics is generally not about choosing the right KPIs, tools or data, but the right combination to get the full picture of what really is going on.

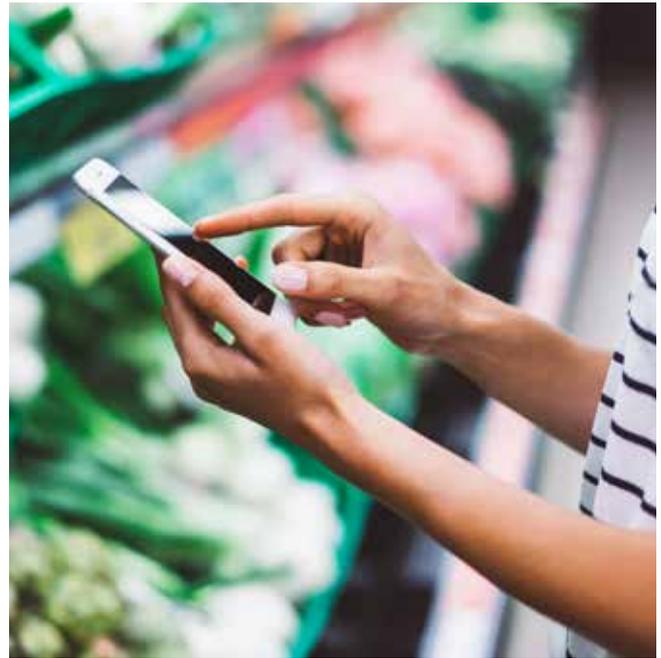


## 4.3 Macro trends and future of member programs

Many of the respondents have expressed their wish to understand the future trends within the industry as almost everyone believes member programs will exist in the future. Among others, the trend to appeal to the emotional side of the customers by creating great user experience and focusing on personalization powered by data driven technologies will grow in the coming years. An uncertain global economy due to Covid 19 and higher focus on profitability will further prompt companies to focus on how to maximize the Customer Lifetime Value (CLV) by retaining existing customers. In 2019, Amazon spent approximately SEK 369 billion in R&D compared to the Swedish government that had a budget of SEK 37 billion for R&D, just to give perspective. The following are some of CGI's observations from the global market:

### **The role of the member program**

Looking at Amazon, their key strategy over the last years has been to create a lock-in effect for their members by encouraging them pay for their membership. The psychological effect of having to pay for a membership creates the inclination for members



to get maximum value for their money, therefore making their purchases at Amazon rather than at a competitor. To make the membership attractive for its cost, Amazon has continuously added value through additional services and advantages, such as free shipping, discounts, streaming services, free books, songs and entertainment. This is something other retailers can learn a lot from, how to create additional value to already existing services or products.

## Reward member engagement

Reward your members every time they engage with you. Members prefer to get rewards because of their engagement with a brand, not just for purchases. Member programs that only rewarded on financial transactions are limited in a way to deliver an emotional experience to their members. Engagement-based member programs, on the other hand, allow greater flexibility, like rewarding members for rating and reviewing your products, when they choose to follow your brand in a social media, or when they decide to share their phone number and email address with you. By rewarding engaged members, the companies are building a better relationship with their members which benefits their business in many ways. For example, by rewarding members every time they recruit a new member, companies are showing how much they appreciate their most engaged members. This activity is also beneficial for the business, since their member base will grow organically.

## Two-way communication

The most common way to communicate with a member today is by sending an email. This is usually a one-way communication and will not leave much room for a member to build an emotional connection to the brand. The most effective way to get valuable insights about the member's needs and concerns is by establishing a dialogue with them. Creating a community for members to interact through social media, as a communication channel, allows direct interaction with members. And is a recommended approach to strengthen the relationship with a member as well to increase member's engagement with the brand.



To share viewpoints and engage in debates through social media can be done through the company's Facebook, Twitter account, company's blog, YouTube channel, chat forums, etc. However, choosing the right communication channels for each situation and leverage from the information that can be gathered are crucial for the success of two ways communication.

## Understanding omni-channel

There is a lot of talk about omni-channel and what channels companies should focus on. In reality, customers never wake up thinking to themselves: “today I’m going to buy a pair of shoes in my app on my phone”. Customers are channel agnostics, wanting to buy where it is the most convenient given the time and the place for their needs. To succeed with an omni-channel presence companies also have to understand the increased complexity as well as the crucial points of the customer journey. One example is to offer click and collect with the option to return a purchased item from online to nearest physical store. Companies need to take into account the logistical challenges of having an increased stock in a local store, rather than a centralized storage. Also, how can this empower your member program to increase relevance gaining loyalty.



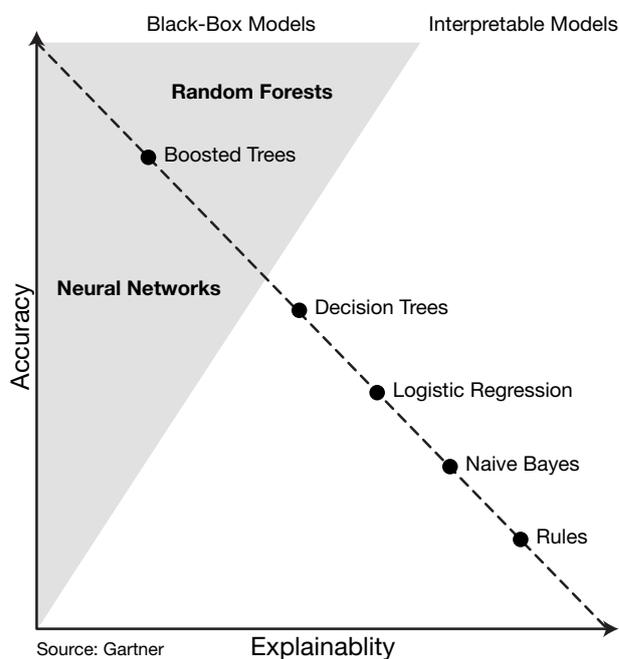
## Nudge the customer

Nudging means that you can push someone in a certain direction to get their attention, influence behavior and act. It is all about understanding how the members act, which behaviors affect their choice and encourage their decision. People typically take the path of least resistance, so making something a default-setting - like sharing data or direct debit payments - could be one way of nudging. Further use of this technique would be to disclose how other members in the program are behaving, embedding it in a social context. For example, grocery chains give extra points if the member buys ecological produce; and a pharmaceutical company informs their members about the ongoing flu season in school, reminding their members to maintain good hygiene whilst recommending appropriate products. When companies design their member programs, they should utilize this technique to guide the member into a certain direction that suits your goals and drive demand by relevant offerings.

## Explainable AI

Everything is moving towards being driven by AI. More software offers, such as plug and play solutions, are implemented in companies where the data is inserted and ready-to-use analytics are returned. This form of black box of system needs transparency, especially when they can be subject to implicit human biases. As an example, an algorithm that decides who gets a loan or not can be prone to decreasing the chances for certain ethnic groups, making the algorithm biased or unethical. In the picture below the more accurate & advanced the algorithm gets (the grey area), the harder it is to understand the underlying factors driving the

result. Take away – when going into more advanced analytics, build systems so people can understand the driving factors for the model, not only understandable for the super technical people.



# 5. Recommendations for Retailers

Our findings uncover challenges the industry face today, which we at CGI have summarized in the main findings. To become relevant in the future, as the customers' digital maturity rate increase, leaders of loyalty need to approach the challenges for the future from four angles.

## **To align your organization with the loyalty strategy, take an omni-channel customer journey approach**

It is a new era of how members interact, think, behave, and make decisions. The line between e-commerce and commerce is slowly fading away. You need to focus on all relevant channels for the customer, at the same time. To get your organization adopt and aligned with your loyalty strategy you need to take an omni-channel customer journey approach. Democratize insights to your staff, such as what the customer ordered last time or do not prefer, and make sure to support the customer through the whole journey to be relevant and personal.

## **Personalization: Create a Member DNA**

Understanding your members interest, behavior and need is key to build a relationship. Increase the number of dimensions of segmentation as well as categorize the members accordingly and create member DNA. The ones who reach a deeper degree of segmentation, combining qualitative and quantitative data, will obtain a higher degree of personalization. Define what personalization really means for your different segments. And, do not forget to be transparent with your members of how you use the data to not lose their trust.

## **Create a Single Source of Truth**

Your company's ability to create insights from data will only be as good as the quality of the data itself. This means getting a deeper understanding of how to process, correct and enrich data, while combining it to create a 360 view of the customer. A member program should be seen as what it is, a gold mine and driver of data to understand the needs and wants of customer. Combining data to one single source of truth, such as a customer data platform (CDP) or a data warehouse (DW), will not only increase the data quality, but it will also create a shared view of what numbers that are correct while democratizing data and insights for the whole organization.

## **Create a Data Culture: improve your organizations skills and data-IQ**

Even though technology and analytical tools are essential to generate insights, this is not enough. Some retailers feel that they are not utilizing the IT investments to their full extent. Only 14% of the respondents feel that they have all the data they need and can fully generate the analysis they truly want. Ensure that decisions are made from data rather than from intuition or routine. Make sure that you create a culture around data that is ingrained into the company DNA to succeed. Decide upon a strategy, may it be train, acquire, outsource or insource employees, the importance is to develop the skills needed for the future.

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## About CGI Retail

### Insights you can act on

Founded in 1976, CGI is among the largest IT and business consulting services firms in the world. Operating in hundreds of locations across the globe, CGI delivers end-to-end portfolio of capabilities, from strategic IT and business consulting, to systems integration and managed IT and business process services, to intellectual property solutions. CGI works with clients through a local relationship model complemented by a global delivery network to help clients achieve their goals, including becoming customer-centric digital enterprises.

Our business unit Retail & Consumer Services in Sweden have a long history working with Retailers and consumer service companies primarily in North Europe and we have built a strong expertise within the area. We are delivering services to our clients from business consulting to technical implementations and maintenance.

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