

NEXT GENERATION LOYALTY

GET IT RIGHT IN FOOD RETAIL

JUNE 2018

PART 1: THE STATE OF SHOPPER LOYALTY



THE VOICE OF FOOD RETAIL 

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Executive Summary – The State of Shopper Loyalty

Retailers have long held the belief that the “Customer is King” and have strived to build a loyal customer base. But what exactly is loyalty? Is loyalty even important and what actions can retailers take to improve the loyalty of their customers? These questions were at the heart of the rationale for taking a fresh look at the topic of loyalty and this report provides the key findings from the research.

One top-level finding from the research was that 80% of shoppers believe they are loyal to their primary grocery store. In addition, almost 3 out of every 5 shoppers (58%) would prefer to shop at one store if they could have all of their needs satisfied by that single store. But, in reality, only 19% of shoppers shop at only one store and only 7% of shoppers spend more than 90% of their budget at their primary grocery store. The implication of these insights is that **shoppers believe they are loyal and have a desire to be loyal but they do not behave in a loyal way because they do not have all of their needs satisfied by their primary grocery store.**

This goes to the heart of the topic of loyalty: loyalty is not a card or a program or an initiative; loyalty has to be earned by consistently satisfying the needs of shoppers better than the competition. This requires food retailers to understand the needs of shoppers and then to consistently take actions to satisfy those needs across multiple aspects of their business. If they do this, **retailers will be rewarded by shoppers who will consistently allocate an increasing amount of their food budget and shopping time to the retailer, which is the practical manifestation of shopper loyalty.**

The research found that retailers can earn or lose the loyalty of shoppers across all elements of their offering. The core merchandising areas (**good prices, quality products, good promotions**) and core shopper experience elements (**clean stores, good customer service, short checkout lines**) are important (i.e., must-haves) to all shoppers. Elements such as **personalized offers, ecommerce and digital engagement are more important to Millennials**. Retailers need to take care of the core elements while laying the foundation for the elements that will be increasingly important for the largest portion of their future shopper base.

Retailers can also earn or lose the loyalty of shoppers across all departments in the store. **Fresh food and center store food departments are most important** to all shoppers; non-food center store departments are less important and are also more likely to be purchased via ecommerce. **Prepared meals, meal kits and in-store dining are more important to Millennial shoppers.**

This report forms **Part 1** of our Loyalty report series in which we review the key findings from the primary and secondary market research on the state of loyalty in U.S. food retailing.

In Part 2 we look at what retailers can do to earn the loyalty of shoppers. After all, the best competitive advantage a food retailer can have is a large and loyal customer base.

Methodology

The data presented in this report comes from two web-based surveys of 200 food retailers and 3,000 shoppers, respectively, conducted in November 2017:

- The survey of 200 food retailers in the U.S. focused on decision makers who have insight into operations and the store's consumer strategy, with titles in merchandising and marketing and private label.
- The survey of 3,000 U.S. shoppers focused on grocery consumer shopping behavior and drivers for consumer preferences. Respondents were frequent grocery shoppers in their households aged 18 or older and represented different age groups, household sizes, household locations and income groups

The study is also supported by qualitative interviews with US Food retail executives and consumers and by secondary market research conducted by LoyaltyOne in the fourth quarter of 2017 over the phone:

- The food retail executives were from a cross section of grocery, mass merchant and dollar stores; their titles ranged from Director level to Senior VP; they worked in marketing, loyalty, merchandising and IT; they all had good knowledge of their company's strategy and how decisions are made across marketing, loyalty and merchandising
- The consumers that were interviewed were from different geographic locations (Northeast, Southeast, Midwest, South, West) with different household locations (urban, suburban and rural), were at different life stages (singles/couples, married with kids, empty-nesters, seniors), were from different generations (baby boomers, Gen X, Millennials), were from different income brackets and had different lifestyles (time-starved, high cooking aptitude, cost-conscious, health oriented, convenience-oriented).



What is Loyalty?

Shopper loyalty has long been identified as an essential objective for retailers of food and non-food grocery products. Academics have built distinguished careers studying the mechanisms that encourage loyal behavior and the social science behind it. Retail organizations have built complex and costly programs designed to attract and hold shoppers by applying loyalty principles. But what is loyalty? There are many different definitions of loyalty but for the purposes of this report we are going to define loyalty in the following way:

Loyalty is when shoppers choose to allocate a majority of their budget and shopping time to a retailer because they trust that retailer to consistently meet their needs.

As an industry, U.S. food retailers already do and invest so much centered on perfecting loyalty. We just know it's important. Yet we return to the question: **Is loyalty important?**

The response must be an emphatic “yes!” Because shoppers have choices. Because competition is fierce. Because change is relentless.

Loyalty is about choices

When we examine the present state of loyalty in the grocery trade, we immediately observe that today's shoppers have more options to obtain products for their households than ever before.

most shoppers assemble their home pantry management solutions by shopping at several retailers

In most geographies, food and non-food grocery products are available from multiple supermarkets, in addition to multiple channels ranging from clubs to dollar stores to convenience stores, specialty stores and supercenters, as well as a variety of online options. We recognize that most shoppers assemble their home pantry management solutions by shopping at several retailers, according to a shifting variety of individual criteria that may range from convenience, to price, to assortment, to persistence of habit, to need-state of the moment.

The reality is that shopper loyalty is more splintered than ever.

- **All loyalty is divided loyalty.** In our Next Generation Loyalty survey of 3000 consumers, 8 in 10 shoppers say they typically divide their grocery shopping among two or more retailers each week. If more than 80% of shoppers routinely split their purchases among multiple grocery retailers, how can we define who is “loyal”?
- **“Primary” does not equal “exclusive.”** More than three-fourths of shoppers say they allocate more than half of their household grocery expenditures to a single store. Among these shoppers, however, only 3 in 10 allocate more than 70% of their spending there.

Loyalty is about competition

Wide choice leads naturally to heightened competition among retailers continually vying for shares of the same shoppers' wallets. Pressure comes from rivals within the supermarket channel and other traditional channels, like mass merchants, club stores, convenience stores, chain drug stores, and farmers' markets. Format innovators and hard discounters continue to push the envelope with respect to assortment and price.

Grocery stores also face loss of sales to a variety of non-traditional retail formats, such as: fast-casual dining; restaurant take-out and delivery; meal kit subscriptions; pureplay online competitors.

ULTIMATELY, THE COMPETITION OVER SHOPPER LOYALTY IS BEING FOUGHT IN THREE THEATERS OF BATTLE:

1. Battle over share of trips and the most lucrative trip types.
2. Battle over share of wallet/pantry spending dollars.
3. Battle over domination in the most attractive, profitable segments and categories.

Loyalty is about change

Despite retailers' best efforts, the loyalty of shoppers that may have been built over years can be disrupted in an instant when shopper alternatives or expectations shift. The opening of a new hard discount store nearby may create curiosity or alter the price equation and cause shoppers to break old patterns. Or a popular new food trend may arrive, such as organics, or meal kits, or organic meal kits.

Rival supermarkets are continuously measuring and adjusting their merchandising and marketing approaches to out-do each other in the hearts and minds of shoppers. They may already share the same shoppers. Against these forces, well-established loyalty programs may tend to dampen down the tendency of shoppers to alter their habits every time a novel concept comes on the scene.

Two current changes are digital options and generational shifts. Today's grocery shoppers increasingly view their world through a digital lens. This has led them to alter their purchase expectations, attitudes and behaviors. They are more demanding, informed, digitally connected, time-starved, and price-sensitive. While younger generations like Millennials and Gen-Z may be more likely to experiment with new options first, the phenomenon is spread broadly among the generations.

DIGITAL OPTIONS:

- Shoppers' expectations have shifted due to online ordering experiences, improved service standards such as delivery times and of course, price. A service standard that may be experienced in any retail channel – even one that is not a direct competitor – is instantly expected everywhere.
- Free delivery is a prime example of this phenomenon. It's far more costly to pick and ship a temperature-controlled, bulky and heavy grocery order than a small electronics item or a few books. That doesn't stop consumers from demanding free and instantaneous delivery – or grocery retailers from wrestling with the business formula that can meet that expectation while still delivering a fair profit.

- Personalized assortments and “people like you bought” product suggestions are the norm on major ecommerce sites. Similar guidance is sure to follow in the grocery sector, where SKU-counts are very large and shoppers need help navigating them on tiny mobile device screens.

DEMOGRAPHIC SHIFTS:

- The arrival of each new cohort of shoppers brings new challenges for supermarket retailers. Millennials are now the largest cohort in history with over 80 million members in the US and they vie with Baby Boomers for influence over all kinds of institutions due to their sheer numbers. Retailers may feel they need to adjust their approach to appeal to digitally-native, Generation Z shoppers who are even more price-sensitive but fewer in numbers.
- “[Millennials] expect businesses, brands and retailers to be loyal to them,” said Marcie Merriman, executive director of growth strategy at Ernst & Young in an interview in Huffington Post. “If they don’t feel appreciated, they’re going to move on. It’s not about them being loyal to the business.” This “reversal of the loyalty arrow” may be a signature trait of the new generation of shoppers.

Taken together, choice, competition and change add up to a provocative story: **For most shoppers, loyalty matters not just with respect to their primary (usually full-line) grocery store, but very likely to the second or even the third retailers they patronize.** In fact, a shopper could exhibit stronger loyalty toward these *non-primary* grocery retailers, if only for certain types or purchases or purchase occasions.

The influences of choice, competition and change present a very challenging landscape for grocery retailers. They require continuous vigilance and adaptability, but this also defines what is perhaps the true opportunity for loyalty: When we accept that we can’t win all of the shoppers all of the time, we adjust our sights to focus on convincing more shoppers to visit our stores more of the time and to allocate as much of their spending as possible to our store. To do this, it’s imperative that retailers understand customer needs as completely as possible and then take actions in order to satisfy those needs better than the competition. This leads us to a newer and more nuanced understanding of loyalty and what it is not.

Loyalty is everything and everywhere

Yesterday's
differentiators are
today's table stakes

EVERYTHING IS ESSENTIAL:

- Shoppers across all groups tell us that they expect retailers to deliver excellence on every quality dimension we surveyed. Price is no longer the singular parameter that drives shopper loyalty. They expect attractive promotions, the right product assortments and excellent shopping experiences all the time and every time.
- Our consumer survey indicates that traditional components of a retailer's offering (low prices, good promotions, convenient locations, good quality/breadth of products, good customer service) remain the best ways to earn shoppers’ business. But emerging/newer components (personalized offers, ecommerce, website, smartphone app) are important to valuable segments (such as younger, urban families).

Yesterday's differentiators are today's table stakes and the emerging/newer components of a retailer's offerings will rapidly become tomorrow's table stakes.

Loyalty is perishable

While loyalty is hard-won, it has to be remembered that it must also be nurtured and continuously reinforced. Retailers have the ability to lose customer loyalty just as they can gain it – retailers must remain vigilant and ensure that they take every opportunity to consistently earn and enhance the loyalty that they win from shoppers. If they don't, then shoppers have lots of alternative options and a host of competitors who would be only too willing to have the chance to win the loyalty of shoppers.

Loyalty is also *not* a number of things

While it is important to understand what loyalty is, it is also equally important to understand what loyalty is not:

- Repeat visits are not loyalty. Sometimes repeat patronage is not the outcome of quality experiences, satisfaction and attitude formation. Such “spurious” loyalty may reflect one or more outside influences or constraints on the consumer.
- Barriers to switching are not loyalty. Just because you stay doesn't mean you are loyal. Changing the bank where you keep your primary checking account is not anyone's idea of a good time and banks understand this all too well.
- Convenience is not loyalty. The commuter who buys coffee each morning from the convenience store located closest to their subway stop is more likely acting out of time and effort-saving habit than any kind of personalized relationship.

Loyalty is also not a loyalty card, program, initiative or department. Just because a retailer has all of these does not mean they have a loyal customer base. Viewing loyalty in any of these ways can lead a retailer to a distorted view of reality when a clear-eyed perspective is essential.

2

How important is loyalty?

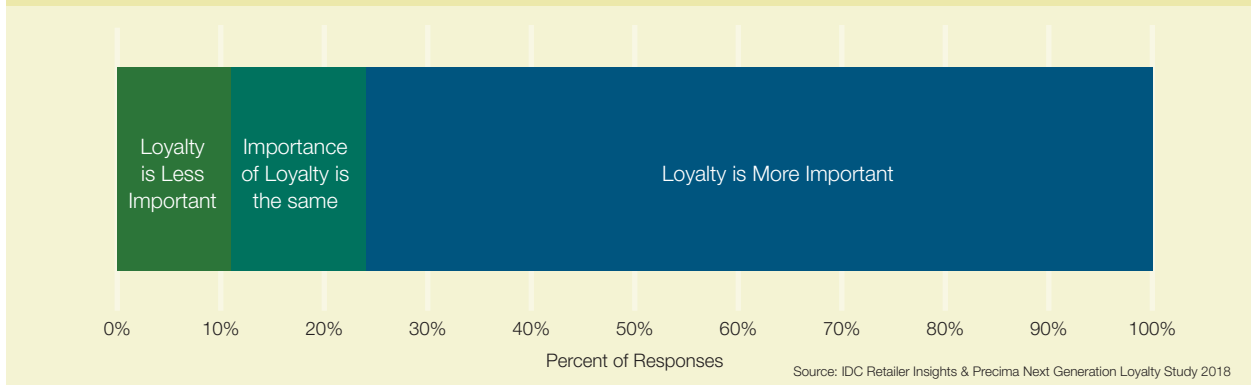
When shoppers were specifically asked to rank the importance of the loyalty program compared to other offering components, it is typically ranked lower than other factors.

How has the importance of loyalty changed in the recent past?

Given recent market developments (e.g. ecommerce companies acquiring grocery stores, new deep discounters entering the market, increased pressure on prices) and ongoing changes in the shopper landscape (millennials, preference for healthy options, trend towards eating out, etc.) we asked retailers how has the importance of customer loyalty changed within your organization over the past 12 months. More than 75% of retailers stated that the importance of loyalty has increased a little or a lot:

FIGURE 1

Given recent market changes, how has the importance of loyalty changed in your company?



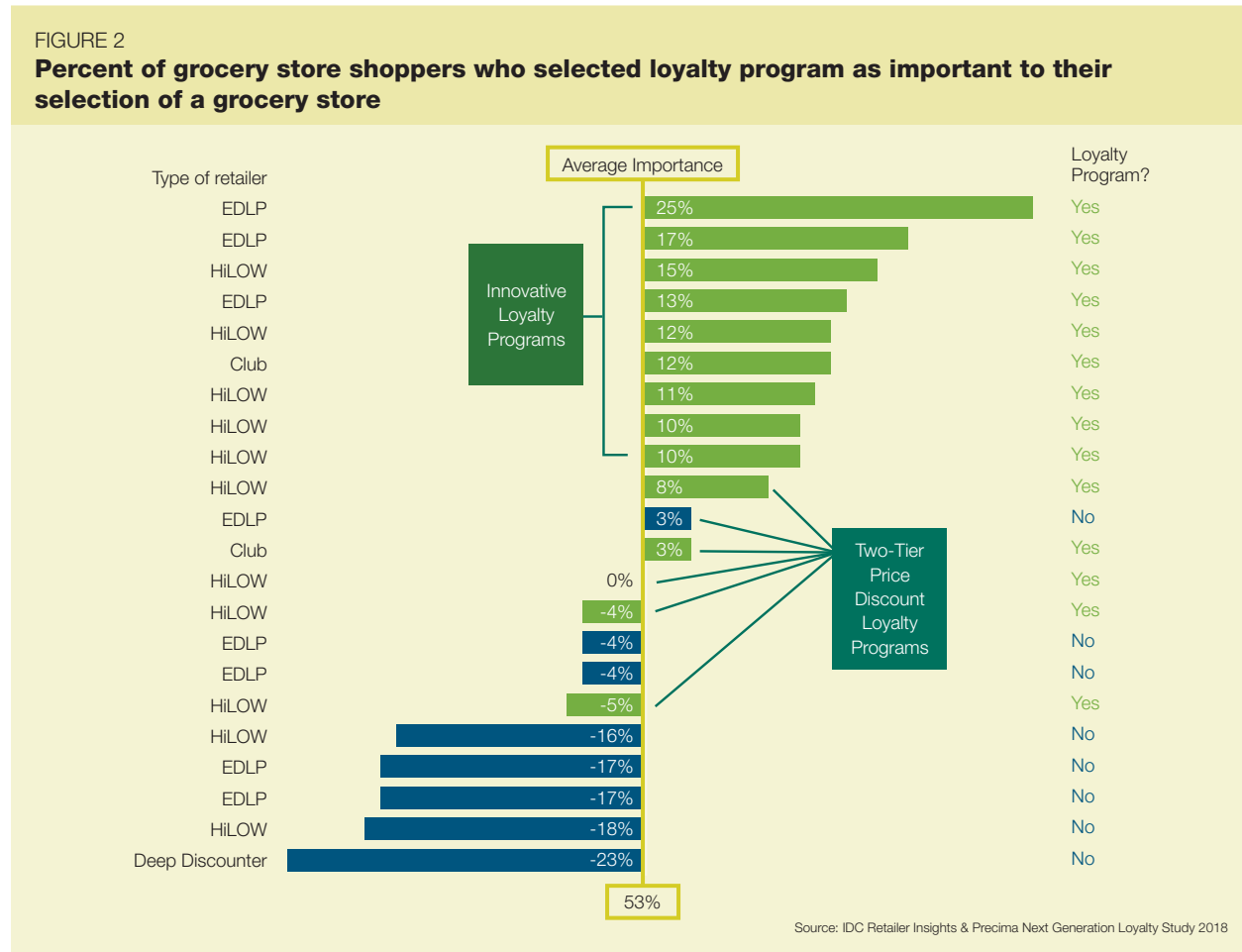
Are loyalty programs important?

Loyalty program importance varies dramatically by shopper and the primary store shopped

When shoppers were specifically asked to rank the importance of the **loyalty program** compared to other offering components, it is typically ranked lower than other factors. This implies that retailers believe they can compete effectively and earn customer loyalty through multiple components of their offering rather than simply through a loyalty program. This picture does vary however when you compare retailers who run loyalty programs that are widely considered to be successful and who use the program and the data that flows from it to satisfy shopper needs.

While the average response from shoppers was that loyalty programs were only important to 53% of shoppers when deciding where to shop, there was a large variation depending on the primary retailer at which the consumer shopped and whether that retailer had a successful loyalty program.

In the following chart, we see that there was an average of 53% of shoppers who said that the loyalty program was important to them in deciding where to shop. But when you look at the data based upon which retailer the consumers shopped at there is a wide variation from 78% on the high-end down to 26% on the low end. Responses highlighted in green, most of which are above the average, all came from consumers who shopped at retailers who had a successful loyalty program. Interestingly, the retailers who are at the top of the list all tend to have innovative loyalty programs whereas the responses highlighted in green that are towards the middle of the pack all tend to have more traditional two tier price discount loyalty programs.



While the consensus is that having loyal shoppers is incredibly important for retailer success, the importance of loyalty programs when shoppers are deciding where to shop varies dramatically depending on whether the retailer offers an **attractive** loyalty program or not which implies that shopper loyalty does not start and stop with the loyalty program. So, what is the best way for retailers to build a loyal shopper base?

Loyalty is not only important, it is critical to future success

Having a loyal shopper base is the most effective way to compete and grow in a sustainable way. **Loyalty has to be earned, consistently, repeatedly**; it can be gained or lost across any of the myriad touch points that shoppers have with food retailers; if a food retailer can consistently earn shopper loyalty then this is the best path to a bright future. Reflecting these facts, loyalty is becoming a higher priority for most food retailers and, in specific circumstances, loyalty programs are also rated as important.

3

How is loyalty earned and how well are retailers doing?

How and where can retailers earn the loyalty of shoppers?

The retailers that have the most loyal customers are in an enviable position – the loyalty of customers is not something that can be easily copied and it is challenging for competitors to tempt loyal shoppers to switch their allegiance. But how do food retailers earn customer loyalty? The answer is determined by the response to a simple question: **Why would a shopper choose to visit another store if they can have all their needs best satisfied by one store?**

The answer is: YOU EARN SHOPPER LOYALTY by consistently satisfying customer needs better than the competition such that shoppers will reward the retailer by consistently allocating the majority of their budget and their shopping time to the retailer.

In our survey, we asked U.S. shoppers how loyal they were to their primary or main grocery store. The answer was overwhelmingly positive. **80% of shoppers of all types stated they were either loyal or very loyal to their primary grocery store.**

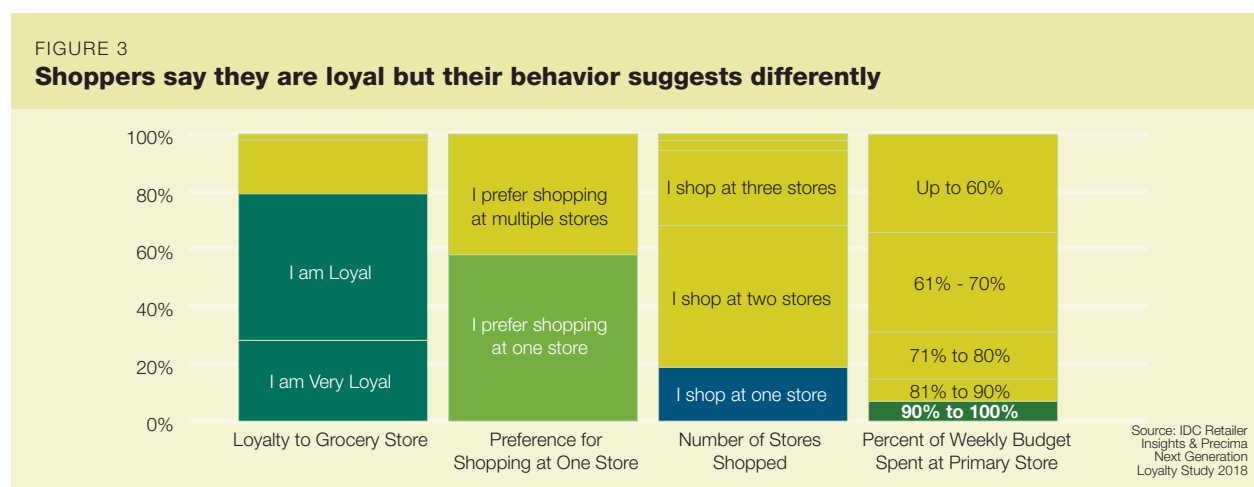
When we looked at different factors we found that there is very little difference in loyalty by age, Household Size, Household Location, or various other factors. There were, however, two areas that did provide some differences: presence of loyalty programs and performance of the retailer (as indicated by growth of retailer sales).

- The presence of a loyalty program at the store and the participation of customers in loyalty programs appear to have a slightly positive impact on the loyalty of shoppers – it was less clear if loyalty programs directly improved customer loyalty or if customers who shopped at a store with a loyalty program believed they were more loyal merely because of the fact that a loyalty program existed.
- The other factor that emerged was that retailers who were successfully growing tended to receive a higher loyalty score from consumers, irrespective of whether the retailer had a loyalty program or not. It may appear obvious that well operated retailers had more loyal customers but it does point to the interesting observation that loyalty can be earned across multiple components of a retailer's offering and not just, or mainly, through the loyalty program.

Given that 80% of shoppers in our survey said they were either loyal or very loyal to their food retailer, it might be tempting to claim victory. But there is more to it than that:

- When asked of shoppers if they would prefer to shop at one store if they could **have all of their needs met**, a significant 58% of shoppers stated they would.
- But when asked “How many stores do you typically shop at in a week?” only 19% stated they only shop at one store.
- When asked how much of their weekly budget they spent at their primary store only 7% responded that they spent 90% or more of their budget with their primary store.

In fact, **50% of shoppers stated that they spent between 30% and 50% of their weekly budget at a grocery store that was NOT THEIR PRIMARY STORE.** So much for shopper loyalty – clearly something is going on here!



The explanation rests with the “Say-Do” gap – it is not uncommon for consumers to “Say” one thing but actually “Do” another thing. And there’s actually a very good explanation for the gap. The question about consumer preferences for shopping at a single store contained the qualifier: “if you could have all of your needs satisfied by that single store”. And the reality is that for a large portion of the shopper universe, they do not believe they can have all their needs satisfied by a single store.

When asked, over 60% shoppers stated the reason for shopping at multiple stores is to obtain lower prices or to find the products they want; this was consistent across household size and age group. Three of the top five reasons that would lead shoppers to consolidate more of their spend with their primary grocery store were assortment-related: better/more fresh produce, improved quality of products & improved breadth of assortment. The other two were more convenient store locations and improved in-store shopping experience; this was also consistent across age and household size and location.

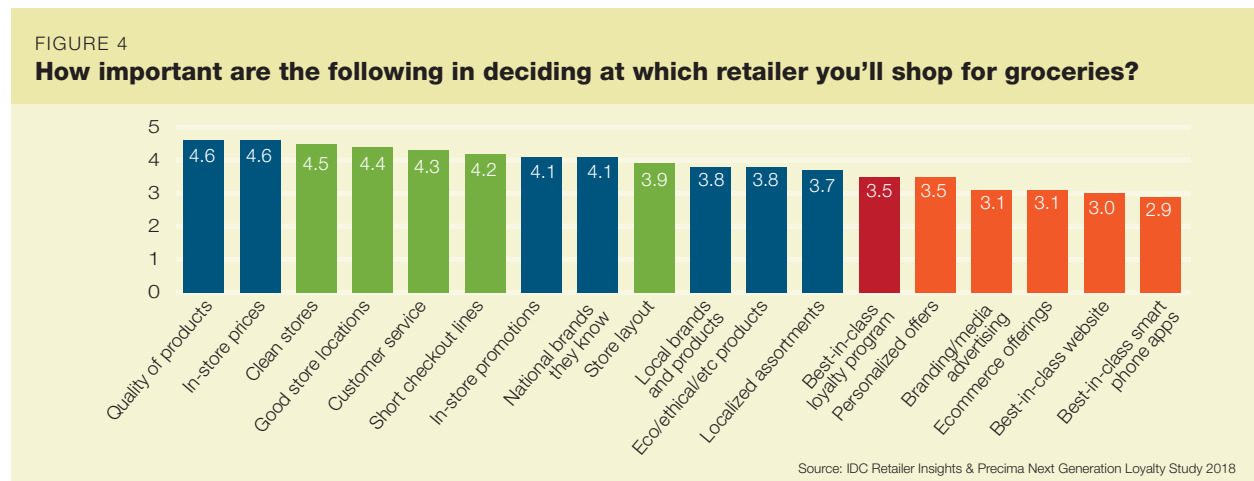
Interestingly when we look closely at differences in shopping behavior by generation we find that Millennial shoppers are much more likely than older generations to shop at multiple stores and split their spend across multiple retailers. So do retailers have to accept the Millennial generation (the largest proportion of their future shopper base) is going to be less loyal than past generations?

Not exactly. **When we look at the data behind the preference to shop at a single store we find that Millennials were actually *more* interested in shopping at a single store.** The challenges are that they have higher expectations for having their needs met, and they start out from a position where they have less built-in loyalty to a single retailer than their older counterparts who grew up with fewer options.

And this is where it becomes increasingly important to understand how and where it is possible to earn the loyalty of shoppers. **Loyalty should not be relegated to a single “loyalty department” reporting in to the VP of Loyalty – earning shopper loyalty is the responsibility of all departments and all decisions.** A good experience in one area can be undone by a bad experience in another area. So the entire company has to be behind the drive to earn shopper loyalty. It is also imperative to understand that not all shoppers have the same needs and different retailers may need to adopt different priorities.

IMPORTANCE OF DIFFERENT COMPONENTS OF A RETAILER’S OFFERING

When we asked shoppers what is important to them when deciding where to shop, the highest responses were in the traditional areas of merchandising (price, assortment, promotion, etc. – highlighted in blue in the chart) and shopper experience (good customer service, clean stores, good store locations, short checkout lines, etc. – highlighted in green in Figure 4).



This is fairly common. We typically see most shoppers have come to simply expect retailers to deliver consistently the core merchandising and shopper experience components of their offering. Given the high expectations of shoppers in these areas today, the opportunity to differentiate by over-delivering on these components can be limited; nevertheless the downside to *not* delivering in these areas can be quite significant, so retailers have to continually ensure they deliver to a high level in these areas.

The emerging or newer components of a retailers’ offerings (personalized offers, ecommerce, etc. – highlighted in orange) were ranked lower on the list but these components were often cited as areas in which it was possible for food retailers to differentiate and deliver an experience that is above what they would normally expect. Another interesting insight from the above data is the position of the loyalty program (highlighted in red). This once again highlights that retailers should not put all the requirement to earn shopper loyalty onto the loyalty program or department but they should acknowledge the fact that loyalty can be earned across multiple components of the retailers offering.

There were also some interesting differences when we looked at the data by shopper age. While the importance ranking of the above components didn't change significantly between generations, the emerging/newer components were much more highly valued by the younger generations.

FIGURE 5
How important are the following in deciding at which retailer you'll shop for groceries? (emerging/newer offering components – responses by generation)



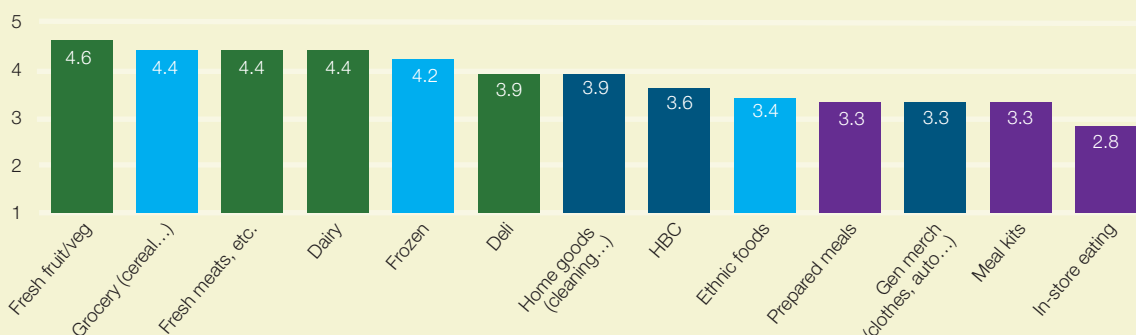
Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

IMPORTANCE OF DIFFERENT PRODUCT DEPARTMENTS OF A RETAILER'S OFFERING

A phenomenon that has been commented upon by numerous industry observers is the tendency for some shoppers to split their spend by department. This raised the question of whether shoppers were no longer loyal to a store but instead to departments within stores; shopping at their traditional grocery store for center store food departments, visiting the premium grocery store for their fresh departments, going to Club stores for home products, going to the drug store for Health & Beauty Care products, etc.

The research indicates that shoppers rate the core food departments (Fresh Fruit & Vegetables, Grocery, Fresh Meat/Poultry/Seafood, Dairy, Frozen, Deli) as most important when deciding where to shop, with fresh produce leading the pack. (In Fig. 6 below, fresh food departments are highlighted in green; center store food categories are highlighted in light blue). Interestingly shoppers ranked center store grocery as more important than Fresh Meats/Poultry/Seafood. The non-food center store departments (Home Products, Health & Beauty Care and General Merchandise – highlighted in dark blue) were all ranked much lower than the core food departments. The emerging/newer departments of Prepared Meals, Meal Kits and In-store dining (if we may be allowed to call this a department) were all ranked at the lower end of the scale (highlighted in purple).

FIGURE 6
How important are the following in deciding at which retailer you'll shop for groceries?

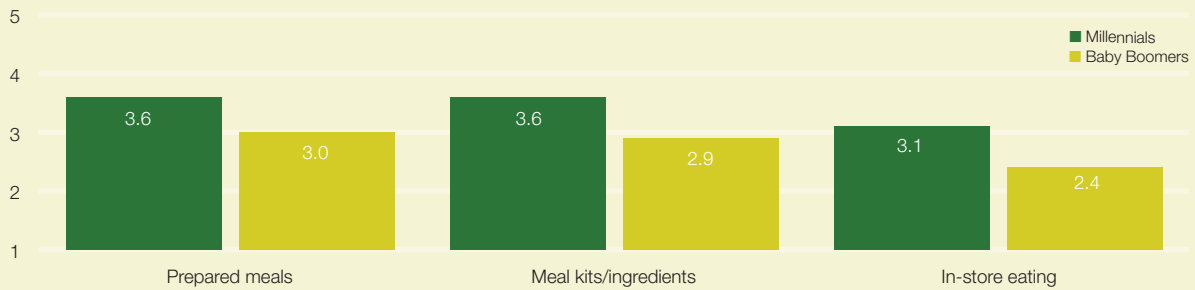


Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

Once again, we find some significant differences between the generations. While the overall ranking changed little between the generations there were significant differences in the importance of the emerging/newer departments, with Millennials rating them as much more important than the older generations.

FIGURE 7

How important are the following in deciding at which retailer you'll shop for groceries? (emerging/newer departments - responses by generation)



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

SO, HOW AND WHERE CAN FOOD RETAILERS EARN THEIR SHOPPER'S LOYALTY?

As we can see from the above insights, **shoppers find multiple components of a retailer's offering to be important, and they find multiple departments to be important.** The traditional merchandising and shopper experience components and the traditional food departments are most important to all shoppers, but the Millennial generation more so than the older generations is more interested in the emerging offering components and emerging departments.

Given that the Baby Boomer generation is still a significant and very important group of shoppers and that the Millennial generation has become the largest demographic generation in history with over 80 million members, retailers are going to have to work out how to continue to satisfy the needs of different generations who have different needs. And this brings us back to the heart of the matter: to be successful in satisfying customer needs, it is essential that retailers understand the unique and holistic needs of each of their customers and then consistently take actions that satisfy those needs across all elements of their offering to encourage those customers to allocate increasing amounts of their budgets and shopping time to the retailer's stores.

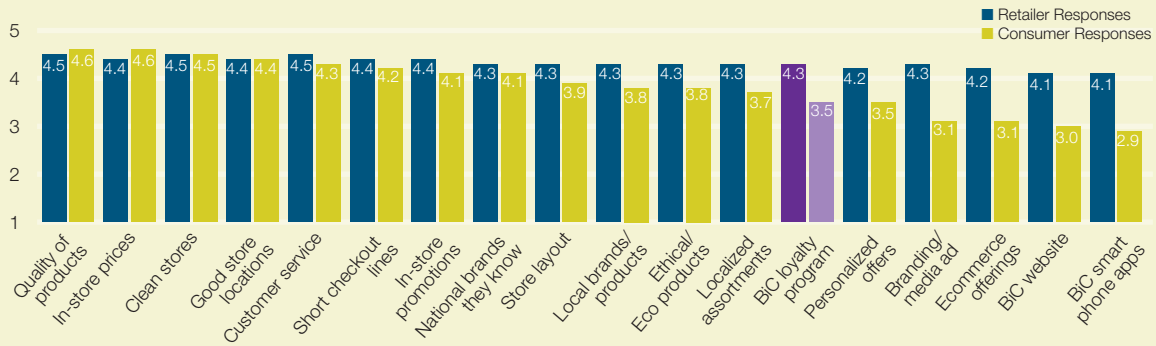
How aligned are retailers' views with shoppers' views?

While we have identified from the research those offering components and departments that are most important to shoppers, we now turn our attention to how aligned retailers' perspectives are with shoppers' perspectives.

In general, the research findings indicate that retailers believe that most components of their offering are highly and equally important to shoppers but some significant differences emerge with shoppers when looking at the details. In the most highly ranked areas (quality of products, in-store prices and clean stores) shoppers rated the components as more important than retailers did, whereas in other areas retailers gave a much higher importance rating than shoppers. This was especially true when it came to some of the emerging components of the retailer's offering (personalized offers, ecommerce, website, smartphone apps):

FIGURE 8

How important are the following when shoppers are deciding where to shop for groceries?



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

(Note: in the above chart BIC = Best-in-Class)

However when you look at the data by generation, it is clear that **Millennials place more importance on the emerging/newer components compared to the older generations:**

FIGURE 9

How important are the following when shoppers are deciding where to shop for groceries? (emerging/newer offering components – responses by generation)



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

(Note: in the above chart BIC = Best-in-Class)

A similar picture emerges when you look at the responses by product department. **In general, retailers rated most departments more important than did shoppers; the only exceptions were Fresh Fruit & Vegetables and Grocery, where shoppers rated them as more important than retailers.** Interestingly, shoppers rated Fresh Fruit & Vegetables as most important followed by grocery and then Fresh Meat/Poultry/Seafood; retailers had the two Fresh departments transposed:

FIGURE 10

Top Three Most Important Departments

CONSUMER RESPONSES

1. Fresh Fruit & Vegetables
2. Grocery
3. Fresh Meat/Poultry/Seafood

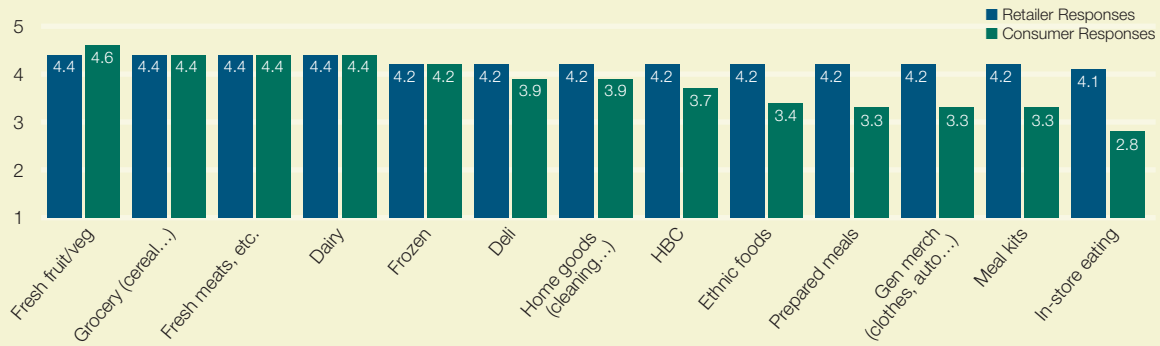
RETAILER RESPONSES

1. Fresh Meat/Poultry/Seafood
2. Grocery
3. Fresh Fruits and Vegetables

Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018

Some bigger differences emerged when it came to non-food center store departments (Home goods, Health & Beauty Care and General Merchandise) and the emerging/newer departments (ethnic foods, prepared meals, meal kits and in-store eating) with retailers rating them as much more important than shoppers.

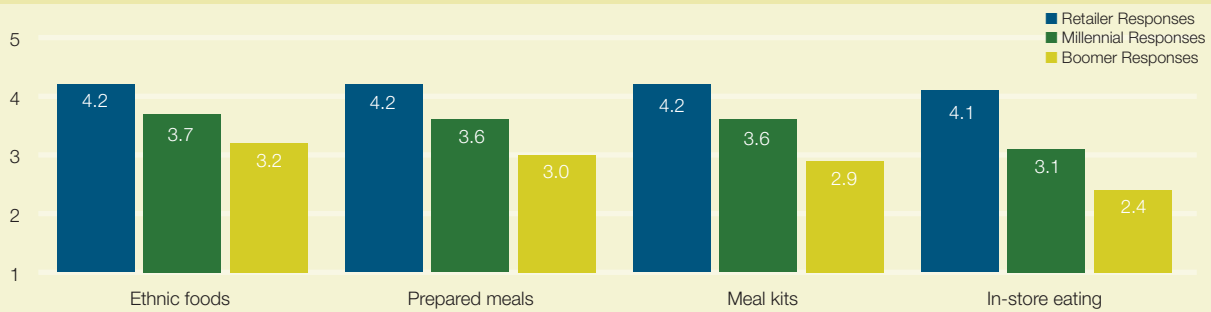
FIGURE 11
How important are the following when shoppers are deciding where to shop for groceries?



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

Once again there were some significant generational differences with **Millennials rating the emerging/newer departments as being more important than older generations:**

FIGURE 12
How important are the following when shoppers are deciding where to shop for groceries? (emerging/newer departments – responses by generation)



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

These generational differences are clearly playing on the minds of retailers as they seek to meet the needs of the very large baby boomer generation today while also laying the foundations to meet the needs of Millennials, who will become the most significant portion of the future shopper base.

How well are U.S. food retailers doing at earning their customers' loyalty?

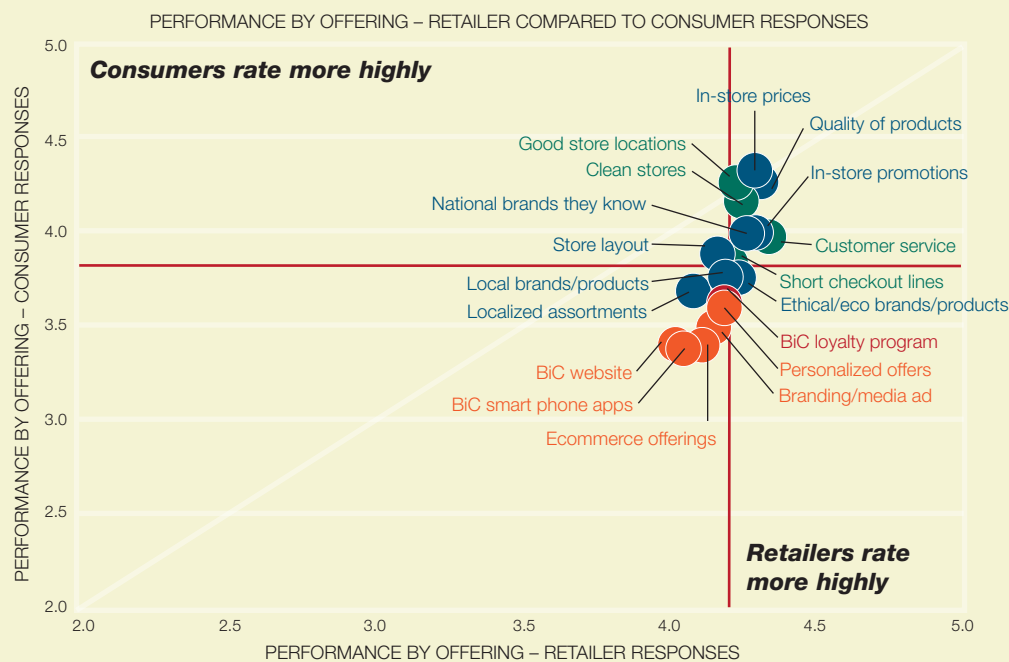
While we have ascertained from the research that food retailers have the opportunity to earn or lose customer loyalty across multiple components of their offering and across all the product departments that they carry, we now turn our attention to how well retailers are doing in earning customer loyalty. Here there were some interesting differences between the responses we received from retailers and the responses we received from shoppers.

food retailers have the opportunity to earn or lose customer loyalty across multiple components of their offering and across all the product departments

In general, the research findings indicate that retailers believe they are doing consistently well at meeting their customers' expectations across most components of their offering, but in two of the most highly-ranked areas (in-store prices and good store locations) shoppers gave retailers a slightly higher grade, whereas in all other areas retailers gave themselves a much higher performance rating than shoppers did. This was especially true when it came to some of the emerging/newer components of the retailer's offering (personalized offers, ecommerce, website, smartphone apps) where there were some significant differences:

FIGURE 13

How well are retailers performing across the following offering components?



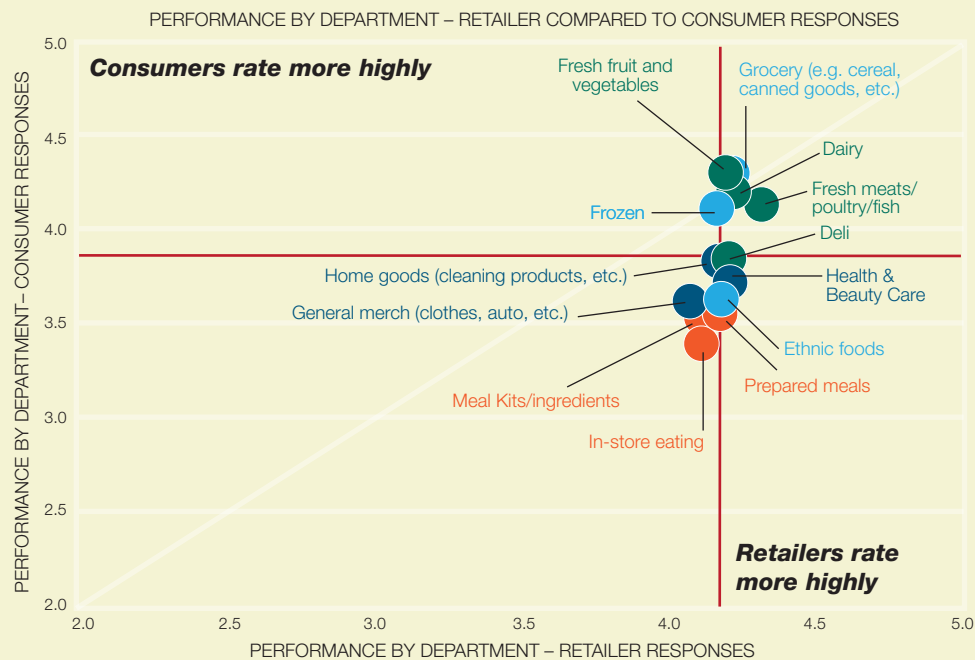
(Note: in the above chart BiC = Best-in-Class)

When you look at the data by generation, in general **Millennials gave a higher performance rating for the emerging/newer components** and a lower rating for the core components whereas older generations were the reverse, generally giving a lower rating for the emerging/newer components and a higher rating for the core components.

A similar picture emerges when you look at the responses by product department. **In general retailers rated most departments as performing better than did shoppers; the only exceptions were Fresh Fruit & Vegetables and Grocery**, where shoppers rated them as performing better than retailers rated them.

Some bigger differences emerged when it came to non-food center store departments (Home goods, HBC & general merchandise) **and the emerging/newer departments** (ethnic foods, prepared meals, meal kits and in-store eating) **where retailers consistently rated their performance more highly than did shoppers.**

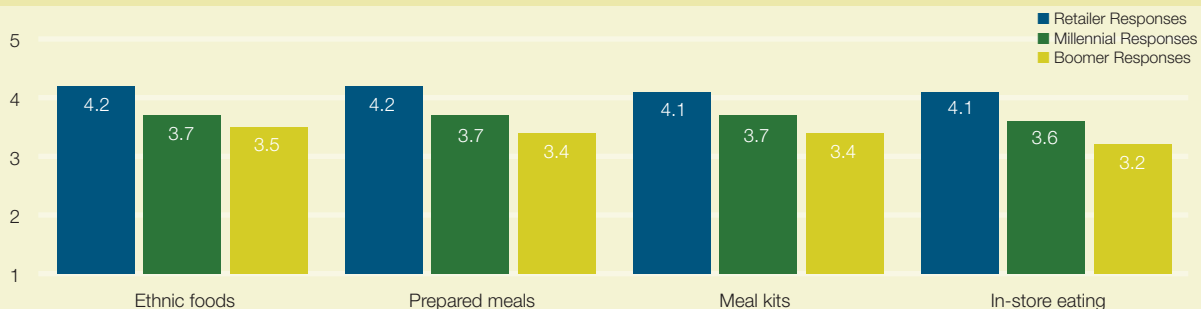
FIGURE 14
How well are retailers performing across the following product departments?



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

Once again there were some interesting generational differences with Millennials rating the emerging/newer departments as performing better than did older generations:

FIGURE 15
How well are retailers doing in earning shoppers' business?
 (emerging/newer departments— responses by generation)



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

The research also asked questions about the importance of some of the newer value-added services that have become available in the recent past. **Retailers rated each of the value-added services most highly across all options with Millennials rating them as more important than older shoppers:**

FIGURE 16

How important are the following as shoppers decide where to shop?

(value-added services/information – responses by generation)



3

What does the loyalty landscape look like in U.S. food retailing?

Different U.S. food retailers have taken different approaches to loyalty; there is a spectrum from no loyalty programs or initiatives at all to very evolved loyalty efforts. But many retailers fall in the middle and loyalty takes on many guises with personalized offers, in particular, being a major trend in loyalty.

How prevalent are loyalty programs in U.S. food retailing?

Looking specifically at loyalty programs, when we analyzed the market, we found that thirty of the largest fifty US food retailers had a traditional loyalty card/program.

At this point, we believe it would be beneficial to broaden the description of loyalty programs beyond the traditional two-tier price discount, card-based program. In general, loyalty programs have to satisfy two primary objectives:

1. Provide a differentiated and unique value proposition
2. Attach a customer identifier to as many transactions as possible

Using this broader definition of loyalty programs there are an additional ten retailers in the top fifty who could be classified as having a loyalty program that wouldn't be thought of as traditional loyalty programs.

One example is smartphone apps. Smartphone apps provide a differentiated value to shoppers and they also provide a mechanism to uniquely identify individual shoppers. As a result, under our broader definition of loyalty program, a smartphone app would qualify as a loyalty program. One added challenge with this approach is to attach the unique customer identifier to each transaction so that the retailer can analyze the data to better understand customer needs, but a well-designed smartphone app would allow this aspect to be adequately addressed.

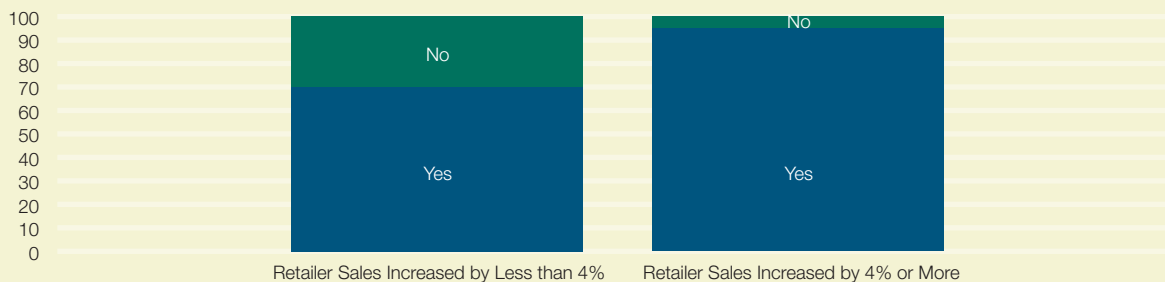
Using this broader definition of loyalty program, other efforts would also qualify as loyalty programs, such as email programs, website accounts that shoppers can establish with their food retailer in order to receive recipe or product information, ecommerce offerings, etc.

Looking beyond loyalty programs, how are retailers approaching the topic of loyalty?

In our survey of retailers, we looked to dig a little deeper into the way that food retailers are approaching the topic of loyalty. One area of interest was the approach that retailers took to measuring and managing loyalty. We found that **82% of retailers measured loyalty but there were differences within the data set, with 95% of retailers that grew sales by more than 4% measuring loyalty compared to 70% of retailers who were growing at less than 4%.**

FIGURE 17

Do you measure customer loyalty as a metric today? (responses by sales growth of retailer)



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

There were also a variety of metrics that were used to measure shopper loyalty with the most frequent being customer satisfaction surveys (65%) and the least common being customer acquisition/growth/retention (42%). While it is important to conduct customer satisfaction surveys, a more consistently robust and data-driven approach would likely yield more beneficial insights into the behaviors of shoppers and the loyalty that results.

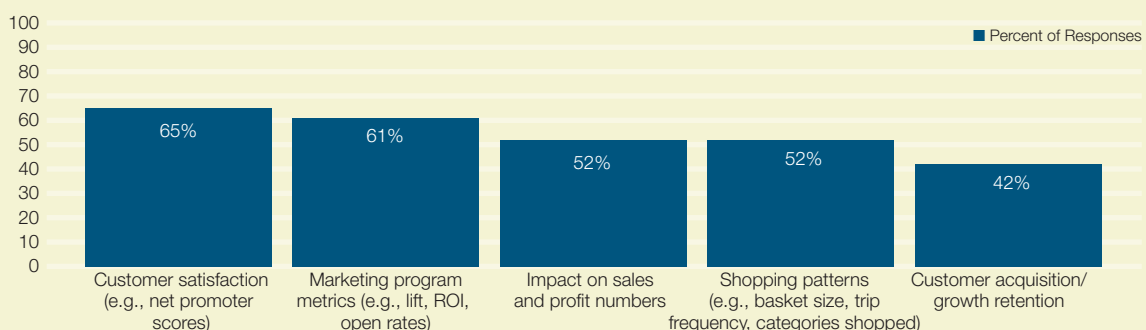
“Typically measurements are around engagements – it’s hard to go beyond that to the financial end. Stores are very noisy so it’s hard to isolate any given program.”

“We measure our loyalty campaigns with control and match panel methodology. . . . Loyalty is still relatively new to the industry so we need to have measurable metric.”

— U.S. Retail Executives, Qualitative interview

FIGURE 18

How do you measure loyalty – whether or not you have a loyalty card program?

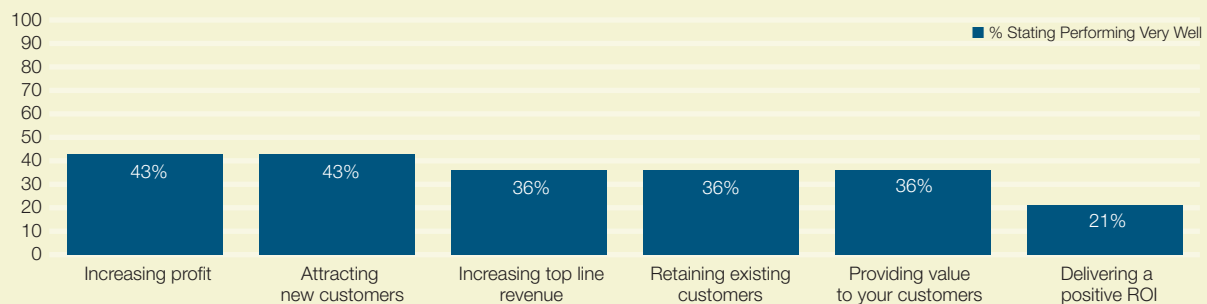


Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

We were also interested in how retailer's loyalty strategies/approaches were performing across various metrics. Overall responses were relatively low across all metrics: less than 50% of responders stated they were performing very well. **Interestingly, retailers believed that their loyalty strategy/approach was performing best in increasing profit and attracting new customers but only 21% stated that they thought their loyalty strategy/approach was delivering a positive ROI.**

FIGURE 19

How well do you believe your loyalty strategy is doing in the following areas?



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

This could reflect a common issue where there is a misalignment between the cost of the strategy/approach and the value that is delivered. Oftentimes this is as a result of the loyalty strategy/approach being limited to the narrow focus of the loyalty program. If a retailer is lumping all of the costs associated with the loyalty strategy/approach onto the loyalty department's budget and then measuring the upside of those efforts only in terms of the benefits accruing from the loyalty program then the broader benefits of the loyalty approach are being under-counted. Application of the loyalty strategy/approach to multiple decision areas enables retailers to deliver increased value while spreading the cost across more decision areas – it is important that these benefits are realized and counted.

One reason for the lack of a broad application of the loyalty strategy/approach to multiple parts of the business is differences in performance objectives or targets for different parts of the business.

During the research we asked: **Is loyalty used in anyone's compensation or KPOs?**

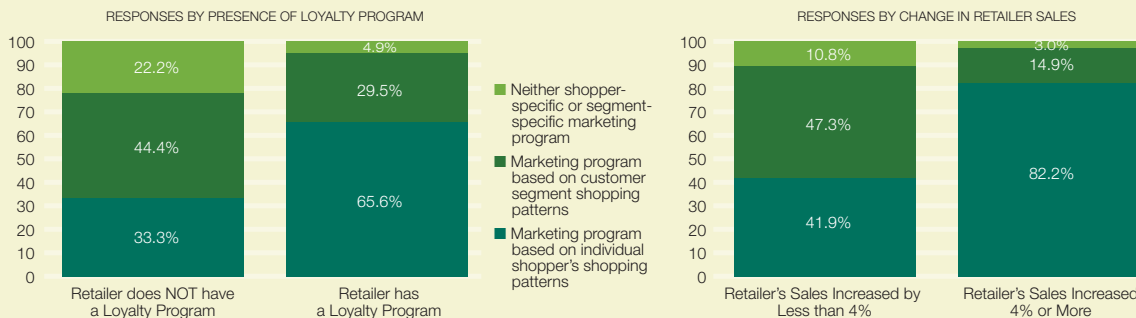
The responses were fairly consistent and are encapsulated in this quote from one of the qualitative interviews with a retail executive:

“There is no direct tie between the bonus and loyalty but there [are] some indirect ways. We did get raises that were linked to it but it wasn't a strict metric. Where you get to hospitality and travel, the loyalty program is run more like a business. In retail, it is a bit different – we don't have revenue and cost targets for loyalty like they do in travel and leisure.” – *U.S. Retail Executive, qualitative interviews*

When we investigated the use of customer or loyalty data across different departments in the retail organization we found that there were some significant differences in how the data was used. The vast majority of retailers (93%) have marketing programs that are mostly based on shopper or segment shopping patterns. Retailers with loyalty programs tend to be more active in this regard, as were retailers who are growing fastest.

FIGURE 20

Does your company have a personalized or customer segment marketing program?



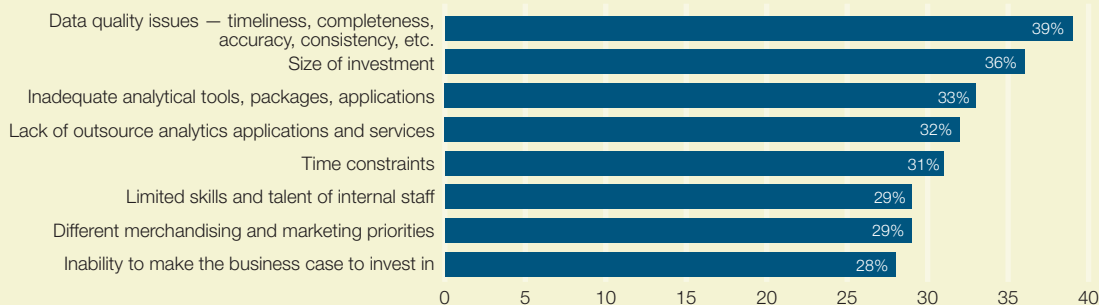
Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

But while retailers believe they're personalizing offers, more than half of shoppers state that they do not receive attractive offers based on their shopping so there is clearly room for improvement when it comes to personalization. When it comes to leveraging loyalty or customer data in other areas of the company, **only 36% of merchants said they regularly make use of loyalty/customer data.** And seven in ten manufacturers do not believe retailers are using customer data enough.

If retailers are to unlock more value from their customer and loyalty data they will have to overcome some barriers. **When asked which barriers prevent you from improving the value your company receives from its sales transactions and customer data, the greatest responses centered around data quality issues followed by the required investment and the lack of tools to support their efforts:**

FIGURE 21

Which of the following present barriers to improving the value your company receives from its sales transactions and customer data?



Source: IDC Retailer Insights & Precima Next Generation Loyalty Study 2018

When it comes to maximizing the value of loyalty efforts, it is clear that there are several areas that present opportunities for improvement. The progress that some leaders have been making gives ground for optimism, and the upside looks attractive if retailers can overcome some of the barriers and leverage their loyalty/customer data more holistically.

Conclusions

IN CONCLUSION, WE CAN DRAW THE FOLLOWING INSIGHTS FROM THE RESEARCH:

- Over the past twelve months the importance of loyalty for retailers has increased given recent market developments
- Shoppers believe they are loyal and a majority would prefer to shop at only one store but they don't have all of their needs satisfied at one store so almost 80% of shoppers shop at more than one store
- Retailers that have loyalty programs tend to have shoppers that consider themselves to be more loyal, but retailers that don't have loyalty programs but who are performing well also have more loyal shoppers, indicating that it is possible for retailers to earn the loyalty of shoppers across multiple components of their offering irrespective of whether they have a loyalty program or not
- Retailers and shoppers are generally aligned on the high importance attached to core merchandising (prices, quality products, promotions) and shopping experience (clean stores, good customer service, short checkout lines) components and in the high performance of retailers in these areas. The same is true of the core food departments (fresh fruit/veg, grocery, fresh meat)
- Younger shoppers generally rate the importance and performance of the emerging offering components (e.g. ecommerce, personalized offers) and departments (e.g. prepared meals, meal kits, in-store dining) more highly than older shoppers but still lower than retailers – this could be an indication that retailers are leaning forward to plan for the future

Given all of the above findings, how can food retailers build a large, loyal shopper base? In **Part 2 of Precima and FMI's** fresh look at the topic of loyalty we will discuss how retailers can take a next generation view of loyalty in 3D.

About Precima



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Precima can help you deliver on the full promise of customer-centricity with Total Store Optimization using machine learning to optimize merchandising and marketing decisions across the entire store for all categories simultaneously, the same way your customers shop the store. Precima is part of LoyaltyOne, an Alliance Data Fortune 500 Company. www.precima.com

About FMI



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