



Reimagining Loyalty

The changing dynamics of customer loyalty

July 2021



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Defining Loyalty

Faithfulness and commitment. Loyalty in all walks of life is measured on one's desire to remain or side with a particular person or entity. The word loyalty doesn't have a different meaning in a customer / business context, however allegiances are formed, broken and reimagined in a much faster way in the world of business.

Customer loyalty can be defined as the commitment from customers to continue purchasing from a company based on the benefits received from those purchases - whether that be price, quality of product, benefits or rewards. The more value, intrinsic and extrinsic benefits a customer receives, the more likely they are to both shop with that company in the future and evangelise to others.

This report will review the drivers of customer loyalty and take a measure to define true customer loyalty.

Research objectives:

The objectives of the research are to better understand:

- ▶ What current drivers there are to membership, loyalty programs and brand resonance in the UK.
- ▶ Whether traditional loyalty incentive / programs still have a place in 2021.
- ▶ Building upon our successful "redefining loyalty" report from 2016 - has the dial shifted and what are the current motivational drivers to true customer loyalty.
- ▶ How these motivations differ amongst both demographics and sectors.

Methodology:

We asked 854 adults living in the UK to complete an online questionnaire about their attitudes towards loyalty. The sample of respondents was recruited through a 3rd party access panel and is nationally representative of the population of the UK. The survey was in field between the 7th May and 24th May 2021.



“Consistent with previous research we have conducted, we can see that **quality, trust and reliability** are more important than discounts, price and benefits.”

99% of people agree that “brand loyalty exists”

Customer loyalty already has a deep-rooted need to be redefined in the last few years with £45 billion in unused loyalty points and schemes on the high street.

But in 2020, since the pandemic hit, consumers have rediscovered the power of community. In the mind of a consumer in 2021 - loyalty works both ways. Real, tangible benefits and reward for being loyal to a business should be reciprocated and valued above all else in the corporate world. In an age where customer acquisition is relatively straightforward, it is clear that effective retention and growth strategies are the key to unlocking future business success.

With all that in mind however, despite wider access to retailers, more creative recruitment strategies for

competing brands and personalised marketing communications - brand loyalty is hugely important both for brands and consumers.

1% of people disagree that “brand loyalty exists” so in one way shape or form, brand loyalty is perceived, understood and imagined by almost everyone. True brand loyalty doesn’t need a mechanic or program and the key drivers to return this must be understood.

Consistent with previous research we have conducted, we can see that **quality, trust and reliability** are more important than discounts, price and benefits.

As a result loyalty schemes are deeply embedded in the psyche of the consumer, and in certain areas - expected. Whilst the grocery and food and drink sectors are the most obvious place to find loyalty schemes across all respondents, younger demographics are similarly likely to have loyalty schemes across fashion, entertainment, beauty and luxury brands. But aside from the definition of customer loyalty - what are the most important factors for a consumer to stay loyal to a brand?

What is driving customer loyalty?

In previous research we have discussed the importance of personalisation and trust being a key to success in creating a compelling customer experience.

The purpose of brand loyalty hasn't changed - it's main aim being to collect information about customers and stimulate behaviours that encourage retention. However without getting the basic aspects of a brand / consumer relationship right, enhanced loyalty mechanics won't be able to gain the traction and sentiment they intend.

The most important aspects:



High quality
81%



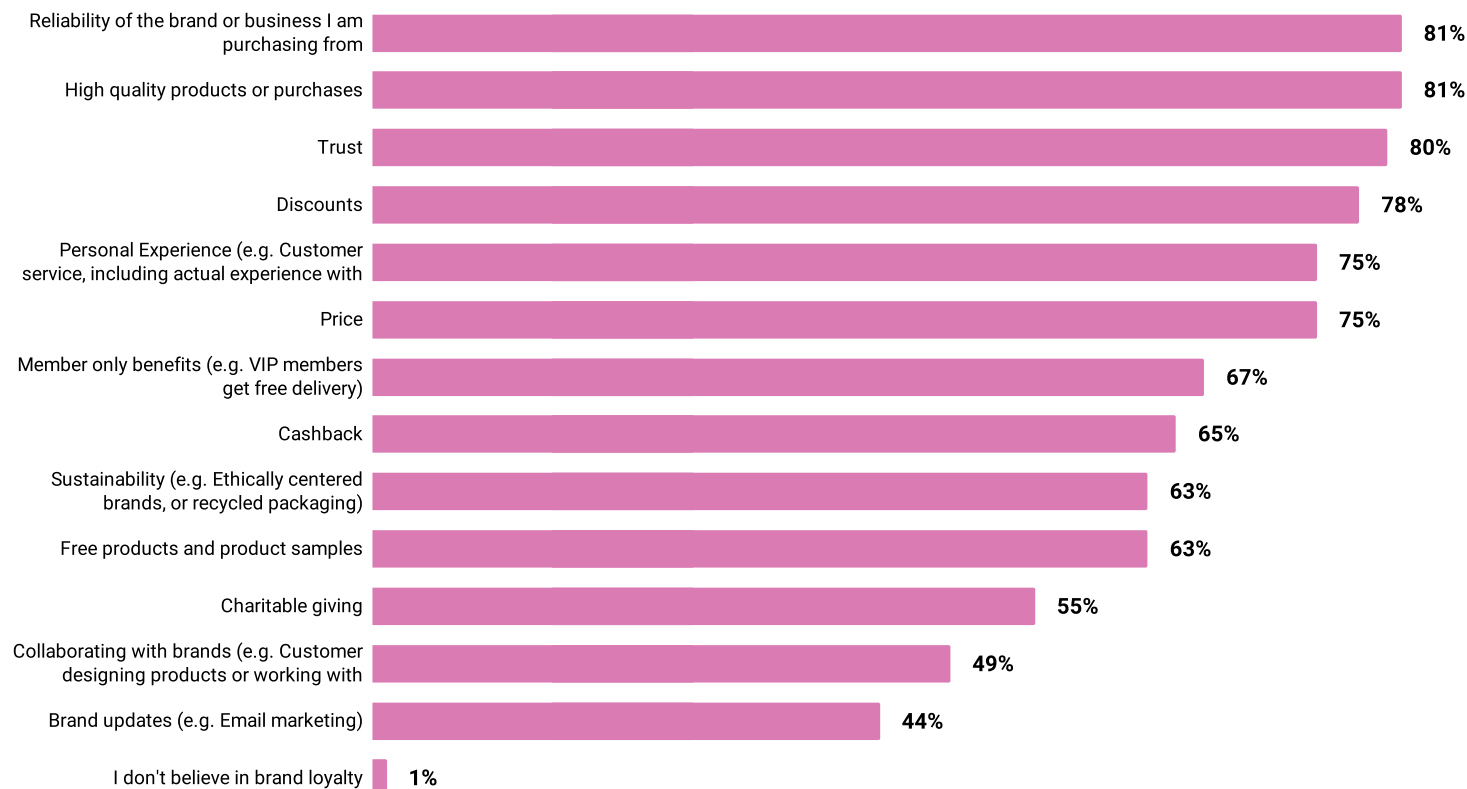
Reliability
81%



Trust
80%

Quality, trust and reliability - things that don't require a loyalty program or mechanic to curate. None of these measures are ones that can be solved by loyalty schemes - rather are a measure of true loyalty that can be engendered regardless of whether or not a mechanic is offered.

WHEN THINKING ABOUT LOYALTY, WHICH OF THE FOLLOWING ARE THE MOST IMPORTANT ASPECTS FOR STAYING LOYAL TO A BRAND? (ANY AGREE)



Source: rare consulting. uk adults 18+ years old. data collected 7th - 24th may 2021 (n=854).

q9 - when thinking about loyalty, which of the following are the most important aspects for staying loyal to a brand? (n=854).

"When quality and value of a product or service have been very good over a sustained period of time."

Male, 55 or older
East Midlands

"Brand loyalty is when you continuously choose to go back to the same brand and trust them the most, you stay loyal to their business and appreciate their service."

Female, 25-32 years old
Wales

"Brand Loyalty is established when trust in a brand/product is established."

Male, 33-40 years old
West Midlands

"Loyalty comes from trust."

Male, 18-24 years old
East of England

"Brand means nothing if it isn't of high quality."

Female, 55 or older
North East

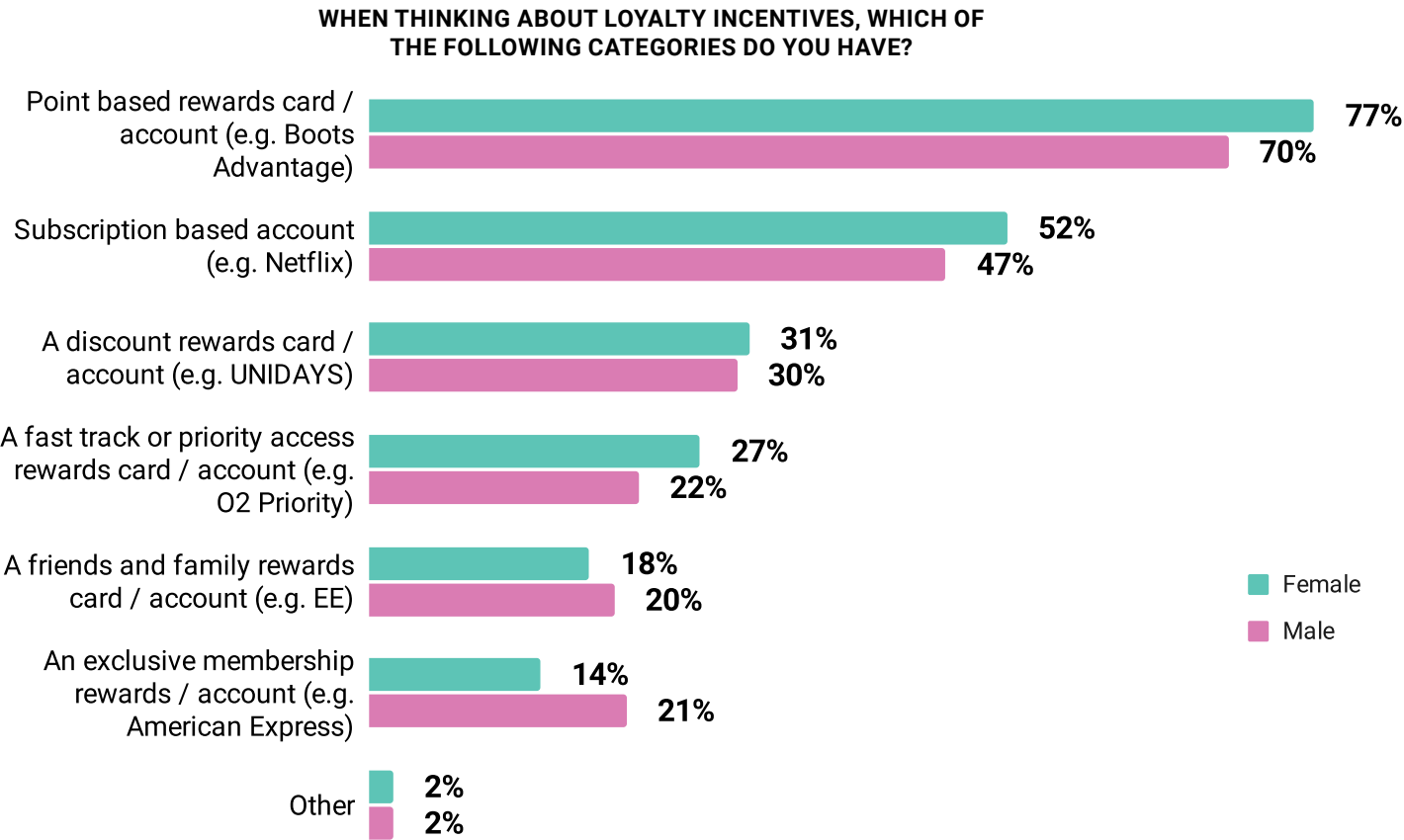
"A consistent experience with the quality of a brand and the service accompanying it."

Male, 48-54 years old
South East

"Will be brand loyalty, when the product delivery a constant good quality products and prices."

Female, 33-40 years old
London.

The likelihood of success in membership reward and loyalty programs is also dependent on the target consumer market. Different mechanics resonate with opposing sexes:

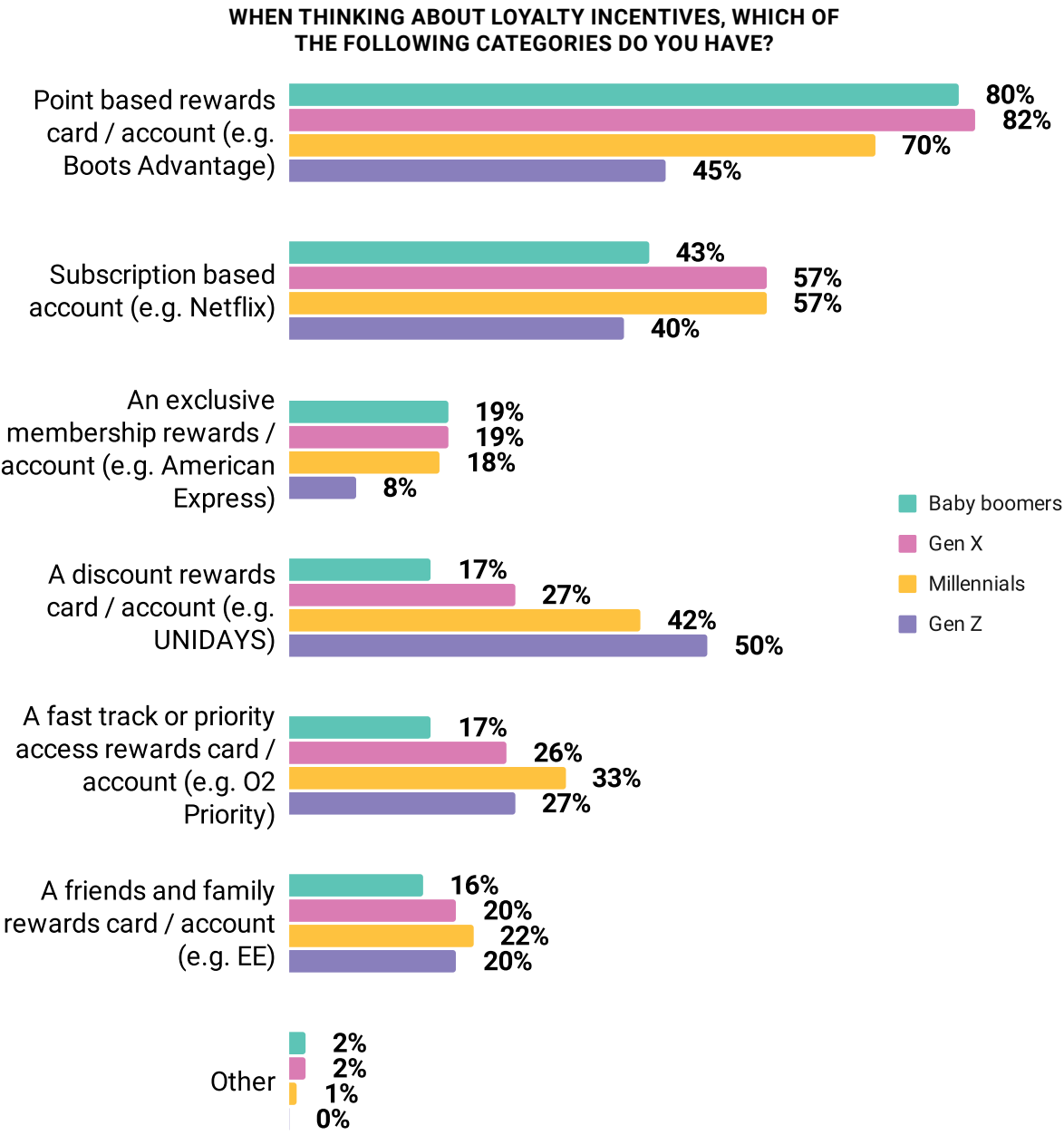


Source: Rare Consulting. UK adults 18+ years old. Data collected 7th - 24th May 2021 (N=854).
Q8 - When thinking about loyalty incentives, which of the following categories do you have? Females (N=438), Males (N=416).

We can see here that males are more likely than females (21% vs. 14%) to have a membership rewards account like Amex, whereas females are more likely to go for points based rewards cards such as Boots Advantage (77% vs. 70%)



However it's not just in men and women where we see key differences. We also observe a generational difference in behaviours towards these mechanics:



Source: Rare Consulting. UK adults 18+ years old. Data collected 7th - 24th May 2021 (N=854).
Q8 - When thinking about loyalty incentives, which of the following categories do you have? Baby Boomers and older (N=317), Gen X (N=211), Millennials (N=228), Gen Z (N=108).

Here we observe that Gen Z's are much less likely to have a points based rewards card like Boots Advantage or Tesco Clubcard - but actually more likely to have a discount rewards account which suggests that brands are going to have to rethink their loyalty models to resonate more with the customers of tomorrow.

Sectors and Industries

Whilst many industries and sectors benefit from loyalty schemes, there are others that don't. These industries and sectors tend to form value and quality based loyalty as opposed to attempting to manufacture that loyalty through features and benefits exclusive to members.

	Total	18-24	25-32	33-40	41-47	48-54	55+
Groceries (e.g. Supermarkets and stores)	71%	42%	59%	60%	72%	83%	84%
Food and drink (e.g. Specific brands or hospitality)	35%	36%	41%	29%	36%	38%	34%
Clothes / shoes	32%	44%	41%	35%	30%	26%	27%
Entertainment	32%	40%	40%	35%	33%	29%	26%
Beauty (e.g. Personal grooming and make-up)	30%	39%	44%	29%	28%	36%	22%
Health (e.g. Vitamins and working out)	26%	28%	39%	37%	21%	22%	20%
Automotive	19%	21%	24%	18%	18%	17%	18%
Luxury	17%	36%	32%	15%	14%	11%	10%
Finance	13%	11%	9%	12%	13%	19%	13%
Sports	11%	9%	15%	16%	8%	13%	9%

Source: Rare Consulting. UK adults 18+ years old. Data collected 7th - 24th May 2021 (N=854).
Q10 - Which of the following sectors do you have a loyalty incentive with? Aged 18-24 (N=98), Aged 25-2 (N=118), Aged 33-40 (N=110), Aged 41-47 (N=104), Aged 48-54 (N=107), Aged 55+ (N=317).

Perhaps unsurprisingly, Groceries comes out top by a significant margin for the overall population - however, with double the amount of 55+ population having an incentive scheme in this sector over those aged 18-24 there is a notable difference in approach.

Entertainment, Luxury and Beauty sectors are more popular amongst younger audiences - 40% of the 18-32 population for Entertainment (vs. 26% for 55+), 36% of 18-24s in Luxury vs. 10% of 55+ and 44% of 25-32s in Beauty vs. just 22% in 55+ being most noteworthy.

However when comparing manufactured vs. organic loyalty - this indicates a greater risk to customer retention in specific categories:

	Which of the following sectors do you have a loyalty incentive with?	Which of the following sectors have brands that you are genuinely loyal to despite not having loyalty incentive with?	Difference
Groceries (e.g. Supermarkets and stores)	71%	38%	33%
Food and drink (e.g. Specific brands or hospitality)	35%	35%	0%
Clothes / shoes	32%	37%	-5%
Entertainment	32%	24%	8%
Beauty (e.g. Personal grooming and make-up)	30%	24%	6%
Health (e.g. Vitamins and working out)	26%	19%	7%
Automotive	19%	24%	-5%
Luxury	17%	16%	1%
Finance	13%	13%	0%
Sports	11%	16%	-5%

Source: Rare Consulting. UK adults 18+ years old. Data collected 7th - 24th May 2021 (N=854).
Q10 - Which of the following sectors do you have a loyalty incentive with? N=854.
Q11 - Which of the following sectors have brands that you are genuinely loyal to despite not having a loyalty incentive with? N=854.

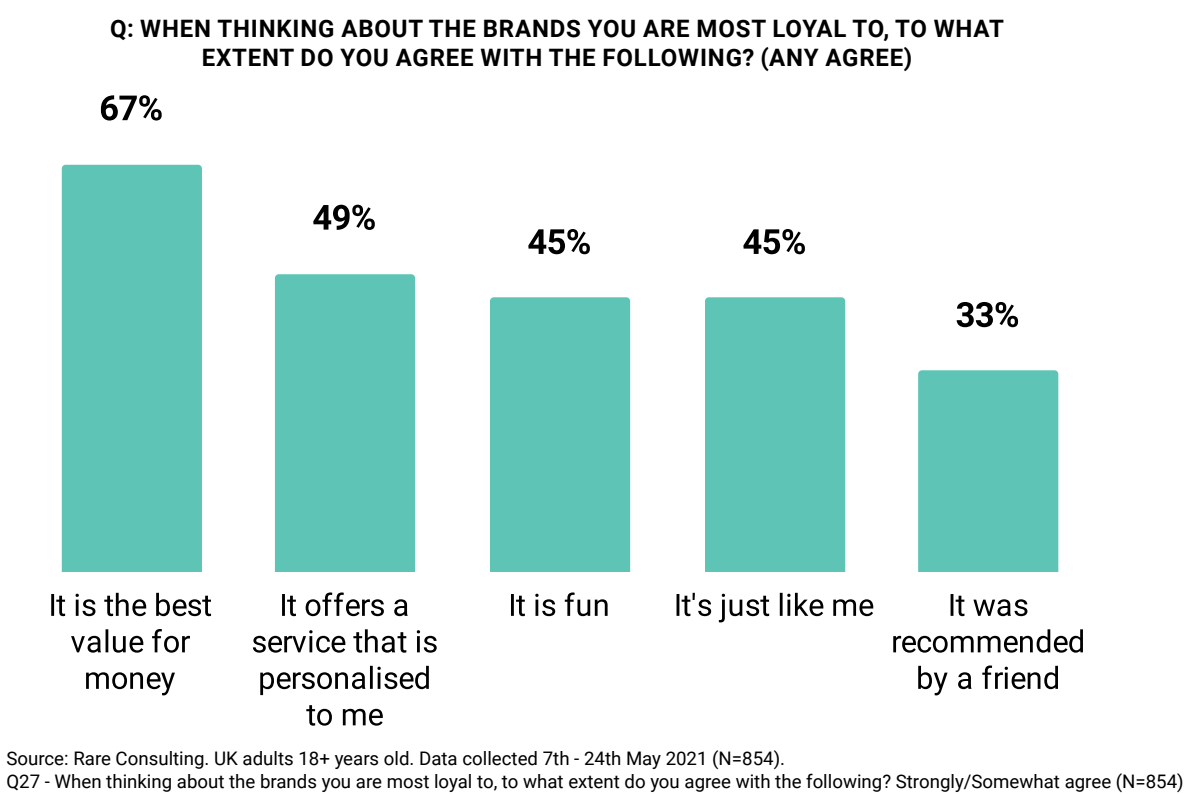
Whilst the grocery segment is without doubt the sector with the highest uptake of loyalty schemes, it is also the sector most at risk of share of wallet loss by removing or not having these. This is no surprise given the lack of price, produce and location differentiation between many of the leading UK supermarket brands.

Where we see the emergence of genuine, organic loyalty is in sectors such as automotive,

sports and fashion. These sectors, whilst not necessarily synonymous with loyalty schemes have the most coveted loyalty of all - an almost evangelical following. Many people are hugely loyal to a specific sports brand, car manufacturer or fashion house and one of the most obvious reasons for this is that they (more often than not) offer a very specific and unique product, service or entertainment which isn't easily replicated. But just what are the mechanics of brand loyalty?

Customer loyalty isn't driven by magic.

It's driven by organisations that are effective operationally, have high performance marketing strategies and are able to implement highly creative communications with consumers in a way that resonates with their target audience.



Hitting all these metrics above is one of several keys to success.

Putting this into context - amongst some of the best known loyalty schemes in the UK - which of them are likely to over index on the above sentiments?

	Most likely to be				
	Best value for money	Just like me	Fun	Personalised service	Recommended by a friend
Amazon Prime Video	●	●	●	●	●
Netflix	●	●	●	●	●
Tesco Clubcard	●			●	
Nectar (Sainsbury's)	●			●	
Boots Advantage	●			●	
Superdrug Beauty Card	●			●	
Nando's Card	●	●			
Greggs Reward	●	●			
Costa Coffee Club	●	●			
Starbucks Rewards	●	●			
British Airways Executive Club		●			●
O2 Priority	●		●		
Sky VIP	●		●		
EE Rewards	●		●		
Space NK N.dulge		●	●	●	
Beauty Pie		●	●	●	

As we have seen earlier - loyalty and loyalty scheme sign ups are increasingly less likely to be perfunctory actions as the population, to which these types of scheme were new and novel, ages. It's now much more of a two way street. A significantly more considered approach is being undertaken by the younger Gen Z and Millennial

consumer who have access to much more readily available information about organisations as well as being significantly more aware, protective and savvy about the data and information they are willing to share.

How is customer loyalty changing in 2021 and beyond.

Aside from the mechanics of loyalty - societal impact and recent behavioural change will undoubtedly have had an impact on customer retention and acquisition for companies. After a hugely challenging year as a result of the Covid-19 pandemic, many organisations are having to go to extra lengths to rekindle the love that was previously shared by consumers. Habitual behaviour is endemic in society and with the closure of stores, airports and hotels, hospitality venues, workplaces and sporting arenas - many of the previously built up loyalty has to be regained.

Moreover, with changing behaviours including the population spending more time at home than ever before there has been significant movement in the area that is beginning to align itself much more with younger consumers.

When we take a closer look at these behaviours we can see that these behaviours look set to continue into the future. In grocery, for example, the Co-op group has reached its highest market share for almost 20 years in 2020, attracting 1.7m new households since the onset of the pandemic, with the average basket size doubling and online orders rising fourfold. The local element here is obviously critical - donating £15m to local community causes whilst spending in

excess of £97m in responding to the pandemic has fostered a reputation of community spirit and engagement that many of the larger players in the sector were not nimble enough to match.

Across all sectors - a rise in desire for experiential, societal interactions and membership / subscription services are highlighting a fundamental shift away from points and/ or discount based loyalty mechanics.

Taking information from sources such as the IPA / Mark Ritson / Ehrenberg Bass Institute - we see that traditional loyalty programs have a weak effect on loyalty. Their aim

is to get more, less frequent customers to become more loyal. In reality what happens is that the heaviest users of the product (best customers) are more likely to see these programs (due to interaction) and are therefore more likely to engage with loyalty schemes - as they have the most to gain as existing high frequency users.

There is of course somewhat of an uplift in less loyal customers, but it's not transformational and so the best way to grow is through organic loyalty and market penetration.

There are exceptions to this rule in 2021 - certain niche businesses and very specifically, subscription and membership models:

In our research we have found that a significant 50% of the adult population have their own subscription based account services (e.g. Netflix) and this is most consistently high across the 25-54 age range.

	Total	18-24	25-32	33-40	41-47	48-54	55+
Point based rewards card / account (e.g. Boots Advantage)	74%	45%	72%	68%	83%	82%	80%
Subscription based account (e.g. Netflix)	50%	40%	55%	58%	63%	52%	43%
A discount rewards card / account (e.g. UNIDAYS)	30%	50%	46%	38%	30%	24%	17%
A fast track or priority access rewards card / account (e.g. O2 Priority)	25%	27%	37%	29%	26%	26%	17%
A friends and family rewards card / account (e.g. EE)	19%	20%	21%	24%	23%	17%	16%
An exclusive membership rewards / account (e.g. American Express)	17%	8%	18%	17%	16%	21%	19%
None of the above	4%	5%	3%	3%	3%	2%	6%
Other	2%	0%	1%	2%	2%	2%	2%

Source: Rare Consulting. UK adults 18+ years old. Data collected 7th - 24th May 2021 (N=854).
Q8 - When thinking about loyalty incentives, which of the following categories do you have? Aged 18-24 (N=98), Aged 25-2 (N=118), Aged 33-40 (N=110), Aged 41-47 (N=104), Aged 48-54 (N=107), Aged 55+ (N=317).

Not only is it high in number - but as you can see it's one of the most consistently engaged with services of it's type across the age spectrum.

We are seeing an explosive growth in subscription & membership models across a variety of sectors over and above entertainment - with examples such as Beauty Pie, Brewdog & Friends, the Dollar Shave Club, Hello Fresh, Smol, Pret and more providing examples of this.

Generally speaking, the cost to acquire a subscriber is generally higher than other avenues - however they will still deliver a higher lifetime value.

Subscription Loyalty

In B2C, there can be a false sense of security to be found over subscription loyalty too which should be borne in mind. The lifetime value of a subscriber is front weighted and more often than not it's easy to cancel.

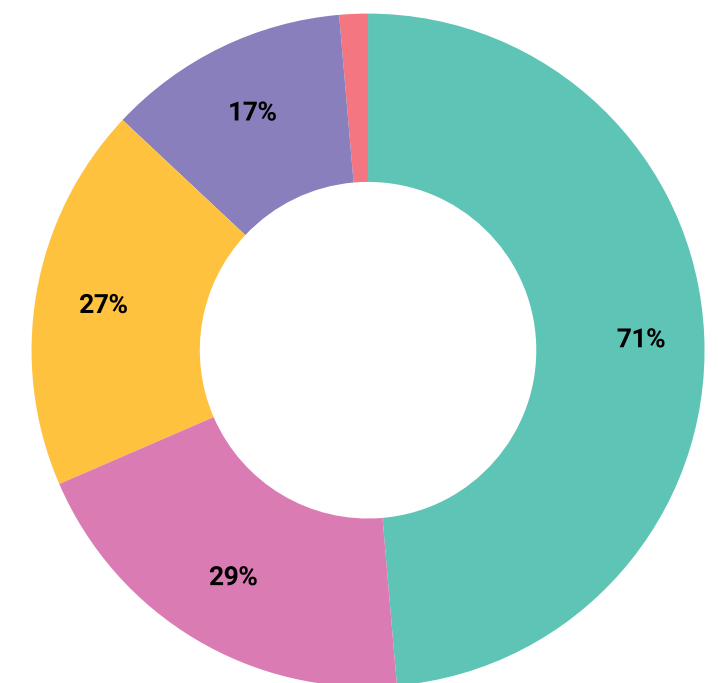
Unless businesses make it more difficult to cancel (which has impact on reputation and sentiment) or have quite sophisticated approaches to preventing / saving cancellations then, once again, we can see where innovation is required to increase customer lifetime value.

Initial offers to subscription models don't help loyalty in the longer term - but traditional B2C retailers looking to increase their share of wallet can do so with additional extras such as subscription models. An example of which can be seen with the Pret Coffee Shop subscription, introduced during lockdown.

Communication of benefits

Everyone wants an app, right? Well a good proportion of consumers do however it is by no means the most preferred method of being notified of loyalty rewards. Email is by far and away the most preferred method of communication - perhaps because consumers want to make decisions when they are ready and on their terms, as opposed to being hit informed frequently through push notifications.

HOW WOULD YOU LIKE TO BE NOTIFIED OF YOUR LOYALTY REWARDS?



● Email ● App notification ● Text / SMS ● Postal letter ● Telephone call

Source: Rare: Consulting. UK adults 18+ years old. Data collected 7th - 24th May 2021 (N=854). Q25 - How would you like to be notified of your loyalty rewards? Total sample (N=854)

Is sustainability and charitable giving important for loyalty?

Attitudes are changing towards brands - and over and above the metrics mentioned in previous pages, we wonder - is sustainability and charitable giving also an important aspect of loyalty?

Feelings are different here, depending on a number of factors - but it is a trend that is growing across all areas.

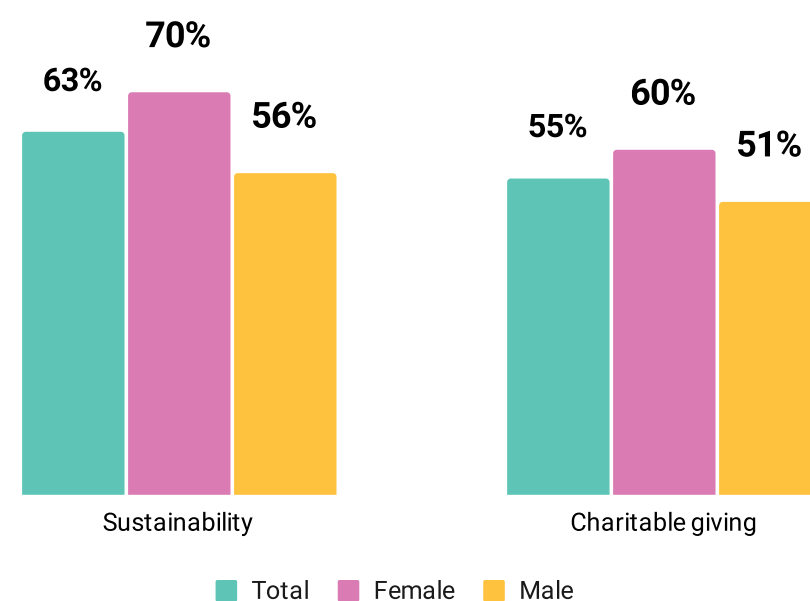
63% of the population agree that, when thinking about loyalty, sustainability (e.g. ethically centred brands, recycled packaging, zero carbon emissions) is an important aspect in staying loyal to a brand. Of this 70% are females vs. 56% males.

The same can be observed in charitable giving - with 55% of the population feeling that this is an important aspect in brand loyalty. (Again 60% of females vs. 51% of males).

Interestingly, despite generational differences in approach to sustainability and charitable giving - there is very little difference in attitudes towards these approaches amongst age ranges. The

exception being the strength of sentiment towards these factors with younger audiences more likely to "strongly agree" with these aspects and older consumers being more likely to "somewhat agree".

A sure indicator of a growing area of importance and interest.



Source: Rare: Consulting. UK adults 18+ years old. Data collected 7th - 24th May 2021 (N=854).
Q9 - When thinking about loyalty, which of the following are the most important aspects for staying loyal to a brand?
Answered 'Strongly/Somewhat agree'. Total (N=854), Males (N=416), Females (N=438).

According to WARC, Top-of-mind associations with sustainability have changed over the last 18 months, partly lockdown induced. Reducing CO₂ emissions is now the primary association, having grown to 19% to push ahead of recycling programs and single-use plastics.

As concerns about climate change grow, some brands are using claims around carbon footprints and CO₂ emissions as a new "currency".

Consumers regard retailers - supermarkets especially - as being in the lead when it comes to communicating around sustainability.

A majority of people say they are willing to pay more for sustainable brands, but many wonder why they should have to.

As we move into economic recovery, coinciding with new behaviours and priorities in consumers lives - it's more important than ever that brands embrace sustainability and charitable giving as part of their loyalty schemes.

Summary of findings

99% of the UK population believes in brand loyalty, in some way shape or form.

Quality, trust and reliability are generally those aspects regarded by consumers with their definition of brand loyalty.

None of these measures are ones that can be solved by loyalty schemes - rather are a measure of true loyalty that can be engendered regardless of whether or not a mechanic is offered.

Subscription and membership models - either wholly or in part, are here to stay - they are driving significant growth in several sectors and are making their way to more traditional high street retailers and sectors - however when considering moving into these circles, **attention and care should be given around acquisition costs and retention abilities.**

Sustainability and charitable giving are important to consumers across all walks of life and should be communicated as such - however the passionate advocacy in these areas is growing and as younger audiences move into the mainstream, proof of these credentials will be demanded, rather than desired.

As we have seen in our previous loyalty pieces – loyalty programmes do not drive true loyalty. They offer benefits that might influence behaviour, but cannot encourage positive attitudes, long-lasting relationships and ongoing loyalty without first offering brand love, trust and perceived quality.

About: Rare:[group]

Creating Customer Wins

At Rare: Group, the mantra of creating customer wins lies at the heart of everything we do. We are obsessed with customers. So much so we build a business around it.

At Rare we help firms of all shapes, sizes and sectors keep a lid on these frustrations and find a path to success.

Knowing your customers better helps transform your routes to market and boosting your bottom line. We have a range of products to tailor to the task (and budget) at hand - standalone or as an end-to-end service:

Rare:[metrics]

Find out what people like. Use our proprietary platform to gain direct access to consumers who'll rapidly rate your new marketing concept, track your brand perception and benchmark your performance.

Rare:[consulting]

Build strategies that put your customers front and centre, offering an experience that's great for them and great for your organisation. We'll create strategies together, and guide your company through the change.

Rare:[labs]

Find out how your product ideas will perform. Tap into our agile development model to send your concepts into the real world. Forget flights of fancy - think pragmatic prototypes and discover whether they'll sink or swim.

Work with us and you'll soon realise we're not like everyone else. We get stuff done so you can make decisions without confusion.

Contact us at hello@rare.consulting



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With over 15 years of experience in commercial radio, TV and press, Keith has a wealth of experience in quant research deliverables, qualitative interviewing, management of commercial targets and a fresh approach to working.

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