



HOW TO BUILD ON AND OFFLINE LOYALTY

Strategies series

Inspiration from a number of best practice case examples from both Retail, FMCG and Foodservice in the EU/US, going beyond reward cards to online communities, ecosystems, private label strategy and personalisation



HOW TO CREATE LOYALTY TO BEAT THE INFLATION TRAP

Overview

As core inflation threatens the global recovery and consumer confidence, retailers and FMCG companies alike are roughly split into winners and losers between those retaining their loyal customer bases and those that lose their footfall to the more price aggressive competition and the discounters.

«For all of the companies profiled in the report variations of the 80/20 rule applied, with a figure of between 15 and 40% of loyal customers accounting for between 60-80% of a company's sales and profits. In tough economic times it is all about keeping customers in store and stopping them to defect to the competition, or from a FMCG perspective keeping them shopping the brand rather than a private label alternative. It is very hard to make shoppers return to the status quo ante once they have become disloyal.»

Benefits

- **Learn from case examples** across consumer industries including retail, FMCG and food service operators how to generate and retain loyalty
- **Benchmark your scheme** against best in class examples from the EU and the US, both from the physical offline world as well as from rapidly growing online
- **Be inspired** by our thought provoking recommendations and innovative ideas to leave the status quo behind, by going beyond reward cards
- **Explore ecosystems** and 360 degree environments,
- **Discover how** to foster online communities,
- **Find out** crucial insights into product and reward personalisation.
- **Learn how to utilise NSM** footprints and location based loyalty schemes
- **Find** the key to tiering loyalty schemes
- **Be up to date** with splitting loyalty from simple frequency and discount rewards
- **Be prepared for loyalty's move** on to the smartphone and the future of loyalty schemes by learning from cutting edge players who integrate NFC and loyalty now

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TESTIMONIALS AND CLIENTS

About our last report

«I found it very insightful. [...] Impressed with the amount of information that has been covered by your report.» (Retail merchandising company)

«I found the document easy to read, well laid out and the content thought-provoking. It reminds me of the major considerations that affect our markets, and to address these key issues when approaching the global brands and retailers. Retail Predictions 2011 is a very good demonstration of the quality of how ResearchFarm operates and communicates.» (Technology supplier)

«The content is very interesting to us, as we look after many of the largest shopping centres and we also represent many international retailers entering our market. There is plenty of food for thought.» (Property consultants)

«It looks impressive.» (Property company)

«It was helpful. It helped me to persuade my boss to take on a project about e-commerce research. I was really surprised by the importance of legal issues. I never read that elsewhere before.» (Government)

«Thank you again for the study. These are very, very interesting, well explained (so, logical) predictions. Highly reliable and useful (I like the idea very much that loyalty schemes will move onto smartphones). It's quite impressive!» (Publishing group)

«Great research, very useful.» (Retailer)

«We have enjoyed reading your research information and have found it to be helpful in validating some of the other Grocery industry news information and predictions.» (Retailer)

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference on the 20th of January 2011 we had the great pleasure to hear ResearchFarm speak about future trends in online grocery retailing. The feedback from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.»
Dagligvareleverandørerne – Danish Association of Fast Moving Consumer Goods Manufacturers



OUR METHODOLOGY

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Researchfarm strives to deliver a starting point for constructive discussions and provide clear solutions and direction.

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ABOUT RESEARCHFARM

ResearchFarm is a start up boutique focused on strategic insight and innovative topics and trends in the FMCG/retail space. A key word for us is innovation. We try to unearth what works and what doesn't and tell our audience about it. For us the client comes first, as such we are focused on the story to tell, sharing insight and analysis, not on getting our names in the media – though we will engage in this as well occasionally.



The Top 7: Amazon – the trendsetter: marketplace, prime, customer ratings, kindle

UK sales	£2.1bn up 9.5%
Total sales	US\$34.2bn

Amazon is the UK's second largest online retailer by sales, snapping hard at the heels of Tesco and we believe the pureplay is set to overtake the grocer during the course of 2011. We estimate that sales have broken through the £2bn barrier in 2010. In January the retailer acquired the outstanding shares of Lovefilm, the web-based DVD rental service and British equivalent to Netflix for £200m. Amazon had part owned the company since 2008. Lovefilm has 1.6m subscribers in Europe and tries to expand its business from mailing DVDs into online delivery. Sales stood at £97.2m and pre-tax losses at £934,000 in 2009 with services in the UK, Germany, Sweden, Norway and Denmark.

In July the retailer launched a new version of the **Kindle**, its e-reader to boost digital book sales, a thinner and cheaper version – also undoubtedly reacting to the success of Apple's Ipad. At the same time Amazon's relaunched its UK (book) store offering 400,000 titles.

For the last two years the Kindle has been the best-selling product on Amazon. However the company does not release sales figures for Kindles. That said, the big threat to Amazon will come from Google's digital bookstore. In the same month Amazon also reported that e-books had overtaken hardcover sales for the first time. This has to be qualified by mentioning that hardbacks do not include soft or paperback books. That said that particular hurdle was claimed in 2011.

FMCG: Apple and Nespresso – creating perfect loyalty through ecosystems



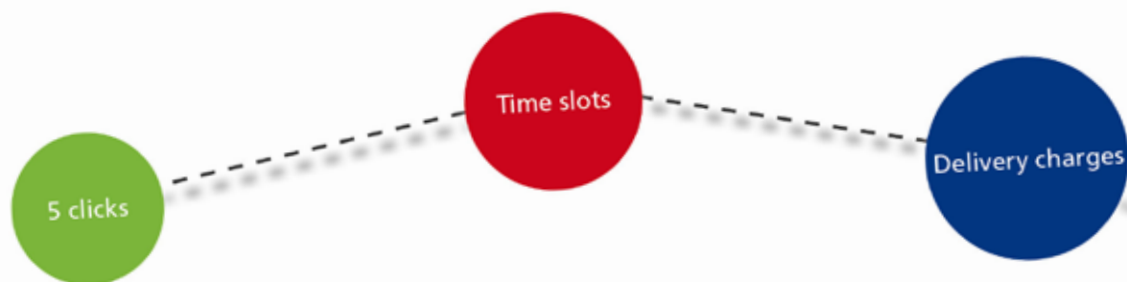
Nespresso provides perhaps the perfect example of a successful execution of an ecosystem and the operation has become the dream to emulate for all rival FMCG brand marketers, hence the focus on creating rivaling coffee ecosystems and recently on tea and tea machines.

Nespresso achieves most of its sales online, and around 30% of its turnover comes from its store network. The first Nespresso boutique opened in Paris in 2000 and the company now runs around 220 stores. In 2010 Nespresso broke through the SFr 3bn (£2.29bn) turnover barrier. France accounts for about 25% of Nespresso's annual sales, ahead of Switzerland with 20%. Europe as a whole accounts for nearly 90%. Nespresso is now internationalising and opening in Asia.

Whilst coffee is a relatively cheap product the company has managed to turn this everyday commodity into a higher end product (not unlike Starbucks) by building an ecosystem around it. Consumers are encouraged to buy into the ecosystem, by acquiring the stylish coffee machines, the Nespresso system. Once they have bought one of the sleekly designed coffee machines, they have

to return for the coffee pod product to Nespresso time and time again. Nespresso has managed to create a captive audience through patents on the Coffee capsules, which go with the coffee machines it sells. It defends these vigorously and takes any private label copycats to the courts. As such Nespresso is the perfect cash cow for Nestle.

The essentials of online loyalty



Similarly for online players there are a number of issues independent of loyalty cards that need to be covered to begin the process of turning footfall into loyal custom.

The golden rule of online retailing that shoppers should only ever be **5 clicks from visit to purchase, when they first visit a site** should be followed as much as feasible.

Moreover online pureplays need to focus on the **last mile** conundrum. This involves great customer service from the delivery personnel but also time slots and these **slots becoming increasingly shorter** – the retailer able to offer the shortest time windows in which customers need to wait at home for a delivery will win out. In recent years we have seen a number of online players offering shoppers competition for delivery slots, guaranteeing disciplined shopping behaviour and understanding that certain slots are more popular and hence quickly booked up.

Moreover we will see the **gradual abolition of delivery charges** over the next 5 to ten year timeframe, or at least their significant reduction in price for consumers. We believe it goes without saying that returns should be free – otherwise especially with sensitive products an unnecessary barrier to purchase will be established.

ResearchFARM

Location based loyalty: rewarding footfall and FMCG/retail cooperation



The appeal to FMCG players is clear, as much of the relationship between shopper and brand has gone into the hands of retailers, apps such as shopkick allow for greater engagement of brand marketers with customers. By sending customers on a hunt for kickbucks, FMCG players can drive interaction and product discovery across aisles. This then has the potential to make shoppers aware of sister brands or ranges they had previously not been aware of or had engaged with.

Moreover the Shopkick app or other location based loyalty schemes offer other potential as well. They can be used to provide rewards, personally welcome shoppers, deliver custom offers and provide relevant product information. That said, the technology and the adaption is very much in its infancy still.

Ultimately the take away from location based loyalty approaches is that **retailers and brand marketers should engage with each other more to drive customer loyalty and form partnership agreements**. Inviting FMCG player participation into the process can bring together a larger team (incorporating the retailer's resources) that can work on the whole category. Insights gleaned can in turn help suppliers make better demand forecasting decisions and reduce inventory costs for retailers.

HOW TO ORDER

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