



Understanding The Boomerang Effect of Loyalty Programs



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Introduction

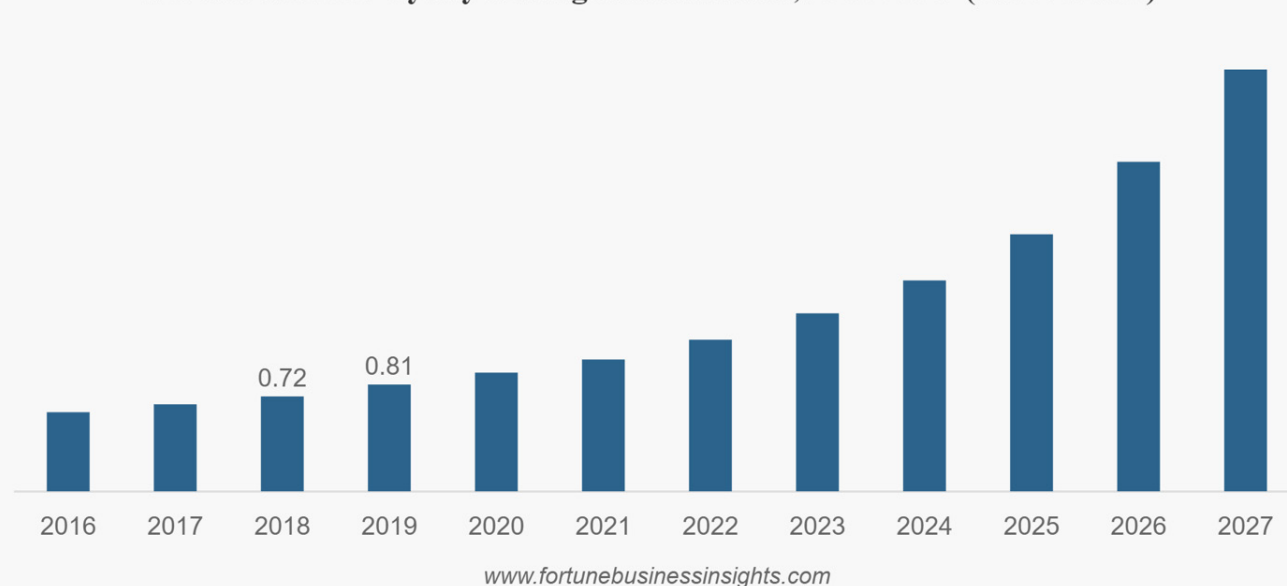
Companies strive to build customer loyalty to increase market share. To accomplish this, they invest in several areas including pricing, promotion, product assortment, digital channels, logistics, and operations. They also invest billions in loyalty programs to identify customer needs and reward consumers for profitable shifts in their behavior.

However, with billions being spent in loyalty management, questions remain. Is there a diminishing return to loyalty investments? Do they improve the customer experience? Can loyalty programs truly inoculate retailers from the damage caused when problems occur?

The Wharton Baker Retailing Center and The Verde Group study set out to address these key questions.

Our goal was simple: understand to what degree, if any, loyalty programs can inoculate retailers from the harm caused by problems encountered in the customer experience.

North America Loyalty Management Market, 2016-2027 (USD Billion)



Projected Investment Growth in Loyalty Management Solutions

The global loyalty management market size stood at USD 2.47 billion in 2019 and is projected to reach USD 10.02 billion by 2027, exhibiting a CAGR of 19.9% during the forecast period.

— Fortune Business Insight

In May 2020, The Baker Retailing Center at the Wharton School and The Verde Group conducted a study to explore the attitudes and experiences of US shoppers with a focus on the impact of loyalty program membership and its effect on authentic customer loyalty.

The study found that more than half of customers experienced at least one problem regardless of the channel they shopped and that not all problems are created equal in their impact on customer loyalty. In fact, the top 10 most frequent problems were different from the topmost damaging problems.

The key question we sought to answer was: Are retailers inoculated from damage caused during the shopping journey if their customers are actively using their brand's loyalty program benefits?

The results were surprising...

This study explored the following:

- The difference between frequent problems and those that cause the greatest damage to the brand
- The impact on repurchase intent if shoppers contacted a retailer and they were completely satisfied with problem resolution
- The benefits used by shoppers if they are actively participating in a brand's loyalty program
- The degree of inoculation realized by retailers if damaging problems occurred, and the shopper was actively participating in the brand's loyalty program

An overview of our study provides insight into the breadth and depth of our work product.



DATA COLLECTION

The Verde Group, together with The Baker Retailing Center at Wharton, conducted an online study from May 13-20, 2020 with a national sample of 2,535 US consumers.

Consumers were asked about their most recent retail purchase experience, regardless of channel.



FIELD NOTES

No quotas were required as the final sample naturally reflected the US population distribution in terms of region, age, and gender.

The focus of the study was on specialty retail, mass merchandisers, department stores, and category killer retailers.

Specific problem experiences were explored using a binary approach – either “yes” a specific problem was experienced, or “no”, it was not.

Respondents were also asked if they were members of the retailer's loyalty program where they last shopped and if they used specific benefits.



ANALYSIS

Results are presented on a total sample basis and according to loyalty program membership.

Differences between program members and non-members, as well as any demographic differences, have been tested for statistical significance (95% confidence interval).

Analytics were conducted to explore the intersection of problem experiences and loyalty benefit usage to understand if program participation has a meaningful effect on a retailer's customer experience.

Not All Problems Are Created Equal

It's inevitable.

In the complex world of customer experience delivery, problems will occur. Customers may even let you know about the issues they've experienced. But not all problems are created equal... frequency does not equal importance. Here's why.

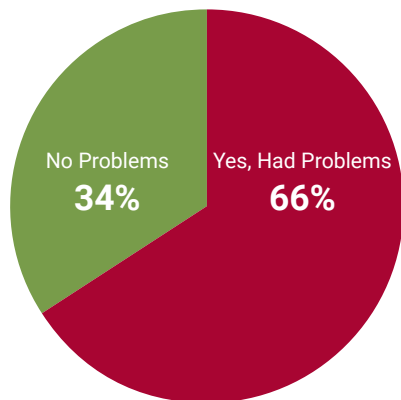


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Each day, more than half of customers experience problems during their shopping journey. Younger shoppers experienced the most. We know that the presence of friction in the shopping journey reduces customer loyalty. Shoppers who have problems are 35% less loyal than those who are problem-free.



OVERALL PROBLEM EXPERIENCE

(n=2,535)

Average # of Problems Experienced: **7.7**

More likely to have experienced problems



Gen Z
85%



Specialty
72%

Experienced more problems



Males
8.7

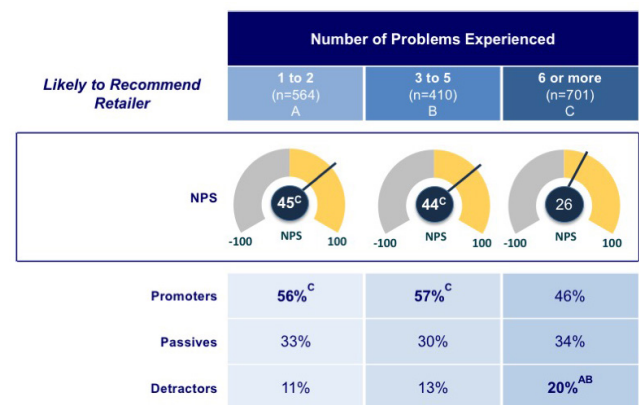
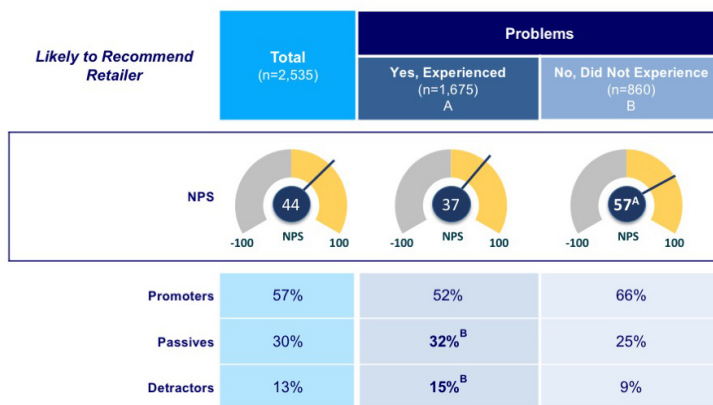


Gen Z
11.5



Gen Y
9.8

NOTABLE DEMOGRAPHIC DIFFERENCES



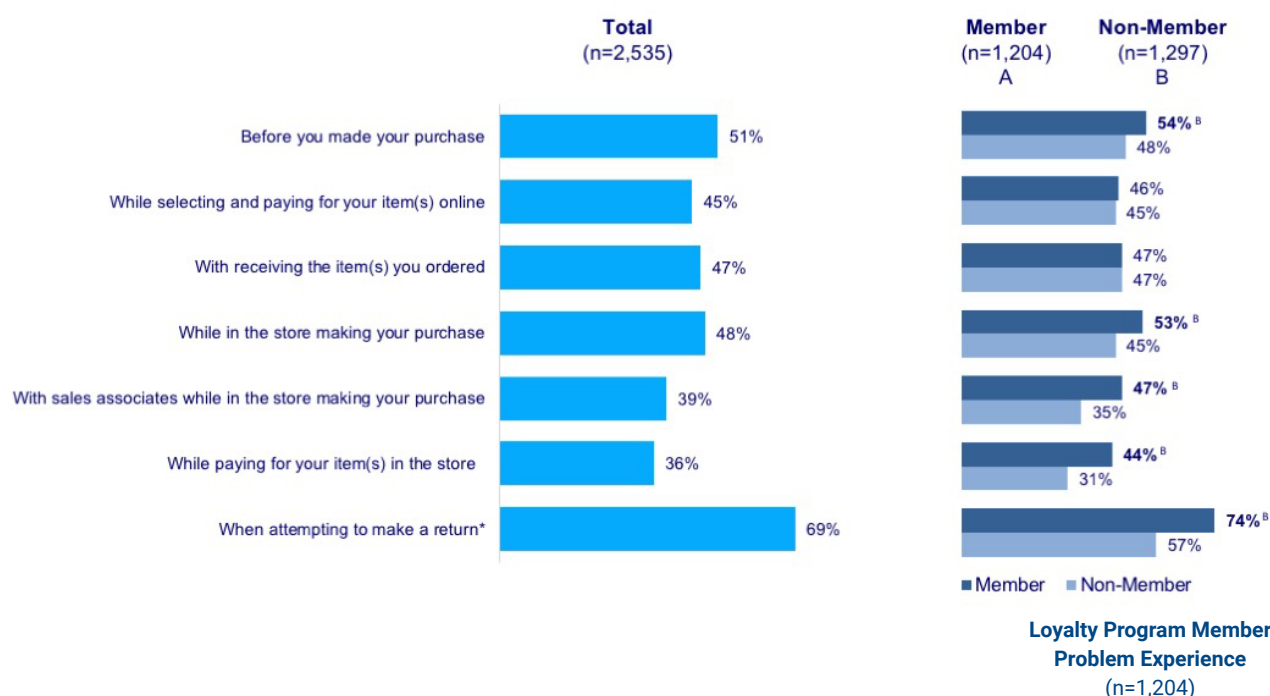
P1 – P6B. Thinking of your most recent (in-store/online) purchase experience, did you encounter any of the following problems...?

Note: Average # is based on those experiencing any problems

C7. Based on all of your experiences with the specific retailer from which you made your most recent (in-store/online) purchase, how likely are you to recommend this retailer to a friend or acquaintance?

Problem experiences tend to be highest during the pre-purchase phase of the shopping journey. Note: Loyalty program members encounter more issues regardless of stage. Channel confusion, product availability, and overall communication were cited most frequently by loyalty program members. But should retailers be focused on solving problems simply based on their frequency? The answer is a resounding no!

SUMMARY OF PROBLEMS EXPERIENCED BY PURCHASE STAGE (NETS)



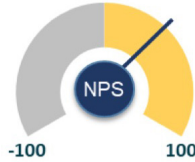
Top Most Frequent Problems Among Loyalty Program Members	Rank	Frequency
The item you were looking for was not available in the store, only online	1	21%
The item you were looking for was not available online for pick-up	2	20%
The item you were looking for was not available online for pick-up from a store close to you	3	19%
The item you were looking for was not available online for delivery	4	17%
Information about stock availability was not online	5	16%
An item you were looking for was out of stock online	6	15%
The item you were looking for was not available online, only in the store	7	15%
On the retailer's website, it was not clear which items are available for delivery vs. pick-up	8	15%
On the retailer's website, it was not clear which items are available online vs. in-store	9	15%
You could not specify the delivery date or time you wanted	10	13%
There was not enough information available on the retailer's website about the item	11	13%
The store website/app was slow	12	13%
The price online was different from the price in the store	13	13%

P1 – P6B. Thinking of your most recent (in-store/online) purchase experience, did you encounter any of the following problems...?
 Note: Base sizes vary according to each problem category as respondents were not all asked to assess each set of problems

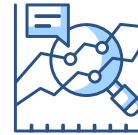
Not all problems are created equal – frequency is not the sole determinate of customer loyalty damage.



A frequently-experienced problem may have little influence on customer loyalty while; conversely, a low-frequency problem can create tremendous loyalty damage.



To assess the impact of problems, we looked at the extent to which each problem impacts customer loyalty as measured by NPS.



We performed advanced statistical analysis to isolate the unique damage associated by each problem. The output of this analysis yielded a Loyalty Damage Impact score.

LOYALTY DAMAGING PROBLEMS

Loyalty Damage Ranking	1	You purchased an item online and had to pay for shipping to return it
	2	The website/ app was difficult to navigate
	3	You could not return the item without an original receipt
	4	The store atmosphere was unappealing (poor lighting, very noisy, bad smelling)
	5	The store was too messy or disorganized
	6	You were not given a refund, only a credit for future merchandise
	7	The return policy was unclear or confusing
	8	The product was not in stock at the store even though the retailer's website indicated it was
	9	Sales Associate could not help you locate the item you were looking for
	10	Sales Associate did not treat you with courtesy and respect

MOST FREQUENT PROBLEMS

Problem Frequency Ranking	1	The item you were looking for was not available in the store, only online
	2	The item you were looking for was not available online for pick-up
	3	The item you were looking for was not available online for pick-up from a store close to you
	4	The item you were looking for was not available online for delivery
	5	Information about stock availability was not online
	6	An item you were looking for was out of stock online
	7	The item you were looking for was not available online, only in the store
	8	On the retailer's website, it was not clear which items are available for delivery vs. pick-up
	9	On the retailer's website, it was not clear which items are available online vs. in-store
	10	You could not specify the delivery date or time you wanted

Examining Loyalty Program Benefits & Their Role In Driving Customer Engagement

Benefits, perks, rewards.

Any way you say it, these terms are used to describe the core value proposition of any loyalty scheme. But do these programs actually create “loyalty”? Understanding how loyalty benefit usage plays a role in shopper attitudes and ultimately their behaviors, can help organizations prioritize investments.

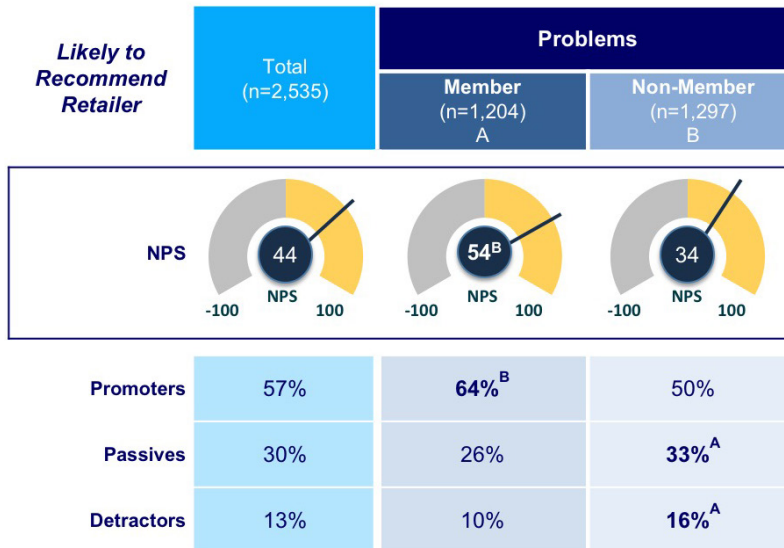


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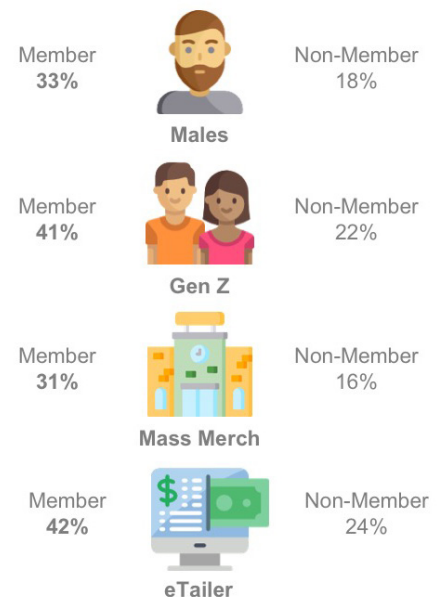


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Loyalty program members were nearly 30% more likely to be Promoters than non-members. This points to the fact that a brand's more engaged customers are likely those who have opted-in to their loyalty program. Another marker is the member/non-member analysis which suggests members will spend more than their counterparts not enrolled in the program. While the data maintains this perspective – members plan to spend 2x more than non-members – it is dangerous to rely on this analysis as higher value customers are those who have likely enrolled in the program to begin with.



NOTABLE DEMOGRAPHIC DIFFERENCES



NOTABLE DEMOGRAPHIC DIFFERENCES

Future Spending at Retailer	Total (n=2,535)	Loyalty Program	
		Member (n=1,204) A	Non-Member (n=1,297) B
Will spend more	24%	31% ^B	18%
Will spend about the same	69%	63%	75% ^A
Will spend less	4%	5%	4%
Will not buy from retailer again	1%	1%	1%
Not sure	1%	1%	2%

C7. Based on all of your experiences with the specific retailer from which you made your most recent (in-store/online) purchase, how likely are you to recommend this retailer to a friend or acquaintance?

D2. Based on your overall experiences, would you say that you will spend more, less, or about the same amount with this retailer in the future?

Loyalty programs come in many shapes and sizes. For our research, we explored a list of 20 benefits falling into three primary categories. While this list is not exhaustive, it does reflect a range of experiential and monetary benefits as well as elements of personalization.

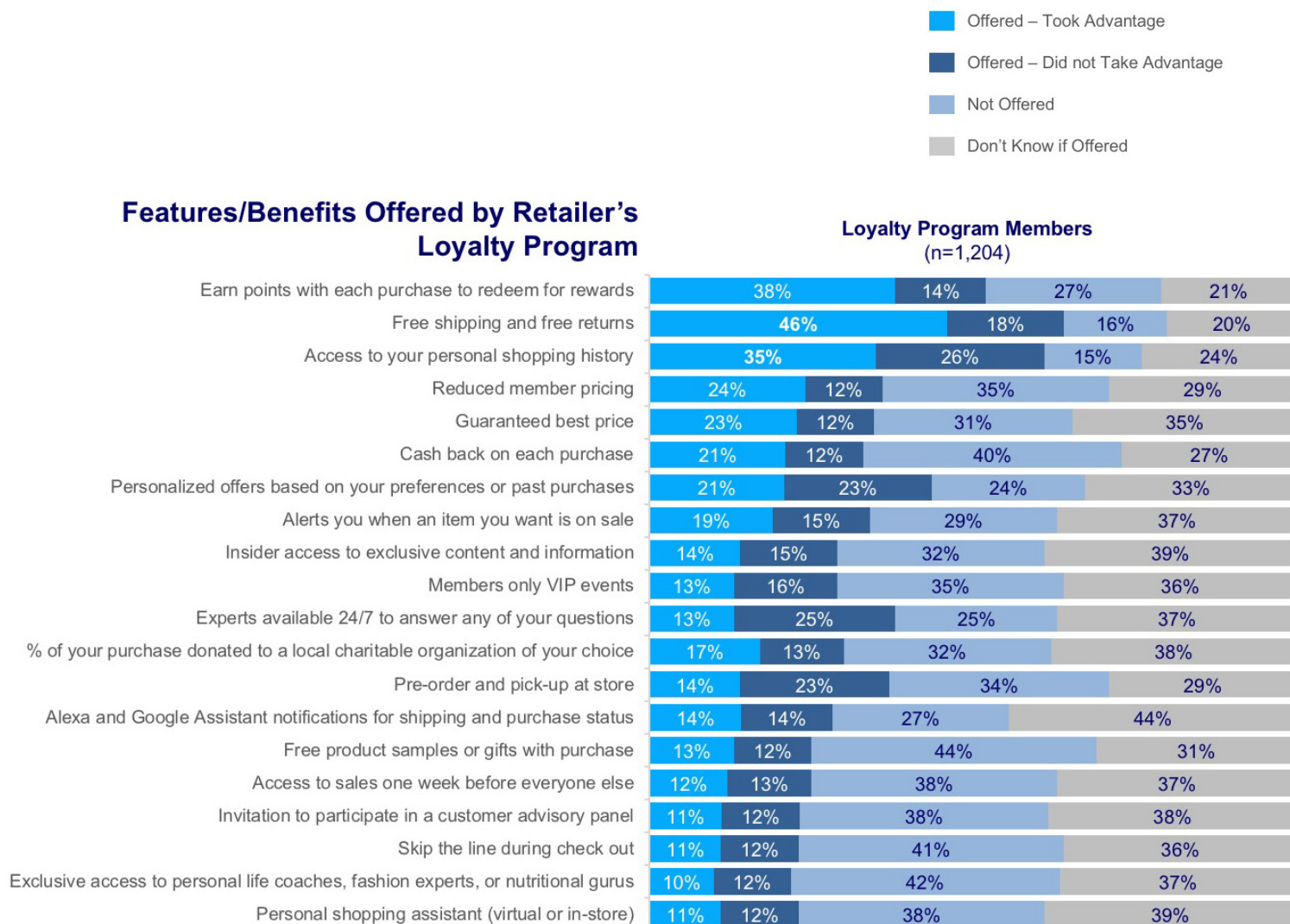
EXPERIENTIAL	EXPERIENTIAL + MONETARY	MONETARY
<ul style="list-style-type: none"> → Exclusive access to personal life coaches, fashion experts, or nutritional gurus → Personal shopping assistant (virtual or in-store) → Invitation to participate in a customer advisory panel → Skip the line during check out → Free product samples or gifts with purchase → Access to sales one week before everyone else → Alexa and Google Assistant notifications for shipping and purchase status → Percentage of your purchase donated to a local charitable organization of your choice → Experts available 24/7 to answer any of your questions → Members-only VIP events → Pre-order and pick-up at store → Insider access to exclusive content and information 	<ul style="list-style-type: none"> → Free shipping and free returns → Access to your personal shopping history → Reduced member pricing → Guaranteed best price → Alerts you when an item you want is on sale → Personalized offers based on your preferences or past purchases 	<ul style="list-style-type: none"> → Earn points with each purchase to redeem for rewards → Cash back on each purchase

L1. Please think again of the reward or loyalty program offered by the retailer from which you made your most recent purchase. Indicate if each of the features or benefits outlined below are offered by this retailer's program and if you took advantage of each one.

C7. Based on all of your experiences with the specific retailer from which you made your most recent (in-store/online) purchase, how likely are you to recommend this retailer to a friend or acquaintance?



Earning points and free shipping are the features most offered/used. This is not surprising since most retail programs utilize point schemes and free shipping to reward shoppers. The question remains, does usage of program benefits increase customer loyalty? Just like problems, loyalty program features impact loyalty differently. Some make customers stronger advocates – we call this “authentic” loyalty. Other benefits have negligible impact. So where is the risk? That is where the Boomerang Effect of Loyalty Programs comes into play.



L1. Indicate if each of the features or benefits are offered by this retailer's program and if you took advantage of each one.

Seven benefits stood out statistically in their ability to create authentic loyalty. These benefits are not singularly focused (e.g., monetary) and vary significantly in their impact. None of the other thirteen benefits tested correlated to a lift in creating fidelity in the customer relationship.



Not Related to Authentic Loyalty*

- Reduced member pricing
- Free product samples or gifts with purchase
- Guaranteed best price
- Personal shopping assistant (virtual or in-store)
- Skip the line during check out
- Pre-order and pick-up at store
- Access to sales one week before everyone else
- Members-only VIP events
- Invitation to participate in a customer advisory panel
- Percentage of your purchase donated to a local charitable organization of your choice
- Exclusive access to personal life coaches, fashion experts, or nutritional gurus
- Experts available 24/7 to answer any of your questions
- Personalized offers based on your preferences or past purchases

*Authentic Loyalty: A customer connection to a brand based on trust and resiliency in the relationship.

L1. Indicate if each of the features or benefits outlined below are offered by this retailer's program and if you took advantage of each one.

C7. Based on all of your experiences with the specific retailer from which you made your most recent (in-store/online) purchase, how likely are you to recommend this retailer to a friend or acquaintance?

The Boomerang Effect

The core hypothesis of our study focused on the potential diminishing returns of loyalty program investments.

What we found was surprising. Loyalty program can inoculate companies when problems occur. However, they also amplify the damage caused when friction occurs. We call this the Boomerang Effect of loyalty programs.



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Our research explored the intersection of Most Damaging Problems and the usage of loyalty benefits to see if retailers were inoculated when customer experience friction occurred.

Does active participation in loyalty programs and usage of their benefits reduce the impact of problems?

The answer: Yes and No.

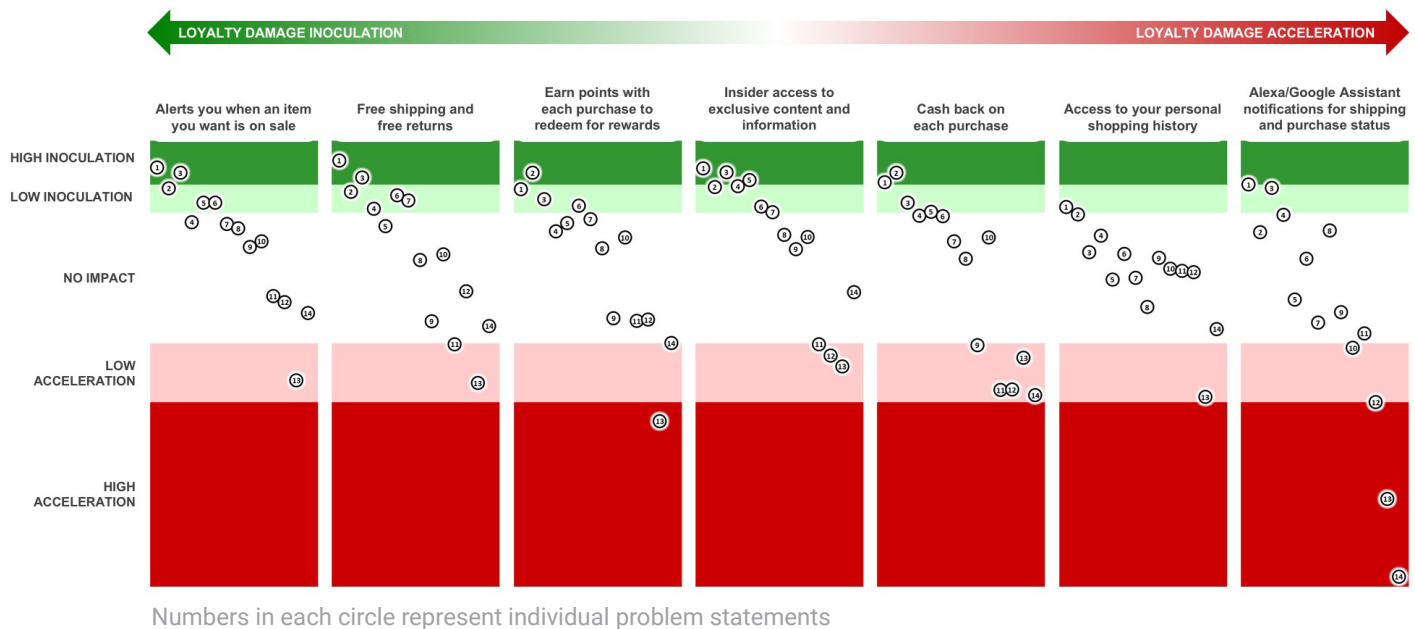
Some loyalty features inoculate retailers against loyalty damage but they can also accelerate it, depending on the problem experienced.

Because there is greater authentic loyalty associated with some of these program features, they can have an inoculating effect on friction – customers may tolerate certain problems depending on the loyalty feature they take advantage of/use.

But there is also a boomerang effect. Rather than inoculating the retailer from damage created by friction, some loyalty program features can act as accelerants to loyalty damage.



Seven loyalty benefits have a boomerang effect on customer loyalty with some providing inoculation and others, damage acceleration. And while these specific benefits may or may not be included in a program, the direction and data suggest an unforeseen risk to loyalty practitioners and companies overall when problem experiences and loyalty benefit usage collide.



Our interpretation of the Boomerang Effect is simple: Loyalty program members have higher expectations of their favorite brands. When problems occur, they expect to be treated differently based on their loyalty and value. But this is not always the case. Why? According to an eMarketer study, consistently managing the customer experience in an omni-channel environment remains a challenge for brands. This, we believe, increases the likelihood of inconsistent treatment of high value customers enrolled in loyalty programs – thus contributing to the Boomerang Effect.

A May 2019 eMarketer study found that only 3% of marketers claim to have all channels integrated to provide a cohesive, personalized experience from one channel to the next. The result is that often a loyalty program is a separate initiative, managed independently and within its own channel.



Potential Implications



Viewing “loyalty” as a **program** is fraught with unforeseen pitfalls. Approaching “Loyalty” as a **strategy** to engage your customers, inform your enterprise and ultimately increase market share can be a winning solution under the right set of circumstances.

Four points to consider:

1

UNDERSTAND WHICH PROBLEMS ARE ASSOCIATED WITH HIGH ECONOMIC DAMAGE

- The research shows that the most frequently-experienced problems are not necessarily the most damaging problems
- Customers may forgive stockouts but may not be forgiving when the company repeatedly asks for information (such as an email address) that the customer believes the firm already has because they are a loyalty program member

2

UNDERSTAND IF CERTAIN BENEFITS IN THE DESIGN OF A LOYALTY PROGRAM COULD HAVE AN INOCULATION EFFECT

- Of the 20 loyalty program benefits studied, seven (7) could provide some degree of inoculation
- If the retailer could deliver on these benefits, such as free shipping and alerts for items going on sale, then damage could be contained when problems occurred

3

RECOGNIZE THAT FRICTION IN THE PURCHASE PROCESS IS INEVITABLE FOR SOME PERCENTAGE OF TRANSACTIONS

- While retailers try to minimize problems, the reality is that they may occasionally occur
- The key to success here is effective problem resolution. In 80% of the cases when a retailer achieves effective problem resolution, the “lapse” is forgiven, and loyalty remains
- Conversely, if problem resolution is incomplete or takes too long, consumers will punish the firm going forward

4

LOYALTY PROGRAMS NEED TO BE INTEGRATED WITH OPERATIONAL POLICIES TO MITIGATE ECONOMIC DAMAGE

- The economic damage caused by non-customer focused return policies such as requiring a receipt for returned goods or requiring customers to pay for shipping to return items are just two examples of where a loyalty program can be integrated into operational policies to maximize authentic loyalty and drive repeat purchases

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